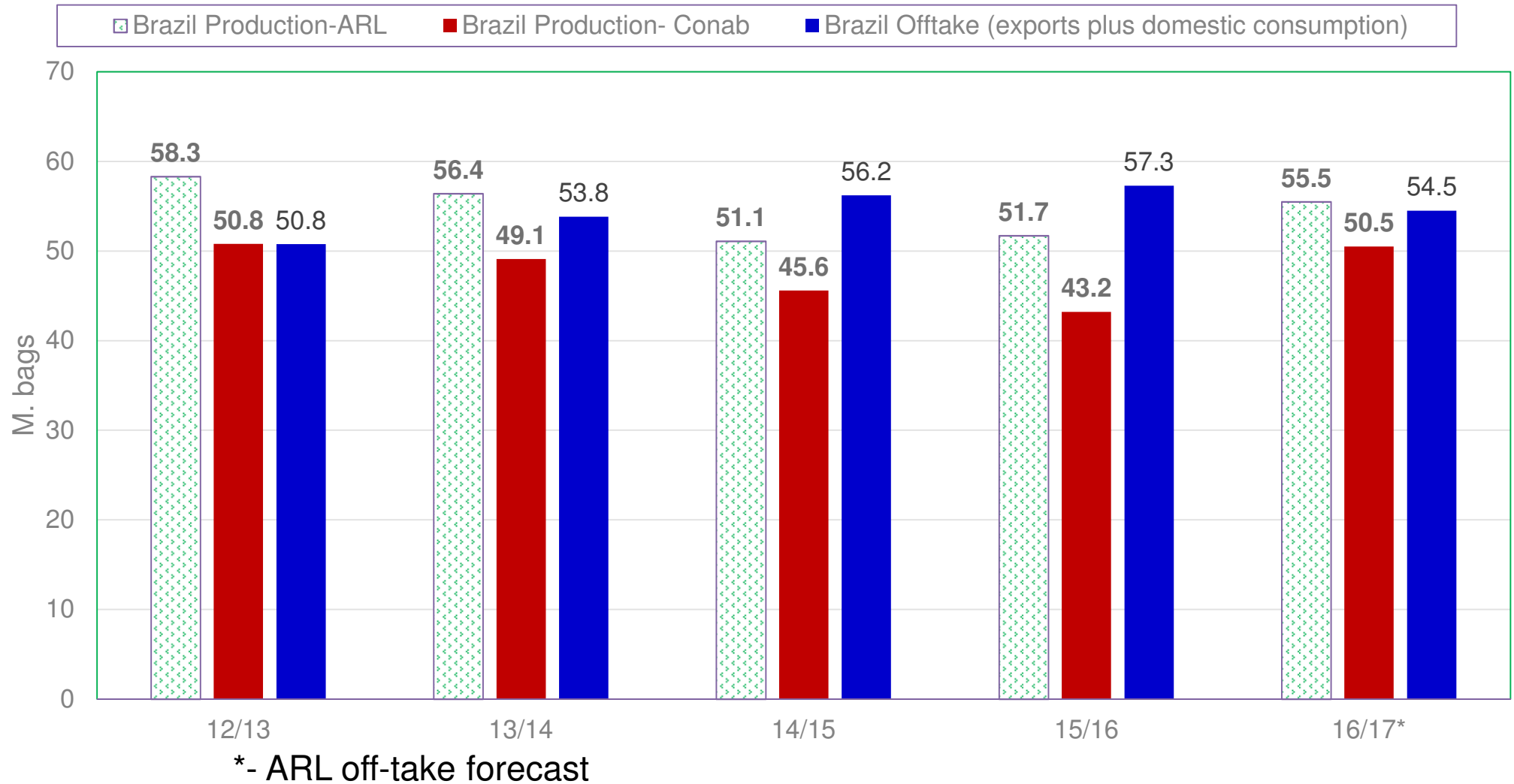




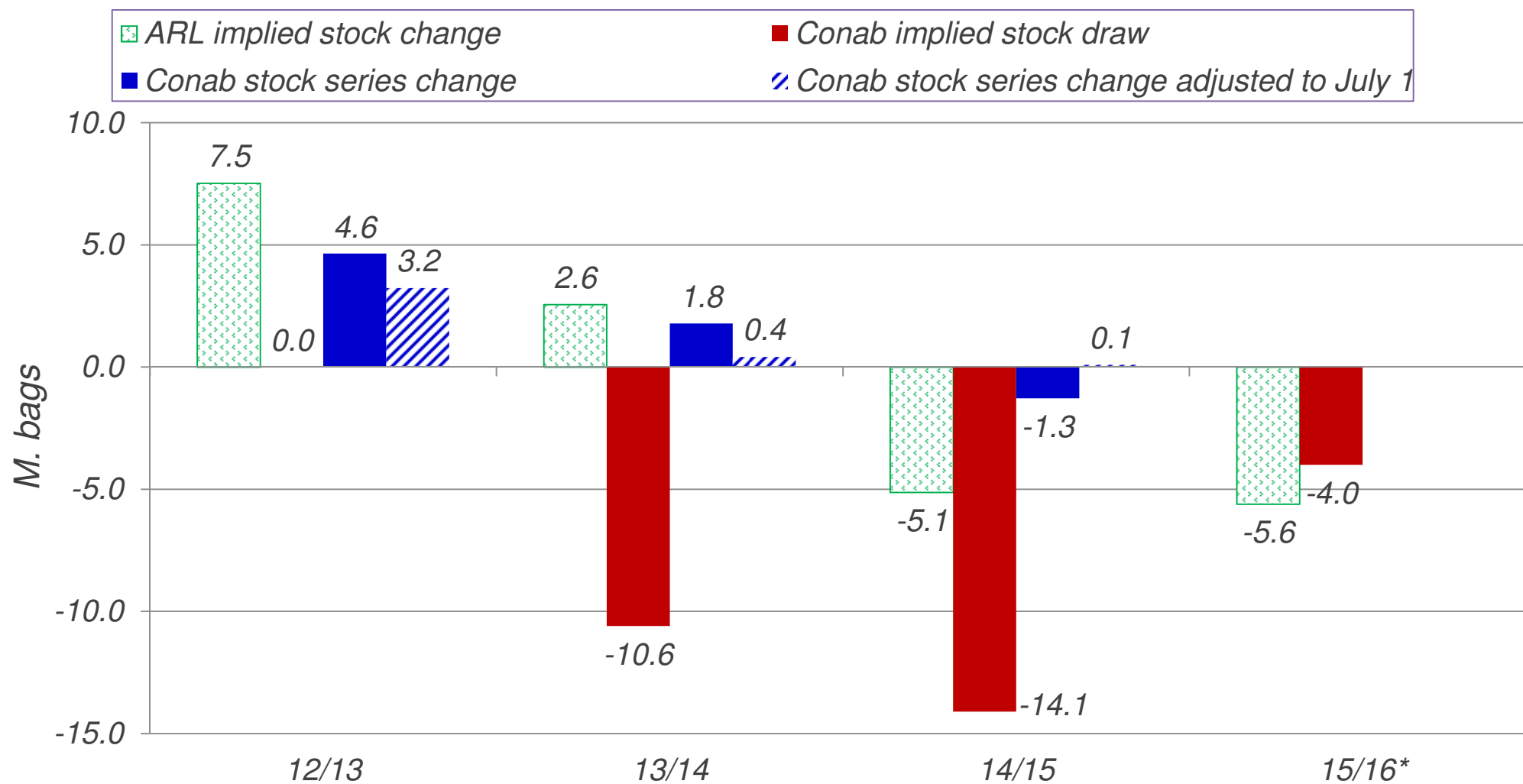
*XXI Santos International Coffee Seminar  
Guarujá  
May 5, 2016*



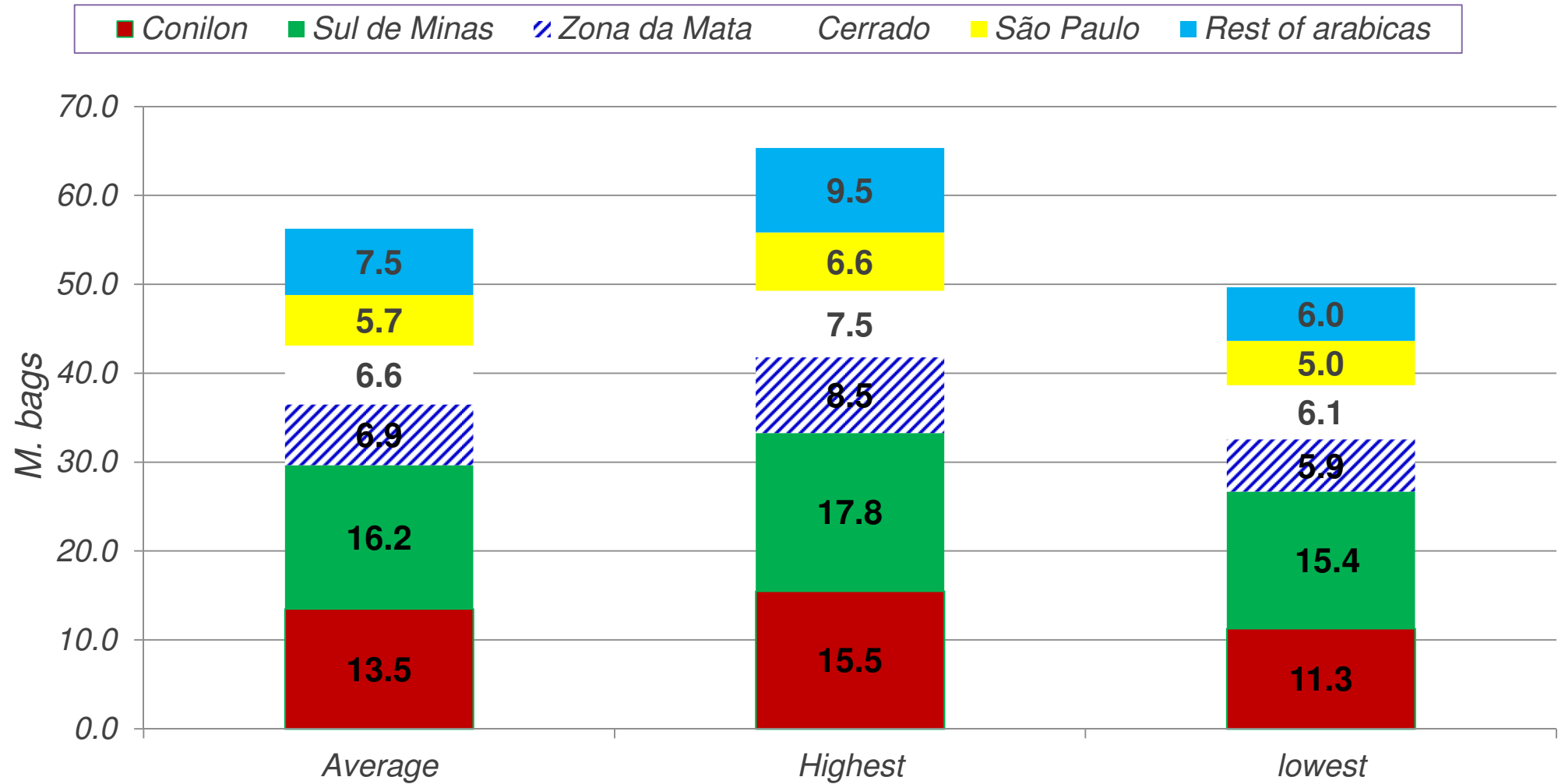
# CONAB production estimate implies huge stock drawdown



# Production estimate inconsistent with stock series



**Fair agreement on 16/17 forecast- but regional data inconsistent**

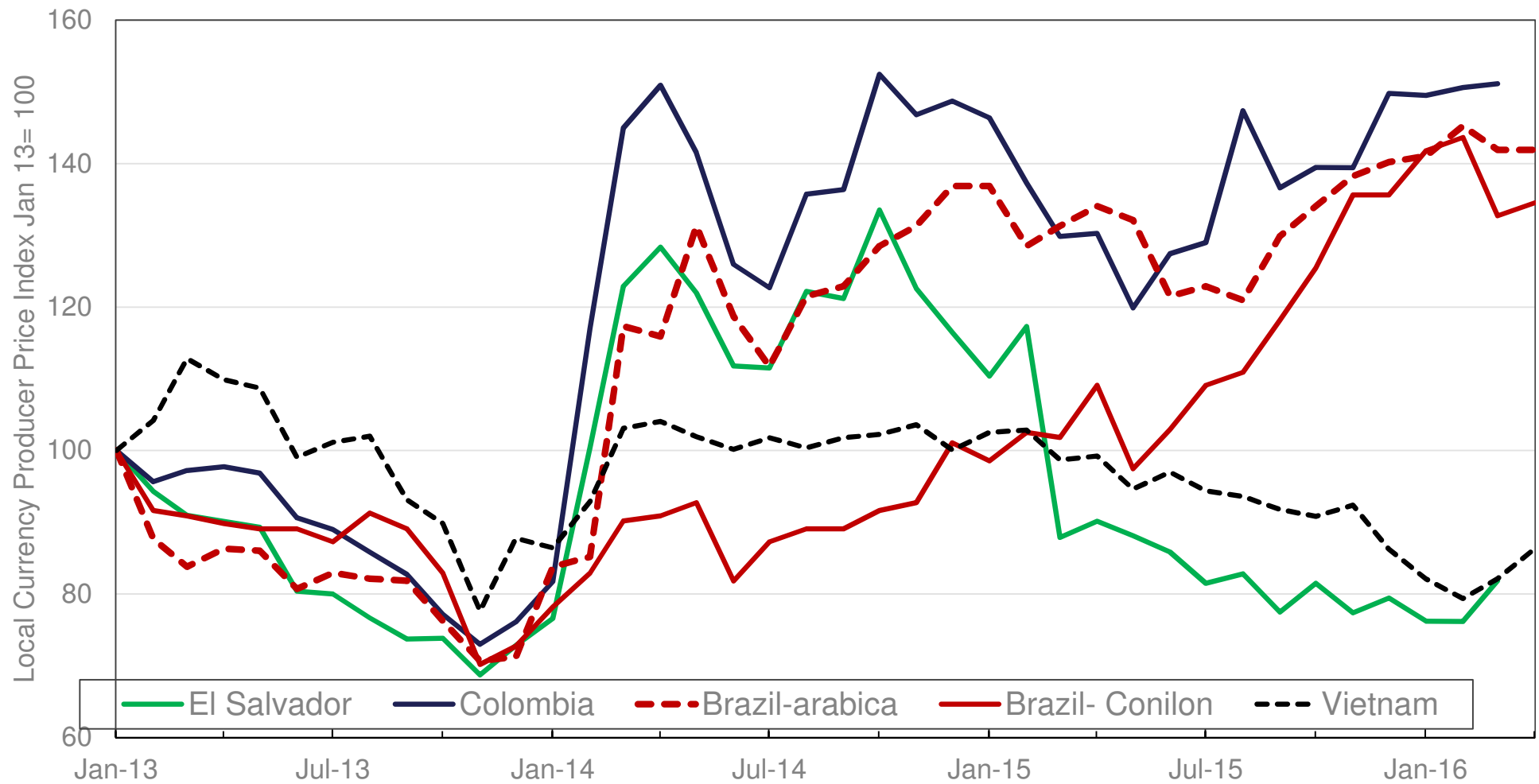


9 trade houses plus one consultancy- does not include Conab

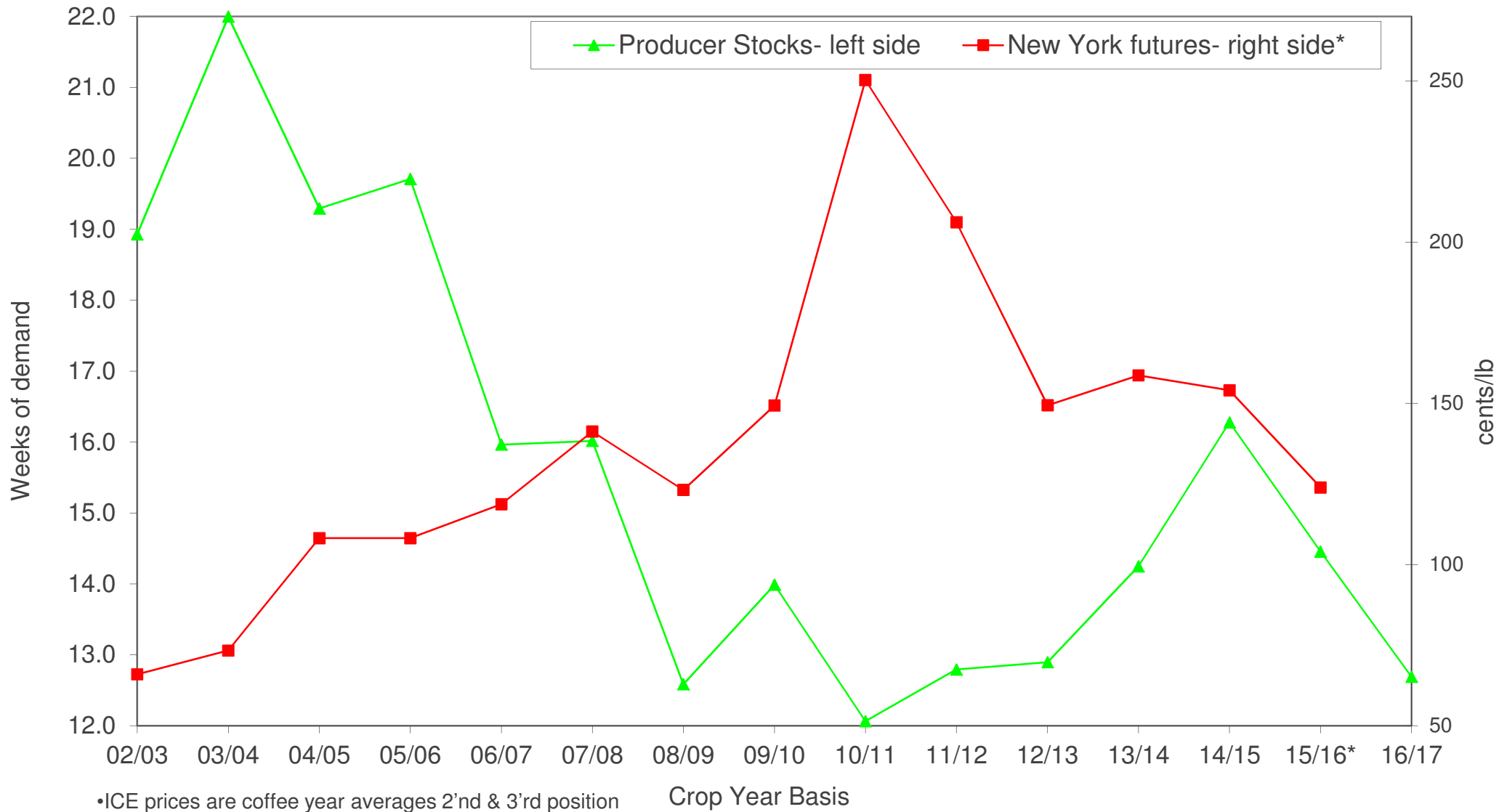
# ARL Brazil Crop Estimates

Coffee Crop	2013/14	2014/15	2015/16	2016/17 (E1)	2016/17(E2)	
BRAZIL				Nov15	Mar16	change 16/17 (E2) V15/16
<b>Minas Gerais</b>	<b>29.30</b>	<b>23.00</b>	<b>26.90</b>	<b>26.90</b>	<b>29.70</b>	<b>2.80</b>
<i>Cerrado</i>	5.10	5.70	4.70	6.40	6.90	2.20
<i>South/West</i>	15.00	11.50	15.00	14.40	16.70	1.70
<i>Zona da Mata</i>	9.20	5.80	7.20	6.10	6.10	-1.10
<b>ES</b>	<b>14.90</b>	<b>16.60</b>	<b>12.40</b>	<b>14.50</b>	<b>12.40</b>	<b>0.00</b>
<i>ES-Arabica</i>	3.90	2.30	2.50	3.10	3.10	0.60
<i>ES-Robusta</i>	11.00	14.30	9.90	11.40	9.30	-0.60
<b>Sao Paulo</b>	<b>3.55</b>	<b>3.80</b>	<b>4.60</b>	<b>4.70</b>	<b>5.60</b>	<b>0.80</b>
of w hich High Mog	1.00	1.40	0.90	1.80	2.10	1.20
of w hich Low Mog	0.85	1.10	1.30	1.00	1.20	-0.10
<b>Parana</b>	<b>1.80</b>	<b>0.50</b>	<b>1.40</b>	<b>1.00</b>	<b>1.00</b>	<b>-0.40</b>
<b>BA</b>	<b>3.00</b>	<b>3.50</b>	<b>2.80</b>	<b>3.60</b>	<b>3.00</b>	<b>0.20</b>
<i>BA-Arabica</i>	1.90	2.00	1.50	1.90	1.70	0.20
<i>BA-Robusta</i>	1.10	1.50	1.30	1.70	1.30	0.00
<b>RO</b>	<b>1.60</b>	<b>1.80</b>	<b>1.70</b>	<b>1.65</b>	<b>1.90</b>	<b>0.20</b>
<b>Others</b>	<b>2.25</b>	<b>1.90</b>	<b>1.90</b>	<b>1.90</b>	<b>1.90</b>	<b>0.00</b>
<i>Other-Arabica</i>	0.95	0.90	0.90	0.90	0.90	0.00
<i>Other-Robusta</i>	1.30	1.00	1.00	1.00	1.00	0.00
<b>TOTAL</b>	<b>56.40</b>	<b>51.10</b>	<b>51.70</b>	<b>54.25</b>	<b>55.50</b>	<b>3.80</b>
<b>Arabica</b>	<b>41.40</b>	<b>32.50</b>	<b>37.80</b>	<b>38.50</b>	<b>42.00</b>	<b>4.20</b>
<b>Robusta</b>	<b>15.00</b>	<b>18.60</b>	<b>13.90</b>	<b>15.75</b>	<b>13.50</b>	<b>-0.40</b>

# Importance of exchange rates on producer prices



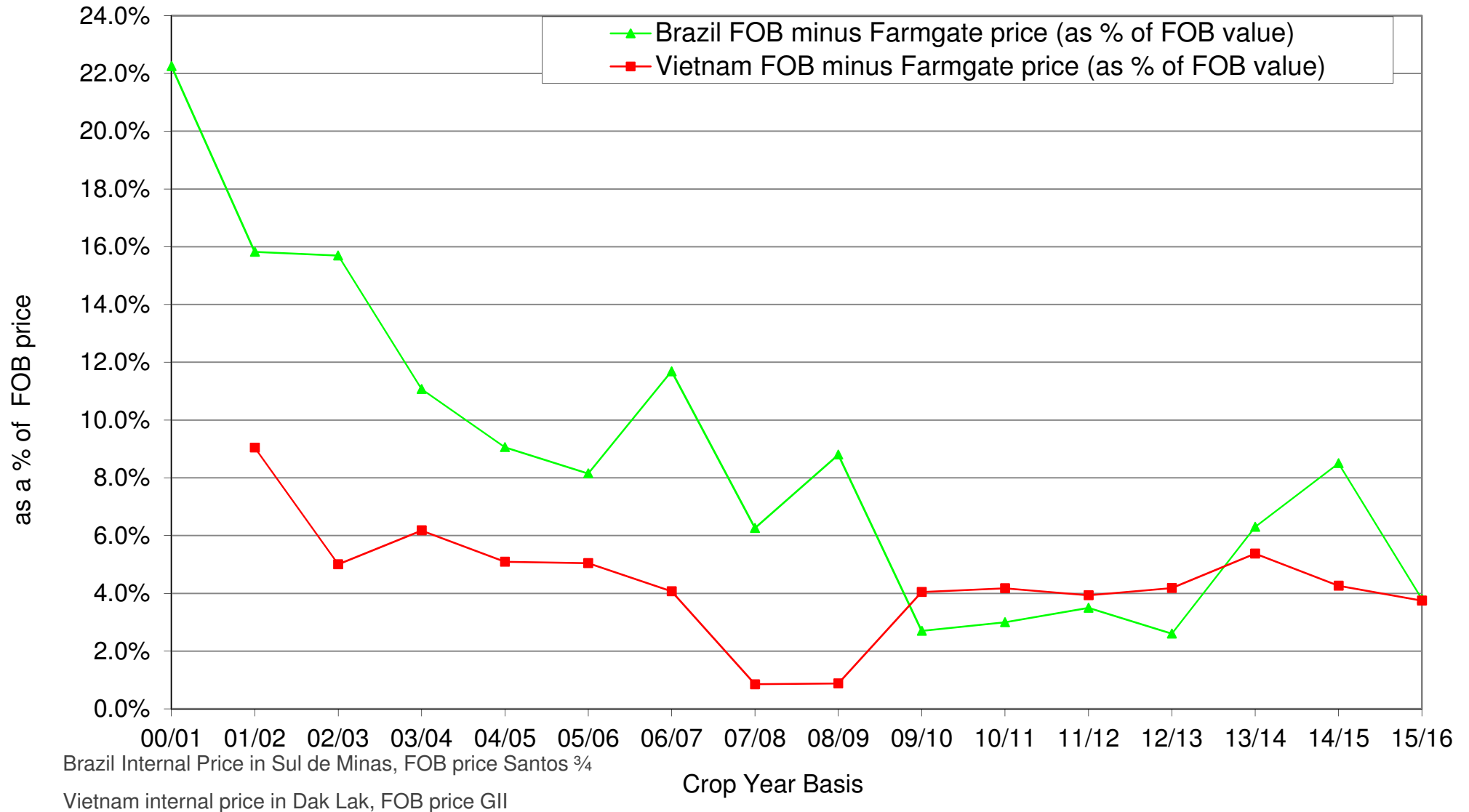
# Low stocks leaves market vulnerable to supply problems



•ICE prices are coffee year averages 2'nd & 3'rd position

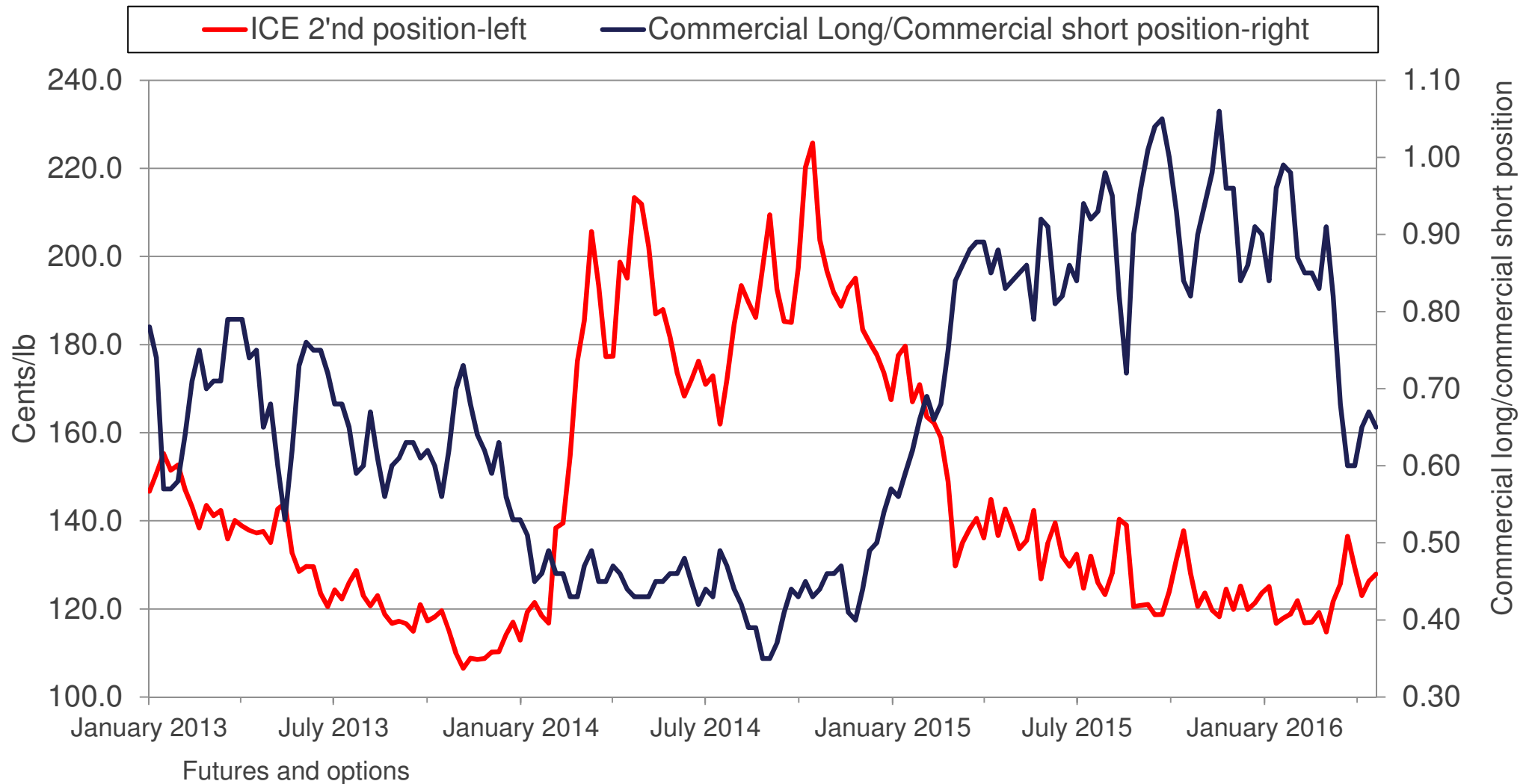
•15/16 till end March

# Some producers now have more market power

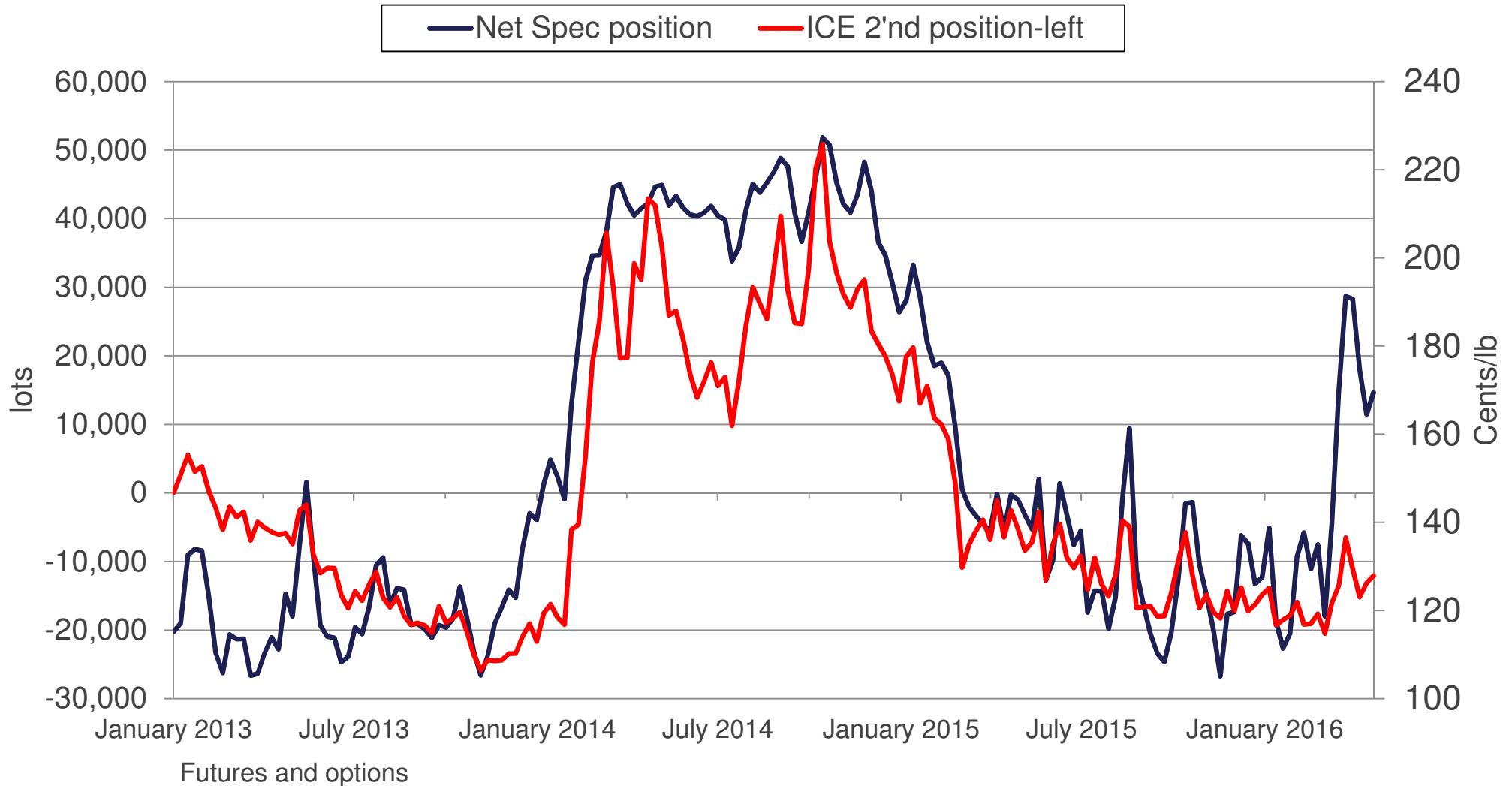




# Success of roaster pricing strategy



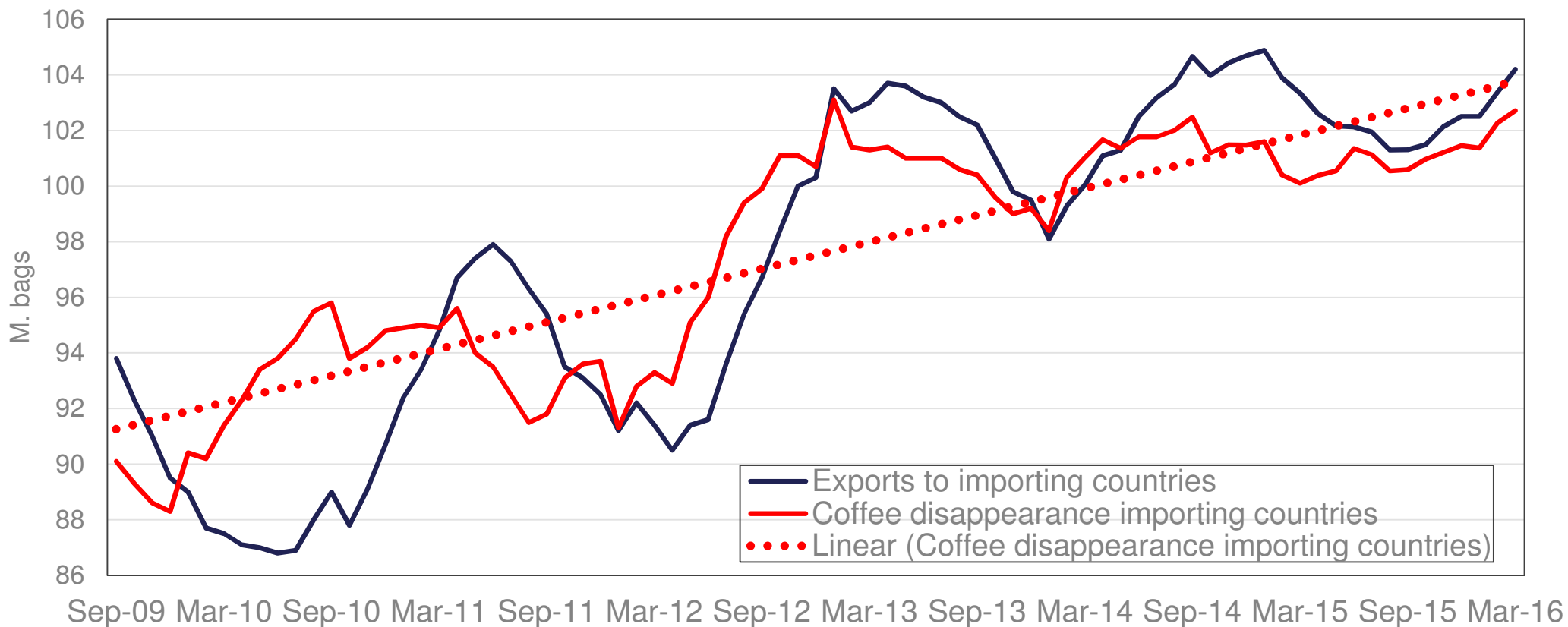
# Large specs forced out of huge dry weather long position



## 20 m. bag increase in origin exports since mid 2010

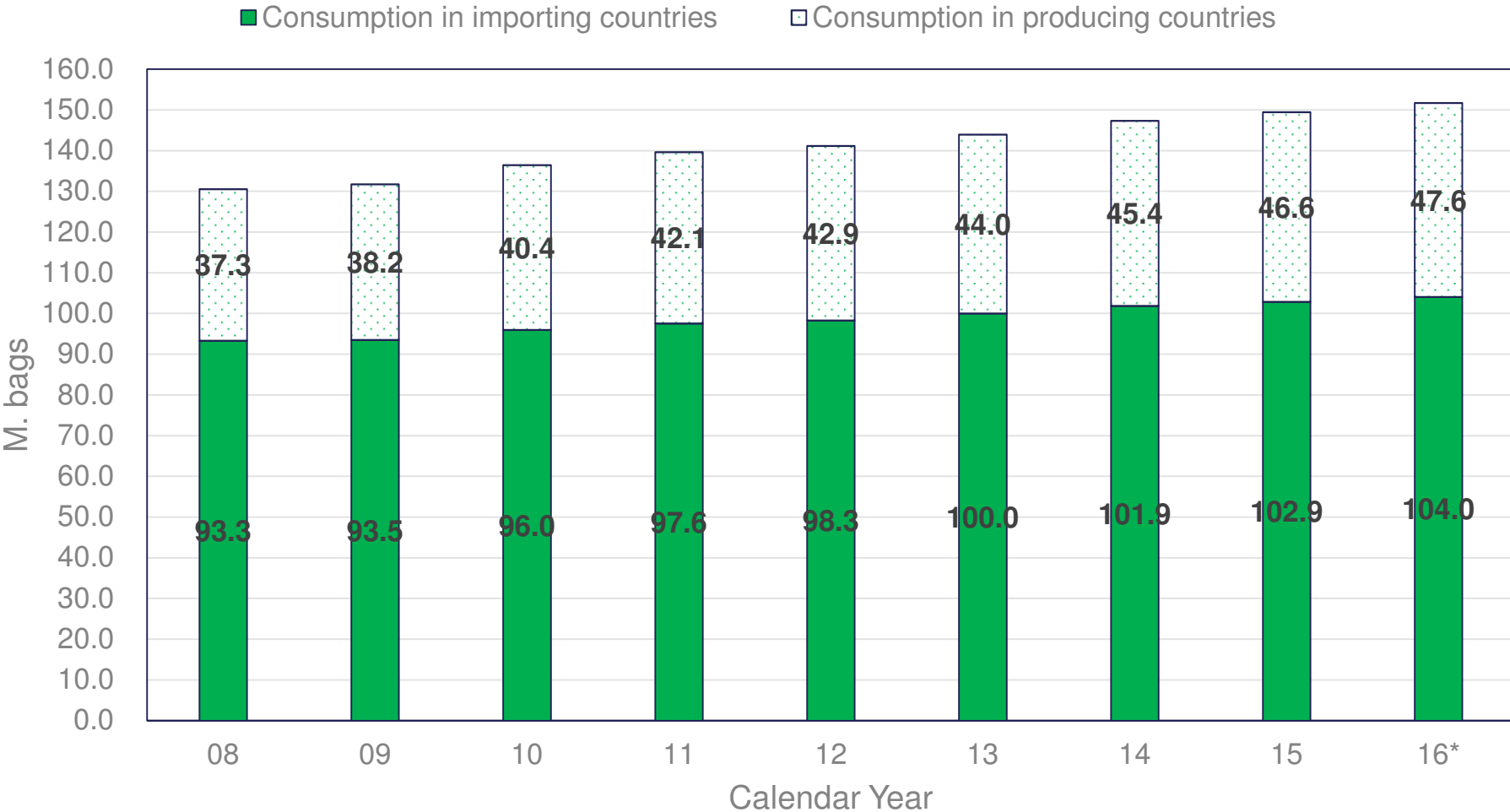


# Exports to importing markets and disappearance continue to rise



Disappearance = Net exports to importing countries minus change in green coffee stocks in consumer hands

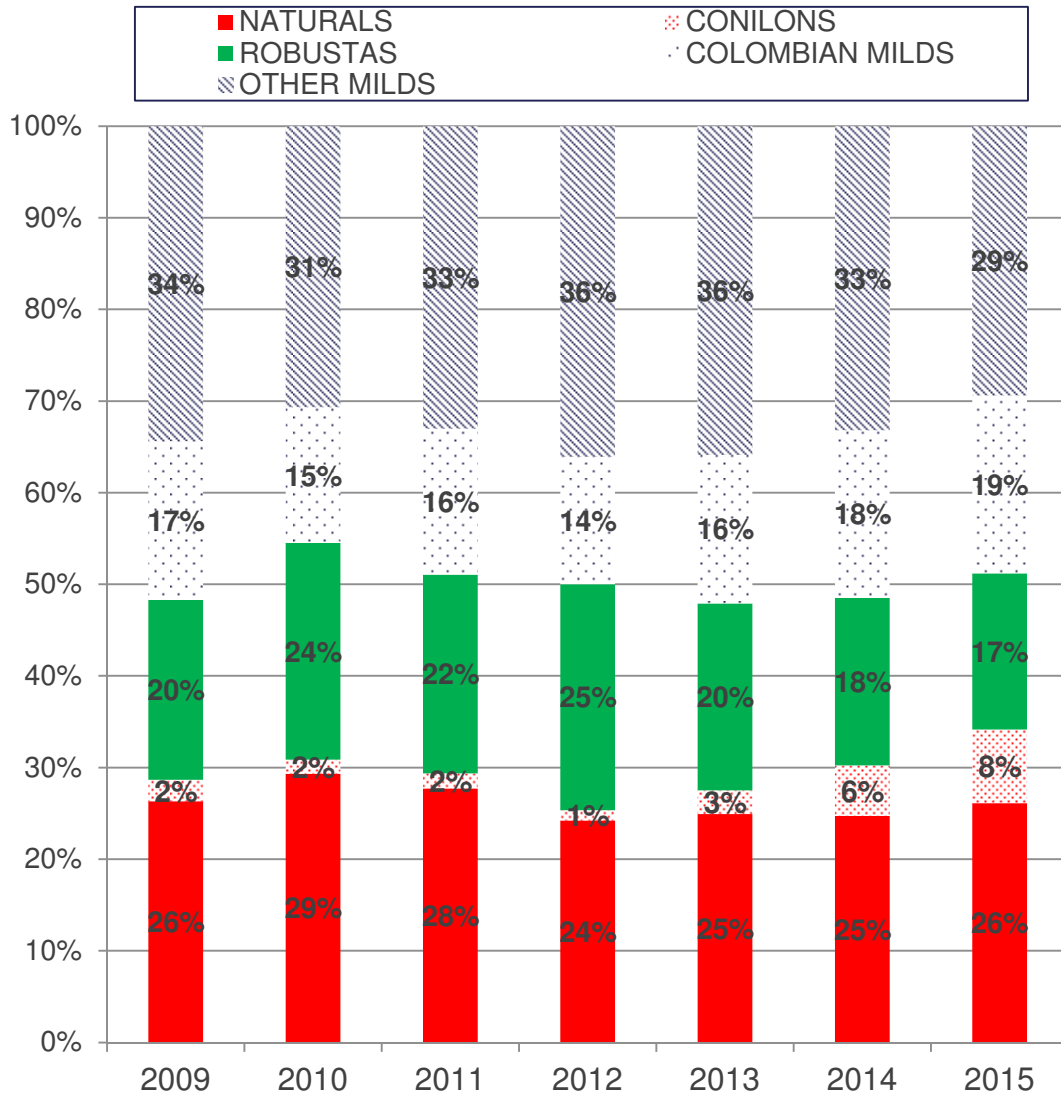
# Trend consumption growth in last ten years is 2.0% P.A.



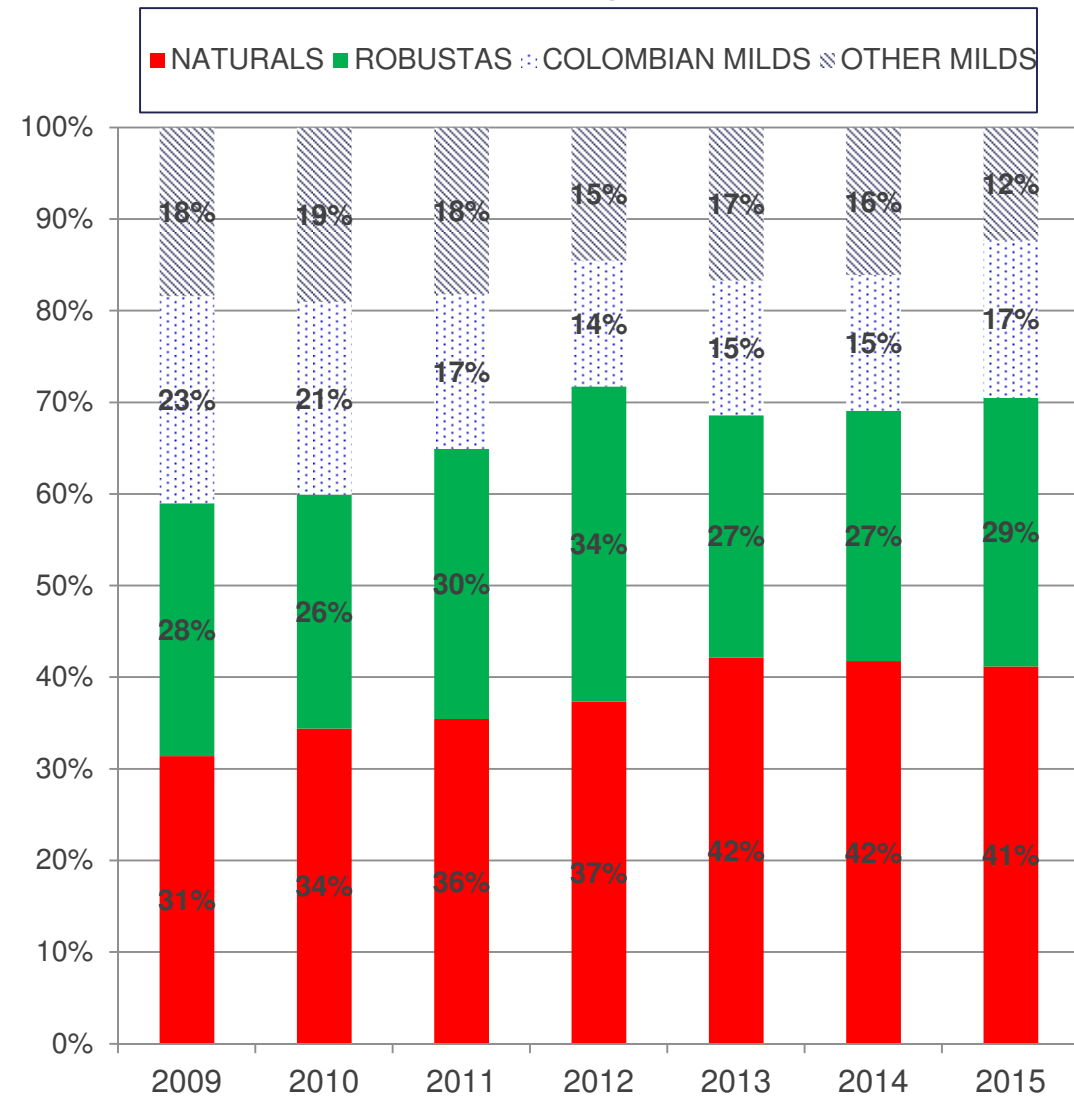
\* - forecast

# General Increase in Brazil's share of import markets

## USA

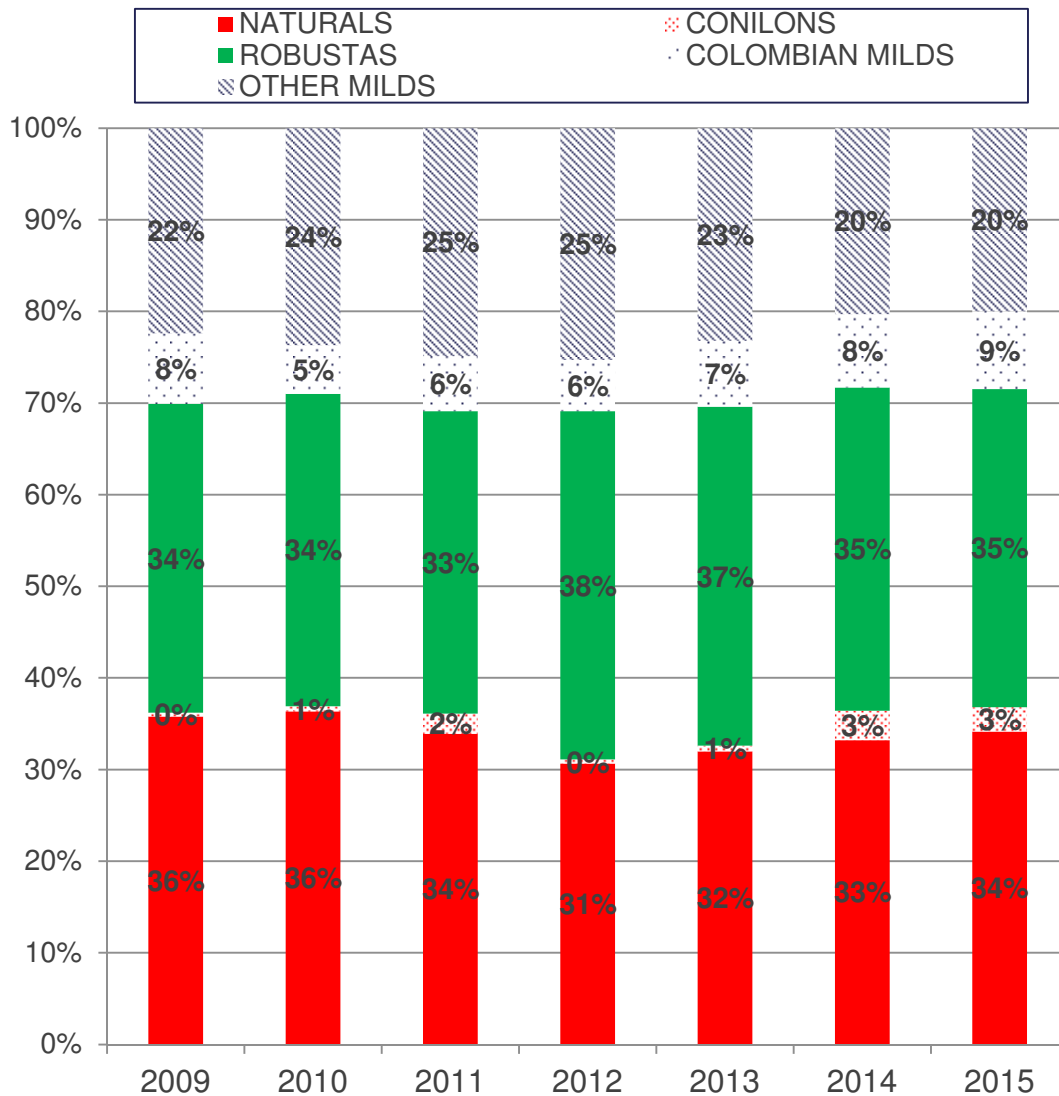


## Japan

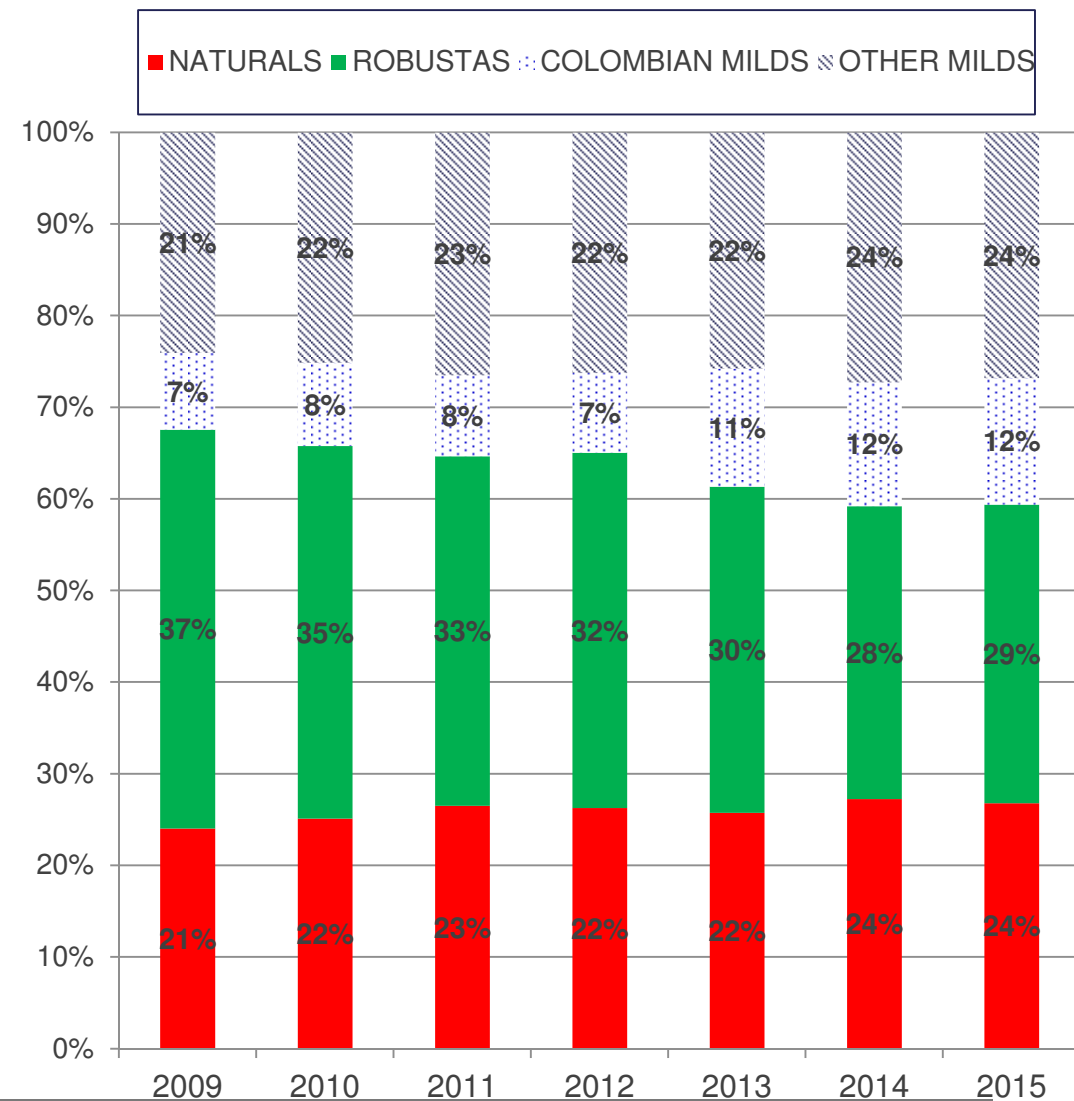


# General Increase in Brazil's share of import markets

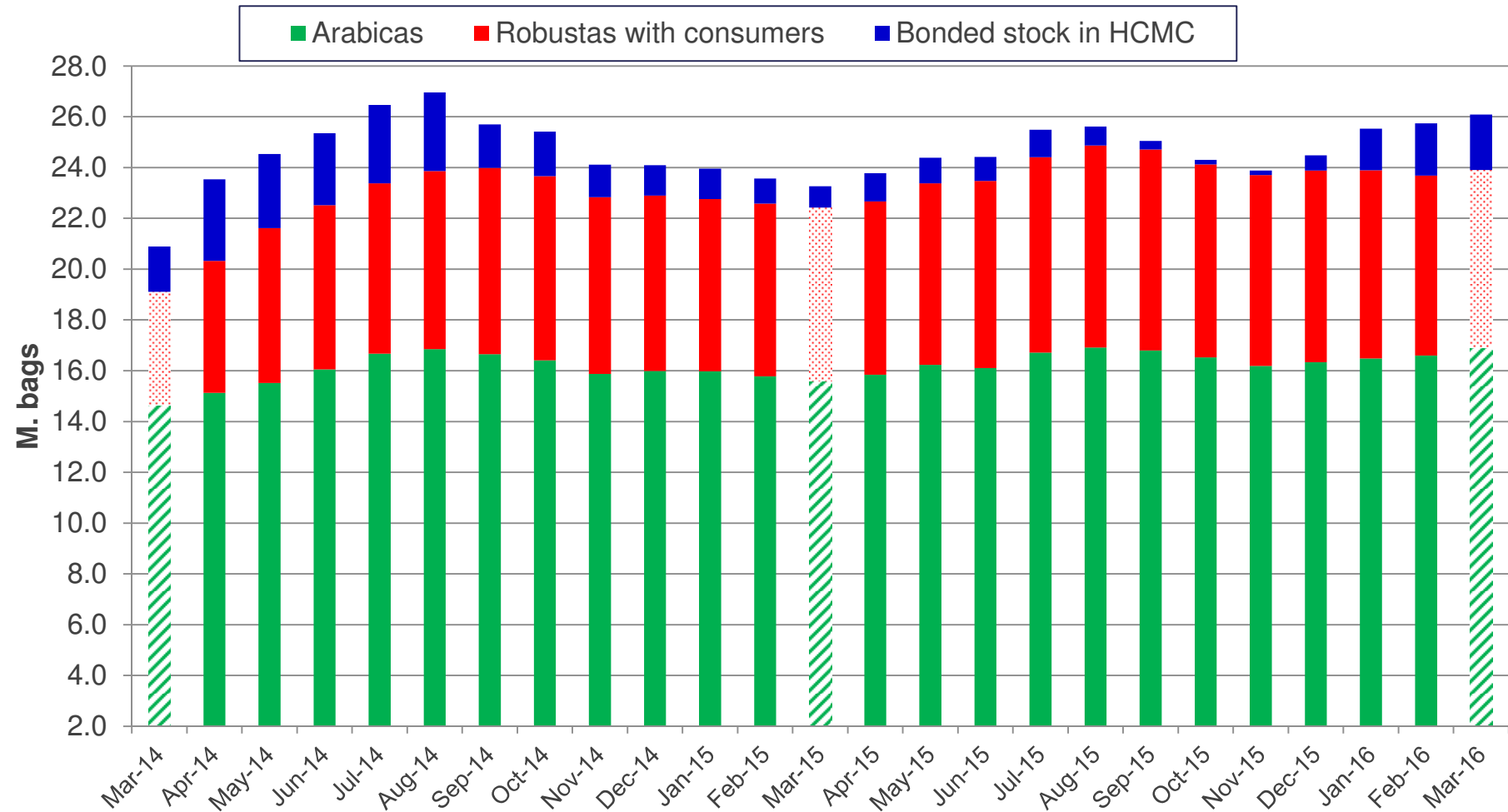
## European Union



## Australia

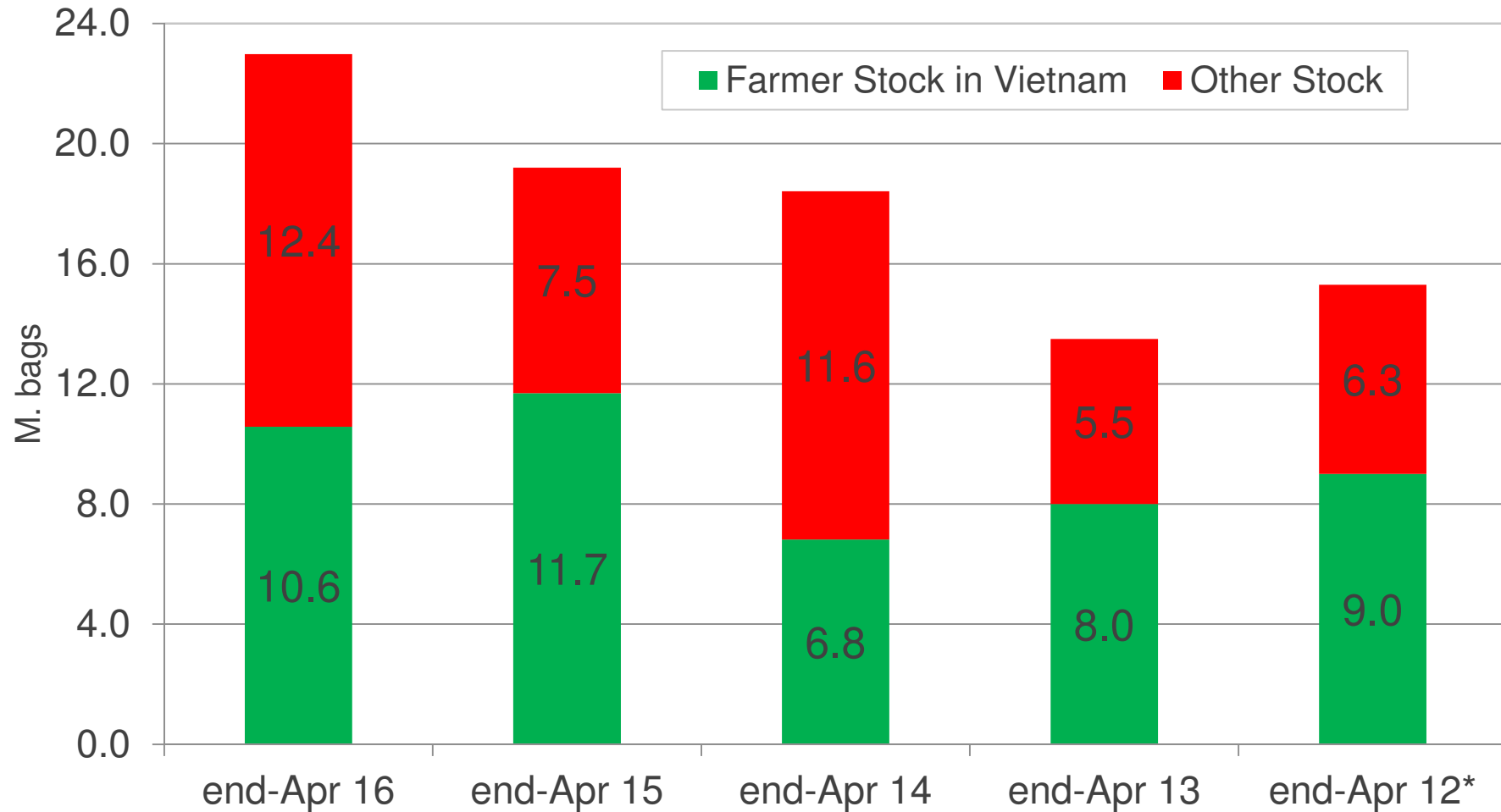


## Visible Stocks- Increase in arabica stocks in consumer markets, robustas in HCMC



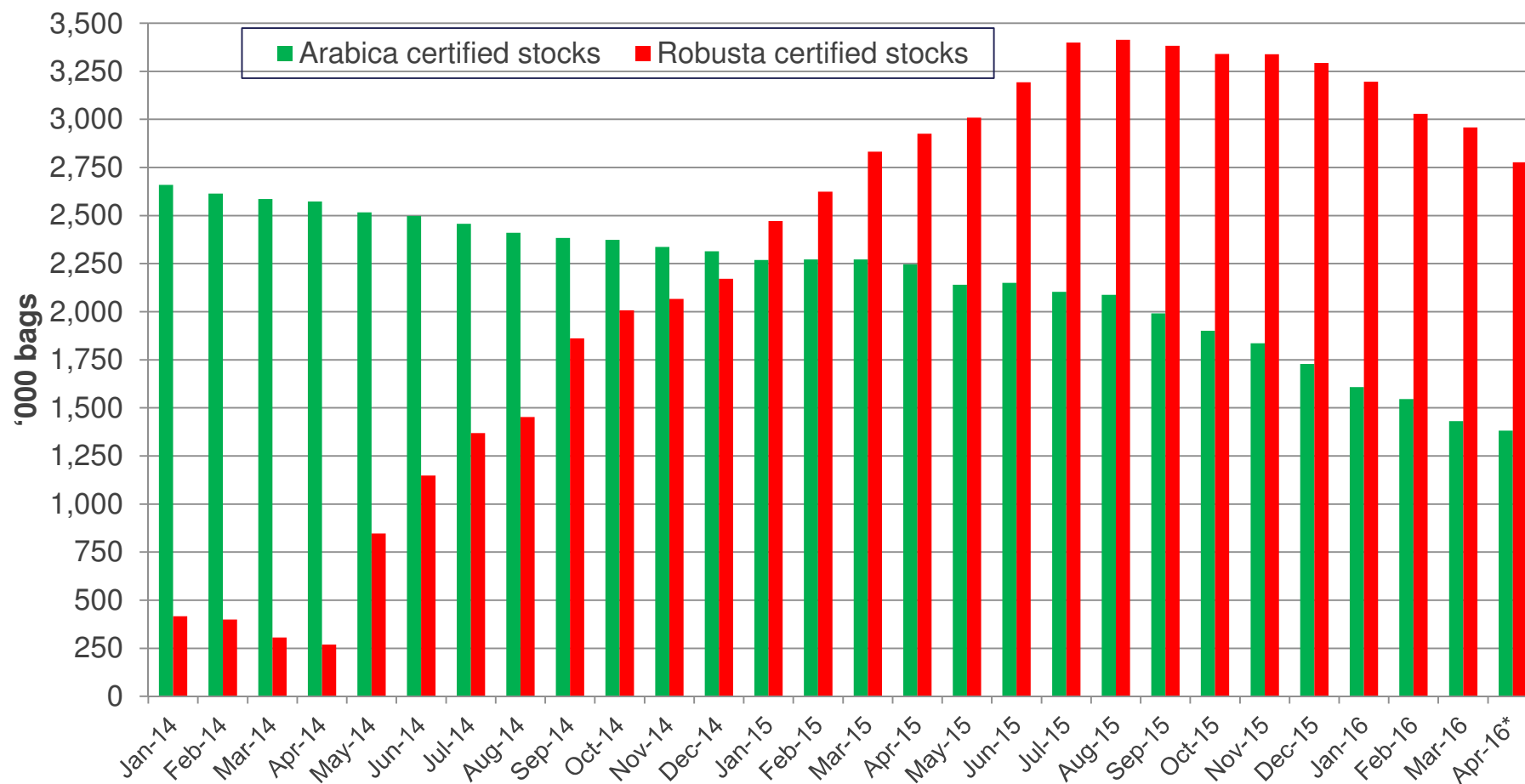


# Coffee stocks being held in Vietnam



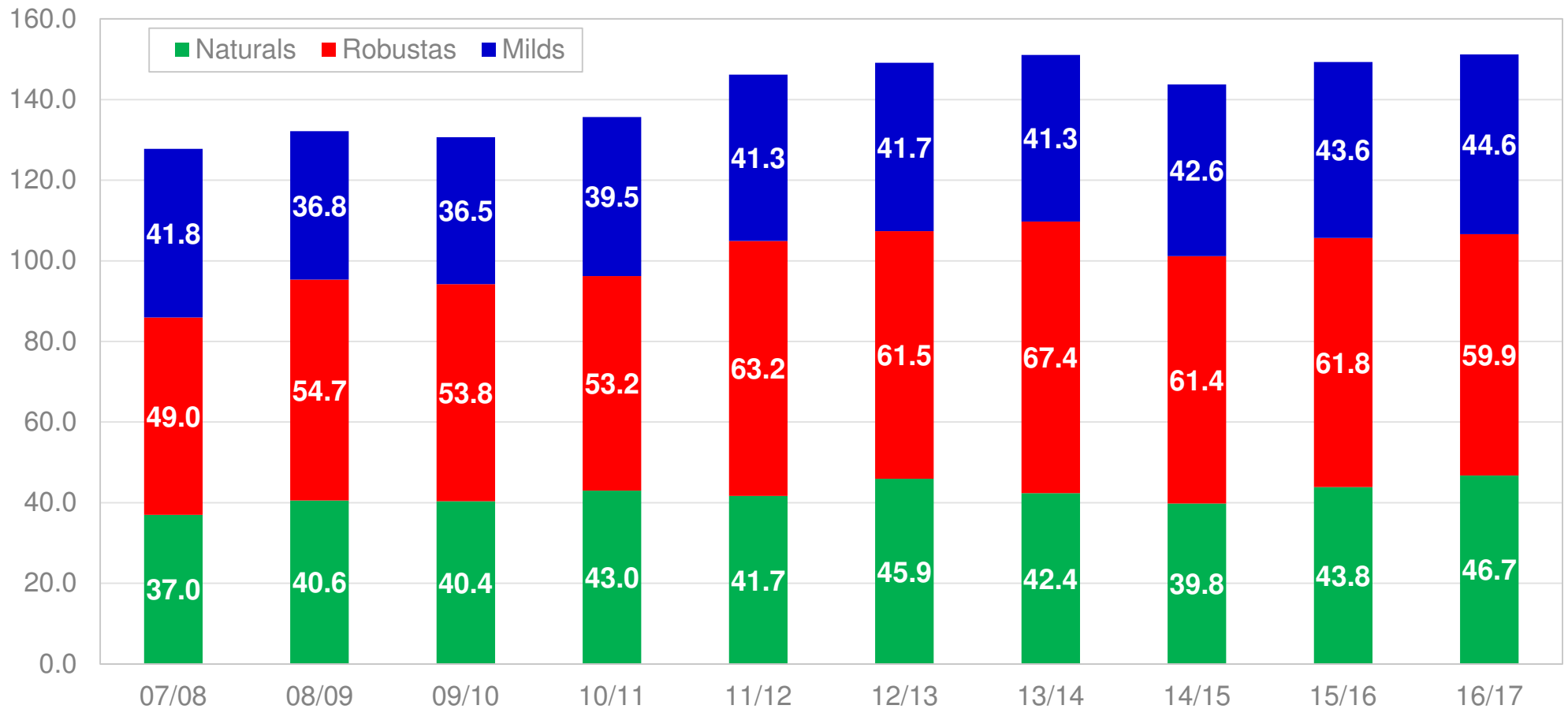
Source: ARL stock surveys- 2012 is for  
March

# But ICE Certs at a low level and LIFFE certs moving

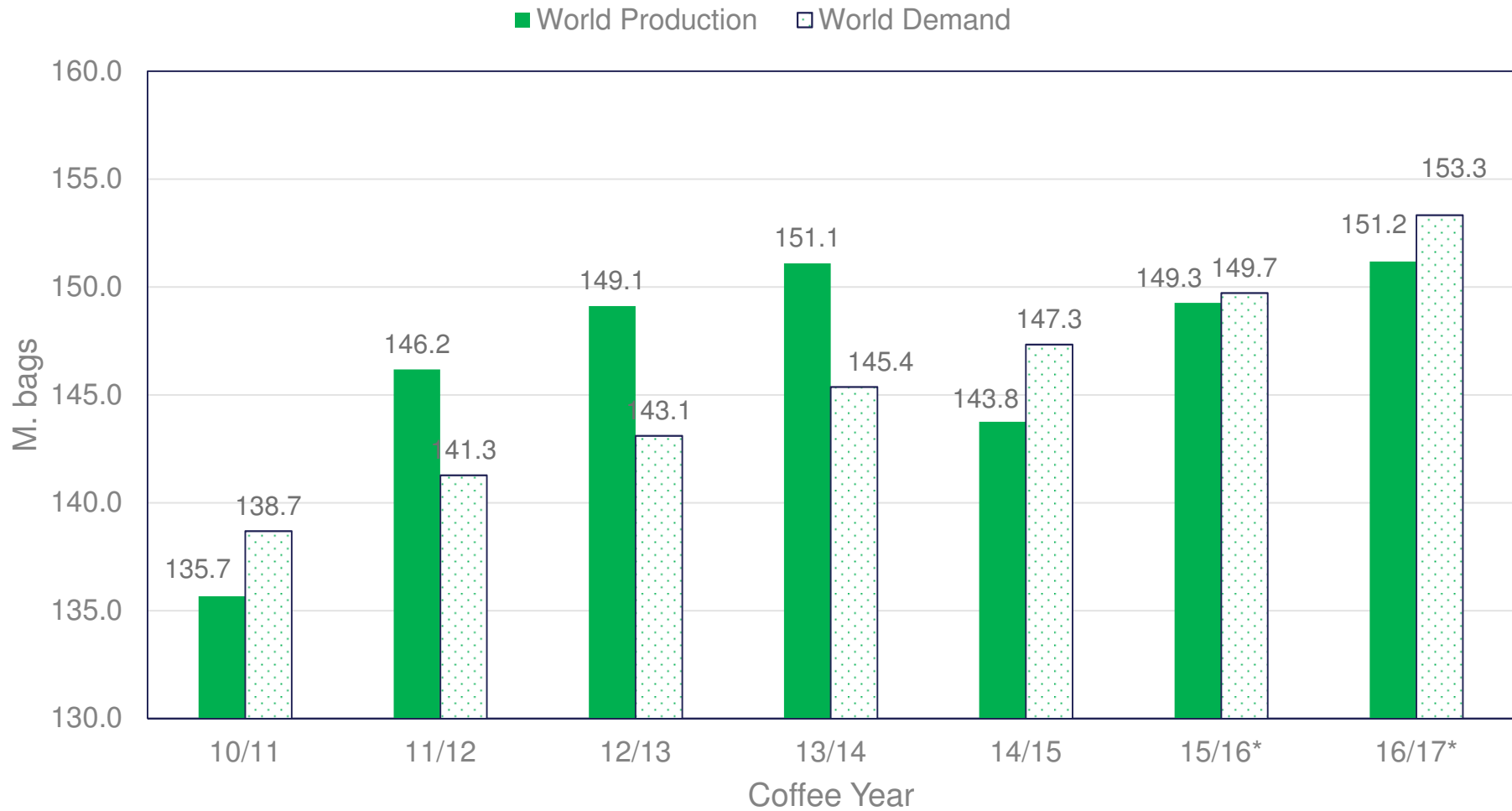


\*- as Apr 26

# Weather problems have stalled production growth

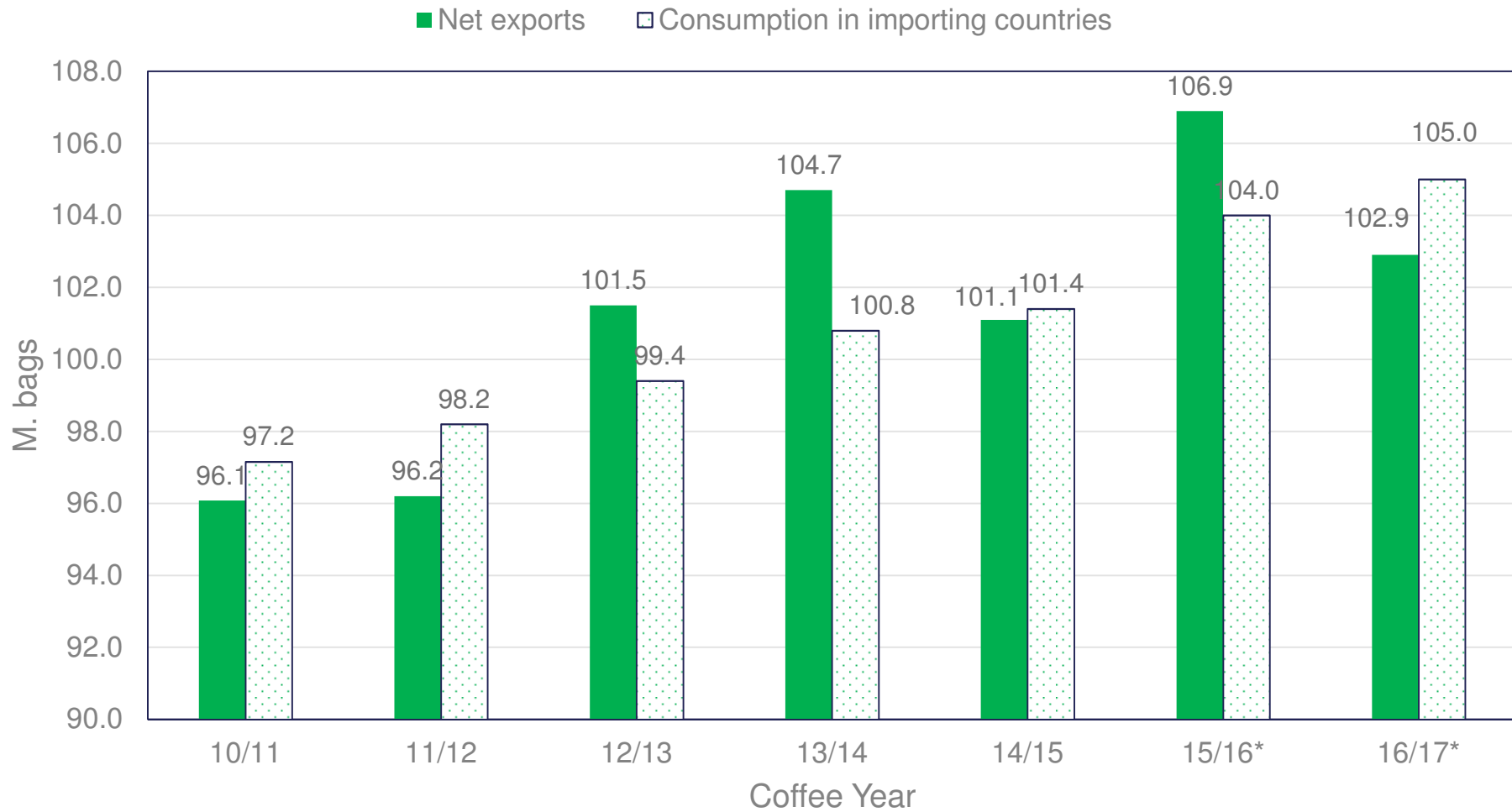


## Demand deficit 15/16, another deficit possible in 16/17



\*- forecast

**Importing surplus 15/16, deficit possible 16/17- if producers hold stocks**



\*- forecast

## Supply/Demand Summary (1)

- No strong story in coffee at moment. Any outside speculative interest is reduced because of the uncertainty about Brazil production statistics. Need to restore credibility to help whole sector plan for the future.
- ARL work with 54.3 m. bag 15/16 Brazil crop (38.5 m. bags arabicas, 15.8 m. bag robustas) and 55.5 m. bag 16/17 crop (42.0 m. bag arabicas, 13.5 m. bag robustas). Post-harvest looks like might need to decrease 16/17 robusta output and increase arabica production.
- ARL remain positive on demand as World continues to absorb total origin exports of close to 120 m. bags in 12 months to end-March. Brazil consumption growth stalls, but overall can see demand at 151.7 m. bags in calendar 2016.
- Roasters in a strong position. Their price fixing strategy enables them to sit out speculative price surges and see good near-by physical availability.
- Brazil has taken an increasing share of World markets, Naturals taking share from both milds and robusta. Ironically biggest shift in market share will probably take place in Brazil due to conilon situation

## Supply/Demand Summary (2)

- Certified stocks on both exchanges are falling. For the moment, no robusta or arabica coffee looks like it is anywhere near-tenderable parity. The good arabica harvest, however, may bring Brazil semi-washed towards the ICE market..
- Producer stocks have fallen and are no longer adequate to cover any big supply shocks. However, near-by availability is good with arabica stocks building in consumer markets and robusta stocks building with trade in Ho Chi Minh.
- Production growth has been stalled by weather problems, many caused by recent strong El Niño system. Production fell to 143.7 m. bags in 14/15 coffee year. Increased to 149.3 m. bags in 15/16 and is forecast to hit 151.2 m. bags in 16/17- back to level seen in 16/17.
- These production problems have not been felt in importing markets, where origin stock run-downs have caused surging exports and comfortable consumer stock levels.
- ARL forecast a 2.2 m. bag deficit in 16/17. This has emerged due mainly to El Niño induced problems in robusta output in Brazil, Vietnam and Indonesia. After experience of last two years trade will want to see near-by availability decrease before becoming excited about the market. .