



Coffee and Currencies

How the buck impacts the bean



BNP PARIBAS
CORPORATE & INVESTMENT BANKING

| The bank for a changing world

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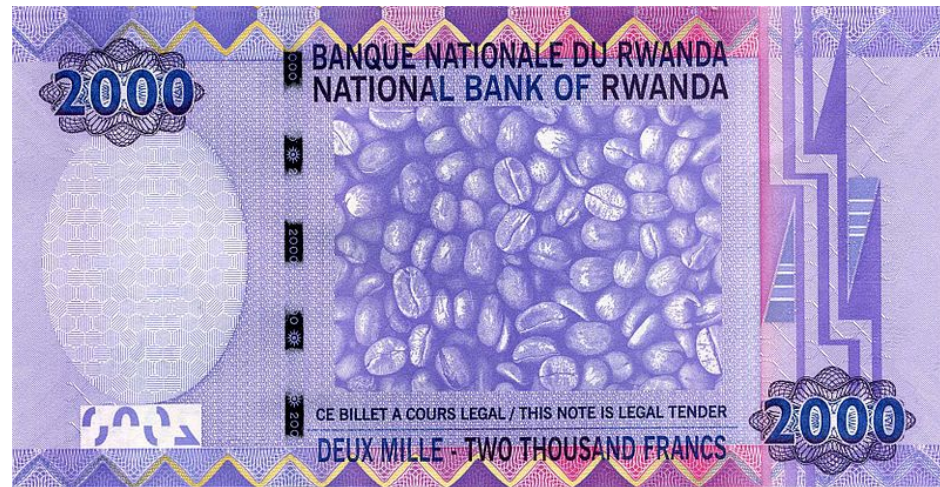
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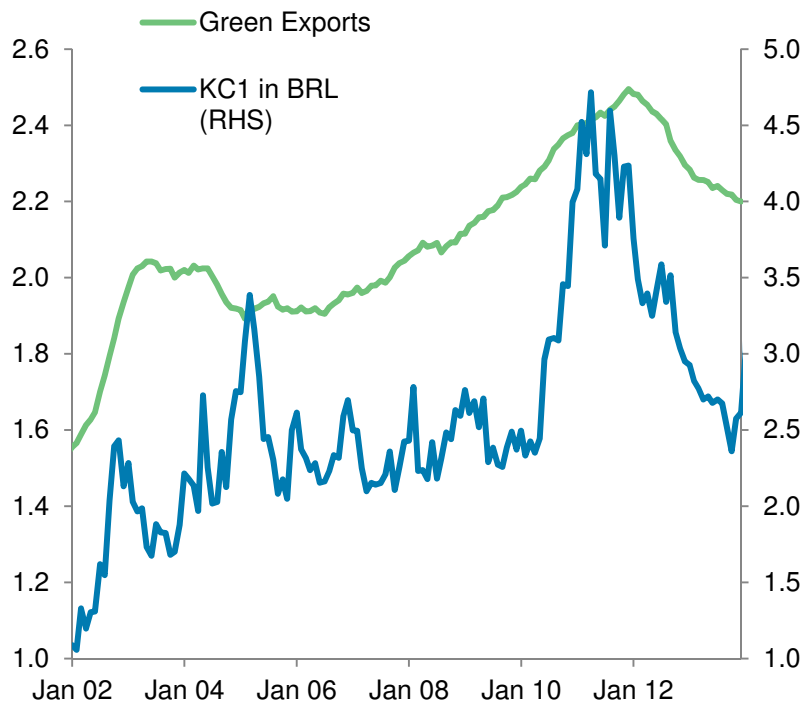
Currency impacts

- A devaluing currency (relative the USD) increases the local coffee price
 - Prompts selling (exports) in short term
 - Can encourage production in longer term
- A stronger USD = bearish commodities
 - A weaker BRL = bearish coffee
- Dollar denominated input costs can rise as the local currency falls
 - Fuel and fertilizer costs most susceptible
- Local economies have tools to combat a devaluing currency, but concerns about inflation, foreign reserves, or impact on trade can complicate matters
- The shifting exchange rates can impact the trade flow as some nations benefit from devalued currencies relative to the competition



Coffee trade and currency

Brazilian exports and KC in BRL



Coffee trade and currencies

	Coffee Exports (mln bags)	Foreign currencies from coffee (mln \$)	Coffee as share of exports
Brazil	30.9	6'744	3
Vietnam	18.6	2'510	4
Columbia	8.5	2'552	6
Indonesia	8.2	1'269	1
India	4.4	943	0
Guatemala	3.9	1'068	18
Honduras	3.7	964	19
Peru	3.6	938	3
Ethiopia	2.5	734	46
Mexico	2.3	599	0
Uganda	2.1	422	17
Nicaragua	1.8	469	34
Total	90.5	19'212	2

Source: Procafe, Bloomberg, BNP Paribas



When prices move higher (or local values move higher due to exchange rate shifts) selling/exports generally increase. The coffee trade is a major source of foreign currency (USD) for origin nations. The coffee portion has fallen due to increased development, but some nations still have a high share.



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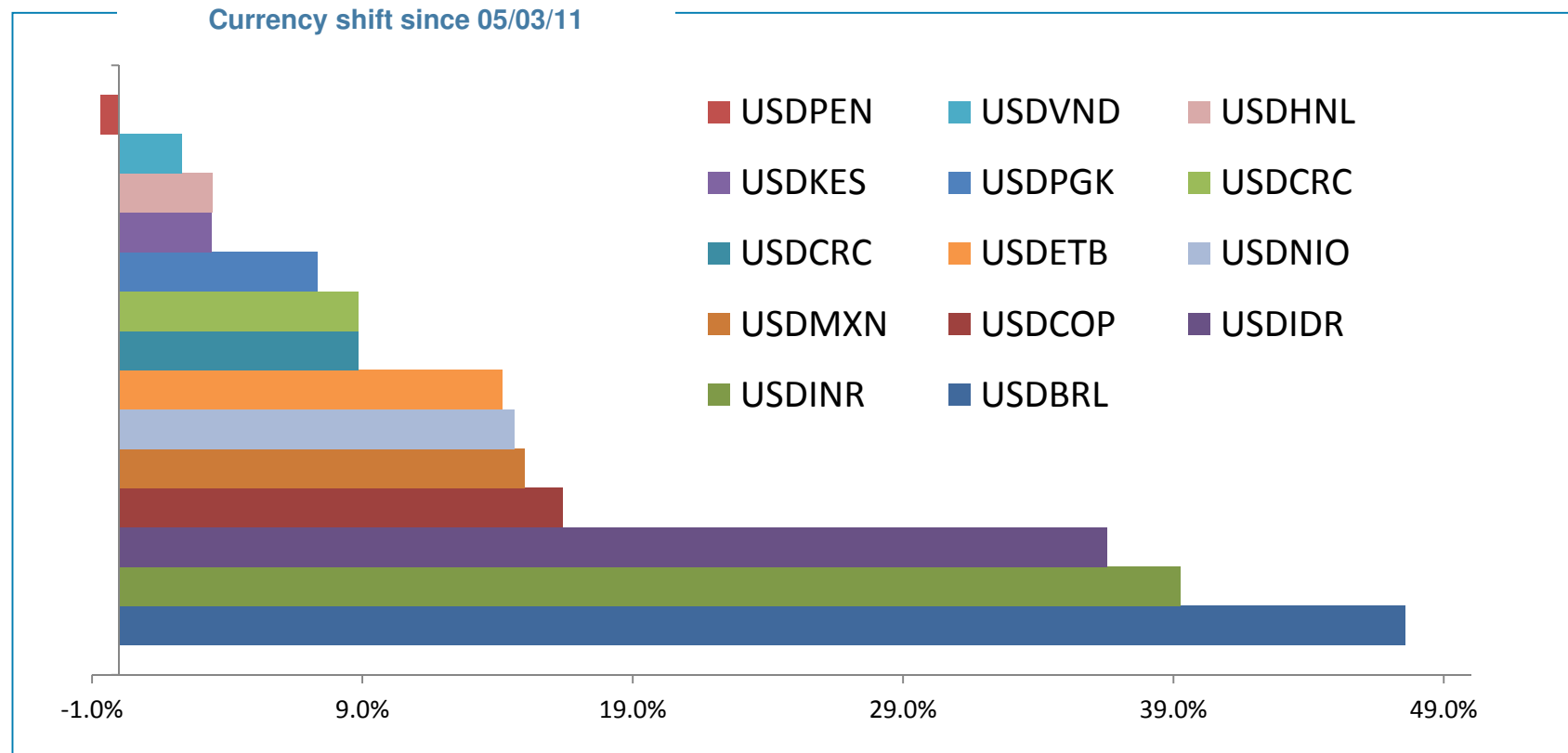
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Coffee currencies

- As coffee increases in the share of a nation's exports its importance as a USD source increases. Ethiopia, Rwanda, Honduras, and Guatemala are examples
 - The fate of coffee prices directly linked to the ability to buy USD denominated imports
 - Governments direct policy to support production/exports
- As the share of production increases currency volatility impacts the international price of coffee more
 - Brazil is the key example of this with the BRL linked to the Arabica price
- Nations that are very dependent on fickle foreign investment to finance growth are susceptible to high currency volatility (BRL, INR, IDR).
- Producers wary of inflation or stability of local currency may hold coffee as hedge or liquid asset
 - Vietnam an example



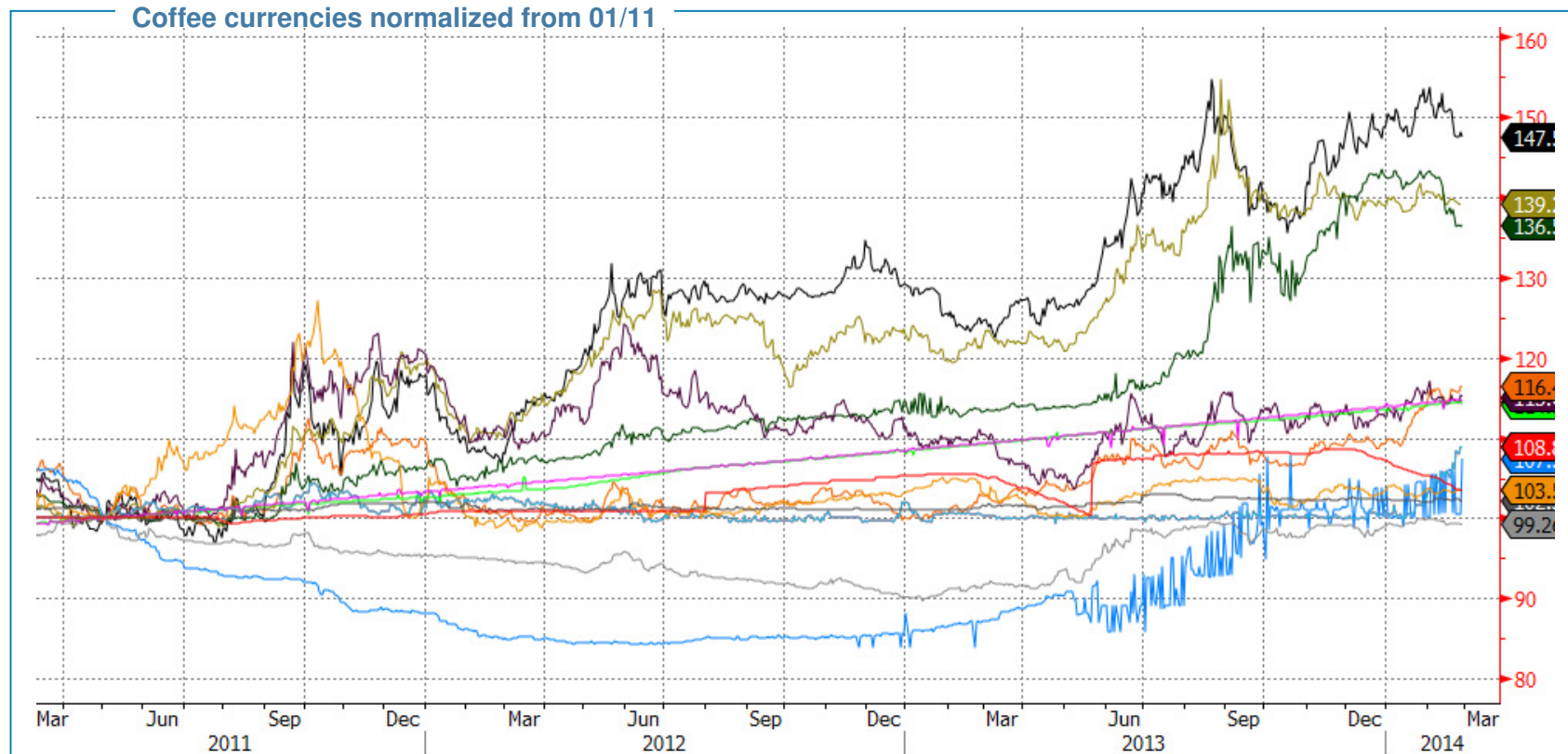
Currency moves



➤ The shift in currency values since the Arabica peak in 2011 shows major devaluations (BRL, INR, IDR), modest moves (COP, MXN, NIO, ETB) and those with less volatility.



Coffee Currencies



Source: BNP Paribas

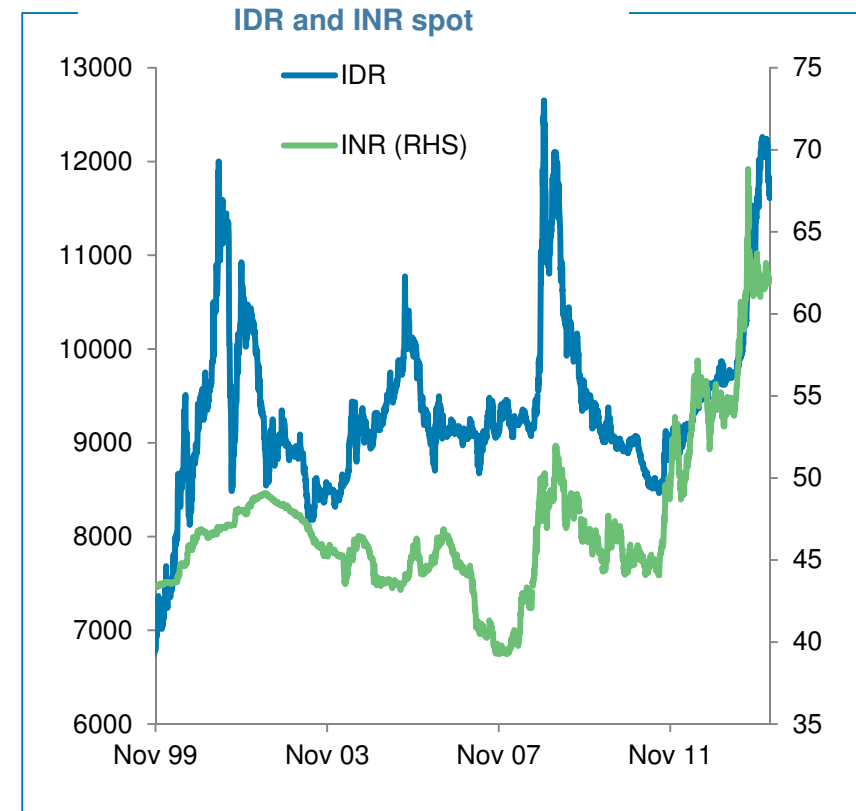
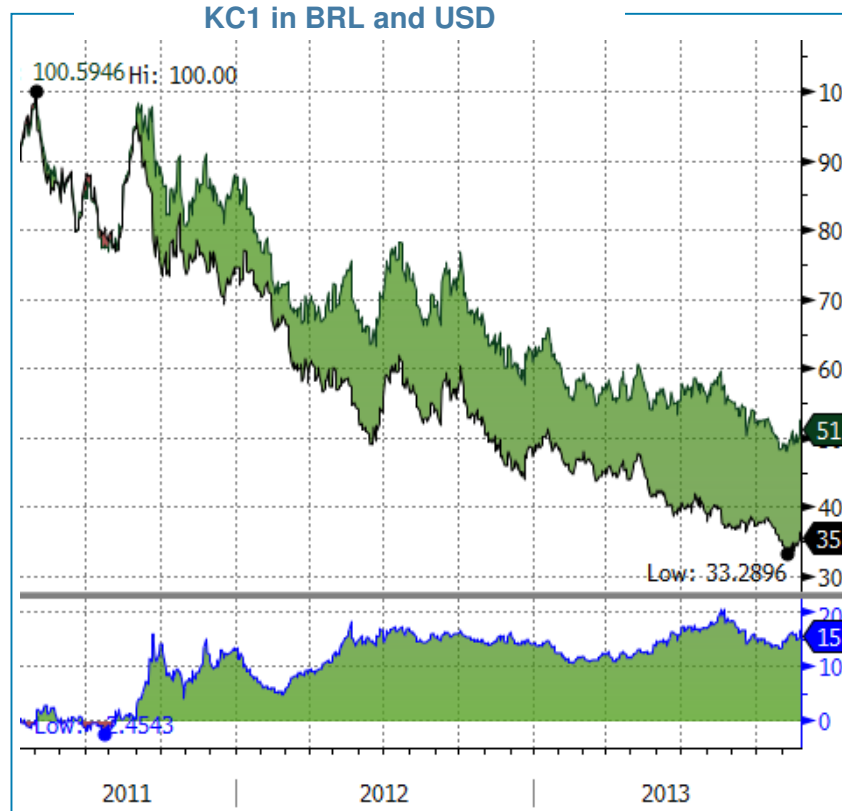
➤ Much of the shift since the peak of coffee prices has occurred in the past year. The situation in the US (the potential end to QE3 and interest rates) is the driver.



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Winners (the R's)

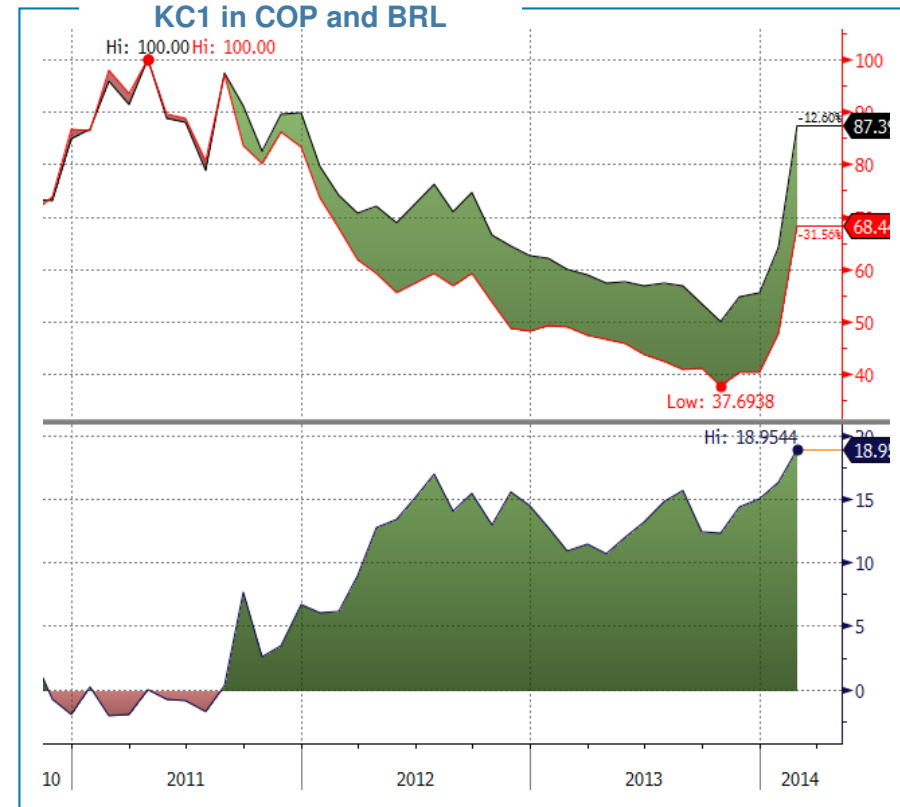


Source: Bloomberg, BNP Paribas

➤ The Brazilian real, the Indian rupee, and the Indonesian rupiah have seen the greatest devaluation in the past three years. This has tempered the impacts of the falling NY market (and may have exacerbated it). In 2013/14 three nations accounted for 46% of coffee output.



Not Winners



Source: ICO, Bloomberg, BNP Paribas

➤ The shift in currencies and how that impacts local valuation of the NY market have not been compensated by differentials (which are more focused on the local market and the supply/demand for coffee type). Strong economic outlook in Colombia has resulted in strength in the peso.



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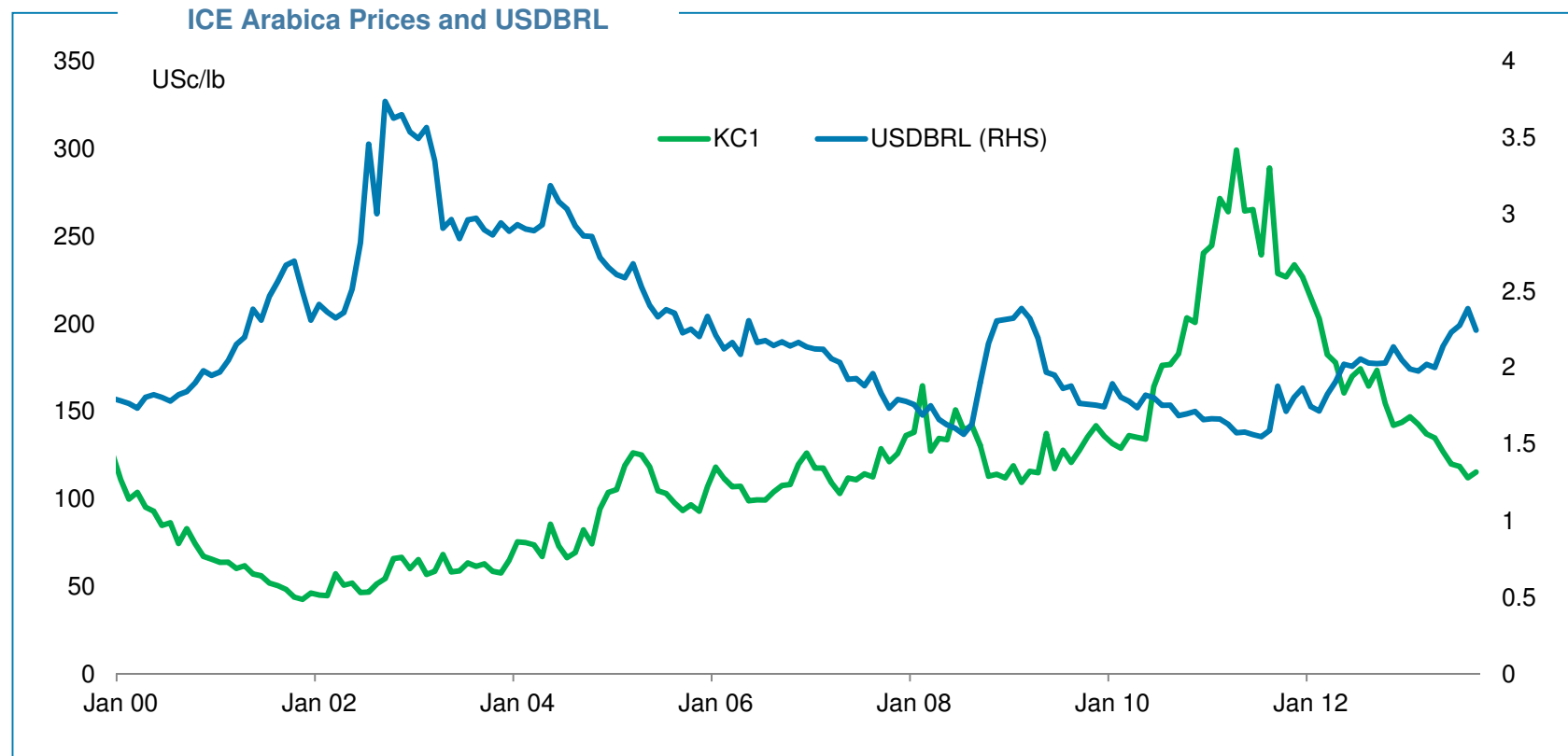
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USDBRL and Arabica

- The Brazilian real has the most impact on the coffee market of the origin currencies
 - The relationship has grown stronger as the Brazilian share of Arabica grows (recently)
 - Liberalization in currencies and coffee trade has also supported the relationship
 - The ability to deliver Brazilian beans to NY may have impact as well
- “US Fed ‘tapering’ and concerns about the Chinese growth outlook may continue to erode global commodity prices and undermine capital flows into emerging markets like Brazil... Brazil is now bumping up against supply constraints, as evident from its worsening external accounts and its stubbornly above-target inflation. Brazil’s growth-inflation trade-off is worsening”



USDBRL and ICE Arabica

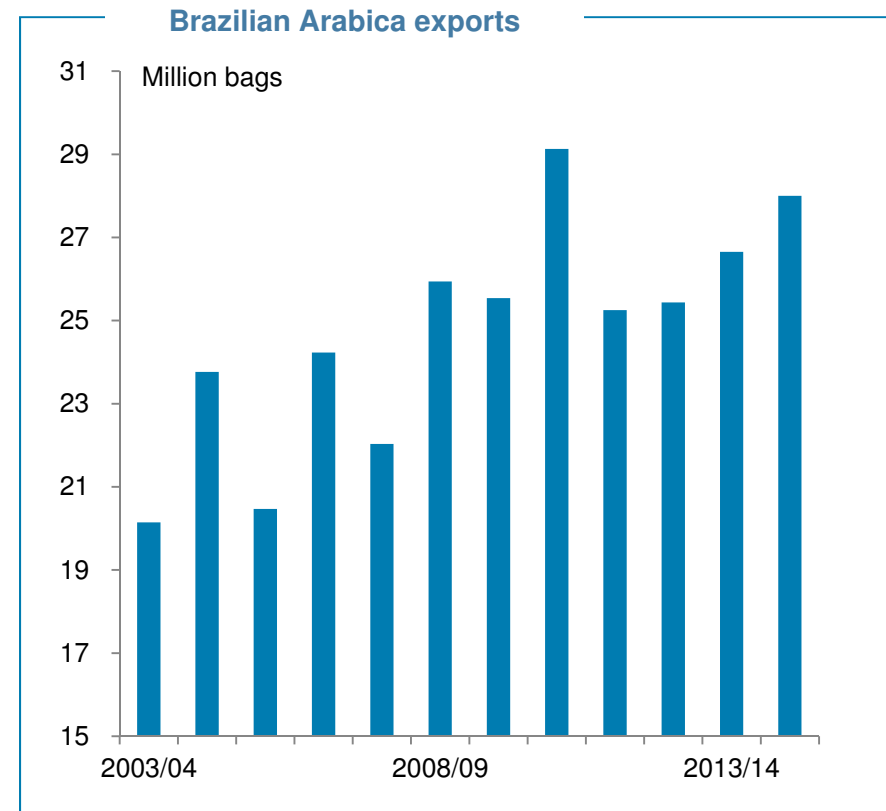
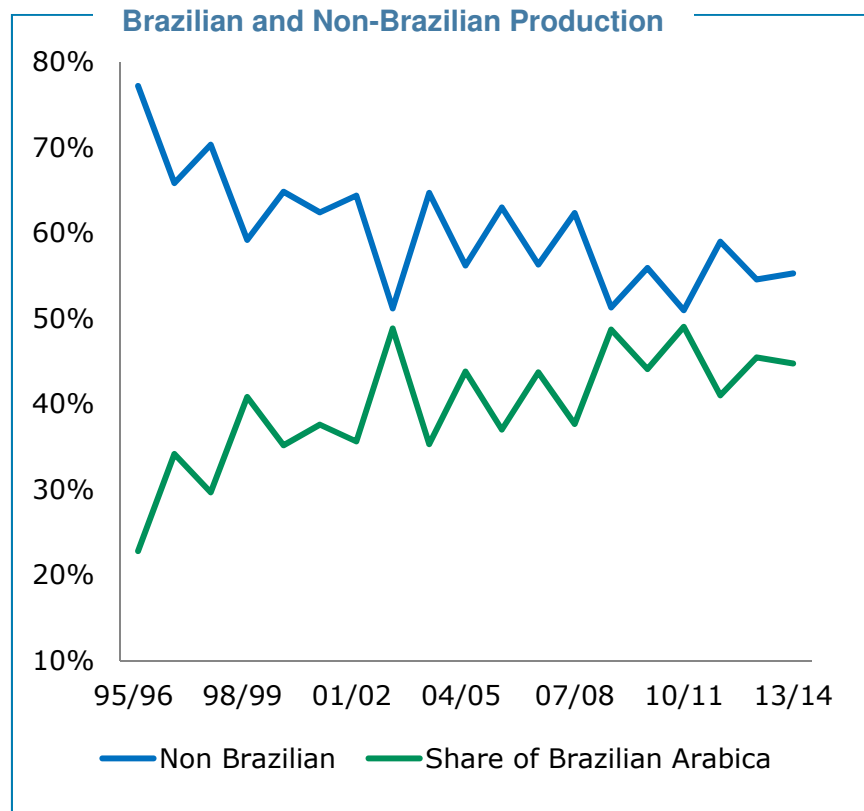


Source: BNP Paribas

➤ **A weaker BRL in 2000-2002 tempered the impacts of the falling Arabica prices. Conversely the shift in BRL from 2003 to the crisis supported Arabica prices. The fall in prices since 2011 have coincided with the fall in BRL values.**



Brazilian Arabica supply

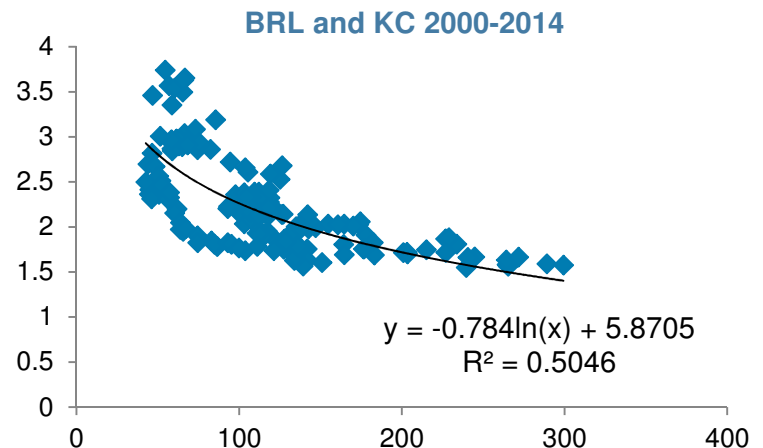
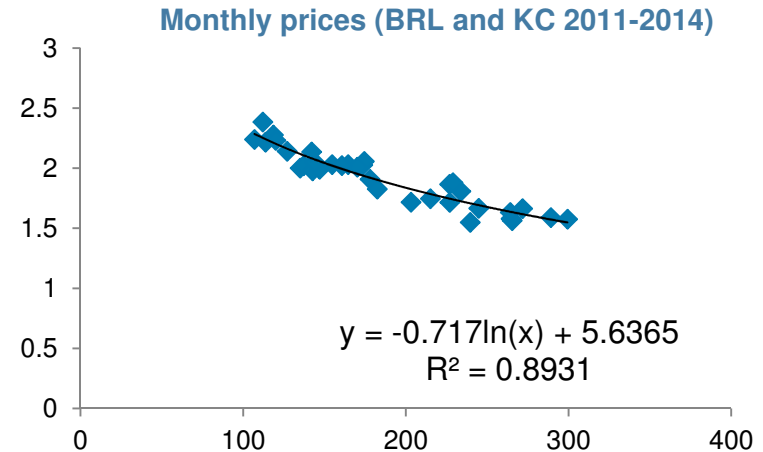
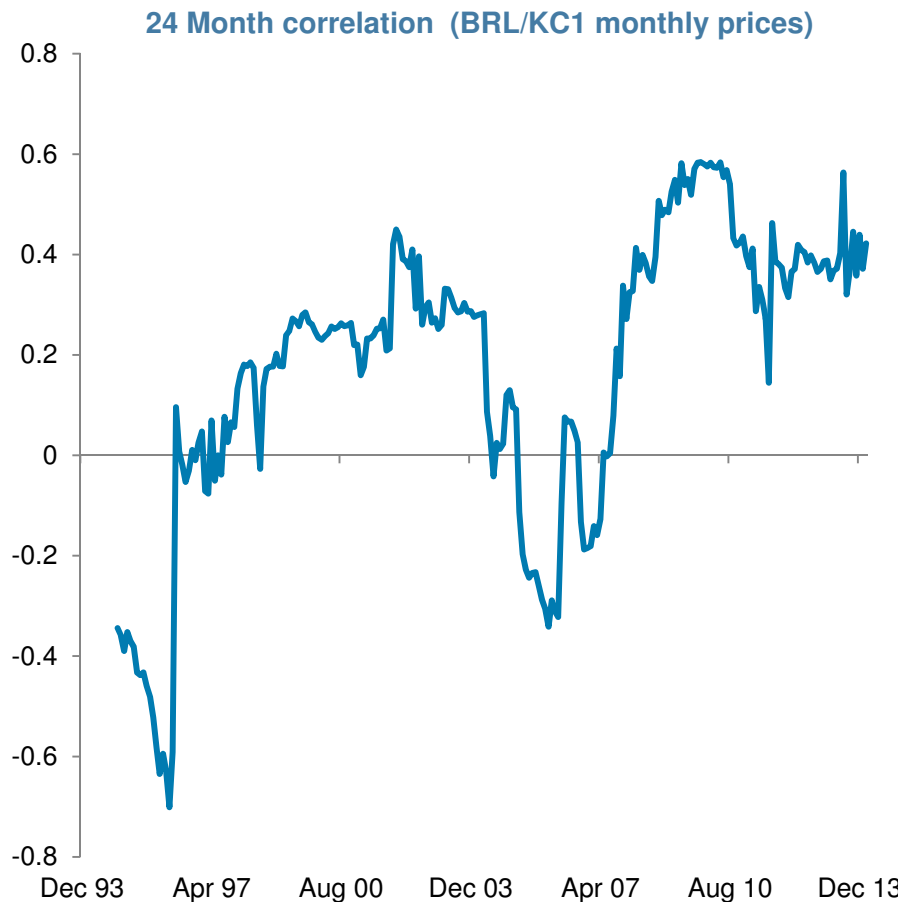


Source: CeCafe, BNP Paribas

➤ **The Brazilian share of global Arabica production continues to increase along with Arabica exports. This increases the importance of the BRL for global coffee prices.**



Correlation between BRL and KC



Source: Bloomberg, BNP Paribas

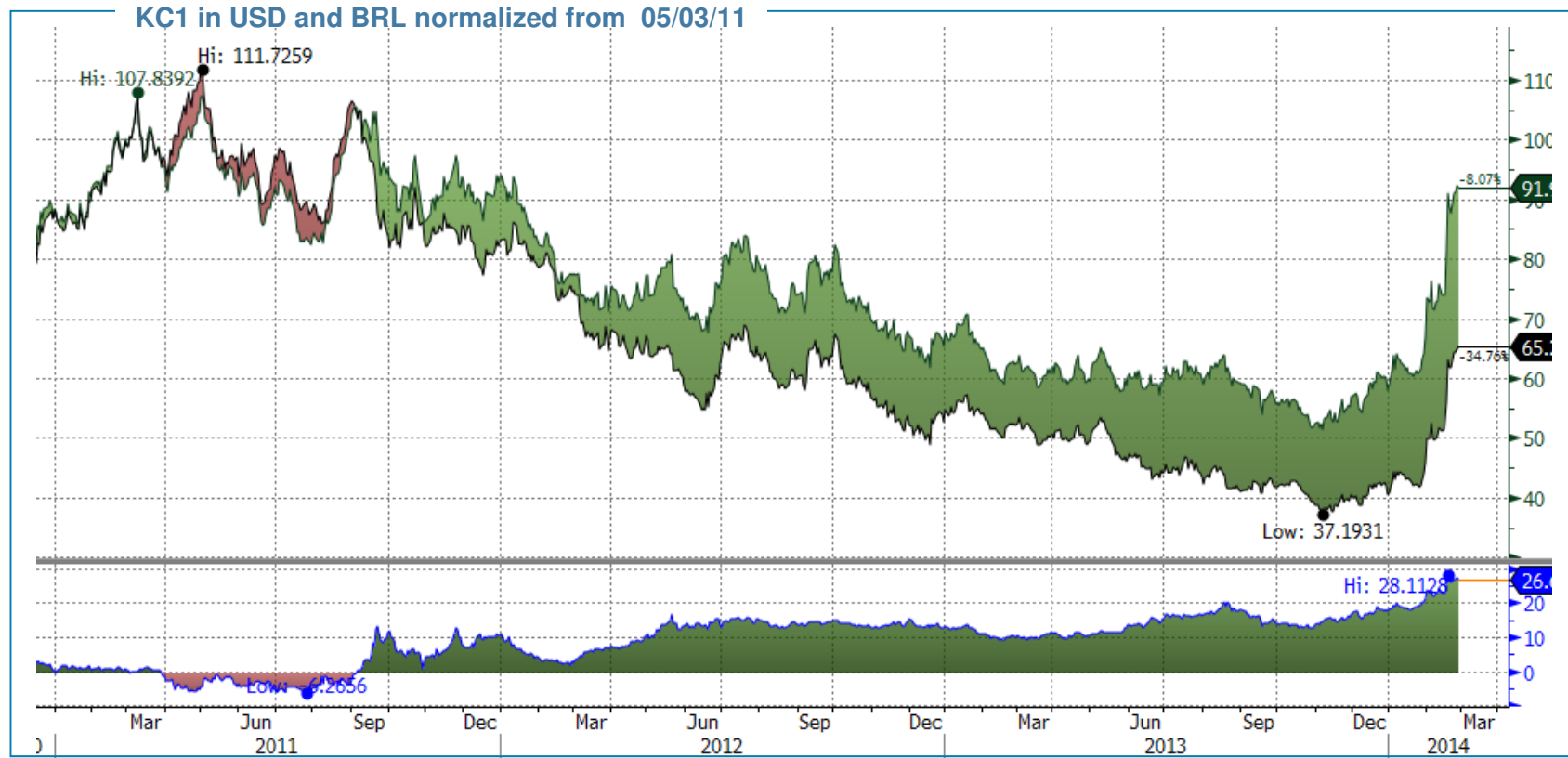
➤ The correlation between the BRLUSD and Arabica prices has increased over the past 15 years, and is generally positive. There are many other variables in the relationship, but we find a weaker BRL has an increasingly stronger relationship with a weaker KC1.



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ICE Arabica in USD and BRL



Source: BNP Paribas



The offsetting change in currency can be seen with the ICE Arabica price in BRL 26% higher than the same price in USD.



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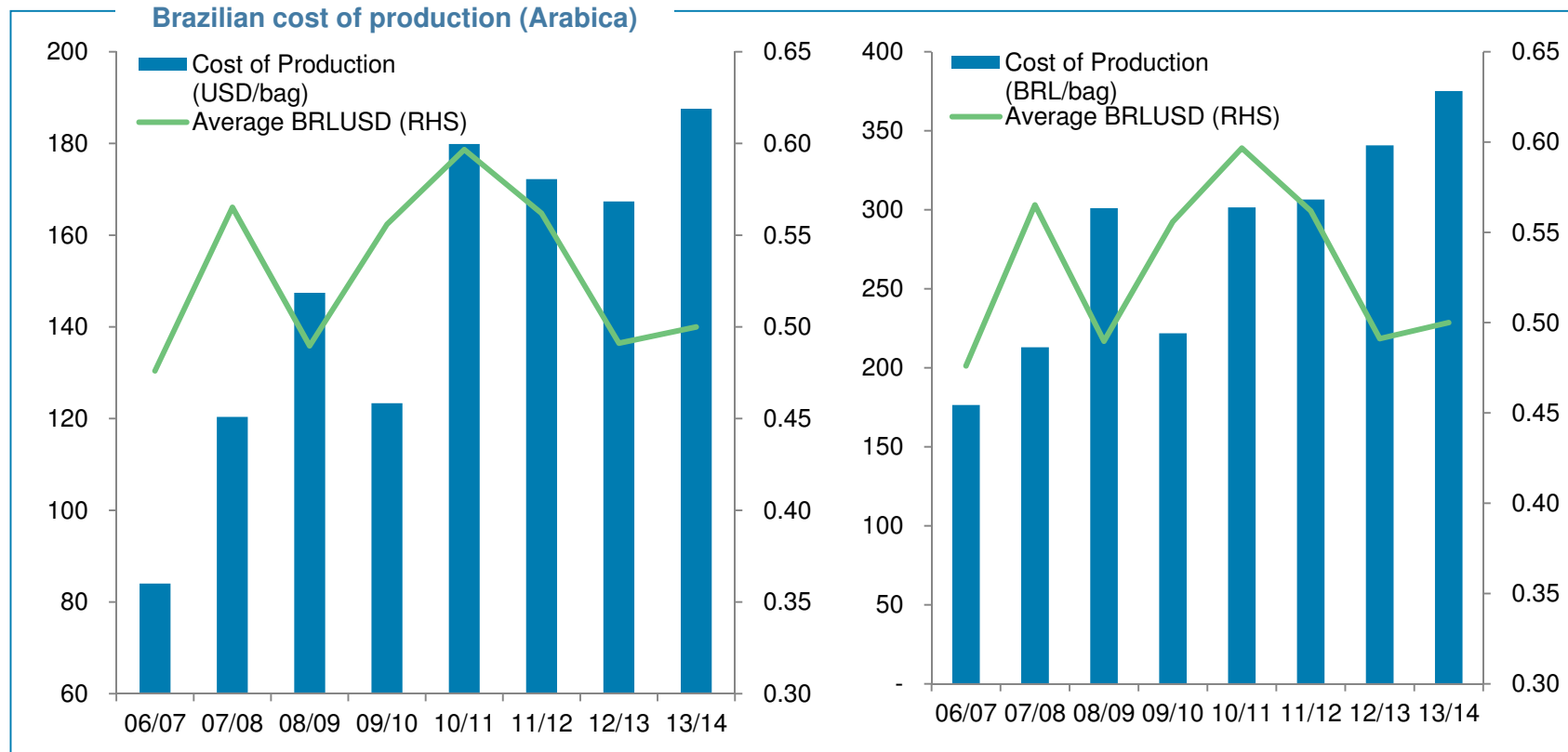
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Cost of Production

- Generally, falling currency values against the USD increase import costs leading to higher inflation and input costs for agricultural enterprises
- Average coffee production costs in Brazil are estimated between 350-390 BRL/bag (but varies by production type, yield and other factors)
 - Costs have more than doubled in the past eight seasons
- In Brazil the major aspects in the costs of production are labor, inputs (fertilizer/pesticide), and financing (the cost of capital). Much of this is based on policy; the cost of labor and the price of fuel.



Cost of production



Source: CONAB/DIGEM/SUINF/GECUP, BNP Paribas



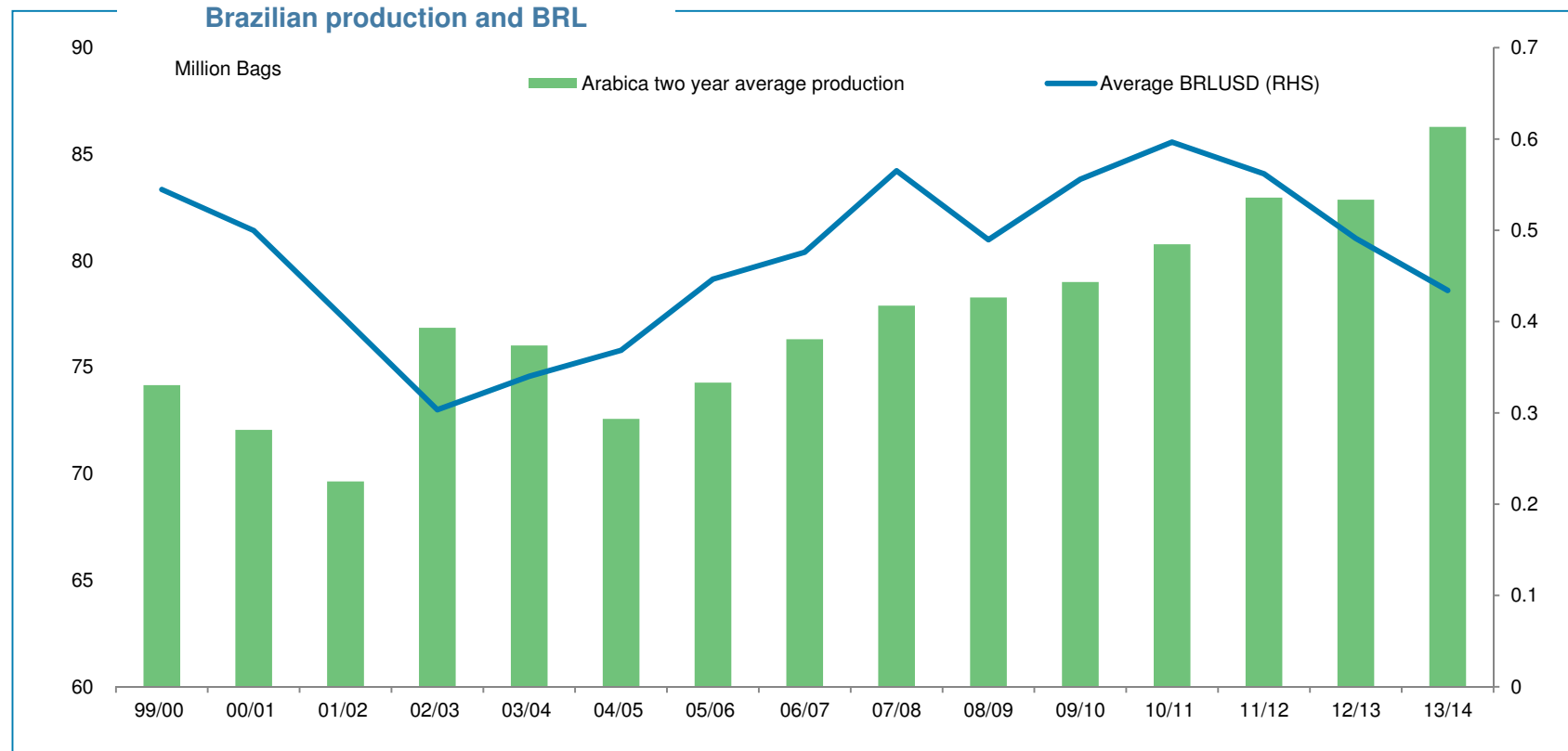
Given the set costs and other variables the cost of production in Brazil has not exhibited a strong relationship with the BRL/USD rate.



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Brazilian output and the rate



Source: BNP Paribas



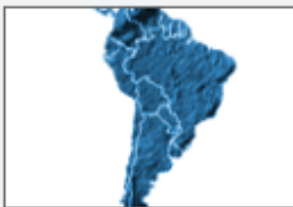







Outlook

- BNP Paribas forecasts further depreciation in many emerging market economies and coffee origins.
 - The US economy and the QE3 taper, coupled with individual nations' economic outlook will drive rates
- A bearish outlook for the BRL will mean KC1 values in Brazil will increase (even more than the current rally)



BNP Paribas FX Forecasts

BNP Paribas FX forecasts*

LATAM Bloc			Q1 '14	Q2 '14	Q3 '14	Q4 '14	Q1 '15	Q2 '15	Q3 '15	Q4 '15
	USDARS		8.50	10.00	11.50	12.75	13.52	14.33	15.19	16.10
	USDBRL		2.50	2.55	2.75	2.60	2.63	2.67	2.71	2.75
	USDCLP		550	565	558	550	550	545	545	545
	USDMXN		13.17	13.00	12.95	12.90	12.90	12.85	12.80	12.57
	USDCOP		2050	2090	2120	2150	2181	2213	2244	2275
	USDVEF		7.50	13.80	13.80	13.80	13.80	25.60	25.60	25.60
	USDPEN		2.79	2.82	2.85	2.91	2.90	2.90	2.90	2.90

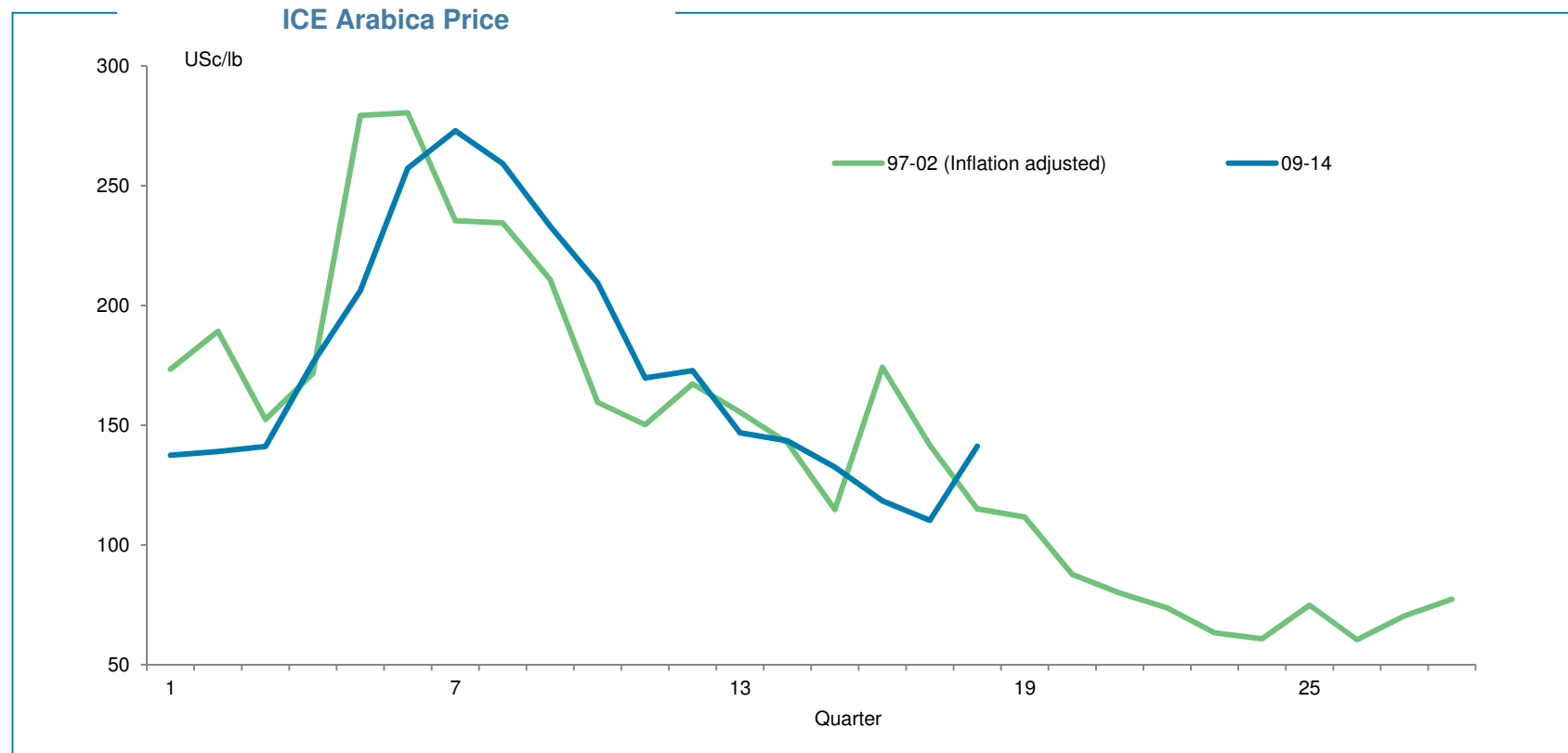
Source: BNP Paribas. Updated: 24 Feb 2014 13:57 GMT

*Quarter and year end

➤ A weaker outlook for the BRL (18%) is bearish ICE Arabica prices (all else equal). The gap between COP (11%) and BRL is forecast to grow impacting profitability.



Arabica Price

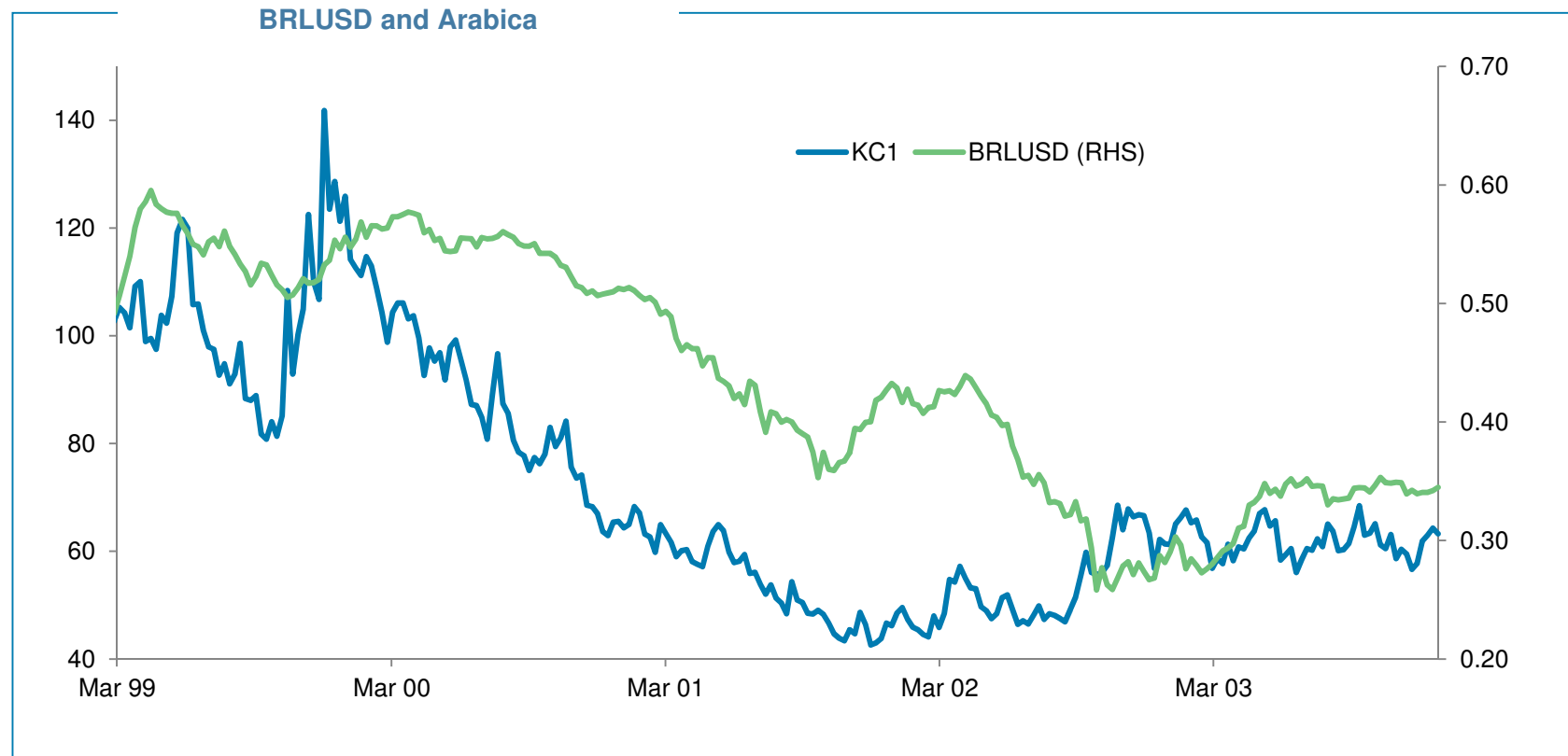


Source: BNP Paribas

ICE Arabica prices since 2009 have shadowed the 1997-2002 bear market. This includes the current rally which is similar to the increase in prices in 1999. Even the rate... “last week’s 20% surge was the largest one-week rally since Dec 1999”
Reuters



1999-2004 market



Source: Bloomberg, BNP Paribas

➤ **After increasing 77% in 1999 Arabica in 2.5 months the bear market continued with prices bottoming out in 2002. The BRL lost 53% of its value between the end of 1999 and the nadir in 2002.**



BNP Paribas FX Forecasts

BNP Paribas FX forecasts*

Asia Bloc

		Q1 '14	Q2 '14	Q3 '14	Q4 '14	Q1 '15	Q2 '15	Q3 '15	Q4 '15
	USDSGD	1.27	1.30	1.28	1.30	1.32	1.35	1.35	1.40
	USDMYR	3.30	3.32	3.35	3.40	3.40	3.42	3.45	3.50
	USDIDR	11750	11800	12000	12250	12300	12400	12500	12800
	USDTHB	32.50	32.50	33.00	33.50	34.00	34.50	35.00	35.50
	USDPHP	44.80	44.80	45.20	45.50	45.50	45.50	46.00	46.50
	USDHKD	7.80	7.80	7.80	7.80	7.80	7.80	7.80	7.80
	USDRMB	6.02	5.98	6.00	5.94	5.99	6.05	5.95	6.00
	USDTWD	30.30	30.50	30.30	30.00	30.00	29.70	29.70	29.50
	USDKRW	1080	1120	1080	1050	1050	1020	1000	1000
	USDINR	62.00	60.00	62.00	64.00	65.00	65.00	65.50	66.00
	USDVND	21100	21100	21300	21300	21300	21300	21600	21600

Source: BNP Paribas. Updated: 24 Feb 2014 13:57 GMT

*Quarter and year end

➤ In Asia forecasts call for stable dong valuation, while INR (5%) and IDR (10%) both are expected to see modest devaluation.




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BNP Paribas FX Forecasts

BNP Paribas FX forecasts*

USD Bloc

		Q1 '14	Q2 '14	Q3 '14	Q4 '14	Q1 '15	Q2 '15	Q3 '15	Q4 '15
	EURUSD	1.33	1.32	1.28	1.26	1.24	1.24	1.24	1.22
	USDJPY	105	108	109	110	112	115	120	124
	USDCHE	0.92	0.94	0.98	0.99	1.05	1.06	1.09	1.11
	GBPUSD	1.66	1.67	1.64	1.66	1.65	1.68	1.70	1.69
	USDCAD	1.11	1.11	1.10	1.10	1.09	1.08	1.08	1.08
	AUDUSD	0.88	0.89	0.90	0.92	0.93	0.93	0.92	0.90
	NZDUSD	0.88	0.80	0.80	0.81	0.82	0.82	0.81	0.80
	USDSEK	6.62	6.59	6.80	6.83	6.85	6.77	6.77	6.80
	USDNOK	5.94	5.91	5.94	5.95	5.97	5.89	5.89	5.90

Source: BNP Paribas. Updated: 24 Feb 2014 13:57 GMT

*Quarter and year end



Stronger USD is the major factor



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Fundamental Projections

Projections for coming seasons

Brazil S/D	13/14	14/15	15/16
Output	55.5	48.5	47.0
Arabica	39.0	32.0	31.0
Robusta	16.5	16.5	16.0
Domestic use	21	21.5	22
Arabica	8.5	8.5	8.5
Robusta	12.5	13	13.5
Exports	28.3	28.2	28.3
Arabica	27	27	27
Robusta	1.3	1.2	1.3
Stocks	8.3	7.1	3.8
Arabica	7.3	3.8	0.7
Robusta	1.0	3.3	4.5

Global output	13/14	14/15	15/16
Arabica	39.0	32.0	31.0
Robusta	16.5	16.5	16.0
Brazilian crop	55.5	48.5	47.0
Non Brl Arabica	47.0	48.4	49.0
CA + MX	14.2	15.8	17.0
Colombia	12.0	12.3	12.5
Total Arabica	86.0	80.4	80.0
Other Robusta	51.2	50.1	51.0

Global S/D	13/14	14/15	15/16
Output	153.7	147.0	147.0
Arabica	86.0	80.4	80.0
Robusta	67.7	66.6	67.0
Domestic use	146.5	148.0	150.0
Arabica	80.0	80.0	80.0
Robusta	66.5	68.0	70.0
Change in stocks	7.2 -	1.0 -	3.0
Arabica	6.0	0.4	-
Robusta	1.2 -	1.4 -	3.0



In order for Arabica stocks to contract Brazilian production needs to drop significantly below 50 million bags.



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