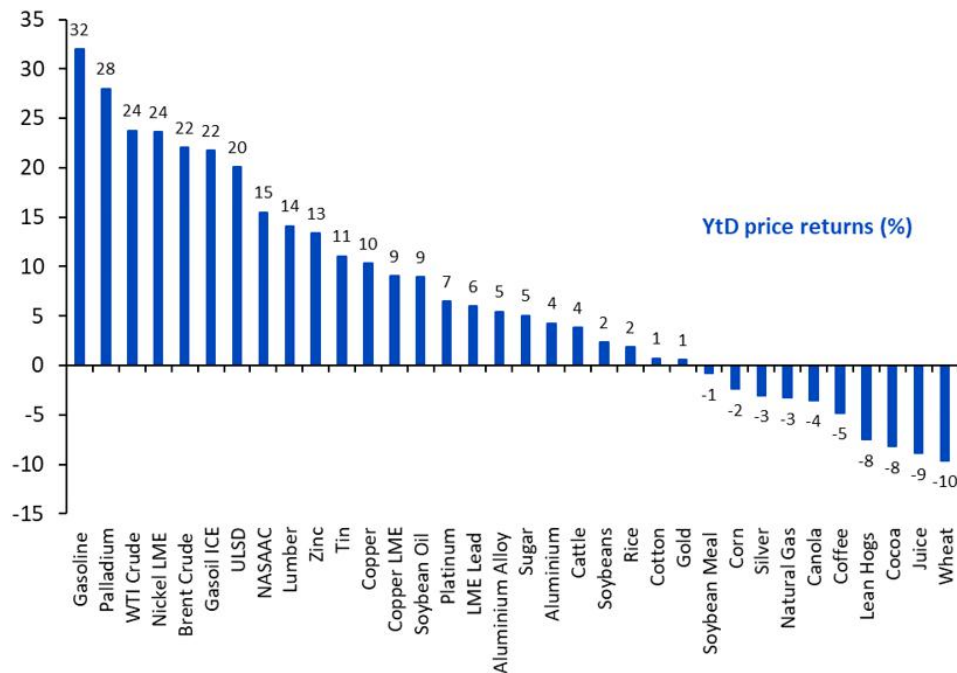


# COFFEE OUTLOOK: PLENTIFUL SUPPLY AND PRICES DOWN

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Despite the strong performance across commodity markets, Arabica coffee futures (Bloomberg Ticker: KC1 Comdty) have witnessed a dismal price performance since the start of the year, down 4.81% (as of 4 March 2019). Following a similar price trend in 2017, coffee prices have failed to benefit from the on-going risk-on environment as they have been weighed down by the ample supply situation and the weaker Brazilian Real.

Figure 1: Agriculture sector - Price returns (1 February 2019 – 1 March 2019)



Source: Bloomberg, WisdomTree as on 4 March 2019.

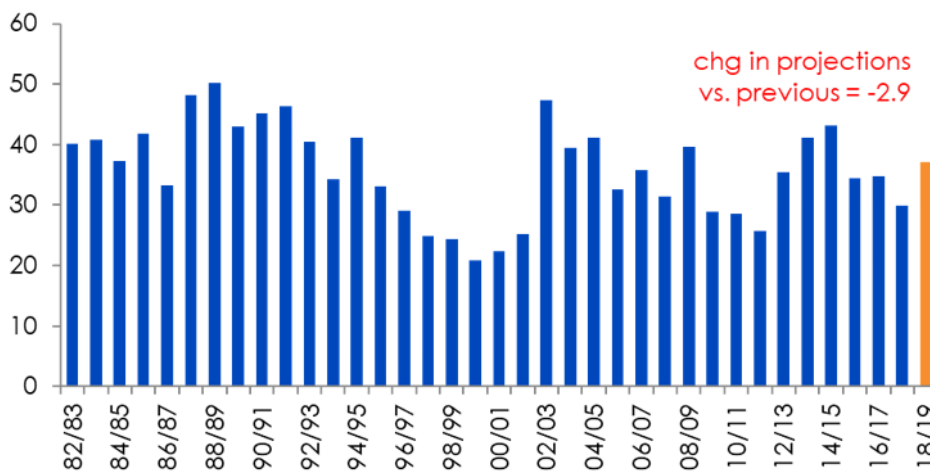
**Historical performance is not an indication of future performance and any investments may go down in value. You cannot invest directly in an index.**

Brazil accounts for a third of the world’s coffee output and has about one-quarter share of the international export market. According to the latest estimates by the Brazilian forecasting agency Conab (Companhia Nacional de Abastecimento), the Brazilian coffee crop for the 2019/20 crop year is predicted to be 50.5-54.5mn bags, which is lower than previous estimates. In comparison to last years record crop of 61.7mn bags, the latest estimates point to considerable decline. However, a lot of this information is already built into coffee prices because Arabica coffee crop is facing a lower yield year in the two-year cycle. Conab’s latest crop volume estimates still constitute a record level in a low yield year.

According to the International Coffee Organisation (ICO), global coffee exports amounted to 10.43mn bags in December 2018, compared with 10.33mn in December 2017. Coffee exports in the first 3 months of the coffee year 2018/19 (October 2018 to December 2018) have increased nearly 8.1% to 30.91mn bags versus 28.58mn bags in the same period last year 2017/18 as reported by ICO. The record high crop in Brazil flooded the international markets. While stronger growth in demand is expected to help reduce the surplus for 2018/19 by 1mn bags to 2.29mn bags, the excess in supply continues to weigh on prices and we expect this to continue over the next few months.

According to the Sea Surface Temperatures (SST) anomaly readings, risks of an El Nino have mostly dissipated, however recent December/January 2019 heat and dryness in Brazil places downside risk to local production. Nonetheless 2019/20 coffee markets are likely to be balanced barring any weather-related supply disruptions.

Figure 2: Coffee Ending stocks, annual data in mln bags (60kgs), 1982 – 2018

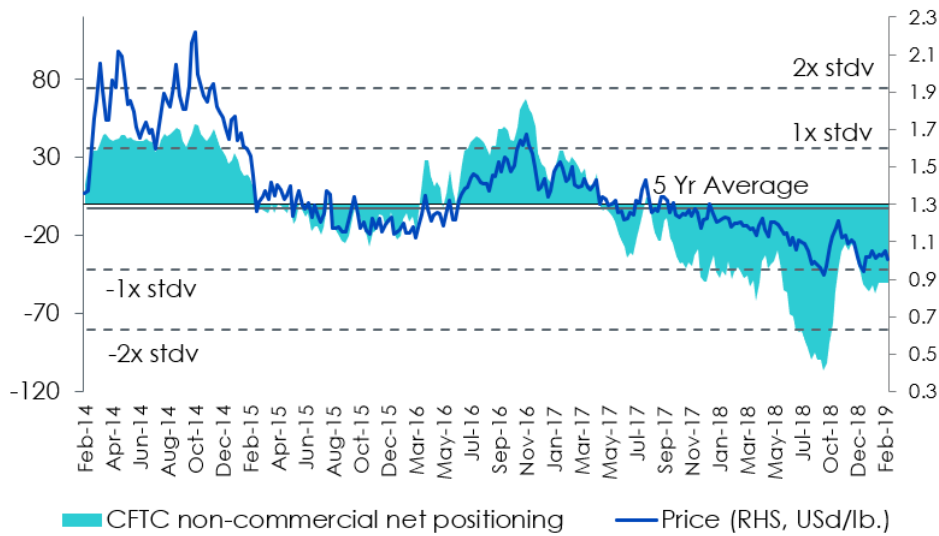


Source: USDA, Bloomberg, WisdomTree.

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Sentiment towards the coffee market remains weak evident from Figure 3. Net investor positioning in coffee futures at -56,943 contracts has dipped more than 1-standard deviation below its 5-year average underscoring the extent of pessimism towards the coffee market.

Figure 3: Net Speculative Positioning (26 February 2014 – 26 February 2019)



Source: Bloomberg, WisdomTree. CFTC: Commodity Futures Trading Commission.

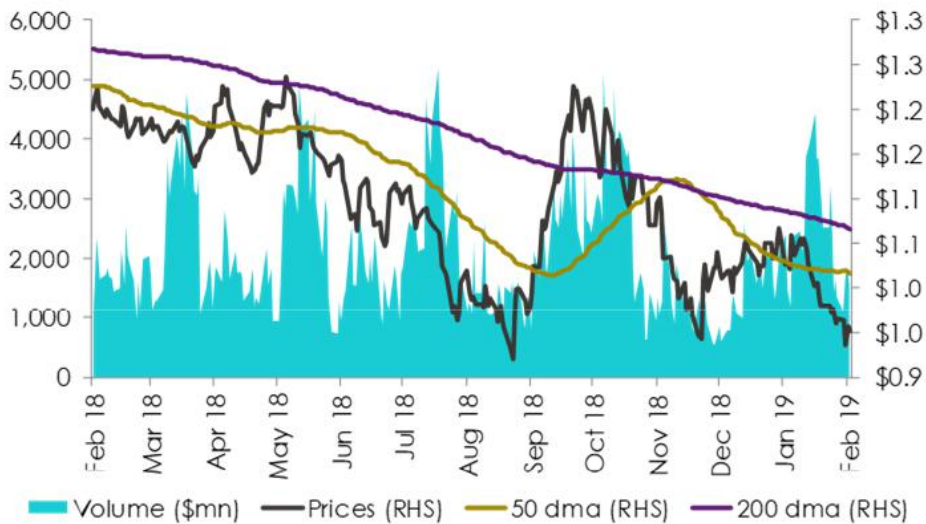
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From a technical perspective, coffee prices over the past year are trading 9% below their 200 - day moving average (dma), an extremely bearish indicator illustrated in Figure 4.

**Figure 4: Price performance (1 March 2018 – 1 March 2019)**

Coffee Front Month Futures Price

Daily data in USD/lb., from 01 Mar 18 to 01 Mar 19



Source: Bloomberg, WisdomTree.

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**Conclusion:**

our outlook for coffee prices remains tilted to the downside barring any weather-related

supply disruptions. However, coffee prices are trading at a steep discounts and any weather-related supply outages could help coffee prices rebound owing to a swift short covering rally like the price reaction witnessed in late September 2018.

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