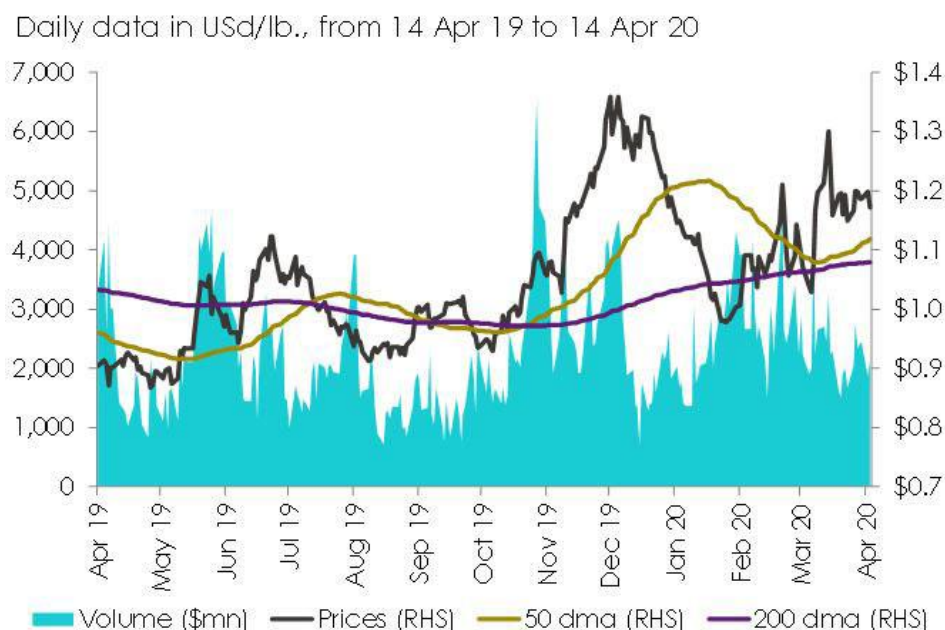


PROSPECT OF A SURPLUS TO WEIGH ON COFFEE PRICES AHEAD

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Since the start of 2020, the trajectory of coffee prices has been volatile due to a chain of key market incidents. Increasing global inventories and higher production in Colombia weighed on coffee prices in January. However, during February and March the tightness of coffee supply coupled with a strike at a large port in Brazil, helped coffee prices stage a recovery. Amidst the spread of the COVID-19 pandemic, brisk consumer demand at the retail level has benefited coffee prices. Coffee importers in some of the largest consuming countries have been stockpiling by bringing forward orders by up to a month in anticipation of supply disruptions. Supply disruptions on the global coffee market are expected to intensify over the coming months. Logistics problems have been reported in Brazil and the upcoming harvest could come under threat due to labour shortages if the lockdown owing to coronavirus persists. Consequently, we expect prices to remain volatile.

Figure 1: Coffee Front month futures price



Source: Bloomberg, WisdomTree as on 14 April 2020. Please note: dma is the daily moving average.

Historical performance is not an indication of future performance and any investments may go down in value.

Net speculative positioning on coffee futures is up 83% as on 7 April 2020, due to a 63% unwind of short positions¹. Investors' outlook on coffee has turned less bearish but they still remain cautious owing to the high uncertainty ahead due to the COVID-19 pandemic.

Upcoming harvest in Brazil to cap further coffee price upside

Coffee prices are likely to come under pressure as we fast approach the coffee harvest in Brazil, the world's largest coffee producer. The first estimates for the 2020/21 coffee crop indicate that Brazil should harvest a large volume. The Brazilian forecasting authority Conab, envisages a crop range of 57.2mn to 62.0mn bags. A steep increase in production is expected for Arabica coffee, as the upcoming crop in Brazil in 2020/21 is from a high-yield year in the two-year crop cycle which justifies why the crop is set to be significantly higher than last year. We also expect the weakness of the Brazilian real (-25.36% Year to Date²) to serve as a headwind to coffee prices since the weaker real encourages producers and traders to offer more coffee on the export markets as it increases their revenue in USD terms. The upcoming harvest in Colombia is also expected to be significantly better than the last.

¹ Commodity Futures Trading Commission (CFTC)

² Bloomberg, as of 16 April 2020

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