

COMMODITIES CORNER

Opportunity May Brew Anew

By SARAH MCFARLANE

Supply constraints should put a new head of steam under ICE prices. [DJ-AIG Commodity Indexes](#)

IF COFFEE INVESTORS CAN STAY CONFIDENT, they may soon be savoring another price perk-up. Since early June, this year's peak price for U.S. arabica futures, ICE futures have fallen about 13%. Industry watchers see the market as oversold -- and ripe for a bounce.

Several producing countries' inventories are at all-time lows. Demand has remained steady. And there's frost risk in Brazil -- the world's largest coffee producer. All of this provides price support. "Technical [chart] indicators are also quite oversold, and the market seems to have taken the entire weather premium out for Brazil harvest weather," says Fortis Bank, in a recent commodities note. It's winter in Brazil, and while a majority of the groves are out of danger of frosts, any cold snap could hurt the most tender plants. Additionally, dryness concerns will emerge by the end of September, as coffee trees need rains late in the year to activate flowering.

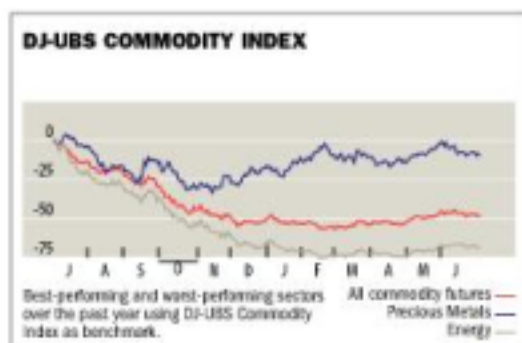
On Thursday, September contract coffee prices fell 1.2% during a largely down week for commodities, to \$1.1780 a pound. (U.S. markets were closed Friday.)

The coffee-price break came from investors' taking profits as Brazil's weather conditions remained favorable. Prices had soared earlier due to the shortage of high-quality Colombian and Central American mild, washed arabica coffee -- but that pressure has now abated.

"Roasters proved very clearly that they were willing and able to substitute high-quality, Brazilian-coffee naturals for unavailable mild, washed arabica coffee," says Shawn Hackett, president of U.S.-based Hackett Financial Advisors.

With world coffee consumption expected to be roughly unchanged at 128.9 million bags for the 2009-'10 production year (October-September) versus the previous span, and coffee output expected to rise around 10% on year, production should exceed consumption by around 12.4 million bags, according to Fortis. A bumper Brazilian crop might curb higher prices in the coffee market, but some banks are maintaining price forecasts above current levels. Barclays Capital estimates that New York's ICE arabica coffee futures will trade at around \$1.2500 a pound in third-quarter '09 -- or about 5% upside.

Meanwhile, in producing countries, falling certified stocks for delivery against any ICE coffee contracts indicate that any supply shock could push prices higher quickly. "The market is in a very fine balance; there is enough coffee to meet demand, but we are vulnerable to any kind of climatic disaster," says Jose Sette, head of operations at the London-based International Coffee Organization. The ICO says coffee inventories in producing countries are at their lowest levels in history.



"Even after two record Brazilian crops in a row, the world continues to draw down coffee inventories," says Hackett. "This is very impressive, and expresses the explosion in price that will eventually come one day whenever Brazil's coffee crop comes up short." With a few breaks, coffee bulls may be able to shake off its recent jitters. With frost still a possibility and drought a looming concern, there may be some confidence-building developments ahead.

CORN FOUND: The U.S. Department of Agriculture found the missing corn acreage *Barron's* wrote about last week; the higher-than-expected planted-area figure that the government reported Tuesday pressured prices, as this column had predicted. Chicago Board of Trade December corn, representing the autumn harvest, fell 11.6% to \$3.5750 a bushel.

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