

# COFFEE OUTLOOK

- MARCH 8<sup>TH</sup> 2012
- HACKETT FINANCIAL ADVISORS Inc.
- PRESIDENT AND AUTHOR OF THE  
HACKETT MONEY FLOW COMMODITY  
REPORT
- SHAWN HACKETT

# Structural Changes

- 1) Significant demand shift away from Central American/Colombian mild washed Arabica over to Brazilian Naturals and even towards higher quality Robusta
- 2) The gap between Brazil's on-season/off-season crop has been narrowing significantly over the last 5 years. Trends suggest that within 5 years there will be no more cyclical to Brazil's coffee production.

# This Major demand shift can be seen in tightening differentials between Colombian Arabica and Brazilian Naturals/Robusta

ICO	Colombian Milds Other Milds	Colombian Milds Brazilian Naturals	Colombian Milds Robustas	Colombian Milds New York*	Other Milds Brazilian Naturals	Other Milds Robustas	Brazilian Naturals Robustas	New York* London*
Feb-11	8.61	39.70	182.55	26.58	31.09	173.94	142.85	162.74
Mar-11	12.83	39.55	195.58	27.37	26.72	182.75	156.03	174.24
Apr-11	11.08	33.51	180.19	24.45	22.43	169.11	146.68	160.96
May-11	12.97	37.36	170.00	25.44	24.39	157.03	132.63	152.00
Jun-11	17.19	39.52	172.48	29.30	22.33	155.29	132.96	152.55
Jul-11	16.53	37.14	174.90	26.58	20.61	158.37	137.77	157.68
Aug-11	12.66	31.90	181.48	26.14	19.24	168.82	149.58	165.29
Sep-11	12.66	31.90	181.48	26.14	19.24	168.82	149.58	165.29
Oct-11	9.83	23.37	159.55	20.91	13.54	149.72	136.18	148.10
Nov-11	11.91	20.25	159.75	21.74	8.34	147.85	139.50	149.47
Dec-11	14.89	22.81	153.19	24.37	7.92	138.30	130.38	139.58
Jan-12	18.71	27.71	159.20	28.42	9.00	140.49	131.49	143.30
Feb-12	19.98	28.74	142.21	32.06	8.76	122.22	113.47	123.39

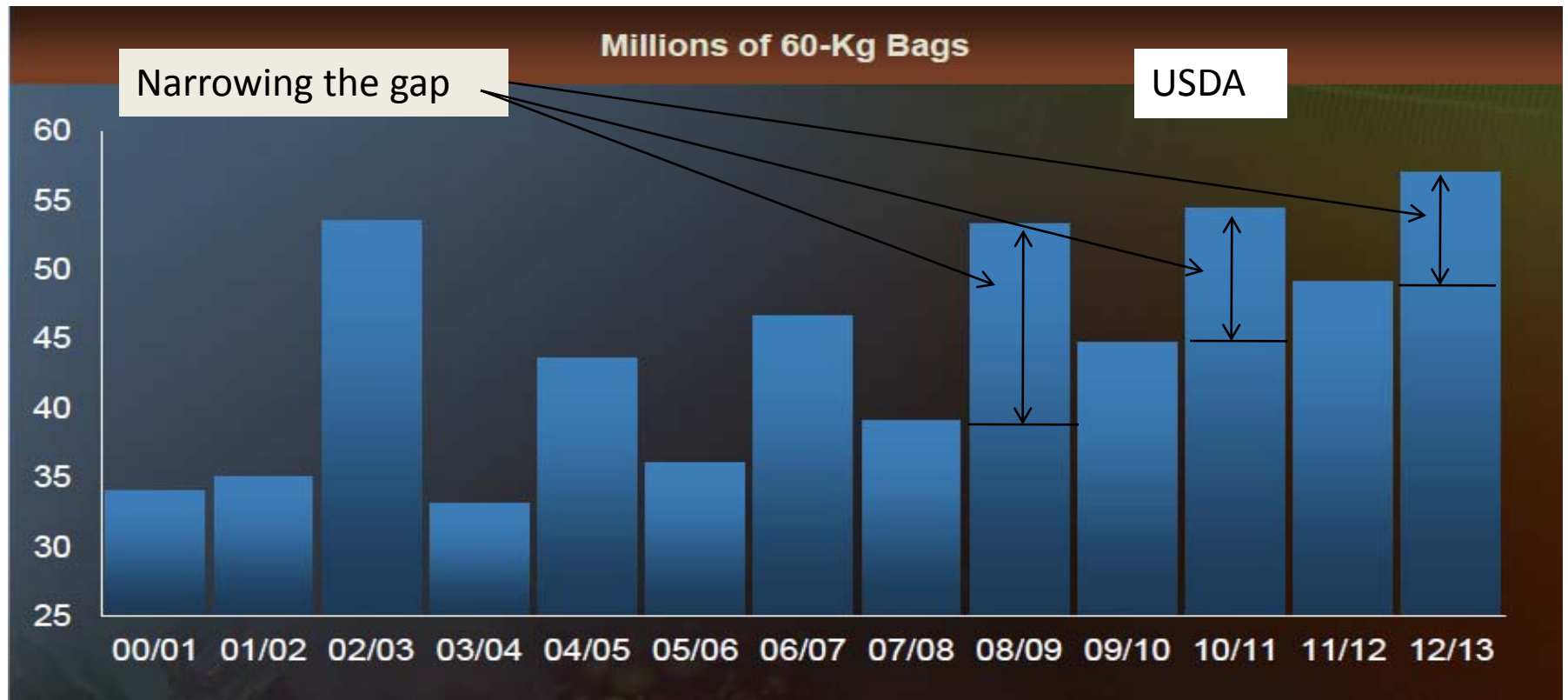
# Robusta Warehouse Stocks Falling Fast despite a record crop out of Vietnam



# Brazilian Naturals prices trading at a premium to New York Futures- Unheard of in modern times

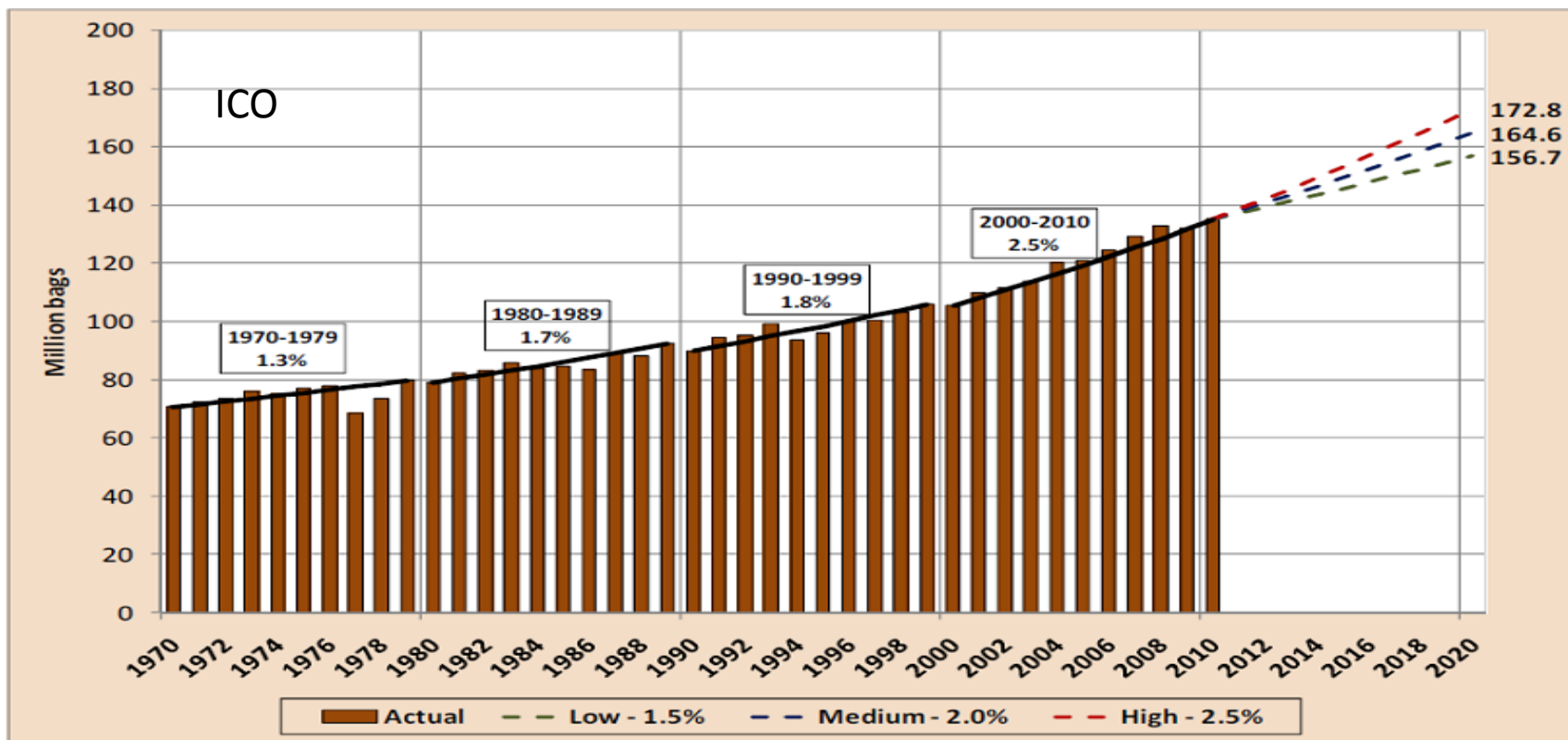
	ICO Composite	Colombian Milds	Other Milds	Brazilian Naturals	Robustas	New York*	London*
<b>Monthly averages</b>							
<b>2011</b>							
February	216.03	296.44	287.89	247.00	109.35	261.41	104.53
March	224.33	300.68	292.07	260.98	118.13	274.10	111.36
April	231.24	312.95	300.12	273.40	117.37	285.58	111.34
May	227.97	302.17	291.09	268.66	121.98	277.72	116.76
June	215.58	287.95	274.98	250.59	117.95	262.52	110.51
July	210.36	285.21	268.02	245.69	112.73	255.90	103.36
August	212.19	286.97	270.44	249.83	112.07	260.39	102.71
September	213.04	287.54	274.88	255.64	106.06	261.39	96.10
October	193.90	257.66	247.82	234.28	98.10	236.74	88.64
November	193.66	256.99	245.09	236.75	97.24	235.25	85.78
December	189.02	251.60	236.71	228.79	98.41	227.23	87.65
<b>2012</b>							
January	188.90	255.91	237.21	228.21	96.72	227.50	84.19
<b>February</b>	<b>182.29</b>	<b>244.14</b>	<b>224.16</b>	<b>215.40</b>	<b>101.93</b>	<b>212.09</b>	<b>88.69</b>

The Off-Season crop has gained 10 million bags since 2007/2008 whereas the on-season crop has only gained only 3 million bags



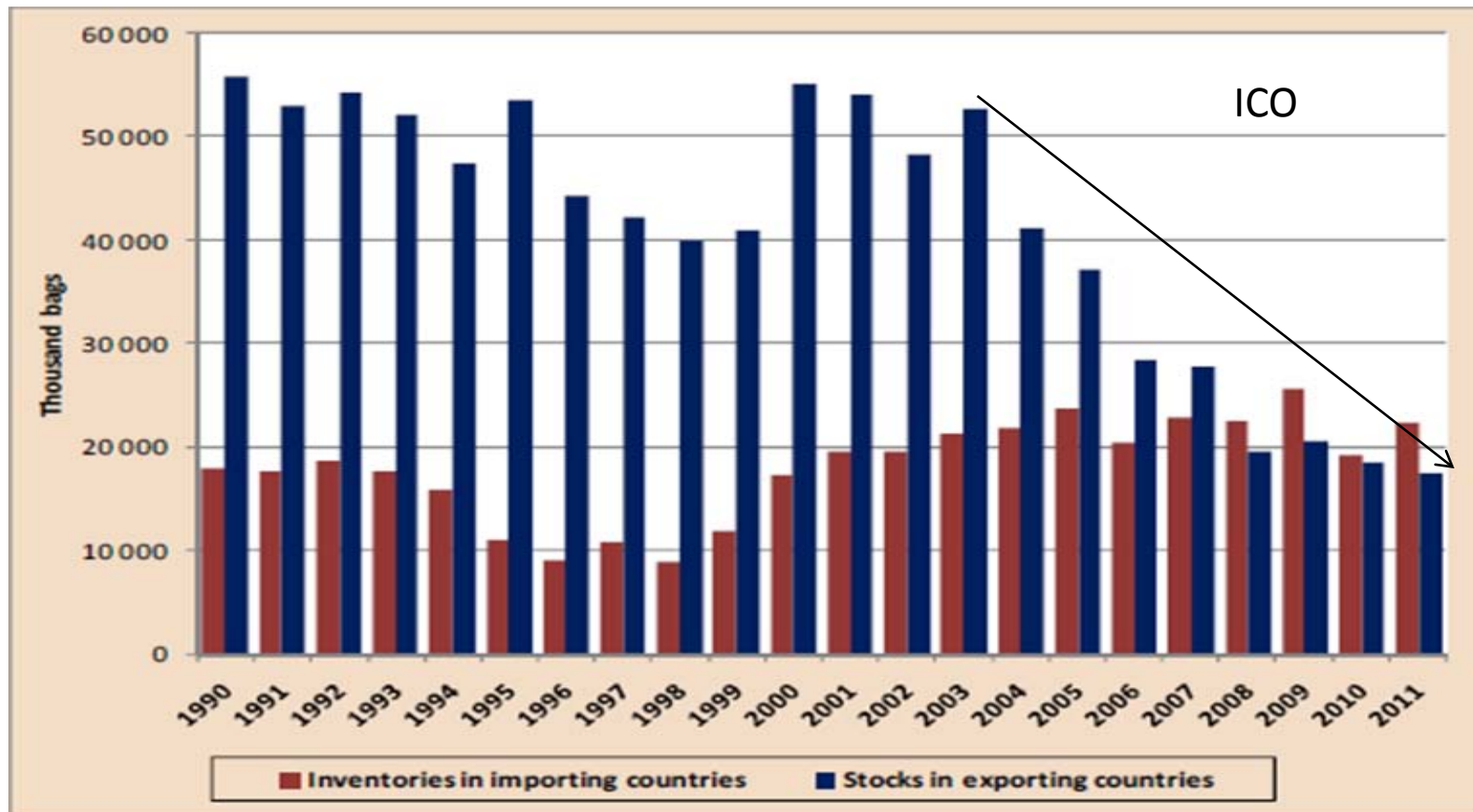
Once the off-season production in Brazil catches up with the on-season production expect the 2-year production cycle growth rate to slow. Question is can Brazil and the rest of the world keep up with demand?

# Demand over the next 10 years should increase between 20 million and 37 million bags-Brazil and Vietnam are the Key





With global ending stocks at modern day lows-The coffee market will remain in a precarious position



2012/2013 should only offer temporary relief as a modest surplus will not solve the long term structural imbalances

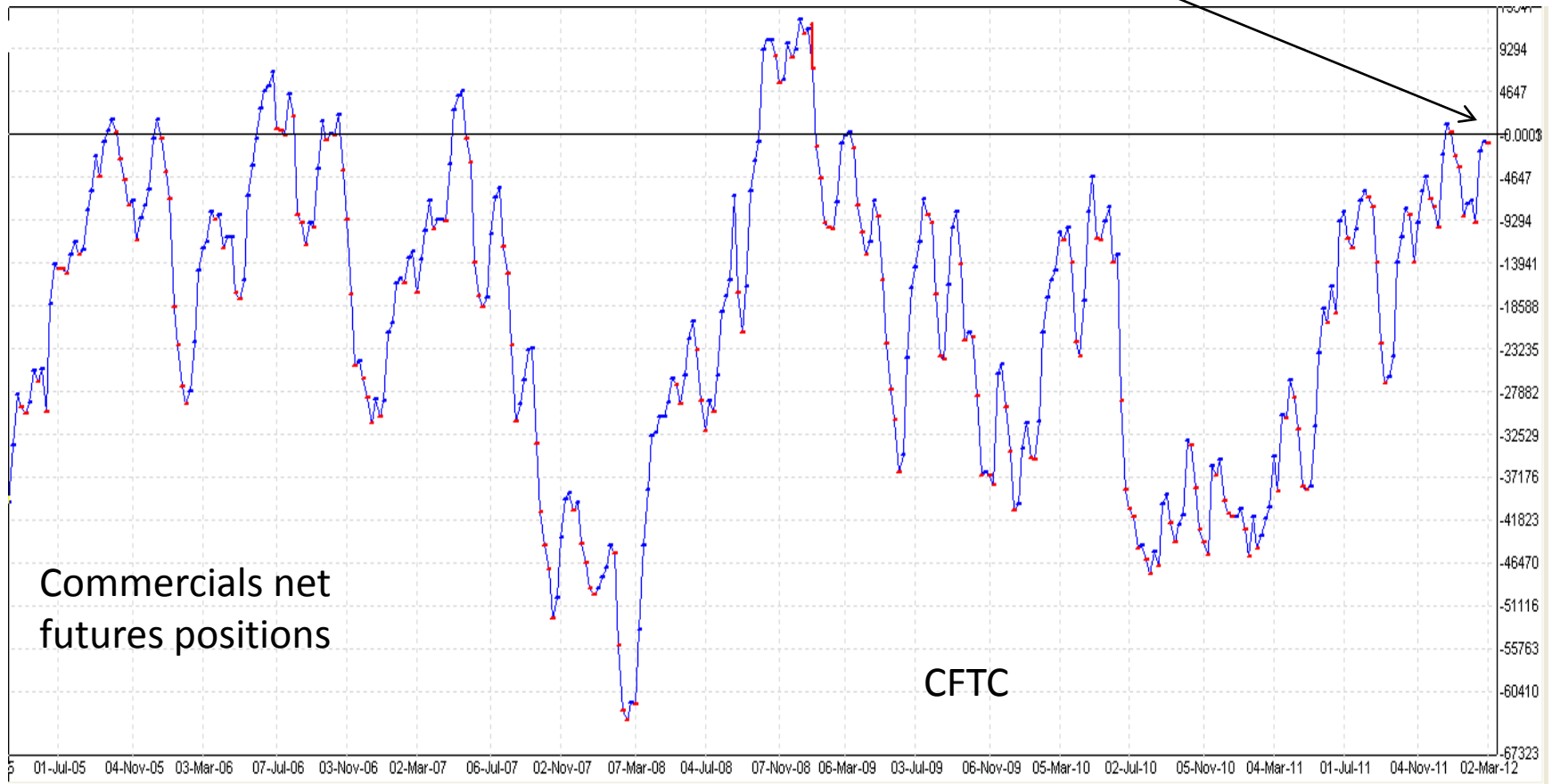
# Major lows in coffee prices tend to occur most often between the May-July timeframe

Monthly coffee chart

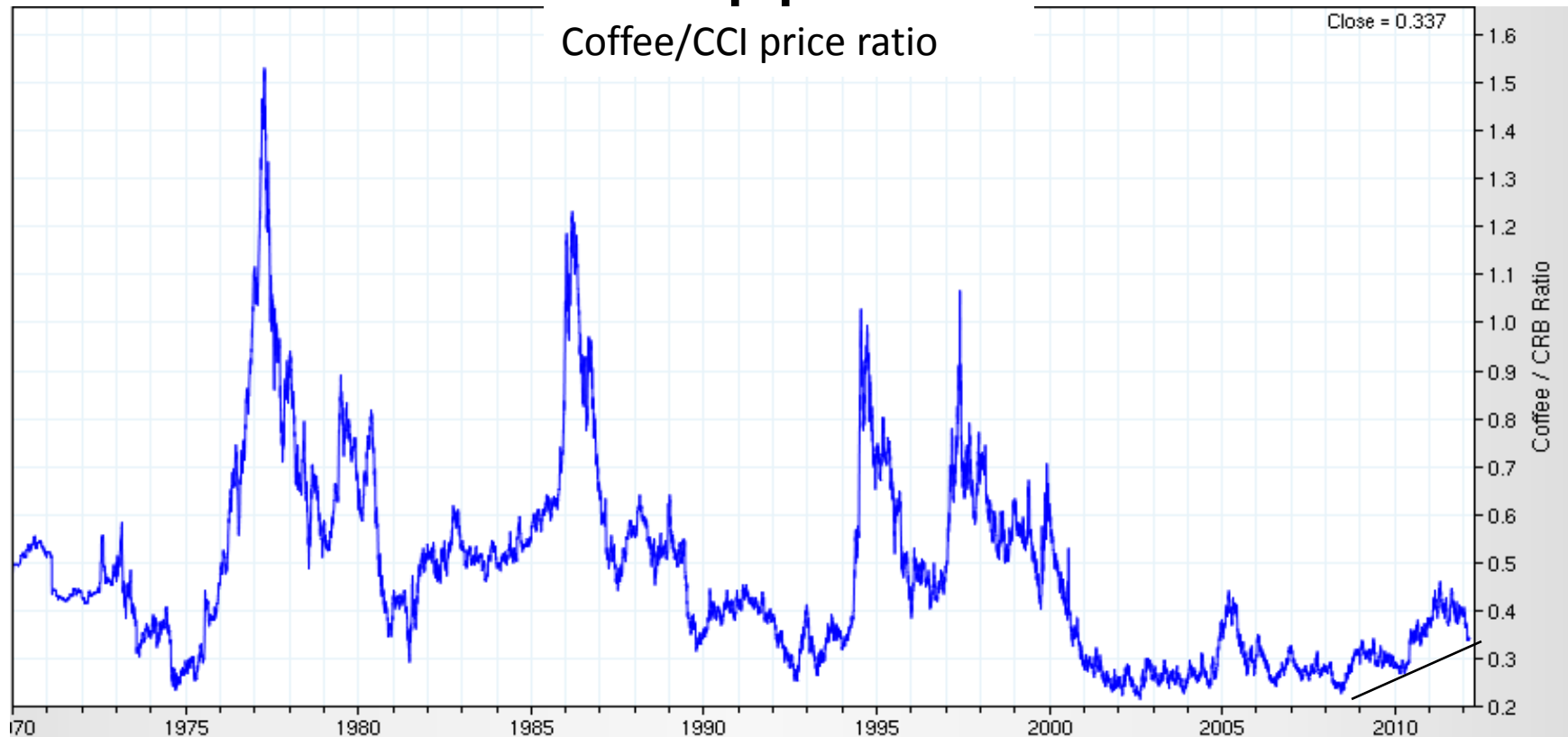
Strong support resides in the \$1.50/pound to \$1.75/pound area. Likely target for the next major low



# The Commercials net futures positions are nearing net long levels typically associated with major lows



# Relative coffee prices to the Continuous commodity Index remain historically undervalued and near support



# Summation

- 1) Expect a major low in Arabica coffee in late spring to mid summer 2012 in the \$1.50/pound to \$1.75/pound area
- 2) The 2012/2013 surplus will be modest and will not eradicate the tight structural supply/demand imbalances.
- 3) Brazil has been blessed with great crops over the last 8 years. They will eventually have a bad crop and even if weather remains favorable a structural slowdown in production growth can be expected.
- 4) New all time record high prices remain in front of the coffee market before a true bearish cycle shift can be expected.
- 5) Complacency has reemerged in the coffee industry and they are being lulled to sleep again as they were in the spring of 2010.
- 6) Companies involved in the coffee trade had better procure their long term coffee needs in 2012 or else risk serious margin erosion as we head into 2013/2014