

# Commodity Spotlight Agricultural

## Supply situation sets the trend for prices of soft commodities

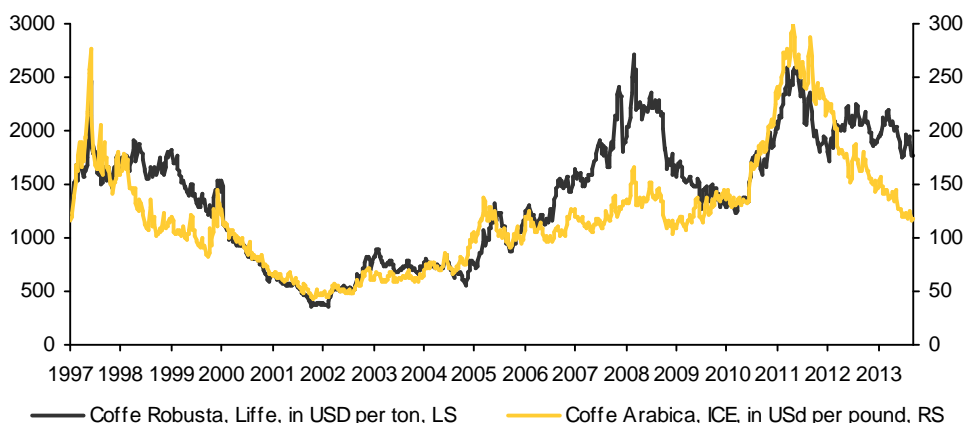
Whilst the trend in cocoa prices in London is up, sugar and coffee prices in New York have yet to recover. Prospects of a deficit on the cocoa market in the current season and concerns about Western African supply in 2013/14 have pushed cocoa quotations to a one-year high. High Brazilian harvests, in contrast, are mainly responsible for the lower prices for Arabica coffee and sugar, especially since the weak real is having a similar effect. Political initiatives and competition from ethanol should nevertheless lead to a moderate price increase.

**Coffee:** Prices for Arabica coffee are still unable to work their way out of their trough: In late June/early July, it seemed that we were witnessing a reversal of the price movement, which with brief exceptions has been down for nearly two years. Also in the first half of August, we saw quotations of more than 125 US cents per pound at least temporarily. But these gains were eroded time and again. At present, Arabica coffee is trading at 120 US cents per pound, not far from its four-year low of nearly 116 US cents from early August (chart 1). The majority of speculative investors is also still positioned for a further price decline. This clear price trend is mainly attributable to a record-high Brazilian harvest of 50.8 million bags of 60 kilograms each in the last season and another record in 2013 – for a low-yielding year as this one.

About 90% of this year's Brazilian harvest have now been completed. The Brazilian governmental forecasting institution Conab estimates the Brazilian harvest at 47.5 million bags, including an Arabica harvest of 36.7 million bags, which would be only 4% lower than in the previous year. For years, we have seen smaller differences between the yields of so-called on- and off-years than in the past because of better crop technology, and this has soothed fears of scarcities overall. The influence of this on market prices is facilitated by the fact that Brazilian coffee is now also admitted for delivery to the ICE, which was not the case until March.

In early summer, the International Coffee Organisation ICO thought prices had reached a level that no longer covered production costs for millions of small producers and called upon the governments to act. However, not even the announcement of a Brazilian government purchasing programme, which shall take up to 3 million tons of coffee out of the market for storage at minimum prices, has worked to lastingly support prices. After all, export activity is strong, and the Brazilian real, which has temporarily fallen to a 4½-year low versus the US dollar, also works to dampen prices. Whilst the rapid currency depreciation by 17% within three months can give the producers some support, it is not welcomed by the government and the central bank.

CHART 1: Coffee prices in descent for two years



Source: Bloomberg, Commerzbank Corporates & Markets

13 September 2013

### Commerzbank Forecasts 2013/14

	Q4	Q1	Q2
<b>Grains/Oil seeds/Cotton</b>			
Wheat* (CBOT)	680	700	690
Wheat* (Liffe Paris)	195	200	200
Corn*	490	500	520
Corn (Liffe Paris)	175	175	180
Cotton**	1400	1350	1300
Soybean*	390	390	380
Rapeseed (Liffe Paris)	83	83	82
<b>Softs</b>			
Coffee (Arabica)**	120	125	120
(Robusta)***	1800	1800	1850
Cocoa*(Liffe London)	1700	1750	1800
Sugar**	17.0	17.0	17.5
<b>Livestock</b>			
Live cattle**	130	130	128
Feeder cattle**	155	155	150
Lean hogs**	83	83	93

\*US-Cents per bushel

\*\*US-Cents per pound

\*\*\*USD per ton

^EUR per ton

°GBP per ton

Analyst

**Eugen Weinberg**

+49 69 136 43417

eugen.weinberg@commerzbank.com

Analyst

**Carsten Fritsch**

+49 69 136 21006

carsten.fritsch@commerzbank.com

Analyst

**Barbara Lambrecht**

+49 69 136 22295

barbara.lambrecht@commerzbank.com

Analyst

**Michaela Kuhl**

+49 69 136 29363

michaela.kuhl@commerzbank.com

Analyst

**Daniel Briesemann**

+49 69 136 29188

daniel.briesemann@commerzbank.com

*Colombian crop finally improves as well*

Colombia finally also seems to exhibit a stable upwards movement in the coffee crop. Production and exports have increased by 28% and 17% on the year, respectively, since the season began in October 2012. This suggests that the crop volume in Colombia in the current crop year will come in much better than in the disappointing previous years. According to the Colombian Coffee Growers Federation, as much as 8.3 million bags of beans have been harvested after ten months, which is already more than in the entire previous crop year. In the medium-term, though, the still shocking prospects for Central American beans, which are of particularly high quality, may gain more attention again. In El Salvador, Guatemala and Costa Rica, between 60% and 75% of the cultivation area are now affected by the plant disease Roya. The ICO estimates the loss of coffee at 2.7 million bags for the 2012/13 season alone. Even higher losses are expected for 2013/14.

*But plant disease lowers production in Central America*

*Demand growth in Emerging Markets especially*

Demand for coffee has increasingly shifted towards the emerging markets in recent years, whilst growth in the traditional consumer countries was low (chart 2). It is likely that the coffee market, too, will be increasingly influenced by China in the coming years. In 2011, China consumed 1.6 million bags of coffee according to the ICO. For 2020, the ICO forecasts a consumption of 2.8 million bags and thus outlines a development similar to what was seen in Japan, for instance. But even in this case per-capita coffee consumption in China, which traditionally focuses on tea, would still remain low.

*High supply suggests limited price potential*

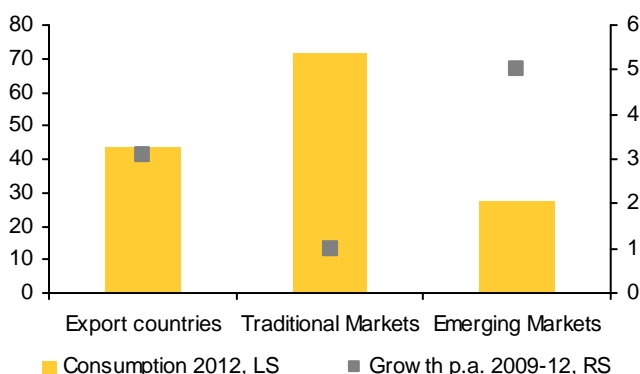
Until spring 2014, we expect a slight recovery in Arabica prices up to 125 US cents per pound. But precisely for Brazil, there has so far been little to argue against new records for the next on-year harvest. For this reason prices are likely to decline again thereafter. For 2014 we expect an average price of 120 US cents per pound.

*Robusta prices are faring better...*

Also Robusta prices cannot escape the impact of plentiful supply on the global coffee market and have fallen below 1,800 USD per ton at the end of August. However, over the past months, the price for Robusta coffee declined much less than the Arabica price (chart 1, page 1). Stocks of Robusta coffee on Liffe have fallen by more than 40% within one year and in early August, after another strong outflow, were the lowest since September 2007 (chart 3). On one hand, this reflects robust demand, and on the other it is supported by the retention of coffee from Vietnam and has helped. Although heavy rainfall in Indonesia, the third largest producer country, affects the Robusta supply short-term, the market is already looking to the next harvest in the world's leading Robusta grower Vietnam, which should be available in about three months' time. It is seen to bring a year-on-year increase by as much as 17% and a record quantity of 1.7 million tons (28 million bags) – expectations of the Vietnamese growers' association Vicofa that production will decline by 15% may be motivated by pricing aspects. Since supply from Brazil is likewise high and weaker currencies from important producer countries such as Brazil and Indonesia continue to weigh on the price development as well, Robusta prices will probably struggle to defy the pressure that originates from the Arabica market. For this reason we expect that the Robusta price will only establish at above USD 1,800 per ton on a lasting basis in spring 2014.

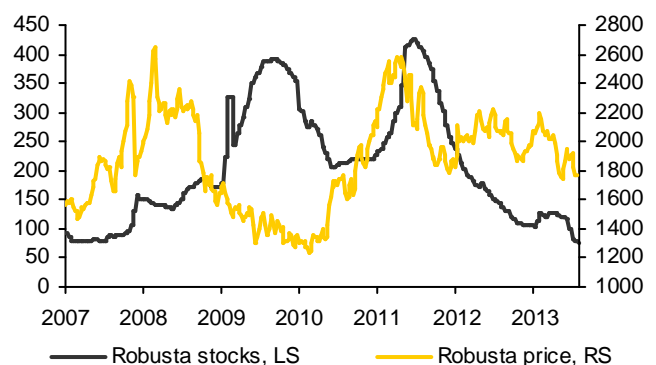
*...but cannot escape the impact of plentiful supply on the coffee market*

**CHART 2: Coffee: Noticeable shift in consumption**  
coffee consumption by region in million bags, growth in %



Source: ICO, Commerzbank Corporates & Markets

**CHART 3: Low Robusta stocks prevent price slide**  
stocks in '000 tons, price in USD per ton



Source: Bloomberg, Commerzbank Corporates & Markets

**Sugar**

*ISO increases expectation of a market surplus in 2013/14*

The International Sugar Organisation ISO has raised its estimate for the global sugar surplus in the 2013/14 season from 3.5 million tons to 4.5 million tons (chart 4). Hence, the global sugar market will face its the fourth consecutive surplus year. Production is seen to decline slightly for the first time since 2008/09, whilst demand is expected to grow by 2%. For the 2012/13 season, which ends in September, the forecast of a surplus of 10.3 million tons was retained. Against this backdrop the downtrend in prices is understandable, especially as the Brazilian sugar cane harvest is in full swing (chart 5).

*High Brazilian crop despite downward revisions*

The Brazilian governmental forecasting unit Conab estimates the sugar cane harvest at 594 million tons for Center-South, the most important area of cultivation, and at 652 million tons for the whole of Brazil, with each up 11% on the year. Sugar production is estimated at 36.7 million tons for Center-South and at nearly 41 million tons for Brazil in total. Many market participants had initially estimated the 2013/14 harvest in Center-South at around 600 million tons of sugar cane. But as in recent months the weather turned out moister than normal. Moreover, late frost occurred in the southern growing areas in July. As a result, estimates have frequently been reduced and now lie mainly in the region of 580 million tons for Center-South (e.g. the largest cooperative Copersucar). Corresponding estimates for sugar production are mostly for around 33 million tons, which is well below the 35 million tons that were mostly forecast several months ago – and slightly below last year’s 34 million tons. This is the result of the lower than expected sugar cane harvest and due to the fact that ethanol production is expected to increase. According to the Conab forecast, 52% of Brazilian sugar cane will be used in ethanol production.

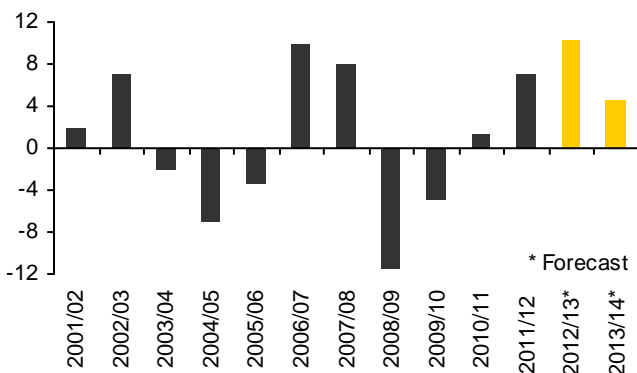
*Ethanol production has risen at a sharper rate than sugar production*

Cumulatively since the start of the crushing season in April, ethanol production has surged 33% on the year, much more strongly than sugar production (+9%). This was not least attributable to the fact that with effect from 1 May 2013 the mandatory quota for the blending of ethanol in gasoline was raised to 25% again in Brazil and that wholesale prices for gasoline were likewise increased, which has made ethanol more attractive after production had been lowered in the two preceding years. However, the depreciation of the real will probably increase the relative attractiveness of sugar that suffered in recent months in view of the negative price developments (chart 6, page 4)). In fact, the latest data from the Brazilian Sugar Industry Association UNICA shows that a larger part sugar cane has recently been used in sugar production than in the previous weeks.

*Currency weakness a relief for producers and an incitement for exports*

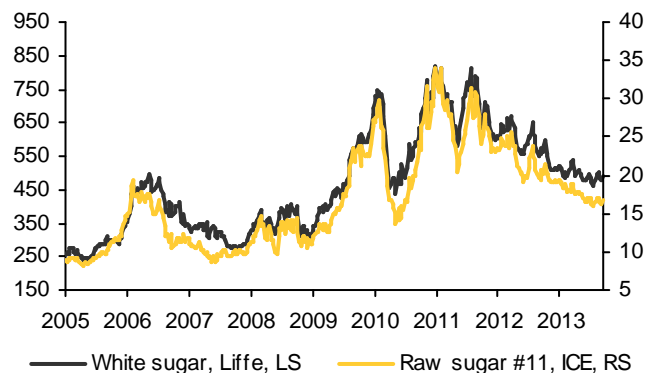
The ISO now believes that producers have enjoyed so much relief from the massive depreciation of currencies such as the Brazilian real and the Indian rupee that in Brazil – the most important country – a price level of 17 or 18 US cents per pound can cover production costs. India is expected to produce roughly 24.5 million tons of sugar in 2013/14 after a good monsoon vs. 25 million tons in 2012/13, according to the Indian Sugar Mills Association. Thanks to tailwinds from currency developments, exports should reach more than 1 million tons in 2013/14, which would be more than three times as much as in the current season.

**CHART 4: Further sugar supply surplus in 2013/14**  
surplus (+)/deficit (-), in million tons



Source: ISO, Commerzbank Corporates & Markets

**CHART 5: No recovery in sugar prices**  
White sugar in USD per ton, raw sugar in US cents per pound



Source: Bloomberg, Commerzbank Corporates & Markets

High supply also from Thailand

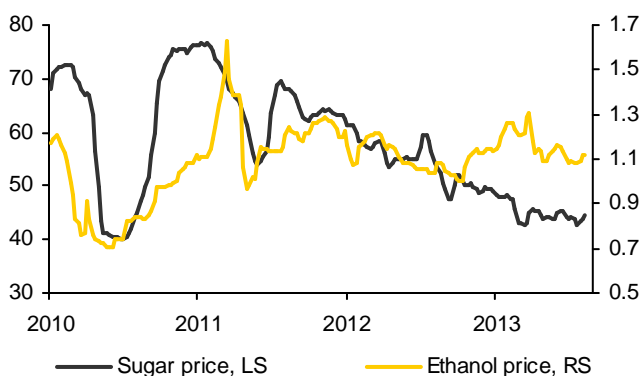
Thailand, which as the second largest exporter already plays a key role on the sugar market today, also wants to expand its cultivation of sugar cane considerably. There is talk about doubling it within five years. In 2012/13, Thailand produced 10 million tons of sugar. Similar and even slightly higher quantities were already achieved in the previous years.

Noticable price rise is unlikely

Market positioning of speculative investors has been negative on balance since February with one short exception (chart 16, page 8). Hence, these market participants remain sceptical regarding the prospect of a price recovery. We think a notable price recovery is unlikely in the present environment characterised by high production and weak currencies in important producer countries. We expect raw sugar to trade little changed at 17 US cents per pound as of year-end. By the end of 2014, prices should recover modestly to 18 US cents per pound. This is because in 2013/14, in particular, the surplus might turn out lower than expected by the ISO if – in the face of months of low prices – falling production meets stronger-than-expected demand, for instance from China and Indonesia.

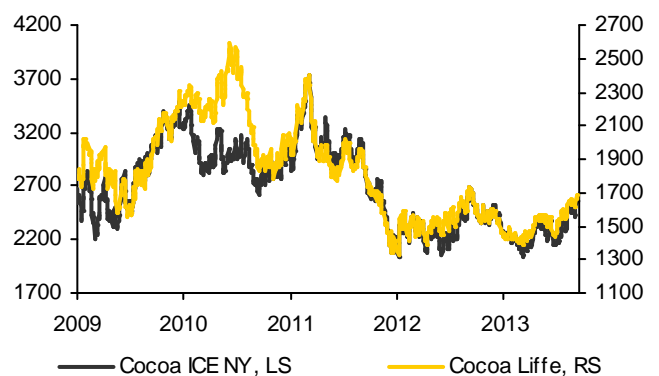
**Box EU sugar:** Prices on the EU sugar market, which is still protected and subject to production quotas, are at a much higher level than on the global market despite the lower reference prices. Since 2011, the average price for white sugar in the EU has risen from about €480 per ton to a peak of €738 per ton in January 2013. The price has dropped a little since, but is still over €720 a ton, nearly twice the world market price for white sugar in London. The high prices are due to a reduced EU supply following the sugar market reform, which, coupled with lower-than-expected imports from countries with preferential agreements, has resulted in a tighter supply situation in the EU. The EU Commission has tried to counteract this in the past few years with various ad-hoc measures in the form of limited release of non-quota sugar for food production or reduced-duty imports from non-preferential countries, albeit with only moderate success. Sugar trading house Kingsman estimates that EU sugar production should lie between 16.5 and 17.2 million tons in 2013/14, which would at most reach the production level of 2012/13. In a first draft the EU Commission estimates slightly under 16 million tons, with production in Germany declining by 13% to 3.5 million tons mainly due to a reduction in area and in France by 2% to 4.3 million tons. According to the EU Commission, imports between October 2012 and mid-July 2013 from countries with preferential agreements were 18% above the level of the same period the year before, at 1.73 million tons. However, further ad-hoc measures should remain necessary. Sugar production quotas will expire in 2017 but border protection will not change. Without quotas, sugar beet production is likely to focus more on the efficient regions of the EU, such as France and Germany. Furthermore, competition between sugar factories is also set to rise. This could increase supply, reduce import requirements and allow prices to fall.

CHART 6: Relative prices in Brazil move in favour of ethanol, sugar in BRL per 50 kg, ethanol in BRL per liter



Source: Bloomberg, Commerzbank Corporates & Markets

CHART 7: Cocoa prices on an upward trend in 2013. Cocoa ICE in USD per ton, cocoa Liffe in GBP per ton



Source: Bloomberg, Commerzbank Corporates & Markets

**Cocoa**

*Focus on adverse weather conditions in West Africa*

The cocoa price in London is currently trading at nearly GBP 1,700 per ton, slightly below a 12-month high. For weeks, it has profited from too-dry weather conditions in the growing areas in Western Africa, which produce around two thirds of the global cocoa supply (chart 7, page 4). The lack of moisture could adversely affect the main harvest which begins in October. A good mixture of rain and sunshine would be desirable for the pods to develop well.

*Deliveries in Ivory Coast higher than year ago ...*

Besides the market's looking to the next season, the official announcement of lower-than-expected deliveries in Ivory Coast has propelled prices upwards. In the period between October 2012 and June 2013, 1.5% more beans were delivered than in the previous season, but the market was nevertheless disappointed because unofficial estimates based on truck counts had suggested a higher number. The International Cocoa Organisation ICCO also quoted agencies with a plus of nearly 6%. Despite the increase in deliveries until June, the ICCO forecasts a marginal decrease in total 2012/13 Ivory Coast production to 1.48 million tons. This might become reality in view of the weak end of the mid-harvest that has been unsatisfactory overall. In its August forecast, the ICCO also estimates a fall in global production for 2012/13 by 2.4% on the previous season, mainly because of a decline in Ghana, the other big producer country, by more than 3%. The ICCO estimates that for global production the threshold of 4 million tons, which was first exceeded in the two previous years, will be slightly undershot in the current season at 3.986 million tons.

*... but below expectations*

*Demand continues to recover*

At the same time, it seems global cocoa demand continues to recover (chart 8). For instance, the European Cocoa Association ECA reported an increase in cocoa grindings by 6.1% on the year to 310.4 thousand tons for the second quarter of 2013 and the Cocoa Association of Asia announced a 2% increase to 153.8 thousand tons. According to the National Confectioner's Association NCA, processing of cocoa in North America also expanded in the second quarter by 12% on the previous year to 126 thousand tons. This exceeded expectations and was the strongest increase in three years. Even so, at 1.1% in its latest forecast at the end of August, the ICCO has now estimated the year-on-year rise in global processing only 0.2 percentage points higher than in its May estimate.

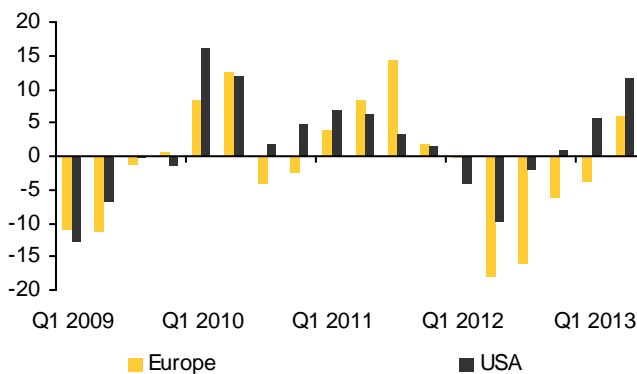
*Deficit in 2012/13 likely to be higher than currently estimated*

After a surplus of 87 thousand tons in the previous crop year, the ICCO expects a deficit of 52 thousand tons on the cocoa market in 2012/13 according to its current forecast, which is slightly lower than in May at 60 thousand tons (chart 9). This makes no qualitative difference to the May report. However, several days after the release of its latest quarterly report, a senior ICCO official voiced the expectation that the deficit is more likely to be twice as high, as deliveries in Ivory Coast have been lower than expectations.

*Further deficit likely in 2013/14*

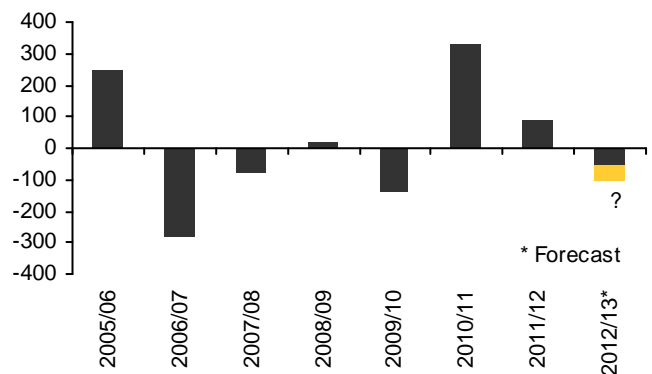
The ICCO also expects a further deficit on the global cocoa market for the 2013/14 season, starting in October, according to leading staff. Some analysts envisage a possible sharp decline in the cocoa crop in Ivory Coast, the world's largest grower, to a maximum 1.4 million tons in crop year 2013/14, mainly as a result of the dry weather in Western Africa already mentioned above. In addition to that, Ghana's production might well suffer from the announced cut to pesticide subsidies.

**CHART 8: Recovery in cocoa demand**  
quarterly cocoa grindings, change on previous year, in %



Source: ECA, NCA, Commerzbank Corporates & Markets

**CHART 9: Uncertainty about size of cocoa deficit in 2012/13**  
global surplus (+)/deficit (-), in thousand tons



Source: ICCO, Commerzbank Corporates & Markets

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*Prospect for another deficit year should keep prices supported*

Speculative investors on the New York and London cocoa exchanges are mainly betting on a continued positive price trend and are holding net-long positions close to the record level in 2008 in New York and the highest level in a year in London (charts 14 and 15, page 8). The prospect of a further deficit year should support prices at the current level. Prices will have further upside potential especially if weather conditions in West Africa do not improve soon or if demand from the industrial countries surprises on the positive side. We expect the price of cocoa in London to trade at 1,700 GBP per ton in the fourth quarter 2013 and at 1,800 GBP per ton on average in 2014.



## At a glance

TABLE 1: Our forecasts

	Latest	Forecast								Yearly average		
	12-Sep-13	Q1-13	Q2-13	Q3-13	Q4-13	Q1-14	Q2-14	Q3-14	Q4-14	2012	2013	2014
<b>Grains/Oil seeds/Cotton</b>												
Wheat* (CBOT)	653	742	698	650	680	700	690	680	670	753	690	690
Wheat^ (Liffe Paris)	187	243	212	190	195	200	200	195	190	231	210	195
Corn* (CBOT)	466	711	648	500	490	500	520	540	550	691	590	530
Corn^ (Liffe Paris)	169	231	220	190	175	175	180	180	185	229	200	180
Soybeans*	1396	1437	1442	1400	1400	1350	1300	1250	1200	1449	1420	1280
Rapeseed^ (Liffe Paris)	372	467	439	375	390	390	380	380	370	480	420	380
Cotton**	85	83	86	86	83	83	82	82	80	80	85	82
<b>Softs</b>												
Coffee (arabica)**	121	144	134	120	120	125	120	120	120	176	130	120
Coffee(robusta)***	1753	2051	1950	1850	1800	1800	1850	1900	1900	2026	1900	1850
Cocoa° (Liffe London)	1695	1433	1517	1600	1700	1750	1800	1800	1850	1539	1550	1800
Sugar #11**	17.2	18.4	17.2	16.5	17.0	17.0	17.5	17.5	18.0	21.6	17.5	17.5
<b>Livestock</b>												
Live cattle**	129	129	120	125	130	130	128	130	132	124	126	130
Feeder cattle**	159	146	145	155	155	155	150	145	150	151	150	150
Lean hogs**	87	86	93	87	83	83	93	88	83	85	87	87

Quarterly / yearly averages\* US Cents per bushel, \*\* US Cents per pound, \*\*\* US Dollar per ton, ^ EUR per ton, ° GBP per ton

TABLE 2: Inventories coffee and cocoa

Exporte	Last release		Net change			% change	
	Due date	Level	1 week	1 month	1 year	1 year	5-year Ø
Coffee (ICE) in '000 bags	12/09/2013	2783.5	-1.3	14.5	75.5	37.2	18.5
Cocoa (ICE) in '000 bags	12/09/2013	4466.9	-117.6	-343.6	-206.9	-4.4	28.8
Coffee (Liffe) in '000 tons	02/09/2013	77.3	-1.7	-21.3	-65.9	-46.0	-54.3
Cocoa (Liffe) in '000 tons	02/09/2013	49.9	-25.8	-34.5	2.9	6.1	-14.0

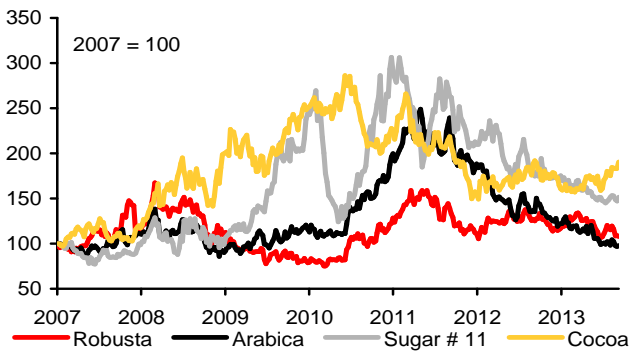
Source: ICE, Liffe, Bloomberg, Commerzbank Corporates & Markets

TABLE 3: History

	latest	% change			Q111	Q211	Q311	Q411	Q112	Q212	Q312	Q412	
		1 week	1 month	ytd									y-o-y
<b>Grains/Oil seeds/Cotton</b>													
Wheat* (CBOT)	653	-0.1	3.0	-16.8	-28.2	800	769	708	621	644	647	883	853
Wheat^ (Liffe Paris)	187	-1.1	1.6	-24.9	-29.3								
Corn* (CBOT)	466	-0.8	2.0	-33.5	-40.0	673	724	693	623	640	599	775	739
Corn^ (Liffe Paris)	169	-1.6	1.8	-29.1	-32.1								
Cotton**	1396	2.1	13.7	-1.0	-20.1	179	152	105	95	93	80	73	73
Soybeans*	372	-1.9	2.3	-17.9	-27.9	1385	1362	1358	1179	1273	1404	1638	1482
Rapeseed^ (Liffe Paris)	85	1.7	-7.7	12.7	15.1								
<b>Softs</b>													
Coffee (arabica)**	121	1.7	-2.5	-16.6	-33.0	256	273	257	230	206	171	173	155
Coffee(robusta)***	1753	-0.6	-8.1	-8.8	-15.8	2286	2473	2207	1898	1948	2084	2109	1965
Cocoa° (Liffe London)	1695	-0.4	3.7	18.0	0.4	3288	3032	2970	2445	2298	2208	2430	2408
Sugar #11**	17.2	2.3	-0.5	-12.0	-12.9	30.2	23.9	28.4	24.7	24.3	20.9	21.1	19.7
<b>Livestock</b>													
Live cattle**	129	2.6	0.7	-2.5	-1.0	113	111	117	122	126	117	125	129
Feeder cattle**	159	0.6	0.8	3.0	8.1	130	132	137	146	155	155	143	148
Lean hogs**	87	-3.5	1.4	2.4	21.2	92	95	88	88	89	89	77	82

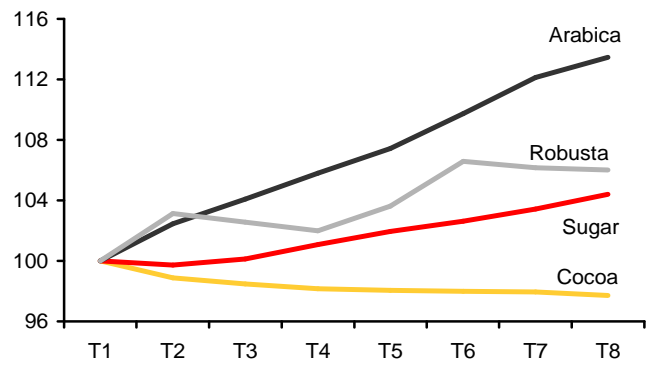
\* US Cents per bushel, \*\* US Cents per pound, \*\*\* US Dollar per ton, ^ EUR per ton, ° GBP per ton. Source: Bloomberg, Commerzbank Corporates & Markets

CHART 10: Performance: Soft commodities since 2007



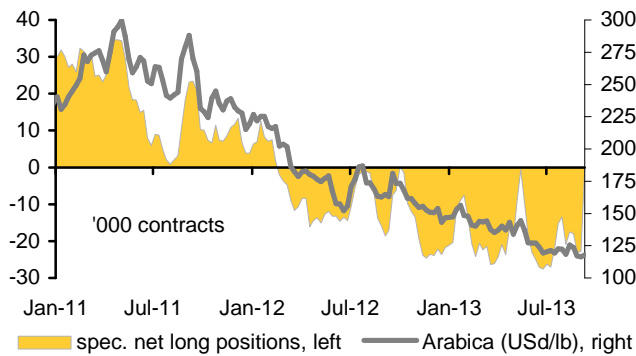
Source: Bloomberg, Commerzbank Corporates & Markets

CHART 11: Forward curve: Soft commodities



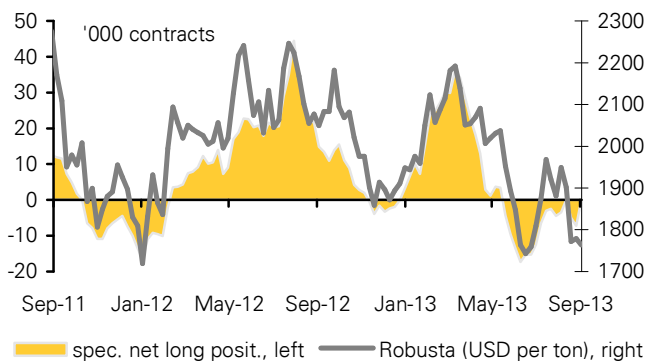
Source: Bloomberg, Commerzbank Corporates & Markets

CHART 12: Net long positions of money managers coffee Arabica



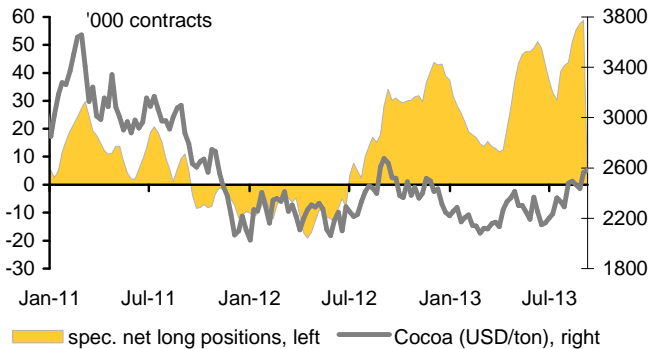
Source: CFTC, ICE, Bloomberg, Commerzbank Corporates & Markets

CHART 13: Net long positions of money managers coffee Robusta



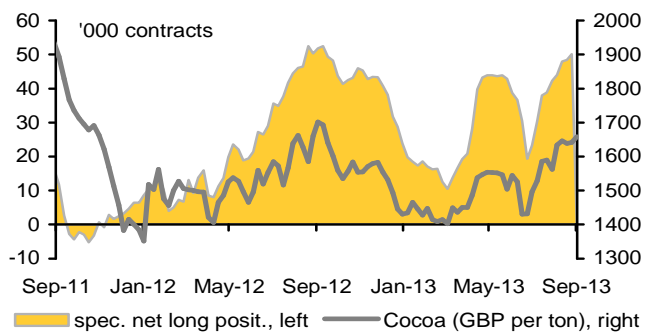
Source: LIFFE, Bloomberg, Commerzbank Corporates & Markets

CHART 14: Net long positions of money managers cocoa (ICE)



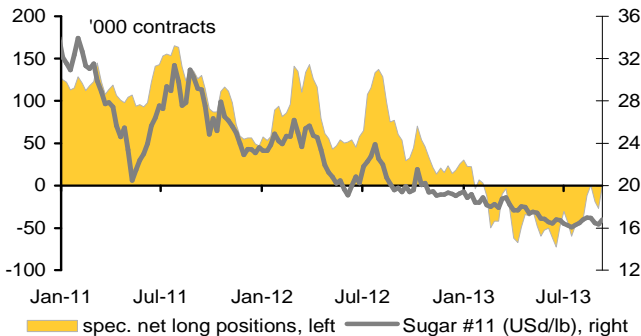
Source: CFTC, ICE, Bloomberg, Commerzbank Corporates & Markets

CHART 15: Net long positions of money managers cocoa (LIFFE)



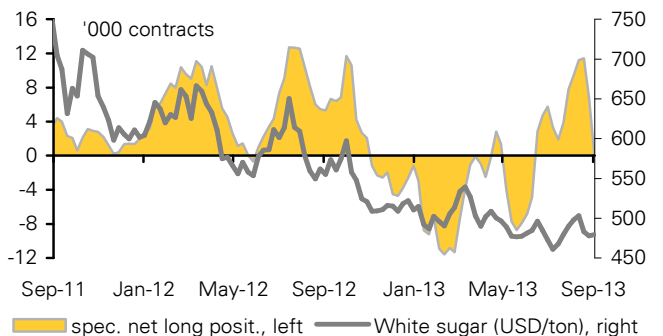
Source: LIFFE, Bloomberg, Commerzbank Corporates & Markets

CHART 16: Net long positions of money managers sugar (ICE)



Source: CFTC, ICE, Bloomberg, Commerzbank Corporates & Markets

CHART 17: Net long positions of money managers sugar (LIFFE)



Source: LIFFE, Bloomberg, Commerzbank Corporates & Markets



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Frankfurt	London	New York	Singapore Branch	Hong Kong Branch
Commerzbank AG	Commerzbank AG	Commerzbank AG	Commerzbank AG	Commerzbank AG
DLZ - Gebäude 2, Händlerhaus Mainzer Landstraße 153 60327 Frankfurt	London Branch PO BOX 52715 30 Gresham Street London, EC2P 2XY	2 World Financial Center, 31st floor New York, NY 10281	8, Shenton Way, #42-01 Singapore 068811	29/F, Two IFC 8 Finance Street Central Hong Kong
Tel: + 49 69 13621200	Tel: + 44 207 623 8000	Tel: + 1 212 703 4000	Tel: +65 63110000	Tel: +852 3988 0988