

# Coffee In-depth Report

November 30, 2008

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## Credit Crisis Impacts Coffee Trade but Some Relief Seen From Falling Fertilizer Prices and Freight Rates

### Summary and Conclusion

- Attention continues to be riveted on the rapid deterioration in the world economy and governments intervention to try to inject capital into the world banking system to thaw out credit markets in an attempt to bring liquidity back to the financial sector. Billions of dollars of promised funding in the form of bailout packages and/or stimulus plans, depending on the perspective, aimed to keep banks, brokerage houses, and other sectors of the economy afloat have so far done little to shore up consumer confidence here in the United States or abroad. Slashing of key interest rates in China and elsewhere seem to only have a temporary calming effect with flare ups in one nation or sector of the economy offsetting the quelling of problems someplace else. Housing prices are slumping, unemployment rates are mounting, and personal wealth has been greatly diminished with the tumble in equity markets worldwide. The effects on some businesses has been nearly catastrophic with the illiquidity of the credit markets preventing operating as "usual" depending on lines of credit needed to maintain necessary cash flow. This has affected both coffee producers and exporters around the world to varying degrees with some banks seizing up credit lines and no longer able to finance coffee purchases or provide loans to meet cash flow needs ahead of the crops being harvested. In many instances, the cost of borrowing, if you can get approval on a loan or line of credit, has increased, squeezing margins in an already pinched environment. Investment in new equipment, plants, infrastructure, and expansion of coffee plantations globally is being threatened. It remains to be seen what toll this may have on coffee production, but it is already reported to be interrupting trade flows.
- Luckily for coffee producers there has been some relief with fertilizer prices having now collapsed after racing to dizzying heights earlier in the year, which also severely threatened long term production prospects. Farmers had to pay higher prices for fertilizer this year and took action to trim costs to skate by, but at least for the future this major threat to world coffee output has been averted. While the expense of inputs may have come down with the decline in energy prices and freight rates have also fallen, rising labor costs are still a primary concern. On the other hand, the global recession and fewer job opportunities in cities around the world may reduce the problem of labor shortages on the farm and could drive back expenses in some countries, but not all. From Central America across to India labor shortages had been a growing problem for many countries.
- There has been little change to the overall supply and demand balance in the past few months. The Brazilian harvest has been completed for some time already and other countries are gearing up to start picking their crops if they haven't begun already. It's been a bit wet in Vietnam, but not sufficiently to cause anything but minor delays in the harvest. The one bearish aspect is that rains arrived in Brazil on a timely basis this year for proper flowering and setting of the now developing 2009-10 crop. Although so far conditions are quite normal, the harvest, nonetheless, will still be cyclically smaller. It is just a matter of how small? With the crop so far progressing well, this does take some of the edge off the market even though a tighter balance sheet is still indicated beginning mid-2009. Low producer stocks remain of paramount concern with little cushion available in the event of a hiccup in supply.

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## Fundamental Highlights

Direct coffee fundamentals seem to have taken a back seat to headline news about the global economy and the day to day swing of emotions that have ripped across the financial markets has made trading direction in coffee more uncertain than usual. With credit risk a primary concern, funds, speculators, and the trade have reduced their exposure in all markets, not just coffee. This deleveraging coupled with strength in the dollar had put enormous pressure on commodities, coffee included. While it appears the dollar is starting to back off the highs already, the risk is still great that problems globally could erupt that will push investors back to seeking safety in the greenback relative to other currencies and this would put renewed force on commodities to the downside. When it boils right down to it, near term price direction will continue to be most heavily influenced by movement in the dollar, especially against the Brazilian real.

While near term dollar direction seems to be at the whim of every news headline and constantly changing amidst confused investor sentiment, I'm not a believer in the long term health and safety of the dollar due to the flood of debt that is being washed into the economy to prop it up. This solution, while it may seem necessary now and the only life line left to prevent the United States from sinking into a depression is rather toxic as it is watering down the monetary system that it is trying to support. Pumping more and more dollars into the United States economy is devaluing the currency and in its wake is a pile of debt with quicksand as a base. The US currency was always the gold standard around the globe and sought after, not so much because of the political strength and stability of this country, but because the dollar was truly backed by gold. The Bush-era pile up of debt refocused attention to this fact and the dollar slid as other economies boomed.

Unfortunately, rising global unemployment and food shortages could bring about increased political tensions and shake the stability of some coffee producing countries, where democratic rule could be threatened. Troubles this past week in India and Thailand underscore the hotbed of problems that could emerge.

Turning attention to more direct supply and demand influences, the problem of skyrocketing fertilizer prices just a few months ago was another nail in the coffin that would have sealed the fate of coffee production and threatened the quantity as well as the quality of future crops and made the market outlook quite ominous with the potential for a sharp spike in values if the market didn't fully reflect the rising cost of production and compensate farmers adequately for this added burden. However, fertilizer prices have now plunged and this eliminates the risk of producers being forced to slash inputs to the detriment of output. This is perhaps the biggest change fundamentally as the burning need for the market to rally to cover the rising expense of fertilizer no longer exists. However, having fertilizer prices back off, doesn't solve other issues that also threaten the stability of the market with alternative crops still more attractive than long term investment in coffee plantations. Consumption of coffee, on average, has been growing at a faster rate than production and global supplies of coffee could still fall to exceedingly low levels in the year ahead. The surplus forecast for this season may not be sufficient to stave off an even greater shortfall next year. Current prices are not sufficient to assure continued growth in coffee output.

A favorable start to the development of the Brazilian 2009-10 crop also reduces any sense of urgency for the market to rally. Exports from Brazil have been keen from the 2008-09 harvest and roasters are well covered heading into the peak demand period during the northern hemisphere winter months.

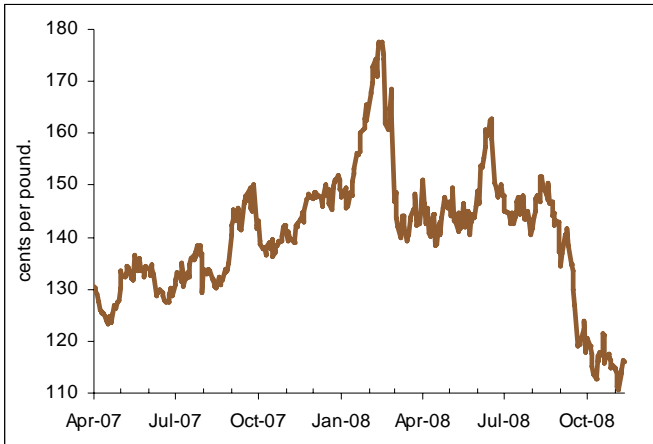
Despite the troubled world economy, there is little evidence to suggest that coffee consumption is slowing and consumers are cutting back. They may be reducing purchases of expensive lattes and other coffee based beverages, but is trading down for a less expensive cup rather than consuming less.

Recently released attaché reports for the top producers show little change from the June USDA supply forecasts. Since these figures are used as the major reference for the USDA in determining the producer supply and demand balance, only minor changes are expected in the next USDA World Markets and Trade Report, scheduled for release on December 5<sup>th</sup> at 3 PM EST.

Coffee In-depth Report – November 30, 2008

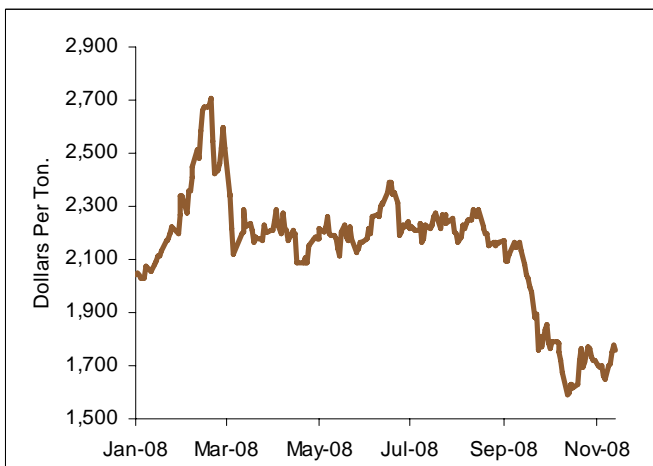
Price Outlook

Chart 1: Arabica Market Tracking the US Dollar Closely



Source: Future Source

Chart Error! No sequence specified.: Robusta Market Stabilizing?



Source: Future Source

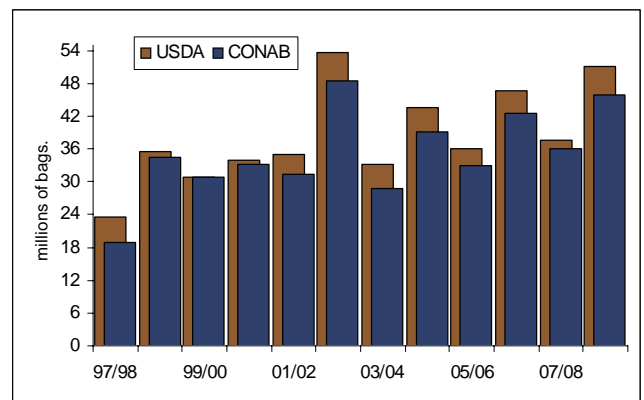
Coffee should have hit bottom and stabilize hereafter, but with the market still trading at the whim of the dollar, further losses can not be ruled out. The long term bias remains bullish on tightening global supplies headed into the 2009-10 season. The strength in the expected rally, however, won't need to be nearly as powerful now that farm costs have started to ease. For the immediate period ahead the market is likely to

trade in a \$1.10-\$1.30 range. Producers have little incentive to sell at the low end of the range.

Weather Cooperates in Brazil but Credit Worries are Still an Issue

The Brazilian 2008-09 harvest has finished and attention is turned to the development of the 2009-10 crop, which has gotten off to a promising start, although the crop should still be cyclically smaller. The USDA attaché report shows no change in the estimate of the Brazilian 2008-09 crop size, still pegged at 51.1 million bags. The Brazilian government believes the crop was about six million bags less than the USDA. It is somewhat surprising that the crop figures were not lowered, as farmers continually expressed their concerns during the harvest that yields were disappointing and the crop was off from where they had thought it would be. Bean sizes were reported as small in some regions, implying it took more beans to fill a bag and hence the crop total would be less. The harvest dragged on due to the lateness of the maturity of the cherries as the crop was delayed from the outset from a late flowering after a prolonged dry spell. Thereafter the weather was favorable and the crop was able to develop normally, but was just a month behind schedule in key regions.

Chart 3: USDA and CONAB Fairly Consistently Differ on Brazil Crop Views



Source: USDA and CONAB

Fortunately for the growers, the rainy season did not begin early this year, which would have been a serious problem as it would have hampered the development of the crop and further slowed

## Coffee In-depth Report – November 30, 2008

harvesting progress, but also ran the risk of promoting a premature blossoming of the 2009-10 crop while old crop fruit was still on the trees. Mother Nature cooperated and all was fine, taking some of the edge off the market. Because supplies of coffee, particularly in Brazil, are so limited, even a small production problem would have a magnified impact on prices. The market had been that sensitive to possible news that could have derailed the finely balanced market and clearly put the market over the edge.

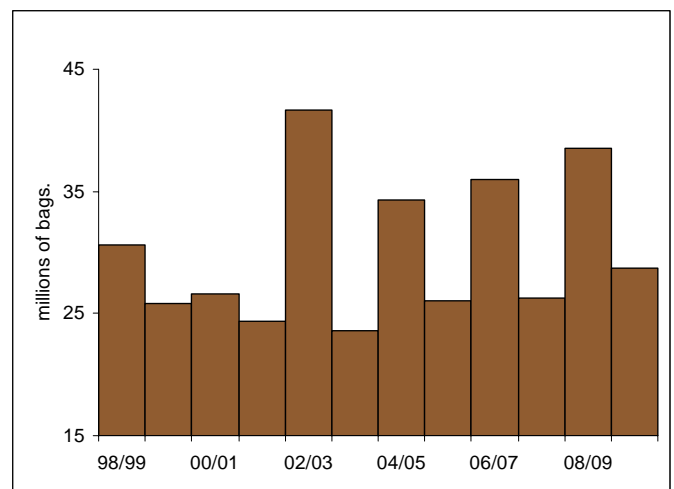
The weather risk in Brazil passed without incident about the same time the floor gave way in the financial sector sending commodity prices careening lower as the dollar rallied against other currencies. The combination of the downward pressure in commodities and the sigh of relief that Brazilian farmers narrowly escaped out of harms way yet again was too much for the market to bear and the downward spiral in prices the past two months clearly reflected this.

While the 2009-10 crop is so far trouble free and it appears the 2008-09 crop estimate is not going to be pared back, the fact still remains that even a crop of 51.1 million bags, the second largest Brazilian crop on record, is still not sufficient to provide the market with much of a safety net going forward. A modest replenishment in inventories will occur after being nearly fully depleted at the start of the season, but the expected build in inventories this year, may still not be sufficient to guard the market against supply shocks next year. The balance sheet is expected to remain extremely tight with very little leeway. While the drop in the Brazilian real and the reduction in the price of fertilizer is a help to farmers, this merely offsets the decline in price that has occurred but does not bring any added income. Brazilian farmers, in particular, have been faced with rising farm expenses due to a jump in labor costs due to the government enforcing higher minimum wages for workers. This makes coffee farming less competitive. Many producers are moving towards mechanized harvesting to try to save on labor expense, but for some producers in more hilly regions this is not a viable alternative.

It is still early to make anything more than tentative guesses as to the size of the 2009-10 Brazilian harvest, but certainly there is enough information at

this time to make reasonable assumptions about the crop size. First, the greatest variability in production from year to year is the size of the Arabica harvest, but when examining the Arabica crop in on years versus off years a pattern emerges that clearly shows the swings are in the larger crop years whereas Arabica production during the off years has been far more consistent. In the past decade, off year Arabica production varied from a low of 23.6 million bags to a maximum of 26.3 million bags or a difference of only 2.7 million bags. The greatest change from one off year to the next off year was only 2.4 million bags. This jump occurred from 2003-04 to 2005-06 and happened following a lull in output with 2003-04 production being particularly low after the record setting crop in 2002-03 of 53.6 million bags. Given the 2008-09 crop was the second largest on record, it is doubtful that 2009-10 off year crop will be particularly heavy as the trees will need a period of rest. This would imply that 2009-10 Arabica output will not be substantially greater than it was 2007-08, especially since there has not been a major increase in the bearing tree population. At best case, with continued good weather, the Arabica crop may be 28.7 million bags, up from 26.3 million in 2007-08, but could be less especially since some farmers had to cut back on inputs this year due to the sharp jump in fertilizer prices.

Chart 4: Brazil Off Year Arabica Production Relatively Stable; Variability is in the Larger Crops



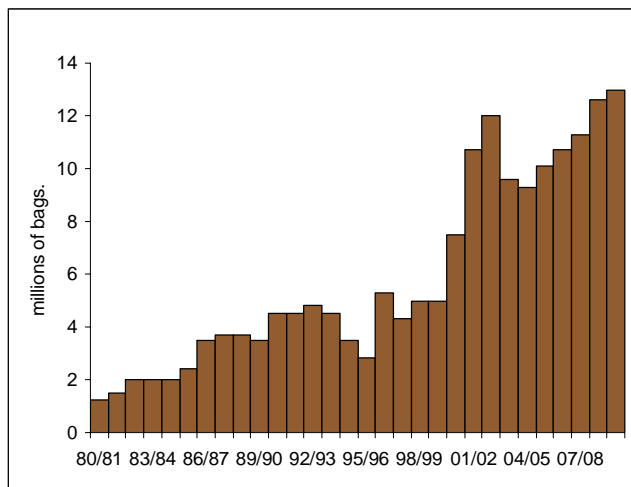
Source: USDA

The expansion in Robusta output also accounts for the upward trend in Brazilian production and much

## Coffee In-depth Report – November 30, 2008

of this coffee is being used to meet rising domestic demand and for use in manufacture of soluble coffee. Robusta production has increased steadily the past four years on expansion of the area planted to Robusta coffee as well as denser plantings on existing farms in an attempt to maximize productivity. Many of these farms having mechanized harvesting, driving down costs relative to the hillier Arabica areas. For 2009-10, a further increase in Robusta production could be expected in Brazil, but the rate of growth may be slowed from recent years due to stepped up costs which have chewed into the favorable pricing, eroding profitability. The gains in Robusta output have also been tempered relative to the explosion in Robusta output that occurred a decade ago.

**Chart 5: Brazilian Robusta Output Continues to See Expansion**



Source: USDA

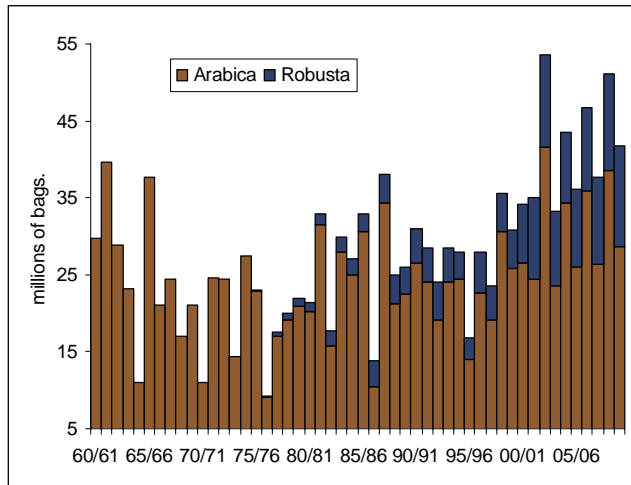
The two main Robusta coffee growing regions are Espirito Santo and Rondonia. In the past decade, the combined tree population in these areas grew from 865 million to 1.357 billion, having peaked a few years ago at 1.438 billion. During this period of new plantings Robusta output in these areas rapidly expanded from 3.65 million bags to 9.29 million bags. The rate of acceleration in output should start to slow; however, as there has not been any further expansion efforts and the trees have been maturing, reaching their prime productivity. During the same period, there was also aggressive new planting of Arabica trees, especially in the key region of Minas Gerais. The number of Arabica trees in this State grew from 1.67 billion to nearly

double that amount to 3.14 billion yet production during on years in the crop cycle went from 20.2 million to a peak of 25.1 million bags and in the off year increased from 13.9 million to about 16.5 million bags. In summary, emphasizing that around a 500 million increase in Robusta trees resulted in a production gain of 5.64 million bags whereas a 1.47 billion Arabica tree increase yielded a gain in output of only five million bags during the strong years in the production cycle. It would stand to reason that future investment in Brazilian coffee will continue to be geared towards Robusta rather than Arabica varieties.

For the time being, any expansion and investment in coffee could be put on hold as a result of restricted credit and volatility in exchange rates. Because of tight credit and rising interest rates for those that can still secure some financing, expenditures will be temporarily cut back until the situation returns back to normal, but how many months this may take is difficult to say. Coffee has been facing increased competition from other less intense crops such as palm, which have not had the same volatility in price as coffee. Agrochemicals that have in the past also helped to finance coffee producers have taken a less active role this year as well due to the escalating prices of fertilizer and restricted credit. At the very least, coffee production growth will stagnate, but could also very well see a drop in output at a time, when there is very little excess supply to safeguard the market.

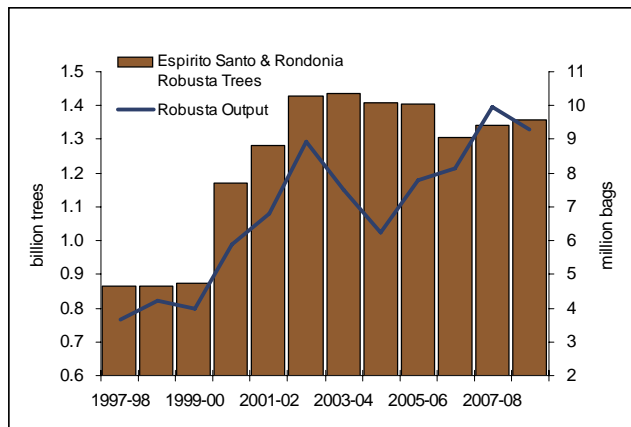
Coffee In-depth Report – November 30, 2008

Chart 6: Brazilian Total Production Up Mostly Due to Robustas



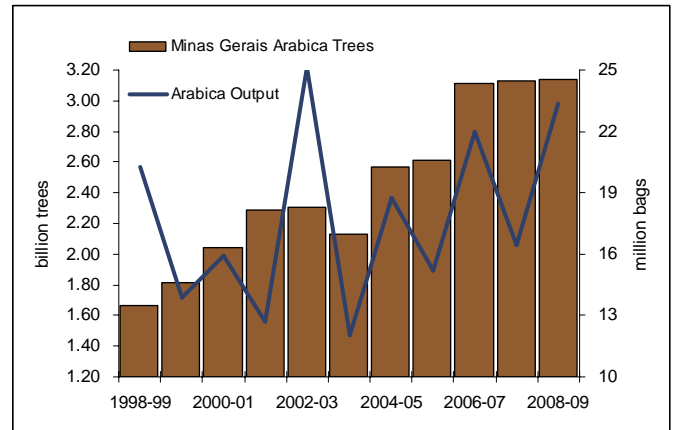
Source: USDA

Chart 7: Robusta Tree Population Leveling Off but Output Rising as Trees Mature in Key Regions



Source: CONAB

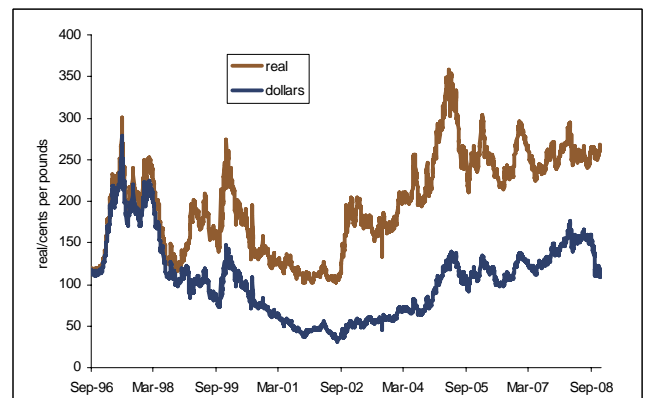
Chart 8: Arabica New Tree Planting Limited; Output Only Higher as Trees Mature



Source: CONAB

The one positive development for Brazilian farmers is that the price decline in commodities has occurred on a rally in the dollar against the Brazilian real and the weakening of the domestic currency boosts the attractiveness of receiving payment for coffee in dollars. As shown in Chart 9, the plunge in price in dollars was largely offset by the exchange rate fluctuation. Much of this past year, when international coffee prices had been much stronger, Brazilian exporters were not reaping the benefit of this. Coffee prices quoted in reals remain well below the highs received back in 2005.

Chart 9: Currency Fluctuation has Shielded Brazil from Recent Price Drop

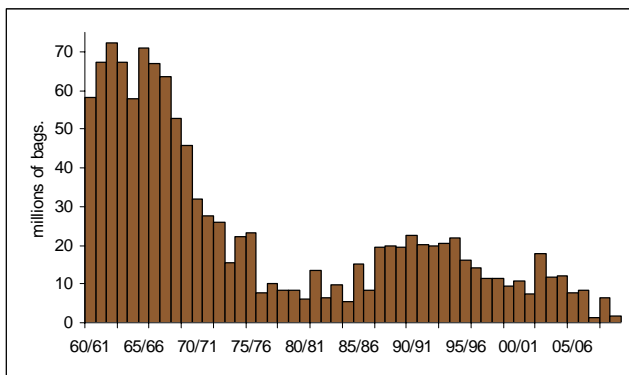


Source: Cecafe

The possibility that growth in Brazilian output could contract couldn't come at a more critical juncture

for the market. Brazilian stocks were drawn to bare minimal levels this past and revisions in the attaché report tighten the stock estimate even further due to an increase in exports this past season. Brazil will have only a small build in stocks by the end of the 2008-09 season, despite output being at the second highest level ever. With the possibility of next year's output not even reaching 42 million bags and perhaps being even 1-2 million bags shy of that, the balance sheet continues to show a period of much tighter supplies in the year ahead. Brazil will be starting the 2009-10 season with only 6.32 million bags coffee, roughly two million less than in 2007-08, the last cyclically smaller crop year. At that time, domestic use was also less than it is today or will be next year and therefore an increase in output is essential to cover these needs. Even a three million bag jump in Brazilian output from the last off crop would not be enough coffee for Brazil to sustain the present rate of exports and would need to curb shipments due to the lack of supply. There may not be a sufficient supply of coffee to transition from one season to the next end 2009-10. In addition, given the weaker economics and disincentive to invest in coffee this year, it is doubtful that production in 2010-11, the next on year in the production cycle will be substantially improved keeping the market in a precarious position for the foreseeable future. If there are production problems elsewhere, Brazil, the world's top producer, will not have sufficient coffee to bridge any gaps in supply.

Chart 10: Brazil Has Hardly Any Coffee in Stock



Source: USDA

## Supply Outlook Unchanged Elsewhere

The USDA attaché reports for Colombia and Vietnam showed only marginal adjustments from prior estimates and not enough to make a change in the overall supply outlook for 2008-09. The next USDA Producer Supply and Demand Balance will be released December 5<sup>th</sup>. It will not have any preliminary indications for 2009-10 but just adjustments to the figures published back in June. Because of the release of the attaché reports for the top producing countries already, the full USDA report will be anticlimactic, aside from the fact that there were no substantial revisions. Vietnamese production is expected to reach 21.5 million bags up from 18.33 million picked in 2007-08. This will be a new record high if achieved, marginally surpassing the prior record two seasons ago. The harvest has gotten off to a slower start due to shower activity, but so far, it is doubtful that this will have any adverse affect on yields. Certainly if the weather does not improve this would become a serious problem, but for now, there isn't any cause for unnecessary alarm.

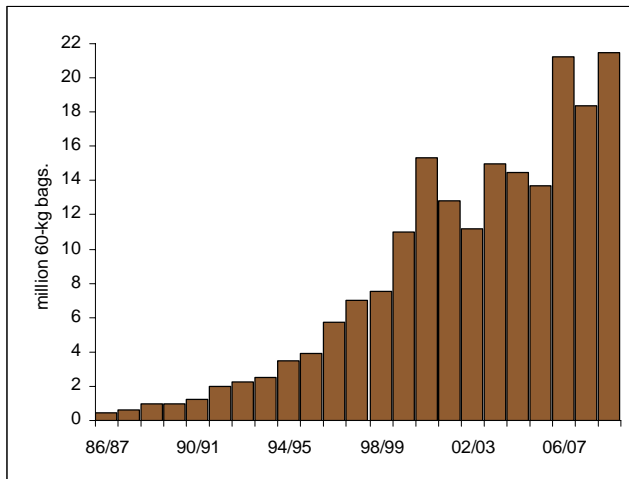
Rainfall has been above normal in Colombia, Mexico, Guatemala, and other parts of Central America. It would not be surprising if production fell short of targets for these countries as a result, but collectively, the loss in output is not that significant and chances are will be offset by an improvement in production prospects elsewhere. Despite the rainy weather, the attaché reiterated that Colombian production was going to be 12.25 million bags compared to 12.39 million produced in 2007-08.

In total world production should still be around 140.62 million bags this season compared to 123.24 million last season and about 6.8 million bags better than in 2006-07, the last on year in the production cycle. Clearly, the steady improvement in prices, particularly Robusta prices, had a positive impact on output. While this might have been the case before, this has changed due first to the skyrocketing prices of fertilizer and fuel and most recently due to the difficulties securing easy credit. This will be the first time that world output has topped 140 million bags. While there is always much fuss and negative connotation with discussions about fresh supply being at a new

Coffee In-depth Report – November 30, 2008

record high, as long as demand is keeping pace or exceeding the growth in output, it really doesn't matter if production is at an all time high or not. It is only an issue if demand is sluggish, creating a build in inventory. Due to the very pronounced cyclical pattern of coffee production, what matters is where production on a two-year moving average is and if this is sufficient to cover annual demand. I still believe production is going to struggle to keep pace with use.

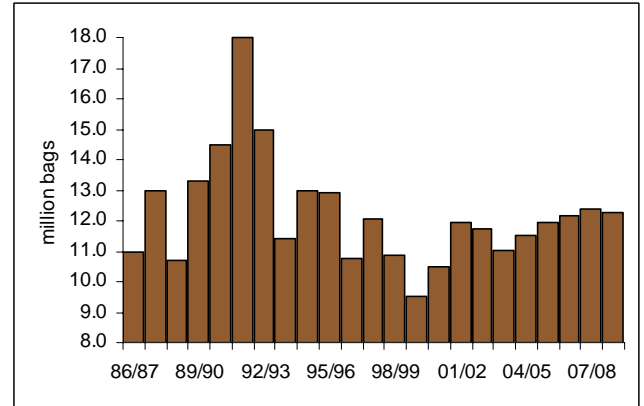
Chart 11: Vietnam Could See Record Production



Source: USDA

F.O. Licht recently released their first view of world coffee production for the 2008-09 season and is in relatively close agreement with the USDA data, although their estimate at 139.03 million bags puts the world total below that 140 million bag barrier. The million plus bag difference between USDA and Licht is relatively minor. However, given how tight the producer balance sheet has become, each and every bag could make a difference especially if there are any production hiccups as the season progresses.

Chart 12: Colombian Output Expected to Dip Marginally



Source: USDA

The one major difference between the USDA data and Licht data is the estimate for Brazil where Licht pegged the crop at 49.7 million bags against the USDA's figure of 51.1 million. Licht is expecting Vietnamese output to reach 20.9 million bags, which is also less than the USDA forecast. For some smaller producing countries, Licht is marginally higher than the USDA and this bridges the gap between the estimates for the top two producers. Licht is estimating North and Central American output at 18.54 million bags, whereas the USDA estimate was at 18.43 million bags. African output is pegged at 15.33 million bags by Licht compared to the USDA prior figure of 16.64 million bags. Total South American production is estimated by Licht at 68.23 million while the USDA had last pinned it at 69.44 million. Finally, Asian production is near agreement between the two estimates with Licht at 36.01 million versus the USDA estimate of 36.31 million.

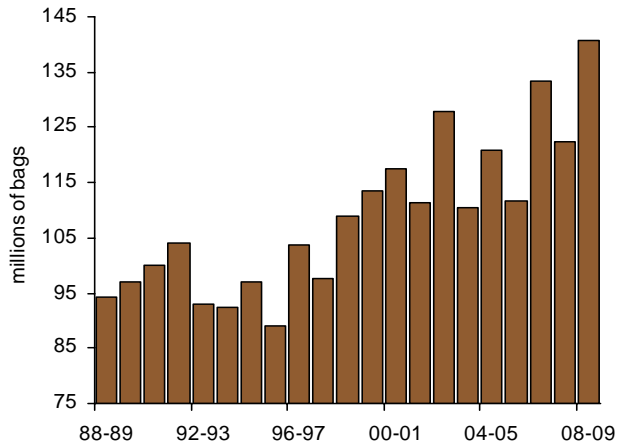
Table 1: USDA World Production by Region

	98/99	99/00	00/01	01/02	02/03	03/04	04/05	05/06	06/07	07/08	08/09
Grand Total	108,953	113,553	117,521	111,518	127,762	110,311	120,793	111,708	133,482	123,240	140,618
North America	18,747	22,266	19,497	17,164	16,830	17,433	16,018	17,115	17,173	18,483	18,245
South America	51,238	45,264	49,675	51,716	69,960	48,820	60,408	52,258	65,253	55,789	69,429
Africa	16,417	19,313	16,699	14,662	14,821	13,984	14,425	13,234	14,895	15,769	16,638
Asia & Oceania	22,551	26,710	31,650	27,976	26,151	30,074	29,942	29,101	36,161	33,199	36,306

Source: USDA

Coffee In-depth Report – November 30, 2008

Chart 13: World Coffee Production Could Top 140 Million Bags



Source: USDA

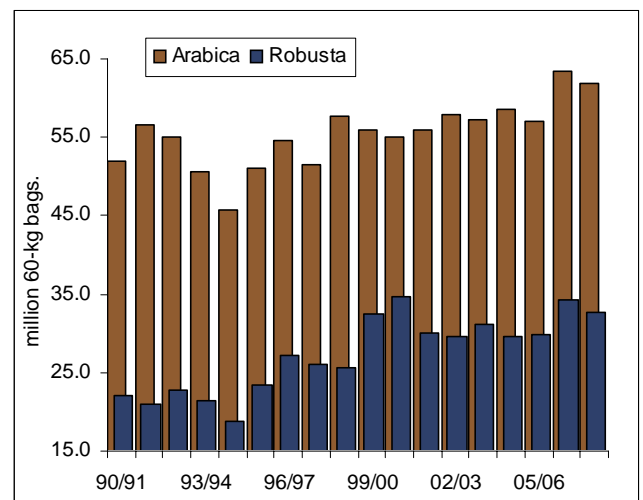
Producers Sold Aggressively on Price Spike

Earlier this year when coffee prices briefly spiked to more than \$1.70 per pound, producer selling was far more aggressive than it has been recently. This is attributed to the slide in prices, higher costs, and as well reluctance by trading houses to take on added exposure and risk of enabling farmers to sell their crops forward at a time when margin financing and credit is tight. Export volumes certainly reflected this during the 2007-08 season and continued to do so in October, the first month's data for 2008-09. According to ICO statistics, 2007-08 full year coffee exports totaled 94.52 million bags down from the record 97.88 million shipped in 2006-07. The decline in exports was not nearly as large as it could have been were it not for the higher prices. Producers had every incentive to sweep warehouses clean and sell their coffee as aggressively as possible to take advantage of the price climb. As a result of this stepped up pace, producer stocks were depleted even further and consumer inventories did not drop as much as they would have. An increase in Colombian Milds and Other Mild coffees helped to offset reductions in volume of Brazilian Naturals and Robustas.

USDA and ICO export volumes generally differ by several million bags. The USDA had full year exports at 98.63 million bags down from 102.94 million in 2006-07. The amount of coffee being re-imported into coffee producing countries has also been on the rise reflecting increased domestic use and expanded processing of soluble coffee at origin.

For 2008-09, the pace of exports may be constrained because of tighter credit and because of the reduction in pipeline supplies despite forecasts for production to jump sharply. Certainly Brazil is not in a position to step up shipments due to the minimal carryover and the need to replenish inventories ahead of 2009-10 when a larger carryover will be necessary to make up for the smaller harvest.

Chart 14: October-September Exports Showed Decline for Both Arabicas and Robustas Last Season



Source: ICO

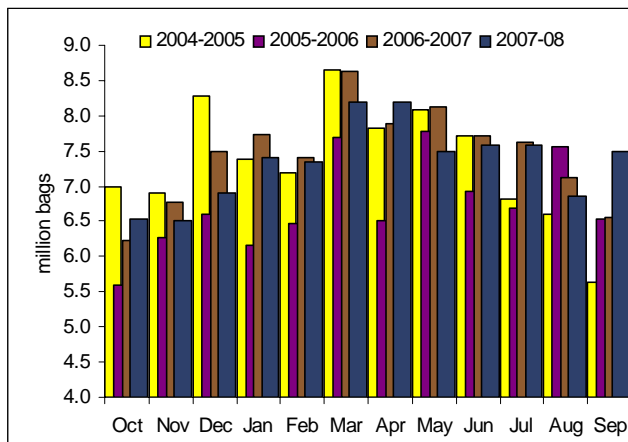
In October, the first month of the new season, total exports were reported at 7.024 million bags, down compared to the 7.174 million bags shipped in October 2007. Brazilian Natural shipments were up sharply reflecting the new Brazilian crop at 2.937 million bags against 2.563 million a year ago, while Robusta exports lagged considerably at 1.869 million against 2.369 million in October 2007. As soon as the larger Vietnamese crop starts being harvested in earnest, the Robusta volumes should shoot right back up.

Coffee In-depth Report – November 30, 2008

Export volumes were lower than year ago levels nearly every month this past season yet in September registered a strong spike up. The seasonal pattern shows that exports tend to rise from October onwards peaking in March after the bulk of the harvests are completed and then shipments taper off in the second half of the season. With prices having backed off higher levels and producers not having much incentive to sell coffee aggressively right now, the seasonal flow of coffee could be flattened from the normal pattern. Brazil has been shipping aggressively, but according to sources this reflects sales from earlier in the year now being exported rather than aggressive new sales on the books.

The idea has been floated by the Colombian Coffee Federation that they will withhold some coffee from the market to help stabilize values. The amount of coffee involved will be limited to a couple hundred thousand bags of coffee, a relatively small sum, but one that may gain some attention.

Chart 15: Seasonal Pattern of Shipments Shows Up Trend for the Next Several Months

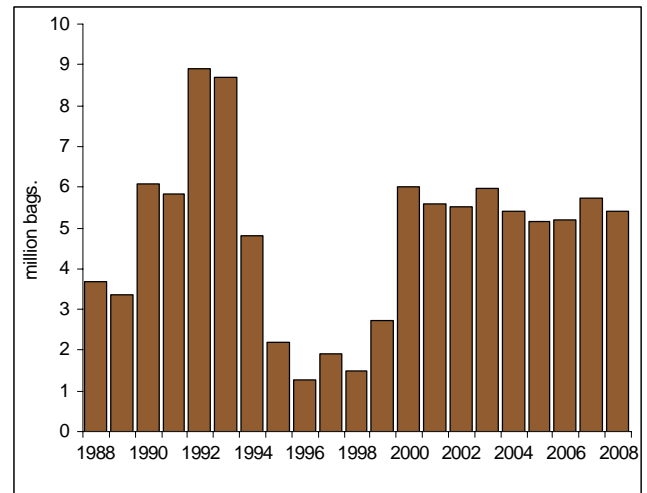


Source: ICO Green Coffee Shipments Only

Consumer stocks of coffee remain ample and until there is a further rather pronounced drawdown in these stocks, it is doubtful the market will be able to sustain a strong advance. Within the coming year, this drawdown should occur. Consumer stocks are below year ago levels, but not by a sufficient enough amount to make a difference. Roasters remain adequately covered for the time being despite the continued high risk that prices could at

some point make another sharp run to the upside as the market starts to focus its attention on the 2009-10 balance sheet. The Green Coffee Association reported that end October US stocks stood at 5.414 million bags down about 300,000 bags from October 2007. US certified coffee stocks have been trending lower and the number of bags pending grading is down to minimal levels. This should change as new crop supplies start to become available, but it remains to be seen if tighter credit will keep some coffee from being certified that otherwise would have been since previously coffee would be certified and held as collateral as a requirement by banks for financing.

Chart 16: US Coffee Warehouse Stocks Down Slightly



Source: Green Coffee Association

Table 2: October-September Coffee Shipments

	<b>Grand Total</b>	<b>Total Colombian</b>		<b>Total Brazilian</b>		<b>Total Arabicas</b>
		<b>Milds</b>	<b>Total Other Milds</b>	<b>Naturals</b>	<b>Total Robustas</b>	
90/91	74.041	14.289	19.784	17.780	22.188	51.853
91/92	77.624	17.239	20.222	19.120	21.042	56.582
92/93	77.784	16.396	22.513	16.053	22.823	54.961
93/94	71.951	14.452	19.999	16.143	21.356	50.595
94/95	64.426	10.958	19.212	15.587	18.670	45.756
95/96	74.391	13.081	25.130	12.742	23.438	50.953
96/97	81.685	12.881	23.701	17.943	27.160	54.525
97/98	77.639	11.922	22.981	16.617	26.119	51.520
98/99	83.466	11.809	24.315	21.630	25.712	57.754
99/00	88.520	10.569	27.100	18.327	32.525	55.995
00/01	89.664	11.051	23.805	20.155	34.653	55.011
01/02	86.116	11.772	21.011	23.225	30.108	56.007
02/03	87.495	11.922	21.103	24.786	29.684	57.811
03/04	88.362	11.411	20.640	25.230	31.080	57.281
04/05	88.043	12.092	19.434	26.957	29.559	58.483
05/06	86.800	11.601	20.846	24.480	29.873	56.927
06/07	97.882	12.513	21.369	29.658	34.340	63.540
07/08	94.520	12.702	21.872	27.344	32.600	61.918

Source: ICO

Previously based on numerous reports that Brazilian yields were disappointing, it was certainly reasonable to expect that a downward revision would occur in the Brazilian crop figure narrowing the disparity between USDA and the CONAB view on output. However, the USDA is likely to hold steadfast on their prior estimate based on the USDA attaché report and therefore the 2008-09 production estimate was revised back up to reflect this. Flowering of the 2009-10 crop occurred without a hitch. In addition, based on the sharp plunge in fertilizer prices and energy costs, cutbacks on crop inputs may not be as severe. As a result, an upward revision in next year's output was also made. The result is that the balance sheet is not showing nearly as precarious position as it was before BUT supplies in 2009-10 will still become tight on a global basis and there continues to be little wiggle room in the event of even modest production problems.

There is still no explanation for the radical jump in consumption that occurred earlier in the year. Consumption in importing nations is based on an implied figure based on the volume of net exports and the reported change in inventories. Consumer stocks have not increased and in fact have been relatively flat with most of the change in global inventories over the past several years in producer nations. In 2009-10 total inventories are expected to be 36.77 million bags. Although this is 1.8 million bags more than at the end of 2007-08, the season should end with fewer stocks in consumer hands.

Importer inventories are expected to dip below 20 million bags for the first time since the start of the decade.

While there is considerable fear that global economies could slip into a depression and consumers are tightening their belts, so far there is no evidence that coffee consumption is being adversely impacted. The price of coffee remains an affordable beverage to most consumers. There could be scaling back in purchases of high end coffee beverages, but total coffee use is not likely to drop. In prior periods of economic difficulty, consumption of coffee increased. Until there is some indication that growth is slowing, either by a build in stocks, poor retail sales data, delayed purchases or other yardstick, I don't believe a change in the forecast consumption figures are warranted. Global use this season is expected to increase around 1.5%. Due to the expected increase in use, even though physical inventories may be modestly higher than they were at the start of this season by the end of next season, when stocks are measured as a percentage of demand, global inventories will be just as tight.

Table 3: Global Balance Could Still Get Rather Tight Next Season (million 60-kg bags)

	98-99	99-00	00-01	01-02	02-03	03-04	04-05	05-06	06-07	07-08	08-09	09-10
<b>Exporters</b>												
Beginning Stocks	24.88	24.40	20.88	22.62	19.72	26.54	19.50	22.03	17.95	19.13	13.16	19.79
Production	108.95	113.55	117.52	111.52	127.76	110.31	120.79	111.71	133.48	123.24	140.62	127.50
Brazil	35.60	30.80	34.10	35.10	53.60	33.20	43.60	36.10	46.70	37.60	51.10	41.00
Vietnam	7.43	10.92	15.22	12.67	10.92	15.00	14.50	13.66	21.25	17.50	21.50	19.50
Other	65.92	71.83	68.21	63.75	63.25	62.11	62.69	61.95	65.53	68.14	68.02	67.00
Domestic Use	25.74	25.65	26.32	27.77	27.25	28.13	29.92	31.16	33.04	34.74	35.79	36.50
Imports	1.44	1.30	1.48	1.65	1.55	1.95	2.87	2.76	3.68	4.15	4.30	4.60
Net Availability	109.53	113.61	113.56	108.01	121.78	110.67	113.24	105.35	122.08	111.79	122.29	115.39
Exports	85.13	92.73	90.94	88.29	95.23	91.17	91.21	87.40	102.94	98.63	102.50	98.00
Ending Stocks	24.40	20.88	22.62	19.72	26.54	19.50	22.03	17.95	19.13	13.16	19.79	17.39
Stock Change	-0.48	-3.53	1.74	-2.90	6.83	-7.05	2.54	-4.08	1.18	-5.97	6.63	-2.40
<b>Importers</b>												
Beginning Stocks*	8.30	11.60	17.93	20.80	21.27	22.34	23.19	24.27	21.43	22.80	21.78	23.48
Net Imports	83.70	91.43	89.46	86.65	93.68	89.23	88.33	84.64	99.26	94.48	98.20	93.40
Implied Consumption	80.40	85.10	86.58	86.18	92.61	88.38	87.26	87.47	97.89	95.50	96.50	97.50
Ending stocks	11.60	17.93	20.80	21.27	22.34	23.19	24.27	21.43	22.80	21.78	23.48	19.38
Stock Change	3.30	6.33	2.88	0.47	1.07	0.85	1.07	-2.83	1.37	-1.02	1.70	-4.10
<b>RECAP</b>												
Global Production	108.95	113.55	117.52	111.52	127.76	110.31	120.79	111.71	133.48	123.24	140.62	127.50
Global Use	106.14	110.75	112.90	113.95	119.86	116.51	117.18	118.62	130.93	130.24	132.29	134.00
Global Availability	142.14	149.55	156.32	154.94	168.75	159.20	163.48	158.01	172.87	165.17	175.56	170.77
Ending Stocks	36.00	38.80	43.42	40.99	48.89	42.69	46.30	39.39	41.93	34.94	43.27	36.77
Global Stock Change	2.81	2.80	4.62	-2.43	7.90	-6.20	3.61	-6.91	2.55	-7.00	8.33	-6.50
Global Stocks/Use Ratio	0.34	0.35	0.38	0.36	0.41	0.37	0.40	0.33	0.32	0.27	0.33	0.27
Production % Change	11.53	4.22	3.49	-5.11	14.57	-13.66	9.50	-7.52	19.49	-7.67	14.10	-9.33
Consumption % Change	3.05	4.34	1.94	0.93	5.19	-2.80	0.58	1.23	10.38	-0.53	1.58	1.29

Source: USDA, J Ganes Consulting, LLC