Coffee Crushed as Slumping Real Spurs Brazil Sales: Commodities
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By Marvin G. Perez and Isis Almeida

July 4 (Bloomberg) -- The weakest Brazilian real in four years is accelerating coffee shipments from the biggest growing nation, adding to a glut that is cutting costs for Starbucks Corp. and Kraft Foods Group Inc.

First-half shipments were 20 percent higher than a year earlier at 13.385 million bags, or 803,000 metric tons, the Brazilian Trade Ministry said July 1. The real's 9.4 percent retreat in the second quarter, the most among 24 major emerging-market currencies, increased revenue from dollar-denominated coffee sales and encouraged exporters to tap stockpiles that are the biggest since 2007.

Brazil is increasing competition among coffee sellers as farmers unload beans to clear storage space for the next harvest, judging that losses will be limited by translating dollar revenues into weaker reals. With global output exceeding demand for a fourth year, accelerating sales will drive prices down 11 percent to $1.08 a pound by Dec. 31, according to the median of 18 analyst estimates compiled by Bloomberg.

"The lower real will most certainly help exports, making Brazil a much more aggressive seller," said Rasmus Wolthers, a trader at Wolthers & Associates, a brokerage in Santos, Brazil. "There's a lot of coffee in Brazil, and there isn't enough space to store it all, so producers will have to sell. I expect to see much more aggressive sales offers."

Profit Margins

Colombia, the second-biggest grower of arabica beans, increased exports by 32 percent in the first five months of the year after the peso weakened 7.1 percent against the dollar, according to the nation's Federation of Coffee Growers. Sales from Peru, the third-largest producer in South America, fell 31 percent in the period as buyers turn to supplies from Brazil.

Arabica, the most-consumed coffee, tumbled 61 percent on ICE Futures U.S. in New York since reaching a 14-year high in May 2011. Cheaper beans prompted J.M. Smucker Co. to cut prices in February for Folgers, the top-selling U.S. brand, and widened second-quarter profit margins at Starbucks coffee houses.

This year's 16 percent drop in futures to $1.214 compares with a 2.7 percent retreat in the Standard & Poor's GSCI gauge of 24 commodities. The MSCI All-Country World Index of equities rose 5.4 percent, and the U.S. Dollar Index advanced 5.1 percent against a basket of six currencies. Treasuries lost 2.5 percent, a Bank of America Corp. index shows.

Starbucks, the largest coffee-shop chain, will report a 21 percent gain in profit for its fiscal third-quarter that ended June 30, according to the mean of 13 analyst estimates compiled by Bloomberg. Shares of the Seattle-based company rose 25 percent in New York trading this year.

Biennial Cycle

Brazilian exports of green, or unroasted, coffee will expand 5.8 percent to 29 million bags in the 2013-2014 crop year that started July 1, the second-highest total on record, according to Cecafe, the exporters' council in Sao Paulo. Each bag weighs 60 kilograms (132 pounds)

While production will decline this crop year as trees enter the lower-yielding phase of a biennial cycle, shipments will keep rising as exporters tap inventories from last year's record crop of 56.1 million bags, the U.S. Department of Agriculture estimates. This season's projected harvest of 53.7 million bags will be the third-largest ever and expand stockpiles 22 percent to 8.23 million bags, the USDA predicts.

The real will weaken to an average of 2.3 per dollar in the fourth quarter, compared with 2.25 today, according to Barclays Plc, the most-accurate forecaster of Latin American currencies tracked by Bloomberg in the four quarters ended March 31.

Subsidy Boost

Government intervention may curb the surge in exports and halt the slump in coffee prices, said Jack Scoville, a vice president at Price Futures Group Inc., a broker in Chicago. The government approved a record 3.16 billion reais ($1.4 billion) of subsidies last month to expand storage, buy beans and invest in plantations. It is also considering a proposal to compensate growers when prices drop below a certain level.

Heavier-than-average rainfall may reduce the quality of beans and limit the appeal of Brazilian exports, said Francisco Ourique, a manager at Cooparaiso, a growers' cooperative in Sao Sebastiao do Paraiso in Minas Gerais, the largest arabica-producing state. Storms can knock cherries off trees and diminish the taste of beans dried outdoors.

Minas Gerais

Parts of the coffee-growing states of Parana, Sao Paulo and Minas Gerais got rainfall that was as much as three times the

30-year average from May 1 to June 25, according to Randy Karst, a meteorologist at World Weather Inc. in Overland Park, Kansas.
Lower coffee prices and a weaker real may mean a financial squeeze on Brazilian growers, forcing some to cut spending on products such as fertilizers that they buy in dollars, according to Ourique, whose cooperative produces about 3.2 million bags a year. That would curb output from the 2014-15 season.
Exporting coffee rather than stockpiling may be the best option for growers, according to Kona Haque, a London-based analyst at Macquarie Group Ltd. The average cost of production dropped to $1.15 a pound from $1.35 at the start of the year as the real weakened, the bank estimates.
The real may weaken a further 20 percent as Latin America's largest economy slows and the government budget deficit widens, Themistoklis Fiotakis, an analyst at Goldman Sachs Group Inc. in London, wrote in a June 20 report. More than a million people took to the streets in the past month to demonstrate against inflation, government corruption and public services.
During the last major devaluation of the real, a 30 percent drop in 2008, green-coffee exports rose 5 percent to a then-record 26.033 million bags even as the harvest declined 16 percent, Cecafe and USDA data show. Brazil also exports robusta, the second-most-consumed coffee variety.

Million Bags

Global coffee production, including robusta that accounts for 41 percent of supply, will exceed demand by 4.46 million bags in 2013-2014, from a 10 million-bag surplus a year earlier, according to the USDA. Inventories will reach a five-year high of 30.53 million bags, the USDA predicts.
J.M. Smucker, which sells Folgers and Dunkin' Donuts brand coffees, announced price cuts averaging 6 percent in February. The Orrville, Ohio-based company reported a 25 percent gain in fourth-quarter net income to $130.3 million. Kraft, based in Northfield, Illinois, said May 3 it would cut the price of 12-ounce cans of Gevalia coffee by 6 percent.
Starbucks said April 25 that its operating profit margin in the quarter ended March 31 widened to 15.3 percent from 13.5 percent a year earlier, partly because of cheaper beans. The company cut its packaged-coffee prices by 10 percent that month.
Hedge funds and other large speculators are almost the most bearish they've ever been, with a net-short position of 27,560 futures and options, according to U.S. Commodity Futures Trading Commission data that begins in 2006.
"Continued bearish fundamentals and the weaker real could take coffee down to $1," said Ashmead Pringle, the president of Atlanta-based GreenHaven Commodity Services, whose $460 million

GreenHaven Continuous Commodity Index Fund tracks a basket of commodities. “I wouldn’t buy it right now.”

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