BRAZILIAN 2015 COFFEE CROP: A BRIEF COMMENTARY

Albert Scalla
FCStone Latin America, LLC.

Tiago Ferreira
INTL FCStone DTVM Ltda.
INTRODUCTION

This update is a continuation of the travel reports presented to INTL FCStone customers in 2014.

This report is a collection of all observations recorded during our trip through the states of Espirito Santo, Minas Gerais and Sao Paulo in the beginning of March 2015. Albert Scalla and Tiago Ferreira of INTL FCStone were accompanied by professional agronomists from each region. The agronomists assisted the team in analyzing the various crop conditions and characteristics of each specific area. During our trip, we aimed to survey as many farms as possible, observe bean development, productivity, vegetative growth, and compare these conditions with historical averages from each region. We chose to start in the Conilon regions of Espirito Santo as this was the area most affected by the lack of rains in the 3 months ending in January 2015.

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ESPÍRITO SANTO

In recent years, the state of Espírito Santo has considerably increased their production capacity. Many producers have actively invested in better crop management activities and technologies. The 2014 crop was one of the largest crops produced by the state, possibly the largest one on record. After reaching a bumper crop in the year 2014, the state’s capacity for 2015 will inevitably be diminished. In order to better understand the situation of the region, it is important to understand the three following points:

1. For the months of November and December 2014 and into January of 2015, rainfall amounts for the coffee areas in the state of Espírito Santo were well below normal, with accumulated amounts ranging from -40% to -92% of normal expected rainfall for the region. This period of dryness was critical, as this is the period marked by flowering, setting and bean formation. This was a similar event that occurred when a lack of water stressed the coffee trees in the Arabica regions of Minas Gerais from January to February 2014.
2. Warmer evenings in the Espirito Santo Conilon areas were also a factor. This coffee-growing region is situated in an area of intense heat. However, the nights tend to be gentler and cooler. This typical drop in temperature, however, was less prevalent during this past cycle. This, in turn, resulted in a lower vegetative growth for next year’s crop.

3. 2014, in our view, was a record production year for Conilon coffee (more than 80% of the state’s coffee production); and as such, the 2015 crop potential for this year is expected lower.

MATAS OF MINAS GERAIS

The region of Matas de Minas presented overall good conditions on the coffee fields. In some cases, field conditions may be classified as excellent. However, we do not believe that this year’s crop will reach its productive potential, as it did during the 2013 “on-year” crop. Highlights of this region include:

1. Abundant and healthy vegetative growth with very low signs of drought in the regions above 800 meters;
2. The lower altitude crops (below 800 meters) suffered more from the lack of rains that occurred between the months of December 2014 and January 2015.

3. Irregular crop developments showed variations ranging from too much coffee to very little coffee within trees in of the same farms.
Main cities visited: Lajinha; Manhumirim; Alto Jequitibá; Alto Caparaó; Caparaó; Espera Feliz; Simonésia; Abre Campo e Matipó.

CERRADO OF MINAS GERAIS

The Cerrado region of Minas Gerais may have achieved near record production in the “on-year” crop harvested in 2014. 2015 being an “off year” means an expected decline in production, typically a large crop is followed by lower yields in the next production cycle. However, the Cerrado region, with the existence of a high degree of farm management technology, has decreased the effect of biennial crop cycles. Let us look at the main points highlighted for this region:
1. The possible record crop harvested in 2014 reduced the productive capacity in the region for 2015. Because of the high water deficit experienced in 2014, crops tend to be withdrawn from the harvesting period, resulting in a reduced level of production.

2. The region had above average heat waves at the end of 2014 and beginning of 2015, as well as nights with lower thermal variation. These factors have somewhat inhibited the development of plants, thereby generating less vegetative growth for the next production cycle;
3. Due to the traumatic post-harvest conditions of many of the farms visited, the pruning index of 2014 was more evident;

4. Similar to the region of Matas de Minas Gerais, the Cerrado region showed a high level of irregular production in the coffee farms visited, a factor that makes it difficult to quantify the real productive capacity, but confirms production losses.
Main cities visited: Campos Altos, Araxá, Serra do Salitre, Patrocínio, Iraí de Minas, Romaria, Monte Carmelo.

SÃO PAULO / MOGIANA
This region can be considered the one with the greatest biennial cycle compared to the others areas visited. The region harvested a rather large crop in the “on-year” of 2014. In light of this, the decrease in productive harvest capacity for this crop is evident in 2015. Let us look at the main points highlighted:

1. High percentage of pruned crops; 2013 and in 2014;

2. Large number of farms in an “off” year (low cycle);
3. Low flowering fixation due to the lower volumes of rains and high temperatures in November and December;

4. Diminished vegetative growth during 2014 resulting from the effects of the drought, which in turn, hampered the 2015 production.
Main cities visited: Buritizal, Pedregulho, Cristais Paulista, Itirapuã, Altinópolis.

SOUTH OF MINAS GERAIS
More than ever, South Minas Gerais continues to dominate when it comes to assessing the size of the Brazilian coffee crop. This region is coming off an expected “on-year” cycle in 2014. However, the resulting effects of the drought in the beginning of 2014 generated widespread damage and a markedly decrease of production for that year. Significantly diminished branch growth on the coffee trees was noted in the report issued by INTL FCStone last year, and was confirmed with our observations this year. This lower vegetative growth of 2014 has consequently reduced the harvest for 2015. Let us look at the main points highlighted:

1. There was a visible, high level of vegetative re-growth in the region. The reduced level of rainfall activity in January of this year did not have an effect on this production cycle of this region, however; the impact of an “off cycle” can be confirmed. In the South of Minas Gerais, the biennial cycle is a strong characteristic, but less pronounced than the one perceived in the region of high Mogiana.

2. The region’s productive capacity rebounded due to the number of pruned plantations in 2013;
3. However, reduced capacity from the pruning of 2014, which was well above the normal amounts, are affecting the 2015 harvest;

4. In turn, the area of high production for 2015 suffers with lower vegetative growth than that recorded in the previous year;
CONCLUSION

As shown, we did not visit every coffee growing region in Brazil; however, our customers, technicians and partners as well as farmers and cooperatives have given us the information that we have used at this time to get an overview of the expected Brazilian coffee production. It is also important to stress that this is not a forecast based on a mathematical or scientific criteria. This number is a comprehensive review from field experiences, with the help of agronomists.

We believe that unlike the previous year, this year, due to the high instance of irregular crop development, the crop forecast was much more laborious and difficult to ascertain. Certainly, there will be a need for further analysis of field assessments in the weeks to come in order to provide better quantification of the expected volumes to be produced.

The focus, at the moment, is on the situation in Espírito Santo and South of Minas Gerais. We believe that the larger than expected decline in Conilon production in Espirito Santo contributes to the smaller total harvest this year. At the same time, the South of Minas Gerais, contrastingly, will see a slight increase in production.

Thus, we believe that the crop to be harvested in 2015 in Brazil, including Arabica and Conilon, should be close to 44-45.5 million bags. Production of Arabica should be close to 32.5-33.5 million bags, while Conilon production will likely reach 11.5-12 million bags. This is in contrast with a 2014 production estimate of 48-49 million bags.
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