COMEXIM

27-JAN-2020

Dear Customers, Suppliers and Friends,

We started 2020 – when our company will celebrate its 60th anniversary – with NY moving southern, giving back a good portion of the gains it had in the 4th quarter of 2019, but we will not discuss it here.

Focusing in Brazil and looking at exports and current inventories we have gone back to our spreadsheet to revised two crops, internal-consumption and carry-over figures, feeling comfortable where we are now.

The amount of coffee from the 2018/2019 cycle that has been sold in the past six months (and for that matter that is still available) makes us believe on a 64.5 million bags output, divided between 48 million bags of arabica and 16.5 million bags of conilon – an overall 1.5 million bags bigger crop than previously estimated.

There are several players who work with a higher number though and these agents, because of it, are seeing a lower potential for the upcoming 20/21 harvest, differently from us – which will be mentioning later on this report.

For the current 2019/2020 crop we are lowering our original estimate of 58 million bags to 56.8 million bags, being 38 million or arabica and 18.8 million bags of conilon.

One important point to mention is that we initially thought the quality was not very challenging – as it was unfair to compare to a near perfect one, an exception to the rule, that we had the year before – but we were proved to be wrong on this matter.

The 50% rally experienced in NY from October to December uncovered coffees being held not only from one crop but for three and for that reason the carry-in from previous cycles had to be adjusted, also to accommodate the 61.62 million bags shipped from July 2018 until December 2019, or 41.43 on 18/19 crop year plus 20.19 on the first six months of the 19/20 season, and internal consumption of 30 million bags in eighteen months.

With all that being said, we brought in to 19/20 a total inventory of 8.16 million bags, mostly increased by lower consumption numbers from previous years (less 4 million bags in the past three seasons and 2.5 million bags on prior ones), when the country had negative economic growths and the population unfortunately suffered with employment losses and lower buying power in general.

Looking now at the 20/21 crop, over the course of last year many market participants thought the potential was for a huge one, initially based on the branch growth of the trees and then on the flowering, which was extremely beautiful and reported, by several, of being very healthy in most of the producing areas.

The late arrival of rains though, as well as high temperature and the below average rainfall during October and November – after the July frost that also affected some areas – shaved down the once expected 70+ million bags crop.

Paraná, São Paulo, South of Minas and even Cerrado had farms impacted by the cold temperature and after by the very high temperatures that provoked leaves' losses (falling) and lower buds' development – even though precipitation has normalized afterwards.

As followed by our readers, we had previously mentioned that Cerrado and Zona da Mata would be the regions responsible for the biggest boost on the production, but the first is no longer in the shape to deliver a record output, while on the later we remain optimistic.

With that in mind, our initial forecast for 20/21 is for a crop of 67.7 million bags, with a slight record for arabica, or 48.25 million bags (250 thousand more than 18/19) and also for conilon, 19.45 million bags (650 thousand bags more than 19/20).

World consumption growing at solid 2% per year in a high base (we use 166.5 million bags in our exercises), generates a need of more than 3 million bags production every year, and low prices have not encouraged an increase of output in other origins, not only because the yields are a lot smaller than Brazil, for instance, but also due the fact that their currencies have not depreciated as much as the Real and the Colombian Peso – not to mention the appreciation of differentials.

Assuming small changes of production outside of Brazil and the 67.7 million bags mentioned above, the surplus for 20/21, worldwide speaking, shall be of only 3.5 million bags, so our figure shall not be read as bearish – quite the contrary as in 21/22 the largest origin will have an off-cycle.

At last we want to say that the continuation of rains and ideal weather in the next month or so will impact the final yield as trees are filling up the fruits that will become coffee.

Please see our forecast for carry-over on the next page and on the following one our production estimates broken down by states.

Best regards from all of us,
Rodrigo Costa

Brazilian Stocks, Production and Consumption

	2020-2021	2019-2020	2018-2019	2017-2018
Previous carry-over	6,068,814	8,160,287	5,083,289	5,635,000
Crop	67,700,000	56,800,000	64,500,000	49,400,000
Total Availability	73,768,814	64,960,287	69,583,289	55,035,000
Exports from July to December	23,006,702	20,191,473	21,006,702	15,819,563
Exports from January to June	22,416,300	17,700,000	20,416,300	14,632,148
Total Exports July to June	45,423,002	37,891,473	41,423,002	30,451,711
Internal Consumption July to June	21,000,000	21,000,000	20,000,000	19,500,000
Total Disappearance	66,423,002	58,891,473	61,423,002	49,951,711
Carry-Over	7,345,812	6,068,814	8,160,287	5,083,289

*Cut-off date at the end of June does not mean that overall inventories are as low, given the arrival of the conilon crop in April/May, which makes the variety available for usage before the July/June cycle.

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Brazilian Crop - Comexim

			2020-2021		2019-2020		2018-2019
Minas Gerais			34,700,000		26,100,000		34,100,000
	Cerrado	7,500,000		6,000,000		7,600,000	
	Sul	18,000,000		15,000,000		17,500,000	
	Z.da Mata e Norte*	9,200,000		5,100,000		9,000,000	
Espírito Santo			17,250,000		15,500,000		14,350,000
	Arábica	4,000,000		3,000,000		3,700,000	
	Conillon	13,250,000		12,500,000		10,650,000	
São Paulo			6,200,000		5,500,000		6,500,000
Paraná			1,000,000		1,100,000		1,200,000
Bahia			4,150,000		4,100,000		4,100,000
	Arábica	1,650,000		1,600,000		1,700,000	
	Conillon	2,500,000		2,500,000		2,400,000	
Rondônia			3,000,000		3,000,000		2,750,000
	Arábica	0		0		0	
	Conillon	3,000,000		3,000,000		2,750,000	
Outros			1,400,000		1,500,000		1,500,000
	Arábica	700,000		700,000		800,000	
	Conillon	700,000		800,000		700,000	
TOTAL			**67,700,000**		**56,800,000**		**64,500,000**
		Arábica	**48,250,000**	**Arábica**	**38,000,000**	**Arábica**	**48,000,000**
		Conillon	**19,450,000**	**Conillon**	**18,800,000**	**Conillon**	**16,500,000**

*Z da Mata + Norte (in MG) we are considering only arabica

**AC, AM, PA, TO, CE, PE, DF, GO, MS, MT, RJ e ZM-conilon

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