

SOFTS: Fast Facts—September 2017



WHAT'S AHEAD?

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Softs Snapshot

Recap of What Has Changed; and What Has Not?

So Much for a Quiet End to the Summer

August is generally a quiet month. The lazy dog days of summer with many on vacation and enjoying warm sand beaches or mountain getaways. A time for family and relaxation. Many companies close for the month or factories limit production during the lull in sales and use the month for necessary maintenance and repairs. For the United States Congress the month of August is a non-legislative period. Much of Europe tends to shut down and cities empty as residence escape the heat. The markets normally fall into a sleepy haze with sideways action more the norm rather than extreme moves and heightened volatility absent any weather scares.

August is a transition period where final figures for the current season are being wrapped up and the market is already squarely focused on the development of new crops and in some cases, the early start to harvest. Weather is certainly a critical aspect to this and longer-term climate predictions, such as whether it will be an active hurricane or monsoon season. Indications on ENSO also help to guide the markets as to whether the early winter will favor neutral conditions or changes in ocean temperatures leaning towards El Nino or La Nina.

Other market considerations were mostly positive in the period under review. Economic data seemed to lean towards upbeat statistics on a fairly consistent basis for the United States, much of Europe and China while Latin America lags due to the repercussions from the worsening crisis in Venezuela and the impact on other local economies coupled with ongoing concerns for Brazil. The worry over China had helped to drag markets lower in 2016 and earlier this year, but instead China outperformed in the first half of this year and seems to continue on this path now. However, North Korea remains a wild card and United

States relations with China hinge on how the current situation is handled by the Trump Administration. The situation is fragile and can have future adverse reactions or unify relations depending on the posture taken of all sides. One would hope that cooler heads prevail and the greater good of the people and humanity remain at the core than egos and power plays with unwelcome results. China remains pragmatic about solutions because they are in the region and therefore may bear the brunt of problems by pushing for tougher sanctions that may not even be effective compared to the United States which remains at a distance and therefore is easier to talk tough without the same impact on the local economy. As a result, direct bilateral tensions between China and the United States could escalate. A solution is so far not at hand with China recognizing the limitations of what they can do and so thus far a stalemate continues with no change in policy despite the increased worry over North Korea's nuclear capabilities, which has the UN security council unified in their concerns, but with no practical answers yet.

It is very clear that when China's economy is humming, so too are its trading partners, both direct and indirect. While China may have slowed purchases of many commodities as their economy cooled, the amount purchased is still significant enough to outpace most other nations and have direct bearing on demand. China's stockpiling policy certainly had helped to bully the markets higher earlier this decade and then the halting of large scale purchases and worries over stock shedding resulted in massive global oversupply and depressed prices. Collectively, the markets are now past this point and looking towards a return to stable to higher purchases aiding overall global consumption. India's economy had stumbled a bit when there was a change in currency to flush out the black market and more recently changes in the GST (Goods and Service Tax) which may have caused some frontloading of purchases and then the slowdown immediately thereafter. If this is the case then it would be thought to be only a temporary slowing rather than long lasting.

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Sugar:

India Sugar Import Decision Imminent: For much of the past year there was back and forth about whether India would need to import sizeable tonnages or not. As the crop view dimmed late last year, it seemed purchases would need to be immediate and the sugar market had rallied up on this expectation only to be disappointed that the sugar was not purchased and moreover, the Indian government was insisting that supplies on hand would still be sufficient and large-scale imports were not necessary to meet domestic demand. A yanking of older cash bills out of the currency to replace with newer bills slowed the economy enough to also help stretch supplies. Supplies remained tight and ideas that India will need to import sugar persisted.

Outcome: Last month it was believed that India would need to take a decision as to whether to import an additional 200,000 to 300,000 tonnes of sugar to cover local needs due to the shortfall in 2016-17 production. While this has helped to prop up sugar prices, the tonnage itself is not all that great and prospects for India's 2017-18 crop appear promising.

Southeast Asia Monsoon Kicks Up: Last month meteorologist had expressed concern that the monsoon season was prematurely slowing as a series of tropical storms was pushing monsoonal rains into the mountains and away from the agricultural basket where farmers need the seasonal downpours for strong crop prospects. However, things quickly changed with copious volumes of rain deluging the region and causing massive flooding not only in India but in Pakistan and Bangladesh. Estimates of the number of people impacted vary considerably between the Red Cross and the United Nations from 14 to 41 million people.

Outcome: The moisture levels in southeast Asia that were in deficit before are now in plentitude with the flooding more intense than usual and considered "not normal" even though flooding to some degree is an annual occurrence. In Uttar Pradesh, half the state was under water. In Bangladesh, the country

was submerged and it is believed that farmers were wiped out with no crops now left to hope to salvage. However, as devastating as this is, for sugar and cotton the market impact is limited as Bangladesh is not a major producer of either commodity.

Indian sugar production was expected to climb about 25% before the onset of the heaviest of rains and this was with noted water deficits in Tamil Nadu region, which has not received an abundance of rain to brighten prospects. Production could exceed expectations with the rains bringing positive benefit despite the localized flooding. Nonetheless, the sugar market is garnering support from tightness ahead of the new crop.

Coffee

Brazil 2018-19 Crop Concerns: The Brazilian 2017-18 season had noted problems from lowered quality, smaller bean sizes and disease with the incidence of broca higher than normal. The question of course is whether it will be contained or not for the 2018-19 crop that is now flowering on the trees. With sharply reduced stocks and after the disappointing harvest that was completed, Brazil needed all to go well for 2018-19. The market has been banking on this.

Outcome: Flowering of the Robusta began on time and the trees were flush with white blossoms in the key regions. This was one step closer to having a bountiful 2018-19 crop which was expected to rebound following back-to-back seasons of drought that reduced production and left the country with insufficient Robusta supply to meet domestic needs and exports. A shifting in blends occurred to resolve the tightness and the market was able to skate by on thin ice. All seemed promising. The Arabica coffee region in Minas Gerais started to suffer from below normal rainfall. While dryness is normal at this time of year, there is a noted moisture deficit. In the upper Mogiana region, trees have defoliated that should be flush with green leaves and getting ready to blossom. Other trees had an early blossom that may have been stress induced and not related to promising rains and this flowering is reportedly aborting, reducing prospects for

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2018/19 before the main Arabica flowering period is even underway which lasts through November typically. It would seem that the perfect crop is already off the table, but it still remains to be seen how the rest of the flowering period will progress. Troubles in one region could be offset by better yields elsewhere. While some are reporting issues, others maintain that overall most of the crop is so far doing well. This also would assume that disease issues that plagued production in 2017-18 are not a factor for 2018-19 but there is certainly no promise of this at this time.

Indonesian Crop Outlook: Indonesia has had checkered results with their coffee crop in recent years and farmers are quick to point to climate change for this unsteady performance. Drought then untimely rains and disease were all to blame. Prospects though appeared promising for the next crop with optimism abounding that perhaps the tide has turned for the fourth largest coffee producer.

Outcome: Too much rain seems to have negatively impacted the upcoming Indonesian crop with reported large percentages of blossom drop due that has come as a surprise to producers. This is at the same time that there are now some question marks about Brazil. There is also worry that too much rain may have hurt Colombian main crop prospects with the harvest period that begins next month and extends through March. The mid-crop harvest has held up better than expected after an uncertain start.

United States Coffee Stocks: USA coffee stocks have continued to rise, which certainly puts ideas of looming supply tightness in check.

Outcome: An ongoing build in consumer stock levels is giving the market a buffer in the event of moderate supply tightness. Even the amount of coffee being graded for certification had increased steadily. It bears repeating that there has not been a time where coffee prices advanced sharply and consumer stocks were plentiful without a major event prompting the rise.

Cocoa

2016-17 Season Wrapping Up with a Big Surplus: A hefty gain in production has helped to boost supplies in the season soon ending. World cocoa production is highly dependent on West Africa. As long as there are no major weather threats this is fine, but it does pose a large vulnerability to the industry. In recent years a higher share of West African production is grinded locally with the bi-products exports for added value. While crops were large in the season soon ending, quality concerns persisted. The market is anticipating reduced production in 2017-18, the question is by how much?

Outcome: Production in West Africa is highly variable depending on marketing prices paid to farmers, availability of crop treatments and of course the weather. Production tends to suffer in El Nino and do better in La Nina conditions due to the diminished Harmattan winds that can cause undue stress on the trees. Meteorologists are leaning towards neutral conditions persisting and potential for La Nina in the coming northern hemisphere winter. This would favor a better crop potential. The size of production itself does not matter. What is important is the size of production relative to demand. There could be a major increase in output to a new record high, but if consumption exceeded this, then it would still not be enough. Cocoa demand has been increasing again but so far not fast enough to absorb the larger crops. It may take another season for the market to be restored to closer balance.

Cotton

Texas Production Hurt by Harvey: Hurricane Harvey slammed into southeast Texas and resulting devastating flooding drowned surrounding counties, including much of the Houston metro region. Cotton areas were impacted by the extreme conditions. Now Hurricane Irma poses a new threat to the southeast or gulf states, with it still being too far away to give an accurate reading.



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Outcome: Hurricane Harvey blew harsh winds over the southeast cotton areas where the harvest had already been wrapped up. The cotton was in modules in fields waiting to be ginned. Some of the modules broke and the cotton was strewn across fields; others were being drenched from the standing water. Humid conditions cause the seeds within the cotton lint to sprout making it impossible for it to be ginned properly. Several gins were heavily damaged the storm. The area though is not the main cotton region for Texas and damage is believed to be limited to around 300,000 bales. The latest crop progress and condition report showed an improvement overall for Texas, suggesting that better yields elsewhere could compensate for the losses that occurred. Now farmers from the southeast to Delta States along the Gulf are watching the path of hurricane Irma, which could dump heavy rains onto the maturing crop.

FCOJ

Florida Orange Crop Prospects: Southern Florida is being evacuated due to the approach of Hurricane Irma and FCOJ prices took a swift turn to the upside. Certainly, if the storm misses the citrus belt, prices will immediately retreat.

Outcome: Florida citrus production prospects were appearing slightly more favorable but now could potentially be in the path of superstorm Irma. While winds could snap trees and branches and torrential rains could cause fruit to drop or swell and split, it is the spread of disease that was the worst outcome from the string of hurricanes that crossed over the region in the early 2000s bringing long lasting damage that the industry has yet to recover from. The first USDA report for the 2017-18 season will be released in October.

Stats of the Month

The International Coffee Organization reported exports of all coffee totaled 9.381 million bags in July compared to 8,451 million a year ago—showing that yet again shipments continue to be strong despite expectations by

the trade to the contrary. For the month exports were up 11.0% and for the season shipments are running 5.9% higher. There have been only two months of ten where exports were lower than year ago levels. For the season, every type of coffee under the ICO classification has shown a gain with Arabica exports up 8.7%. Within this category, Colombian Milds are 9.6% higher and Other Milds 18.4% better. For this reason, it should come as no surprise that certified coffee is up on the year also. Brazilian Naturals have eked out a 1.8% climb while Robusta exports have increased 1.5%. Last year Colombian July exports were impacted by a trucker strike, so the data is somewhat distorted. But even taking this into consideration, the figures are still higher.

The Green Coffee Association reported United States stocks now total 7.413 million bags end July compared to 7.294 million in June and up 1.105 million bags from July 2016. This is the highest figure for the month of June since 1993. Inventories have not been over seven million bags since March 1994. Stocks peaked at 10.045 million bags in March 1993 but were then quickly eroded after Brazil suffered a crippling frost in July 1994 that reduced the following season's harvest. July was the ninth consecutive month that coffee stocks in the United States increased.

Ivory Coast cocoa output has reached two million tonnes this season with current arrivals just shy of this amount. The Ivory Coast government is mulling over a decision to cut taxes on buying and exporting of cocoa as a way to help raise the minimum price paid to farmers given the reduction in international quotes. The upcoming crop is expected to fall back to 1.75 million tonnes but this will hinge on the weather.

The combined ratio of cocoa butter and powder relative to cocoa beans reached a new high of 3.83 to 1 up from 3.64 a month ago. This eclipses the October 2013 high and is at the steepest rate since September 2005. The higher the ratio the more profitable it is for converting beans into products and therefore is positive for cocoa grind.

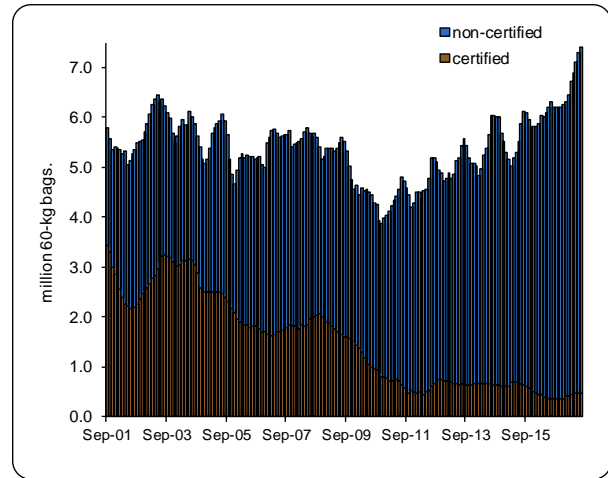
MONTHLY OUTLOOK

The International Sugar Organization forecast world sugar production at 179.3 million tonnes in 2017-18 up sharply from 167.773 million in 2016-17. This eclipses the prior record set in 2013-14 of 174.415 million tonnes. Sugar production suffered two seasons of setback and only had a modest gain in the season now coming to an end. World sugar consumption is forecast to climb from 171.633 million tonnes to 174.664 million in the season ahead falling short of world production. Because of a statistical difference between exports and imports, world ending stocks are forecast to be near unchanged at 87.471 million tonnes. This would actually cause a slight tightening in the stocks/use to ratio. It is why sugar prices have not tumbled further despite the sharp anticipated production gain.

Despite the problems from Hurricane Harvey, 19% of the United States crop is rated excellent compared to only 9% a year ago. This is a steady improvement with the week of July 23 showing only 12% of the crop in excellent shape. 46% of the crop is in good condition and 24% fair with only 11% being rated poor to very poor whereas a year ago 15% was. This was reflected in the USDA raising the production estimate in the August report based on strong improvement in yields. The lowest crop rating is for Louisiana at an index of 95 and the 15-state average is at 102 compared to 95 last year with 100 being approximately normal.

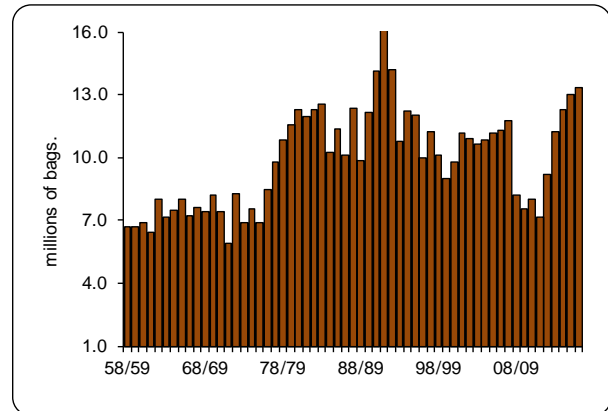
The FAO food price index fell by 1.3% last month from July but was still 6% higher than it was in August 2016. The decline was attributed to lower prices for cereals, sugar and meat which outweighed higher dairy and vegetable oil prices according to the United Nations' Food and Agriculture Organization.

USA Coffee Keep Climbing



Source: GCA

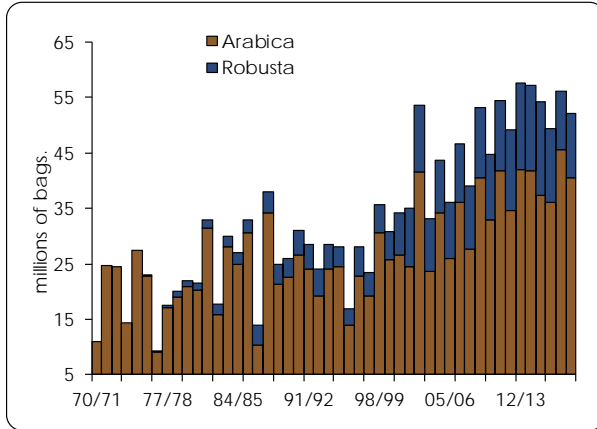
Colombian October-August Production Up Over Year Ago Levels



Source: FNC

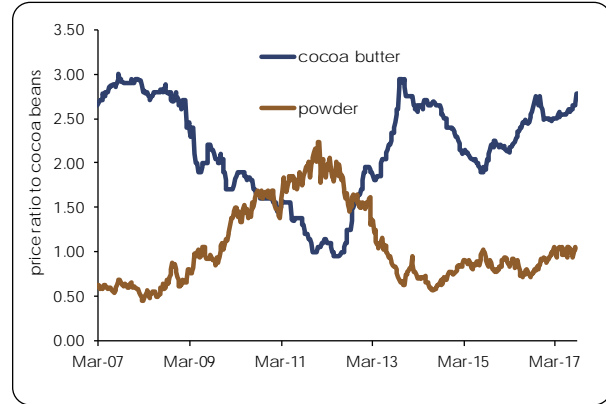
MONTHLY OUTLOOK

Ongoing Worries Over Brazilian Output as Flowering Continues for 2018-19



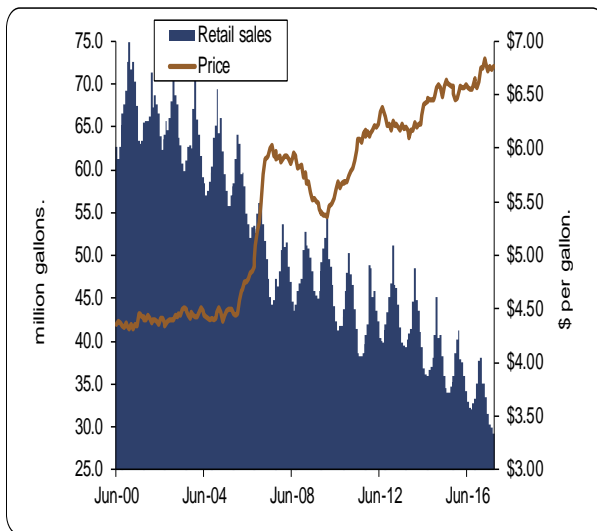
Source: USDA

Cocoa Butter and Powder Combined Ratio Continues to Improve



Source: Milling and Baking News

Retail Orange Juice Sales Remain in a Decline with no End Yet in Sight



Source: Nielsen Scantrack

Watching the Weather

Record Setting Rains

This past year areas that previously were suffering from extreme dryness received far too much rain at inopportune times which led to intermittent market rallies fearing crop losses and potential for higher incidence of disease. Drought damage can be contained where there is irrigation that helps to supplement the lack of natural rainfall. This helped to limit the destruction to the coffee crops in Vietnam and Brazil. But rain is impossible to control and contain damage, especially when accompanied by high winds. Brazil and Vietnam both saw bouts of too much, as did Colombia and Indonesia. Most recently, drought stricken California had received a deluge of rain which caused some bridges to collapse, extinguished the raging wildfires, and forcing the closure of about 70 miles of

beaches. But this barely made the news in comparison to destruction wrought by the flooding associated with Hurricane Harvey and then on the other side of the globe, the excessive downpours from the sudden pick up in intensity from the monsoon season.

The devastation and despair from tropical storms and excessive rainfall reached epic proportions with both Texas and Southeast Asia being pounded by extraordinary volumes of rain in a very short time frame. Small streams and creeks that otherwise are harmless become major torrents that overflow and spill across big cities and small rural towns bringing utter destruction in its wake. The loss of life and property is staggering with damage totaling billions and billions of dollars including lost agriculture and cattle. Thousands of flooded homes will need to be repaired and completely gutted due to mold. This will stimulate the local economy with purchases of lumber and household furnishings, aside from reported half million cars being submerged under water and destroyed that will need replacing. The focus for now will be on the destruction and empathy for those impacted but the rebuilding efforts will jump start spending.

If the damage from Harvey were not enough, Hurricane Irma is packing record setting winds and is already showing her might with flattening several Caribbean islands and is now potentially in a path headed for Cuba and/or southern Florida and then could take a jog north and hug the coast before making landfall again in Georgia or the Carolinas. The storm's path and the expected damage is still to be foreseen. But two new storms have already formed with Jose following right behind Irma and then Hurricane Katia in the Gulf of Mexico, with this being now the first time there are three named hurricanes in the Atlantic basin since 2010.

The Florida orange crop as well as southeast sugar and cotton production could all be impacted depending on the track Hurricane Irma and now Jose and Katia take. The sudden severity of weather is being blamed by some meteorologists on climate change,

which is believed to cause the extreme weather conditions of recent years, be it drought or excessive rain and that these weather extremes are likely to persist or intensify making it more difficult for farmers to cope on a global scale.

Fundamental Favorite

Selling into Weather Markets

Buy the rumor, sell the fact. That trader adage certainly has merit with prices racing higher on fears of crop loss and then a storm tracks slightly differently and agriculture is spared. Depending on the positioning, some farmers on the fringes may even find the outer bands of rain as beneficial bringing critical moisture to their farmland. So far, the FCOJ market has shown the greatest volatility with prices soaring then easing at it appeared the storm would take a more southerly route and now is climbing again with the Irma's ultimate direction still being unpredictable. While a direct hit from a hurricane would bring wide spread damage from uprooted trees and downed branches or knocking the maturing fruit prematurely off the trees from pounding rains and wind. This would be direct damage from the storm itself but even tropical storm level winds could make disease management take several steps backwards. There seems to be some optimism that Florida is seeing diminished impact from disease and that possibly the 2017-18 crop may post the first increase in seven years and possibly halt the slide in production that has been occurring since 2003-04. During 2004-05 four hurricanes devastated output bringing production down from 242 million 90-pound boxes to 149.6 million but then after a brief recovery to 170 million by 2007-08, disease related attrition started to cripple output and production has fallen below 70 million boxes since then.

If the storms miss the citrus region, the gains associated with buying in advance of the storms hitting will be quickly shed.

The cotton market advanced on Harvey and potentially Irma as well as Jose and Kaita, but the market recognizes that damage is normally contained and therefore is not acting too irrationally in advance of the hurricane reaching USA landfall. This is the time of the year where typically the market would be under pressure from harvesting. Weather induced rallies shouldn't be long lasting. Prices will need to slip back to prevent farmers from beginning to pencil in ideas to expand acreage even further next year. Lower prices would prevent oversupply from occurring. With cotton prices in the mid-70s, this may be too attractive a price when considering output prospects for 2018-19.

ICE Update

ICE Commits More than \$1Million to Hurricane Relief Efforts

Our thoughts and hearts are with our colleagues, customers and all those impacted by Hurricane Harvey and the ongoing flooding in southeast Texas and Louisiana. To support the communities in which we and our customers live and work, Intercontinental Exchange is making a \$1 million donation to the Red Cross for the relief effort. We are also matching our employee donations to the Red Cross to further leverage their giving.

Please consider joining us in supporting the Red Cross.

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