

SOFTS: Fast Facts—November 2017



WHAT'S AHEAD?

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Watching the Weather: Extreme Weather Events Continue

Fundamental Favorites: Coffee Could Perk Up

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MONTHLY OUTLOOK

Softs Snapshot

Recap of What Has Changed; and What Has Not?

70 Years of Trade Agreements

October 30th marked the 70th anniversary of the General Agreement on Tariffs and Trade (GATT), the precursor to the WTO, now in its 11th year. The original concept arose in response to protectionist policies that handicapped world trade and an expansion of commerce and now seventy years later, The Trump Administration and some other nations are questioning whether these broader Agreements have gone too far and are seeking more protectionist policies, bringing trade agreements full circle back to where they arose from. The timing of this coincides with President's Trump whirlwind trip through Asia, which is being watched carefully, to see if campaign promises are being kept that threaten to disrupt longstanding agreements, or if he has in any way softened his stance and taking a more middle of the road posture. He already is pushing for more Japanese cars to be built in America and is eyeing the lopsided trade balance with China, for starters as his trip gets underway.

While earlier this year, a trillion-dollar global trade deal entered force that includes all 164-WTO member nations that aims to slash paperwork and border delays greatly reducing the time to import goods and thereby saving potentially billions of dollars over time, the original ambitions of GATT and then WTO, were wrought with challenges due to its sheer size. but have endured and morphed over the decades with now instead of mainly all-encompassing agreements, smaller pacts are more common and easier to arrange. China has long reach and many arms, with far smaller countries that can strategically provide benefit for boosting China's trade within a region. Recently China and Panama signed an Agreement, which will give China linkage to the rest of Latin America with Panama being a logistics hub due to the canal and air routes aside from energy related projects The

mutual benefits are clear through this new cooperation. There is also a wave of plurilateral agreements that are offshoots to large deals. With Brexit and now Spain potentially being splintered, new challenges will arise and the annexed nations find themselves outside of the original scope, left to scramble to carve out new agreements, while they fight to "take back control" a phrase that has become rather familiar the past two years, when referencing some nations desire for autonomy and separation. For the United States, the current administration seems intent on rewriting agreements that appear to be leaning too far to the other side, but with many agreements, the full economic benefits of cooperation with trading partners are not always crystal clear or black and white. They are an intricate web that may be difficult to untangle, straighten and then strengthen without some repercussions that may not have been immediately obvious and all show through the test of time. I have been covering the commodities space for half the years that formal agreements have been in place, but also saw the dismantling of policies that tried to control pricing. One by one, the market moved towards free trade and the abandonment of price support tactics, that in the end, collapsed under their own weight as they led to massive oversupply and curbing growth in consumption, that was not anticipated. Last month the European sugar regime came to an end as it existed previously with production limits and controls being lifted on sugar throughout the Euro bloc, swinging the EU back to being a net sugar exporter rather than an importer.

A focus of attention is on digital agreements with technology certainly not at the core of discussions seventy years ago and certainly not envisioning the power of technology as it is today and the far-reaching impact on all facets of life. Some of these concerns have already been raised at an international level. Last month, UNCTAD released its latest edition of the [Information Economy Report](#), which concedes that an increasing number of nations are trying to address disincentives or barriers to processing, storing and transfer of



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data through trade agreements, which concern issues of privacy VS security and how these policies need to be aligned on a worldwide basis. In addition, norms for e-commerce and the digital economy are being considered. Crypto-currency is still in its infancy and advocates certainly point to the benefits of how it can level playing fields and give access to countries that before were considered too risky as trading partners. Bitcoin topped the \$7,000-mark last week, making early investors of a small sum a new crop of billionaires.

Sugar:

EU Free to Export Sugar: Since the end of sugar production controls and export limits last month, the sky has not fallen. Sugar prices have rallied. The market long ago discounted the prospect of a large increase in sugar output this season and corresponding jump in exports.

Outcome: While still rather early on to see to the impact of the lifting of sugar export controls in the EU, so far the market has not been fazed by this and saddled with heavy volumes. White sugar prices had already reflected the rise in sugar availability and likely reduction in sugarcane usage as the group of nations produces more than sufficient sugar from beets. This will have impact on about dozen countries that were regular suppliers, including Belize and Jamaica, Mauritius and Guyana. These countries may struggle to find buyers for their sugar and it threatens their industries, similar to how Cuba saw sugar production crippled following the breakup of the Soviet Union.

Brazil Focusing on Ethanol Over Sugar: Through the first half of the year, Brazil was utilizing more of its sugarcane for sugar than ethanol but has since reverted back to ethanol being favored. This is expected to continue and helping to lift sugar prices.

Outcome: The current Brazilian season is starting to wind down and mills are considering what their sugar production mix will be for next

year and are leaning towards ethanol again. A combination of expectations for better demand as the Brazilian recovery is underway and more attractive pricing are the key reasons. The government has also taken steps to ensure that Brazilian fuel prices more closely mirror that of the international market, which also is expected to help boost use. Petrobras also raised local gas prices and this in turn, filters down to better demand for ethanol, leaving sugar with the short straw for the balance of this season and into 2018-19. Gas prices also increased with the news of the arrests of multiple Saudi prince in a reported new anti-corruption sweep in the kingdom.

Coffee

Brazil 2018-19 Uneasiness Continues Despite Rain: The heart of the coffee belt received belated rains following flowering of the crop with some areas not receiving sufficient precipitation in time to spare the next crop. However, other towns received plenty of rainfall and development of the crop should be favorable. Prior to the dry spell, prospects for 2018-19 production were excellent with expectations that output could top 60 million bags for the first time ever and some even believing the crop could be as much as 65 million if all was perfect from flowering through harvest.

Outcome: Overall, it is still too soon to determine the next crop size and more time needs to pass before the crop will set. The return to rains helped to limit losses for probably much of Minas Gerais, but there certainly was some stress post flowering in addition to a long stretch of dry weather and warm temperatures prior to the blossoming. Some trees had defoliated, which would make it impossible to produce a crop, while other trees showed a prolific flowering in response to the stress, but it yet to be determined if the crop will stick. Other flowers didn't open as they should and wilted too quickly under the heat. There were also some rare severe hailstorms that could have also marred prospects. The further north, the drier conditions were. Robusta production prospects remain excellent. Estimates of a

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reduction from 2016-17 have been circulating of varying amounts but, again, it is too soon to say with certainty. Nature must first take its course and the flowers need to fall and allow the fruit to begin to develop. It is only then that a more realistic crop figure is possible. This will not be until January. What can be determined is that some crop potential was definitely lost, but it doesn't mean that Brazil won't have a rather large crop. With presumed low inventory in Brazil, a fantastic crop is needed, especially since 2017-18 production seems to have fallen short of prior views.

Colombian Crop Outlook: The first month's production totals for the 2017-18 season were surprising low.

Outcome: The market had been anticipating the prior April-September secondary crop to be hurt by untimely rains a year ago. This did not happen. Instead, production with the exception of two months, remained at levels better than the prior year. Main crop harvesting is now underway and the October data showed a considerable fall from year ago levels. While this may raise some concern about the prospects going forward, it is still too soon to be troubled by the data and scale back Colombian 2017-18 production views.

Typhoon Damrey Slams into Vietnam: Typhoon Damrey was the 12th major storm to hit Vietnam and brought a deluge of rainfall across the south and central regions of the country, including part of the coffee zone.

Outcome: Vietnam the two prior years suffered from drought, resulting in low reservoirs and forcing farmers to rely heavily on irrigation and manage water supplies carefully. This year has seen too much rain and heading into the harvest, there were back to back storms that saturated soil and filled the reservoirs in abundance. The excess rains are only an issue if skies don't clear rapidly and the trees sit in standing water and have roots rot. Given the mountain terrain, it is an unlikely scenario or at least not widespread to pose a serious threat to production. The crop is delayed in its

maturation, but this doesn't mean the total will be released. Rains prior to harvest are generally welcomed to help the final filling of the beans and delayed maturation can improve quality. In some countries, farmers intentionally try to slow the maturation with shifts in fertilizer applications.

Cocoa

Cocoa Grind Moderately Active: Third quarter grind data for Asia was fairly impressive and less dramatic gains for North America and Europe, but higher nonetheless. Cocoa prices have been recovering from the depressed levels seen earlier in the year.

Outcome: Cocoa grind is a reflection of underlying demand for chocolate, but also reflects processor activity, which is guided by pricing. When margins are favorable, the amount of cocoa beans converted to by-products would be expected to climb. Firm processing margins are suggestive of more restrictive supplies—a rundown in coverage. Low grind in the prior two years, helped to draw down stocks as manufacturers resisted purchasing high priced products and converters were not making money. Now they should be. Butterfat ratios are quoted at 2.87 relative to cocoa beans compared to 2.65 a year ago and the powder price ratio is .88 VS .83 a year ago.

Cotton

Harvesting Continues: The United States cotton harvest passed the midpoint. Nearly all the bolls are open on the remaining cotton in the field. Any rain at this time, would reduce the crop quality and output. Conditions have not perfect, but yields overall are still expected to be excellent.

Outcome: Rain on open bolls poses problems when it is too heavy and accompanied by windy conditions. Otherwise, a return to sunshine quickly helps to bleach the cotton white and not cause much degradation in quality. With the harvest 54% complete, seasonal pressure on the market should end and the focus start to shift on prospects for planting next season. The back of the market was not broken on

the massive crop forecast and expected build in stocks as demand has been keen. Export sales have remains solid and that should help to continue to provide underpinning. Improved sentiment about the global economy also helps to support cotton prices. Higher oil prices tend to support cotton as well making it more competitive against synthetic fibers.

FCOJ

USDA Forecast a Bigger Crop than Some Anticipated: Hurricane Irma dumped heavy rain and shearing winds across the entire citrus belt and some growers reported a massive amount of fruit was on the ground floating away. The further south and west, the worse conditions were. In the first assessment of the crop, the losses didn't seem as steep as the industry said. There was a massive difference, in fact, between the USDA data and Florida Citrus Mutual.

Outcome: It is possible that further downward revisions in the crop estimate will be forthcoming with the USDA not able to fully assess the damage following hurricane Irma. However, growers may have been spared even worse harm. Prior the hurricane, growers were optimistic about the crop outlook, seeing more fruit on the tree than in prior years and gaining some hope that they were starting to win the battle against disease. While the Florida crop will be the smallest in many decades, the market has failed to climb anywhere near as high as it has in the past. A large Brazilian harvest is cushioning the blow and so too is waning demand. Higher prices are having a negative impact on consumption and offsetting the smaller availability, leaving the market still with sufficient supply relative to shrinking use.

Stats of the Month

The International Coffee Organization reported that exports fell again in September after posting a decline in August as well. The drop in September exports was steeper than the reported decline in August. However, for the full 2016-17 season, exports were still 4.8% better than year ago levels, providing cushion for the market for the next few months when export volumes may continue to be slack. Also, the comparisons are misleading as last year the export volumes were exceptional and so it is not a surprise that shipments are showing a slowing. A year ago, the exports vastly exceeded market needs and created a bulge in consumer inventories. The coffee was not readily absorbed or taken up by the market. Therefore, the reduction, as steep as it may seem, in reality is not going to make a major dent in inventory levels just yet. Arabica exports overall were 7.9% higher in 2016-17 than in 2015-16. Other Mild exports increased the most, posting a 15.6% gain while Colombian Mild shipments rose 8.0% and Brazilian Naturals a more modest 2.6%. Robusta exports did decline but by a very small amount of 0.2% which represented only 83,000 bags—hardly a drop for bulls to be excited about.

The Green Coffee Association reported a decline in certified stocks in September but overall inventory levels in the United States remain at levels not seen since 1993. Total stocks of 7.19 million bags are well above year ago levels. This was the second month of falling inventories and represents a seasonal reduction. For the year, stocks, even with falling in September and August, are still up substantially by 934,000 bags whereas January to September 2016 saw a rise of 364,000 bags and in 2015 the gain for the same period was only 592,000 bags.

Colombian production during the first month of the 2017-18 season was down 23% to 1.073 million bags. October exports were only 6% less at 1.156 million bags. The main crop harvest continues through March 2018.

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Ivory Coast cocoa port arrivals are starting the 2017-18 season at a slower pace compared to last season, which is expected. Production in 2016-17 far surpassed expectations with the total topping two million tonnes for the first time ever.

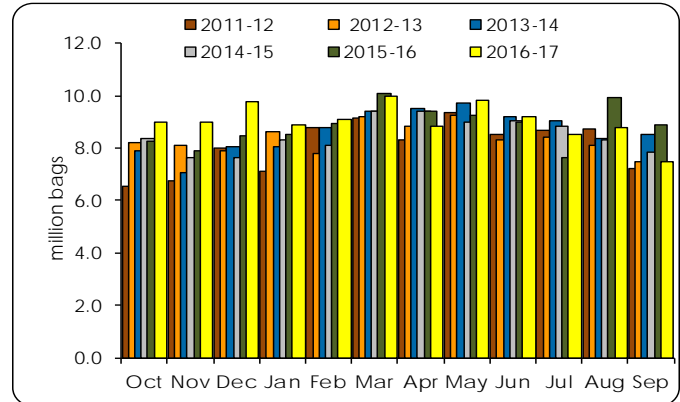
Third quarter European cocoa grind was reported at 353,544 tonnes or 3% better than in the third quarter of 2106. North American cocoa grind increased a more modest 0.68% to 125.263 tonnes, the highest since third quarter 2014. Asian grind was up sharply at 12.9% reaching 189,407 tonnes. Asian grind now exceeds that of North America, showing the shift in processing capacity and where industry growth is focused.

India's sugar production could recover a massive 25% according to the USDA to 27.7 million tonnes, as the crop benefits from better planting and a much-improved monsoon season. India should be able to replenish low stocks. Estimates on Indian sugar production have been edging upwards, while views on Brazilian sugar availability are being reduced, owing to greater production for ethanol with the sugarcane crop.

In the remaining 40 weeks of the 2017-18 season, cotton export sales need to average only 140,340 bales to reach the USDA estimate. Average exports need to total 317,585 bales. Exports have been running well below this figure, but there is still plenty of time to catch up and shipments tend to accelerate after the new year when harvesting and ginning is complete. Low export volumes at this point in the season is not of a concern. Sales are the main focus.

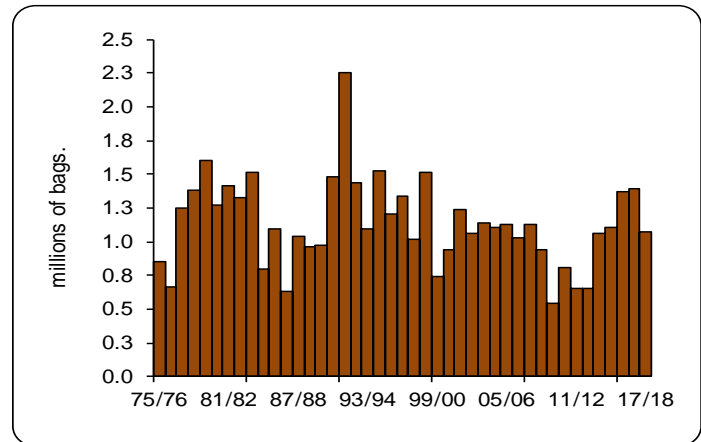
Not surprising, orange juice retail pricing touched a new high and are expected to climb further. The average retail price is now \$6.83 per gallon compared to \$6.65 a year ago, which was still considerable and causing demand to decline. Industry revenues have been a downward spiral with falling use not offsetting the higher prices received. 3/4s of the industry revenue come from selling Not-From-Concentrate product.

September Coffee Exports Slipped from Year Ago levels—the Second Month of Lowered Volumes



Source: ICO

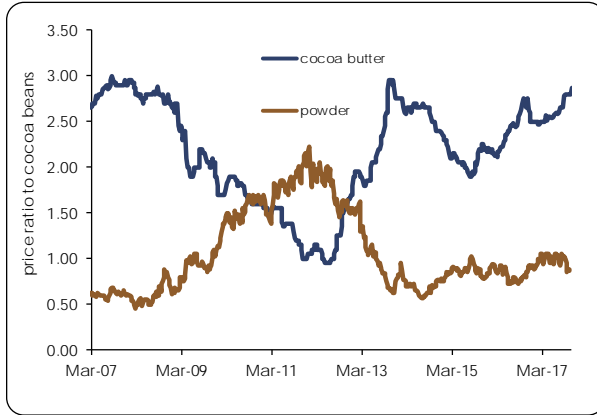
Colombian October Production Lowest in Four Years as the New Season Gets Underway



Source: FNC

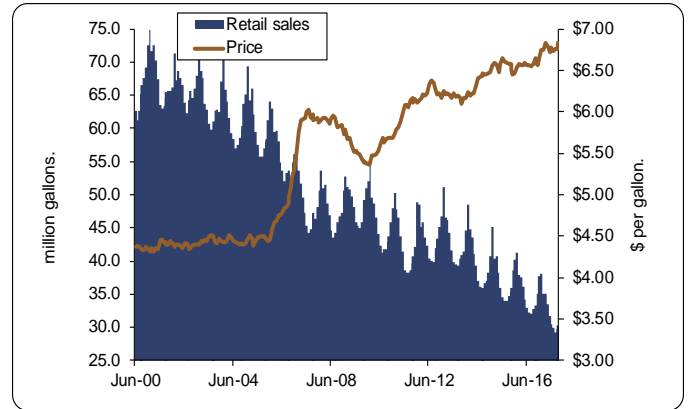
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Cocoa Combined Ratio of Butter and Powder Remains Rather Attractive for Processors



Source: Milling and Baking News

USA Retail Orange Sales Hurting from High Prices



Source: Nielsen Scantrack

Cotton Exports Trending Well for the Season

	Statistical Bales	Running Bales
USDA Season Export Total Estimate	14,900,000	14,304,000
Actual Sales to Date	9,052,480	8,690,381
Percent Sold	60.75%	60.75%
Remainder to be Sold	5,847,520	5,613,619
Weeks Remaining in Season	40	40
Average Weekly Sales to Meet Target	146,188	140,340

Source: USDA

Watching the Weather

Extreme Weather Events Continue

Both 2015 and 2016 were thought to be years of extreme weather due to El Nino linked dryness, but 2017 seems to now take the cake with the weather turning from generally favorable for crops to one of extremes. The number of tropical storms, be it hurricanes or typhoons was certainly up there in terms of volume, but the word “super” to describe them seemed to be a constant for both the Atlantic and the Pacific. Typhoon after typhoon has slammed into Vietnam’s lengthy coast and also impacted China and Japan. The monsoon season brought more than usual amounts of bucketsful of rain and heavy flooding to India especially. The soil moisture deficits of the prior two years are now long forgotten and instead, it seemed that Noah’s ark was necessary instead. Generally speaking, too much rain is better than too little rain. Wet soil is better than dry soil. When too much rain becomes problematic is generally when a storm system sits for days over a region and the tree or plant doesn’t get adequate sunshine or heat and the roots get overly saturated. However, in most cases, the soil

tends to dry quickly, especially if on mountainous slopes or the moisture will help to benefit the following crop year.

Brazil has been on the opposite end of the spectrum. While rains are advancing northward now and could continue into the first half of the month, the heat is expected to be turned on again later in November. Farmers are concerned that could remain too dry again in December through February. The flowering of the Brazilian crop has not gone like clockwork in some areas of Minas Gerais, which is the heart of the coffee belt. Flowering was delayed and then rains came but then there was another dry spell and for some farms, too many days without rain, given the water deficits that had existed. Coffee trees are exceptionally hardy and do bounce back fast from extreme conditions and some trees had put forth a very prolific flowering producing a white canopy in the trees that some say was the best in years and the stress may have helped this. However, it is not a guarantee of an excellent crop. Only time will tell. Other photos circulating via chat groups and emails, showed trees that had defoliated and flowering that didn't burst open wide or withered prematurely not giving the crop a chance to set. There is absolutely no way of knowing the final outcome with any certainty at this time. This is a key distinction between a singular weather event impacting a row crop or even a frost or freeze, where the damage is immediately apparent. A drought is a prolonged process and the tree does have an ability to recover with surprising results.

La Nina is becoming increasingly more likely, which is a cooling of the equatorial eastern and central Pacific Ocean. This could bring too much rain to Colombian coffee areas, but improve conditions elsewhere. Generally speaking, cocoa production tends to improve due to diminished dusty trade winds.

Fundamental Favorite

Coffee Could Perk Up

A speculator sitting at the World Coffee Producer's Forum back in August would certainly have walked away feeling comfortable being short a market where one country after the next boasted of efforts to bolster production and spoke of how big their crop potential could be in the years to come. Then there is the issue of consumption possibly being overstated in Brazil and not quite as rosy, leading to perhaps better stocks within the country than was let on. However, there are some holes in this bearish web of ideas and not all in coffee is one-sided. There are some indications that the tide is starting to shift a bit. It also starts with export volumes that were reported as fairly low by the ICO for September. In turn, consumer stocks are not going to see a bulge and could fall from the recent peak. Vietnam has had incredible rain totals this past year and it first appeared harmful then when mixed with sufficient sunshine and days of drying out, the crop view improved. But the latest rains, may not be so great for the crop, which is in need of dry weather for harvesting to proceed. Rain can be a blessing and help to fill cherries and swell beans, but if the rains are not accompanied by sufficient sunshine it becomes problematic.

The market was banking on Brazil having a massive crop in 2018-19 but that is not assured, it may be that 60 million bags is now off the table. A crop of 55-58 million bags would still be more than sufficient though, as long as the next season's crop potential was strong. Brazil does have a cyclical pattern to production with an on-crop followed by an off-crop, but this pattern is smoothing out. Colombia's production view is also now less certain. These factors could contribute to the downside in the market being limited and with speculators leaning heavily on the short side still, it creates some vulnerability should the production

figures prove to be disappointing. Seasonally this market tends to be strongest beginning mid-January.

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J Ganes Consulting Softs Fast Facts Report will be Subscription Based Starting January 2018

Starting in January, the ICE will no longer be providing research from outside suppliers. The Softs Fast Facts report, which has been written monthly since 2009 as a service for IB's and others in the industry, will continue to be published but as a service offered by J Ganes Consulting, LLC directly. Registrations prior to December 31, will receive a special discounted rate.

For more information about how to continue to receive this report please contact:

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