

Where The Coffee Community **CONNECTS**

National Coffee Association
Annual Convention 2016



HOW TO MITIGATE COFFEE PRICE VOLATILITY:

A DIVERSIFIED APPROACH



WARNING!

Stoned.

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Understanding Our Coffee Price Risk





Volatility

VOLATILITY

DEFINITION

Volatility for coffee prices refers to the amount of UNCERTAINTY or RISK about the size of *changes* in the prices of financial futures contracts for physical coffee



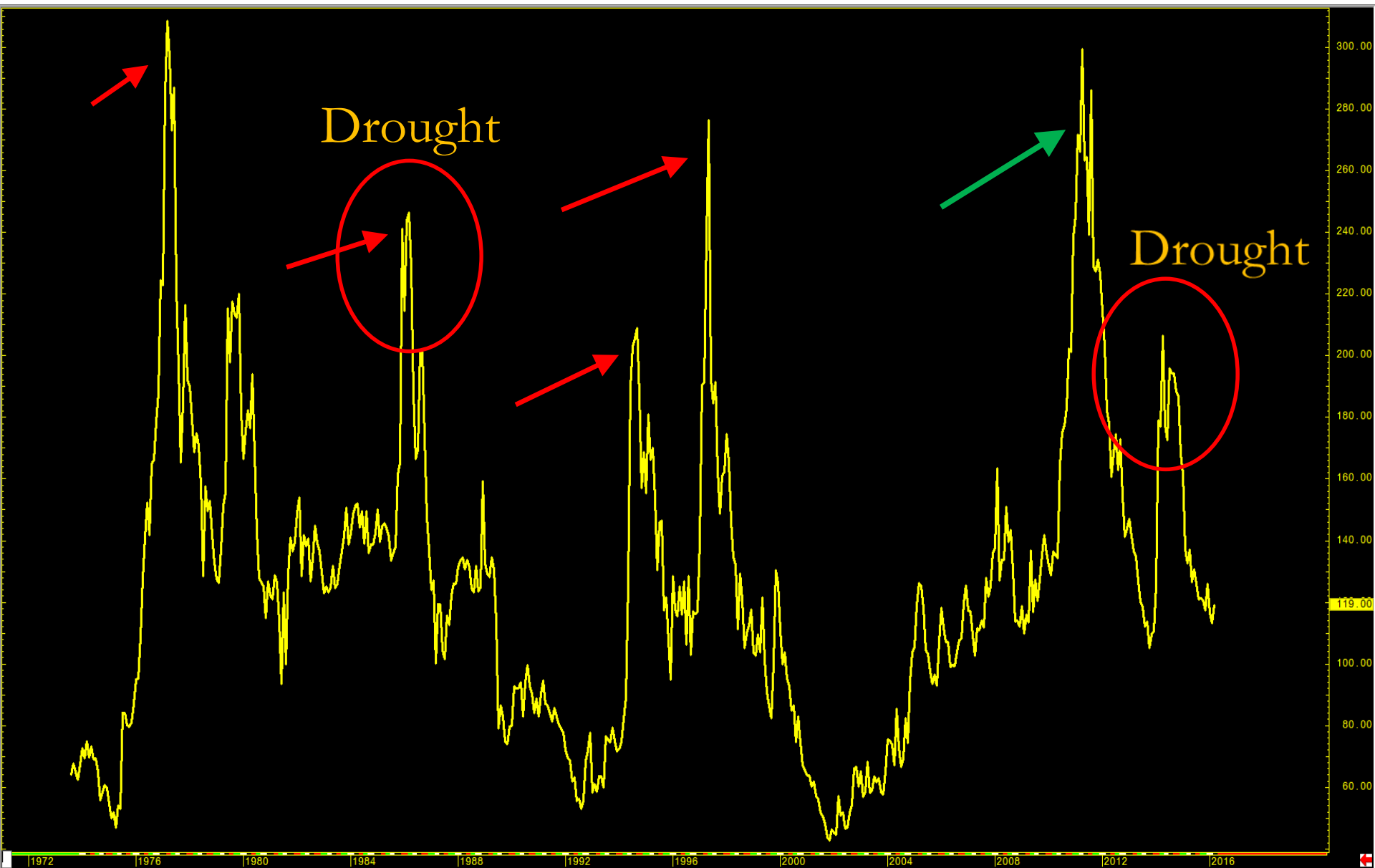
Why are we Volatile?

- 1) Weather
- 2) Supply and Demand Forecasts
- 3) World Macro and Global Economic Factors

UNCERTAINTY

ARABICA 1973 - 2016

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ARABICA 2010 - 2012

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ICE Coffee Futures



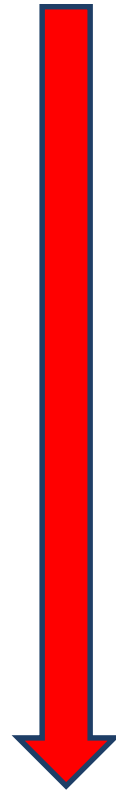
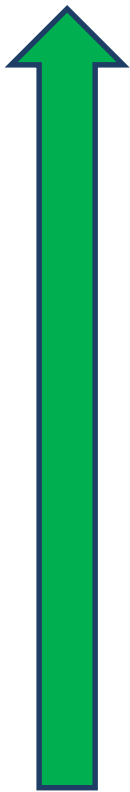
***Affects the balance of Supply and Demand**

- Producers invest more in Production
- Consumers may look for alternatives

ICE Coffee – 5 Year Chart



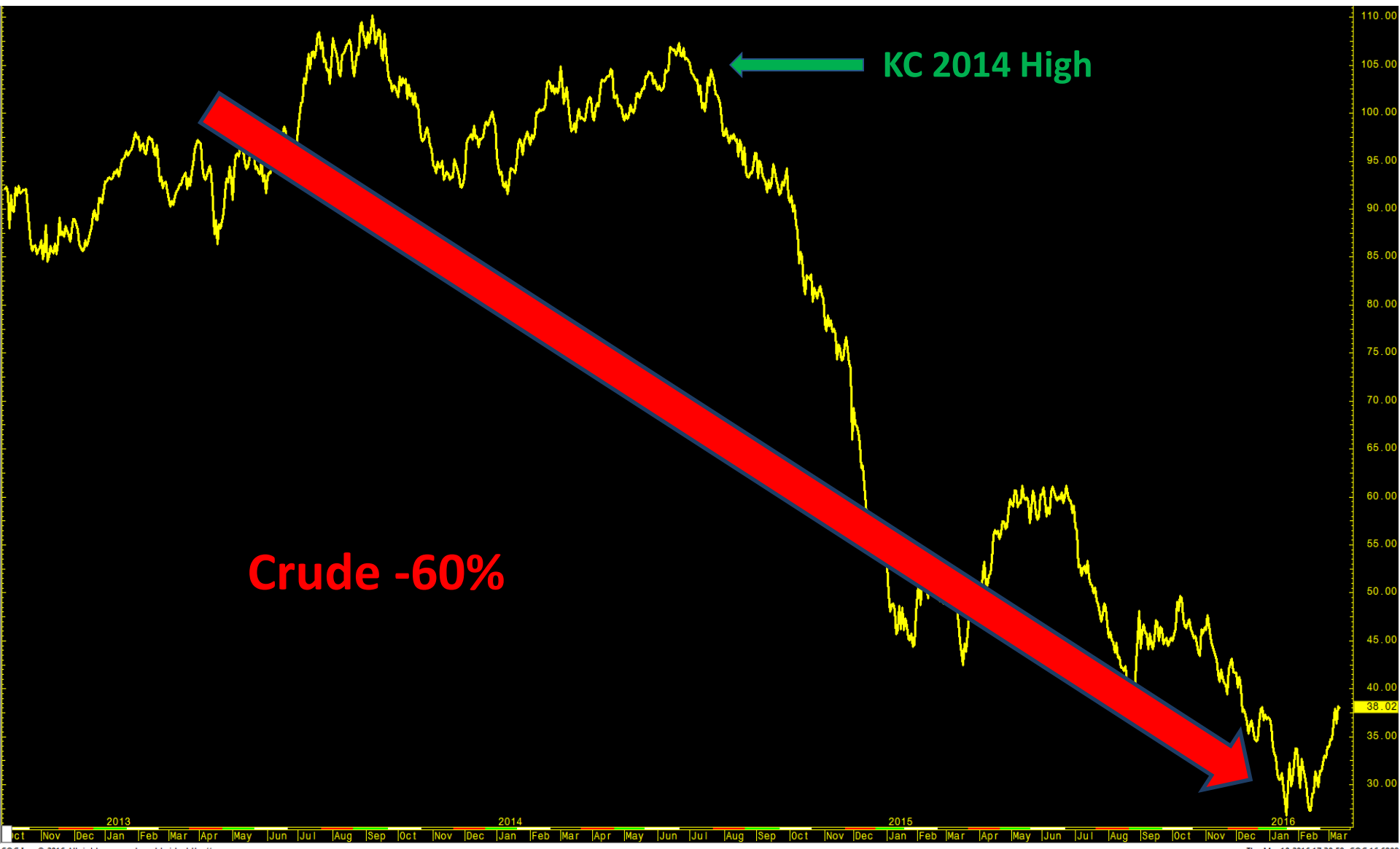
Strong US Dollar → **Weak** Commodity Prices



Crude Oil – Daily Prices

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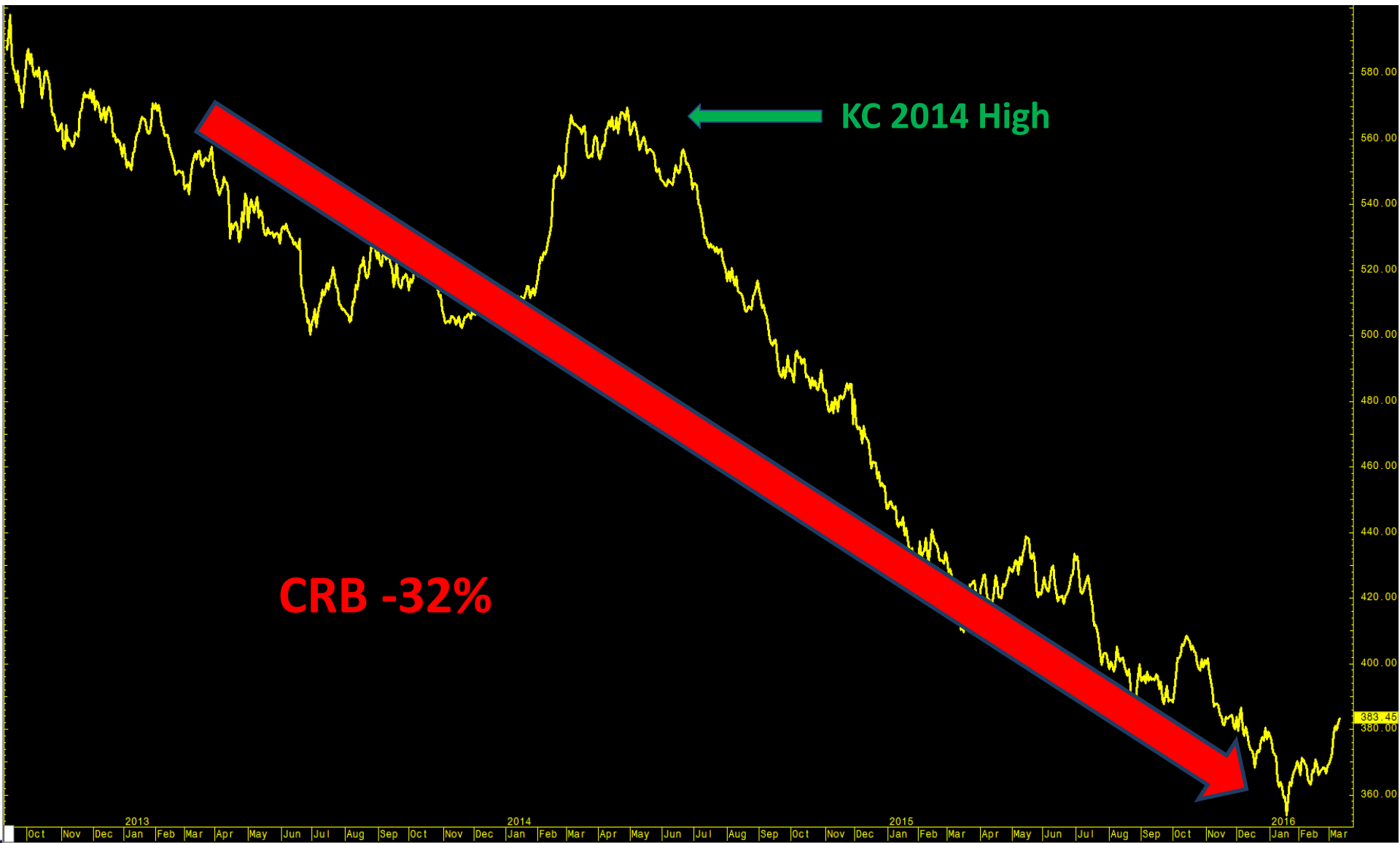
2013-Present Day



CRB Index – Daily Prices

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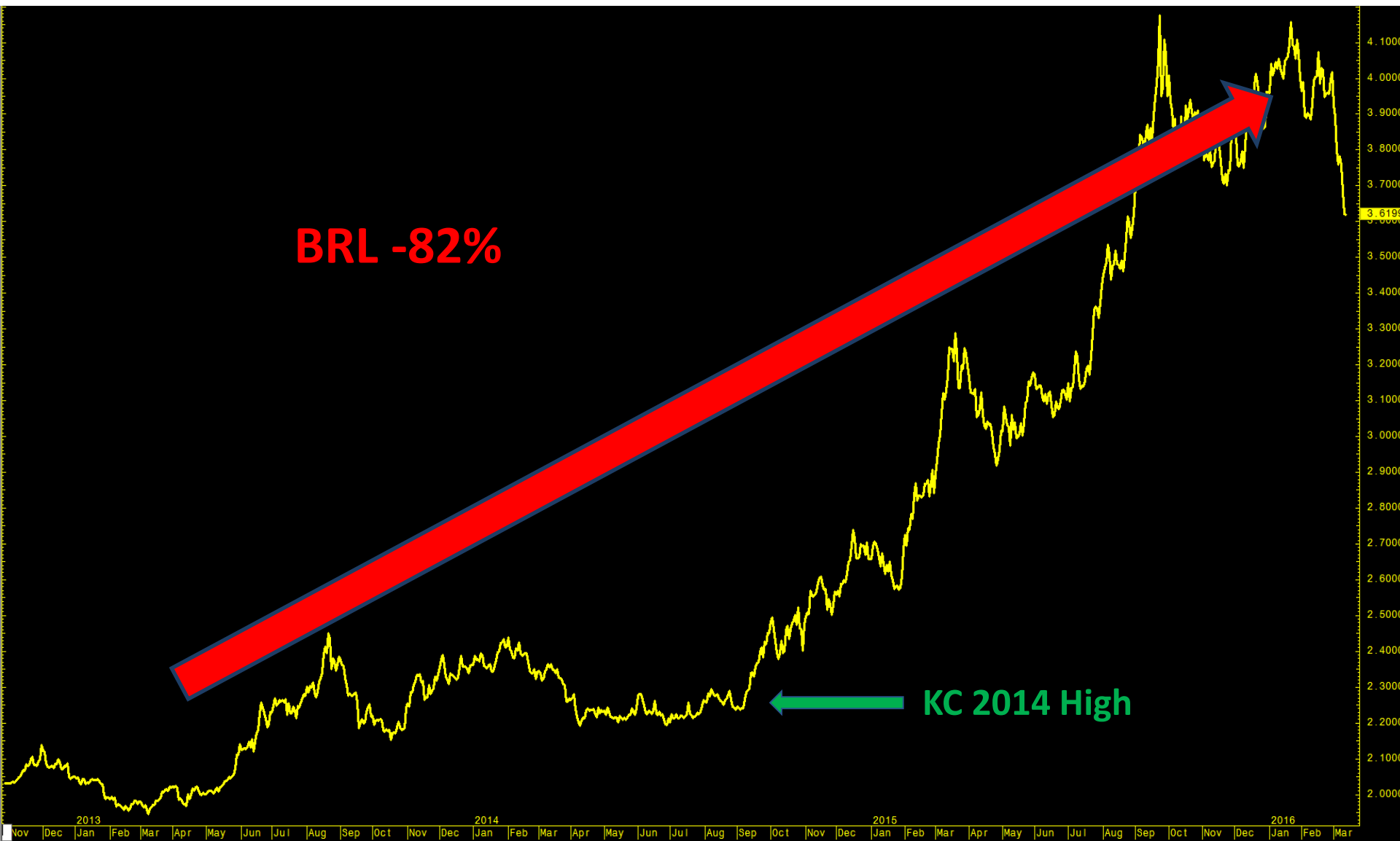
2013-Present Day



USD/BRL (Brazilian Real)

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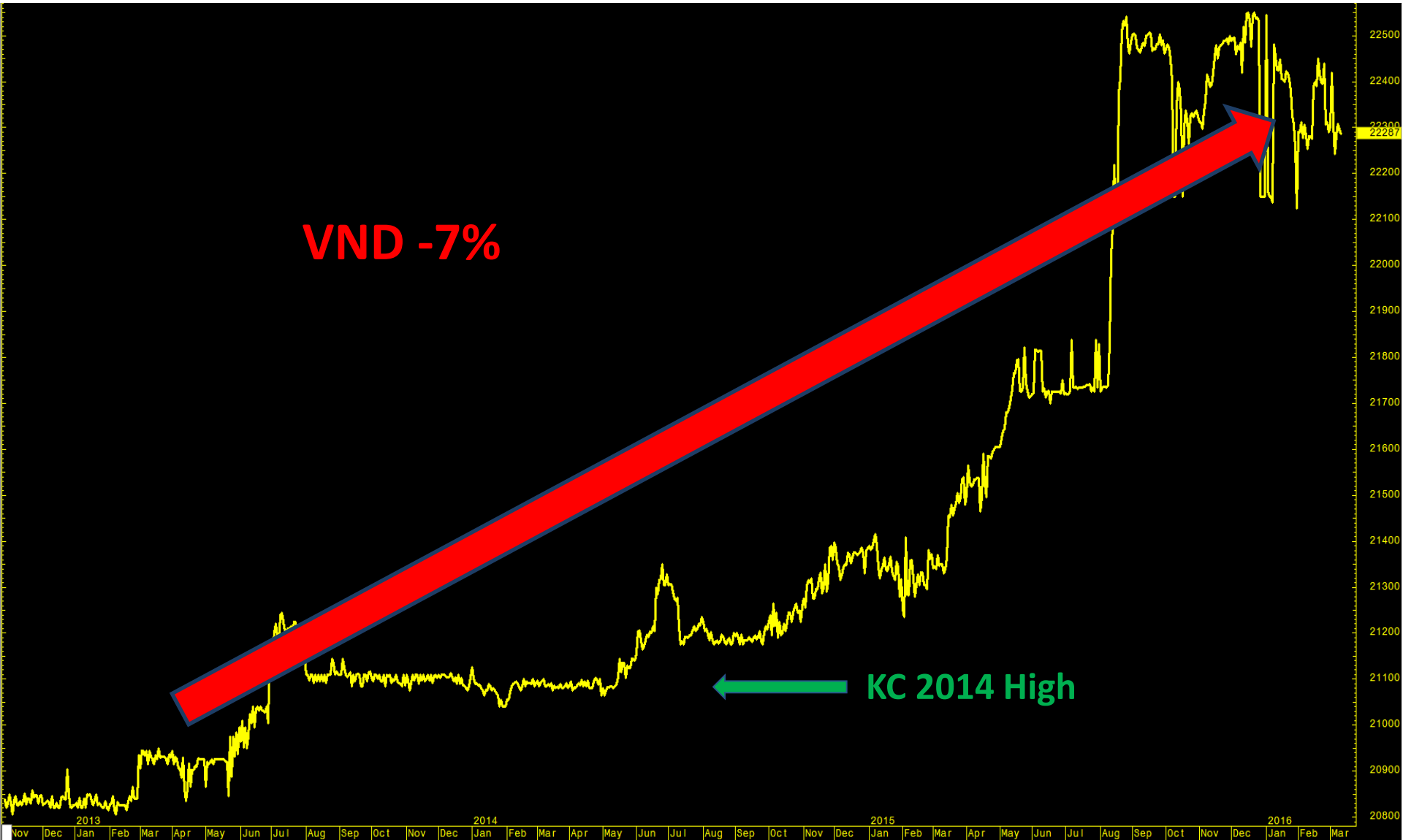
2013-Present Day



USD/VND (Vietnamese Dong)

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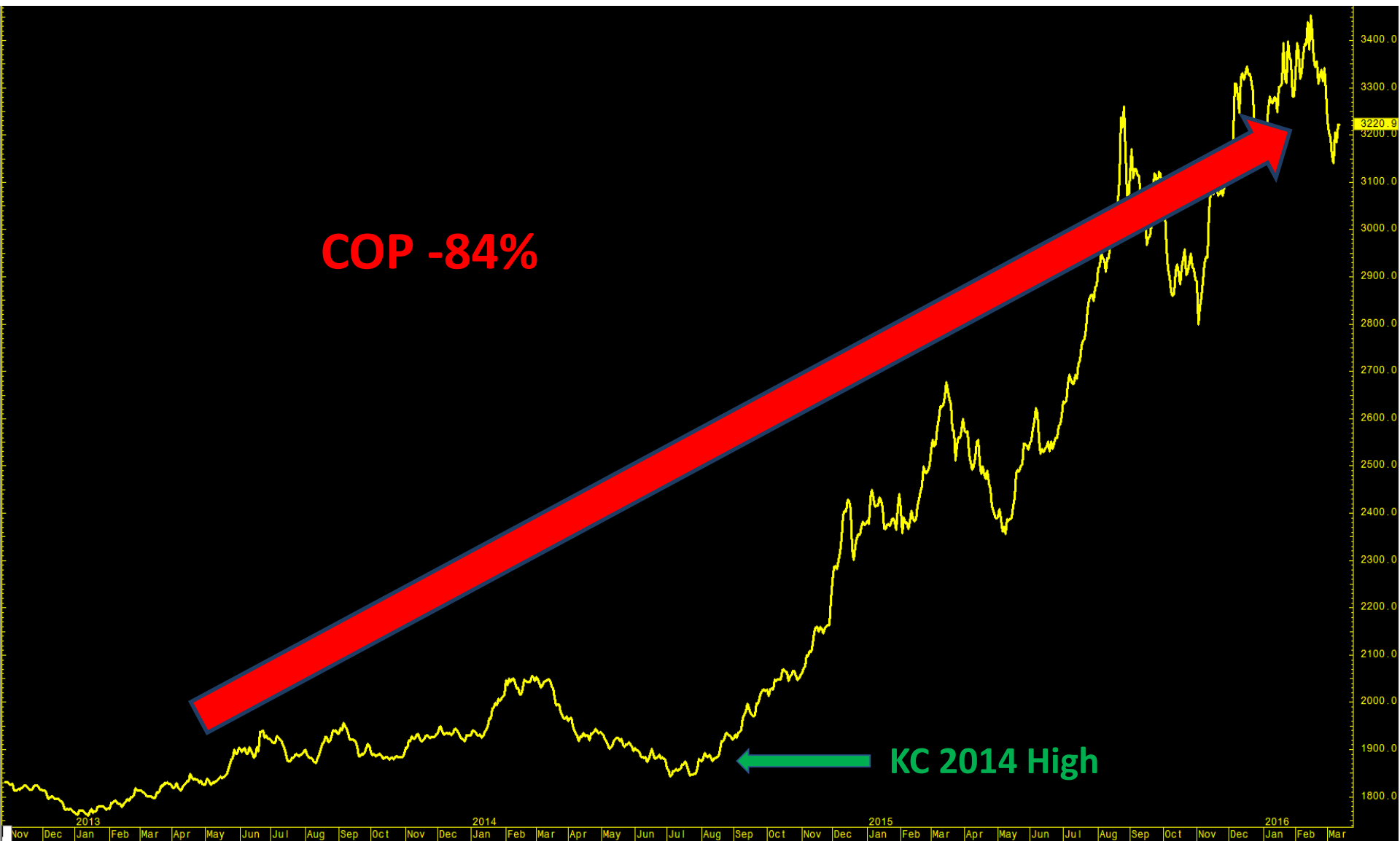
2013-Present Day



USD/COP (Colombian Peso)

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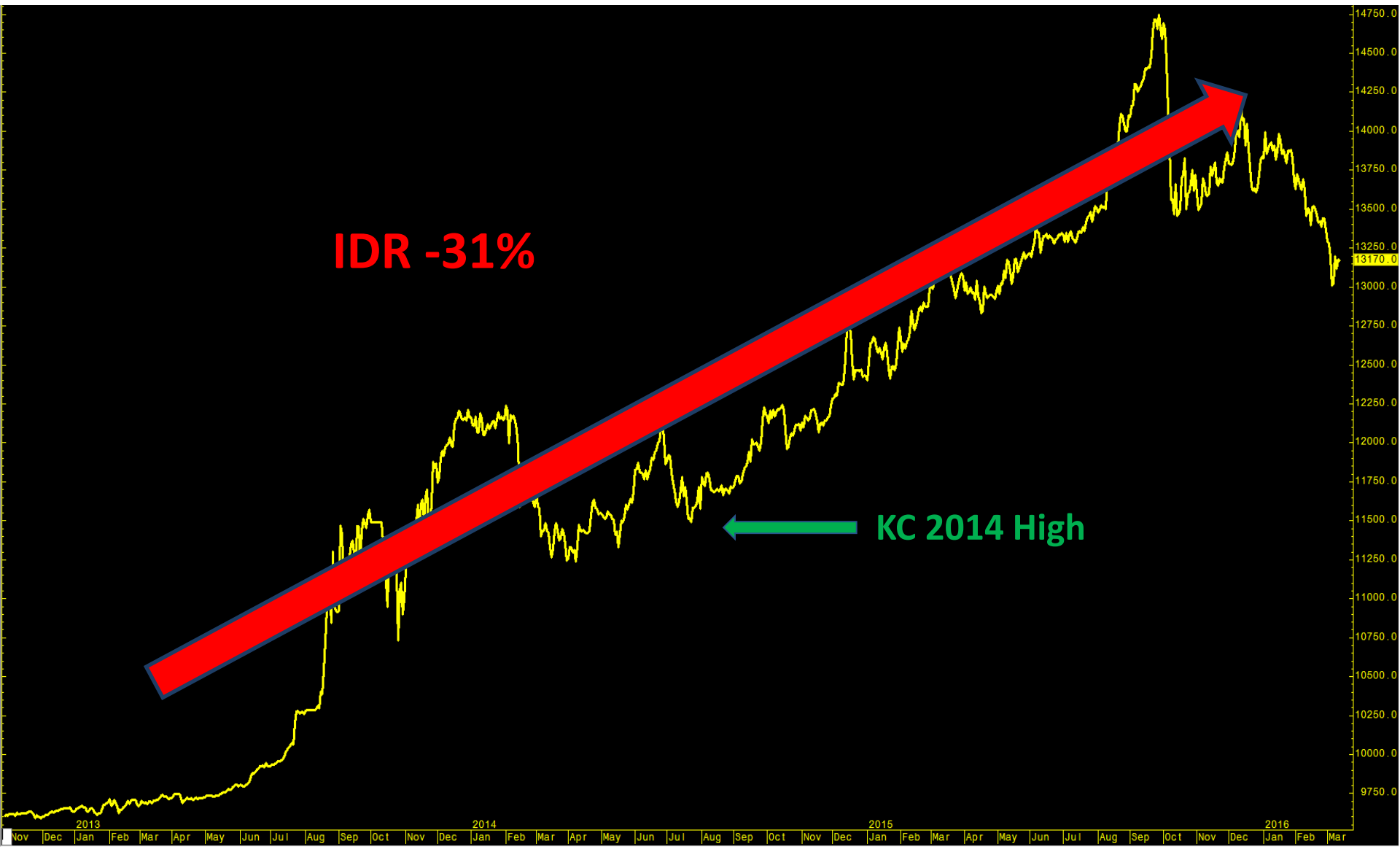
2013-Present Day



USD/IDR (Indonesian Rupiah)

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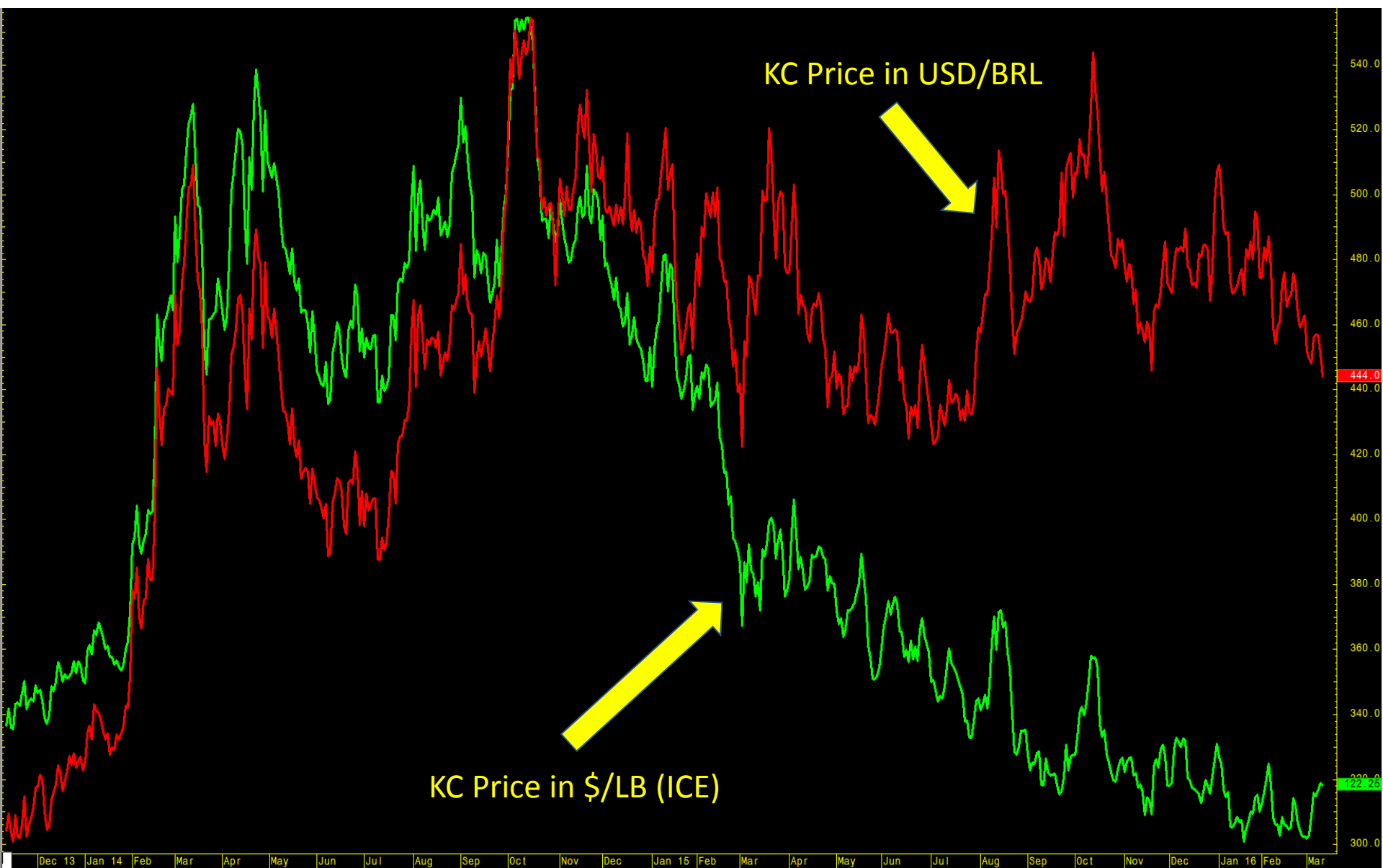
2013-Present Day



Coffee Prices in Brazilian Real Terms

Nov. 2013 – Present Day

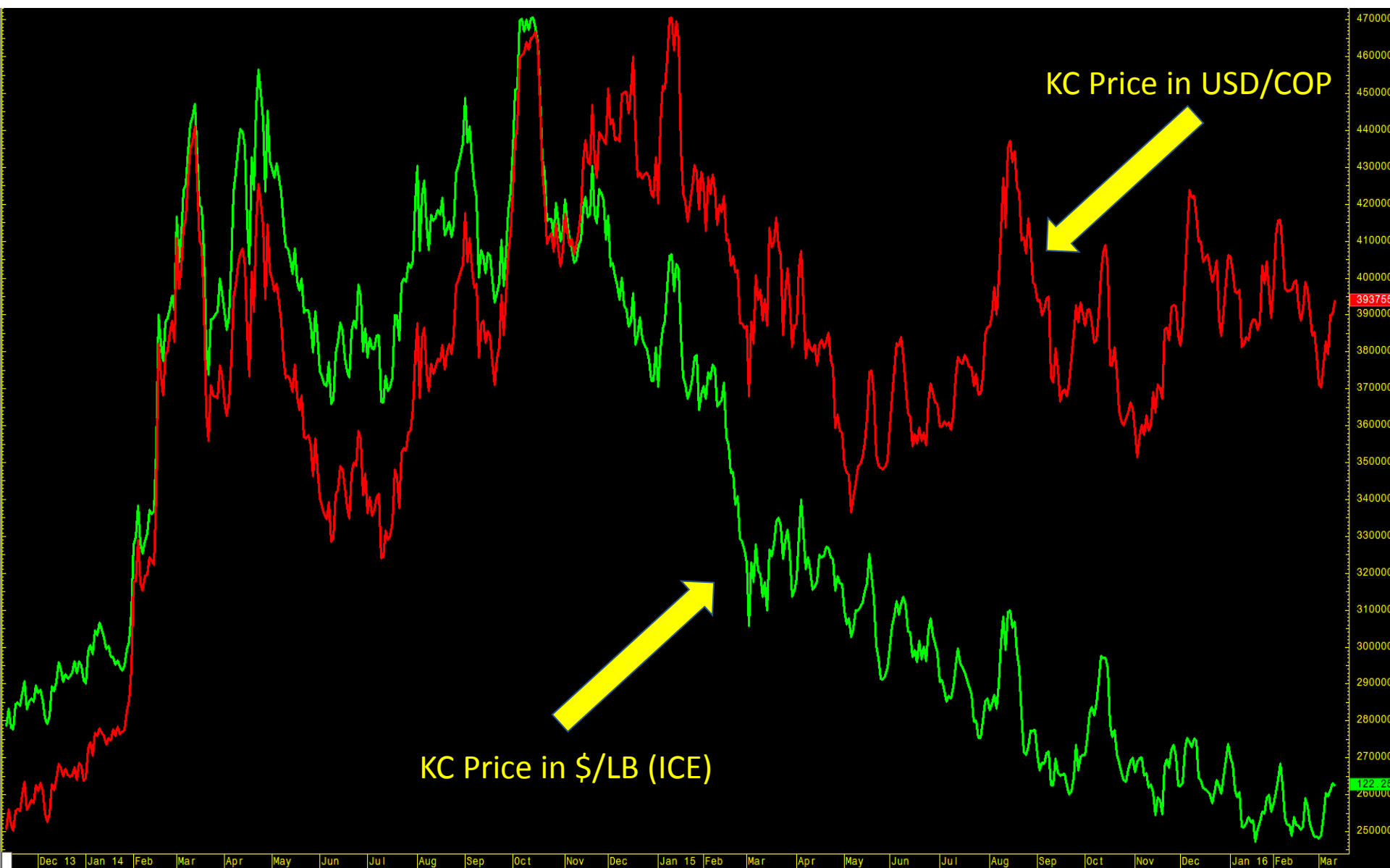
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Coffee Prices in Colombian Peso Terms

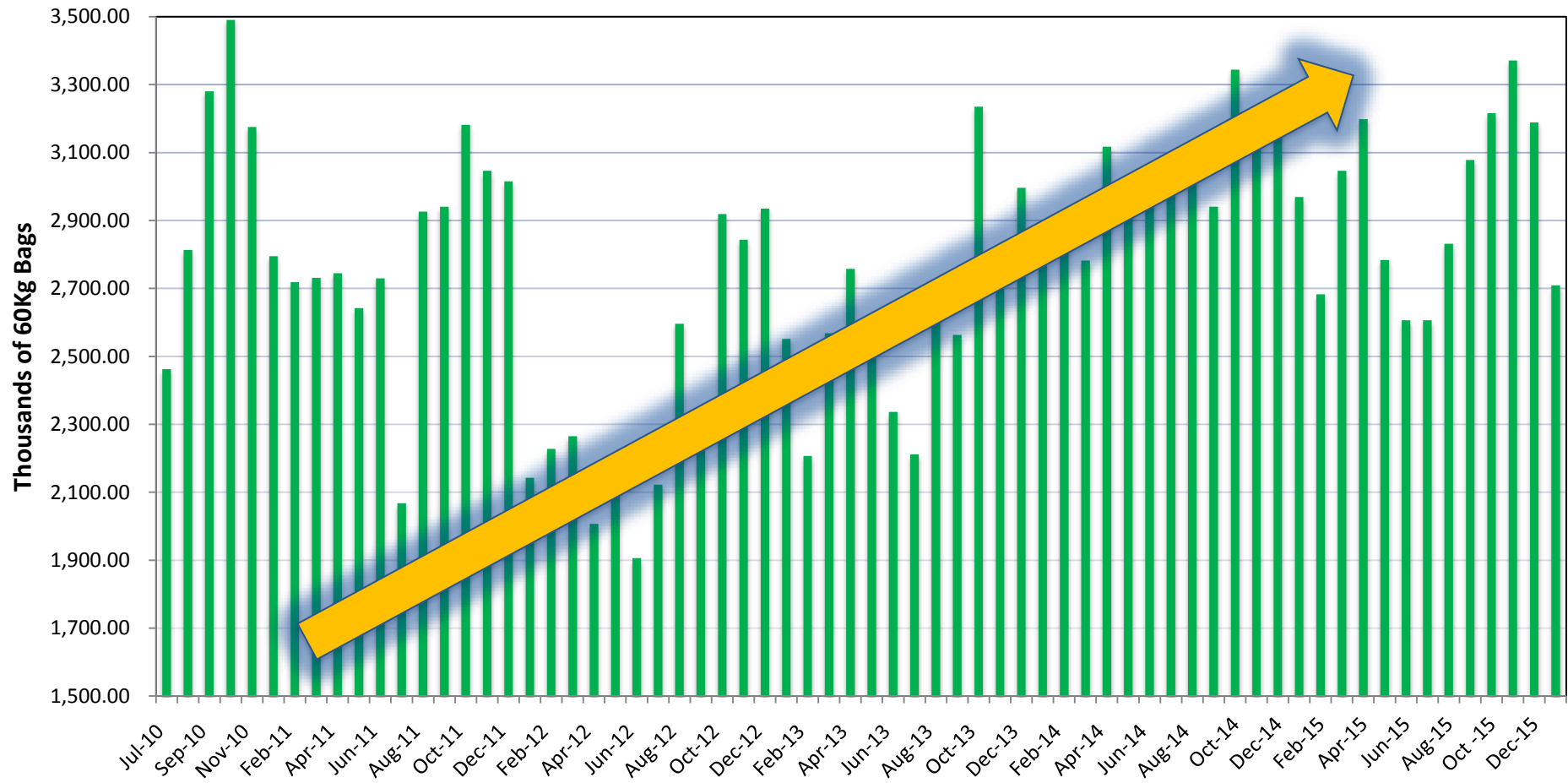
Nov. 2013 – Present Day

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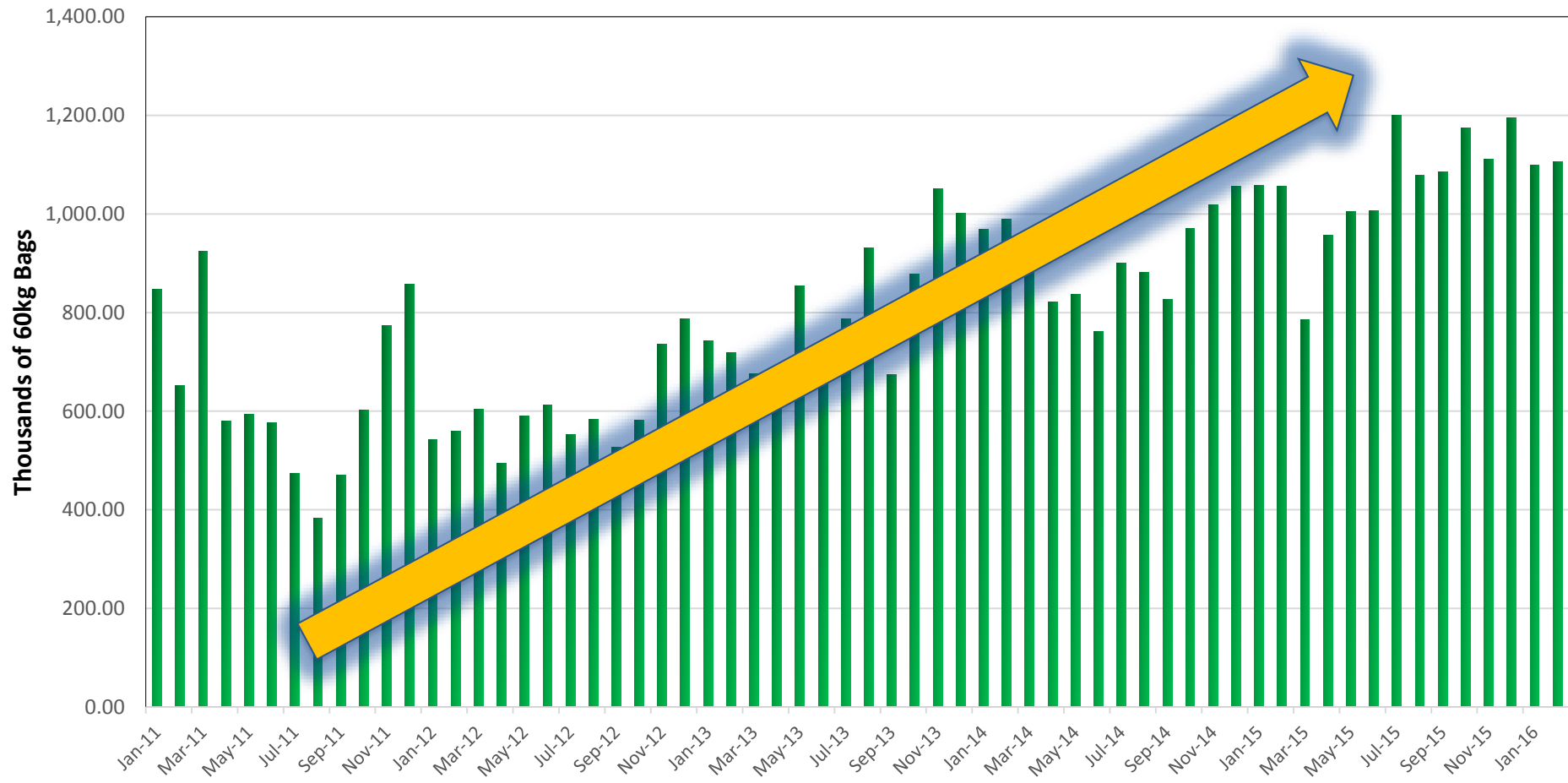
Coffee Exports from Brazil

Monthly Data (2010 – 2016)



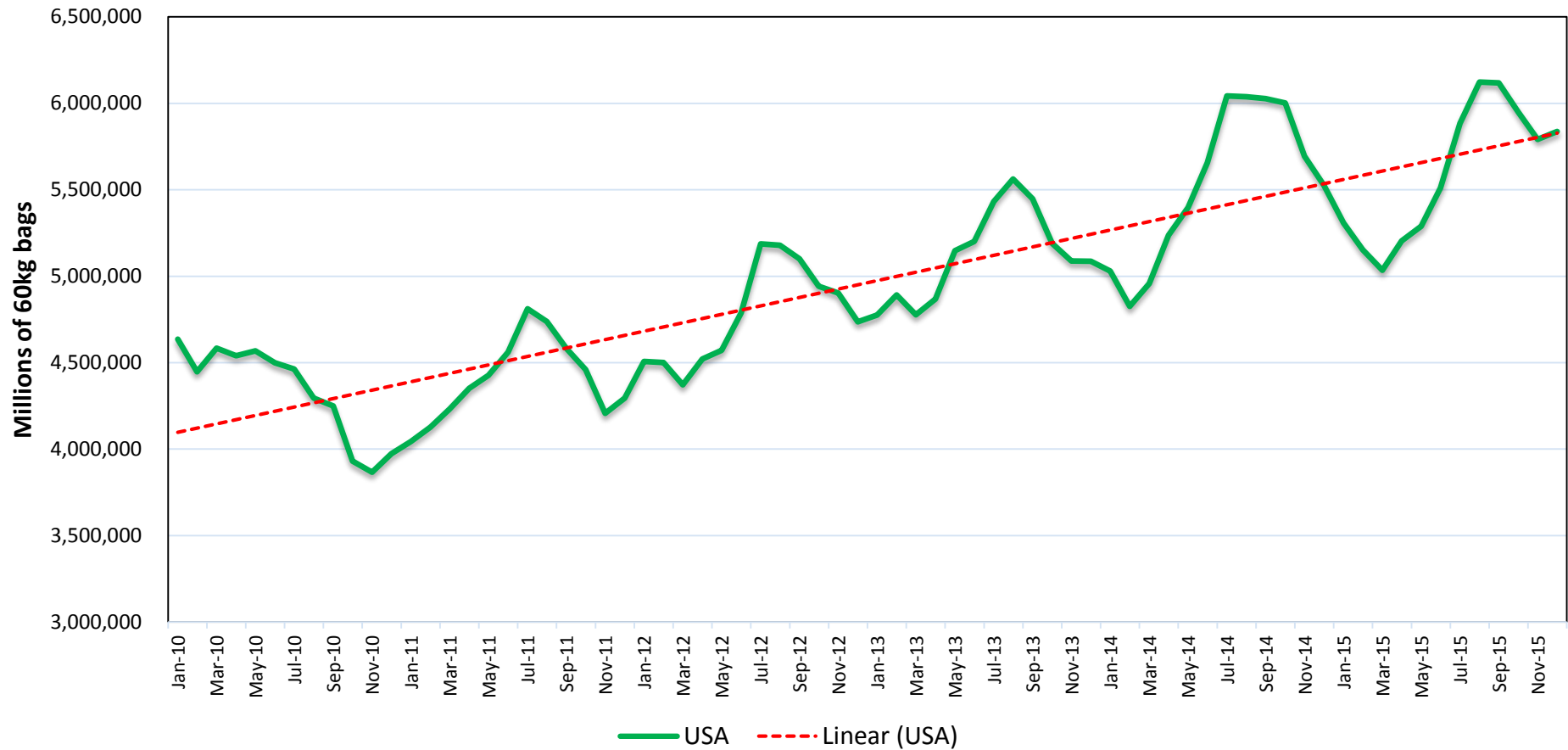
Coffee Exports from Colombia

Monthly Data (2011 – 2016)



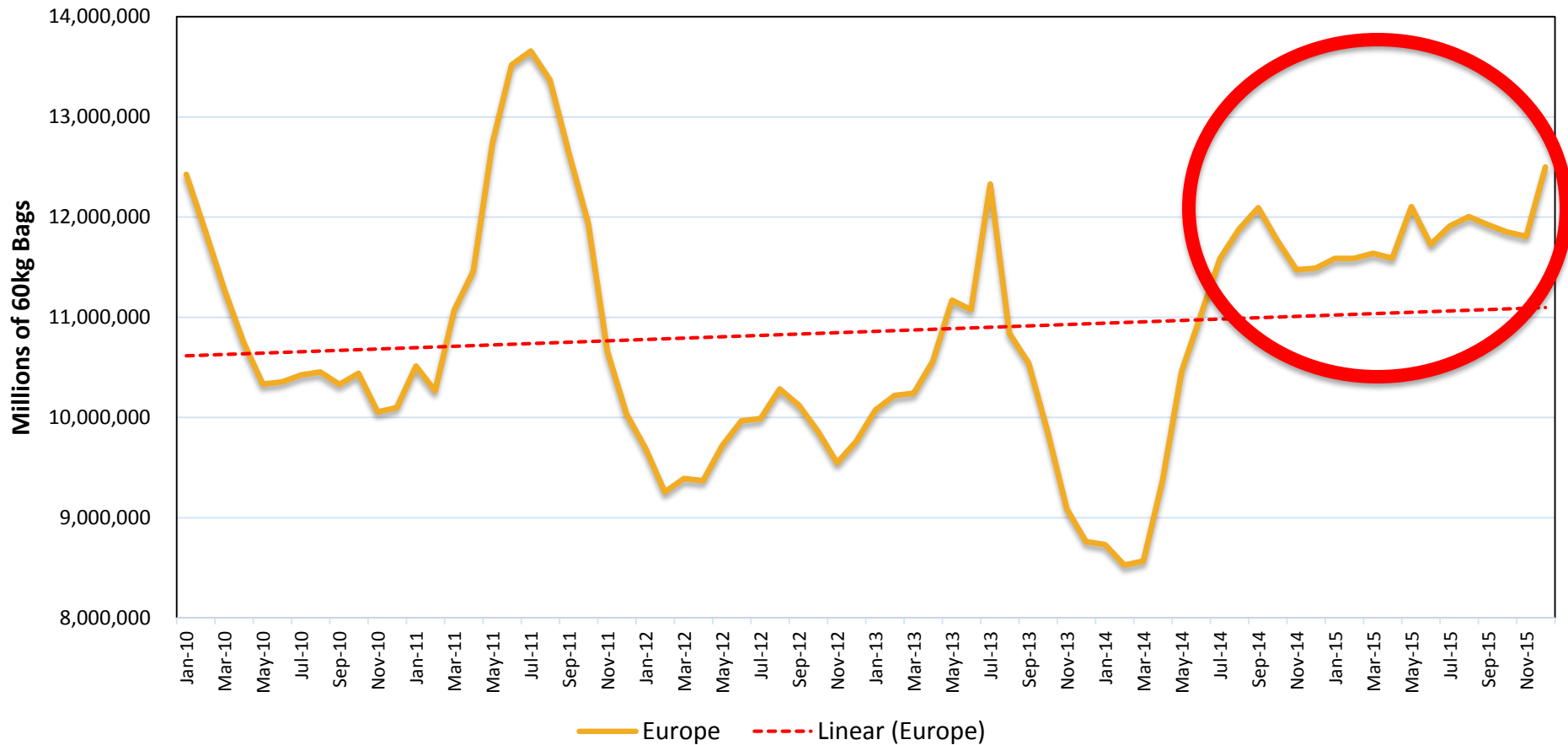
US Green Coffee Stocks

Monthly Data (2010 – 2016)



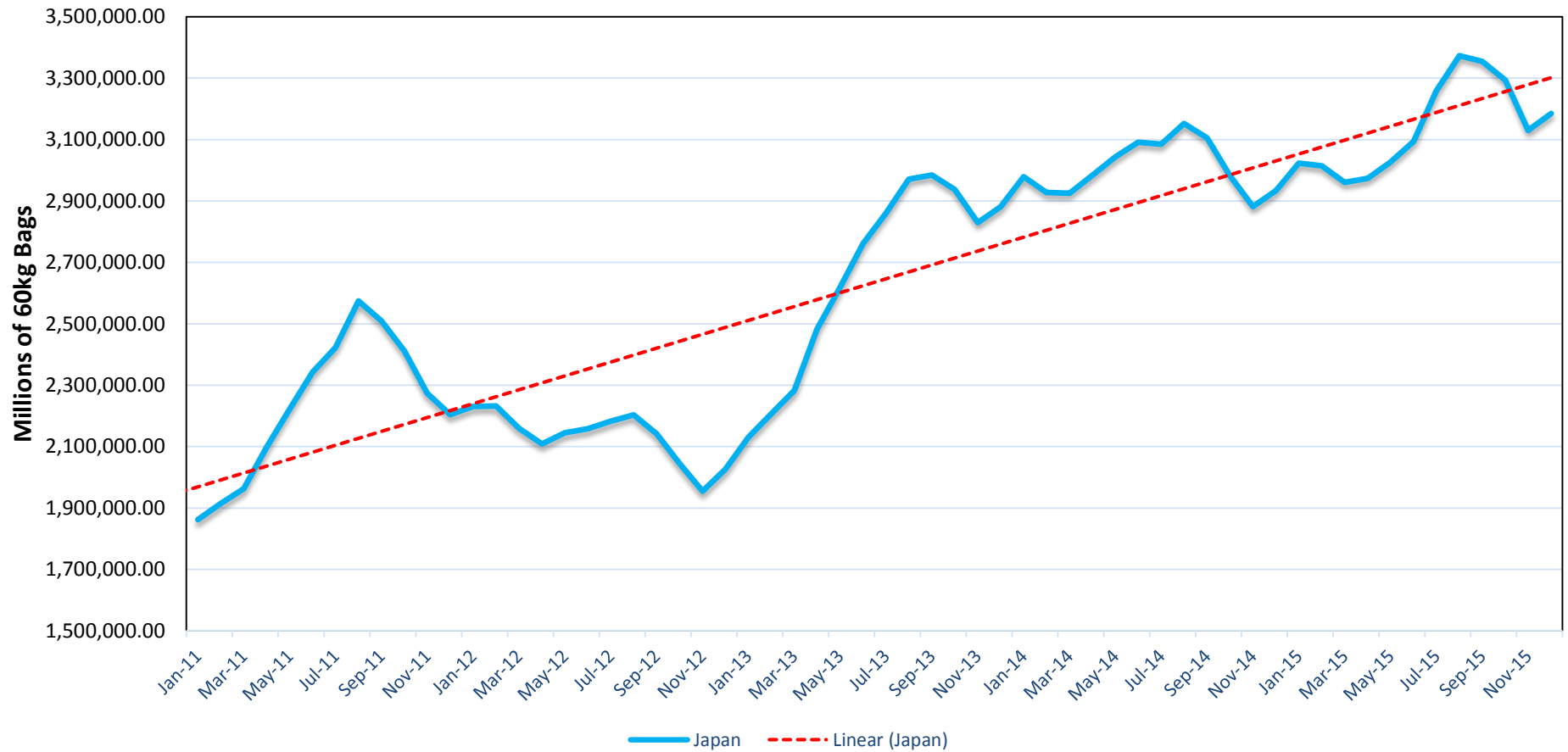
Europe Green Coffee Stocks

Monthly Data (2010 – 2016)



Japan Green Coffee Stocks

Monthly Data (2011 – 2016)

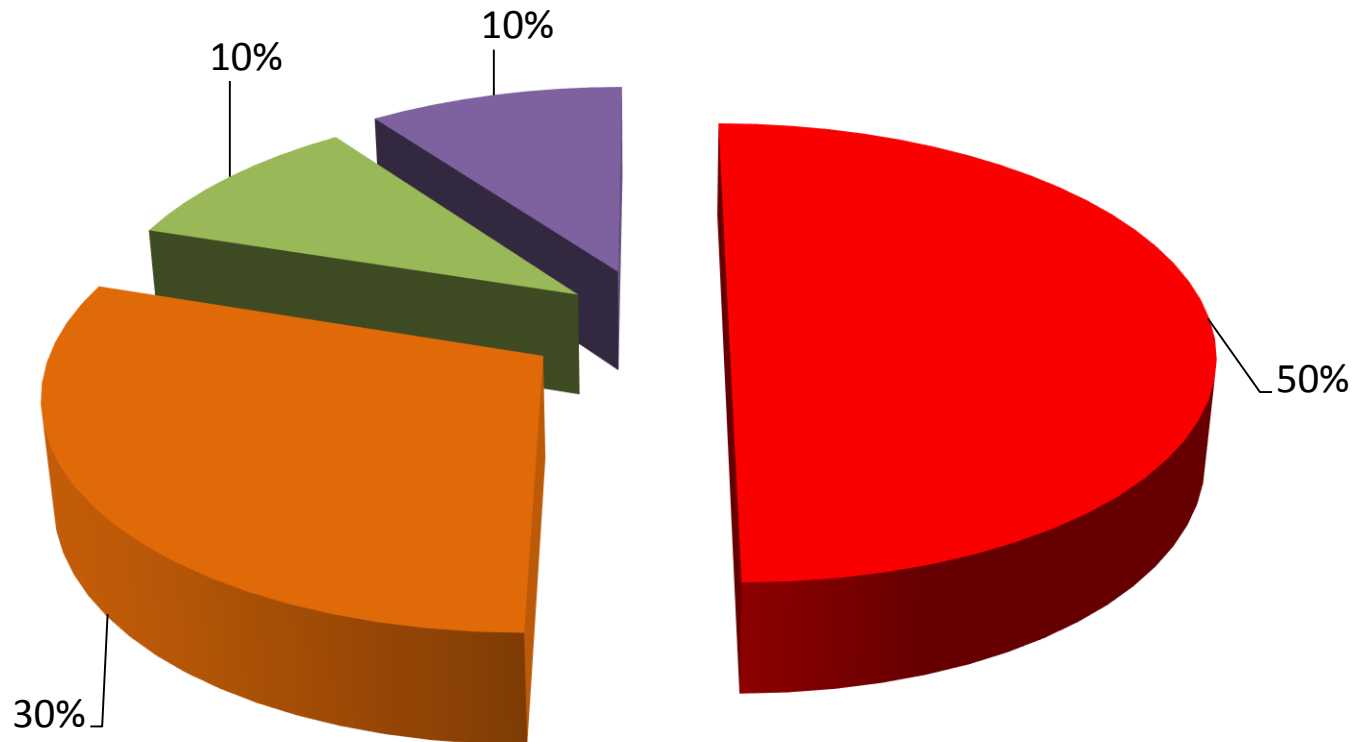




**KEEP
CALM
AND
CARRY OUT A
RISK ASSESSMENT**

Diversified Price Risk Management

■ Fixed Price ■ Variable Purchase ■ Structured Purchase ■ Do Nothing



Fixed Price Purchases – Using Futures

“Buying Fixed Price”

Fixed Price with Futures

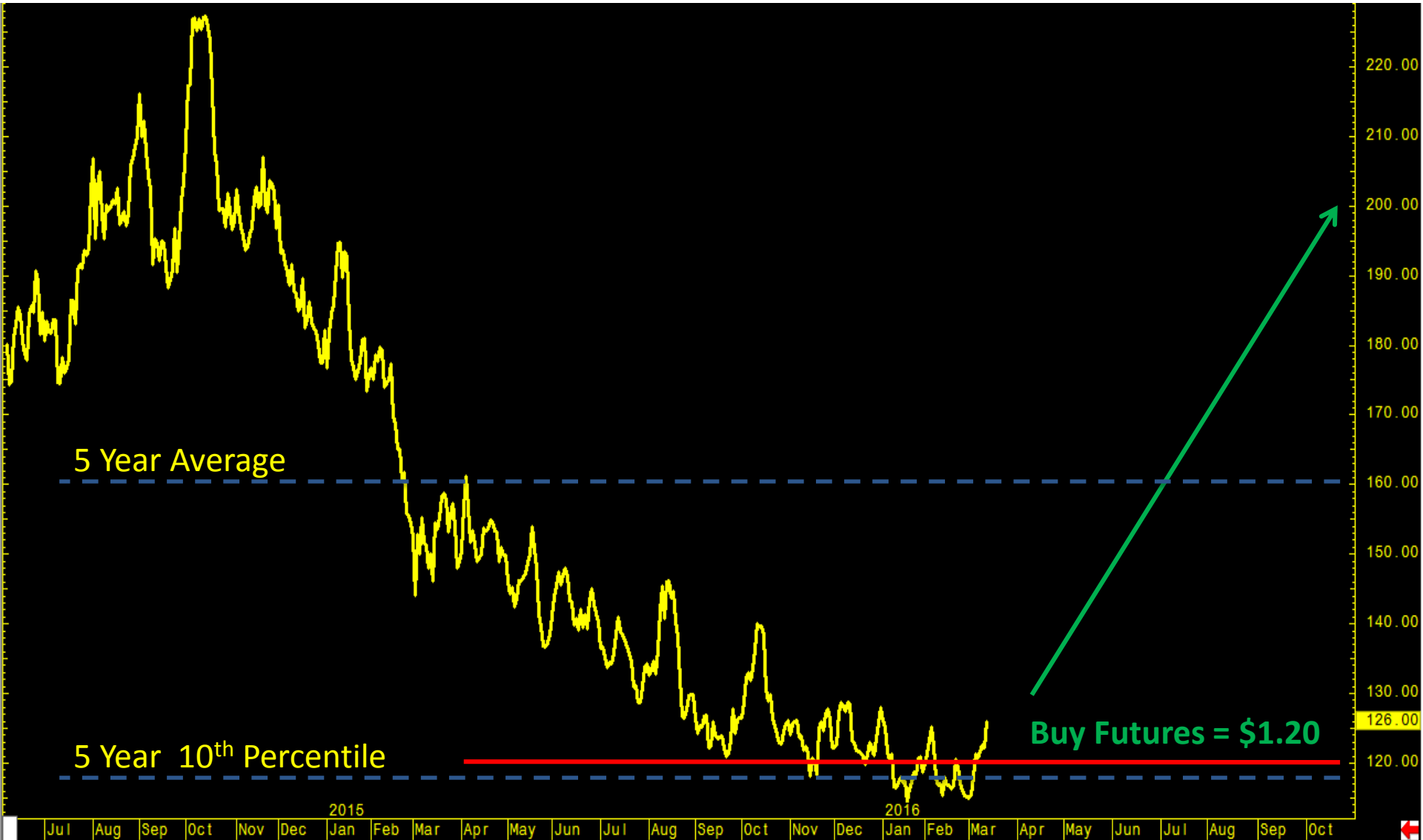
- Roaster must protect the purchase price of future coffee deliveries for 250 bags.
- International Coffee remain low, and we are around the 10th percentile of price for the last 5 years

HEDGE

Buy 1 May Coffee Futures @ \$1.20

Fixed Price with Futures

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Partial Hedge

- Containers are shipping with more than the 37,500 pounds covered by the standardized “C” contract
- These quantities are “outliers” and **ADD** to your **RISK**

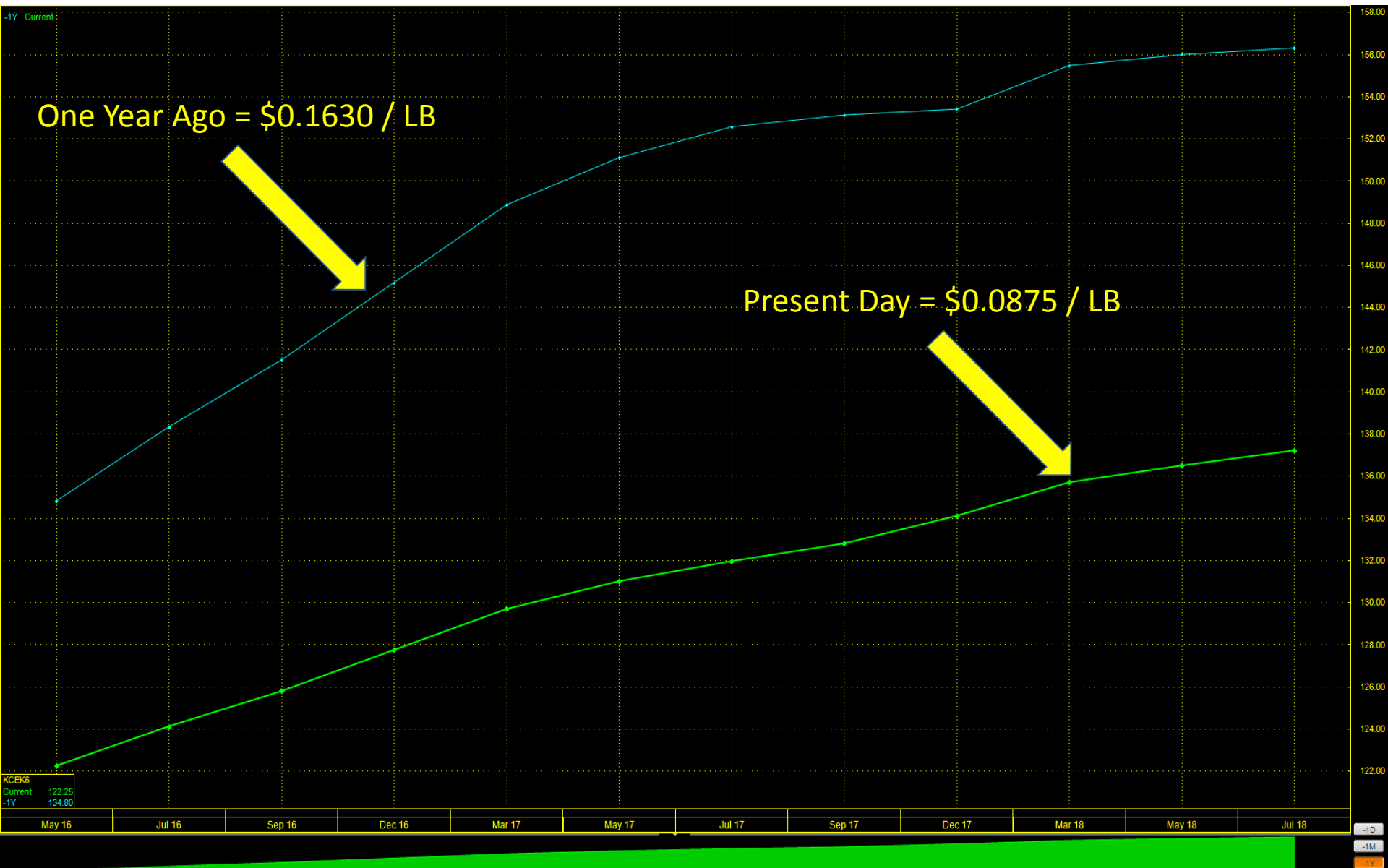
HEDGE

Buy **1.25** May Coffee Futures @ \$1.20

Coffee Forward Curve

One Year Ago v. Present Day

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Hedging with Options (Insurance)

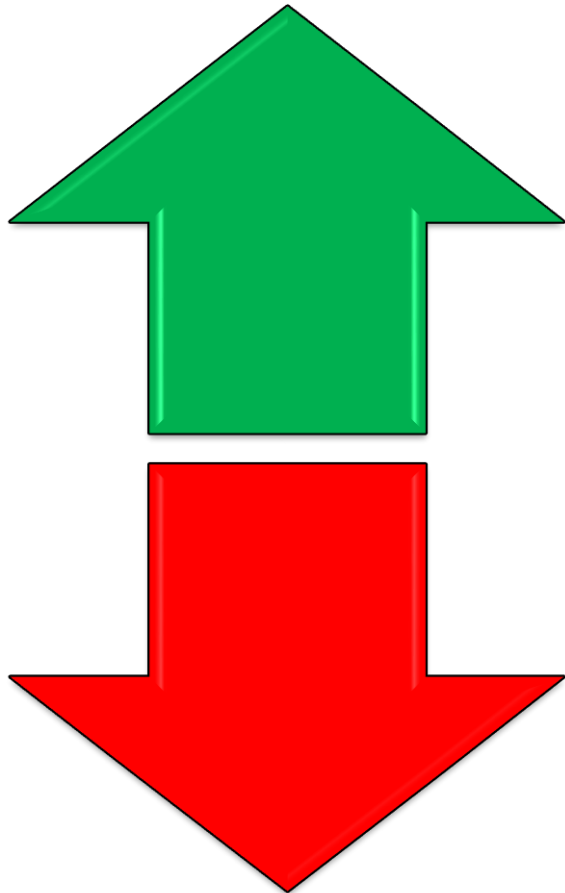
“Covered Purchases”

or

“Variable Purchases”

Options – Insurance Policies

- Pay Premium for specified coverage (time, deductible etc.)
- Receive payout if “accident” occurs to lower cost of goods



Buy Call

Buy Put

Variable Purchase

No Need to Guess “When do I Buy?”

- Buy Futures (set your price)
- Buy Insurance (PUTS) in case of an decrease in price, to enhance your final Buying price.

2015-2016

Volatility Events

❖ <u>EVENT</u>	<u>PERIOD</u>
❖ 1) Drought Period	January- February
❖ 2) Rain Period	February- March
❖ 3) Crop (Yields)	April - August
❖ 4) Winter	May - July
❖ 5) Rain / Flowering	September. -October
❖ 6) 2016 Estimates	November-Dec

Brazil Production Estimates

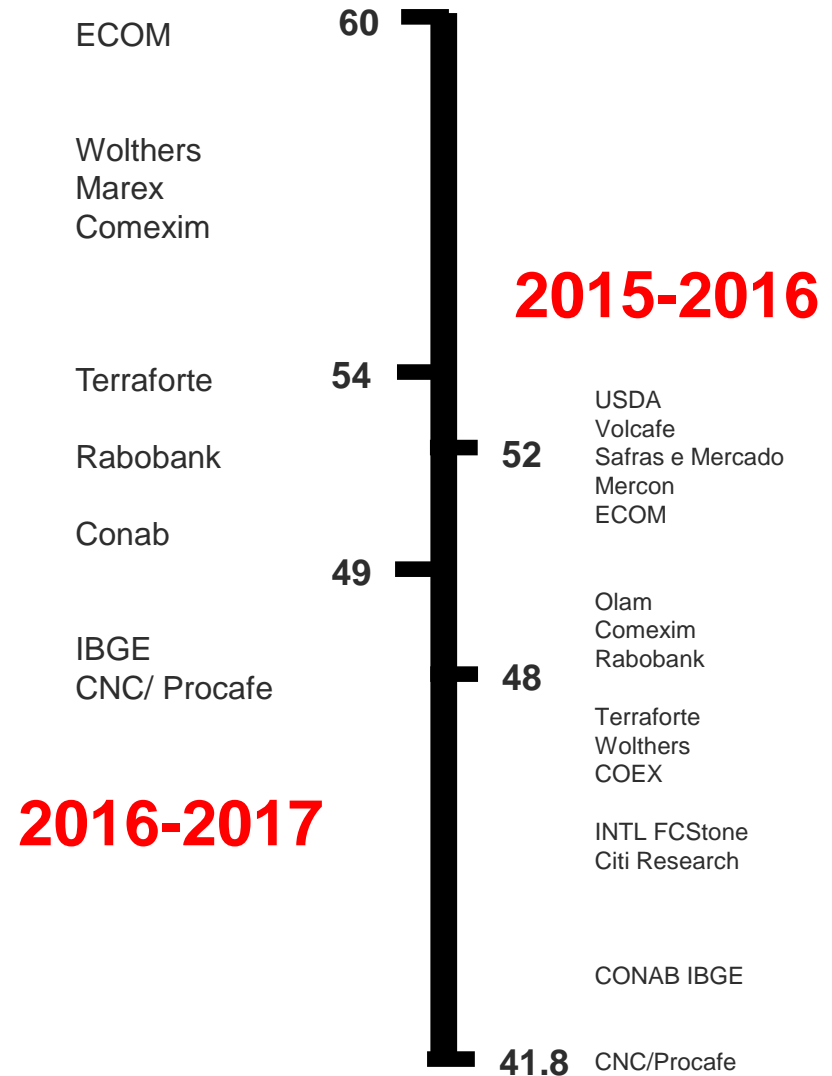
Wide Range → Volatility

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Huge Variability in Estimates

Rise of private estimates

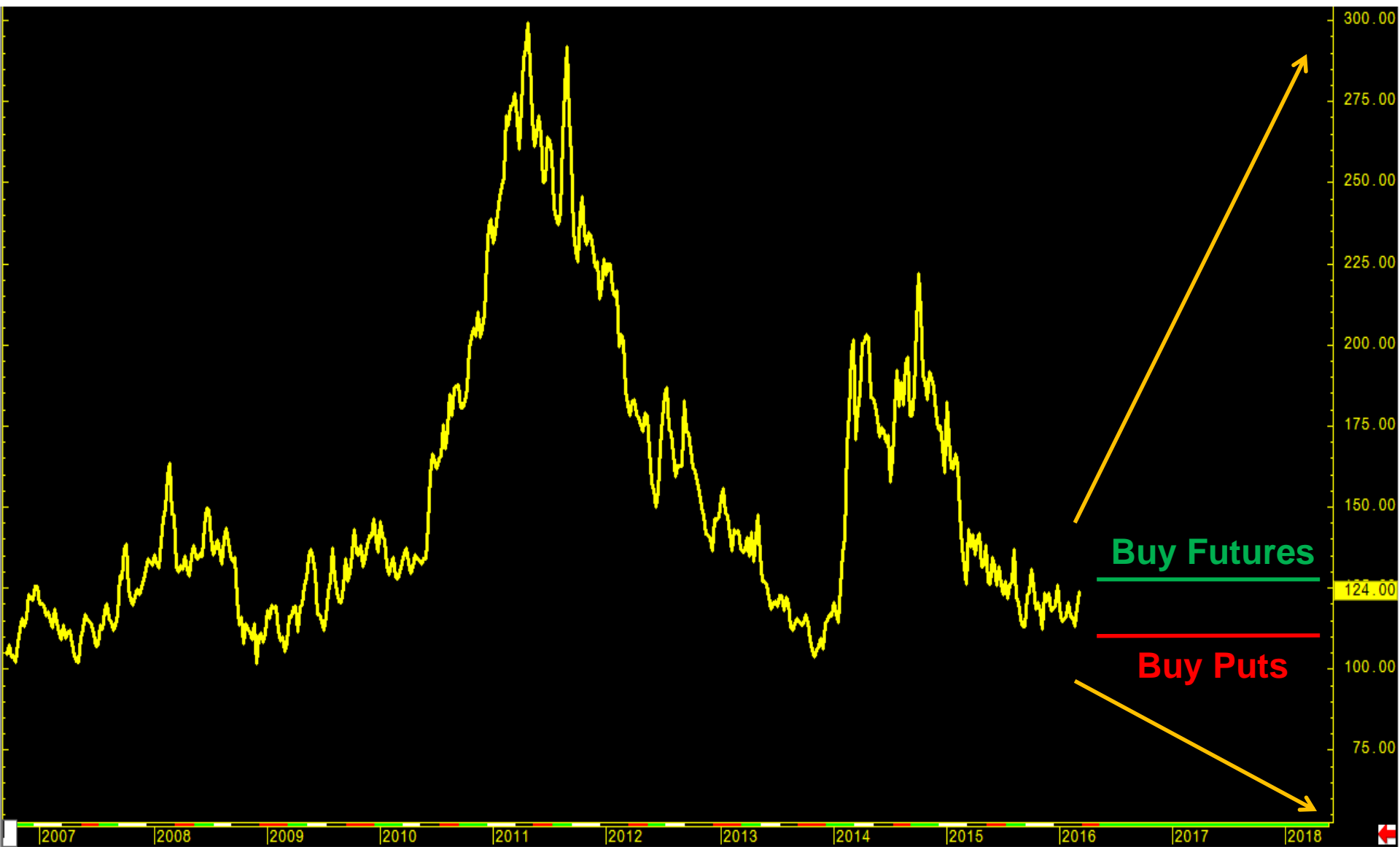
Number of estimates



Variable Purchase

No Need to Guess “When do I Buy?”

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Variable Purchase

No Need to Guess “When do I Buy?”

- Buy Futures \$1.25 May 2016 Contract
- **Option Cost** **+\$0.02** **30** Days of Price Insurance at \$1.20
- Variable Price \$1.27

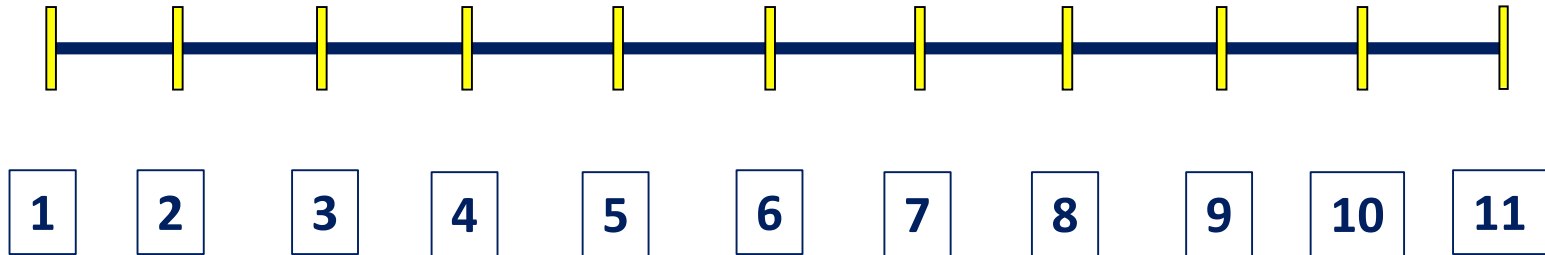
Price Decline  \$1.00

- **Option Pays** **\$0.20**
- **Final Price** **\$1.07**

Hedging with Structured Purchases “Accumulators”



- Custom tailored Buying and Selling programs
- Helps reduce the uncertainty over market prices and «**Guessing**»
- Provides an additional marketing tool
- Provides more attractive pricing***



Consumer Accumulator

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July 2016 @ 127.55

Start: 03/11/2015

End: 06/10/2016

14 Weeks

Accumulates Purchases at: 119.00 **x2**

Stops Accumulating at: **145.00**

Consumer Accumulator With Guaranteed Quantity

July 2016 @ 127.55

Start: 03/11/2015

End: 06/10/2016

14 Weeks

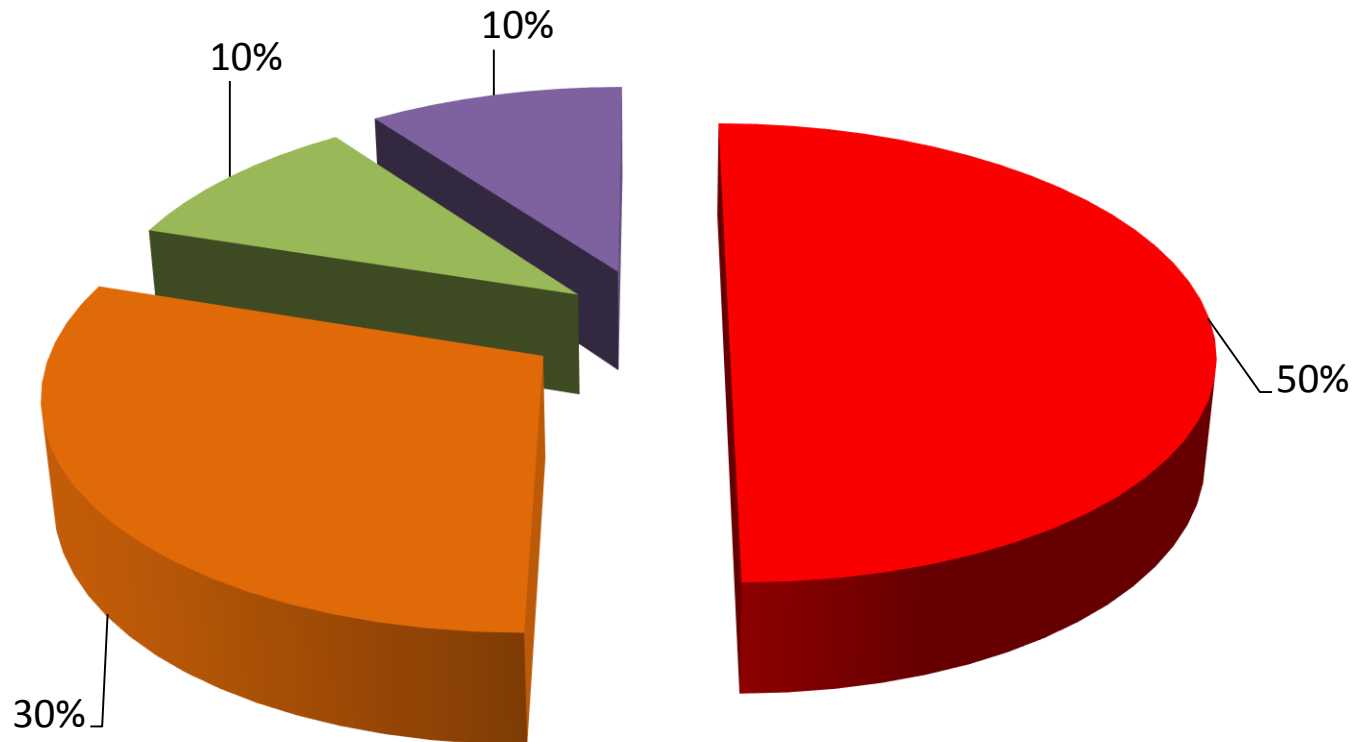
Accumulates Sales at: 122.50 **x2**

Stops Accumulating at: **150.00**

Guaranteed Price: 127.55

Diversified Price Risk Management

■ Fixed Price ■ Variable Purchase ■ Structured Purchase ■ Do Nothing





Commodities · Global Payments · Foreign Exchange · Securities

JULIO SERA

SR. RISK MANAGER

JULIO.SERA@IFCS.COM

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