



# The Hackett Money Flow Report

February 3rd , 2014

Commodity Market Analysis  
for Hedgers and Investors

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## • Coffee OUTLOOK

# SOFTS Index Breaking out Confirming The Early January buy signal



# The All Crop Agricultural Index Nearing a Major Break Out



# The Soft's outperformance relative to The Grains Continues to Accelerate



# The CCI Relative to the SP500 Has Turned Up Above Initial Resistance



# Coffee Accelerating To The Upside Confirming Early January buy Signal- \$1.30/pound Key Pivot Price



# Coffee Prices Outperforming Relative to the CCI-Closed Friday over .24

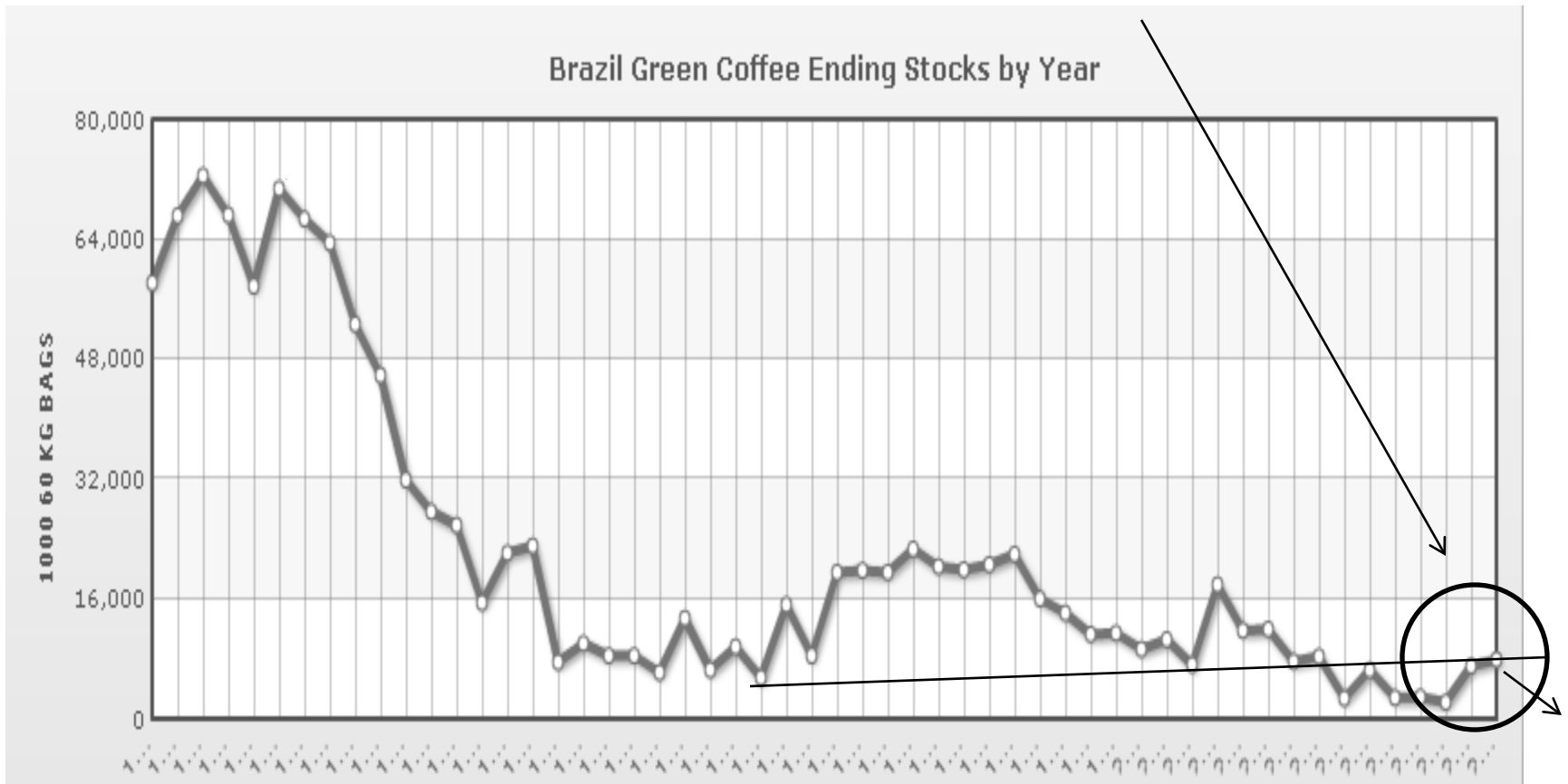


# Coffee Prices Outperforming Relative to the Brazilian real

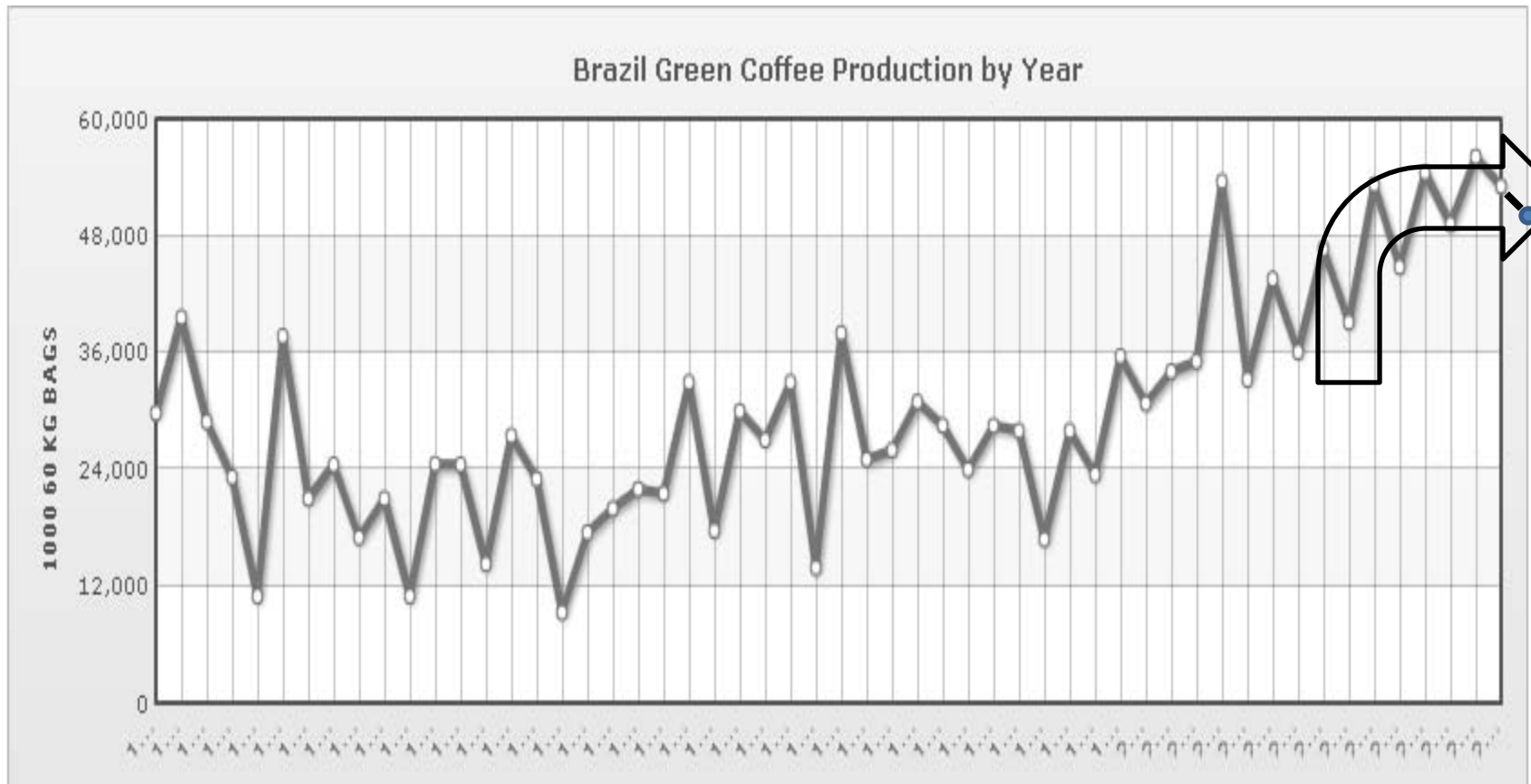




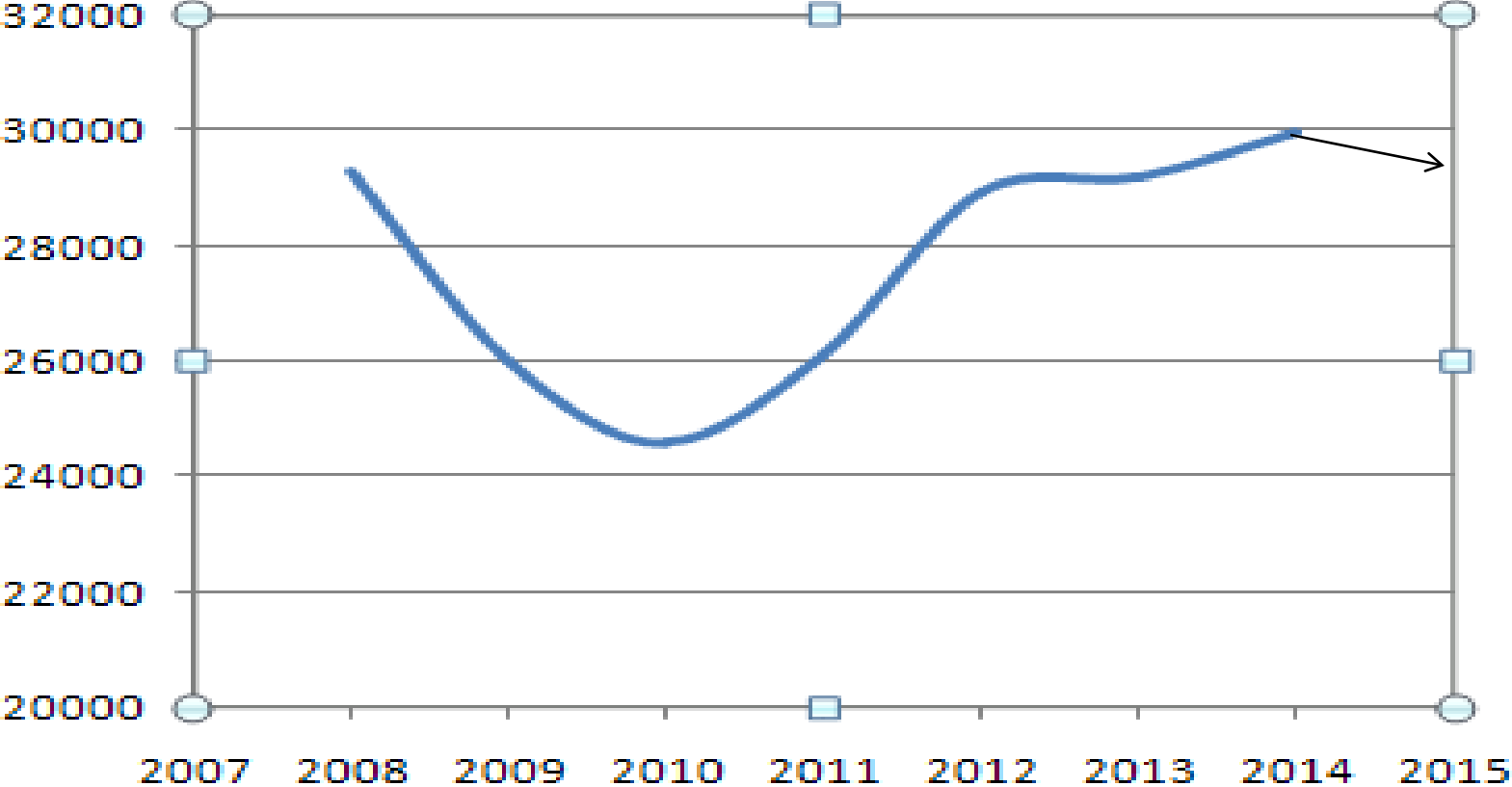
# Brazilian Coffee Ending Stocks Remain Historically Tight Especially Against Record Current Global Demand



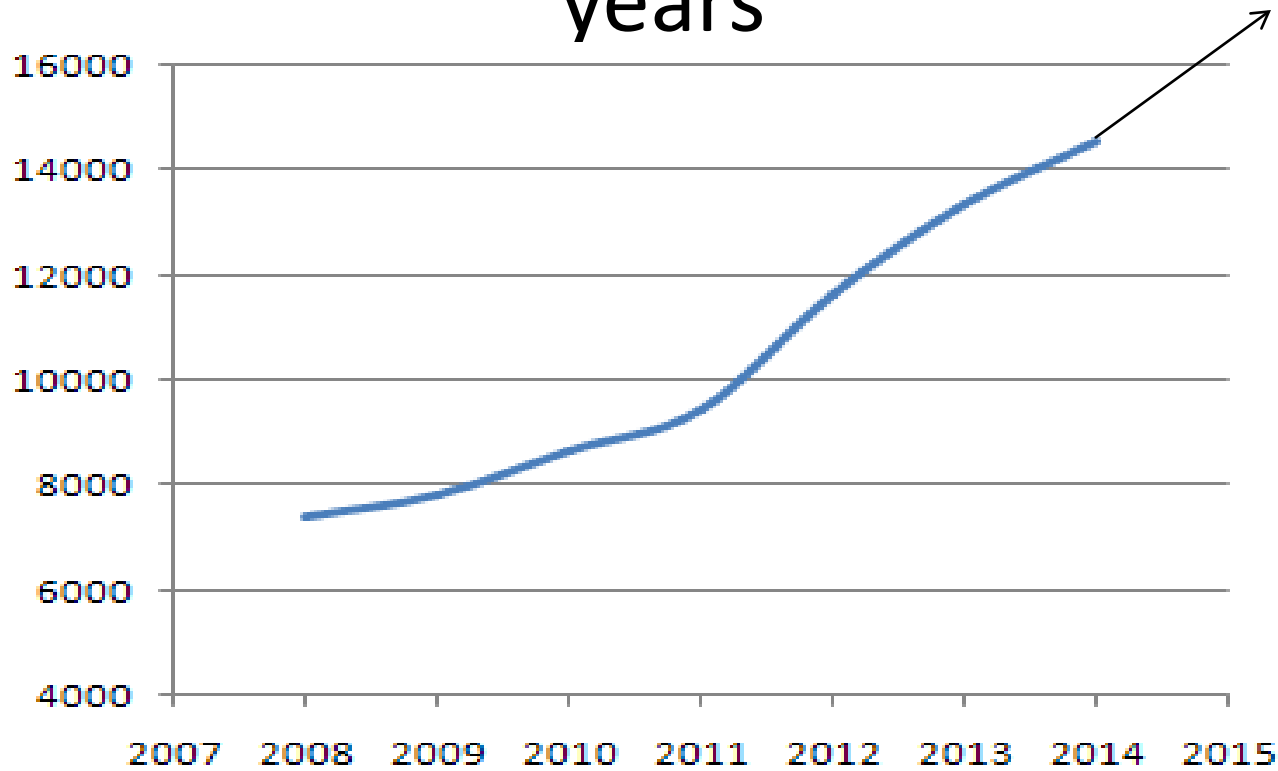
# Brazilian Coffee Production is Flattening Out



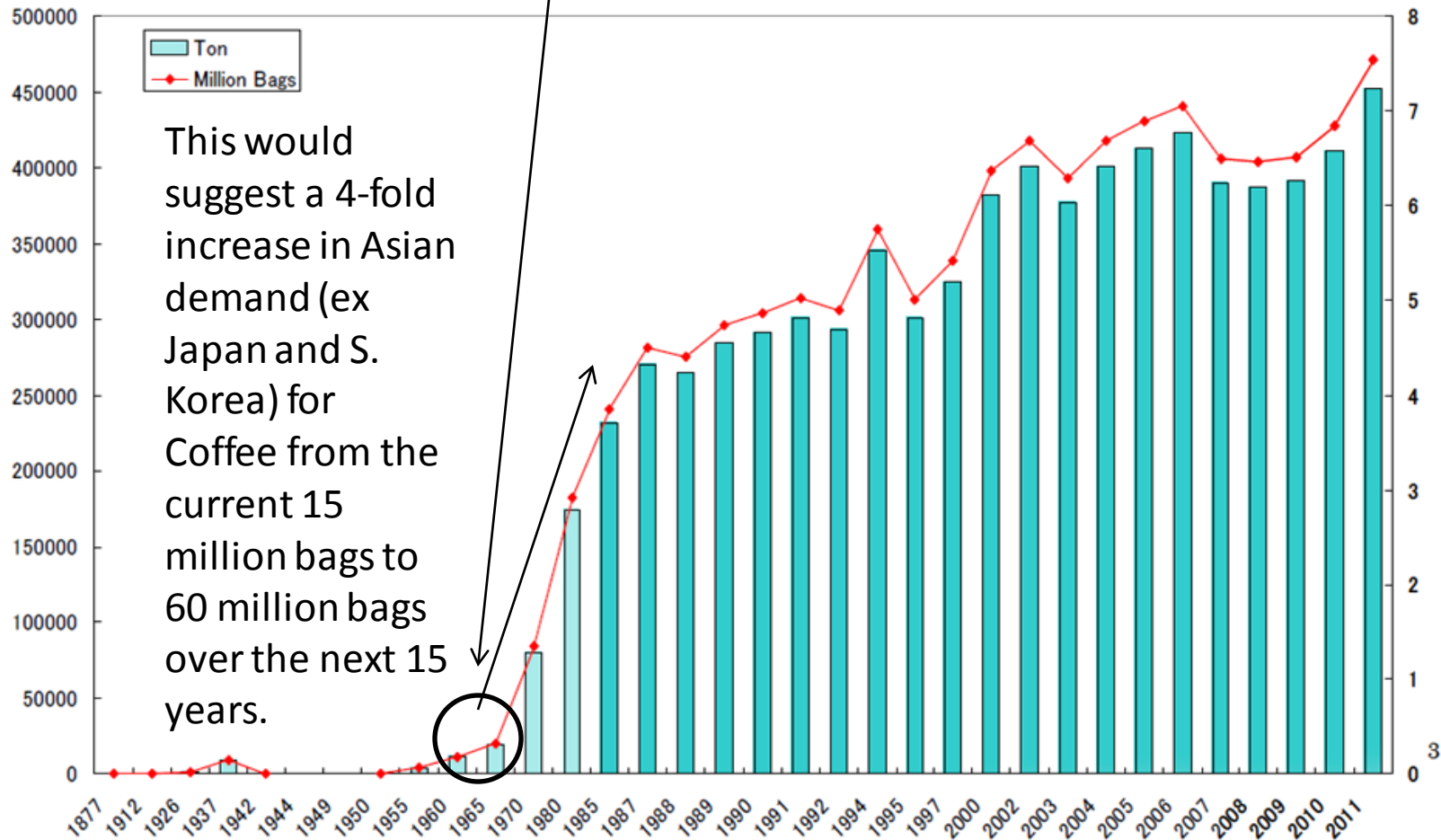
# Central/South American Coffee Production ex-Brazil also going flat as Roya Problems in Central America Offset Surging Production In Colombia



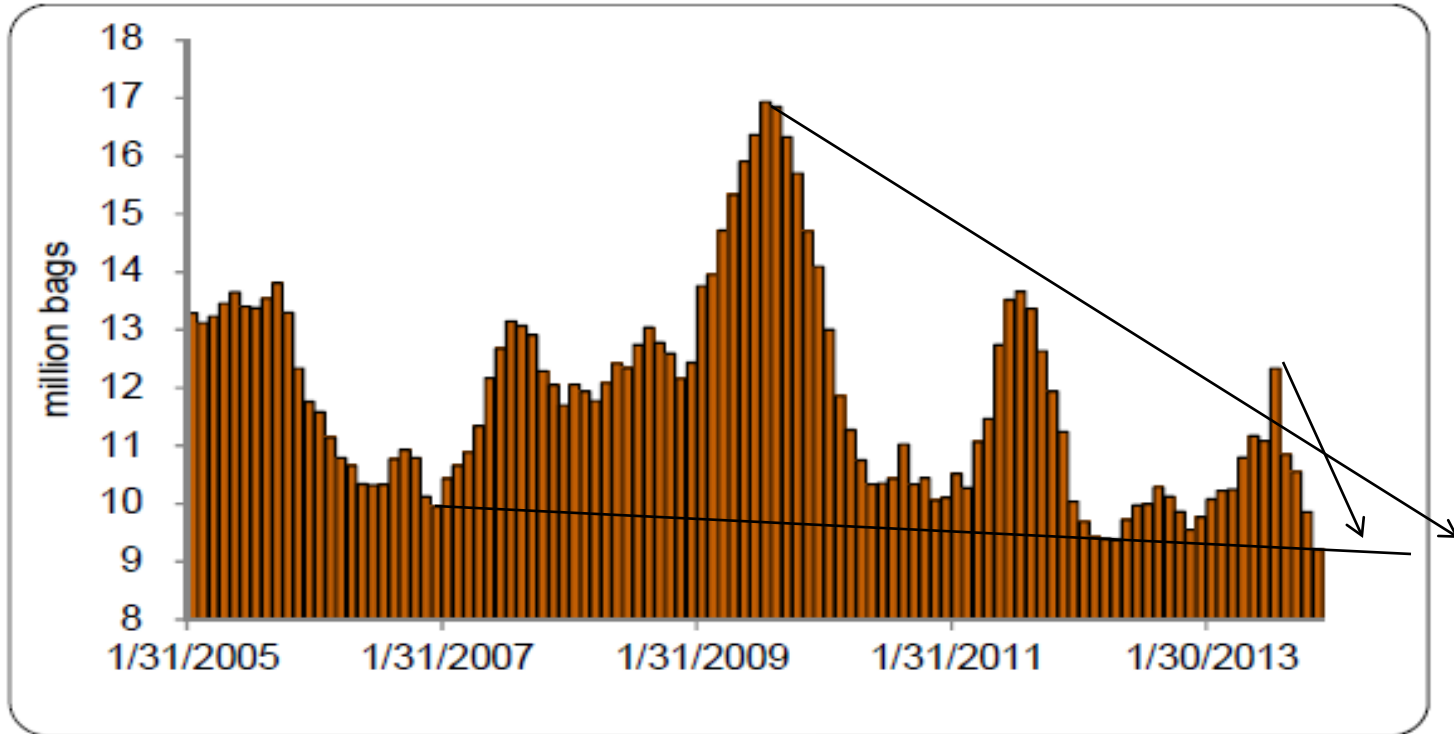
# Asian Coffee Consumption, ex Japan and South Korea, Has Doubled over the last 5 years



# Current Asian Coffee Demand ex Japan and South Korea, Sits Here on the S-Curve seen In Japans Coffee Demand (Chart From Japan Coffee association)



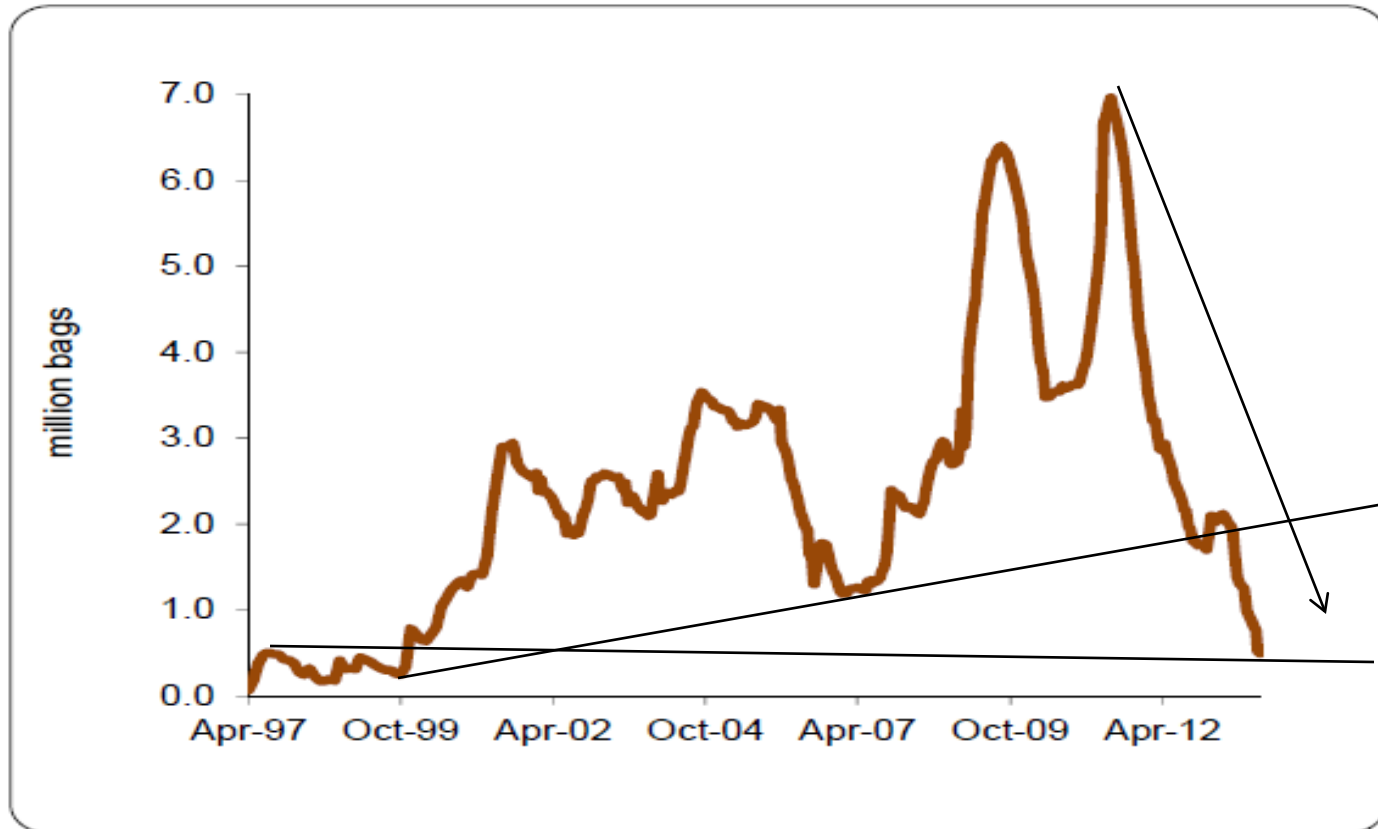
# European Warehouse stocks of Coffee Collapsing to New 9-year lows Illustrating a growing supply crisis (Chart From Judy Gaines)



Source: ECF

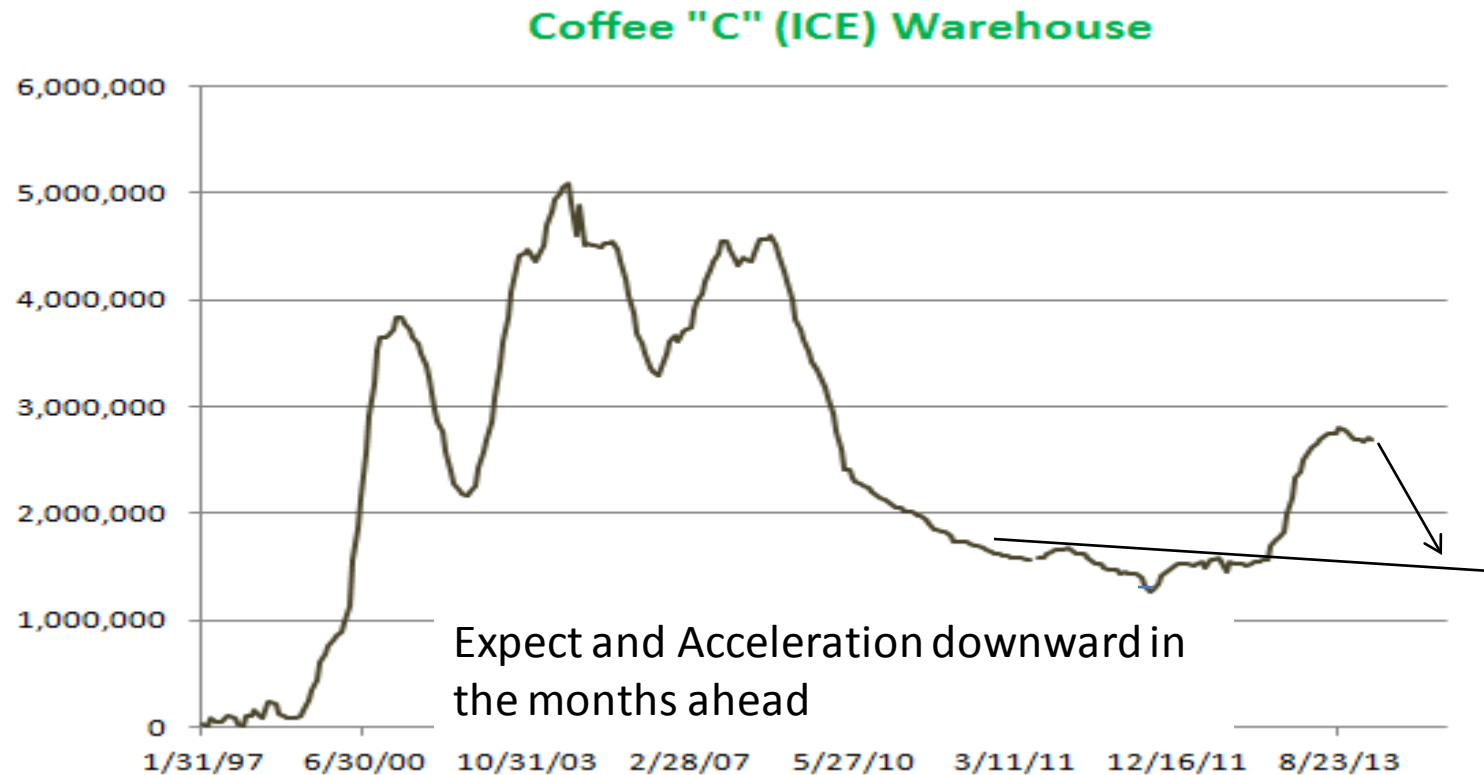
# London Certified Robusta Coffee warehouse Stocks Also Collapsing Suggesting Extreme Tightness

chart from Judy Gaines



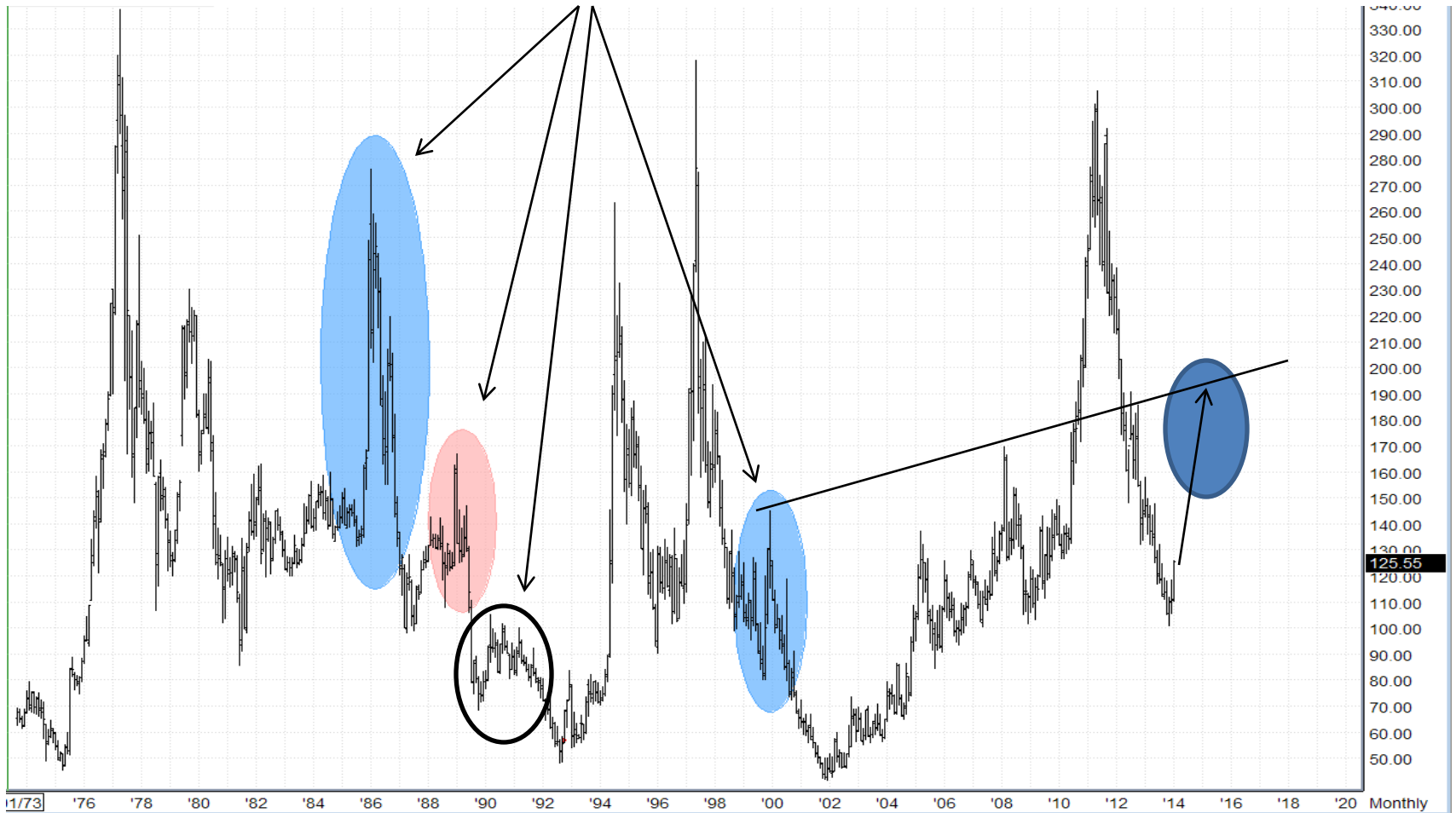
Source: LIFFE

# Arabica ICE Certified Coffee Stocks Beginning to Roll Over From Historically Low Levels





# The Last four Prime Drought weather Spikes In Coffee Saw prices rise between 50% and 100% from the Lows.



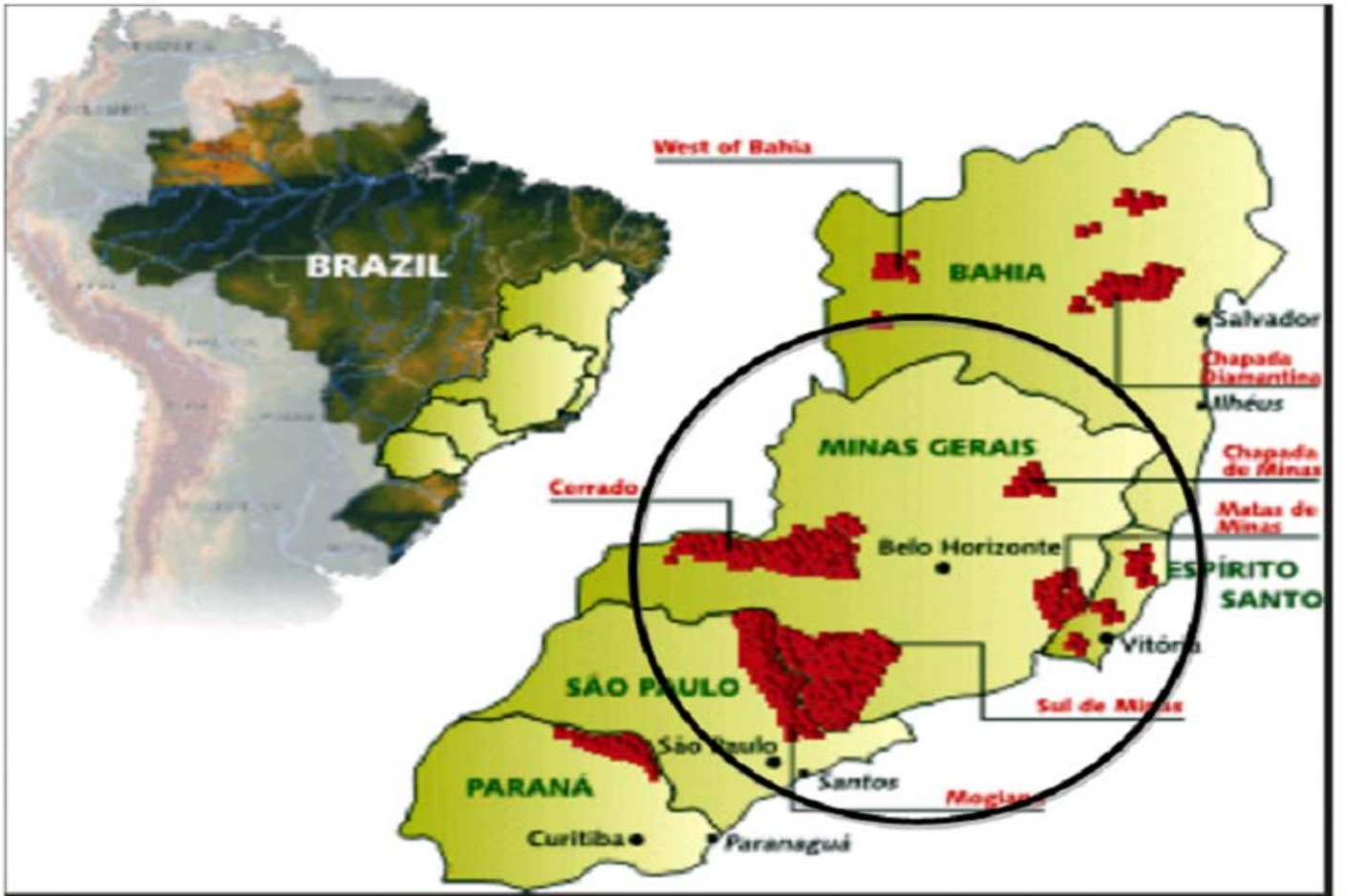
The period from 1988 to 1990 is the most analogous to the Current Drought Situation for Coffee In Brazil-In that Period the Brazilian coffee crop declined by 34% and stayed down the following year

1984	30000	(1000 60 KG BAGS)	69.01 %
1985	27000	(1000 60 KG BAGS)	-10.00 %

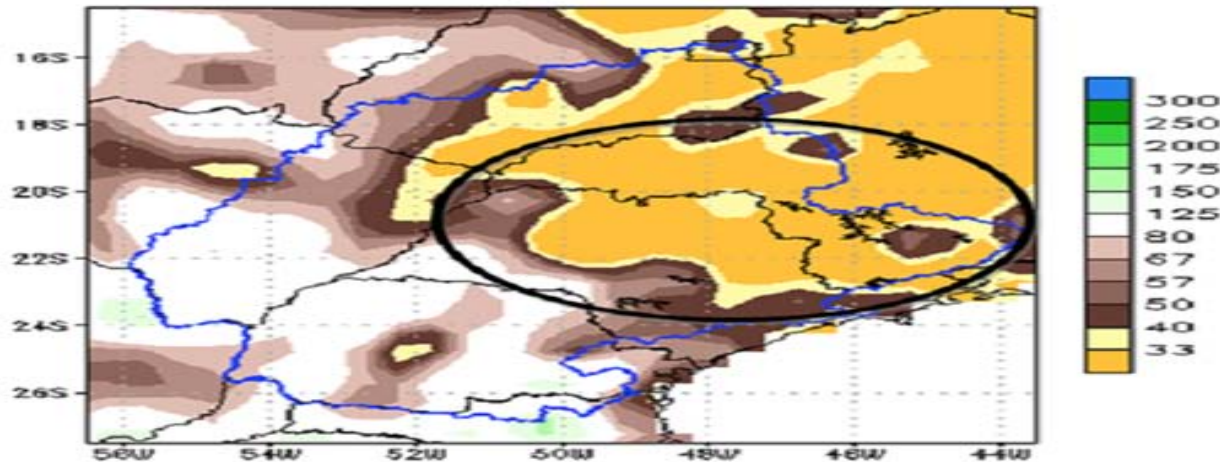
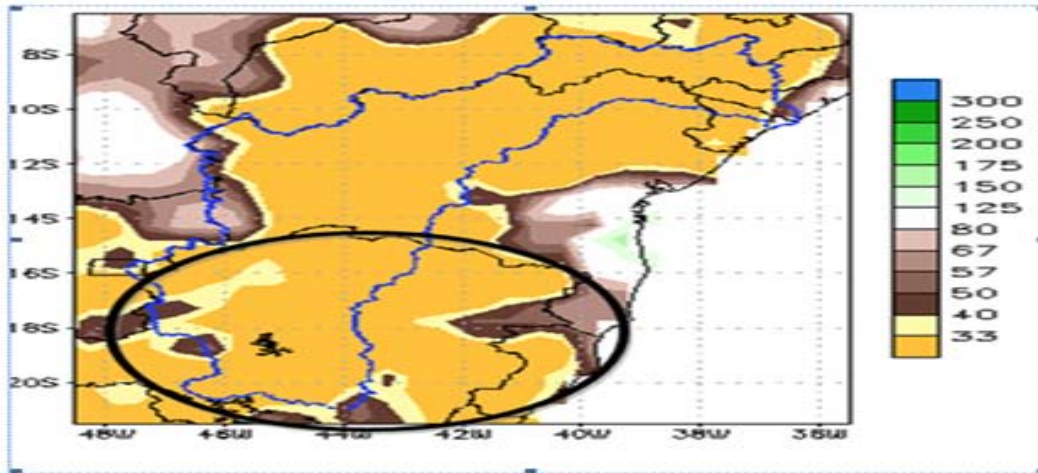
1988	38000	(1000 60 KG BAGS)	173.38 %
1989	25000	(1000 60 KG BAGS)	-34.21 %
1990	26000	(1000 60 KG BAGS)	4.00 %

1999	35600	(1000 60 KG BAGS)	51.49 %
2000	30800	(1000 60 KG BAGS)	-13.48 %

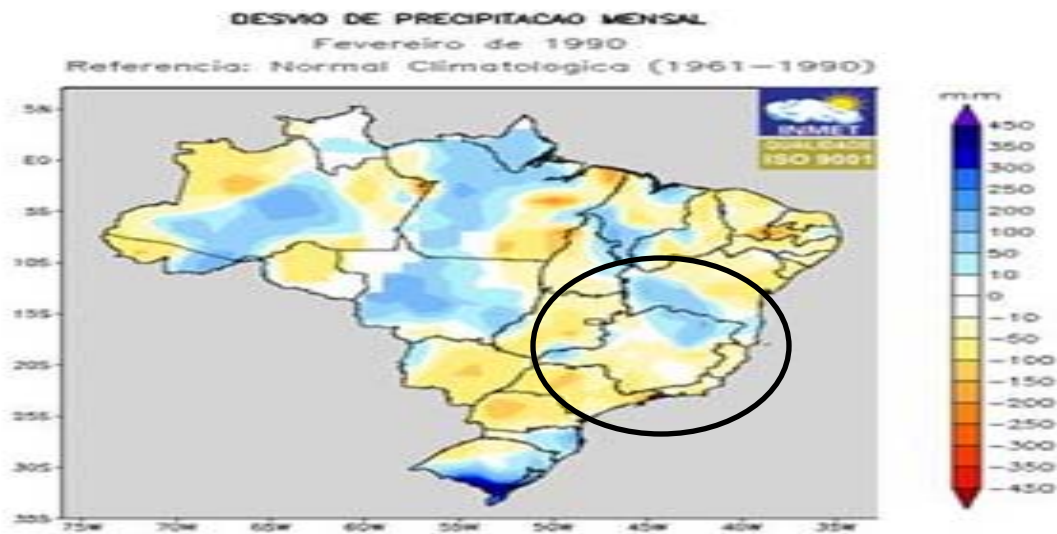
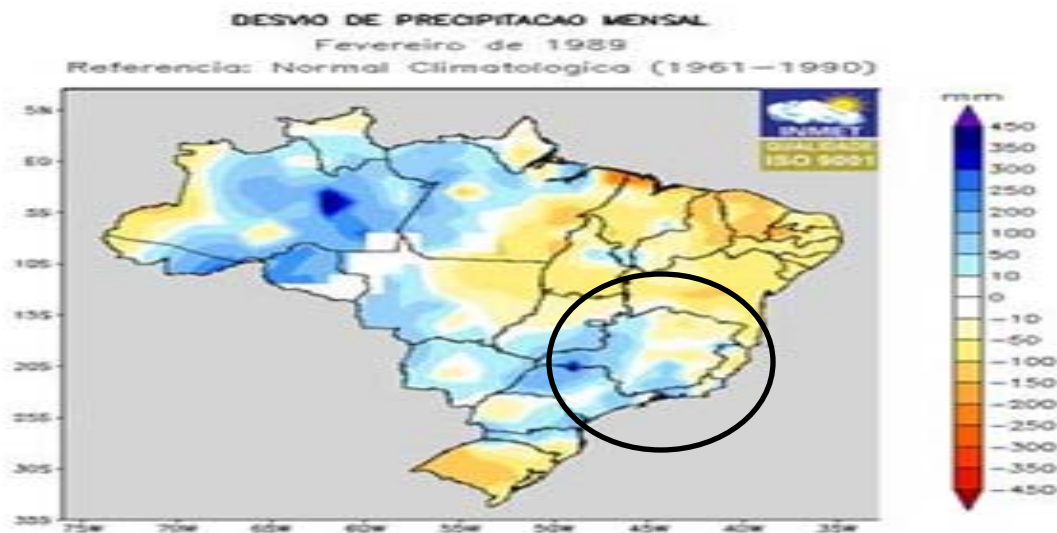
# The heart of the Brazilian Coffee Belt



# January Rains Were Mostly 30% of Normal in the Heart of the Coffee Belt



What About February of 1989 and 1990? In both years the month of February saw better rains. In 1989 dryness remained to the north and in 1990 dryness remained to the south



# Bottom-line Weather Conclusion

- 1) Looking at the only other similar period to the current drought in the Heart of Brazil coffee belt during bean formation suggests the most important month to not have enough rain is January for significant permanent yield loss.
- 2) Current Forecasts have very little rain into mid February and then rain turning back to normal by the 1<sup>st</sup> of March in the heart of the coffee belt. This would suggest that February 2014 will likely be drier than it was in either 1989 and 1990.
- 3) Near all time record heat has accompanied this drought this year in the heart of the coffee belt in Brazil which adds the potential for additional yield loss.
- 4) This has the earmarks of a game changer event for coffee prices

# Reasons For Greater Concern Than Normal

- 1) Huge migration of coffee acreage to more northern drought prone regions than in past drought periods allowing for greater potential production impairment and lower yields.
- 2) Due to coffee trees already be stressed as a result of 2 large output years in a row, when combined with reduced inputs and heavy pruning, increases the potential for a greater impact to reduced yields than normal.
- 3) Tree populations per acre are far more dense today than they were in past drought periods allowing for greater yield deterioration as available water resources need to be spread out to a larger number of trees

# The Bull futures Coffee Spreads of Front months versus Deferrers are Beginning to surge suggesting nearby supplies tightening





# Ultimate Conclusions

- 1) Expect the current crop forecasts which have centered between 50 and 55 million bags to be lowered in the months to come to 48 million to 53 million bags. Should February forecasts for continued dryness play out in Brazil then it is very possible to see forecasts lowered to between 45 million and 50 million bags.
- 2) Such lowered crop expectations would place current Brazilian coffee ending stocks into record tightness similar to that which was seen in 2010.
- 3) Based upon the current value of the Brazilian Real and past drought induced spike moves coffee prices could see current prices rise to \$1.50/pound and \$2.00/pound area by spring should the market embrace this reality.
- 4) February weather will be important in solidifying a tectonic change in the psychology of the big players in the coffee market from bear to bull

# In the Long Run

- 1) With a parabolic S-curve rise in Asian demand against a flattening production outlook for Brazil places Coffee in an ideal situation for an ongoing bull market phase.
- 2) Prices will have to stay high enough for long enough to get Brazil back into acreage expansion as tree populations per acre have reached their maximum density.
- 3) Despite the potential for a near term spike trade that will create some wide volatility, expect coffee prices to settle out at much higher equilibrium prices than in the past.
- Coffee remains the best bull market in the whole commodity complex over the next 5 to 10 years.