

BN Coffee Bulls Return as Drought Menaces Brazil Crop: Commodities
Jan 12 2015 8:16:10

(To get alerts for commodities columns: SALT CMMKT.)

By Megan Durisin

(Bloomberg) -- Brazil is getting dry again and the coffee bulls are back.

Growing regions are forecast to get about half the normal rainfall this month and in February, according to Celso Oliveira, a meteorologist at Somar Meteorologia in Sao Paulo. Brazil is the world's biggest grower and exporter, spurring hedge funds to increase their bets on higher prices for the first time in six weeks.

After more than doubling to last year's peak in October amid the worst drought in decades, coffee ended 2014 in a bear market after heavy rains in November. The return of dry weather sparked renewed risks of damage to flowering coffee trees, sending prices up 12 percent last week, the biggest gain in almost 11 months.

"Coffee is very weather-dependent," John Stephenson, chief executive officer of Toronto-based Stephenson & Co. Capital Management, which oversees C\$50 million, said in a Jan. 9 phone interview. "You've seen a massive drawdown in stockpiles in Brazil. When that's coupled with the drought, supply is tight-to-constrained."

Arabica coffee for March delivery surged 19 cents last week to \$1.8005 a pound on ICE Futures U.S. in New York. Prices rose 9.3 percent this month, the most among the 22 components in the Bloomberg Commodity Index, which fell 1.6 percent. The MSCI All-Country World Index of equities declined 1.3 percent and the Bloomberg Dollar Spot Index climbed 1.3 percent.

Coffee Bets

The net-long position in coffee rose 6.6 percent to 27,071 futures and option contracts in the week ended Jan. 6, the biggest gain since mid-October, according to U.S. Commodity Futures Trading Commission data published Jan. 9. Long wagers climbed by 2,492 contracts, offsetting a rise in short holdings of 806 contracts.

Northern regions of Brazil will remain "almost completely dry" in the next two weeks, while light rain is expected in southern Minas Gerais and most of Sao Paulo, Donald Keeney, a meteorologist with MDA Weather Services in Bethesda, Maryland, said in Jan. 8 interview. As much as 40 percent of the crop is at risk, because plants need water to develop cherries that contain the coffee bean, he said.

Prices could climb as high as \$2.30 by the end of December, according to Ross Colbert, a New York-based global beverage strategist at Rabobank International. Continued dryness may compound last year's crop damage, he said.

Brazil Harvest

Bloomberg - Your definitive source

If you need help on the BLOOMBERG press the HELP key twice

Copyright (c) 2015, Bloomberg, L. P.

BN Coffee Bulls Return as Drought Menaces Brazil Crop: Commodities
Jan 12 2015 8:16:10

Weather concerns may not last. Arabica-coffee futures dropped 11 percent in December on signs the 2014 drought in Brazil had eased.

The crop Brazil's farmers will harvest from May to October will reach 50 million bags, Ecom Agroindustrial Corp. said last month. That compares with a July outlook from the National Coffee Council for less than 40 million bags. Each bag weighs 60 kilograms, or 132 pounds. Prices are down 19 percent from a 32-month high of \$2.255 reached in October.

"Trying to bet on weather is always just so mercurial and so hard to do," Sameer Samana, St. Louis-based global strategist at Wells Fargo Investment Institute, which oversees \$1.6 trillion, said in a Jan. 8 phone interview. "The overall picture in coffee is more of a short-term move. It's hard to extrapolate too much from this recent blip."

Net-long holdings across 18 U.S. traded commodities fell 0.6 percent to 790,238 contracts as of Jan. 6, the CFTC data show. Bullish bets across 11 agricultural commodities slid 3.7 percent to 501,606 contracts.

Copper Bears

Investors got more bearish in copper, holding a net-short position of 10,881 contracts, compared with 4,455 a week earlier. The net-bullish wager in crude oil was little changed.

The net-long position in gold rose 8.5 percent to 106,734 contracts, the highest since August. Futures last week climbed 2.5 percent to \$1,216.10 an ounce.

Europe's stalling economy has increased speculation that central bankers will continue to boost stimulus measures and weaken currencies, spurring demand for bullion as a store of value. Gold priced in euros climbed to the highest since September 2013.

"Gold has been to a certain extent bucking the trend," Frances Hudson, a global thematic strategist at Standard Life Investments in Edinburgh, which oversees \$422 billion, said in a Jan. 9 phone interview. "It's been stronger in euro than in dollar terms. That probably plays directly to political uncertainties surrounding Greece and also the potential for quantitative easing from the European Central Bank."

(In an earlier version of this story, the spelling of Sao Paulo was corrected in the seventh paragraph.)

For Related News and Information:

Brazil's Coffee Region Faces Drought Deja Vu as Futures Rebound
Arabica Coffee Seen Surging 26% This Year by Rabobank on Deficit
Gold Volatility Advances to One-Year High on U.S.-Europe Divide
Top agriculture coverage: TOP AGR <GO>
Commodity stories: TOP CMD <GO>

--With assistance from Marvin G. Perez and Luzi Ann Javier in New York.

BN Coffee Bulls Return as Drought Menaces Brazil Crop: Commodities
Jan 12 2015 8:16:10

To contact the reporter on this story:

Megan Durisin in Chicago at +1-312-443-5921 or
mdurisin1@bloomberg.net

To contact the editors responsible for this story:

Millie Munshi at +1-212-617-5543 or
mmunshi@bloomberg.net

Steve Stroth, John Deane

[TAGINFO]

NI AGMARKET
NI AGR
NI ALLFEA
NI BNCOL
NI BRNEWS
NI BUSINESS
NI CMD
NI CMDMARKET
NI CMDX
NI CMMKT
NI COFFEE
NI CONS
NI COS
NI EXCLUSIVE
NI FBR
NI FOD
NI GEN
NI GLD
NI GLDMARKET
NI MARKETS
NI MET
NI METMARKET
NI NONFERR
NI PCS
NI PCSMARKET

-0- Jan/12/2015 13:16 GMT