

DJ Coffee Drops to One-Year Low on Production Forecasts

By Julie Wernau And Carolyn Cui

Coffee prices dropped to their lowest level in more than a year Thursday as estimates of excess production poured in.

Arabica coffee for July, the most actively traded contract, fell 5.6% to \$1.2845 a pound, its lowest close since Jan. 31, 2014, and its steepest percentage drop in 2 1/2 months on the ICE Futures U.S. exchange. Arabica is a type of coffee prized for its mild flavor.

A major coffee merchant that had previously projected global shortfalls in the coming year is now estimating a surplus. At the same time, production forecasts for Colombia, the second-largest arabica producer after Brazil, were revised higher by the U.S. Department of Agriculture.

"It's an ugly day, there's no doubt about it," said Jack Scoville, vice president at Price Futures Group in Chicago. "All the recent rains down in Brazil seem to have really done a job of making the crop better, so here we are back at these lows. As bearish as this market has been, why not beat on it some more?"

The Volcafe division of commodities house ED&F Man added 1.6 million bags to its global production forecast for the year ending Sept. 30, raising its estimate to 143.8 million bags, based on larger-than-anticipated exports from Brazil. However, demand is still expected to exceed production, leaving a revised supply deficit of 6.4 million bags of beans. Each bag weighs 132 pounds.

For the next year, Volcafe is estimating global production at 154.5 million bags, which includes its forecast for a bumper crop in Brazil, and a supply surplus of 1.3 million bags.

In a separate report, the USDA said Colombia's coffee production is likely to increase 4% from a year ago to 12.5 million bags in the current year and 12.7 million bags in the next, if the weather remains favorable. The USDA also reported that efforts to combat coffee leaf rust in Guatemala have been increasing yields, with production likely up 3% this year.

In other markets, cocoa resumed its winning streak on Thursday, with prices hitting the highest level in more than seven months, as investors anticipated bad weather reducing production in the world's main growing regions.

Cocoa for July delivery, the most actively traded contract, rose 1.2% to end at \$3,163 a ton, the highest since Oct. 1.

Prices had gained for nine consecutive trading sessions before closing lower on Wednesday. But the market surged again Thursday on speculation that dry and hot weather could hurt midcrop production in West Africa and that El Niño could curb Asian cocoa output, according to Price Futures Group.

Raw sugar for July fell 0.8% to end at 12.49 cents a pound. Brazilian sugar cane industry group Unica gave its first forecast for the new year, saying that sugar production in the main growing region would decline 0.6% from the previous season to 31.8 million tons.

Net export sales of U.S. cotton climbed for a second week in a row, initially boosting cotton futures as high as 64.93 cents a pound. But futures pulled back as some traders took profits, and the July cotton contract ended down 0.7% at 63.73 cents a pound, the lowest settlement since April 21.

Frozen concentrated orange juice for July delivery rose 2% to end at \$1.1735 a pound.

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DJ Coffee Market at 'Critical Moment' -- Market Talk

15:52 EDT - Arabica coffee futures fall 5.6% today, the biggest one-day percentage loss in more than two months, which Thiago Marques Cazarini, coffee broker at Cazarini Trading, says has left the market at a "critical moment." Prices broke below \$1.30 a pound, and if more bears come out Friday, prices could fall to \$1.20 a pound, Cazarini says. July arabica ended at \$1.2845 a pound, the lowest close in more than a year. (julie.wernau@wsj.com)

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