

By Christian Berthelsen

Coffee futures fell sharply Friday after a host of data points signaled potentially rising supplies and weakening demand, reversing a rally that had driven prices to their highest levels in nearly two months.

Weather forecasts in Brazil, the world's largest producer, began to reflect stronger rains deeper into the growing season, raising concerns about a larger-than-expected crop. Colombia, the third-largest producer, said it would loosen export restrictions to aid struggling farmers, adding to global supplies. And a U.S. trade organization reported that unroasted bean inventories fell far less than expected in September.

Coffee futures for December delivery lost 5.9% to settle at \$1.2585 a pound on the ICE Futures U.S. exchange, their biggest one-day decline since May 16, 2014. Prior to Friday's selloff, coffee futures had been in a nearly 20% rally since late August. Both the Colombia announcement and the stockpile data from the Green Coffee Association were released Thursday after the market settled, so Friday's session was the first opportunity for prices to reflect the new information.

Analysts said the selling was likely exacerbated by traders closing out bullish trades and taking profits from the rally. Financial speculators have been betting against the market, leaving few buyers to step in. With the new picture emerging from the latest data, the recent rally is likely over "in the short term," said Hernando de la Roche, a senior vice president at brokerage INTL FC Stone in Miami.

Weather forecasts in Brazil's growing region predict continued dryness in the coming days, according to Meteorlogix, which was expected to hinder crop development. But forecasts looking further ahead into the fall and winter said monsoon rains are expected in some areas, and that normal rains will arrive during the most important phase of pod development from mid-December to early February.

If true, the expected drought that could have prompted a surge in coffee prices similar to early 2014 wouldn't come to pass.

The forecast "would be very favorable to the crops in almost the entire country," Societe Generale said in a note. "This would bode very well to alleviate some of the recent lack of rains and re-energize producers."

The Green Coffee Association said stocks of raw coffee declined by 6,000 bags in September, to 6.1 million bags. Mr. de la Roche said the usual September decline is around 80,000 bags.

Coffee has been in a yearlong slump, falling nearly 50% before its recent rally. Much of that has been driven by the tailspin in Brazil's currency, the real, which causes producers to increase exports and capture better profits on global markets.

Sugar prices have been battered by the same phenomenon since Brazil is also a top sugar producer, but the two markets weren't trading in tandem Friday as they often have recently. Sugar prices gained 1% to settle at 14.27 cents a pound. Cocoa rose 0.4% to \$3,119 a ton, orange juice futures rose 3% to \$1.3510 a pound and cotton rose 0.6% to 63.85 cents a pound.

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