

1212 GMT Brazilian politics are key for coffee prices. Brazilian economic and political scandals influence the value of the real, which is the most important currency in the coffee world after the U.S. dollar, the base denomination for world coffee prices in both robusta and arabica. Especially as exports of beans from the country remain high, "currencies' performance, particularly the BRL, will be the key for the terminal next move," says Rodrigo Costa at Societe Generale. Political crises have pushed the real down 11.27% against the dollar over the last 12 months. But the real has strengthened recently on expectations that the impeachment process could pick up following massive protests. (katherine.dunn@wsj.com)

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By Katherine Dunn

ADDIS ABABA, ETHIOPIA—The **coffee** industry is increasingly polarized between gourmet varieties and high-volume, low-margin products, according to the head of the Specialty **Coffee** Association of America.

Speaking on the sidelines of the World **Coffee** Conference in Addis Ababa, Ethiopia, this week, SCAA executive director Ric Rhinehart said the market is increasingly split between a mass-market sector dominated by very few players, and a small but diverse specialty sector.

"The upshot of that is you're starting to get a fairly bifurcated market," Mr. Reinhart said. The result leaves mid-sized companies particularly squeezed, he said.

In mature **coffee** markets, where consumption growth has been mixed, specialty **coffee** has found a small but fertile slice of the market.

"It sort of woke those markets up," Mr. Rhinehart said. He said there are now 4,500 roasters in the U.S., most of them roasting only small amounts.

Meanwhile, the mainstream **coffee** market has seen a period of consolidation, as major players buy up brands, he said.

Last year, holding company JAB announced it would purchase American **coffee** brand Keurig Green Mountain for \$13.9 million. JAB holding company holds a majority stake in Amsterdam-based roaster Jacobs Douwe Egberts, which calls itself the largest pure-play **coffee** company in the world, and controls brands from Tassimo to Pickwick.

This polarization is also clear in the consumption trends over the last several years, Mr. Reinhart said.

In countries like Japan, the U.S. and Germany, consumers typically drink arabica, which is generally considered higher-quality and is appreciated for its taste. But as **coffee** culture grows, the rate of consumption growth has been mixed.

According to estimates by the U.S. Department of Agriculture, consumption has fallen 3.1% in the European Union overall since the 2011/2012 season, while it rose nearly 5% in the U.S.

Instead, consumers are drinking higher-end arabica from specialty brands that cost more per cup, he said.

"What's changed fairly dramatically is what's being consumed," Mr. Reinhart said.

Meanwhile, consumption in emerging markets--while still small--has grown quickly. Over that same period, the USDA estimates consumption of **coffee** in China has grown by nearly 82%. However, growth in other markets, like India, have fallen.

This growth in emerging markets is fuelling the expansion of production of robusta, Mr. Reinhart said. Robusta is a cheaper, higher-caffeine bean used for blends and instant **coffee**, produced mainly in Vietnam and Brazil.

The hardier robusta bean is easier to grow and cheaper, making it more popular in emerging markets where the lower price is more affordable for first-time **coffee** drinkers in traditional tea-drinking countries.

But as emerging markets mature, he predicted that consumers there could follow the trend for upmarket varieties and get hooked on specialty arabica, too.

"Arabica's got clear potential," he said.

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