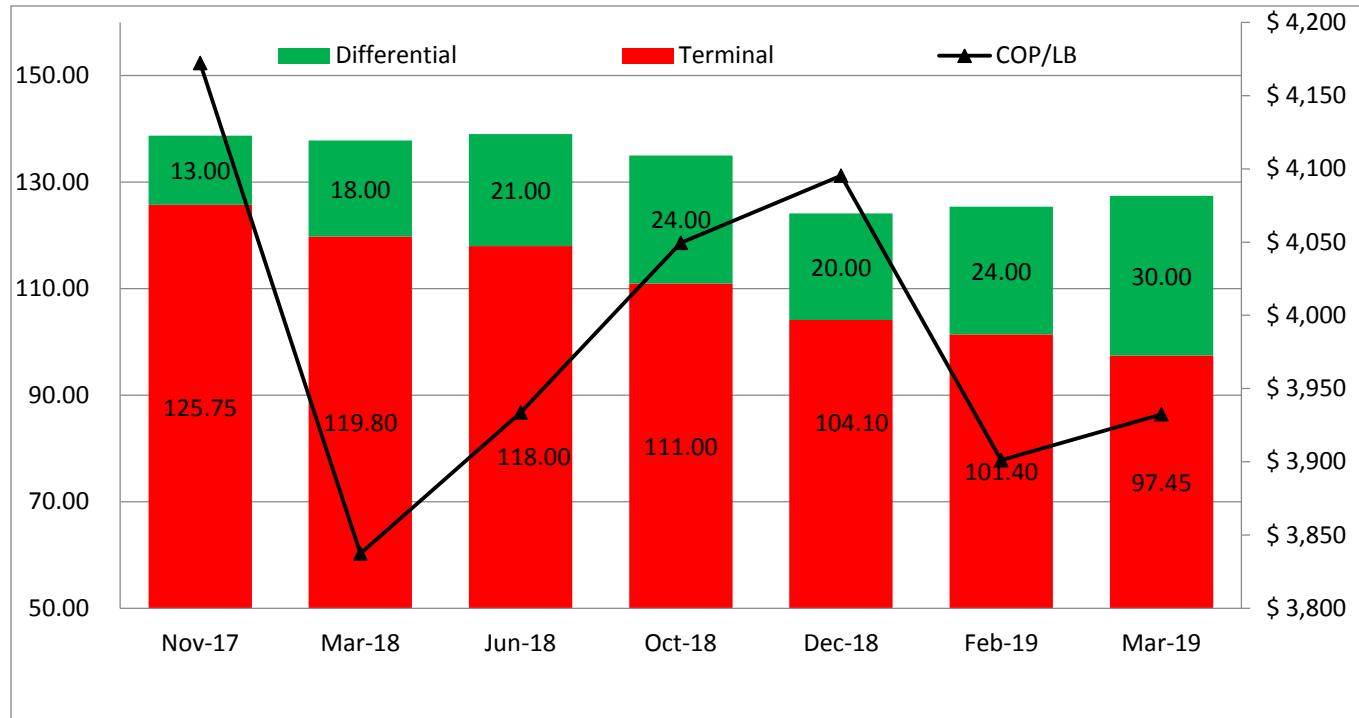




Colombia's Peso; More Means Less



- Evidence suggests that when the net FOB price falls below \$4,000 (Colombian Pesos) per pound, differentials readjust to rebalance and maintain this final FOB price.
- From March 2018 through December 2018:
 - NY Prices falls 13% from 119.00 to 104.00
 - The Colombian Peso depreciated 18% from 2784 COP/USD to 3300 COP/USD
 - Differentials increased 2 cents per pound.
- Since December 2018
 - NY prices fell 6%
 - COP appreciated 6%
 - Differentials increased 10 cents to compensate for the impact of the futures contract and the Colombian Peso.



What to Expect

Production by Category	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20 est.
Colombian	7,638	9,927	11,500	13,335	14,009	14,634	13,902	13,500	12,420
Other Milds	32,487	31,665	29,438	29,040	30,468	31,764	34,286	33,014	31,142
Naturals	42,529	48,100	43,700	42,200	50,350	48,060	54,425	45,893	49,658
Total Arabica	82,654	89,692	84,638	84,575	94,827	94,458	102,613	92,407	93,220

- Total washed Arabica productions appears large enough to satisfy the minimum demand.
 - The question is, what will be the distribution within the category in 2019?
- When comparing current exports to those going back to 2011, we can assume demand elastic demand is about 4.5 million bags. We estimate there are about 2 million bags of coffee in this category left to be purchased.
- Depending on the individual roaster we can see Colombian usage change:
 - Europe has moved from Colombia to origins such as Burundi, as they are not as reliant on marketing coffees as 100% Colombian.
 - In North America, we expect there will be a shift from Colombia to Guatemala, Nicaragua and Peru.
 - Honduras would be possible for 2020, but we feel it would be too late in the current season for Honduras' quality to be a good substitute for Colombia.
- Guatemala offers the largest amount of freely available, primary Arabicas to substitute the elastic demand portion of Colombia blends.
- This week, Guatemala SHB EPs traded at a discount to Colombian Excelsos.
- Nicaragua SHG EPs and Peru MCM Grade 1s, priced 15 cents below Colombians, currently provide the best value within this category.
- Economic outlook in Colombia remains largely positive, indicating further potential for the Peso to keep strengthening.