

## ICE CORRECTS RECENT LOSSES

Arabica coffee reacts after flirting with the level of 120 cents per pound on ICE Futures in New York and is working again above the significant 125-cent level for the December/17 futures. The too net short portfolio position held by funds stimulated short-covering, offering support to gains. Even with improving prices, the market continues without strength to overcome resistances, which limits the corrective movement. The fast pace of world exports along with the upward revision in the production numbers for the 16/17 season by ICO keep pressuring prices.

In addition, the ICE Europe (LIFFE) is melting, influenced by the advance of the Vietnam crop. The arrival of important origins in the market, such as Colombia, Central America and Vietnam, reinforces the comfortable feeling of demand. And this leads the industry to continue working on a hand-to-mouth basis, lengthening stocks and betting on a big crop in Brazil in 2018.

Although arabica coffee on ICE remains with little power of reaction, the market gives signs that it is looking for its bottom. The ICE has already priced a large crop in Brazil, of something around 60 million bags. Growers here question this potential, due to the sequelae caused by the long drought and high temperature of September and early October. It is good to be aware that anything that compromises this productive potential drives to corrections in price levels. In that sense, there is more room for prices to rise than to fall.

## ICO indicates surplus of 2.3 million bags in 16/17

The ICO revised upwards the global coffee production figures for the 16/17 crop, from 153.9 million to a record of 157.4 million bags. An increase of 3.5 million bags, which only reinforces the signs of a more comfortable supply. According to the ICO, the 16/17 season broke the sequence of production deficits of the previous two seasons and closed with a global surplus of 2.3 million bags. The ICO estimates a consumption of 155.1 million bags. The review of the crop in Mexico and Central America, with highlight on Honduras, explains this higher than expected global production. Global arabica production in 16/17 hit 101.6 million bags, against 97.3 million bags in the previous estimate. As for robusta, production fell to 55.9 million bags, compared to 56.6 million bags in the previous forecast.

## Physical market tries to detach from external scenario

Though hostage to the outside scenario, the domestic physical market has forced a positive detachment from the ICE Futures US. It finds support from the dollar, from the small and problematic crop harvested this year, and from doubts about the potential of the next national output. But despite all this effort, prices have reacted little and are well below the average of the last 5 years.

# A TECHNICAL LOOK AT NEW YORK



The Dec/17 futures show a short-term technical reaction by moving away from the bottom and recovering the average of 10 times and the level of 125 cents. However, it remains below the average of 21 times, bringing uncertainty about the corrective force of the movement. Even with gains, it remains distant from the levels of 100 and 200 times, following a long-term negative trend.

To continue on a bullish trajectory, the average of 21 times must be surpassed. The bullish target continues being the dense level of 40 times and more above the mark of 130 cents. At the bottom, attention to the support at 121.20 cents. The bearish target is the 120 cents level and down below the graphic bottom at 119.10 cents seen on June 22.



Hard arabica coffee with 15% of defects from southern Minas, for example, started the month of October at BRL 455 a 60-kg bag. Throughout the period the description exchanged hands between BRL 445 and 460 a bag, but ended October at the

same level it started, that is, BRL 455 a bag. Between the ups and downs, the average price of coffee from southern Minas Gerais was BRL 451.43 per 60 kg, which corresponds to a devaluation of 0.90% from September.

## COFFEE: AVERAGE PRICES IN DOMESTIC PHYSICAL MARKET

	- in 60-kg bags -					
	Fine Cerrado(1)	Hard south MG(2)	Rio coffee(3)	Conillon 7(4)	600 defects(5)	ICE-NY(6)
	- in BRL -					
May 2017	470,45	462,05	424,77	401,68	430,00	586,37
Jun 2017	464,05	451,19	413,10	407,14	424,29	575,63
Jly 2017	474,05	456,67	413,33	406,05	428,57	535,67
Aug 2017	483,26	464,57	418,91	407,87	436,96	567,63
Sep 2017(a)	473,75	455,50	410,00	398,30	438,25	565,67
Oct 2017(b)	469,05	451,43	402,14	378,05	425,48	548,64
Change % (a/b)	-1,0	-0,9	-1,9	-5,1	-2,9	
	- in USD -					
May 2017	146,54	143,93	132,31	125,12	133,94	182,65
Jun 2017	144,55	140,54	128,68	126,82	132,17	179,31
Jly 2017	148,00	142,58	129,04	126,11	133,80	167,24
Aug 2017	153,24	147,31	132,83	129,33	138,55	179,99
Sep 2017(a)	151,04	145,23	130,72	126,99	139,73	180,35
Oct 2017(b)	146,78	141,27	125,85	118,31	133,15	171,69
Change % (a/b)	-2,8	-2,7	-3,7	-6,8	-4,7	-4,8

Source: SAFRAS & Mercado  
 Note: (1) Lot of Fine coffee (up to 10% of defects) from Cerrado of Minas Gerais  
 (2) Lot of hard cup (up to 15% of defects) from southern Minas Gerais  
 (3) Rio cup lot type 7 from Zona da Mata of Minas Gerais  
 (4) Lot of Conillon coffee type 7 placed in Vitória (Espírito Santo)  
 (5) Lot of Arabica with 600 defects for domestic consumption - Minas Gerais  
 (6) Based on the second coffee contract of the ICE Futures US - converted into US\$ per 60 kg

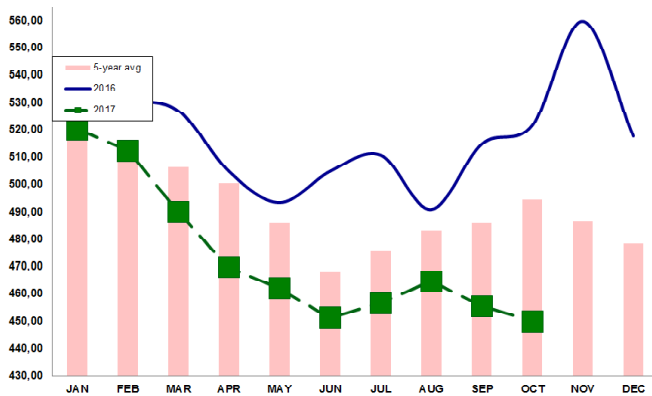


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**Price of arabica hard cup (15% of defects) in southern MG**  
**- in BRL/60 kg**  
 (Updated, deflated values)



The market has been on the sidelines this early November. Hard cup from the south of Minas Gerais is around BRL 455 a 60-kg bag, well below the same time last year, when it exchanged hands at around BRL 565.75 a bag, reflecting the delay of blossoming and the frightening signs that the crop would be very small in Brazil, which was mitigated later. It also maintains a good negative distance from the 5-year average for the period (BRL 486.35). The arrival of other origins in the market will weigh seasonally on prices until the end of the year. And this movement is aggravated by the forecast of a large crop in Brazil in 2018. The timing remains more favorable for buyers.

Fine cup from Cerrado, although it raises the premium over hard coffee, maintains a similar behavior. It has been trading, at the beginning of November, at BRL 465 and sustains a good negative distance from the historical average level.

Arabica rio has lost strength. In Zona da Mata de Minas, rio cup with 20% of defects is around BRL 410 a bag. Although it is still ahead of the historical benchmark, it has

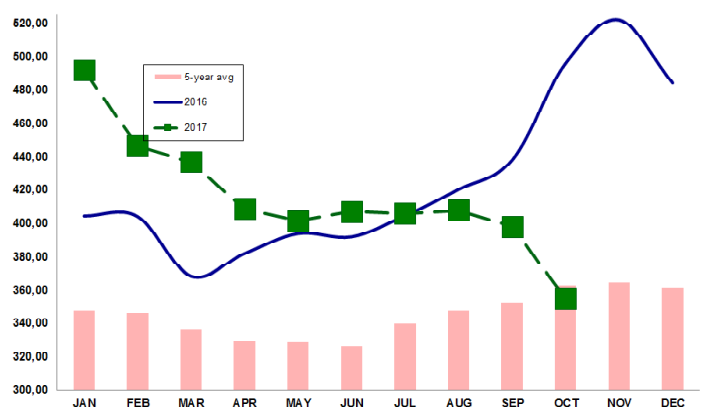
**ANALYST TIP**

- The strategy for growers continues stretching the positions with the better (more scarce) coffees, betting on the off-season or on some upward correction on ICE or in the dollar;
- In case you still have a good volume of weak coffee in your hands, think about speeding up the sale of such descriptions a little more. Conillon is melting, and the weakest arabica cups give signs they are losing relative strength;
- It is also good to keep an eye on the opportunities to sell the new crop, although the timing is not the best for sales. Decision making must be based on the margin (difference between price and cost).

been gradually getting closer, which indicates a relative weakening and may indicate a change in the behavior of the local industry, which since last year has supported the price of the weakest cups.

Conillon has dropped more rapidly, following robusta's weakness in London and the indication of a larger conillon crop in Brazil next year. Preliminary indications are that the conillon crop must be between 16 and 17 million bags in 2018, against 11.5 million bags harvested this year. In Espírito Santo, type 7 conillon fell again, trading currently at BRL 355 a bag. A figure well below the BRL 522.25 from the same period last year and

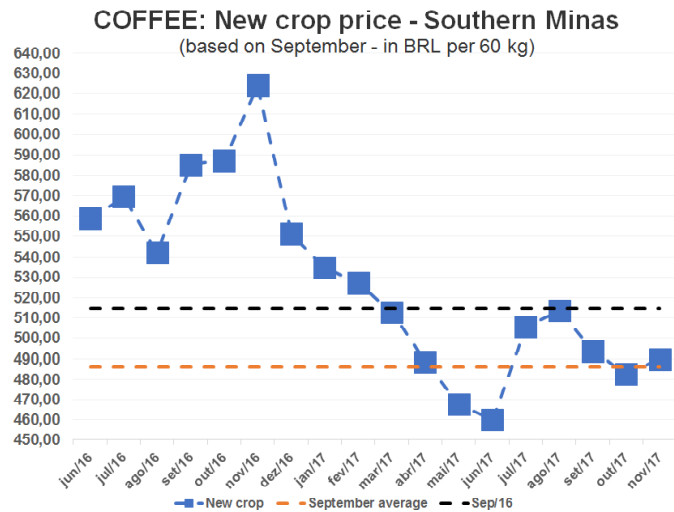
**Conillon type 7 in Vitória/ES - in BRL/60kg**  
 Updated, deflated values



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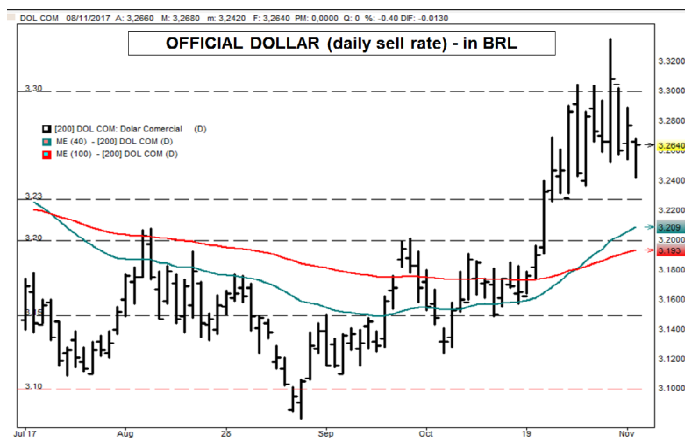
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also below the historical levels for the period. And a cheaper conillon must lead to more demand from the industry, which is why it tends to change its blends again and plays against the prices of the weakest arabica cups.

## New crop indication limits ICE weakness

Price indications for future crops even reacted by finding support from the dollar. However, they remain very vulnerable to the ICE's lack of strength in NY. Weaker differentials with new crop positions also help inhibit better prices.




Thus, forward sales for delivery and settlement in September/18 are around BRL 490 to 500 a bag in the south of Minas. Although far from the same time last year, when the position was trading on average at BRL 625 a bag, it shows reaction and remains above the average of the last five years for the month of September, which is BRL 485.98 a bag. And that is a good sign. In Cerrado region, the idea for sales in advance of the new crop is around BRL 495 to 515 depending on description.

## Dollar falls below BRL 3.30

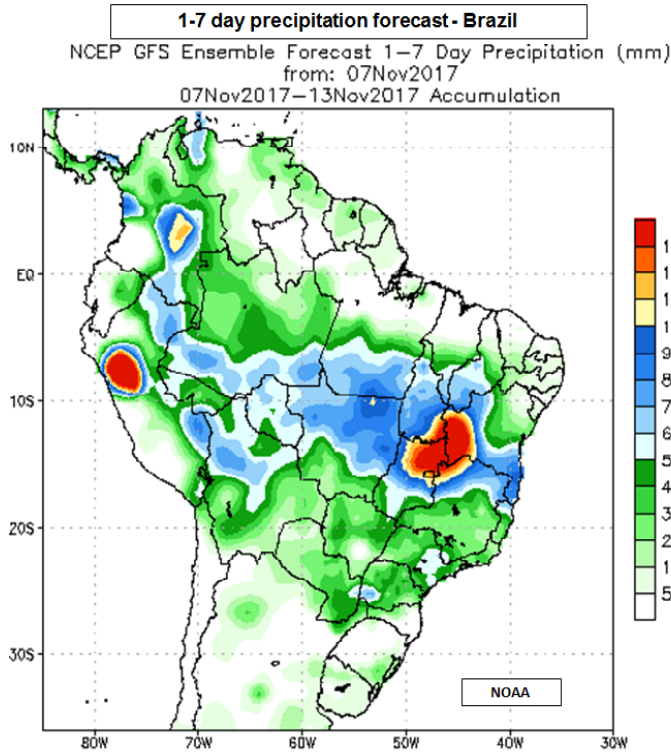
The exchange rate remains linked to the external scenario and maintains a dynamic related to the US monetary policy. The choice of Jerome Powell to replace Janet Yellen in the Fed's chair from February 2018 indicates the continuation of a policy of gradualism in interest rates. And the chance of a more aggressive monetary policy move has diminished considerably. The practical result is that interests of treasuries have declined, while the commodity index (CRB) went up. As a result, the dollar plummeted, especially against emerging currencies.

The dollar must seek some consolidation after recent volatility. Of course, positive US data and the possibility of Trump's tax reform passing in Congress may favor a new pull of the US currency, especially against the emerging ones. But the signs of gradualism by the Fed favor a reading of greater currency stabilization. In Brazil the market keeps an eye on the progress of the pension reform. The weakening of Temer's allied base puts in check the vote on reforms and serves as a support factor for the dollar.

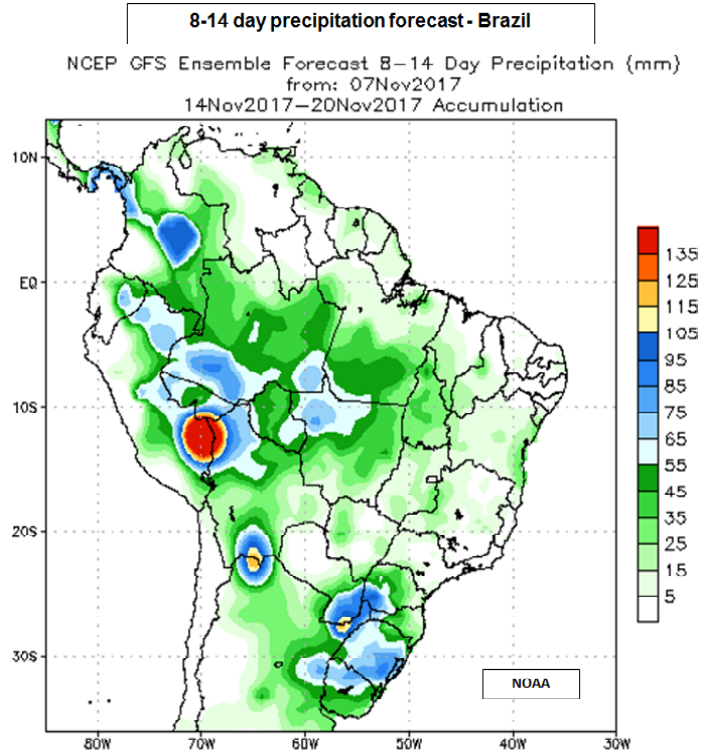


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Bias correction based on last 30-day forecast error



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In the short term, the US currency must find support at BRL 3.23 and face resistance at BRL 3.30. The Focus raised the dollar's projection to BRL 3.20 by the end of the year. In the long run, the bullish bias is clearer, based on the arbitrage between US and Brazilian interest rates. While the US interest rate must begin to grow, in Brazil a new 0.5% cut in the Selic rate is expected in December, with this key rate expected to end the year at 7%. There is speculation about a new cut in February 2018. The Focus projects the dollar at BRL 3.30 for Dec/18.

## Weather in Brazil

The next few days must have widespread rainfall in most of Brazil's coffee growing areas. The accumulated precipitation must be between 20 and 40 mm in Paraná and Rondônia. In the region of Mogiana and south of Minas the accumulated precipitation hits 20 mm. In Espírito Santo only light rain showers.

In the week between November 12 and 16 the cold front weakens, and rain decreases. And heat will return to most growing areas. The forecast is from Somar Meteorologia.

COFFEE PRICE - BRAZILIAN PHYSICAL MARKET - in 60-kg bags*								
	Current		1 week		1 month		1 year	
	BRL	USD	BRL	USD	BRL	USD	BRL	USD
ARABICA								
<b>MG - Southern Minas</b>								
Sieve 14/15/16	490,00	150,17	490,00	150,03	485,00	152,18	596,00	187,66
Peeled cherry	495,00	151,70	495,00	151,56	490,00	153,75	605,00	190,49
Fine cup	460,00	140,97	455,00	139,31	465,00	145,91	570,00	179,47
Hard cup -15%	455,00	139,44	450,00	137,78	455,00	142,77	550,00	173,17
Hard cup - 20%	450,00	137,91	445,00	136,25	450,00	-	540,00	-
Rio cup 6	405,00	124,12	395,00	120,94	410,00	128,65	515,00	162,15
<b>MG - Zona da Mata</b>								
Depulped	485,00	148,64	485,00	148,50	480,00	150,61	590,00	185,77
Hard cup - 15%	445,00	136,38	440,00	134,72	440,00	138,06	540,00	170,03
Hard cup 6/7	440,00	134,85	435,00	133,19	435,00	-	530,00	-
Hard cup/Riado	430,00	131,78	435,00	133,19	430,00	134,92	530,00	166,88
Hard cup/Riado/Rio	425,00	130,25	420,00	128,60	425,00	133,35	525,00	165,30
Sieve Rio 17/18	410,00	125,65	410,00	125,54	410,00	128,65	560,00	176,32
Rio cup 7	410,00	125,65	400,00	122,47	405,00	127,08	510,00	160,50
<b>MG - Cerrado</b>								
Sieve 17/18	505,00	154,77	505,00	154,62	500,00	156,89	605,00	190,49
Peeled cherry	500,00	153,23	500,00	153,09	495,00	155,32	610,00	192,07
Fine/Extra Fine	465,00	142,51	465,00	142,38	470,00	147,47	575,00	181,05
Hard cup 6	455,00	139,44	455,00	139,31	465,00	145,91	565,00	177,90
Hard cup - 20%	450,00	137,91	450,00	137,78	460,00	-	560,00	-
<b>SP - Mogiana</b>								
Fine/Extra Fine	465,00	142,51	460,00	140,85	465,00	145,91	575,00	181,05
Hard cup 6	460,00	140,97	455,00	139,31	460,00	144,34	560,00	176,32
Hard cup - 20%	455,00	139,44	450,00	137,78	455,00	-	550,00	-
<b>SP - Garça</b>								
Hard cup 6	455,00	139,44	450,00	137,78	455,00	142,77	550,00	173,17
Hard cup - 20%	450,00	137,91	445,00	136,25	450,00	-	540,00	-
Hard cup/Riado	425,00	130,25	425,00	130,13	430,00	134,92	530,00	166,88
Rio cup 7	405,00	124,12	400,00	122,47	405,00	127,08	510,00	160,50
<b>ES - Vitória</b>								
Hard arabica	445,00	136,38	440,00	134,72	440,00	138,06	530,00	166,88
Arabica Rio 17/18	410,00	125,65	405,00	124,00	410,00	128,65	550,00	173,17
Arabica Rio 7	405,00	124,12	400,00	122,47	400,00	125,51	510,00	160,58
<b>PR - North</b>								
Hard cup 6/7	445,00	136,38	440,00	134,72	440,00	138,06	540,00	170,03
Hard cup/Riada	430,00	131,78	435,00	133,19	430,00	134,92	520,00	163,73
Rio cup 7	405,00	124,12	405,00	124,00	405,00	127,08	505,00	159,01
<b>DA - V. Conquista</b>								
Depulped	480,00	147,10	480,00	146,97	480,00	150,61	620,00	195,21
Hard cup 6	440,00	134,85	440,00	134,72	435,00	136,49	550,00	173,17
Rio cup 7	410,00	125,65	410,00	125,54	405,00	127,08	480,00	151,13
<b>BA - Barreiras</b>								
Depulped	490,00	150,17	485,00	148,50	490,00	153,75	630,00	198,36
Hard cup 6	450,00	137,91	450,00	137,78	450,00	141,20	570,00	179,47
Hard arabica - 20%	445,00	136,38	445,00	136,25	445,00	-	560,00	-
<b>DOMESTIC CONSUMPTION</b>								
600 defects - hard cup	425,00	130,25	425,00	130,13	425,00	133,35	490,00	154,20
Residual + 600 def.	420,00	128,72	420,00	128,60	420,00	131,79	480,00	151,13
Rio 8 L. Mata	410,00	125,65	410,00	125,54	410,00	128,65	490,00	154,28
Rio 8 Bahia	420,00	128,72	420,00	128,60	420,00	131,79	450,00	141,69
<b>CONILLON</b>								
<b>ES - Vitória</b>								
Con 6 sieve 13 up	360,00	110,33	370,00	113,29	390,00	122,37	550,00	173,17
Conillon 7	355,00	108,80	365,00	111,76	385,00	120,80	535,00	168,45
Conillon 7/8	350,00	107,26	360,00	110,23	380,00	119,23	530,00	166,88
<b>ES - Colatina</b>								
Conillon 7	355,00	108,80	365,00	111,76	385,00	120,80	535,00	168,45
Conillon 7/8	350,00	107,26	360,00	110,23	380,00	119,23	530,00	166,88
Con 8 - Colatina/ES	347,00	106,34	355,00	108,70	375,00	117,67	520,00	-
<b>RO - Cacoal</b>								
Conillon 400 def.	335,00	102,67	345,00	105,63	360,00	112,96	475,00	149,56
Conillon 600 def.	330,00	101,13	340,00	104,10	355,00	111,39	460,00	144,04
Conillon 800 def.	325,00	99,60	335,00	102,57	350,00	109,82	445,00	140,11
<b>PLACED IN INDUSTRY</b>								
Con 8 - in SP*	375,00	114,92	385,00	117,88	405,00	127,08	540,00	170,03
Conillon 8 in PR	373,00	114,31	383,00	117,27	400,00	-	545,00	-
Con 600 def. - in SP*	370,00	113,39	380,00	116,35	395,00	123,94	440,00	138,54
<b>FOB EXPORT MARKET - Sell price in US cents/pound</b>								
Sieve 17/18 Fine Cup	0		-2		-3		-8	
Sieve 17/18 Goof Cup	-4		-5		-10		-12	
Sieve 14/16 Fine Cup	-8		-9		-9		-17	
Swedish MTGB	-12		12		15		-22	
Grinders	-20		-18		-20		-34	
Rio 17/18 in USD/50kg	122		122		125		115	
Rio 15/16 in USD/50kg	119		118		121		103	
Conillon13 up**	12		10		16		15	
* tax-free prices								
** in cents/pound against LIFFE								

