National Coffee Association

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Fund's Affair with Coffee

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Market Participants

- Producers
- Exporters
- Dealers
- Roasters
- Speculators



Why speculators are needed?

They are willing to take market risk

Liquidity providers



Who are they?

- Individuals
- Pension Funds
- Mutual Funds (Index and ETF)
- Hedge-Funds (System / Algorithm / Actively Managed)



Commodities as an Investment Class

- Broadly used in the last two economical cycles
- New Vehicles (easier access electronically traded)
- Inverted-correlation (based on the last 130 years averaging in cycles of 18 years)
- Sophisticated (involving physical)
- A "way" of getting into EM

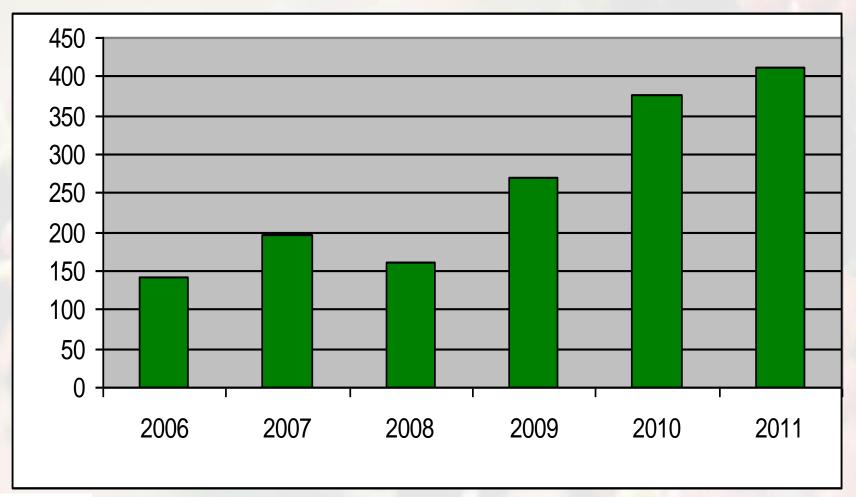


Comparables

- About US\$ 78 trillion in Global Fund Management
- US\$ 29 trillion in pension funds
- Commodities US\$ 405 billion
- Coffee US\$ 7.6 billion (notional)



Commodity AUM (Barclays)





Total Index Fund Investment





Trading Strategies

Macro Economics

Technical Indicators / Charts

Fundamentals



QEs and Dow





QEs and CRB





Dollar Index and CRB





US CPI and Fed Fund Rate





Commodity Returns





Commodities still attracting investors

- Ease Monetary Policy
- China's economy will be larger than the
 US in 2020 and twice as large by 2030
- By 2050 the World population will reach
 9.2 billion and food production will have
 to double to adjust for rising incomes



Technical Indicators

- Charts
- Open Interest (options / futures)
- Commitments Of Traders
- Bid and Offer "imbalances" (?)



Bollinger Bands



Relative Strength Index





Coffee / CIT / Non-Commercials





High Frequency Traders

- Electronic Trading
 - Long hours
 - Fighting for microseconds
 - Adjustment of orders placement
 - Co-location
 - Difficult to monitor (?)
 - Algorithms (several strategies)
 - Said to have tightened the spread of bid and offers



High Frequency Traders

- Account for more than 30% of the trades in crude, 42% of interest rate futures, and 51% of equities (as high as 70%?)
- Traded volume in softs = 20% (??)
- Accused of increases intra-day volatility



Fundamentals

- Production
- Demand
- Inventory
- Cash and Carry
- Logistics
- Arbitrage



Supply and Demand

Crop Year	Production	Consumption	Balance
2006 / 2007	132	125.1	6.9
2007 / 2008	122	127.7	-5.7
2008 / 2009	134	129.3	4.7
2009 / 2010	127	132.0	-5.0
2010 / 2011	140	134.5	5.5
2011 / 2012	130 / 135 ?	137.0 ?	-7.0 / -2.0 ?
2012 / 2013	140 / 143 ?	139.6 ?	1.6 / 3.4 ?



ICE Certified Stocks





Arbitrage ICE / LIFFE





What lies ahead?

- More careful investors
- Better risk management
- Consolidation
- Regulation
- More of a plain field for most of the participants



Confessions

- Sums invested for some are not significant
- Control / Ignore emotions
- Smell "Opportunities" (through data, analysis, information – algo)
- Discipline
- They do lose money as well



