INTERNATIONAL COFFEE ORGANIZATION
ORGANIZACIÓN INTERNACIONAL DEL CAFÉ
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LETTER FROM THE EXECUTIVE DIRECTOR

COFFEE MARKET REPORT

May 2009

The impact of the shortfall in Colombian production continues to influence the market and coffee prices rose sharply during May 2009, with the monthly average of the ICO composite indicator price at 123.05 US cents per lb compared with 111.61 US cents per lb in April. The increase was particularly marked in the case of Colombian Milds with prices rising to 212.05 US cents per lb, their highest level since June 1997. The differential for this type of coffee with respect to the New York futures market widened further, increasing by more than 28% in relation to the figure for April.

These price increases reflect the relatively tight supply situation, which can be attributed not only to climatic problems in a number of producing countries, particularly in Central America and Colombia, but also to high costs of labour and fertilizers, leading producers to reduce their use. The month of May was also marked by the continuing weakness of the US dollar against major currencies, including those of some coffee exporting countries, particularly Brazil and Colombia. Consequently, despite the rise in coffee prices, the force of this increase on the export earnings of many exporting countries seems to have been mitigated by US dollar movements. In this Market Report I am including a brief analysis of this impact in selected exporting countries.

Exports by all exporting countries in April 2009 totalled 8.3 million bags, bringing the cumulative total for October 2008 to April 2009, i.e. the first seven months of coffee year 2008/09, to 57.2 million bags compared to 55.5 million bags for the same period in the previous year, an increase of 3.13%. The fall in exports of Colombian Milds and Other Milds was largely offset by increased exports of Brazilian Naturals and Robustas.

Graph 1: Daily composite indicator price
1 May 2008 – 12 June 2009

Price movements

The monthly average of the **ICO composite indicator price** in May was 123.05 US cents per lb compared to 111.61 US cents per lb in April, an increase of 10.25% (Table 1). All Arabica prices increased sharply, particularly in the case of **Colombian Milds**, with the monthly average rising to 212.05 US cents per lb, the highest level since June 1997. Prices of **Brazilian Naturals** and **Other Milds** increased by more than 11% compared with their levels in April. However, the behaviour of prices in the first week of June indicates a slight slackening of this upward trend for Arabica prices[1]. Prices of **Robustas** were little changed, having risen by only 0.12%.

Graph 1 shows changes in the ICO daily composite indicator price since 1 May 2008. Graphs 2 to 5 show changes in daily indicator prices for the four groups of coffee since 2 March 2009

Graph 6 shows changes in the difference between the indicator prices of the Colombian Milds and Other Milds groups and the New York futures market. The evolution of the differences between ICO indicator prices of the four groups is shown in Table 2.

Graph 2: **Daily indicator prices for Colombian Milds 2 March – 29 May 2009**

Graph 3: **Daily indicator prices for Other Milds 2 March – 29 May 2009**

Graph 4: **Daily indicator prices for Brazilian Naturals 2 March – 29 May 2009**

Graph 5: **Daily indicator prices for Robustas 2 March – 29 May 2009**

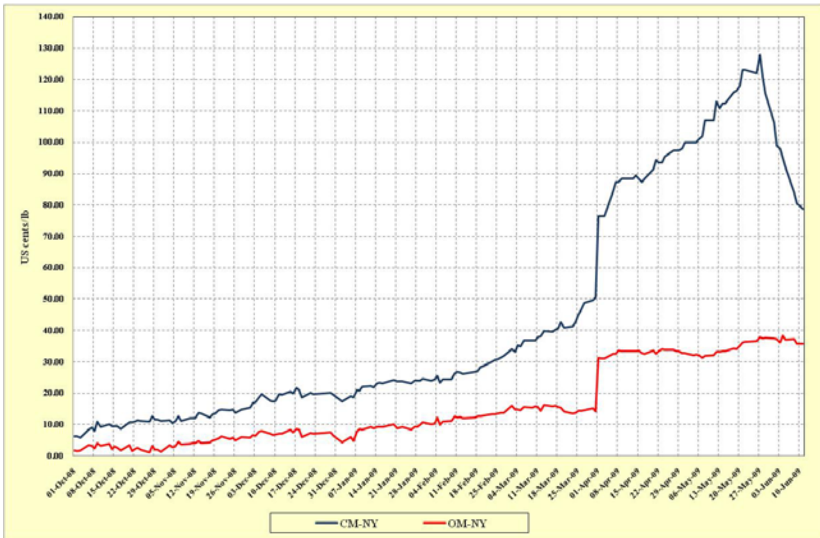
[1] *The price recorded on 12 June was 194.61 US cents per lb for Colombian Milds, 152.26 US cents per lb for Other Milds and 117.62 US cents per lb for Brazilian Naturals.*

Table 1: ICO daily indicator prices and futures prices (US cents per lb): May 2009

	ICO composite	Colombian Milds	Other Milds	Brazilian Naturals	Robustas	New York*	London*
May-09							
1						121.48	68.08
4	114.07	193.81	138.77	108.46	73.02	121.85	Holiday
5	117.32	197.76	143.36	112.21	74.78	125.67	69.01
6	118.09	198.84	143.96	113.00	75.52	125.90	68.92
7	118.14	199.56	143.82	113.20	75.28	125.58	67.88
8	119.79	203.22	145.96	114.94	75.77	127.67	68.24
11	121.59	208.02	149.22	117.43	74.91	129.43	68.70
12	122.51	211.32	150.03	118.02	75.23	129.80	68.56
13	121.15	208.56	148.36	116.06	75.14	128.15	68.29
14	121.37	209.56	148.78	116.25	74.98	128.93	68.45
15	121.68	209.78	149.09	116.65	75.24	128.72	68.72
18	123.03	213.96	150.95	117.55	75.54	130.32	69.47
19	124.88	216.60	153.32	119.90	76.36	135.25	69.79
20	125.79	217.96	154.46	120.87	76.90	136.03	69.79
21	127.72	222.05	156.84	123.71	76.90	138.50	70.01
22	127.53	222.52	156.62	123.07	76.87	137.80	69.04
26	127.55	223.12	157.65	123.42	75.77	139.20	68.79
27	128.43	225.97	158.48	124.47	75.75	138.27	69.83
28	128.68	224.06	159.19	124.88	76.46	139.72	69.35
29	128.71	222.36	159.88	125.49	76.30	140.38	69.99
May-09	**123.05**	**212.05**	**150.99**	**118.40**	**75.62**	**131.43**	**69.00**
% change between May-09 and Apr-09							
	10.25	17.09	11.94	11.75	0.12	10.93	0.60
% change between May-09 and May-08							
	-2.93	47.67	6.37	-8.59	-30.55	-4.09	-31.61
% change between May-09 and 2008 average							
	-0.97	46.93	8.02	-6.47	-28.17	-3.69	-29.00

*Average of the 2nd and 3rd positions

Graph 6: Differences between indicator prices of Colombian Milds and Other Milds and the New York 'C' Contract* 1 October 2008 to 12 June 2009



*Average of the 2nd and 3rd positions

Table 2: Difference between indicator prices

	Colombian Milds Other Milds	Colombian Milds Brazilian Naturals	Colombian Milds Robustas	Other Milds Brazilian Naturals	Other Milds Robustas	Brazilian Naturals Robustas	New York London
May-08	1.65	14.08	34.72	12.43	33.07	20.64	36.14
May-09	61.06	93.65	136.43	32.59	75.37	42.78	62.43
Change	3 600.61%	565.13%	292.94%	162.19%	127.91%	107.27%	72.74%

Table 3: Production in selected exporting countries

Crop year commencing	2005	2006	2007	2008	% change 2008&2007
TOTAL	**110 182**	**127 908**	**118 060**	**126 090**	**6.80**
Africa	***13 026***	***15 385***	***14 882***	***17 263***	***16.00***
Cameroon	849	836	795	833	4.78
Côte d'Ivoire	1 962	2 847	2 150	2 500	16.30
Ethiopia	4 003	4 636	4 906	6 133	25.02
Kenya	660	826	652	883	35.41
Tanzania	804	822	810	917	13.20
Uganda	2 159	2 700	3 250	3 300	1.54
Others	2 588	2 717	2 319	2 697	16.28
Arabicas	*6 544*	*7 557*	*7 415*	*9 343*	26.00
Robustas	*6 481*	*7 828*	*7 467*	*7 920*	6.07
Asia&Oceania	***30 215***	***34 446***	***31 061***	***29 365***	***-5.46***
India	4 396	5 079	4 148	4 372	5.40
Indonesia	9 159	7 483	7 751	5 833	-24.74
Papua New Guinea	1 268	807	968	850	-12.16
Thailand	999	766	653	825	26.26
Vietnam	13 542	19 340	16 467	16 000	-2.84
Others	851	972	1 075	1 485	38.18
Arabicas	*4 223*	*3 809*	*4 135*	*3 813*	-7.79
Robustas	*25 991*	*30 638*	*26 927*	*25 552*	-5.11
Mexico & Central America	***17 118***	***16 936***	***18 292***	***17 171***	***-6.13***
Costa Rica	1 778	1 580	1 791	1 595	-10.95
El Salvador	1 502	1 371	1 621	1 385	-14.57
Guatemala	3 676	3 950	4 100	3 370	-17.80
Honduras	3 204	3 461	3 842	3 373	-12.20
Mexico	4 225	4 200	4 150	4 650	12.04
Nicaragua	1 718	1 300	1 700	1 600	-5.88
Others	1 016	1 074	1 089	1 198	10.02
Arabicas	*16 982*	*16 801*	*18 168*	*17 029*	-6.27
Robustas	*136*	*135*	*125*	*142*	13.70
South America	***49 823***	***61 141***	***53 825***	***62 292***	***15.73***
Brazil	32 945	42 512	36 070	45 992	27.51
Colombia	12 329	12 153	12 515	10 500	-16.10
Ecuador	1 120	1 167	1 110	657	-40.80
Peru	2 489	4 319	3 063	4 102	33.92
Others	941	990	1 066	1 041	-2.38
Arabicas	*40 161*	*51 332*	*42 570*	*51 391*	20.72
Robustas	*9 662*	*9 808*	*11 255*	*10 901*	-3.14
TOTAL	**110 182**	**127 908**	**118 060**	**126 090**	**6.80**
Colombian Milds	13 487	13 488	13 685	11 970	-12.53
Other Milds	25 264	27 187	27 009	27 564	2.06
Brazilian Naturals	29 159	38 825	31 593	42 041	33.07
Robustas	42 271	48 408	45 773	44 515	-2.75
Arabicas	67 911	79 500	72 287	81 575	12.85
Robustas	42 271	48 408	45 773	44 515	-2.75
TOTAL	**100.00**	**100.00**	**100.00**	**100.00**	
Colombian Milds	12.24	10.55	11.59	9.49	
Other Milds	22.93	21.26	22.88	21.86	
Brazilian Naturals	26.46	30.35	26.76	33.34	
Robustas	38.36	37.85	38.77	35.30	
Arabicas	61.64	62.15	61.23	64.70	
Robustas	38.36	37.85	38.77	35.30	

In thousand bags

Market fundamentals

Although crop year 2008/09 is still under way in a number of exporting countries, our figures indicate a total production of around 126 million bags, representing an increase of 6.8% in relation to the previous crop year (Table 3). Production falls were recorded in Ecuador (-40.8%), Indonesia (-24.7%), Guatemala (-17.8%), El Salvador (-14.6%), Honduras (-12.2%), Papua New Guinea (-12.2%), Costa Rica (-10.9%), Nicaragua (-5.9%) and Vietnam (-2.8%). In the case of Colombia, the reduction in the crop due to adverse weather in conjunction with the rejuvenation programme seems to be more serious than previously envisaged. I have received reports that losses have reached levels of 40% in some areas. Consequently, the current crop could fall below 10 million bags, but a final assessment will only be possible once the *mitaca* (mid-crop) has been completed. These falls are attributable mainly to climatic problems and constraints deriving from the high costs of fertilizers and labour in many exporting countries.

Exports during April totalled 8.3 million bags, bringing the total volume exported during the first seven months of coffee year 2008/09 to 57.2 million bags as against 55.5 million bags for the same period in 2007/08 (Table 4).

Table 4: Total exports of all forms of coffee (October – April 2007/08 and 2008/09)

	2007/08	2008/09	% change
TOTAL	**55 473**	**57 211**	**3.13**
Colombian Milds	8 069	6 719	-16.73
Other Milds	11 686	11 659	-0.22
Brazilian Naturals	16 468	18 572	12.77
Robustas	19 251	20 261	5.25
Arabicas	36 223	36 950	2.01
Robustas	19 251	20 261	5.25

In thousand bags

Cumulative exports during calendar year 2008 totalled 96.68 million bags compared with 88.19 million bags in 2007. The total value of these exports was estimated at US$15.22 billion in 2008 compared with US$12.84 billion in 2007 (Table 5).

Table 5: Volume and value of exports (Calendar years 2005 - 2008)

	2005	2006	2007	2008
Colombian Milds				
- Volume	12.04	12.01	12.69	12.22
- Value	1.79	1.87	2.12	2.36
Other Milds				
- Volume	18.63	21.40	20.99	22.41
- Value	2.55	3.02	3.29	3.92
Brazilian Naturals				
- Volume	26.52	28.51	28.79	28.61
- Value	3.13	3.59	4.07	4.70
Robustas				
- Volume	30.41	30.36	34.04	34.02
- Value	1.82	2.38	3.35	4.23
Total				
- Volume	87.61	92.28	96.51	97.25
- Value	9.29	10.85	12.84	15.22

Volume in million bags – Value in billion US$

Impact of US dollar movements on the export earnings of selected exporting countries

Graphs 7 to 12 show the unit value of exports in US dollars and in local currency for selected producing countries from January 2006 to April 2009. The results indicate that exchange rate movements of the US dollar contribute to strengthening or weakening, or indeed, even neutralizing the real impact of price rises on unit values within exporting countries.

It can be seen that in the case of **Brazil** the reduction in export earnings due to the depreciation of the US dollar against the Brazilian *real* was accentuated during the period from January 2007 to September 2008. The difference began to narrow in October and to move inversely since November 2008, indicating an increase in unit values in local currency due to exchange rate movements (Graph 7).

In the case of **Colombia**, exchange rate movements of the US dollar against the Colombian *peso* improved export earnings until December 2006 before reducing these earnings from January 2007 to October 2008. From October 2008 to April 2009 US dollar movements were favourable to Colombia's export earnings (Graph 8).

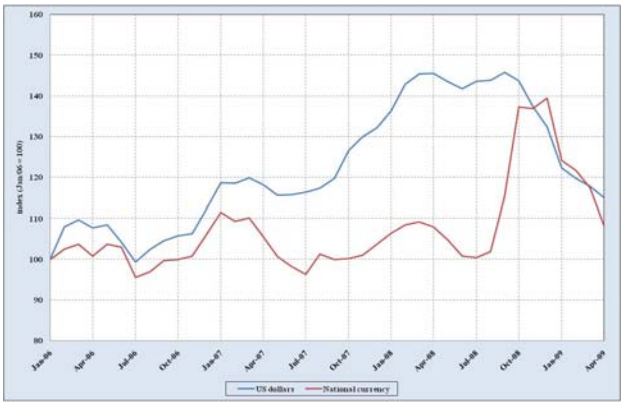
The impact of exchange rate fluctuations was not significant in the case of exports by **Vietnam**, whose currency is closely linked to the US dollar. Movements in the exchange rate of the US dollar to the Vietnamese *dong* generally had a positive effect on Vietnam's export earnings (Graph 9). On the other hand, Vietnam has a rate of inflation that fluctuates between 16% and 20% on average per year, putting pressure on the cost of production, since Robusta prices have not changed significantly in recent months

In the case of **India**, movements in the exchange rate of the US dollar against the Indian *rupee* were favourable to export earnings between January 2006 and February 2007. On the other hand, the movement of the US dollar between March 2007 and August 2008 contributed to a reduction in export earnings. However, the situation once more improved after September 2008 (Graph 10).

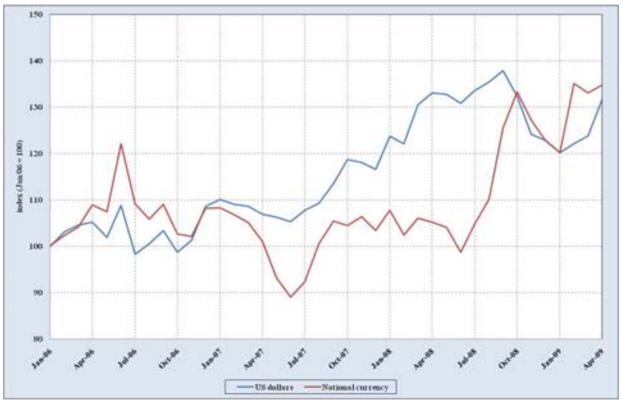
Apart from a short period from May to August 2008, export earnings by **Mexico** did not experience any negative impact due to US dollar movements during the period under consideration. Indeed, Mexican export earnings profited from US dollar movements, especially from October 2008 onwards (Graph 11).

Ethiopia also profited from US dollar movements to improve its export earnings. Apart from the months of March and April 2007, when export earnings were down, exchange rate movements between the US dollar and the Ethiopian *birr* were favourable to export earnings throughout the period under consideration. From May 2007 to April 2009 the situation improved even further (Graph 12).

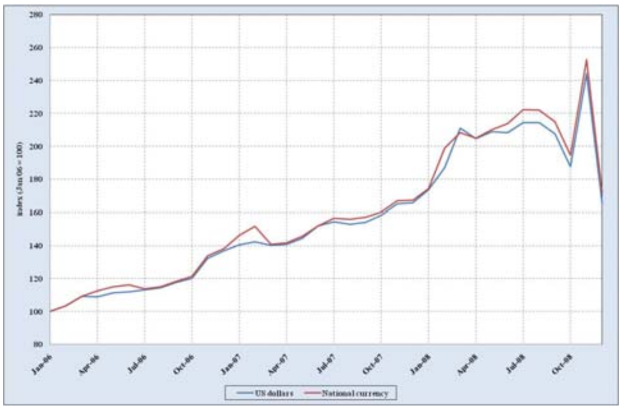
Graph 7: Index of unit value of exports of Brazil US$ per lb and Brazilian reais per lb (January 2006 = 100) January 2006 to April 2009



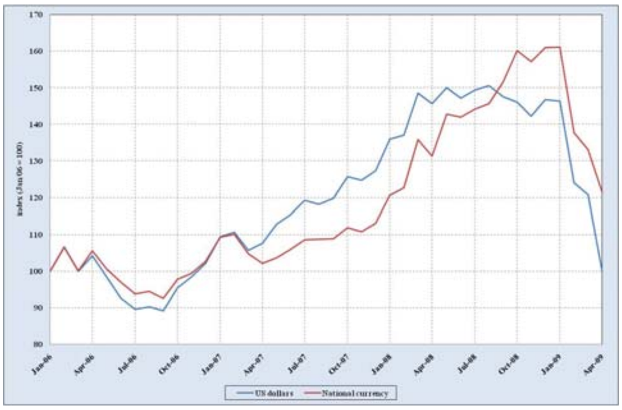
Graph 8: Index of unit value of exports of Colombia US$ per lb and Colombian pesos per lb (January 2006 = 100) January 2006 to April 2009



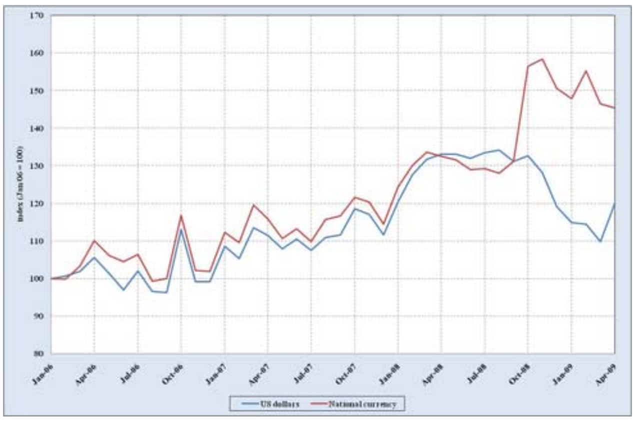
Graph 9: Index of unit value of exports of Vietnam US$ per lb and Vietnamese dongs per lb (January 2006 = 100) January 2006 to April 2009



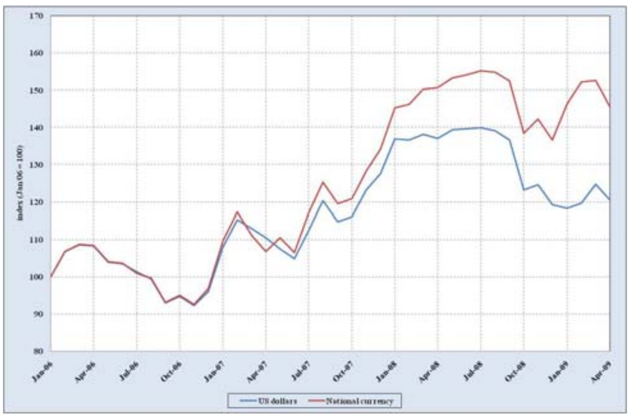
Graph 10: Index of unit value of exports of India US$ per lb and Indian rupees per lb (January 2006 = 100) January 2006 to April 2009



Graph 11: Index of unit value of exports of Mexico US$ per lb and new Mexican pesos per lb (January 2006 = 100) January 2006 to April 2009



Graph 12: Index of unit value of exports of Ethiopia US$ per lb and Ethiopian birrs per lb (January 2006 = 100) January 2006 to April 2009



World consumption in 2008 was around 128 million bags, compared to 126.7 million bags in 2007 (Table 6). Despite the economic crisis, no significant changes in world consumption patterns have been observed.

Table 6: World consumption
(Calendar years 2004 – 2008)

	2004	2005	2006	2007	2008*
WORLD TOTAL	**118 470**	**118 955**	**122 445**	**126 671**	**128 320**
Producing Countries	***29 523***	***30 915***	***32 505***	***34 516***	***35 812***
Brazil	14 760	15 390	16 133	16 927	17 931
Indonesia	1 958	2 375	2 750	3 208	3 333
Mexico	1 500	1 556	1 794	2 050	2 200
Ethiopia	1 833	1 833	1 833	1 833	1 833
India	1 188	1 272	1 337	1 360	1 430
Philippines	917	917	917	989	1 060
Colombia	1 400	1 400	1 400	1 400	1 050
Vietnam	500	500	604	938	1 021
Venezuela	700	703	723	760	760
Others	4 768	4 969	5 015	5 052	5 194
Importing Countries	***88 947***	***88 041***	***89 939***	***92 156***	***92 508***
European Community	***41 193***	***39 277***	***40 941***	***40 580***	***39 747***
Germany	10 445	8 665	9 151	8 627	9 554
Italy	5 469	5 552	5 593	5 821	5 937
France	4 929	4 787	5 278	5 628	5 135
Spain	2 705	3 007	3 017	3 198	3 485
United Kingdom	2 458	2 680	3 059	2 824	3 074
Netherlands	1 978	1 927	2 129	2 292	1 319
Sweden	1 234	1 170	1 315	1 244	1 272
Poland	2 281	2 267	1 953	1 531	1 190
Finland	1 034	1 102	1 047	1 057	1 115
Greece	871	870	857	1 015	978
Others	7 788	7 249	7 544	7 344	6 688
USA	20 973	20 998	20 667	21 033	21 655
Japan	7 117	7 128	7 268	7 282	7 065
Other Importing Countries	***19 665***	***20 639***	***21 062***	***23 260***	***24 041***
Russian Federation	3 086	3 212	3 263	4 055	3 716
Canada	2 747	2 794	3 098	3 245	3 214
Algeria	2 159	1 892	1 836	1 968	2 118
Korea, Republic of	1 401	1 394	1 437	1 425	1 665
Ukraine	739	1 025	968	1 057	1 733
Australia	864	1 039	992	1 031	1 145
Others	8 668	9 282	9 468	10 479	10 452

* Preliminary
In thousand bags

In conclusion, Arabica prices recorded significant increases during the month of May, confirming the trend noted over a number of months attributable mainly to problems in the availability of Mild Arabica supplies, which led roasters to resort to other origins in order to meet their needs. The weakness of the US dollar against major currencies lent support to this upsurge in prices. These price levels could be subject to corrections as and when prospects for a return to normality are confirmed in the exporting countries affected by reductions in supply.

A brief analysis of the impact of US dollar movements against the currencies of major coffee producing countries shows that these have contributed to strengthening or reducing the positive impact of rising prices in the world coffee market. In the cases of Brazil and Colombia, exchange rate movements have offset much of the increase in US dollar prices recorded in the recent past. In contrast, Vietnam, Ethiopia and Mexico benefited from exchange movements of the US dollar against their national currencies.