

MONTHLY COFFEE MARKET REPORT

May 2013

Coffee prices declined further in May 2013, causing the ICO composite indicator price to fall to its lowest monthly average since April 2010. All four group indicators decreased compared to the previous month, with the biggest percentage drop recorded in Robustas. This is reflected in the arbitrage between the New York and London futures markets, which widened for the second month in succession. The sustained drop in prices observed over the last two years has reduced the revenue earned by coffee producers, and consequently there is concern that many producers may be selling at a price which is not remunerative compared to the cost of production.

Graph 1: ICO composite indicator daily prices
(1 May 2012 to 10 June 2013)



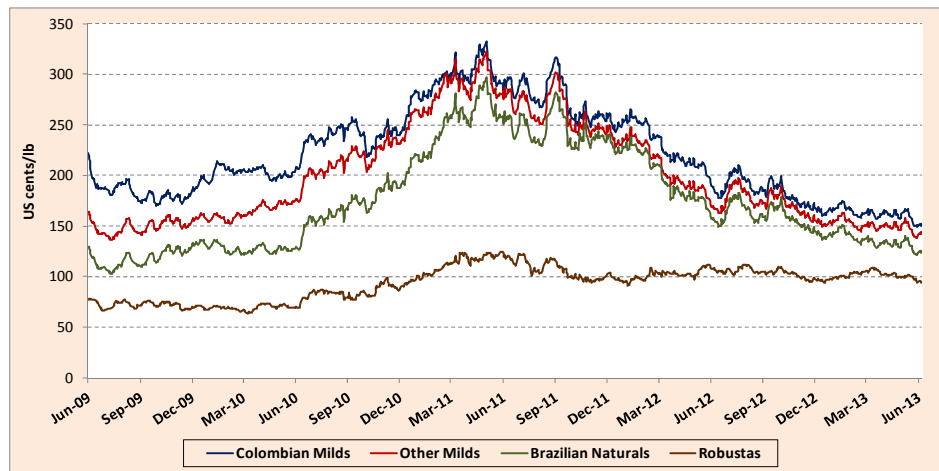
Price movements

The monthly average of the **ICO composite indicator price** fell to 126.96 US cents/lb in May 2013, its lowest level in over three years. This average is also 19.5% lower than that of May 2012, with decreases recorded in the last four consecutive months. The daily price peaked at 134.21 US cents/lb before briefly dipping below 120 towards the end of the month, its lowest level since November 2009.

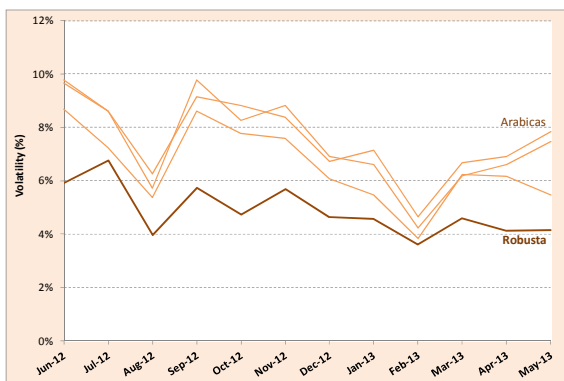
All four group indicators lost value in May. **Colombian Milds** fell by 2.1% compared to April, to average

158.35 US cents/lb. **Other Milds** recorded a decrease of 1.7% to 147.19 US cents/lb, and **Brazilian Naturals** registered a similar decrease of 1.8% to drop to 130.29 US cents/lb. **Robustas** declined by 2.5% to 99.18 US cents/lb, its lowest monthly average so far in 2013. Graph 2 shows the evolution of the four ICO group indicators over the last four years. It can be seen that the three Arabica indicators have all returned to their levels prior to the 2011 price spike, whereas Robustas have recorded a steadier increase over the same time period.

**Graph 2: ICO group indicator daily prices
(1 June 2009 to 10 June 2013)**



Graph 3: Monthly price volatility of three Arabica group indicators compared to Robusta (June 2012 – May 2013)

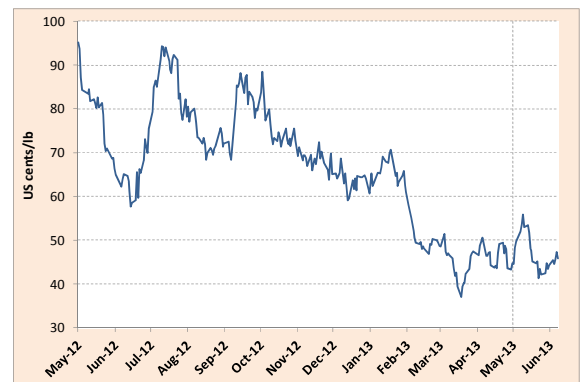


Furthermore, in terms of price volatility, it is notable that the three Arabica groups have recorded higher levels than Robusta. Indeed, as Graph 3 shows, the Robusta indicator has consistently registered lower price volatility than the three Arabica groups over the last year.

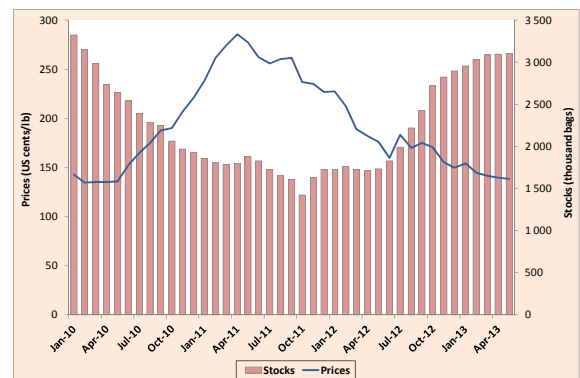
Graph 4 shows the arbitrage between the second and third positions of the New York and London futures markets, which widened by 1.7% compared to April 2013. On the New York futures market, which reflects the price of Arabica coffee, the monthly average of the second and third positions fell for the fourth consecutive month. Graph 5 shows US certified stocks and prices on the New York futures market since January 2010, clearly indicating an inverse relationship between the two. Stocks decreased over the course of 2011 as prices increased significantly, but this trend has subsequently reversed dramatically. US certified stocks at the end of May 2013 stand at their highest

level since February 2010 at 3.1 million bags with Arabica prices at their lowest level since May 2010. This is very different to the situation on the London futures market, where Robusta stocks have been steadily drawn down over the last two years, despite strong levels of Robusta exports and relatively steady prices.

**Graph 4: Arbitrage between New York and London futures markets
(1 May 2012 to 10 June 2013)**



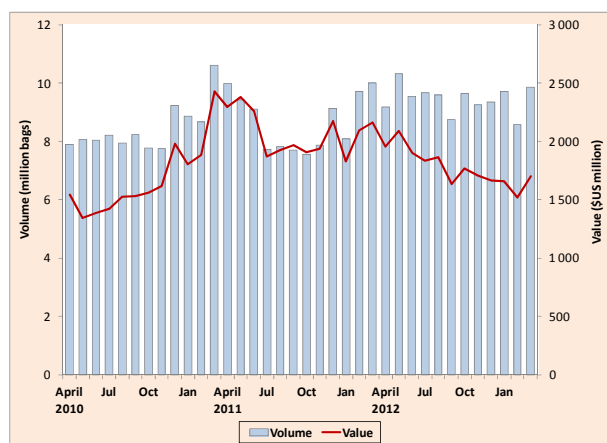
Graph 5: Relationship between US certified stocks and prices on the New York futures market* (January 2010 – May 2013)



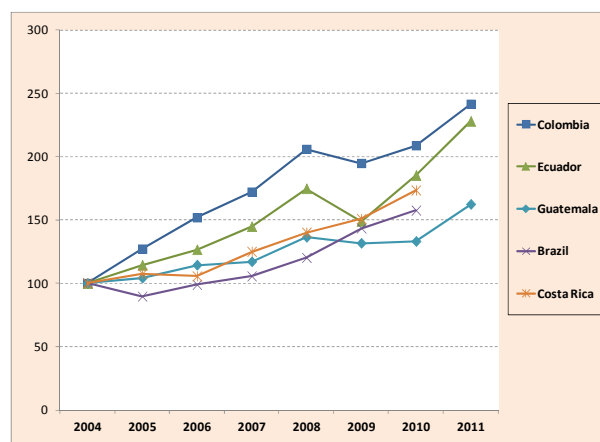
* Average price for 2nd and 3rd positions

The significant reductions in Arabica prices are having a negative effect on revenue for coffee producers. As shown in Graph 6, monthly shipments have consistently maintained a volume of eight to ten million bags since the beginning of 2012, but the revenues accruing from these exports have declined, from over US\$2 billion to around US\$1.5 billion. This problem is compounded by the fact that the cost of production has been rising in many exporting countries. Graph 7 shows an index of the cost of production in selected exporting countries since 2004, based on information received from Members. Whether the price paid to coffee growers has dropped below the cost of production will vary from country to country, but the trend appears to be heading in that direction.

Graph 6: Volume and value of monthly coffee exports (April 2010 – March 2013)



Graph 7: Costs of production for selected exporting countries (Index: 2004=100)



Exports by all exporting countries reached 9.6 million bags in April 2013, a 4.4% increase on April 2012. This brings total exports for the first seven months of coffee year 2012/13 (October to April) to 66 million bags, a 7.1% increase on the 61.6 million bags exported in the same period last year.

Total production in crop year 2012/13 is currently estimated at 143.3 million bags, an increase of 6.9% on the previous year. The 2013/14 crop year has now started in Brazil, which is provisionally estimated by CONAB to reach 48.6 million bags, a record level for an off year in Brazil’s biennial production cycle.

The ICO composite indicator price has returned to the level of April 2010, but the structure of the market has changed significantly. Firstly, the new reality of a greatly diminished on-off cycle in Brazil, with the possibility of increased carry-over stocks, is resulting in a more constant availability of Arabicas year on year. Parallel to this is the sustained appetite for Robustas, seen by the negligible increase in certified stocks of Robusta on the London futures market, despite the strong levels of shipments coming from Vietnam. This shift towards Robusta is testimony, amongst other things, to the dynamic growth in demand of emerging markets where soluble coffee consumption is usually more prevalent. Given these developments, the current range for the Arabica/Robusta arbitrage could be expected to continue in the short-term. Furthermore, the reduced availability of high altitude Central American Milds due to coffee leaf rust can be expected to result in steeper differentials for those origins.

Table 1: ICO indicator prices and futures prices (US cents/lb)

	ICO Composite	Colombian Milds	Colombian Other Milds	Brazilian Naturals	Brazilian Robustas	New York*	London*
Monthly averages							
May-12	157.68	207.32	184.65	174.17	106.88	176.50	96.82
Jun-12	145.31	184.67	168.69	156.17	105.70	159.93	94.75
Jul-12	159.07	202.56	190.45	175.98	107.06	183.20	96.14
Aug-12	148.50	187.14	174.82	160.05	106.52	169.77	96.12
Sep-12	151.28	190.10	178.98	166.53	104.95	175.36	94.65
Oct-12	147.12	181.39	173.32	161.20	104.47	170.43	94.66
Nov-12	136.35	170.08	159.91	148.25	97.67	155.72	87.32
Dec-12	131.31	164.40	152.74	140.69	96.59	149.58	85.94
Jan-13	135.38	169.19	157.29	145.17	99.69	154.28	88.85
Feb-13	131.51	161.70	149.46	136.63	104.03	144.89	94.41
Mar-13	131.38	161.53	149.78	133.61	106.26	141.43	97.22
Apr-13	129.55	161.76	149.81	132.62	101.68	139.91	93.15
May-13	126.96	158.35	147.19	130.29	99.18	138.64	91.07
% change between May-13 and Apr-13							
	-2.0	-2.1	-1.7	-1.8	-2.5	-0.9	-2.2
Annual averages							
2008	124.25	144.32	139.78	126.59	105.28	136.46	97.17
2009	115.67	177.43	143.84	115.33	74.58	128.40	67.69
2010	147.24	225.46	195.96	153.68	78.74	165.20	71.98
2011	210.39	283.84	271.07	247.61	109.21	256.36	101.23
2012	156.34	202.08	186.47	174.97	102.82	179.22	91.87
% change between May-13 and 2012 average							
	-18.8	-21.6	-21.1	-25.5	-3.5	-22.6	-0.9
Volatility (%)							
Apr-13	5.4	6.2	6.6	6.9	4.1	7.6	4.6
May-13	5.9	5.5	7.5	7.8	4.1	8.1	4.1
Variation between May-13 and Apr-13							
	0.4	-0.7	0.9	0.9	0.0	0.4	-0.5

* Average price for 2nd and 3rd positions

Table 2: Price differentials (US cents/lb)

	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-12	22.67	33.15	100.44	10.48	77.77	67.29	79.68
Jun-12	15.98	28.50	78.97	12.52	62.99	50.47	65.18
Jul-12	12.11	26.58	95.50	14.47	83.39	68.92	87.06
Aug-12	12.32	27.09	80.62	14.77	68.30	53.53	73.65
Sep-12	11.12	23.57	85.15	12.45	74.03	61.58	80.71
Oct-12	8.07	20.19	76.92	12.12	68.85	56.73	75.77
Nov-12	10.17	21.83	72.41	11.66	62.24	50.58	68.40
Dec-12	11.66	23.71	67.81	12.05	56.15	44.10	63.64
Jan-13	11.90	24.02	69.50	12.12	57.60	45.48	65.43
Feb-13	12.24	25.07	57.67	12.83	45.43	32.60	50.48
Mar-13	11.75	27.92	55.27	16.17	43.52	27.35	44.21
Apr-13	11.95	29.14	60.08	17.19	48.13	30.94	46.76
May-13	11.16	28.06	59.17	16.90	48.01	31.11	47.57
% change between May-13 and Apr-13							
	-6.6	-3.7	-1.5	-1.7	-0.2	0.5	1.7

* Average price for 2nd and 3rd positions

Table 3: Total exports of all forms of coffee by exporting countries

	April 2012	April 2013	% change	October - April		
				2011/12	2012/13	% change
TOTAL	9 192	9 599	4.4	61 610	65 980	7.1
Colombian Milds	629	967	53.6	5 015	5 878	17.2
Other Milds	2 505	2 459	-1.8	15 240	14 176	-7.0
Brazilian Naturals	2 296	2 755	20.0	18 290	20 210	10.5
Robustas	3 762	3 419	-9.1	23 066	25 716	11.5
Arabicas	5 430	6 181	13.8	38 544	40 264	4.5
Robustas	3 762	3 419	-9.1	23 066	25 716	11.5

In thousand bags

Full trade statistics for all exporting countries are available on the ICO website at www.ico.org/trade_statistics.asp**Table 4: Total production by all exporting countries**

Crop year commencing	2009	2010	2011	2012*	% change 2011 - 2012*
TOTAL	122 941	133 348	134 116	143 336	6.9
Colombian Milds	9 160	9 722	8 638	9 428	9.1
Other Milds	26 523	28 861	32 090	28 089	-12.5
Brazilian Naturals	37 197	45 632	41 197	49 058	19.1
Robustas	50 061	49 132	52 192	56 762	8.8
Arabicas	72 880	84 215	81 924	86 574	5.7
Robustas	50 061	49 132	52 192	56 762	8.8
Africa	16 000	16 123	15 651	18 254	16.6
Asia & Oceania	37 211	36 318	39 743	42 847	7.8
Mexico & Central America	16 685	18 014	20 320	17 308	-14.8
South America	53 045	62 893	58 401	64 927	11

In thousand bags

* Estimated

Table 5: World coffee consumption

Calendar years	2009	2010	2011	2012*	Average annual growth rate (2009 - 2012*)
World total	132 273	137 019	139 000	142 000	2.4
Exporting countries	39 616	40 910	42 397	43 453	3.1
Traditional markets	69 589	70 939	71 214	70 574	0.5
Emerging markets	23 068	25 170	25 390	27 973	6.6

In thousand bags

* Estimated