Coffee Market Report

August 2015

INTERNATIONAL COFFEE ORGANIZATION

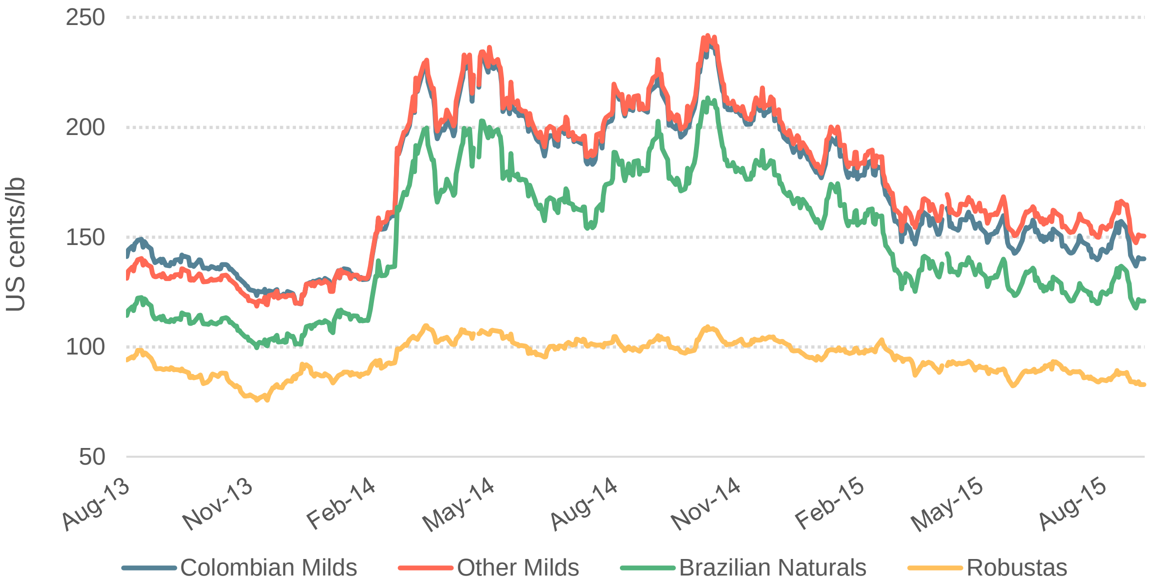
Volatility returns to the coffee market as prices stay low

Daily coffee prices hit their lowest level in 19 months during August, as commodity markets worldwide were negatively affected by currency movements and economic news out of China. Further uncertainty could be provoked by reports that this year's El Niño event could be one of the strongest on record, potentially disrupting the timing and volume of rainfall in several producing countries. Coffee exports in July 2015 came to 9.6 million bags, 3.6% lower than last year, with total exports for the first ten months of coffee year 2014/15 (October to July) 2.8% lower on 92.9 million bags. Finally, the Brazilian government agency Conab have reported that private stocks in Brazil dropped by 849,000 during crop year 2014/15 to 14.4 million bags at the end of March 2015.

Graph 1: ICO composite indicator daily prices

The daily price of the ICO composite indicator rallied briefly at the beginning of August, to reach a 12-week high of 128.16 US cents/lb. However, further currency devaluations in the Brazilian real, Colombian peso and Vietnamese dong, combined with broader declines in commodities, subsequently drove prices down to a low of 114.21 cents. The monthly average for August settled on 121.21 cents, 1.2% higher than July but still the second-lowest level since January 2014.

Graph 2: ICO group indicator daily prices



In terms of the group indicators, all three Arabica groups averaged higher monthly levels, with Colombian Milds, Other Milds and Brazilian Naturals up by 1.7%, 1.6% and 2.9% respectively. Robustas, on the other hand, dropped by 1.5% to 85.78 cents, their lowest monthly value in 21 months. The arbitrage between Arabica and Robusta therefore widened slightly, with price volatility also increasing significantly over the course of August.

Graph 3: Arbitrage between New York and London futures markets

Graph 4: Rolling 30-day volatility of the ICO composite indicator price

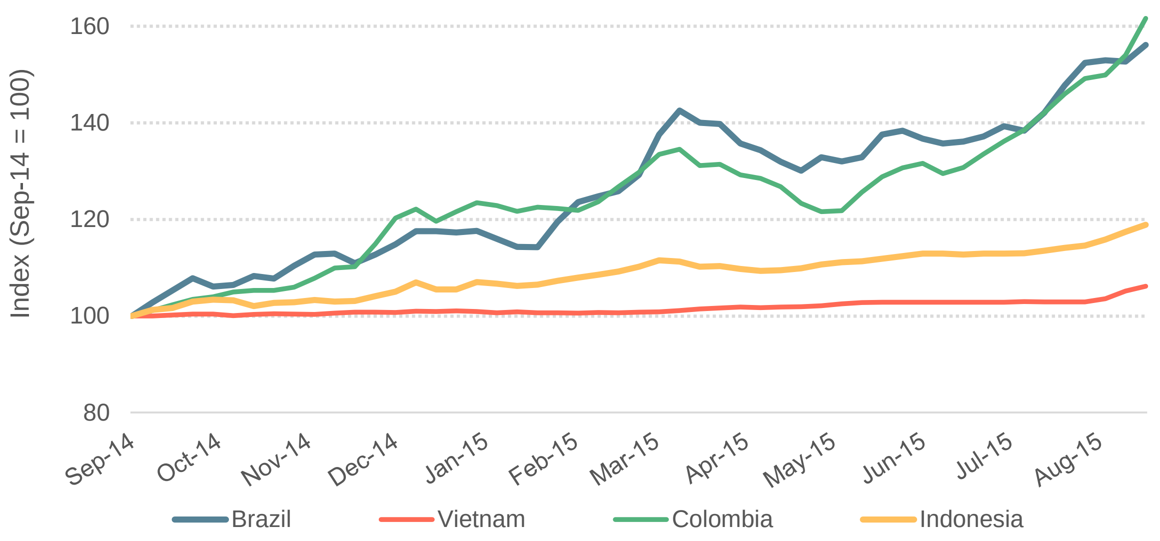
According to the World Meteorological Organization (WMO), the current El Niño event in the tropical Pacific Ocean is the strongest since 1997/98, and is potentially one of the strongest events since 1950. El Niño refers to the occasional dysfunction of the weather patterns centred in the equatorial Pacific regions, and is caused by the abnormal warming of coastal waters off

Peru and Ecuador in the eastern Pacific Ocean and the irregular cooling of the coastal waters in the western Pacific Ocean. It has a significant impact on rainfall patterns worldwide, which is already being felt in the severe drought conditions affecting Australia, heavy rainfall in eastern Africa and flooding in South America. The phenomenon is likely to continue at least until the end of this year. While it is too early to evaluate its impact in coffee exporting countries, we should continue to expect human and ecological consequences caused by climate fluctuations, as well as an impact on infrastructure in a number of producing regions.

Over the last year, the currencies of several exporting countries, most notably Brazil and Colombia, have depreciated significantly against the US dollar, as can be seen in graph 5. Since September 2014, the Brazilian real and Colombian peso have both depreciated by over 50%, reflecting their domestic economic performance as well as global macroeconomic trends. The Indonesian rupiah has also dropped by nearly 20%, and even the Vietnamese dong (which is typically pegged against the US dollar within a relatively narrow band), has been devalued by around 6% over the course of the last year.

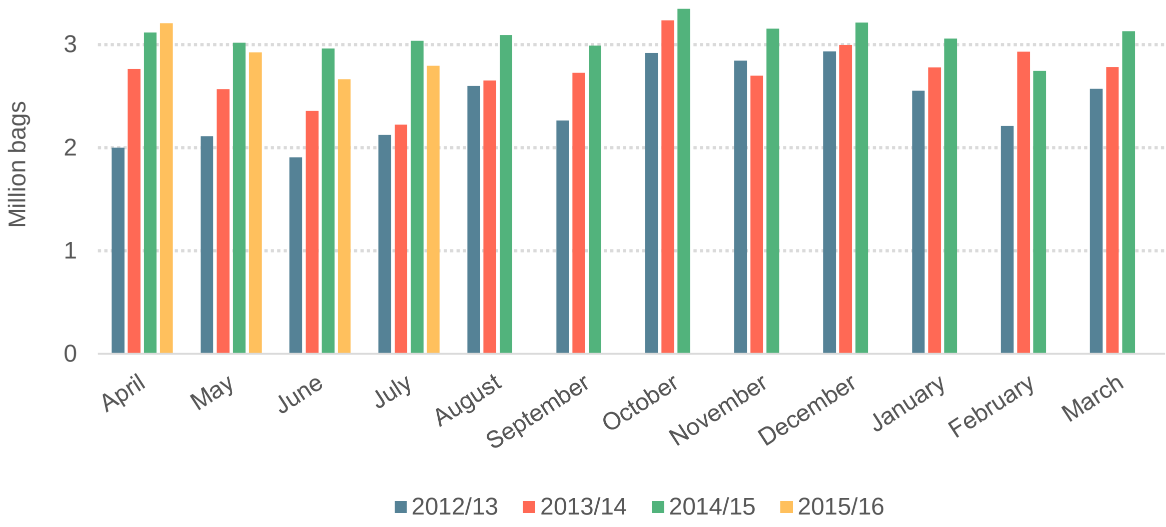
The effect of these devaluations is to increase the remuneration in local currency of coffee sold in US dollars, thereby giving an incentive to farmers and exporters to release more coffee to the international market, even as the world price of coffee falls.

Graph 5: Currency movements of selected exporting countries against the US dollar



This can be seen mostly clearly in Brazil's export performance over the last year or so. While production in crop year 2014/15 (April to March) fell to a three-year low of 45.3 million bags according to Conab figures, exports hit a record level of 36.9 million bags, with domestic consumption of around 21 million bags. This was facilitated by the use of stocks which had been accumulated over the two previous seasons, and encouraged by the significant depreciation in the exchange rate. As can be seen in graph 6, monthly export volumes for the last three months are slightly lower compared to last year (crop year 2014/15), but remain above their levels of 2012/13 and 2013/14.

Graph 6: Monthly exports by Brazil (crop years 2012/13 - 2015/16)



Furthermore, Conab, have released their survey of private stocks for the end of crop year 2014/15 (31st March 2015) which were down by 849,000 bags (5.6%) to 14.4 million bags. It is likely that these volumes have been further eroded in recent months to fuel exports.

To conclude, coffee prices continue to be buffeted by macroeconomic trends, with little fundamental news to support the market. While exports have slowed slightly in the last six months, the world market remains sufficiently supplied for the time being. However, with a strong El Niño event expected over the next few months, future production prospects could be uncertain.

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

	ICO Composite	Colombian Milds	Other Milds	Brazilian Naturals	Robustas	New York*	London*
Monthly averages							
Aug-14	163.08	211.60	212.97	183.32	100.25	193.98	90.64
Sep-14	161.79	206.78	210.53	182.15	100.52	192.09	91.24
Oct-14	172.88	222.59	225.29	197.05	104.70	210.12	95.51
Nov-14	162.17	206.41	209.38	181.43	103.06	192.33	93.60
Dec-14	150.66	190.16	193.60	166.58	98.43	177.82	89.86
Jan-15	148.24	185.26	190.00	163.50	98.01	173.19	89.33
Feb-15	141.10	174.11	178.89	151.90	98.36	159.55	89.76
Mar-15	127.04	154.29	160.74	133.55	92.16	139.70	82.94
Apr-15	129.02	157.06	164.00	136.70	92.06	141.79	82.71
May-15	123.49	150.19	158.48	130.38	87.56	135.22	78.03
Jun-15	124.97	152.02	159.76	130.51	90.25	135.86	80.25
Jul-15	119.77	144.52	154.45	123.64	87.12	128.59	77.16
Aug-15	121.21	146.96	156.92	127.24	85.78	132.42	76.25
% change between Aug-15 and Jul-15							
	1.2%	**1.7%**	**1.6%**	**2.9%**	**-1.5%**	**3.0%**	**-1.2%**
Volatility (%)							
Jul-15	5.4	6.0	5.7	7.0	4.1	6.6	4.3
Aug-15	8.4	9.7	8.7	10.4	5.6	11.5	5.5
Variation between Aug-15 and Jul-15							
	3.0	**3.7**	**3.0**	**3.4**	**1.5**	**4.9**	**1.1**

* 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*
Aug-14	-1.37	28.28	111.35	29.65	112.72	83.07	103.34
Sep-14	-3.75	24.63	106.26	28.38	110.01	81.63	100.85
Oct-14	-2.70	25.54	117.89	28.24	120.59	92.35	114.61
Nov-14	-2.97	24.98	103.35	27.95	106.32	78.37	98.73
Dec-14	-3.44	23.58	91.73	27.02	95.17	68.15	87.96
Jan-15	-4.74	21.76	87.25	26.50	91.99	65.49	83.86
Feb-15	-4.78	22.21	75.75	26.99	80.53	53.54	69.79
Mar-15	-6.45	20.74	62.13	27.19	68.58	41.39	56.76
Apr-15	-6.94	20.36	65.00	27.30	71.94	44.64	59.08
May-15	-8.29	19.81	62.63	28.10	70.92	42.82	57.19
Jun-15	-7.74	21.51	61.77	29.25	69.51	40.26	55.61
Jul-15	-9.93	20.88	57.40	30.81	67.33	36.52	51.43
Aug-15	-9.96	19.72	61.18	29.68	71.14	41.46	56.17
% change between Aug-15 and Jul-15							
	0.3%	**-5.6%**	**6.6%**	**-3.7%**	**5.7%**	**13.5%**	**9.2%**

* Average price for 2nd and 3rd positions

Table 3: Total production in exporting countries

Crop year commencing	2011	2012	2013	2014	% change 2013-14
TOTAL	**136 572**	**147 593**	**146 801**	**141 732**	**-3.5%**
Arabicas	82 008	88 365	87 040	84 167	-3.3%
Colombian Milds	*8 720*	*11 523*	*13 488*	*14 020*	*3.9%*
Other Milds	*31 965*	*28 927*	*26 816*	*26 549*	*-1.0%*
Brazilian Naturals	*41 323*	*47 914*	*46 736*	*43 599*	*-6.7%*
Robustas	54 564	59 228	59 761	57 565	-3.7%
Africa	16 058	16 632	16 239	16 877	3.9%
Asia & Oceania	41 918	45 355	46 744	44 685	-4.4%
Mexico & Central America	20 194	18 481	16 585	18 013	8.6%
South America	58 402	67 125	67 233	62 156	-7.6%

In thousand bags

Full production data are available on the ICO website at www.ico.org/trade_statistics.asp

Table 4: Total exports by exporting countries

	July 2014	July 2015	% change	October - July		
				2013/14	2014/15	% change
TOTAL	**9 952**	**9 591**	**-3.6%**	**95 494**	**92 854**	**-2.8%**
Arabicas	5 827	5 812	-0.3%	58 966	57 553	-2.4%
Colombian Milds	*1 005*	*1 281*	*27.4%*	*10 198*	*11 156*	*9.4%*
Other Milds	*1 961*	*2 003*	*2.1%*	*19 563*	*18 921*	*-3.3%*
Brazilian Naturals	*2 861*	*2 528*	*-11.6%*	*29 205*	*27 476*	*-5.9%*
Robustas	4 125	3 779	-8.4%	36 528	35 302	-3.4%

In thousand bags

Full trade statistics are available on the ICO website at www.ico.org/trade_statistics.asp

Table 5: Certified stocks on the New York and London futures markets

	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15
New York	2.71	2.68	2.67	2.63	2.60	2.55	2.56	2.60	2.56	2.41	2.43	2.38	2.36
London	1.41	1.88	2.02	2.08	2.12	2.35	2.55	2.84	2.93	3.02	3.12	3.35	3.43

In million bags

Table 6: World coffee consumption

Calendar years	2011	2012	2013	2014	CAGR (2011-2014)
World total	**139 364**	**143 099**	**147 495**	**149 162**	**2.3%**
Exporting countries	42 788	44 196	44 951	46 144	2.5%
Traditional markets	77 561	78 417	80 880	81 091	1.5%
Emerging markets	19 015	20 485	21 664	21 927	4.9%

CAGR: Compound Annual Growth Rate

In thousand bags

Full consumption statistics are available on the ICO website at www.ico.org/trade_statistics.asp