

Coffee Market Report

November 2014



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Rains in Brazil dampen market spirits, but production in 2014/15 estimated lower

Coffee prices slipped back in November, as widespread rains in Brazil curtailed any further price rises. All group indicators decreased, although this was less noticeable in the case of Robusta. According to Conab, production of Arabica in Brazil will be six million bags lower in 2014/15 compared to 2013/14; some of this deficit may be covered by the continued recovery in Colombia and improved management of coffee leaf rust in Central America, but the gap will not be totally offset. In terms of Robusta production, there have been mixed reports for Vietnam in 2014/15, but a decrease is expected in Indonesia based on recent export volumes. A preliminary estimate of world coffee production in crop year 2014/15 suggests total supply of around 141 million bags.

Graph 1: ICO composite indicator daily prices

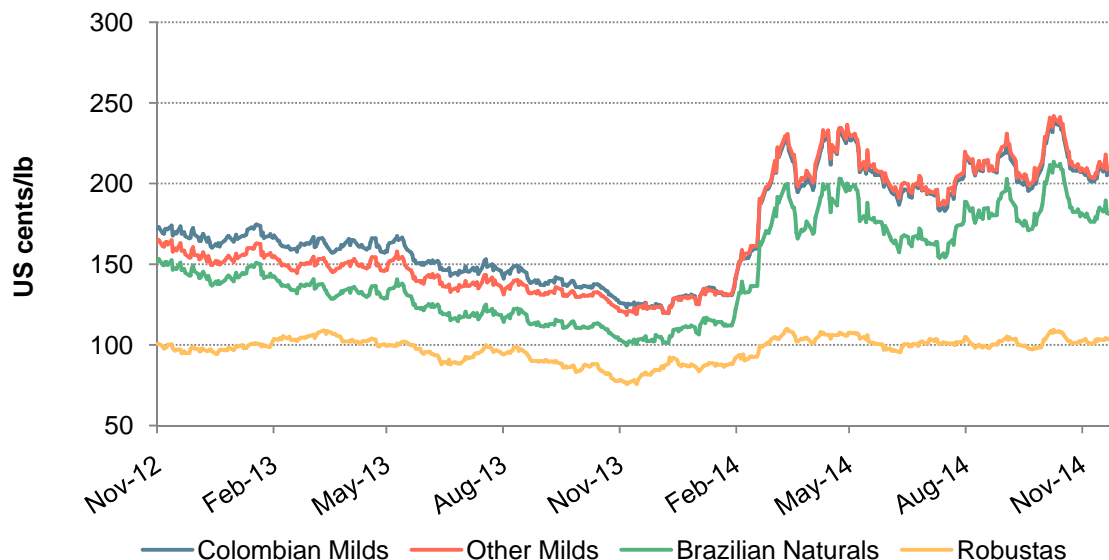


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The monthly average of the ICO composite indicator settled on 162.17 US cents/lb, 6.2% lower than the October average but higher than September. In terms of the daily prices, the ICO

composite hit a low of 158.06 on 7 November, rising to 167.83 on 19 November, which is a significantly lower range than in previous months. Price volatility was also noticeably calmer in November, with the monthly average of 6.6% the lowest of the year so far.

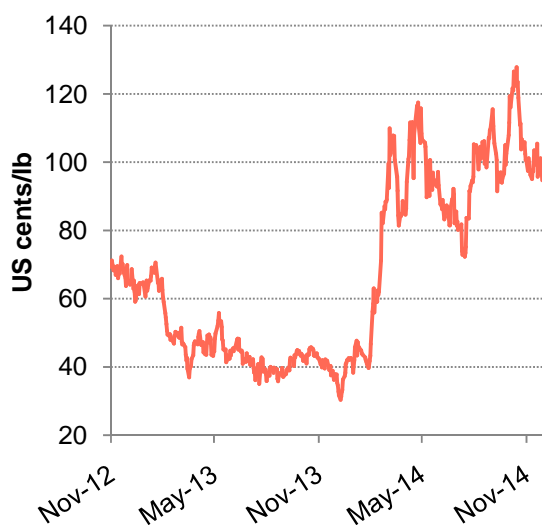
Graph 2: ICO group indicator daily prices



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In terms of the group indicators, all were significantly less volatile than in recent months. All four groups settled lower, with the biggest differences recorded in three Arabica groups; Colombian Milds, Other Milds and Brazilian Naturals averaged 7.3%, 7.1% and 7.9% lower respectively, while Robustas were 1.6% lower than October. Price differentials between the three Arabica groups and Robusta narrowed by over 10% compared to October, and the monthly average of Other Milds increased its premium over Colombian Milds to nearly 3 cents/lb.

Graph 3: Arbitrage between New York and London futures markets



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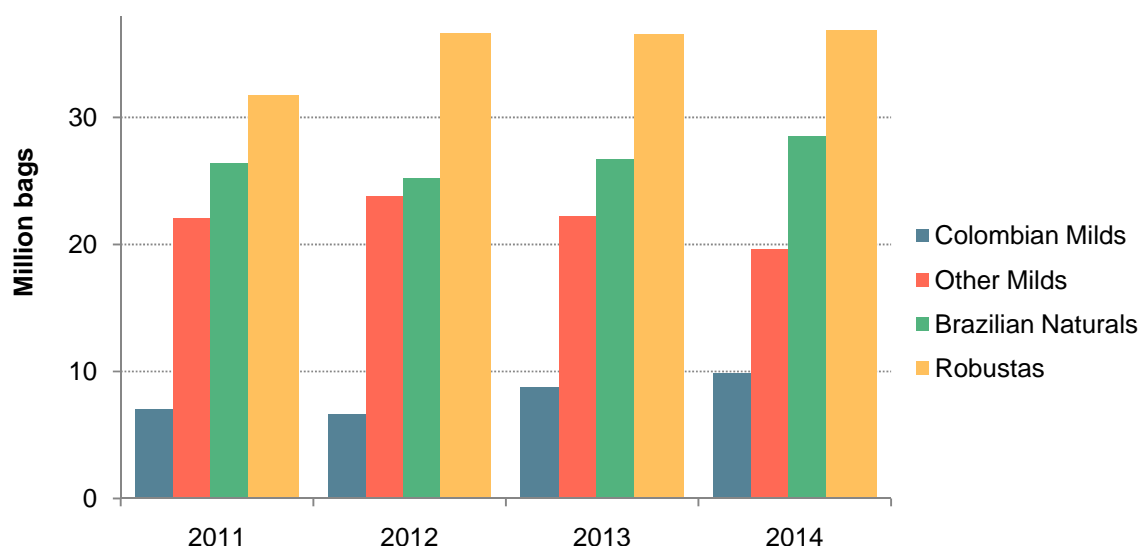
Graph 4: Rolling 30-day volatility of the ICO composite indicator price



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Total exports in October 2014, the first month of the new coffee year, came to 8.9 million bags, half a percent higher than the previous year. For the first ten months of this calendar year, total exports are 0.7% higher on 95 million bags, compared to 94.3 million for the same period last year. Exports have been particularly strong from Brazil (+15.9%), Colombia (+16.6%) and Vietnam (estimated to be up by nearly 25%), although estimated exports from Indonesia are less than half their level of a year ago.

Graph 5: Exports for January - October

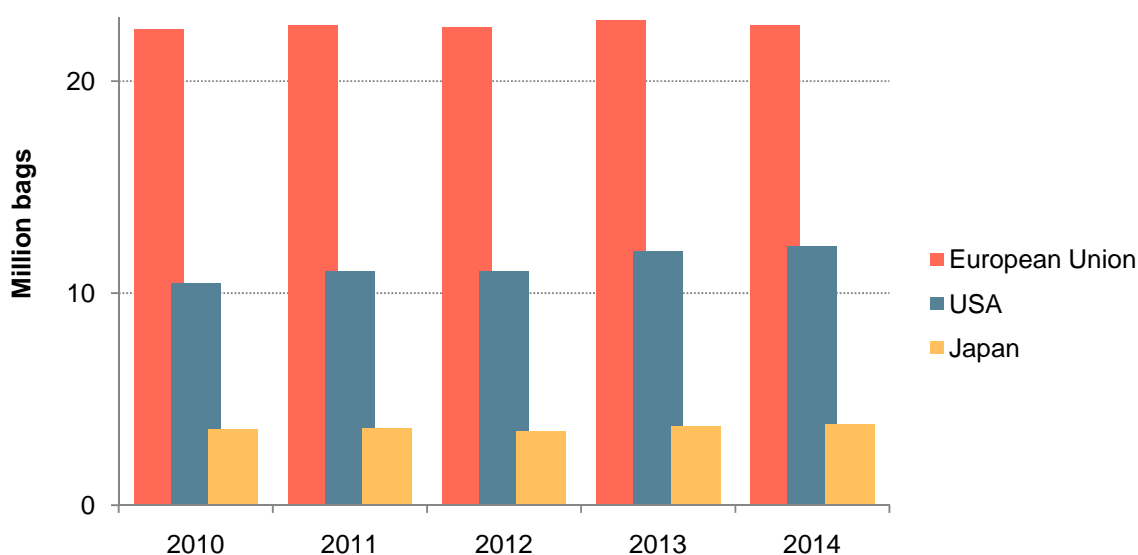


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In terms of consumption, early indications for calendar year 2014 show mixed messages. Graph 6 shows demand for the first six months of the year in the European Union, USA and Japan. According to figures from Eurostat, net imports into the EU from January to June 2014 were 1.1% lower than 2013, amounting to 22.6 million bags in the six month period. This is likely a reaction to the economic situation in many European countries; however it should be noted that this data is provisional and could be subject to revision.

Demand in the USA and Japan, on the other hand, seems to be increasing relatively strongly. Disappearance in the USA reached 12.2 million bags in the first two quarters of this year, up 1.8% compared to 2013. In Japan, disappearance rose by 100,000 bags to 3.8 million. The aggregate change for these three importers, who combined account for around half of world consumption, is for a minor 0.2% increase year on year.

Graph 6: Consumption for the first 6 months of the calendar year



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In other importing countries, preliminary data suggest that net imports into Turkey have risen significantly. Continued growth is also expected in most emerging markets in 2014, with the possible exception of Russia. Likewise, in exporting countries, full data are not yet available, but initial expectations are that demand will continue growing at a strong rate in most producing countries. Again, this will be affected by economic growth prospects.

Inventories of coffee have also been building up in importing countries. At the end of June 2014, total inventories amounted to 21.9 million bags, up 3.9% on June 2013. This would equate to around two and a half months of roasting activity. Certified stocks on the London futures market have also been building up recently, from a historic low of 274,000 in April to 2.1 million in November. Stocks in New York, on the other hand, have continued their gradual decline, from 2.9 million bags to 2.6 million in the same time period. Given the lower production levels estimated in Brazil in 2014/15, it would seem likely that these stocks will be drawn down in order to supply the market this year.

Finally, a preliminary estimate of world coffee production in 2014/15 suggests total supply of around 141 million bags, a sharp drop on 2013/14 which is mostly attributable to the drought in Brazil. However, the ongoing recovery in Colombia, together with improved management of coffee leaf rust in Central America, is expected to mitigate against the loss of Arabica. In terms of Robusta, production in Vietnam is provisionally expected to remain strong, while a significant drop is anticipated in Indonesia, given the recent low export volumes. A more complete rundown of production in 2013/14 and 2014/15 will be provided next month.

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							
Nov-13	100.99	124.65	122.02	102.57	79.71	109.10	69.32
Dec-13	106.56	126.54	125.97	107.40	87.89	114.12	76.74
Jan-14	110.75	132.90	132.73	114.02	87.73	120.92	77.25
Feb-14	137.81	172.22	173.64	148.74	95.90	156.68	85.12
Mar-14	165.03	211.07	214.09	182.97	105.37	190.66	95.53
Apr-14	170.58	220.62	223.48	190.62	105.55	200.39	96.12
May-14	163.94	211.66	214.20	181.97	102.99	191.07	93.83
Jun-14	151.92	195.17	197.89	165.34	98.91	175.81	89.40
Jul-14	152.50	194.21	196.90	164.92	101.79	175.74	91.83
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
% change between Nov-14 and Oct-14							
	-6.2%	-7.3%	-7.1%	-7.9%	-1.6%	-8.5%	-2.0%
Volatility (%)							
Oct-14	9.5	10.6	10.8	11.3	5.9	12.4	6.6
Nov-14	6.6	7.7	8.0	8.2	3.7	9.3	3.4
Variation between Nov-14 and Oct-14							
	-2.9	-2.9	-2.8	-3.1	-2.2	-3.1	-3.2

* 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*
Nov-13	2.63	22.08	44.94	19.45	42.31	22.86	39.78
Dec-13	0.57	19.14	38.65	18.57	38.08	19.51	37.38
Jan-14	0.17	18.88	45.17	18.71	45.00	26.29	43.67
Feb-14	-1.42	23.48	76.32	24.90	77.74	52.84	71.56
Mar-14	-3.02	28.10	105.70	31.12	108.72	77.60	95.13
Apr-14	-2.86	30.00	115.07	32.86	117.93	85.07	104.27
May-14	-2.54	29.69	108.67	32.23	111.21	78.98	97.24
Jun-14	-2.72	29.83	96.26	32.55	98.98	66.43	86.41
Jul-14	-2.69	29.29	92.42	31.98	95.11	63.13	83.91
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
% change between Nov-14 and Oct-14							
	10.0%	-2.2%	-12.3%	-1.0%	-11.8%	-15.1%	-13.9%

* Average price for 2nd and 3rd positions

Table 3: Total production in exporting countries

Crop year commencing	2010	2011	2012	2013	% change 2012-13
TOTAL	133 065	132 011	145 003	145 202	0.1%
Arabicas	84 190	81 741	88 685	85 276	-3.8%
<i>Colombian Milds</i>	9 705	8 720	12 011	12 269	2.1%
<i>Other Milds</i>	28 871	31 913	28 914	26 301	-9.0%
<i>Brazilian Naturals</i>	45 614	41 108	47 759	46 705	-2.2%
Robustas	48 876	50 270	56 319	59 926	6.4%
Africa	16 053	15 715	16 529	16 267	-1.6%
Asia & Oceania	36 016	37 897	42 684	46 707	9.4%
Mexico & Central America	18 103	20 194	18 498	16 020	-13.4%
South America	62 893	58 401	67 612	66 200	-2.1%

In thousand bags

Full production data are available on the ICO website at www.ico.org/prices/po.htm

Table 4: Total exports by exporting countries

	October 2013	October 2014	% change	January - October		
				2013	2014	% change
TOTAL	8 836	8 880	0.5%	94 256	94 953	0.7%
Arabicas	5 730	5 564	-2.9%	57 675	58 072	0.7%
<i>Colombian Milds</i>	963	1 057	9.8%	8 749	9 886	13.0%
<i>Other Milds</i>	1 517	1 354	-10.7%	22 206	19 619	-11.7%
<i>Brazilian Naturals</i>	3 250	3 153	-3.0%	26 721	28 568	6.9%
Robustas	3 105	3 316	6.8%	36 580	36 880	0.8%

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

	Nov-13	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14
London	0.77	0.50	0.46	0.40	0.32	0.27	0.85	1.12	1.28	1.41	1.88	2.02	2.08
New York	3.02	3.06	3.00	2.95	2.92	2.90	2.87	2.83	2.79	2.71	2.68	2.67	2.63

In million bags

Table 6: World coffee consumption

Calendar years	2010	2011	2012	2013*	CAGR (2010-2013*)
World total	137 185	139 488	142 911	145 800	2.1%
Exporting countries	41 005	42 755	44 078	44 659	2.9%
Traditional markets	71 015	70 735	71 411	73 875	1.3%
Emerging markets	25 165	25 998	27 422	27 266	2.7%

CAGR: Compound Annual Growth Rate

* Estimated