

## Coffee consumption increases as market hits 14-month high

*Prices rallied significantly in June, as the Brazilian real strengthened against the US dollar and the 2016/17 Brazilian crop entered its potential frost season. The monthly average of the ICO composite indicator price reached a 14-month high of 127.05 cents/lb, up 6% on May, with export volumes in May also slowing for the second consecutive month. Global coffee consumption continues to increase, albeit at a slightly slower rate, with the most dynamic demand recorded in Asia & Oceania.*

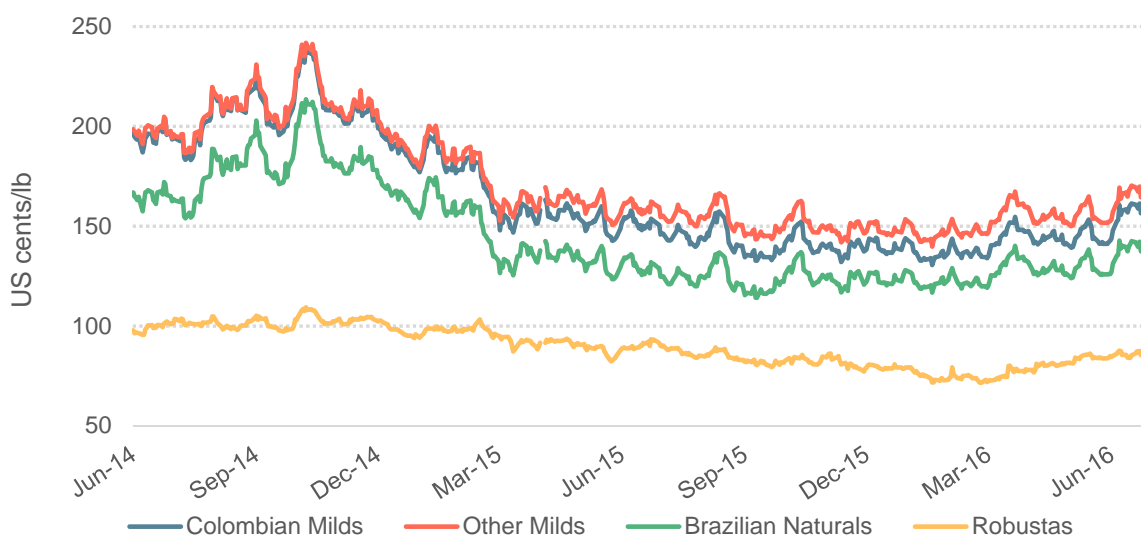
Graph 1: ICO composite indicator daily prices



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The daily price of the ICO composite indicator increased steadily over the course of the month, starting from a low of 118.53 US cents/lb on 1 June and ending on a high of 132.04, its highest daily level since April 2015. These developments have been matched closely by movements in the exchange rate between the Brazilian real, which also hit its strongest level against the US dollar since July 2015. This will reduce the incentive for exporters in Brazil to release coffee to the international market, especially with domestic stocks suspected to be running low. The market has also been reacting to the possibility of frost in Brazil, although any damage seems to have been relatively limited.

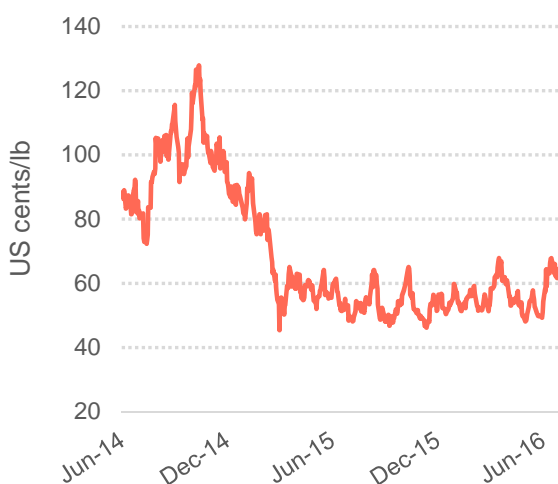
Graph 2: ICO group indicator daily prices



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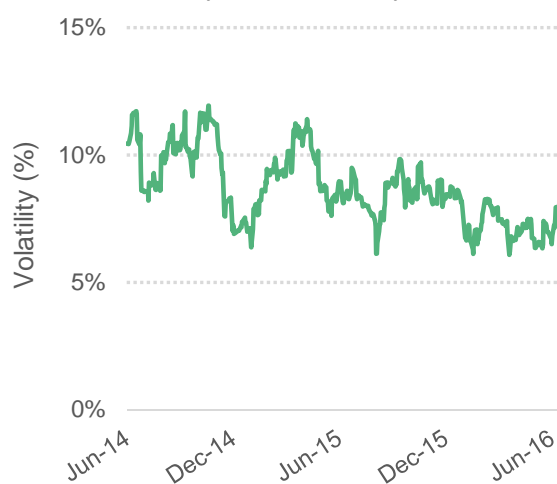
The four group indicators all increased compared to last month, with the most significant changes recorded in the Arabica groups. Colombian Milds, Other Milds and Brazilian Naturals settled up 8.6%, 6.6% and 7.2% respectively. Robustas, on the other hand, increased by 2.4%. As a result, the arbitrage between Arabica and Robusta, as measured on the New York and London futures markets, increased by 20.4% to 62.23 cents, also its widest level since April last year.

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



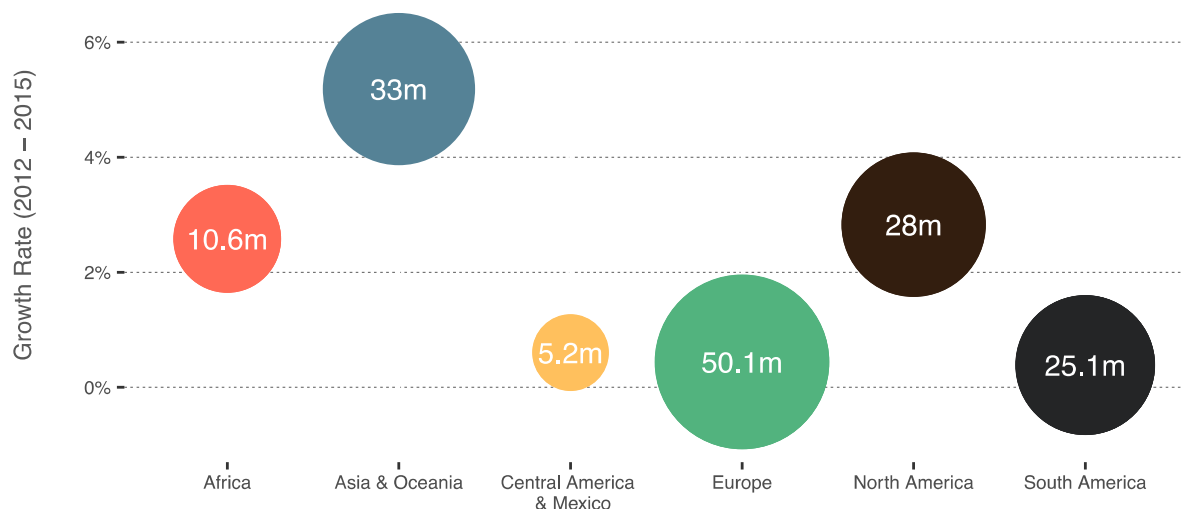
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Total exports in May 2016 were slightly lower than last year on 9.3 million bags, the second consecutive month of reduced volumes. Nevertheless, total exports for the first 8 months of coffee year 2015/16 (October to May) are up 1.6% to reach a record 75.9 million bags, exceeding the previous high in 2012/13.

Our second estimate of world consumption in calendar year 2015 is maintained at 152.1 million bags, with a slight downward revision in importing countries compensated by an equal increase in exporting. This volume is up 1.3% compared to the previous year, representing an average annual growth rate of 2% since 2012.

The strongest growth in recent years has been recorded in Asia & Oceania, at an average rate of 5.2%, well above the global average. This growth has come from both producing countries, such as Indonesia, Vietnam and India, as well as importing countries like Turkey and Japan, all of whom continue to exhibit dynamic domestic markets.

Graph 5: World consumption by region (calendar year 2015)



Size of circle corresponds to consumption volume in 2015 (million 60kg bags)  
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North America has also shown relatively strong growth of 2.8% in the last four years, adding 2.2 million bags of new demand in the time period. According to the US National Coffee Association’s Coffee Drinking Trends Survey, much of this growth has been driven by an increasing preference for espresso-based gourmet drinks from younger consumers.

Consumption growth in Europe has been more modest, at an average rate of 0.4%, the same rate as South America, while Central America & Mexico is on 0.6%. Total demand in the EU is revised down slightly to 41.6 million bags, while in Brazil, the world’s second largest consuming country after the USA, demand is maintained at 20.5 million bags, although the Brazilian Coffee Industry Association (ABIC) has suggested that domestic consumption could increase during the current 2016/17 harvest.

Finally, coffee consumption in Africa has exceeded the global trend, at an average rate of 2.6%. Much of this growth has come from countries such as Ethiopia, where coffee drinking has a long domestic tradition. It is also anecdotally growing in developing countries such as Kenya and Tanzania, driven in large part by the increased popularity of coffee shops in urban areas, although this has yet to be reflected in the data.

To conclude, while the growth rate in coffee consumption has slowed slightly, this still represents 8.7 million bags of new demand over the last four years, with indications that there is plenty of potential for further growth in the future.

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

	ICO Composite	Colombian Milds	Other Milds	Brazilian Naturals	Robustas	New York*	London*
<b>Monthly averages</b>							
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
Sep-15	113.14	135.55	146.15	117.83	81.50	121.66	71.53
Oct-15	118.43	143.10	153.25	127.47	82.78	129.45	72.89
Nov-15	115.03	138.63	147.98	122.95	81.74	122.35	72.04
Dec-15	114.63	139.89	148.66	123.73	79.28	123.77	70.02
Jan-16	110.89	135.21	145.03	121.21	74.71	120.20	65.67
Feb-16	111.75	137.17	147.70	122.24	74.04	119.25	64.96
Mar-16	117.83	145.20	157.50	130.38	75.60	127.33	66.17
Apr-16	117.93	143.66	154.22	128.10	80.18	125.34	70.90
May-16	119.91	144.49	155.19	129.05	83.93	126.80	75.11
Jun-16	127.05	156.86	165.45	138.38	85.94	139.10	76.87
<b>% change between Jun-16 and May-16</b>							
	<b>6.0%</b>	<b>8.6%</b>	<b>6.6%</b>	<b>7.2%</b>	<b>2.4%</b>	<b>9.7%</b>	<b>2.3%</b>
<b>Volatility (%)</b>							
May-16	5.9	6.6	6.4	7.4	4.3	6.5	4.7
Jun-16	7.7	8.8	8.8	9.7	5.8	11.4	6.1
<b>Variation between Jun-16 and May-16</b>							
	<b>1.8</b>	<b>2.2</b>	<b>2.3</b>	<b>2.3</b>	<b>1.5</b>	<b>5.0</b>	<b>1.4</b>

\* Average price for 2<sup>nd</sup> and 3<sup>rd</sup> 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*
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
Sep-15	-10.60	17.72	54.05	28.32	64.65	36.33	50.13
Oct-15	-10.15	15.63	60.32	25.78	70.47	44.69	56.56
Nov-15	-9.35	15.68	56.89	25.03	66.24	41.21	50.31
Dec-15	-8.77	16.16	60.61	24.93	69.38	44.45	53.75
Jan-16	-9.82	14.00	60.50	23.82	70.32	46.50	54.53
Feb-16	-10.53	14.93	63.13	25.46	73.66	48.20	54.29
Mar-16	-12.30	14.82	69.60	27.12	81.90	54.78	61.16
Apr-16	-10.56	15.56	63.48	26.12	74.04	47.92	54.44
May-16	-10.70	15.44	60.56	26.14	71.26	45.12	51.69
Jun-16	-8.59	18.48	70.92	27.07	79.51	52.44	62.23
<b>% change between Jun-16 and May-16</b>							
	<b>-19.7%</b>	<b>19.7%</b>	<b>17.1%</b>	<b>3.6%</b>	<b>11.6%</b>	<b>16.2%</b>	<b>20.4%</b>

\* Average price for 2<sup>nd</sup> and 3<sup>rd</sup> positions

**Table 3: Total production in exporting countries**

Crop year commencing	2012	2013	2014	2015	% change 2014-15
<b>TOTAL</b>	<b>144 949</b>	<b>146 580</b>	<b>142 508</b>	<b>144 752</b>	<b>1.6%</b>
Arabicas	88 184	86 997	84 686	84 635	-0.1%
<i>Colombian Milds</i>	11 523	13 488	14 571	14 853	1.9%
<i>Other Milds</i>	29 131	26 852	25 941	27 293	5.2%
<i>Brazilian Naturals</i>	47 530	46 657	44 173	42 488	-3.8%
Robustas	56 765	59 583	57 822	60 117	4.0%
Africa	16 668	16 271	16 109	17 129	6.3%
Asia & Oceania	42 554	46 452	45 676	47 906	4.9%
Mexico & Central America	18 595	16 615	17 436	18 462	5.9%
South America	67 131	67 243	63 287	61 255	-3.2%

In thousand bags

Full production data are available on the ICO website at [www.ico.org/trade\\_statistics.asp](http://www.ico.org/trade_statistics.asp)

**Table 4: Total exports by exporting countries**

	May 2015	May 2016	% change	October - May		
				2014/15	2015/16	% change
<b>TOTAL</b>	<b>9 992</b>	<b>9 316</b>	<b>-6.8%</b>	<b>74 717</b>	<b>75 948</b>	<b>1.6%</b>
Arabicas	6 269	5 951	-5.1%	45 694	48 417	6.0%
<i>Colombian Milds</i>	1 125	1 008	-10.4%	8 773	9 545	8.8%
<i>Other Milds</i>	2 437	2 377	-2.5%	14 232	14 937	5.0%
<i>Brazilian Naturals</i>	2 707	2 566	-5.2%	22 688	23 934	5.5%
Robustas	3 724	3 365	-9.6%	29 024	27 531	-5.1%

In thousand bags

Full trade statistics are available on the ICO website at [www.ico.org/trade\\_statistics.asp](http://www.ico.org/trade_statistics.asp)

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

	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16
New York	2.43	2.38	2.36	2.28	2.15	2.08	1.95	1.82	1.76	1.62	1.58	1.53	1.48
London	3.12	3.35	3.43	3.43	3.37	3.35	3.31	3.23	3.04	2.92	2.78	2.64	2.53

In million bags

**Table 6: World coffee consumption**

Calendar years	2012	2013	2014	2015	CAGR (2012-2015)
<b>World total</b>	<b>143 396</b>	<b>148 185</b>	<b>150 231</b>	<b>152 111</b>	<b>2.0%</b>
Exporting countries	44 711	45 522	46 649	47 633	2.1%
Importing countries	98 685	102 663	103 582	104 478	1.9%
Africa	9 839	10 690	10 455	10 621	2.6%
Asia & Oceania	28 386	30 022	31 099	33 034	5.2%
Central America & Mexico	5 151	5 156	5 218	5 245	0.6%
Europe	49 459	50 499	50 960	50 116	0.4%
North America	25 730	26 931	27 679	27 975	2.8%
South America	24 831	24 888	24 819	25 120	0.4%

CAGR: Compound Annual Growth Rate

In thousand bags