

Coffee Market Report



INTERNATIONAL
COFFEE
ORGANIZATION

July 2016

Coffee market consolidates price rises but Robusta supply still a concern

The ICO composite indicator rose to a 17-month high in July, although the market struggled to hold on to its early gains. Coffee exports have slowed in the last couple of months, as the new Brazilian crop has not yet come to market, but consumer stocks remain relatively well supplied. Furthermore, Conab released its survey of domestic private stocks as at the end of March 2016 as being just 5.4% lower than the previous year, down from 14.4 million to 13.6 million bags.

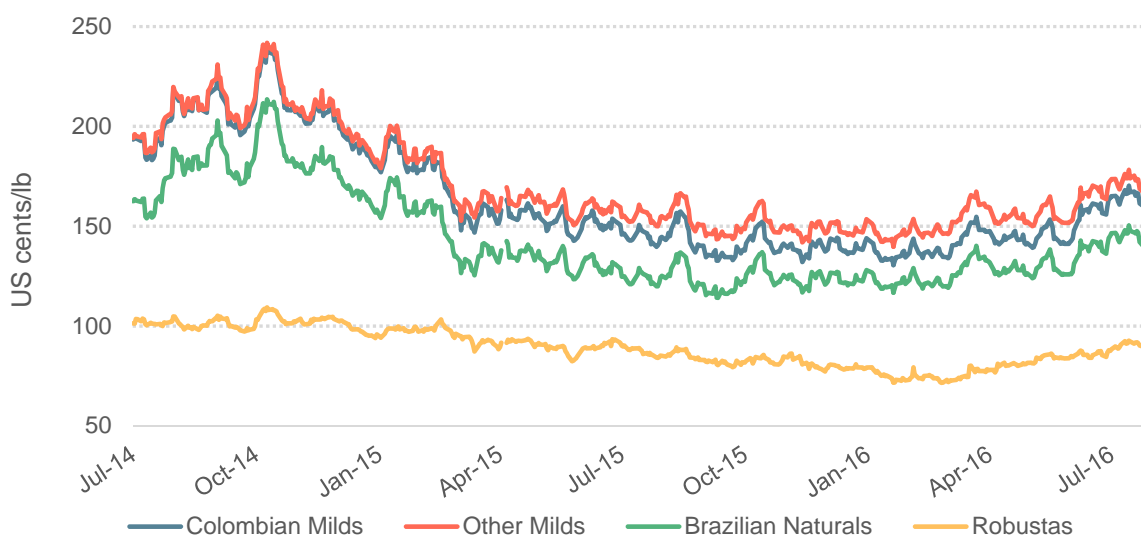
Graph 1: ICO composite indicator daily prices



© 2016 International Coffee Organization (www.ico.org)

Coffee prices were mostly mixed over the course of July, with the daily price of the ICO composite indicator ending the month just 0.5 cents above where it started. Prices initially increased to a high of 137.36 US cents/lb in the middle of the month, due to a second frost scare in Brazil and a slight recovery in the Brazilian real. This was the highest daily value for the ICO composite since February 2015. However, prices then slipped to a low of 129.40, as the Colombian truckers' strike was resolved and the threat of frost in Brazil receded.

Graph 2: ICO group indicator daily prices



© 2016 International Coffee Organization (www.ico.org)

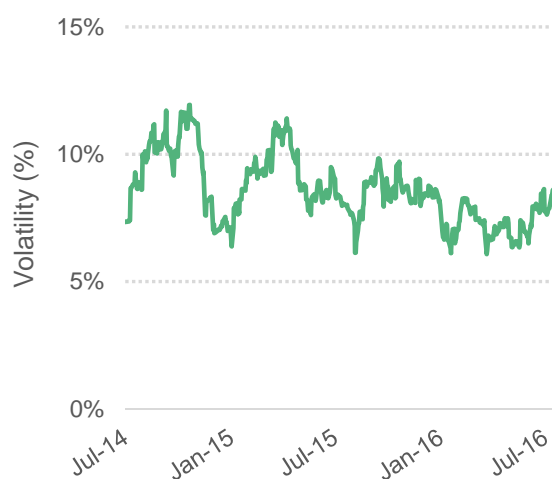
Higher monthly averages were recorded in all four group indicator prices. Robustas saw the strongest growth, up 5.7% to 90.82 cents, their highest level since April 2015. Arabica prices also saw significant increases, with Colombian Milds, Other Milds and Brazilian Naturals up by 4.8%, 3.8% and 4.6% respectively. Nevertheless, the arbitrage between Arabica and Robusta widened for the second consecutive month, despite their respective supply prospects.

Graph 3: Arbitrage between New York and London futures markets



© 2016 International Coffee Organization (www.ico.org)

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



© 2016 International Coffee Organization (www.ico.org)

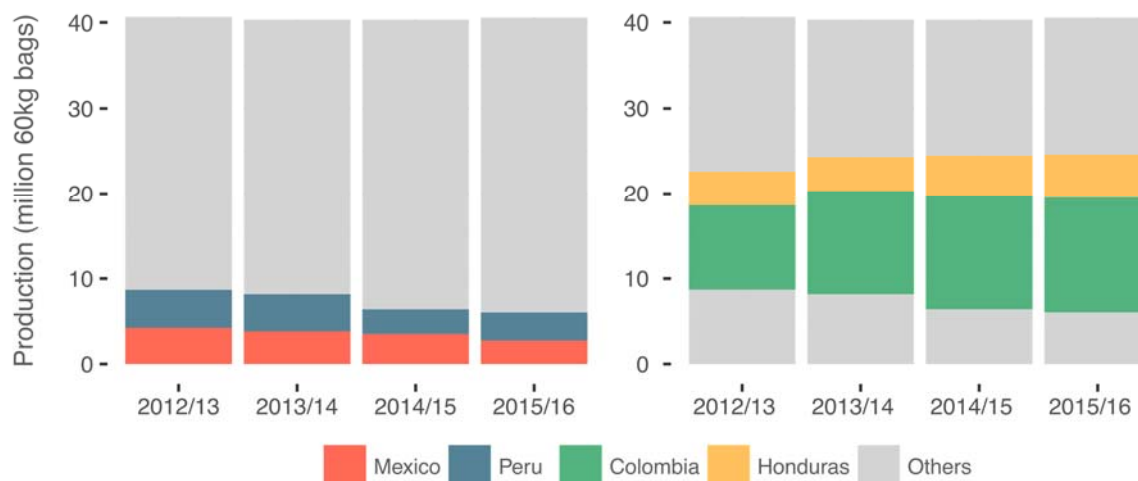
Coffee exports were significantly lower in June 2016 compared to last year, down 11.2% to 9 million bags, which would represent the lowest June exports in six years. Lower shipments were estimated from three of the four largest producers: Brazil (-10.2%), Colombia (-7.4%) and Indonesia (-62.9%), although Vietnam (+0.4%) was slightly higher. Nevertheless, total exports for the first three quarters of coffee year 2015/16 (October to June) are estimated 0.2% higher than the same period last year, on 85.1 million bags, with a 6.5% decrease in Robusta exports offset by a 4.6% increase in Arabica.

The ICO production estimate for crop year 2015/16 has been revised down to 143.3 million bags, compared to our previous estimate of 144.7 million. This is mostly due to a sharp reduction in output from Mexico, revised down from 3.9 million bags to 2.8 million, and a more modest revision for Nicaragua to 1.8 million bags. In the case of Mexico, this is attributed to the more severe than anticipated impact of coffee leaf rust, which has aggressively reduced output by more than a third since 2012/13.

As a result, total production for 2015/16 is expected to be 0.7% higher than last year, though still lower than 2012/13 and 2013/14. Total production of Arabicas is mostly unchanged; indeed, as shown in Graph 5 the supply of Washed Arabicas used by the specialty coffee sector has been stable over the last four years, with decreases in some origins (for example Mexico and Peru), compensated by increases in others (most importantly Colombia and Honduras).

Graph 5: Production of Washed Arabicas

Despite lower production in Mexico and Peru, increased output in Colombia and Honduras has kept total production of Washed Arabicas (i.e. Colombian Milds & Other Milds) at just over 40 million bags for the last four years



© International Coffee Organization 2016

Robusta supply has been less stable. 2015/16 is expected to grow by 1.7% due to improved crops in Vietnam and Indonesia, but the outlook for 2016/17 is less positive. Exports by Indonesia over the last three months have dropped by over a third to under 1 million bags, affected by a strong El Niño and increasing domestic demand, while the Vietnam Coffee and Cocoa Association (Vicofa) has warned of lower supply next year due to drought. Finally, the Brazilian Robusta crop is estimated by Conab as the lowest in over ten years due to dry weather, with June's Robusta exports down 79.5% to just 83,000 bags.

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							
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
Jul-16	132.98	164.46	171.76	144.76	90.82	148.16	82.09
% change between Jul-16 and Jun-16							
	4.7%	4.8%	3.8%	4.6%	5.7%	6.5%	6.8%
Volatility (%)							
Jun-16	8%	9%	9%	10%	6%	11%	6%
Jul-16	6%	7%	7%	7%	5%	9%	5%
Variation between Jul-16 and Jun-16							
	-1.6%	-2.0%	-1.8%	-2.4%	-0.9%	-2.5%	-1.3%

* 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*
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
Jul-16	-7.30	19.70	73.64	27.00	80.94	53.94	66.07
% change between Jul-16 and Jun-16							
	-15.0%	6.6%	3.8%	-0.3%	1.8%	2.9%	6.2%

* Average price for 2nd and 3rd positions

Table 3: Total production in exporting countries

Crop year commencing	2012	2013	2014	2015	% change 2014-15
TOTAL	144 960	146 506	142 278	143 306	0.7%
Arabicas	88 420	88 400	82 889	82 890	0.0%
<i>Colombian Milds</i>	11 523	13 488	14 571	14 845	1.9%
<i>Other Milds</i>	29 143	26 838	25 768	25 755	0.0%
<i>Brazilian Naturals</i>	47 753	48 074	42 551	42 289	-0.6%
Robustas	56 540	58 106	59 389	60 416	1.7%
Africa	16 668	16 214	16 055	17 449	8.7%
Asia & Oceania	42 552	46 453	45 666	47 805	4.7%
Mexico & Central America	18 609	16 596	17 269	16 753	-3.0%
South America	67 131	67 243	63 287	61 298	-3.1%

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

	June 2015	June 2016	% change	October - June		
				2014/15	2015/16	% change
TOTAL	10 172	9 033	-11.2%	84 889	85 101	0.2%
Arabicas	6 154	5 728	-6.9%	51 848	54 208	4.6%
<i>Colombian Milds</i>	1 112	1 034	-7.0%	9 886	10 579	7.0%
<i>Other Milds</i>	2 501	2 170	-13.2%	16 733	17 147	2.5%
<i>Brazilian Naturals</i>	2 541	2 524	-0.7%	25 230	26 481	5.0%
Robustas	4 018	3 305	-17.7%	33 041	30 893	-6.5%

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

	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16
New York	2.38	2.36	2.28	2.15	2.08	1.95	1.82	1.76	1.62	1.58	1.53	1.48	1.45
London	3.35	3.43	3.43	3.37	3.35	3.31	3.23	3.04	2.92	2.78	2.64	2.53	2.45

In million bags

Table 6: World coffee consumption

Calendar years	2012	2013	2014	2015	CAGR (2012-2015)
TOTAL	143 396	148 185	150 231	152 111	2.0%
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