



October 2015

Coffee market rallies briefly, but downward trend continues

Despite a slight jump in coffee prices at the beginning of October, these gains were short-lived as global commodity markets turned lower. Total exports for coffee year 2014/15 dropped for the first time in five years, but still reached the relatively high level of 110.7 million bags. Looking ahead to the coming year, however, several major producing countries are facing potential production setbacks, putting a lot of pressure on the 2016/17 Brazilian crop.

Graph 1: ICO composite indicator daily prices

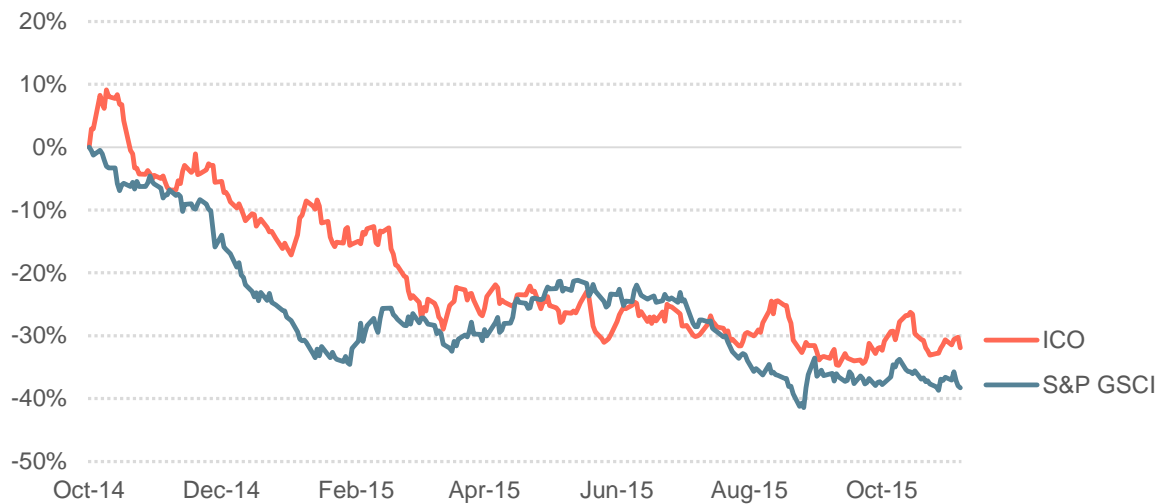


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Coffee prices started the month brightly as rains expected in Brazil failed to materialise, and concerns over the flowering for the 2016/17 crop grew. The daily price of the ICO composite indicator jumped from 114.80 cents/lb at the beginning of the month to a high of 125.08 on 14 October. However, as the Brazilian real again weakened against the US dollar and rains started to appear, the market reversed lower, dropping to a low of 113.48 cents. The monthly average settled on 118.43 cents, 4.7% higher than September, but the negative market trend observed over the last year still seems to prevail.

Furthermore, it is notable that coffee prices have recently followed a similar trajectory to global commodity prices, as shown below by the Standard & Poor GSCI commodity index. Much of this broader downward trend over the last year has been driven by concerns over slowing economic growth in China and the increasing likelihood of a US interest rate rise. It is important therefore to bear in mind that the fundamentals in supply and demand are not the only factors affecting the coffee market.

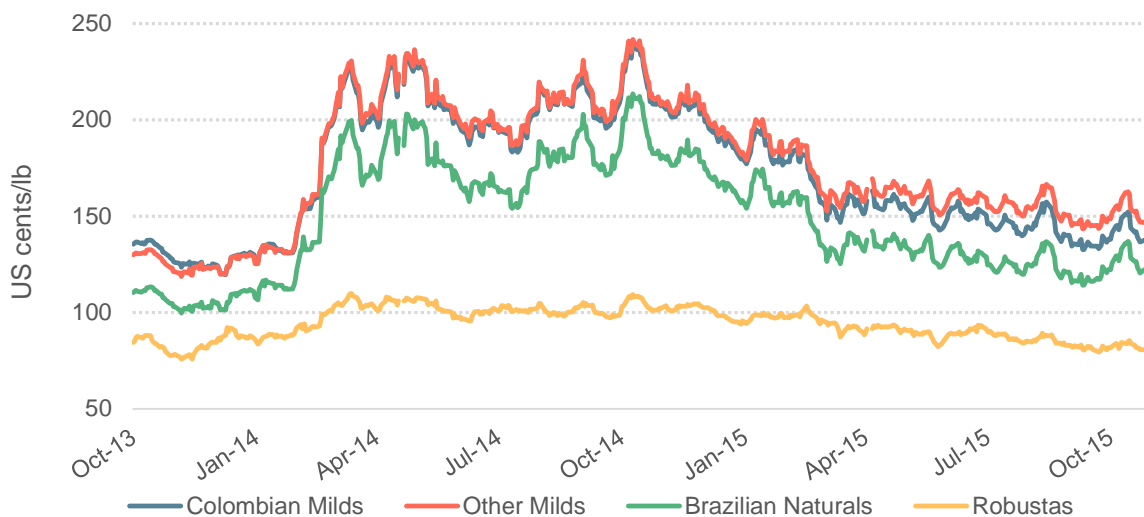
Graph 2: Index of ICO composite indicator and S&P GSCI Commodity Index



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Looking at the group indicators, the three Arabica groups of Colombian Milds, Other Milds and Brazilian Naturals performed slightly better than Robustas, resulting in a widening in the arbitrage on the New York and London futures markets of 12.8%. Other Milds continue to trade at a premium to Colombians as monthly production levels in Colombia carry on increasing. Monthly price volatility in October was similar to last month, at 7.6%.

Graph 3: ICO group indicator daily prices



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Graph 4: Arbitrage between New York and London futures markets



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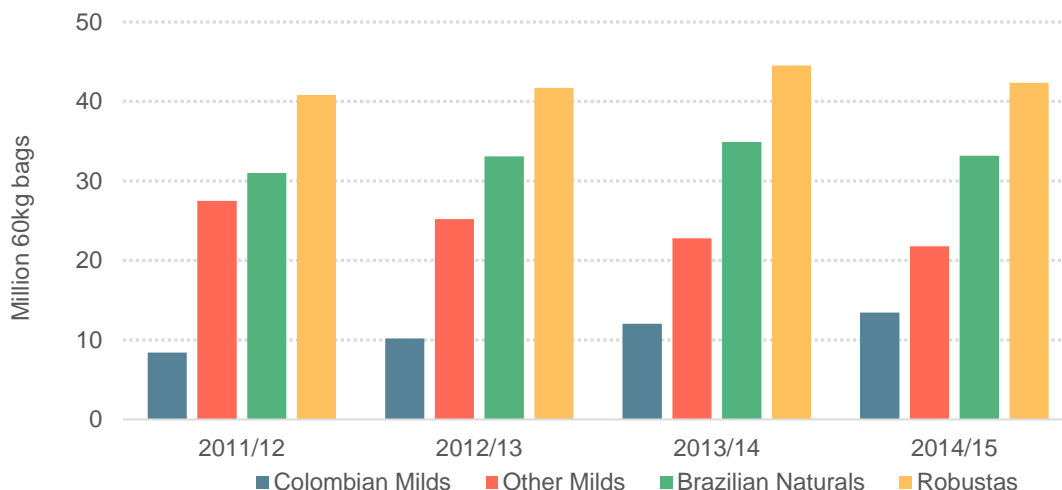
Graph 5: Rolling 30-day volatility of the ICO composite indicator price



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Total exports at the end of coffee year 2014/15 came to 110.7 million bags, 3.1% less than last year. This is the first year-on-year decrease in export volumes for five years. Shipments of both Arabicas and Robustas were lower, by 1.9% and 4.9% respectively, although an increase of 11.6% was recorded in the Colombian Milds group.

Graph 6: Total exports (coffee years 2011/12 - 2014/15)



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In terms of the major origins, exports from Brazil finished on 36.3 million bags, 1.8% more than 2013/14 and the largest volume from Brazil on record. Vietnam, on the other hand, saw severely restricted exports, down by 19.2% to an estimated 20 million bags. The ongoing recovery in Colombia resulted in an increase of 13.3% to 12.3 million bags, while Indonesia increased to an estimated 7.3 million bags and Honduras to 5 million bags.

Our production estimate for 2014/15 has been revised slightly to 143.3 million bags, down 2.3% compared to last year. This revision is mostly due to an increase in production by Colombia, which is now estimated at 13.3 million bags. Looking ahead, however, a lack of rain resulting from El Niño could reduce production next year, with bad weather also potentially affecting production in Indonesia and Vietnam.

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							
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
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
% change between Oct-15 and Sep-15							
	4.7%	5.6%	4.9%	8.2%	1.6%	6.4%	1.9%
Volatility (%)							
Sep-15	7.3	7.7	6.6	9.4	6.4	8.3	7.0
Oct-15	7.6	8.2	7.9	9.7	6.3	9.5	7.2
Variation between Oct-15 and Sep-15							
	0.3	0.5	1.3	0.4	-0.1	1.2	0.3

* 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*
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
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
% change between Oct-15 and Sep-15							
	-4.2%	-11.8%	11.6%	-9.0%	9.0%	23.0%	12.8%

* 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	136 571	147 615	146 630	143 253	-2.3%
Arabicas	82 007	88 370	87 010	84 999	-2.3%
<i>Colombian Milds</i>	8 720	11 523	13 488	14 656	8.7%
<i>Other Milds</i>	31 845	28 933	26 829	26 531	-1.1%
<i>Brazilian Naturals</i>	41 442	47 914	46 693	43 812	-6.2%
Robustas	54 564	59 245	59 620	58 253	-2.3%
Africa	16 058	16 632	16 240	16 569	2.0%
Asia & Oceania	41 919	45 379	46 573	45 693	-1.9%
Mexico & Central America	20 194	18 481	16 585	18 001	8.5%
South America	58 400	67 122	67 232	62 990	-6.3%

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

	September 2014	September 2015	% change	October - September		
				2013/14	2014/15	% change
TOTAL	9 397	8 871	-5.6%	114 236	110 746	-3.1%
Arabicas	5 326	5 557	4.4%	69 702	68 399	-1.9%
<i>Colombian Milds</i>	892	1 147	28.6%	12 033	13 435	11.6%
<i>Other Milds</i>	1 566	1 484	-5.2%	22 767	21 791	-4.3%
<i>Brazilian Naturals</i>	2 868	2 926	2.1%	34 902	33 173	-5.0%
Robustas	4 071	3 314	-18.6%	44 534	42 347	-4.9%

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

	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15
New York	2.67	2.63	2.60	2.55	2.56	2.60	2.56	2.41	2.43	2.38	2.36	2.28	2.15
London	2.02	2.08	2.12	2.35	2.55	2.84	2.93	3.02	3.12	3.35	3.43	3.43	3.37

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