Coffee Market Report

July 2017

INTERNATIONAL COFFEE ORGANIZATION

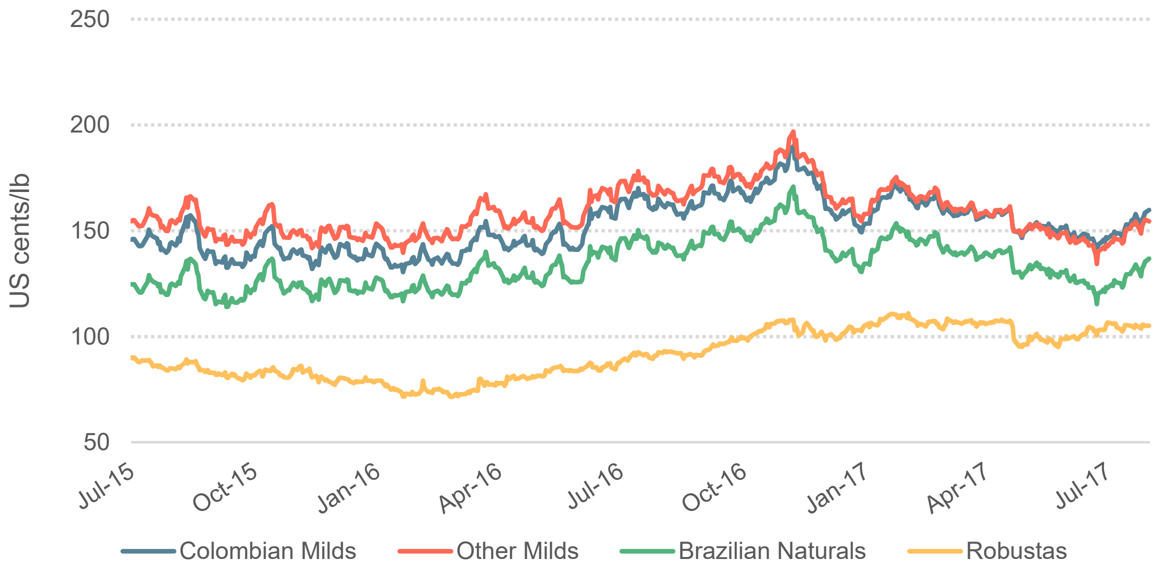
Coffee prices increase as concerns about Brazil's 2017/18 crop emerge

The ICO composite indicator price rose above 130 US cents/lb for the first time since April as reports emerged from Brazil about lower yields and quality issues related to the 2017/18 crop. Coffee exports have stabilized in the last two months but cumulative exports remain well above the levels reached in the previous year and leave consumer stocks well supplied. The production estimate for 2016/17 has been revised up to 153.9 million bags, which constitutes an all-time record. The output of Arabica and Robusta is estimated to be 10.2% higher and 10.6% lower compared to coffee year 2015/16, respectively.

Graph 1: ICO composite indicator daily prices

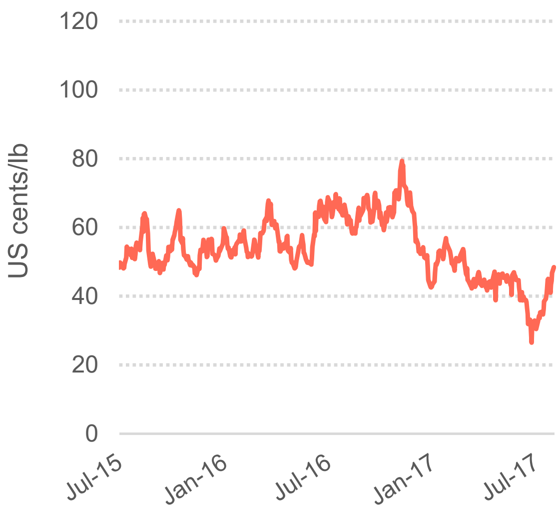
Coffee prices in July increased significantly with the monthly average of the ICO composite indicator prices up 4% to 127.26 US cents/lb. Initially, the daily price weakened slightly, reaching its low of 122.71 US cents/lb on 11 July but then increased steadily until the end of the month. The indicator price climbed to 131.52 US cents/lb on 31 July, an increase of 6.66 US cents/lb from 3 July and the highest level since the end of April 2017.

Graph 2: ICO group indicator daily prices

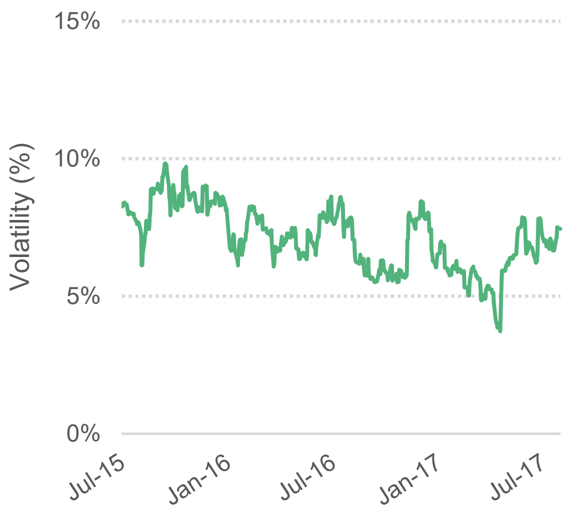


The breakdown of the group indicators for July reveals that Arabica groups rose more strongly than Robustas when compared to June. All three Arabica groups registered significant increases as the average prices for Colombian Milds, Other Milds and Brazilian Naturals were up 4.4%, 4.5% and 4.4%, respectively. The monthly average for the Robusta group rose by 2.9%. As a result of the trends in Arabica and Robusta quotations, the arbitrage, as measured on the New York and London futures markets, increased by 13.1% to 39.68 US cents/lb. Meanwhile intra-day volatility of the ICO composite indicator price increased by 0.5 percentage points to 7.5%.

Graph 3: Arbitrage between New York and London futures markets



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



Total exports in June amounted to 10.4 million bags, 5.7% higher than June 2016. During the first nine months of coffee year 2016/17 total exports were 4.9 million bags higher than last year when shipments amounted to 87.4 million bags. The strong export performance has resulted in very large inventories in importing countries.

Market developments in July seem to have been caused by a combination of specific agronomic and wider economic factors potentially affecting coffee supply from Brazil. Reports have emerged that farmers in Brazil's Arabica-growing regions currently harvesting the 2017/18 crop are faced with unexpectedly low yields. Beans are smaller than usual due to unfavourable weather conditions earlier in the season. This is exacerbated by considerable damage resulting from a berry borer infestation. The ban on use of the highly controversial but effective endosulfan insecticide used by farmers in the past has led to significant spread of this pest. Up to 30% of the crop is estimated to have been affected in major growing areas, with a negative impact on bean quality. Finally, besides these agronomic factors the weakening US dollar lowered the competitiveness of Brazilian coffee on the world market, hampering exports.

The ICO production estimate for crop year 2016/17 has been revised upward to 153.9 million bags, compared to our previous estimate of 151.6 million. This is mostly due to an increase in output from Indonesia, revised up from 10 million bags to 11.5 million, and a significant revision for Peru to 4.2 million bags. While production in Colombia has recovered strongly since the coffee leaf rust crisis, growth is slowly tapering off. Annual growth rates have steadily decreased from 9.7% in 2014/15 to an estimated 3.5% in 2016/17. However, because of adverse weather in recent months, there are concerns that the growth rate for this crop year may have to be revised further downwards.

As a result, total production for 2016/17 is expected to be 1.5% higher than last year, which would be an all-time record. Total production of Arabica is estimated to reach 97.3 million bags, up 10.2%, while Robusta output is expected to decrease by 10.6% to 56.6 million bags.

Graph 5: Production in selected producing countries

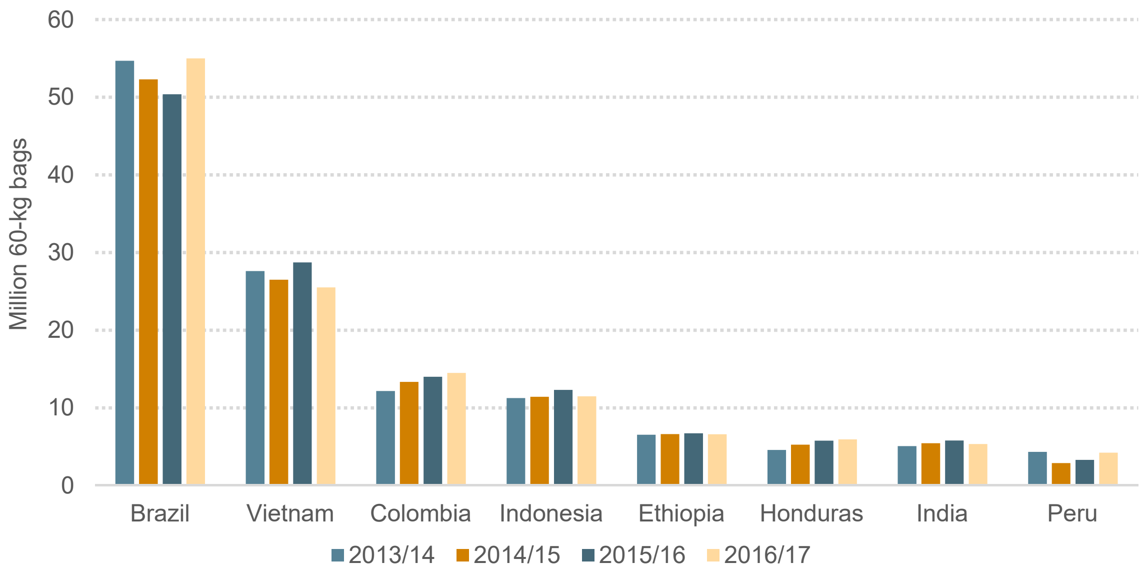


Table 1: ICO indicator prices and futures prices (US cents/lb)

	ICO Composite	Colombian Milds	Other Milds	Brazilian Naturals	Robustas	New York*	London*
Monthly averages							
Jul-16	132.98	164.46	171.76	144.76	90.82	148.16	82.09
Aug-16	131.00	160.78	167.54	141.41	91.79	145.37	83.47
Sep-16	138.22	168.85	176.30	149.80	96.88	154.87	88.63
Oct-16	142.68	172.28	178.96	153.15	103.65	160.07	95.30
Nov-16	145.82	177.85	184.12	157.72	103.72	165.24	95.40
Dec-16	131.70	156.64	161.78	137.14	101.85	143.04	93.66
Jan-17	139.07	164.96	168.61	145.70	108.32	152.24	100.24
Feb-17	137.68	163.67	166.35	145.50	106.49	148.64	98.46
Mar-17	134.07	158.40	160.15	139.67	106.73	143.38	99.01
Apr-17	130.39	154.97	155.40	136.09	103.58	139.25	95.34
May-17	125.40	151.41	150.00	131.21	98.36	135.45	90.35
Jun-17	122.39	146.12	143.22	123.71	101.95	128.18	93.11
Jul-17	127.26	152.51	149.66	129.19	104.94	135.71	96.03
% change between Jul-17 and Jun-17							
	4.0%	4.4%	4.5%	4.4%	2.9%	5.9%	3.1%
Volatility (%)							
Jun-17	6.9%	6.7%	7.0%	8.1%	7.3%	9.3%	7.1%
Jul-17	7.5%	8.3%	8.5%	9.2%	5.8%	10.4%	6.3%
Variation between Jul-17 and Jun-17							
	0.5%	1.6%	1.5%	1.0%	-1.5%	1.0%	-0.7%

* 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-16	-7.30	19.70	73.64	27.00	80.94	53.94	66.07
Aug-16	-6.76	19.37	68.99	26.13	75.75	49.62	61.90
Sep-16	-7.45	19.05	71.97	26.50	79.42	52.92	66.24
Oct-16	-6.68	19.13	68.63	25.81	75.31	49.50	64.77
Nov-16	-6.27	20.13	74.13	26.40	80.40	54.00	69.84
Dec-16	-5.14	19.50	54.79	24.64	59.93	35.29	49.38
Jan-17	-3.65	19.26	56.64	22.91	60.29	37.38	52.00
Feb-17	-2.68	18.17	57.18	20.85	59.86	39.01	50.18
Mar-17	-1.75	18.72	51.66	20.48	53.42	32.94	44.37
Apr-17	-0.43	18.88	51.40	19.31	51.82	32.51	43.92
May-17	1.41	20.20	53.05	18.79	51.64	32.85	45.09
Jun-17	2.89	22.41	44.17	19.51	41.28	21.76	35.07
Jul-17	2.85	23.32	47.57	20.47	44.72	24.25	39.68
% change between Jul-17 and Jun-17							
	-1.4%	4.1%	7.7%	4.9%	8.3%	11.4%	13.1%

* Average price for 2nd and 3rd positions

Table 3: World supply/demand balance

Crop year commencing	2013	2014	2015	*2016**	% change 2015-16
PRODUCTION	**152 228**	**148 738**	**151 565**	***153 869***	**1.5%**
Arabica	90 281	86 152	88 252	*97 269*	10.2%
Robusta	61 947	62 586	63 314	*56 600*	-10.6%
Africa	16 244	16 013	16 338	*16 426*	0.5%
Asia & Oceania	46 449	45 659	49 012	*44 830*	-8.5%
Mexico & Central America	16 717	17 117	17 251	*17 735*	2.8%
South America	72 818	69 950	68 964	*74 878*	8.6%
CONSUMPTION	**149 022**	**151 758**	**155 469**	***155 061***	**-0.3%**
Exporting countries	46 109	47 245	48 244	*48 298*	0.1%
Importing countries (Coffee Years)	102 913	104 513	107 225	*106 763*	-0.4%
Africa	10 597	10 754	10 794	*10 735*	-0.5%
Asia & Oceania	30 701	32 550	33 611	*33 669*	0.2%
Mexico & Central America	5 156	5 235	5 306	*5 237*	-1.3%
Europe	50 179	50 912	51 590	*51 544*	-0.1%
North America	27 706	27 359	28 931	*28 535*	-1.4%
South America	24 682	24 949	25 237	*25 341*	0.4%
BALANCE	**3 206**	**-3 020**	**-3 904**	**-1 192**	**-69.5%**

In thousand bags
**Estimated*

Table 4: Total exports by exporting countries

	June 2016	June 2017	% change	October - June 2015/16	October - June 2016/17	October - June % change
TOTAL	**9 877**	**10 437**	**5.7%**	**87 366**	**92 293**	**5.6%**
Arabicas	**5 863**	**6 547**	11.7%	54 237	58 215	7.3%
Colombian Milds	*1 050*	*1 034*	*-1.5%*	*10 591*	*11 162*	*5.4%*
Other Milds	*2 237*	*2 818*	*26.0%*	*17 085*	*20 174*	*18.1%*
Brazilian Naturals	*2 576*	*2 694*	*4.6%*	*26 561*	*26 879*	*1.2%*
Robustas	4 014	3 890	-3.1%	33 129	34 079	2.9%

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

	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17
New York	1.45	1.45	1.42	1.44	1.42	1.40	1.45	1.49	1.53	1.58	1.65	1.70	1.73
London	2.45	2.37	2.32	2.28	2.38	2.39	2.73	2.80	2.85	2.87	2.87	2.81	2.63

In million bags