

MONTHLY COFFEE MARKET REPORT

June 2013

Coffee prices fell sharply in June 2013, as market fundamentals, combined with an uncertain macroeconomic outlook, drove the ICO composite indicator price to its lowest level since September 2009. The market remains well supplied with coffee, with total exports for the first eight months of coffee year 2012/13 (October to May) reaching 75.7 million bags, compared with 72 million in the same period last year. Moreover, commodity prices in general declined over the course of the month, mostly due to negative economic news from China and the United States. Given current price trends, there is a diminishing incentive for farmers to invest in their crops, and the use of inputs such as fertilisers and labour will likely be reduced. This could potentially have a negative impact on production volumes and quality over the next couple of years, resulting in increased price volatility and a less sustainable agricultural value chain.

Graph 1: ICO composite indicator daily prices
(1 June 2012 to 5 July 2013)

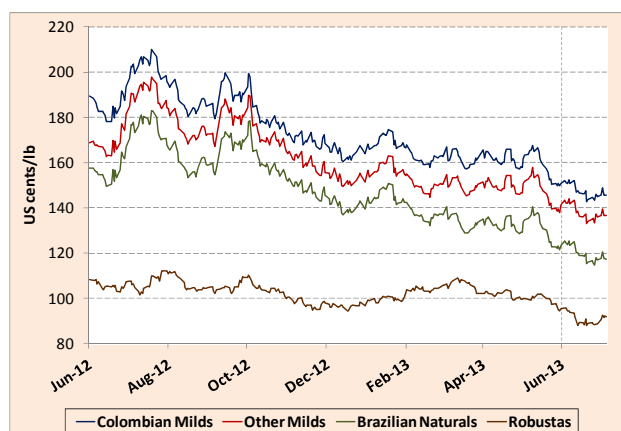


Price movements

The persistent downward trend in coffee prices continued during June, as the monthly average of the **ICO composite indicator price** fell by 7.4% to 117.58 US cents/lb, its lowest level since September 2009. In terms of the group indicator prices, heavy losses were recorded in all four groups. **Colombian Milds** fell by 6.8% to 147.55 US cents/lb, which is its lowest average in over four years. **Other Milds** also registered its lowest average in over four years, falling by 6.1% to average 138.26 US cents/lb. **Brazilian Naturals** dropped by 7.9% to reach 120.01 US cents/lb, its lowest level since September 2009. The strongest percentage decrease was found in **Robustas**, falling by 8.5% to 90.79 US cents/lb.

The coffee market was also affected by developments in the broader global economic environment. Firstly, weaker-than-expected economic data from China at the beginning of the month suggested a slowdown in demand growth for commodities. In addition, signs of an end to the quantitative easing programme in the United States resulted in a widespread decline in commodity markets. These two factors exacerbated the weakness in the coffee market and contributed towards further price decreases.

Graph 2: ICO group indicator daily prices (1 June 2012 to 5 July 2013)



The arbitrage between the New York and London futures markets decreased in June by 6.3% to 44.55 US cents/lb, its second-lowest level in the last four years. Furthermore, in terms of price differentials, the three Arabica groups all narrowed

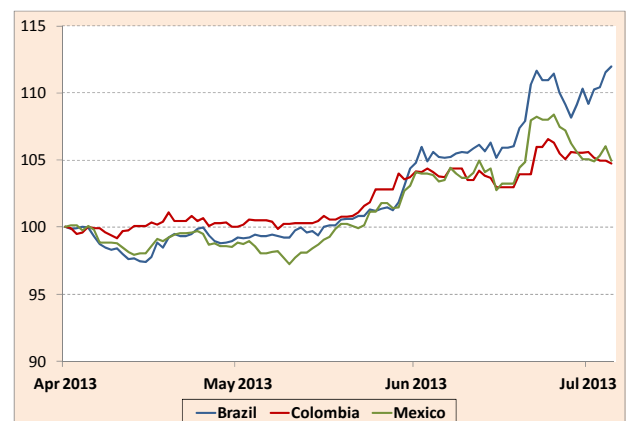
compared to the Robusta indicator. The only price differential to increase was that between Other Milds and Brazilian Naturals, which rose from 16.90 US cents/lb to 18.25, reflecting the relative scarcity of washed Arabicas from Central America.

Graph 3: Arbitrage between New York and London futures markets (1 June 2012 to 5 July 2013)



Furthermore, exchange rates in several exporting countries have depreciated over the last month (Graph 4). On the one hand, this could help mitigate the effect of price decreases on coffee farmers, increasing revenue from coffee sales priced in US dollars. On the other hand, it will raise the price of imported inputs, increasing the cost of production, and potentially reducing investment in crops. A weaker exchange rate in exporting countries could also encourage the sale of any stocks held by producers, further increasing the supply of coffee to the market.

Graph 4: Exchange rates of Brazilian real, Mexican peso and Colombian peso to US dollar (Index: 1 April 2013 = 100)



Market fundamentals

Total production in crop year 2012/13 is currently estimated at 144.6 million bags, up 7.8% on 2011/12 (Graph 5). Production is expected to increase in **Africa** 16.6% to 18.3 million bags, with especially strong increases forecast in Ethiopia (by 19.1% to 8.1 million bags) and Tanzania (by 90.3% to 1 million bags).

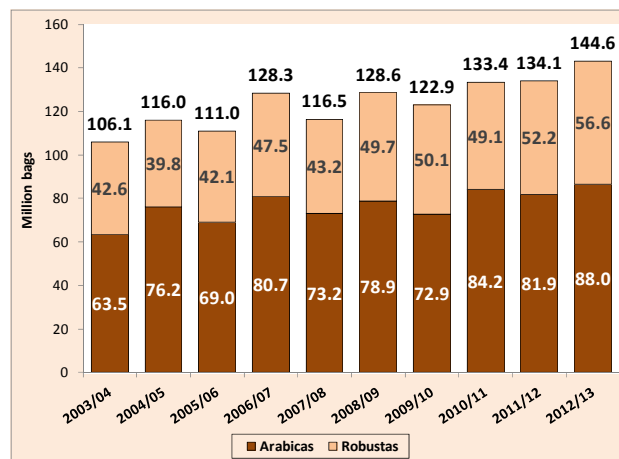
In **Asia & Oceania**, an increase of 7.2% to 42.6 million bags is provisionally estimated, despite a potential 8.6% drop forecast in Vietnam. A particularly high increase of 74.7% is estimated in Indonesia to a record level of 12.7 million bags. However, reports of adverse weather in Indonesia could yet reduce this figure.

Coffee leaf rust has severely affected production in **Central America**, with total damage in the 2012/13 crop year estimated at around 2.7 million bags, costing some US\$500 million. As such, production is provisionally forecast to drop by 14.9% to 17.3 million bags, compared to 20.3 million in 2011/12. More specifically, production decreases are forecast for Guatemala (-18.2%), Honduras (-17%), Mexico (-14.5%) and Nicaragua (-39.3%), although increases are potentially anticipated for Costa Rica (+14.3%) and El Salvador (+7.9%). It is also expected that production in Central America will be hit harder by the effects of coffee leaf rust in 2013/14.

Finally, in **South America**, production for the region in 2012/13 is estimated at 66.4 million bags, up 13.7% on 2011/12, as this was an on year in Brazil's biennial production cycle. A recovery is forecast in Colombia as production rebounds from 7.7 million in 2011/12 to an estimated 9.5 million in 2012/13. Full production figures for crop years 2009/10 to 2012/13 are shown in Table 3.

There is a temptation to see the decrease in coffee prices simply as a market correction responding to abundant supply and macroeconomic uncertainty. The idea that 'the market is always right' can be used to justify prices falling to unsustainable levels for many producers, yet this perspective fails to take into account the devastating consequences that can affect the most vulnerable. While it is true that no lasting mechanism has been found to eliminate the pronounced volatility in coffee prices without creating pernicious supply imbalances over the long term, measures need to be taken by governments of both importing and exporting countries to help the millions of small-scale coffee farmers affected as prices fall below the cost of production. Of immediate concern is the issue of food security, as poor farmers find themselves without enough cash available to secure adequate nourishment for their families in the last few months before they harvest their next crop. But equally important, if sustainability is truly to be a priority, is the need to train these same farmers into small entrepreneurs, possessing basic skills not just in agronomy, but also in broader farm management.

Graph 5: World production by type of coffee (Crop years 2003/04 – 2012/13)



Crop year 2013/14 is under way in several exporting countries, including Brazil, where production is provisionally forecast by Conab at 48.6 million bags. The weather in Brazil has thus far been relatively conducive to a good crop, despite some reports of minor frosts in Minas Gerais. However, this is the time of year when the crop is most susceptible to any unfavourable weather conditions.

Total exports in May 2013 reached 9.7 million bags, a 5.5% decrease on May 2012. This brings total exports for the first eight months of the coffee year to 75.7 million bags, compared to 72 million in the same period last year. **Certified stocks** at the end of June 2013 fell slightly on the New York futures market from 3.11 million bags in May to 3.09 million bags, and on the London market from 2.08 to 2 million bags (Table 6). The New York futures market also certified 320 bags of coffee from Brazil for the first time, having accepted Brazil as a deliverable origin as of March 2013 at a 900-point differential.

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

	ICO Composite	Colombian Milds	Colombian Other Milds	Brazilian Naturals	Brazilian Robustas	New York*	London*
Monthly averages							
Jun-12	145.31	184.67	168.69	156.17	105.70	159.93	94.75
Jul-12	159.07	202.56	190.45	175.98	107.06	183.20	96.14
Aug-12	148.50	187.14	174.82	160.05	106.52	169.77	96.12
Sep-12	151.28	190.10	178.98	166.53	104.95	175.36	94.65
Oct-12	147.12	181.39	173.32	161.20	104.47	170.43	94.66
Nov-12	136.35	170.08	159.91	148.25	97.67	155.72	87.32
Dec-12	131.31	164.40	152.74	140.69	96.59	149.58	85.94
Jan-13	135.38	169.19	157.29	145.17	99.69	154.28	88.85
Feb-13	131.51	161.70	149.46	136.63	104.03	144.89	94.41
Mar-13	131.38	161.53	149.78	133.61	106.26	141.43	97.22
Apr-13	129.55	161.76	149.81	132.62	101.68	139.91	93.15
May-13	126.96	158.35	147.19	130.29	99.18	138.64	91.07
Jun-13	117.58	147.55	138.26	120.01	90.79	126.37	81.82
% change between Jun-13 and May-13							
	-7.4	-6.8	-6.1	-7.9	-8.5	-8.9	-10.2
Annual averages							
2008	124.25	144.32	139.78	126.59	105.28	136.46	97.17
2009	115.67	177.43	143.84	115.33	74.58	128.40	67.69
2010	147.24	225.46	195.96	153.68	78.74	165.20	71.98
2011	210.39	283.84	271.07	247.61	109.21	256.36	101.23
2012	156.34	202.08	186.47	174.97	102.82	179.22	91.87
% change between Jun-13 and 2012 average							
	-24.8	-27.0	-25.9	-31.4	-11.7	-29.5	-10.9
Volatility (%)							
May-13	5.9	5.5	7.5	7.8	4.1	8.1	4.1
Jun-13	5.7	5.4	6.7	6.7	6.1	8.3	6.5
Variation between Jun-13 and May-13							
	-0.1	-0.1	-0.8	-1.1	2.0	0.2	2.5

* 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*
Jun-12	15.98	28.50	78.97	12.52	62.99	50.47	65.18
Jul-12	12.11	26.58	95.50	14.47	83.39	68.92	87.06
Aug-12	12.32	27.09	80.62	14.77	68.30	53.53	73.65
Sep-12	11.12	23.57	85.15	12.45	74.03	61.58	80.71
Oct-12	8.07	20.19	76.92	12.12	68.85	56.73	75.77
Nov-12	10.17	21.83	72.41	11.66	62.24	50.58	68.40
Dec-12	11.66	23.71	67.81	12.05	56.15	44.10	63.64
Jan-13	11.90	24.02	69.50	12.12	57.60	45.48	65.43
Feb-13	12.24	25.07	57.67	12.83	45.43	32.60	50.48
Mar-13	11.75	27.92	55.27	16.17	43.52	27.35	44.21
Apr-13	11.95	29.14	60.08	17.19	48.13	30.94	46.76
May-13	11.16	28.06	59.17	16.90	48.01	31.11	47.57
Jun-13	9.29	27.54	56.76	18.25	47.47	29.22	44.55
% change between Jun-13 and May-13							
	-16.8	-1.9	-4.1	8.0	-1.1	-6.1	-6.3

* Average price for 2nd and 3rd positions

Table 3: Production in selected exporting countries

Crop year commencing	2009	2010	2011	2012*	% change 2011-12
TOTAL	122 941	133 355	134 140	144 611	7.8
Colombian Milds	9 160	9 722	8 639	10 928	26.5
Other Milds	26 526	28 873	32 113	28 042	-12.7
Brazilian Naturals	37 194	45 627	41 192	49 051	19.1
Robustas	50 061	49 132	52 197	56 590	8.4
Arabicas	72 880	84 223	81 944	88 021	7.4
Robustas	50 061	49 132	52 197	56 590	8.4
Africa	16 000	16 123	15 656	18 254	16.6
Cameroon	902	503	574	635	10.7
Côte d'Ivoire	1 795	982	1 886	2 000	6.1
Ethiopia	6 931	7 500	6 798	8 100	19.1
Kenya	630	658	680	767	12.7
Tanzania	675	846	534	1 017	90.3
Uganda	2 845	3 203	2 817	3 200	13.6
Others	2 222	2 429	2 366	2 535	7.1
Arabicas	9 153	10 142	8 997	10 957	21.8
Robustas	6 847	5 981	6 659	7 297	9.6
Asia & Oceania	37 211	36 318	39 743	42 622	7.2
India	4 794	5 033	5 233	5 258	0.5
Indonesia	11 380	9 129	7 287	12 730	74.7
Papua New Guinea	1 038	870	1 414	717	-49.3
Thailand	795	828	831	624	-24.9
Vietnam	17 825	19 467	24 058	22 000	-8.6
Others	1 379	991	921	1 293	40.4
Arabicas	5 185	5 315	6 160	6 558	6.5
Robustas	32 026	31 003	33 583	36 064	7.4
Mexico & Central America	16 685	18 021	20 337	17 308	-14.9
Costa Rica	1 304	1 392	1 462	1 671	14.3
El Salvador	1 065	1 814	1 152	1 242	7.9
Guatemala	3 835	3 950	3 840	3 143	-18.2
Honduras	3 603	4 331	5 903	4 900	-17.0
Mexico	4 109	4 001	4 563	3 900	-14.5
Nicaragua	1 871	1 634	2 210	1 342	-39.3
Others	899	899	1 208	1 110	-8.1
Arabicas	16 553	17 835	20 095	17 106	-14.9
Robustas	132	187	243	202	-16.8
South America	53 045	62 893	58 404	66 427	13.7
Brazil	39 470	48 095	43 484	50 826	16.9
Colombia	8 098	8 523	7 654	9 500	24.1
Ecuador	813	854	825	828	0.3
Peru	3 286	4 069	5 373	4 133	-23.1
Others	1 377	1 352	1 068	1 140	6.8
Arabicas	41 989	50 931	46 692	53 401	14.4
Robustas	11 056	11 962	11 712	13 026	11.2

In thousand bags

* Estimated

Table 4: Total exports of all forms of coffee by exporting countries

	May 2012	May 2013	% change	October - May		
				2011/12	2012/13	% change
TOTAL	10 320	9 749	-5.5	71 957	75 691	5.2
Colombian Milds	717	977	36.2	5 733	6 731	17.4
Other Milds	2 614	2 466	-5.7	17 780	16 620	-6.5
Brazilian Naturals	2 444	2 489	1.8	20 741	22 750	9.7
Robustas	4 546	3 818	-16.0	27 703	29 590	6.8
Arabicas	5 775	5 932	2.7	44 254	46 101	4.2
Robustas	4 546	3 818	-16.0	27 703	29 590	6.8

In thousand bags

Full trade statistics for all exporting countries are available on the ICO website at www.ico.org/trade_statistics.asp**Table 5: World coffee consumption**

Calendar years	2009	2010	2011	2012*	Average annual growth rate (2009 - 2012*)
World total	132 270	137 025	138 971	142 000	2.4
Exporting countries	39 616	40 910	42 397	43 453	3.1
Traditional markets	69 589	70 939	71 205	71 388	0.9
Emerging markets	23 064	25 176	25 369	27 158	5.6

In thousand bags

* Estimated

Table 6: Certified stocks on the New York and London futures markets

	Jun-12	Jul-12	Aug-12	Sep-12	Oct-12	Nov-12	Dec-12	Jan-13	Feb-13	Mar-13	Apr-13	May-13	Jun-13
London	2.73	2.51	2.39	2.17	1.94	1.82	1.78	1.77	1.89	2.05	2.11	2.08	2.00
New York	1.82	1.99	2.22	2.43	2.72	2.82	2.90	2.96	3.03	3.09	3.10	3.11	3.09

In million bags