

MONTHLY COFFEE MARKET REPORT

February 2014

February 2014 has seen significant developments in the coffee market, with prices shooting upwards at a startling rate. The ICO composite daily price has increased from under 100 US cents/lb in November 2013 to a high of 176.37 on 11 March 2014. This rally has been driven by a serious drought in Brazil, with several coffee growing regions centred around Minas Gerais receiving little or no rain in the critical development months of January and February. This has engendered considerable concern around the size of the 2014/15 world coffee crop, which is now likely heading towards a deficit compared to demand. However, despite these price increases, it must be kept in mind that coffee prices are currently at roughly the same level as November 2012, and thus still a long way from the highs of 2011. Furthermore, the considerable price volatility exhibited by the market in recent months fails to benefit either coffee growers or consumers.

This market report is delayed slightly due to the 112th session of the International Coffee Council, which met in London between 3 and 7 March 2014. During this time, the Council approved several initiatives, including the launch of an International Coffee Day, the hosting of the 4th World Coffee Conference in Addis Ababa, Ethiopia, and to hold a Global Coffee Forum in Milan, Italy, during the Expo Milan 2015. The ICO also held a Seminar on achieving sustainable coffee supply in the market. For more information, please see the ICO website at www.ico.org.

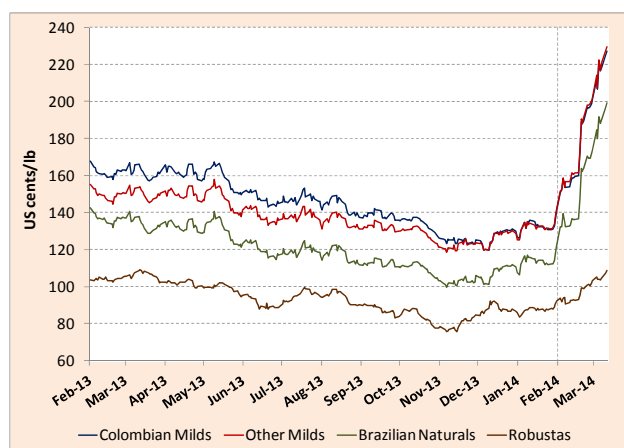
Graph 1: ICO composite indicator price
(1 February 2013 to 12 March 2014)



Market developments

The monthly average of the ICO composite indicator price jumped by 24.4% in February compared to January 2014 to 137.81 US cents/lb, the largest monthly percentage increase since May 1997. The daily price increased by over 50% between 30 January and 10 March, as the ongoing drought in Brazil and uncertainty over the 2014/15 crop put upward pressure on prices. Arabica prices have been the primary beneficiary of this pressure, with the monthly averages of Colombian Milds, Other Milds and Brazilian Naturals all registering significant increases of 29.6%, 30.8% and 30.5%, respectively. As a result, these prices are now at their highest level since the third quarter of 2012. Robustas recorded a more modest increase, up 9.3% to 95.90 US cents/lb, their highest level since May 2013, reflecting the lower concern regarding Robusta supply.

Graph 2: ICO group indicator daily prices (1 February 2013 to 12 March 2014)



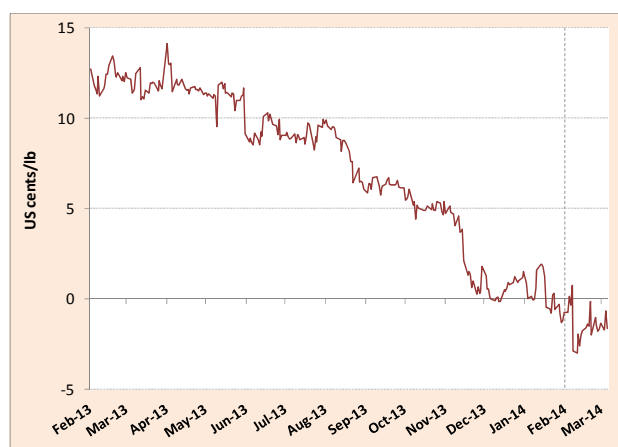
The arbitrage between Arabica and Robusta prices has also increased significantly in this time period. The arbitrage between prices on the New York and London futures markets jumped 63.9% from 43.67 US cents/lb in January to 71.56 in February, with the daily differential exceeding 100 cents by the beginning of March (Graph 3).

Graph 3: Daily price arbitrage between New York and London futures markets (1 February 2013 to 12 March 2014)



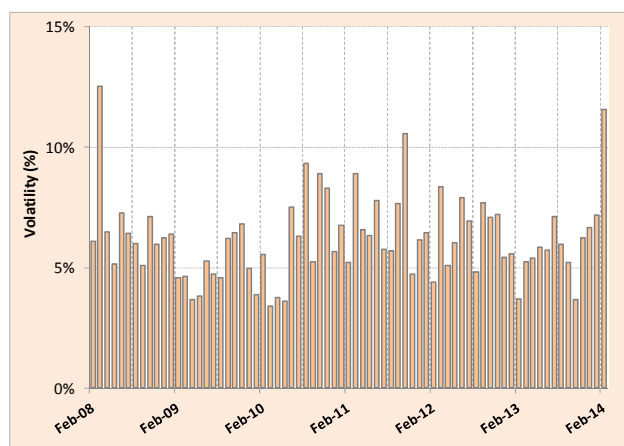
Furthermore, it is notable that the monthly average of Other Milds exceeded that of Colombian Milds for the first time since April 2005, leading to a negative monthly differential of -1.47 US cents/lb. This differential has decreased significantly over the last year (Graph 4), as availability from Central America has been reduced, while supply from Colombia has increased.

Graph 4: Daily price differential between Colombian Milds and Other Milds (1 February 2013 to 12 March 2014)



Price volatility during February also increased significantly for all indicator prices. Graph 5 below shows monthly volatility of the ICO composite indicator price since February 2008, which increased to 11.5% in February 2014. This reflects the current instability in the coffee market.

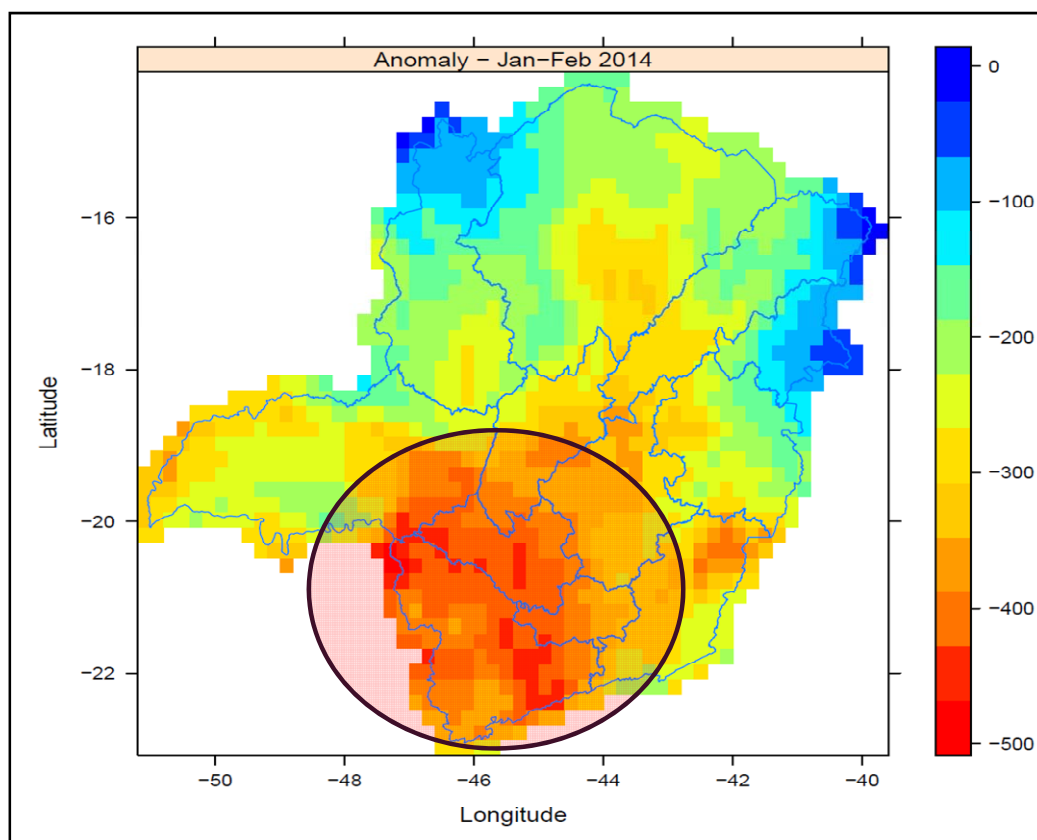
Graph 5: Volatility of the ICO composite indicator price (February 2008 to February 2014)



In terms of market fundamentals, total coffee production for crop year 2013/14 is estimated at around 145.8 million bags, a slight 0.5% increase on the previous year. Brazil will start its 2014/15 crop year in April, with production provisionally forecast at 48.34 million bags. However, this estimate does not take into account the recent drought, and will almost certainly be revised downwards when more information becomes available.

The lack of rainfall in Brazil in January and February has been combined with very high temperatures in many coffee growing areas. According to Peter Baker, Senior Scientist at CABI, the drought is likely to hit southwest Minas Gerais particularly hard, which is where much of the state’s coffee is grown. The total rainfall deficit in January and February is approaching 500mm (Figure 1), and it is considered unlikely that there has been any comparably severe event since at least 1950.

Figure 1: Rain deficit in Minas Gerais (January and February 2014)¹



¹ Source: Dr Peter Baker, CABI <http://www.ico.org/news/PETER%20BAKER.pdf>

In Central America, an updated estimate from PROMECAFE of the damage from coffee leaf rust suggests that the effect in 2013/14 might not be as bad as previously envisaged. However, as can be seen in Table 1 below, almost a quarter of total production in the region is believed to be lost between 2011/12 and 2013/14. Furthermore, a recent announcement from AMECAFE, the national coffee association in Mexico, suggests that production in 2013/14 might be significantly lower than 2012/13, as heavy rains exacerbate the spread of coffee leaf rust.

Finally, information received from Colombia shows that production in February 2014 reached 874,000 bags, 40% higher than February 2013. This brings production in the last twelve months to 11.3 million bags, emphasising the ongoing recovery.

Total exports in January 2014 amounted to 8.7 million bags, 8.4% less than January 2013. Robusta exports were 17.2% lower, as exports from Vietnam and Indonesia have been limited, despite the large crop expected this crop year. If coffee prices continue to rise, however, it is likely that more of this coffee will be released to the market. Shipments of Other Milds from Central America were also lower, by around 10%, while Colombian Milds increased by a significant 23.4%.

Certified stocks of Robusta on the London futures market have decreased further to 404,000 bags, the lowest level on ICO records, while stocks of Arabica on the New York market have maintained a level of around 3 million bags.

Table 1: Effect of coffee leaf rust in Central America

	Production losses			% change in production	Total value lost (US\$ million)
	2012/13	2013/14	Cumulative	2011/12 - 2013/14	
Costa Rica	72 067	306 667	378 733	-4.5%	46.0
Dominican Republic	142 600	127 285	269 885	-29.8%	19.0
El Salvador	200 023	172 500	372 523	-26.8%	25.9
Guatemala	498 333	188 600	686 933	-18.5%	28.3
Honduras	904 667	606 050	1 510 717	-28.9%	90.9
Jamaica	0	6 049	6 049	-28.1%	0.9
Nicaragua	44 007	306 667	350 673	-32.1%	46.0
Panama	29 202	42 167	71 369	-5.2%	6.3
TOTAL	1 890 899	1 755 984	3 646 883	-24.1%	263.3

In 60kg bags

Source: PROMECAFE

Table 2: 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							
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
Jul-13	118.93	147.46	138.39	119.47	95.21	125.27	85.34
Aug-13	116.45	143.26	135.15	116.81	94.01	122.31	84.10
Sep-13	111.82	138.60	132.28	112.65	87.78	119.55	77.89
Oct-13	107.03	133.83	128.70	109.57	83.70	117.05	73.47
Nov-13	100.99	124.65	122.02	102.57	79.71	109.10	69.32
Dec-13	106.56	126.54	125.97	107.40	87.89	114.12	76.74
Jan-14	110.75	132.90	132.73	114.02	87.73	120.92	77.25
Feb-14	137.81	172.22	173.64	148.74	95.90	156.68	85.12
% change between Feb-14 and Jan-14							
	24.4	29.6	30.8	30.5	9.3	29.6	10.2
Annual averages							
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
2013	119.51	147.87	139.52	122.23	94.16	129.41	84.45
% change between 2013 and 2012							
	-23.6	-26.8	-25.2	-30.1	-8.4	-27.8	-8.1
Volatility (%)							
Jan-14	7.2	8.0	7.9	9.5	5.1	9.4	5.7
Feb-14	11.5	12.8	13.0	14.7	7.7	15.8	8.6
Variation between Feb-14 and Jan-14							
	4.4	4.8	5.1	5.2	2.6	6.3	2.9

* Average price for 2nd and 3rd positions

Table 3: Price differentials (US cents/lb)

	Colombian Milds	Colombian Milds	Colombian Milds	Other Milds	Other Milds	Brazilian Naturals	New York*
	Other Milds	Brazilian Naturals	Robustas	Brazilian Naturals	Robustas	Robustas	London*
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
Jul-13	9.07	27.99	52.25	18.92	43.18	24.26	39.93
Aug-13	8.11	26.45	49.25	18.34	41.14	22.80	38.21
Sep-13	6.32	25.95	50.82	19.63	44.50	24.87	41.66
Oct-13	5.13	24.26	50.13	19.13	45.00	25.87	43.58
Nov-13	2.63	22.08	44.94	19.45	42.31	22.86	39.78
Dec-13	0.57	19.14	38.65	18.57	38.08	19.51	37.38
Jan-14	0.17	18.88	45.17	18.71	45.00	26.29	43.67
Feb-14	-1.42	23.48	76.32	24.90	77.74	52.84	71.56
% change between Feb-14 and Jan-14							
	-935.3	24.4	69.0	33.1	72.8	101.0	63.9

* Average price for 2nd and 3rd positions

Table 4: Total production in exporting countries

Crop year commencing	2010	2011	2012	2013*	% change 2012-13
TOTAL	132 983	132 304	145 116	145 775	0.5
Arabicas	84 108	81 880	88 850	85 440	-3.8
<i>Colombian Milds</i>	9 705	8 715	11 967	12 238	2.3
<i>Other Milds</i>	28 789	32 046	29 078	26 445	-9.1
<i>Brazilian Naturals</i>	45 614	41 119	47 805	46 758	-2.2
Robustas	48 876	50 424	56 266	60 335	7.2

* Estimated

In thousand bags

Full production data are available on the ICO website at www.ico.org/prices/po.htm

Table 5: Total exports of all forms of coffee by exporting countries

	January 2013	January 2014	% change	October - January		
				2012/13	2013/14	% change
TOTAL	9 446	8 655	-8.4	37 074	33 845	-8.7
Arabicas	5 702	5 556	-2.6	22 889	22 190	-3.1
<i>Colombian Milds</i>	848	1 046	23.4	3 240	4 250	31.2
<i>Other Milds</i>	2 060	1 847	-10.3	7 219	6 283	-13.0
<i>Brazilian Naturals</i>	2 795	2 663	-4.7	12 431	11 657	-6.2
Robustas	3 744	3 098	-17.2	14 184	11 655	-17.8

In thousand bags

Full trade statistics for all exporting countries are available on the ICO website at www.ico.org/trade_statistics.asp

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

	Feb-13	Mar-13	Apr-13	May-13	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14
London	1.89	2.05	2.11	2.08	2.00	1.64	1.32	1.01	0.89	0.77	0.50	0.46	0.40
New York	3.03	3.09	3.10	3.11	3.09	3.11	3.15	3.13	3.07	3.02	3.06	3.00	2.95

In million bags

Table 7: Total coffee consumption in selected countries

Calendar years	2009	2010	2011	2012	Average annual growth rate (2009 - 2012)
World total	132 240	136 973	139 050	142 000	2.4
Exporting countries	39 616	40 910	42 397	43 467	3.1
Traditional markets	69 204	71 004	70 717	71 404	1.0
Emerging markets	23 419	25 059	25 936	27 129	5.0

In thousand bags