

MONTHLY COFFEE MARKET REPORT

March 2014

Ongoing uncertainty over the Brazilian coffee crop has caused significant fluctuations in coffee prices during March, with monthly volatility of the International Coffee Organization (ICO) composite indicator price exceeding 10% in both March and February. The daily price of the ICO composite ranged from a high of 177.29 US cents/lb to a low of 153.33 in less than ten days. The monthly average of 165.03 US cents/lb was nearly 20% higher than February, and the highest monthly level in two years. International prices remain unsteady and sensitive to weather events in Brazil.

In terms of fundamentals, world coffee consumption has continued to increase, with total demand in calendar year 2013 provisionally estimated at around 145.8 million bags. With total production in crop year 2013/14 estimated at 145.7 million bags, it seems likely that the market is heading towards a supply deficit. The most important variable at the moment is the size of the 2014/15 Brazilian crop, which is starting in April 2014; however, the damage resulting from the recent drought has yet to be officially quantified.

Coffee prices in March were characterized by significant volatility, with the ICO composite indicator increasing to 177.29 US cents/lb midway through the month, before dropping by 15.6% to 153.33 cents in the next eight days. The monthly average settled on 165.03 cents, an increase of 19.8% compared to February, and the highest monthly level since March 2012. These price developments have been driven primarily by the weather in Brazil; some scattered rainfall was recorded in the coffee growing areas, curtailing the rapid price increases of the last two months, but prices remain highly unstable. Furthermore, it is difficult to estimate the extent of the damage from the drought and high heat until the crop is being harvested, although a recent study has referred to

it as the largest climate anomaly since the ‘Black Frost’ of 1975, warning that damage to the 2015/16 crop could be even worse¹.

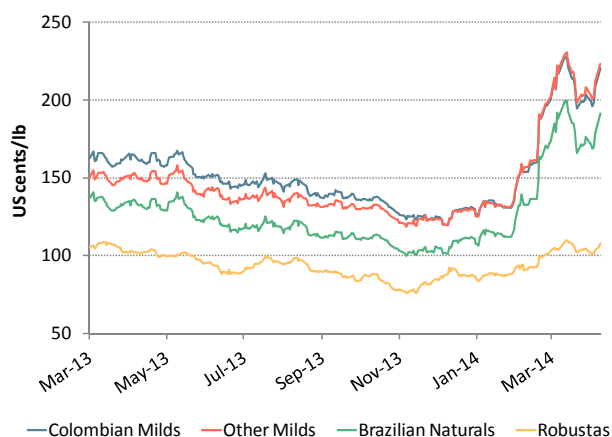
Graph 1: ICO composite indicator daily prices



¹ Alemar Braga Rena: “Drought and high temperatures in Brazilian coffee plantations: A case study and its national range”.

In terms of group indicators, the strongest increases were observed in the three Arabica prices, with the monthly averages of Colombian Milds, Other Milds and Brazilian Naturals all increasing by well over 20% compared to February. Robustas also jumped by nearly 10%, leading to an increase in the arbitrage between Arabicas and Robustas. The monthly average of the Other Milds group also remains above Colombian Milds for the second month in succession, with the price differential more than doubling to -3.02 cents, as production in Colombia continues to increase, up 34% year-on-year in March to 828,000 bags.

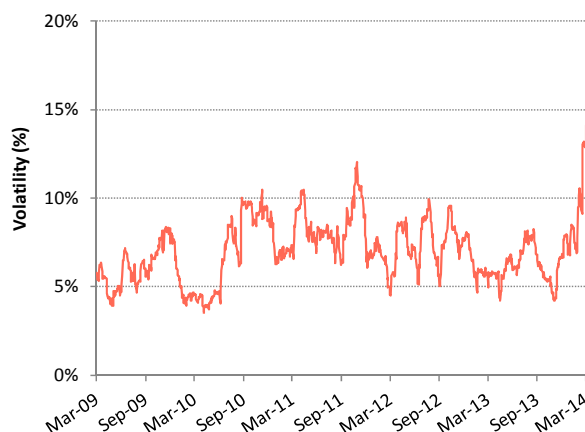
Graph 2: ICO group indicator daily prices



Price volatility has also increased significantly in the last two months. Graph 3 below shows rolling 30-day price volatility of the ICO composite indicator price, which exceeded 15% during March 2014. This reflects the extreme uncertainty prevalent in the market currently, which can mostly

be attributed to the weather in Brazil and uncertainty over the 2014/15 crop. In addition, the coffee authorities in Vietnam have advised that 2014/15 production will be significantly lower than 2013/14, while there are also concerns over production in India, Indonesia and Mexico.

Graph 3: Rolling 30-day price volatility of ICO composite



World **coffee consumption**, on the other hand, continues to exhibit dynamic growth. An initial estimate of total consumption in calendar year 2013 suggests a significant 2.7% increase to 145.8 million bags, up from 142 million in 2012. This represents an average annual growth rate of 2.1% over the last four years. Much of this growth in 2013 has come from traditional markets, particularly the USA, which have provisionally recorded strong increases in consumption compared to 2012. Consumption in exporting countries continues to increase significantly, up to 44.7 million bags, or 30.6% of the world total.

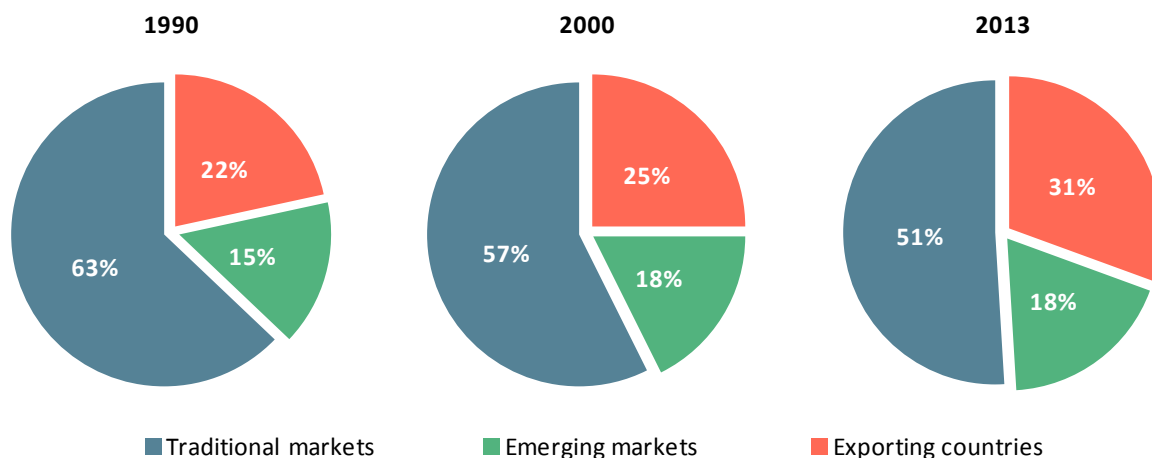
Table 1: World coffee consumption

Calendar years	2010	2011	2012	2013*	CAGR (2010-2013*)
World total	137 049	139 055	142 000	145 800	2.1%
Exporting countries	40 910	42 398	43 471	44 670	3.0%
Traditional markets	71 004	70 719	71 380	74 321	1.5%
Emerging markets	25 135	25 938	27 149	26 810	2.2%

CAGR: Compound Annual Growth Rate

* Estimated

Graph 4: Changing composition of world coffee consumption



Consumption in emerging markets is estimated at 26.8 million bags, slightly lower than 2012. However, this is most likely due to the fact that most emerging markets are not members of the ICO, therefore complete data for 2013 might not yet be available. The overall trend in the coffee market is for traditional markets to account for a declining share of total consumption, mostly due to increased consumption in exporting countries.

Finally, **total exports** in February 2014 reached 9 million bags, up 4.3% on February 2013. This brings the total volume of exports for the first five months of coffee year 2013/14 to 42.7 million bags, 6.6% lower than the same period in 2012/13.

It is particularly notable that estimated exports from Vietnam increased significantly in February, up 28.2% to 2 million bags, which can presumably be attributed to the increased prices. However, total exports from Vietnam in coffee year 2013/14

(October to February) are still estimated lower at 7.3 million bags, compared to 9.2 million in 2012/13.

Despite this increase in Robusta exports, **certified stocks** on the London futures exchange continued to decline, from 404,000 bags in February to 317,000 in March. Certified Arabica stocks on the New York market also fell slightly to 2.9 million bags (see Graph 5).

Graph 5: Certified stocks on the New York and London futures markets

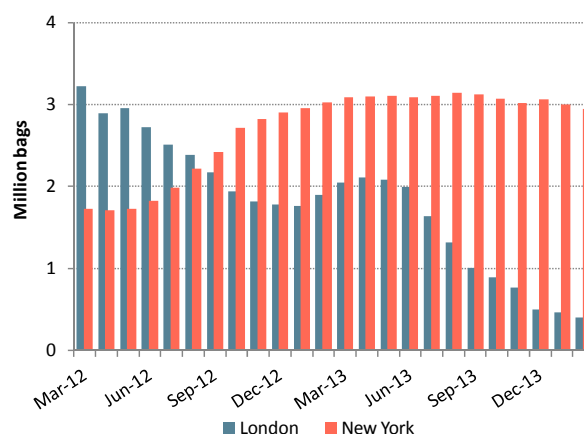


Table 2: ICO indicator prices and futures prices (US cents/lb)

	ICO Composite	Colombian Milds	Other Milds	Brazilian Naturals	Robustas	New York*	London*
Monthly averages							
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
Mar-14	165.03	211.07	214.09	182.97	105.37	190.66	95.53
% change between Mar-14 and Feb-14							
	19.8	22.6	23.3	23.0	9.9	21.7	12.2
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 (%)							
Feb-14	11.5	12.8	13.0	14.7	7.7	15.8	8.6
Mar-14	10.8	11.9	12.6	13.4	5.4	14.9	5.7
Variation between Mar-14 and Feb-14							
	-0.8	-0.8	-0.4	-1.3	-2.3	-0.9	-2.9

* Average price for 2nd and 3rd positions

Table 3: 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*
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
Mar-14	-3.02	28.10	105.70	31.12	108.72	77.60	95.13
% change between Mar-14 and Feb-14							
	112.7	19.7	38.5	25.0	39.9	46.9	32.9

* 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	132 984	132 296	145 436	145 717	0.2%
Arabicas	84 108	81 870	88 891	85 402	-3.9%
<i>Colombian Milds</i>	9 705	8 720	12 010	12 238	1.9%
<i>Other Milds</i>	28 789	32 030	29 104	26 425	-9.2%
<i>Brazilian Naturals</i>	45 614	41 119	47 777	46 739	-2.2%
Robustas	48 876	50 426	56 545	60 315	6.7%
Africa	16 053	15 715	16 528	16 451	-0.5%
Asia & Oceania	36 016	37 897	42 701	47 320	10.8%
Mexico & Central America	18 021	20 282	18 597	15 995	-14.0%
South America	62 893	58 402	67 610	65 951	-2.5%

* 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

	February 2013	February 2014	% change	October - February		
				2012/13	2013/14	% change
TOTAL	8 629	9 003	4.3	45 704	42 677	-6.6
Arabicas	5 462	5 748	5.2	28 352	27 832	-1.8
<i>Colombian Milds</i>	859	1 114	29.6	4 099	5 375	31.1
<i>Other Milds</i>	2 236	2 004	-10.4	9 458	8 167	-13.7
<i>Brazilian Naturals</i>	2 367	2 631	11.1	14 795	14 290	-3.4
Robustas	3 167	3 255	2.8	17 352	14 845	-14.4

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

	Mar-13	Apr-13	May-13	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14	Mar-14
London	2.05	2.11	2.08	2.00	1.64	1.32	1.01	0.89	0.77	0.50	0.46	0.40	0.32
New York	3.09	3.10	3.11	3.09	3.11	3.15	3.13	3.07	3.02	3.06	3.00	2.95	2.92

In million bags