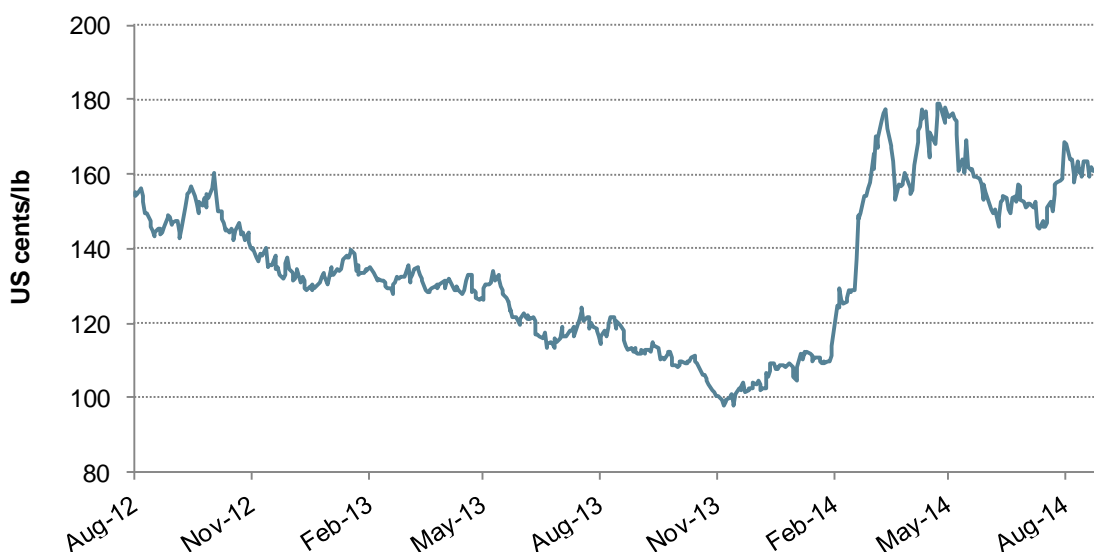


Coffee market remains volatile but lacks direction

Prices fluctuated significantly during August, with the ICO composite indicator dropping by 10 cents before jumping back up another 12 cents by the end of the month. Given the lack of new fundamental information, this volatility has been attributed mostly to fund and speculator activity in the market. The New York futures market exceeded \$2/lb, hitting its highest daily level since early May, while Robustas on the London market ended the month down 1.5 cents. Inventories in importing countries have also jumped over the last few months, with higher levels in both the EU and USA.

Graph 1: ICO composite indicator daily prices

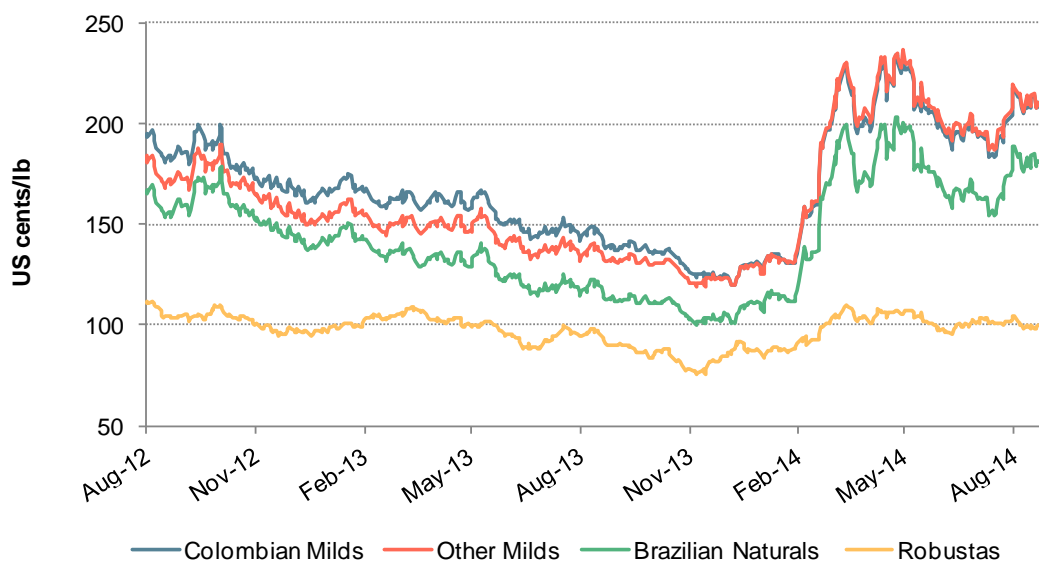


© 2014 International Coffee Organization (www.ico.org)

Following the price spike at the end of July, the ICO composite indicator in August lost value at the beginning of the month, dropping by 10 cents to a low of 157.82 US cents/lb, before ending the month on a high of 169.95 cents, its highest daily level since the 8th May. The monthly average settled on 163.08 cents/lb, 6.9% higher than July, and the highest level in three months. As usual, the market was dominated by speculation over the size of the Brazilian crop. A revised estimate from Conab is expected in September, which should give a clearer picture of the situation, although there are increasing reports that the 2015/16 crop will also be affected by the drought that occurred at the beginning of this year.

In terms of group indicators, the strongest increase was in Brazilian Naturals, which jumped by over 11% to average 183.32 cents, reflecting the mounting concerns over supply. Colombian Milds and Other Milds both increased, by 9.0% and 8.2% respectively, recording their highest levels in three months. Robustas, on the other hand, fell by 1.5% to 100.25 cents, as most of the damage in Brazil is expected to affect the Arabica crop.

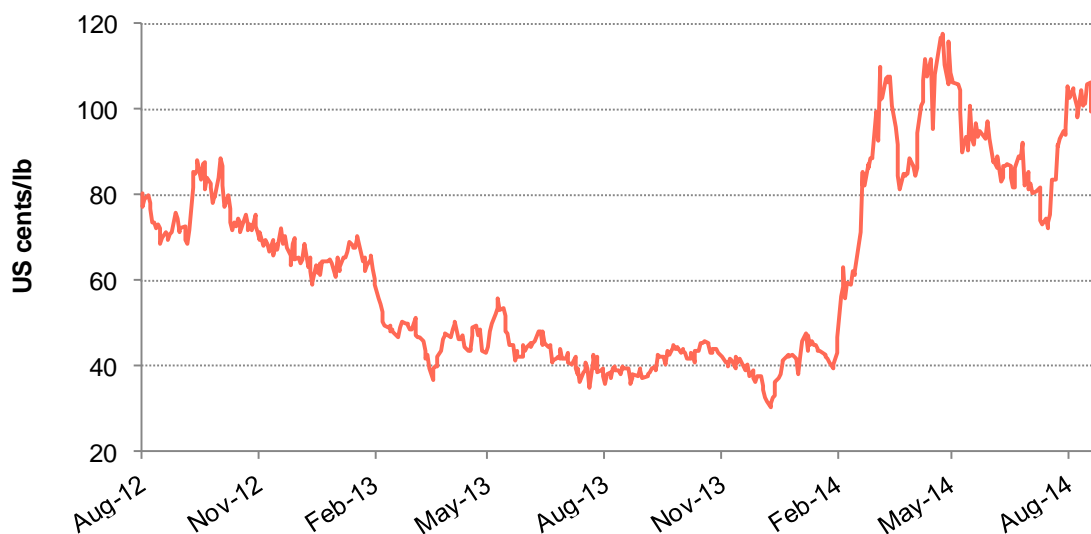
Graph 2: ICO group indicator daily prices



© 2014 International Coffee Organization (www.ico.org)

As a result, the arbitrage between Arabica and Robusta prices has widened over the course of the month, with the daily price differential between the New York and London futures markets (2nd and 3rd positions) exceeding \$1 for the first time since May. The monthly price differential between the three Arabica group indicators and Robusta all increased considerably, with the most significant change again recorded in Brazilian Naturals. This widening arbitrage could increase consumer interest in Robusta.

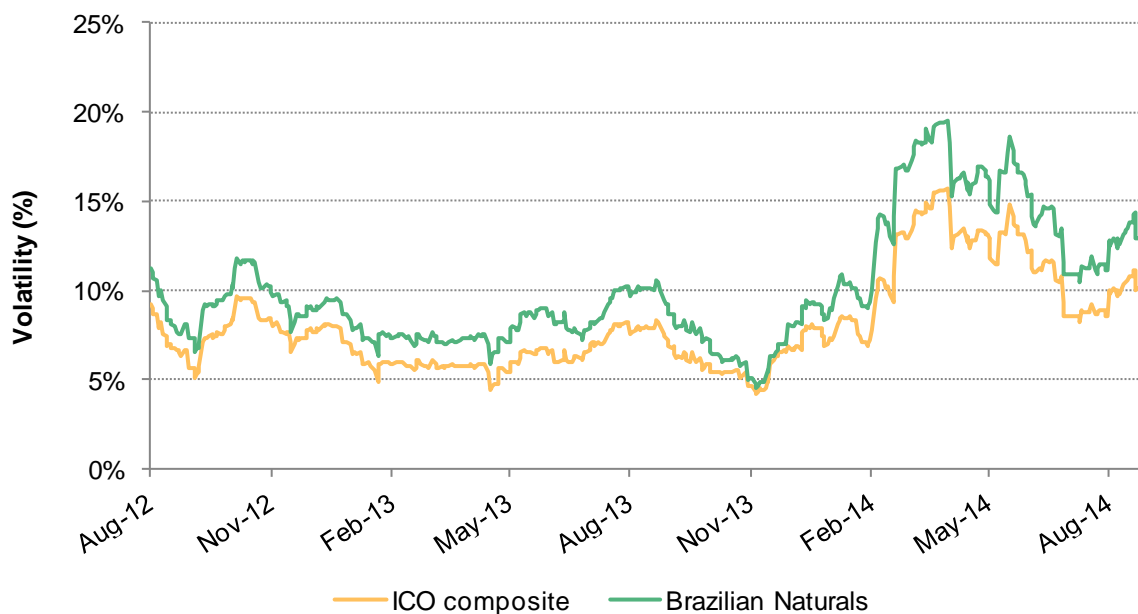
Graph 3: Arbitrage between New York and London futures markets



© 2014 International Coffee Organization (www.ico.org)

Price volatility has again been significant; rolling 30-day price volatility of the ICO composite indicator has consistently been above 10% (Graph 4), although the monthly average was slightly lower than July. Volatility has been particularly noticeable in Brazilian Naturals, which have been the subject of the most speculation.

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

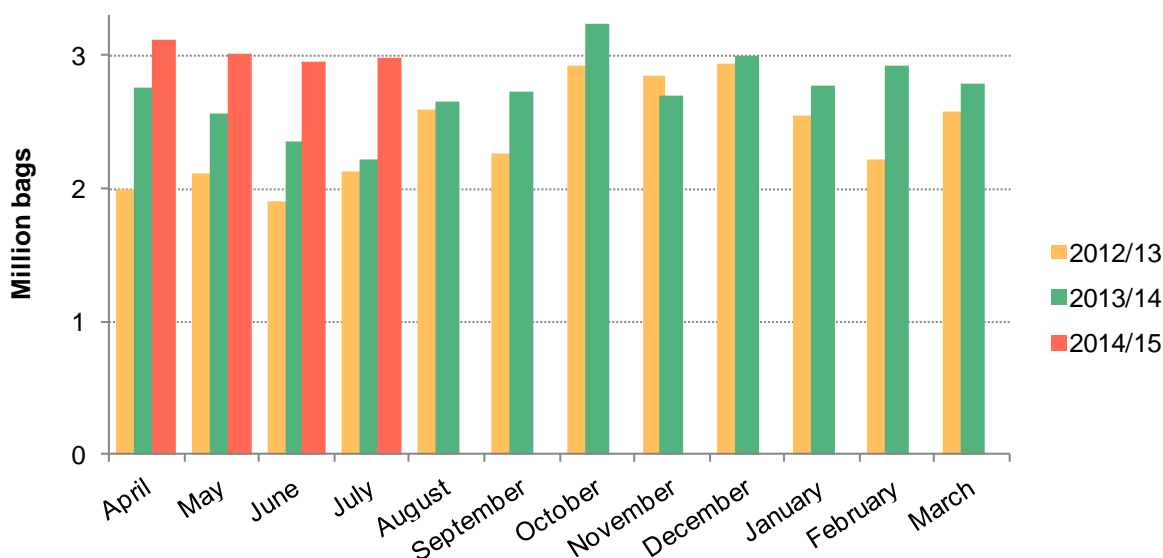


© 2014 International Coffee Organization (www.ico.org)

Total exports in July 2014 amounted to 9.7 million bags, up 3.7% compared to July 2013. This brings total exports for the first ten months of the coffee year (October to July) to 92.3 million bags, 2% less than the same period last year. This is due to lower shipments of Other Milds (mostly from Central America) and also Robustas, particularly from Indonesia, which are down an estimated 49.4% on 2012/13.

Exports from Brazil have remained consistently high since the beginning of their crop year in April, well above their monthly levels in the previous two crop years (Graph 5). These higher export levels, compared with the lower crop of 44.57 million bags expected in crop year 2014/15, suggest that stocks in Brazil will be heavily drawn down this year. This will put extra strain on supply in 2015, given the limited capacity of other origins to fill the gap.

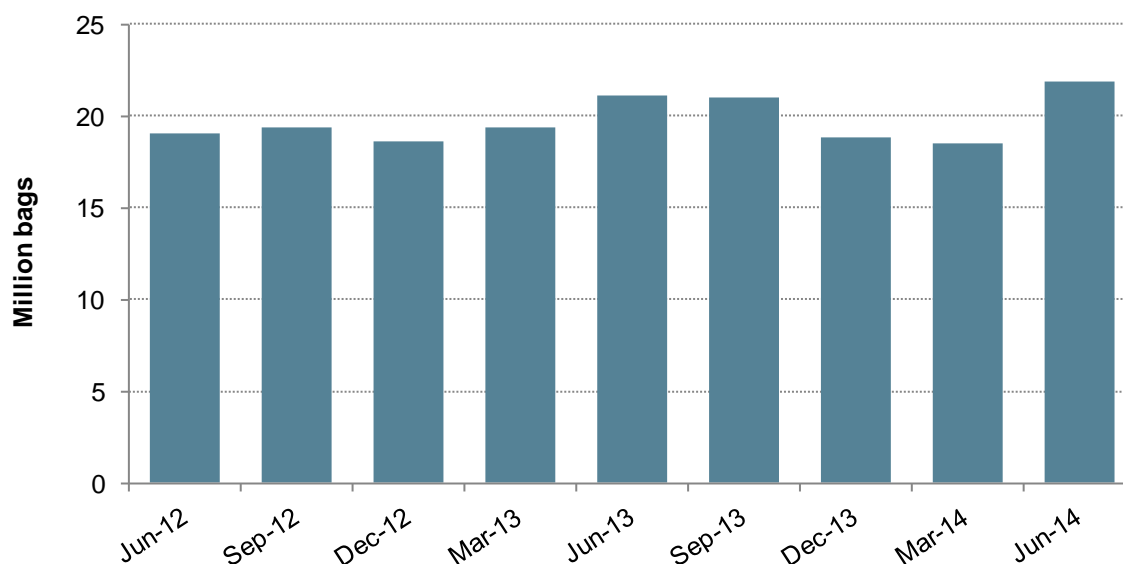
Graph 5: Exports by Brazil



© 2014 International Coffee Organization (www.ico.org)

Furthermore, inventories in importing countries have built up significantly in recent months. Preliminary figures for inventories indicate they increased by 18% at the end of June 2014 compared to March, from 18.5 million bags to 21.8 million bags. Both the European Union and the USA recorded higher levels, suggesting a transfer of coffee from exporting countries to importing countries following heavy export flows.

Graph 6: Inventories in importing countries



© 2014 International Coffee Organization (www.ico.org)

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							
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
Apr-14	170.58	220.62	223.48	190.62	105.55	200.39	96.12
May-14	163.94	211.66	214.20	181.97	102.99	191.07	93.83
Jun-14	151.92	195.17	197.89	165.34	98.91	175.81	89.40
Jul-14	152.50	194.21	196.90	164.92	101.79	175.74	91.83
Aug-14	163.08	211.60	212.97	183.32	100.25	193.98	90.64
% change between Aug-14 and Jul-14							
	6.9%	9.0%	8.2%	11.2%	-1.5%	10.4%	-1.3%
Volatility (%)							
Jul-14	8.9	10.4	10.0	11.4	5.2	11.7	5.5
Aug-14	8.2	8.5	8.7	10.4	5.3	10.0	5.8
Variation between Aug-14 and Jul-14							
	-0.7	-1.9	-1.4	-1.0	0.1	-1.7	0.4

* 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*
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
Apr-14	-2.86	30.00	115.07	32.86	117.93	85.07	104.27
May-14	-2.54	29.69	108.67	32.23	111.21	78.98	97.24
Jun-14	-2.72	29.83	96.26	32.55	98.98	66.43	86.41
Jul-14	-2.69	29.29	92.42	31.98	95.11	63.13	83.91
Aug-14	-1.37	28.28	111.35	29.65	112.72	83.07	103.34
% change between Aug-14 and Jul-14							
	-49.1%	-3.4%	20.5%	-7.3%	18.5%	31.6%	23.2%

* Average price for 2nd and 3rd positions

Table 3: Total production in exporting countries

Crop year commencing	2010	2011	2012	2013*	% change 2012-13
TOTAL	133 065	132 207	145 323	145 194	-0.1%
Arabicas	84 190	81 804	88 780	85 269	-4.0%
<i>Colombian Milds</i>	9 705	8 720	12 011	12 264	2.1%
<i>Other Milds</i>	28 871	31 965	28 991	26 299	-9.3%
<i>Brazilian Naturals</i>	45 614	41 119	47 777	46 706	-2.2%
Robustas	48 876	50 403	56 543	59 925	6.0%
Africa	16 053	15 715	16 529	16 267	-1.6%
Asia & Oceania	36 016	37 897	42 684	46 707	9.4%
Mexico & Central America	18 103	20 194	18 498	16 020	-13.4%
South America	62 893	58 401	67 612	66 200	-2.1%

* Estimated

In thousand bags

Full production data are available on the ICO website at www.ico.org/prices/po.htm**Table 4: Total exports by exporting countries**

	July 2013	July 2014	% change	October - July		
				2012/13	2013/14	% change
TOTAL	9 381	9 727	3.7%	94 150	92 263	-2.0%
Arabicas	5 621	5 839	3.9%	58 091	58 659	1.0%
<i>Colombian Milds</i>	886	1 002	13.1%	8 428	10 192	20.9%
<i>Other Milds</i>	2 314	2 135	-7.7%	21 902	19 751	-9.8%
<i>Brazilian Naturals</i>	2 421	2 702	11.6%	27 760	28 717	3.4%
Robustas	3 760	3 888	3.4%	36 059	33 603	-6.8%

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**

	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14
London	1.32	1.01	0.89	0.77	0.50	0.46	0.40	0.32	0.27	0.85	1.12	1.28	1.41
New York	3.15	3.13	3.07	3.02	3.06	3.00	2.95	2.92	2.90	2.87	2.83	2.79	2.71

In million bags

Table 6: World coffee consumption

Calendar years	2010	2011	2012	2013*	CAGR (2010-2013*)
World total	136 960	139 135	142 300	145 800	2.1%
Exporting countries	40 787	42 398	43 470	44 671	3.1%
Traditional markets	71 015	70 735	71 399	73 917	1.3%
Emerging markets	25 158	26 002	27 430	27 212	2.7%

CAGR: Compound Annual Growth Rate

* Estimated