

Coffee Season 2013/14 Finishes in Balance but Deficit Expected Next Year

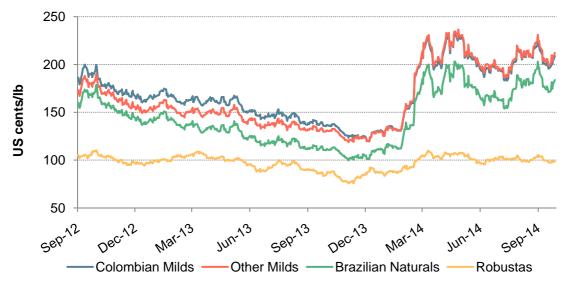
Coffee prices were volatile again over the course of September, mostly reacting to weather news from Brazil. Daily prices fell initially but were rising towards the end of the month as reports of dryness in Brazil exacerbated concerns over next year's crop. A new crop survey from Conab gave a revised production estimate of 45.14 million bags for crop year 2014/15, 570,000 bags higher than the previous estimate. Crop year 2013/14 has now finished in all exporting countries, with total production estimated at 145.2 million bags, essentially unchanged on the previous year. World consumption was also around 145 million bags in calendar year 2013, leaving the market reasonably balanced, but lower production expected in 2014/15 will likely result in a global deficit next year.



Graph 1: ICO composite indicator daily prices

The ICO composite indicator price averaged 161.79 US cents/lb in September, 0.8% less than August. The daily price fell from a high of 176.44 to a low of 153.64 in the middle of the month, before climbing back to finish on 164.37 cents, as increased reports of dryness in Brazil renewed speculation over production next year.

Graph 2: ICO group indicator daily prices



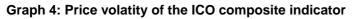
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In terms of the group indicators, Colombian Milds fell by the most, with the monthly average down 2.3% compared to August; Other Milds and Brazilian Naturals fell by 1.1% and 0.6% respectively, while Robustas recorded an increase of 0.3%. The monthly average of Other Milds increased its premium over Colombian Milds to 3.75 cents, the highest for over 17 years. The indicator price for Other Milds has now been trading above that of Colombian Milds for eight consecutive months.



Graph 3: Arbitrage between New York and London futures markets

The arbitrage between the New York Arabica and London Robusta futures contracts therefore narrowed slightly compared to August, but remains at around 100 cents/lb. Price volatility continued to be an issue in September, with the ICO composite settling on 9.5% for the month, but all three Arabica groups hitting double figures.





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Conab, the Brazilian agency responsible for crop forecasts, released their third estimate of the 2014/15 crop, upgrading their outlook slightly to 45.14 million bags. Arabica production was downgraded by 127,000 bags compared to the previous estimate to a five-year low of 32.11 million, while Robusta was revised up by 702,000 to 13.03 million bags, an all-time high. This new estimate leaves production in Brazil in 2014/15 at its lowest level since 2011/12, with mounting concerns over the 2015/16 crop.



Graph 5: Production by Brazil

At the end of crop year 2013/14, total production for all exporting countries is estimated at 145.2 million bags, 200,000 bags more than the previous year. Arabica production was 3.8% lower on 85.3 million bags (58.7% of the total), as 2.5 million further bags were lost in Central America due to the effects of coffee leaf rust, somewhat compensated by extra production from Colombia. As a result, production of Colombian Milds was 2.1% higher on 12.3 million bags, while Other Milds were 9% lower with 26.3 million bags, their lowest level since 2005/06. Brazilian Naturals were 2.2% lower on 46.7 million bags, due to reduced output from Brazil and Indonesia. Production of Robusta, on the other hand, increased by 6.4% to 59.9 million bags (41.3% of the world total).

Graph 6: World coffee production



Looking ahead to crop year 2014/15, the most significant issue is production in Brazil, which began in April. A slight recovery is expected in parts of Central America, as the damage from coffee leaf rust is starting to plateau (see Table 1). Nevertheless, the social and economic damage to the region is on-going and should not be underestimated. The lower volume of exports recorded from Indonesia suggest that production in crop year 2014/15 (April to March) could be significantly reduced.

	Area affected (hectares)	% incidence	Production change (2012-2013)	Production change (2013-2014)	Value losses (2011-2013 US\$ million)
Costa Rica	60 000	60%	-12%	3%	43
Dominican Republic	80 000	65%	-43%	20%	34
El Salvador	66 000	45%	-20%	64%	70
Guatemala	97 000	36%	-6%	8%	132
Honduras	70 000	60%	-15%	23%	91
Jamaica	170	20%	-5%	-5%	5
Nicaragua			-20%		46
Panama	15 000	65%	-25%	-5%	6
Peru	270 000	60%		-23%	0
TOTAL	658 170	51%	-18%	-2%	615

Table 1: Impact of coffee leaf rust in Central America (2014/15 update)

Source: PROMECAFE; JNC (Peru)

Total exports in August amounted to 8.8 million bags, down 1.2% compared to August last year. Exports from Brazil were again higher than last year for the eighth consecutive month, at over 3 million bags. Total exports for the first eleven months of coffee year 2013/14 (October to August) are 2% lower on 101.4 million bags. Exports of Arabica are relatively unchanged, as higher exports from Brazil and Colombia have compensated for the reduced availability from Central America. Robusta exports are 5.4% lower, due to the significantly lower volumes coming out of Indonesia. Nevertheless, certified stocks of Robusta on the London futures market have built up considerably over the last few months, from just 274,000 bags in April to nearly 1.9 million in September. Arabica stocks on the New York market have slipped slightly to 2.7 million bags.

	ICO Composite	Colombian Milds	Other Milds	Brazilian Naturals	Robustas	New York*	London*
Monthly aver							
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
Sep-14	161.79	206.78	210.53	182.15	100.52	192.09	91.24
% change bet	ween Sep-14	and Aug-14					
	-0.8%	-2.3%	-1.1%	-0.6%	0.3%	-1.0%	0.7%
Volatility (%)							
Aug-14	8.2	8.5	8.7	10.4	5.3	10.0	5.8
Sep-14	9.5	10.1	10.6	11.9	5.1	11.1	5.7
Variation bet	ween Sep-14	and Aug-14					
	1.4	1.6	1.9	1.5	-0.2	1.2	-0.1

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

* Average price for 2nd and 3rd positions

Table 3: Price differentials (US cents/lb)

	Colombian Colom		Colombian	Other Milds	Other Milds	Brazilian	New York*
	Milds Other Milds	Milds Brazilian Naturals	Milds Robustas	Brazilian Naturals	Robustas	Naturals Robustas	London*
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
Ma y-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
Sep-14	-3.75	24.63	106.26	28.38	110.01	81.63	100.85
% change b	etween Sep-14	and Aug-14					
	173.7%	-12.9%	-4.6%	-4.3%	-2.4%	-1.7%	-2.4%

 * Average price for $2^{^{nd}}$ and $3^{^{rd}}$ positions

Table 4: Total production in exporting countries

Crop year commencing	2010	2011	2012	2013*	% change 2012-13
TOTAL	133 065	132 011	145 003	145 202	0.1%
Arabicas	84 190	81 741	88 685	85 276	-3.8%
Colombian Milds	9 705	8 720	12 011	12 269	2.1%
Other Milds	28 871	31 913	28 914	26 301	-9.0%
Brazilian Naturals	45 614	41 108	47 759	46 705	-2.2%
Robustas	48 876	50 270	56 319	59 926	6.4%
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 5: Total exports by exporting countries

	August 2013	August 2014	% change	October - August		t
				2012/13	2013/14	% change
TOTAL	8 952	8 845	-1.2%	103 102	101 040	-2.0%
Arabicas	5 849	5 430	-7.2%	63 939	64 010	0.1%
Colombian Milds	1 000	952	-4.8%	9 428	11 150	18.3%
Other Milds	2 199	1 575	-28.4%	24 101	21 193	-12.1%
Brazilian Naturals	2 650	2 903	9.6%	30 410	31 667	4.1%
Robustas	3 104	3 415	10.0%	39 163	37 030	-5.4%

In thousand bags

Full trade statistics 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

	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14 /	Aug-14 9	Sep-14
London	1.01	0.89	0.77	0.50	0.46	0.40	0.32	0.274	0.85	1.12	1.28	1.41	1.88
New York	3.13	3.07	3.02	3.06	3.00	2.95	2.92	2.90	2.87	2.83	2.79	2.71	2.68

In million bags

Table 7: 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