

Coffee prices fall but Brazilian production estimated lower

Coffee prices continued their decline as speculation over the current 2015/16 Brazilian crop suggests that the market has no immediate supply concerns. Indeed, one major trading house has already forecast a global supply surplus for 2015/16. The continued weakness of the Brazilian real has put downward pressure on prices, although export volumes did slip slightly in April. Finally, Conab have released their second estimate of production in Brazil for 2015/16, which is forecast to decrease by 2.3% to 44.3 million bags, which is very much at the lower end of the initial range given in January.

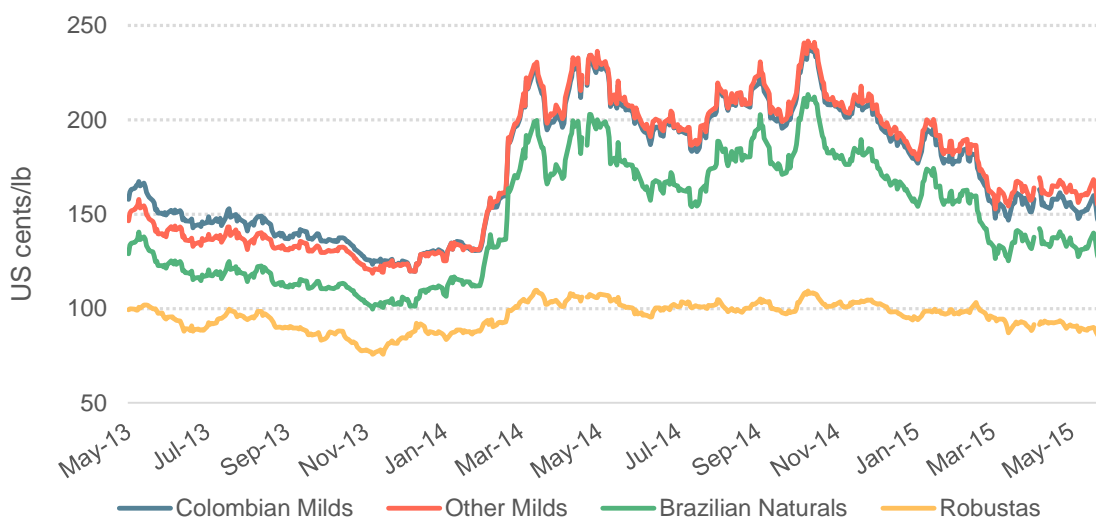
Graph 1: ICO composite indicator daily prices



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The ICO composite indicator fell further in May, with the monthly average down 4.3% compared to April to settle on 123.49 cents/lb, the lowest since January 2014. The daily price was relatively stable for the first half of the month, but then fell precipitously from just over 130 cents to a low of 116.99, as supply concerns over the Brazilian crop receded.

Graph 2: ICO group indicator daily prices



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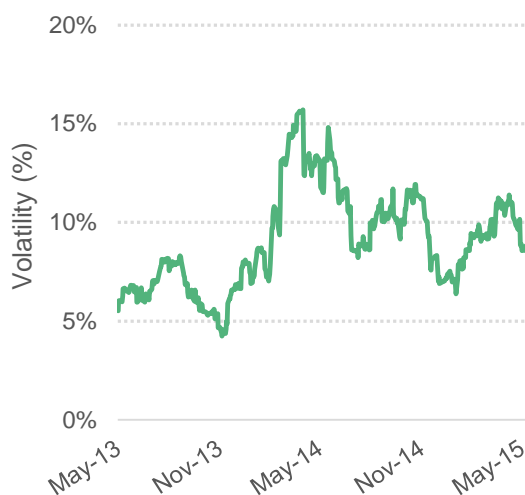
The three Arabica groups all saw decreases, with Colombian Milds, Other Milds and Brazilian Naturals down 4.4%, 3.4% and 4.6% respectively. The most significant drop was recorded in Robustas, down 4.9% to 87.56 cents, their lowest level in 18 months. This decrease in Robusta prices has led to anecdotal reports of stocks accumulating in Vietnam, with sellers reluctant to trade at such low domestic prices. The arbitrage between Arabica and Robusta on the New York and London futures markets narrowed slightly to 57.19 cents, less than half its level of October 2014, but has remained relatively steady for the last three months.

Graph 3: Arbitrage between New York and London futures markets



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

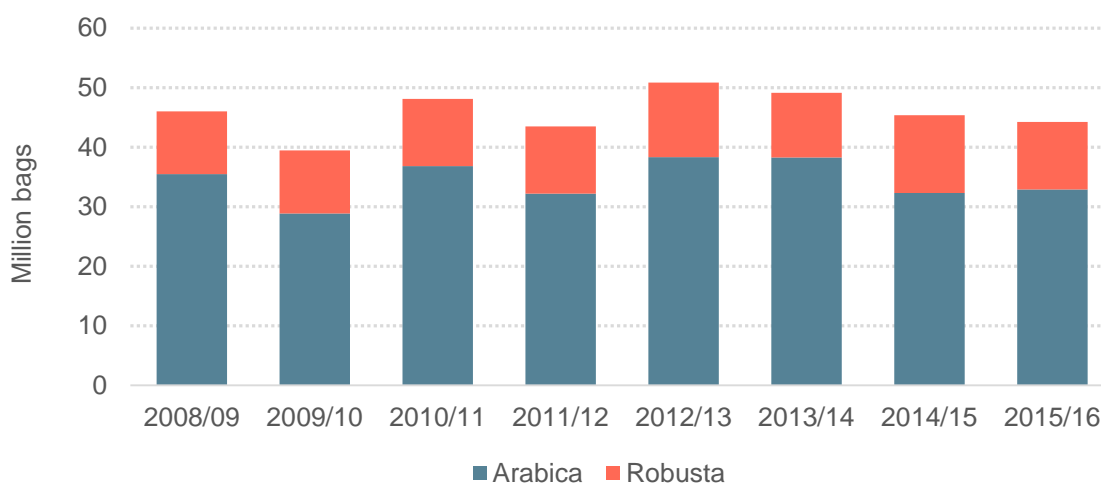


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Exports in April 2015 came to 9.4 million bags, 8.9% lower than April last year. Shipments from Brazil are down slightly, but remain at relatively high levels, whereas exports from Vietnam are estimated significantly lower, down from 2.5 million bags in April 2014 to just 1.5 million. If production in Vietnam is of a similar level to last year, as is currently expected, then these lower export levels suggest that significant volumes of coffee remain in the country.

Crop year 2015/16 has now started in several major coffee-producing countries, including Brazil, Indonesia and Peru. The latest estimate from Conab sees production in Brazil down 2.3% to 44.3 million bags. If realised, this volume would be the third consecutive year with lower production levels. A slight recovery is expected in Arabica production of 1.9% to reach 32.9 million bags. This rise is attributed predominantly to a significant increase of 34% in the coastal region of Zona da Mata due to better precipitation, and more modest growth in Paraná which had been affected by low temperatures the previous year. Robusta production, on the other hand, is estimated at 11.4 million bags, 13% lower than 2014/15. This was due in large part to the recent drought in the state of Espírito Santo, the largest Robusta producing region.

Graph 5: Arabica and Robusta production in Brazil



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In Indonesia, production in 2014/15 (April to March) was estimated at 9 million bags, 23% lower than the previous year, which has been attributed to adverse weather conditions in mid-2014. Exports were significantly lower compared to 2013/14, down to 5.6 million bags from 10.2 million. Furthermore, as domestic consumption in Indonesia continues to increase, export availability has been further reduced. Looking ahead to 2015/16, early indications are that production in Indonesia could recover somewhat, as long as the weather conditions remain favourable. However, the increasing likelihood of El Niño could cause reduced rainfall over the next few months, which would limit further production growth.

Coffee production in Peru was also negatively affected in 2014/15, down 22% to 3.4 million bags, as the outbreak of coffee leaf rust intensified. Total exports were 40.6% lower year-on-year at just 2.4 million bags. However, the efforts made to combat the disease are expected to lead to a recovery in 2015/16, particularly as the Government continues to implement its renewal programme for coffee.

Overall, in 2014/15, total coffee production is estimated at 141.9 million bags, 3.3% less than 2013/14. Arabica production is estimated 2.8% lower on 84.6 million bags, with Robusta down 4.1% on 57.2 million. An increase is expected in Colombian Milds of 3.9%, with Other Milds also up by 0.9%, but this is outweighed by the decrease in Brazilian Naturals of 7%. It is too early to give a comprehensive estimate for 2015/16, but we are confident that the current crop year 2014/15 will end in significant deficit of at least 8 million bags.

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							
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
Oct-14	172.88	222.59	225.29	197.05	104.70	210.12	95.51
Nov-14	162.17	206.41	209.38	181.43	103.06	192.33	93.60
Dec-14	150.66	190.16	193.60	166.58	98.43	177.82	89.86
Jan-15	148.24	185.26	190.00	163.50	98.01	173.19	89.33
Feb-15	141.10	174.11	178.89	151.90	98.36	159.55	89.76
Mar-15	127.04	154.29	160.74	133.55	92.16	139.70	82.94
Apr-15	129.02	157.06	164.00	136.70	92.06	141.79	82.71
May-15	123.49	150.19	158.48	130.38	87.56	135.22	78.03
% change between May-15 and Apr-15							
	-4.3%	-4.4%	-3.4%	-4.6%	-4.9%	-4.6%	-5.7%
Volatility (%)							
Apr-15	7.3	8.5	7.7	9.5	5.6	9.7	4.8
May-15	6.9	7.5	7.4	8.5	6.2	8.9	7.5
Variation between May-15 and Apr-15							
	-0.4	-1.0	-0.4	-1.0	0.5	-0.8	2.8

* Average price for 2nd and 3rd positions

Table 2: 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*
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
Sep-14	-3.75	24.63	106.26	28.38	110.01	81.63	100.85
Oct-14	-2.70	25.54	117.89	28.24	120.59	92.35	114.61
Nov-14	-2.97	24.98	103.35	27.95	106.32	78.37	98.73
Dec-14	-3.44	23.58	91.73	27.02	95.17	68.15	87.96
Jan-15	-4.74	21.76	87.25	26.50	91.99	65.49	83.86
Feb-15	-4.78	22.21	75.75	26.99	80.53	53.54	69.79
Mar-15	-6.45	20.74	62.13	27.19	68.58	41.39	56.76
Apr-15	-6.94	20.36	65.00	27.30	71.94	44.64	59.08
May-15	-8.29	19.81	62.63	28.10	70.92	42.82	57.19
% change between May-15 and Apr-15							
	19.5%	-2.7%	-3.6%	2.9%	-1.4%	-4.1%	-3.2%

* Average price for 2nd and 3rd positions

Table 3: Total production in exporting countries

Crop year commencing	2011	2012	2013	2014	% change 2013-14
TOTAL	136 583	147 562	146 745	141 850	-3.3%
Arabicas	82 007	88 264	87 116	84 638	-2.8%
<i>Colombian Milds</i>	8 720	11 523	13 488	14 020	3.9%
<i>Other Milds</i>	31 965	28 828	26 891	27 131	0.9%
<i>Brazilian Naturals</i>	41 322	47 913	46 737	43 488	-7.0%
Robustas	54 576	59 298	59 630	57 212	-4.1%
Africa	16 070	16 702	16 108	16 860	4.7%
Asia & Oceania	41 918	45 355	46 744	44 334	-5.2%
Mexico & Central America	20 194	18 381	16 661	17 963	7.8%
South America	58 401	67 125	67 233	62 693	-6.8%

In thousand bags

Full production data are available on the ICO website at www.ico.org/trade_statistics.asp

Table 4: Total exports by exporting countries

	April 2014	April 2015	% change	October - April		
				2013/14	2014/15	% change
TOTAL	10 349	9 432	-8.9%	65 243	62 755	-3.8%
Arabicas	6 139	5 904	-3.8%	40 328	38 695	-4.0%
<i>Colombian Milds</i>	951	1 090	14.6%	7 402	7 647	3.3%
<i>Other Milds</i>	2 189	2 187	-0.1%	12 857	11 853	-7.8%
<i>Brazilian Naturals</i>	2 999	2 628	-12.4%	20 069	19 195	-4.4%
Robustas	4 210	3 528	-16.2%	24 915	24 061	-3.4%

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

	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15
New York	2.87	2.83	2.79	2.71	2.68	2.67	2.63	2.60	2.55	2.56	2.60	2.56	2.41
London	0.85	1.12	1.28	1.41	1.88	2.02	2.08	2.12	2.35	2.55	2.84	2.93	3.02

In million bags

Table 6: World coffee consumption

Calendar years	2011	2012	2013	2014	CAGR (2011-2014)
World total	139 415	143 004	147 339	149 265	2.3%
Exporting countries	42 794	44 222	44 992	46 201	2.6%
Traditional markets	75 910	76 509	79 026	79 387	1.5%
Emerging markets	20 711	22 273	23 320	23 677	4.6%

CAGR: Compound Annual Growth Rate

In thousand bags

Full consumption statistics are available on the ICO website at www.ico.org/trade_statistics.asp