



July 2015

Coffee prices fall to 18-month low as supply concerns fade

The coffee market registered further decreases in July with prices reacting to the depreciation in the Brazilian exchange rate, which dropped to a 12-year low against the US dollar. Concerns over production in Brazil have largely subsided, although some recent domestic reports have reiterated that the crop could still be feeling the effect of last year's drought. This could potentially result in a smaller bean size, which would reduce overall output.

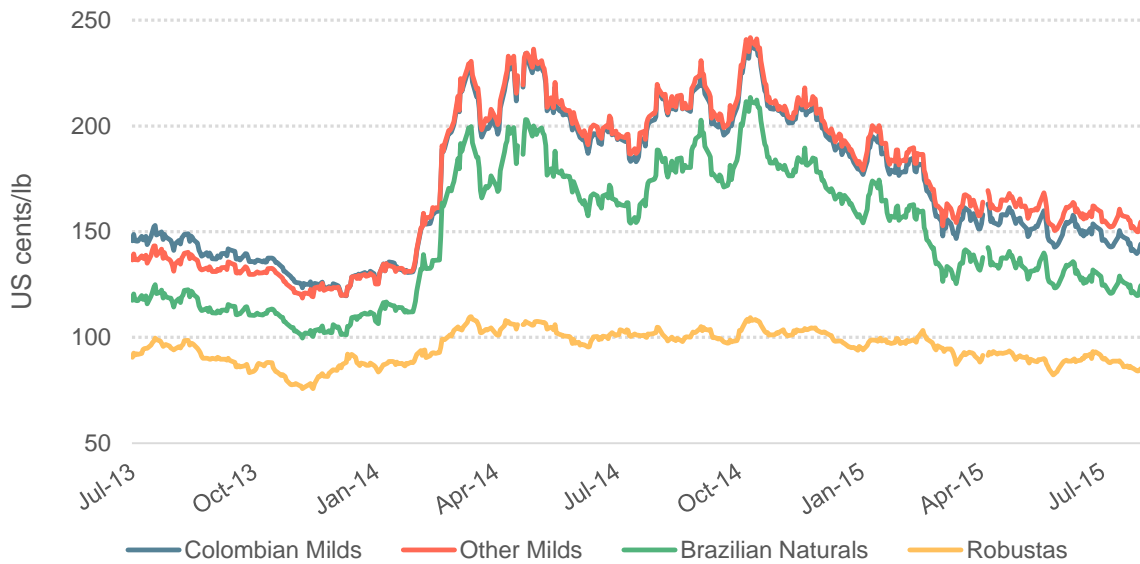
Graph 1: ICO composite indicator daily prices



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The daily price of the ICO composite indicator fell to a low of 116.02 cents in July, its lowest daily value since late January 2014. The monthly average settled on 119.77 US cents/lb, 4.2% less than last month, and its lowest level in 18 months. All four groups were lower, with the biggest drop unsurprisingly in Brazilian Naturals. Robustas were also negatively affected, falling by 3.5% to 87.12 cents, their lowest monthly level since November 2013.

Graph 2: ICO group indicator daily prices



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Other Milds increased their price differential over Colombian Milds to nearly 10 cents, which is unprecedented in the free market period. Although the availability of washed Arabicas from Central America is improving, total production remains well below its 2011/12 level, while in Peru the coffee leaf rust outbreak has worsened over the last year. The arbitrage between Arabica and Robusta, as reflected by the New York and London futures markets, narrowed for the third consecutive month to just 51.43 cents, less than half its level of August 2014.

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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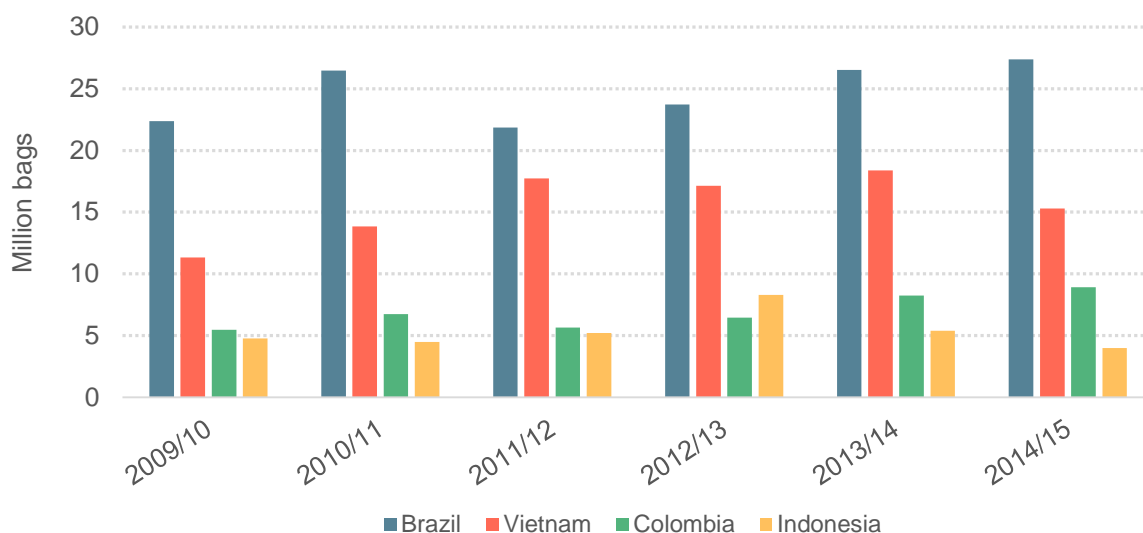
Total exports in June came to 9.7 million bags, 3.3% less than last year, but this is still the second-largest level for June on record. Shipments of Robustas and Brazilian Naturals were both lower, by 6.1% and 17.2% respectively, but Colombian Milds were up 26.2% and Other

Milds by 7.7%. This brings total exports for the first three quarters of the coffee year to 82.1 million bags, 4.3% less than the same period last year, with Colombian Milds the only group showing an increase.

Graph 5 below shows exports for October to June in the four largest coffee producers over the last 6 years. The most significant trend is the consistent increase in exports by Brazil since 2011/12, which so far this year have reached a record 27.4 million bags. These exports have been encouraged by the continued depreciation of the Brazilian real, which this month fell to a 12-year low against the US dollar. Although production in Brazil was reduced in 2014/15, the domestic stocks accumulated over the two previous seasons have allowed exports to continue unabated. Colombia has similarly recorded four consecutive years of increased exports, up to 8.9 million bags over the time period, as the national authorities' renovation programmes bear fruit, with the depreciating peso also having an impact.

Vietnam, on the other hand, has recorded significantly lower exports so far in coffee year 2014/15. Shipments are estimated at 15.3 million bags, 16.8% lower than last year, as farmers show a reluctance to sell given the low domestic prices. Exports from Indonesia are also estimated lower by 25.6% compared to last year, down to just 4 million bags, dropping below Honduras for the first time; this is a consequence of the adverse weather in 2014 as well as increasing domestic consumption, which reduces export availability.

Graph 5: October - June exports by selected countries



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In summary, while the coffee market seems to have no immediate supply concerns, it must be reiterated that stock levels in most producing countries are waning, and while there is a moderate buffer in importing country warehouses, this may not be sufficient to cover any significant negative shock to production. This could leave the market highly susceptible to a rapid surge in prices, as seen previously in March 2014 and early 2011, if production fails to meet expectations.

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							
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
Jun-15	124.97	152.02	159.76	130.51	90.25	135.86	80.25
Jul-15	119.77	144.52	154.45	123.64	87.12	128.59	77.16
% change between Jul-15 and Jun-15							
	-4.2%	-4.9%	-3.3%	-5.3%	-3.5%	-5.4%	-3.9%
Volatility (%)							
Jun-15	7.1	7.5	6.8	8.9	6.0	8.3	6.2
Jul-15	5.4	6.0	5.7	7.0	4.1	6.6	4.3
Variation between Jul-15 and Jun-15							
	-1.7	-1.5	-1.1	-1.8	-2.0	-1.8	-1.8

* 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*
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
Jun-15	-7.74	21.51	61.77	29.25	69.51	40.26	55.61
Jul-15	-9.93	20.88	57.40	30.81	67.33	36.52	51.43
% change between Jul-15 and Jun-15							
	28.3%	-2.9%	-7.1%	5.3%	-3.1%	-9.3%	-7.5%

* 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	136 572	147 593	146 801	141 732	-3.5%
Arabicas	82 008	88 365	87 040	84 167	-3.3%
<i>Colombian Milds</i>	8 720	11 523	13 488	14 020	3.9%
<i>Other Milds</i>	31 965	28 927	26 816	26 549	-1.0%
<i>Brazilian Naturals</i>	41 323	47 914	46 736	43 599	-6.7%
Robustas	54 564	59 228	59 761	57 565	-3.7%
Africa	16 058	16 632	16 239	16 877	3.9%
Asia & Oceania	41 918	45 355	46 744	44 685	-4.4%
Mexico & Central America	20 194	18 481	16 585	18 013	8.6%
South America	58 402	67 125	67 233	62 156	-7.6%

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

	June 2014	June 2015	% change	October - June		
				2013/14	2014/15	% change
TOTAL	10 020	9 688	-3.3%	85 850	82 148	-4.3%
Arabicas	6 041	5 953	-1.5%	52 701	51 064	-3.1%
<i>Colombian Milds</i>	877	1 107	26.2%	9 193	9 875	7.4%
<i>Other Milds</i>	2 296	2 472	7.7%	17 655	16 914	-4.2%
<i>Brazilian Naturals</i>	2 869	2 374	-17.2%	25 853	24 276	-6.1%
Robustas	3 978	3 735	-6.1%	33 150	31 084	-6.2%

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

	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15
New York	2.79	2.71	2.68	2.67	2.63	2.60	2.55	2.56	2.60	2.56	2.41	2.43	2.38
London	1.28	1.41	1.88	2.02	2.08	2.12	2.35	2.55	2.84	2.93	3.02	3.12	3.35

In million bags

Table 6: World coffee consumption

Calendar years	2011	2012	2013	2014	CAGR (2011-2014)
World total	139 364	143 099	147 495	149 162	2.3%
Exporting countries	42 788	44 196	44 951	46 144	2.5%
Traditional markets	77 561	78 417	80 880	81 091	1.5%
Emerging markets	19 015	20 485	21 664	21 927	4.9%

CAGR: Compound Annual Growth Rate

In thousand bags

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