

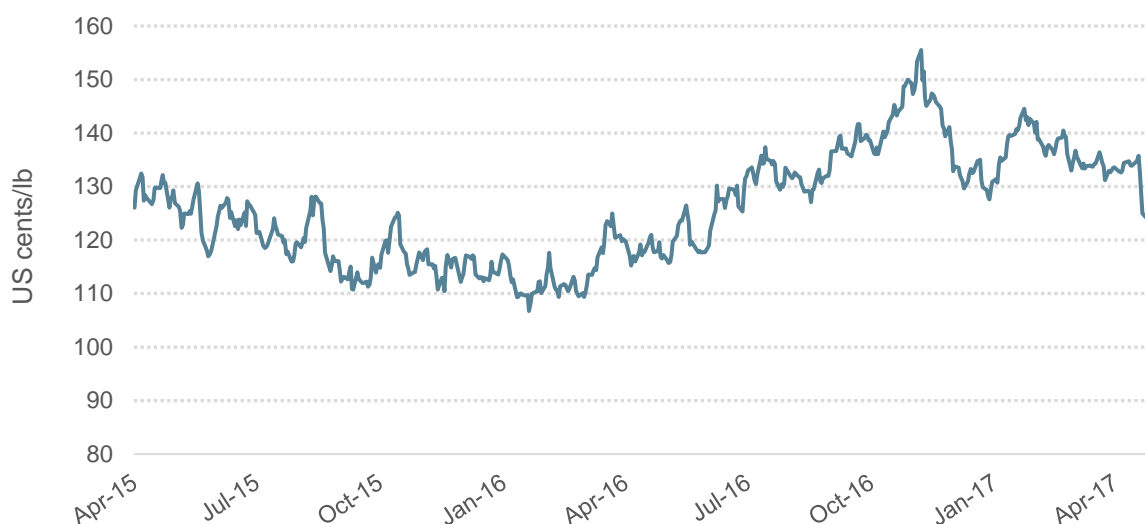


April 2017

## Downward correction as funds respond to increasingly positive supply outlook

*Coffee prices fell sharply at the end of April as institutional investors sold off their positions. The coffee market continues to be well supplied as total exports in the first half of coffee year 2016/17 are estimated up by 4.8% to 60 million bags. In absence of fundamental news, the outlook for the 2017/18 crop is generally positive but some uncertainties remain.*

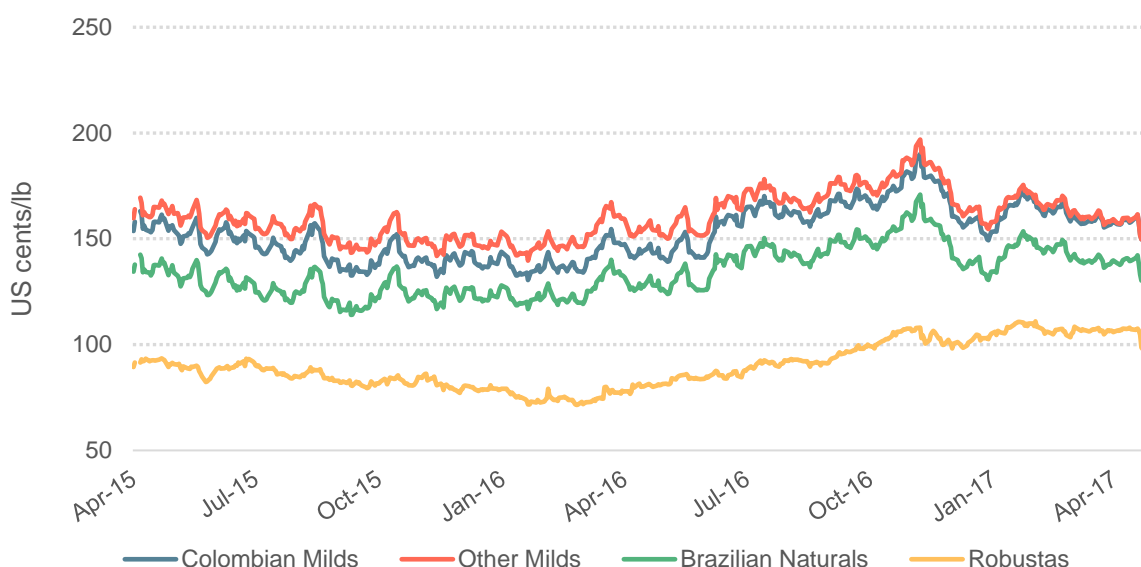
Graph 1: ICO composite indicator daily prices



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The monthly average of the ICO composite indicator price decreased significantly compared to last month, down 2.7% to 130.39 US cents/lb. After gaining slightly in the first half of April, daily prices started to decline sharply on 20 April, dropping to a low of 122.25 US cents/lb on 27 April. At month-end, daily prices were 6.9% lower than at the beginning of April.

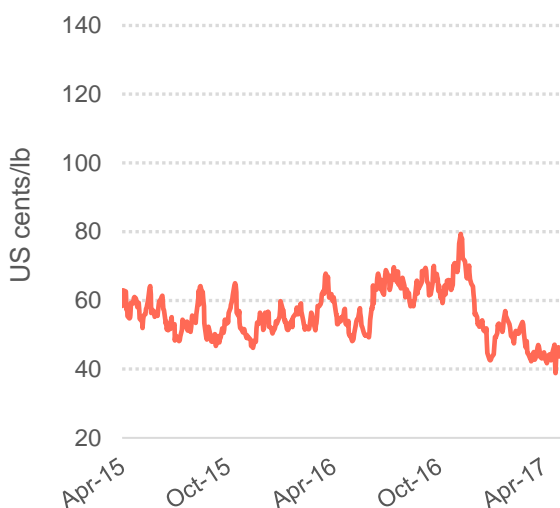
Graph 2: ICO group indicator daily prices



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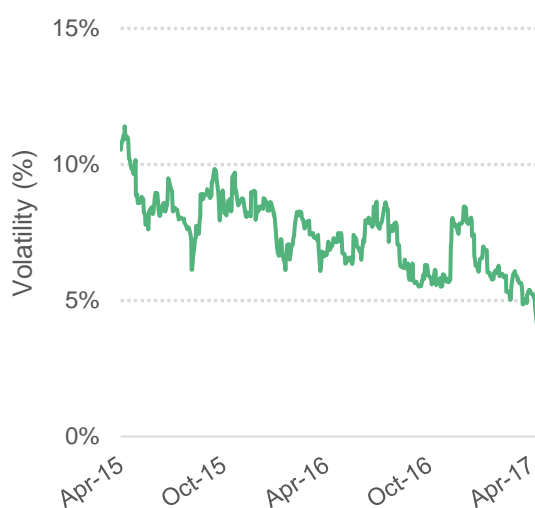
All three Arabica groups fell significantly but the sharpest decline was recorded for Other Milds, which were down by 3% compared to the previous month. The average prices for Colombian Milds and Brazilian Naturals were 2.2% and 2.6% lower, respectively. The differential between Colombian Milds and Other Milds, which has been consistently negative for more than three years, has reached the narrowest gap in 26 months, down to -0.43 US cents/lb. The prices for Robustas showed a similar decline and were 3% lower reaching a monthly average of 103.58 US cents/lb. The Arabica/Robusta arbitrage, as measured on the New York and London futures markets, dropped by 1% to 43.92 US cents/lb, the lowest level since January 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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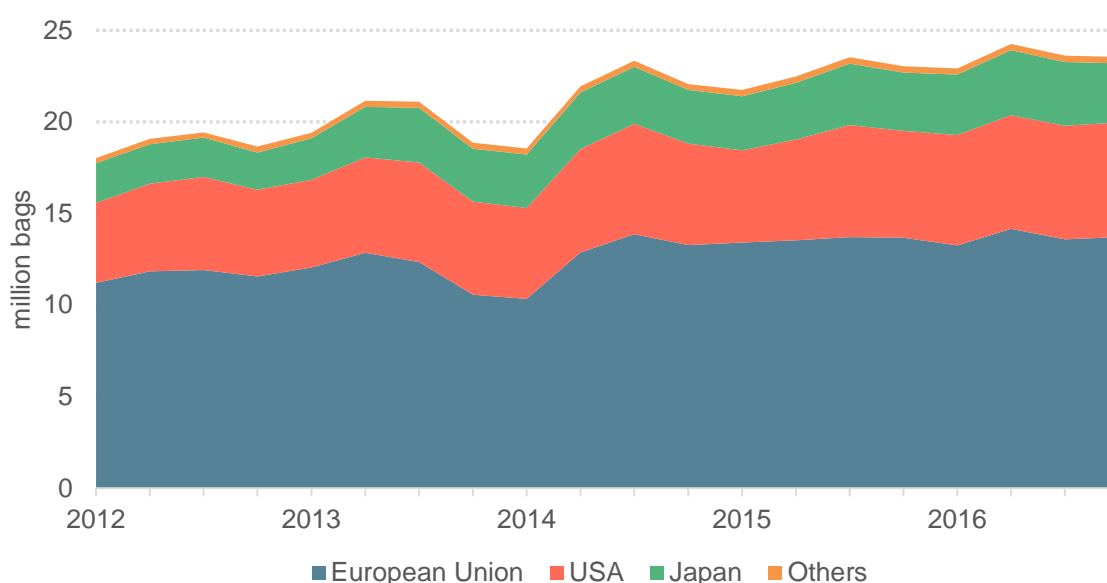
The sudden fall in prices in the second half of April is mainly the result of intensive activities of hedge funds selling off long positions, which had been building up over the past months. This comes against the backdrop of an increasingly positive outlook for sufficient supply of coffee on the world market. The combination of very high exports and growing inventories in consuming countries helped to overcome initial supply concerns. Like in the case of other agricultural commodities the coffee market is experiencing downward pressure. This development is part of a broader decrease of prices in view of supply expectations for agricultural and non-agricultural commodities.

Cumulative total exports in the first half of coffee year 2016/17 (October to March) amounted to 60 million bags, up 4.8% compared to last year. A drop in exports of Brazilian Naturals by 2.4% was offset by significantly higher shipments of Colombian Milds and Other Milds. For example, Colombia has successfully recovered from the coffee leaf rust crisis and increased production to levels last seen in the first half of the 1990s. The country exported 10.3% larger volumes in the first six months of coffee year 2016/17. Shipments of Arabica coffees from origins in the Other Milds group are 16.6% higher than in the same period of the previous year.

These very high export volumes have ensured that consumer stocks are well supplied. At the end of December 2016, stocks of green coffee in importing countries reached 23.5 million bags, compared to 23 million in December 2015. In the first quarter of 2017, the inventories have further increased, reaching record levels in some countries. For example, March inventories in the United States climbed to 6.7 million bags, the highest level since 1994.

The supply outlook for 2017/18 seems increasingly positive. Initial concerns about frost in Brazil and a shortage of rainfall in Vietnam affecting the 2017/18 crops have eased. However, given low stock levels in Brazil, any adverse weather events in the coming months would pose a risk to future supply from that country. Similarly, the threat of an outbreak of coffee leaf rust in smaller producing countries such as Honduras adds uncertainty.

Graph 5: Inventories in importing countries of green coffee (quarterly)



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**Table 1: ICO indicator prices and futures prices (US cents/lb)**

	ICO Composite	Colombian Milds	Other Milds	Brazilian Naturals	Robustas	New York*	London*
<b>Monthly averages</b>							
Apr-16	117.93	143.66	154.22	128.10	80.18	125.34	70.90
May-16	119.91	144.49	155.19	129.05	83.93	126.80	75.11
Jun-16	127.05	156.86	165.45	138.38	85.94	139.10	76.87
Jul-16	132.98	164.46	171.76	144.76	90.82	148.16	82.09
Aug-16	131.00	160.78	167.54	141.41	91.79	145.37	83.47
Sep-16	138.22	168.85	176.30	149.80	96.88	154.87	88.63
Oct-16	142.68	172.28	178.96	153.15	103.65	160.07	95.30
Nov-16	145.82	177.85	184.12	157.72	103.72	165.24	95.40
Dec-16	131.70	156.64	161.78	137.14	101.85	143.04	93.66
Jan-17	139.07	164.96	168.61	145.70	108.32	152.24	100.24
Feb-17	137.68	163.67	166.35	145.50	106.49	148.64	98.46
Mar-17	134.07	158.40	160.15	139.67	106.73	143.38	99.01
Apr-17	130.39	154.97	155.40	136.09	103.58	139.25	95.34
<b>% change between Apr-17 and Mar-17</b>							
	-2.7%	-2.2%	-3.0%	-2.6%	-3.0%	-2.9%	-3.7%
<b>Volatility (%)</b>							
Mar-17	5.4%	5.8%	5.7%	6.6%	5.6%	6.7%	5.9%
Apr-17	5.0%	5.4%	5.5%	5.9%	5.5%	6.4%	5.9%
<b>Variation between Apr-17 and Mar-17</b>							
	-0.5%	-0.4%	-0.1%	-0.6%	-0.1%	-0.4%	0.0%

\* Average price for 2<sup>nd</sup> and 3<sup>rd</sup> 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*
Apr-16	-10.56	15.56	63.48	26.12	74.04	47.92	54.44
May-16	-10.70	15.44	60.56	26.14	71.26	45.12	51.69
Jun-16	-8.59	18.48	70.92	27.07	79.51	52.44	62.23
Jul-16	-7.30	19.70	73.64	27.00	80.94	53.94	66.07
Aug-16	-6.76	19.37	68.99	26.13	75.75	49.62	61.90
Sep-16	-7.45	19.05	71.97	26.50	79.42	52.92	66.24
Oct-16	-6.68	19.13	68.63	25.81	75.31	49.50	64.77
Nov-16	-6.27	20.13	74.13	26.40	80.40	54.00	69.84
Dec-16	-5.14	19.50	54.79	24.64	59.93	35.29	49.38
Jan-17	-3.65	19.26	56.64	22.91	60.29	37.38	52.00
Feb-17	-2.68	18.17	57.18	20.85	59.86	39.01	50.18
Mar-17	-1.75	18.72	51.66	20.48	53.42	32.94	44.37
Apr-17	-0.43	18.88	51.40	19.31	51.82	32.51	43.92
<b>% change between Mar-17 and Feb-17</b>							
	-75.7%	0.9%	-0.5%	-5.7%	-3.0%	-1.3%	-1.0%

\* Average price for 2<sup>nd</sup> and 3<sup>rd</sup> positions

**Table 3: World supply/demand balance**

Crop year commencing	2013	2014	2015	2016*	% change 2015-16
<b>PRODUCTION</b>	<b>152 130</b>	<b>148 724</b>	<b>151 438</b>	<b>151 624</b>	<b>0.1%</b>
Arabica	90 163	86 151	88 273	95 204	7.9%
Robusta	61 967	62 572	63 165	56 419	-10.7%
Africa	16 243	15 987	16 229	16 353	0.8%
Asia & Oceania	46 461	45 666	48 967	43 110	-12.0%
Mexico & Central America	16 598	17 116	17 291	17 740	2.6%
South America	72 828	69 954	68 951	74 420	7.9%
<b>CONSUMPTION</b>	<b>149 032</b>	<b>151 822</b>	<b>155 712</b>	<b>155 100</b>	<b>-0.4%</b>
Exporting countries	46 109	47 245	48 262	48 337	0.2%
Importing countries (Coffee Years)	102 931	104 577	107 450	106 763	-0.6%
Africa	10 595	10 739	10 745	10 774	0.3%
Asia & Oceania	30 714	32 602	33 665	33 669	0.0%
Mexico & Central America	5 158	5 240	5 311	5 237	-1.4%
Europe	50 169	50 907	51 802	51 544	-0.5%
North America	27 714	27 372	28 875	28 535	-1.2%
South America	24 682	24 962	25 313	25 341	0.1%
<b>BALANCE</b>	<b>3 098</b>	<b>-3 098</b>	<b>-4 274</b>	<b>-3 476</b>	<b>-18.7%</b>

In thousand bags

\*Estimated

**Table 4: Total exports by exporting countries**

	March 2016	March 2017	% change	October - March		
				2015/16	2016/17	% change
<b>TOTAL</b>	<b>10 939</b>	<b>10 720</b>	<b>-2.0%</b>	<b>57 342</b>	<b>60 079</b>	<b>4.8%</b>
Arabicas	6 607	6 624	0.3%	36 337	38 186	5.1%
Colombian Milds	1 238	1 266	2.3%	7 456	8 093	8.5%
Other Milds	2 243	2 593	15.6%	10 059	11 731	16.6%
Brazilian Naturals	3 126	2 765	-11.6%	18 822	18 363	-2.4%
Robustas	4 332	4 096	-5.4%	21 004	21 893	4.2%

In thousand bags

Full trade statistics are available on the ICO website at [www.ico.org/trade\\_statistics.asp](http://www.ico.org/trade_statistics.asp)**Table 5: Certified stocks on the New York and London futures markets**

	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17
New York	1.58	1.53	1.48	1.45	1.45	1.42	1.44	1.42	1.40	1.45	1.49	1.53	1.58
London	2.78	2.64	2.53	2.45	2.37	2.32	2.28	2.38	2.39	2.73	2.80	2.85	2.87

In million bags