

Coffee Market Report



INTERNATIONAL
COFFEE
ORGANIZATION

December 2016

Coffee production to remain stable despite Arabica/Robusta divergence

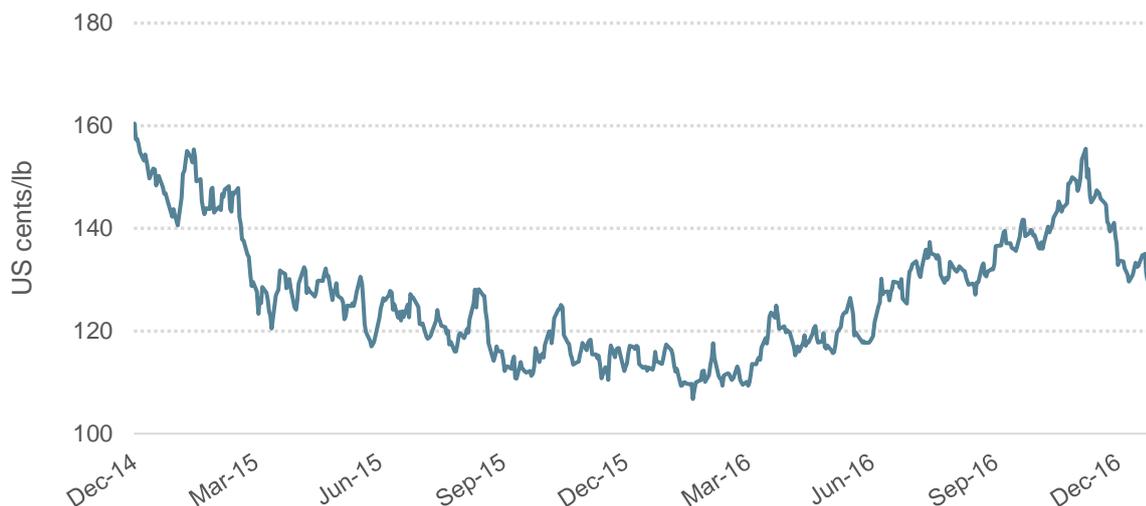
An initial estimate of global coffee production in 2016/17 suggests that the world total will remain relatively stable, up 0.1% to 151.6 million bags. Arabica production is potentially set for a record level of 93.5 million bags with bumper crops expected from Brazil, Colombia and Honduras. Prospects for Robusta supply, on the other hand, are less positive, with lower crops expected from most major origins. Prices on the futures markets have reflected these developments recently, with Robusta prices generally showing support and Arabica under pressure, leading to a narrowing in the arbitrage between the two.

It should be noted that this market report is the last contribution of Mr Robério Oliveira Silva to the transparency of the coffee sector before he died on 30 December 2016. His final discussion with his team of the Economics and Statistics Sections over the coffee market situation took place before breaking for Christmas.

This market report provides an opportunity to thank, on his behalf, all partners, both in the private and public sectors, who have helped to enrich these reports, hoping that this fruitful cooperation will continue with his successor. Among his many achievements, Mr Silva paved the way for a significant change of direction and the world coffee community will profit from his legacy.

The final external contribution of Mr Silva to the coffee sector was his address to the 56th Annual General Assembly and African Coffee Symposium of the Inter-African Coffee Organisation (IACO) held in Yaounde, Cameroon in November 2016. He stated that agricultural transformation will allow African countries to shift from subsistence-oriented agriculture towards a more market-oriented, productive, efficient and profitable activity. He also encouraged the leaders of the African coffee sector to aim to achieve an inclusive coffee value chain in Africa by tackling challenges such as the inclusion of women and young people, increasing the domestic and regional consumption of coffee, and facing the challenge of climate change.

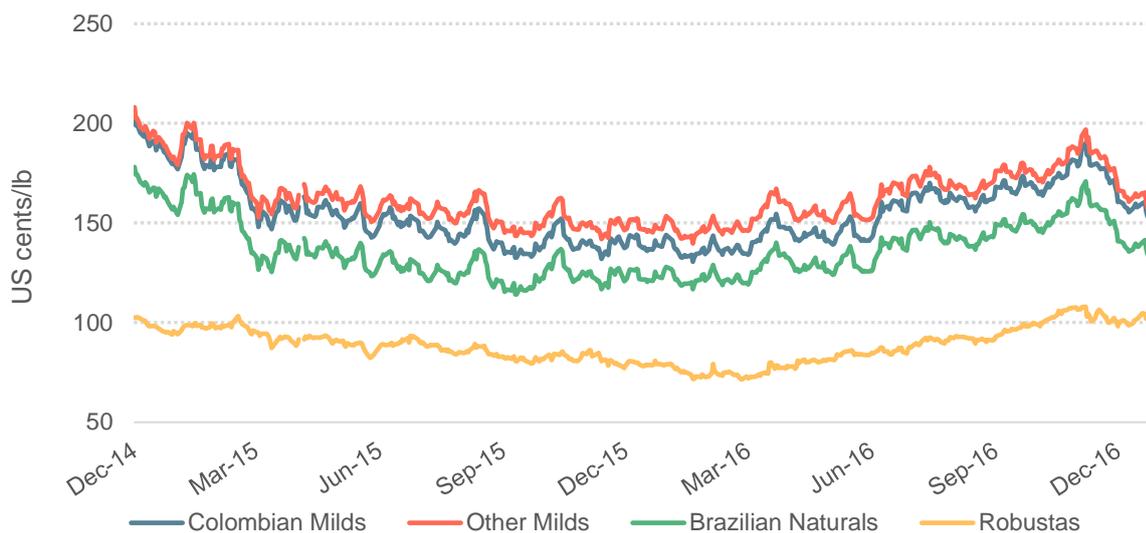
Graph 1: ICO composite indicator daily prices



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The daily price of the ICO composite indicator steadied slightly after its collapse in November, ending the month two cents lower than it started on 130.92 US cents/lb. The composite remained within a relatively narrow range, peaking at 135.04 cents and hitting a 4-month low of 127.62 cents. The Brazilian real also recovered after depreciating in November, but the possibility of a record crop in Brazil in 2016/17 put downward pressure on Arabica prices. Robusta prices, on the other hand, strengthened as heavy rains in Vietnam disrupted supply.

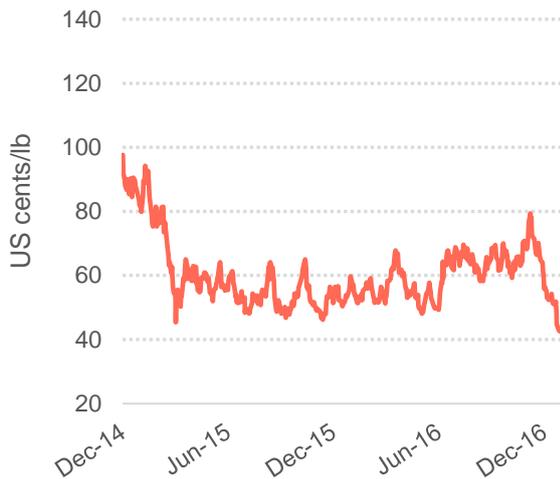
Graph 2: ICO group indicator daily prices



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In terms of the group indicators, as previously mentioned Arabica prices were lower in December, with Colombian Milds, Other Milds and Brazilian Naturals all down by around 12% compared to November, their lowest levels since May 2016. Robustas increased in daily terms over the course of the month, although their monthly average was slightly lower compared to November. As a result, the daily arbitrage between Arabica and Robusta, as recorded on the New York and London futures markets, narrowed considerably, reaching a 35-month low of 42.58 US cents/lb on 28 December.

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

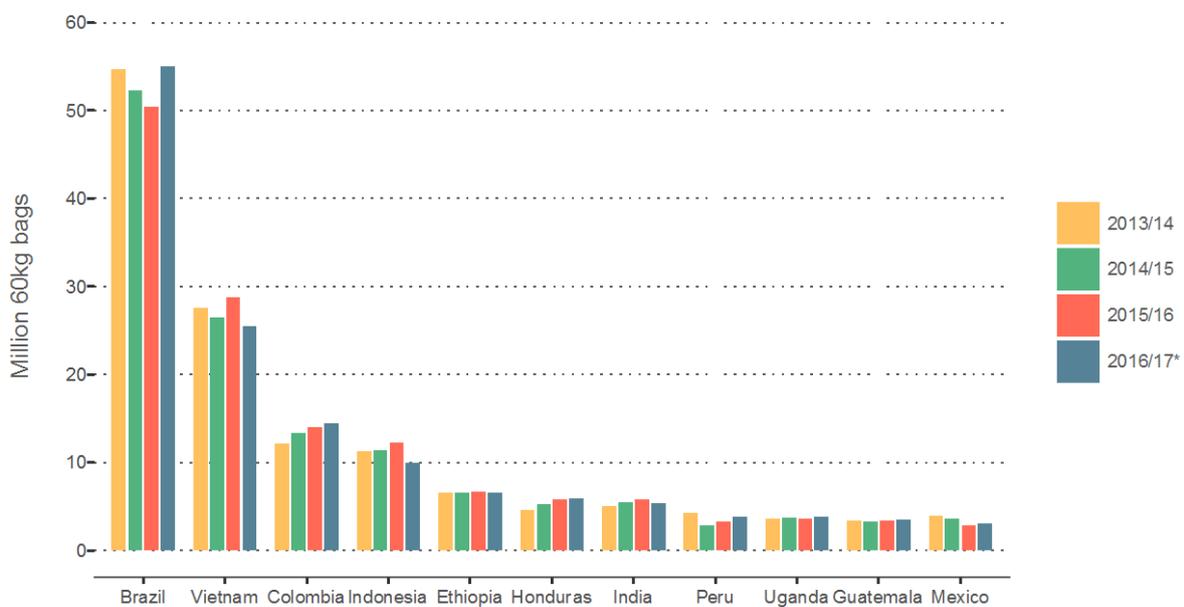


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Total exports in November came to 9.9 million bags, 13.6% higher than November 2015 due to larger volumes from Vietnam (estimated), Colombia and Indonesia. Total exports for the first two months of coffee year 2016/17 are already 1.5 million bags higher than last year on 19.5 million, with total exports over the last 12 months reaching 117.6 million bags.

Our initial estimate of global coffee production in crop year 2016/17 comes to 151.6 million bags, mostly unchanged on 2015/16. However, this total volume comprises a significant increase in production of Arabica, up by 4.4% to 93.5 million bags (an extra 3.9 million bags compared to last year), which is mostly offset by a 6% decrease in Robusta (3.7 million bags lower).

Graph 5: Production in selected exporting countries (2013/14 – 2016/17)



* Estimated

Output from Brazil, the largest producer, is expected to recover strongly following two years of drought, with total production in 2016/17 currently estimated at 55 million bags. This recovery is expected in the Arabica crop, which is in the on-year of its biennial cycle. The Brazilian conilon (Robusta) crop remains affected by drought and is expected to be consumed by the domestic industry, leaving negligible export availability.

Production in Vietnam for 2015/16 has been revised up to 28.7 million bags following the receipt of new export data, which would represent a record crop. Prospects for 2016/17 are less positive, with drought at the beginning of calendar year 2016 likely affecting output, which is provisionally estimated down 11.3% to 25.5 million bags.

Colombia continues its ongoing recovery; after declining to 7.7 million bags in 2011/12 output has since increased every year and is estimated up 3.5% to 14.5 million bags. Production in the first quarter of 2016/17 (October to December) is already 5.4% higher than last year on 4.4 million bags.

Indonesia has also experienced adverse weather conditions for its 2016/17 crop, which is currently estimated down 18.8% on 10 million bags, although this could yet be revised depending on export volumes. Furthermore, the vibrant domestic consumption market will reduce export availability.

Elsewhere, total production in Mexico and Central America is estimated up by 2.6% to 17.4 million bags as Mexico is seen starting to recover from its outbreak of coffee leaf rust (up by 10.7% to 3.1 million bags), with increases also expected in Honduras (up 2.9% to a record 5.9 million bags), Guatemala (+2.3% to 3.5 million) and El Salvador (+12.9% to 623,000 bags). Nicaragua is estimated slightly lower on 2.1 million bags (down 1.7%) and Costa Rica on 1.5 million (down 9%).

Finally, total production in Africa is estimated up by 0.8% to 16.4 million bags, despite a 1.7% decrease from the region's largest producer, Ethiopia, on 6.6 million bags. Increases are expected from Uganda (up 4.1% to 3.8 million bags) and Côte d'Ivoire (up 5.7% to 2 million bags), with Tanzania and Kenya down by 14% (to 800,000 bags) and 0.7% (to 783,000) respectively.

We have also updated our consumption numbers, with final data now available for importing Members in coffee year 2015/16 (October to September). This has resulted in a significant increase in the 2015/16 consumption figures, with higher than expected volumes from the European Union (up by nearly 600,000 bags compared to our previous estimate), USA (revised up by 841,000 bags) and Russian Federation (over 400,000 bags).

As a result, world consumption for 2015/16 has been revised up to 155.7 million bags (up 2.6% on 2014/15). This represents a significant deficit compared to production of 151.4 million bags. However, it is possible that some of this change can be attributed to increases in pipeline stocks which are not officially recorded, rather than actual consumption. It is therefore anticipated that consumption in 2016/17 may show a statistical decrease as these stocks are absorbed into the market, despite overall growth in the market. As always when considering world consumption figures, it is more valuable to look at the long-term trend than any year-to-year changes.

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							
Dec-15	114.63	139.89	148.66	123.73	79.28	123.77	70.02
Jan-16	110.89	135.21	145.03	121.21	74.71	120.20	65.67
Feb-16	111.75	137.17	147.70	122.24	74.04	119.25	64.96
Mar-16	117.83	145.20	157.50	130.38	75.60	127.33	66.17
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
% change between Dec-16 and Nov-16							
	-9.7%	-11.9%	-12.1%	-13.0%	-1.8%	-13.4%	-1.8%
Volatility (%)							
Nov-16	7.4%	7.6%	7.5%	8.4%	8.3%	9.2%	9.3%
Dec-16	5.0%	5.3%	5.2%	5.9%	5.2%	6.6%	5.8%
Variation between Dec-16 and Nov-16							
	-2.4%	-2.3%	-2.3%	-2.5%	-3.1%	-2.7%	-3.5%

* 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*
Dec-15	-8.77	16.16	60.61	24.93	69.38	44.45	53.75
Jan-16	-9.82	14.00	60.50	23.82	70.32	46.50	54.53
Feb-16	-10.53	14.93	63.13	25.46	73.66	48.20	54.29
Mar-16	-12.30	14.82	69.60	27.12	81.90	54.78	61.16
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
% change between Dec-16 and Nov-16							
	-18.0%	-3.1%	-26.1%	-6.7%	-25.5%	-34.6%	-29.3%

* Average price for 2nd and 3rd positions

Table 3: World Supply/Demand Balance

Crop year commencing	2013	2014	2015	2016*	% change 2015-16
PRODUCTION	152 130	148 724	151 438	151 624	0.1%
Arabica	91 186	89 376	89 555	93 454	4.4%
Robusta	60 944	59 348	61 883	58 169	-6.0%
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%
CONSUMPTION	149 032	151 822	155 712	155 100	-0.4%
Exporting countries	46 109	47 245	48 262	48 337	0.2%
Importing countries	102 923	104 577	107 449	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%
BALANCE	3 098	-3 098	-4 274	-3 476	-18.7%

In thousand bags

* Estimated

Table 4: Total exports by exporting countries

	November 2015	November 2016	% change	October - November		
				2015/16	2016/17	% change
TOTAL	8 743	9 936	13.6%	17 990	19 524	8.5%
Arabicas	5 795	6 254	7.9%	11 632	12 477	7.3%
Colombian Mikds	1 211	1 436	18.6%	2 513	2 751	9.4%
Other Mikds	1 260	1 514	20.2%	2 497	3 009	20.5%
Brazilian Naturals	3 324	3 304	-0.6%	6 622	6 717	1.4%
Robustas	2 949	3 682	24.9%	6 358	7 046	10.8%

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

	Dec-15	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16
New York	1.95	1.82	1.76	1.62	1.58	1.53	1.48	1.45	1.45	1.42	1.44	1.42	1.40
London	3.31	3.23	3.04	2.92	2.78	2.64	2.53	2.45	2.37	2.32	2.28	2.38	2.39

In million bags