



February 2018

Coffee market settles lower amidst strong global exports

The ICO composite indicator price declined by 1.2% in February 2018 to an average of 114.19 US cents/lb. Indicator prices for all three Arabica groups fell in February 2018 while the indicator price for Robusta increased slightly by 0.7% to an average of 89.24 US cents/lb. Exports of Robusta coffee are estimated up 48.2% to 4.48 million bags in January 2018 and up 6.4% to 14.87 million bags for the first four months of coffee year 2017/18. This is largely due to increased shipments from Vietnam in January 2018, which are estimated at 3.29 million bags, nearly double the volume from one year ago. In the first four months of 2017/18, exports of Other Milds and Brazilian Naturals rose by 9.3% to 7.62 million bags and 2.2% to 13.31 million bags, respectively. Export growth for Other Milds was led by increased shipments from Honduras while Ethiopia led the growth for exports of Brazilian Naturals. In contrast, shipments of Colombian Milds during the same period fell by 10.9% to 4.94 million bags as excessive rains in Colombia have led to decreased output.

Figure 1: ICO composite indicator daily prices

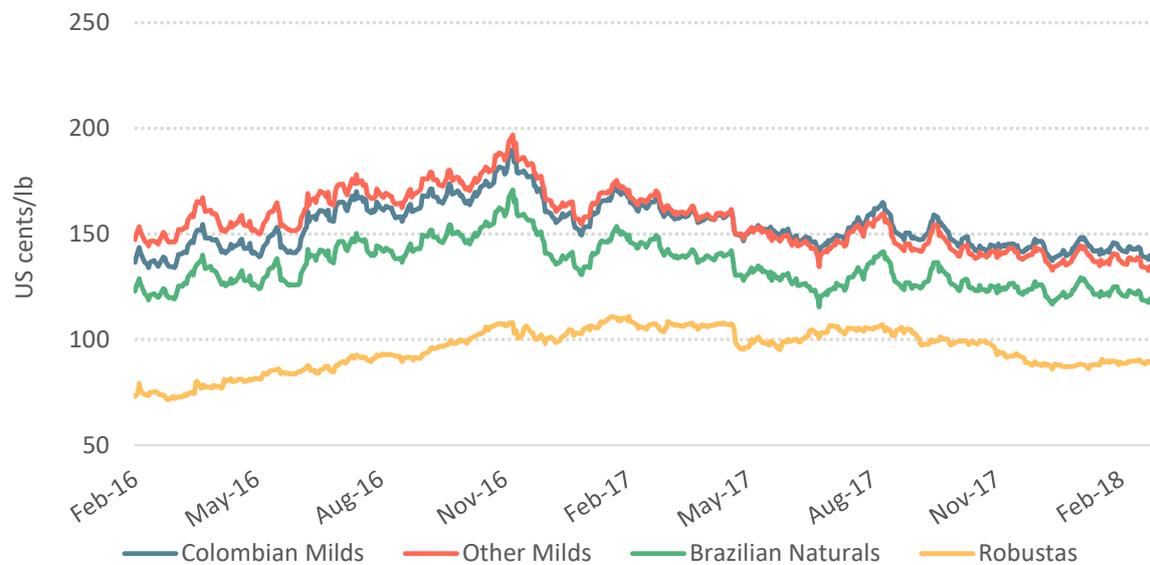


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After a slight rise in January following a three-month decline, **the monthly average of the ICO composite indicator fell by 1.2% in February 2018 to 114.19 US cents/lb.** The daily composite

indicator was generally higher in the first half of the month, peaking at 116.07 US cents/lb on 14 February. The composite indicator reached a low of 112.16 US cents/lb on 21 February, but remained above 113 cents/lb after this date.

Figure 2: ICO group indicator daily prices



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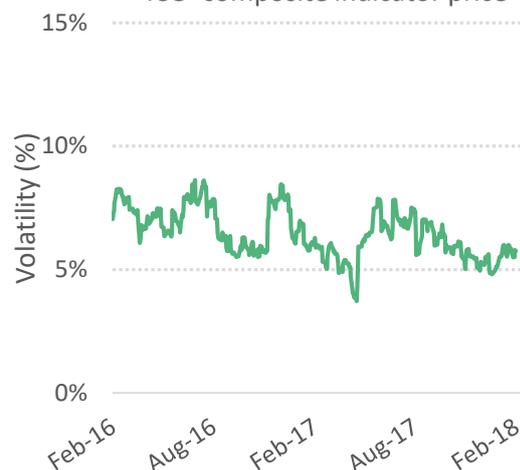
The decline in the monthly composite indicator was driven by the negative performance of the three Arabica groups, all of which lost value compared to their January levels. More specifically, **Colombian Milds** fell by 1.6%, **Other Milds** by 1.8%, and **Brazilian Naturals** by 2.3%. **Robustas**, on the other hand, recorded moderate growth of 0.7% compared to January. The differential between Colombia Milds and Other Milds increased from an average of 4.96 US cents/lb in January 2018 to an average of 5.22 US cents/lb in February. The average arbitrage in February, as measured on the New York and London futures markets, fell by 10.9% to 43.44 US cents/lb. Additionally, intra-day volatility of the ICO composite indicator price decreased by 0.5 percentage points to 5.2%.

Figure 3: Arbitrage between New York and London futures markets



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



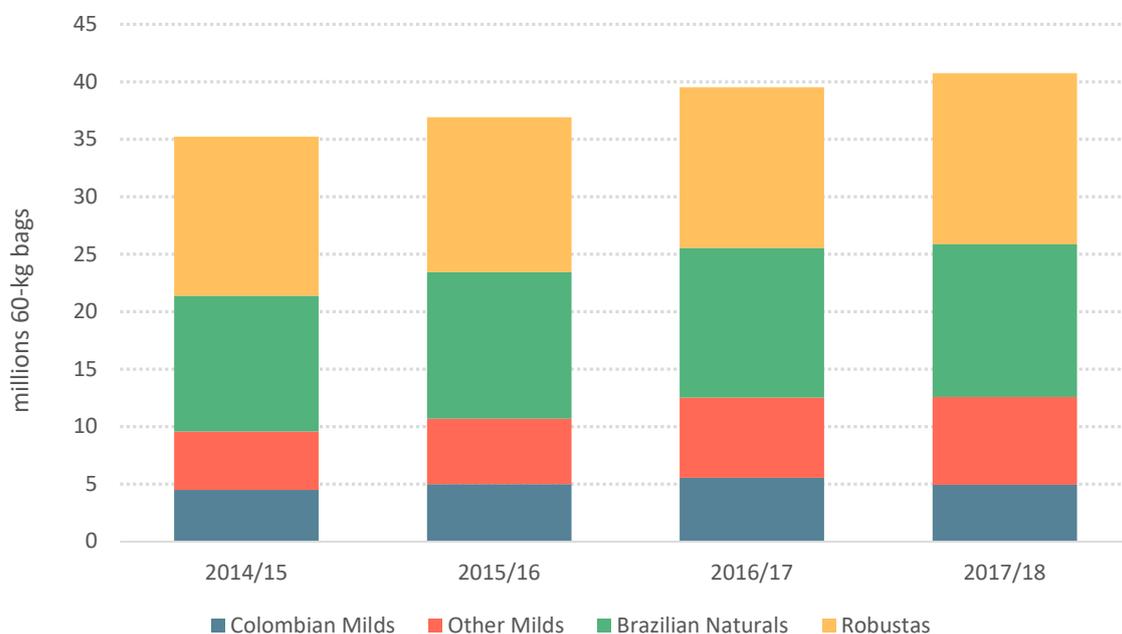
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Global coffee exports during January 2018 totalled 11.01 million bags, up 20.7% compared to January 2017. The total volume exported between October 2017 and January 2018 amounted to 40.74 million bags as against 39.53 million bags for the same period in 2016/17, an increase of 3.1%. Arabica exports reached 25.87 million bags during the first four months of coffee year 2017/18, 1.3% higher than the same period last year, while Robusta exports rose by 6.4% to 14.87 million bags. Between October 2017 and January 2018, total exports of Other Milds and Brazilian Naturals both increased compared to the same period last year, reaching 7.62 million bags (+9.3%) and 13.31 million bags (+2.2%), respectively. This offset reductions in shipments of Colombian Milds in the first four months of 2017/18, which declined to 4.94 million bags, 10.9% lower than the same period in 2016/17.

Production in Brazil, the world’s largest coffee producer, is estimated at 51.5 million bags in 2017/18, 6.4% lower than in 2016/17. This is largely due to an estimated decline of 11.1% to 40 million bags of its Arabica output while Robusta production is estimated 15% higher at 11.5 million bags. However, beneficial weather and the upturn in its Arabica cycle are expected to improve the production outlook for 2018/19.

After a late start to harvesting, **Vietnam’s exports in January 2018 rose to 3.29 million bags**, nearly double the volume in the same month one year ago, which largely accounts for the overall growth of 16.4% to 8.96 million bags during the first four months of coffee year 2017/18. Vietnam is the largest producer of Robusta coffee, accounting for approximately 45% of global Robusta output. In 2017/18, Vietnam’s production is estimated to be 28.5 million bags, 11.6% higher than 2016/17, but 0.8% lower than in 2015/16. Indonesia and India are also relatively large producers of Robusta, accounting for around 15% and 6% of global Robusta output, respectively. Indonesia’s production in 2017/18 is estimated to fall by 6% to 10.8 million bags. India’s production is provisionally estimated 12.3% higher at 5.84 million bags for 2017/18. Its shipments in the first four months of coffee year 2017/18 amounted to 1.91 million bags, expanding by 11.9% compared to one year ago.

Figure 5: Global coffee exports (October-January)



Honduras is the largest producer of Other Milds, representing around 25.6% of output. Its production in 2017/18 is estimated at 8.35 million bags, a 12% increase on 2016/17. The larger production is reflected in higher exports in the first four months of coffee year 2017/18 with shipments amounting to 1.53 million bags compared to 1.36 million bags during the same period in 2016/17. **Peru, Mexico, and Guatemala** each account for around 12% of Other Milds production, or 38% combined. Output in all three countries is estimated higher than in 2016/17 at 4.6 million bags for Peru, 4 million bags for Mexico and 3.8 million bags for Guatemala. Similarly exports during the first four months of coffee year 2017/18 rose for all three countries compared to one year ago. Peru's exports were 0.6% higher at 1.89 million bags, Mexico's 28.7% higher at an estimated 0.98 million bags, and Guatemala's 10.5% higher at an estimated 0.43 million bags.

After Brazil, which accounts for around 79% of global output for Brazilian Naturals, **Ethiopia** is the next largest producer of this group of coffee. Ethiopia's output for 2017/18 is estimated at 7.65 million bags, 4.8% higher than in crop year 2016/17. Its exports in October 2017 through January 2018 rose by 41.9% to 1.11 million bags, compared with the same period last year.

The decline in exports of Colombian Milds is largely attributed to lower shipments from Colombia, which accounts for around 92% of the production of Colombian Milds. Exports from Colombia during the first four months of coffee year 2017/18 were 4.56 million bags, 11.4% lower than the same period one year ago. Excessive rain in Colombia has led to lower output in the first quarter of crop year 2017/18, though this may improve yields of the mitaca crop. Overall production for Colombia in 2017/18 is provisionally estimated at 14 million bags, 4.3% lower than crop year 2016/17.

After rising continuously in the last 13 months, certified stocks on the New York market, fell to 2.14 million bags in February 2018 from 2.24 million bags last month. **Certified stocks on the London futures market** have declined since reaching 2.2 million bags in November 2017. In February 2018, they reached 1.52 million bags, which is the lowest volume since August 2014.

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							
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
May-17	125.40	151.41	150.00	131.21	98.36	135.45	90.35
Jun-17	122.39	146.12	143.22	123.71	101.95	128.18	93.11
Jul-17	127.26	152.51	149.66	129.19	104.94	135.71	96.03
Aug-17	128.24	155.15	149.88	131.93	104.52	138.11	94.89
Sep-17	124.46	151.47	146.56	129.67	99.18	135.95	89.69
Oct-17	120.01	144.26	140.71	124.55	98.39	131.00	88.38
Nov-17	117.26	144.09	140.90	124.28	91.33	129.96	81.46
Dec-17	114.00	141.62	137.42	121.47	87.59	125.25	78.30
Jan-18	115.60	143.77	138.81	123.67	88.65	127.65	78.90
Feb-18	114.19	141.50	136.28	120.83	89.24	123.82	80.38
% change between Feb-18 and Jan-18							
	-1.2%	-1.6%	-1.8%	-2.3%	0.7%	-3.0%	1.9%
Volatility (%)							
Jan-18	5.7%	6.1%	6.5%	7.5%	5.1%	7.5%	6.0%
Feb-18	5.2%	5.5%	6.1%	6.5%	5.0%	6.6%	5.3%
Variation between Feb-18 and Jan-18							
	-0.5	-0.6	-0.4	-1.0	-0.1	-0.9	-0.7

* 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*
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
May-17	1.41	20.20	53.05	18.79	51.64	32.85	45.09
Jun-17	2.89	22.41	44.17	19.51	41.28	21.76	35.07
Jul-17	2.85	23.32	47.57	20.47	44.72	24.25	39.68
Aug-17	5.27	23.22	50.63	17.95	45.36	27.41	43.22
Sep-17	4.91	21.80	52.29	16.89	47.38	30.49	46.26
Oct-17	3.55	19.70	45.86	16.16	42.32	26.16	42.62
Nov-17	3.19	19.81	52.76	16.62	49.57	32.95	48.50
Dec-17	4.20	20.15	54.03	15.95	49.83	33.88	46.95
Jan-18	4.96	20.10	55.12	15.14	50.16	35.02	48.75
Feb-18	5.22	20.67	52.26	15.45	47.04	31.59	43.44
% change between Feb-18 and Jan-18							
	5.2%	2.8%	-5.2%	2.0%	-6.2%	-9.8%	-10.9%

* Average price for 2nd and 3rd positions

Table 3: World supply/demand balance

Crop year commencing	2014	2015	2016	2017	% change 2016-17
PRODUCTION	149 077	152 108	157 694	158 930	0.8%
Arabica	86 281	88 433	102 174	98 843	-3.3%
Robusta	62 796	63 675	55 520	60 087	8.2%
Africa	15 964	16 338	17 123	17 929	4.7%
Asia & Oceania	45 974	49 566	44 968	47 642	5.9%
Mexico & Central America	17 189	17 238	20 466	21 924	7.1%
South America	69 951	68 966	75 137	71 435	-4.9%
CONSUMPTION	151 725	155 756	157 382	158 886	1.0%
Exporting countries	47 198	48 253	48 514	48 881	0.8%
Importing countries (Coffee Years)	104 527	107 503	108 868	110 005	1.0%
Africa	10 705	11 031	11 309	11 382	0.6%
Asia & Oceania	32 550	33 605	34 425	35 166	2.2%
Mexico & Central America	5 238	5 315	5 239	5 326	1.6%
Europe	50 914	51 626	51 693	51 933	0.5%
North America	27 359	28 931	29 380	29 664	1.0%
South America	24 960	25 248	25 335	25 415	0.3%
BALANCE	-2 648	-3 648	312	44	

In thousand 60-kg bags

Table 4: Total exports by exporting countries

	January 2017	January 2018	% change	October-January		
				2016	2017	% change
TOTAL	9 121	11 010	20.7%	39 526	40 738	3.1%
Arabicas	6 096	6 526	7.0%	25 543	25 866	1.3%
<i>Colombian Milds</i>	1 239	1 159	-6.5%	5 551	4 944	-10.9%
<i>Other Milds</i>	2 052	2 221	8.2%	6 969	7 617	9.3%
<i>Brazilian Naturals</i>	2 805	3 146	12.2%	13 023	13 305	2.2%
Robustas	3 025	4 484	48.2%	13 982	14 872	6.4%

In thousand 60-kg bags

Monthly 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

	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18
New York	1.49	1.53	1.58	1.65	1.70	1.73	1.86	2.03	2.15	2.17	2.23	2.24	2.14
London	2.80	2.85	2.87	2.87	2.81	2.63	2.52	2.52	2.19	2.20	2.09	1.79	1.52

In million 60-kg bags