



September 2018

Coffee market ends 2017/18 in surplus

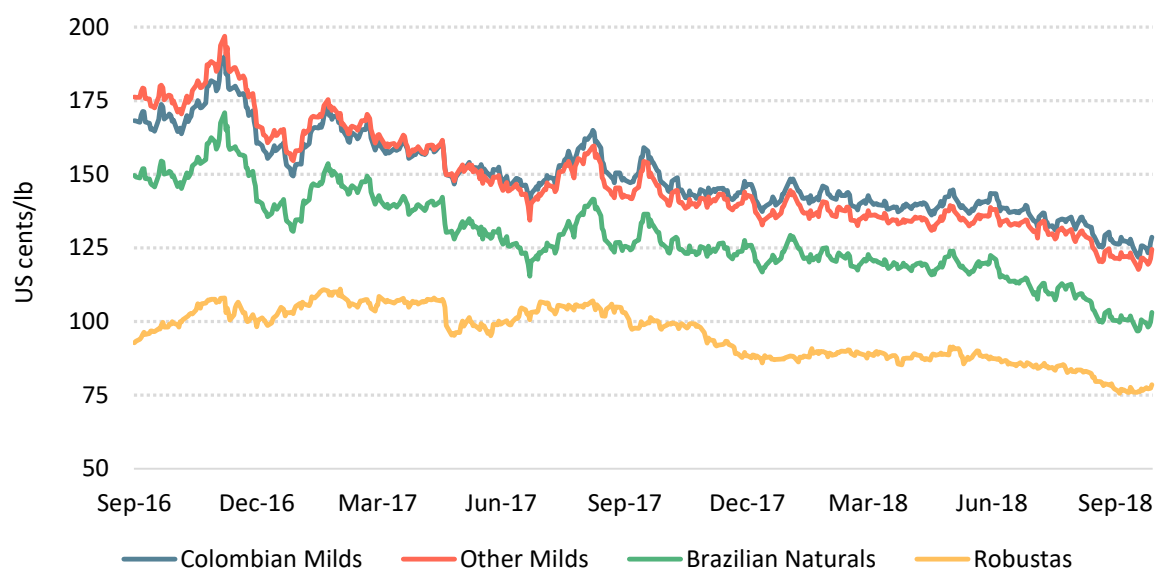
World coffee production in coffee year 2017/18 is estimated 5.7% higher at 164.81 million bags as output of Arabica increased by 2.2% to 101.82, and Robusta grew 11.7% to 62.99 million bags. The larger supply in coffee year 2017/18 is reflected in increased shipments in August 2018, as global exports increased 6.3% to 11.1 million bags compared to August 2017. In coffee year 2017/18, world consumption is estimated 1.8% higher at 162.23 million bags, but coffee production exceeds this by 2.58 million bags. This surplus has contributed to the low prices this season. The ICO composite indicator fell to 98.17 US cents/lb in September 2018, 4.1% lower than in August 2018, the lowest monthly average since October 2006 when it reached 95.53 US cents/lb. Prices for all group indicators fell for the fourth consecutive month in September 2018. The largest decrease occurred in the average price for Robusta, which fell by 5% to 76.70 US cents/lb followed by a decline of 4.4% to 99.87 US cents/lb for Brazilian Naturals.

Figure 1: ICO composite indicator daily prices



Coffee prices continued their downward trend as the **monthly average of the ICO composite indicator fell to 98.17 US cents/lb in September 2018**, 4.1% lower than in August 2018. This represents the lowest monthly average composite indicator since October 2006 when it reached 95.53 US cents/lb. In September 2018, the daily composite indicator remained below 100 US cents/lb until 28 September when it reached 100.83 US cents/lb. On 18 September, the daily composite price reached 95.87, the lowest value of the month.

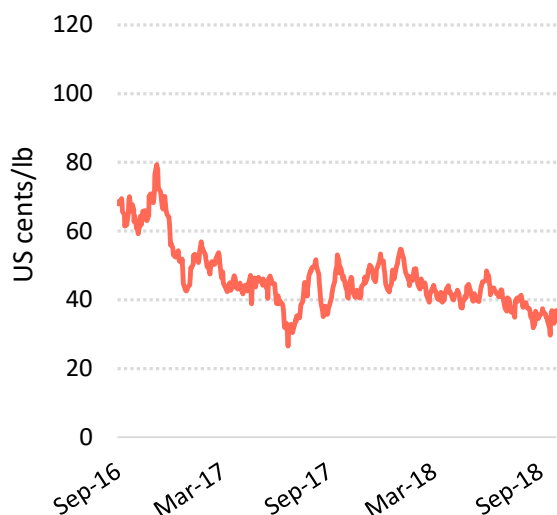
Figure 2: ICO group indicator daily prices



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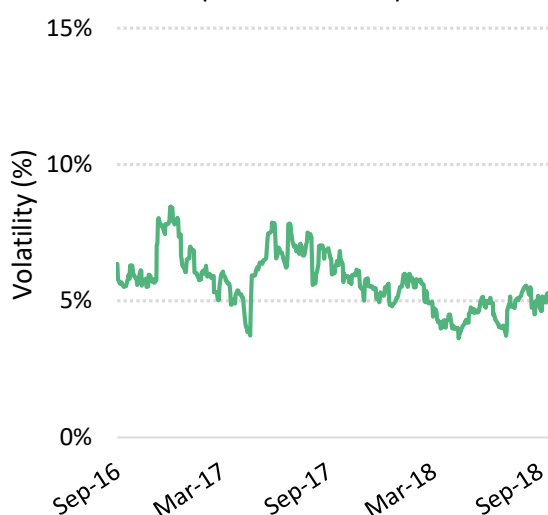
Prices for all group indicators fell in September 2018 compared to August 2018. The largest decrease occurred in the average price for Robusta, which fell by 5% to 76.70 US cents/lb followed by a decline of 4.4% to 99.87 US cents/lb for Brazilian Naturals. Unlike the Arabica group indicators, the Robusta indicator experienced low price levels more recently. Between March 2009 and May 2010, the monthly average Robusta price was less than in September 2018, ranging between 67.25 US cents/lb and 76.31 US cents/lb. However, the monthly average for Brazilian Naturals had not fallen below 100 US cents/lb since October 2006 when it reached 99.23 US cents/lb. Colombian Milds decreased by 3.3% to 125.74 US cents/lb while Other Milds fell by 3.2% to 121.18 US cents/lb. The previous monthly low for Colombian Milds was 125.22 US cents/lb in August 2007 and for Other Milds it was 117.63 US cents/lb in July 2007. The average arbitrage in September, as measured on the New York and London futures markets, fell by 3.8% to 34.80 US cents/lb, which is the third consecutive month of decrease. However, intra-day volatility of the ICO composite indicator price increased by 0.2 percentage points to 5.4% due to increases in the intra-day volatility of all group indicators except for Brazilian Naturals.

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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World production in coffee year 2017/18 is estimated 5.7% higher at 164.81 million bags, which includes part of the new crop for producers with crop years commencing in April and July. Production of both Arabica and Robusta increased in 2017/18, though most of the increase came from Robusta, which grew 11.7% to 62.99 million bags compared to coffee year 2016/17. This increase comes primarily from Vietnam where its Robusta output is estimated 15.5% higher at 28.03 million bags and Brazil, where Robusta production continues to recover, increasing by 16.1% to 13.46 million bags in coffee year 2017/18. In India, which produces both types of coffee, Robusta is estimated to have grown by 12.3% to 4.09 million bags due to adequate rainfall and greater availability of irrigation water.

Figure 5: Global coffee production



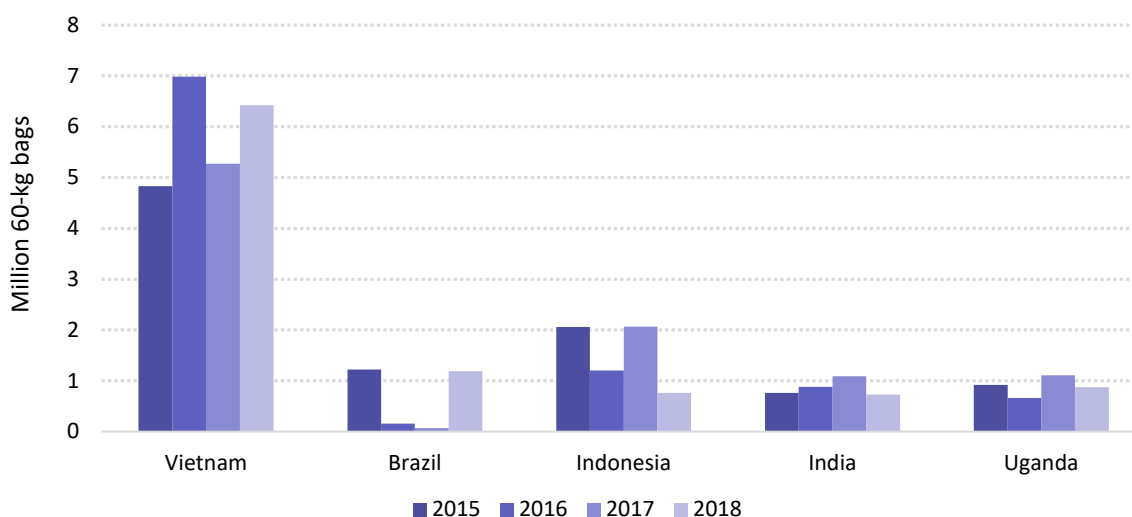
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Arabica output is estimated 2.2% higher at 101.82 million bags. While Colombia’s production is estimated at 14 million bags, 4.3% lower than in coffee year 2016/17 due to unfavourable weather conditions, production in the other four largest Arabica producers increased. Brazil’s Arabica production in coffee year 2017/18, which includes part of its new crop, is estimated 3.5% higher at 44.23 million bags. Production in Honduras is estimated at 7.7 million bags, 3.3% higher than in 2016/17, which marks the fourth consecutive year of increase. Ethiopia harvested 7.65 million bags, an increase of 4.8% compared to last coffee year. Peru’s Arabica output is estimated 0.8% higher at 4.29 million bags.

The larger supply in coffee year 2017/18 is reflected in increased shipments. **In August 2018, global exports of all types and forms of coffee increased by 6.3%, to 11.1 million bags, compared to August 2017.** Arabica shipments grew by 6.7% to 6.95 million bags, and Robusta by 5.7% to 4.16 million bags. The increase in Arabica shipments consisted largely of Brazilian Naturals, which rose by 14.7% to 3.3 million bags in August 2018 while exports of Colombian Milds decreased 11.6% to 1.11 million bags.

In the first 11 months of coffee year 2017/18, world coffee exports are 1.6% higher than in the same period for coffee year 2016/17. Arabica shipments for October 2017 through August 2018 are 0.2% higher than in 2016/17, as increased exports of Other Milds offset decreases in both Colombian Milds and Brazilian Naturals.

Figure 6: Green Robusta exports in June to August



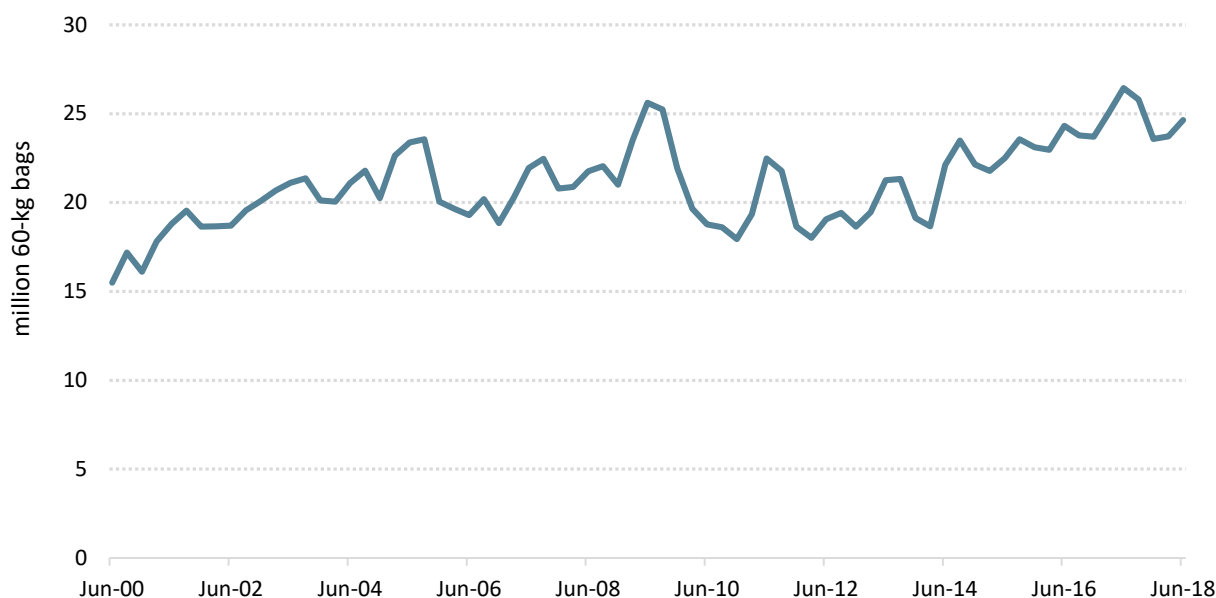
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Shipments of Robusta grew 3.9% to 42 million bags for October 2017 to August 2018. Total exports of green Robusta have increased in each month since May 2018. Brazil’s green Robusta exports for June to August 2018 are 1.19 million bags, 17 times greater than the same period one year ago and accounting for 78.8% of shipments for October 2017 to August 2018. Although Vietnam is nearing the end of its crop year, green Robusta shipments have remained high, reaching an estimated 6.43 million

bags for June to August 2018, 21% greater than in 2017. Indonesia is the third largest exporter of green Robusta for June to August 2018, with shipments reaching 0.77 million bags. However, this is 62.9% lower than the same period in 2017, as increasing domestic consumption and flat productivity levels reduced the volume available for export. During the same period, Uganda shipped 0.88 million bags of green Robusta coffee and India exported 0.73 million bags.

While coffee consumption is estimated 1.8% higher in coffee year 2017/18 at 162.23 million bags, coffee production exceeds this by 2.58 million bags. This surplus has contributed to the low prices this season, with the composite indicator averaging 111.51 US cents/lb for October 2017 to September 2018. In comparison, the average for the composite indicator in 2016/17 was 132.43 US cents/lb, reflecting the 3.43 million bag deficit that coffee year. Additionally, exports in coffee year 2017/18 have increased compared to 2016/17, a year in which record export volumes were recorded. This has put further pressure on prices as the market was well-supplied at the start of the coffee year even with growing consumption. Stocks of green coffee in importing countries, including free ports, have remained at high levels in the last two years. After reaching 17.94 million bags at the end of December 2010, stocks grew to a record level of 26.44 million bags at the end of June 2017. Stocks in importing countries declined to 24.64 million bags at the end of June 2018, but this is the third highest volume at the end of June in the last eighteen years.

Figure 7: Inventories of green coffee in importing countries at end of quarter (including unspecified EU stocks)



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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*
Monthly averages							
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
Mar-18	112.99	139.45	135.03	119.80	88.18	121.66	79.86
Apr-18	112.56	139.29	134.34	118.76	88.31	120.17	79.36
May-18	113.34	140.26	135.61	119.57	88.74	122.50	79.85
Jun-18	110.44	138.55	134.03	115.10	86.07	120.19	77.40
Jul-18	107.20	133.92	130.60	110.54	84.42	114.06	75.56
Aug-18	102.41	129.99	125.21	104.46	80.74	108.12	71.94
Sep-18	98.17	125.74	121.18	99.87	76.70	102.83	68.03
% change between Sep-18 and Aug-18							
	-4.1%	-3.3%	-3.2%	-4.4%	-5.0%	-4.9%	-5.4%
Volatility (%)							
Aug-18	4.8%	5.1%	5.5%	6.5%	4.1%	7.6%	5.1%
Sep-18	5.2%	5.7%	6.0%	6.9%	4.4%	8.5%	5.1%
Variation between Sep-18 and Aug-18							
	0.4	0.6	0.5	0.4	0.3	0.9	0.0

* 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*
Sep-17	4.91	21.80	52.29	16.89	47.38	30.49	46.26
Oct-17	3.55	19.71	45.87	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
Mar-18	4.42	19.65	51.27	15.23	46.85	31.62	41.80
Apr-18	4.95	20.53	50.98	15.58	46.03	30.45	40.81
May-18	4.65	20.69	51.52	16.04	46.87	30.83	42.65
Jun-18	4.52	23.45	52.48	18.93	47.96	29.03	42.79
Jul-18	3.32	23.38	49.50	20.06	46.18	26.12	38.50
Aug-18	4.78	25.53	49.25	20.75	44.47	23.72	36.18
Sep-18	4.56	25.87	49.04	21.31	44.48	23.17	34.80
% change between Sep-18 and Aug-18							
	-4.6%	1.3%	-0.4%	2.7%	0.0%	-2.3%	-3.8%

* Average price for 2nd and 3rd positions

Table 3: World supply/demand balance

Coffee year commencing	2014	2015	2016	2017	% change 2016-17
PRODUCTION	149 844	156 332	155 958	164 810	5.7%
Arabica	88 148	96 017	99 589	101 819	2.2%
Robusta	61 695	60 314	56 368	62 991	11.7%
Africa	15 983	15 725	16 685	17 463	4.7%
Asia & Oceania	46 403	49 202	44 290	48 848	10.3%
Mexico & Central America	17 188	17 237	20 465	21 211	3.6%
South America	70 270	74 167	74 518	77 288	3.7%
CONSUMPTION	152 174	156 289	159 392	162 232	1.8%
Exporting countries	47 417	48 673	49 732	50 547	1.6%
Importing countries	104 756	107 616	109 660	111 684	1.8%
Africa	10 709	10 932	11 179	11 371	1.7%
Asia & Oceania	32 775	33 678	34 845	35 900	3.0%
Mexico & Central America	5 236	5 302	5 230	5 320	1.7%
Europe	51 043	51 829	52 070	52 322	0.5%
North America	27 363	28 934	29 564	30 344	2.6%
South America	25 048	25 614	26 505	26 974	1.8%
BALANCE	-2 330	42	-3 434	2 578	

In thousand 60-kg bags

Table 4: Total exports by exporting countries

	August 2017	August 2018	% change	October-August		
				2016/17	2017/18	% change
TOTAL	10 444	11 102	6.3%	110 772	112 520	1.6%
Arabicas	6 514	6 947	6.7%	70 356	70 520	0.2%
<i>Colombian Milds</i>	1 255	1 109	-11.6%	13 504	12 769	-5.4%
<i>Other Milds</i>	2 383	2 539	6.5%	25 276	26 262	3.9%
<i>Brazilian Naturals</i>	2 876	3 300	14.7%	31 576	31 489	-0.3%
Robustas	3 930	4 155	5.7%	40 416	42 000	3.9%

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

	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18
New York	2.03	2.15	2.17	2.23	2.24	2.14	2.21	2.26	2.28	2.33	2.33	2.51	2.70
London	2.52	2.19	2.20	2.09	1.79	1.52	1.37	1.32	1.34	1.14	1.28	1.26	1.51

In million 60-kg bags