



August 2019

Supply Surplus Weighs on Global Coffee Prices

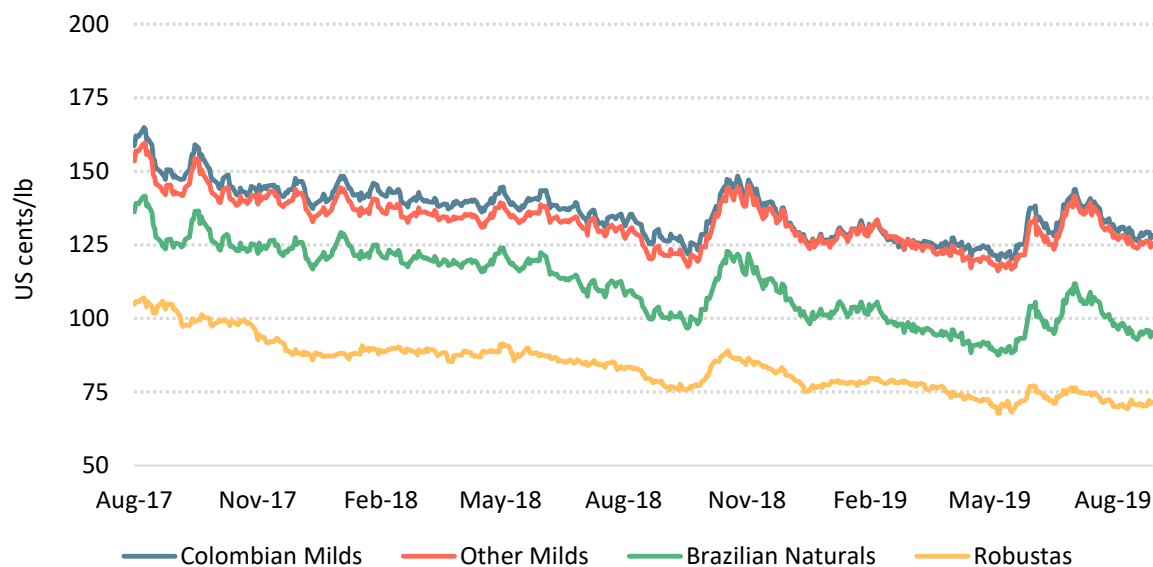
The ICO composite indicator fell by 6.7% to 96.07 US cents/lb in August 2019, compared to July 2019 and by 13.6% from a high of 111.21 US cents/lb in October 2018. The daily composite indicator has averaged 100.72 US cents/lb for coffee year 2018/19 through 30 August 2019. Total exports in July 2019 amounted to 11.34 million bags, 9.5% higher than July 2018 while shipments in the first ten months of coffee year 2018/19 reached 109.41 million bags, 10.2% higher than the same period last year. Ample supplies from a 3.9% increase in global production to 169.73 million bags have fuelled exports. The majority of coffee continues to be exported as green coffee, accounting for 91.3% of total coffee shipped between October 2018 and July 2019. Global coffee demand is estimated to grow by 2.1% to 164.77 million bags, with growth in Asia & Oceania and Africa outpacing other regions. However, 2018/19 is estimated to end with a surplus of 4.96 million bags, making it the second consecutive year of surplus. The cumulative oversupply over the last two seasons is estimated at 7 million bags, which is one of the main explanatory factors for current low coffee price levels.

Figure 1: ICO composite indicator daily prices



The **ICO composite indicator averaged 96.07 US cents/lb in August 2019**, dropping 6.7% from July 2019. Since the high of 111.21 US cents/lb in October 2018 at the start of the coffee year, the monthly ICO composite indicator has fallen by 13.6%. In August, the daily composite indicator ranged between a low of 94.29 US cents/lb on 19 August and a high of 97.43 US cents/lb on 8 August. Oversupply continues to burden the market, putting downward pressure on prices.

Figure 2: ICO group indicator daily prices



Prices for all group indicators fell in August 2019. After recovering 4.7% last month, prices for Brazilian Naturals declined by 9.1% to 95.85 US cents/lb as worry over adverse weather dissipated. Other Milds decreased by 6.8% to 126.23 US cents/lb while Colombian Milds fell 6.1% to 129.2 US cents/lb. Given the larger decrease in Other Milds prices, the differential between Colombian Milds and Other Milds rose by 37.5% to 2.97 US cents/lb. Robusta prices decreased by 4.3% to 70.78 US cents/lb, which is the lowest monthly average in the last 12 months.

In August, the arbitrage between Arabica and Robusta coffees, as measured on the New York and London futures markets, decreased for the first time in four months to 38.97 US cents/lb, 11.8% lower than in July 2019. **Intra-day volatility of the ICO composite indicator price fell by 2.3 percentage points to 6.9% as the intra-day volatility of all group indicators declined.** Amongst the Arabica group indicators, the intra-day volatility of Brazilian Naturals decreased by 2.7 percentage points to 9.3%, of Other Milds by 2.5 percentage points to 7.2%, and of Colombian Milds by 2.1 percentage points to 6.6%. The intra-day volatility of Robusta declined to 5.6%, 1.3 percentage points lower than last month.

Figure 3: Arbitrage between New York and London futures markets

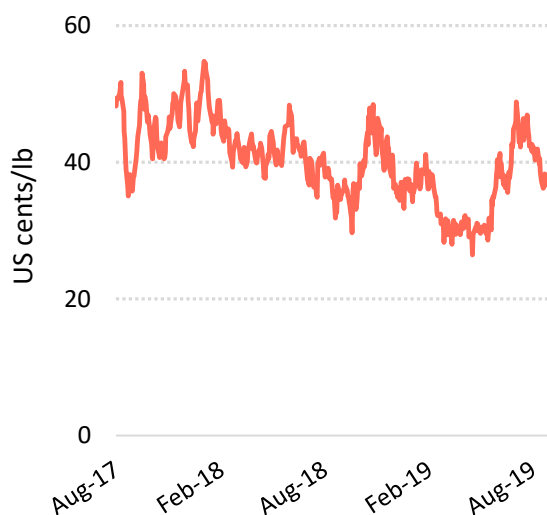


Figure 4: Rolling 30-day volatility of the ICO composite indicator price



Global coffee production in coffee year 2018/19 is estimated at 169.73 million bags, an increase of 3.9% from 2017/18. Production in South America is estimated 4.9% higher at 81.13 million bags, which includes an upward revision of just under a million bags for Brazil from last month. Output from Asia & Oceania is estimated to rise by 4.1% to 48.68 million bags, and from Africa to increase by 2.9% to 18.21 million bags. Production in Mexico & Central America is estimated just 0.4% higher at 21.72 million bags.

In July 2019, world coffee exports rose by 9.5% to 11.34 million bags compared to July 2018, supported by ample supplies and higher prices. **Global exports in the first ten months of coffee year 2018/19 grew by 10.2% to 109.41 million bags.** Shipments of Brazilian Naturals rose by 27.6% to 35.08 million bags in October 2018 to July 2019. Colombian Milds increased by 7.6% to 12.59 million bags while Robusta exports increased by 6.9% to 38.90 million bags in the first ten months of the coffee year. Other Milds reached 22.83 million bags, 3.7% lower than in October 2017 to July 2018.

In the first ten months of coffee year 2018/19, green coffee exports represented 91.3% of total exports, amounting to 99.86 million bags. This current trend is only slightly lower than that observed three decades ago, when green exports accounted for around 95% of total exports, indicating that much value addition remains in importing countries. Soluble coffee shipments accounted for 8.3% of the total while roasted coffee shipments represented just 0.4%. Total exports of soluble coffee reached 9.06 million bags and roasted coffee exports reached 487,080 bags in the first ten months of coffee year 2018/19.

Figure 5: Green Coffee Exports (Oct-Jul)

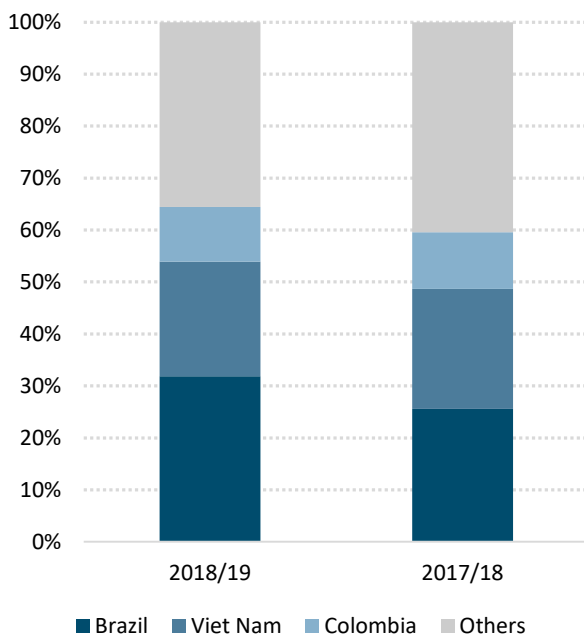
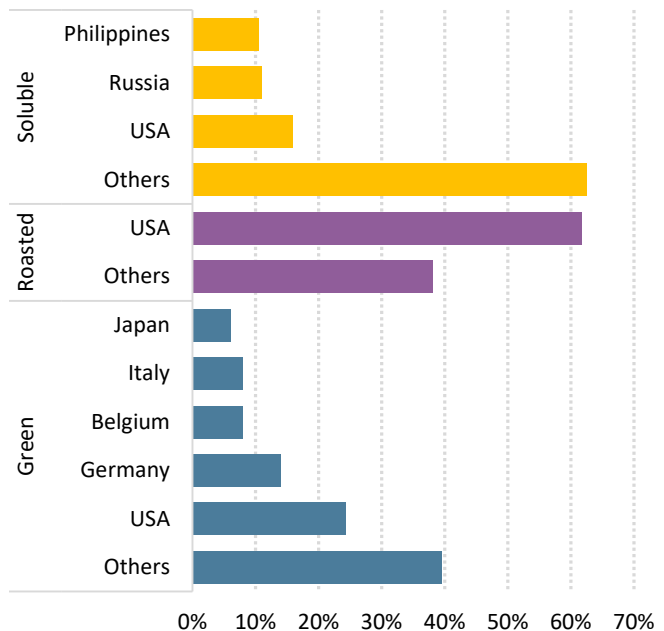


Figure 6: Share of exports by destination



In October 2018 to July 2019, Brazil shipped 31.83 million bags of green coffee, 38.4% higher than the same period one year ago, and accounted for around 31.9% of all green coffee shipments. Green coffee exports from Viet Nam reached 22 million bags in the first ten months of coffee year 2018/19, representing 22% of the total and making it the second largest exporter of green coffee. Colombia's green coffee exports rose by 7.1% to 10.52 million bags as production increased. However, green exports from both Honduras and Uganda fell, declining by 2.3% to 6.29 million bags and by 3.1% to 3.6 million bags, respectively. The main destinations for green coffee were the United States, Germany, Belgium, Italy, and Japan. The total volume shipped to these five countries reached 32.48 million bags, accounting for 32.5% of all green exports in October 2018 to July 2019.

Mexico, Colombia, Viet Nam, Brazil, and the Dominican Republic represent the five largest exporters of roasted coffee among coffee producing countries, accounting for 92.7% of total roasted coffee exports in the first ten months of coffee year 2018/19. Mexico shipped 183,832 bags of roasted coffee while Colombia exported 124,560 bags. Viet Nam's exports of roasted coffee declined by 19.8% to 116,407 bags, and Brazil's exports of roasted coffee decreased by 1.1% to 15,874 bags. However, the Dominican Republic increased its roasted coffee shipments by 45.9% to 11,054 bags. The United States was the main destination for shipments of roasted coffee, accounting for around 60% of the total during the first ten months of 2018/19.

Figure 7: Roasted coffee exports (Oct-Jul)

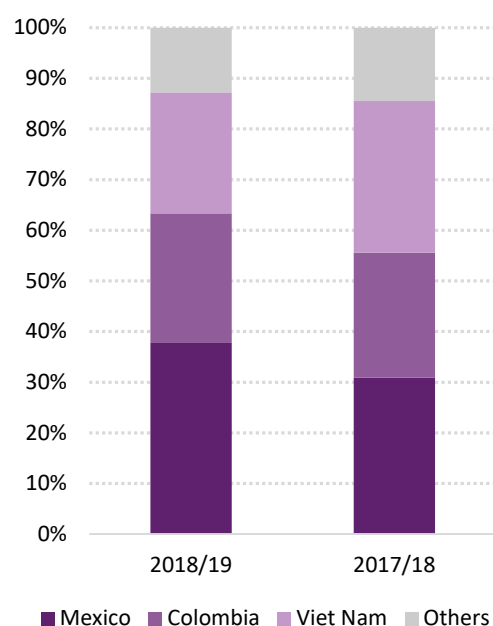
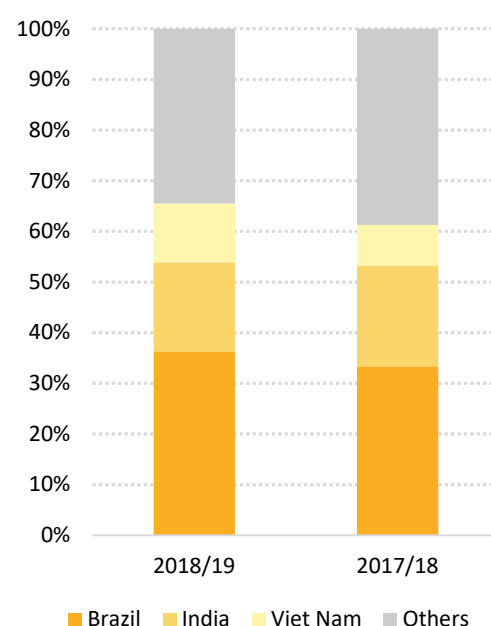


Figure 8: Soluble coffee exports (Oct-Jul)



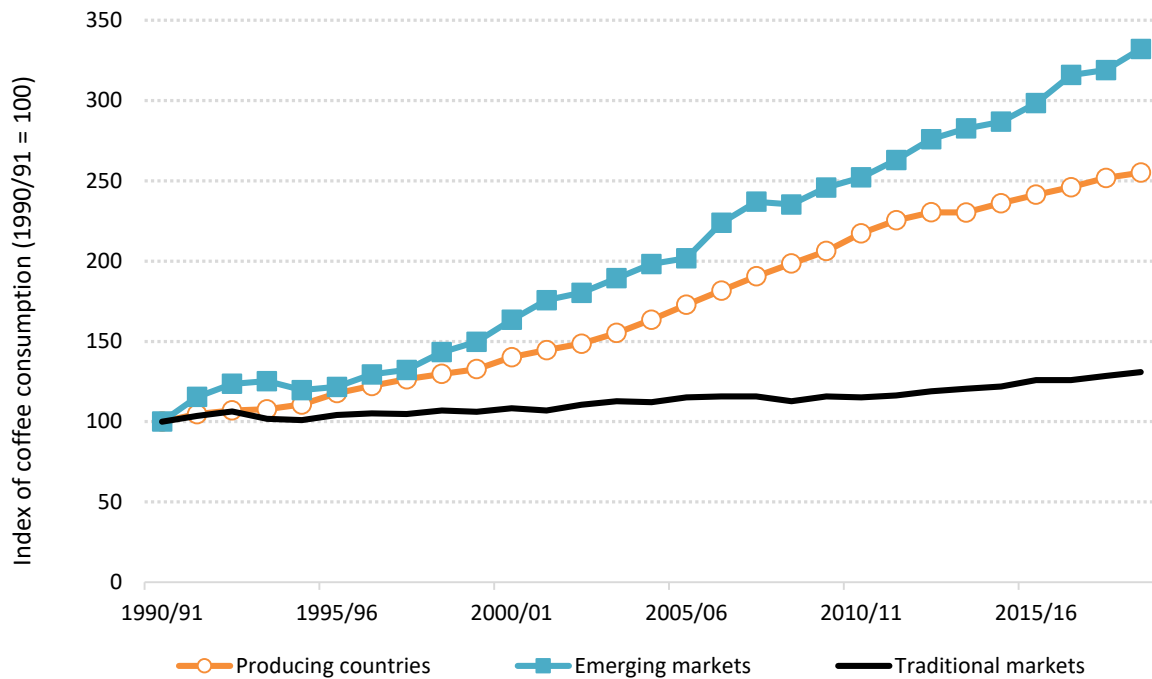
Brazil was the largest exporter of soluble coffee in October 2018 to July 2019, with shipments reaching 3.29 million bags, 10.7% higher than the same period one year ago. India exported 1.59 million bags, 10.3% lower than the first ten months of coffee year 2017/18. Soluble exports from Viet Nam rose by 48% to 1.06 million bags. Indonesia’s soluble shipments declined by 20.5% to 990,279 bags while Mexico’s soluble exports fell by 6.5% to 674,988 bags. The United States, the Russian Federation, the Philippines, Germany and Poland were the main destinations for soluble shipments in October 2018 to July 2019.

While the share of processed coffee has not changed much in the last three decades, processing coffee at origin can add value, as evidenced by the higher unit values for processed coffee compared to those for green coffee. **For example, processing green coffee can double the unit value for Brazil’s exports, while the unit value for Colombia’s processed coffee is around 60-75% greater than those for green coffee.** The monthly average unit values for green coffee exported by Brazil and Colombia in 2018/19 were 94.66 US cents/lb and 139.07 US cents/lb, respectively. In comparison, the average unit values for roasted coffee from Brazil were 224.30 US cents/lb and from Colombia were 247.76 US cents/lb. The average unit value for Brazil’s soluble coffee exports were 210.44 US cents/lb and for Colombia’s soluble exports were 221.82 US cents/lb. This value addition, whether for local consumption or new export markets, can take advantage of the sustained demand growth in the coffee sector.

Coffee consumption in 2018/19 is estimated to rise by 2.1% to 164.77 million bags, which is in line with the average annual growth rate of 2.2% over the last two decades. Consumption in Asia & Oceania is estimated to rise by 3.7% to 35.84 million bags while Africa’s consumption is set to increase by 3% to 11.88 million bags. Demand in these two regions is growing faster than the long-term average, and includes both producing countries as well as emerging markets. Demand in North

America is estimated to grow by 2.2% to 30.61 million bags, in Europe by 1.5% to 53.97 million bags and in South America by 1.1% to 27.27 million bags. Mexico & Central America’s consumption is estimated 0.2% higher at 5.21 million bags.

Figure 9: Evolution of global coffee consumption growth



Note: Emerging and traditional markets do not include producing countries.

Given the greater growth in production compared to consumption, **2018/19 is expected to end in a surplus of 4.96 million bags**. Coffee year 2017/18 also ended in surplus, resulting in a cumulative total of 7 million bags.

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							
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
Oct-18	111.21	140.83	137.34	115.59	85.32	119.73	77.16
Nov-18	109.59	139.27	137.11	113.27	83.52	117.06	75.23
Dec-18	100.61	127.86	127.10	102.10	77.57	105.79	69.59
Jan-19	101.56	129.28	128.46	102.94	78.24	107.93	70.32
Feb-19	100.67	127.93	128.45	100.06	78.65	104.12	70.52
Mar-19	97.50	125.23	123.89	95.81	76.96	98.84	68.61
Apr-19	94.42	124.42	121.13	92.47	73.28	95.31	65.06
May-19	93.33	124.40	120.55	91.95	71.12	94.86	62.45
Jun-19	99.97	133.49	129.73	100.69	74.02	104.44	65.41
Jul-19	103.01	137.63	135.47	105.43	73.93	109.01	64.83
Aug-19	96.07	129.20	126.23	95.85	70.78	99.87	60.90
% change between Jul-19 and Aug-19							
	-6.7%	-6.1%	-6.8%	-9.1%	-4.3%	-8.4%	-6.1%
Volatility (%)							
Aug-19	6.9%	6.6%	7.2%	9.3%	5.6%	10.1%	6.8%
Jul-19	9.2%	8.7%	9.7%	12.0%	6.9%	12.7%	8.2%
Variation between Jul-19 and Aug-19							
	-2.3	-2.1	-2.5	-2.7	-1.3	-2.6	-1.4

* 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*
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
Oct-18	3.49	25.24	55.51	21.75	52.02	30.27	42.57
Nov-18	2.16	26.00	55.75	23.84	53.59	29.75	41.83
Dec-18	0.76	25.76	50.29	25.00	49.53	24.53	36.20
Jan-19	0.82	26.34	51.04	25.52	50.22	24.70	37.61
Feb-19	-0.52	27.87	49.28	28.39	49.80	21.41	33.60
Mar-19	1.34	29.42	48.27	28.08	46.93	18.85	30.23
Apr-19	3.29	31.95	51.14	28.66	47.85	19.19	30.25
May-19	3.85	32.45	53.28	28.60	49.43	20.83	32.41
Jun-19	3.76	32.80	59.47	29.04	55.71	26.67	39.03
Jul-19	2.16	32.20	63.70	30.04	61.54	31.50	44.18
Aug-19	2.97	33.35	58.42	30.38	55.45	25.07	38.97
% change between Jul-19 and Aug-19							
	37.5%	3.6%	-8.3%	1.1%	-9.9%	-20.4%	-11.8%

* Average price for 2nd and 3rd positions

Table 3: World supply/demand balance

Coffee year (October to September)	2014	2015	2016	2017	2018*	% change 17/18 to 18/19
PRODUCTION	150 511	156 041	157 293	163 418	169 727	3.9%
Arabica	87 516	93 273	99 525	101 108	104 644	3.5%
Robusta	62 879	62 749	57 723	64 643	65 083	0.7%
Africa	15 730	15 885	17 265	17 691	18 206	2.9%
Asia & Oceania	46 365	49 343	45 341	46 759	48 677	4.1%
Mexico & Central America	17 486	16 955	19 768	21 634	21 718	0.4%
South America	70 930	73 858	74 920	77 334	81 126	4.9%
CONSUMPTION	150 841	155 452	158 283	161 372	164 769	2.1%
Exporting countries	46 505	47 548	48 458	49 598	50 257	1.3%
Importing countries (Coffee Years)	104 336	107 904	109 825	111 774	114 512	2.4%
Africa	10 706	11 014	11 179	11 532	11 876	3.0%
Asia & Oceania	31 596	32 911	34 244	34 571	35 839	3.7%
Mexico & Central America	5 230	5 153	5 142	5 197	5 206	0.2%
Europe	50 991	52 140	52 043	53 155	53 967	1.5%
North America	27 363	28 934	29 559	29 941	30 606	2.2%
South America	24 955	25 300	26 116	26 976	27 274	1.1%
BALANCE	-330	589	-989	2 046	4 958	

In thousand 60-kg bags

*preliminary estimates

Note: Data on crop year production can be found at www.ico.org/trade_statistics.asp

Table 4: Total exports from exporting countries

	Jul-18	Jul-19	% change	October-July		
				2017/18	2018/19	% change
TOTAL	10 355	11 344	9.5%	99 278	109 405	10.2%
Arabicas	6 385	6 844	7.2%	62 903	70 505	12.1%
<i>Colombian Milds</i>	1 182	1 247	5.5%	11 696	12 590	7.6%
<i>Other Milds</i>	2 578	2 453	-4.9%	23 715	22 834	-3.7%
<i>Brazilian Naturals</i>	2 625	3 144	19.8%	27 492	35 081	27.6%
Robustas	3 971	4 500	13.3%	36 374	38 900	6.9%

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

	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19
New York	2.51	2.70	2.78	2.79	2.80	2.82	2.83	2.84	2.81	2.75	2.70	2.70	2.69
London	1.26	1.51	1.58	1.77	1.88	2.08	2.01	1.97	1.98	2.11	2.18	2.47	2.60

In million 60-kg bags