

Coffee market rallies to 5-month high

Coffee prices strengthened significantly over the course of March 2016, despite faltering slightly towards the end of the month. Although somewhat attributable to market fundamentals, coffee was mostly swept up in a broader commodities cycle, with similar movements observed in other agricultural markets. Exports have maintained their high volumes, with total shipments so far this coffee year up 2% compared to 2014/15. However, speculation over potential supply concerns, particularly in Robusta, is mounting.

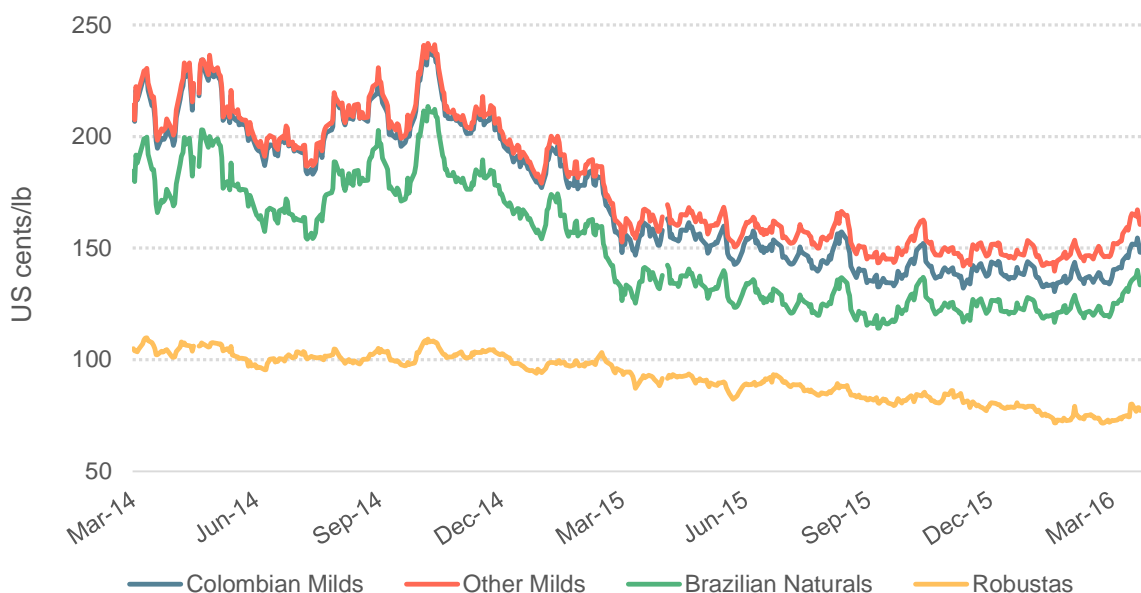
Graph 1: ICO composite indicator daily prices



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The monthly average of the ICO composite indicator price jumped by 5.4% to 117.83 US cents/lb in March, its highest level since October 2015. Nevertheless, this is still well below its level of March last year when it averaged 127.04 cents. Daily prices increased from a low of 109.37 cents at the beginning of the month to a high of 124.95 cents by the 22nd, before ending the month down on 119.93 cents.

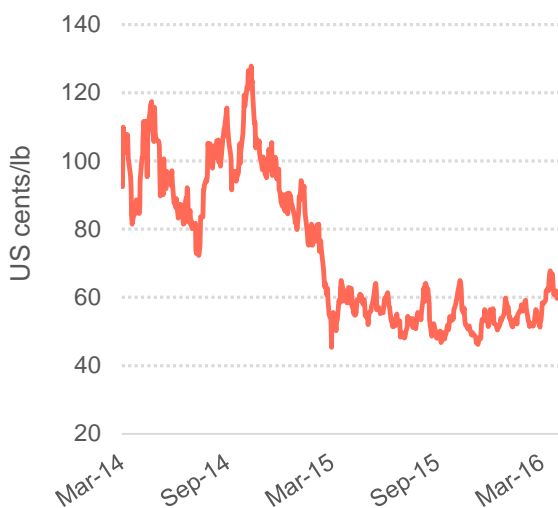
Graph 2: ICO group indicator daily prices



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In terms of the group indicators, significant increases were observed in the monthly averages of the three Arabica groups, with Colombian Milds, Other Milds and Brazilian Naturals up by 5.9%, 6.6% and 6.7% respectively. Robustas recorded a more modest increase of 2.1% to 75.60, although this is the first monthly increase since October and the highest level in 2016. Furthermore, the decline towards the end of the month was much less pronounced in Robustas, perhaps supported by concerns over future supply. As a result, the arbitrage between Arabica and Robusta, as observed on the New York and London futures markets, increased to 60.92 cents, its widest gap in over a year.

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



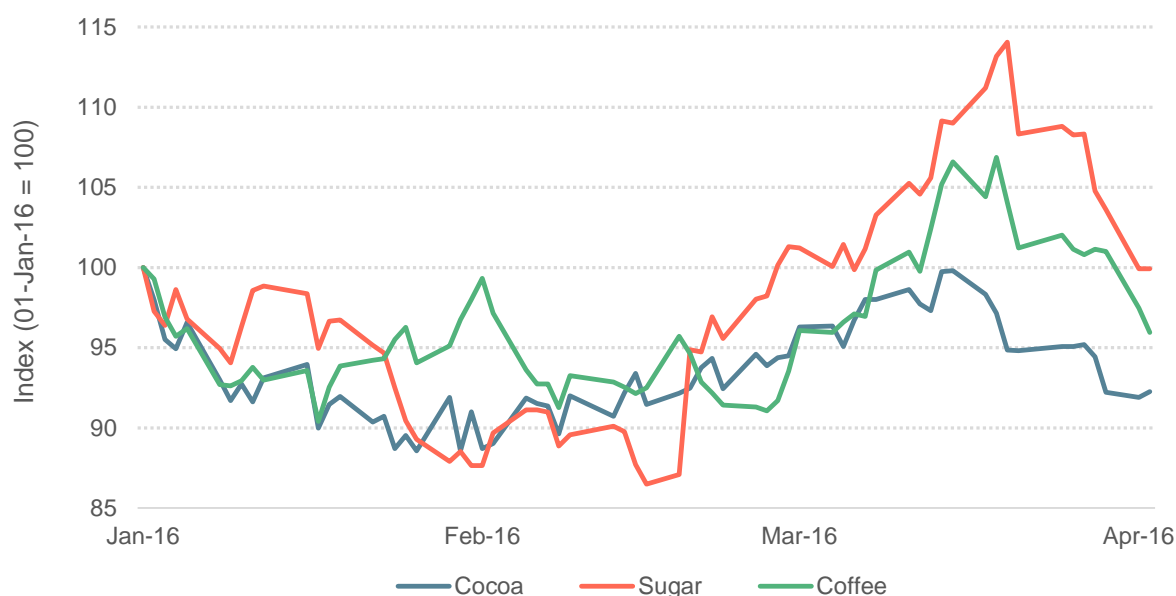
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Total exports in February 2016 increased by 1.7% to 9.2 million bags, with a drop in Robusta exports of 8.9% more than compensated by an 8.1% increase in Arabicas. This brings the total exports for the first five months of coffee year 2015/16 (October to February) to 45.2 million bags, up 2% on the same period last year. Brazil, in particular, has maintained a heavy flow of shipments (up 1.7% on last year), with increases also registered in Colombia (+10.3%), India (+15.3%) and Ethiopia (+28.5%). Vietnam and Indonesia, on the other hand, are both estimated lower by 4% and 34.9% respectively.

Looking ahead, while production in Colombia reached 7.3 million bags in the first half of 2015/16, there are increasing concerns that dryness caused by El Niño could reduce output in the second half of the year, with reports emerging that this could increase Colombia's susceptibility to damage from coffee berry borer. Drought is also affecting supply expectations in Vietnam and Espírito Santo in Brazil, which could lend support to Robusta prices in the near future.

However, it should be kept in mind that the coffee market does not operate in isolation. Over the last three months, it has been increasingly noticeable that movements in coffee prices are being mirrored in other soft commodities (for example sugar and cocoa), as can be seen below in Graph 5. Therefore, while some of this recent rally could be attributed to increasing speculation over supply concerns, particularly in Colombia and some Robusta-producing regions, it is also likely that coffee has been caught up in a broader commodity cycle.

Graph 5: Movements in commodity prices*



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* Graph shows movements in the May contract on the Intercontinental Exchange of Cocoa, Sugar No. 11, and Coffee 'C'

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							
Mar-15	127.04	154.29	160.74	133.55	92.16	139.70	82.94
Apr-15	129.02	157.06	164.00	136.70	92.06	141.79	82.71
May-15	123.49	150.19	158.48	130.38	87.56	135.22	78.03
Jun-15	124.97	152.02	159.76	130.51	90.25	135.86	80.25
Jul-15	119.77	144.52	154.45	123.64	87.12	128.59	77.16
Aug-15	121.21	146.96	156.92	127.24	85.78	132.42	76.25
Sep-15	113.14	135.55	146.15	117.83	81.50	121.66	71.53
Oct-15	118.43	143.10	153.25	127.47	82.78	129.45	72.89
Nov-15	115.03	138.63	147.98	122.95	81.74	122.35	72.04
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	128.43	67.51
% change between Mar-16 and Feb-16							
	5.4%	5.9%	6.6%	6.7%	2.1%	7.7%	3.9%
Volatility (%)							
Feb-16	6.7	6.7	6.0	7.1	9.4	7.6	6.4
Mar-16	5.9	6.0	6.1	6.8	9.4	7.8	4.9
Variation between Mar-16 and Feb-16							
	-0.7	-0.7	0.0	-0.4	0.0	0.3	-1.5

* 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*
Mar-15	-6.45	20.74	62.13	27.19	68.58	41.39	56.76
Apr-15	-6.94	20.36	65.00	27.30	71.94	44.64	59.08
May-15	-8.29	19.81	62.63	28.10	70.92	42.82	57.19
Jun-15	-7.74	21.51	61.77	29.25	69.51	40.26	55.61
Jul-15	-9.93	20.88	57.40	30.81	67.33	36.52	51.43
Aug-15	-9.96	19.72	61.18	29.68	71.14	41.46	56.17
Sep-15	-10.60	17.72	54.05	28.32	64.65	36.33	50.13
Oct-15	-10.15	15.63	60.32	25.78	70.47	44.69	56.56
Nov-15	-9.35	15.68	56.89	25.03	66.24	41.21	50.31
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	60.92
% change between Mar-16 and Feb-16							
	16.8%	-0.7%	10.2%	6.5%	11.2%	13.7%	12.2%

* Average price for 2nd and 3rd positions

Table 3: Total production in exporting countries

Crop year commencing	2012	2013	2014	2015	% change 2014-15
TOTAL	147 953	146 615	141 376	143 371	1.4%
Arabicas	88 471	87 001	84 397	84 309	-0.1%
<i>Colombian Milds</i>	11 523	13 488	14 549	14 853	2.1%
<i>Other Milds</i>	29 017	26 822	25 896	27 244	5.2%
<i>Brazilian Naturals</i>	47 930	46 690	43 953	42 211	-4.0%
Robustas	59 482	59 614	56 978	59 062	3.7%
Africa	16 668	16 271	16 085	17 074	6.1%
Asia & Oceania	45 681	46 527	44 623	46 589	4.4%
Mexico & Central America	18 481	16 585	17 390	18 462	6.2%
South America	67 122	67 233	63 278	61 246	-3.2%

In thousand bags

Full production data are available on the ICO website at www.ico.org/trade_statistics.asp

Table 4: Total exports by exporting countries

	February 2015	February 2016	% change	October - February		
				2014/15	2015/16	% change
TOTAL	9 055	9 211	1.7%	44 307	45 205	2.0%
Arabicas	5 665	6 123	8.1%	27 035	29 454	8.9%
<i>Colombian Milds</i>	1 151	1 225	6.5%	5 628	6 217	10.5%
<i>Other Milds</i>	1 949	2 114	8.5%	7 041	8 053	14.4%
<i>Brazilian Naturals</i>	2 566	2 783	8.4%	14 366	15 184	5.7%
Robustas	3 389	3 088	-8.9%	17 272	15 751	-8.8%

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

	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16	Mar-16
New York	2.60	2.56	2.41	2.43	2.38	2.36	2.28	2.15	2.08	1.95	1.82	1.76	1.62
London	2.84	2.93	3.02	3.12	3.35	3.43	3.43	3.37	3.35	3.31	3.23	3.04	2.92

In million bags

Table 6: World coffee consumption

Calendar years	2012	2013	2014	2015	CAGR (2012-2015)
World total	143 348	148 003	150 339	152 149	2.0%
Exporting countries	44 441	45 445	46 494	47 292	2.1%
Importing countries	98 907	102 558	103 845	104 857	2.0%

CAGR: Compound Annual Growth Rate

In thousand bags