

September 2017

## Coffee market ends 2016/17 coffee year in deficit for the third consecutive year

*The ICO composite indicator continued its downward trend that started at the end of August, averaging 124.46 US cents/lb. Prices for all groups fell in September, though Robusta saw the largest decline of 5.1% compared to August. This brings coffee year 2016/17 to an end, and global production is estimated at 153.9 million bags, a 1.5% increase on 2015/16. With world consumption at 155.1 million bags, this gives a global deficit of 1.2 million bags.*

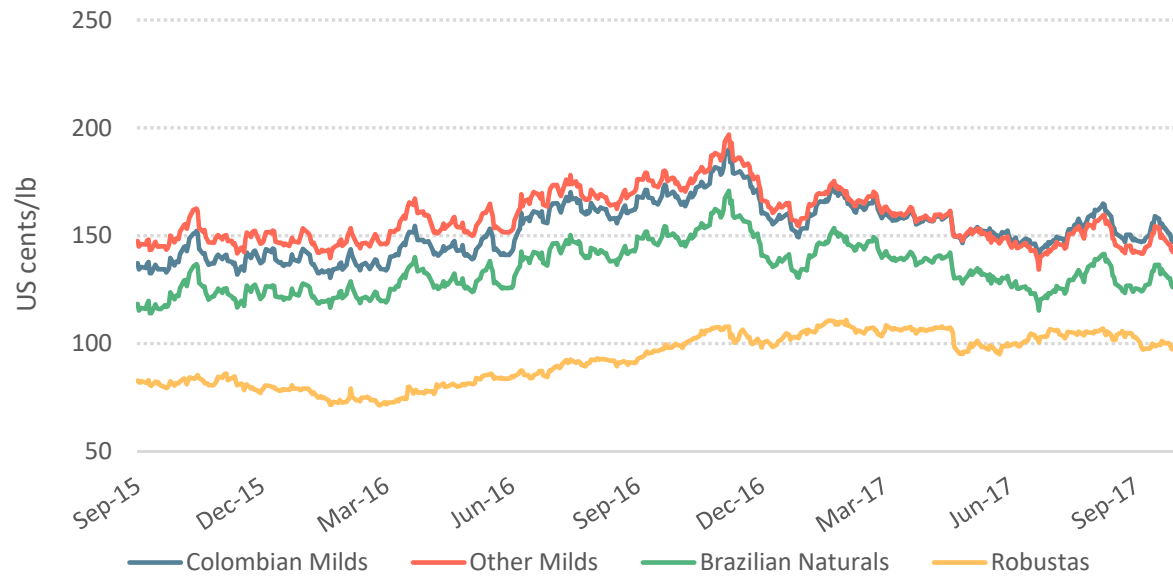
Figure 1: ICO composite indicator daily prices



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Coffee prices in September continued the downward trend from the end of August through the first week, reaching 120.71 US cents/lb on 6 September. The ICO composite indicator price then climbed to 128.95 US cents/lb on 18 September. On the following day, coffee prices fell by 2.83 US cents/lb before recovering to 128.01 US cents/lb on 20 September. Subsequently, coffee prices declined over the next week and a half with the daily price falling to 121.40 US cents/lb on 28 September. As a result of these movements, the average of the ICO composite indicator price fell by 2.9% to 124.46 US cents/lb.

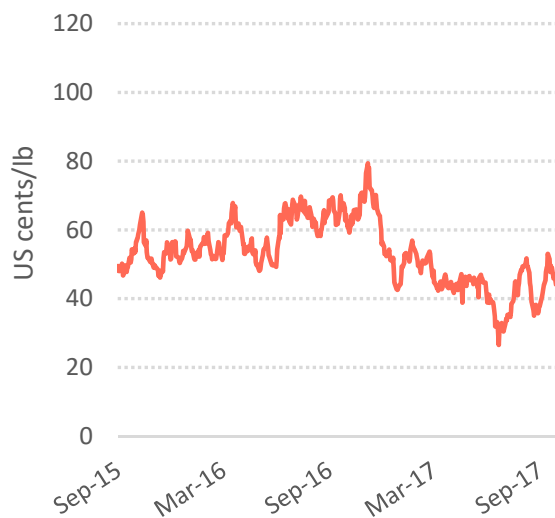
Figure 2: ICO group indicator daily prices



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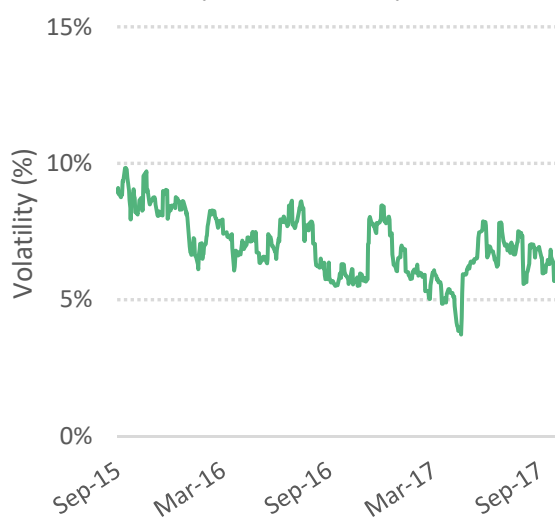
The group indicators all showed declining trends in September despite a small rise in the middle of the month. All three Arabica groups registered decreases as the average prices for Colombian Milds, Other Milds and Brazilian Naturals fell 2.4%, 2.2% and 1.7%, respectively. Compared to the Arabica groups, Robusta declined much more significantly in the first week, but did not rise much later in the month. As a result, the monthly average for the Robusta group was 5.1% lower than in August. The average arbitrage in September, as measured on the New York and London futures markets, increased further by 7% to 46.26 US cents/lb. Meanwhile intra-day volatility of the ICO composite indicator price decreased by 0.3 percentage points to 6.3%.

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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After two months of decrease, global exports in August remained stable at 9.9 million bags, but were 8.4% less than in August 2016. However, the volume of exports during the first eleven months of coffee year 2016/17 increased by 5.8% to 113.3 million bags, which is 6.2 million bags higher than during the same period one year ago, when 107.1 million bags were shipped. Shipments of Arabica coffee during the first eleven months of coffee year 2016/17 increased by 9% compared to the same period last year, reaching 71.7 million bags, while shipments of Robusta increased by 0.8% to 41.6 million bags.

Global coffee production in 2016/17 is currently estimated at 153.9 million bags, a 1.5% increase on 2015/16. Arabica production is up by 10.2% to 97.3 million bags, while Robustas are estimated down 10.6% to 56.6 million bags.

Figure 5: World production and consumption (2013/14-2016/17)



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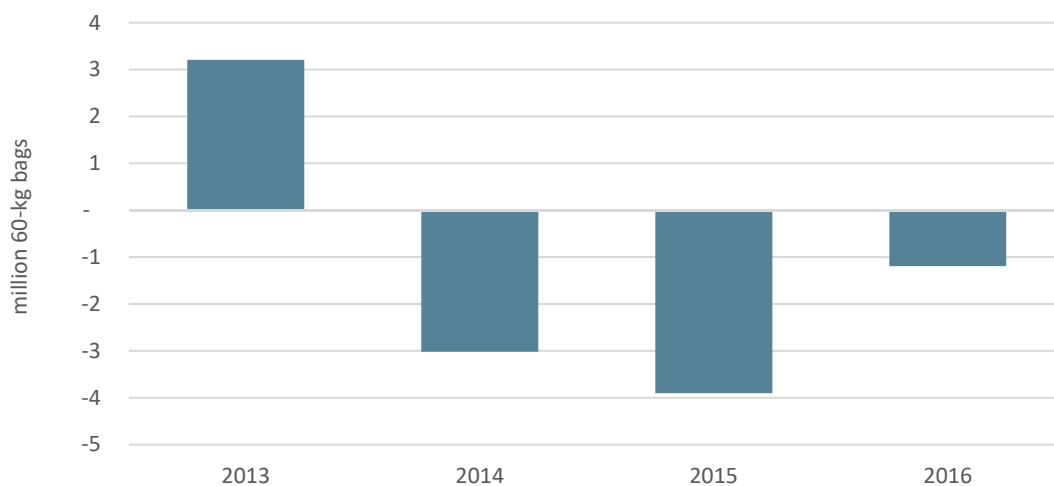
In Brazil, production for 2016/17 is estimated at 55 million bags, up 9.2% compared to the previous year, due to partial recovery from drought in the preceding two years, particularly for Arabica. Despite the larger exportable surplus, exports from Brazil during the first eleven months of 2016/17 declined by 7.3% to 29.3 million bags. Given that domestic consumption has remained stable at 20.5 million bags, Brazil's stocks will increase slightly by 1.03 million bags. Dry weather in August 2017 could potentially reduce yields and production in 2017/18, particularly for newer trees.

Production in Vietnam declined by 11.3% to 25.5 million bags due to dry weather at the beginning of the year followed by rains during harvesting. As a result of the smaller exportable surplus, shipments from Vietnam declined by 3.4% to 23.5 million bags in the first eleven months of 2016/17 compared to the same period last season. Vietnam's production growth may slow in the next few years due to low coffee prices and competition from other more lucrative crops.

Colombia has ended 2016/17 with a total production of 14.5 million bags, its highest volume since 1992/93 and the fifth consecutive season of growth. Exports from Colombia rebounded by 9.6% to 12.4 million bags in the first eleven months of 2016/17, following an unusually low volume of shipments due to a truck drivers' strike in the previous season. The 2017/18 crop in Colombia may be affected by the potential development of a weak La Niña and cloudiness during the flowering period.

Following a 7.9% increase in 2015/16, Indonesian production decreased by 6.7% to 11.5 million bags in 2016/17 due to adverse weather conditions earlier in the year. Shipments from Indonesia increased significantly in the first eleven months of 2016/17, reaching 9.8 million bags, up by 78.9% compared to the same period in 2015/16. The increase in Indonesia's exports has helped to cover shortages this season in the largest producers.

Graph 6: World stock change (2013/14-2016/17)



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Despite increases in production while consumption decreased slightly, 2016/17 is seen in deficit for the third consecutive year, with consumption exceeding production by 1.2 million bags. However, the market has remained well supplied by stocks accumulated during surplus years in 2012/13 and 2013/14. Stocks in importing countries reached 25.4 million bags at the end of June 2017, their highest level since June 2009, which provides a buffer against any short-term supply concerns.

**Table 1: ICO indicator prices and futures prices (US cents/lb)**

	ICO Composite	Colombian Milds	Other Milds	Brazilian Naturals	Robustas	New York*	London*
<b>Monthly averages</b>							
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
Jan-17	139.07	164.96	168.61	145.70	108.32	152.24	100.24
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
<b>% change between Sep-17 and Aug-17</b>							
	-2.9%	-2.4%	-2.2%	-1.7%	-5.1%	-1.6%	-5.5%
<b>Volatility (%)</b>							
Aug-17	6.6%	7.2%	7.4%	8.1%	5.6%	8.6%	6.4%
Sep-17	6.3%	6.6%	7.0%	7.7%	6.5%	8.3%	6.9%
<b>Variation between Sep-17 and Aug-17</b>							
	-0.3	-0.6	-0.4	-0.4	0.9	-0.2	0.5

\* Average price for 2<sup>nd</sup> and 3<sup>rd</sup> 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*
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
Jan-17	-3.65	19.26	56.64	22.91	60.29	37.38	52.00
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	52.18	17.95	46.91	28.96	43.22
Sep-17	4.91	21.80	52.29	16.89	47.38	30.49	46.26
<b>% change between Sep-17 and Aug-17</b>							
	-6.8%	-6.1%	0.2%	-5.9%	1.0%	5.3%	7.0%

\* Average price for 2<sup>nd</sup> and 3<sup>rd</sup> positions

**Table 3: World supply/demand balance**

Crop year commencing	2013	2014	2015	2016*	% change 2015-16
<b>PRODUCTION</b>	<b>152 228</b>	<b>148 738</b>	<b>151 565</b>	<b>153 869</b>	<b>1.5%</b>
Arabica	90 281	86 152	88 252	97 269	10.2%
Robusta	61 947	62 586	63 314	56 600	-10.6%
Africa	16 244	16 013	16 338	16 426	0.5%
Asia & Oceania	46 449	45 659	49 012	44 830	-8.5%
Mexico & Central America	16 717	17 117	17 251	17 735	2.8%
South America	72 818	69 950	68 964	74 878	8.6%
<b>CONSUMPTION</b>	<b>149 022</b>	<b>151 758</b>	<b>155 469</b>	<b>155 061</b>	<b>-0.3%</b>
Exporting countries	46 109	47 245	48 244	48 298	0.1%
Importing countries (Coffee Years)	102 913	104 513	107 225	106 763	-0.4%
Africa	10 597	10 754	10 794	10 735	-0.5%
Asia & Oceania	30 701	32 550	33 611	33 669	0.2%
Mexico & Central America	5 156	5 235	5 306	5 237	-1.3%
Europe	50 179	50 912	51 590	51 544	-0.1%
North America	27 706	27 359	28 931	28 535	-1.4%
South America	24 682	24 949	25 237	25 341	0.4%
<b>BALANCE</b>	<b>3 206</b>	<b>-3 020</b>	<b>-3 904</b>	<b>-1 192</b>	<b>-69.5%</b>

In thousand bags

\*Estimated

**Table 4: Total exports by exporting countries**

	August 2016	August 2017	% change	October - August		
				2015/16	2016/17	% change
<b>TOTAL</b>	<b>10 775</b>	<b>9 872</b>	<b>-8.4%</b>	<b>107 050</b>	<b>113 281</b>	<b>5.8%</b>
Arabicas	6 694	6 335	-5.4%	65 790	71 697	9.0%
<i>Colombian Milds</i>	1 336	1 270	-4.9%	12 499	13 482	7.9%
<i>Other Milds</i>	2 218	2 219	0.0%	21 471	25 132	17.1%
<i>Brazilian Naturals</i>	3 140	2 846	-9.4%	31 820	33 083	4.0%
Robustas	4 081	3 537	-13.3%	41 260	41 584	0.8%

In thousand bags

Full trade statistics are available on the ICO website at [www.ico.org/trade\\_statistics.asp](http://www.ico.org/trade_statistics.asp)**Table 5: Certified stocks on the New York and London futures markets**

	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17
New York	1.42	1.44	1.42	1.40	1.45	1.49	1.53	1.58	1.65	1.70	1.73	1.86	2.03
London	2.32	2.28	2.38	2.39	2.73	2.80	2.85	2.87	2.87	2.81	2.63	2.52	2.52

In million bags