

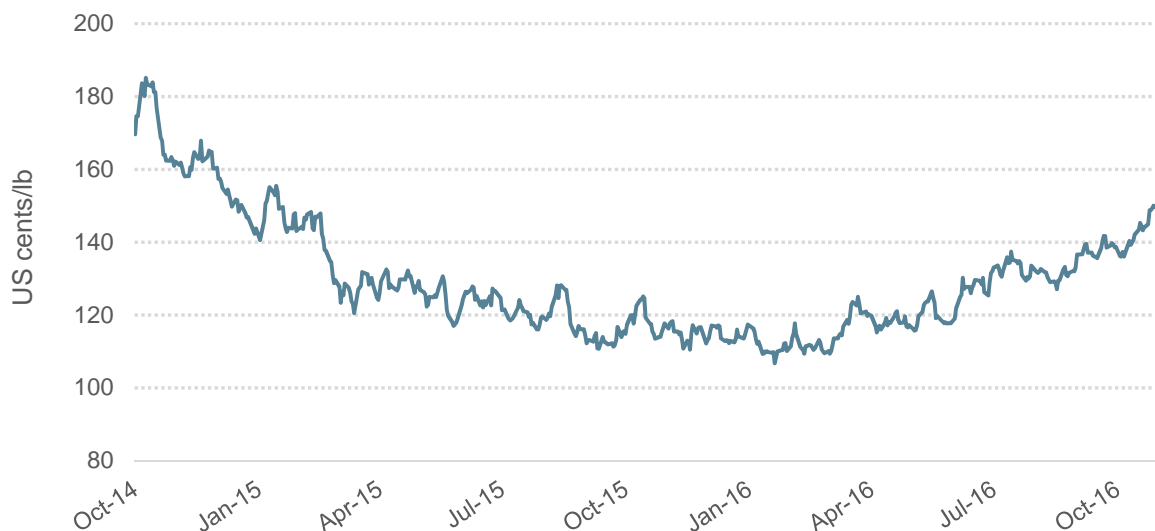


October 2016

Robusta shortfall drives coffee market to 21-month high

Coffee prices rose significantly in October, with support coming from continuing concerns over Robusta supply. The monthly average of the ICO composite indicator hit a 21-month high of 142.68 US cents/lb, with the Robusta indicator at its highest level in two years. The market has also been buoyed by speculation over the next 2017/18 Brazilian crop, although it is too early to draw any conclusions at this point. Finally, total exports ended 2015/16 down by 0.7%, with an increase in Arabica outweighed by lower shipments of Robusta.

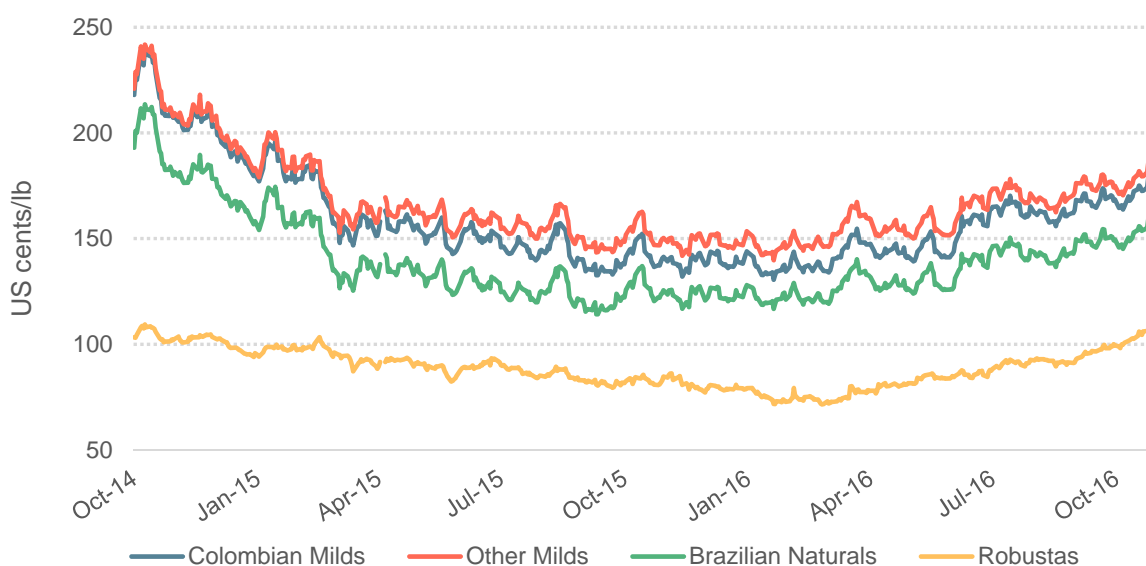
Graph 1: ICO composite indicator daily prices



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Coffee prices continued their recent rally in October, with the monthly average of the ICO composite indicator reaching its highest monthly level since January 2015. The daily price increased consistently over the course of the month, up from 136.17 cents to 150; this is the highest monthly increase since March 2016. The market has been largely driven by the ongoing concerns over Robusta supply, as well as growing speculation over the size of the next 2017/18 Brazilian crop, as Arabica will be going into an off year in its biennial cycle. The Brazilian real has also been appreciating against the US dollar, reaching its strongest level for over a year, which has helped to support the market.

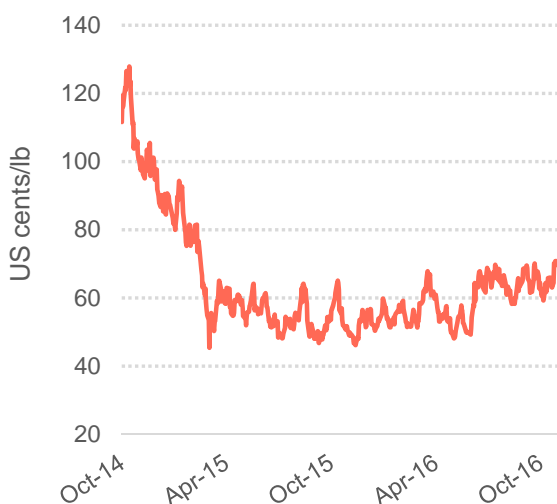
Graph 2: ICO group indicator daily prices



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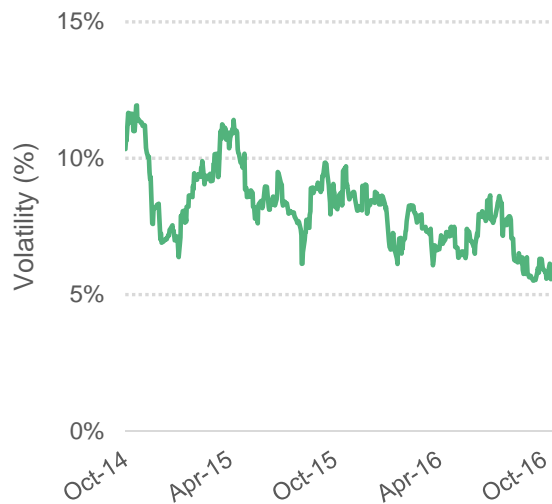
In terms of the group indicators, the strongest performance was recorded in Robustas, which increased by 7% compared to last month. This is the 8th consecutive monthly increase, with Robusta prices now up by nearly 40% since the beginning of the calendar year, averaging above \$1/lb for the first time since November 2014. The three Arabica groups also increased, by between 1.5 and 2.2%. The arbitrage between Arabica and Robusta therefore narrowed compared to last month, but remains wider than a year ago.

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 September came to 9 million bags, 1.1% higher than last year. Shipments from Brazil were down by 21.5% to 2.5 million bags, with exports of green Robusta from Brazil down by over 90%. Brazil's Robusta production is primarily used to supply the domestic soluble industry, but a lack of rainfall and reduced output have squeezed the market, with local prices of Robusta briefly surpassing Arabica. In Vietnam, on the other hand, exports increased in September, estimated up by 61.7% to 2 million bags, which would represent the highest September export volume on record.

This brings to an end coffee year 2015/16, with exports for the year down by 0.7% to 111.8 million bags. This is the second consecutive year in which exports have declined, following the record volumes set in each of the four previous years.

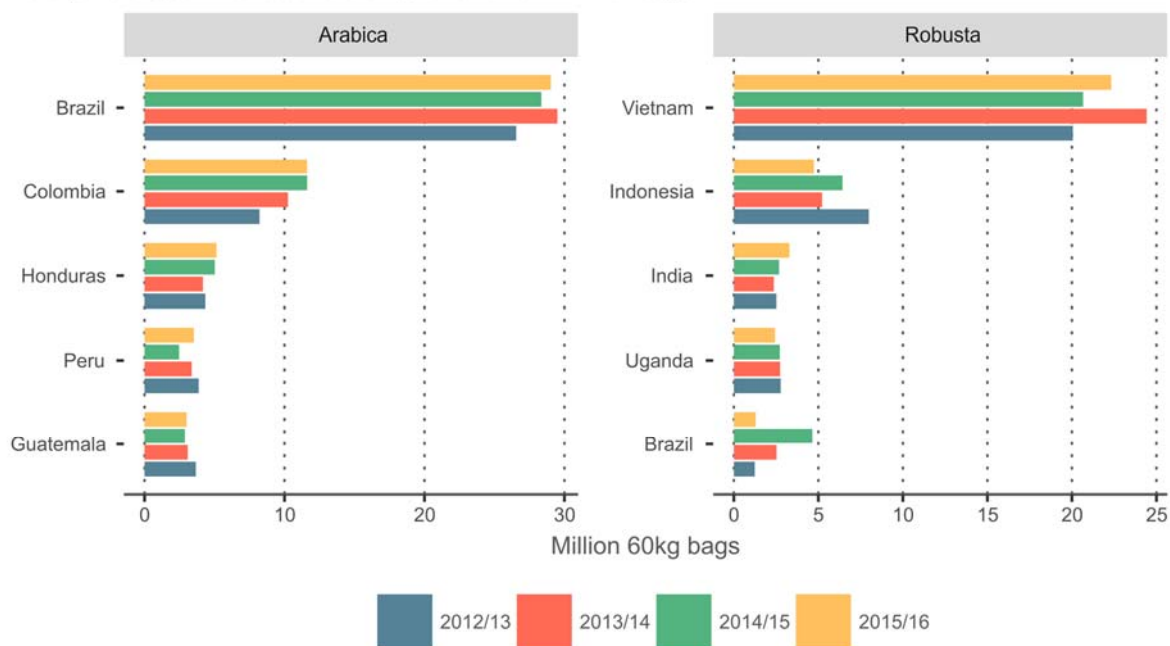
Exports of the three Arabica groups all increased year on year, with shipments of Colombian Milds, Other Milds and Brazilian Naturals up by 1.1%, 5.5% and 2.6% respectively. Robusta exports were down by 6.9% to 40.8 million bags.

However, as can be seen in the graph below, exports of green coffee by the largest Robusta producer, Vietnam, actually increased by 8.1% to 22.3 million bags, though this estimate only covers coffee that has been physically shipped, not coffee that has been customs cleared. This increase by Vietnam was outweighed by lower green Robusta exports from Indonesia, down by over 25% for the coffee year, and Brazil lower by over 72%.

Brazil's green Arabica exports increased compared to last year by 2.4% to reach 29 million bags, slightly lower than the 2013/14 peak of 29.5 million. Higher shipments were also recorded by several other Arabica producing countries, including Honduras (+2.4%), Guatemala (+4.2%), Ethiopia (+7.1%), Nicaragua (+7%) and India (+21%), while Colombia was mostly unchanged. The significant increase of 42.9% by Peru suggests that output is starting to recover from the coffee leaf rust outbreak which so affected the last two crops, though green exports from Mexico are down by 3.9% as rust continues to be an issue.

Graph 5: Exports of green coffee by top 5 exporting countries by type

Total exports of green Arabica coffee increased by 3.9% to 52.3 million bags in coffee year 2015/16, while exports of green Robusta were 8.2% lower on 34.1 million bags.



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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							
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	127.33	66.17
Apr-16	117.93	143.66	154.22	128.10	80.18	125.34	70.90
May-16	119.91	144.49	155.19	129.05	83.93	126.80	75.11
Jun-16	127.05	156.86	165.45	138.38	85.94	139.10	76.87
Jul-16	132.98	164.46	171.76	144.76	90.82	148.16	82.09
Aug-16	131.00	160.78	167.54	141.41	91.79	145.37	83.47
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
% change between Oct-16 and Sep-16							
	3.2%	2.0%	1.5%	2.2%	7.0%	3.4%	7.5%
Volatility (%)							
Sep-16	4.5%	5.5%	5.1%	5.8%	3.3%	6.8%	3.6%
Oct-16	4.3%	5.3%	5.1%	5.5%	3.7%	6.2%	3.9%
Variation between Oct-16 and Sep-16							
	-0.2%	-0.2%	0.0%	-0.3%	0.4%	-0.6%	0.2%

* 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*
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	61.16
Apr-16	-10.56	15.56	63.48	26.12	74.04	47.92	54.44
May-16	-10.70	15.44	60.56	26.14	71.26	45.12	51.69
Jun-16	-8.59	18.48	70.92	27.07	79.51	52.44	62.23
Jul-16	-7.30	19.70	73.64	27.00	80.94	53.94	66.07
Aug-16	-6.76	19.37	68.99	26.13	75.75	49.62	61.90
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
% change between Oct-16 and Sep-16							
	-10.3%	0.4%	-4.6%	-2.6%	-5.2%	-6.5%	-2.2%

* Average price for 2nd and 3rd positions

Table 3: World Supply/Demand Balance*

Crop year commencing	2012	2013	2014	2015	% change 2014-15
PRODUCTION	151 358	152 105	146 645	147 994	0.9%
Arabica	91 511	90 540	85 239	85 814	0.7%
Robusta	59 346	61 564	61 410	62 179	1.3%
Africa	16 673	16 205	16 005	16 831	5.2%
Asia & Oceania	42 681	45 903	44 592	47 428	6.4%
Mexico & Central America	18 773	16 856	17 284	16 739	-3.2%
South America	73 230	73 141	68 764	66 997	-2.6%
CONSUMPTION	145 367	147 017	149 395	151 303	1.3%
Exporting countries	44 350	44 209	45 374	46 369	2.2%
Importing countries	101 018	102 808	104 021	104 933	0.9%
Africa	10 447	10 571	10 704	10 815	1.0%
Asia & Oceania	28 329	28 745	30 516	31 609	3.6%
Mexico & Central America	5 135	5 198	5 239	5 257	0.4%
Europe	50 239	50 845	50 608	50 870	0.5%
North America	26 631	27 492	27 901	28 035	0.5%
South America	24 587	24 167	24 426	24 717	1.2%
BALANCE	5 997	5 093	-2 746	-3 305	20.4%

In thousand bags

* Under review

Table 4: Total exports by exporting countries

	September 2015	September 2016	% change	October - September		
				2014/15	2015/16	% change
TOTAL	8 889	8 990	1.1%	112 645	111 830	-0.7%
Arabicas	5 631	5 467	-2.9%	68 826	71 021	3.2%
<i>Colombian Milds</i>	1 167	1 098	-5.9%	13 454	13 600	1.1%
<i>Other Milds</i>	1 420	1 741	22.6%	21 770	22 962	5.5%
<i>Brazilian Naturals</i>	3 044	2 628	-13.7%	33 602	34 459	2.6%
Robustas	3 258	3 523	8.1%	43 820	40 809	-6.9%

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**

	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16
New York	2.15	2.08	1.95	1.82	1.76	1.62	1.58	1.53	1.48	1.45	1.45	1.42	1.44
London	3.37	3.35	3.31	3.23	3.04	2.92	2.78	2.64	2.53	2.45	2.37	2.32	2.28

In million bags