International Coffee Organization
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LETTER FROM THE EXECUTIVE DIRECTOR

COFFEE MARKET REPORT

March 2006

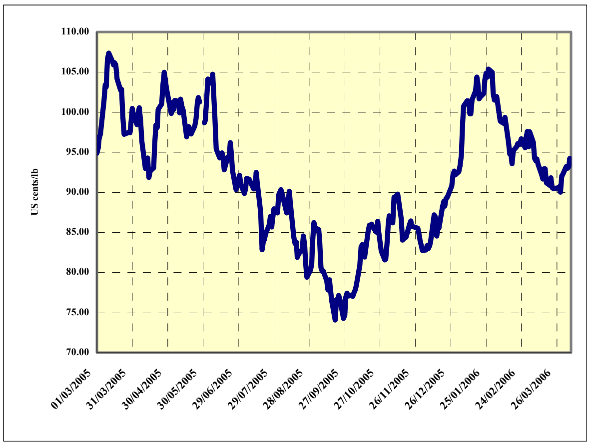
During the month of March coffee prices were again adjusted downward in relation to their February level. The ICO composite indicator price was down by 4.75% from 97.39 US cents/lb in February to 92.76 US cents/lb in March. In the New York futures market (NYBOT), which reflects the supply situation of Arabicas, the 2nd position averaged 108.41 compared to 114.22 in February. In the case of Robustas, the average for the 2nd position on the London futures market (LIFFE) was 51.90 compared to 55.46 in February. The second official estimate of the Brazilian production for crop year 2006/07 was issued on 7 April, indicating a slight fall in relation to the first estimate published in December 2005. Production is now estimated at 40.62 million bags compared to the figures of 40.43 to 43.58 million bags published in December 2005.

There was a reduction in exports during the month of February, with a recorded volume of 6.50 million bags compared to 7.19 million bags in February 2005. Exports for the first five months of coffee year 2005/06 (October 2005 - February 2006) totalled 32.64 million bags, representing a fall of 10.96% in relation to the total of 36.66 million bags for the first five months of coffee year 2004/05. This fall in supplies appears to be in the process of being offset, in part, by the reduction in stocks mostly in importing countries.

Price movements

Coffee prices fell slightly again compared to the level in February. The monthly average of the **ICO composite indicator price** was 92.76 US cents/lb compared to 97.39 US cents/lb in February and 101.20 US cents/lb in January[1]. The behaviour of prices is the result of a series of market corrections even though the market fundamentals remain favourable to the continuation of a firm trend. On the other hand, price volatility eased somewhat during March. Graph 1 shows changes in the ICO daily composite indicator price since 1 March 2005.

Graph 1: Daily composite indicator price 1 March 2005 – 10 April 2006



[1] *The level recorded on 10 April was 94.83 US cents/lb.*

There was a similar downward correction in prices for all four groups of coffee although this was relatively more marked in the case of Robustas (Table 1), leading to a slight increase in the differential between Other Milds and Robustas up from 47.13% in February to 47.56% in March. Graphs 2 to 5 show changes in daily indicator prices for the four groups of coffee since March 2005

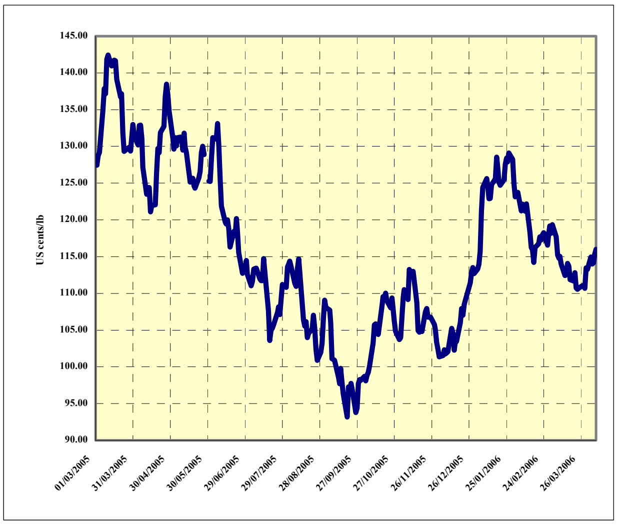
Table 1: ICO daily indicator prices and futures prices (US cents/lb) – March 2006

	ICO composite	Colombian Milds	Other Milds	Brazilian Naturals	Robustas	New York*	London*
Mar-06							
1	97.61	121.40	119.18	109.53	63.14	115.10	55.72
2	95.70	120.15	118.19	108.73	59.36	112.95	55.57
3	97.55	121.10	119.37	109.36	63.08	114.70	55.70
6	96.25	119.59	117.70	108.17	62.03	112.08	54.66
7	94.26	117.12	115.23	105.74	60.91	109.83	53.61
8	93.92	116.79	114.77	104.93	61.07	109.85	53.71
9	94.15	116.94	115.02	105.43	61.07	109.95	53.68
10	93.48	115.78	114.00	104.27	61.28	108.85	52.78
13	92.20	114.26	112.44	102.72	60.51	106.95	50.96
14	91.65	114.50	112.55	102.75	58.68	107.35	51.39
15	92.95	116.20	114.07	103.85	59.86	109.90	52.50
16	92.92	115.68	113.69	103.95	60.14	108.05	52.00
17	91.16	114.05	111.87	102.19	58.39	106.45	51.10
20	90.84	113.82	111.67	101.67	58.10	106.85	50.73
21	91.81	115.19	112.80	103.12	58.42	108.05	51.05
22	90.56	113.37	110.74	101.33	58.39	107.95	51.03
23	90.45	113.20	110.56	100.79	58.74	108.80	51.48
24	90.50	113.17	110.73	100.92	58.66	109.15	51.19
27	90.55	113.44	111.05	101.32	58.13	109.78	50.73
28	90.70	114.74	111.14	101.51	57.85	109.47	50.42
29	90.02	114.30	110.69	100.61	57.11	108.30	49.83
30	92.07	116.92	113.48	103.64	57.59	112.25	50.46
31	92.20	116.50	113.25	103.64	58.29	111.00	50.83
average	**92.76**	**116.01**	**113.66**	**103.92**	**59.60**	**109.72**	**52.22**
% variation between Mar-06 and Feb-06							
	-4.75	-4.37	-4.58	-4.67	-5.37	-4.97	-6.31
% variation between Mar-06 and Mar-05							
	-8.56	-14.41	-15.83	-13.49	20.38	-16.27	14.93
% variation between Mar-06 and 2005 average							
	3.81	0.24	-1.04	1.59	65.60	-1.49	11.59
annual averages							
2000	64.24	102.60	87.07	79.86	41.41	94.58	40.11
2001	45.59	72.05	62.28	50.70	27.55	58.86	23.92
2002	47.74	64.91	61.54	45.25	30.02	57.02	25.88
2003	51.91	65.33	64.20	50.31	36.95	65.24	34.11
2004	62.15	81.44	80.47	68.97	35.99	79.53	32.84
2005	**89.36**	**115.73**	**114.86**	**102.29**	**35.99**	**111.38**	**46.80**
volatility (%)							
Nov-05	1.71	1.75	1.85	1.90	1.66	2.51	1.76
Dec-05	1.40	1.28	1.31	1.37	2.38	1.66	2.31
Jan-06	1.51	1.59	1.65	1.72	1.62	2.03	1.86
Feb-06	1.29	1.34	1.27	1.32	1.80	2.12	2.14
Mar-06	**1.08**	**1.11**	**1.11**	**1.25**	**1.31**	**1.44**	**1.33**

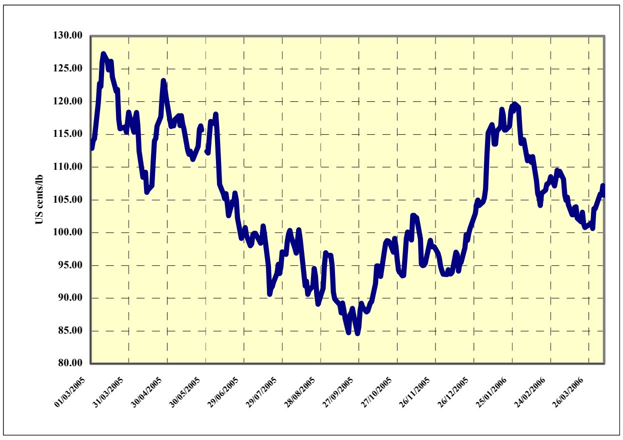
* Averages of 2nd and 3rd positions

Graph 2: **Daily indicator prices for Colombian Milds 1 March 2005 – 10 April 2006**

Graph 3: **Daily indicator prices for Other Milds 1 March 2005 – 10 April 2006**



Graph 4: **Daily indicator prices for Brazilian Naturals 1 March 2005 – 10 April 2006**



Graph 5: **Daily indicator prices for Robustas 1 March 2005 – 10 April 2006**

Market fundamentals

The second official estimate of the Brazilian crop for crop year 2006/07 indicates a total production of 40.62 million bags, comprising 9.60 million bags for Robustas and 31.02 million bags for Arabicas. The estimate published in December indicated a total production of between 40.43 and 43.58 million bags. My estimate of **world production** in crop year 2006/07 has been revised accordingly to around 120 million bags.

Total production in crop year 2005/06 was 106.56 million bags, a fall of 5.20% compared to production in 2004/05 (Table 2). Total production of Arabicas was 68.58 million bags compared to 37.98 million bags for Robustas. Production of Robustas increased by 9.18% while that of Arabicas fell by 11.65% compared to crop year 2004/05. The share of Arabicas in world production is now 64.36% against 35.64% for Robustas.

Table 2: Production in selected exporting countries

Crop year commencing	2002	2003	2004	2005	% change 2004-2005
TOTAL	**121 823**	**103 764**	**112 407**	**106 558**	**-5.20**
Africa	***14 755***	***13 674***	***14 069***	***15 164***	7.78
Cameroon	801	900	727	1 000	37.55
Côte d'Ivoire	3 145	2 689	1 750	2 500	42.86
Ethiopia	3 693	3 874	5 000	4 500	-10.00
Kenya	945	673	709	1 002	41.33
Tanzania	824	611	763	750	-1.70
Uganda	2 900	2 510	2 750	2 750	0.00
Others	2 447	2 417	2 370	2 662	12.32
Arabicas	*6 780*	*6 422*	*7 969*	*7 628*	-4.28
Robustas	*7 975*	*7 252*	*6 100*	*7 536*	23.54
Asia & Oceania	***25 645***	***28 758***	***27 278***	***24 911***	-8.68
India	4 683	4 495	3 844	4 630	20.45
Indonesia	6 785	6 571	7 386	6 750	-8.61
Papua New Guinea	1 108	1 147	1 002	1 232	22.95
Thailand	758	846	797	764	-4.14
Vietnam	11 555	15 230	13 844	11 000	-20.54
Others	756	469	405	535	32.10
Arabicas	*4 281*	*4 201*	*3 764*	*3 718*	-1.22
Robustas	*21 364*	*24 557*	*23 514*	*21 193*	-9.87
Mexico & Central America	***16 381***	***16 996***	***15 188***	***17 450***	14.89
Costa Rica	1 938	1 802	1 720	2 157	25.41
El Salvador	1 438	1 457	1 447	1 372	-5.18
Guatemala	4 070	3 610	3 703	3 675	-0.76
Honduras	2 497	2 968	2 575	2 990	16.12
Mexico	4 000	4 550	3 407	4 200	23.28
Nicaragua	1 199	1 405	1 127	1 400	24.22
Others	1 239	1 204	1 209	1 656	36.97
Arabicas	*16 345*	*16 956*	*15 161*	*17 403*	14.79
Robustas	*36*	*40*	*27*	*47*	74.07
South America	***65 042***	***44 336***	***55 872***	***49 033***	***-12.24***
Brazil	48 480	28 825	39 300	32 944	-16.17
Colombia	11 889	11 197	11 405	11 550	1.27
Ecuador	732	767	938	789	-15.88
Others	3 941	3 547	4 229	3 750	-11.33
Arabicas	*55 067*	*37 233*	*50 728*	*39 830*	-21.48
Robustas	*9 975*	*7 104*	*5 144*	*9 203*	78.91
TOTAL	**121 823**	**103 764**	**112 407**	**106 558**	-5.20
Colombian Milds	13 381	12 353	12 668	13 017	2.75
Other Milds	26 531	26 488	25 357	26 937	6.23
Brazilian Naturals	42 562	25 970	39 597	28 625	-27.71
Robustas	39 349	38 953	34 785	37 979	9.18
Arabicas	82 474	64 811	77 622	68 579	-11.65
Robustas	39 349	38 953	34 785	37 979	9.18
TOTAL	**100.00**	**100.00**	**100.00**	**100.00**	
Colombian Milds	10.98	11.90	11.27	12.22	
Other Milds	21.78	25.53	22.56	25.28	
Brazilian Naturals	34.94	25.03	35.23	26.86	
Robustas	32.30	37.54	30.95	35.64	
Arabicas	67.70	62.46	69.05	64.36	
Robustas	32.30	37.54	30.95	35.64	

In thousand bags

Exports for the month of February 2006 totalled 6.50 million bags, a fall of 9.6% compared to 7.19 million bags in February 2005. In January 2006 the level was 6.43 million bags and in December 2005 it was 7.04 million. Exports have been falling since May 2005. Exports of Arabicas in February 2006 totalled 4.58 million bags compared to 4.27 million in January 2006. Exports of Robustas fell from 2.16 million bags in January 2006 to 1.92 million in February 2006. The total volume of exports in calendar year 2005 (January-December) was 86.55 million bags, representing a fall of 4.58% in relation to total exports of 90.70 million bags in 2004 (Table 3).

Table 3: Annual exports (January-December)

	2004	2005	% variation
TOTAL	**90.70**	**86.55**	**-4.58**
Colombian Milds	11.39	12.01	5.39
Other Milds	21.50	19.33	-10.12
Brazilian Naturals	26.62	25.71	-3.44
Robustas	31.18	29.51	-5.37
Arabicas	59.52	57.04	-4.16
Robustas	31.18	29.51	-5.37
Africa	***11.74***	***10.25***	***-12.68***
Cameroon	0.73	0.70	-4.08
Côte d'Ivoire	2.57	1.90	-26.09
Ethiopia	2.49	2.44	-2.24
Kenya	0.75	0.65	-13.87
Tanzania	0.55	0.69	25.60
Uganda	2.63	2.37	-9.82
Others	2.00	1.49	-25.45
Asia & Oceania	***25.45***	***23.74***	***-6.69***
India	3.65	2.74	-24.80
Indonesia	5.46	6.08	11.48
Papua New Guinea	1.05	1.20	14.44
Vietnam	14.86	13.43	-9.60
Others	0.44	0.29	-33.92
Mexico & Central America	***12.74***	***11.72***	***-8.02***
Costa Rica	1.42	1.48	4.28
El Salvador	1.33	1.28	-3.59
Guatemala	3.31	3.47	4.72
Honduras	2.78	2.39	-13.93
Mexico	2.36	1.98	-15.92
Nicaragua	1.31	1.00	-23.99
Others	0.23	0.12	-49.40
South America	***40.78***	***40.84***	***0.14***
Brazil	26.42	26.12	-1.13
Colombia	10.19	10.87	6.64
Ecuador	0.70	0.99	41.12
Others	3.46	2.85	-17.66

In million bags

Exports during the first five months of coffee year 2005/06 (October – February 2006) totalled 32.64 million bags compared to 36.66 million during the same period in coffee year 2004/05, representing a fall of 10.96% (Table 4).

Table 4: Exports
Coffee years 2004/5 and 2005/06
(October – February)

	2004/05	2005/06	% variation
TOTAL	**36.66**	**32.64**	**-10.96**
Colombian Milds	5.84	5.14	-11.96
Other Milds	7.36	6.89	-6.34
Brazilian Naturals	11.93	9.90	-17.00
Robustas	11.53	10.70	-7.17
Arabicas	25.13	21.94	-12.71
Robustas	11.53	10.70	-7.17

In million bags

Information on the real levels of **opening stocks in exporting countries** is not yet available. However, according to the figures available at December 2005 stocks were down by 16.94% from 28.11 million bags in crop year 2004/05 to 23.35 million bags in crop year 2005/06. It should be noted that the fall in exports recorded during the last two months could be the result of a reduction in stock levels in exporting countries and the need to maintain working stocks.

As for importing countries, information available at the end of December 2005 indicates that **stocks of green coffee**, including free ports, totalled 19.9 million bags compared to 20.2 million bags at the end of December 2004. At this stage, it should be noted that despite the reduction in exports from exporting countries consumption in importing countries has not fallen. There is reason to believe, therefore, that roasters must have drawn on their stocks, thereby considerably reducing the total volume. Certified stocks in the London (LIFFE) and New York (NYBOT) futures markets, estimated at the end of each month since January 2005, are shown in Table 5. Certified stocks in the New York futures market have been declining since July 2005. Those in the London futures market have been on a downward trend since September 2005.

Table 5: LIFFE and NYBOT certified stocks

End of	LIFFE	NYBOT
Mar-00	n.a.	1.57
Mar-01	n.a.	3.83
Mar-02	2.60	2.39
Mar-03	2.69	3.36
Mar-04	2.70	4.62
Jan-05	3.88	4.51
Feb-05	3.81	4.51
Mar-05	3.80	4.50
Apr-05	3.72	4.50
May-05	3.64	4.52
Jun-05	3.64	4.51
Jul-05	3.65	4.55
Aug-05	3.72	4.48
Sep-05	3.90	4.35
Oct-05	3.85	4.21
Nov-05	3.82	4.07
Dec-05	3.70	3.87
Jan-06	3.51	3.70
Feb-06	3.26	3.61
Mar-06	3.01	3.49

In million bags

World consumption in calendar year 2005 is estimated at 117 million bags of which 30 million bags represent **domestic consumption in exporting countries** for crop year 2005/06 and 87 million bags represent **consumption in importing countries.** Some independent sources indicate that world consumption is between 118 and 123 million bags. However the information available to me leads me to maintain my estimate of 117 million bags for 2005. It should also be noted that consumption in non-member importing countries is becoming increasingly important. Per capita consumption in selected importing countries is shown in Table 6. Retail prices in selected importing countries are shown in Table 7. It will be seen that retail prices have increased in almost all countries except Japan, Portugal and Sweden, where prices have fallen.

Table 6: Per capita consumption in selected importing countries (calendar years 2001 – 2004)

	2001	2002	2003	2004
TOTAL	**4.50**	**4.46**	**4.55**	**4.64**
European Community	***5.01***	***5.05***	***5.05***	***5.17***
Austria	7.83	7.07	5.59	7.59
Belgium/Luxembourg	5.52	9.10	9.52	8.08
Cyprus	4.54	4.39	4.50	5.19
Czech Republic	3.85	3.80	3.27	3.21
Denmark	9.66	9.01	8.07	9.42
Estonia	4.85	4.94	5.24	5.91
Finland	11.01	11.24	11.19	11.94
France	5.31	5.54	5.45	5.02
Germany	6.90	6.59	6.60	7.40
Greece	3.47	4.72	5.46	5.05
Hungary	4.35	4.19	3.62	3.32
Ireland	2.30	2.08	2.27	3.26
Italy	5.44	5.44	5.73	5.58
Latvia	3.97	3.87	4.38	4.36
Lithuania	3.50	3.60	3.28	4.10
Malta	2.31	4.00	5.10	3.90
Netherlands	6.47	6.10	6.76	5.89
Poland	3.07	3.06	3.29	3.46
Portugal	4.48	4.28	3.90	4.41
Slovakia	3.45	3.32	3.55	3.56
Slovenia	5.82	6.03	5.46	5.85
Spain	4.24	4.23	4.05	4.00
Sweden	8.49	8.31	7.91	8.28
United Kingdom	2.22	2.23	2.21	2.40
Other importing countries	***3.95***	***3.84***	***4.03***	***4.07***
Japan	3.27	3.24	3.18	3.34
Norway	9.46	9.15	8.95	9.27
Switzerland	6.80	6.78	6.90	5.77
U.S.A.	4.09	3.95	4.25	4.26

In kilogrammes

Table 7: Retail prices of roasted coffee in selected importing countries

	September			
	2002	2003	2004	2005
European Community				
Austria	292.73	319.53	348.03	
Belgium	314.53	355.14	380.17	416.30
Cyprus	434.51	488.40	518.62	523.94
Denmark	322.78	360.37	392.80	437.27
Finland	192.19	202.50	230.54	
France	215.32	250.33	266.01	275.68
Germany 1/	282.05	322.07	323.64	429.09
Italy	475.57	542.38	591.31	608.06
Latvia	327.64	334.27	374.67	406.89
Luxembourg	440.87	521.52	574.13	605.83
Netherlands	270.49	317.49	341.38	
Portugal	395.05	452.83	474.93	474.66
Slovakia	223.59	242.10	263.52	271.69
Slovenia	329.47	379.74	362.94	380.59
Spain	266.93	295.11	314.77	317.92
Sweden	263.87	292.15	303.17	297.74
United Kingdom 2/	1 255.10	1 315.20	1 423.08	1 492.85
Other importing countries				
Japan	857.30	809.22	890.62	796.43
Norway	322.58	342.09	382.51	407.81
Switzerland	467.63	502.72	574.45	574.97
USA	292.10	291.90	287.40	344.70

In US cents/lb
1/ Source: Coffee Industry
2/ Soluble coffee

In conclusion, I would like to point out that the current situation reflects a drawing down of world stocks. In this situation of relative balance, unforeseeable exogenous factors may, of course, have a significant impact on the market. The other feature relevant to the market fundamentals is the growing importance of consumption in non-member countries.