



## MONTHLY COFFEE MARKET REPORT

March 2013

Coffee prices stabilized in March 2013, with the monthly average of the ICO composite indicator price essentially unchanged on the previous month. Contrasting trends in the prices of Arabicas and Robustas caused a further narrowing of the arbitrage between the New York and London futures markets to 44.21 US cents/lb, its lowest level since March 2009. The epidemic of coffee leaf rust in Central America has had severe social and economic consequences, with losses in the region estimated by PROMECAFE at 2.3 million bags, worth nearly US\$550 million, and around 441,000 direct job losses. However, world production for crop year 2012/13 remains at an estimated 144.6 million bags.

Graph 1: ICO composite indicator daily prices  
(1 March 2012 – 5 April 2013)



### Price movements

The **ICO composite indicator price** fell from a high of 135.30 US cents/lb to a low of 128.52 in March, before correcting upwards to average 131.38 US cents/lb, roughly the same level as February 2013. This monthly average is 21.7% lower than in March 2012. However, as shown in Graph 1, prices seem to have steadied slightly in recent months, after falling over the course of 2012.

In terms of daily price movements, the three Arabica groups fell while Robustas increased initially in March, causing the arbitrage between the New York and London futures markets briefly to dip below 40 US cents/lb for the first time since March 2009. Towards the end of the month, both trends reversed as Arabicas recovered and Robustas fell. As a result, the

monthly averages of **Colombian Milds** and **Other Milds** remained relatively unchanged from their February levels. **Brazilian Naturals** recorded a 2.2% decrease whereas **Robustas** increased by 2.1%.

In terms of price differentials, the monthly averages of all three Arabica indicators narrowed compared to Robustas. The arbitrage between the average of the 2<sup>nd</sup> and 3<sup>rd</sup> positions on the New York and London futures markets fell by 12.4% compared to February. Volatility, on the other hand, did increase compared to February for all group indicators, with that of the ICO composite indicator price increasing from 3.7% to 5.2%.

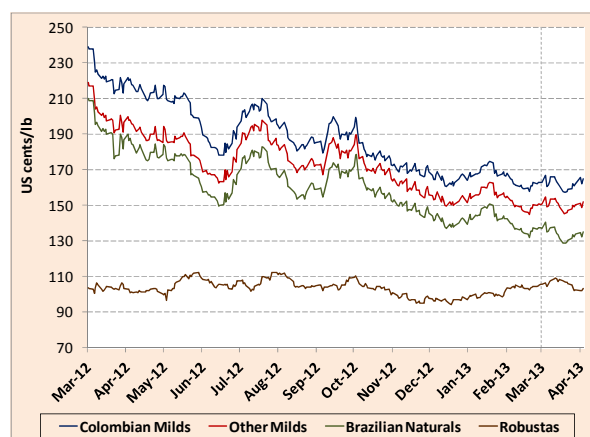
It should be noted that at the 110<sup>th</sup> Session of the International Coffee Council from 4 to 8 March 2013, the weighting of each coffee group in the calculation of the ICO composite indicator was reviewed in accordance with the Rules on Statistics. As a result, the weighting of Robustas increased while that of Colombian Milds fell (see document ICC-105-17, Add. 1). These changes will take effect from 1 October 2013.

### Coffee Leaf Rust in Central America

The current outbreak of coffee leaf rust in Central America is considered one of the worst ever recorded. Coffee production in crop year 2012/13 has been severely affected and it is likely that the impact on the 2013/14 crop will be even worse.

Table 1 shows an assessment of the damage estimated by PROMECAFE, a regional body formed by the coffee authorities of Guatemala, El Salvador, Honduras, Costa Rica, Panama, the Dominican Republic and Jamaica. Nearly 53% of the total area of coffee production has been affected in the region, causing a minimum loss of 2.3 million bags to the 2012/13 crop, worth some US\$548.2 million. Furthermore, the epidemic is having a profound

**Graph 2: ICO group indicator daily prices (1 March 2012 – 5 April 2013)**



**Graph 3: Arbitrage between New York and London futures markets (1 March 2012 – 5 April 2013)**



social cost to coffee farmers, with an estimated 441,000 direct job losses in the PROMECAFE countries.

In **Costa Rica**, the Government declared a state of phytosanitary emergency in January due to the outbreak, which has affected some 64% of the area planted. Total losses for the 2012/13 harvest are estimated at 74,000 bags, increasing to 190-230,000 bags in 2013/14. The Costa Rican Government has submitted to its Congress a US\$40 million proposal to assist coffee growers.

Initial losses in **El Salvador** are estimated at 420,000 bags, and preliminary information suggests that the 2013/14 crop could be the lowest recorded in 33 years.

In **Guatemala**, a state of phytosanitary emergency was declared in February, with some 193,000 hectares of coffee production believed to be affected. Total losses are initially estimated at 537,000 bags in 2012/13, costing around US\$168 million.

The Government of **Honduras** has also declared a state of phytosanitary emergency, with 25% of the area planted affected by the fungus, leading to estimated losses of 843,000 bags in 2012/13.

In **Nicaragua**, around 37% of the area under production has been affected, with losses for 2012/13 estimated at around 307,000 bags. In addition, total losses of 4,000 and 80,000 bags are provisionally estimated in **Jamaica** and the **Dominican Republic** respectively.

**Table 1: Effect of coffee leaf rust in PROMECAFE countries  
(Crop year 2012/13)**

	Total area (hectares)	Area affected (hectares)	Total workforce	Job losses	Total losses	
					Value (US\$ million)	Volume (60-kg bags)
Costa Rica	94 000	60 000	110 000	14 000	14.0	73 600
El Salvador	152 187	112 293		90 000	82.0	420 133
Guatemala	278 000	193 000	500 000	115 000	168.0	536 667
Honduras	280 000	70 000	1 000 000	100 000	150.0	843 333
Jamaica	3 013	841	12 182	3 640	5.2	3 758
Nicaragua	125 874	46 853	158 000	32 000	60.0	306 667
Panama	20 097	4 850	42 000	30 000		
Dominican Republic	101 128	68 000	112 000	56 500	69.0	79 733
<b>Total</b>	<b>1 054 299</b>	<b>555 837</b>	<b>1 934 182</b>	<b>441 140</b>	<b>548.2</b>	<b>2 263 892</b>

Source: PROMECAFE

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Given the severity of the current outbreak of coffee leaf rust in Central America, there has been much speculation as to whether it is related to a mutation in the strain of the disease that could have made it more aggressive. While it is too soon to report conclusive findings in this regard, it is worth mentioning that the same debate took place when Colombia experienced its own coffee leaf rust crisis in 2008. Infestation levels exceeded 50% of the area planted by 2010, and production had declined by almost 40%. A summary of findings from CABI, a UK science-based development and information organization, is presented here.

Rigorous tests took place in Portugal at the Coffee Rust Research Centre (*Centro de Investigação das Ferrugens do Cafeeiro*), which proved that spores collected in the Colombian outbreak were no

different to ones observed in previous episodes of the plague. Parallel to that, researchers found that those Catimor cultivars developed to be immune to the disease in some areas remained so in the midst of the 2008 outbreak. It was therefore concluded that the virulent spread of coffee leaf rust at the time was due to very particular conditions in both the environmental and the agronomic fields, and not to the development of a new, more ferocious strain.

The former had been characterized by high rainfall, reduced sunlight due to cloudy skies and a narrower range between maximum and minimum daily temperatures. The latter suggested insufficient use of fertilizers due to their high cost, as well as decreased capacity to absorb nutrients from water-saturated soils.

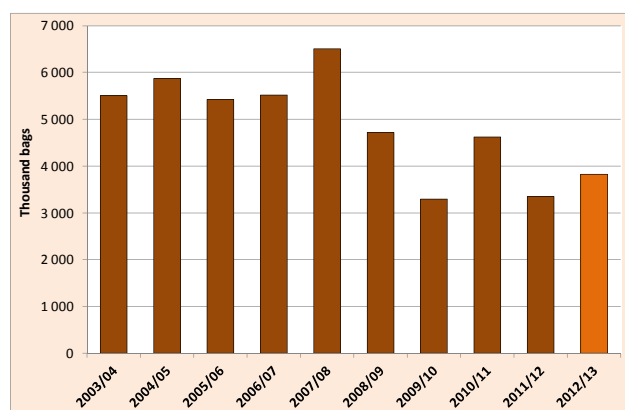
It is very likely that we are facing a similar scenario in Central America at the moment, where the perfect conditions for a large-scale outbreak of the disease seem to have occurred. Whether such changes in climatic conditions are somehow linked to man-made climate change remains open for debate. What is undeniable, however, is that the cumulative effect of incremental changes can result in a tipping point of much more severe consequences.

In response to this outbreak, Central American Ministers of Agriculture convened in March to adopt a Regional Action Plan, proposed by PROMECAFE on behalf of its members, to combat coffee leaf rust. It contains measures to tackle the disease in the short, medium and long term, in association with several international organizations. Furthermore, at the 110<sup>th</sup> Session of the International Coffee Council which took place from 4 to 8 March 2013, Members endorsed Resolution 451 expressing support for countries affected by the crisis, and resolving to show leadership in addressing this important issue.

### Market fundamentals

In terms of **world production** in crop year 2012/13, the total is now estimated at 144.6 million bags, a 6.4% increase on the previous year (Table 5). The damage caused by coffee leaf rust in Central America has been compensated by increased production in other countries, particularly Brazil, Indonesia and Ethiopia.

**Graph 4: Production in Colombia**  
(October – February 2003/04 – 2012/13)



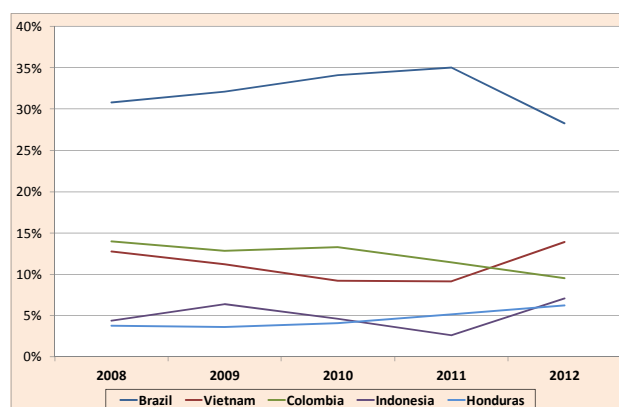
In Colombia, production for the first five months of crop year 2012/13 is currently 14.6% higher than the same period last year, at 3.8 million bags

(Graph 4), with three consecutive months of higher year-on-year increases. In addition, it should be noted that an agreement was reached at the beginning of March between producers and the Colombian Government to end a strike by coffee growers.

**Exports** in February 2013 reached 8.6 million bags, bringing the total volume for the first five months of the coffee year to 46.5 million bags (Table 4). This volume is 9.6% higher than the same period in 2011/12, mostly due to increased exports of Robustas, along with small increases in Colombian Milds and Brazilian Naturals. As a result, the composition of exports has changed, with Robustas now accounting for some 40.1% of total shipments, compared to 35.8% for the first five months of 2011/12.

The percentage share in the total value of exports earned by the top five exporting countries in calendar year 2012 is shown in Graph 5. It is notable that the shares of both Brazil and Colombia decreased in 2012 compared to 2011 from 35.1% to 28.3% and 11.4% to 9.5%, respectively, whereas the shares of Vietnam, Indonesia and Honduras increased from 9.1% to 13.8%; 2.6% to 7.0% and 5.1% to 6.2%, respectively.

**Graph 5: Percentage share of total value of exports**  
(Calendar years 2008 – 2012)



Finally, **world consumption** in calendar year 2012 is provisionally estimated at around 142 million bags, compared to 139 million in 2011. This growth in demand has been driven by strong increases in exporting countries and emerging markets (Table 6).

Table 2: 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>							
Mar-12	167.77	222.84	201.26	192.03	103.57	188.78	91.37
Apr-12	160.46	214.46	191.45	180.90	101.80	181.75	91.81
May-12	157.68	207.32	184.65	174.17	106.88	176.50	96.82
Jun-12	145.31	184.67	168.69	156.17	105.70	159.93	94.75
Jul-12	159.07	202.56	190.45	175.98	107.06	183.20	96.14
Aug-12	148.50	187.14	174.82	160.05	106.52	169.77	96.12
Sep-12	151.28	190.10	178.98	166.53	104.95	175.36	94.65
Oct-12	147.12	181.39	173.32	161.20	104.47	170.43	94.66
Nov-12	136.35	170.08	159.91	148.25	97.67	155.72	87.32
Dec-12	131.31	164.40	152.74	140.69	96.59	149.58	85.94
Jan-13	135.38	169.19	157.29	145.17	99.69	154.28	88.85
Feb-13	131.51	161.70	149.46	136.63	104.03	144.89	94.41
Mar-13	131.38	161.53	149.78	133.61	106.26	141.43	97.22
<b>% change between Mar-13 and Feb-13</b>							
	<b>-0.1</b>	<b>-0.1</b>	<b>0.2</b>	<b>-2.2</b>	<b>2.1</b>	<b>-2.4</b>	<b>3.0</b>
<b>Annual averages</b>							
2008	124.25	144.32	139.78	126.59	105.28	136.46	97.17
2009	115.67	177.43	143.84	115.33	74.58	128.40	67.69
2010	147.24	225.46	195.96	153.68	78.74	165.20	71.98
2011	210.39	283.84	271.07	247.61	109.21	256.36	101.23
2012	156.34	202.08	186.47	174.97	102.82	179.22	91.87
<b>% change between Mar-13 and 2012 average</b>							
	<b>-16.0</b>	<b>-20.1</b>	<b>-19.7</b>	<b>-23.6</b>	<b>3.3</b>	<b>-21.1</b>	<b>5.8</b>
<b>Volatility (%)</b>							
Feb-13	3.7	3.8	4.2	4.7	3.6	4.6	3.5
Mar-13	5.2	6.2	6.2	6.7	4.6	6.3	4.6
<b>Variation between Mar-13 and Feb-13</b>							
	<b>1.5</b>	<b>2.4</b>	<b>2.0</b>	<b>2.0</b>	<b>1.0</b>	<b>1.7</b>	<b>1.1</b>

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

Table 3: 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*
Mar-12	21.58	30.81	119.27	9.23	97.69	88.46	97.41
Apr-12	23.01	33.56	112.66	10.55	89.65	79.10	89.94
May-12	22.67	33.15	100.44	10.48	77.77	67.29	79.68
Jun-12	15.98	28.50	78.97	12.52	62.99	50.47	65.18
Jul-12	12.11	26.58	95.50	14.47	83.39	68.92	87.06
Aug-12	12.32	27.09	80.62	14.77	68.30	53.53	73.65
Sep-12	11.12	23.57	85.15	12.45	74.03	61.58	80.71
Oct-12	8.07	20.19	76.92	12.12	68.85	56.73	75.77
Nov-12	10.17	21.83	72.41	11.66	62.24	50.58	68.40
Dec-12	11.66	23.71	67.81	12.05	56.15	44.10	63.64
Jan-13	11.90	24.02	69.50	12.12	57.60	45.48	65.43
Feb-13	12.24	25.07	57.67	12.83	45.43	32.60	50.48
Mar-13	11.75	27.92	55.27	16.17	43.52	27.35	44.21
<b>% change between Mar-13 and Feb-13</b>							
	<b>-4.0</b>	<b>11.4</b>	<b>-4.2</b>	<b>26.0</b>	<b>-4.2</b>	<b>-16.1</b>	<b>-12.4</b>

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

Table 4: Total exports of all forms of coffee by exporting countries

	February 2012	February 2013	% change	October - February		
				2011/12	2012/13	% change
<b>TOTAL</b>	<b>9 726</b>	<b>8 626</b>	<b>-11.3</b>	<b>42 414</b>	<b>46 486</b>	<b>9.6</b>
Colombian Milds	679	858	26.3	3 675	4 082	11.1
Other Milds	2 519	2 223	-11.7	9 876	9 306	-5.8
Brazilian Naturals	2 310	2 240	-3.0	13 684	14 465	5.7
Robustas	4 217	3 304	-21.7	15 179	18 632	22.7
Arabicas	5 508	5 322	-3.4	27 235	27 854	2.3
Robustas	4 217	3 304	-21.7	15 179	18 632	22.7

In thousand bags

Full trade statistics for all exporting countries are available on the ICO website at [www.ico.org/trade\\_statistics.asp](http://www.ico.org/trade_statistics.asp)

Table 5: Total production by all exporting countries

Crop year commencing	2009	2010	2011	2012*	% change 2011 - 2012*
<b>TOTAL</b>	<b>122 798</b>	<b>133 498</b>	<b>135 933</b>	<b>144 646</b>	<b>6.4</b>
Colombian Milds	9 160	9 722	8 638	9 364	8.4
Other Milds	26 439	28 830	32 273	30 559	-5.3
Brazilian Naturals	37 194	45 628	41 559	48 851	17.5
Robustas	50 005	49 318	53 464	55 872	4.5
Arabicas	72 793	84 180	82 470	88 774	7.6
Robustas	50 005	49 318	53 464	55 872	4.5
Africa	15 847	16 227	15 654	18 502	18.2
Asia & Oceania	37 211	36 318	41 076	41 883	2.0
Mexico & Central America	16 695	18 060	20 343	18 505	-9.0
South America	53 045	62 893	58 859	65 756	12

In thousand bags

\* Estimated

Table 6: World coffee consumption

Calendar years	2009	2010	2011	2012*	Average annual growth rate (2009 - 2012*)
<b>World total</b>	<b>132 273</b>	<b>136 910</b>	<b>139 008</b>	<b>142 000</b>	<b>2.4</b>
Exporting countries	39 616	40 910	42 397	43 451	3.1
Traditional Markets	69 527	70 922	71 208	70 629	0.5
Emerging Markets	23 130	25 078	25 403	27 920	6.5

In thousand bags

\* Estimated