

April 2015

## Record exports from Brazil weigh heavy on the coffee market

*Coffee exports from Brazil reached a record high of 36.8 million bags in crop year 2014/15 (April to March), fuelled by domestic stocks and encouraged by a depreciation in the exchange rate. Production in crop year 2015/16 is currently estimated by Conab as roughly unchanged at between 44.1 and 46.6 million bags. However, with Brazil's domestic consumption at around 21 million bags, export availability is going to be significantly reduced over the next year. Overall, prices remained low in April 2015 despite a slight increase over March, as consumer stocks remain relatively well supplied. Furthermore, several recent reports about the upcoming Brazilian crop have suggested that the damage might not be as severe as previously expected.*

**Graph 1: ICO composite indicator daily prices**



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The monthly average of the ICO composite indicator settled 1.6% higher than March on 129.02 US cents/lb, but coffee prices remain at generally low levels. The daily price showed no clear trend over the course of the month, ranging from a high of 132.46 cents to a low of 126.05.

**Graph 2: ICO group indicator daily prices**



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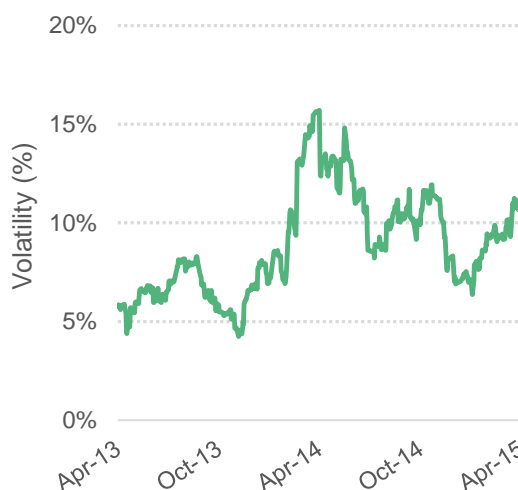
In terms of the groups, the three Arabica price indicators all registered modest increases, with Colombian Milds, Other Milds and Brazilian Naturals up 1.8%, 2.0% and 2.4% respectively. The monthly average of Robustas, on the other hand, fell by 0.1% to its lowest level in fifteen months. As a result, the arbitrage between Arabica on the New York futures market and Robusta on the London market has widened to just under 60 cents.

**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**

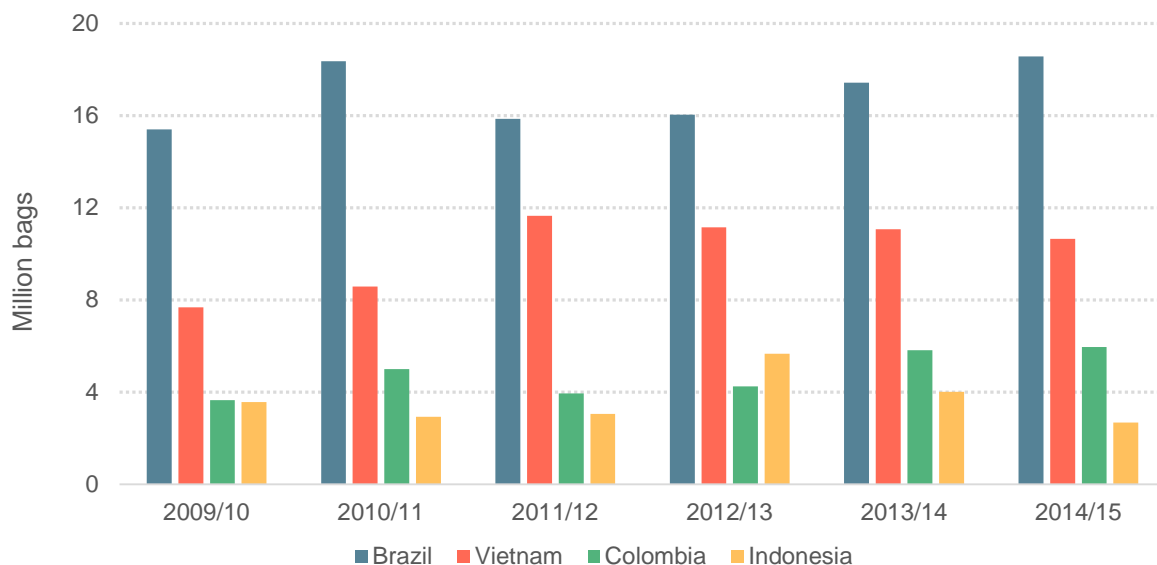


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Total coffee exports in March 2015 came to just under 10 million bags, 2.6% less than March 2014. This brings exports for the first half of coffee year 2014/15 (October to March) to 53.1 million bags, down 3.3% compared to the same period in 2013/14. In terms of individual countries, it can be seen in Graph 5 that while exports from Brazil and Colombia for October to March have increased year-on-year, shipments from Vietnam have fallen to a four-year low, while Indonesia is down by a third compared to last year. Looking at the Arabica/Robusta

breakdown, the reduction in Robusta availability from Vietnam and Indonesia has been partially compensated by the increase from Brazil. Overall, Arabica exports were down 4.6% while Robustas were 1.1% lower.

**Graph 5: Exports in the first half of the coffee year**



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Indeed, with this export data for March now available, it can be seen that Brazil registered a record volume of exports in crop year 2014/15 (April to March) of 36.8 million bags. This volume is 12.4% higher than the 32.7 million exported the previous year, and is all the more remarkable given the lower production volume due to the drought in early 2014. According to Conab, the Brazilian government agency responsible for crop forecasts, coffee production in 2014/15 came to 45.3 million bags, its lowest level in three years. With domestic consumption of around 21 million bags, this would suggest that significant volumes of domestic stocks have been used to supply the market over the last year, which has been made possible by the large production levels of 50.8 and 49.2 million bags recorded in crop years 2012/13 and 2013/14.

These record export levels have been further encouraged by the depreciation of the Brazilian real against the US dollar. As can be seen in Graph 6, the real weakened considerably between October 2014 and March 2015, before recovering somewhat in April. This depreciation increases the return in local currency for Brazilian exporters selling coffee priced in dollars, thereby creating an incentive to release stocks to the international market.

Looking ahead to crop year 2015/16, which began in April, production is currently estimated by Conab at between 44.1 and 46.6 million bags; assuming that domestic

**Graph 6: Exchange rate of the Brazilian real against the US dollar**

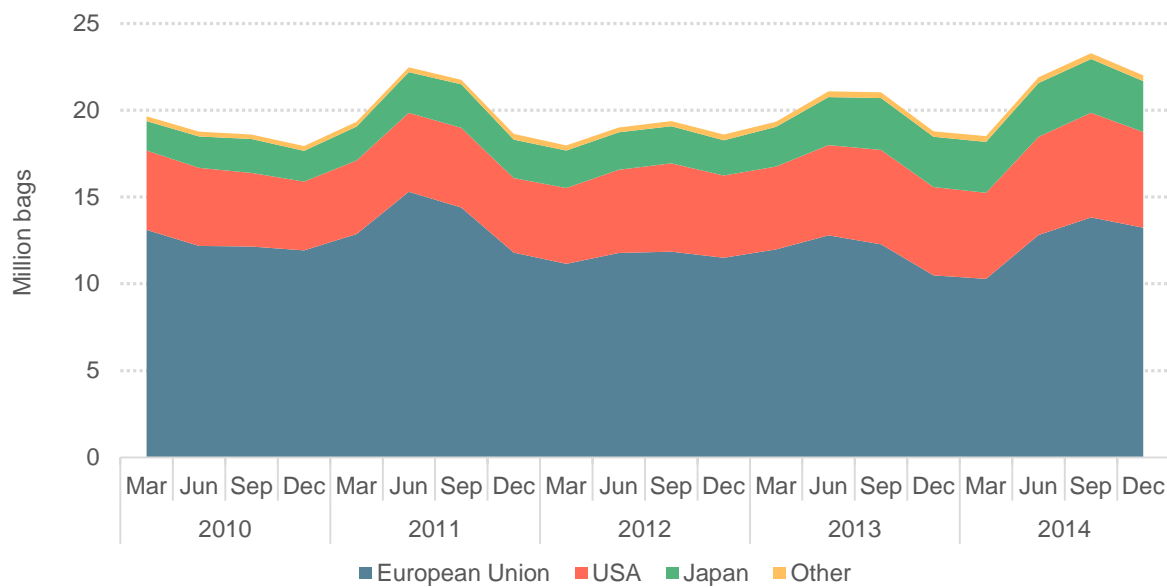


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consumption stays in the region of 21 million bags, this would only give an exportable production availability of just 24 million bags or so. As a result, it is likely that Brazilian exports over the next 12 months are going to be significantly lower.

The effect this will have on the market is still a matter of some debate, as these record export volumes have ensured that consumer stocks are currently well supplied. At the end of December 2014, stocks in importing countries reached 22 million bags, compared to 18.8 million in December 2013. This gives a relatively comfortable availability of just over 11 weeks, which is contributing to the ongoing bearish market sentiment.

**Graph 7: Inventories in importing countries**



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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*
<b>Monthly averages</b>							
Apr-14	170.58	220.62	223.48	190.62	105.55	200.39	96.12
May-14	163.94	211.66	214.20	181.97	102.99	191.07	93.83
Jun-14	151.92	195.17	197.89	165.34	98.91	175.81	89.40
Jul-14	152.50	194.21	196.90	164.92	101.79	175.74	91.83
Aug-14	163.08	211.60	212.97	183.32	100.25	193.98	90.64
Sep-14	161.79	206.78	210.53	182.15	100.52	192.09	91.24
Oct-14	172.88	222.59	225.29	197.05	104.70	210.12	95.51
Nov-14	162.17	206.41	209.38	181.43	103.06	192.33	93.60
Dec-14	150.66	190.16	193.60	166.58	98.43	177.82	89.86
Jan-15	148.24	185.26	190.00	163.50	98.01	173.19	89.33
Feb-15	141.10	174.11	178.89	151.90	98.36	159.55	89.76
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
<b>% change between Apr-15 and Mar-15</b>							
	1.6%	1.8%	2.0%	2.4%	-0.1%	1.5%	-0.3%
<b>Volatility (%)</b>							
Mar-15	9.8	11.6	11.3	13.1	7.0	14.3	8.0
Apr-15	7.3	8.5	7.7	9.5	5.6	9.7	4.8
<b>Variation between Apr-15 and Mar-15</b>							
	-2.5	-3.1	-3.5	-3.7	-1.4	-4.6	-3.2

\* 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*
Apr-14	-2.86	30.00	115.07	32.86	117.93	85.07	104.27
May-14	-2.54	29.69	108.67	32.23	111.21	78.98	97.24
Jun-14	-2.72	29.83	96.26	32.55	98.98	66.43	86.41
Jul-14	-2.69	29.29	92.42	31.98	95.11	63.13	83.91
Aug-14	-1.37	28.28	111.35	29.65	112.72	83.07	103.34
Sep-14	-3.75	24.63	106.26	28.38	110.01	81.63	100.85
Oct-14	-2.70	25.54	117.89	28.24	120.59	92.35	114.61
Nov-14	-2.97	24.98	103.35	27.95	106.32	78.37	98.73
Dec-14	-3.44	23.58	91.73	27.02	95.17	68.15	87.96
Jan-15	-4.74	21.76	87.25	26.50	91.99	65.49	83.86
Feb-15	-4.78	22.21	75.75	26.99	80.53	53.54	69.79
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
<b>% change between Apr-15 and Mar-15</b>							
	7.6%	-1.8%	4.6%	0.4%	4.9%	7.9%	4.1%

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

**Table 3: Total production in exporting countries**

Crop year commencing	2011	2012	2013	2014	% change 2013-14
<b>TOTAL</b>	<b>136 583</b>	<b>147 562</b>	<b>146 745</b>	<b>141 850</b>	<b>-3.3%</b>
Arabicas	82 007	88 264	87 116	84 638	-2.8%
<i>Colombian Milds</i>	8 720	11 523	13 488	14 020	3.9%
<i>Other Milds</i>	31 965	28 828	26 891	27 131	0.9%
<i>Brazilian Naturals</i>	41 322	47 913	46 737	43 488	-7.0%
Robustas	54 576	59 298	59 630	57 212	-4.1%
Africa	16 070	16 702	16 108	16 860	4.7%
Asia & Oceania	41 918	45 355	46 744	44 334	-5.2%
Mexico & Central America	20 194	18 381	16 661	17 963	7.8%
South America	58 401	67 125	67 233	62 693	-6.8%

In thousand bags

Full production data are available on the ICO website at [www.ico.org/trade\\_statistics.asp](http://www.ico.org/trade_statistics.asp)

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

	March 2014	March 2015	% change	October - March		
				2013/14	2014	% change
<b>TOTAL</b>	<b>10 250</b>	<b>9 983</b>	<b>-2.6%</b>	<b>54 897</b>	<b>53 084</b>	<b>-3.3%</b>
Arabicas	6 111	6 052	-1.0%	34 189	32 599	-4.6%
<i>Colombian Milds</i>	1 081	930	-14.0%	6 451	6 558	1.7%
<i>Other Milds</i>	2 369	2 451	3.5%	10 668	9 535	-10.6%
<i>Brazilian Naturals</i>	2 662	2 671	0.4%	17 070	16 506	-3.3%
Robustas	4 139	3 931	-5.0%	20 708	20 485	-1.1%

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**

	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15
New York	2.90	2.87	2.83	2.79	2.71	2.68	2.67	2.63	2.60	2.55	2.56	2.60	2.56
London	0.27	0.85	1.12	1.28	1.41	1.88	2.02	2.08	2.12	2.35	2.55	2.84	2.93

In million bags

**Table 6: World coffee consumption**

Calendar years	2011	2012	2013	2014	CAGR (2011-2014)
<b>World total</b>	<b>139 415</b>	<b>143 004</b>	<b>147 339</b>	<b>149 265</b>	<b>2.3%</b>
Exporting countries	42 794	44 222	44 992	46 201	2.6%
Traditional markets	75 910	76 509	79 026	79 387	1.5%
Emerging markets	20 711	22 273	23 320	23 677	4.6%

CAGR: Compound Annual Growth Rate

In thousand bags

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