

Coffee Market Report



INTERNATIONAL
COFFEE
ORGANIZATION

December 2014

Coffee market ends 2014 at ten month low

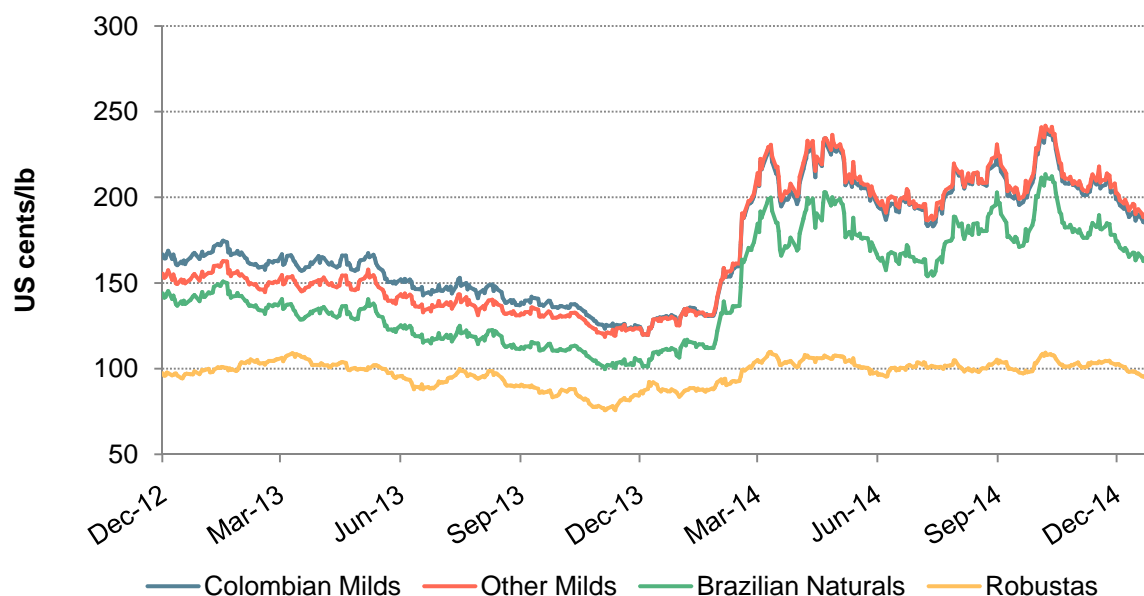
Coffee prices continued to slide downwards in December 2014, with the monthly average of the ICO composite indicator at its lowest level since February. Recent estimates from external sources, including the private sector and the USDA, have suggested that production in Brazil in crop year 2015/16 might recover relatively quickly. The official Conab forecast has provisionally estimated production in 2015/16 at between 44.1 and 46.6 million bags, with production in 2014/15 revised up slightly to 45.3 million bags (7.7% less than 2013/14). As reported last month, world production in crop year 2014/15 is provisionally estimated at 141.4 million bags, 3.6% less than the 146.8 million bags produced in 2013/14, which has also been revised upwards.

Graph 1: ICO composite indicator daily prices



The daily price of the ICO composite indicator fell consistently in December, from a high of 160.43 US cents/lb on the first of the month, to a low of 142.29 cents on the 29th. The monthly average came to 150.66 cents, its lowest level in ten months. The market remains well supplied with coffee, and expectations regarding Brazil's 2015/16 crop seem to be improving. Several recent reports have forecast an increase in production in the next year, with sufficient stocks available to cover the shortfall in 2014/15.

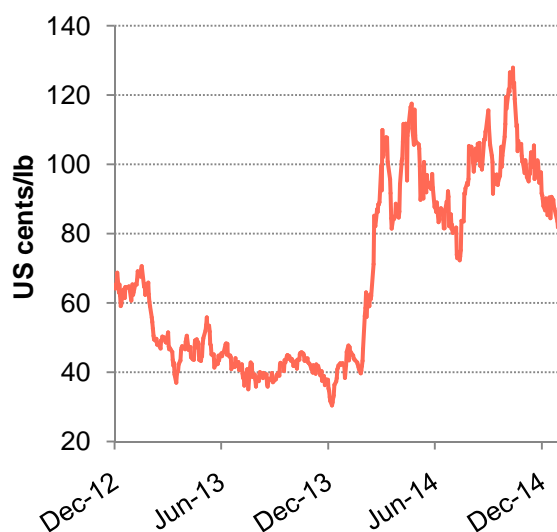
Graph 2: ICO group indicator daily prices



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In terms of the group indicators, the largest drop was registered in Brazilian Naturals, down 8.2% compared to November on 166.58 cents. All groups were significantly lower, with Colombian Milds down 7.9%, Other Milds down 7.5%, and Robustas falling by 4.5%. As a result, the arbitrage between the three Arabica groups and Robustas narrowed, with the monthly differentials down by over 10% compared to November. Price volatility was also somewhat lower in December for all price indicators.

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 November 2014 came to 7.9 million bags, slightly less than the 8 million bags exported in November 2013. Shipments from Brazil were higher year on year for the twelfth consecutive month, with exports from Vietnam also estimated higher, although Indonesia was significantly lower. Total exports for the first two months of coffee year 2014/15 (October and November) were unchanged on the previous year at 16.8 million bags.

Initial estimate of world coffee production in 2014/15

World coffee production in 2014/15 is provisionally estimated at around 141.4 million bags, which would be a 3.6% decrease on the 146.8 million bags produced in 2013/14. This 2013/14 estimate has been revised upwards by around 1.5 million bags. Production of both Arabica and Robusta coffee is expected to fall, by 3.7% and 3.6% respectively.

Colombian Milds are the only group expecting an increase, estimated up 3.2% on 13.9 million bags, as production in Colombia is expected to continue growing, albeit at a slightly slower pace. Production in 2013/14 came to 12.1 million bags, 22.1% higher than 2011/12, and is conservatively expected to increase to 12.5 million in 2014/15. Production in the first three months of 2014/15 (October to December) came to 3.3 million bags, 0.5% higher than 2013/14. Tanzania will be in the on year of its biennial cycle in 2014/15, and is therefore expected to increase by 12.6% to 900,000 bags, while Kenya is provisionally estimated 1.5% lower on 850,000.

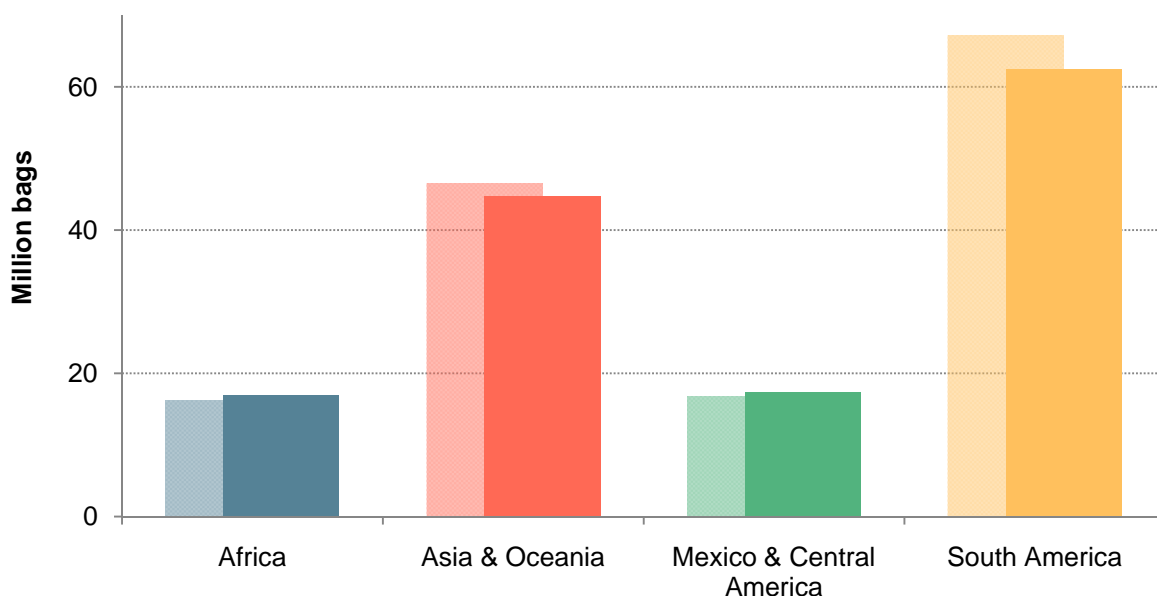
Production of Other Milds is expected to be 1% lower compared to 2013/14 on 26.7 million bags, as the effect of coffee leaf rust in Central America is somewhat diminished. However, this is still over 5 million bags less than 2011/12, before the outbreak. A decent recovery is expected in several countries, with higher production estimated in Honduras (+1.8% to

4.7 million bags), Mexico (+2.6% to 4 million), Guatemala (+10.8% to 3.5 million), and Costa Rica (+6.8% to 1.5 million). However, production in El Salvador is still well below its usual level on an estimated 680,000 bags, and Peru is estimated down 21.6% on 3.4 million. Peru's crop year began in April, and its exports so far have been significantly lower than average.

Turning to Brazilian Naturals, production overall is overwhelmingly dominated by the effect of the drought in Brazil at the beginning of 2014. Conab have released their fourth estimate for the 2014/15 crop, revising up slightly to 45.3 million bags. Arabica production is estimated at 32.3 million bags, 6 million bags less than 2013/14, and the lowest Arabica crop since 2009/10. Nevertheless, exports from Brazil since April (the beginning of its crop year) have consistently been higher than the previous year, coming to 24.6 million bags in eight months, 15.8% higher than the same period in 2013. The weakness of the Brazilian *real* against the US dollar will likely continue to encourage selling as domestic prices remain high. In Ethiopia, Arabica production is estimated at 6.6 million bags, nearly 100,000 bags higher than 2013/14.

Finally, production of Robustas is estimated at 57.5 million bags, 2.1 million bags less than the 2013/14 total. In the absence of new information, production in Vietnam is provisionally estimated unchanged on 27.5 million bags, 95% of which is Robusta. A significant drop is expected in Indonesia, as exports since the beginning of their crop year in April are less than half their level of a year ago; production is provisionally estimated at 9 million bags, 22.9% lower than 2013/14. Robusta production in Brazil increased significantly in 2014/15, up 20% to 13 million bags. This has been attributed to higher yields, particularly in Espirito Santo, the largest Robusta-producing state.

Graph 5: Coffee production by continent (2013/14 and 2014/15)



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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							
Dec-13	106.56	126.54	125.97	107.40	87.89	114.12	76.74
Jan-14	110.75	132.90	132.73	114.02	87.73	120.92	77.25
Feb-14	137.81	172.22	173.64	148.74	95.90	156.68	85.12
Mar-14	165.03	211.07	214.09	182.97	105.37	190.66	95.53
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
% change between Dec-14 and Nov-14							
	-7.1%	-7.9%	-7.5%	-8.2%	-4.5%	-7.5%	-4.0%
Volatility (%)							
Nov-14	6.6	7.7	8.0	8.2	3.7	9.3	3.4
Dec-14	4.7	5.3	5.7	5.7	3.5	7.4	4.1
Variation between Dec-14 and Nov-14							
	-1.9	-2.4	-2.2	-2.4	-0.2	-1.9	0.7

* 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*
Dec-13	0.57	19.14	38.65	18.57	38.08	19.51	37.38
Jan-14	0.17	18.88	45.17	18.71	45.00	26.29	43.67
Feb-14	-1.42	23.48	76.32	24.90	77.74	52.84	71.56
Mar-14	-3.02	28.10	105.70	31.12	108.72	77.60	95.13
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
% change between Dec-14 and Nov-14							
	15.8%	-5.6%	-11.2%	-3.3%	-10.5%	-13.0%	-10.9%

* Average price for 2nd and 3rd positions

Table 3: Total production in exporting countries

Crop year commencing	2011	2012	2013	2014*	% change 2013-14
TOTAL	136 246	147 477	146 772	141 420	-3.6%
Arabicas	81 952	88 345	87 124	83 914	-3.7%
<i>Colombian Milds</i>	8 720	11 523	13 506	13 935	3.2%
<i>Other Milds</i>	31 913	28 914	26 935	26 653	-1.0%
<i>Brazilian Naturals</i>	41 319	47 908	46 683	43 326	-7.2%
Robustas	54 295	59 132	59 648	57 505	-3.6%
Africa	15 738	16 521	16 189	16 905	4.4%
Asia & Oceania	41 913	45 328	46 550	44 709	-4.0%
Mexico & Central America	20 194	18 504	16 800	17 313	3.1%
South America	58 401	67 124	67 233	62 492	-7.1%

* Estimated

In thousand bags

Full production data are available on the ICO website at www.ico.org/prices/po.htm**Table 4: Total exports by exporting countries**

	November 2013	November 2014	% change	October - November		
				2013	2014	% change
TOTAL	7 973	7 929	-0.6%	16 809	16 822	0.1%
Arabicas	5 312	5 118	-3.6%	11 042	10 758	-2.6%
<i>Colombian Milds</i>	1 133	1 102	-2.7%	2 096	2 159	3.0%
<i>Other Milds</i>	1 393	1 265	-9.2%	2 910	2 673	-8.1%
<i>Brazilian Naturals</i>	2 786	2 752	-1.2%	6 036	5 926	-1.8%
Robustas	2 661	2 811	5.6%	5 767	6 063	5.1%

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**

	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14
London	0.50	0.46	0.40	0.32	0.27	0.85	1.12	1.28	1.41	1.88	2.02	2.08	2.12
New York	3.06	3.00	2.95	2.92	2.90	2.87	2.83	2.79	2.71	2.68	2.67	2.63	2.60

In million bags

Table 6: World coffee consumption

Calendar years	2010	2011	2012	2013*	CAGR (2010-2013*)
World total	137 185	139 488	142 911	145 800	2.1%
Exporting countries	41 005	42 755	44 078	44 659	2.9%
Traditional markets	71 015	70 735	71 411	73 875	1.3%
Emerging markets	25 165	25 998	27 422	27 266	2.7%

CAGR: Compound Annual Growth Rate

* Estimated