



May 2016

Supply concerns for Robusta drive coffee market higher

Coffee prices settled higher for the fourth consecutive month in May, but are still below their levels of this time last year, with Robusta prices leading the charge. Exports dipped slightly in April, due to lower shipments from Brazil, but recent estimates suggest a strong recovery in Brazil's Arabica production this year, with output of Robusta decreasing. These reduced exports indicate that stock levels in Brazil are likely minimal, so the new crop will need to fulfil both domestic consumption and export requirements over the next year.

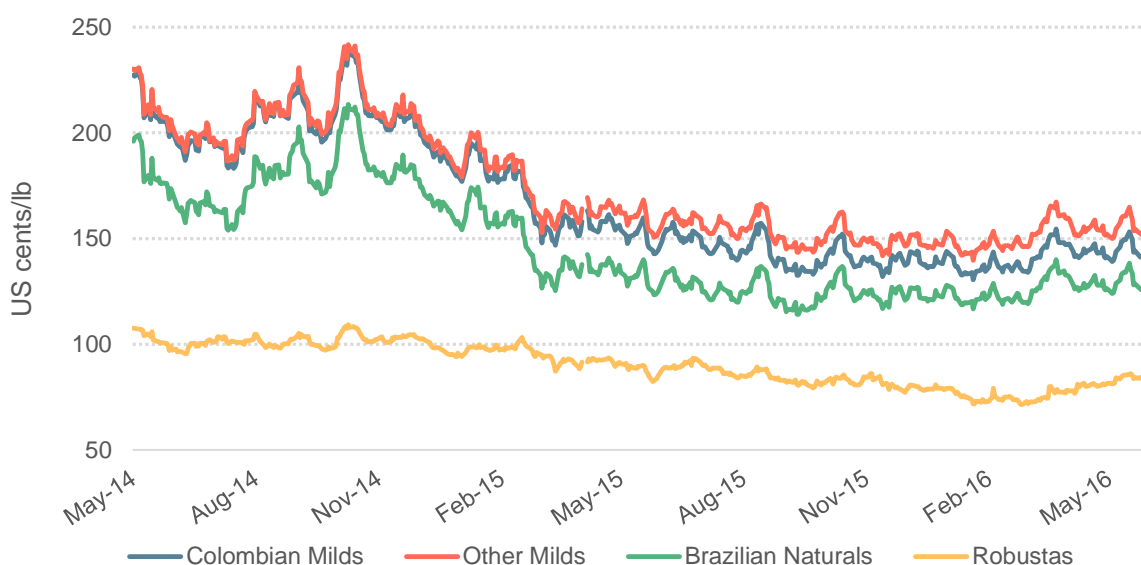
Graph 1: ICO composite indicator daily prices



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The daily price of the ICO composite indicator started the month relatively strongly, increasing from a low of 115.68 US cents/lb to a high of 126.47 cents halfway through the month. However, most of these initial gains were subsequently lost as the market dropped back down to 118.14 cents by the end of the month. Nevertheless, the monthly average did settle up by 1.7% to 119.91 cents, representing four consecutive months of higher monthly prices. This is therefore the highest monthly average so far in 2016, but is still slightly lower than the same time last year. It is notable that the ICO composite indicator has remained within a relatively narrow band over the last year, with the monthly averages staying between 110 and 125 cents.

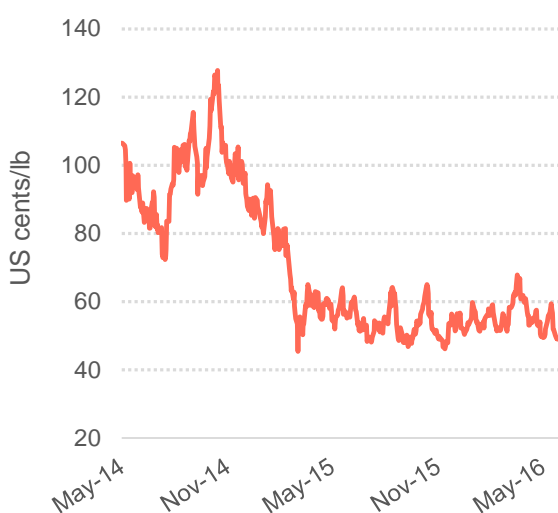
Graph 2: ICO group indicator daily prices



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In terms of the group indicators, Robustas continued their strong performance, increasing by 4.7% compared to April to reach 83.93 cents, representing a 9-month high. The three Arabica groups all registered increases of less than 1%. As a result, the arbitrage between Arabica and Robusta narrowed for the second consecutive month. The differential between the New York and London futures markets was down 5.1%, its lowest level in six months.

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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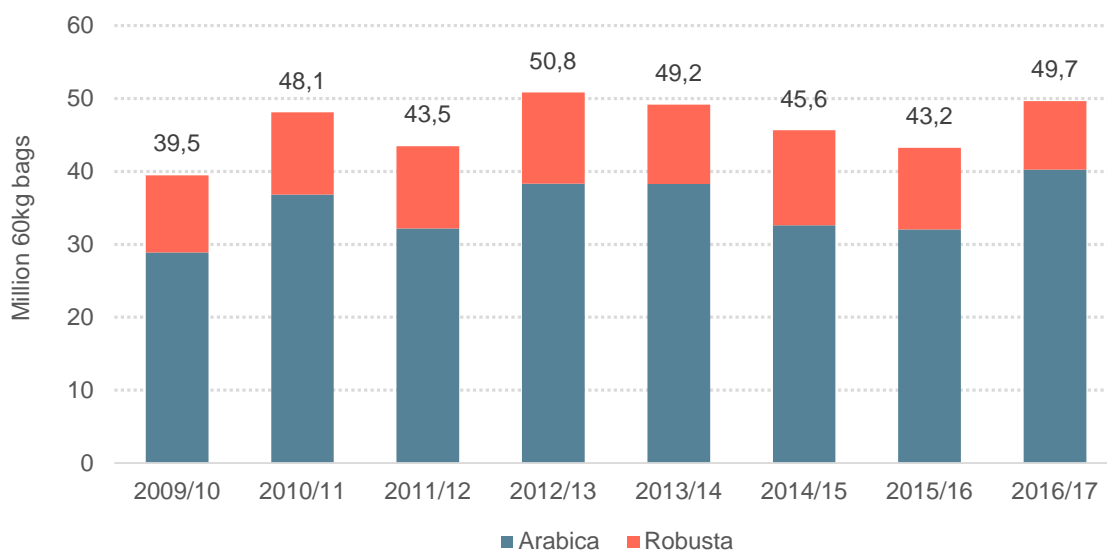
Exports of coffee in April 2016 are estimated at 9.3 million bags, down 8.1% compared to the same time last year. This can be largely attributed to a slowdown in shipments from Brazil, which dropped by 25% to 2.4 million bags. This suggests that availability from the previous

years' crops has been mostly exhausted, given the recent impressive export performance from Brazil. This brings total exports for the first seven months of coffee year 2015/16 (October to April) to 65.2 million bags, 0.7% more than last year. Lower shipments of Robustas have been largely offset by higher exports of Arabica.

The Brazilian coffee authorities, Conab, have released their second estimate of production in crop year 2016/17, which started in April. Output is currently estimated at 49.7 million bags, at the lower end of the range issued back in January, but still an increase of 14.9% compared to 2015/16. Arabica is expected to increase by 25.6% to 40.3 million bags, which would be the largest Arabica crop on record. This increase is mostly due to higher yields as the area planted is broadly unchanged. Robusta production, on the other hand, is estimated at 9.4 million bags, 16% less than the previous year and below the bounds of the range given in January. This would be the lowest Robusta crop in over 10 years, as dry weather has had a severe negative effect in several Robusta producing regions.

If realised, this production estimate of 49.7 million bags would be the second highest Brazilian crop on record, and would suggest that Brazil is no longer suffering from the effects of the drought which negatively affected output in 2014/15 and 2015/16. Indeed, the United States Department of Agriculture (USDA) has also issued a forecast for a strong recovery, of 13% to 56 million bags, just slightly below the levels of 2012/13 and 2013/14. This new crop will be under pressure to both supply domestic consumption in Brazil and also meet export requirements over the coming year.

Graph 5: Production by Brazil (Crop years 2009/10 - 2016/17)



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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							
May-15	123.49	150.19	158.48	130.38	87.56	135.22	78.03
Jun-15	124.97	152.02	159.76	130.51	90.25	135.86	80.25
Jul-15	119.77	144.52	154.45	123.64	87.12	128.59	77.16
Aug-15	121.21	146.96	156.92	127.24	85.78	132.42	76.25
Sep-15	113.14	135.55	146.15	117.83	81.50	121.66	71.53
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
% change between May-16 and Apr-16							
	1.7%	0.6%	0.6%	0.7%	4.7%	1.2%	5.9%
Volatility (%)							
Apr-16	5.9	6.3	6.6	7.2	6.2	7.9	4.7
May-16	5.9	6.6	6.4	7.4	4.3	6.5	4.7
Variation between May-16 and Apr-16							
	0.0	0.3	-0.2	0.2	-1.9	-1.5	0.0

* Average price for 2nd and 3rd positions

Table 2: Price differentials (US cents/lb)

	Colombian Milds	Colombian Milds	Colombian Milds	Other Milds	Other Milds	Brazilian Naturals	New York*
	Other Milds	Brazilian Naturals	Robustas	Brazilian Naturals	Robustas	Robustas	London*
May-15	-8.29	19.81	62.63	28.10	70.92	42.82	57.19
Jun-15	-7.74	21.51	61.77	29.25	69.51	40.26	55.61
Jul-15	-9.93	20.88	57.40	30.81	67.33	36.52	51.43
Aug-15	-9.96	19.72	61.18	29.68	71.14	41.46	56.17
Sep-15	-10.60	17.72	54.05	28.32	64.65	36.33	50.13
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
% change between May-16 and Apr-16							
	1.3%	-0.8%	-4.6%	0.1%	-3.8%	-5.8%	-5.1%

* Average price for 2nd and 3rd positions

Table 3: Total production in exporting countries

Crop year commencing	2012	2013	2014	2015	% change 2014-15
TOTAL	144 949	146 580	142 508	144 752	1.6%
Arabicas	88 184	86 997	84 686	84 635	-0.1%
<i>Colombian Milds</i>	11 523	13 488	14 571	14 853	1.9%
<i>Other Milds</i>	29 131	26 852	25 941	27 293	5.2%
<i>Brazilian Naturals</i>	47 530	46 657	44 173	42 488	-3.8%
Robustas	56 765	59 583	57 822	60 117	4.0%
Africa	16 668	16 271	16 109	17 129	6.3%
Asia & Oceania	42 554	46 452	45 676	47 906	4.9%
Mexico & Central America	18 595	16 615	17 436	18 462	5.9%
South America	67 131	67 243	63 287	61 255	-3.2%

In thousand bags

Full production data are available on the ICO website at www.ico.org/trade_statistics.asp

Table 4: Total exports by exporting countries

	April 2015	April 2016	% change	October - April		
				2014/15	2015/16	% change
TOTAL	10 144	9 324	-8.1%	64 734	65 197	0.7%
Arabicas	6 134	5 879	-4.2%	39 420	41 998	6.5%
<i>Colombian Milds</i>	1 090	1 073	-1.6%	7 648	8 537	11.6%
<i>Other Milds</i>	2 256	2 389	5.9%	11 790	12 633	7.2%
<i>Brazilian Naturals</i>	2 788	2 416	-13.3%	19 982	20 828	4.2%
Robustas	4 010	3 444	-14.1%	25 313	23 199	-8.4%

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

	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16	Mar-16	Apr-16	May-16
New York	2.41	2.43	2.38	2.36	2.28	2.15	2.08	1.95	1.82	1.76	1.62	1.58	1.53
London	3.02	3.12	3.35	3.43	3.43	3.37	3.35	3.31	3.23	3.04	2.92	2.78	2.64

In million bags

Table 6: World coffee consumption

Calendar years	2012	2013	2014	2015	CAGR (2012-2015)
World total	143 348	148 003	150 339	152 149	2.0%
Exporting countries	44 441	45 445	46 494	47 292	2.1%
Importing countries	98 907	102 558	103 845	104 857	2.0%

CAGR: Compound Annual Growth Rate

In thousand bags