

Coffee Market Prices Continued to Climb in December

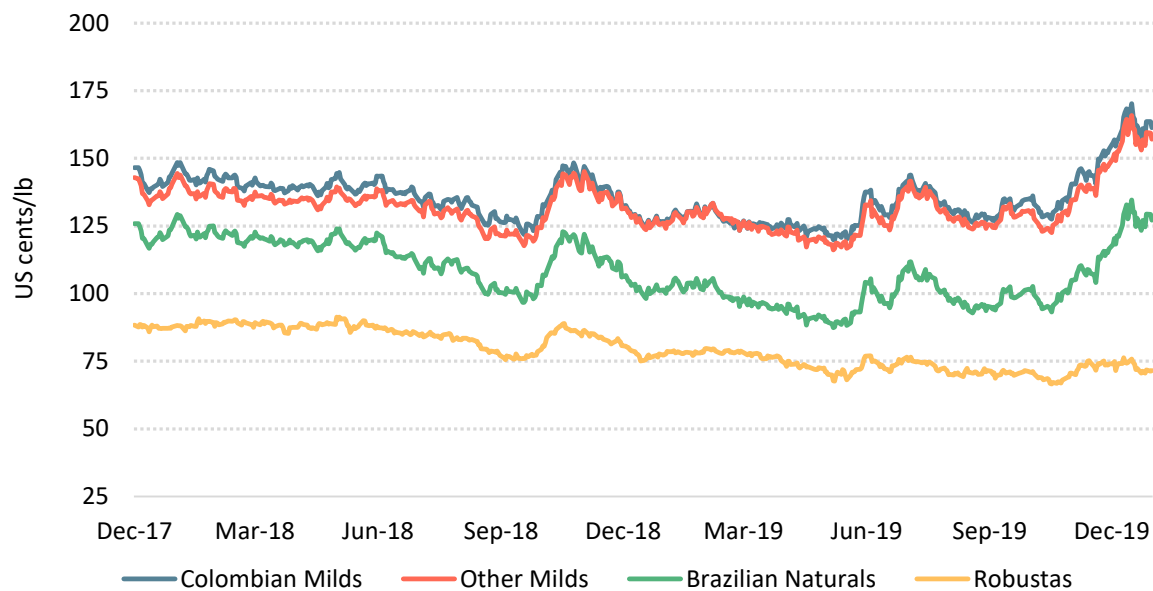
The ICO composite indicator continued to rise in December 2019, ranging between 111.80 and 123.69 US cents/lb. Prices for all Arabica indicators rose in December 2019, while Robusta prices decreased 0.1% to 73.22 US cents/lb. Firm demand and the current tightness in the market has helped to put upward pressure on prices. Exports in the first two months of coffee year 2019/20 declined by 10.8% to 18.3 million bags. Exports from all coffee groups decreased during this period, except Colombian Milds, which rose by 2.2% to 2.6 million bags. Global coffee output is estimated at 168.71 million bags in 2019/20, 0.9% lower than last year as Arabica production is estimated to decline by 4.1% to 96.22 million bags while Robusta grows by 3.7% to 72.5 million bags. In coffee year 2019/20, coffee consumption is estimated to increase by 1.24 million bags to 169.34 million bags. This would result in a deficit of 0.63 million bags in 2019/20, which puts upward pressure on prices. However, this may be limited as more of the 2019/20 crop enters the market as well as a larger crop is anticipated from Brazil in its 2020/21 crop year commencing in April.

Figure 1: ICO composite indicator daily prices



The ICO composite indicator continued to rise in December 2019, peaking at 123.69 US cents/lb on 16 December 2019. The daily price of the ICO Composite averaged 117.37 US cents/lb in December, an increase of 9.5% from November, and is the highest monthly average since October 2017 when it reached 120.01 US cents/lb. During the month, the lowest level that the daily ICO composite indicator reached was 111.80 US cents/lb on 4 December, which was still higher than any of the monthly averages in the previous 18 months. Exports from Brazil have slowed in the past few months compared to a year ago while harvests from some origins with an October-September crop year were delayed. This tightening of supply as well as strong demand has helped to put upward pressure on prices.

Figure 2: ICO group indicator daily prices



Prices for all Arabica indicators rose in December 2019, suggesting that the shortfall in the market is limited to Arabica coffee, particularly for higher quality growths. Brazilian Naturals saw the largest increase, of 14.9%, to 126.36 US cents/lb, as exports from Brazil have slowed. Other Milds rose 11.4% to 157.11 US cents/lb, while Colombian Milds rose 10.5% to 161.5 US cents/lb. The differential between Colombian Milds and Other Milds narrowed in December 2019, falling 14.6% to 4.39 US cents/lb. Prices for Robustas decreased 0.1% month-on-month to 73.22 US cents/lb, partly in anticipation of large volumes of Robusta from Viet Nam and Indonesia.

Figure 3: Spread between New York and London futures markets

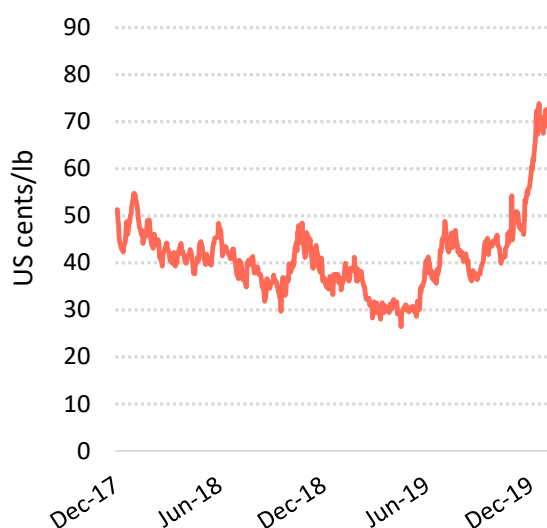
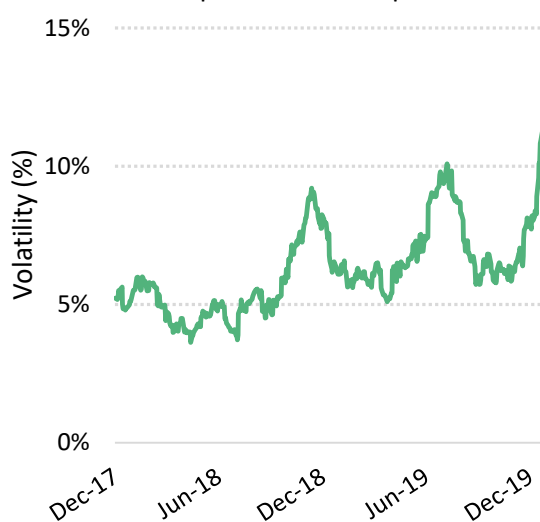


Figure 4: Rolling 30-day volatility of the ICO composite indicator price



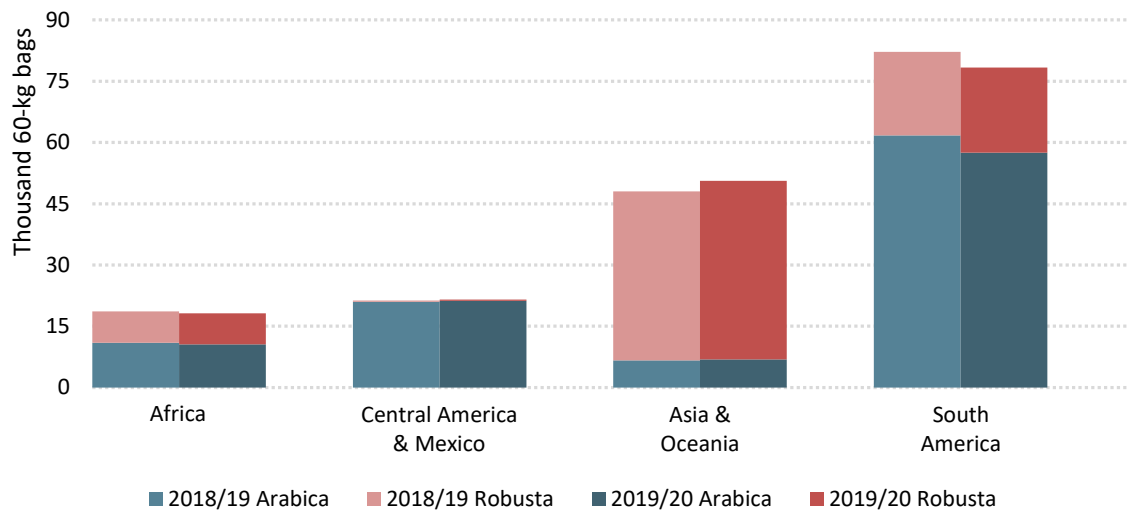
The spread between Arabica and Robusta coffees, as measured on the New York and London futures markets, increased to 67.57 US cents/lb, which is the fourth consecutive month of increase. The New York futures market (Arabica) rose 16% to an average of 131.44 US cents/lb in December 2019, the highest monthly average since September 2017, while the London futures market (Robusta) rose by 1.4% to 63.87 US cents/lb. Certified Arabica stocks fell to their lowest levels since May 2018, reaching 2.32 million bags in December 2019. This is the ninth month in which certified Arabica stocks have fallen month-on-month, and suggests a tight supply of Arabica coffee.

The volatility of the ICO composite indicator increased 2.6 percentage points to 9.7% over the past month. Among the Arabica group indicators, the volatility of Brazilian Naturals saw the biggest increase—of 2.9 percentage points—to 12.1%, while the volatility of Colombian Milds and Other Milds rose by 2.3 percentage points to 9.5% and 2.7 percentage points to 9.6%, respectively. The Robustas group indicator volatility was 8.8%, an increase of 2.6 percentage points from November 2019.

Global exports in November 2019 totalled 9.31 million bags, compared with 10.22 million in November 2018. Exports in the first two months of coffee year 2019/20 have decreased by 10.8% to 18.3 million bags compared to 20.51 million bags in the same period in 2018/19. During this period, shipments of Arabica fell 11% to 11.93 million bags and Robustas declined by 10.5% to 6.37 million bags.

In the past 10 years, global coffee production has grown at an average annual rate of around 2.6% from 140.16 million bags in 2010/11 to an estimated 168.71 million bags in 2019/20. Arabica production in the current coffee year is estimated to decrease by 4.1% to 96.22 million bags, which largely reflects the off-year of the biennial cycle of Arabica production in Brazil. However, world Robusta production is estimated to rise by 3.7% to 72.47 million bags. Globally, the three largest producers of all types of coffee are Brazil, Viet Nam, and Colombia, which are now accounting for nearly 70% of global production. A decade ago, these three countries represented just under 60% of the global output.

Figure 5: Production in coffee year by type



In crop year 2019/20, Brazil’s total production is estimated at 57 million bags, which is 12.2% lower than last year. This is due largely to a decline in its Arabica production, which is estimated to decrease by 18.6% to around 37 million bags while its Robusta output grows by 2% to around 20 million bags. In the first eight months of its crop year, Brazil exported 26.95 million bags of coffee, of which 10.2% was processed coffee. During this same period, it shipped 21.28 million bags of green Arabica coffee and 2.94 million bags of green Robusta. While exports in the first 8 months are 14.1% higher than in April to November 2018, the pace has recently slowed. Brazil’s shipments of green Arabica reached 10.76 million bags in August to November 2019, 8% lower than the same period one year ago, which is more reflective of the current year’s crop.

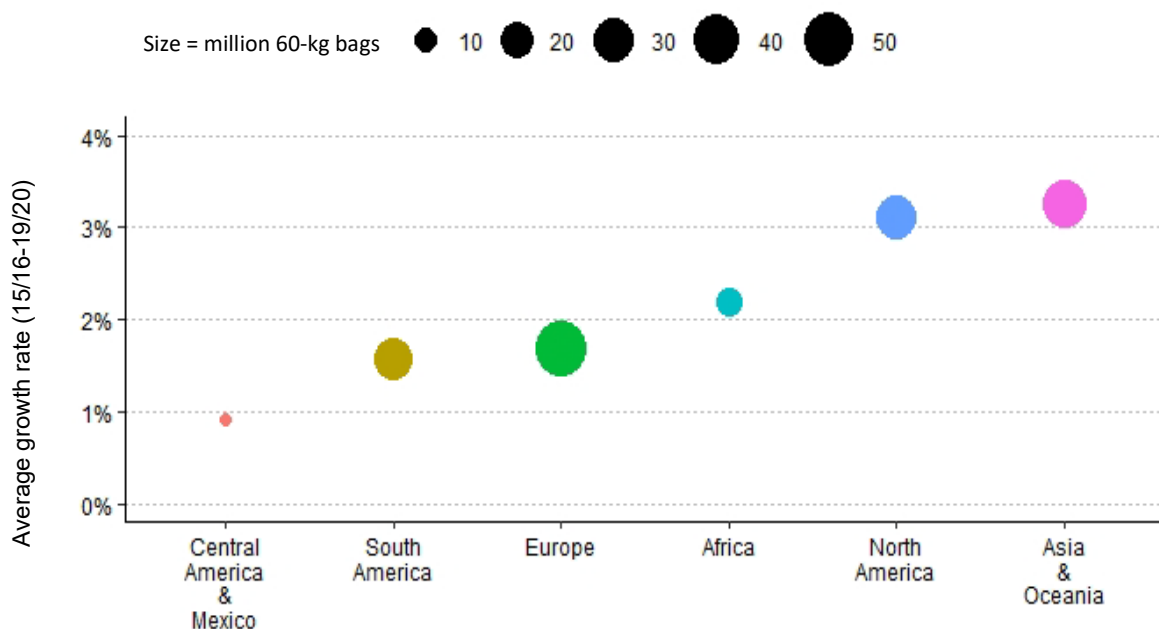
Production in Viet Nam is expected to grow by 4.4% to 31.2 million bags in crop year 2019/20. Sufficient water for irrigation during the growing season is expected to boost productivity. Exports in the first two months of its crop year are estimated at 3.25 million bags, 27.6% lower than in the first two months of 2018/19. This decline can be attributed to prevailing low domestic prices, which are causing farmers to hold onto their coffee, and to heavy rains at the start of the season which delayed harvesting.

Colombia is the world’s second largest producer of Arabica, and its harvest in 2019/20 is forecast to reach 14.1 million bags, 1.7% higher than in 2018/19. In the first two months of crop year 2019/20, the National Federation of Colombian Coffee Growers reported that Colombia produced 2.88 million bags, 20.5% higher than the previous year. During the same period, Colombia shipped 2.37 million bags of coffee in the first two months of its crop year, 3.1% higher than one year ago, and these likely included sales from last year’s crop as farmers were encouraged by higher prices.

The long-term average annual growth rate for coffee demand is 2.2% as consumption has risen from 90.71 million bags to an estimated 169.34 million bags in 2019/20. Compared to one year ago, global demand growth in 2019/20, projected at 0.7%, is 2.7 percentage points less than in 2018/19, but still represents an increase of 1.24 million bags in overall demand. This also follows an increase of 3.4% to

168.1 million bags in 2018/19, which was above the long-term average. The result in 2018/19 was mainly due to growth in both Europe and North America where consumption rose by 4.9% to 55.73 million bags and by 5.7% to 31.64 million bags, respectively. Lower prices during the past coffee year likely supported greater imports and consumption in these countries, but may slow in the current year as prices have risen. Further, a slowdown in global economic growth, particularly for emerging markets and developing economies, as described by the International Monetary Fund in its October 2019 World Economic Outlook, could dampen growth in coffee consumption. In 2019/20, demand is expected to decline by 0.6% to 55.4 million bags in Europe. In its Autumn 2019 Economic Forecast, the European Commission noted that the European Union was facing a number of shocks that would likely impair economic growth in the next year. Consumption in North America is estimated to reach 31.88 million bags, 0.7% higher than in 2018/19. After a lower rate of growth in 2018/19, consumption in Asia & Oceania is projected to partially recover, growing by 2.9% to 37.51 million bags. Demand in Africa is forecast to increase by 1.8% to 11.94 million bags, in Central America & Mexico by 1.4% to 5.47 million bags, and in South America by 0.1% to 27.14 million bags.

Figure 6: Coffee consumption by region in 2019/20



The increase in demand against a fall in production has resulted in an estimated global deficit of 0.63 million bags for 2019/20. The current tightness in the market is not likely to last throughout the year as more of the current crop as well as ample supplies from Brazil's on-year crop in 2020/21 reach the market. This could limit further increases in coffee prices later in the coffee year.

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-18	100.61	127.86	127.10	102.10	77.57	105.79	69.59
Jan-19	101.56	129.28	128.46	102.94	78.24	107.93	70.32
Feb-19	100.67	127.93	128.45	100.06	78.65	104.12	70.52
Mar-19	97.50	125.23	123.89	95.81	76.96	98.84	68.61
Apr-19	94.42	124.42	121.13	92.47	73.28	95.31	65.06
May-19	93.33	124.40	120.55	91.95	71.12	94.86	62.45
Jun-19	99.97	133.49	129.73	100.69	74.02	104.44	65.41
Jul-19	103.01	137.63	135.47	105.43	73.93	109.01	64.83
Aug-19	96.07	129.20	126.23	95.85	70.78	99.87	60.90
Sep-19	97.74	131.90	128.89	98.73	70.64	102.81	60.31
Oct-19	97.35	132.09	126.99	98.10	68.63	102.41	58.34
Nov-19	107.23	146.12	140.98	109.94	73.28	113.31	63.00
Dec-19	117.37	161.50	157.11	126.36	73.22	131.44	63.87
% change between Nov-19 and Dec-19							
	9.5%	10.5%	11.4%	14.9%	-0.1%	16.0%	1.4%
Volatility (%)							
Dec-19	9.7%	9.5%	9.6%	12.1%	8.8%	14.1%	9.4%
Nov-19	7.1%	7.2%	6.9%	9.2%	6.2%	14.3%	7.3%
Variation between Nov-19 and Dec-19							
	2.6	2.3	2.7	2.9	2.6	-0.2	2.1

* 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-18	0.76	25.76	50.29	25.00	49.53	24.53	36.20
Jan-19	0.82	26.34	51.04	25.52	50.22	24.70	37.61
Feb-19	-0.52	27.87	49.28	28.39	49.80	21.41	33.60
Mar-19	1.34	29.42	48.27	28.08	46.93	18.85	30.23
Apr-19	3.29	31.95	51.14	28.66	47.85	19.19	30.25
May-19	3.85	32.45	53.28	28.60	49.43	20.83	32.41
Jun-19	3.76	32.80	59.47	29.04	55.71	26.67	39.03
Jul-19	2.16	32.20	63.70	30.04	61.54	31.50	44.18
Aug-19	2.97	33.35	58.42	30.38	55.45	25.07	38.97
Sep-19	3.01	33.17	61.26	30.16	58.25	28.09	42.50
Oct-19	5.10	33.99	63.46	28.89	58.36	29.47	44.07
Nov-19	5.14	36.18	72.84	31.04	67.70	36.66	50.31
Dec-19	4.39	35.14	88.28	30.75	83.89	53.13	67.57
% change between Nov-19 and Dec-19							
	-14.6%	-2.9%	21.2%	-0.9%	23.9%	44.9%	34.3%

* Average price for 2nd and 3rd positions

Table 3: World supply/demand balance

Coffee year commencing	2015	2016	2017	2018	2019*	% change 2018/19
PRODUCTION	154 996	158 625	162 676	170 223	168 711	-0.9%
Arabica	91 181	100 776	97 290	100 317	96 215	-4.1%
Robusta	63 815	57 849	65 386	69 906	72 496	3.7%
Africa	15 756	16 729	17 376	18 623	18 190	-2.3%
Asia & Oceania	49 484	45 652	48 408	48 064	50 652	5.4%
Mexico & Central America	17 106	20 322	21 725	21 345	21 542	0.9%
South America	72 651	75 921	75 167	82 191	78 328	-4.7%
CONSUMPTION	155 491	158 642	162 555	168 099	169 337	0.7%
Exporting countries	47 548	48 488	49 793	50 510	51 018	1.0%
Importing countries (Coffee Years)	107 943	110 154	112 763	117 589	118 319	0.6%
Africa	10 951	11 130	11 527	11 724	11 939	1.8%
Asia & Oceania	32 863	34 573	35 697	36 470	37 511	2.9%
Mexico & Central America	5 295	5 226	5 321	5 401	5 474	1.4%
Europe	52 147	52 045	53 148	55 731	55 395	-0.6%
North America	28 934	29 559	29 941	31 644	31 876	0.7%
South America	25 299	26 111	26 922	27 128	27 141	0.1%
BALANCE	-495	-18	121	2 124	-626	

In thousand 60-kg bags

*preliminary estimates

As the figures in this table are on a coffee year basis, these estimates will vary from the figures published in Table 1 of Coffee Production Report (<http://www.ico.org/prices/po-production.pdf>), which contains crop year data. For further details, see the explanatory note at the end of this report.

Table 4: Total exports from exporting countries

	Nov-18	Nov-19	% change	October-November		
				2018/19	2019/20	% change
TOTAL	10 225	9 309	-9.0%	20 515	18 297	-10.8%
Arabicas	6 712	5 774	-14.0%	13 399	11 925	-11.0%
Colombian Milds	1 392	1 286	-7.6%	2 545	2 601	2.2%
Other Milds	1 494	1 284	-14.0%	3 223	2 653	-17.7%
Brazilian Naturals	3 827	3 203	-16.3%	7 630	6 671	-12.6%
Robustas	3 513	3 536	0.7%	7 116	6 372	-10.5%

In thousand 60-kg bags

Monthly 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-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19
New York	2.80	2.82	2.83	2.84	2.81	2.73	2.70	2.70	2.66	2.60	2.55	2.42	2.32
London	1.88	2.08	2.01	1.97	1.98	2.11	2.18	2.47	2.60	2.62	2.69	2.64	2.54

In million 60-kg bags

Explanatory Note for Table 3

For each year, the Secretariat uses statistics received from Members to provide estimates and forecasts for annual production, consumption, trade and stocks. As noted in paragraph 100 of document [ICC 120-16](#), these statistics can be supplemented and complemented by data from other sources when information received from Members is incomplete, delayed or inconsistent. The Secretariat also considers multiple sources for generating supply and demand balance sheets for non-Members.

The Secretariat uses the concept of the marketing year, that is the coffee year commencing on 1 October of each year, when looking at the global supply and demand balance. Coffee-producing countries are located in different regions around the world, with various crop years, i.e. the 12-month period from one harvest to the next. The crop years currently used by the Secretariat commence on 1 April, 1 July and 1 October. To maintain consistency, the Secretariat converts production data from a crop year basis to a marketing year basis depending on the harvest months for each country. Using a coffee year basis for the global coffee supply and demand, as well as prices ensures that analysis of the market situation occurs within the same time period.

For example, the 2014/15 coffee year began on 1 October 2014 and ended 30 September 2015. However, for producers with crop years commencing on 1 April, the crop year production occurs across two coffee years. Brazil's 2014/15 crop year began on 1 April 2014 and finished 31 March 2015, covering the first half of coffee year 2014/15. However, Brazil's 2015/16 crop year commenced 1 April 2015 and ended 31 March 2016, covering the latter half of coffee year 2014/15. In order to bring the crop year production into a single coffee year, the Secretariat would allocate a portion of the April-March 2014/15 crop year production and a portion of the April-March 2015/16 production into 2014/15 coffee year production.

It should be noted that while estimates for coffee year production are created for each individual country, these are made for the purpose of creating a consistent aggregated supply-demand balance for analytical purposes, and does not represent the production occurring on the ground within the individual countries.