

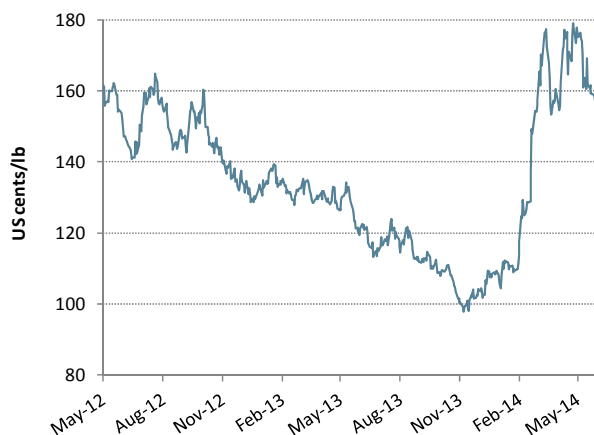


MONTHLY COFFEE MARKET REPORT

May 2014

After five consecutive months of rising prices, the coffee market reversed lower in May. From a high of 179 cents/lb in April, the daily price of the ICO composite indicator fell to a low of 153 cents by the end of May. Conab have lowered their estimate of the 2014/15 Brazilian crop by around 4 million bags to 44.57 million due to the effects of the drought, which would represent a second successive year of lower production. However, reports from other market analysts, including the USDA, suggest that the damage might not be as serious, with estimates of around 50 million bags, further adding to the bearish sentiment this month. They argue that the recent rains in Brazil have to some extent compensated for the earlier drought, contradicting the prevailing view that the damage inflicted in January and February cannot be undone, no matter the level of precipitation at present.

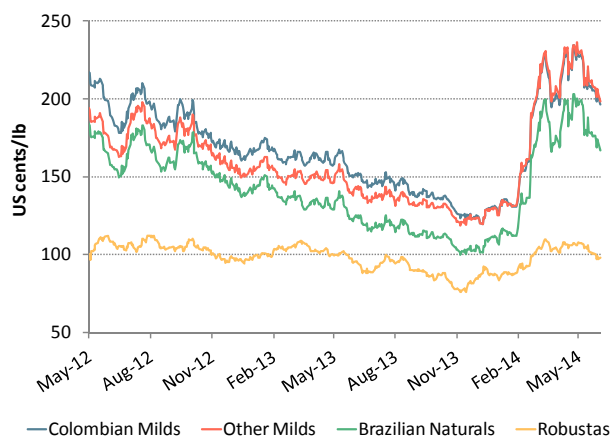
Graph 1: ICO composite indicator daily prices



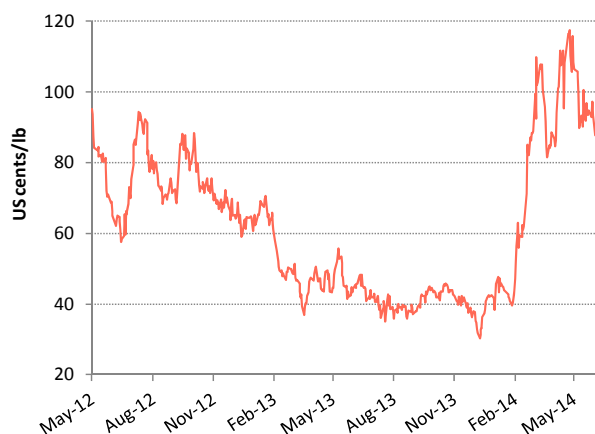
The daily price of the ICO composite indicator slipped from a high of 176.30 US cents/lb on 5 May to a low of 153.33, while the monthly average

settled 3.9% lower on 163.94 cents. The drought in Brazil and resulting uncertainty over the crop have been driving prices higher since the beginning of the year, but a well-stocked supply chain has not yet felt the impact, with exports from Brazil exceeding their levels of a year ago.

In terms of the group indicators, all four monthly averages finished lower. The most significant decreases were registered in the three Arabica groups, with Colombian Milds, Other Milds and Brazilian Naturals down 4.1%, 4.2% and 4.5% respectively, while Robustas fell by 2.4%. The price of Other Milds remained above that of Colombian Milds for the fourth consecutive month, although the differential narrowed by 11.2% to 2.54 cents.

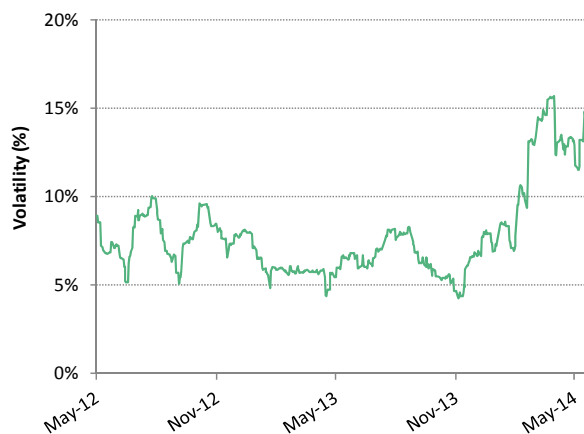
Graph 2: ICO group indicator daily prices

The arbitrage between the New York and London futures markets also narrowed fairly significantly, by 6.7% to 97.24 cents, but remains more than twice as wide as a year ago. The price differentials between the three Arabica group indicators and Robusta all followed a similar pattern, marginally lower than last month but still relatively high.

Graph 3 Arbitrage between New York and London futures markets

In addition, the coffee market remains highly volatile, with the rolling 30-day volatility of the ICO composite indicator price well above 10% since the beginning of February, at times exceeding 15%. Furthermore, average monthly volatility of the ICO composite indicator exceeded 10% for the fourth consecutive month for the first time in nearly twenty years, highlighting the extremely uncertain and nervous nature of the market at present.

Exogenous impacts on market fundamentals, particularly climatic events, have always contributed to increased price volatility, yet it has been rare in recent years for the market to record such sustained levels of turbulence.

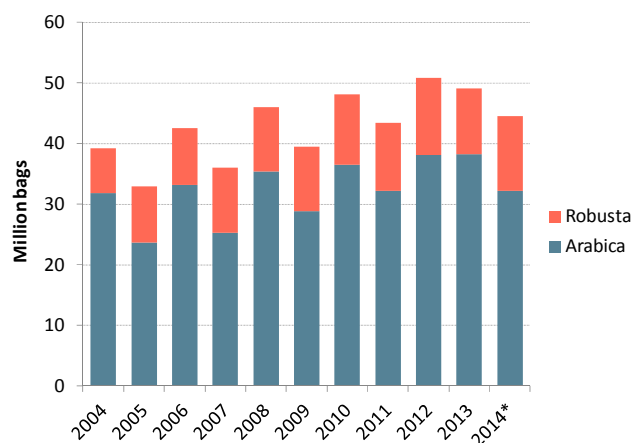
Graph 4: Rolling 30-day volatility of the ICO composite indicator price

In terms of the market fundamentals, on the 15 May the Brazilian coffee authority, Conab, released an updated estimate of production in crop year 2014/15, which is revised downwards to 44.57 million bags. This is compared to the previous estimate in January of around 48.34 million bags. Production of Arabica has been lowered by over 4 million to 32.23 million bags, attributed to damage from the severe drought at the beginning of the year. In Minas Gerais, the largest producing region in the country, yields have been very badly affected by the drought, with an increased prevalence of defects, malformed and black beans, and negative consequences also expected for the 2015/16 crop.

The Robusta forecast, on the other hand, has been revised up by nearly 300,000 to 12.33 million bags, due mainly to an improvement in productivity and an increase in the area of production, particularly in Espírito Santo. The average yield for Robusta production is expected to increase from 24.1 60kg bags per hectare in 2013/14 to 27.5 in 2014/15, although some producers have reportedly recorded yields of more than 100 bags per hectare.

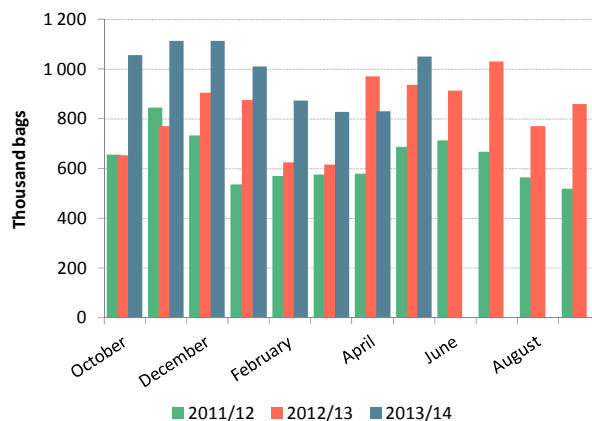
As a result, total production in Brazil is now expected to decline for the second consecutive year, and there are mounting concerns over the 2015/16 crop.

Graph 5: Arabica and Robusta production in Brazil



Turning to Colombia, Graph 6 shows monthly production levels over the last three crop years. Production fell by 14.2% in April compared to last year, but rebounded in May by 12.1% to over 1 million bags. This brings total production for the first eight months of crop year 2013/14 to 7.9 million bags, 24.1% higher than the same period in 2012/13, meaning that Colombia is now on course to produce its largest crop in six years.

Graph 6: Monthly production by Colombia



Total exports in April increased to 10.3 million bags, 4.6% higher than April last year. This increase was mostly observed in exports from Vietnam, which were estimated up 48.5% to 2.5 million bags, as well as those from Colombia (+20.2% to 824,000 bags) and Brazil (+8.9% to 3 million bags). Nevertheless, total exports for the first seven months of coffee year 2013/14 (October to April) are still 3.4% lower than last year, with significantly lower exports from Central America and Indonesia.

Certified stocks of Robusta on the London futures market have jumped significantly, more than tripling from 274,000 to 855,000 bags at the end of April. Stocks of Arabica on the New York market have been gradually falling every month since the beginning of the year, but remain relatively unchanged on around 2.9 million bags.

Rarely have we seen a coffee market more influenced by speculation than the current one. The prevailing uncertainty surrounding the damage to the Brazilian crop presently being harvested will last for at least another month, and with it the higher than usual volatility, with all the negative implications for producers and consumers alike. Until more information is available, the ICO maintains its estimate of 44.57 million bags for the 2014/15 crop year as indicated by Conab.

Table 1: ICO indicator prices and futures prices (US cents/lb)

	ICO Composite	Colombian Milder	Other Milds	Brazilian Naturals	Robustas	New York*	London*
Monthly averages							
May-13	126.96	158.35	147.19	130.29	99.18	138.64	91.07
Jun-13	117.58	147.55	138.26	120.01	90.79	126.37	81.82
Jul-13	118.93	147.46	138.39	119.47	95.21	125.27	85.34
Aug-13	116.45	143.26	135.15	116.81	94.01	122.31	84.10
Sep-13	111.82	138.60	132.28	112.65	87.78	119.55	77.89
Oct-13	107.03	133.83	128.70	109.57	83.70	117.05	73.47
Nov-13	100.99	124.65	122.02	102.57	79.71	109.10	69.32
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
% change between May-14 and Apr-14							
	-3.9%	-4.1%	-4.2%	-4.5%	-2.4%	-4.7%	-2.4%
Annual averages							
2009	115.67	177.39	143.81	115.30	74.56	128.40	67.69
2010	147.24	225.52	195.99	153.72	78.74	165.20	71.98
2011	210.39	283.84	271.07	247.62	109.21	256.36	101.23
2012	156.34	202.08	186.47	174.97	102.82	179.22	91.87
2013	119.51	147.87	139.53	122.23	94.16	129.41	84.45
% change between 2013 and 2012							
	-23.6%	-26.8%	-25.2%	-30.1%	-8.4%	-27.8%	-8.1%
Volatility (%)							
Apr-14	11.3	13.3	13.0	14.1	5.6	17.8	6.3
May-14	10.6	11.3	11.1	13.2	6.6	13.6	7.6
Variation between May-14 and Apr-14							
	-0.6	-1.9	-1.9	-0.9	0.9	-4.2	1.2

* Average price for 2nd and 3rd positions

Table 2: Price differentials (US cents/lb)

	Colombian Milder Other Milds	Colombian Milder Brazilian Naturals	Colombian Milder Robustas	Other Milds Brazilian Naturals	Other Milds Robustas	Brazilian Naturals Robustas	New York* London*
May-13	11.16	28.06	59.17	16.90	48.01	31.11	47.57
Jun-13	9.29	27.54	56.76	18.25	47.47	29.22	44.55
Jul-13	9.07	27.99	52.25	18.92	43.18	24.26	39.93
Aug-13	8.11	26.45	49.25	18.34	41.14	22.80	38.21
Sep-13	6.32	25.95	50.82	19.63	44.50	24.87	41.66
Oct-13	5.13	24.26	50.13	19.13	45.00	25.87	43.58
Nov-13	2.63	22.08	44.94	19.45	42.31	22.86	39.78
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
% change between May-14 and Apr-14							
	-11.2%	-1.0%	-5.6%	-1.9%	-5.7%	-7.2%	-6.7%

* Average price for 2nd and 3rd positions

Table 3: Total production in exporting countries

Crop year commencing	2010	2011	2012	2013*	% change 2012-13
TOTAL	132 984	132 296	145 436	145 717	0.2%
Arabicas	84 108	81 870	88 891	85 402	-3.9%
Colombian Milds	9 705	8 720	12 010	12 238	1.9%
Other Milds	28 789	32 030	29 104	26 425	-9.2%
Brazilian Naturals	45 614	41 119	47 777	46 739	-2.2%
Robustas	48 876	50 426	56 545	60 315	6.7%
Africa	16 053	15 715	16 528	16 451	-0.5%
Asia & Oceania	36 016	37 897	42 701	47 320	10.8%
Mexico & Central America	18 021	20 282	18 597	15 995	-14.0%
South America	62 893	58 402	67 610	65 951	-2.5%

* Estimated

In thousand bags

Full production data are available on the ICO website at www.ico.org/prices/po.htm

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

	April 2013	April 2014	% change	October - April		
				2012/13	2013/14	% change
TOTAL	9 802	10 252	4.6%	65 635	63 391	-3.4%
Arabicas	6 263	6 250	-0.2%	40 612	40 355	-0.6%
Colombian Milds	837	952	13.8%	5 765	7 403	28.4%
Other Milds	2 603	2 313	-11.1%	14 577	13 126	-10.0%
Brazilian Naturals	2 823	2 985	5.7%	20 270	19 826	-2.2%
Robustas	3 540	4 001	13.1%	25 023	23 036	-7.9%

In thousand bags

Full trade statistics for all exporting countries 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-13	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14
London	2.08	2.00	1.64	1.32	1.01	0.89	0.77	0.50	0.46	0.40	0.32	0.27	0.85
New York	3.11	3.09	3.11	3.15	3.13	3.07	3.02	3.06	3.00	2.95	2.92	2.90	2.87

In million bags

Table 6: World coffee consumption

Calendar years	2010	2011	2012	2013*	CAGR (2010-2013*)
World total	137 060	139 079	142 000	145 800	2.1%
Exporting countries	40 910	42 398	43 471	44 670	3.0%
Traditional markets	71 015	70 735	71 399	74 109	1.4%
Emerging markets	25 135	25 946	27 131	27 021	2.4%

CAGR: Compound Annual Growth Rate

* Estimated