International Coffee Organization
Organización Internacional del Café
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Organisation Internationale du Café

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LETTER FROM THE EXECUTIVE DIRECTOR

COFFEE MARKET REPORT

November 2006

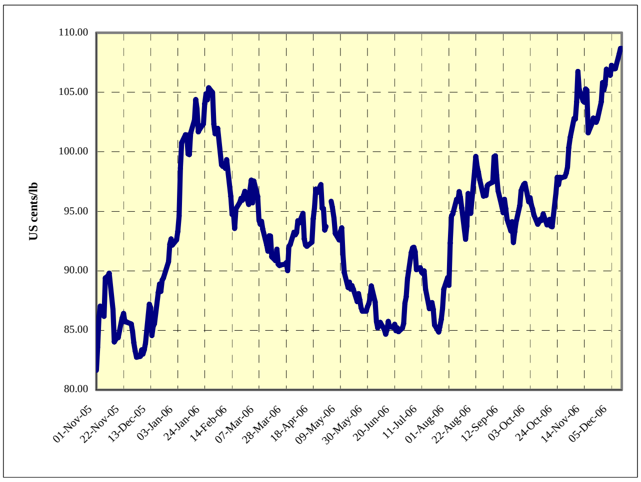
In November, the coffee market recorded a significant rise in Arabica prices while Robusta prices rose only slightly. To some extent, the arrival of Vietnamese coffee on the market slowed down the momentum of the Robustas. Nevertheless, the monthly average of the ICO composite indicator price rose from 95.53 US cents/lb in October to 103.48 US cents/lb in November. The influence of Arabicas on the composition of prices played a determining role in attaining these levels. On the New York futures market (NYBOT), which is sensitive to the situation of Arabica supplies, the average of the 2^{nd} *and* 3^{rd} *positions passed the US$1.20/lb mark during the course of November. The anticipated fall in the volume of Brazilian production for crop year 2007/08 accentuated the feverish behaviour of the market during November and at the beginning of December, with a marked increase in volatility. The first official estimates of the Brazilian coffee authorities indicate a crop of between 31.1 and 32.3 million bags, including between 21.3 and 22.4 million bags for Arabicas and between 9.8 and 9.9 million for Robustas. The depreciation of the US dollar in relation to other currencies has continued to have a negative effect on the export earnings of a number of exporting countries. Between 4 January and 4 December 2006 the value of the dollar fell by 11.25% in relation to the euro and 13.80% in relation to the pound sterling, thus lessening the impact of the rise in coffee prices.*

Price movements

The monthly average of the **ICO composite indicator price** was up by 8.32%, from 95.53 US cents/lb in October to 103.48 US cents/lb in November. This trend was, in fact, accentuated during the first week of December[1]. Graph 1 shows changes in the ICO daily composite indicator price since 1 November 2005.

The price increase for Robustas was slight but it was relatively sharp in the case of Arabicas (Table 1). Graphs 2 to 5 show changes in daily indicator prices for the four groups of coffee since 1 August 2006.

Graph 1: Daily composite indicator price
1 November 2005 – 15 December 2006



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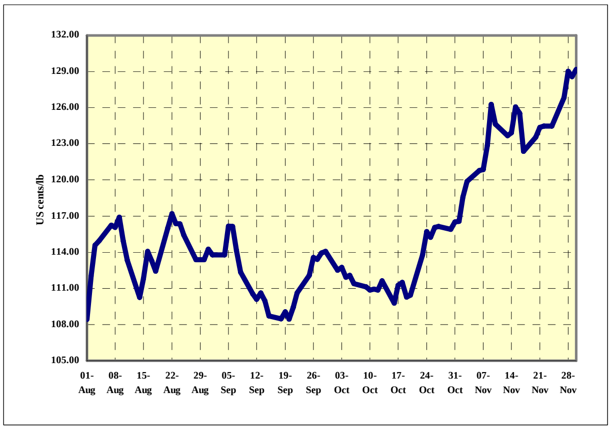
1 *The price registered on 15 December was 106.85 US cents/lb.*

Table 1: ICO daily indicator prices and futures prices (US cents/lb) – November 2006

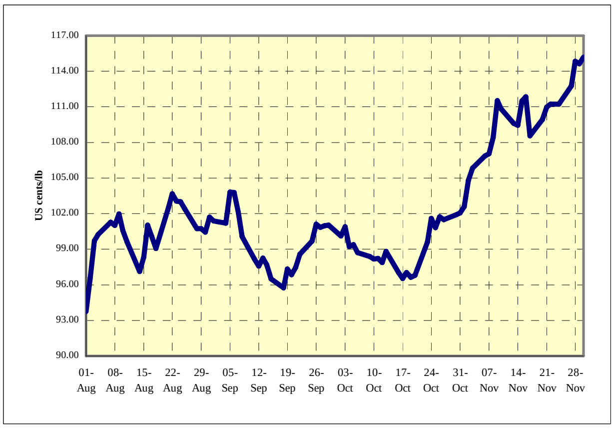
	ICO composite	Colombian Milds	Other Milds	Brazilian Naturals	Robustas	New York*	London*
Nov-06							
01-Nov	98.71	116.56	115.28	102.60	76.87	114.10	69.01
02-Nov	100.37	118.58	117.14	104.80	77.79	115.78	69.94
03-Nov	101.21	119.87	118.75	105.83	77.76	117.65	71.76
06-Nov	102.81	120.79	119.50	106.85	80.72	118.40	72.89
07-Nov	102.75	120.86	119.55	107.06	80.30	117.85	72.33
08-Nov	104.18	122.88	121.92	108.42	80.89	120.17	72.94
09-Nov	106.74	126.27	125.10	111.53	82.22	124.03	74.30
10-Nov	105.24	124.62	122.82	110.83	80.65	121.50	72.60
13-Nov	104.28	123.68	121.91	109.61	79.87	120.75	71.94
14-Nov	104.17	123.92	122.28	109.44	79.35	121.35	71.46
15-Nov	105.26	126.05	124.24	111.49	78.58	123.65	70.78
16-Nov	105.16	125.54	123.31	111.85	78.87	122.30	71.10
17-Nov	101.60	122.36	120.34	108.56	74.50	118.97	66.75
20-Nov	102.36	123.54	122.15	109.93	73.84	120.80	66.02
21-Nov	102.83	124.35	122.87	110.98	73.52	121.35	65.79
22-Nov	102.79	124.46	122.98	111.23	73.06	121.50	65.32
23-Nov	102.47	124.46	122.98	111.23	72.11	Holiday	64.34
24-Nov	102.75	124.46	122.98	111.23	72.94	Holiday	65.09
27-Nov	104.19	126.83	124.64	112.76	73.77	123.88	65.95
28-Nov	105.82	129.04	126.69	114.85	74.49	126.15	66.72
29-Nov	105.20	128.57	125.93	114.62	73.60	124.45	65.93
30-Nov	105.61	129.18	126.48	115.18	73.70	125.25	65.45
average	**103.48**	**123.95**	**122.27**	**110.04**	**76.79**	**120.99**	**69.02**
2006							
January	101.20	126.92	124.20	114.98	63.39	122.52	57.39
February	97.39	121.31	119.12	109.01	62.98	115.46	55.74
March	92.76	116.01	113.66	103.92	59.60	109.72	52.22
April	94.20	117.87	115.42	105.49	60.55	112.08	53.67
May	90.00	111.81	109.36	99.29	60.08	106.53	53.05
June	86.04	105.83	103.15	93.27	60.23	100.55	53.12
July	88.57	107.85	105.00	94.56	64.49	101.99	57.14
August	95.78	114.14	111.73	100.37	73.59	110.54	63.01
September	95.98	111.88	109.83	99.53	77.11	108.57	67.49
October	95.53	112.67	110.63	99.23	75.17	109.74	66.81
November	**103.48**	**123.95**	**122.27**	**110.04**	**76.79**	**120.99**	**69.02**
annual averages							
2000	64.24	102.60	87.07	79.86	41.41	94.58	40.11
2001	45.59	72.05	62.28	50.70	27.55	58.86	23.92
2002	47.74	64.91	61.54	45.25	30.02	57.02	25.88
2003	51.91	65.33	64.20	50.31	36.95	65.24	34.11
2004	62.15	81.44	80.47	68.97	35.99	79.53	32.84
2005	**89.36**	**115.73**	**114.86**	**102.29**	**35.99**	**111.38**	**46.80**
% variation between Nov-06 and Oct-06							
	8.31	10.02	10.51	10.89	2.15	10.26	3.30
% variation between Nov-06 and Nov-05							
	20.42	13.72	13.49	12.33	49.25	15.35	47.16
% variation between Nov-06 and 2005 average							
	15.80	7.10	6.45	7.58	113.37	8.63	47.48
volatility (%)							
Nov-05	1.71	1.75	1.85	1.90	1.66	2.51	1.76
Dec-05	1.40	1.28	1.31	1.37	2.38	1.66	2.31
Jan-06	1.51	1.59	1.65	1.72	1.62	2.03	1.86
Feb-06	1.29	1.34	1.27	1.32	1.80	2.12	2.14
Mar-06	1.08	1.11	1.11	1.25	1.31	1.44	1.33
Apr-06	1.20	1.22	1.26	1.29	1.58	1.86	1.38
May-06	0.86	0.90	0.98	0.95	0.76	1.51	0.99
June-06	0.94	0.91	0.98	0.98	1.20	1.17	1.90
July-06	1.01	0.91	0.86	0.87	1.99	1.45	2.31
Aug-06	1.70	1.58	1.70	1.65	2.29	1.84	2.16
Sep-06	1.16	1.05	1.07	1.22	1.82	1.36	2.16
Oct-06	0.87	1.00	0.97	1.07	1.09	1.14	1.27
Nov-06	**1.28**	**1.23**	**1.26**	**1.26**	**1.78**	**1.56**	**1.87**

*Averages of 2nd and 3rd positions

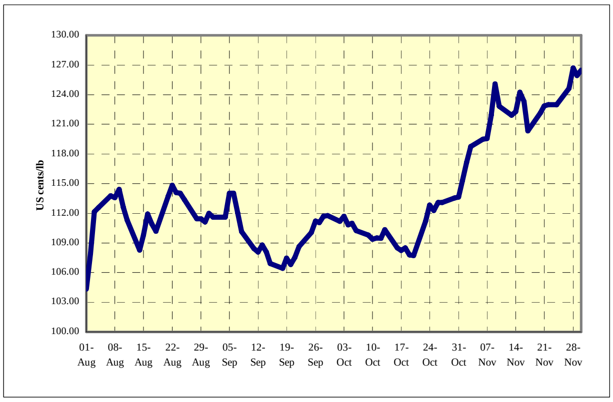
Graph 2: **Daily indicator prices for Colombian Milds 1 August – 30 November 2006**



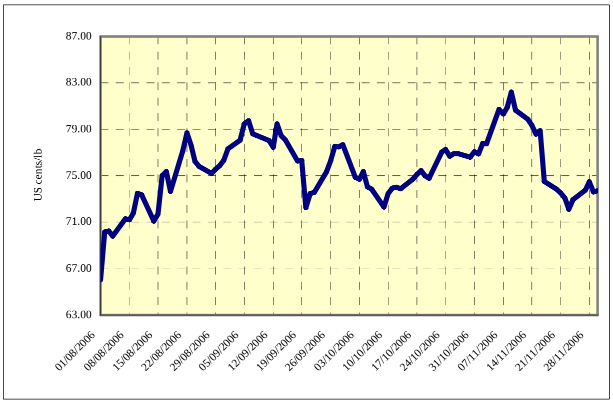
Graph 4: **Daily indicator prices for Brazilian Naturals 1 August – 30 November 2006**



Graph 3: **Daily indicator prices for Other Milds 1 August – 30 November 2006**



Graph 5: **Daily indicator prices for Robustas 1 August – 30 November 2006**



Market fundamentals

The fundamentals of the coffee market seem to be supporting the current price trend. Production in crop year 2005/06 totalled 109.39 million bags while world demand in 2006 was around 116 million bags. As announced on 15 December, Brazilian official CONAB crop estimates for 2006/07 have been revised upwards by nearly a million bags to 42.5 million, which leads me to revise our global production figures to around 121 million bags. At present, I am not in a position to give a figure for world production for crop year 2007/08 since information from other countries is still awaited. Some sources cite the continued strength of their exports as evidence of a larger Brazilian crop in 2006/07 but such exports can of course equally reflect the further drawdown of stocks. The official 2007/08 forecast that has just been announced and published gives a crop size of between 31.1 and 32.3 million bags. This indicates a return to a world deficit of supply related to demand (projected at around 117 million bags in 2007) and continued downward pressure on stocks with upward pressure on prices. This deficit is likely to be at least as large as that in 2005/06 in spite of more favourable economic conditions for production in other exporting countries. In considering the outlook for coffee I should like to emphasise the importance of stock levels in importing countries as a variable closely related to price movements. I should also like to reiterate my confidence in the accuracy of the CONAB estimates, which are made with the advantage of greater resources and technical sophistication than those from other sources.

Table 2: Production in selected exporting countries

Crop year commencing	2003	2004	2005	2006	% change 2005-2006
TOTAL	**103 752**	**115 666**	**109 385**	**121 475**	**11.05**
Africa	***13 899***	***14 632***	***13 072***	***15 592***	***19.28***
Cameroon	900	727	849	750	-11.66
Côte d'Ivoire	2 689	2 328	2 166	2 350	8.49
Ethiopia	3 874	5 000	4 500	5 500	22.22
Kenya	673	756	713	850	19.21
Tanzania	611	763	720	917	27.36
Uganda	2 598	2 593	2 159	2 500	15.79
Others	2 554	2 465	1 965	2 725	38.68
Arabicas	*6 783*	*8 249*	*7 136*	*8 634*	*20.99*
Robustas	*7 116*	*6 383*	*5 936*	*6 958*	*17.22*
Asia & Oceania	***28 759***	***28 731***	***29 708***	***29 243***	***-1.57***
India	4 508	4 592	4 617	5 005	8.40
Indonesia	6 571	7 536	8 659	6 850	-20.89
Papua New Guinea	1 155	997	1 269	1 125	-11.35
Thailand	827	884	1 000	1 000	0.00
Vietnam	15 230	14 174	13 499	14 500	7.42
Others	468	548	664	763	14.91
Arabicas	*4 108*	*4 075*	*4 125*	*3 571*	*-13.43*
Robustas	*24 651*	*24 656*	*25 583*	*25 022*	*-2.19*
Mexico & Central America	***16 765***	***15 808***	***17 152***	***17 003***	***-0.87***
Costa Rica	1 783	1 887	1 823	1 808	-0.82
El Salvador	1 477	1 438	1 488	1 374	-7.66
Guatemala	3 610	3 703	3 675	4 000	8.84
Honduras	2 968	2 575	3 204	2 700	-15.73
Mexico	4 200	3 867	4 000	4 200	5.00
Nicaragua	1 546	1 130	1 718	1 300	-24.33
Others	1 181	1 208	1 244	1 621	30.31
Arabicas	*16 746*	*15 791*	*17 135*	*16 952*	*-1.07*
Robustas	*19*	*17*	*17*	*51*	*200.00*
South America	***44 329***	***56 495***	***49 453***	***59 637***	***20.59***
Brazil	28 787	39 272	32 949	42 512	29.02
Colombia	11 197	12 042	11 959	11 600	-3.00
Ecuador	766	938	1 139	1 000	-12.20
Others	3 579	4 243	3 406	4 525	32.85
Arabicas	*37 236*	*51 354*	*41 071*	*48 746*	*18.69*
Robustas	*7 093*	*5 141*	*8 382*	*9 952*	*18.73*
TOTAL	**103 752**	**115 666**	**109 385**	**121 475**	**11.05**
Colombian Milds	12 352	13 339	13 150	13 019	-1.00
Other Milds	26 549	26 528	26 495	27 308	3.07
Brazilian Naturals	25 977	39 607	29 826	38 586	29.37
Robustas	38 874	36 192	39 914	42 562	6.63
Arabicas	64 878	79 474	69 471	78 913	13.59
Robustas	38 874	36 192	39 914	42 562	6.63
TOTAL	**100.00**	**100.00**	**100.00**	**100.00**	
Colombian Milds	11.91	11.53	12.02	10.72	
Other Milds	25.59	22.94	24.22	22.48	
Brazilian Naturals	25.04	34.24	27.27	31.76	
Robustas	37.47	31.29	36.49	35.04	
Arabicas	62.53	68.71	63.51	64.96	
Robustas	37.47	31.29	36.49	35.04	

In thousand bags

Exports during October 2006 totalled 7.06 million bags, which is a slight fall compared to 7.44 million bags in September 2006 but a rise of 16% compared to October 2005 (Table 3). Exports during the first ten months of 2006 (January – October) were 75.02 million bags as against 73.55 million bags for the same period in 2005 (Table 4). On a calendar year basis, exports totalled 86.99 million bags in 2005 compared to 90.75 million in 2004 (Table 5). The increase in prices during calendar year 2005 entailed an improvement in the total value of exports, which increased from US$6.88 billion to around US$9.24 billion in 2005 (Table 6). It is anticipated that the value of exports will increase again for 2006, given relatively higher prices than in 2005. In fact, the average of the ICO composite indicator price was 94.63 US cents/lb for the first 11 months of 2006 compared to 89.59 cents for the same period in 2005.

Table 3: Exports October 2005 and 2006

	2005	2006	% variation
TOTAL	**6.08**	**7.06**	**16.00**
Colombian Milds	0.82	1.06	30.09
Other Milds	1.11	1.14	2.99
Brazilian Naturals	2.05	2.53	23.71
Robustas	2.12	2.33	9.93
Arabicas	3.97	4.73	19.24
Robustas	2.12	2.33	9.93

In million bags

Table 4: Exports (January – October)

	2005	2006	% variation
TOTAL	**73.55**	**75.02**	**2.00**
Colombian Milds	9.68	9.78	1.03
Other Milds	16.44	18.10	10.06
Brazilian Naturals	22.01	22.56	2.49
Robustas	25.42	24.58	-3.28
Arabicas	48.13	50.44	4.78
Robustas	25.42	24.58	-3.28

In million bags

Table 5: Annual exports (January – December)

	2004	2005	% variation
TOTAL	**90.75**	**86.99**	**-4.14**
Colombian Milds	11.39	12.00	5.40
Other Milds	21.08	18.65	-11.50
Brazilian Naturals	27.22	26.40	-3.00
Robustas	31.07	29.93	-3.64
Arabicas	59.68	57.06	-4.40
Robustas	31.07	29.93	-3.64
Africa	11.73	10.11	-13.87
Cameroon	0.73	0.70	-4.08
Cote d'Ivoire	2.57	1.82	-29.29
Ethiopia	2.49	2.44	-2.24
Kenya	0.75	0.65	-13.59
Tanzania	0.55	0.69	25.60
Uganda	2.63	2.37	-9.83
Others	2.00	1.43	-28.40
Asia & Oceania	25.46	24.53	-3.67
India	3.65	2.74	-24.80
Indonesia	5.46	6.74	23.62
Papua New Guinea	1.05	1.20	14.53
Vietnam	14.86	13.43	-9.60
Others	0.45	0.41	-9.58
Mexico & Central America	12.74	11.79	-7.49
Costa Rica	1.42	1.48	3.96
El Salvador	1.33	1.28	-3.59
Guatemala	3.31	3.47	4.72
Honduras	2.78	2.39	-13.94
Mexico	2.36	1.98	-15.92
Nicaragua	1.31	1.00	-23.55
Others	0.23	0.18	-20.86
South America	40.81	40.57	-0.59
Brazil	26.44	26.15	-1.08
Colombia	10.19	10.87	6.64
Ecuador	0.70	0.99	41.12
Others	3.47	2.55	-26.55

In million bags

Table 6: Volume and value of annual exports

	2002	2003	2004	2005
Colombian Milds				
- Volume	11.36	11.72	11.39	12.00
- Value	0.98	1.04	1.22	1.78
Other Milds				
- Volume	20.88	20.56	21.08	18.65
- Value	1.61	1.68	2.05	2.55
Brazilian Naturals				
- Volume	25.38	24.27	27.22	26.40
- Value	1.40	1.54	2.15	3.11
Robustas				
- Volume	30.98	29.34	31.07	29.93
- Value	1.14	1.34	1.47	1.80
Total				
- Volume	88.59	85.89	90.75	86.99
- Value	5.13	5.60	6.88	9.24

Volume in million bags – value in billion dollars

The volume of **opening stocks in exporting countries** in crop year 2006/07 was 18.94 million bags, a fall of 31.15% compared to the level of 27.51 million bags in 2005/06 (Table 7). In Brazil, opening stocks for crop year 2006/07 were down by 43.27%, from 17.54 million bags to 9.95 million. Despite an increase in production in crop year 2006/07, the rebuilding of stocks was very limited given export and domestic consumption requirements. **Stocks of green coffee in importing countries,** including free ports, are estimated at around 20.0 million bags. Levels of certified stocks in the London (LIFFE) and New York (NYBOT) futures markets fell slightly in November, down from 1.97 and 3.66 million bags at the end of October 2006 to 1.88 and 3.62 million bags respectively at the end of November 2006 (Table 8).

Table 7: Opening stocks in exporting countries (1990 – 2006)

Crop year commencing	Total	Colombian Milds	Other Milds	Brazilian Naturals	Robustas
1990	55.66	7.14	5.37	28.89	14.27
1991	52.94	7.67	4.94	28.38	11.95
1992	54.56	8.99	5.03	26.56	13.97
1993	51.04	6.70	3.30	30.18	10.87
1994	47.55	3.66	3.39	30.68	9.82
1995	53.94	6.21	4.42	33.25	10.06
1996	44.18	6.53	3.18	27.85	6.62
1997	42.31	4.41	2.33	28.61	6.96
1998	40.35	4.14	2.62	27.21	6.39
1999	41.28	3.30	2.25	29.68	6.04
2000	39.70	2.59	2.12	28.50	6.49
2001	42.64	1.96	3.10	30.19	7.39
2002	36.75	2.05	3.49	24.24	6.97
2003	41.01	2.07	3.08	28.19	7.67
2004	29.24	1.52	3.16	18.58	5.98
2005	27.51	1.20	3.37	17.68	5.26
2006	18.94	1.02	3.55	9.43	4.94
% change 2004-2005	**-31.15**	**-15.39**	**5.31**	**-46.64**	**-6.08**

In million bags

Table 8: LIFFE and NYBOT certified stocks

End of	LIFFE	NYBOT
Nov-00	**n.a.**	3.64
Nov-01	**n.a.**	2.96
Nov-02	2.27	2.57
Nov-03	2.41	4.40
Nov-04	4.13	4.56
Oct-05	3.82	4.07
Jan-06	3.51	3.70
Feb-06	3.26	3.61
Mar-06	3.01	3.49
Apr-06	2.77	3.36
May-06	2.29	3.35
Jun-06	2.11	3.30
Jul-06	1.79	3.36
Aug-06	1.46	3.46
Sep-06	1.82	3.60
Oct-06	1.97	3.66
Nov-06	1.88	3.62

In million bags

Although calendar year 2006 has not yet ended, **world consumption** can be estimated at around 116 million bags compared to 115 million bags in 2005. **Domestic consumption in exporting countries** accounts for around 31 million bags and **consumption in importing countries** for around 85 million. Consumption in selected importing countries is shown in Table 9. It should be noted that exports by a number of exporting countries to other exporting countries are not taken into account in calculating domestic consumption. These exports to other exporting countries are expected to exceed 2 million bags in 2006 (Table 10). If this export flow is taken into account, domestic consumption in exporting countries would be around 33 million bags.

Table 9: Consumption in selected importing countries (Calendar years 2001-2005)

	2001	2002	2003	2004	2005
TOTAL	**65 570**	**65 451**	**66 733**	**68 573**	**66 659**
European Community	***37 762***	***38 190***	***38 363***	***39 257***	***36 829***
Austria	1 049	952	757	1 033	810
Belgium	921	1 527	1 623	1 334	1 211
Cyprus	53	52	54	64	70
Czech Republic	659	648	556	546	534
Denmark	863	806	725	849	814
Estonia	110	112	118	133	150
Finland	952	975	971	1 041	1 112
France	5 241	5 492	5 429	5 001	5 053
Germany	9 475	9 064	9 076	10 177	8 052
Greece	578	864	1 003	928	911
Hungary	740	709	611	561	392
Ireland	147	137	151	217	226
Italy	5 252	5 180	5 503	5 405	5 460
Latvia	156	151	169	167	166
Lithuania	214	212	189	234	251
Luxembourg	66	108	96	124	96
Malta	15	26	34	26	23
Netherlands	1 732	1 641	1 827	1 599	1 454
Poland	1 958	1 952	2 096	2 180	2 178
Portugal	768	739	678	701	782
Slovakia	308	298	318	319	368
Slovenia	193	201	182	195	200
Spain	2 869	2 907	2 826	2 791	2 959
Sweden	1 259	1 235	1 181	1 242	1 162
United Kingdom	2 185	2 201	2 189	2 391	2 396
Japan	6 936	6 875	6 770	7 117	7 224
Norway	711	692	683	709	743
Switzerland	819	824	845	712	1 105
USA	19 343	18 871	20 072	20 778	20 759

In thousand bags

Table 10: Exports to exporting countries Calendar years 2002 – 2005

Country of destination	**2002**	**2003**	**2004**	**2005**
TOTAL	**1 431 947**	**1 415 342**	**1 384 910**	**3 308 326**
Ecuador	156 612	186 019	264 264	623 307
India	21 436	25 179	189 041	603 027
Mexico	208 466	273 332	267 813	580 387
Philippines	517 821	491 849	325 975	507 649
Colombia	55 707	21 181	29 665	336 788
Cuba	99 985	4 213	7 799	190 123
El Salvador	15 180	51 972	59 441	82 225
Nicaragua	73 659	42 292	10 608	63 041
Peru	55 159	45 483	37 164	61 801
Guatemala	20 116	28 674	33 603	39 093
Indonesia	57 282	26 972	35 899	33 609
Nigeria	32 040	78 226	1 262	32 222
Paraguay	14 101	21 255	29 568	24 499
Bolivia	7 680	14 676	14 224	19 203
Kenya	4 016	2 584	2 313	19 062
Thailand	7 741	10 478	18 436	17 120
Venezuela	10 043	17 424	9 738	14 649
Vietnam	3 158	3 066	8 816	14 381
Others	71 745	70 467	39 281	46 140

In 60 kg bags

In conclusion, I would like to indicate that coffee prices remained firm in November, sparked off by the prospect of a significant fall in Brazilian production for crop year 2007/08. In view of this expected shortfall, firmness is likely to continue. However, the depreciation of the dollar has reduced the value of the price rise. With regard to stocks, a rebuilding is not probable in the near future in producing countries.