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State of the global coffee market

By

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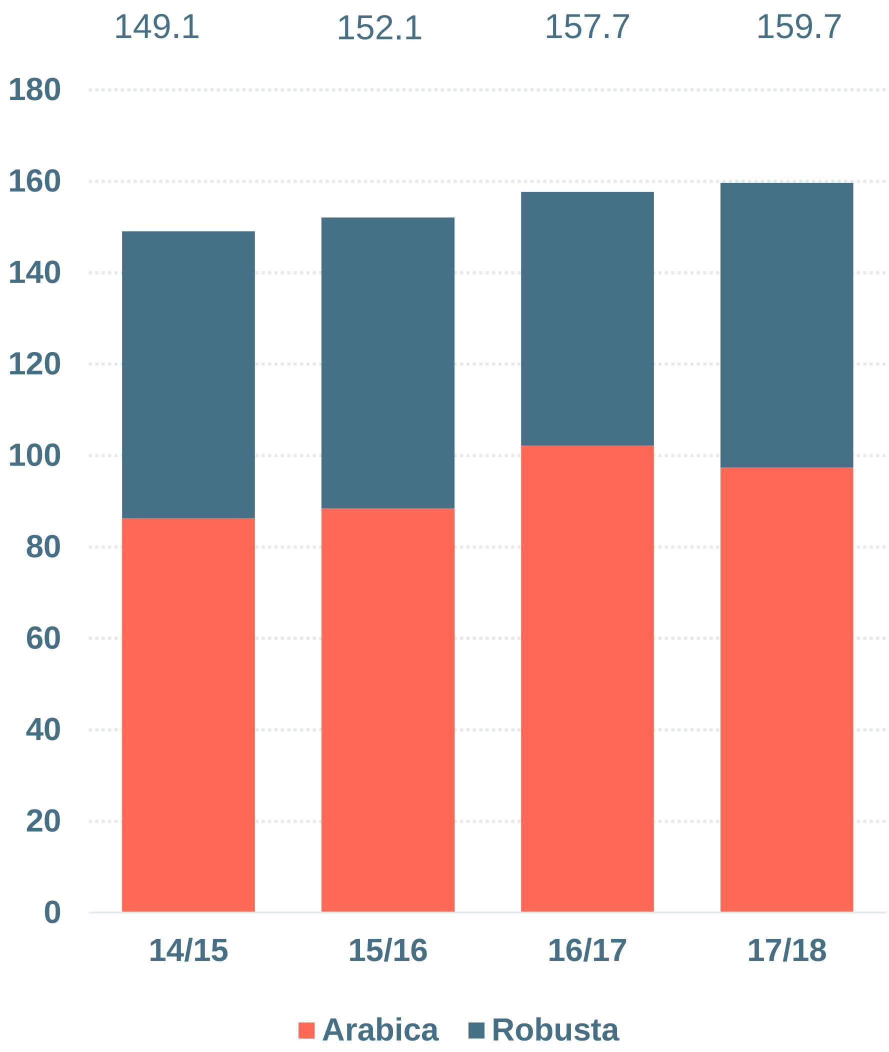
Supply &

Demand

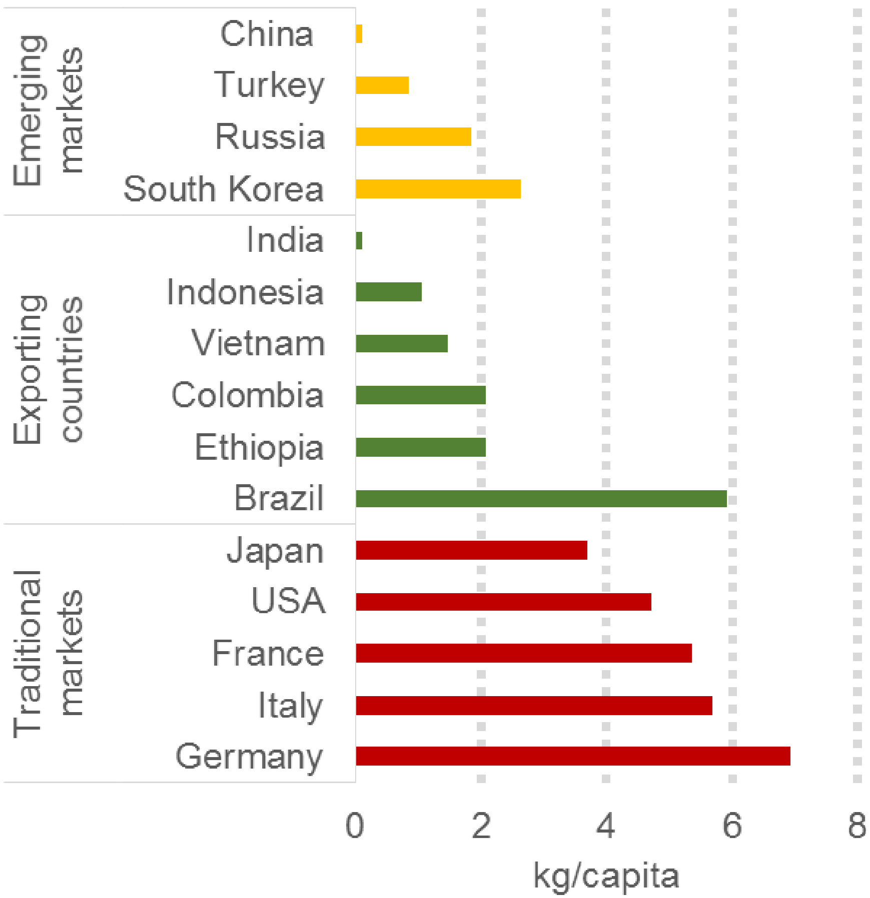
World coffee production



- 159.7 million bags in crop year 2017/18
- 1.2% increase on 2016/17
- Arabicas ↘ 4.6%
- Robustas ↗ 12.1%

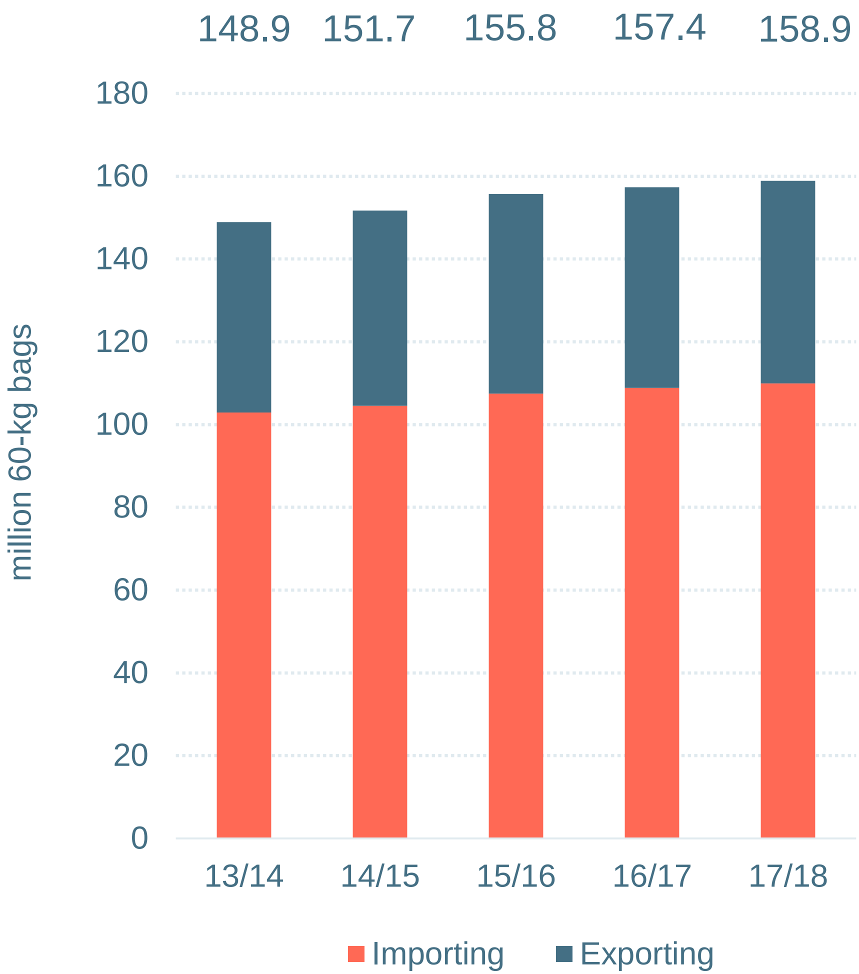
Demand for coffee by market

- Large potential for further growth in exporting countries and emerging markets
- Per capita rates still well below those in traditional markets
- Particularly in countries with large populations (China, India, Indonesia)
- Brazil as the model for other countries to emulate (domestic consumption)

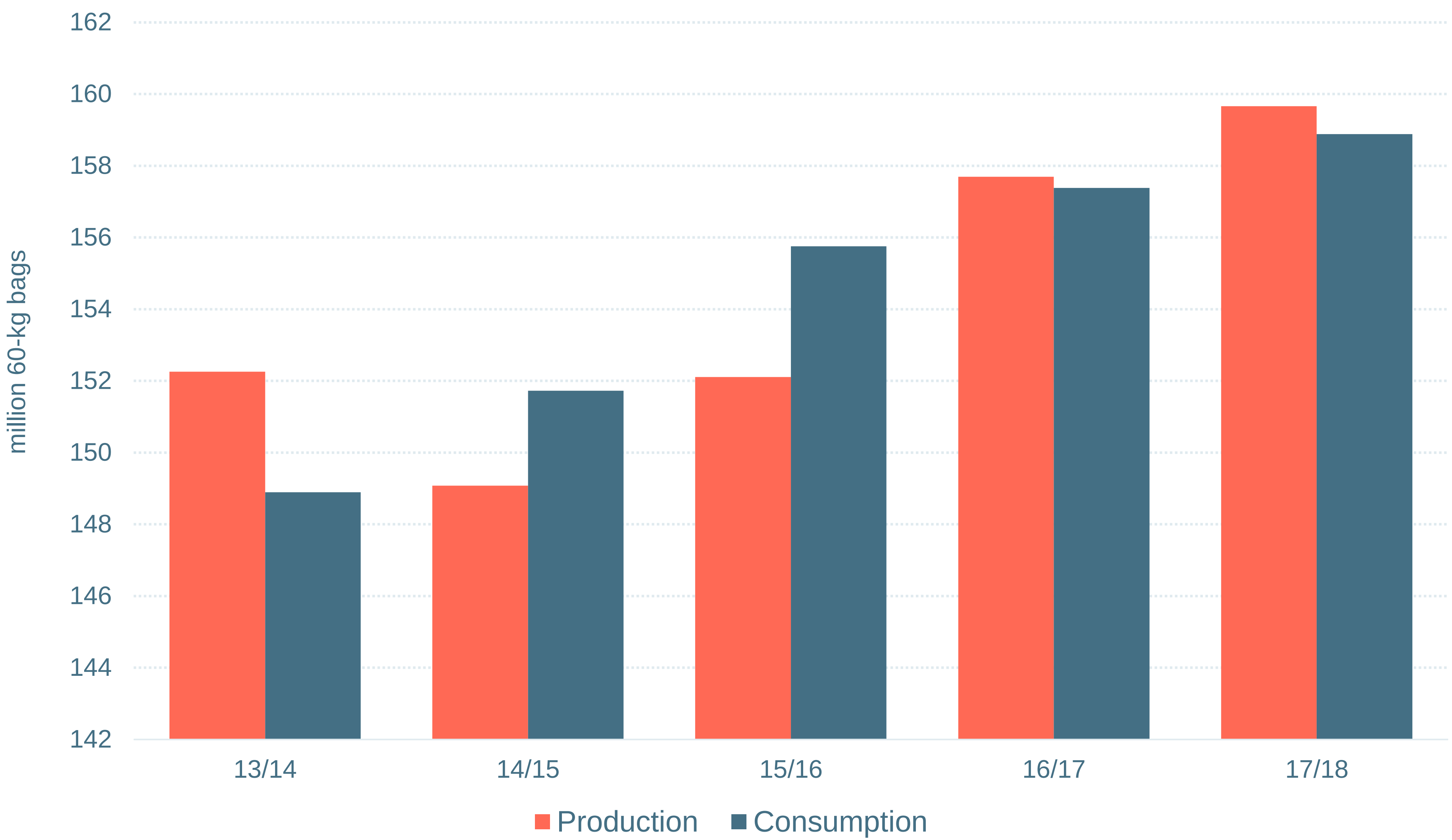


Global demand

- Increasing by 1% in coffee year 2017/18
- Still strong demand in many countries, particularly some traditional markets
- But biggest potential is in emerging markets and exporting countries

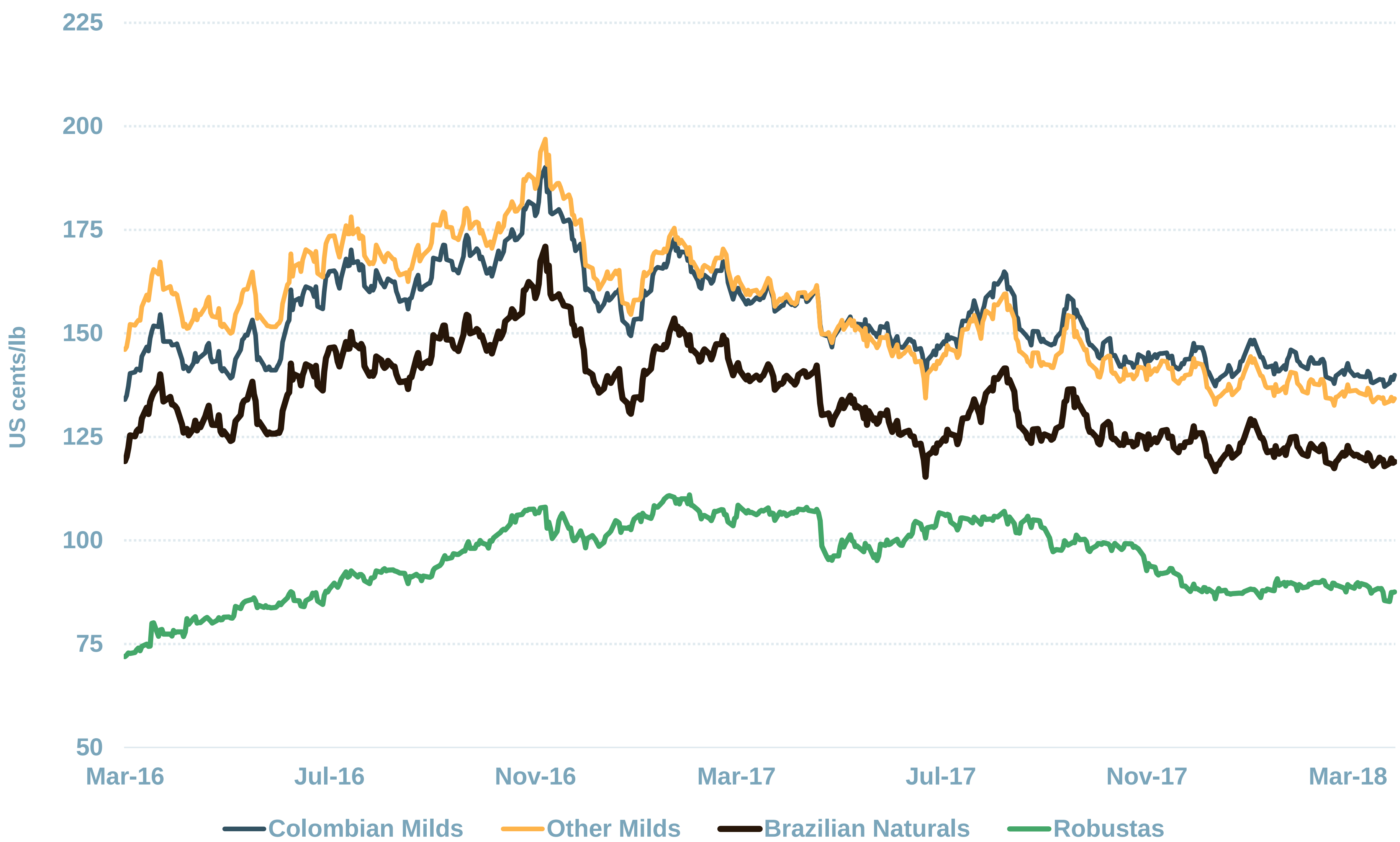


Supply/Demand Balance



Prices

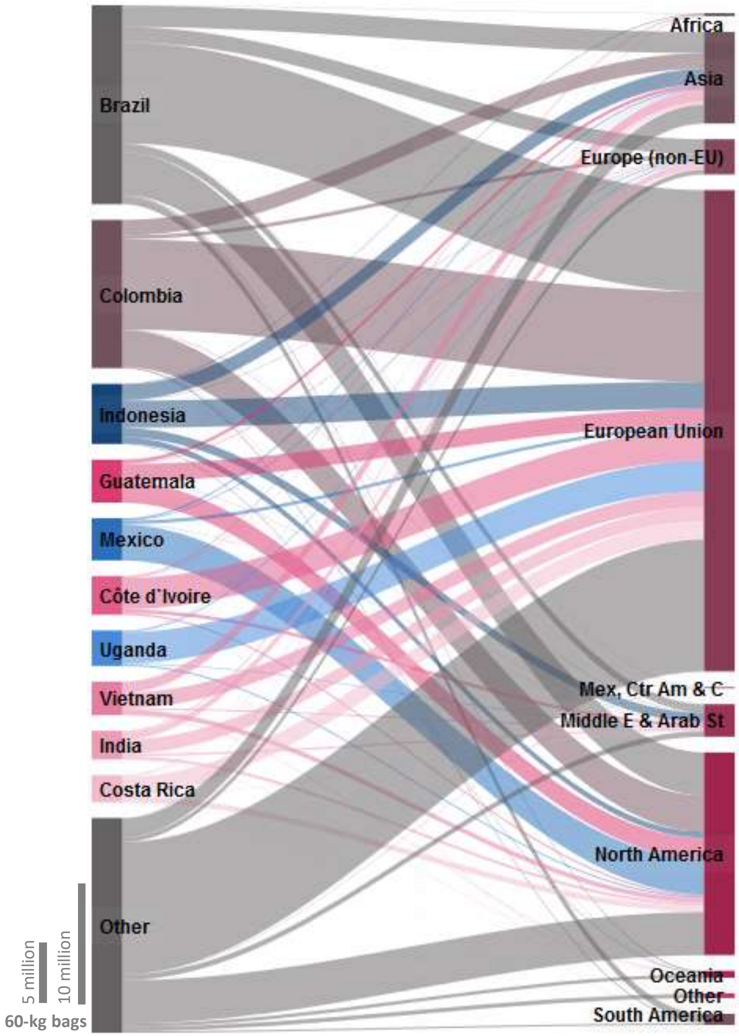
Daily ICO indicator prices



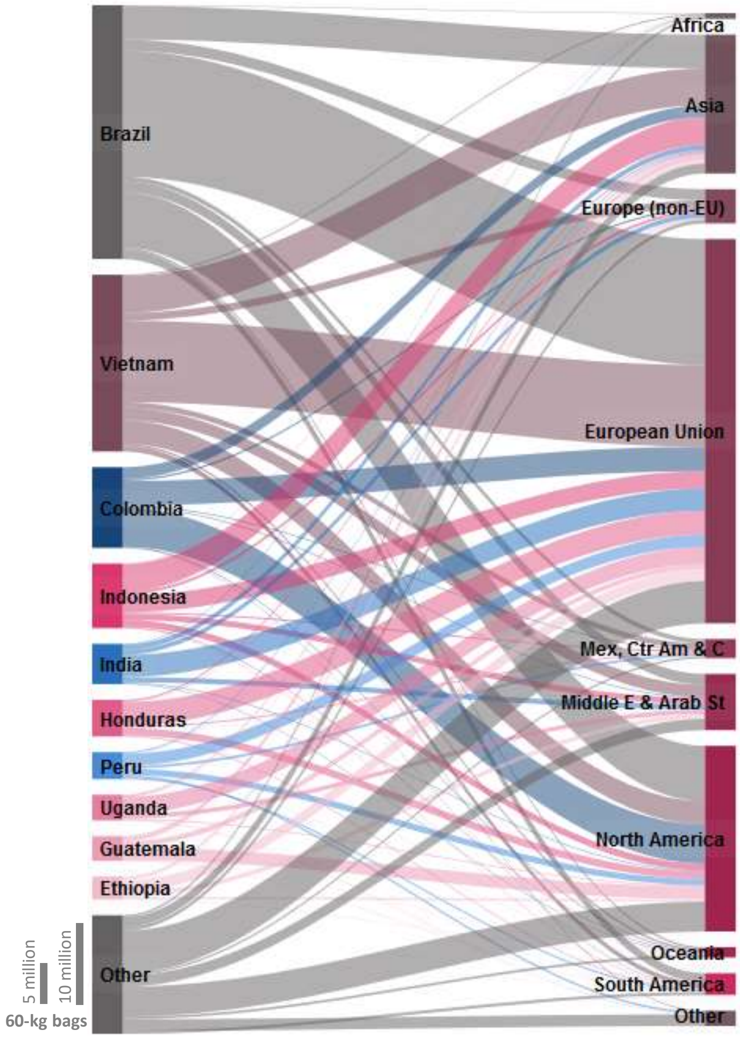
Market trends

Development of coffee trade flows

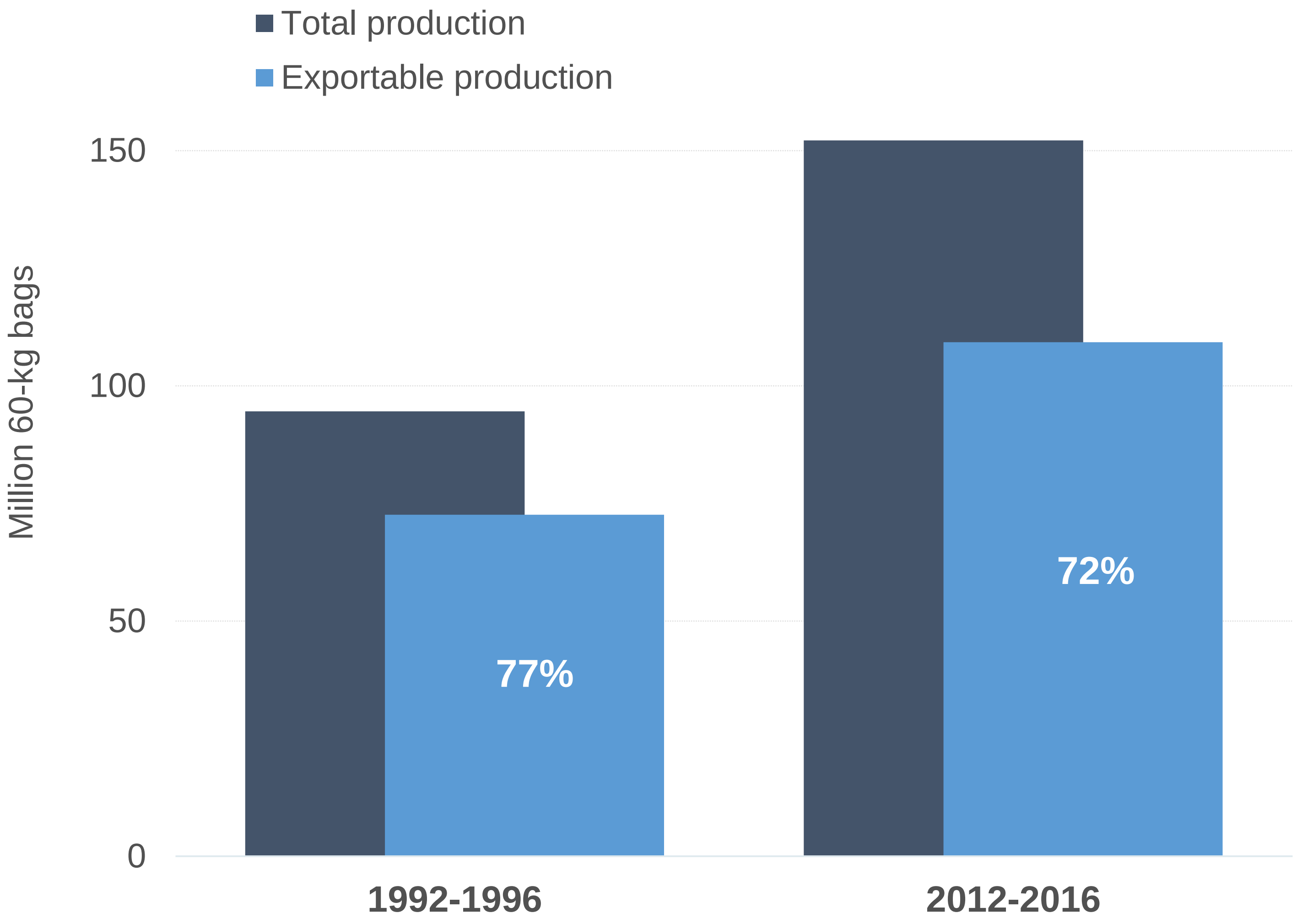
Avg. 1992-1996



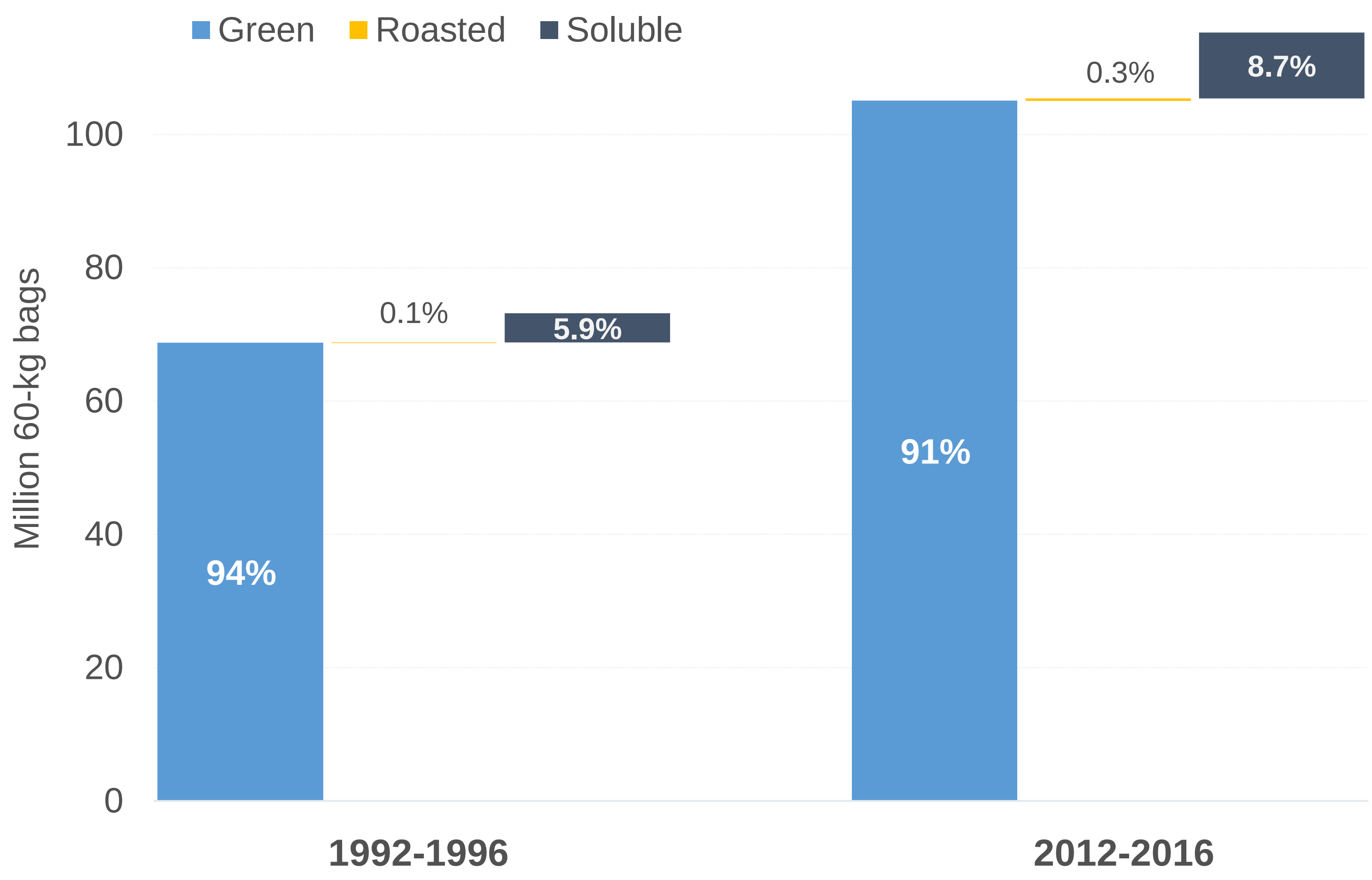
Avg. 2012-2016



Domestic consumption increases



Value-added



Green
Roasted
Soluble
Million 60-kg bags
100
80
60
40
20
0
94%
0.1%
5.9%
91%
0.3%
8.7%
1992-1996
2012-2016

Outlook

Impact of climate change on coffee production

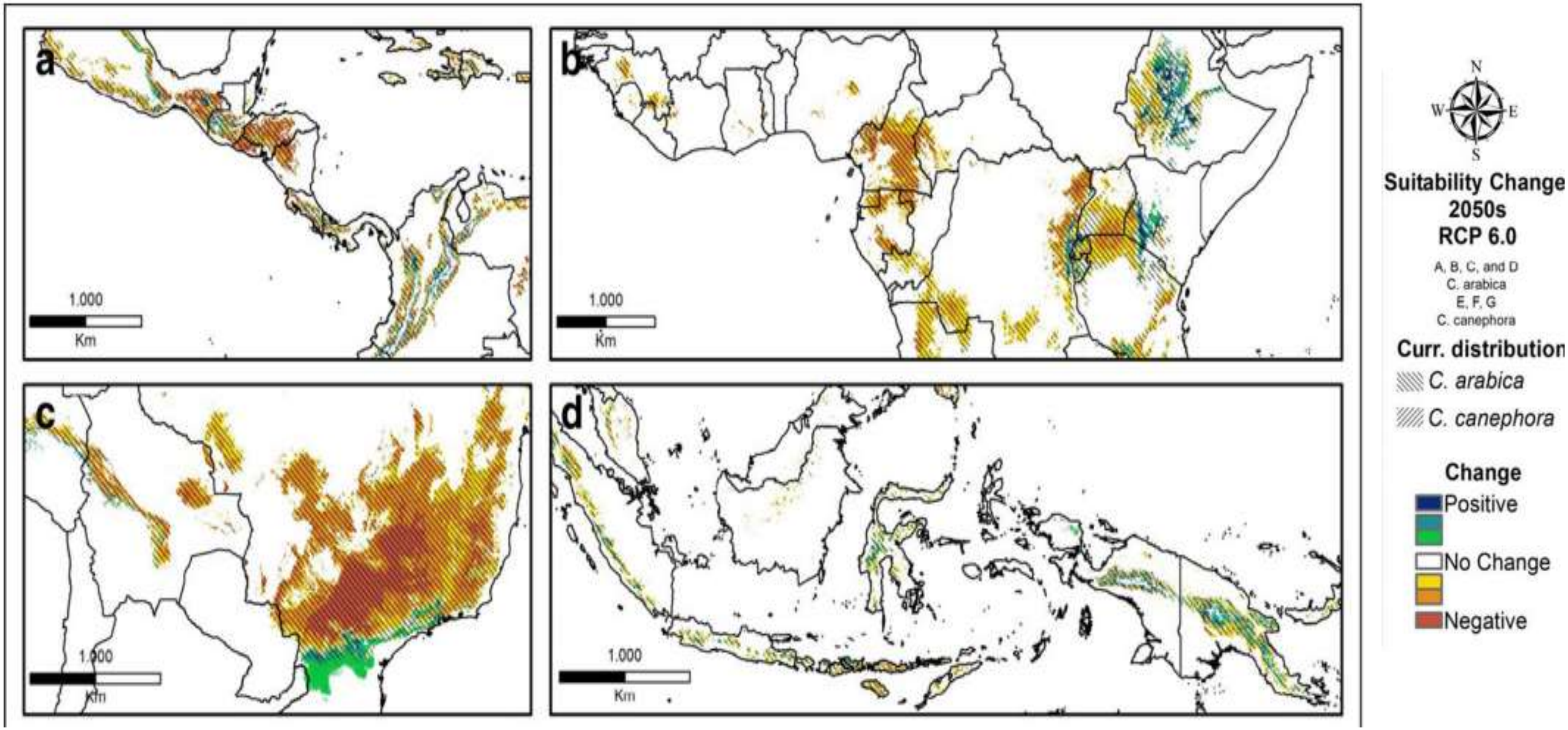
- Global warming affects coffee production via two pathways:

  1. Changes in rainfall patterns & temperatures make regions unsuitable for production

  2. Change in climatic conditions facilitates spread of pests and diseases (e.g. Coffee Leaf Rust)

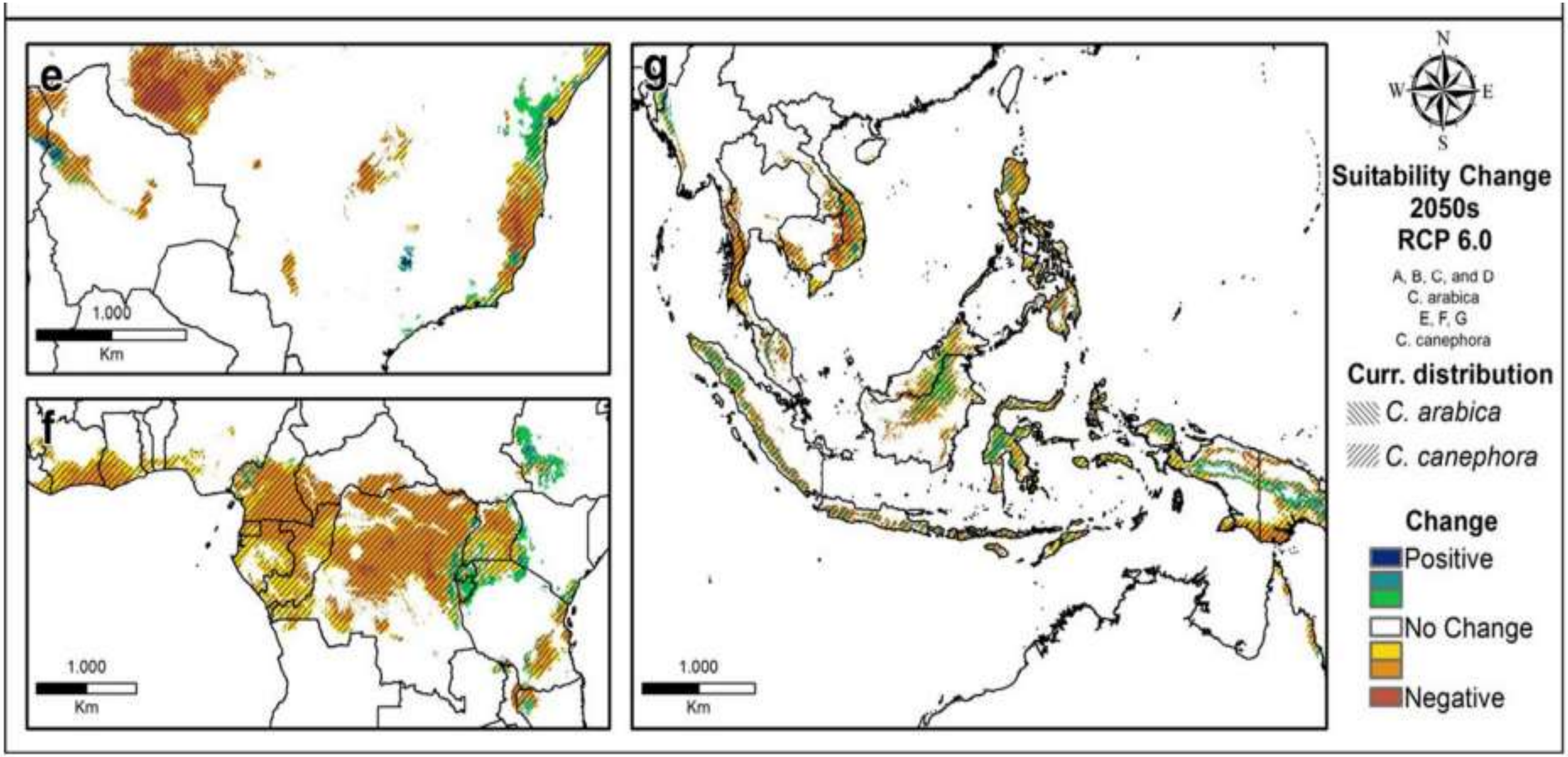
- Both Arabica <u>and</u> Robusta are negatively affected by climate change

Suitability of current Arabica area in 2050



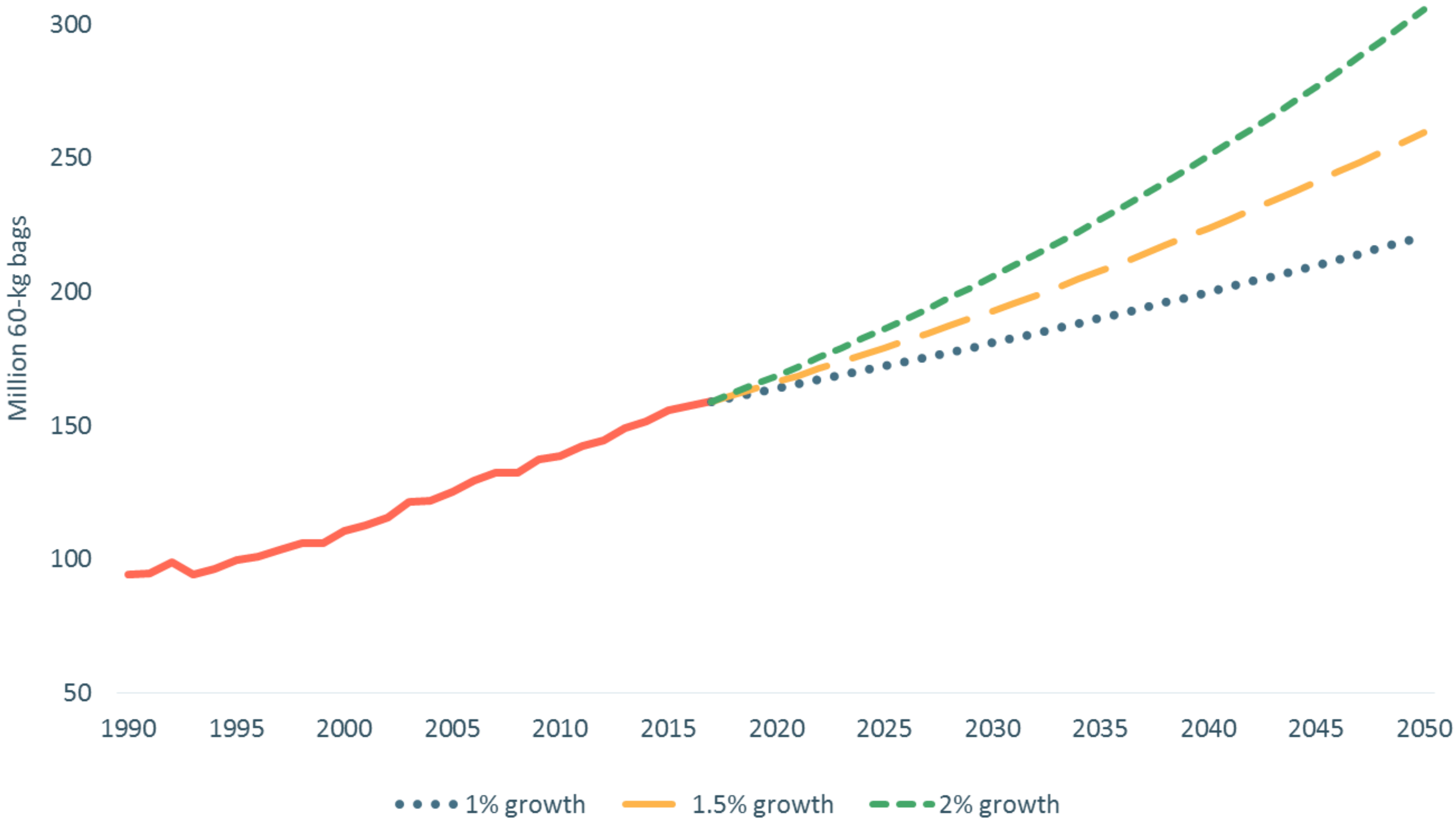
Source: Bunn et al. 2015

Suitability of current Robusta area in 2050



Source: Bunn et al. 2015

Investment is required to meet rising demand for coffee



Conclusions

Conclusions

- Demand grew by more than 50% since the 1990s
- Coffee remains primary commodity with most of value-added generated in importing countries
- Market in surplus for 2nd consecutive year
- Prices remain low affecting profitability and investment
- BUT: threat of climate change is looming and investment in adaptation is required

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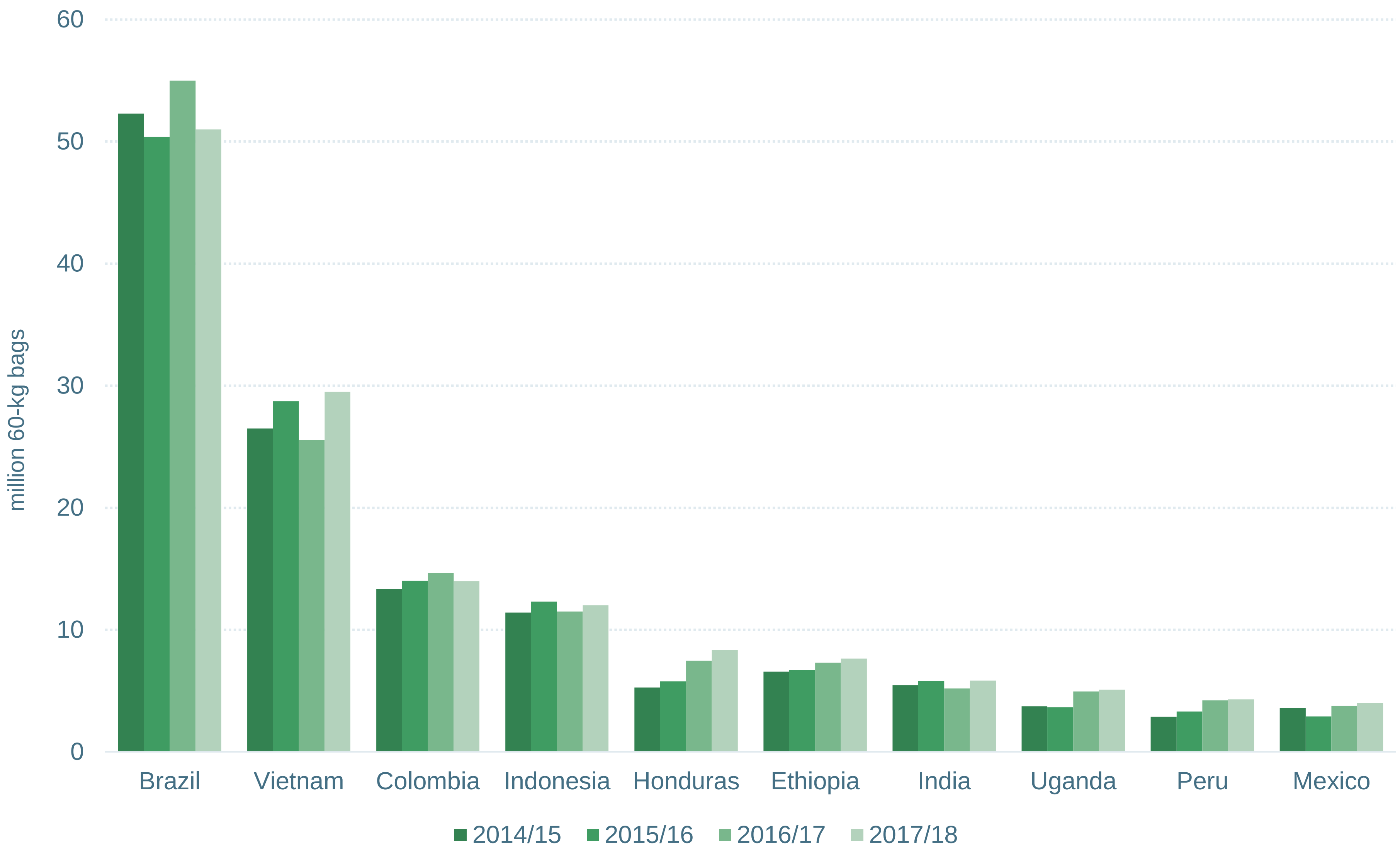
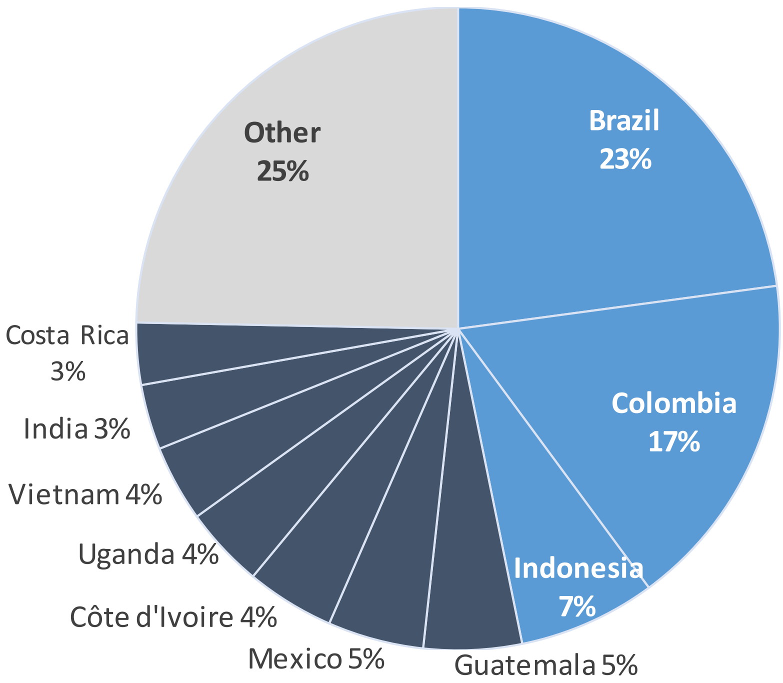
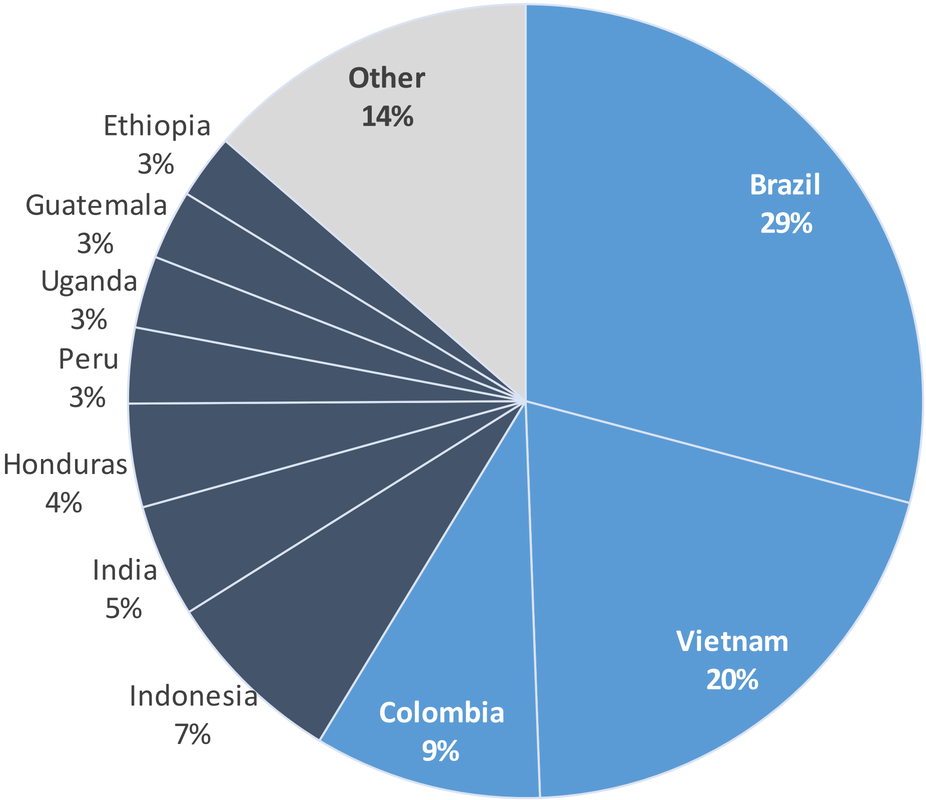
Top-10 coffee producers



Concentration on exporting side

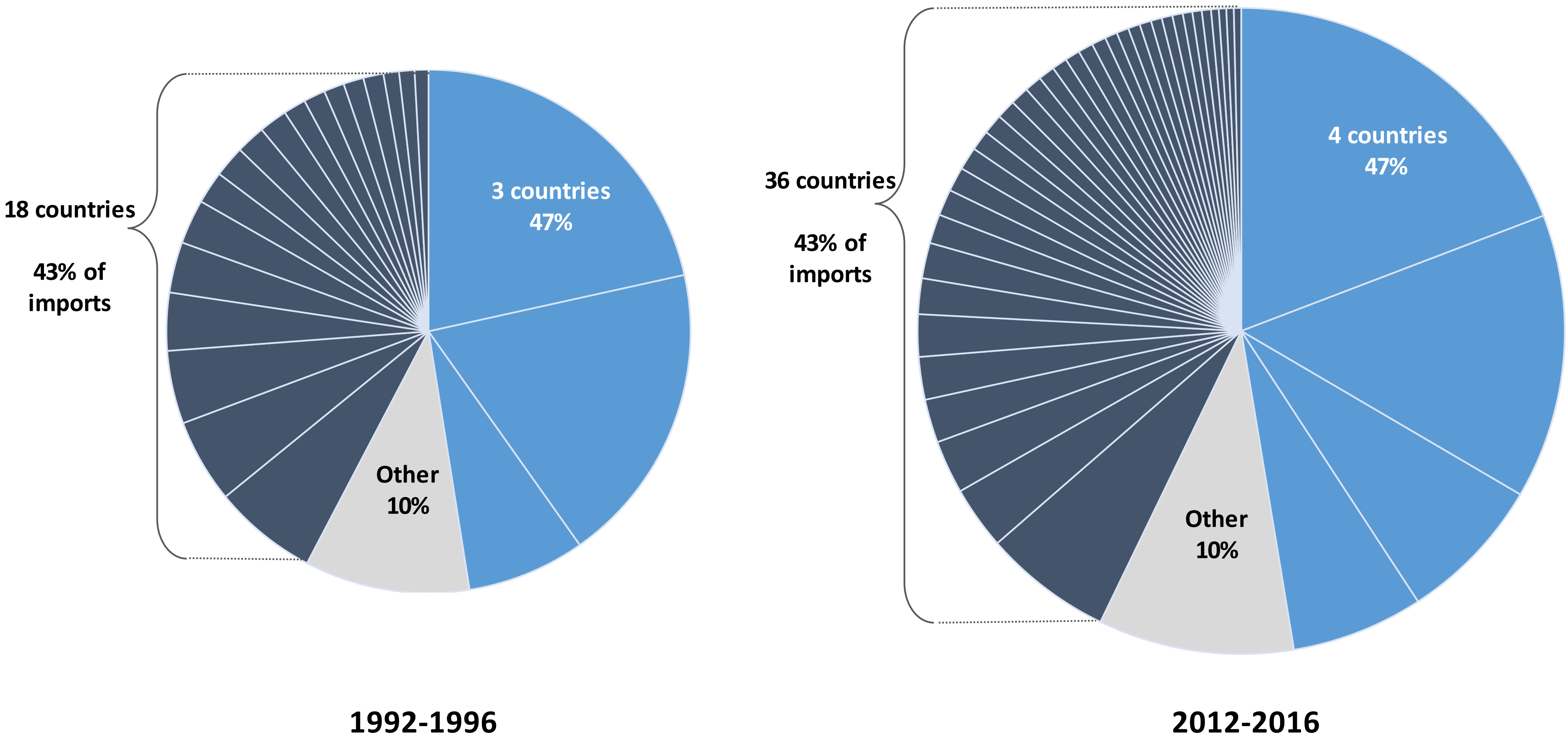


1992-1996

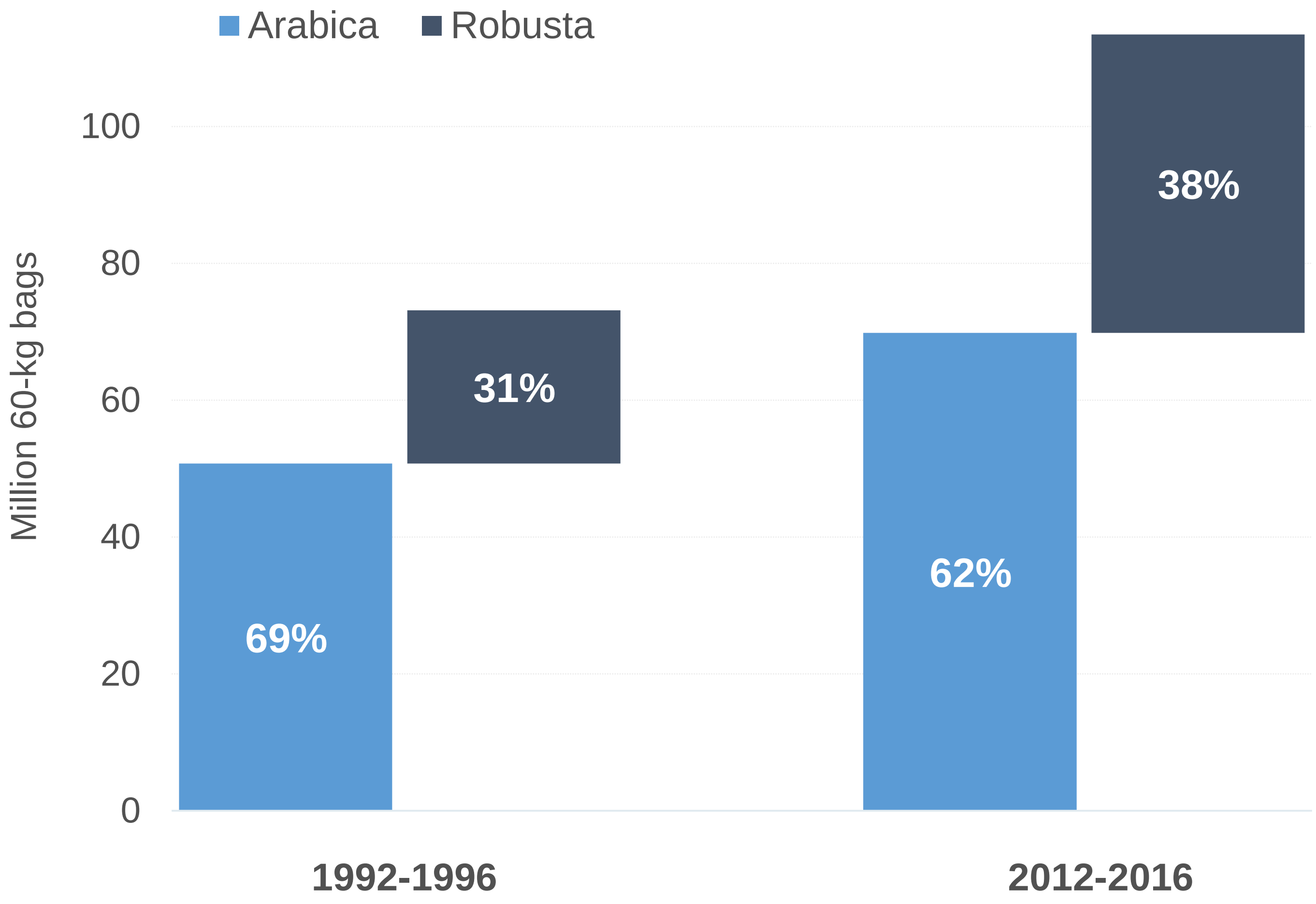


2012-2016

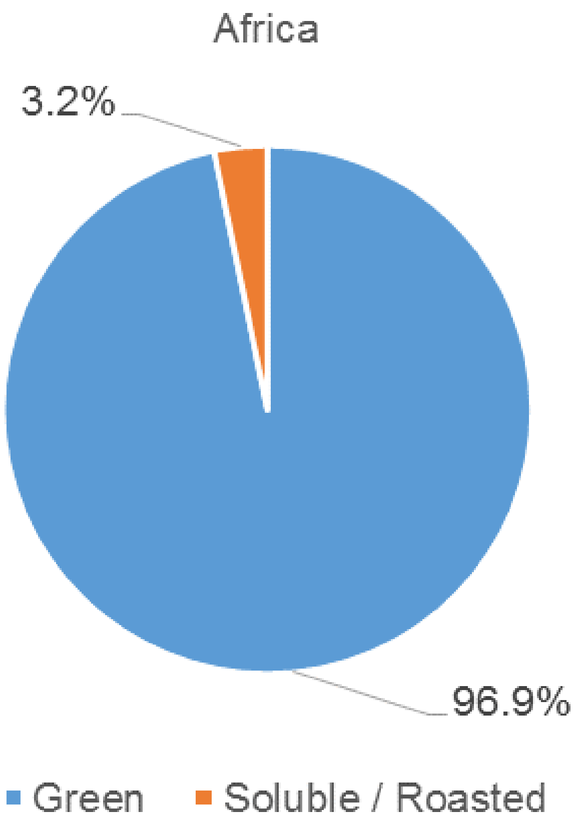
Diversification on importing side

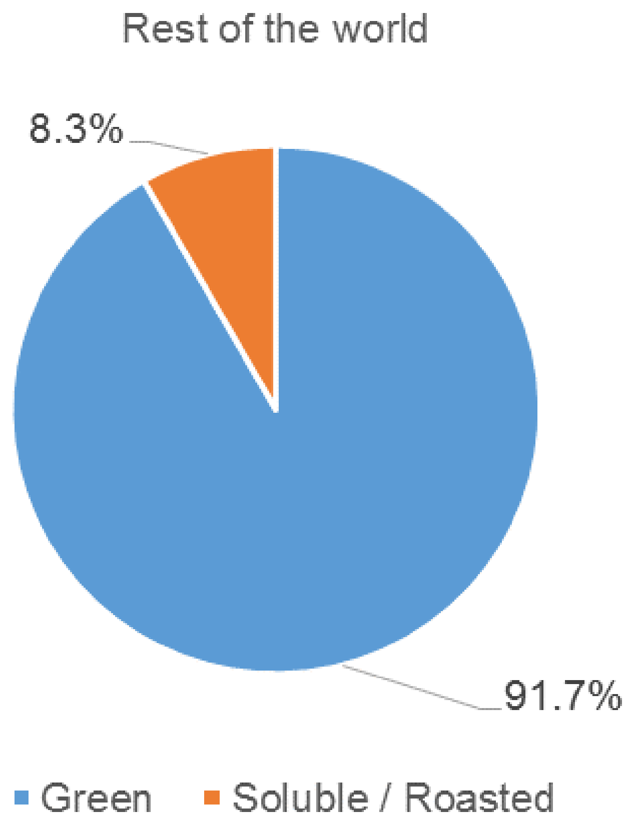


Arabica vs. Robusta

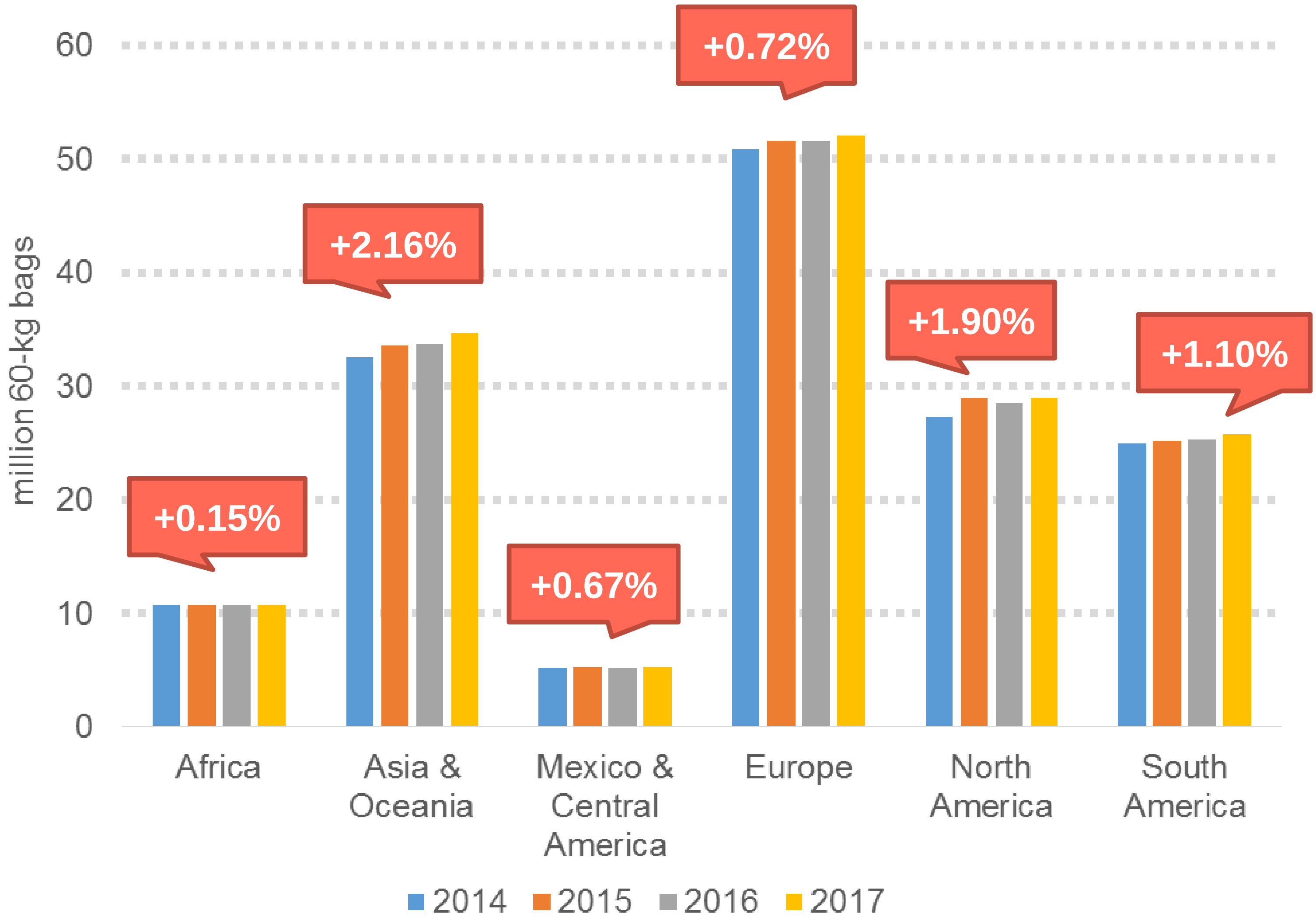


Breakdown of total exports by form (2015)

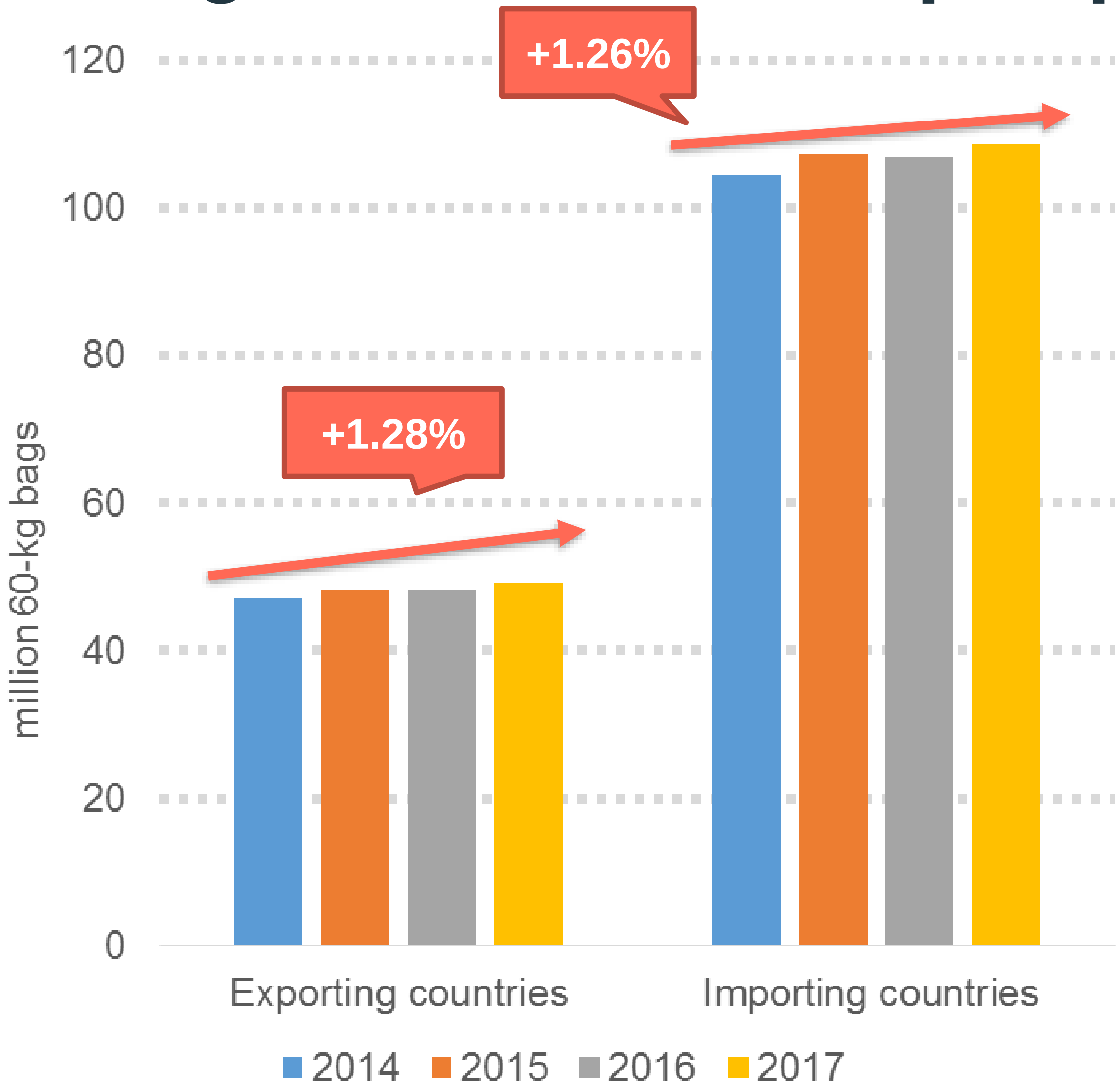




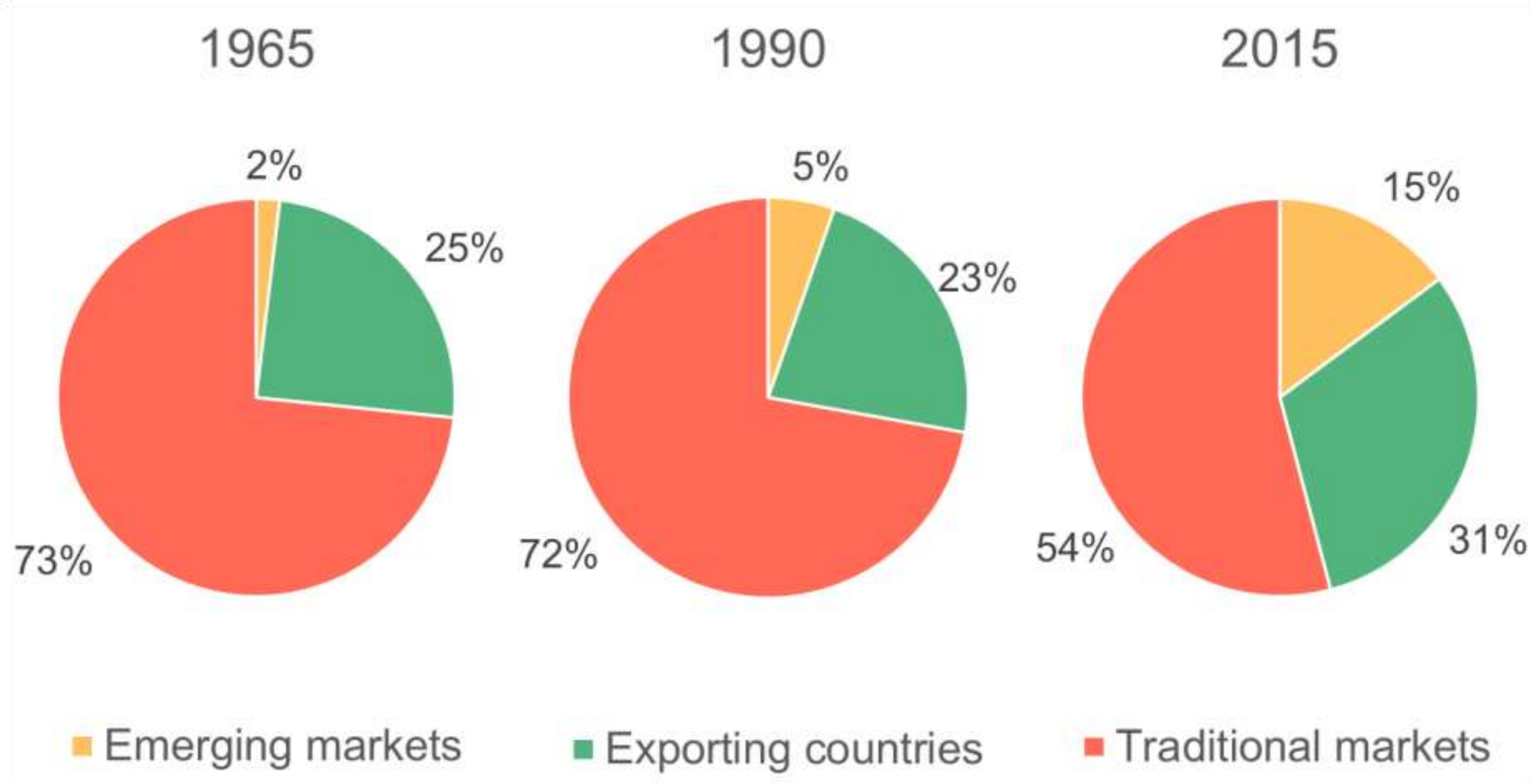
Growth in global demand by region (CAGR)



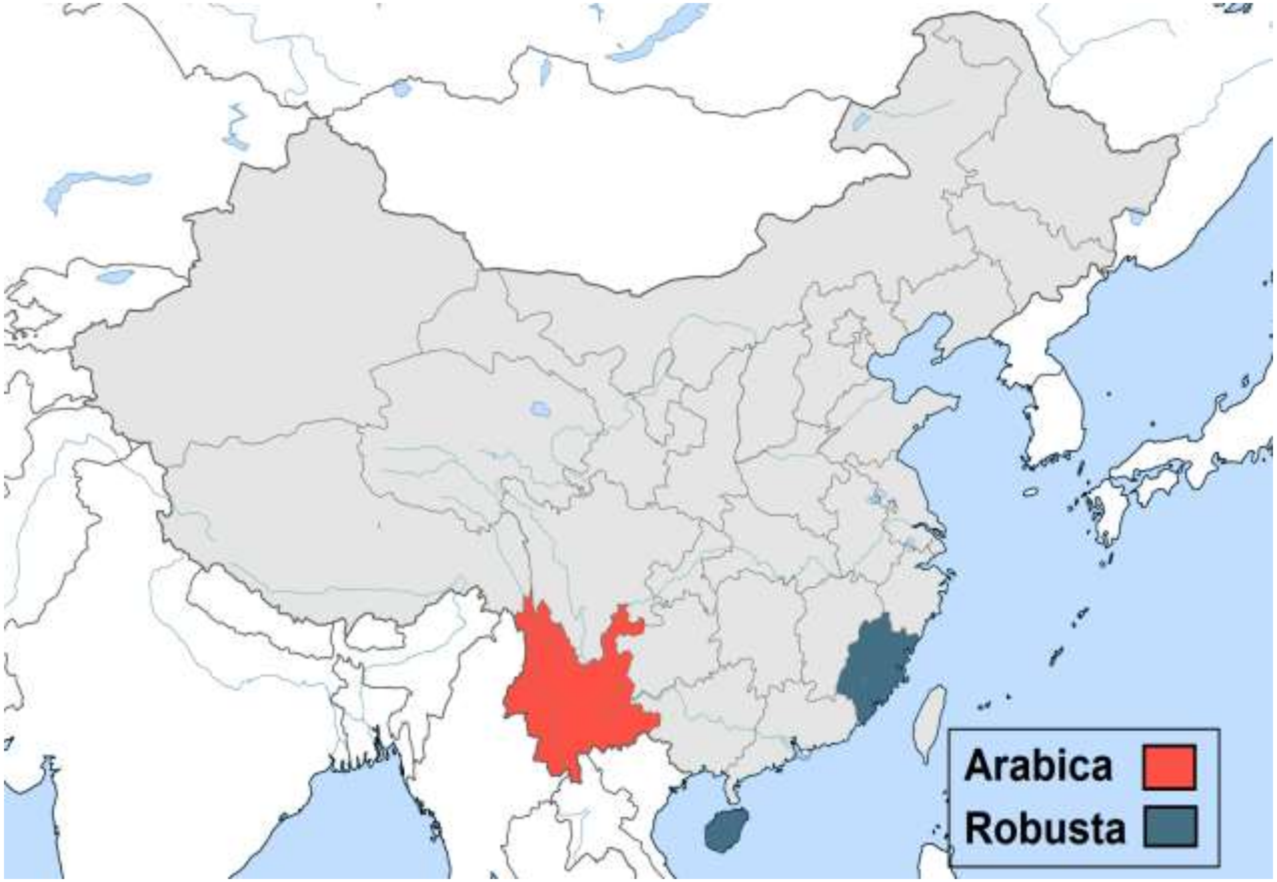
Growth in global demand imp/exp (CAGR)



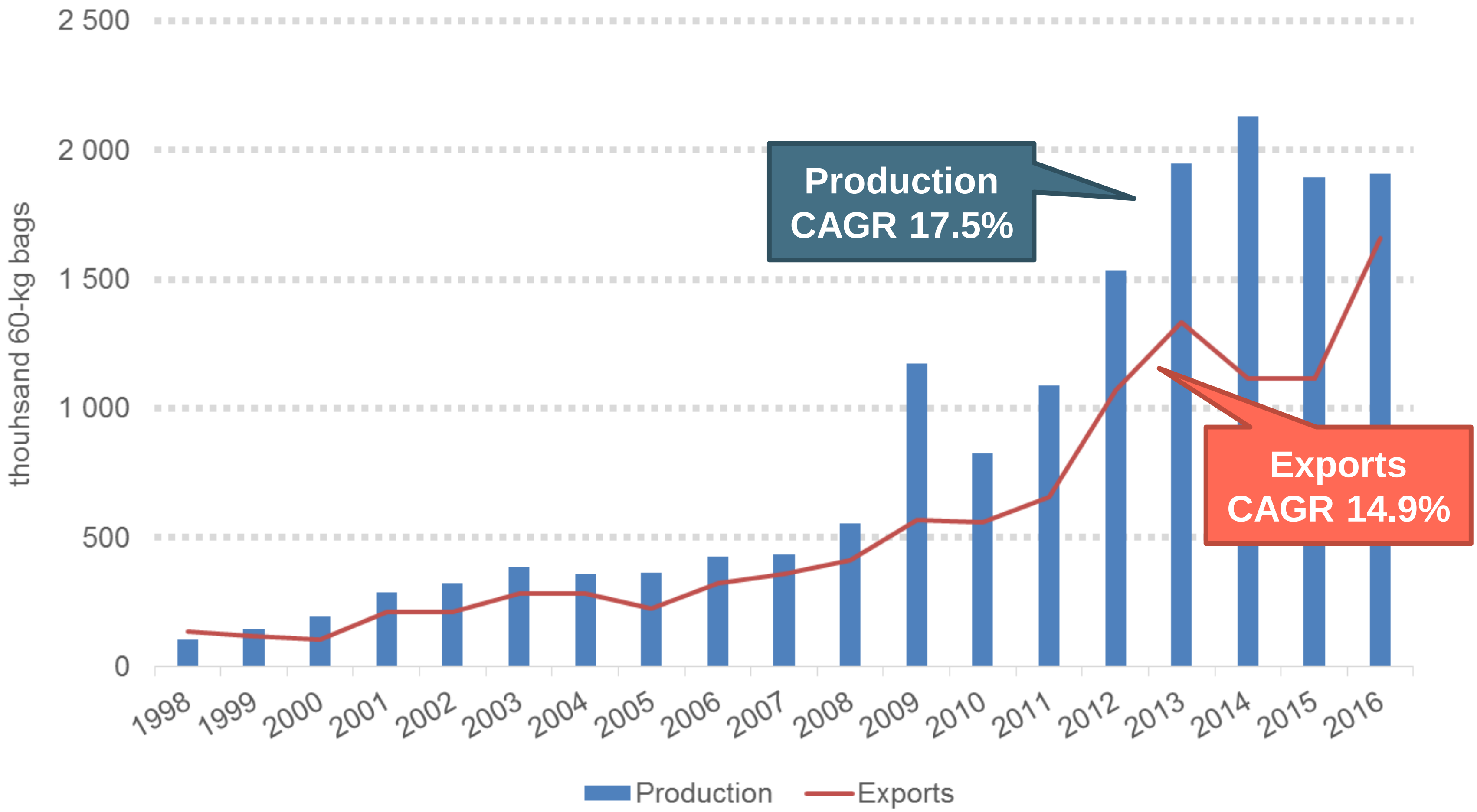
World shares of consumption



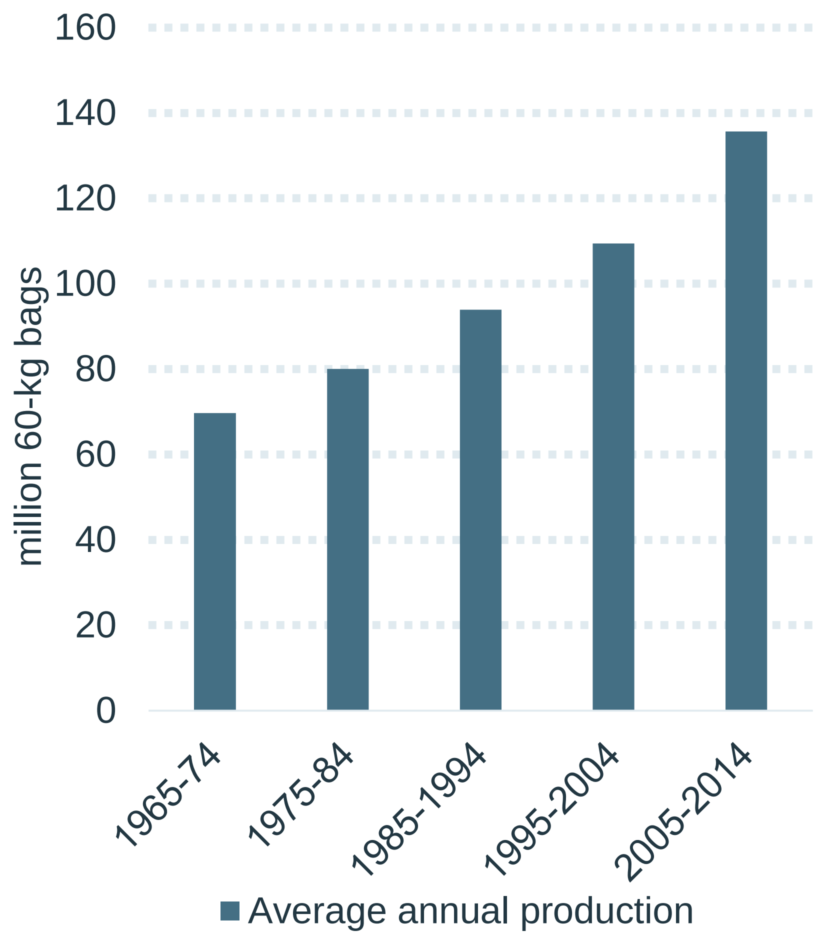
Coffee production in China by type

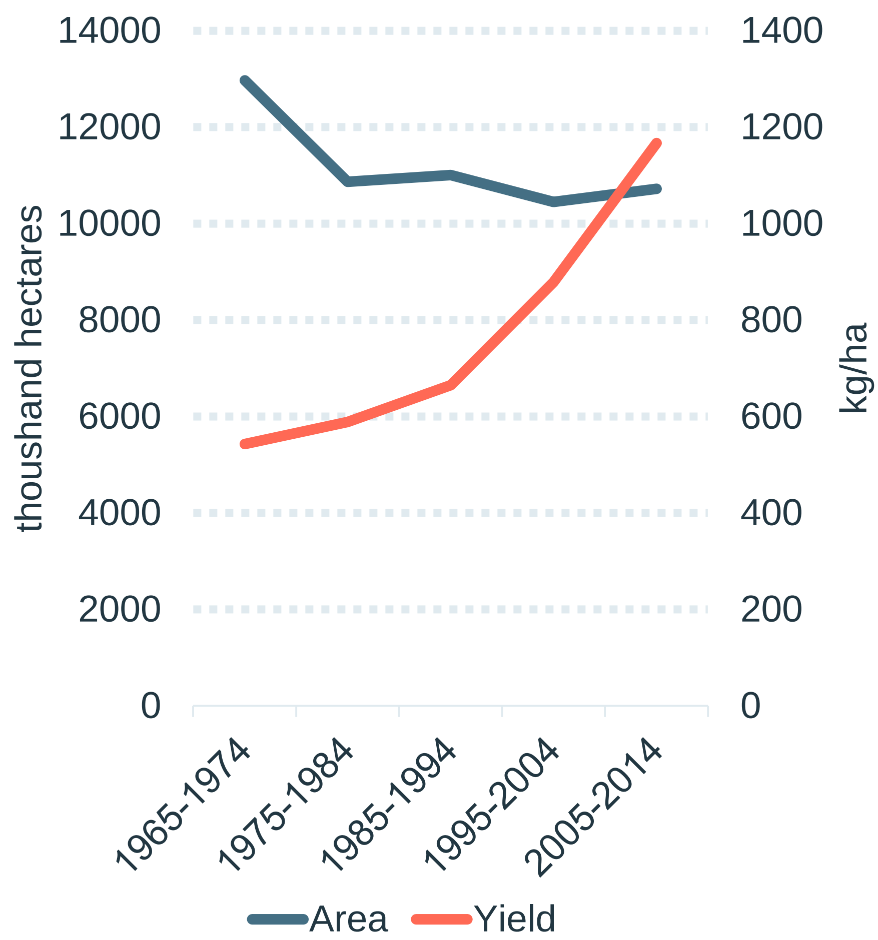


Development of coffee production and exports in China

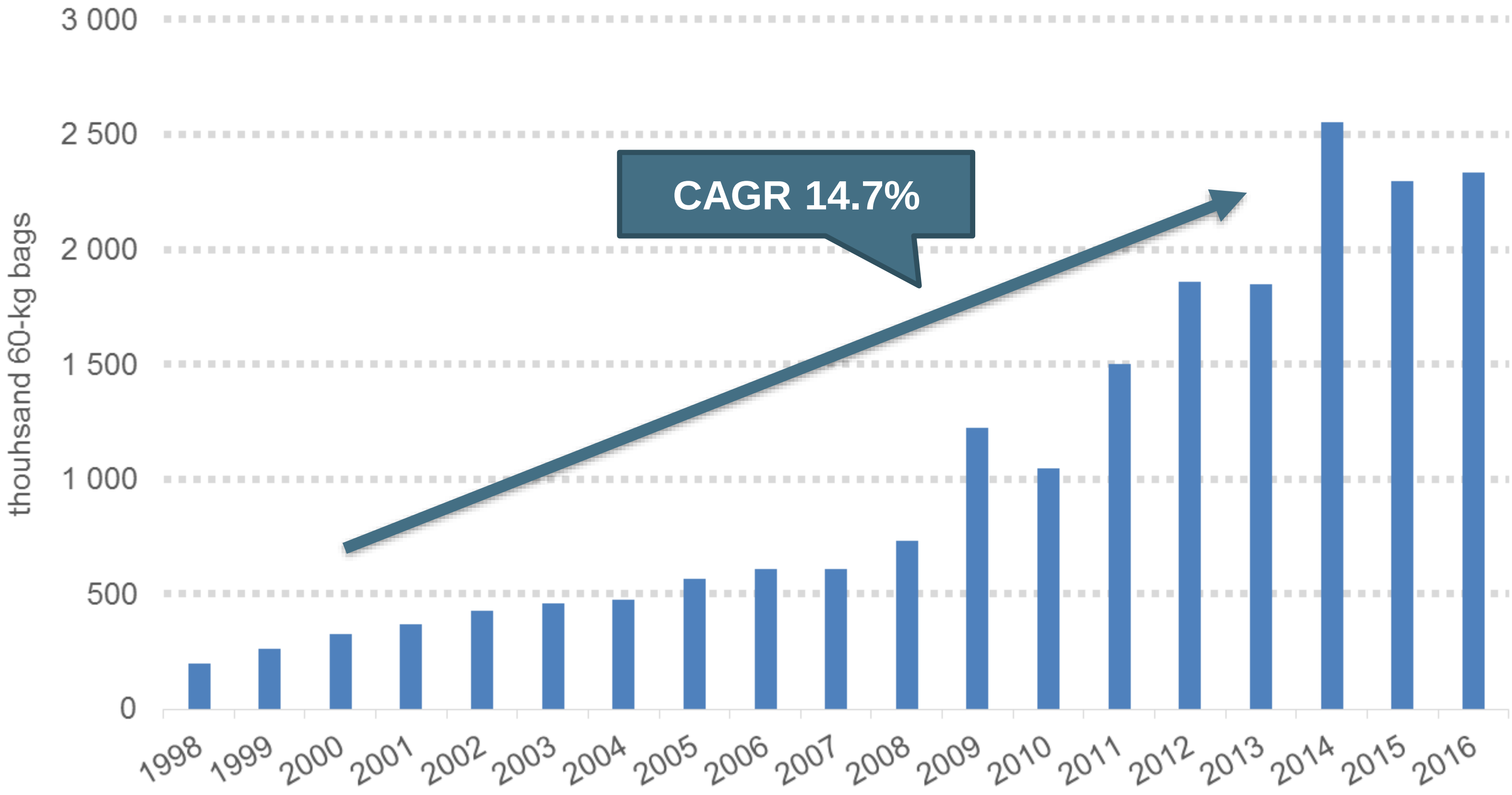


Will positive supply trend continue?

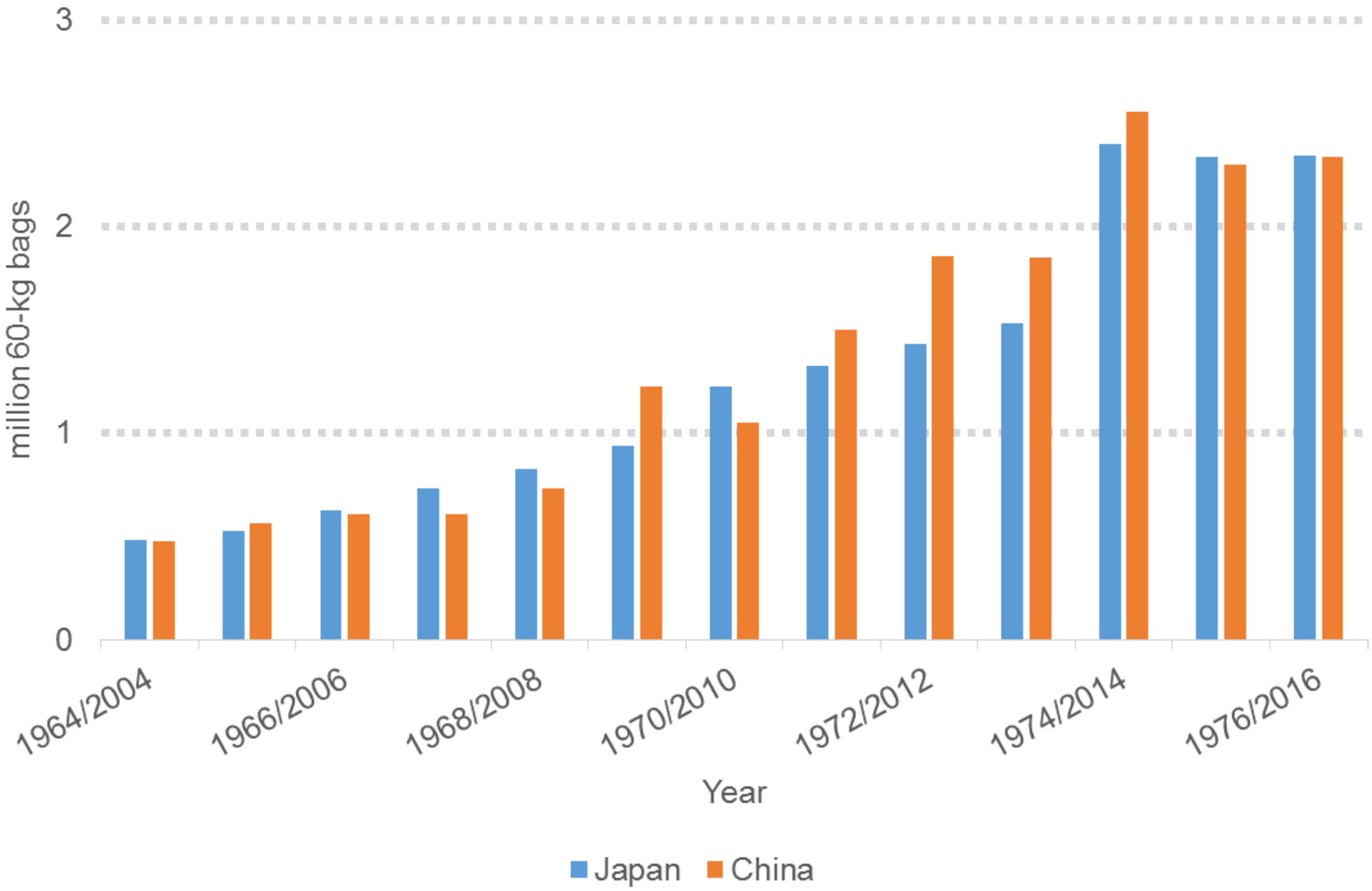




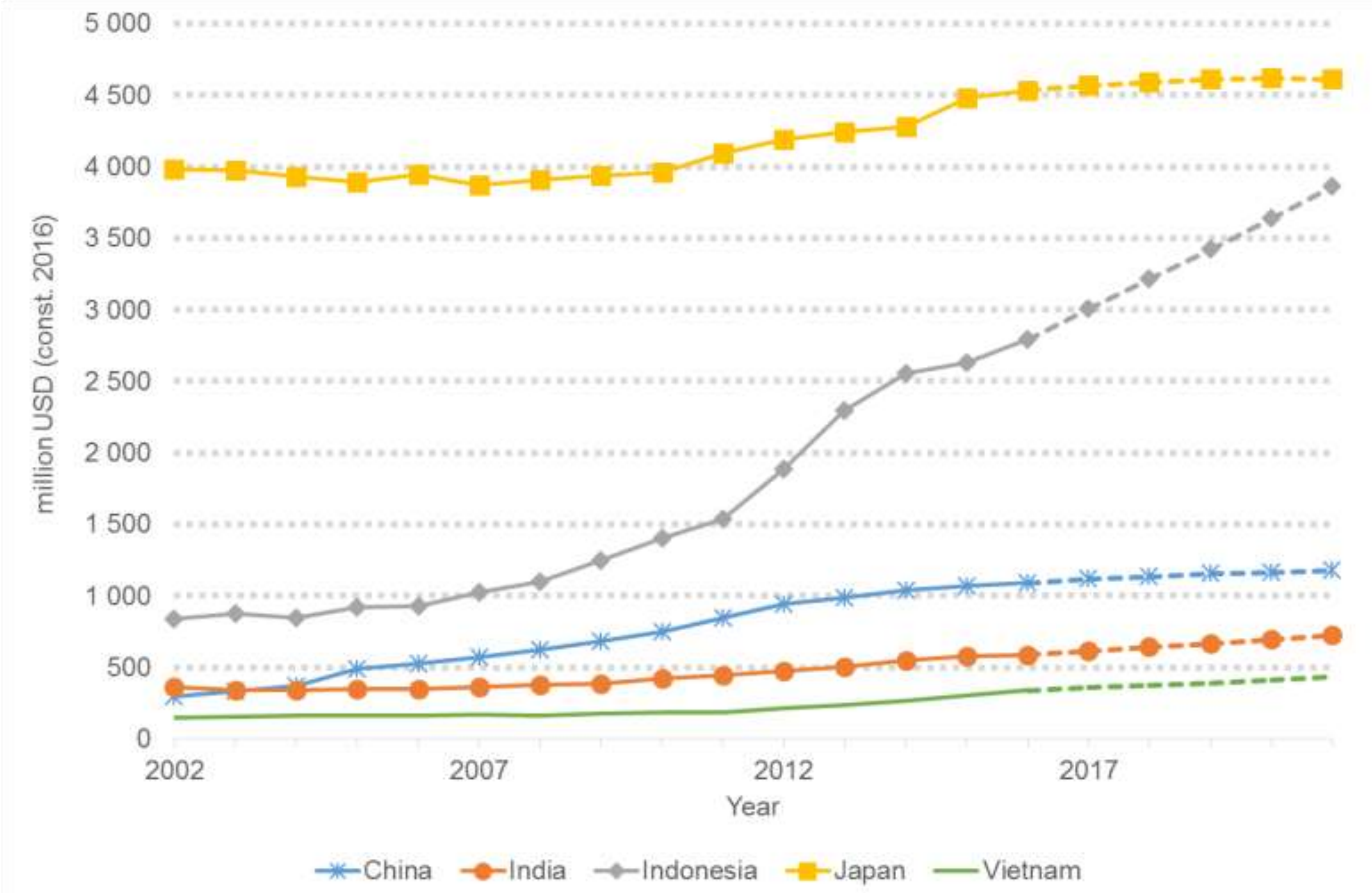
Consumption in China



Consumption in China (2004-16) vs. Japan (1964-76)

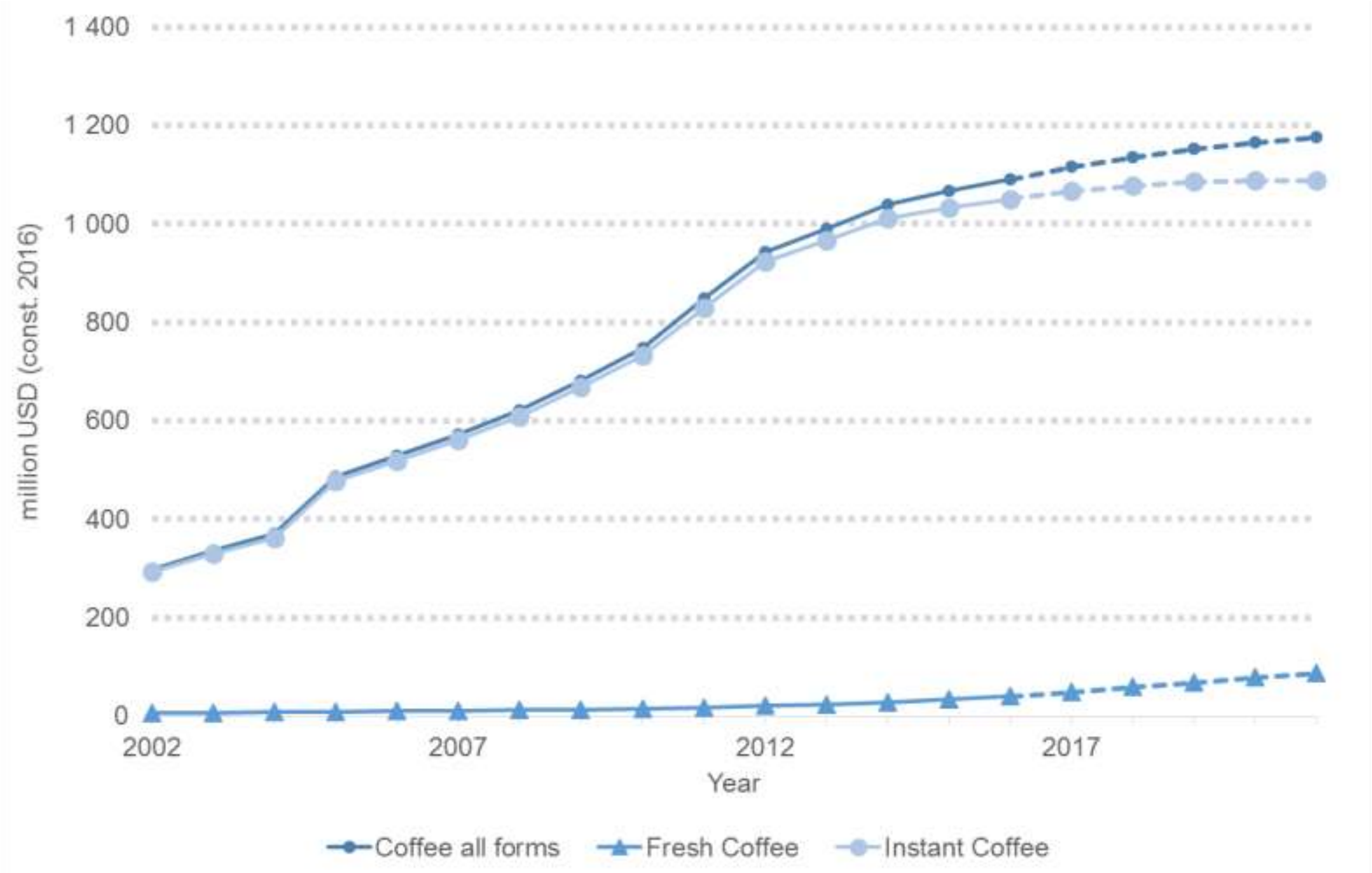


Market size in selected Asian countries



Source: Euromonitor International, Hot Drinks, 2016 Research Edition

Market size China (by form)



Source: Euromonitor International, Hot Drinks, 2016 Research Edition