



WEEKLY MARKET REVIEW AUGUST 14 – 20, 2009

August 21, 2009

‘TENDING TO ZERO’

1. GENERAL

- differentials tend to zero as the falling market means brazilian farmers resist reduction in outright prices, in turn leading to tightening internal diffs, while the mild arabica world faces up to inescapable supply and demand realities. give it a few weeks, and everything will be trading at level money..
- the new york market came down to earth with a thud this week, as bulls got well and truly roasted. for those that follow such things, we are now at the 61.8% fibonacci retracement of the rally. for the rest of us the market is down 16c from the highs.
- europe is still on holiday, but the u.s. starts to wake up to 2010 business, although trade is having to fill the gap left by alice-in-wonderland origin offers.
- we estimate spec/fund position on ice 10,000 lots long and index funds unchanged at 43,000 lots net long. at liffe estimate funds short -5,000 lots. certified stocks remain largely unchanged: ny 3.44m bags and london 6.22m bags.

2. PRICE COMPARISON (all in cts/lb)

change vs

	<u>20.08.2009</u>	<u>13.08.2009</u>
ice dec 09	125.80	-10.25
liffe sep 09	60.96	-3.22
arbitrage ice dec 09/liffe sep 09	64.84	- 7.03

comments basis ice dec 09 at 125.70, liffe sep 09 at 1333

ice: as usual market moves faster down than up. took one month to rally 24 cts/lb and it dropped more than half in one week. trend changed completely from bull to bear short-term. it closed below 26-day moving average and technical indicators are still pointing down showing no indication that a support level is reached. origin is absent while industry is buying scale down.
support:: 125.50, 122.80, 119.40, 116.40 resistance: 130.00, 131.50, 135.00, 137.15.

liffe: down trend continues with market touching a new low since rally started in june. pending origin fixations and lack of buying interest is not allowing a quick recovery. technical indicators are following the price direction and continue pointing down.
support: 1310, 1275, 1250 resistance: 1374, 1390, 1440, 1490.



3. BRAZIL

- local market: irrespective of the ice collapse the local market continues to trade at pre-collapse levels in real terms. a couple of exporters pay up apparently to fulfil commitments. replacement differentials have reached single digit levels again, similar to mid july, when ice was lower still. producers are in the driving seat, especially the strictly soft, fine cup segment, where offers are scarce.
- export market: exporters asking prices remain below replacement levels. most buyers however remain comfortably covered, abstaining from paying firmer differentials.
- the real weakened temporarily to 1.88 – 1.89, but found solid resistance and settled hardly changed on the week at 1.84.
- bmf dec 09: \$ 145.10 (down 8.50)
- arbitrage bmf/'c' dec/mch: 19.00 (3.82 firmer)
- exchange rate: 1.8400 (+0.5%)

4. COLOMBIA

- local market: coffee flow remains subdued; parchment availability is rather scarce which is normal at this time of the year. the internal flow is expected to pick up toward the end of september.
- export market: smallish and sporadic demand nearby is not sufficient to sustain the differentials. trades reported between z +44 / +46 this week.
- exchange rate: sideways. high 2.058, low 2.005 and close 2.014.

5. LATIN AMERICAN MILDS

- mexico: growing interest for new crop primes from the u.s. market, but little biz concluded so far.
- guatemala: fairly good interest for current crop leftovers as well as for new crop, diffs a touch softer.
- honduras: roasting industry starts nibbling at new crop offers but still difficult to make ends meet.
- salvador: some new crop biz has been reported at diffs around level fca origin.
- costa rica: ongoing demand for early new crop shipments, all qualities involved.
- peru: exports during jan-july were 1.15 m bags, i.e. unchanged from 2008. however, comparison of the may-july period shows minus 13% and july alone minus 23%. internally more coffee is showing up, just at the moment when the outside interest is starting to slow down.

6. AFRICA/PNG

- kenya: 21.000 bags auctioned, lower outright prices reflecting terminal market decline. industry biz patchy. weather remains cold/dry without any rain. water and electricity shortages mean business as well as social life badly affected, anything that can be rationed is being rationed.
- tanzania: after a long break since last auction back in april, the catalogues for the first new crop auction have finally surfaced, approx 1.000 tons of southern coffees will be auctioned aug 28th.
- ethiopia: very quiet. origin showing little volume at skyhigh levels, biz paralysed. ethiopia exported 134.000 tons with a value of usd 375 million (july 8th, 2008 - july 7th, 2009). the total exports is down by about 22% in volume and 28% in value compared to previous ethiopian coffee year.



- burundi: long awaited start of new crop marketing further delayed. ocibu unable to communicate date of first tender. new crop shipments further delayed. industry demand cannot be satisfied due to lack of supply.
- uganda: very active drugar biz. bugisu crops feared to be substantially lower than last year due to poor rains. fly crop so far late and disappointing in volume.
- png: arrivals continue at reasonable pace, volumes above expectations for this time of year. sporadic fresh export biz, diffs topping. july exports reached 110.000 bags, bringing volume for the coffee year to 756.000 bags, down by 100.000 bags compared to same period 07/08.

7. ROBUSTAS

- vietnam: mainly hot and dry in the highlands with some occasional downpours of rain. the local market has shut shop for the time being as the small quantity of stock is retained by strong hands. good demand still seen for current crop shipments as well as new crop.
- indonesia: asalan volume dropped to around 6.000 mts, also due to independence holiday early in the week. with the terminal down, the local market price has become skewed. little biz was transacted
- uganda: the faq flow has slowed down as we start to approach the end of the season in most of the coffee areas in the south and west. internal prices remain rich with only sporadic external demand. we have seen some decent rainfall in many parts of the country and this should help the central crops.
- brazil: ongoing demand from the domestic industry. external diffs are firming up.

8. ORIGIN DIFFERENTIALS FOR SEP/OCT SHIPMENTS FOB

	this week			last week		
brazil swedish crop 08/09	c	-	22	c	-	23
colombia excelso	c	+	45	c	+	47
honduras hg crop 08/09	c	+	7	c	+	8
kenya ab faq	c	+	62	c	+	65
viet gr 2	liffe	-	30	liffe	-	50

regards,
VOLCAFE LTD