VOLCAFE LTD

<u>**WEEKLY MARKET REVIEW OCTOBER 16 - 22, 2009**</u> October 23, 2009

'FAIR VALUE'

1. GENERAL

- a debate is raging whether the weak dollar has forced a more permanent "rebasing" of the new york market; is 140c the new 110c?
- *arguments for the prosecution* : viewed in origin currencies, most farmers are not benefiting from the rally, therefore production is not being stimulated; farmers need a higher $ price to cover their local overheads and production costs, especially labour and fertiliser; coffee is still cheap when viewed in euros and yen.
- *arguments for the defence* : the funds are the only ones buying, and they are running out of ammunition; some origin countries are dollarized anyway; the only long-run factor that matters is s & d, and at the moment we have more s than d; eroding diffs show that producers are keen sellers and eventually the market will move into line.
- two large trade houses reported to have entered into an un-priced agreement with a leading vietnamese shipper for 200k mt robusta, ahead of a vietnamese government delegation to the u.k.
- origin diffs remain under pressure as centrals crops loom. colombia remains firm, as flow stubbornly refuses to pick up. brazilian sellers opportunistic depending on interplay between ice, currency, and various governmental interventions.
- we estimate spec/fund position on ice up to 34,000 lots long and index funds at 50,000 lots net long. at liffe estimate funds short 7,000 lots. ice certified stocks at 3.3m bags, liffe at 6.35m bags.

2. PRICE COMPARISON (all in cts/lb)

		change vs
	22.10.2009	15.10.2009
ice dec 09	143.65	5.90
liffe nov 09	65.18	0.27
arbitrage ice dec 09/liffe nov 09	78.47	6.17

comments basis ice dec 09 at 142.75, liffe nov 09 at 1430

ice: break of resistance encouraged further fund interest taking us to the week's high of 145.40. dollar weakness also adding to the market's strength. brazil selling not evident, with only light origin selling between 142/145. profit taking noted towards 145. open interest continues to rise with a large portion of it increasing over 140.00. a break of 139.75 and 135.80 would see stops elected. industry were noted as buyers at support levels. structure beginning to weaken with fund rolling in the nearby z/h.
support: 140.00 – 139.75, 135.80, 133.05, 128.85 resistance: 145.40, 146.45, 148.45, 152.25.

liffe: structure nearby weakening with x/f trading out to -43 and f/h to -35. light industry fixing was noted in nov. industry buying seen in the forward months with resting orders under current market levels. market has been in a range of 40 dollars. good selling seen above 1500 and buying scale down from 1460. needs a break of the current range to bring any decent interest back into the market.
support: 1427, 1388, 1340, 1300 resistance: 1478, 1489, 1527, 1552.

3. BRAZIL

- local market: activity improved again as prices in real reached new highs. cooperatives and producers kept offering considerable volume at ever higher prices and exporters absorbed easily volume on offer. replacement levels of fine cups were 1-2 cents weaker, but from a high level.
- export market: main activity was taking place in group 2 coffees, with again cheaper differentials.
- the government announced a taxation (2 %) of "speculative" foreign money, which helped the usd to rally a shortlived 4%; markets soon cooled off and week to week the usd only regained a meagre 1.5%, not impressive at all. In any case, the immediate impact and connection between the usd/real and ice coffee market gets ever more obvious.
- bmf dec 09: $ 167.55 (up 6.15)
- arbitrage bmf/'c' dec/mch: -19.74 (1.20 wider)
- exchange rate: 1.7250 (devalued 1.50%)

4. COLOMBIA

- local market: the local market remains stable. without an increase in the flow of coffee local differentials remain unchanged. the rise in ice has helped the internal outright levels increase ensuring that producers are happy with the prices, but it is not possible to flush out coffee that is not yet there.
- export market: continued good demand for nearby shipments with buyers willing to pay up for the current differentials. buyers leaving buying decisions to the last moment are starting to miss out on the supply due to the poor local flow.
- exchange rate: the usd/cop remained stable mainly due to the correlation of the brazilian real performance. high 1.939, low 1.831 and close 1.917.

5. LATIN AMERICAN MILDS

- mexico: first pickings are taking place in the states of chiapas, puebla and veracruz. the domestic market remains interested in undergrades whereas the european industry starts looking at the washed segment.
- guatemala: producers and intermediaries are taking advantage of the high market. on the other hand, roaster interest slowed down during the recent run-up.
- honduras: origin ideas again a touch softer. roasters start nibbling at nearby positions.
- el salvador: the export industry takes advantage of the rally which is reflected in the registration figures. outside activity improved as well.
- costa rica: climatic conditions favorable for the new crop. roaster demand sluggish this week.
- peru: exporters are trying to sell their mainstream longs locally as the outside demand is focused on 'labelled' coffee only.

6. AFRICA/PNG

- kenya: this week's auction delivered some 11.000 bags to the market. pricing was very firm, possibly on the back of suggestions that fortnightly auctions are set to continue into next calendar year. industry nibbling at shipments next year. rains have finally arrived and are well distributed, however more is needed.
- tanzania: another very firm auction. qualities quite good with fine acidity and flavour. asian industry absorbing good volume, focus on nearby shipments.

- ethiopia: fairly active week despite the depleting origin stocks of current crop. excellent rainfall in southern growing coffee regions, new crop shipments likely to be affected. ecx holding a specialty coffee event in addis this week, results pending.
- uganda: ongoing good demand in all qualities, incl. washed specialties january shipment onwards, diffs firm.
- burundi: erratic power supply hampering all industrial activities in the country. little progress in privatisation of coffee industry. first preliminary reports indicate that 09/10 crop back to normal, ie over 20.000 tons.
- png: erratic local market, price levels inflated. fairly active industry biz shipment january onwards. various shipping lines and agents continue to have equipment shortages, affecting shipments to all destinations.

7. ROBUSTAS

- vietnam: coffee regions are mainly cloudy with scattered showers and the harvest is in its early stages. spot differentials internally continue firm as the physical flow has yet to pick up, and good demand is seen for all positions into next year. the dong is at the weak end of its trading range.
- indonesia: the week's asalan volume remains similar to last week, at around 1.000 mts. most of the remaining stock is now in the hand of local collectors. exporters are still busy buying their needs against existing contracts.
- uganda: the robusta flow has started to pick up a little. fairly rich diffs prevail for nearby shipments with ideas for 2010 shipments generally substantially lower.
- brazil: selling prices for conilon softened to around plus 13 but no business was reported.

8. ORIGIN DIFFERENTIALS FOR DEC/JAN SHIPMENTS FOB

	this week			last week		
brazil swedish	c	-	23	c	-	21
colombia excelso	c	+	29	c	+	32
honduras hg	c		even	c	+	1
kenya ab faq	c	+	78	c	+	75
vietnam gr 2	liffe	-	90	liffe	-	90

regards,
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