



**WEEKLY MARKET REVIEW APRIL 30 – MAY 06, 2010**

May 07, 2010

**‘COFFEE CAUGHT IN A GREEK TRAGEDY’**

**1. GENERAL**

- the crisis in european sovereign debt swept into currency markets, strengthening the dollar, crashing the new york coffee market and moving the brazilian currency 4% in one day. with the euro looking terminally ill, time to fasten those seat-belts.
- a proposed shift in brazilian taxation policy should ease the burden on exporters, who could soon be able to claim back a portion of their tax credits more easily.
- london robusta stocks fell by a staggering 360k bags in a 2 week period. like a british election, everyone wants to know what happens next..
- keep your diaries free for the 8<sup>th</sup> of october, when the swiss coffee trade association will entertain the coffee world at its first annual dinner and dance in geneva.
- we estimate spec/fund position on ice at 5,000 lots short and index funds 53,000 lots long. on liffe we estimate funds 19,000 lots short. ice certified stocks at 2.40mio bags, liffe certified stocks at 4.11mio bags.

**2. PRICE COMPARISON** (all in cts/lb)

	<u>06.5.2010</u>	<u>29.4.2010</u>	change vs
ice jly 10	133.20		-1.40
liffe jly 10	61.32		1.36
arbitrage ice jly 10/liffe jly 10	71.88		-2.76

comments basis ice jly 10 at 133.50 and liffe jly 10 at 1355

ice: market still within recent range circa 130/140. macro news stifling any follow through buying at the top end of the range. short covering early in the week was met with profit taking, arbitrage and origin selling, which, was noted in reasonable volume with the weaker origin currency at the latter end of the week. structure remaining unchanged. current macro picture and origin selling could prompt a revisit of the recent lows of 130.20 basis july. industry fixing noted into the end of the week, with additional buying interest 2/3 cents below current market price. market needs to break the recent range to encourage buying/selling from spec/funds.

support: 133.00, 130.00, 128.50, 126.55 resistance: 134.85, 137.10, 138.70, 141.45.

liffe: short covering early in the week taking july to the high of 1385. support seen scale down from industry and arbitrage buying. fund shorts and bullish fundamentals giving additional support. origin selling was noted in the first half of the week. a break of the weeks high and the psychological level of 1400 would bring additional short covering.

support: 1339, 1300, 1280, 1248 resistance: 1385, 1409, 1421, 1474.

**3. BRAZIL**

- local market: the local market improved activity a bit. prices outright remain the same at around 305 reais/bag for fine cups. replacement differentials finally weakened, mostly thanks to the usd strength, but they remain prohibitive vs wide new crop discount expectations. some first new crop coffees trade but discounts still only marginally below current crop levels.
- export market: exporters’ asking differentials widened by 1-2 cents, but still only odds and ends traded.



- the nervousness from international markets spilled over to brazil and the real lost some 5% this week. despite the strong usd, the ice/bmf u/z arb hardly moved.
- bmf sept 10: \$ 160.35 (up 1.00)
- arbitrage bmf/ice sep/dec: -17.14 (weaker 0.05)
- exchange rate: 1.8300 (deval 5.75%)

#### **4. COLOMBIA**

- local market: the coffee flows quite nicely in the southern growing regions whereas the production in the the 'eje cafetero' continuous slow. the parchment quality remains a concern for the millers as broca is present everywhere and slowing down the production process.
- export market: demand is picking up leading to slightly firmer diffs for nearby shipments whereas 3<sup>rd</sup> and especially 4<sup>th</sup> quarter shipments are being discounted.
- exchange rate: higher lows and higher highs were seen this week. high 2017, low 1942 and close 1950.

#### **5. LATIN AMERICAN MILDS**

- mexico: some demand for good qualities but not much coffee left. weather conditions still positive for a good new crop development.
- guatemala: exports continue about 7% above last year. (1.917 m bags for oct-april). total exports are expected to reach 3.4 m bags. little fresh biz has been reported this week.
- honduras: most of the coffee areas got some rains and flowerings are being reported as very good. first reliable crop estimates can only be done during july/august. some smaller fill-in needs were concluded this week, otherwise rather quiet.
- el salvador: total registrations reached 875.000 bags. exports 670.000 bags whereof 59% to europe. origin not showing any ammunition.
- costa rica: the first icafe 10/11 projection based on the flowering foresees an early crop in some growing areas. little biz reported at unchanged firm diffs.
- peru: slow week in terms of physical trade while coffee flow at origin remains slow. no pressure to match industry's low diff ideas.

#### **6. AFRICA/PNG**

- kenya: auction next week offering some 22.000 bags, of which 70% miscellaneous catalogue, main catalogue a meager 5.000 bags good cupping coffee. harvest of early crop just started. industry interest limited to special types at high and low quality end. logistics working smoothly.
- tanzania: smallish auction this week, much of the 4.000 bags left unsold due to high reserve price and general lack of interest for end season leftovers. new crop harvest starting slowly in all growing reasons. a good bounce is expected from last season's record low crop, back to some 35.000 tons washed arabica.
- ethiopia: an active week in all qualities, mainly to european destinations. availability of sundried qualities still comfortable while that of washed qualities considered adequate/moderate.
- uganda: drugar flow continues in decent volume, meeting good demand. fly crop washed expected to become available in a fortnight from now.
- png: arrivals continue at steady pace. active industry interest from all regions for all grades. exporters at this stage appear hesitant to commit further sales at this early stage of the new crop.



**7. ROBUSTAS**

- vietnam: fairly active week, industry booking good volume june/july/aug shipment, diffs continue firm. april exports were 105.000 tons, 10% down yr on yr. total exports october/april reached 635.000 tons, 14% down compared with same period last year.
- indonesia: flow of asalan picked up this week, availability sl. improving. internal market still tight for nearby positions, local cost price for g4,80 def still going at premium to liffe.
- uganda: ongoing heavy rains are offset by longer periods of sunny weather; some faq is starting to flow in. relatively cheap outright prices are interesting for some buyers conversely rich diffs deter others. smooth logistics from kampala to fob mombasa.
- conilon: sporadic industry interest remains unfulfilled due to high asking price.

**8. ORIGIN DIFFERENTIALS FOR JUNE/JULY SHIPMENT CTS/LB FOB**

	this week			last week		
brazil swedish	c	-	18	c	-	18
colombia excelso	c	+	51	c	+	50
honduras hg	c	+	24	c	+	24
kenya ab faq	c	+	200	c	+	200
vietnam gr 2	liffe	+	10	liffe		level

regards  
VOLCAFE LTD