



WEEKLY MARKET REVIEW MAY 14 - 20, 2010

May 21, 2010

**'TERMINAL RELEVANCE'**

**1. GENERAL**

- today's question in our trading room: what does the new york market really represent? it's not washed arabicas (they cost much more) and it's not unwashed arabicas (they cost much less and you can't deliver them anyway). is it the value of currency (don't we have currency markets for that?). commodity complex value? stock markets? don't even get us started on london..
- brazil market quiet as industry participants gather in guaruja to discuss who's got the biggest crop forecast. meanwhile, the currency is the *real* story, moving from 1.77 to 1.89 during the course of the week.
- robusta business was active, with both vietnam and indonesia finding attractive deals to be done, and industry keen to maintain coverage, especially with certified stocks taking another jolt south.
- we estimate spec/fund position on ice flat and index funds 55,000 lots long. on liffe we estimate funds 20,000 lots short. ice certified stocks at 2.35mio bags, liffe certified stocks at 3.88mio bags.

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

	<u>14.5.2010</u>	change vs <u>13.5.2010</u>
ice jly 10	131.65	- 5.45
liffe jly 10	60.51	- 3.08
arbitrage ice jly 10/liffe jly 10	71.14	- 2.37

comments basis ice jly 10 at 132.60 and liffe jly 10 at 1328

ice: in a week where tin hats were at the ready across the world markets, the arabica contract tumbled from the top to the bottom of the recent range. bounced off the support levels yesterday on good buying from industry. particularly bearish for the 'c' contract was the sharp weakening of the brazil real, which softened from 1.77 to 1.89 over the week. the range is still intact, waiting for increased brazil hedging, while spreads further out still pricing in inadequate supplies.

support: 130.25, 129.10, 128.25 resistance: 134.90, 138.60, 141.45,

liffe: a sell-off for the robusta terminal, breaking down through support levels, and closing the recent gap. long liquidation, and additional fund selling met reasonable roaster buying on the way down. origin largely absent.

support: 1318, 1292, 1280, 1212 resistance: 1410, 1423, 1479,1511.

**3. BRAZIL**

- local market: activity remained rather slow this week. there is very little current crop coffee on offer with asking prices in reals about unchanged. also, there is ongoing fierce competition amongst exporters to secure last fine cup coffees available. replacement differentials depended mostly on timing of hedging the currency, which offset the weak 'ice' market. the harvest enjoyed another week of good weather and arrival quality is still quite good.



- export market: many participants were at the guaruja seminar and the wide difference between international buying vs exporters' selling ideas is still astonishing. only limited business reported for rather nearby positions at far below replacement levels.
- the nervousness of the markets took a heavy toll on brazil as well. the sao paulo stock market lost close to 10 %, as well as the real dropped heavily this week.
- bmf sept 10: \$ 157.35 (down 5.35)
- arbitrage bmf/ice sep/dec: -15.60 (firmer 1.55)
- exchange rate: 1.8600 (deval 5.00%).

#### 4. COLOMBIA

- local market: the majority of the coffee is being provided from the south, and although there is some coffee available from the 'eje cafetero' the qualities are still very poor and unlikely to improve dramatically. internal diffs have firmed up over the past week mainly due to short covering. weather conditions continue to be fairly balanced and beneficial for the main crop.
- export market: demand from u.s. and european industry picked up a bit. diffs firmer, especially for supremos.
- exchange rate: a choppy week for the cop/usd. high 2027, low 1956 and close 2010.

#### 5. LATIN AMERICAN MILDS

- mexico: ongoing local biz for under grades. rainy season has been positive for the flowering, nevertheless in the highlands it is reported flowering is delayed compared with past years.
- guatemala: more frequent showers during the flowering season (compared to last year) point to a slightly better 10/11 crop in most producing regions. sporadic roaster interest for various qualities but little material left.
- honduras: good rains all over the producing areas, where a total of 5 flowerings have been reported so far. occasional demand for current crop leftovers pop up and get filled in the high 20's.
- el salvador: some exporters are trying to book new crop contracts but selling ideas do not attract a lot of interest.
- costa rica: ongoing demand for better cupping current crop coffees cannot be satisfied anymore. some roasters nibble at new crop offers but difficult to make ends meet.
- peru: demand picking up, diff's getting firmer. news yesterday of a 6.4 earthquake which closed roads from coffee producing areas to the coast. authorities say will take 7-15 days to have access again. strike in the port of callao which started a few days ago has still not been solved.

#### 6. AFRICA/PNG

- kenya: no auction this week. next auction listed for may 25th. little fresh biz reported due to lack of supply. sporadic industry demand for shipment next year.
- tanzania: off-season. little new crop biz at firm diffs.
- ethiopia: another active week. ecx sun dried coffee prices firmed up by about 10% this week as exporters compete to buy coffee to cover the heavy may/june commitments. shortage of coffee bags coupled with congestion at coffee mills is still causing major shipping delays. ethiopian ten month exports (july 07, 2009 to may 07, 2010) reported 117.000 tons with total value of about usd 364 million. general elections this weekend.



- png: we agree with atte's comments – quote “april10 green coffee exports were 52.278 bags compared with 42.458 bags shipped in april09. cumulative oct09/april10 shipments reached 539.142 bags, up from 468.211 bags exported the same period a year ago. with the dry season finally having commenced coffee is coming onto the market in better volume and exporter short covering is noted driving interior prices higher almost on a daily basis. exporters are rushing to ship the backlog of outstanding contracts and now ship space is getting scarce. sellers are hesitant to undergo fresh sales commitments as they fear that this year's main season might be shorter than expected and the production not as plentiful. based on the above and the fact that overseas demand cannot be met differentials continue to move higher” unquote.

## 7. ROBUSTAS

- vietnam: much quieter trading upcountry after the drop in the market, although good industry demand continues to surface. differentials hold within their firm range and most of the stock remains in well financed farmers hands. accumulated exports reach 700,000 mts and balance of stock in farmers hands is between 15% - 25% of the crop. weather conditions continue to be very hot and drier than usual, but long rains are still expected this month.
- uganda: the weather has changed with some warmer and sunnier days. the faq flow is starting to pick up and the small volumes are readily absorbed.
- indonesia: coffee asalan arrivals slightly improved to approx. 4500 – 4800 mt this week. heavy showers in some coffee growing regions are slowing down activities. farmers are not so keen on selling and are trying to hold back coffee hoping for a recovery in prices. rupiah has weakened against usd, trading in the 9200 - 9300 region.
- brazil: conilons are still being absorbed locally at proud prices, export business is slow and expensive, forcing some shorts into replacements of other qualities.

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

	this week			last week		
brazil swedish	c	-	20	c	-	18
colombia excelso	c	+	60	c	+	57
honduras hg	c	+	24	c	+	24
kenya ab faq	c	+	190	c	+	190
vietnam gr 2	liffe	-	20	liffe		level

regards  
VOLCAFE LTD