



WEEKLY MARKET REVIEW JUNE 11 – 17, 2010

June 18, 2010

‘WHICH RALLY IS THIS?’

1. GENERAL

- after london’s explosion late last week, new york got a little over-excited and surged 25c. london was more cautious, and we saw the arb widen by a cool 20c at one stage.
- many people noted scratching their heads wondering “why now?”
- we suspect there will be a shortage of coffee in the medium term, but this doesn’t seem to be *that* rally. there is too much brazil coffee between then and now, and the recent action centered around fund activity.
- on the other hand, diffs didn’t collapse, indicating real coffee is hard to come by. the flat/inverted structure reinforces that view.
- its enough to keep you away from the football on tv..
- we estimate spec/fund position on ice long 15,000 lots and index funds 53,000 lots long. on liffe we estimate funds 4,000 lots short. ice certified stocks at 2.25mio bags, liffe certified stocks at 3.48mio bags.

2. PRICE COMPARISON (all in cts/lb)

| | <u>17.6.2010</u> | <u>10.6.2010</u> |
|-----------------------------------|------------------|------------------|
| ice jly 10 | 156.35 | 19.35 |
| liffe jly 10 | 69.85 | 3.04 |
| arbitrage ice jly 10/liffe jly 10 | 86.50 | 16.31 |

comments basis ice jly 10 at 156.05 and liffe jly 10 at 1530

ice: a monster rally this week, with prices bulldozing through all resistance. the move started on friday, with repeat stellar performances on monday and tuesday. market structure from u10 flattened all the way down the board, while the n/u couldn’t quite make up its mind if it wanted to be inverted or not. the cot report tonight will be interesting in presenting either a new large long, or short covering, or something in between.

support: 155.40, 148.00, 144.65, 140.50 resistance: 162.25, 164.60, 169.60, 171.90.

liffe: london rallied strongly on friday and monday, but was left behind on tuesday, the arb reaching dizzy heights of 90 cents/lb. rest of week saw consolidation with prices drifting sideways to lower. liffe certified stock continues dropping like a stone.

support: 1501, 1478, 1421, 1380 resistance: 1579, 1600, 1695.

3. BRAZIL

- local market: the giant ice rally brings more volume to the market as producers take advantage of decent price levels. the surprise price improvement is most welcome, but comes too early to let everybody participate with peak of harvest still not yet reached. replacement differentials widened for weaker and good cups, whilst fine cups and especially washed coffees fetch ongoing proud premiums, with fierce competition amongst buyers.
- export market: buyers lowered their bids immediately and only odds and ends were reported traded at slightly cheaper differentials.



- increased inflationary trend on strong domestic demand is likely to bring further interest rates increases. also, the central bank estimates revised double the energy price increase later this year, vs earlier estimates.
- harvesting weather remains favourable, dry.
- bmf sept 10: \$ 182.20 (up 20.00)
- arbitrage bmf/ice sep/dec: -19.70 (weaker 2.40)
- exchange rate: 1.7800 (revaluation 1.70%)

4. COLOMBIA

- local market: the coffee flow did not increase much during the ice-rally as producers and intermediaries bet on even higher prices.
- export market: selling ideas are in a wide range but in general a few cents softer than a week ago. buying interest disappeared time being. registrations for the first half june continue very low: 276.000 bags privates and 50.000 fnc (70 kg bags).
- exchange rate: high 1930, low 1902 and close 1903.

5. LATIN AMERICAN MILDS

- mexico: last rains from tropical depression no. 2 have caused damages to many roads in chiapas but with no negative impact in the coffee regions.
- guatemala: the first preliminary crop forecast for 10/11 points to a potentially high crop. exportable availability should be around 3.6 m bags. some new crop biz is taking place, mainly for early shipment periods.
- honduras: a fairly quiet week. new crop buying interest remains lukewarm.
- el salvador: scattered inquiries for new crop coffee but little biz has been reported.
- costa rica: first estimate for 10/11 crop is 1.6 m bags, up from 1.475 m bags this year. fairly good new crop demand, especially for better qualities.
- peru: better volumes were traded at origin with the rally; surprisingly diffs didn't adjust down as expected in correlation with the high market levels of the week.

6. AFRICA/PNG

- kenya: auction next week offering only 9.473 bags of which approx. 2.000 bags are 'early crop' coffees - qualities good to excellent for this time of year. commercial mills receiving additional parchment deliveries. next auction will be held 10th august and promises to be of decent volume and quality. coffees then available for september onwards shipment.
- ethiopia: a good active sales week. differentials however remain rather strong(ish) despite the rally.
- tanzania: harvesting continues in all areas - both robusta and arabica fair overseas demand for better qualities, but offer levels still quite rich and only little business being done tanzania one of few mild arabicas available during sep / oct / nov period.
- uganda: the drugar season is drawing to a close and the washed arabicas are still to start. excellent demand for washed coffees.
- png: higher prices have farmers eager to sell, accordingly arrivals of parchment and green at the factories have improved. big buying interest from all regions and for all qualities with buyers willing to pay up on the prices quoted by the exporters.



7. ROBUSTAS

- vietnam: generally slow local buying activity. local prices are at the season's high but previous good sales and low stocks with farmers make for no selling pressure at all. trade slows as differentials weaken and prices soar. local farmers and local traders hoping for even higher prices. very good demand from roasters for 2nd half of the year shipments. weather has been sunny and fresh, with some more regular rainfall.
- indonesia: asalan arrival improved slightly with the higher liffe. weather not helping much yet as scattered showers continue across some parts of coffee growing region. the central bank announced some new capital management regulations to reduce volatility of the rupiah. the firmer market has triggered good physical activities with willing sellers and roasters covering at new low differentials.
- uganda: diffs still strong trading a little offside the liffe action, but there is not that much coffee around for big trades anyway, so activities are limited.
- brazil: slow, still in shock after the federal police raids. export diffs sky high.

8. ORIGIN DIFFERENTIALS FOR JULY/AUG SHIPMENT CTS/LB FOB

| | this week | | | last week | | |
|------------------|-----------|---|-----|-----------|---|-----|
| brazil swedish | c | - | 23 | c | - | 22 |
| colombia excelso | c | + | 68 | c | + | 75 |
| honduras hg | c | + | 23 | c | + | 23 |
| kenya ab faq | c | + | 190 | c | + | 190 |
| vietnam gr 2 | liffe | - | 50 | liffe | + | 10 |

regards
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