



WEEKLY MARKET REVIEW JUNE 18 – 24, 2010

June 25, 2010

‘A DAY TO REMEMBER’

1. GENERAL

- the rally on thursday was quick, brutal and ruthless. shorts had no time to get out, and longs had no time to add. rumours of hedge-lifting circulated, added fuel to the fire
- one 30 minute period saw prices rise 10c. the 12 year highs meant we even made the front page of the financial times, despite being described as a “sleepy niche”. yawn...
- volumes were smallish, 26k lots on the *16c range*, as most market participants sat staring at their screens in awe, being careful not to press any buttons.
- brazil harvest is coming in slower than expected, with june shipments likely to be around 1.8m bags, around 1m lower than initially forecast. this lack of origin pressure is playing its part.
- on this latest move, diffs start to soften, as any origin sellers with a bean to sell take a look at the price and like what they see.
- the ice/ liffe arb nearly touched 100c at one stage on thursday. time for roasters to look at those blends again, or for the marketing guys to add a few pennies on the price.
- we estimate spec/fund position on ice long 25,000 lots and index funds 56,000 lots long. on liffe we estimate funds 10,000 lots long. ice certified stocks at 2.24mio bags, liffe certified stocks at 3.48mio bags.

2. PRICE COMPARISON (all in cts/lb)

	<u>24.6.2010</u>	<u>17.6.2010</u>	change vs
ice sep 10	168.75		10.95
liffe sep 10	74.80		4.44
arbitrage ice sep 10/liffe sep 10	93.95		6.51

comments basis ice sep 10 at 167.70 and liffe sep 10 at 1650

ice: beginning of the week saw the majority looking for a retracement of the recent rally. a break of monday’s high, 165.45 saw short covering, spec and fund buying. rumours of hedge lifting and inability to meet margins also added to the buying, taking us to the 12 year high of 176.50. structure remains inverted from dec/mar onwards with the nearby sep/dec trading at a discount, albeit small, after reaching 2 over earlier in the week.

support: 165.45, 155.40, 146.05, 138.55 resistance: 171.90, 176.50, 188.50, 196.

liffe: hitting the low of 1515 last friday the market has not looked back rallying to the high of 1694, trading through the psychological level of 1600 and the technical level of 1612 (the head and shoulders target mentioned in various reports). stops were elected and the break saw spec and fund buying. industry buying was also seen. origin selling was scarce with only selling of note profit taking from 1650 scale up. resting orders above in small quantities and especially in the spreads saw them strengthen circa 10-15 dollars across the board with nov/jan trading at 15 over and sep/nov into level money.

support: 1610, 1580, 1515, 1474 resistance: 1694, 1745, 1980, 2117.



3. BRAZIL

- local market: the continuation of the ice rally and therefore better prices to producers brings increasing volume to the market. outright prices kept rising and producers take advantage of selling opportunity. the extension of the price window lets more and more producers participate as advancing harvesting activity allow rushing more samples to the market. replacement differentials clearly weaker for all qualities, except washed coffees, which continue to accompany 100 % of ice advance enjoying ongoing fierce demand/competition amongst exporters.
- export market: exporters lowered asking differentials mainly for good cup coffees and more business reported out to mid 2011. swedish qualities have reached again historic low prices and brazil will continue to increase market share of global arabica exports.
- weather continues favourable for harvesting.
- bmf sept 10: \$ 194.20 (up 12.00)
- arbitrage bmf/ice sep/dec: -21.90 (weaker 2.20)
- exchange rate: 1.7800 (unchanged)

4. COLOMBIA

- local market: producers/intermediaries are withholding coffee, expecting prices to rise in line with ice. on the other hand, the flow of better quality coffee from higher altitudes starts to improve a bit, availability of supremo still scarce.
- export market: differentials are all over the place. some exporters are maintaining their prices of last week whereas others seem to be more nervous and need to liquidate. however, volume for sale remains smallish.
- exchange rate: the peso continued its steady strength against the usd. high 1914, low 1883 and close 1896.

5. LATIN AMERICAN MILDS

- mexico: development of the coming crop is looking good; weather-wise, conditions continue to be favorable.
- guatemala: some new crop biz is taking place at slightly lower diffs but traded volume remains small.
- honduras: increasing interest for better cupping spot lots. new crop neglected this week.
- el salvador: a rather quiet week. industry nibbling at the last remaining spot lots.
- costa rica: scattered roaster demand for early new crop shipments.
- peru: local market prices keep rising, following nyc trend. good volume of coffee flowing now that we are at the peak of the crop.

6. AFRICA/PNG

- kenya: last auction before the break was, as expected, a scramble for coffee. one marketing agent withdrew their catalogue prior to the auction, leaving 6 to remain offering a total volume of less than 10.000 bags. the miscellaneous coffees, including grinders and semi washed coffees also saw firm interest, and very little in the way of bargains could be found. whilst undergrade differentials might have firmed a little, the outright prices were much higher than in the last sales due to nyc's crescendo, and no doubt there will be many happy farmers.
- ethiopia: both washed and sun dried coffees are still available and regularly supplied to ecx, however coffee suppliers are proud sellers and their asking prices were way above buyers/exporters buying ideas. hence only small volume changed hands on daily ecx coffee auction. relatively moderate sales registrations both in washed and sun dried coffees reported.



- uganda: washed are very slow to ripen – we buy miniscule quantities of cherries. drugars end of season. lots of external enquiries for the washed coffees.
- png: higher prices continue to entice farmers to sell. however commercial banks throughout the highlands were unable to provide the necessary cash to buyers causing arrivals at mills and exporters' warehouses to slow during latter part of the week. the increase in local prices are causing concern among exporters as the risk of defaults on existing local purchase contracts increases. coffee trees carry reasonable amount of unripe cherries which will be harvested during next 2-3 months.

7. ROBUSTAS

- vietnam: industry demand has picked up, however, local trade is relatively slow with farmers pushing prices up and not having great quantity to deliver. rainfall has been light but regular with daily showers in the evenings/afternoons. an estimated 5-10% of crop remains with farmers but for how long with the liffe market increases?
- indonesia: asalan arrival has remained similar to last week in the region of 10.000-10.500 mt. farmers have sold most of their stocks, to capture the recent rise in price. tropical showers hampering harvesting across growing regions.
- uganda: reasonably good flows of faq easily absorbed by exporters. external demand remains somewhat muted as buyers take stock of liffe performance. diffs tend a tad easier.
- brazil: quiet week. little activity in the internal and external market. fob diffs slightly lower but not attracting much interest.

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

	this week			last week		
brazil swedish	c	-	25	c	-	23
colombia excelso	c	+	63	c	+	68
honduras hg	c	+	23	c	+	23
kenya ab faq	c	+	200	c	+	190
vietnam gr 2	liffe	-	70	liffe	-	50

regards
VOLCAFE LTD