



WEEKLY MARKET REVIEW JUNE 25 – JULY 01, 2010

July 02, 2010

‘BRAZIL SCORES IN NEW YORK’

1. GENERAL

- a nervy week on the terminal markets, as ny started to find some brazilian selling at the upper end of its recent range. london didn't, and continues its very impressive bull run.
- with brazil still not 50% harvested, it would seem there is more selling to come.
- today saw a surprisingly small 2 week draw down on liffe stocks; basically unchanged.
- its still very difficult to price physical coffee; producers hold out for the full benefit of the rally, while roasters eagerly seek drops in diffs.
- the euro's recovery should have put coffee under pressure, but the market has celebrated a renewed independence from macro factors. something to celebrate this weekend..
- we estimate spec/fund position on ice long 33,000 lots and index funds 57,000 lots long. on liffe we estimate funds 14,000 lots long. ice certified stocks at 2.20mio bags, liffe certified stocks at 3.47mio bags.

2. PRICE COMPARISON (all in cts/lb)

	<u>01.7.2010</u>	<u>24.6.2010</u>	change vs
ice sep 10	168.25		-0.50
liffe sep 10	80.10		5.30
arbitrage ice sep 10/liffe sep 10	88.15		-5.80

comments basis ice sep 10 at 167.60 and liffe sep 10 at 1784

ice: after a sharp fall of 7cts in fifteen minutes on low volume earlier in the week, we've seen the market tentatively claw back some of the losses to end the week almost unchanged. low volumes have created spectacular intraday volatility. origin selling noted into the rally, with industry willing buyers on any dip. structure nearby has weakened with sep/dec trading to a discount of -40 and dec/mar into .25 premium. a break of the 12 year high is needed to encourage additional fund buying. getting through the origin selling waiting above maybe too much of a task for the near term.

support: 164.20, 160.10, 155.40, 150.80 resistance: 169.25, 170.85, 176.50, 188.50.

liffe: london contract continues to make new highs for seven out of the last eight trading days ignoring the macro picture and ny. fund buying into a lack of resting offers above. structure remains firm with sep/nov and jan spreads trading at a premium. sellers of note have been profit taking from spec and fund with very limited origin offers. market continues trending with the psychological target of 1800 the next level of resistance. a break here could encourage additional spec/fund buying.

support: 1721, 1667, 1580, 1515 resistance: 1795, 1980, 2117.

3. BRAZIL

- local market: ongoing high prices attract more and more producer selling to the market. prices paid to farmers are attractive, especially the prices of fine cup naturals and washed coffees. the latter trade at close to 400 real/bag. exporters are taking advantage of this buying opportunity and improve coverage.



- export market: only moderate volumes reported traded.
- june shipments fell considerably behind may, but the volume is merely delayed, as lack of containers caused missed vessels.
- harvesting conditions remained perfect this week. outlook is for ongoing great weather the next 14 days.
- the central bank revised gdp growth estimate for 2010 upwards from 5.8 to 7.3% and also revised upwards inflation estimates for 2011 and 2011 to 5.4% resp 4. %.
- bmf sept 10: \$ 192.40 (down 1.80)
- arbitrage bmf/ice sep/dec: -21.75 (firmer 0.15)
- exchange rate: 1.7950 (devaluation 0.75%)

4. COLOMBIA

- local market: not much happening. shippers are trying to make ends meet with roasters who are expecting a full correction on diffs, whereas producers expect a full recognition of the nyc rise in the outright price. some coffee is still being retained by intermediaries.
- export market: some nearby biz has been concluded at again lower differentials. scattered demand for forward spreads, mainly from north america. supremo availability still smallish.
- exchange rate: the usd/cop was in a corrective mode this week, managing to move off the lows. high 1920, low 1891 and close 1914.

5. LATIN AMERICAN MILDS

- mexico: the last current crop leftovers are being offered internally at firm prices. the higher market levels did not trigger a lot of new crop outside demand.
- guatemala: scattered roaster interest for early new crop shipments but little biz has been reported.
- honduras: not much happening. current crop is committed, new crop offers do not attract a lot of buying interest.
- el salvador: registrations now close to 1 m bags whereof 850.000 bags have been exported. sporadic new crop biz is taking place at slightly lower diffs.
- costa rica: crop 10/11 is still developing nicely. industry is nibbling at better cupping new crop shipments.
- peru: crop in central and southern growing regions is in full swing whereas pickings in the north have just started. limited biz was taking place this week as buying/selling ideas are a couple of cents apart.

6. AFRICA/PNG

- kenya: auction break – resuming 10.08.10
- tanzania: first parchment arrivals indicating good quality. good weather conditions for drying parchment.
- ethiopia: fairly active biz both in sun dried and washed qualities. differentials more or less stayed on same level despite higher "c" market. government is urging exporters to ship as much coffee as possible before end of ethiopian fiscal year july 7, 2010 to maximize foreign exchange earnings.
- uganda: rather quiet, notwithstanding plenty of demand, with few naturals available and the washed coffees remain very slow.



- png: arrivals of green and parchment continue at a steady pace, while the cherry volumes from the eastern and western highlands have slowed down. expect harvesting to continue through to end of august. high local prices are in line with firm differentials and the 'c' level. cash flow from local banks still a struggle. good buying interest from all directions continues. some weather related delays in the port of lae.

7. ROBUSTAS

- vietnam: physical market continues in low gear as the majority of stocks lie in exporter/trade warehouses and are mostly committed. rumours of delivery defaults increase again as prices skyrocket. differentials appear to have bottomed and move sideways. exports continue firm. accumulated shipments now 850,000 mts, down 10% year on year. the dong edges back down to 19,100.
- indonesia: arrival volumes have picked up a tick this week, suggesting that the peak of the season is soon reached. still some scattered showers over the growing areas. the rallies in london triggered good business but also short covering on the ground. exporters still reluctant to offer forward shipments.
- uganda: the flow is approaching peak and is continually well absorbed especially as it is only expected to run through july and is required to cover shipments through november. there is good interest from a variety of directions but buyers look for bargain differentials which are easier for the moment but certainly not giveaway. the shilling remains at the weak end of the range trading into 2280. ocean freight rates remain considerably cheaper than those prevailing on the asian routes indirectly giving ugandan diffs a \$40 / mt advantage.
- brazil: no news on conilon, very quiet.

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

	this week			last week		
brazil swedish	c	-	24	c	-	25
colombia excelso	c	+	58	c	+	63
honduras hg	c	+	23	c	+	23
kenya ab faq	c	+	200	c	+	200
vietnam gr 2	liffe	-	70	liffe	-	70

regards
VOLCAFE LTD