



WEEKLY MARKET REVIEW AUGUST 06 - 12 , 2010

August 13, 2010

'ROASTED'

**1. GENERAL**

- the market continues to feed the farmers and roast the roasters. yesterday's close in new york of 177.55 in dec was the highest for 12 long years.
- differentials remain surprisingly firm, reflecting the fact that not a lot of coffee apart from brazil is there to be traded.
- the emerging la nina phenomenon means clouds on the horizon – perhaps too many in asia and central america and not enough in brazil. september rainfall numbers will be closely watched.
- the truly impressive thing about the rally is that it has happened despite a strengthening dollar. just imagine if the dollar was weakening.
- the only chink in the bull's armour is the grim warnings from major food companies that their recent stellar performances may be tempered by tougher times ahead.
- we estimate spec/fund position on ice long 40,000 lots and index funds 55,000 lots long. on liffe we estimate funds 20,000 lots long. ice certified stocks stand at 2.07 mio bags, liffe certified stocks at 3.54 mio bags.

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

	<u>12.8.2010</u>	change vs <u>06.8.2010</u>
ice dec 10	177.55	6.50
liffe nov 10	80.11	0.27
arbitrage ice dec 10/liffe nov 10	97.45	6.23

comments basis ice dec 10 at 179.00 and liffe nov 10 at 1760

ice: after a week of consolidation, the 'c' broke out and up yesterday, rallying almost eight cents from the lows of the day. the december contract closed with new 12 year highs. the outright chart made for bullish viewing, with an inverted head and shoulders, and trading outside of the bollinger band. market needs to take out the intraday highs from august 2<sup>nd</sup> next, at 181.55. volume was good, but very high proportion was spread volume. the nearby spread weakened through the week to -1.90, while the dec/mar spread tightened, with the inversion moving out half a cent to +0.70.

support: 170.80, 168.25, 166.10, 164.35, 156.60 resistance: 181.55, 188.30.

liffe: the london market played second fiddle to new york, and ended up almost unchanged on the week. as of writing the gap of august 2<sup>nd</sup>/3<sup>rd</sup> has still not been closed. market still trading above 26-day moving average, but need to definitively close that gap at 1792 to confirm any move higher. spreads weakened a touch, say five to ten dollars.

support: 1735, 1729, 1700, 1660, 1639 resistance: 1792, 1843, 1954.



### **3. BRAZIL**

- local market: another busy week on the local market. producers are selling scale up and exporters are happy to improve coverage, against rather slowish fresh export sales. replacement differentials only widen on rio coffees and local consumption grades. there is unchanged strong demand for fine cup naturals and more so washed coffees.
- logistics: shipments run at a high pace and santos remains at full capacity, concerns linger.
- weather: dry and fresh.
- economy: without any internal news to mention, the real as well as sao paulo stock exchange lost strength on international nervousness and risk aversion.
- export activities: another rather quiet week, with most buyers still wait and see. exporters not yet forcing new sales. july shipment figures finished at 2.44 mio bags incl soluble, an impressive improvement over july 2009, especially if expressed in usd (+25.7%).
- bmf dec 10: \$ 205.00 (plus 6.00)
- arbitrage bmf/ice dec/mar – 21.75 (-1.35)
- exchange rate: 1.77 (deval 0.85%)

### **4. COLOMBIA**

- local market: the higher market levels encouraged some longholders to release coffee but volume was small. qualities remain a big concern. the main crop is still a few weeks away.
- export market: demand for nearby shipments is limited and buying ideas for longterm spreads are below seller's ideas.
- exchange rate: the cop is finding decent support around the 1800 level. high 1828, low 1796, close 1825.

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

- mexico: little biz has been reported for the new crop. rainy season is considered to have a positive impact within the coffee regions.
- guatemala: exports slightly below same time last year. final figure should be around 3.3 m bags. harvest of high grown coffees still 4 months away. scattered new crop biz is taking place but quantities traded are smallish.
- honduras: fair demand for remaining spot lots. new crop selling ideas in a wide range, little biz has been reported.
- el salvador: weather conditions remain favourable for the new crop. businesswise a quiet week.
- costa rica: the heavy rains did not cause any damage to coffee but further developments have to be watched carefully. the government announced it will to finance the renovation of 30% of the coffee plantations in 3 years. effects will be longterm.
- peru: some biz taking place with conventional and sustainable coffees. internal market still at high diff levels.

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

- kenya: first auction of new crop coffee brought close to 30.000 bags to the market, quality overall good, diffs hovering in lofty areas similar to levels traded before the summer break.
- tanzania: 2<sup>nd</sup> new crop auction took place this week, some 10.000 bags of washed qualities found ready takers. diffs very firm.



- ethiopia: very little fresh sales activity from origin. though ample current crop sundried quality is still available in the interior, the high rejection rate of arrivals at ecx due to alleged above normal moisture level is creating acute shortage of sundried coffee. this situation together with rising terminal market levels is of greatest concern to exporters who are unable to fulfil their commitments. rumours of defaults are circulating.
- uganda: cherry flow in the bugisu region improving but it's still early days for these coffees. drugar season picking up with decent volumes traded during past week.
- burundi: first regular tender of new crop fw coffees took place this week. limited participation and high reserve prices made it a non-event, only 1/3 of listed volume found a home. no further tender announced sofar. erratic marketing making realistic price finding very difficult.
- png: arrivals have slowed and become erratic as intermediary buyers source coffee from outlying region. local prices turned very aggressive as processors & exporters compete for reducing volumes. july exports reached 111.000 bags, identical with exports during july 09. fair industry biz, diffs for nearby positions a tick softer.

## 7. ROBUSTAS

- vietnam: another rather quiet 'off-season' week. some bits and pieces of current crop being offered and sold. new crop offers are reluctantly being released by exporters (lessons learnt?) and this at a time buyers are eager to lock in long-term spreads. weather ok so far. vnd lost some ground this week.
- indonesia: it looks as if the peak of the season has passed as this week arrivals of asalan slowed down a little (or is it the start of ramadan?). exporters and the ever growing local roasters are actively competing to absorb available coffee. export activities suggest that some stockpiling is taking place. interest for forward month shipments are not still not met by exporters interest to sell nearby. idr trading a tick lower.
- uganda: total exports for july were about the same as july 09 at 266k bags. the faq flow starts to ease as we approach the end of the south and western crops. nearby values remain a little pressured and spreads continue to attract better values. the shilling eases back on renewed dollar strength trading 2215 after 2195 earlier.
- brazil: local roasters showed a good appetite for forward deliveries. export diffs a tick easier but not much business reported.

## 8. ORIGIN DIFFERENTIALS FOR SEP/OCT SHIPMENT CTS/LB FOB

	this week			last week		
brazil swedish	c	-	25	c	-	24
colombia excelso	c	+	63	c	+	60
honduras hg	c	+	18	c	+	22
kenya ab faq	c	+	185	c	+	190
vietnam gr 2	liffe	-	80	liffe	-	70

regards  
VOLCAFE LTD