



WEEKLY MARKET REVIEW AUGUST 20 - 26 , 2010

August 27, 2010

'bloodied but unbroken'

1. GENERAL

- tuesday's much anticipated sell off was quick, brutal, and spectacular, with the two markets ending up nearly 15c and \$150 lower on the day respectively. the trigger seemed to be spec selling in london, as well as a gloomy macro picture.
- the action in new york for the week is rather less impressive, with only a 7c drop overall. still, this was enough to keep fixation desks busy. london remains over \$150 in the red.
- demand in the usa is a worry, as price hikes meet continuing economic woes, and coffee's recession proof credentials are tested once again.
- like the first swallow heralds summer, the first talk of retention schemes in vietnam means attention must be turning to the new crop. however, also note the corollary, "one swallow doth not a summer make".
- we estimate spec/fund position on ice long 28,000 lots and index funds 53,500 lots long. on liffe we estimate funds 10,000 lots long. ice certified stocks stand at 2.02 mio bags, liffe certified stocks at 3.55 mio bags.

2. PRICE COMPARISON (all in cts/lb)

	<u>26.8.2010</u>	<u>19.8.2010</u>	change vs
ice dec 10	172.40		-7.45
liffe nov 10	72.44		-6.99
arbitrage ice dec 10/liffe nov 10	99.96		-0.46

comments basis ice dec10 at 173.95 and liffe nov10 at 1620

ice: the correction came, and it came fast after new highs for the move were posted, nearby dec contract moving below technical indicators on the charts saw a wave of fund selling and spec liquidation into lack of underlying buying, saw prices plummet more than 15 cents, prices have rallied taking the arb back to 100pts after trading into circa 96 cts. good support seen into 165 basis dec. after fnd for sep, spread volume has been light this week, with decent outright volume seen. spreads have softened with the nearby z/h trading into a discount of -0.65 while back month spreads remain firm on low volume.

support: 165.35, 161.5, 156.60, resistance: 174.35, 177.10, 183.15, 188.65

liffe: lack of follow through buying and the market running long saw aggressive liquidation from system funds. the selling became, through technical signals, more aggressive posting a drop of \$150. industry buying noted scale down with the volume seen between 1640 and 1600 basis nov. origin selling not seen. interesting to note with the market off \$150 x/f spread traded in decent size between -14/-17.

support: 1575, 1517, 1500 resistance: 1676, 1740, 1775, 1843



3. BRAZIL

- local market: business came to an abrupt and complete standstill. giant ice collapse left producers on the sidelines and virtually no business reported traded. apart from a little local activity. nominal replacement differentials firmed some 40 to 70 % of the ice drop. bmf/ice arbitrage firmed further into the dip and the sept10 rose to 12 \$ premium over dec10.
- export activities: exporters asking differentials quickly increased and likewise to local market, very little business reported.
- santos port situation remains delicate, hearing of vessels waiting already 30 days to berth.
- bmf dec 10: \$ 204.20 (minus 4.85)
- arbitrage bmf/ice dec/mar – 18.28 (firmer 3.58)
- exchange rate: 1.7550 (unchanged)

4. COLOMBIA

- local market: another quiet week internally. producers have nothing left for sale and the main crop is still 3-4 weeks away.
- export market: outside interest for nearby spreads is picking up and buying/selling ideas are getting closer. more difficult to make ends meet on forward spreads.
- specialty market: roasters cover their nearby necessities in certified coffees but postpone their buying on further out shipment periods. diffs rather stable.
- exchange rate: the cop was range bound this week, bobbing between the 1800 and 1830 levels. high 1827, low 1805, close 1815.

5. LATIN AMERICAN MILDS

- mexico: stronger rains affecting the south of the country. no demand seen from either local or external market. peso affected by usa economy news
- guatemala: daily widespread rainfalls continue and some producers start talking about possible fungal problems. industry demand rather quiet this week.
- honduras: very wet weather continues. so far no damage to coffee plantations reported. main harvest still 3 months away. last available spot lots disappear quickly.
- el salvador: exporters were busy fixing forward sales rather than committing further volume. the new crop production is expected to recover to 1.45 m bags.
- costa rica: a number of tropical depressions passed through the country and more are expected to follow. new crop flow is slowly picking up in the turrialba region. outside demand subdued.
- peru: despite the drop of ICE internal prices continued at high levels. longs hope for a rebound of the mkt. 472K bags were exported in july, +7% vs 2009, making a total of 1,244K bags for jan-jly period. main destinations are germany, usa and colombia.

6. AFRICA/PNG

- kenya: difficult to have an outright auction when at the same time terminal market erodes by approx 8 pct. understandably bidders turned reluctant, at the end of the day many lots were noted with reserve prices not met. though diffs soften quite remarkably over past 3 auction sessions, good faq qualities remain expensive and out of reach for the majority of the roasting industry.
- tanzania: considerably lower prices this week after the dramatic terminal collapse. subdued new crop biz towards all destinations.
- ethiopia: smallish fresh sales registrations of mainly sundried qualities, prices all over the



board. to the disappointment of many 'shorts' the ecx prices held firm this week despite sharply lower terminal market. suppliers to the ecx are not willing to budge. shipment delays continue. ethiopia exported 172,000 tons during july 2009 to june 2010, approx 28 pct more in volume and 40 pct more in value than previous year.

- uganda: arabicas flowing reasonably well. active industry biz particularly in cheaper qualities.
- burundi: president nkurunzizia has been sworn in this week for the 2nd mandate. elections mostly peaceful and calm. limited volume of fw offered, diffs eroding.
- png: sporadic rains in the eastern highlands are timely and ideal to promote healthy flowerings to coincide for may harvesting 2011. australasian industry covering balance 2010 needs. wet weather and changes in vessel schedules continue to delay shipments.

7. ROBUSTAS

- vietnam: liffe sell off brought all internal action to an abrupt halt, not that there is much activity during this 'in between' crops time anyway. weather is still not ideal and new crop arrivals are not expected before mid/end nov. good shipment volumes, over 1 million tons shipped until mid august, suggesting that current crop figures might have been slightly undervalued. sales in low gear this week. new crop stock piling discussions have flared up again – more to come on this channel.
- indonesia: exporters remain reluctant sellers, nearby offers available at stronger differentials but no forward sales offers found. 80% of the crop is over, farmers retaining the little coffee left, hoping for the market to regain strength. ramadan is slowing down activities in general. local roasters competing on the ground to fulfill there ongoing appetite.
- uganda: the faq flow has come to end. demand is picking up again, but with less coffee around and an easier liffe, diffs are tending a little firmer.
- brazil: little to report, some local activities. fob prices jumped from negative to positive during the 'collapse' in life.

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

	this week			last week		
brazil swedish	c	-	25	c	-	27
colombia excelso	c	+	61	c	+	61
honduras hg	c	+	16	c	+	17
kenya ab faq	c	+	155	c	+	170
vietnam gr 2	liffe	-	60	liffe	-	70

regards
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