VOLCAFE LTD

WEEKLY MARKET REVIEW AUGUST 27 – SEPTEMBER 02 , 2010 September 03, 2010

'STAIRWAY TO FARMER HEAVEN'

1. GENERAL

- last week's roller coaster was replaced by this week's stannah stair-lift, as prices in new york gently drifted higher in low volume.
- delete as applicable to your book: the weather in brazil is (*perfect/ disastrous*) for new crop development. the lack of rain means trees are becoming *(stressed/ drought damaged)* leading to a significant (*flowering/ loss*) for the next crop.
- any roaster who was dithering whether to include a touch more robusta in the blend will surely be convinced by an arb at 112c.
- the coffee that does exist in brazil trades at wildly fluctuating diffs – a fine cup still commands a hefty -20, but a primero can be had at the bargain price of -30.
- ethiopia devalued its currency by 16.7%, but the nimble ecx reacted immediately so don't expect any bargains, especially since exporters avoid "hoarding" these days...
- we estimate spec/fund position on ice long 34,000 lots and index funds 52,500 lots long. on liffe we estimate funds 10,000 lots long. ice certified stocks stand at 2.01 mio bags, liffe certified stocks at 3.55 mio bags.

2. PRICE COMPARISON (all in cts/lb)

	02.9.2010	change vs 26.8.2010
ice dec 10	184.85	12.45
liffe nov 10	74.44	2.00
arbitrage ice dec 10/liffe nov 10	110.41	10.45

comments basis ice dec 10 at 184.75 and liffe nov 10 at 1627
ice: market has ground higher by twelve cents on the week, on light volume. longs are once again in control and pushing for hedge-lifting stops. chart indicators all positive. structure tightening, with z/h lifting into inversion again. arb traded out to a 112 cents intra-day, a reflection of speculative money flows in each market, rather than the fundamentals.
support: 165.35, 156.60 resistance: 188.65, 197.70.
liffe: london hasn't regained the ground lost after the sell-off last week, and remains in a tight range in the low 1600s, again with very low volume. lack of spec interest at the moment means it is unable to rally. chart looks heavy, with the 26-day crossing the 50-day moving average. spreads steady with -$15 to -$20.
support: 1575, 1517, 1500 resistance: 1676, 1740, 1775, 1843.

3. BRAZIL

- local market: came quickly back to life; with exporters again able to meet producers selling ideas, considerable volumes traded. producers are disciplined scale up sellers, who can well afford to sit out price setbacks, as sales average for this huge crop is a lot better than last year's, and improving into advancing ice rally.
- export activities: exporters quickly lowered asking differentials but found very little demand. especially nearby, demand is mostly satisfied.
- harvesting is about finished and the week was dry again.
- august shipments should finish strong and quay-side stocks building up again due to port congestion.
- bmf was actively trading. sept-dec premium rose further to 15 usd, and the arbitrage, very much contrary to liffe, was initially firmer against ice. august month end was the high at -17.10 dec/mch arbitrage from -22.50 end of july and only the last two days had a little bit of bmf weakness.
- the real rose today to about 1.7300, after having spent a long time around 1.75 to 1.77. the trend seems clearly in place, as more us dollars are expected to enter the country. the central bank interest rates were kept unchanged at 10.75 % p.a.
- bmf dec 10: $ 218.70 (plus 14.50)
- arbitrage bmf/ice dec/mar –19.47 (weaker 1.19)
- exchange rate: 1.7300 (revalued 1.50 %)

4. COLOMBIA

- local market: main crop coffee from lower growing areas should become available in 2-3 weeks, higher growing regions still need 4-6 weeks. weather conditions continue to be wet, which is good for the main crop development, but negative for next year's mitaca.
- export market: the differentials for nearby sales remain stable due to low availability of coffee. forward biz is taking place at slightly softer diffs.
- exchange rate: the cop continues to be range bound with solid support around 1800 and resistance at 1840. high 1833, low 1806, close 1811.

5. LATIN AMERICAN MILDS

- mexico: flooding in some regions near rivers had been reported within the state of veracruz after continued strong rains; no damage in coffee plantations. 10/11 crop production expected better than actual, numbers will be reconfirmed after november.
- guatemala: new crop buying interest is picking up a bit with main focus on better qualities.
- honduras: wet weather continues. otherwise very quiet. the crop is expected to start in december.
- el salvador: new crop registrations show already more than 500.000 bags. fresh origin offers appear in the market but buying interest is lukewarm.
- costa rica: weather conditions have been very wet and more rain has to be expected as september statistically is the wettest month of the year. fair industry demand for early new crop shipments.
- peru: origin is 80% harvested, whereas south and central regions are 100%, leaving the remaining 20% to the northern coffee production areas. physical longs holding expensive inventory, therefore waiting for better prices.

6. AFRICA/PNG

- kenya: auctions continuing weekly for the remainder of september then break into fortnightly sessions. prices continue to slide and lower levels are kindling interest – mainly due to industry reluctance at current high levels. quality pretty good for the fly crop.
- tanzania: auction similar levels to last week (differentially speaking) but with firmer nyc outright price was some 10 usd higher. volume starting to pick up – next week's auction will include coffees from kigoma but little in the way of robusta.
- ethiopia: the currency was devalued 16.7% this week. the measure was welcomed by the imf and the move is expected to boost exports and economic growth. other than that a rather uneventful week with very little registrations done.
- uganda: the drugar flow continues to disappoint in terms of volumes - either a late start or a poor crop or maybe both. by contrast in the east the washed coffees are coming in quite well especially for the time of year.
- png: despite the improvement at ice and subsequent increase in local prices, arrivals have slowed considerably towards the end of the week. intermediary parchment buyers price aggressively in an attempt to secure a share of the limited volumes. evening rains in the eastern highlands have promoted a sizeable flowering that should produce april, may harvesting. cherry arrivals continue at a minimal rate and will remain at these lowish levels through december.

7. ROBUSTAS

- vietnam: few but expensive current crop offers are still to have. new crop offers are even harder to get. the 'little' leftovers are in exporters and trade hands. some farmers are able to get their hands on local pre-financing from banks, easing the pressure of pre-season selling. weather is fine with regular showers. vnd/usd 19'450.
- indonesia: arrivals are slowing down. ramadan holiday starting on the 8th, little action expected during that time. diffs remain firm as the local competition between roasters and exporters continues. external sales activities are slow to say the least.
- uganda: only bits and pieces of faq are coming through. overseas demand remains lukewarm for the time being.
- brazil: the opportunity of minus diffs is gone, as of this week diffs are trading positive again.

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

	this week			last week		
brazil swedish	c	-	28	c	-	25
colombia excelso	c	+	61	c	+	61
honduras hg	c	+	15	c	+	16
kenya ab faq	c	+	145	c	+	155
vietnam gr 2	liffe	-	50	liffe	-	60

regards
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