



WEEKLY MARKET REVIEW SEPTEMBER 17 - 23 , 2010

September 24, 2010

„ITS LIFFE, BUT NOT AS WE KNOW IT“

1. GENERAL

- london for once was not the dead dog, with a peppy 4c rise compared to new york's 10c drop. the arb starts to approach the \$1 level again.
- with a new york market chopier than a chinese kitchen, most sensible players decided to step back, take stock, and stay out.
- differential erosion was swiftly stopped in colombia, and even reversed in brazil as physical players noted the u\$d weakness and eyed terminal market declines.
- very little physical business transacted, with the exception of a couple of hefty chunks of brazil.
- colombia registrations for september stand at a meagre 225k bags, compared to exports of 500k last year and 900k in september 2007.
- on the macro side, the fed hinted darkly at deflationary pressures, which will likely keep interest rates low and the \$ weak for some time.
- we estimate spec/fund position on ice long 30,000 lots and index funds 49,000 lots long. on liffe we estimate funds 10,000 lots long. ice certified stocks stand at 1.98 mio bags, liffe certified stocks at 3.61 mio bags.

2. PRICE COMPARISON (all in cts/lb)

	<u>23.9.2010</u>	change vs <u>16.9.2010</u>
ice dec 10	181.65	-10.15
liffe nov 10	78.79	3.81
arbitrage ice dec 10/liffe nov 10	102.86	-13.96

comments basis ice dec 10 at 184.40 and liffe nov 10 at 1759

ice: speculative selling early this week down through key technical levels around 183.50, yet market has held 26-day moving average of lows since then, some withdrawal of origin, but generally very low volumes. breaking through recent lows of 180.85 will trigger more spec selling. support: 183.40, 180.85, 177.50 resistance: 187.90, 198.65, 200.00,

liffe: there's life in the old liffe yet, with \$80 price action from the mid- to the upper bollinger band, and the arb tightening 14 cents to a (still hefty) 103 cents for x/z. next target would be recent highs of 1843.

support: 1694, 1650 resistance: 1763, 1843.



3. BRAZIL

- local market: activity was reduced. lower prices kept most producers on the sidelines and little volume traded. replacement values nominally several cents firmer, but constant huge intraday ice swings make it difficult to measure.
- export activities: moderate volume traded at slightly firmer differentials.
- september bmf ended at slight discount vs december.
- rainfalls early this week were bigger than foreseen and more rain is expected end september/beginning october, seemingly setting off spring rains well on time.
- bmf dec 10: \$ 216.00 (minus 12.00)
- arbitrage bmf/ice dec/mar -20.15 (firmer 0.25)
- exchange rate: 1.7150 (unchanged)

4. COLOMBIA

- local market: heavy rains throughout the country slowed down the drying process and therefore the availability of dry parchment. the flow of fresh coffee is expected to pick up during the first week of october.
- export market: following the significant drop in differentials, buyers have now reduced their buying ideas. however, there is solid demand for early new crop shipments especially from north america.
- exchange rate: the cop remains in the same range we have seen for the past month. high: 1.812, low: 1.795, close 1.811

5. LATIN AMERICAN MILDS

- mexico: a fairly quiet week. some demand from north america for early new crop shipments.
- guatemala: heavy rains could delay the drying process and landslides in some growing areas could affect the orderly flow of the first parchment arrivals. roaster interest is picking up but it's difficult to make ends meet.
- honduras: not much going on internally. scattered demand from the industry, especially for early new crop shipments.
- el salvador: new crop registrations now at 572.000 bags. business-wise very quiet.
- costa rica: no fresh news. buying interest lukewarm.
- peru: the internal coffee flow was rather low this week. also outside interest was subdued the last few days.

6. AFRICA/PNG

- kenya: active buying interest, diffs & qualities drifting lower. due to dwindling availability of fly crop coffees next auction now listed for 5th october. early interest in next main crop meeting only reluctant sellers. high asking prices and speculation about the right diff for feb shipment onwards blocking volume biz.
- tanzania: auction diffs slightly easier. industry biz remains sluggish, overall high outright prices delaying volume biz. next auction listing some 21.000 bags from all regions.
- ethiopia: fair sales registration of sundried coffees mainly to middle east markets. ecx daily prices declined this week following terminal market. availability of sundried coffee at ecx remains poor. late shipments issues continue & remain unsolved.



- uganda: washed coffees flow in only modest volumes due to recent wet weather in mbale region. coffee leaf rust which is now spreading to higher altitudes continues to worry producers and fears are that total crop volume could drop by one third. flow of drugar remains sluggish. industry looking at bargains, anything cheap including undergrade remnants is quickly snapped up.
- png: only smallish volumes traded locally. dry weather conditions are of concern as recent flowerings will require back-up rains to hold the newly formed pin head fruits. student protests regarding certain issues with the government has allowed opportunists to severely disrupt traffic along parts of the highlands highway. transport of coffee to port has been affected. total exports for the coffee year to date reached 917.000 bags compared to 865.000 bags for same period last year. little fresh biz reported.

7. ROBUSTAS

- vietnam: we expect shipments as per end sep to reach 1.1 m tons and with hcm stocks at 80' – 90'k tons, the crop 09/10 must have been around 20 mio bags. as we are in between crops, domestic market has very little coffee but it seems exporters still need supplies hence upcountry diffs are tight with very light volume offered. some trade have been getting excited seeing many daklak registered trucks delivering to a warehouse in hcm causing a lot of congestion – but actually its corn, not coffee. the daklak corn crop is larger in volume terms than coffee and local dealers make more margin per kg than coffee, even though the price of corn is 5 or 6 times cheaper.
- indonesia: asalan volume this week slightly less compared to the previous week. we are approaching the end of the main crop rapidly. nearly 90% of the crop has been completed. heavy showers seen across some parts of the coffee growing region.
- uganda: more coffee is flowing as the season develops and the consensus is for a reasonably decent sized average sort of crop from the central and eastern parts. consistent regional demand and renewed interest from traditional markets is sufficient to keep values fairly rich. ugandan t-bills are yielding sub 5% resulting in much cheaper interest rates for both domestic and usd borrowers. the shilling remains at the lower end of the range at around 2250 v usd.
- brazil: no news.

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

	this week			last week		
brazil swedish	c	-	30	c	-	30
colombia excelso	c	+	39	c	+	42
honduras hg	c	+	10	c	+	10
kenya ab faq	c	+	115	c	+	120
vietnam gr 2	liffe	-	70	liffe	-	50

regards
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