NEDCOFFEE BV

– Lampung – Ho Chi Minh – Cochin – Amsterdam – Douala – Lome – London – Abidjan – New York –

ORIGIN REPORT
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Vietnam

Climate
Clear skies and good sunshine, across coffee producing regions, after rainy November are helping to improve harvesting and drying conditions.
Farmers are back to the field to harvest and dry their cherries. We expect that between 85% - 90% of the crop has been picked and the rest of the pickings will be completed by Christmas.

Market
Local market was red hot. Spot prices are inflated as there are still new quantities traded against the “old Jan 2009” 5 Mt contract besides the short-covering of old commitments.

Premium for Grade 1 Screen 16 versus G2 (max. 5% BB) has widen to US$ 160 - 170 Mt for immediate shipment positions against US$ 60-70 Mt for deferred positions. Many sellers were chasing after this quality to cover new sales to market parties at F-US$ 210 -220 FOB for prompt shipment.

We estimate that local exporters have committed around 22% of the 2008/2009 production to trade and industry, which is approx. 270.000 Mt (of which less then 50% has been price-fixed).

Details are as follows:

	Committed (‘000 Mt)
October	40
November	60
December	90
January	50
February	15
March >	15
Total	270

Crop Development
We adjust our projection of farmers’ supplies before TET to 40% (55% previously). The reasons of our changes are:
1) The unseasonal rains all through last month have delayed the harvest by 2 to 3 weeks. Because of this, the farmers will have less time to sell 55% of their production before TET.
2) Cash has become more accessible to farmers, either coming directly from state banks or via state exporters. Nowadays, commercial interest rates have been continuously reduced to about 13% per annum (from a peak of 21% a few months back). These early type of financing helps farmers to improve their selling power.
3) Current prices are considered unattractive for farmers.

We expect the one-month period between Christmas and the Chinese New Year to be exceptionally busy as farmers will have to offload more than 10,000 Mt/day.
The unseasonal rains in November have already caused early flowerings to more than 10% of the coffee area, mostly in Daklak and Gia Lai. We think these early flowerings will be wasted completely and might cause production reduction in 2009/2010.

Other news
Vietnam's State Bank has reduced basis rate to 10% per annum. As a result, commercial VND rates (obtainable by local exporters) are reduced to 11% - 13% per annum. On December the 11th Buon Ma Thuot coffee exchange officially opened.

Currently we think the operating mode of the exchange might be challenging due to the following reasons:
1) Farmers need to deposit their physical coffee in the exchange before they can fix the price. This effectively eliminates the possibility of hedging before their crop is harvested.
2) Only farmers with a minimum of 3 ha can open a trade account. This automatically disqualifies 75% of Vietnamese farmers.
3) Then as a buyer, what you get paid for is a warrant issued by one of the existing local, and not from an independent, reputable warehouse operator as many people might expect.

We can conclude that a few of the above rules might need to be changed before the exchange can operate succesfully.

New factory Nedcoffee Vietnam
Nedcoffee Vietnam has just inaugurated a brand newcoffee processing factory on December 10th in Buon Ma Thuot, Daklak, Vietnam.

The state-of-the-art factory has a designed processing capacity of over 100,000 Mt of green coffee a year and it is one of the largest single factories in the country.
Nedcoffee Vietnam has so far opened procurement branches in Dac Lac, Dac Nong and Gia Lai Provinces to purchase raw coffee beans from Vietnamese growers. (please see page 5 of this origin report)

Indonesia

There is hardly any news from Lampung as we are now entering the low crop season and the deliveries to Lampung at the moment can be ignored.

Until end of week 50, approx. 339,000 Mt of Southern Sumatra Robusta has been delivered, which equals 97% of total forecasted production for 2008. Approximately 73% of this delivered crop (equal to 247,300 Mt) was delivered to Lampung.

The remaining crop, which is owned by growers and middleman is approx. 11,000 Mt. The deliveries during last 2 weeks were very low, because the local price of Asalan in Lampung went down significantly. This was caused due to a lower LTM and a stronger rupiah

For that reason, suppliers prefer to keep their stock hoping for better prices, if not, they will only deliver it for urgent cash needs. Otherwise, they will sell it bit by bit until to next crop.

Until now, we still did not receive any export numbers for November 2008 from the authority department and therefore, we could not give an update on the export figures.

The current rain-falls at coffee growing areas are favorable for next year's crop. Hence, we still predict that next year's crop will increase about 7.4% to a total of 376,000 Mt. We also predict that the harvesting period at low land areas will start by the end of February 2009.

India

The month of November saw a lot of activity as far as Robusta cherry was concerned. Farmers who were holding on to some stocks liquidated their stocks and realized good prices due to a strong local market. Local market picked up cherries to replenish their stocks as they prefer old Robustas crop until February 2009. Except for a very small percentage of Robusta cherry coffee with the farmers, all other coffees have been sold. India has exported around 190,000 Mt of coffee by the end of November 2008.

Indian Rupee weakened to its lowest levels in recent times against the USD. It was around IR 50.00 by the end of November.

Indian Coffee Board has revised the production estimate for the season to 276,000 Mt from 293,000 Mt estimated earlier. There is a reduction of 10% in Arabica and 4% in Robusta. Arabica estimate now stands at 90,050 Mt and Robusta at 186,550 Mt. This decline is due to heavy rains fallen during the blossom period in the coffee growing regions in March.

With mining-work in some parts of the country coming to a halt due to lack of export demand for iron ore, laborers are expected to move over to coffee areas which may ease the labor shortage faced by the industry.

Arabica crop has already started to arrive at exporters in small lots. Due to the rain the volumes are still small. Robustas are expected to arrive in the market by the end of December 2008.

Two new private players are setting up freeze dried instant coffee plants in the country. When these are operational, we expect a significant boost in the processing capacity of instant coffee in India.

Photo: India

Ivory Coast

Weather conditions are rather well and during the last couple of weeks sufficient rain has fallen. It appears that the harvest will be scheduled earlier. In the regions of Daloa, Man and Duekoue (Northern part) they are starting to buy and are processing the ”cerises”.

In January the market is expecting first shipments towards the exporters.
Nevertheless, at this moment there is already coffee at the exporters which has a bad quality and is extremely moist. Several parties have already bought several truckloads of coffee.

There is a lot of uncertainty regarding the market prices, therefore a high level of “consignement” is expected.
Due to the slow pace of cacao, output of coffee can be disrupted.

Liffe

Since our last report, the difference between January 5 Mt and January 10 Mt changed from a premium of 90 dollars into a premium of 250 dollars. The question is: "Is this premium indicating a squeeze or is it merely short covering?". What we do know is that there is a lot of coffee underway for grading. Huge quantities of Vietnam Grade 1 sc 16 have been bought against the 5 Mt contract for shipment before the 20th of December. Companies, who still have some longs, have shipped these out for grading.

We remain bearish for London, for the same reasons as mentioned before:

1) The market is changing into a carry structure, which normally is a bearish indicator. As mentioned above a lot of coffee is on the way, which will be graded and will most probably result in a carry structure.

2) A huge Vietnam crop is approaching, although a bit late because of some rains. The last week it has been dry and the selling will start around Christmas. This will result in some downward pressure on Liffe.

The dollar has weakened significantly the last few days, but Liffe did not react up till now. This shows that there is no interest in bringing Liffe to higer levels.

New York

In the last edition we mentioned that we were trading in a range between 123 and 110. We did see a break out to the down side, but the next trading day NY recovered fiercely to close near the 110. again. The weakening dollar has a bit more influence on NY. This combined with a considerable short position of the non-commercials leaves some room to the upside. Technically reports are mentioning that a break above 117 could trigger a rally to 130.

The switch December / March has been tightening most probably because of the much higher differentials in Colombia.

NY in BRL terms has been trading at the same level as the end of December 2006 and the end of February 2008. A weakening BRL could bring some downward pressure to NY

Photo: Nedcoffee Vietnam factory

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