



## ORIGIN REPORT Issue N° 36 January year 2009

### Vietnam

A second round of highly unseasonal rains during the last 10 days of December 2008, has caused widespread early flowerings in all main coffee areas. We observed that early flowerings happened to at least 40% of the plantations.

Farmers were forced to carry-out follow-up irrigations to maintain the flowers, which helped to save a good part of the flowers from an immature death. Nevertheless, we believe that a total damage has already occurred to at least 15% of the flowers, which will have a direct impact on the 2009/2010 production.

The unseasonal rains have also increased quality problems of the new harvested coffee for 2008/2009. In some areas in the Daklak province new crop FAQ contains usually over 5% BB, besides other mold fermentation problems.

Differentials firmed up to 130/140 under spot LIFFE month, which reflects moderate farmers' supplies. Business activities are already uncertain during January with buyers getting more focused on getting old commitments delivered, than to enter into new business. We expect total farmers' selling until Tet to be around max. 35% of production.

We estimate that the total harvested crop for 2008-2009 is now approx. 1,240,000 Mt.

The local prices are around 25.000 VND/kg or 1.450 US\$/mT.

Total exports from October 2008 until the 15th January 2009 is approx. 304.007 Mt.

Details are as follows:

	Committed (Mt)
October	48,404
November	57,410
December	138,193
15 <sup>th</sup> January	60,000
<b>Total</b>	<b>304,007</b>

The first half of January 2009 saw better releases from farmers as the harvest is now finished. But farmers selling, estimated at approx. 30% of production up to now, has been far less aggressive than a normal January in previous year. They are selling step by step.

Vietnam's State Bank continues lowering it's basis interest rate in order to avoid the possibility of economic stagnation, which in turns put a lot of pressure on the Dong to devalue. The VND rate, trading today at 17,475 to a dollar, is already 3% weaker compared to a month ago and there are strong rumors that it will become 18,500 - 20,000 VND soon. One more reason for the local exporters to hold on to their physical longs, if not adding more.





## Indonesia

Until mid January 2009, there has been 341,000 Mt of Southern Sumatra Robusta delivered (97.4% of the total predicted 2008 production of 350,000 Mt). Around 72.9% of this delivered crop (equal to about 248,500 Mt) has been delivered to Lampung.

Local price in Bandar Lampung at the moment improved significantly because some of the exporters are trying to cover their short positions, while the numbers of deliveries are reducing. The exporters created a short book during this low season, because they were expecting that the stock of Tripanca (about 60,000 Mt) would be released by the end of December 2008. However, the stock cannot be released yet.

As you can see from below chart, total export of Southern Sumatra Robusta from Panjang Port for the year 2008 is 64.3% higher than total export for the year 2007.

Details are as follows:

Export (mT)	2006	2007	2008
January	19,231	8,555	13,933
February	18,578	6,148	24,181
March	11,513	3,493	15,208
April	10,575	4,813	16,538
May	16,551	5,558	17,552
June	21,869	8,734	28,439
July	33,988	26,325	39,365
August	34,113	24,445	34,062
September	19,555	29,816	45,760
October	14,652	18,669	21,799
November	14,934	31,571	22,408
December	13,035	14,943	21,502
<b>Total</b>	<b>228,594</b>	<b>183,070</b>	<b>300,747</b>

Currently, the heavy rain-falls at coffee growing areas are not good for the last phase in the development of the cherries. If the rain-falls remain high and heavy rain continues until the end January 2009, the harvesting time of crop at low land areas will be delayed for a couple of weeks. Many flowers in high land areas are affected and this could influence the crop size. estimation.

We will monitor this condition and report promptly if these rain-falls are really affecting the crop condition, but at the moment the impact is limited.

## India

Weather in coffee growing areas was dry throughout the month.

There is a big thrust on the quality aspect this season. All the major buyers of Robusta coffee are very strict on the quality. Bad quality coffee suppliers are heavily penalized. This has helped to improve the quality of Robustas, which had gone below the standards during the previous season.

As the new crop started to flow in, farmers who were holding on to a small percentage old Robustas, liquidated their stocks.

By the end of December 2008, all the 2007-2008 coffee stocks at the local farmers were completely sold out.

About 40% of the Arabica crop is already harvested and the crop is very low. Some farmers say it is down by 40% in many of the estates.



During our field visits we found the crop to be overall low by at least 30%. . Robusta picking had also started in many place by the end of December. Shortage of labour which was the main concern during the previous season continues during this season also. Labour wages have gone up considerably. Many farmers are seen selling ripe fruits to big farmers who have the facility to prepare washed coffees. Ripe fruits are bought from the farm gate. Small farmers save on the cost of transport to the drying yards and labour on drying.

India has exported around 1,970,000 Mt of coffee by the end of November 2008 and we have observed the following average market prices:

Arabica Parchment - \$ 2 levels  
Robusta Parchment - \$ 525 levels  
Robusta cherry/EP - \$ 100 levels

Indian Rupee was around 49.00 by the end of the month.



## Ivory Coast

Ivory coast 2008/2009 Robusta harvest began early and may reach 90,000 to 120,000 Mt. We have seen farms with good volumes of dried cherries, however, traders are still dealing cacao whose price has reached record highs due to an unexpected production problem. Therefore, money is needed to pay these high prices and to cover the commitments before delivering coffee.

Some exporters simply don not accept coffee as they need cacao first.

Last year the coffee production ended somewhere around 65,000 Mt not considering the carry over as exports have reached 107,735 Mt. In 2002/2003, the crop was still around 250,000 Mt just before the war started. Since than many farmers left their plantations. Last year, dry weather destroyed (at last minute) what should have been a good crop. This year all has gone well.

Farmers are notably not aware of their own cost, let alone the international coffee prices. Although the market has been liberalized, for years, the government still announces a minimum prizes for coffee. Today it is Cfa 525, where it was Cfa 650 last season, down 20% whereas the market has dropped about 40%. Obviously this disturbs the market but even worse, farmers conclude not to work on their farm as exporters do not pay the right price. These farmers do not even know their cost, but for sure they would be able to make money with current market.

## Cameroon

Not available



## Liffe

At the time of our previous report the F5/H10 was trading at \$ 250. The switch has moved out to \$ 330 today. There still is a lot of coffee being graded and also a lot of coffee underway for grading. The question remains will this be enough? Until today 17,926 lots have been tendered bringing down the open interest to 12,254 lots. At the moment there still is no real panic, the switch is trading stable around these levels, which would indicate the shorts have the coffee available or will have the coffee available in due time. This is consistent with the shipments we have seen, among others, out of Vietnam, Indonesia and Ivory Coast. If we also take into account that there most probably will be a large cross (1 long 2 accounts) ,which will bring down the open interest as has happened before, we still see the switch going back to a discount.

Concerning the certified lots, we can state the following. The certified stock figure the 1st of December was 32,335, the gradings during December have been 5,415 and the stock figure at the 29th of December was 32,574. This means that  $32,335 + 5,415 - 32,574 = 5,176$  lots of certified coffees have disappeared (roasters taking delivery of spot certified coffees, because of late arrival/shipments of new crop Vietnam?).



The market H 2009 has hardly moved during the last 30 days. The close on the 15th of December was \$ 1662 and today it is trading at \$ 1630. Remarkable is the tightening of the H/K trading at -\$ 7 yesterday. We remain bearish for London for the following reasons:

1. A big Vietnam crop, which still has to be priced for a considerable tonnage;
2. Differentials Vietnam are trading at tender parity;
3. Stocks in Europe will keep increasing;
4. Looking at the worldwide economic circumstances, we can not really find any positive development;

A bullish argument could be:

5. The dollar is getting stronger at the moment, but it could weaken considerable. Some funds are afraid of a huge inflation which could be the result of the very low interest rates and are positioning themselves already in commodities.

## New York

In the last edition we mentioned NY was trading in a range between 123 and 110 and we still are. We have seen some short covering which triggered a rally. This rally came to a stop most probably due to the fact of the stronger \$ and weaker BRL.