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Weekly Report – Week 04/2009 – Thursday January 22nd, 2009

1. General Overview of the Local Market

- Group 1

Much less business reported this week despite the firmer ICE levels and relatively stable level of the currency. Cooperatives and large producers keep asking prices close to BR280.00 which does not allow exporters to cover their shorts unless they are in a very urgent need of it. The current replacement level of a Standard Swedish Quality is around US$18.00 c/lb under ICE. Local roasters keep in the market for all their qualities, low grade, inferior bicas and past crop coffees.

- Group 2

Local market continues firm. This is the second consecutive week of steadiness. It seems there are more shorts than everybody was reporting. Short covering is concentrated on sales made to local roasters rather than for exports. Type 7 bica has been traded up to R$215.00 and Zone da Mata and Espirito Santo and up to R$220.00 for riados and Rio cup qualities of the South of Minas. Anyhow prices are firmer but still lower than Conilons.

- Conilons

Exporters and local dealers have pushed type 7 prices up to R$228.00 as they are under short covering to deliver to roasters and soluble industries in Sao Paulo. Low grade qualities have been traded between R$235.00 and R$245.00 (depending upon grade, place of delivery etc...) about the same level of low grade G1 qualities.

2. Local Prices traded during the week

A. R$ per 60 kilos bag:

Type 6/7 spot Varginha, soft cup, between RS$260.00 and R$280.00
Rio Minas Type 7 Rio standard cup spot Manhuaçu between R$205.00 and R$215.00. (Still lower than Conilons)
Low Grade Group 1, 600 defects – CIF Sao Paulo – between R$235.00 and R$245.00
Type 7 Conilons – basis delivery Colatina/Linhares – between R$225.00/R$228.00

B. FOB Prices:

3/4 MTGB good cup (Swedish/Primeiro) – US$ 23.00 c/lb under ICE.
RM 17/18 – US$40.00 c/lb under ICE.
Conilons 13 up – US$2.00 under LIFFE (new crop May onwards)

3. Financial and Political News

- COPOM (Monetary Policy Council) finally started to reduce the interest rate (SELIC). It was set now at 12.75 pct or 1.00 p.p. less than the previous 13.75. This decision is rather expected in view of declining inflation rate and lower economic pace. Despite the reduction, this rate is still the highest interest rate among the large economies in the world.
- The development bank (BNDES) has got additional credit from treasury (R$100 billion) to finance projects or expansion projects in the industrial sector, including oil and mining ones. The idea is to try to incentive projects that have been frozen or postponed.
- Exchange market had less volatile than previous weeks with the Dollar exchange rate ranging about 2.5 pct between R$2.312 and R$2.378 during this week. Today it closed at R$2.331 (R$2.38 last Thursday)

4. Export Activities

- Group 1

Activities have been reduced with much less interest seen for February/June shipments while is increasing the demand for 09/10 crop for July onwards shipments.
Some current crop business reported for March/June shipments as for instance combo good cup qualities that have been traded between US$21.00 and US$22.00 c/lb. under ICE.
There are potential buyers of 09/10 crop qualities but at same wide differentials of current crop or between US$21.00 and US$24.00 c/lb under ICE, depending upon cup quality. However there are fewer sellers keen to offer too ahead, but the few available offers are at least US$3.00 c/lb far apart.

- Group 2

Business continues on a standstill pace but prices are firmer due to local market recovery. RM prices that have been neglected (there are reports of some scattered business done below US$1600.00/ton-FOB a couple of weeks ago) are now offered up to US$1800.00 top 17/18 quality. This week some businesses were reported between US$84.00 (small beans) up to US$88.00(17/18).

- Conilons

No businesses have been reported lately (current crop diff´s are at huge premiums over LIFFE) while new crop qualities are offered with US$2.00-2.50 c/lb discounts under LIFFE for May/July shipments.

5. General

- Brazilian domestic consumption in 2008 reached 18.1 million bags which correspond to 53 pct of the consumption among coffee producing countries, according to ABIC (Roasters National Association).
- The Minister of Agriculture, Mr. Reinholds Stephanes announced that the Government is studying a package of measures to help coffee producing sector. For instance one year postponement of all cooperatives and producers debts expiring in 2009. It is also under the measures to be announced the producer's option to deliver coffee as payment of the debts, but the operational price (average market price or producing cost price or other mechanism) is yet under studies.
- Brazilian coffee exports during 2008 reached 29.382.000 bags generating US$ 4.728.000 or 18 pct more than 2007. The share of coffee exports revenue on Brazilian agribusiness was 6.6 pct.

Best Regards
Flavour Coffee