FLAVOUR COFFEE

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Weekly Report – Week 05/2009 – Thursday January 29th, 2009

1. General Overview of the Local Market

- Group 1

Local prices continued steady with quite good demand from exporters. The current cost of replacement of a Swedish quality continues widen to around US$22.00 c/lb under NY-K. Local rosters are eager buyers of low grade and/or past crop qualities paying prices around R$240.00.

- Group 2

Prices have firmed up considerably with most of producers holding back offers convinced that prices have still upward potential. Indeed prices had a quite impressive recovery (almost 15 pct) thanks to local roasters that saw a great opportunity to increase Arabica usage at cheap prices.

- Conilons

Very quiet week with prices unchanged. Local industries stay aside with one or other business reported at R$240.00 CIF Sao Paulo. Type 7 bicas always unchanged with exporters and locals at same levels of lat week i.e. around R$225.00.

2. Local Prices traded during the week

A. R$ per 60 kilos bag:

Type 6/7 spot Varginha, soft cup, between RS$265.00 and R$280.00
Rio Minas Type 7 Rio standard cup spot Manhuaçu between R$215.00 and R$225.00.
Low Grade Group 1, 600 defects – CIF Sao Paulo – between R$235.00 and R$240.00
Type 7 Conilons – basis delivery Colatina/Linhares – between R$224.00/R$225.00

B. FOB Prices:

3/4 MTGB good cup (Swedish/Primeiro) – US$ 24.00 c/lb under ICE.
RM 17/18 – US$40.00 c/lb under ICE.
Conilons 13 up – US$4.00 over LIFFE current crop Feb/April shipments or US$3.00 under LIFFE (new crop June onwards)

3. Financial and Political News

- Plan Minister announced a very strong cut on 2009 Budget that hit all Govern sectors. This cut is in line with a smaller estimated GDP growth and smaller estimate of tax revenue this year.
- Despite the very high foreign investments during 2008 (a record of 45 US Billions), the external accounts showed a deficit of 28.3 US billions the worse result since 2002. The accounts worsened dramatically since October soon after the financial crisis.
- Exchange market had a less volatile week with the Dollar exchange rate ranging about 3 pct between R$2.33 and R$2.25 during this week. Today it closed at R$2.294 (R$2.331 last Thursday)

4. Crop Estimates

- It seems to be a consensus among trade and local sources that 09/10 crop will be higher than previous estimates made after the flowering. Indeed the fertilizers usage has been reduced due to the high prices but the excellent weather conditions with adequate and timely rains have offset the low fertilizers usage, helping the trees to produce a reasonable crop. Therefore the ''off'' cycle this year will be less than 10 pct in many producing areas or one of the lowest ''off' years ever seen. Most of crop estimates from privates are between 42 and 46 million bags, or between 30 and 34 million bags of Arabica.

5. Export Activities

- Group 1

Moderate volume of business reported mainly for forward positions. Nearby offers are easier or US$24.00- US$25.00 for instance for standard Swedish quality while buyers are apparently covered for those positions. It has been reported that Primeiro quality (mtgb good cup) traded at US$24.00 c/lb for a long string of shipments from June till December or even till March 2010. ''17/18 qualities'' traded in small quantities between US$20.00 and US$22.00 c/lb under ICE for March/July shipments while "15/16 FC´s SS" traded at US$19.00 c/lb under ICE for April/June shipments. New crop 17/18 SS FC also reported trading at US$17.50 c/lb under ICE for September till March 2010 shipments.

- Group 2

Prices continued under recovery with business reported at differentials around US$40.00 c/lb under ICE for March- May shipments while some few businesses done for immediate shipments at prices between above US$90.00 per 50 kilos. There are bids unfilled of 17/18 at US$42.00 c/lb under ICE for March-May shipments and at 15/16 at US$45.00 c/lb under for May till July shipments.

- Conilons

Offers of 13 up qualities new crop are at US$2.00-US$3.00 c/lb under LIFFE but do not attract buyers yet.

6. General

- Producing leaders continue pressing Agriculture and Finance Ministers to launch an aid package to coffee sector. They got general promises that expiring financing contracts would be rolled over 2010. However they insist to have the right to deliver physical coffee as collateral of old debts. They also are trying to have a revival of an Option Plan (2004) on which Government bought coffee at the strike price that were higher than market level at the time.

Best Regards
Flavour Coffee