



FLAVOUR COFFEE

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Weekly Report – Week 22 – Thursday May 28th, 2009

1. General Overview of the Local Market

- Group 1

The total volume traded this week has improved with more participants in the market. New crop qualities have already traded but in small portions. Quality of the new crop seems to be very nice although the first arrivals are too grassy taste. Local prices in BRL ¸ remained about the same of last week. The current crop qualities trading in the local market surprises by the size of the contracts at this time of the season. This should be a sign that producers are trying to reduce their inventories to replace with fresh coffees of the new crop and also to make cash to face harvesting expenses.

- Group 2

Local market continues steady mainly for current crop qualities. For instance 17/18 quality traded at BRL\$245.00 while type 7 qualities are very difficult to find. Harvesting is accelerating in both Rio Minas areas in Zone da Mata and Espirito Santo mountains but the qualities so far harvested are good cups Group 1 qualities and semi washed coffees. Just a small and negligible percentage of the new crop can be considered Rio Minas Group 2. Prices tend to get closer to Group 1 prices.

- Conilons

Despite the harvesting is in full speed, market continues steady. Local millers are covering their shorts to deliver to the local industry thus are eager buyers. Type 7 traded today at R\$190.00 while exportable 13 up quality traded at BR197.00. This present market behavior somewhat surprises as everybody expected prices to be much easier at this point of the season.

2. Local Prices traded during the week

A. R\$ per 60 kilos bag:

Type 6/7 spot Varginha, soft cup – between BRL\$ 265.00 and BRL\$275.00.
Rio Minas Type 7 Rio standard cup spot Manhuaçu between BRL\$225.00 and BRL\$230.00.
Low Grade Group 1, 600 defects – CIF Sao Paulo – between BRL\$235.00 and BRL\$240.00
Type 7 Conilons – basis delivery Colatina/Linhares – between BRL\$187.00 and BRL\$190.00

B. FOB Prices:

3/4 MTGB good cup (Swedish/Primeiro) – US\$ 26.00 c/lb under ICE-NY.
RM 17/18 current crop – US\$ 110.00 = US\$2200.00/ton FOB
Conilons 13 up – LIFFE level for June/July shipments

3. Financial News

- Brazilian external accounts showed a positive result of 146 US Million Dollars, the first since August 2007. The trade balance surplus in April reached 3.7 US Billion more than the double of April 2008. The reduction of dividend remittance from 3.7 US Billion in April 2008 to less than half in April 2009 explain themselves the positive result of the external accounts in April.
- The high interest rates adopted by COPOM are attracting a massive flow of US Dollars to the country (mainly the smart money to buy shares at BOVESPA stock market) that continues forcing an appreciation of the Real.
- Exchange market had a range between BRL\$1.999 and BRL\$2.049. Central Bank continued intervening in the exchange market (buying US Dollars cash and swap operations) but could not afford to stop the dollar exchange rate easier trend. Today it closed at BRL 2.009 (last Thursday closing was R\$2.037). it looks inevitable to see the dollar exchange rate breaking the BRL\$2.00 barrier.

4. Harvesting News

- All coffee areas are under harvesting activities. Weather has been beneficial so far as it has been sunny and dry. Some areas are just starting the harvesting, including of Cerrado usually the latest area to start. Conilons are in full speed with around 30 pct of picking done. Zona da Mata and Parana are fully busy under harvesting.

5. Export Activities

- Group 1

Differentials keep widening with all qualities now offered/traded at very cheap differentials on historical basis. It looks a paradox that Brazil's prices are so cheap but attracts no new buying while Central America and Colombians differentials continue with huge premiums over ICE-NY, with business reported at premiums of US\$100.00 c/lb over ICE-NY. This situation tend to aggravate as long as Brazilian harvesting advances therefore should make further pressure on differentials rather than affect ICE-NY prices which has been driven upwards by washed coffees shortage.

- Group 2

RM 17/18 current crop for June shipment traded in small volume at prices between US\$108.00 and US\$110.00 while offers for July and August are seen around US\$40.00 c/lb under ICE_NY-U.

- Conilons

FOB offers are still around LIFFE level with almost nothing reported.

6. General

- Funcafe authorized releasing of BRL\$120 million to producers to finance their harvesting costs. Total resources so far released for coffee farmers finance harvesting is BRL\$280 millions.
- The IPEP index (Producer's share on Brazilian coffee exports revenue) for April 09 was 86.3 pct of FOB value. The average IPEP in the latest 12 months (May-2008 to April 2009) was 88.5 pct. This index measures how much producers appropriate from the total FOB value.

Best Regards
Flavour Coffee