

# Coffee Weekly

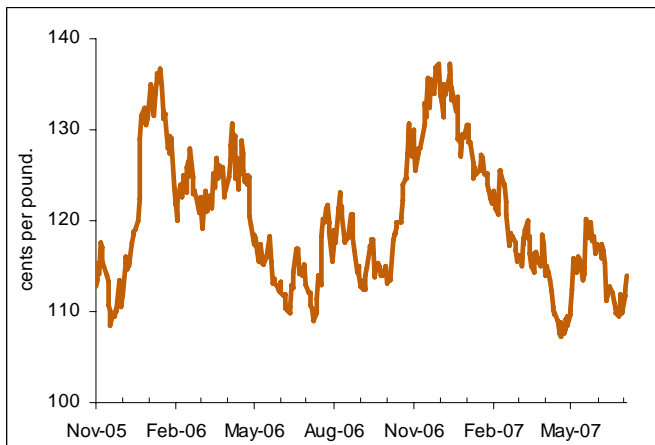
A weekly examination of the fundamentals

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## Coffee Outlook

### Down Seasonal Being Challenged



Source: FutureSource

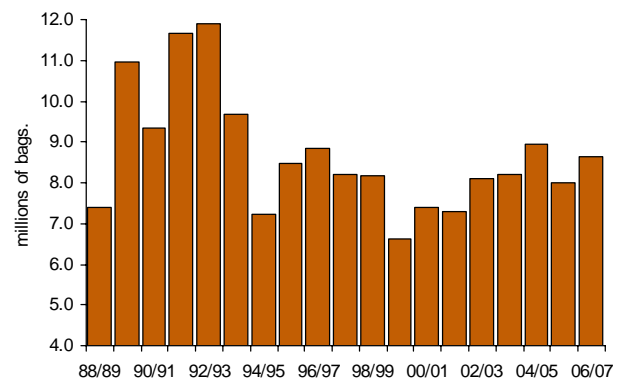
The coffee market has certainly lived up to its reputation and had weakened in the absence of any threatening weather in Brazil and on ample near by supplies. While the market could continue to exhibit weakness through next month based on the usual seasonal tendency, this year the brakes could be put on the downside sooner than in years past. If this market has any legs, it should not push into new low territory and if it does the amount of time spent as the lows should be brief. With more two sided action this week, it would seem the market is trying to find some stopping ground, but it is too early to say for sure that the bottom is in place. Fundamentally, I'm not convinced just yet, despite believing in the bigger picture that supplies will be more limited this season and prices should respond accordingly. For now the market has found good scale down buying interest to underpin values, but more than likely there will be strong producer selling just ahead that will cap rally attempts. The market will need to have a catalyst to get through this wall of selling. Evidence of a strong slow down in Brazilian shipments could do the trick or certified stocks seeing regular declines as opposed to increases would also help. Paramount would be a tightening in cash quotes.

The Brazilian government auction for another one million bags was met with success in terms of the coffee being sold but the prices paid for the subsidies was less. The program, while it may help to regulate the flow of coffee, is not going to put a floor under the market, as some had first hoped.

Colombian June production was reported at 1.219 million bags and exports were the same. This is an increase in volume over last year. Cumulative production and exports are moderately higher as the country's rejuvenation program kicks in and farmers are seeing a recovery in yields. Production, however, is not expected to expand rapidly, with growth expected to stay in line with world demand for Colombian output. Excellent weather reported in one key province could assure a further recovery in production next season.

Cumulative production this season is 9.288 million bags compared to 9.177 October-June a year ago. Cumulative shipments are 8.636 million bags up from 7.985 million, so the rise in exports has exceeded the gain in output. Colombia routinely produced upwards of 10 million bags during this same nine month period in the early 1990's.

### Colombian Oct-Jun Exports Stronger

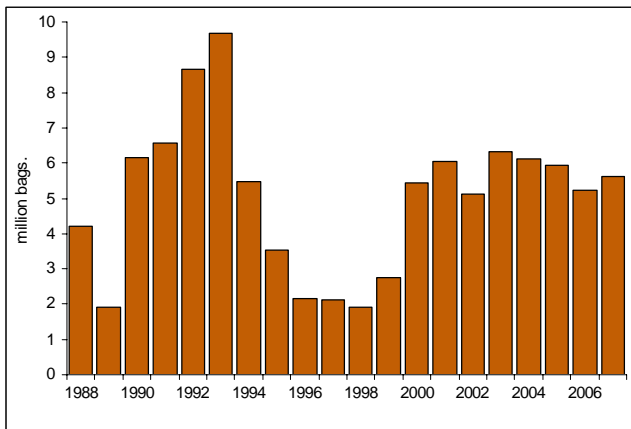


Source: FNC

The Green Coffee Association indicated that United States warehouse stocks fell by 74,420 bags to 5.602 million bags last month. In the past 20 years, coffee stocks have fallen just as many times as stocks have

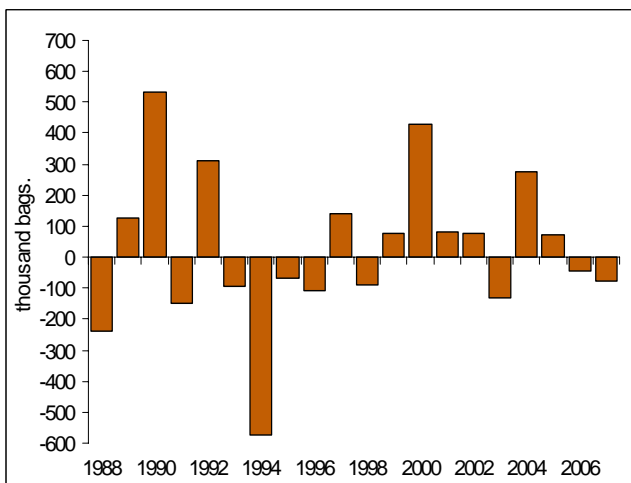
increased in the month of June, although in recent years the overall change in stock levels was relatively minor, just as it was this past month. Total US stocks are only moderately higher than they were last June despite the hefty volume of coffee that has been shipped this season. A year ago, warehouse stocks totaled 5.213 million bags, a difference of less than 400,000 bags. This is the second consecutive month that US warehouse stocks have fallen after rising during the first four months of the year.

US Warehouse Stocks Only Moderately Above Year Ago Levels



Source: GCA

US June Warehouse Stock Change Modest

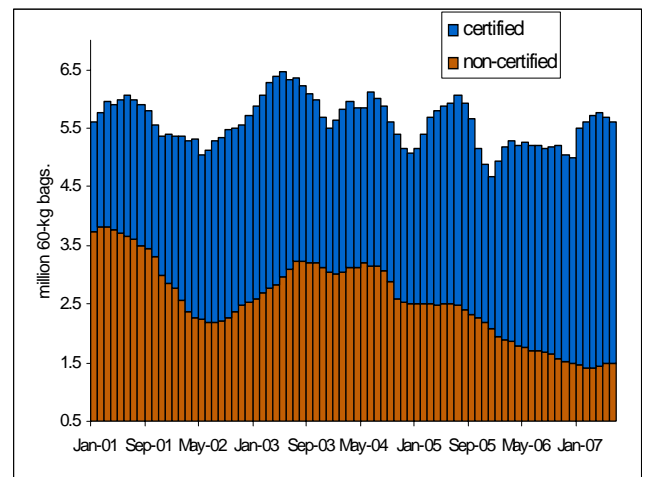


Source: GCA

In a reversal from the trend this past one and half years, it is the non-certified stocks that have been utilized rather than the certified stock portion of total US inventories. For months on end, the non-certified portion of US stocks had been climbing while the older, aged certified stocks had been sought after and utilized. This past month and in May that pattern was broken. In the past two month non-certified stocks have fallen from a peak of 4.330 million bags to 4.106 million. While still quite large, it is probably reflecting tighter Robusta supplies and the need to draw down these stocks following the sharp increase in Robusta prices relative to Arabica values. Non-certified stocks could be Robusta coffee, but also Brazilian and Other Mild coffee that either does not meet certification standards or was simply not graded for certification yet. Based on the data furnished by the Green Coffee Association, there is no way to distinguish how much of the non-certified coffee is actually Robusta, although it is generally assumed a large portion is.

It is clear from looking at the graph below that the seasonal "hump" or build in stocks is now over and going forward stocks should continue to be reduced. This is especially so given expectations for reduced exports from Brazil, Vietnam, and Peru in 2007-008. Last season stocks were generally flat during the off year in the crop cycle. For 2007-08 they should fall.

Non-Certified Stocks Starting to Fall



Source: GCA