J. GANES CONSULTING, LLC

Softs Weekly Round-up

May 10, 2007
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Brazil Coffee Exports Reflect Bigger Crop; Weather Watch Rekindles OJ Rally

What Has Changed?

- Dry weather and expectations for an active tropical storm season sparks OJ rebound
- Sugar prospects remain strong with output running ahead of ethanol demand
- USDA report should show cut in cotton exports
- Ivory Coast arrivals lagging year ago, but not by extraordinary amounts
- Brazil keeps shipping plenty of coffee, but it is being utilized. Robustas remain very tight.

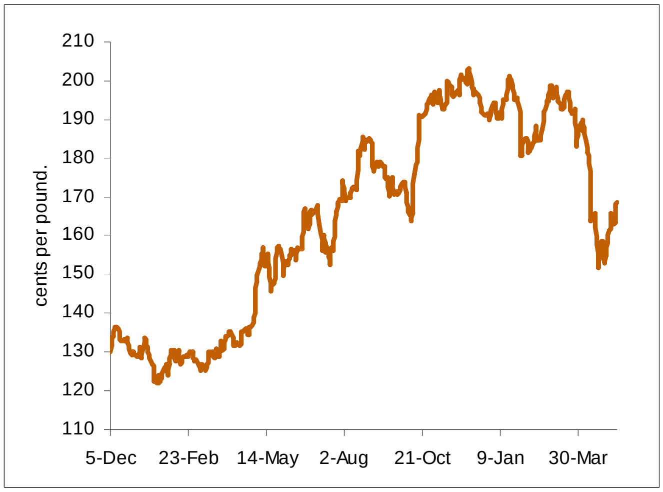
Projected Trading Ranges*

	Sugar	Coffee	Cocoa	FCOJ	Cotton
1-month	**Jul 07**	**Jul 07**	**Jul 07**	**Jul 07**	**Jul 07**
High	10.25	130.00	2000	165.00	54.00
Low	8.25	100.00	1700	135.00	46.00
Average	9.00	115.00	1800	143.00	49.00
Opinion	Negative	Neutral down seasonal	Negative	Negative	Negative
3-month	**Oct 07**	**Sep 07**	**Sep 07**	**Sep 07**	**Oct 07**
High	10.50	145.00	2000	160.00	57.00
Low	8.00	105.00	1650	125.00	47.00
Average	9.00	120.00	1775	135.00	51.00
Opinion	Negative	Neutral down seasonal	Negative	Negative	Negative
6-month	**Mar 08**	**Dec 07**	**Dec 07**	**Nov 07**	**Dec 07**
High	11.00	150.00	2050	160.00	60.00
Low	8.00	108.00	1700	125.00	50.00
Average	9.50	125.00	1800	130.00	53.00
Opinion	Negative	Positive	Neutral	Negative	Neutral

* Trading ranges can be used as a measure of where one could comfortably sell options with minimal risk taking into consideration the current fundamentals and potential range for a change, such as weather (notably coffee and cocoa) or other market moving events. A seemingly wide range (e.g., coffee) suggests that there are fundamental reasons to believe volatility could increase.

FCOJ Outlook

Weather Concerns Keep OJ Rally Going



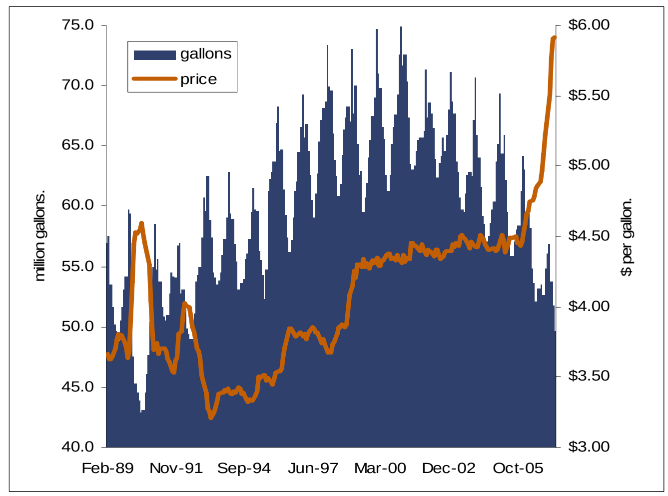
Source: FutureSource

The FCOJ market was taken by storm, so to speak; Tropical storm Andrea, that is. This is the first named Atlantic storm this season and EARLY, which is what really worried traders even though this system itself should not pose a threat to the Florida citrus belt. Meteorologists have cautioned though that this could be another extremely active season with more storms than usual and this coupled with ongoing dry weather concerns sent shorts scurrying for cover. The weather premium that is being built into the market could disappear just as quickly as it is occurring as long as there are no imminent real threats to the crop. As noted last week, all it will take are a few soaking showers to bring relief and prices should head back down.

Demand is terrible due to the strong prices being charged. The average price per gallon held steady from last month at $5.91, a gain of 24.6% from year ago levels and up 20.6% for the season year-to-date. Volume was down 14.6% in the past 4-week period compared to year ago levels and on a cumulative basis this season is off 11.4%. This indicates that demand continues to weaken and there is no relief expected as long as prices continue to be as expensive as they are. Total retail revenues dropped for the third consecutive month with the higher prices no longer compensating for the declining volume.

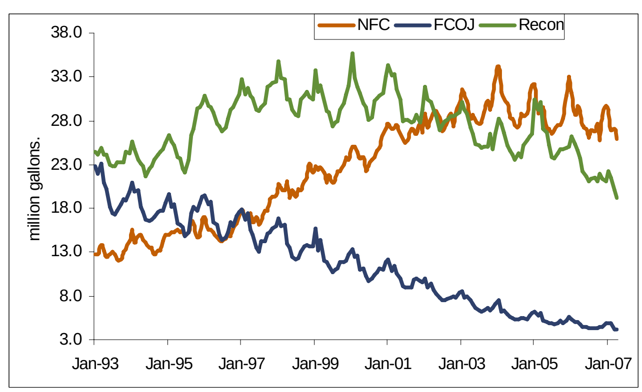
On a percentage basis, reconstituted OJ showed the steepest declines in gallon sales compared to other product forms although FCOJ prices had a stronger percentage increase. Not-From-Concentrate demand is the product form that is showing the slowest rate of decline relative to recon and FCOJ sales. The price spread between NFC and Recon narrowed somewhat from the wider levels seen the past two months, but still remains considerable with NFC capturing more than a $2.00 per gallon premium over Reconstituted products.

Retail Prices Way Up, Demand Way Down



Source: FDOC-AC Nielsen Scantrack data

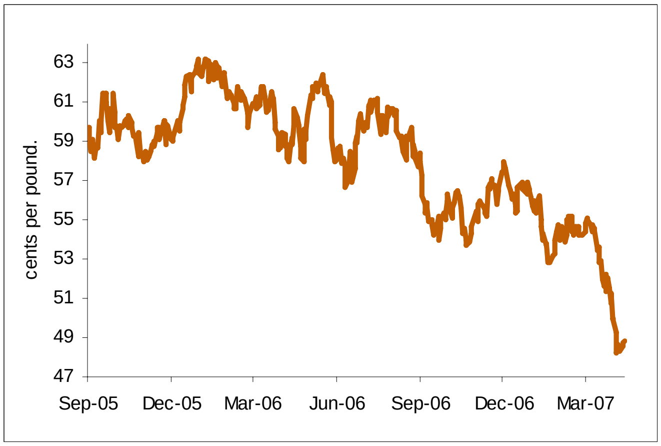
All Types of OJ Sales Falling



Source: FDOC-AC Nielsen Scantrack data

Cotton Outlook

Cotton Price Pressure Should Continue

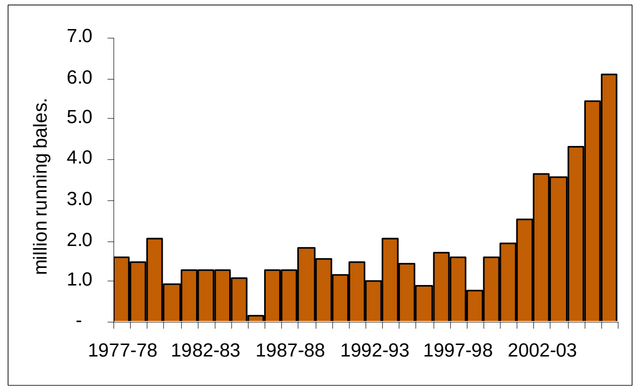


Source: FutureSource

The cotton market took a breather from the relentless selling that had pummeled the market sharply lower the past two months, but there still could be more room on the downside. Fundamentals remain bearish even though export sales have been strong. There simply isn't enough time to logistically ship all the cotton this year to meet the USDA export target and as a result, ending stocks will be enormous. The brisk sales pace will bode well for new crop cotton given the large amount of sales that will be carried forward into next year, but with stocks being piled high and production not likely to fall nearly as much as some believe, unless there is any unforeseen weather problem, the market should be in no hurry to see higher prices and choke off this flurry of interest.

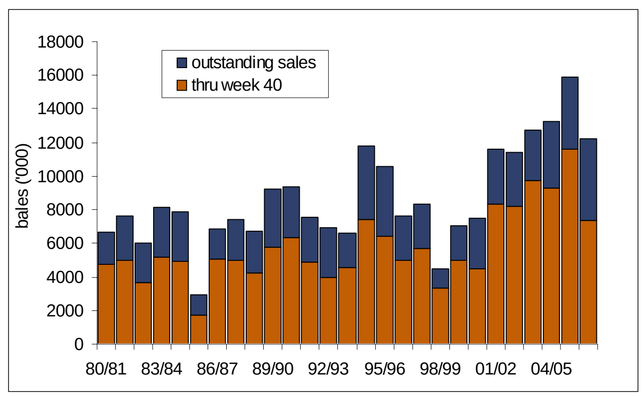
Export sales this week topped 533,000 bales with China a dominant buyer, but shipments continued to lag at only 354,000 bales, not nearly enough to meet the USDA export target. With each passing week, shipments are falling further and further behind and even more cotton would need to be shipped in the remaining weeks of the season to meet the USDA target, but it would be impossible for merchants to move this volume of cotton. With only thirteen weeks remaining in the season, export shipments will now need to average at least 469,000 bales per week to meet the USDA projection. There has only been seven weeks (ever) that merchants shipped this volume of cotton in one week, let alone for thirteen consecutive weeks. There might be enough sales on the books to meet the USDA projection, but it won't matter. On average at this point in the season, 75% of the cotton should be exported already but this season shipments have totaled only 54% of the estimate.

A Record Amount of Cotton Needs to be Shipped in Remaining Weeks of the Season



Source: USDA

Exports Falling Well Short of Sales



Source: USDA

The next USDA supply and demand report will be released tomorrow morning and the USDA should make another sharp slash in their 2006-07 projections. At a minimum 500,000 bales should be taken off the estimate but more than likely actual shipments could fall shy of the present estimate by 750,000-1.0 million bales. In addition, the USDA needs to trim the domestic figure as well. Ending stocks, as a result, should easily top 10 million bales, reducing the impact of a potentially smaller crop next season due to reduced plantings.

Sugar Outlook

Bears Abound in the Sugar Market

Source: FutureSource

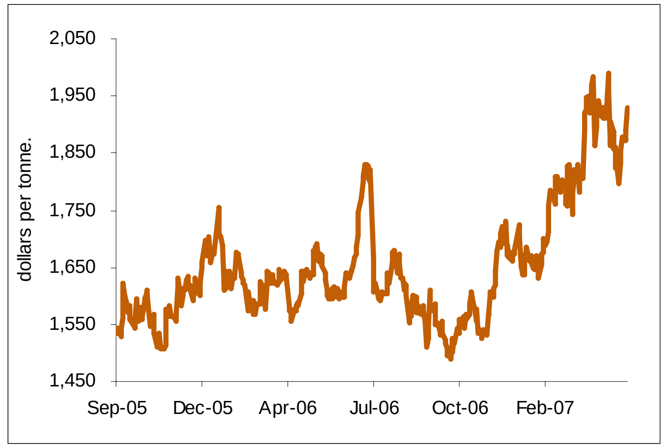
The sugar market has continued to find support around 9.00 cents but it should only be a matter of time before this floor gives way and the market sags even lower. Ultimately the market should slip at least another cent and it is conceivable that prices could call further than that depending on the outlook for next year's production.

While sugar continues to be linked to ethanol and the promise that cane will be diverted for energy use, the trouble is that this demand is not happening at a fast enough pace relative to the planned increases in output to gear up for this outlet. As a result, sugar production keeps growing and stocks are expected to continue to pile up. Brazilian mills are still constrained logistically as to how much of the production will be used for sugar and what quantity will go to ethanol output, yet the crop land devoted to cane keeps rising. Production prospects elsewhere seem just as promising with both India and Thailand now benefiting from favorable weather.

There is still doubt that proposed EU Sugar reform changes will have the desired effect of sharply reducing output. The Commission wants to have production reduced by nearly four million tonnes, but the incentives don't seem nearly enough to accomplish this, especially among less competitive producers.

Cocoa Outlook

Cocoa Shortfall Overplayed



Source: FutureSource

The cocoa market has been able to retrace from the lows, but it is doubtful the market will gather enough momentum to push into new high territory without any fresh impetus and more than likely will lose steam and slip lower once again.

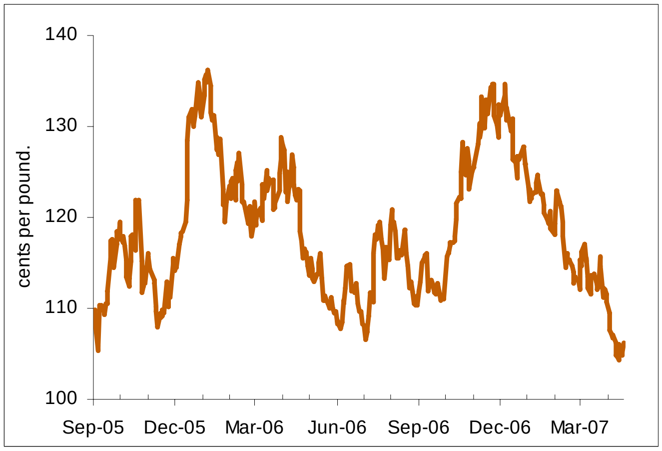
The pace of Ivory Coast arrivals is certainly behind last year, but not by nearly as much as traders had surmised they would be. It is still early on and last year's mid-crop kept flowing and flowing, but even considering that, the shortfall this season probably won't be as great as first feared. It rarely is, when it comes to cocoa production.

The weather has vastly improved giving a boost to the outlook for next season's harvests and without fear of a major production problem next season there is little to underpin the market on a fundamental basis.

Manufacturers have not extended their coverage and while this could become a hot bed for the market and create some sparks should they be forced to extend coverage, with the possibility of the supply situation improving, I don't the massive panic short covering rally that some have envisioned. Extended coverage for 2008 is not likely to be taken aggressively at present levels, but instead on pullbacks. Demand for cocoa products remains strong pushing butter and powder ratios up.

Coffee Outlook

Funds Too Short?



Source: FutureSource

The coffee market continues to struggle on rally attempts with the most encouraging news that the market hasn't crumpled under $1.00 yet. With a very reliable down seasonal just ahead, traders are a bit wary of getting too comfortable with recent support, even though fundamentally one can certainly justify the market finding a bottom close at hand. It could be that the market is in for a dull stretch of sideways trading as the near term ample supply situation is weighed against the prospect of a tightening in the balance sheet in the months ahead, mostly attributed to expectations for a strong drop in Brazilian 2007-08 output. Schools of thought on the size of this harvest still vary considerably with 35-38 million bags probably priced into the market and a harvest less than that now being a surprise.

The market has had to deal with a torrent of shipments during the first half of this season, and in fact, for the better part of the past year and the market has clearly focused on this supply. Yet, as noted repeatedly, the build in consumer stocks has been relatively benign in comparison, suggesting that demand is keen, particularly for Robustas. While conversations in trade circles and amongst roasters is that there is plenty of coffee available, the differentials for Brazilian and Robusta coffees have been firming and this would suggest otherwise for these origins. The situation is essentially the opposite of 1997. At that time, Arabica prices rallied while Robusta prices languished under the weight of a record Vietnamese crop. While once again Vietnam has harvested and shipped massive quantities, the market has easily absorbed this supply and London Robusta prices shot to new contract highs this week instead. The "kitchen sink" theory seems to be a reasonable explanation as to why demand suddenly seems so strong. When coffee was predominantly consumed at home or in the office using coffee makers that were not as consumer-friendly, the kitchen sink was one of the largest consumers. In the past decade, less and less coffee is wasted due to greater efficiencies in retail establishments and smaller serving size appliances. The underlying growth in usage (stomach shares/cups per day) was being masked by the reduction in the amount of coffee being poured down the drain. This transition phase is now past that point and the true underlying positive demand changes are now being realized. If the market was able to absorb several million more bags in the past six months, what happens in the coming six months when shipments are reduced?

The market had a little bit of a stir when some potential details of the Brazilian government put program were released this week, but the plan is not final yet. The upshot could be that producers will be subsidized over a 5-month period for about a million bags per month and this subsidy could serve as a floor to the market. It is not enough of an excuse, however, for the market to rally off of. Critics would argue that it puts more money potentially in the hands of the grower enabling them to buy more fertilizer, increase productivity, and lead to improved output. A common theme heard amongst producers is that costs have increased for nearly all inputs, but especially for labor. This holds especially true in Brazil, Vietnam, Colombia, and Central America. Shortages of pickers exist as laborers find other jobs either in the cities or building roads and other construction projects. Wages are going up. Current prices are not high enough to be an incentive to expand production in most countries. Although Brazilian 2008-09 production is already being touted as potentially being a massive crop, without an increase in plantings, achieving a record crop would require absolutely perfect growing conditions and therefore doubt output will surpass that of 2002-03. With demand up, this wouldn't be much of a burden to the market, as it was before.