

Softs Weekly Round-up

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Season's Greetings!

What Has Changed?

- FCOJ: Florida Escapes the Cold Felt Across Much of the US
- Cotton: US Mill Use Falls to All-Time Low
- Sugar: India Maintains There is Ample Stock Domestically to Cover Needs
- Cocoa: Market Races Higher on Supply Worries
- Coffee: Colombian Crop Figures Alarmingly Low

Projected Trading Ranges*

| | Sugar | Coffee | Cocoa | FCOJ | Cotton |
|----------------|----------------|----------------|----------------|---------------|----------------|
| 1-month | Mar 09 | Mar 09 | Mar 09 | Jan 09 | Mar 09 |
| High | 12.50 | 140.00 | 2800 | 85.00 | 50.00 |
| Low | 9.00 | 100.00 | 2000 | 65.00 | 37.00 |
| Average | 10.00 | 120.00 | 2450 | 72.00 | 42.00 |
| Opinion | Negative | POSITIVE | Neutral | Negative | Neutral |
| 3-month | May 09 | May 09 | May 09 | Mar 09 | May 09 |
| High | 13.00 | 165.00 | 2800 | 90.00 | 52.00 |
| Low | 9.00 | 105.00 | 2000 | 65.00 | 39.00 |
| Average | 10.50 | 125.00 | 2500 | 74.00 | 44.00 |
| Opinion | Negative | VERY BULLISH | Neutral | Negative | Neutral |
| 6-month | July 09 | July 09 | July 09 | May 09 | July 09 |
| High | 13.00 | 165.00 | 2900 | 90.00 | 54.00 |
| Low | 9.00 | 105.00 | 2200 | 65.00 | 41.00 |
| Average | 10.50 | 135.00 | 2600 | 75.00 | 46.00 |
| Opinion | Negative | Positive | Neutral | Negative | Negative |

* 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.

Other J Ganes Consulting Reports include "Coffee Weekly", "Coffee In-Depth", and "Cocoa In-Depth".

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FCOJ Outlook

Freeze Free Christmas in Florida



Source: *FutureSource*

Fundamentals for the FCOJ market remain pitiful and the action certainly reflects this. The weather in Florida is expected to be balmy over the holiday period with no threat of cold weather whatsoever in the upcoming 10 day period. Speculators sold the market down in reaction to this benign weather outlook. The market is sitting at the lows and ultimately should slice through 70 cents. If weather remains mild for another few weeks, this will probably happen rather quickly as there is a seasonal downswing that typically occurs in January as commercial interests place short hedges against the crop that is being harvested, adding pressure to the market. This is then compounded by speculators liquidating longs after the winter freeze prone period passes without incident.

A build in stocks is slowing occurring, which is normal for this time of year as the crop comes in and the volume of orange juice being processed exceeds weekly demand. The build-up would be even greater, except the volume of foreign imports remains smaller than year ago levels. It is not a function of the juice not being available if needed, but there is little demand for this additional product, with stocks as high as they are.

With retail prices high and the global recession showing no sign of letting up any time soon, the demand outlook remains poor.

Cotton Outlook

US Cotton Mill Use at Historic Lows



Source: *FutureSource*

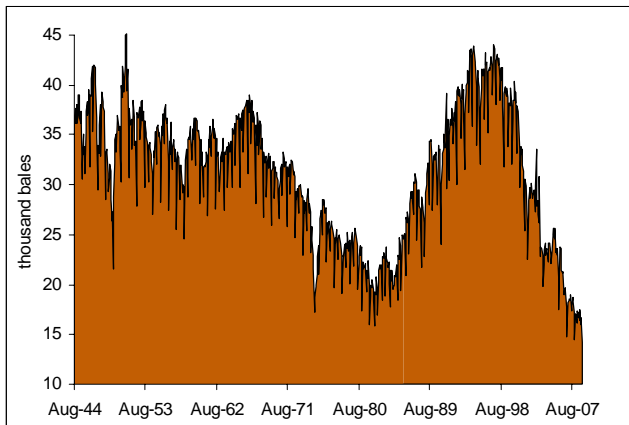
The cotton market has been trading water, but with continued terrible economic news and no change anticipated soon, despite the dropping of interest rates and bailout/stimulus programs, it's hard to be friendly to this market, no matter how low prices may seem.

The bad news continued. New and existing home sales dropped substantially in November and showed some of the largest year over year drops since the index started in 1968. Home sales are one of the key drivers for cotton, as this is typically when consumers indulge in new purchases of home furnishings. Data for retail sales has been poor, although preliminary numbers may not be as terrible as initially expected. Down is down and it's not helping to move cotton around the globe. A build up in supplies of semi-finished and finished goods is occurring as orders are canceled or postponed. China is feeling the brunt of this as they were the key buyer of much of the world's supply when demand was robust. China will be cutting output next season and that will help to ease some of the burden of slowing demand.

The US consumption figures were released by the Census Bureau and basically tell it all. Consumption of cotton on the US spindle system plunged to the lowest level on record, which dates back to 1944. On a non-adjusted daily rate mill use totaled only 14,274 bales compared to October's rate of 16,686 bales and year ago levels of 17,174. Even on a

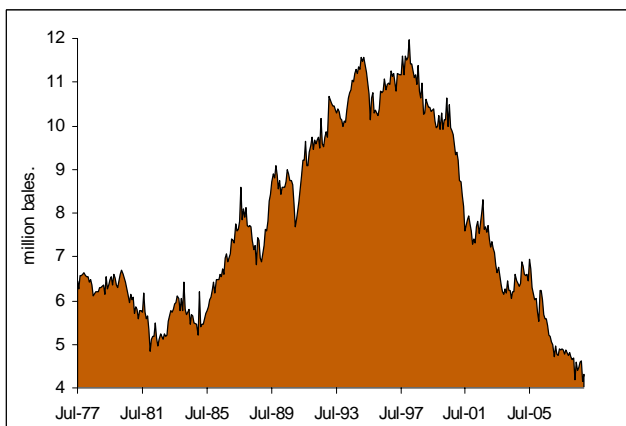
seasonally adjusted basis, the daily rate of consumption was at an all time low and seems primed to slip even further. On an annualized basis mill use is hovering just over 4 million bales, but it would not be surprising in the least if demand slipped below this. The tell tale sign that consolidation in the industry continues is the ongoing decline in the number of active spindles in place and the number of spindle hours worked. The number of spindles in place fell 10,000 from 1.289 million to 1.279 million but the number active dropped by 17,000 to 1.223 from 1.240 million. Wore yet was the steep decline in spindle hours which fell from 625 million to only 575 million. A year ago, spindle hours totaled 689 million.

Daily Mill Lowest in at Least 64 Years



Source: US Census Bureau

Annualized Cotton US Just Over 4 Million Bales



Source: US Census Bureau

Sugar Outlook

Market Slips Under 11 Cents on Weak Energy Prices



Source: FutureSource

The market had bumped into resistance over 12 cents earlier in the month and now seems to be riding out the end of the year under 11 cents. It wouldn't be surprising if the market soon challenged 10 cents as well. With energy prices falling, there isn't going to be a strong push for ethanol and that potentially frees up cane supplies that otherwise might have been diverted. Investment in ethanol has slowed due to restricted credit.

While a deficit is indicated for this season, relative to total world stocks of sugar the shortfall is not going to be jarring and create problems. There simply will be less of a surplus available. Tightness is not anticipated in any region, especially not in Asia, as Brazil can just as readily ship sugar there to fill any voids left by a smaller Indian crop due to the steep drop in freight rates in recent months.

I've written this on a regular basis, but feel it is important to continue to stress that because much of the growth in world consumption has been in developing markets the past several years; there is an increased sensitivity to prices, but also economics. In a period of global contraction with a deepening recession, sugar use could slow, bringing supply and demand closer to balanced than otherwise indicated in current estimates made by the trade.

Cocoa Outlook

Sluggish Arrivals Drove Prices Higher

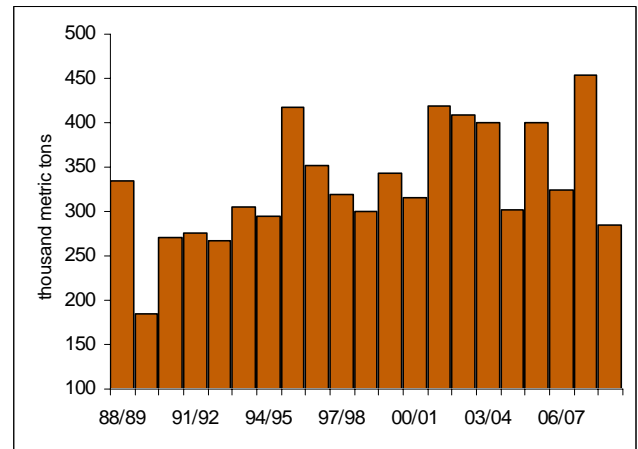


Source: FutureSource

The cocoa market sped higher this week, flashing Christmas green on the screen in an otherwise sea of red. The market has gone sky high on continued to worries about the Ivorian crop, but also fueled by talk of fund/trade house accumulating sizeable long positions in London and this drove the market even further in what should have been thin pre-holiday conditions.

Ivory Coast arrivals data continue to show a massive drop from year ago levels. While one can't really dispute the numbers the comparisons to last year, blow the problem way out of proportion. Last year's pace of arrivals was front loaded and the highest two and three month cumulative totals for the Ivory Coast crop in more than 20 years! Relative to the 2006-07 season, Ivorian arrivals are down far more modestly. The fact that quality is better this year than last, leads me to believe that arrivals shouldn't be as poor as the data suggests. The season started off on a bad note due to political problems with the new agency running the cocoa show and not having the list of exporters set and then strikes hampered the flow of cocoa. Couple these issues with some weather issues and disease and it is no surprise that arrivals are off as they are. The question is how much they will catch up as the season progresses? The weather has improved and farmers are hoping for a pick up later on in the main crop.

Ivorian Cocoa Arrivals Continue to Lag



Source: FutureSource, Reuters, BCC

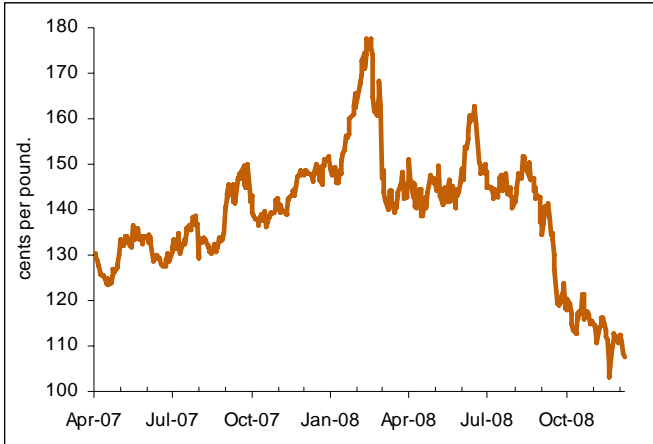
While a global recession may be curbing consumption of many items, chocolate demand has been only minimally tempered thus far. Perhaps with oil prices tumbling and other commodity prices falling, cocoa demand may not be hurt as badly as feared a few months ago. The risk is that with prices on the rise, manufacturers may opt to modify sizes of bars or put fewer chips in a cookie and that will reduce grindings even if final consumers aren't making a conscious effort to cut back. The past several years because of consumers switching their preferences to dark chocolate due to promoted health benefits and increased products being offered that are made of darker chocolate; demand for cocoa beans has gone up that much more due to the greater cocoa content in darker chocolate relative to milk chocolate. With the combination of extremely high prices and deepening recession, it would be astounding to see the level of cocoa grindings sustained, despite chocolates continued popularity.

The continued high prices are also bound to step up increased output, but this won't happen soon enough to alleviate supply concerns for this season or even next. Even India, a relatively minor producer has been increasing its productivity and aims to continue to boost production in the years ahead. So far, this has helped to cover rising demand for chocolate within India.

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Coffee Outlook

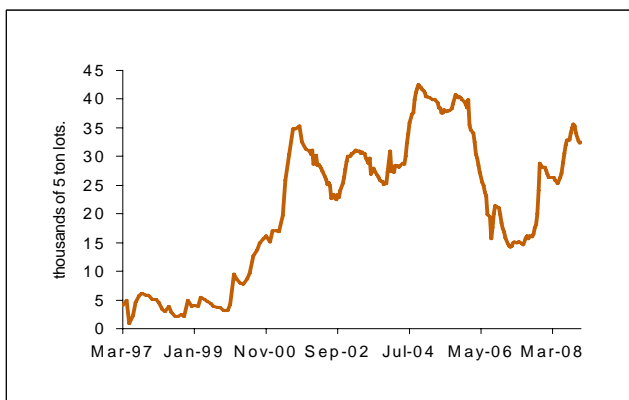
Colombian Crop Figures Extremely Low Last Month



Source: FutureSource

The coffee market continued to slump this week pressured by relentless speculative selling amid concerns about strong Brazilian exports and an ample Vietnamese harvest. The New York market though is responding to supply of non-deliverable coffee, whereas supplies of Mild coffee are getting noticeably tight. This is creating a two-tiered market with differentials for better quality coffee trading at stiff premiums to the Board. This is reducing the amount of certified coffee available as evidenced by routine withdrawals and the low level of stocks pending grading. On the other hand, Robusta certified stocks edged up by a scant amount in the past two weeks.

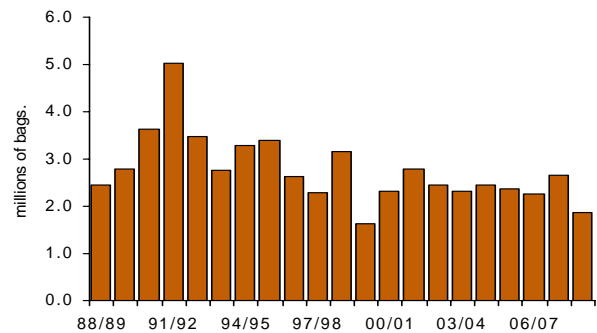
London Robusta Stocks



Source: Euronext Liffe

The big story though continues to be the small Colombian and the impact this is having on differentials and total availability of Mild coffee. Heavier than normal rainfall reduced the crop and now that harvesting of the main crop is well underway it is showing up in the production data released monthly by the Federation. The figures this month were startling compared to not only year ago levels but also historical comparisons. For October-November, production was only lower once in the past two decades. On a seasonal basis, this does not bode well for the Colombian crop. Based on average production for October-November compared to total output, production could be as low as nine million bags! However, assuming a pick-up later in the season and more bountiful mid-crop, which now accounts for a larger percentage of Colombia's total output, production is projected at just over 10 million bags. The USDA estimated the crop at 12.25 million bags and as cautioned at the time of the release, these figures would need to be lowered. Only once since 1988-89 has Colombian output dipped below 10 million bags. Average production is more than 11.45 million bags with record output at more than 17 million bags in 1991-92. The small Colombian crop is particularly disappointing because of rejuvenation efforts to help boost Colombian output to ensure that future crops meet rising world demand for this coffee. There is NO excess mild stock to cover the shortfall in Colombia in other producing nations. This will be a challenge for the market especially with others also seeing output trimmed.

Colombian Oct-Nov Output Extremely Low



Source: FNC