



CEO'S COMMENTARY

Basis prices had improved considerably in August reaching a 13-month high. This along with a falling exchange rate has been translated into more than favorable domestic market prices for almost all coffee forms, grades and classes. Total trading margin estimate had also increased further and as a result the domestic market in August was highly profitable for sellers.

Happy reading.

1. INDUSTRY PERFORMANCE

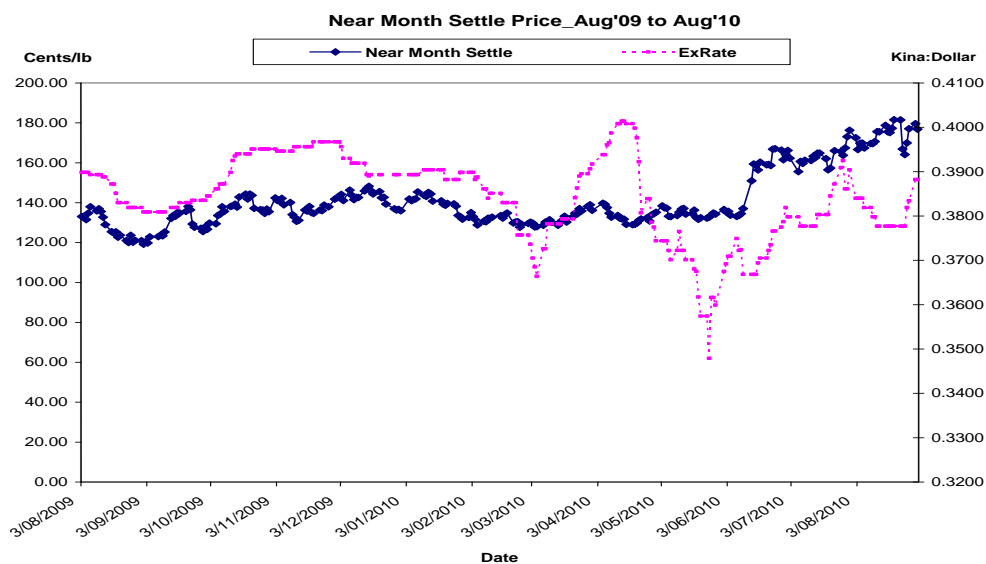
1.1 International Market

The coffee market continued to strengthen reaching 13-year highs in the month which saw Arabica futures prices putting on an additional 9.73 cents/lb or 6%. Prices ranged from a low of 164.10 to 181.55 cents/lb.

As is the case again, whenever there was a significant increase in futures prices during the trading day, profit taking capped the lid on matters. Really there were not that much good quality coffees around so a continued upward trend for a second consecutive month was inevitable.

In the physical market, trading had been mixed at first but then towards the end of the month picked up. This really was largely due to many roasters not having any choice and fretting that prices may move higher began to buy.

1.1.1 Chart: Arabica Futures (Aug'09 to Aug'10)



Domestic Industry

Again in August, the falling exchange rate along with the greatly improved basis prices has been translated into more than favorable domestic market prices for all coffee forms, grades and classes. As a result the domestic market in August was highly profitable for sellers.

1.2.1. Prices

Again for the second consecutive month, all form, grade and class prices have risen further. Cherry and parchment prices have increased by 1% and 6% respectively, whilst domestic green coffee prices have moved up an additional 5%. The all-grade weighted average FOB price however saw the largest increase, 9.8% more per kilogram.

1.2.2 Differentials

A mixed response in price differentials again last month as staple grade Y1 drops to -3.80 cents/lb and PSC also moving lower by 15% to +10.72. In the better qualities, X grade coffee improves 19% to +30.71 cents/lb whilst A grade drops 4% to +35.00cents/lb.

1.2.3 Marketing Margins

Formal trading (exporter-mill) margin has increased 11% in the last two months such that by the end of August its value was K5.35 with a 29:71 split respectively. Marketing margins as a share of FOB value are exporter 14%, dry mill 35% and parchment producers 51%. Cherry producers however in the month were able to get 67% of the FOB value whilst processor and exporter shares were 19% and 14% respectively.

1.2.4 Production

Revised July production estimate is 149,023 60kg bags GBE whilst provisional estimate for August is 95,040 bags.

1.2.5 Exports

Provisional export volume for August is 101, 820 60kg bags.

1.2.6 Export Earnings

Provisional value of coffees exported is K61 million.