



CEO'S COMMENTARY

A raging domestic market, thanks to the global shortage of mild quality coffees. Despite the lower export volume in the month, value of coffees exported improves considerably due to the generally higher basis price levels. Always good news for any origin producer, and it's our turn now, the PGK to US dollar rate is on a downward trend in the month. This means there are potentially good profit margins to be realized. Of note, the biggest market mover in the month was the all-grade weighted average FOB price moving up a massive 14% to K9.84 per kilogram, unheard of in such a short time span.

Join us in this bulletin as we review the month's market movements. Happy reading.

1. INDUSTRY PERFORMANCE

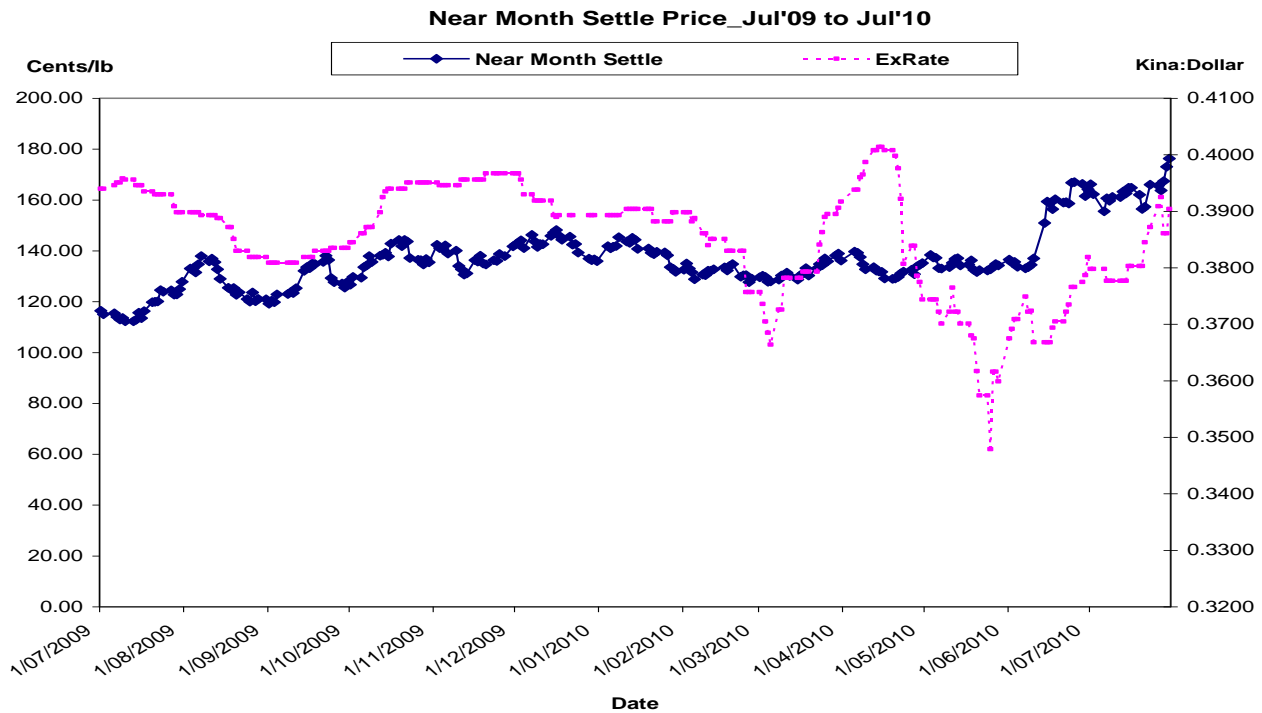
1.1 International Market

The price surge continues as July saw an additional increase of 12.67 cents/lb or a 8.4%. Arabica futures prices ranged from a low of 155.50 to 176.30 cents/lb

Always the case, following a price spike, funds and speculators cashed in on the profits in the first week of July. Overall it can be said that prices remained relatively range bound except towards the end of July when another mini spike was experienced. Not only has there been a shortage but the overall quality profile has been way lower than expected.

In the physical market, trading had been less active to stationary but this is the usual seasonal downturn. As a result price differentials have been little mixed to unmoved.

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



Domestic Industry

The falling exchange rate along with the greatly improved prices means there are potentially good profit margins to be realized in a raging domestic market, thanks to the global shortage of mild quality coffees.

1.2.1. Prices

In the local market, as was the previous month, all form, grade and class prices have risen further with major increases in the green coffee prices which rose 9%. Cherry and parchment prices have increased such that in two months they have put on 10% and 8% respectively. The biggest mover though was the all-grade weighted average FOB price moving up a massive 14% to K9.84 per kilogram.

1.2.2 Differentials

A mixed response in price differentials with small holder coffee improving. Y1 has increased considerably by 86% to -0.45 cents/lb and PSC up 58% to 12.68 cents/lb whilst the better grades X and A actually shedding 3.92% and 18.9% to be 25.72 and 36.51cents/lb respectively.

1.2.3 Marketing Margins

Formal trading (exporter-mill) margin further increases in July by 5% to K5.08 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 70% of the FOB value whilst processor and exporter shares were 16% and 14% respectively.

1.2.4 Production

Provisional production estimate for July is 64,497 bags.

1.2.5 Exports

Export volume however in the month has fallen 11% to 105,652 bags some 3% lower than the figure a year ago.

1.2.6 Export Earnings

Despite the lower export volume in the month, value of coffees exported improves 1% to K60 million as a result of better recently contracted prices.