



CEO'S COMMENTARY

A better performing month for the industry as the kina to US dollar exchange rate depreciates and price differentials improve moving market prices higher. In addition the usual seasonal surge in export and production volumes around this time of the year seems not to be abating and may continue into the fourth quarter, similar to what was seen in the last year.

Margins on the whole look to be favorable and as long as costs are kept at bay, there are significant gains to be realized.

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1. INDUSTRY PERFORMANCE

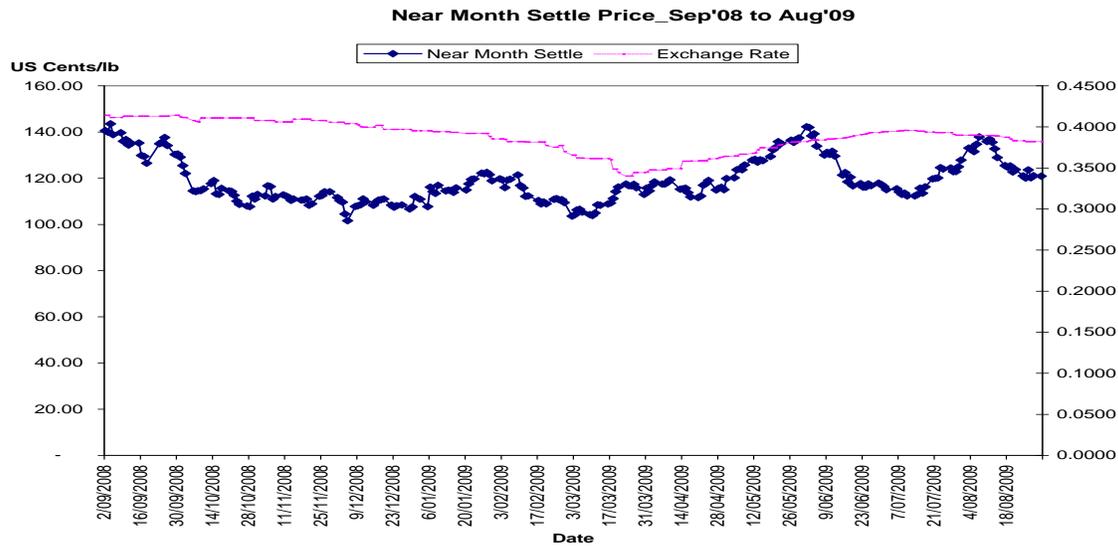
1.1 International Market

Near month settle prices were higher in the first half of August but then dropped to a level that was sustained for the rest of the month. Despite the lower market at month's end, Arabica futures price level was actually higher by 8% over July. Prices ranged from a high of 137.90 cents/lb (07/08/09) and a low of 120.05 cents/lb (25/08/09).

Trading was thinned out early in August as concerns arose about a shortfall in future supplies. This was given credence by reports of poor weather in Brazil affecting harvest and Vietnamese authorities forecasting a 15% drop in the coming crop. The market went up as a result in the first part of the month. Towards the end though, profit-taking by funds pushed the market down.

Typical for this time of the year, the physical market remained slow as the north was in summer with roasters just buying enough. But by the end of August a few roasters started buying small for winter requirements. As such differentials were pretty much steady throughout only to soften a bit at month' end. Interesting though is the fact that PNG Y1's have improved further to level money.

1.1.1 Chart: Arabica Futures (Sep '08 to July '09)



1.2 Domestic Industry

In the domestic market coffee prices improved over July and export volume was still high. In addition, stocks continued to build up in warehouse during the month.

1.2.1 1.2.1. Prices

Cherry prices have not followed but have instead dropped 2%. Parchment and green coffee prices have on the other hand increased by 5% and 6% respectively whilst weighted average FOB price increased by only 1% to K7.71.

1.2.2 Differentials

Small holder coffee differentials have improved with Y1 differential improving 2% to -5.19 cents/lb and PSC by 13% to +5.66 cents/lb. In estate coffees X grade differentials improved considerably by 37% to +25.50 cents/lb whilst A grade fell 17% to 31.85 cents/lb.

1.2.3 Marketing Margins

Total formal trading (exporter-mill) margin estimate in July improved 17% K3.61 with 32:68 split respectively. Marketing Margins as a share of FOB value were exporter, 14% and Dry mill 31% leaving the parchment producer with 55%. However Cherry producers in the month were able to get 71% of the FOB value whilst processor and exporter shares were 15% and 14% respectively.

1.2.4 Production

Provisional production estimates for July and August are 73,076 and 119,789 bags respectively. With one month to go in the coffee year, provisional production estimate stands at 863,351 bags whilst calendar year estimate (Jan'09 – Aug'09) stands at 698,968 bags.

1.2.5 Exports

Export volume in August fell 4% to 105,355 (60kg) bags and was actually 12% lower than export volume for August 2008. Calendar year export volume up to August is now 583,671 bags, still 15% lower than the export volume for same period in 2008.

1.2.6 Export Earnings

Value of coffees exported in the month fell 3% to K48, 768,222, and was 10% lower than August 2008's export value.

Enquiries should be directed to the CIC Public Relations Officer on phone 732 1266

YUMI LAUKAUTIM KOPI NA KOPI BAI LAUKAUTIM YUMI