



CEO'S COMMENTARY

A better month as the domestic market prices rallied in the festive season well in line with international market movements. As the year closes total export volume in 2009 is 1,026,931 60-kg bags and with improved revenues all-grades monthly price averaged K7.33.

Happy reading.

1. INDUSTRY PERFORMANCE

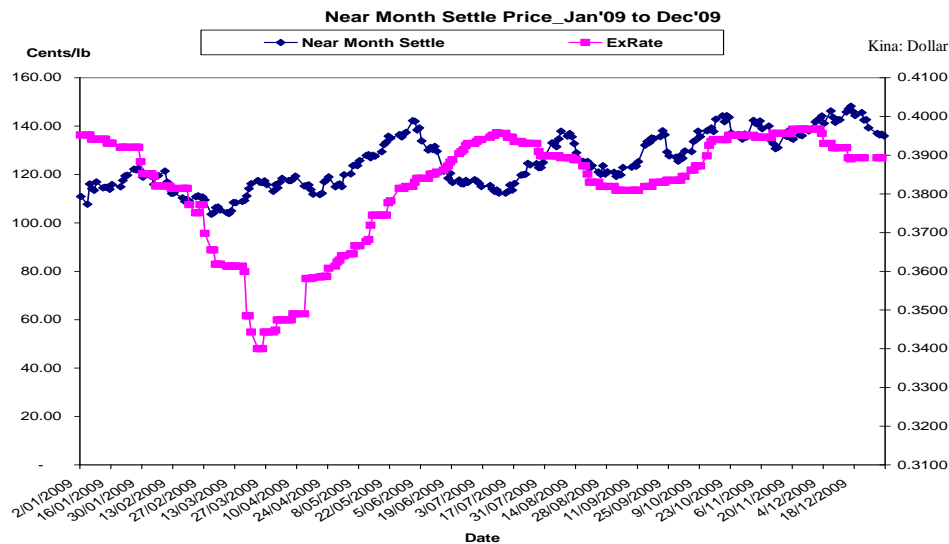
1.1 International Market

Near-month settle prices finished the month of December 4% higher. Prices ranged from a high of 148.20 cents/lb (16/12/09) and a low of 135.95 cents/lb (31/12/09).

Concerns over major coffee producing countries crop supplies for 2010 has had a real big effect on prices in December especially in the first three weeks of the month, which sent prices racing ahead. It is now certain that the Colombian and Central American coffee crop will be significantly lower in the coming year. Similar sentiment is expected to be confirmed for Brazil soon and so as expected, origins began flooding the market to try to take advantage of higher basis prices but this only seemed to bid up the value of the US dollar and what was said to be a bull run. By the third week of December prices had dropped again. Still some have attributed this break to lack of trading volume expected of the festive season dotted with a few fund liquidations.

In the physical market, roasters' buying was minimal with most contented with the stocks they had. Origins however, sure wanted to sell in the heat of the price surge. Differentials for Colombian and Central American coffees were higher reflecting shortage of these mild coffees.

1.1.1 Chart: Arabica Futures (Jan'09 to Dec'09)



Domestic Industry

1.2.1 1.2.1. Prices

In line with the international bullish run in December, domestic market prices have rallied. Cherry, parchment, and green coffee prices have all risen by 1%, 3% and 2% respectively whilst the weighted average FOB price had jumped considerably to K7.86 per kilogram.

1.2.2 Differentials

Export coffee grades differentials for major grades Y1 and X have disintegrated however to -7.38 cents/lb and +12.50 cents/lb respectively. On the other hand, differentials for PSC and A grades coffee grades have firmed to +3.14 and +26.34 cents/lb respectively.

1.2.3 Marketing Margins

Formal trading (exporter-mill) margin improved 7% in December to K3.85 with 34:66 split respectively. Marketing margins as a share of FOB value have also improved for exporter and dry mill at 16% and 30% respectively whilst parchment producers' have dropped a notch to 54%. Cherry producers however in the month were able to get 72% of the FOB value whilst processor and exporter shares were 12% and 16% respectively.

1.2.4 Production

Provisional production estimate for December is 46,746 bags and Provisional total for Calendar year 2009 is 1,102,491 bags.

1.2.5 Exports

Export volume in the month fell 36% 76, 746 (60kg) bags but was actually 16% better than the volume for December 2008 bringing total export volume in 2009 to 1,026,931 (60kg) bags, which is 6% lower than that total exports for 2008.

1.2.6 Export Earnings

Value of coffees exported in the month fell 34% to K36, 206, 221.