Coffee Vietnam Intelligence

Week 2, May 13, 2011

HIGHLIGHTS

- ✓ There is no sign of reduction of mealybugs
- ✓ Many growers in Central Highlands replace coffee trees as pepper trees
- ✓ Prices of fertilizers greatly rise due to increasing demand
- ✓ Domestic and world prices decline due to supplies loosening
- ✓ Outlook for domestic and world coffee markets

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AGROINFO

I. Domestic markets

1.1 Production

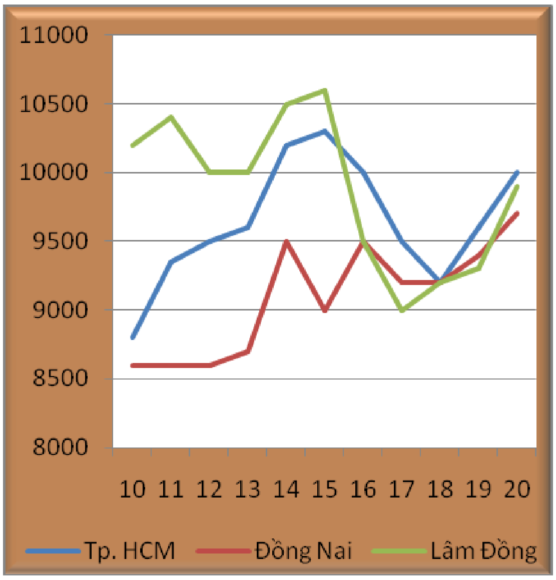
Central Highlands' coffee output faces difficulties to increase as expected in 2011/201 crop year

Recent days, Central Highlands' coffee has been seeing heavy rains with around 40-50ml of rainfall. Heavy rains take the growth of coffee trees into advantages, especially insecticides. However, according to farmers, this year, rains do not prolong but focuses within only 1-2 days; therefore, amount of mealybugs on coffee cherries, destroyed by rains, is small. As calculated, in Dak Lak, the area infected mealybugs presents about 10-15% of its total coffee-growing area, especially in some districts as Knong Na, infected area is up to 45-50%.

Now, in Dak Lak, according to local farmers, unfavorable weather such as off-season rains in February causing rotten flowers, make many households in Dak Lak decide to cut down coffee trees to grow pepper trees instead. The district having largest pepper-growing area, which used to be grown coffee, is Thong Nhat with nearly 50% of replaced area.

1.2 Prices of input materials

Figure 1: Weekly price movements of Urea fertilizer in some domestic markets in 2011 (Unit: VND/kg)



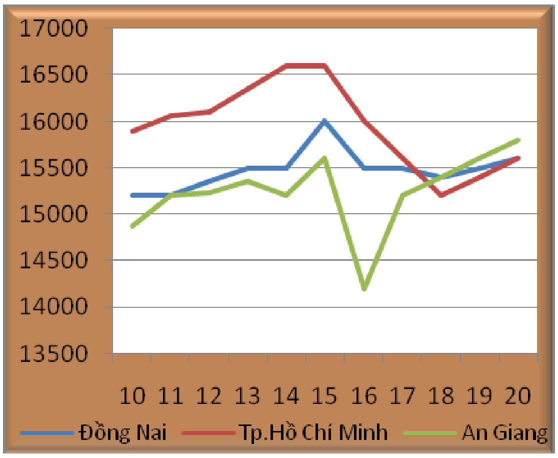
Source: AGRODATA

In domestic markets, both world price escalations and increasing demand in Northern – Center – Southern markets Urea influence prices; therefore, weekly prices rise in almost markets from VND 400 – 600/kg on average. Mekong Delta is coming to summer-fall crop, which is considered the most difficult crop in the year due to growth of pests and diseases. Thus, demand in fertilizer slightly increases. In such provinces as An Giang, Tra Vinh, the prices rise VND 200/kg on average.

Following this trend, in Southern provinces, prices of Urea fertilizer also rise VND 400/kg on average, in which, Lam Dong witnesses the highest increase, up 6.45% to VND 600/kg against last week. In Northern markets, rising demand in fertilizer for winter-spring rice brings about escalations in many localities. In Hanoi, Urea prices rise VND 500/kg, equal to 5% over the prices last week.

This week, Ministry of Industry and Trade makes a forecast that fertilizer prices would rise in May and June, mainly because of increasing demand while stockpiles are low. According to the Ministry, world fertilizer prices are increasing due to many countries' demand, especially in Northern America. It also leads to escalations in fertilizer prices in the coming time.

Figure 2: Weekly price movements of DAP fertilizer in some domestic markets in 2011 (Unit: VND /kg)

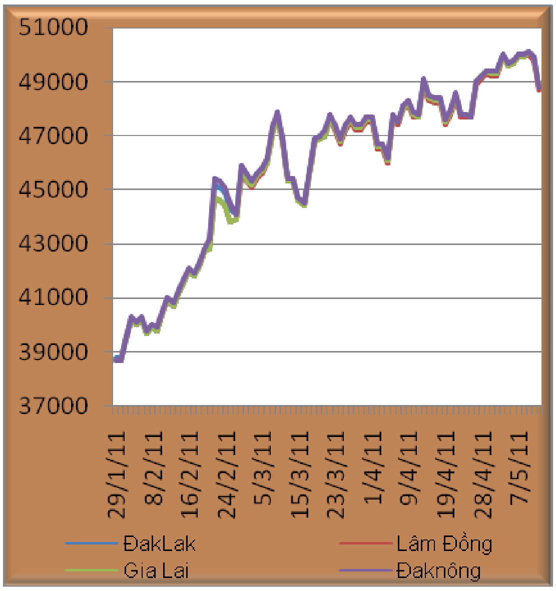


Source: AGRODATA

This week, DAP prices slightly rose in many localities with VND100-300/kg. In Ho Chi Minh and Dong Nai, the prices increased VND 200-100/kg to VND 15600/kg respectively. The prices have been increasing for the last 3 weeks, it is expected to continue this trend within the next 2 months.

1.3 Domestic and export prices of coffee

Figure 3: Daily price movements of coffee in some domestic markets (Unit: VNĐ)



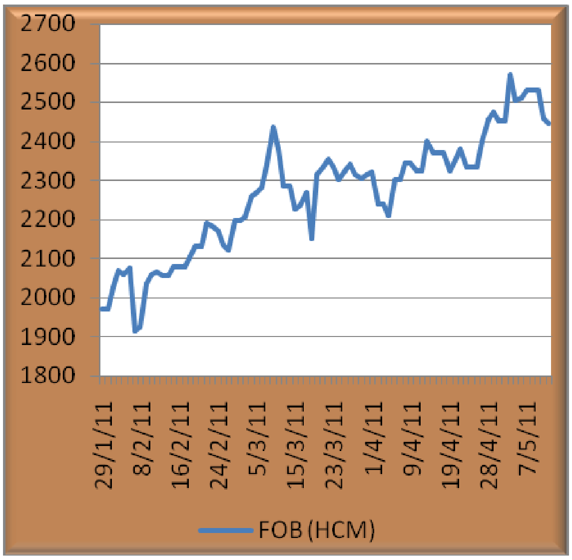
Source: AGRODATA

This week, average coffee prices were lower than those of last week, down VND 260/kg, but higher than average prices of last month, up VND 1,507/kg.

In early week, domestic coffee prices made a record with VND 50,100/kg; however, right after that, the prices started to drop in the session on May 11 with VND 300/kg due to the information that Brazil would sell 1.55 million bags from its stockpiles. The information that coffee output in Brazil and Vietnam would increase in 2011/2012 crop made the trend steady. At the weekend, the prices finished at VND 48,700 – 48,800kg.

Although, many information steadily making domestic coffee prices decrease, like demand in Robusta higher than in Arabica, the crop in Vietnam is facing risk of decrease in output due to pests and diseases. However, information about rising demand in Brazil in the coming time has significantly influenced prices in coffee markets. It shows that the prices are hard to break the record in this week in short term.

Figure 4: Price movements of coffee exports in HCM City (Unit: USD/ton)



Source: AGRODATA

Since reaching $ 2,530/ ton on May 7, prices of Vietnam's coffee exports has begun to slump and there is no sign of recovery until the weekend. At the weekend, the prices dropped to the lowest level within the last 2 weeks, reaching $ 2,440/ ton, down $ 90/ ton equal to 3.56% against those in early week.

In the coming time, as Brazil sells coffee from its stockpiles, being afraid of increasing supply, brokers will sell their products. It will cause pressure dropping the prices of world and domestic coffee.

II. World markets

2.1 Production

Many countries' exports greatly increase in April.

Uganda exported 176,561 bags in April, up 23,921 bags against the same period last month.

Total amount of coffee exported from Brazil in April is 2.44 million bags, up 2 million bags over the same period last year.

Harvests in some countries

Prolonged rains in March and April slow down harvest times of Brazil's Robusta from 15 to 20 days as predicted. Late harvest will drop the output around 20-30% against the same period last year. However, quality of this crop is expected further than that of last year. According to a representative of Cooxupe, the largest cooperative in Brazil, their farmers started to harvest in lower and warmer area, they would harvest the rest area at the end of May. As estimated by Brazil's government, coffee output in 2011/2012 crop year would gain around 41.9 - 44.7 bags, down against 48.1 million bags in last crop year, up against 39.5 million bags in 2009/2010 crop year.

According to Reuter on May 10, coffee harvested in such countries as Southern and Western Africa is witnessing many positive movements despite concerns about impacts of drought.

In Columbia, thousands of coffee trees die of floods.

Rains in April caused landslides and made thousands of coffee trees in Ismael Garcia of Colombia, damaging a great amount of coffee output in this crop year.

In Vietnam, coffee exports will drop in May.

In May, Vietnam's coffee exports is predicted to decrease 80 – 100 tons, lower than 130 tons exported in April due to low stockpiles after a huge exports in March and April.

Low amount of coffee exports from Vietnam will narrow the supply in markets; and therefore the prices will continue its rising trend in May.

Statistics show that Vietnam's coffee exports in April dropped 160,600 tons against March. As predicted by traders and based on export data in Apr, Vietnam will export at least 1.02 million tons or 17 million bags in 2011/2012 crop year. This crop year, Vietnamese output is predicted to be around 23-24 million bags, up 2-3 million bags against last crop.

Output of Vietnam's coffee in 2011/2012 crop is forecast to increase.

"Although source of water for this crop year is limited, due to investment in cultivation, coffee output in this crop year might slightly increase", said Luong Van Tu – Chairman of Vietnam Coffee and Cacao Association. Vietnam's farmers are widening their Robusta coffee-growing area to two neighboring countries: Cambodia and Laos, which will raise the supply of Robusta coffee from Vietnam in the coming years. Besides, the supply-demand picture still makes growers exciting to grow and sell coffee.

World markets will face shortage of coffee in 2011/2012 crop year.

As analyzed by Coffee Network: "world markets will face shortage of coffee in 2011/2012 crop year with a supply of 131 million bags while total demand is 135 million bags".

Also according to Coffee Network: "Many companies decide to mix Robusta coffee and will buy low-quality Arabica if possible, rising demand in China and Brazil increases rate of Robusta consumption to 38%".

According to International Coffee Organization (ICO), total amount of coffee consumption in world markets in 2010 increased 2.4% against 2009 and gained 134 million bags while harvested output was only 133.1 million bags.

Brazil is going to sell 1.55 million bags of coffee.

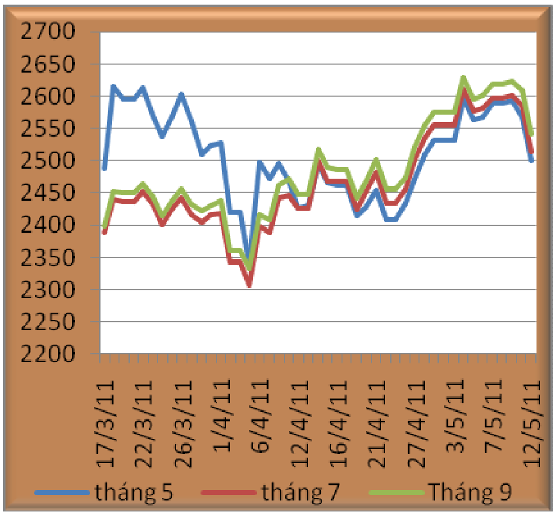
According to Reuter on May 9, Brazil will gradually sell 1.55 million bags of coffee stockpiled from 2009. "We will sell with low speed aimed at preventing strongly impacts to markets. Our target is selling out this amount of coffee within this year and next year, said an officer in Brazil.

Brazil raises its forecast about coffee output in 2011/2012 crop year.

Minister of Brazil's Ministry of Agriculture and Rural Development has just made the latest forecast about coffee output in 2011/2012 crop year to 44.7 million bags, significantly higher than the previous number in January with 41.9 million bags.

2.2 World coffee prices

Figure 5: Futures price movements of Robusta coffee at London exchanges (Unit: USD/ton)

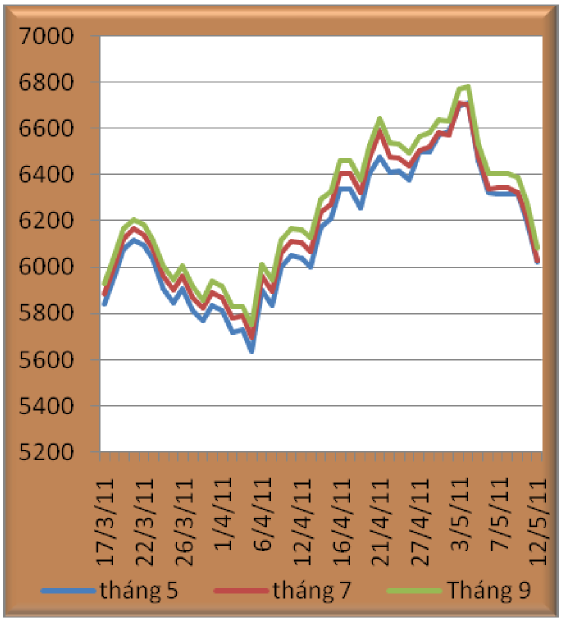


Source: AGRODATA

In early week, prices of Robusta at London exchanges continued its increasing trend similar to the previous week, up $ 4/ ton reaching $ 2,594/ ton and $ 2,602/ ton regarding May delivery and July delivery. However, after that, the prices gradually dropped, mostly in the session on May 12, July futures price dropped $ 71/ ton, equal to 2.75% within one day. July futures price finished the session at the weekend down $3/ ton, Sep futures price maintained at $ 2,541/ton. Especially May futures price, it rose $ 5/ ton due to unfavorable weather in two countries producing Robusta coffee: Vietnam and Indonesia, leading to a decline in output in the coming crop. Besides, Brazil's Ministry of Agriculture and Rural Development also announced that its Robusta coffee harvest was delayed two weeks due to unfavorable weather. The information has influenced positively May delivery price, making it recover at the weekend, up 0.2% against the price in the session on May 12.

Although the prices in world coffee markets in general are under pressure of price decrease due to supplies loosening, the information about increasing demand in Robusta in world markets might positively affect the prices at London exchanges in the coming time.

Figure 6: Futures price movements of Arabica at New York exchanges
(Unit: USD/ ton)



Source: AGRODATA

After making a record on May 3 with $ 3,782/ton for Sep delivery, the prices of Arabica have begun to drop for the last two weeks to $ 97.9/ ton for May delivery and $ 99.8/ ton for Sep delivery.

This week, due to amount of coffee supplied by Brazil, the prices are strongly affected, sharply dropping to $ 61/ ton for May delivery and $ 63/ ton for July delivery on average. At the weekend, futures price for May delivery was only $ 6,023/ ton, down $ 685/ ton against the record made in May 3. In the coming time, supply of Arabica in world markets is expected to increase, making the prices of Arabica at New York exchanges difficult to recover.

III. Outlook for markets

3.1 World markets

In short run, abundant supply from Brazil's stockpiles will partially decline world coffee prices. However, shortage of supply due to wet weather, affecting drying in Indonesia and disadvantages such as pests, diseases in Robusta production in Vietnam in this crop year still worries brokers that the supply will decline while demand is increasing. Therefore, in long run, it is forecast that world coffee price is likely to increase continuously.

3.2 Domestic markets

Domestic prices made a new record, making farmers boldly sell coffee with huge volume. As calculated, amount of coffee stored in households is around 10%. However, stable supply of Robusta in short-run, if without any great changes of the U.S dollar, domestic prices are hardly to strongly increase like this week.

IV. Appendix

4.1. Weekly prices of green coffee in some domestic markets (Unit: VND 1000/kg)

Week	DakLak	Lam Dong	Gia Lai	Daknong
29/4/11	49400	49300	49400	49400
30/4/11	49400	49200	49300	49400
3/5/11	49400	49200	49300	49400
4/5/11	50000	49900	49900	50000
5/5/11	49700	49600	49600	49700
6/5/11	49800	49700	49700	49800
7/5/11	50000	49900	49900	50000
9/5/11	50000	49900	49900	50000
10/5/11	50100	50000	50100	50100
11/5/11	49900	49800	49900	49900
12/5/11	48800	48700	48800	48800
13/5/11	48800	48700	48800	48800

Source: AGRODATA

4.2. Daily export prices in Ho Chi Minh City (Unit: USD/ ton)

Date	6/5/11	7/5/11	9/5/11	10/5/11	11/5/11	12/5/11	13/5/11
FOB (HCM)	2510	2530	2530	2530	2460	2445	2440

Source: AGRODATA

4.3 Robusta coffee futures prices at London exchanges (Unit: USD/ton)

Date	May	July	September
3/5/11	2531	2555	2575
4/5/11	2598	2611	2629
5/5/11	2564	2577	2596
6/5/11	2567	2582	2602
7/5/11	2590	2598	2620
9/5/11	2590	2598	2620
10/5/11	2594	2602	2624
11/5/11	2567	2585	2609
12/5/11	2500	2514	2541
13/5/11	2505	2511	2541

Source: AGRODATA

4.4 Arabica coffee futures prices at New York exchanges (Unit: USD/ton)

Date	May	July	September
3/5/11	6700	6712	6772
4/5/11	6708	6706	6782
5/5/11	6463	6477	6533
6/5/11	6325	6342	6403
7/5/11	6315	6347	6404
9/5/11	6315	6347	6404
10/5/11	6315	6323	6387
11/5/11	6197	6217	6280
12/5/11	6023	6027	6083
13/5/11	6027	6049	6111

Source: AGRODATA

4.5 Robusta coffee prices in the U.S. and Europe markets (Unit: USD/ton)

Date	USA	Europe
02/05/11	2765	2657
03/05/11	2820	2710
04/05/11	2787	2687
05/05/11	2787	2687
06/05/11	2803	2711
09/05/11	2809	2698
10/05/11	2792	2690
11/05/11	2721	2627
12/05/11	2721	2605

Source: AGRODATA

4.6 Prices of Colombia Milds in the U.S. and Europe markets (Unit: USD/ton)

Date	USA	Europe
02/05/11	7194	7400
03/05/11	7222	7334
04/05/11	7007	7090
05/05/11	6892	6933
06/05/11	6875	6961
09/05/11	6831	6945
10/05/11	6765	6856
11/05/11	6628	6684
12/05/11	6666	6649

Source: AGRODATA

4.7 Weekly prices of Philippines' DAP fertilizer on average in some localities (Unit: VND 1000/kg)

Week	Dong Nai	Ho Chi Minh	An Giang
10	15200	15900	14880
11	15200	16067	15200
12	15350	16100	15233
13	15500	16350	15350
14	15500	16600	15200
15	16000	16600	15600
16	15500	16000	14200
17	15500	15600	15200
18	15400	15200	15400
19	15500	15400	15600
20	15600	15600	15800

Source: AGRODATA

4.8 Weekly Urea prices on average in some localities (ĐVT: VND 1000/kg)

Week	Ho Chi MInh	Dong Nai	Lam Dong
10	8800	8600	10200
11	9350	8600	10400
12	9500	8600	10000
13	9600	8700	10000
14	10200	9500	10500
15	10300	9000	10600
16	10000	9500	9500
17	9500	9200	9000
18	9200	9200	9200
19	9600	9400	9300
20	10000	9700	9900

Source: AGRODATA