

VM Group research for Fortis Bank Nederland

The Agricommodities Monthly

February 2010

Fortis Bank Nederland

Coffee Quarterly

VM GROUP

The Agricommodities Monthly is produced as part of a joint venture between Fortis Bank Nederland and VM Group

Welcome to Fortis Bank Nederland's Agricommodities Monthly. This monthly report is intended to inform, educate and stimulate debate for the bank and its customers, especially those who have an interest in the respective commodity markets. This month we focus on the global coffee market and look ahead to prospects for the 2010-2011 season.

On a quarterly rolling basis we will provide in-depth analysis of three important agricommodities – cocoa, coffee and sugar – together with an overview of the other commodity markets included in this report. All feedback is welcome and we would encourage you to please circulate the report among your colleagues.

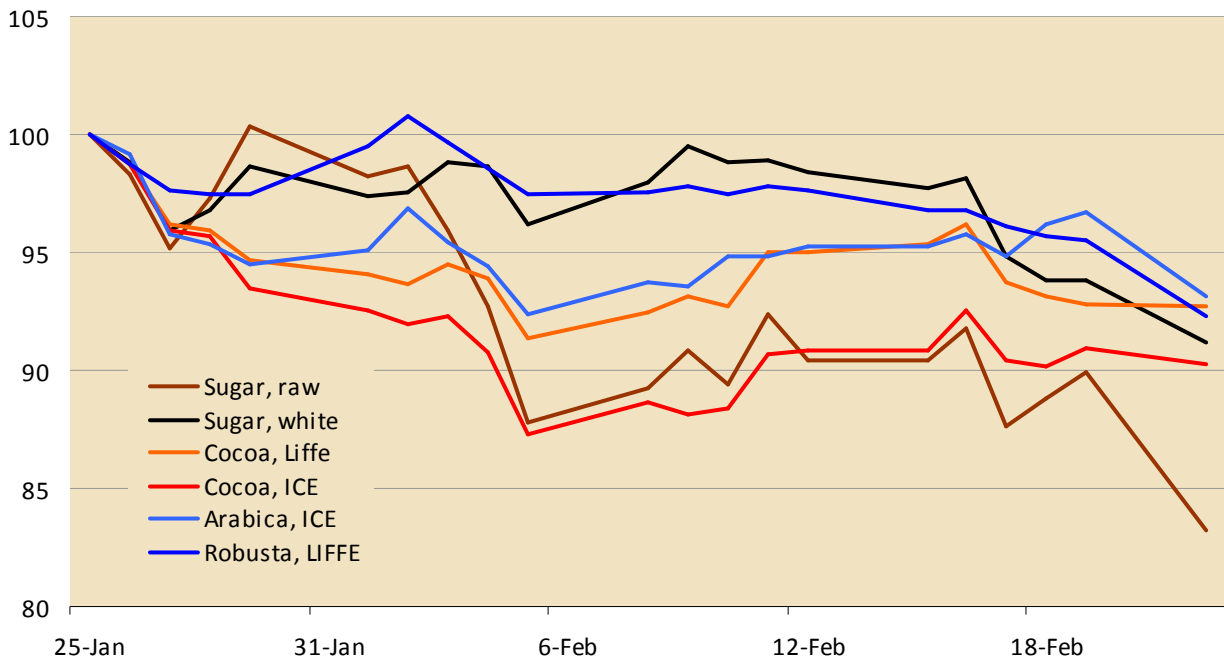
VM Group analysts

- **Gary Mead**
 - tel: +44 (0) 20 7569 5930
 - email: gary@vmgroup.co.uk
- **Matthew Turner**
 - tel: +44 (0) 20 7569 5934
 - email: matthew@vmgroup.co.uk
- **Justine White**
 - tel: + 44 (0) 20 7569 5937
 - email: justine@vmgroup.co.uk

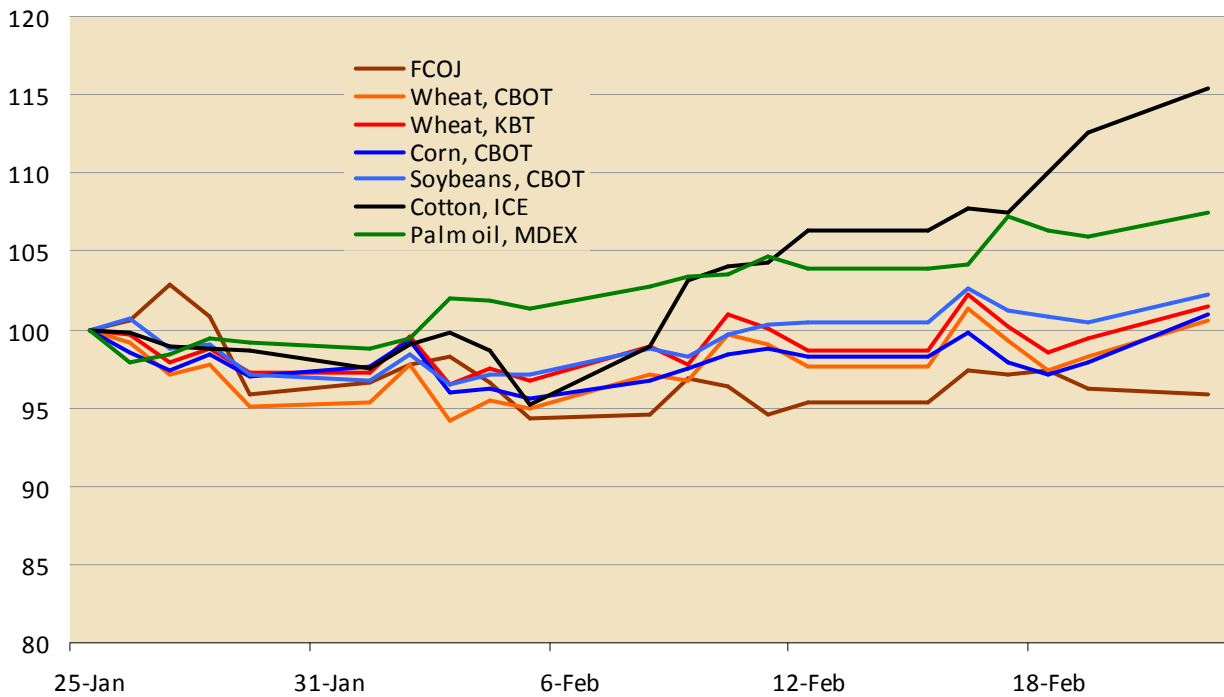
Contents

Feature: Commodities and Fortis Bank Nederland.....	4
Coffee Quarterly	4
Weather watch	21
Cocoa.....	22
Sugar.....	24
Wheat & Corn	26
Palm oil & soybeans.....	27
Frozen concentrated orange juice	28
Cotton and wool	29
Fund activity	30
CFTC positions	31
About VM Group.....	33
VM Group disclaimer and copyright	34
Fortis Bank Nederland disclaimer and copyright.....	35

Selected agricommodity prices in the past month: near-term contract, re-based to 100 at start-month

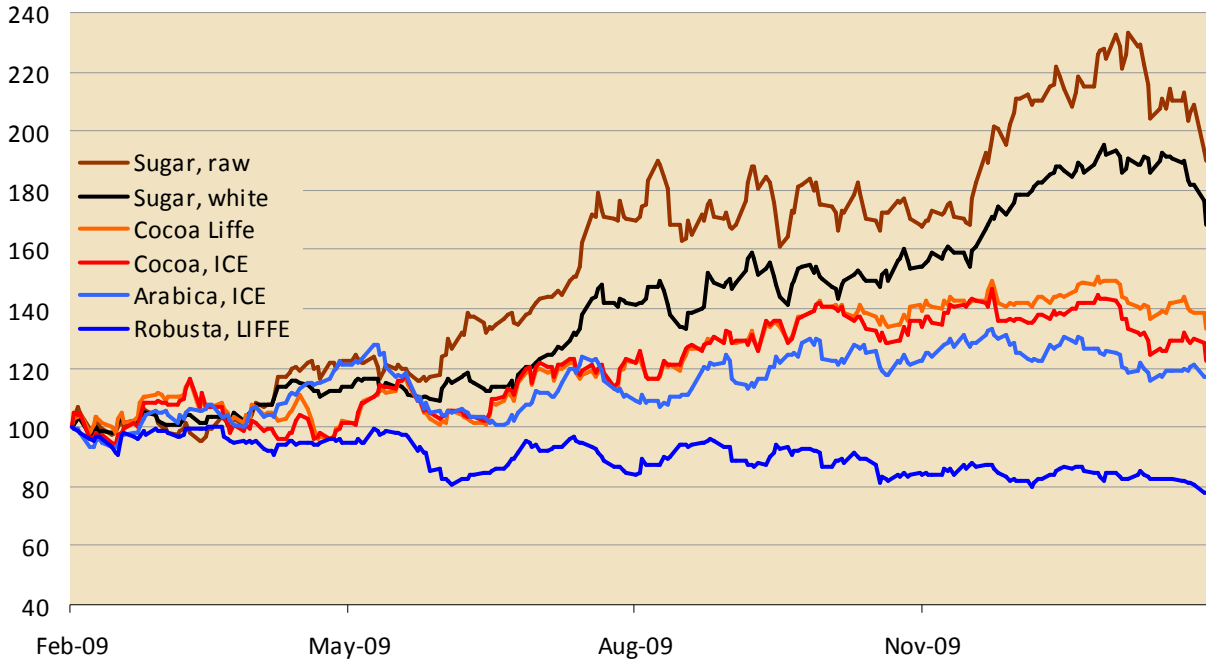


Source: VM Group

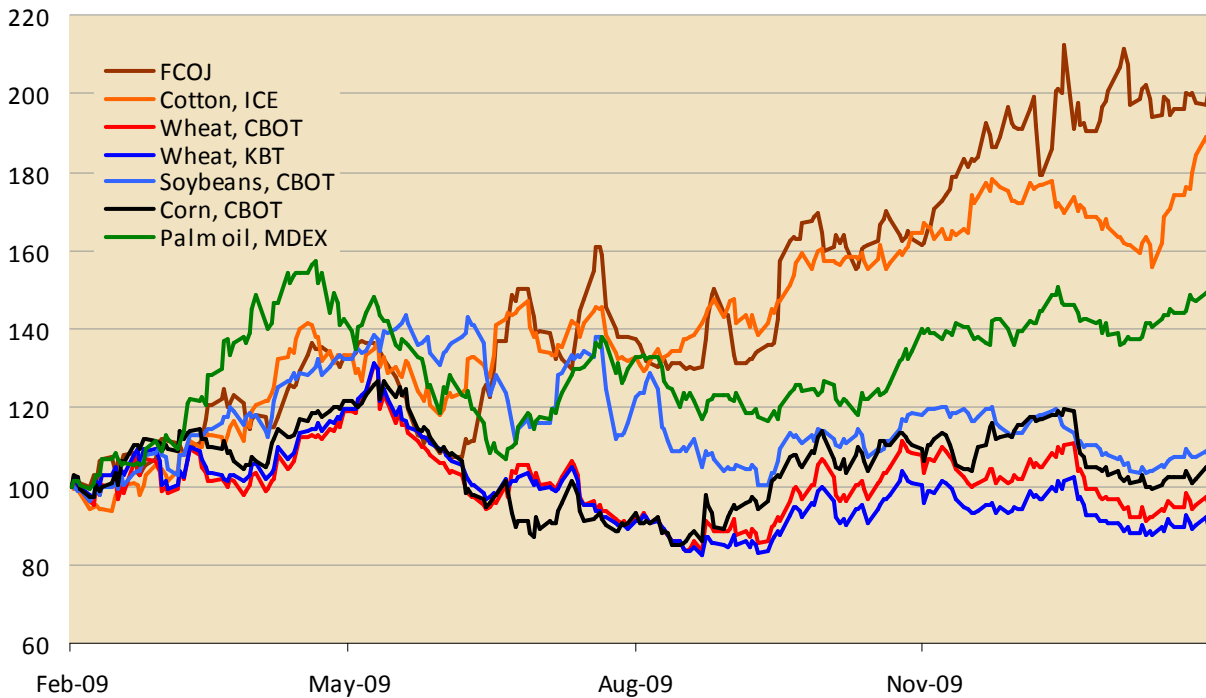


Source: VM Group

Selected agricommodity prices in the past 12 months: near-term contract, re-based to 100, start January 09



Source: VM Group



Source: VM Group

Feature

Fortis Bank Nederland and commodities – building on history

There were many banking casualties in the wake of the financial crisis of late 2008/early 2009. What started as a credit crisis quickly spilled over into a broader capital markets' catastrophe. In a massacre, both the innocent and the guilty become victims. Even large international banks were swept up in the generalised rout. Such was the case with Fortis Bank, the Belgian-Dutch-Luxembourg group that had grown rapidly by acquisition and merger. With the governments of the Netherlands and Belgium opting to take into temporary state ownership their respective national operations of Fortis (and a majority stake in Fortis Belgium being bought by BNP Paribas), the phoenixes are starting to emerge from the ashes. Fortis Bank Nederland (FBN) is today rapidly regaining strength prior to its merger later this year with ABN-Amro. In February we spoke to Rutger van Nouhuijs, CEO of Large Corporates and Merchant Banking at FBN, and Harris Antoniou, CEO of Energy, Commodities & Transportation with the bank, to get a first-hand, top-level view of how this new bank sees itself and its future in commodities.

Bankers of the Netherlands have commodity trading in their genes. Back in 1602 the Dutch East India Company (DEIC) was established, and was granted by the States-General of the Netherlands a 21-year monopoly to colonise Asia. The DEIC had a lot of 'firsts' – it was the first multinational corporation, the first company to issue shares, and the first truly global commodity giant. The DEIC was proud of its unbroken record of paying an 18% annual dividend for almost two centuries, before – like empires everywhere – it fell into corrupt ways, eventually going broke in 1800. Empires come and go and since late 2008 we have seen a few go the way of the DEIC. But out of the chaos of collapse the spirit of enterprise emerges, particularly in commodities for, after all, people must eat, they must build protection against the elements, and they must clothe and transport themselves. Commodities may go in and out of fashion – but they will never lose their status as vital ingredients of human existence.

And banks that have at their core an interest in and experience of financing commodity trading will always be with us – unlike supposedly sophisticated devices for trading credit derivatives or other esoteric financial markets' devices. The fulfilment of many essential human needs, and the hedging of risk in the supplying of those needs, is at the heart of commodity trading and banking. This relatively straightforward method of banking has never been forgotten by Fortis and today remains a core activity of Fortis Bank Nederland (FBN), which, despite the recent global banking imbroglio, retains a global presence. And the person today overseeing that global commodity reach within FBN is Rutger van Nouhuijs, a 47-year-old banker whose own background is steeped in commodities, assisted by Harris Antoniou, who is globally responsible for the Energy, Commodities and Transportation business within van Nouhuijs' Large Corporates and Merchant Banking division of the bank.

A graduate of Erasmus University, van Nouhuijs joined ABN bank in 1989, where he worked in natural resource-based commodities, specifically oil and gas equities. Following that, he took on various positions within ABN in corporate finance, ultimately shifting across to RBS when it (along with Fortis Bank and Santander) acquired ABN-Amro in October 2007. At RBS he took on the role of Global Head of Consumer Retail and Healthcare. By the start of August 2009 he had stepped into his new role at FBN, where his brief covers the bank's commodities' businesses. The legal merger of FBN with ABN-Amro – both currently 100% owned by the Dutch central bank – is due to be completed by 1 July this year. Before joining Fortis, Antoniou worked for a short period with

ABN-Amro's global clients' unit in Amsterdam. He is a graduate of Piraeus University in Greece, holder of an MBA from Erasmus University in the Netherlands, and has completed the General Management Program of Harvard Business School.

Three-year strategy

The split of the old Fortis Bank was undoubtedly painful and, for many both inside and outside the bank, frequently confusing, but as far as van Nouhuijs is concerned the Dutch wing of the old entity has remained a viable business, largely thanks to its commodity trading expertise and global client base. The "great jewel in the crown" as he puts it is the bank's Energy, Commodities and Transport (ECT) subdivision, which as he points out "has built huge global franchises in not just all commodities but shipping, too. When in October 2008 the Belgian and Dutch parts of Fortis were divided, the ECT division stayed put [with FBN] and the people stayed put, too, in Europe, the Far East, Greece, Norway, Brazil and elsewhere. The important thing to achieve to preserve this successful business was to get our people on board with the new bank and that we have done. We are committed to getting Fortis Bank Nederland back into the top three world banks on the commodity side and in shipping."

To achieve this goal, van Nouhuijs and Antoniou are working together to a three-year strategy for rapid growth in commodity banking, opening new branches in Europe, the USA (New York), Hong Kong, Shanghai and Singapore. According to van Nouhuijs, the aim is "to be in the top three players in the global commodity markets. For that we must have a presence in all the main time zones. The strategy is to rebuild the bank once the merger with ABN Amro has gone through, merging the two retail businesses in the Netherlands and utilising the continuing strong global merchant-banking platform that we have with Fortis Nederland. Once we have completed the process of obtaining banking licences from the various regulatory authorities where we plan to open new offices around the world, we will have completed the first stage of this future growth – and we expect that will have happened by the start of July this year."

A fresh start is therefore being made, one in which, according to Antoniou, "transparency of our banking activities is the new virtue, in which we are returning to classical banking – the type of banking in which we act as the intermediary between clients, not trading commodities on our own behalf but assisting clients to fulfil their own commodity business needs and requirements. Naturally, right now there is a kind of backlash against the whole business of banking – this is understandable, given what has happened – but we see our activities, especially in commodities, as vital in assisting the world's economy to recover and resume healthy, strong long-term growth. Some might criticise this as 'boring' banking but that's mistaken; it's safe banking and also profitable banking, too. Glamour is temporary – classical banking is permanent."

Within this type of banking operation, getting the right calibre of professional bankers has always been a priority for Fortis, both in its former and current guises. Van Nouhuijs points out that Fortis Nederland has not lost any of its staff, despite the turmoil that the merchant banking world has been through in the past 18 months. Just as important, he senses that Fortis Nederland "has retained the support and loyalty of corporate Holland, which has in its DNA the commodity business. The infrastructure of the bank, and that of the bank's national and global support-base, have remained in place. We have re-established our commodity brokerage services in metals, agricommodities and energy, and we are rapidly expanding those services into markets where we know clients are eager to start using us once again. Our goal, ultimately, is to be a one-stop shop in terms of commodity services' provision. And in this very big ambition I am glad to say that we have the full backing of our supervisory board, including the Dutch government."

Coffee Quarterly

Fortis Bank Nederland: Coffee contacts

Warren Robertson

Deputy Head of Agricommodity
Brokerage

tel: +44 (0) 20 3192 9272

fax: +44 (0) 20 3192 9225

warren.robertson@uk.fortisgmk.com

Alex Parry

Senior Coffee and Cocoa Broker

tel: +44 (0) 20 3192 9272

fax: +44 (0) 20 3192 9225

alex.parry@uk.fortisgmk.com

Fortis Bank Nederland Global Markets

5 Aldermanbury Square

London

EC2V 7HR

Weather and climate

Erratic weather patterns have been detectable throughout much of the second half of 2009 and in some places are persisting into 2010. A number of extreme meteorological conditions have ranged from prolonged and unusually heavy rainfall in parts of South America to areas – often quite localised – of unusual dryness in parts of Asia which led to one of the poorest Indian monsoon rain seasons recorded for many years. Most meteorologists regard these weather conditions as confirmation that we have lived through a major El Niño event. Major – but not severe. By comparison with the extreme El Niño of 1997-1998, that of 2009-2010 will prove to have been a relatively moderate event, although it has clearly caused significant crop damage in certain regions of the world. In terms of coffee, the inundations across many key coffee-growing regions in Brazil have perhaps caused the most disruptive consequence, as they produced a very atypical, sporadic flowering to occur, with the result that cherries ripened in a fairly chaotic fashion. This lack of uniform flowering has meant that the normally consistent quality of coffee bean crops across a wide spectrum of Brazilian coffee-growing regions is absent, pushing up premiums for the best quality Brazilian arabicas. In Colombia and other parts of Central America the weather has been highly aberrant, with too much and too little rainfall at the wrong times. Furthermore, serious droughts across much of East Africa during the season have quashed hopes that the region could restore output levels.

But three points need to be made. The first is that weather conditions for the coffee growing season could have been much worse; this has been a relatively mild El Niño event and in any case it's likely to disappear by the middle of this year. The second is that the voluminous rainfall across much of South America has actually benefited other crops, notably soybeans, in the region, and has, for example, helped eradicate Argentina's worst drought in more than five decades. The third is that this El Niño also coincided with a severe economic recession, which has constrained demand growth. So while productivity levels (and quality consistency) may not have been as good as they might have been without El Niño, the market has avoided shifting into deficit. So perhaps we should not focus too rigidly on the negative aspects of the recent/current El Niño weather experience.

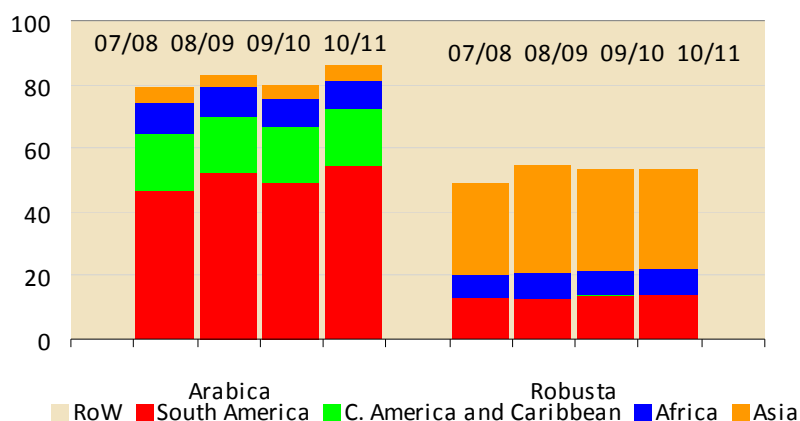
Supply and demand

This report provides our first assessment of the world coffee supply-demand balance for the 2010-2011 season, although by definition these estimates are highly tentative at this early stage of the crop cycle. We currently anticipate that the upcoming season will see a widening of the surplus for arabica, to 6.99m 60-kg bags, largely as a consequence of the bigger crop expected from Brazil, where the two-year arabica production cycle is entered on an 'on' year. We anticipate Colombia's output to make a modest recovery to 10m bags (v. an estimated 9.25m in 2009-2010), but little change among other major arabica origins. Our current estimate for the robusta market suggests a slightly smaller surplus, of 3.41m bags, than is likely to have resulted from the 2009-2010 season. The 88,000-bag difference is essentially attributable to slightly stronger demand: on the production side, while we expect a 50,000-bag seasonal decline in Vietnam, Brazil's production will be higher.

Coffee supply & demand balance, million 60 kg bags

	2008/2009		2009/2010		2010/2011	
	Arabica	Robusta	Arabica	Robusta	Arabica	Robusta
South America	52.45	12.82	48.91	13.68	54.65	14.30
Central America & Caribbean	17.73	0.23	18.18	0.23	17.78	0.03
Africa	8.85	7.65	8.55	7.75	8.67	7.85
Asia	3.85	33.65	4.36	31.95	4.56	31.45
Rest of world	0.45	0.36	0.45	0.36	0.45	0.36
Total Production	83.33	54.71	80.45	53.97	86.11	53.99
Demand	78.55	49.15	79.02	49.68	79.12	50.58
Balance	4.78	5.56	1.43	4.29	6.99	3.41

Source: Fortis Bank Nederland



Production

Vietnam

The Vietnamese coffee industry is struggling to acclimatise itself to a protracted period of lower robusta prices, having experienced a few seasons recently when prices have been well above their average costs of production, which currently are around \$1,000/t. With London futures prices in late February dallying with the possibility of falling to as low as \$1,200/t, the reaction of Vietnamese farmers, speculators and exporters has been to withhold coffee and sell only on a 'needs-must' basis. This has contributed to an extremely firm differential market. Additionally, exporters who still have open contracts at much lower differential levels are left with the 'Hobson's choice' of fixing these contracts at a substantial loss or rolling the contract forward, thereby delaying the inevitable as well as incurring the cost of the roll. Whilst differentials are tight, the market is anticipating the amount of fixing to come. In the key coffee-growing province of Daklak, prices in the final week of February dropped to Dong 22.5m-22.7m per tonne, around \$1,200/t, a level last seen in late June 2009, v. Dong 23.15m-23.500m/tonne as recently as 9 February. Unusually, the slowdown in exports preceded the run-up to the annual Tet festival: typically, farmers and exporters seek to commercialise more coffee in advance of Tet in order to raise money for necessary husbandry as well as funding the holiday. We estimate that around 35% of Vietnam's 2009-2010 crop has been commercialised. As a rule of thumb, approximately 50% is sold by the start of the Tet holiday festival, which this year began on 14 February.

The slowdown of exports has moved in step with the decline in price – at the start of the 2009-2010 season exports kicked off quite strongly, as suggested by official figures showing exports from the start of the October 2009-September 2010 season were, by the end of January, more than 10% higher than for the same period of the previous season, at 421,600t or almost 7.03m bags. However,

doubts have been cast by local traders on the accuracy of these figures, which are regarded by some as over-estimates.

The difficulty for Vietnamese coffee farmers is that prices are weak precisely at the moment of the annual cycle when their costs are peaking: necessary inputs to ensure a good 2010-2011 crop, such as fertiliser and fuel (the price of which has risen by 3% since mid-January this year) for irrigation, remain relatively expensive and there are a couple of critical developmental months left before the rainy season is due to kick in, in May. Although there have been warnings by Vietnamese meteorologists of potential drought in March/April in the Central Highlands, the main coffee growing region, there has evidently been sufficient rainfall and/or irrigation recently, as there has been good flowering of robusta trees throughout the region. Further and consistent rainfall will be necessary to sustain the flowering over the remainder of the dry season, otherwise farmers will need to irrigate – and some may choose not to, or at least not do as much irrigation, if prices remain depressed and/or look like weakening further in coming months. Given the possibility of insufficient irrigation – either natural or artificial – and the relatively narrow margins farmers are now faced with, we expect output from Vietnam's robusta production in the 2010-2011 season will be slightly lower than the current season, at 18m bags, with unchanged arabica output, of 40,000 bags.

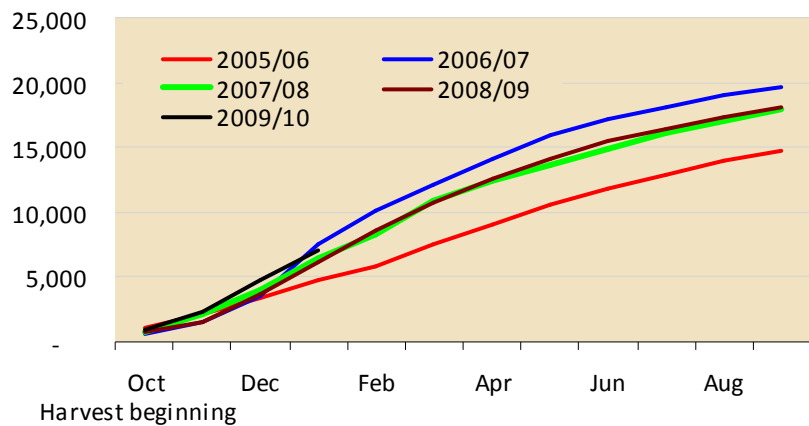
Clearly many Vietnamese farmers and coffee traders are placing a lot of hope on a plan by some of the bigger players in their coffee industry to persuade the government to finance the creation and maintenance of a coffee buffer stock, which has moved closer to obtaining official support. Do Ha Nam, chairman of a group of 20 of the country's biggest coffee exporters, said on 27 January that the plan had gained initial government backing and that companies who wanted to participate in stockpiling 200,000t, almost 20% of the current season's probable crop, would have to formally register their interest by 5 February. How long the buffer stock might be maintained, whether it could be added to in future seasons, and how the stock would be financed, have yet to be publicly aired.

The attractiveness of the planned buffer stock will hinge almost entirely on the degree to which exporters will be confident of getting government money to finance their foregoing of cash today rather than cash tomorrow, as they will nevertheless need to pay farmers for this season's crop, whatever they choose to do with the coffee they have already paid for. Last year's credit growth rate of 38% has alarmed Vietnamese banks, and the Central Bank has set a cap on credit growth of 25%. High inflation and a growing trade deficit are clouding the macro-economic picture for Vietnam. After posting a 5.5% growth rate in 2009 the government has set a target of 6.5% for this year but high inflation and a bulging trade deficit are edging the dong downwards. There could be further devaluations in the national currency and higher interest rates ahead. A further devaluation will not necessarily help coffee exports and inflation will be a burden on farmers.

Vietnam monthly exports, 000 60kg bags

	2004/2005	2005/2006	2006/2007	2007/2008	2008/2009	2009/2010
October	667	1,117	650	833	750	917
November	833	1,067	917	1,333	833	1,367
December	1,000	1,167	1,933	1,833	2,167	2,417
January	1,617	1,350	4,067	2,500	2,333	2,333
February	1,600	1,167	2,500	1,833	2,500	
March	1,700	1,667	2,000	2,500	2,167	
April	1,133	1,500	2,000	1,667	1,833	
May	1,050	1,500	1,833	1,167	1,500	
June	767	1,333	1,250	1,250	1,417	
July	1,067	1,000	1,000	1,167	883	
August	867	1,083	833	1,000	900	
September	1,600	833	667	833	750	
Total	13,900	14,783	19,650	17,917	18,033	

Cumulative Vietnam exports, 000 60kg bags



Source: Fortis Bank Nederland

Brazil

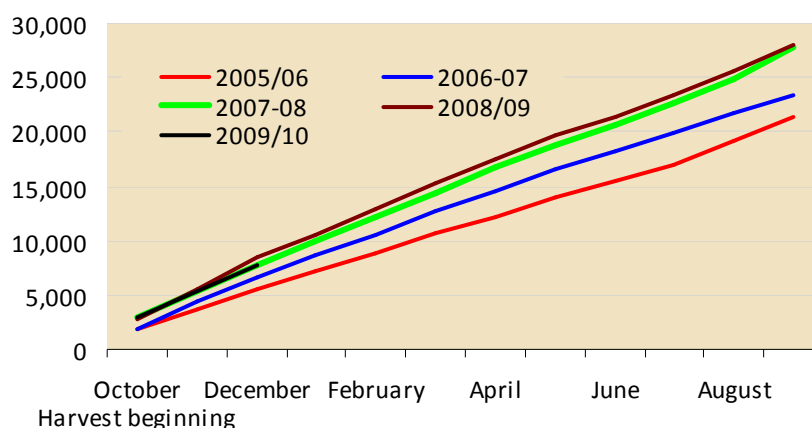
It should be noted at the outset that our estimates for Brazil are based on an October-September season, which we apply globally. Thus we apportion three months of the country's July 2010-June 2011 output to our October 2009-September 2010 estimates.

Our estimate for the 2009-2010 crop is that it will yield 34.21m 60kg bags of arabica and 13.38m bags of robusta. We expect the country's output for the 2010-2011 crop year, part of which will fall within a higher output year for arabica production, will be 38.95m bags of arabica and 14m bags of robusta.

Brazil's weather conditions in 2009 were highly unusual. The persistently heavy rainfall throughout the second half of the year – a strong correlative indicator of the presence of El Niño – upset the development of the coffee crop, producing erratic flowering and preventing the kind of more uniform crop progress that is normal for the country. This unusual rainfall is however more a problem for coffee quality than its quantity. There are mechanised options for separating ripe from unripe beans, but these are too costly for most producers, especially with overall harvest costs expected to be higher this year. It's therefore more likely that the unripe cherries will be picked and then flotation used to separate them from the rest for use in lower grade products. This has already started to impact the market, with exporters chasing each other to locate best quality arabica and in some instances paying the equivalent of \$5/pound for the very finest quality beans. Scarcity of top-quality beans is likely to remain an issue until mid-2010.

If 2009 was a year of excessive rainfall, for some parts of the country's coffee regions 2010 has so far proved to be characterised by insufficient precipitation. Reports are starting to emerge of drought damage in the eastern states of Espirito Santo and Bahia, with some farmers supposedly losing up to half of the fruit on their coffee trees. Espirito Santo, a major conillon (robusta) producer and an area that typically accounts for around 10m bags, has been particularly affected, with very dry conditions there for over two months. Unusually high temperatures have been reported in the major producing region of Minas Gerais and also in São Paulo state, but coffee trees are so far coping with the heat stress, as soil moisture levels are still adequate.

State funding for the Brazilian farm sector will get a substantial boost this year. Projects supported by the ministry of agriculture have been budgeted to potentially reach reais 11.8bn (\$6.4bn). The funds are targeted at the development of agribusiness, with the promotion of the coffee sector a particular priority.

Brazil monthly exports, 000 60kg bags

Source: Fortis Bank Nederland

Cumulative Brazil monthly exports, 000 60kg bags

	2006/07				2007/08			
	Arabica	Conillon	Other	Total	Arabica	Conillon	Other	Total
October	1,856	240	214	2,310	2,256	238	371	2,865
November	2,470	248	263	2,981	2,122	122	306	2,550
December	2,346	94	339	2,779	2,017	51	280	2,348
January	2,011	53	213	2,276	1,895	47	324	2,266
February	1,860	21	227	2,107	1,827	35	253	2,115
March	2,085	51	260	2,396	1,872	159	272	2,302
April	1,874	28	203	2,105	1,906	131	706	2,317
May	2,105	93	277	2,476	1,480	208	339	1,974
June	1,645	139	268	2,051	1,428	140	229	1,868
July	1,659	173	296	2,128	1,498	282	202	2,073
August	1,744	175	272	2,191	1,589	297	305	2,191
September	1,714	213	295	2,222	2,369	315	328	3,012
Total	23,369	1,526	3,126	28,021	22,259	2,024	3,914	27,880

	2008/09				2009/10			
	Arabica	Conillon	Other	Total	Arabica	Conillon	Other	Total
October	2,572	197	206	2,780	2,470	67	251	2,788
November	2,588	104	195	2,694	2,258	52	229	2,539
December	2,863	153	233	3,017	2,174	79	252	2,505
January	2,047	43	195	2,090	2,172	38	226	2,436
February	2,297	41	191	2,338				
March	2,281	33	226	2,314				
April	2,096	68	212	2,164				
May	2,045	183	222	2,228				
June	1,677	115	212	1,792				
July	1,837	131	215	1,969				
August	2,076	133	196	2,209				
September	2,255	131	197	2,386				
Total	26,634	1,333	2,500	27,980				

Source: Fortis Bank Nederland

Central America and Mexico

Exports of coffee beans from Central America, Mexico, Colombia, Peru and the Dominican Republic in January were 1.281m 60 kg bags, substantially lower than the 2.124m 60kg bags exported in the same month last year. Cumulative exports since the start of the region's October 2009-September 2010 season (up to the end of January) are 28.2% lower than for the same period of the previous season, at 5.644m bags. Premiums for washed arabicas from the region have hit historic highs this month, trading above the New York market, at between \$1.45-\$1.75/pound. In Costa Rica the country's National Coffee Institute, Icafe, is growing concerned that the elderly nature of many of the country's coffee trees – it reckons that about a third have reached the end of their useful productivity – could extend the output slump seen in recent years.

Cumulative exports from Mexico for the current crop year from October to January were 16% above last year's levels, at 664,945 bags, with 253,419 bags exported in January. We estimate Mexico's total output for the 2009-2010 season will be 4.4m bags of arabica and 200,000 bags of robusta. Poor weather, and in particular an exceptionally cold January, may push output in the 2010-2011 season even lower, to 4.2m bags of arabica. Costa Rica has also reported weather-related damage to its output; unseasonably low rainfall levels have delayed the harvest. Icafe, the national coffee institute, lowered its production estimate for the 2009-2010 crop from 1.71m bags to 1.55m bags, while we retain an estimate of 1.7m bags for the 2009-2010 crop, as the real extent of the weather damage has yet to be verified.

Central America & Mexico exports, 000 60kg bags

	2004/2005	2005/2006	2006/2007	2007/2008	2008/2009	2009/2010
October	373	350	412	481	400	366
November	380	408	421	423	371	562
December	697	648	608	680	593	988
January	1,013	966	1,034	1,253	1,056	1,602
February	1,298	1,361	1,316	1,520	1,357	
March	1,562	1,574	1,954	1,721	1,915	
April	1,525	1,532	1,658	1,934	1,671	
May	1,466	1,717	1,816	1,768	1,750	
June	1,302	1,421	1,537	1,592	1,555	
July	840	1,215	1,301	1,402	1,229	
August	688	956	1,198	1,116	1,104	
September	427	609	731	536	701	
Total	11,573	12,756	13,985	14,427	13,701	

Source: Fortis Bank Nederland

Colombia

Colombia struggled with very poor weather right at the start of 2009 and it is evident that its original aim of arabica output totaling up to 12m 60 kg bags will not be met for the 2009-2010 season. Instead we consider production will come in as low as 9.25m bags, recovering only slowly in the 2010-2011 season, to 10m bags. While Colombia usually experiences a dry season in the first three months of the year, as the southern hemisphere summer tails off, the dry spell so far this year has been quite fierce, with rainfall in coffee producing areas below average, and forecast to remain so well into April. The harvest of the *mitaca*, or mid crop, will begin at the end of March, but expectations currently are that it will be disappointing. Colombian exports in January came in at 536,000 60kg bags, 38% below January 2009 levels; production was 41% lower at 515,000 bags. The dry weather has produced a strong flowering in the central coffee region but the lingering El Niño climatic effects may prevent this from translating into a strong harvest. The continuing lower output trend for Colombia will provide significant support for the price of premium beans, especially if fears surrounding the quality of the arabica output from Brazil prove to be well-founded.

Colombia monthly production and shipment, 000 60kg bags

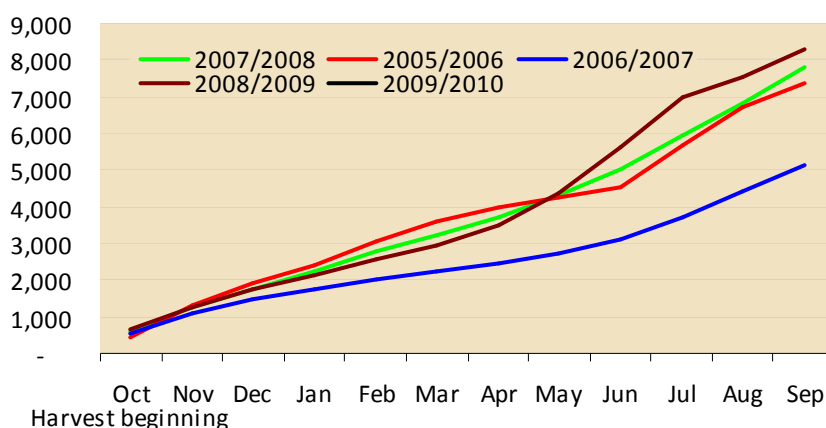
	2006/2007		2007/2008		2008/2009		2009/2010	
	Production	Shipment	Production	Shipment	Production	Shipment	Production	Shipment
October	1,024	964	1,129	893	939	815	544	529
November	1,242	929	1,520	1,050	933	893	760	554
December	1,294	1,216	960	921	1,105	1,024	821	750
January	963	892	1,400	1,010	876	849	515	536
February	1,000	1,060	1,090	1,160	868	917		
March	771	810	872	921	765	820		
April	769	767	886	900	345	550		
May	994	752	820	1,187	702	557		
June	1,219	906	1,046	886	685	628		
July	995	979	891	836	582	608		
August	990	977	715	588	397	472		
September	897	942	777	904	467	481		
Total	12,158	11,194	12,106	11,256	8,664	8,614		

Source: Fortis Bank Nederland

Indonesia

Arrivals at Indonesia's main ports have been slow and are not expected to pick up until March/April as farmers continue harvesting the main crop. Robusta exports from southern Sumatra were down more than 50% from December to January, falling from 18,996t for the last month of 2009 to 6,740t in January. Total January exports were 14,658t and it is believed that exporters could be running low on stocks, following high export volumes during the June-August harvest season.

Although stocks are at relatively low levels, arrivals could swiftly pick up in May; we expect Indonesian production to be 9m 60kg bags over the 2009-2010 season, v. 8.7m bags in 2008-2009. Indonesia's coffee areas are currently receiving tropical showers, which will provide adequate moisture levels for coffee growing regions, and will help the 2010-2011 season to see a slight increase in output, to 9.5m bags.

Indonesia monthly exports, 000 60kg bags

Source: Fortis Bank Nederland

Indonesia monthly exports, 000 60kg bags

	2006/07				2007/08			
	Arabica	Robusta	Others	Total	Arabica	Robusta	Other	Total
October		526	20	545		606	15	621
November		524	9	533		642	19	660
December		369	3	372		459	13	472
January		298	4	302		471	13	484
February		250	2	252		526	10	536
March		242	4	246		410	8	419
April		212	4	215		496	16	512
May		262	3	265		559	21	580
June		359	16	375		702	25	726
July		605	23	628		888	26	914
August		595	27	622		859	18	877
September		674	20	694		930	43	973
Total		3,042	65	3,107		7,547	227	7,774
	2008/09				2009/10			
	Arabica	Robusta	Other	Total	Arabica	Robusta	Other	Total
October		622	26	648		1,488	33	1,521
November		601	2	603				
December		477	1	478				
January		404	9	412				
February		430	12	442				
March		361	9	369				
April		509	33	542				
May		840	24	864				
June		1,214	43	1,258				
July		1,356	29	1,385				
August		516	32	548				
September		745	22	767				
Total		8,075	241	8,316				

Source: Fortis Bank Nederland

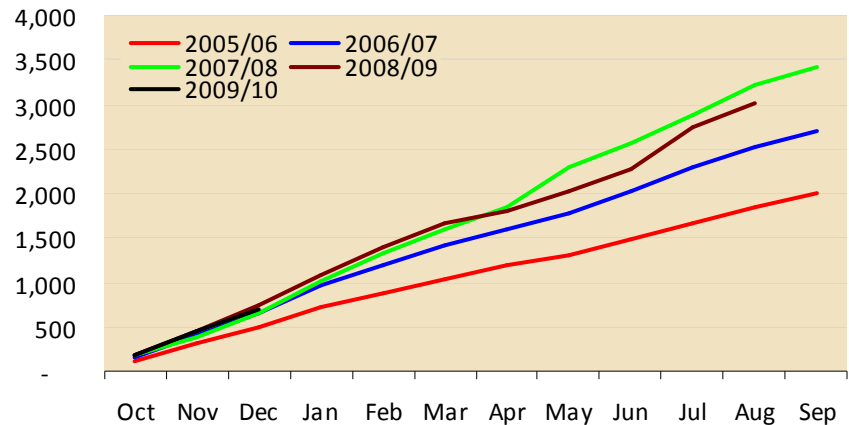
Uganda

Uganda continues to make progress in producing new robusta varieties resistant to coffee wilt disease, with seven new breeds under development. The coffee sector of Africa's biggest robusta producer is still recovering from an outbreak of the disease, which damaged almost half of its coffee trees. We expect production in Uganda for the 2009-2010 season to improve by 350,000 60kg bags against the previous season, with output of 3.3m bags split into 400,000 bags of arabica and 2.9m bags of robusta, strengthening to 500,000 bags of arabica and 3m bags of robusta in the 2010-2011 season. The Uganda Coffee Development Authority (UCDA) reports that January 2010 exports were 264,314 bags, significantly lower than the same month of 2009, at 329,211 bags. Cumulative exports for the coffee season starting in October have dropped by nearly 10%, to 971,274 bags versus 1,074,475 bags during the same period the previous season.

Uganda monthly exports, 000 60kg bags

	2004/2005	2005/2006	2006/2007	2007/2008	2008/2009	2009/2010
October	186	122	155	173	180	170
November	183	183	251	199	267	273
December	235	180	249	273	299	264
January	212	229	316	361	329	
February	215	166	222	318	321	
March	195	156	213	279	257	
April	211	147	192	237	143	
May	218	123	185	444	221	
June	229	187	245	278	254	
July	248	176	269	325	482	
August	226	176	231	324	260	
September	142	159	179	213	199	
Total	2,502	2,003	2,706	3,424	3,211	

Source: Fortis Bank Nederland

Uganda monthly exports, 000 60kg bags

Source: Fortis Bank Nederland

Ivory Coast

We anticipate that Ivory Coast's coffee output will fall from 2.5m 60kg bags in the 2008-2009 season to 2.25m bags in 2009-2010, as farmers drift away to cultivating other crops which could offer better returns. This is largely a response to the relatively low fixed price set by the country's coffee and cocoa marketing body, set at CFA 525 /kg (\$1.09), unchanged year-on-year.

Kenya & Tanzania

A delayed start to the short rains which usually end in December over east Africa's coffee growing regions saw these extend into January, foreshortening the dry period in which trees undergo a necessary stress period to induce flowering. This could potentially lower output in some regions. The Kenyan government is giving more backing to the revival of the country's coffee sector, hoping to raise output to 100,000t (more than 1.6m 60 kg bags) by 2015. But this will be a tall order, given that current output is around 54,000t. The state-run Coffee Development Fund has been allocated \$12m, which is intended to assist farmers with the purchase of pesticides and fertilisers. The Tanzanian Coffee Board estimates the country's 2009-2010 crop will be 50,000t. Replanting is underway in the northern part of the country where some coffee trees are more than 50 years old, way past their productivity peak. There is also a push underway to open up new land to cultivation in the south of Tanzania. Local prices at the Moshi coffee exchange auction have dropped on quality concerns and as activity eases towards the end of the marketing season which will end in March.

Coffee production by regions on Oct/Sep harvest year, million 60kg bags

	2008/2009		2009/2010		2010/2011	
	Arabica	Robusta	Arabica	Robusta	Arabica	Robusta
South America						
Bolivia	0.14	0.00	0.15	0.00	0.15	0.00
Brazil (estimated from seasonality)	37.76	12.42	34.21	13.38	38.95	14.00
Colombia	8.90	0.00	9.25	0.00	10.00	0.00
Ecuador	0.50	0.40	0.40	0.30	0.40	0.30
Peru	4.25	0.00	4.00	0.00	4.25	0.00
Venezuela	0.90	0.00	0.90	0.00	0.90	0.00
Latin & Central America						
Costa Rica	1.60	0.00	1.75	0.00	1.70	0.00
Cuba	0.13	0.00	0.13	0.00	0.13	0.00
Dominican Rep	0.55	0.00	0.55	0.00	0.60	0.00
El Salvador	1.40	0.00	1.50	0.00	1.30	0.00
Guatemala	3.70	0.01	3.70	0.01	3.80	0.01
Haiti	0.40	0.00	0.40	0.00	0.40	0.00
Honduras	3.80	0.00	4.00	0.00	3.90	0.00
Mexico	4.40	0.20	4.40	0.20	4.20	0.00
Nicaragua	1.50	0.00	1.50	0.00	1.50	0.00
Panama	0.25	0.02	0.25	0.02	0.25	0.02
Africa						
Burundi	0.40	0.00	0.20	0.00	0.50	0.00
Cameroon	0.14	0.70	0.15	0.70	0.15	0.70
Central African Rep.	0.00	0.10	0.00	0.10	0.00	0.10
Dem Rep Congo (DRC)	0.05	0.50	0.05	0.50	0.05	0.50
Ethiopia	5.50	0.00	5.50	0.00	5.25	0.00
Guinea	0.00	0.25	0.00	0.25	0.00	0.25
Ivory Coast	0.00	2.50	0.00	2.25	0.00	2.25
Kenya	0.90	0.00	0.90	0.00	0.90	0.00
Madagascar	0.06	0.50	0.05	0.60	0.05	0.60
Rwanda	0.40	0.00	0.40	0.00	0.40	0.00
Tanzania	0.80	0.25	0.80	0.25	0.80	0.25
Togo	0.00	0.20	0.00	0.20	0.00	0.20
Uganda	0.50	2.65	0.40	2.90	0.50	3.00
Zimbabwe	0.10	0.00	0.10	0.00	0.07	0.00
Asia						
India	1.40	3.00	1.60	3.25	1.60	3.20
Indonesia	0.70	8.00	1.00	8.00	1.25	8.25
Papua New Guinea	0.00	0.45	0.00	0.45	0.00	0.40
Philippines	0.95	0.10	0.95	0.10	0.90	0.10
Malaysia	0.40	0.60	0.40	0.60	0.40	0.60
Thailand	0.00	1.00	0.01	1.05	0.01	0.90
Vietnam	0.40	20.50	0.40	18.50	0.40	18.00
RoW	0.45	0.36	0.45	0.36	0.45	0.45
Totals	83.33	54.71	80.45	53.97	86.11	53.99

Source: Fortis Bank Nederland

Consumption

World coffee consumption has held up rather well during the recession, even managing growth, albeit at a very slow rate - less than 1% in 2009-2010 v. 2008-2009, in our estimate. There is nothing in the markets right now to persuade us that demand growth will rise at a faster pace in 2010-2011. In previous eras this sub-1% annual growth would have been regarded as stagnation, but in today's deeply uncertain macroeconomic environment any demand growth at all is both welcome and remarkable – a testimony to the small-price-ticket, daily-necessity-for-many nature of coffee drinking. We expect total world demand to be 129.7m 60 kg bags in 2010-2011 v. 128.7m bags in 2009-2010. Within those overall figures we expect global robusta demand to show a better rate of growth, at 50.58m bags in 2010-2011 (v. 49.68m bags in 2009-2010), than arabica, which we envisage will grow from 79.02m bags in 2009-2010 to 79.12m bags in 2010-2011.

Seasonal usage: major consumers, estimate, million 60 kg bags

	2006/07	2007/08	2008/09	2009/10	2010/11
EUROPE					
France	5.6	5.7	5.8	5.83	5.83
Germany	10.2	10.3	10.5	9.90	10.20
Italy	5.6	5.7	5.8	5.70	5.70
Other EU	15.1	15.3	15.5	15.61	15.65
Poland	2.2	2.3	2.3	2.37	2.37
FSU	2.9	3.0	3.1	3.51	3.51
Other Europe	7.2	7.5	7.7	7.80	7.80
AMERICAS					
Canada	2.6	2.7	2.8	2.82	2.82
USA	21.3	21.4	21.0	21.90	22.00
Brazil	17.0	17.5	18.1	18.20	18.30
Mexico	1.8	2.0	2.1	1.96	2.20
Colombia	1.4	1.5	1.5	1.47	1.47
ASIA					
India	1.5	1.6	1.7	1.67	1.70
Indonesia	1.9	2.5	2.5	2.70	2.70
Japan	7.6	7.7	7.7	7.71	7.71
Philippines	1.2	1.4	1.4	1.39	1.40
South Korea	1.5	1.5	1.5	1.52	1.52
AFRICA					
Algeria	2.2	2.3	2.4	2.31	2.31
Ethiopia	1.9	2.0	2.0	2.00	2.00
Rest of world	11.5	12.0	12.3	12.4	12.5
Total	122.2	125.9	127.7	128.7	129.7

Source: Fortis Bank Nederland

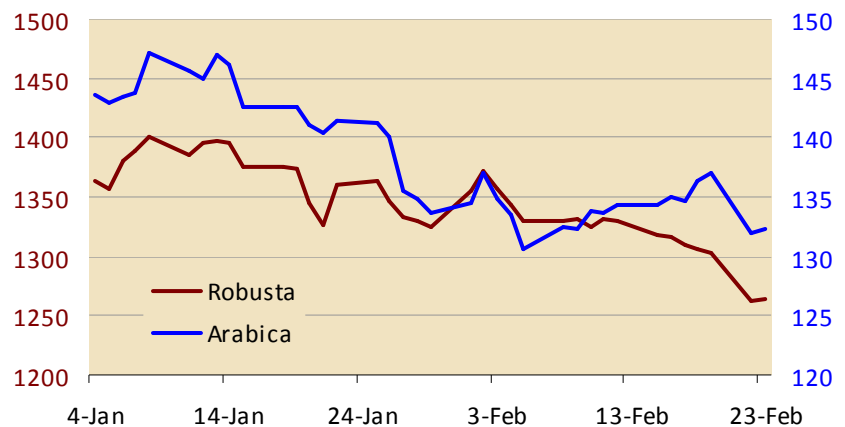
Coffee demand is clearly relatively income inelastic and in many respects the failure of coffee prices to react more in line with what have been, after all, fairly tight supply-demand balances for the past couple of seasons has no doubt helped prevent demand from actually shrinking. But – and this is true of other commodities with a relatively tight supply-demand outlook – the question remains: what might happen to prices if the economic recovery is strong? Economic recoveries always proceed in fits and starts – just as it was difficult to sort through the background clutter of clamouring opposed opinion at the height of the financial crisis, it's also not easy to stand back and take a measured look at the current prospects for recovery. This time last year the grand panic was very much related to systemic banking failure; today it's focused on the possibility of systemic government collapse amid a welter of debts, built up to prevent recession sliding into depression.

But essentially – if governments can keep their nerve and maintain very low interest rates throughout this year and possibly well into next – then the prospects for economic recovery should remain good. At the end of January the International Monetary Fund forecast global GDP growth in 2010 will be 3.9%, significantly higher than the 3.1% it estimated in October 2009. Moreover, it considers that growth in 2011 will be 4.3%. Within this, advanced economies are likely to fare poorly, at 2.1% growth this year and 2.4% next, although the US might do rather better, with 2.7% growth in 2010 and 2.4% in 2011. The engine-rooms of growth will be China (10% in 2010, 9.7% in 2011) and India (7.7% in 2010, 7.8% in 2011). Of course, emerging economies are not significant coffee consumers on the whole (with the notable exception of Brazil). But, as has been the case throughout this recent crisis, if they can maintain very strong rates of growth over the next couple of years they will help the global economy as a whole to right itself – which in turn is a necessary precursor to coffee demand growth picking itself up from the floor without the crutch of lower prices.

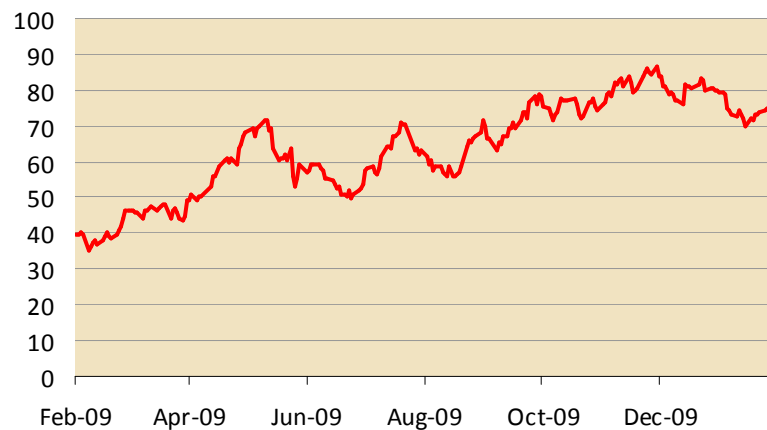
Comment

As with some other agricultural commodities, coffee prices have shrugged off what has been a fairly consistently supportive fundamental supply-demand scenario, responding much more instead to the sweep of wider market forces – the moves in the dollar especially. These forces may well continue to hold sway over prices in the short term, but looking further ahead, out to where we might be in 12 months from now, the fundamentals may start to re-assert themselves so long as we have clearly emerged from recession and consumer confidence returns to erstwhile levels. But right now it seems that the capital markets are in such a state of high tension that all it takes to knock commodity prices sideways is for one man to scratch his nose – so long as that man is Ben Bernanke, chairman of the US Federal Reserve. On 18 February he announced that the Fed was raising its primary credit rate (generally referred to as the discount rate) from ½% to ¾%; that was enough to crumble the prices of many commodities, never mind that Bernanke took care to point out that this move did not imply any move to raise the (much more important) Federal Funds rate any time soon.

After a bright start to the New Year, coffee prices in both New York and London have retreated primarily as a consequence of a strengthening of the dollar. As of 25 February, the 2nd position arabica contract on ICE Futures US closed at \$1.2980/pound, 6% down on the end of 2009 and its lowest close since September 2009. The NYSE Liffe Robusta contract so far in 2010 down 5% since the start of the year, and at \$1,259/tonne on 25 February was at its lowest since July 2006. The arbitrage between the two contracts, which by 5 February had fallen to 70 cents/pound, from late December's 86 cents/pound, had widened to 74 cents/pound by 25 February, still higher than it was for most of 2009.

Robusta (\$/tonne) and arabica (cents/pound) prices in 2010

Source: Fortis Bank Nederland

Arbitrage arabica/robusta, cents/pound, past 12 months

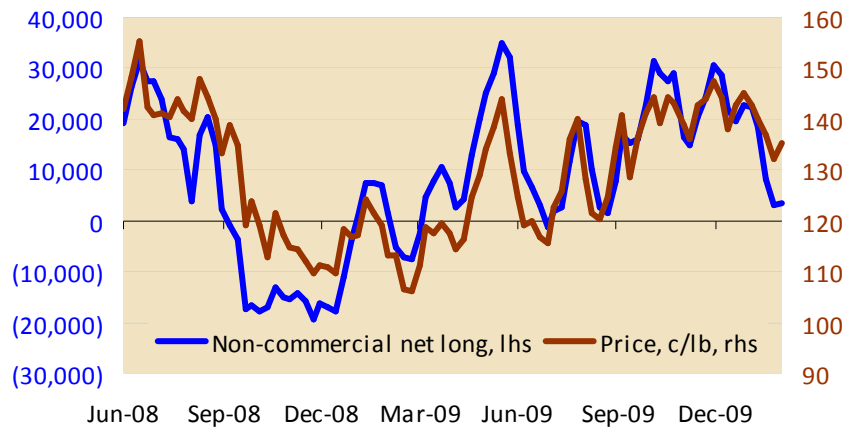
Source: Fortis Bank Nederland

The general weakness in coffee prices mirrors what we know of speculative movements, with the non-commercial net long position on ICE Futures US (as reported by the CFTC) falling from more than 22,399 lots on 19 January to just 3,379 lots by 16 February, the lowest since 1 September 2009. Given this, it might be argued that the price has held up reasonably well; on 19 February the arabica price closed at \$1.3505/pound, down from a peak of \$1.4720/pound on 8 January 2010, but substantially higher than it was (\$1.210/pound) on 1 September 2009, when speculative investment was last that low. Part of the reason for this was the return of commercial buying. Roasters, who had allowed their futures' cover to shrink to worrying levels, were able to step in and soak up much of the spec liquidation. The index fund position on ICE Futures US has been more stable, as is usual, but it too has fallen. On 16 February the net long was 54,566 lots, up slightly on 9 February but down on the levels seen at the start of 2010, of around 57,000 lots. Over time this has also moved roughly in line with the coffee price.

In arabica markets perhaps the biggest news is that in the US, certified stocks have now dropped below 3m 60-kg bags, which is the first time this has happened since 12 February 2003. Stocks are being relentlessly drawn down and yet, surprisingly, futures' prices remain relatively weak, moving ever further away from \$1.50/pound. Factors affecting the macro-economic picture and apparent reduction of risk in the investment community are at the root of current weakness. If we search for fundamental reasons to explain the relatively weak price then substantial exports from Brazil, which in the calendar year of 2009 set

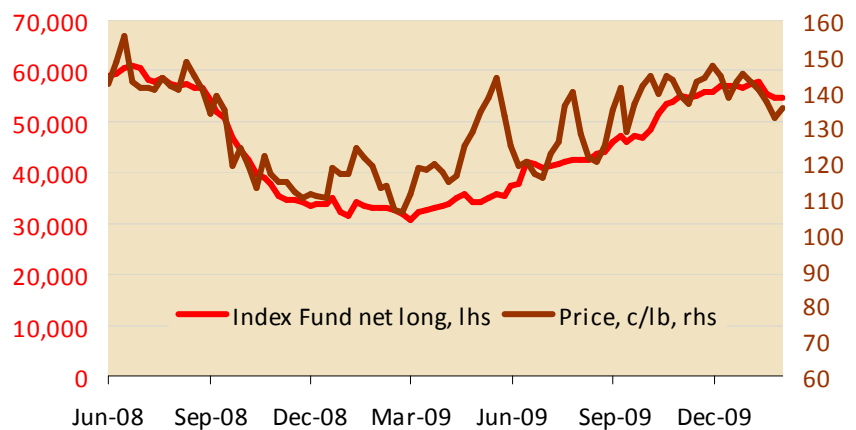
a fresh record, 30.3m 60-kg bags, 2.6% higher year-on-year. Big exports did not translate into big earnings however – the country’s coffee producers last year saw a depressing 10% drop in revenues, at \$4.27bn. The quandary for arabica buyers this year will be the difficulty in sourcing high-grade Brazilian beans – Brazil’s erratic rainfall early in the 2009-2010 season produced variable flowering, and higher quantities of unripe beans will be plucked from the trees in the largely machine-harvested crop, meaning that exportable quantities are likely to be lower than usual, while Colombian and Central origins will be unable to make up the shortfall.

Non-commercial net long on ICE Futures US, lots and coffee price, cents/pound



Source: Fortis Bank Nederland

Index fund position on ICE Futures US, lots and coffee price, cents/pound



Source: Fortis Bank Nederland

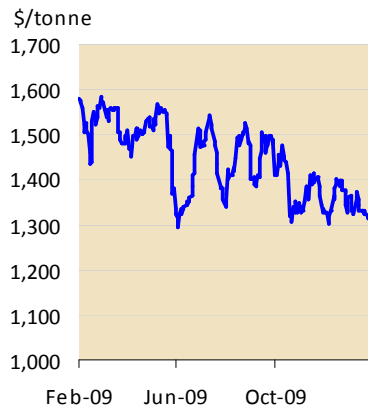
Coffee data

Arabica price, ICE Futures US, c/pound



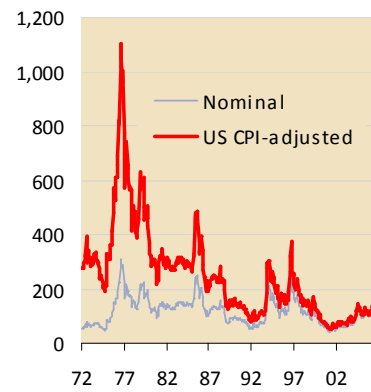
Source: VM Group, ICE Future US

Robusta price, NYSE Liffe, \$/tonne



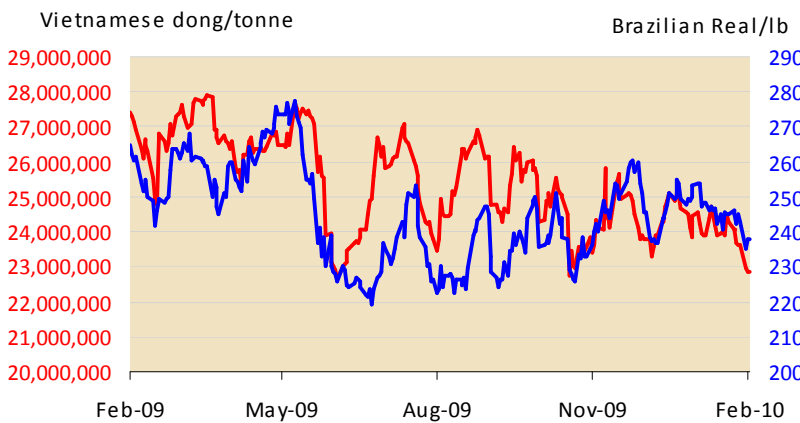
Source: VM Group, NYSE Liffe

Arabica price, ICE Futures US, nominal and real, c/pound



Source: VM Group, ICE, Dept. of Commerce

Coffee price, Brazilian Real and Vietnamese Dong



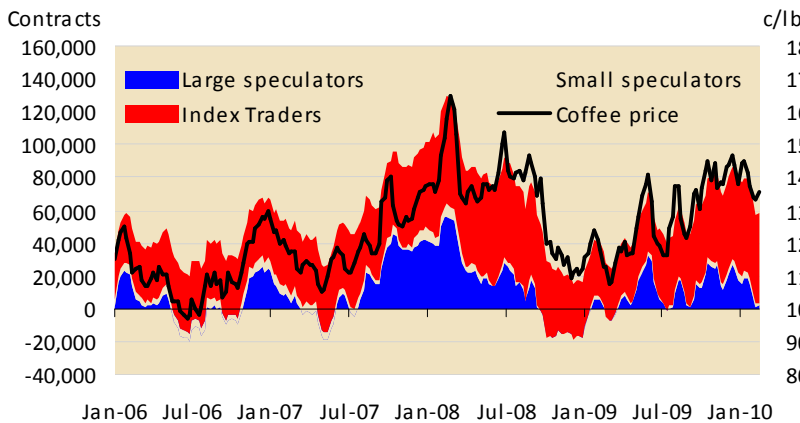
Source: VM Group, ICE Future US, NYSE Liffe, Reuters

Arbitrage between ICE Futures US and NYSE Liffe: 1st month contract



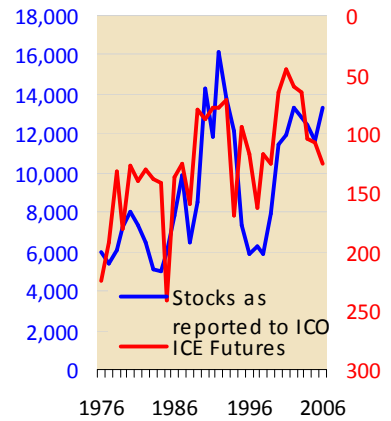
Source: VM Group, ICE, NYSE Liffe

Coffee, ICE Futures US, non-commercial and index fund speculation, lots



Source: CFTC, VM Group

ICO stocks and price



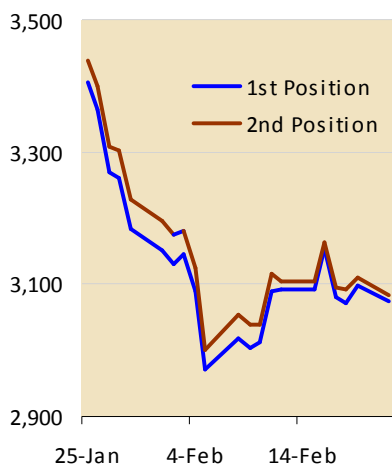
Source: ICCO, VM Group

Weather watch

- **North America:** In the Mid West temperatures have been, and in the short term are expected to continue being, well below normal for the time of year. Parts of the US Northeast have experienced extremely severe weather conditions but this has not had any significant impact on crops. There are some suggestions that the very wet winter in the southern and Mid West may hinder early planting of corn and soybeans later in March, but as yet it's too early to be certain of this.
- **South America:** More normal weather conditions – i.e. less heavy rainfall – have returned to the major crop areas of Argentina and Brazil, with light scattered showers forecast for the Brazilian provinces of São Paulo and Minas Gerais. These drier conditions will facilitate harvesting of the soybean crop in both countries.
- **Asia:** The drought affecting several provinces in China has now widened to encompass an area of 3.56m hectares, which is beginning to have a serious impact not just on sugarcane production in Guangxi province but also on winter wheat prospects in the north and northwest of the country. Elsewhere in Asia parts of Malaysia are suffering from excessive dryness, but in general the current El Niño is not creating the kind of extreme drought in Indonesia that might have been expected had it been a major event.
- **Europe:** Temperatures in Western Europe are likely to remain slightly lower than normal over the short term with moderate precipitation across many parts of the region. In Eastern Europe and into west and south Russia temperatures are likely to remain lower than normal, with continuing bouts of snowfall in more northerly regions. The cold winter temperatures are keeping winter wheat dormant; snow cover across much of central and east Europe is protecting the developing crops. Good rainfall this past winter in the southern parts of Europe have helped replenish soil moisture levels in Italy and Spain.
- **Africa:** This season's *harmattan* across West Africa has not been severe and the immediate outlook is for the onset of better rainfall, typical for the season, which should keep soil moisture levels reasonably good for the development of the region's 2010-2011 season main cocoa crop.

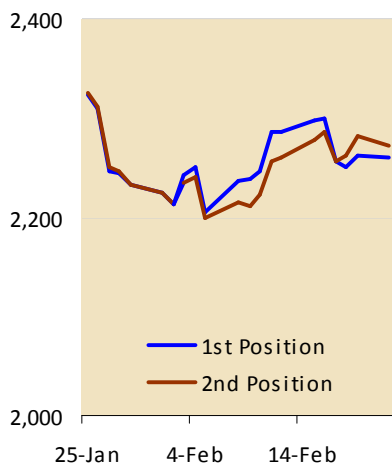
Cocoa

Cocoa price, ICE Futures US, \$/tonne



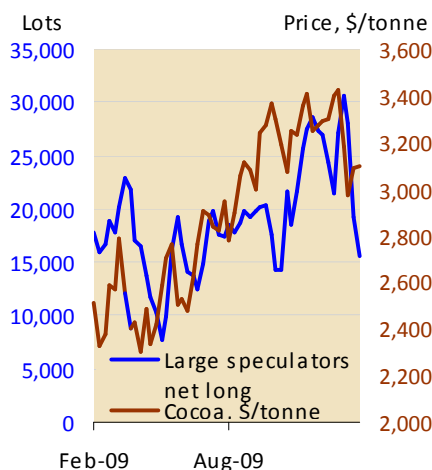
Source: VM Group

Cocoa price, NYSE LIFFE, £/tonne



Source: VM Group

Cocoa speculation, ICE Futures US, lots and price



Source: VM Group

News

- **Feb 23:** Signs of life in cocoa grindings – Brazil's total grind in January was more than 20,000t, 19% higher than the same month of 2009 and 23% higher than in December 2009.
- **Feb 22:** Violent protests in Ivory Coast eased following an undertaking by the country's prime minister, Guillaume Soro, to create a new government. The protests erupted in the wake of the decision (on 12 February) by president Laurent Gbagbo to dissolve the electoral commission, which had been compiling registration lists of voters eligible to participate in a long-delayed election of a new president and national government. As yet the upheaval has had no noticeable impact on cocoa deliveries.
- **Feb 10:** Cocoa powder prices in Asia reached \$4,000/t, a new record.

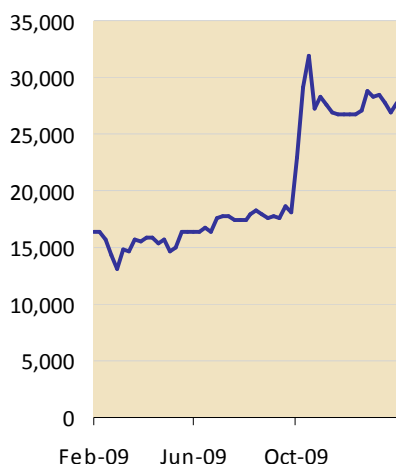
Short term outlook

We have marginally adjusted our estimated supply-demand balance for both the current season (2009-2010) and the next, in both cases lifting expected production while maintaining our previous demand estimates. We now expect total global output in 2009-2010 to be 3.425 Mt, 44,000t more than our January report, and for the 2010-2011 season we have raised expected output by 34,000t, giving a total of 3.617 Mt. This adjustment is weather-related – the relatively mild El Niño has meant less severe drought conditions than previously looked possible, and West Africa's recent *harmattan* has not been severe. We are therefore currently expecting a supply-demand deficit of 126,000t in 2009-2010, diminishing to a deficit of just 14,000t next season although, given the very early stage of crop development for the 2010-2011 season, any estimate at this stage by definition is only tentative. Cocoa arrivals from Ivory Coast have proceeded without hindrance in recent weeks, despite the country's precarious political situation. As of the start of the final week of February we estimate port arrivals for the 2009-2010 main crop were almost 840,000t, modestly higher than for the same period of the previous season – in to the extent that it might give rise to some concern for the longer-term; if the world's biggest producer cannot make more of a supply-side response to what have after all been relatively high prices, then it's difficult to know what might induce greater productivity.

Analysis

Despite having a fairly compelling fundamental supply-demand story to tell, cocoa futures since the start of this year have fallen by almost 5% in London and more in New York (as of the week ending 19 February) – which in itself is a pretty strong gauge of the degree to which this market – as other commodities in recent weeks – have been caught in the slipstream of much greater forces. Cocoa futures' prices have been forced lower by technically driven selling, itself a consequence of a macroeconomic-induced liquidation by non-commercial participants, who are as much on the alert for movements in the dollar as what happens in Abidjan. Chocolate manufacturers are breathing a bit more easily, now that some of the pressure-cooker atmosphere has been removed from the market; we estimate that the recent sell-off of cocoa futures has provided around an extra 10 days' cover for manufacturers. On ICE Futures US on 19 January the second-position contract settled at \$3,485/t, close to where it reached in December 2009.

But since then prices have weakened, as the dollar has recovered previously lost ground: by 25 February 2010 it closed at \$2,922/t. On NYSE Liffe the trend was similar, but over time prices there have performed better, even when

Index fund position, ICE Futures US, lots

Source: VM Group

Arbitrage between 2nd position contracts on NYSE Liffe and ICE Future US, \$/tonne

Source: VM Group

Contacts**Jonathan Parkman**

Head of Agricommodity Brokerage

tel: +44 (0) 20 3192 9271

fax: +44 (0) 20 3192 9221

jonathan.parkman@uk.fortisgmk.com

Eric Sivry

Director and Head of Cocoa Brokerage

tel: +44 (0) 20 3192 9275

fax: +44 (0) 20 3192 9225

eric.sivry@uk.fortisgmk.com

converted into dollars/tonne. In dollars as of 19 February the NYSE Liffe price was 9% down on its start 2010 level, compared to 12% for the ICE Futures US price, while since the beginning of September 2009 it was up 12% compared to just 4% for NYSE Liffe.

This has seen the difference in price between the New York and London contracts balloon out to over \$400/t, against \$350/t at the start of the year. This premium of London over New York represents the biggest arbitrage in more than a decade and we believe partly reflects the relatively greater amount of investment fund money tracking the London market than formerly. Reliably objective data regarding speculative investment is only available for the New York market – this CFTC-provided data shows the non-commercial net long position sliding to 16,698 lots by 16 February, down from 35,691 lots as recently as 26 January, and the lowest it has been since July 2009. It also goes hand-in-hand with a decline in the open interest in New York which, by 16 February, was 132,288 lots, the lowest since November and more than 20,000 lots less than on 26 January. The index position however has shown little movement; at 27,808 lots by 16 February it was basically unchanged on the start of 2010.

While prices have fallen, the supply-demand fundamentals remain largely unchanged from our January report – Ivory Coast main crop port arrivals remain relatively lacklustre and by the end of March, the end of the main crop season, are unlikely to exceed 900,000t. Indonesian net exports have been relatively strong. Efficient husbandry by Ivory Coast cocoa farmers over the next two months will be critical to provide the basis for good early development of the 2010-2011 main crop and, at the anecdotal level, there are indications that farmers are paying some heed to the necessity of fertiliser application. In other major markets, Indonesia continues to show good net export levels and, if the tail end of the current El Niño fades away without springing any last-minute surprises, the country ought to be able to avoid any serious drought conditions later this year.

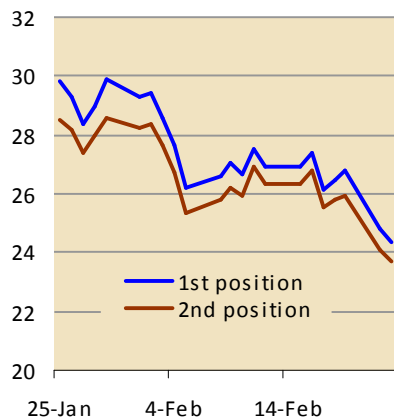
Cocoa supply & demand balance, 000 tonnes

	2007/08	2008/09	2009/10	2010/11
Africa	2,607	2,454	2,342	2,512
Americas	422	457	485	506
Asia	599	615	633	636
Total production	3,628	3,526	3,460	3,654
Net production*	3,592	3,491	3,425	3,617
Europe	1,652	1,540	1,579	1,599
Africa	560	587	577	602
Americas	795	753	776	800
Asia	693	597	619	630
Total grindings	3,700	3,477	3,551	3,631
Balance	(108)	14	(126)	(14)
End stocks	1,463	1,477	1,351	1,337
Stocks/grindings ratio**	40%	42%	38%	37%

*1% less than total production to account for a loss in weight due to reduced moisture during transport ** Stocks as a % of total grindings

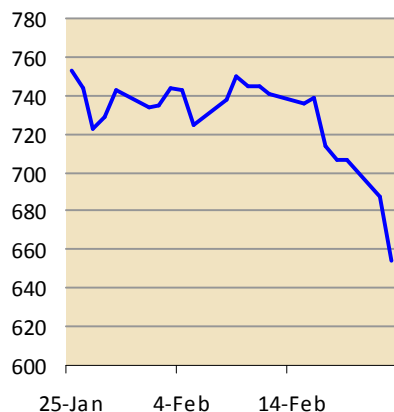
Source: Fortis Bank Nederland

Sugar, raw, ICE Futures US, cents/pound



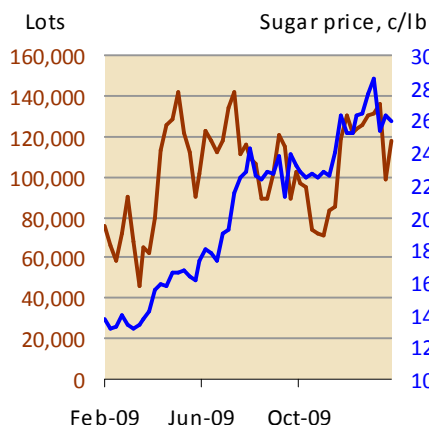
Source: VM Group

Sugar, white, NYSE Liffe, \$/tonne



Source: VM Group

Sugar speculation, ICE Futures US, lots & price



Source: VM Group

Sugar

News

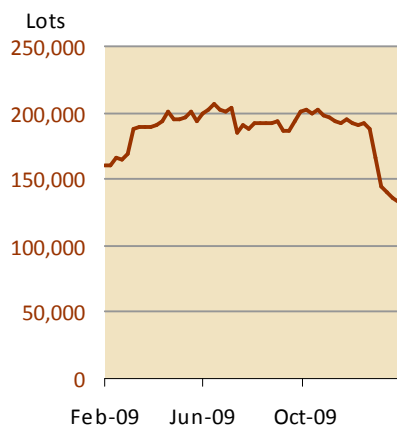
- Feb 22:** Mexico's National Cane Workers Union reported that so far in the 2009-2010 season the country has produced 1.957 Mt of sugar, 15% less than at this point in time for the previous season. The country's agriculture ministry currently considers the total production for this season could be as low as 4.5 Mt, significantly lower than usual. Mexico has opened an import quota of 250,000t in February, to cover potential shortfalls. The probably disappointing Mexican output this season could have significant repercussions for the US, which is likely to see a shortfall as a consequence.
- Feb 22:** The EU will not give up its import tariffs for raw sugar, despite requests from member states to temporarily suspend them in order to ease supply shortages being experienced by their refineries. Portugal requested the suspension, supported by the UK, Finland, Bulgaria and Romania. But Dacian Ciolos, the EU's Commissioner-designate for Agriculture and Rural Development, was adamant that the tariffs should stay.
- Feb 10:** As the centre-south region of Brazil drew to an end of its April 2009-March 2010 season, Unica, the country's Sugar Cane Industry Association, estimated the region's final sugar output would be 28.42 Mt, 6.6% higher than the previous season. As of this date the total crush in the region was 529.6 Mt, 5.7% higher than the previous season by the same date. Unusually wet weather means that as much as 60 Mt of cane will be left in the ground for crushing later.

Short term outlook

Sugar prices on ICE Futures US started February with a closing price of 28.24 cents/pound, not far off their 2010 high, set a few days before, on 29 January. However by 3 February they had fallen to 25.37 cents/pound, wiping out all of their 2010 gain (the settlement price on 1 January was 25.23 cents/pound). This sell-off mirrored that in other commodities, as the dollar strengthened. As the dollar stabilised so did sugar, but the price failed to rally back over 27 cent/pound and closed on 19 February at 25.96 cent/pound. However, this was little compared to the hammering that futures' prices took on 22 February, when the May contract on ICE Futures US closed 7% lower at 24.12 cents/pound, followed by (in intra-day trading) another slide, of 2.6%, the following day. Much of the most recent weakness was attributable to failed import tenders in Egypt and Pakistan (for 200,000t) but the difficulty is in knowing if this is simply demand being deferred or genuinely shying away from paying what remain relatively strong prices. In the immediate term there remain some very bullish supply-demand factors in place, with India, China and even the US probably needing to step up their imports in the next few months.

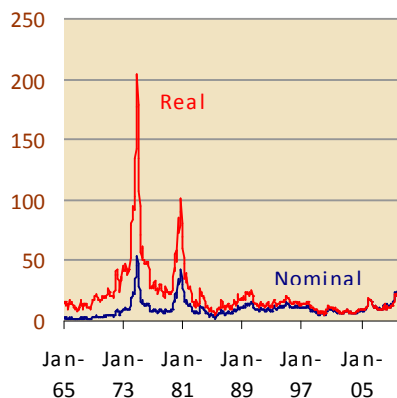
The speculative rush for the exit on the stronger dollar shows up clearly in the CFTC's commitment of traders report on the ICE Futures US market. The non-commercial net long, the traditional measure of speculative interest, fell from 136,487 lots on 2 February to 98,247 lots by 9 February. This was the largest one-day fall in that measure since August 2007, when the credit-crunch first hit global markets. However in the following week (16 February) it rallied by 19,981 lots, to stand at 118,228 lots. The other main speculative element on ICE Futures US, the index fund position, also rallied in the week to 16 February, up 11,482 lots to 144,815 lots. Prior to that it had contracted sharply in 2010, falling from 192,233 lots on 29 December to just 133,333 lots by 9 February.

Sugar index fund net investment, ICE Futures US, lots



Source: VM Group

Real and nominal sugar price, cents/pound



Source: VM Group

Contacts

James Kirkup

Director and Head of Sugar Brokerage

tel: +44 (0) 20 3192 9277

fax: +44 (0) 20 3192 9225

james.kirkup@uk.fortisgmk.com

Laetitia Lacourte

Senior Sugar Broker

tel: +44 (0) 20 3192 9277

fax: +44 (0) 20 3192 9225

laetitia.lacourte@uk.fortisgmk.com

Analysis

So is this the end of the rally – or a necessary correction before a further move higher? The stronger dollar has clearly pushed many commodity prices lower but it seems to us as though – as with some other agricultural commodities – the futures' prices have become disconnected with the physical side of the market. The bullish case – at least for much of the rest of this year – remains fairly intact in supply-demand terms. In the case of India, for example, the economic advisory panel of the Indian prime minister said on 19 February that “it is imperative that urgent steps are taken to import white sugar to the extent of the shortfall in availability, which may be assessed at somewhere in the region of 3 to 5 Mt.” This kind of remark, bracketed with the panel's view that the country's sugar stocks level “will rapidly approach the nil level”, ought to have put even more fire into the futures market.

The sell-off is even more remarkable, given that the day before the Indian economic panel made its pessimistic views known (views that, by-the-by, were swiftly disputed by Indian sugar millers) the International Sugar Organisation (ISO) raised by 2.2 Mt, to 9.43 Mt, its estimate for the global sugar supply-demand deficit in the 2009-2010 season, following what the ISO considers was a deficit well over 11 Mt in the previous season. Other sugar-watchers put the likely 2009-2010 deficit even higher, at close to 15 Mt. In the words of the ISO, “the stocks/consumption ratio has not been as low as the current 32% for 20 years.” And in the US worries are starting to grow that the USDA is taking too relaxed a view about the prospects for Mexico's output in the 2009-2010 season. Under NAFTA, Mexican sugar can be imported without restrictions into the US. The USDA currently has set import quotas for 1.231m short tons, but some suggest that a further 1m tons will be needed to meet domestic demand this year – and that Mexico will be unable to plug that gap, as (in a good year) it could. While the USDA is anticipating Mexico to be able to ship 540,000t of sugar to the US this year it may be able to provide much less, perhaps as low as 400,000t. And in China, sugar futures' prices are all just below contract highs – even following the late February collapse in the No.11 contract in New York. All-in-all, hardly the sort of fundamental news that provokes a sell-off – but as with other commodities, sugar futures' prices are currently under the sway of factors other than the physical markets. That may not last too long, however.

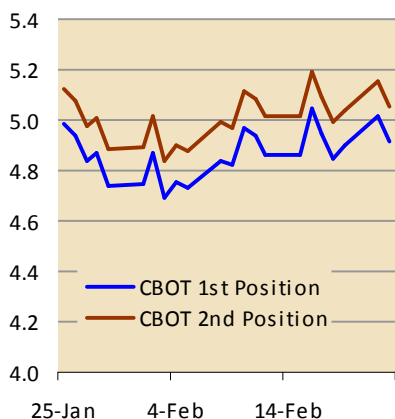
Sugar supply & demand balance, million tonnes

	2006/2007	2007/2008	2008/09	2009/10
Europe and FSU	26.69	24.93	22.63	24.12
Americas	59.11	58.19	63.58	65.18
Asia & Oceania	67.07	71.31	53.72	53.78
Middle East and Africa	13.21	12.65	13.04	14.08
Production	166.10	167.08	152.98	157.16
Europe and FSU	32.31	31.95	32.06	32.25
Americas	38.01	38.43	39.64	39.81
Asia & Oceania	58.54	61.47	63.15	64.39
Middle East and Africa	23.78	24.19	24.92	25.58
Unknown	4.31	4.56	4.56	4.56
Consumption	156.92	160.70	164.32	166.59
Balance	9.18	6.38	(11.34)	(9.43)
End stocks	64.46	71.99	60.73	53.06
Stock/consumption ratio	41%	45%	37%	32%

Source: International Sugar Organisation, VM Group

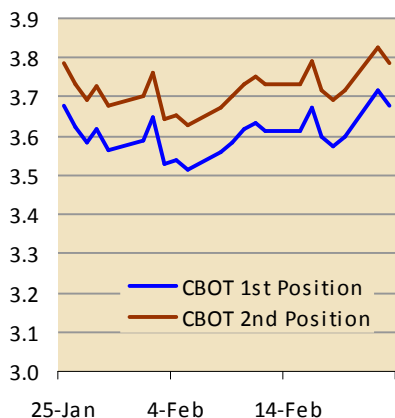
Wheat & Corn

Wheat, CBOT, \$/bushel



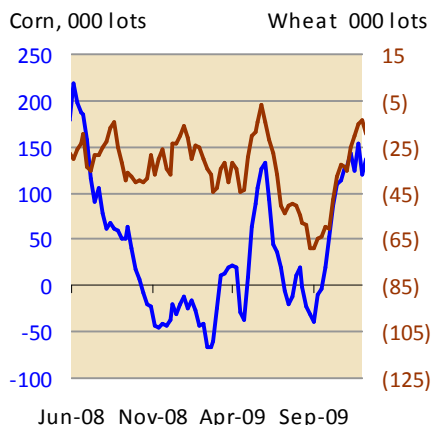
Source: VM Group

Corn, CBOT, \$/bushel



Source: VM Group

Corn and wheat speculation, 000 lots



Source: VM Group

News

- Feb 25:** The International Grains Council (IGC) raised its estimate for world wheat and corn production in the 2009-2010 season. Wheat output is now expected to total 675 Mt (1 Mt more than the IGC's January estimate), the second biggest on record, while corn production is now put at 797 Mt (6 Mt more than January), a fresh record.
- Feb 17:** Argentina's agriculture ministry issued its first forecast for the country's 2009-2010 corn crop, putting it at 19-21 Mt, a massive increase from drought-struck 2008-2009 output of 12.6 Mt and just short of record 2006-2007 production of 22 Mt. The end of the prolonged drought in the country will help yields improve substantially, despite a smaller growing area. The ministry maintained its previous wheat production forecast of, 7.48 Mt.
- Feb 10:** India is on course to produce a record 82.58 Mt wheat crop in the 2009-2010 season, according to the country's directorate of wheat research. India's previous record wheat harvest was 80.58 Mt, from the 2008-2009 season. The area planted to wheat this season was 27.8m hectares, very little more than last season, but beneficial weather will boost yields. India's wheat stockpile at the start of the year was 23 Mt, almost three times higher than the target set by the state.

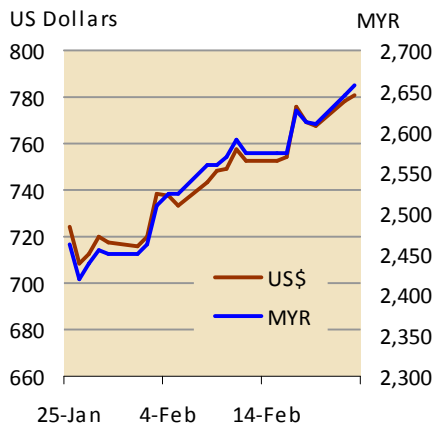
Short term outlook

The world's corn and wheat markets are facing abundant harvests during the 2009-2010 season. The latest estimates by the IGC are almost precisely the same as those from the USDA – and carryover stocks for the start of the 2010-2011 season are going to be very large for both crops. With little by way of bullish fundamental supply-demand issues on the horizon, competition for export business for both commodities is likely to get much tougher in the coming weeks and this could bear down on futures' prices.

Analysis

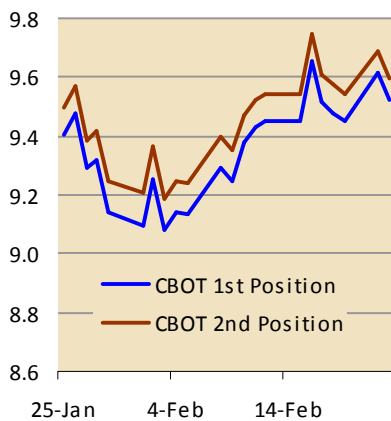
Where's the bullish news right now in the corn and wheat markets? One prop might be the latest view of the USDA, which in late February posited that, as a result of the cool and wet autumn weather US farmers sharply reduced their winter wheat plantings. It also estimates that, as a result of lower prices and the obviously substantial global stocks' position, US farmers will drift away from wheat when they come to make their planting decisions in the spring. According to the USDA, US wheat production in 2010-2011 will fall by 12% compared to the previous season, to 1.945bn bushels, largely as a result of a 9% drop in planted areas, at 53.8m acres. Two successive seasons of very high global wheat production have pushed prices down – on the CBOT wheat futures have dropped 10% since the start of this year – and it's difficult to see them sustaining their current level, almost \$5/bushel, given the massive global ending stocks likely to be seen by mid-2010. The UN's Food and Agriculture Organisation said in February that global wheat stocks by June could be 183.5 Mt, 28% higher than the same time two years ago. The outlook is only slightly brighter for corn, largely thanks to the USA's progressive shift towards greater output of corn-based ethanol. Currently the USDA expects US corn production in 2010 will be 13.2bn bushels, slightly higher than 2009, with 4.5bn bushels going into ethanol – a mere 200,000 bushels more than last year. But corn prices too will remain under pressure, not least because of large world wheat supplies and plentiful availability of wheat suitable for animal feed, substituting for corn.

Palm oil, BMDM, price/tonne



Source: VM Group

Soybeans, CBOT, \$/bushel



Source: VM Group

Palm oil & soybeans

News

- Feb 23:** Indonesia is to maintain its export tax on crude palm oil (CPO) at 3% in March. Indonesia uses Rotterdam spot prices to benchmark its CPO export tax rate – they have fluctuated between \$751-\$800/t in recent weeks.
- Feb 12:** Argentina will begin to impose a 5% domestic biodiesel blending mandate from March. Biodiesel production in Argentina could accordingly reach 2 Mt in 2010, up from 1.2 Mt in 2009, with 650,000-700,000t expected to derive from the domestic market.
- Feb 9:** The USDA raised its estimate for world soybean production for the 2009-2010 season to 255.02 Mt, a modest 1.64 Mt increase from its January estimate. Most of the increase is due to revisions to South American crops; projected output by Brazil was raised to 66 Mt, just shy of the estimate of 66.7 Mt made by Brazilian crop agency Conab on the same day. Output from Argentina is expected to rebound to 53 Mt, v. 32 Mt in the drought-afflicted 2008-2009 season. Import demand from China was unchanged from a January estimate of 14.5 Mt, somewhat weaker than demand for 15.5 Mt of soybean imports over 2008/09.

Short term outlook

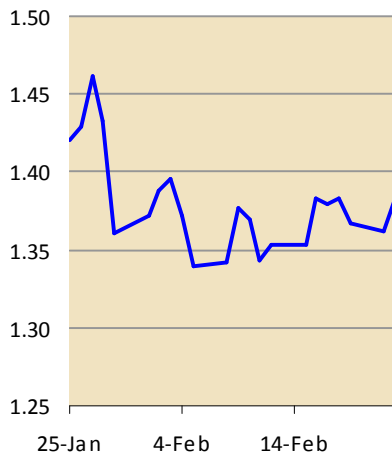
Even though they have slipped by more than 10% since the start of the year, soybean futures have held up surprisingly well, given the regained strength of the dollar and what are quite bearish supply-demand fundamentals. South American output this year is likely to be vast, and there have been noises emerging (from relatively independent sources) in China that the country is unlikely to raise its imports this year much above last year's 42.55 Mt. So the fact that futures prices are keeping their noses above \$9/bushel is noteworthy – the May contract on CBOT settled on 23 February at \$9.595/bushel.

Analysis

Not much stands in the way of a massive soybean harvest from Brazil and Argentina, although heavy rainfall in Brazil has helped spread rust fungus, which could lower yields. There may also be some logistical interruptions in actually getting the South American harvests shipped out – queues of soybean-laden trucks 15 km long have been reported in mid-February outside the port of Paranagua in the Brazilian state of Parana, waiting to be unloaded, while in both Argentina and Brazil truck drivers are demanding wage increases of around 30%. But with prices remaining relatively high, farmers in both North and South America have plenty of incentive to commercialise their product – and also keep planting levels high for the 2010-2011 season.

As for palm oil, Malaysia, recently displaced by Indonesia as the world's biggest producer, may slip back even further, as rainfall between May-December 2009 in key growing regions was 24-25% below normal – the dryness being closely correlated with El Niño – and this is impacting yields. The country's total crude palm oil production fell by 4.7% month-on-month in December to 1.5 Mt, and its palm oil inventories in January fell 10.66% to 2 Mt. On the other hand the biggest palm oil producing region of Indonesia, Sumatra, has been receiving plentiful rainfall – much more than normal during November 2009-January 2010.

FCOJ, ICE Futures US, \$/pound



Source: VM Group

Frozen concentrated orange juice

- **Feb 10:** The Florida Citrus Commission approved \$1.6m worth of budget cuts for 2009-2010, equivalent to the loss in revenue anticipated from crop losses following the January freeze.
- **Feb 9:** The USDA's latest estimate for the 2009-2010 Florida orange crop revised it down to 129m 90-pound boxes, 6m boxes less than its January estimate, and 21% lower than the 2008-2009 season. It also cut by 3% its expectations for yields per box, to 1.56 gallons; the previous season saw average yields of 1.66 gallons per box.
- **Feb 5:** Brazil is expecting much higher revenues for its exports of FCOJ this year compared to 2009, when prices collapsed in the wake of the economic recession and a serious decline in demand. Brazil exported 1.3 Mt of FCOJ, slightly more than in 2008 but contract prices last year were around \$1,000/t while export deals already signed this year are closer to \$1,500/t, according to the country's BR Citrus industry group.

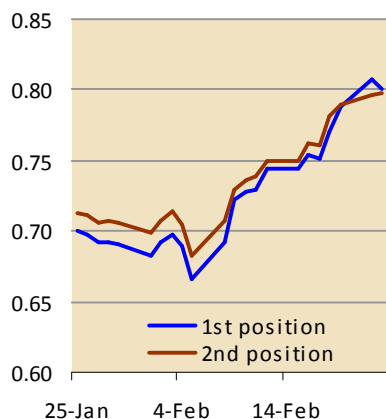
Short term outlook

The lowered estimate by the USDA for the Florida crop prompted a 2.5% rise in the day-on-day closing price of FCOJ futures on 9 February, but the severity of the January freeze across Florida had already been well priced-in, and futures' prices have failed to recover the fizz that followed hard on the heels of the frosty weather. Having touched an intra-day trading high for 2010 of \$1.5115/pound in January the price on ICE Futures US has drifted lower and by 23 February the front-month contract, March, settled at \$1.3825/pound (1.5% higher than the previous close) and the May contract finished at \$1.4175/pound (1.4% higher). FCOJ futures have been one of the early stars of commodities in 2010, up by some 10% since the start of the year and, although there will obviously be more volatility ahead, given the vagaries of external influences (such as the shifting sands of the US dollar) the upward trend remains in place in our view, not least because there will be enhanced scope for weather-plays in the coming months, as the 2010 Atlantic hurricane season is unlikely to be as totally dormant as it was in 2009.

Analysis

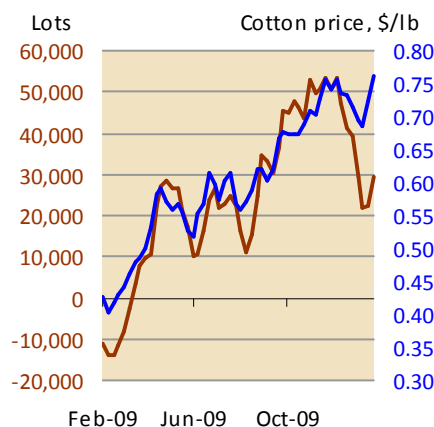
On 10 March the USDA is due to give a fresh estimate, which may see yet another cut in its expectations for the Florida crop of FCOJ. So far the estimate is that the January freeze caused crop losses of 4% but that is almost certain to be revised higher in March. The 2009-2010 crop was already likely to be a small one, even before January's bad weather – a fifth lower than that of 2008-2009. A crop of 129m 90-pound boxes places Florida's orange output back to levels last seen in 2006-2007, following the severe hurricane season of 2005. During the last great freeze, which hit the 1989-1990 season, the Florida crop fell to 110.2m 90-pound boxes. Moreover there is some concern that Florida's trees will struggle to recover from the January 2010 eight-day freeze, and that the 2010-2011 crop will also be relatively low by historic standards. For the moment \$1.50/pound remains a target but longer term that should be exceeded as demand gradually recovers, and the structural problems in Florida's orange groves – shrinking acreage and spreading citrus greening – remain in place.

Cotton, ICE Futures US, \$/pound



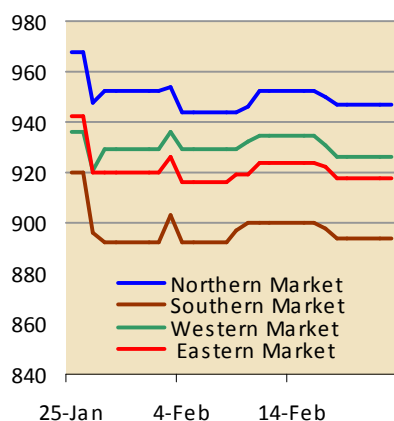
Source: VM Group

Cotton speculation, lots and price, \$/pound



Source: VM Group

Wool prices, Australian market, Aus c/kg



Source: VM Group

Cotton and wool

News

- **Feb 24:** China's cotton imports in January were more than 301,000t – almost four times greater than the same month last year, according to Chinese customs data.
- **Feb 19:** The USDA forecast US cotton production in 2010 would rise to 16m bales, up from 12.4m bales in 2009. In the 2010-2011 marketing year, the USDA expects world cotton use to rise by 2.6% to 118.5m bales, while global output is expected to rise by 10.5%, to 113.5m bales.
- **Feb 5:** US farmers will this year increase cotton plantings by more than 10%, to almost 10.1m acres, the largest increase in planted area since 1995, according to the cotton planting intentions' survey conducted by the US National Cotton Council (NCC).

Short term outlook

Cotton futures broke through the 80 cents/pound barrier on 23 February – a marked contrast to other agricommodities which slumped badly on the same day. The benchmark May 2010 contract on ICE Futures US peaked at 80.10 cents/pound on 23 February before settling at 79.77 cents/pound. There's no obvious reason why cotton should have rallied so strongly on a day when other soft commodities – with arguably a much more compellingly bullish supply-demand outlook – slumped, other than a rush of blood to the head. World trade is beginning to recover and economic conditions are improving; in the longer term growing cotton demand will start to make a significant impact on prices – but 80 cents/pound at this stage of the cycle is a step too far. Moreover, as is clear from the NCC's planting intention survey, it does not take much of a price rise to tempt farmers back; the higher the price rises, the more cotton will be planted. The recent price rally has kicked off too early to be solidly-based as all it will do is encourage much more planting, which in turn will probably constrain a much stronger surge higher.

Analysis

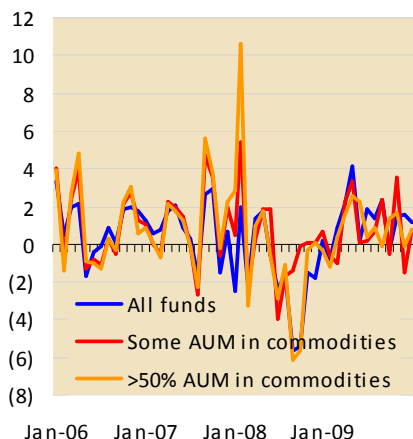
The terrific jump in China's cotton imports in January is the strongest indication yet that the outlook for cotton consumption is improving – but not much weight can be put on one month's figures, even if they derive from the world's biggest cotton buyer. Moreover, India – the world's second biggest cotton producer – is likely to see higher output in the 2009-2010 season, around 1m bales more (at 30m bales) than the previous season, according to the country's textile commission, and the USDA anticipates a recovery in China's own cotton crop this year, up by 9% at 35m bales. According to the USDA's latest outlook "Continued economic recovery, especially in developing countries will boost world consumption growth modestly above the long-run average of about 2 percent," up to 118.5m bales. As well as higher year-on-year output in China, India and the US, the USDA also expects Australia, Brazil, and Pakistan to produce more cotton in the 2010-2011 season. Brazil is expected to produce 15% more cotton due to expanding cotton acreage, seen up by 950,000 hectares, some of which will come from land previously put to soybeans. Although the USDA sees global stocks by the end of the 2010-2011 season declining by 8.5%, to 16.8m bales, the stocks-to-consumption ratio will remain fairly high, at 41.8%, v. 45.1% in 2009-2010.

Fund activity

News

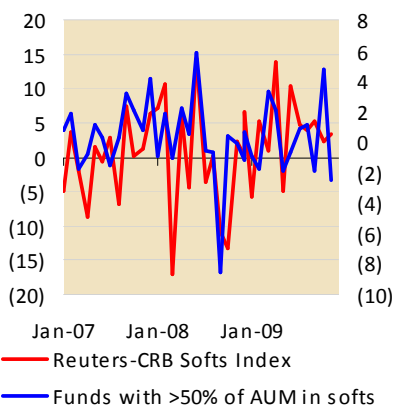
- Feb 23:** A study published by the Financial Services Authority could provide some analytical clout to attempts to rehabilitate the maligned reputation of hedge funds. The FSA study looks closely at hedge fund borrowing and shows that actual levels of leverage in the industry are relatively low. Information from the UK-based hedge fund firms and prime brokers shows that, on average in the month of trading activity studied, funds were borrowing \$102 for every \$100 taken in from investors. Considering both long and short positions held directly or via derivatives, the average size of fund presence represented 328% of investor assets. The FSA concluded that this data showed a “contained” level of systemic risk.

Hedge fund returns by commodity weighting



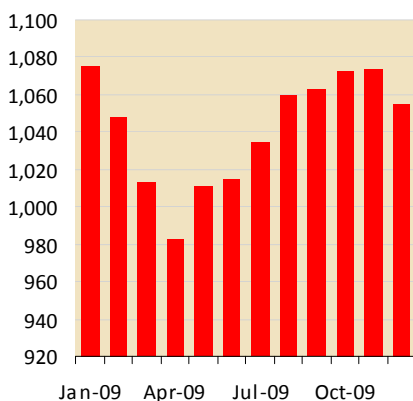
Source: VM Group

Hedge fund returns in softs, % monthly



Source: VM Group

Hedge funds AUM, \$bn



Source: VM Group

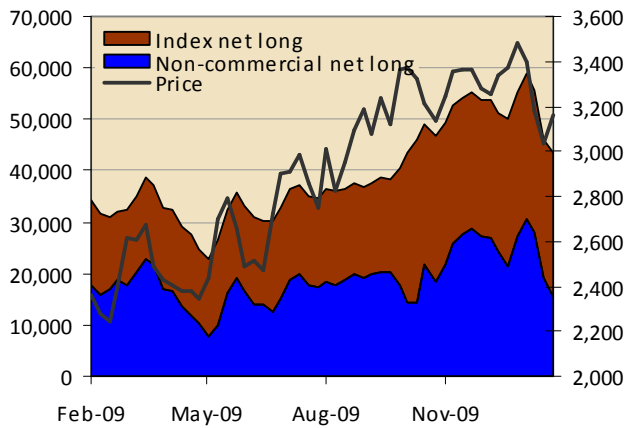
2009: a strong recovery

Final December data now available shows that the hedge fund sector overall returned 16% during the course of 2009, while funds with commodity investment returned 10%. Overall, funds finished the year with average monthly returns of 1.52%, but after a strong showing in November, commodity strategies suffered a negative run at the close of the year. In December 2009 energy funds lost 2.13%, metals funds lost 2.21%, while softs funds lost 2.52%. Funds suffered net outflows in December, with AUM levels dipping to just over \$1.5 trillion, a drop which can be put down to year-end redemption requests. Preliminary January data suggests that the downturn in commodity funds’ performance foreshadowed a dip in the performance of the sector overall. Negative returns are expected all round for the first month of 2010.

The drive to more tightly regulate financial markets eased back somewhat in February. In the US, it looks like a less strident version of the Volcker Rule will eventually be put to legislators. This is the proposal by the former Federal Reserve chairman, Paul Volcker, which in its original framing sought to restrict banks from owning, investing in or sponsoring hedge funds. The original version has run into opposition in Congress from top ranking Democrats, some of whom are mindful of the \$7.2 trillion Treasury securities market, which would surely suffer a liquidity hit under the proposal to curb proprietary trading. The initial endorsement of the rule by the Obama administration is crumbling as the realisation grows that it will not address the regulatory failures preceding and partially precipitating the financial crisis. In Europe, the rumblings around the EU’s AIFM Directive continue. Currently the EU parliament has before it 1,300 proposed amendments to the Directive, a veritable bureaucratic feast. But it is in the fiscal interests of the EU as a whole to agree a favourable compromise. According to estimates from the Alternative Investment Managers Association, the European hedge fund industry generates tax revenues of around €4bn a year. ECB data shows that eurozone hedge funds may already be losing out – assets declined from €81.5bn in April 2009 to €77bn in September 2009, while funds in other regions were enjoying solid growth rates.

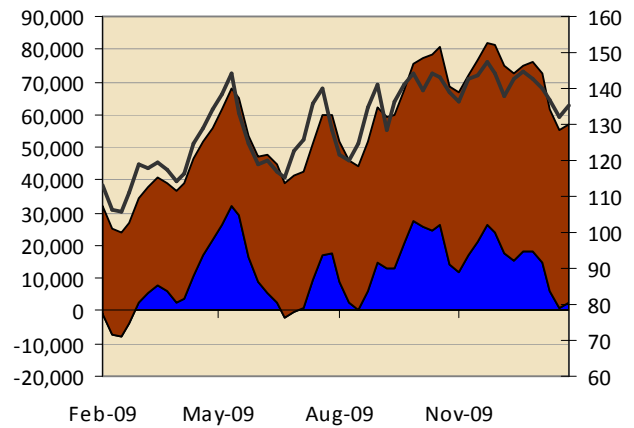
CFTC positions

Cocoa, ICE Futures US, lots & \$/tonne



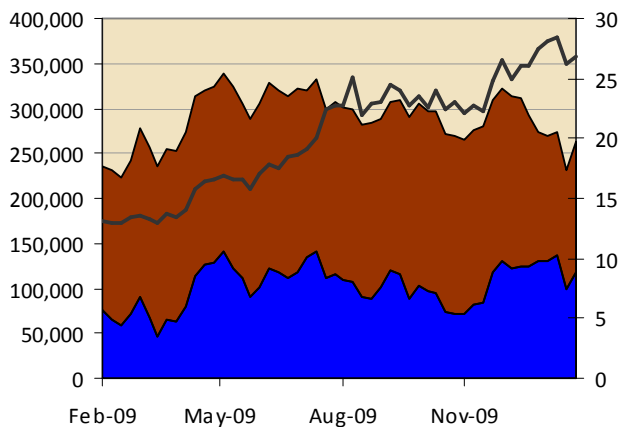
Source: VM Group, CFTC

Arabica coffee, ICE Futures US, lots & cents/pound



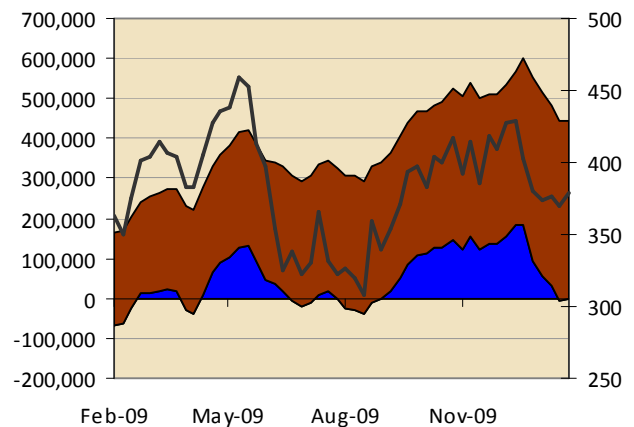
Source: VM Group, CFTC

Sugar no.11, ICE Futures US, lots & cents/pound



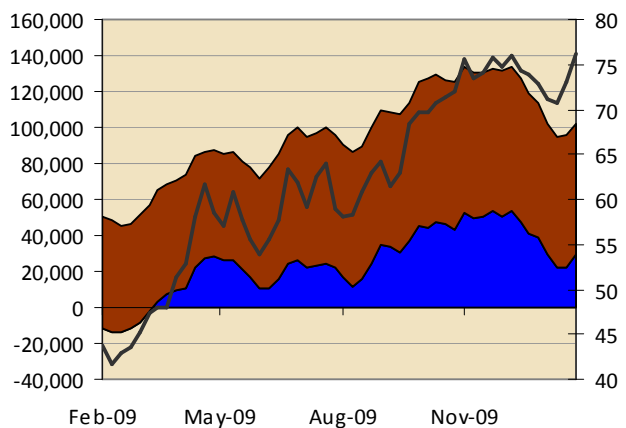
Source: VM Group, CFTC

Corn, CBOT, lots & cents/bushel



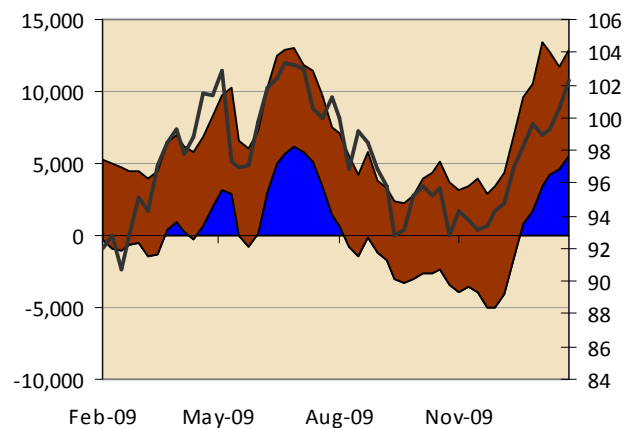
Source: VM Group, CFTC

Cotton no.2, ICE Futures US, lots & cents/pound



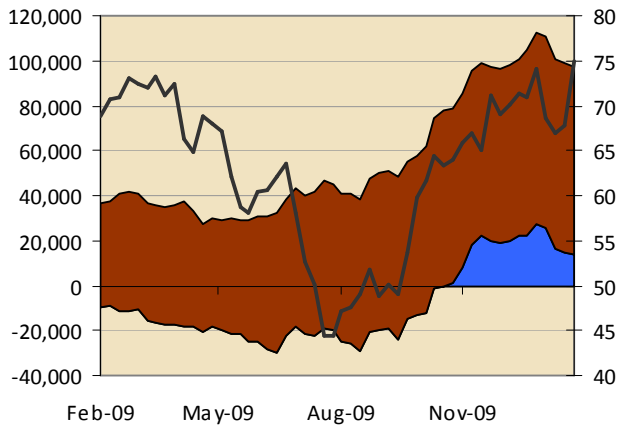
Source: VM Group, CFTC

Feeder cattle, CME, lots & cents/pound



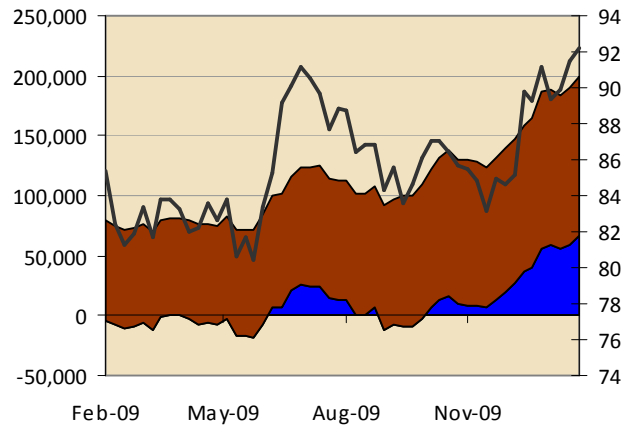
Source: VM Group, CFTC

Lean hogs, CME, lots & cents/pound



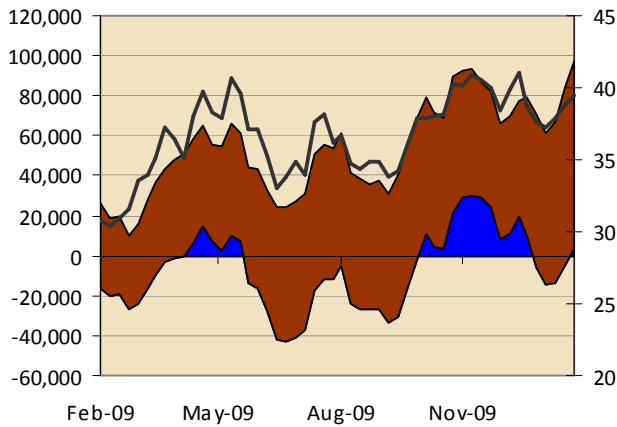
Source: VM Group, CFTC

Live cattle, CME, lots & cents/pound



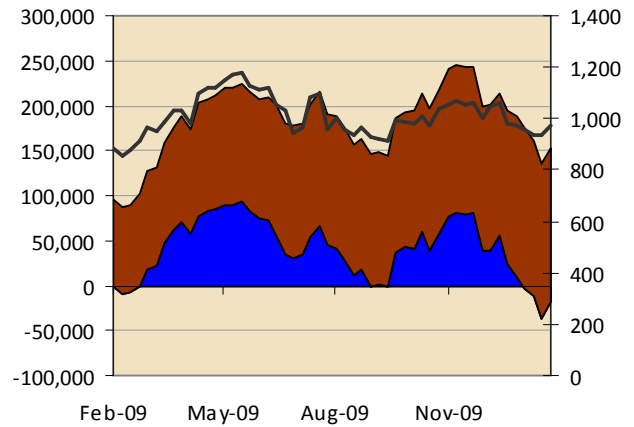
Source: VM Group, CFTC

Soybean oil, CBOT, lots & cents/pound



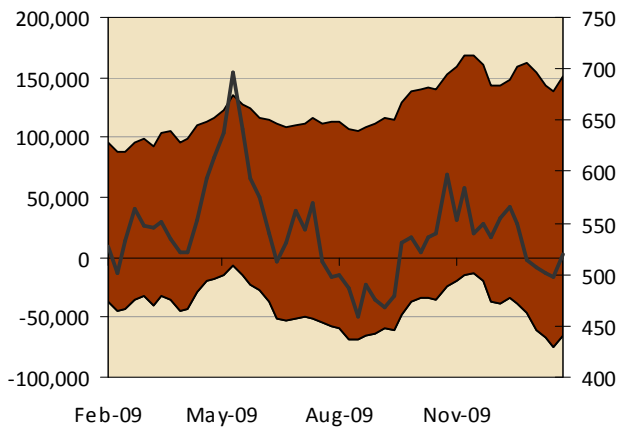
Source: VM Group, CFTC

Soybeans, CBOT, lots & cents/bushel



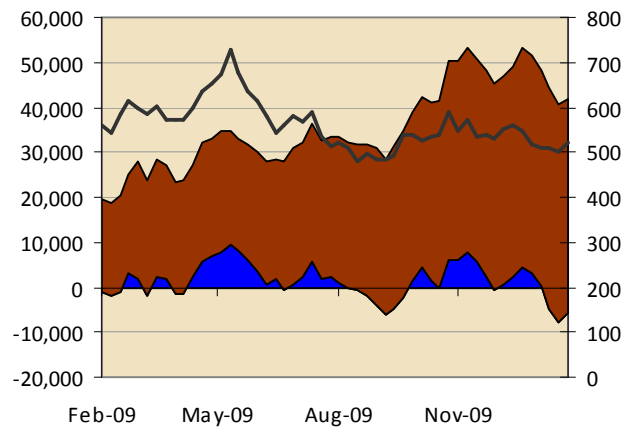
Source: VM Group, CFTC

Wheat, CBOT, lots & cents/bushel



Source: Source: VM Group, CFTC

Wheat, KCBT, lots & cents/bushel



Source: VM Group, CFTC

If no non-commercial positions shown, the overall position is net short

About VM Group

VM Group is a commodities research consultancy that covers not just conventional energy, but also renewable energy, carbon, base and precious metals, and agricommodities. The VM Group comprises a uniquely skilled team that is highly experienced in the analysis of the fundamentals of commodities and their geopolitical impact and contexts.

VM Group work excels in macro-economic analysis, the generation of supply and demand scenarios, costs analysis, derivative research and price forecasting. Confidentiality, experience and independence are key elements in this advisory capacity. We deliver excellence to those in need of external expertise, as well as those who wish to supplement their own in-house resources. Our extensive international contacts mean we are able to span the globe.

To see further how we can meet your research and consulting requirements, please email: info@vmgroup.co.uk

VM Group
100 Ashmill Street
London NW1 6RA

Tel: +44 20 7569 5930
Fax: +44 20 7569 5931.

VM Group disclaimer and copyright

This report was prepared by VM Group. VM Group has made all reasonable efforts to ensure that all information provided in this report is accurate and reliable at the time of inclusion (the 1st of this month otherwise stated), however, there may be inadvertent and occasional errors and lack of accuracy or correctness, for which VM Group cannot be held responsible. VM Group and its employees have no obligation to inform the reader when opinions and information contained in this report change.

VM Group makes no representation or warranty, express or implicit, as to the accuracy or completeness of contents of this report. This report is not and cannot be construed as an offer to sell, buy or trade any securities, equities, commodities or related derivative products and the report in no way offers investment advice. Therefore VM Group employees accept no liability for any direct, special, indirect, or consequential losses or damages, or any other losses or damages of whatsoever kind, resulting from whatever cause through the use of any information obtained either directly or indirectly from this report.

The contents of this report, all the information, opinions and conclusions contained are protected by copyright. This complete report may not be reproduced without the express consent of VM Group. Short extracts may be reproduced but only with the full and appropriate citing of the original source.

Fortis Bank Nederland disclaimer and copyright

The contents of this document are confidential and proprietary to Fortis Bank (Nederland) N.V. and its affiliates ("Fortis") and may not be disclosed to a third party without Fortis' prior written consent. This document is provided for information purposes only and as an accommodation to you. The information contained herein (the "Information") is current as at the date of issue and Fortis shall be under no obligation to notify you of any changes to the Information or otherwise to update the Information after this date. Any material contained herein is for information purposes only and should not be regarded as an offer, recommendation or solicitation to buy or sell securities or derivative products. It does not contain a complete description of any particular product or transaction and any investment decision should be based upon the final documentation prepared in relation to any particular product or transaction.

Information may have been obtained from, and/or based upon information obtained from sources that Fortis believes to be reliable, however the accuracy and completeness thereof and the computations based thereon cannot be assumed. No representation or warranty, express or implied, is or will be made, and no responsibility or liability is or will be accepted by Fortis or any of its officers, servants, agents, employees or advisors in relation to the accuracy or completeness of this document or the Information. The Information must be considered in conjunction with all other publicly available information. This document may include various forms of performance analysis, characteristics and pricing estimates. Such information and any opinion, estimate or projection contained in this document is illustrative only and is not intended to predict actual results which may be expected to differ substantially from those described in this document. Past performance is not necessarily indicative of future results.

Fortis is not providing you with investment advice or a personal recommendation nor will it be deemed to have done so. The Information is being provided to you because we believe, based upon statements and other indications you have provided, that (i) you have sufficient knowledge, experience and professional advice to understand and make your own independent evaluation of the merits, risks and suitability of making an investment in the type of products or transactions described herein; (ii) you are not relying on Fortis for information, advice or recommendations of any sort, except factual information, about the terms of any product or transaction; and (iii) you have sufficient financial means to accept the risk connected with any product or transaction described herein. Fortis acts as principal in transacting with you and does not owe any fiduciary duties to you. You must determine the suitability of any products or transactions described herein. The products and transactions described herein may not be suitable for all investors. Fortis is not providing you with financial, legal, tax, regulatory or accounting advice. It is your responsibility to seek your own advice in these respects and to satisfy yourself that you are aware of any such risks associated with the products or structures described in the Information. Fortis expressly disclaims any responsibility for any uses to which you put this information.

This document does not purport to identify or suggest all of the risks, direct or indirect, which may be associated with any products or transactions described herein. Fortis may have positions in trades and securities similar to the products and transactions described herein. There may be no market for products described herein, therefore investors should be prepared to hold any product until maturity. If you unwind a transaction early you may receive less than the stated redemption amount. Any transaction is subject to approvals, procedures and policies determined by Fortis and prevailing market conditions. The Information does not constitute research and as such may differ from published views.

Fortis Bank (Nederland) N.V. is authorised by De Nederlandsche Bank N.V. in the Netherlands and regulated by the Financial Services Authority for the conduct of investment business in the United Kingdom. Registered Office: Prins Bernhardplein 200, Amsterdam, 1097 JB, Netherlands.

Fortis GMK UK Limited is regulated by the Financial Services Authority for the conduct of investment business in the United Kingdom. Registered Office: 5 Aldermanbury Square, London, EC2V 7HR, United Kingdom (Company number 02706278).