

ences in crop years, 2) we didn't properly account for the lag between green bean prices and retail prices. Neither of these errors significantly alters our conclusion.

We now recognize a 12 week lag between green prices and retail prices. This being the case, and assuming an average wholesale mark-up of 40% and an average retail mark-up of 27%, we have yet another 6 weeks or so to go before retail prices reach the \$4.80/lb level and result in our projected 25% decline in consumption.

The figures in our table for crop year 1976/77 are arrived at by factoring in a trend of resistance beginning in February that reaches a maximum of 25% in mid-June. From July of last year until February we subscribe to the general consensus that resistance averaged 5%. Over crop year 1977/78 our figures are arrived at by factoring in an even greater degree of resistance - 30% - over the first quarter as retail prices will continue to chase green bean prices of 12 weeks previous. Mark-ups have been reduced assuming profits margins will have a ceiling of \$1.10 wholesale and \$1.00 retail. The final three quarters are graded on a sliding scale from 30% to 7.5% by the 1978/79 crop year. All countries are adjusted by per capita GNP using the U.S. as a comparison base except producer nations whose traditionally strong coffee drinking habits should serve to balance out such considerations.

CONCLUSION:

Clearly the greatest influence on this market is the relative (lack of) strength of demand. We strongly believe the market has already anticipated the resistance and thus achieved a primary top 2 weeks ago at the 340 level. As stated in February, backwardation is the key.

	<u>SEPT</u>	<u>MAR '78</u>	<u>SPREAD</u>
April 26	313.87	304.00	9.87
April 15	340.00	329.00	11.00
April 1	318.00	308.00	10.00
March 15	300.00	294.00	6.00
Feb. 28	269.33	264.52	4.81

You will observe that we've noted only the September/March switch rather than the May or July/March. This is because we believe the market will not "ultimately" collapse until 1) the threat of another July frost passes; 2) there is a resolution of the longshoreman's contract in New York which expires in September. Between now and then we feel coffee will fall as low as 275 (basis spot). Around that level producers will attempt to bolster cash prices. This will cause 1) a trading range between 275 and 315, 2) widening backwardation.

RECOMMENDATION:

Sell 1978 contracts at present levels.

As we pointed out in February's report New York coffee C, because the deliverable grade is Colombian Manizales, normally sells at a premium to London coffee where the deliverable grade is the more bitter, African Robustas. However, during the hysterical buying spree that occurred in February especially, roasters abandoned discretion altogether to the extent that London actually began selling at a premium to New York. Assuming that calmer times would restore the normal equilibrium - London worth about 75% of New York - we recommended shorting London. The following table confirms our assumptions.

<u>Date</u>	<u>Ldn Price</u>	<u>Spot Rate</u>	<u>Ldn Price</u>	<u>N.Y. Price</u>	<u>Diff. (¢/lb)</u>	<u>% Diff. Ldn vs N.Y.</u>
Apr 27	£ 3,530	171.96	¢ 275.40	¢ 299.00	23.60	92.1
Apr 15	4,035	171.77	314.47	334.50	20.03	94.0
Apr 1	3,805	171.98	296.90	313.50	16.60	94.7
Mar 15	4,030	171.725	313.99	305.50	- 8.49	102.7
Mar 1	3,935	171.385	305.98	291.00	-14.98	105.1
Feb 15	3,180	169.875	245.10	243.75	- 1.35	100.5

London has a built-in propensity to fall 17% relative to New York during the current downside move. In addition, our recommendation to hedge against the pound no longer applies as we now feel confident that Sterling will appreciate.

CHANGES SINCE FEBRUARY:

- 1) New York margin is now \$17,000. London margin is now \$5,500.
- 2) Option trading in Ontario has been suspended by the Ontario Securities Commission.

All statements made herein, while not guaranteed, are based on information considered reliable and are believed by us to be accurate.