

CONFIDENTIAL

YOUR BEST SOURCE OF INFORMATION ABOUT THE BRAZILIAN COFFEE BUSINESS. THIS ISSUE:

- **LET'S SHARE IDEAS AND EXPLORE TOGETHER OPPORTUNITIES FOR THE COFFEE SECTOR (PAGE 3)**
- **COFFEE PROCESSING OPPORTUNITIES AT COVID-19 AND NEW NORMAL TIMES (PAGE 4)**

NOT MUCH IMPACT OF COVID-19 IN MINAS GERAIS COFFEE SECTOR

The coffee production sector has not been strongly affected by the Covid-19 pandemic, continues to harvest and reinforced the adoption of good practices aimed at protecting growers and their employees from the pandemic. Concern however remains since scarcity of labor may become a major problem. Coffee cooperatives are feeling the impacts of an unstable market due to speculation in terms of production and trading, exchange rate variation, etc.

Source: Sistema OCEMG (Organization of Cooperatives in Minas Gerais)

GREEN COFFEE EXPORTS TO THE US NOT IMPACTED BY PANDEMIC

Although the United States has recently banned Brazilians from entering the country in the face of the COVID-19 crisis, coffee exports to the country have not been impacted and should remain that way, according to Cecafé (Brazil's Coffee Exporters Council). The entire coffee value chain has been complying with the WHO and local authorities health protection procedures. Cecafé and its members are deeply committed to strict traceability and sustainability standards and together with partners, such as the Global Coffee Platform, coordinates several initiatives to educate and train coffee growers and other professionals towards environmental management, digital inclusion, responsible use of agrochemicals and labor safety, with COVID-19 prevention included now.

Source: CaféPoint

COFFEE INSTITUTIONS IN MINAS GERAIS DONATE TO HELP CONTROL PANDEMIC

Cooxupé donated R\$ 2 million (US\$ 390 thousand) to hospitals to help face the Covid-19 challenges. Half of the donation will benefit local hospitals in cities where the cooperative operates in more than 70 municipalities in the regions of South of Minas and Cerrado Mineiro and São Paulo's Mogiana region. The other half will assist regional hospitals. Minasul, the second-largest coffee export coop in the country, located in Varginha municipality, also helped with donations of personal protection equipment (PPE's) as well as equipment and chemical products for cleaning streets. The FAEMG/SENAR Minas System – Agricultural Federation and state branch of the National Agri-extension Service, respectively – expanded its campaign and will distribute 50,000 masks till the end of this month of June.

Source: Senar Minas

HIGHER THAN EVER FUTURE SALES OF COFFEE

According to the Agency in Charge of Warehousing and Crop Estimates (CONAB), Brazilian growers have already sold one-third of the 2020/2021 Arabica coffee crop now being harvested. This represents the highest level of anticipated sales of all Brazilian agricommodities in the same period. After facing low prices in 2019, growers profited from the futures market's higher prices last November and the sequence of devaluations of the exchange rate to sell coffee yet to be produced. In Minas Gerais state, which corresponds to over 50% of Brazilian coffee production, 60% of the crop has already been sold, to be compared with 35 to 40% at the Alta Mogiana region. Conilon coffee prices also increased significantly at the end of 2019 and future sales already represent 50% in Espírito Santo state. Although Conilon harvesting is advancing, a productivity decrease of 20% is expected in the region due to climate issues and the high dollar value that directly impacted fertilizer prices.

Source: Notícias Agrícolas

MORE WOMEN IN COFFEE IN BRAZIL

Women have been more and more present in coffee growing in Brazil, from administrative and leading roles to field work. COCAPEC cooperative, located in Franca, Mogiana region, has noted a 9% increase of women engaged in coffee production over the past eight years. There are two trends, according to the coop’s commercial director: the role of the wife that participates in coffee activities and the protagonism of the daughters who are engaged in the business and continue their parents’ legacy.

Source: Notícias Agrícolas



COFFEE PRESERVES FORESTS AND HELPS INDIANS IN RONDÔNIA

Coffee farms in Rondônia state generate employment and income for 17,000 families, including indigenous people, without destroying the Amazon Forest. Average coffee productivity went from 8 to 36 bags/ha from 2001 to 2020, with some farmers reaching up to 180 bags/ha. The planted area decreased from 318,000 to 71,000 hectares in the same period. Indigenous people had their land titled and returned by the Brazilian government and keep producing coffee and preserving the native forest. Robusta coffee growing benefits from the region’s high temperature and moisture and forest shade.

Source: Agência Brasil

ATTACK BY FRUIT FLIES CAN ACCELERATE FALLING OF COFFEE CHERRIES



Even though the fruit fly is considered a minor pest in coffee, two species have been frequently identified attacking Arabica cherries – *Ceratitis capitata* (with dark spots over the body) and *Anastrepha fraterculus* (yellowish color). A dark hole is observed in unripe cherries, usually on their side, with a part of them falling to the ground. The ripe cherries, most attacked by these flies that make the same holes, develop a necrosis process around the puncture due to fungus. The mucilage of the cherries is also consumed by the larvae of the flies which accelerates the transition from ripe

to overripe to dry cherry, weakening the stems of the fruit and accelerating their fall to the ground. Studies have shown growth in the fall of ripe cherries due to flies in coffee regions in the northern part of Espírito Santo state.

Source: Procafé

COLD WEATHER AND ITS IMPACTS ON CURRENT AND NEXT COFFEE CROP

The early than usual cold weather that hit coffee growing areas of Brazil at the end of May did not cause damage to coffee now being harvested but may make the off-year 2021 crop even smaller. The impact of low temperatures can put the plant in a dormant stage and the time required to return to its normal condition may result in smaller production.

Source: Estadão

BRAZILIAN EXPORTS AND DOMESTIC CONSUMPTION OF SOLUBLE COFFEE INCREASE

According to the monthly survey of the Brazilian Soluble Coffee Industry Association (ABICS), the segment had a positive performance in the first four months of the year. Export volumes increased 7.3%, totaling 1,329,923 bags, and revenues increased 0.5% compared to the same period of 2019. Eighty-seven countries imported Brazilian soluble coffee during this period and the USA was the main destination followed by Russia, Argentina, Japan, and Indonesia. Domestic consumption also showed a positive performance, with an increase of 11%.

Source: Abics

Brazilian Prices: Main Producing Regions / Farm Gate

May 29, 2020

Arabica Naturals (R\$/ 60 kg bag)		Conilon / Robusta (R\$/ 60 kg bag)	
Cerrado MG	485,00 ↓	Colatina-ES fair average price	334,00 ↓
Mogiana	480,00 ↓		
South Minas	480,00 ↓		
Arabica Pulped Naturals (R\$/ 60 kg bag)		BM&F (US\$/60kg Arabica bag)	
Cerrado MG	575,00 ↓	Jul 2020	110,15 ↓
South Minas	570,00 ↓	Sep 2020	106,30 ↓
		Dec 2020	111,35 ↓
		Real R\$ / Dolar US\$	
		May 29, 2020	5,34 ↓

+ 19.8%

Source: www.qualicafex.com.br

LET'S SHARE IDEAS AND EXPLORE TOGETHER OPPORTUNITIES FOR THE COFFEE SECTOR

There is a long debate about how the misinterpretation of Chinese characters led to the concept that “crisis = opportunities”, i.e., that one should explore opportunities at times of crises. Why not use a Chinese-born concept to investigate how to get the best out of this Chinese-born pandemic?

There are opportunities to be pursued in spite of the sad realities of present times. In order to do this, we must first understand how Covid-19 is affecting the coffee sector from cup to seed, not from seed to cup as usually said. What is happening at the consumption end of the supply chain will have a great impact in producing countries that, in turn, have Covid-19 affecting coffee production and logistics activities not to say local consumption itself. The latter is very relevant in countries like Brazil, Indonesia, Ethiopia, and also China, that may already be the fourth largest coffee consumer among producing countries.

The impacts of Covid-19 on consumption seem to follow a more similar pattern in most consuming markets than on production. Impacts in producing countries depend a lot on two key factors: the extent of social distancing or lockdown implemented in the country and the stage of the coffee year the country is in. Brazil, Peru and a few other countries are in full harvesting season while countries like Colombia, a few in East Africa and others have their fly crop now. However most countries will have their main harvesting season from October/November to February/March. The impacts of the pandemic are likely to be much stronger in the countries that are harvesting now. Hope is that the ones that will harvest at the end of the year will do so, one expects, at easier New Normal times.

What is being seen now and projected for 2020 at the consumer end is an increase in the consumption of commercial coffees and a drop in specialty coffees with the extent of the decrease depending on how fast New Normal will come and what it will look like. Independently of the recent price drop at the coffee exchanges, average prices paid to growers are likely to fall as will the volumes of higher quality coffee.

What can growers do to protect themselves and weather the crisis? This is what I want to discuss with you in the webinars you will hear about and be invited to still in this month of June or in early July.

The webinars, either in English or Spanish, will also address suggestions for cooperatives, coffee millers and local and multinational traders in the different coffee growing regions that they will cover. Be alert for the invitation that Confidential readers in producing countries will receive.

The belief that there are opportunities at crisis times requires thinking our-of-the-box and this is what we want to engage in together. I will use the initial part of the Webinar to make a short presentation that will be followed by questions from members of the P&A team who know the region well. We will then have time for questions from the participants.

The questions will help investigate short-term solutions that may however be used later at New Normal and normal times, if they ever come back. Reality is that the future has never been like the past and New Normal may be just another name for future, but assuming that changes will be more drastic and happen quicker than before. Let's speculate together what this will look like for the coffee production chain in producing countries and what opportunities it will create.

If you are not in a producing country but would like to participate in a webinar about one or several of them, please drop us a note saying so and we will invite you.

COFFEE PROCESSING OPPORTUNITIES AT COVID-19 AND NEW NORMAL TIMES

SPECIAL SALES CONDITIONS FOR COVID-19 TIMES



LESS THAN 50%
OF FOB PRICE



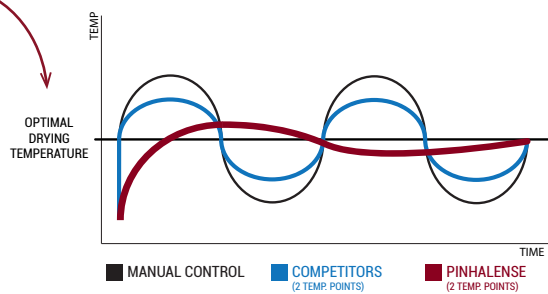
3 INSTALLMENTS
WITH LAST ONE
AFTER SHIPMENT

SMALL CENTRAL WET MILLS



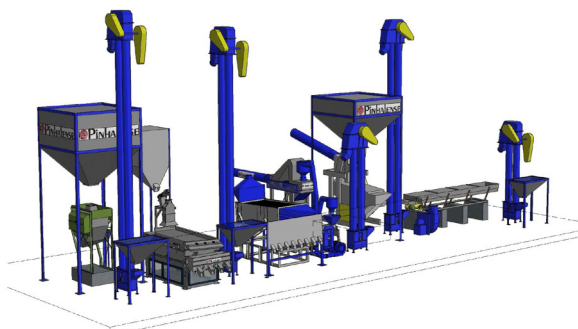
Learn more at Coffidential's Machine of the Month: <https://bit.ly/3dVxAS5>, <https://bit.ly/2LGQcsQ>.

DRIERS (INCLUDING *DIVIDED* AND *SMALL DRUMS*), OVERHEAD *DRYING SILOS* AND ELECTRONIC *DRYING CONTROL SYSTEMS*



Learn more at Coffidential's
Machine of the Month:
<https://bit.ly/3bLCJup>,
<https://bit.ly/3cJ9Sbj>,
<https://bit.ly/2Tbh> and,
<https://bit.ly/2LEqVzC>.

DRY MILLING OF *MICRO LOTS* FOR *LOCAL CONSUMPTION* AND EXPORT MARKETS



Learn more at Coffidential's Machine of the Month:
<https://bit.ly/3g0fPD7>, <https://bit.ly/2LGQcsQ>, <https://bit.ly/2zaj22d>.