

# CONFIDENTIAL

ISSUES NOS. 1 TO 41 OF CONFIDENTIAL CAN BE FOUND AT SITE [www.peamarketing.com.br](http://www.peamarketing.com.br)

**THIS ISSUE:**

● **GIVE YOUR OPINION: A NEW FLOOR FOR (ARABICA) COFFEE PRICES? (PAGE 3)**

**IDENTIFIED GENE THAT GIVES COFFEE HIGH TOLERANCE TO DROUGHT**

Researchers at the Federal University of Rio de Janeiro (UFRJ) and Embrapa identified a gene that gives the coffee plant resistance to droughts. The discovery of the gene started as part of the complete identification of the coffee genome made by Brazilian researchers in 2004. In this new project, the coffee gene was introduced in different test plants that became able to resist up to 40 days without water and to transfer the gene to other generations. The objective is to develop genetically modified plants with drought resistance in crops like cotton, sugar cane and soybean.

Source: Embrapa



**BRAZIL RATIFIES INTERNATIONAL COFFEE AGREEMENT**

The Brazilian National Congress has ratified the 2007 International Coffee Agreement (ICA), signed by the country in 2008, which reaffirms its support to the International Coffee Organization. The agreement includes measures such as changes to ICO's institutional structure and new financial instruments and credit lines for small holders. The ratification of the agreement places Brazil in a position to name a candidate for the post of the next ICO Executive Director.

Source: MAPA

**WASHED BRAZILS TO BE DELIVERED AT NEW YORK COFFEE EXCHANGE**

ICE Futures has recently announced its decision to accept washed Brazilian Arabicas at its New York coffee exchange – the main price reference for washed coffees today. Quality tests conducted by ICE experts indicated that the Brazilian product does comply with the specifications and quality standards required by its C contract. Delivery of Brazilian washed Arabicas will start in March 2013 with a price differential that most Brazilian sources do not consider attractive today.

Sources: MAPA, CeCafé and P&A

**BRAZILIAN MEAT GIANT JBS INTENDS TO ACQUIRE SARA LEE**

Brazil-based JBS, the largest meat company in the world, has been in talks to acquire Sara Lee but the two companies are still discussing prices and have not yet managed to reach an agreement on other terms. As well as a possible sale, Sara Lee is also considering options such as separating its meat and drinks businesses or even keeping the status quo. Sara Lee is the coffee market leader in Brazil with six important brands: Pilão, Caboclo, Moka, Selete, Café do Ponto and recently acquired Café Damasco.

Source: Reuters

**FINAL ESTIMATE OF 2010 CROP RELEASED**

Conab, an agency of the Brazilian Ministry of Agriculture, has released its final estimate of the 2010 coffee crop, with a total production of 48.1 million bags of 60kg, a growth of 22% over last year's figure of approximately 39.5 million bags. Despite the reduction of the total area cultivated, the high figures are a result of Brazil's "on year" crop cycle and favorable climate conditions. Arabica production represented 76.6% of the total, while the Robusta variety Conilon accounted for 23.4%.

Source: Conab

**Picture of the Month Flashback**



## CLOSENESS TO FOREST FAVORS COFFEE PRODUCTION



A project conducted by Embrapa and the Coffee Research Consortium and financed by the World Bank has been using satellites to monitor coffee producing areas close to the Amazon forest for the last 22 years. Of the initial 460 growers dedicated to the activity, 213 still remain growing coffee in the analyzed area. The study indicates that the group of growers located closer to the forest has higher yields – as much as 20% higher – than the group that is farther away. Conclusions of the study show that agroforestry systems enhance soil fertility, water quality and carbon absorption. Researchers mention that coffee allied to forest systems may be applicable all over Brazil. Coffee grown in the Amazon is of the Conilon variety and is manually harvested.

Source: Portal Dia de Campo

## NEW VARIETIES ADD GREATER YIELDS AND QUALITY TO RESISTANCE TO PESTS AND DISEASES

Brazilian coffee growers will soon have the opportunity to use cloned Arabica coffee seedlings resistant to leaf miner and leaf rust disease that also offer good cup quality and high yields. By using the cloning technique researchers were able to reduce the time to develop a new variety from 30 to 10 years. According to researchers at the Coffee Research Consortium, cooperatives in Minas Gerais will receive those seedlings at the end of 2011.

Sources: Revista Anuários and CNC

## FINDING NEW WAYS TO GROW IN BRAZILIAN COFFEE MARKET

The ever growing local consumption and the extremely competitive coffee market in Brazil have led small, medium and large companies to invest in the specialty coffee segment as a way to expand their portfolio, to add value to their products and to find new markets for their brands. Medium and large companies have also resorted to mergers and acquisitions to face today's competitive market. This is the case of the multinational giant Sara Lee, that recently acquired Café Damasco, a traditional brand in the South of Brazil, and of Caçara Alimentos, that acquired Café São Joaquim, a centenary regional brand in the Campinas area. Still another trend is the growing participation of foreign companies that today hold about 50% of the coffee market, to be compared to only 10% fifteen years ago.

Source: Valor Econômico

## DOMESTIC COFFEE CONSUMPTION ON THE RISE IN LATIN AMERICAN COUNTRIES

Institutional programs promoted by joint efforts of government, industry and coffee associations have led to more coffee consumption in countries such as Mexico, Colombia, Guatemala and Brazil. In Mexico, where local consumption has increased 7% over the previous year, AMECAFÉ (the Mexican Coffee Association) has been working to promote coffee quality and to disseminate the health benefits of coffee. In Brazil, where a long and successful program has been running since 1989, per capita coffee consumption reached 6kg/year and continues to increase. In Colombia, the Toma Café program, sponsored by the coffee industry and the FNC, was officially launched in March 2010 with the goal of increasing local coffee consumption by 30% in the next 6 years. P&A has been working as a consultant for Toma Café in Colombia since 2008, worked with AMECAFÉ on the creation of the Mexican program in 2006/2007 and consulted for similar coffee consumption initiatives in Costa Rica, El Salvador and India over the past years.

Sources: Agência Estado and P&A



## Brazilian Prices

December 30, 2010

### Main Producing Regions / Farm Gate

Arabica Naturals (R\$/ 60 kg bag)	
Cerrado-MG fair average quality T.6	420,00 ↑
Mogiana-SP fair average quality T.6	410,00 ↑
South Minas fair average quality T.6	410,00 ↑
Arabica Pulped Naturals (R\$/ 60 kg bag)	
Cerrado-MG	440,00 ↑
South Minas	435,00 ↑

+ ~6%

### Conilon/ Robusta (R\$/ 60 kg bag)

São Gabriel da Palha-ES fair average	200,00 ↑
BM&F (US\$/ 60 kg)	
Mar 2011	288,95 ↑
May 2011	294,05 ↑
Jul 2011	287,10 ↑
Real R\$/ Dolar US\$	
December 31	1,67 ↓

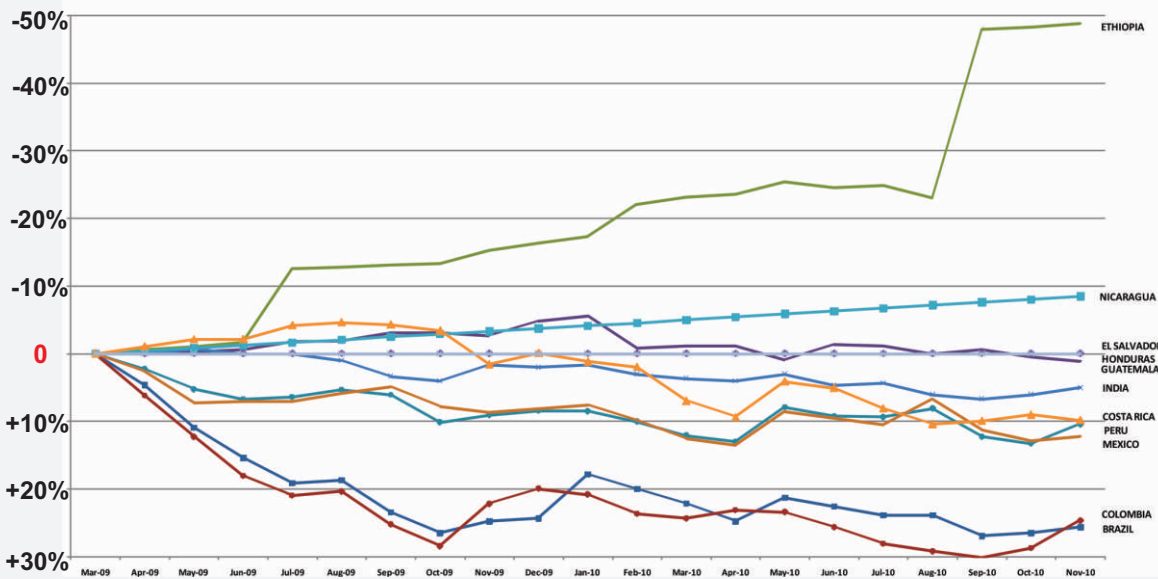
Source: QualicaféX



## A NEW FLOOR FOR (ARABICA) COFFEE PRICES?

Arabica prices have recently evolved to levels that most consider unsustainable in the long run. Will a new floor be defined when prices start to fall? Will this new floor be well above the long-term historical average of US\$1.00 to 1.10 per pound? An analysis of the graph below may shed light on the questions above. The curves show how the currencies of the eleven largest Arabica coffee growers have gained (+) or lost (-) value against the US dollar.

CURRENCY VALUATION (+) OR DEVALUATION (-) AGAINST THE US DOLLAR



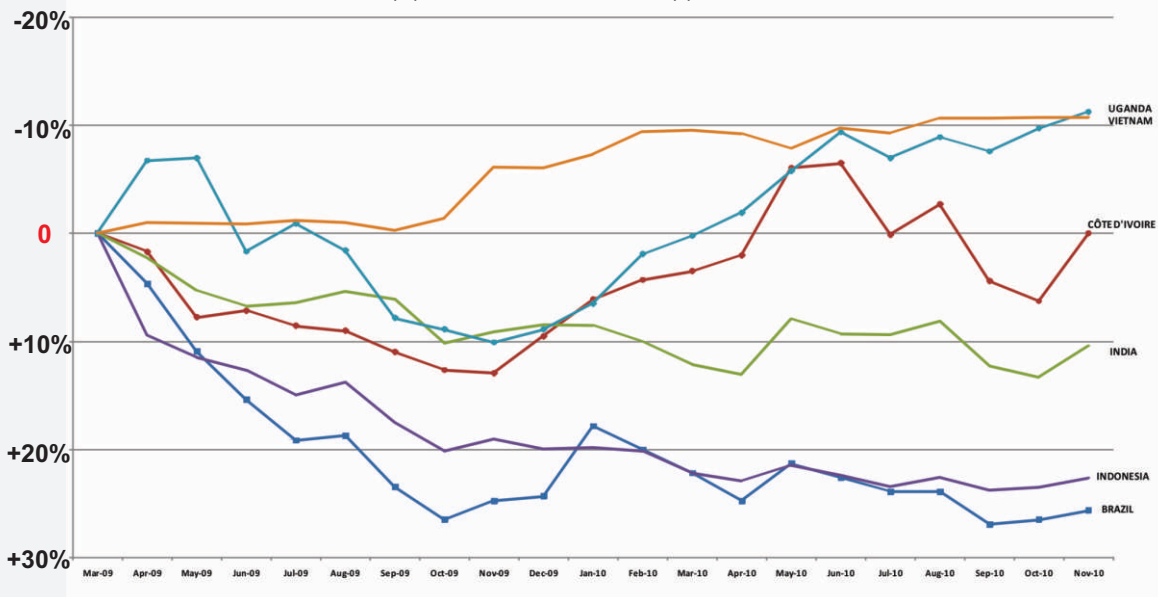
	ARABICA PRICES (ICE - US cents/lb)
mar/09	110,46
abr/09	115,87
mai/09	129,48
jun/09	125,59
jul/09	118,91
ago/09	128,04
set/09	128,44
out/09	137,02
nov/09	137,22
dez/09	142,51
jan/10	140,16
feb/10	131,64
mar/10	132,61
abr/10	133,20
mai/10	134,56
jun/10	150,57
jul/10	163,81
ago/10	173,23
set/10	186,08
out/10	188,66
nov/10	204,60
dez/10	217,46

The graph shows that the countries that produce almost 50% of the world's Arabica – Brazil and Colombia – are also the ones whose currencies gained the most value. If one adds four other countries – Mexico, Peru, Costa Rica and India –, one concludes that almost 60% of all Arabica is produced in countries whose currencies gained value. Considering that the currencies of Guatemala, Honduras and El Salvador, 10% of world production, have been rather stable against the dollar in the period, and only Ethiopia (7% world share but almost half of it consumed in the country itself) really benefited from a major devaluation, it may be fair to state that:

1. Arabica prices had to go up to entice the main growing countries around the world to keep producing; and
2. the new price floor to be achieved after production grows in response to the current high prices will have to be higher, probably much higher, than historical averages to account for a weaker dollar.

Let's now apply the same reasoning to Robusta. The graph below shows that whereas 40% of its production comes from "stronger-currency" countries Brazil and Indonesia, another 40% comes from "weaker-currency" Vietnam and Uganda. This may not only explain why Robusta prices have not increased as much as Arabica's but also hint that a new price floor much above historical averages is not to be expected.

CURRENCY VALUATION (+) OR DEVALUATION (-) AGAINST THE US DOLLAR



	ROBUSTA PRICES (LIFFE - US\$/tons)
mar/09	1521
abr/09	1510
mai/09	1494
jun/09	1434
jul/09	1414
ago/09	1410
set/09	1446
out/09	1417
nov/09	1340
dez/09	1.331
jan/10	1.336
feb/10	1.280
mar/10	1.248
abr/10	1.319
mai/10	1.319
jun/10	1.509
jul/10	1.704
ago/10	1.691
set/10	1.650
out/10	1.735
nov/10	1.893
dez/10	1.923

**WE WOULD VERY MUCH APPRECIATE TO HAVE OUR READER'S COMMENTS AND OPINIONS ABOUT THE CONCEPTS PRESENTED ABOVE. PLEASE LET US HAVE YOUR THOUGHTS AT [info@coffidential.com](mailto:info@coffidential.com) OR IN OUR COMMUNITY AT [www.coffeeclubnetwork.com](http://www.coffeeclubnetwork.com). THANKS.**

**FEB: MVF DENSIMETRIC SEPARATOR REVISITED**

<http://www.peamarketing.com.br/coffidential/coffidential-031.pdf>



MVF DENSIMETRIC SEPARATOR

**MAR: CLIMATE CHANGE AND COFFEE CHERRY SEPARATION**

<http://www.peamarketing.com.br/coffidential/coffidential-032.pdf>



PRE-SECADOR DE CAFÉ



FCCI HEAT EXCHANGER WITH HUSK FEEDER

**APR: AGENT OF THE MONTH**

<http://www.peamarketing.com.br/coffidential/coffidential-033.pdf>

**MAY: PRE-DRYER FOR WASHED COFFEE**

<http://www.peamarketing.com.br/coffidential/coffidential-034.pdf>

**JUN: PINHALENSE BUCKET ELEVATORS**

<http://www.peamarketing.com.br/coffidential/coffidential-035.pdf>

**JUL: THE SUSTAINABILITY OF COFFEE PROCESSING EQUIPMENT AND MILLS**

<http://www.peamarketing.com.br/coffidential/coffidential-036.pdf>



**AUG: CAN PINHALENSE MACHINERY PROCESS OVER 50% OF WORLD'S COFFEE?**

<http://www.peamarketing.com.br/coffidential/coffidential-037.pdf>



State-of-the-art sustainable manufacturing of machinery for coffee, cocoa, nuts and other agricultural products

**SEP: PINHALENSE LINE OF COFFEE PROCESSING EQUIPMENT**

<http://www.peamarketing.com.br/coffidential/coffidential-038.pdf>



DBD

DEPOL

DEPOS

C2DPRC

**OCT: HULLERS-POLISHERS FOR PARCHMENT COFFEE**

<http://www.peamarketing.com.br/coffidential/coffidential-039.pdf>

**NOV: WET MILLING: ONE TYPE FITS ALL VS. CUSTOMIZATION**

<http://www.peamarketing.com.br/coffidential/coffidential-040.pdf>



ecoflex - 8

ecoflexmob

ecoflex

**DEC: THANKS... AND SEASON'S GREETINGS**

<http://www.peamarketing.com.br/coffidential/coffidential-041.pdf>

For further information, please contact us  
 P&A International Marketing  
 E-mail: [peamarketing@peamarketing.com.br](mailto:peamarketing@peamarketing.com.br)

Phone 55-19-3651-3233 Fax 55-19-3651-2887  
 Praça Rio Branco, 13 - Caixa Postal 83  
 13.990-000 - E. S. Pinhal - SP - Brazil