

CONFIDENTIAL

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CUP OF EXCELLENCE AUCTION HAS RECORD PRICES

US\$ 8.32/lb was the average price achieved by the 31 specialty coffee lots auctioned at the Cup of Excellence in Brazil, a new national record in 11 years of this competition. The sale of all lots reached US\$ 738,506.40, the highest amount in the Cup of Excellence history worldwide. The winning coffee was an organic Yellow Bourbon from Grota São Pedro farm, in the municipality of Carmo de Minas (Minas Gerais state), sold for US\$ 25.05/lb. More than 200 foreign and Brazilian roasters participated in the auction this year.

Source: BSCA



ARABICA PRICES REACH HISTORICAL HIGHS

2010 will be remembered as a great year for Arabica coffee growers in Brazil. Prices reached record levels for many years last December, with a monthly average of R\$ 387.00 (US\$ 232.00) per bag. Arabicas also had their highest prices in 13 years in international markets in spite of Brazil's "on-year" in the production cycle. Brazilian coffee yields increased 9% in the 2010/11 crop in comparison to the previous "on-year" of 2008/2009 while the planted area fell again.

Sources: Cepea/ Esalq USP

BRAZILIAN COFFEE EXPORTS BREAK HISTORICAL RECORD

Brazilian coffee exports reached 33 million bags in 2010 and set a new record for the sector. Exports were 9% higher in volume than in 2009 and totaled US\$ 5.66 billion (33% more than last year). Some of the factors behind this growth are the smaller crops in Central America and Colombia, the increase in coffee consumption and the higher demand for the product worldwide. Of all coffee exported by Brazil in 2010, 86% was Arabica, 4% was Robusta and 10% soluble coffee. The largest buyers of Brazilian coffee were the United States (6.6 million bags), Germany (6.4 million bags), Italy and Japan.

Source: CeCafé



COFFEE ACCOUNTED FOR 7.5% OF AGRIBUSINESS EXPORTS IN 2010

A recently released report by the Coffee Department of the Brazilian Ministry of Agriculture (MAPA) indicates that coffee represented 7.5% of all Brazilian agribusiness exports in 2010, to be compared with 6.6% in 2009. The document also states that government stocks remain stable at around 500,000 bags.

Source: Agência Safras

NEW CROP ESTIMATED AT 44 MILLION BAGS

Conab's first estimate of the 2011 coffee crop indicates that Brazil may produce between 41.89 and 44.73 million bags. The reduction in relation to 2010 is associated with the low year in the Brazilian production cycle. Arabica will suffer the greatest setback, with a loss of 3.7 to 5.9 million bags in relation to 2010; Conilon, the Brazilian Robusta, may either have a downturn of 340,000 bags or grow 291,000 bags.

Source: Conab

ABNORMAL RAINFALL HELPS COFFEE GROWERS

The well above average rainfall that hit Brazil in the first weeks of 2011 has been positive for coffee growers in the main producing areas of São Paulo and Minas Gerais. Even though the extra rainfall does not generate increases in production, it helps coffee plants to grow healthier and may induce the development of higher quality cherries. Nevertheless, growers must be alert since high moisture levels may increase the risk of plagues and diseases in coffee plantations.

Source: Globo Rural

TECHNOLOGY TO HANDLE WASTE WATER FROM WET MILLING NOW AVAILABLE

The Coffee Research Consortium is offering to growers a new technology to handle waste water from wet milling as part of an especial program that supports starting companies. The system removes solid matter from water that can be recirculated into the wet processing equipment. The recycled water can also be used in ferti-irrigation of plantations and to produce organic fertilizers. This technology can reduce by 90% the volume of water used in the process.

Source: Embrapa Café



ACCESS TO ONLINE COFFEE TECHNOLOGY PORTFOLIO

In order to better disseminate new technologies to coffee growers, the Embrapa Café research center created an online portfolio on its homepage (www.embrapa.br/cafe). The portfolio gathers data about available technologies, their usage, institutions involved in their development and contact information. This is the first step of a broader project that aims at disseminating and evaluating the impact of new technologies developed by the Coffee Research Consortium.

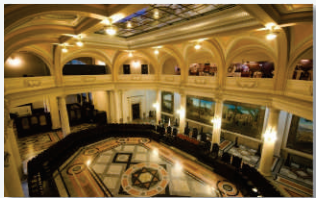
Source: Embrapa Café

R&G COFFEE IMPORTS ON THE RISE IN BRAZIL

Although Brazil is the world's largest producer and exporter of green coffee, the country is yet to achieve the same success in foreign sales of R&G products. Brazilian exports of R&G coffee peaked at US\$ 36 million in 2008 and dropped to US\$ 20 million in 2010. On the other hand, R&G coffee imports increased considerably from US\$ 1.3 million in 2006 to US\$ 21 million in 2010. Brazil has even begun to import processed coffee in small quantities from Lebanon and China, countries with no tradition in coffee. Switzerland, home to Nespresso, is the main coffee exporter to Brazil today. Coffee imports from this European country have increased 1,209% over the last three years.

Source: Folha de S. Paulo

COFFEE MUSEUM HOSTS IMPORTANT COFFEE EVENTS



The Coffee Museum, in Santos, hosted two important coffee events in January: the São Paulo round of the Brazilian Barista Championship and a series of presentations entitled "The coffee world: art, market and technology", that discussed topics such as the evolution of roasting techniques, espresso machines, and technology in coffee preparation. The Coffee Museum is located in the building that once housed the Brazilian "Official Coffee Exchange". It has unique architecture and features that include paintings by Benedito Calixto, a famous Brazilian artist, a stained glass skylight and Italian Carrara marble floors. The Museum also has a state-of-the-art coffee shop, one of its main attractions, and receives an average of more than 4,000 visitors per month.

Source: Museu do Café



Pictures of the Month

COFFEE CROP SITUATION ACROSS THE COUNTRY

ARABICA - MINAS GERAIS



ARABICA - SÃO PAULO



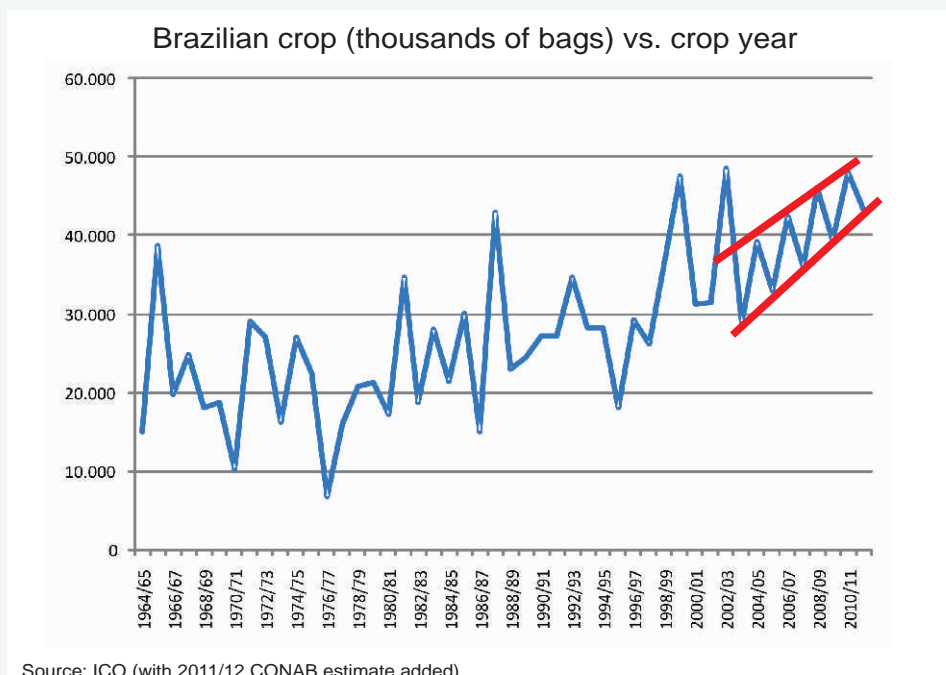
CONILON - BAHIA



Photos: Aloisio de Andrade (Ouro Fino/MG); Erásio Junior (Franca/SP); Gustavo Sturm (Teixeira de Freitas/BA)
Source: CaféPoint

CAN THE CYCLIC PATTERN OF BRAZILIAN PRODUCTION DISAPPEAR IN THE LONG RUN?

The graph below shows that the amplitude of variation between the large and small Brazilian crops has decreased markedly in the last eight years.



The recently released CONAB estimate for the 2011/2012 crop, that is already included in the graph above, seems to indicate that the range of variation may be or is decreasing even further. What are the reasons for this drastic change that the graphic depicts so well?

In our October 2010 Confidential No. 39, the Outlook section titled "Why Does Brazil Have a Biennial Production Cycle?" not only addressed the reasons for the biennial cycle but also mentioned that it might decrease in future years as a result of more intense washing of coffee and, to a much smaller extent, pruning. Let's now revisit these reasons and add a few others.

Brazil has indeed produced increasing volumes of semi-washed and washed coffees year after year in the recent past. As a result, more and more cherries are harvested earlier thus "releasing" the plant to "concentrate" on the next crop earlier than before. This trend of washing more coffee is likely to remain or even increase in the near future.

The increased use of irrigation, especially in Arabica, in recent years has had the dual effect of, first, minimizing crop losses due to localized and regional droughts and, second, helping coffee trees to recover faster and better from the stress of bearing a large crop. Irrigation has both supported a pattern of increasing crop figures and helped ensure that losses after a large crop are smaller. As irrigation becomes more widespread, the chance of big drought-induced crop falls, like the one indicated by the big trough in the graph in the mid 1980s, are likely to become much less probable.

Frosts, another traditional weather-induced crop loss factor, have progressively played a smaller role as coffee plantations migrated northward, growers selected sites that were less prone to frosts and, perhaps, global warming made a contribution of its own. As a result, the marked crop losses shown in the graph in the mid 1970s and 1990s are less likely to occur, also supporting a smaller and progressively shrinking range of crop figures in future years.

Mechanization and modern harvesting practices may be another factor favoring smaller crop variations. On the one hand, mechanization enables two or three harvesting rounds instead of the traditional single round of hand harvesting, with the positive effect of releasing the trees earlier from the "burden" of carrying cherries, even in the case of dry processed (natural) coffees. On the other hand, *zero-crop* harvesting, whereas coffee trees are drastically pruned after harvesting and made to produce only every other year, is usually coupled with the price maximizing strategy of not producing in the on-year of the crop cycle. The increased use of these practices could abate production in the on-year and increase it in the off-year. Last but not least, new mechanical tools and techniques can intensify the use of pruning across Brazil, with the attenuation of crop cycles described in Confidential No. 39.

The speculations above should be further investigated for their statistical significance and, most importantly, analyzed and criticized by agronomists and researchers for the impact they may have both on coffee price formation and the design of government coffee policies.

NEW WET POLISHERS FOR ROBUSTA (AND ARABICA TOO)

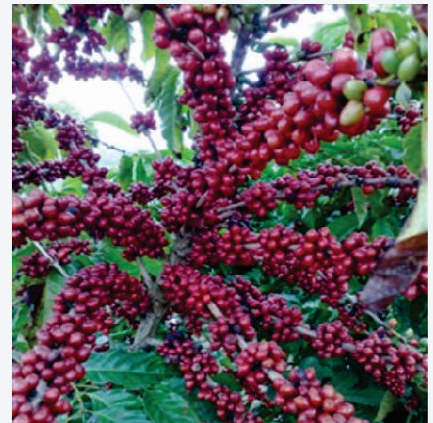
Polishing, i.e., the removal of the silver skin, of Robusta coffee has always been more challenging than in the case of Arabicas. The silver skin is much more firmly attached to Robusta than to Arabica coffee beans.

Pinhalense is now developing its second generation of continuous flow polishers for green Robusta coffee that (a) moisten the beans, (b) remove the silver skin, (c) polish coffee and (d) dry it back to its original moisture level.

The benefits of wet polishing green Robusta coffee beans involve not only their aspect - polished beans change from brown to light green as shown in the picture below - but also their cup quality. Wet polishing of Robustas tends to remove the earthy taste and bitterness often found in this type of coffee.

It is known that wet polished Robustas can be used to increase the share of Robustas in Arabica-Robusta blends without affecting the cupping features of the blends and with substantial gains to roasters. This in turn reflects on higher prices for wet polished Robustas. Price premiums of US\$ 100.00 to US\$ 150.00 per ton have been reported for wet polished Robustas.

Pinhalense wet polishers, that have paved the way for the creation of several types of Robusta specialty coffees offered in the market, will now become more cost-efficient, require less space and consume less energy. Trials will be also performed with different qualities of Arabica to evaluate the potential benefits of wet polishing green Arabica beans with this new machine.



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Brazilian Prices

January 31, 2011

Main Producing Regions / Farm Gate

Arabica Naturals (R\$/ 60 kg bag)	
Cerrado-MG fair average quality T.6	465,00 ↑
Mogiana-SP fair average quality T.6	460,00 ↑
South Minas fair average quality T.6	460,00 ↑
Arabica Pulped Naturals (R\$/ 60 kg bag)	
Cerrado-MG	510,00 ↑
South Minas	500,00 ↑

+ ~11%

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

São Gabriel da Palha-ES fair average	205,00 ↑
BM&F (US\$/ 60 kg)	
Mar 2011	322,15 ↑
May 2011	316,70 ↑
Jul 2011	306,60 ↑
Real R\$/ Dolar US\$	
January 31	1,67 =

Source: Qualicafex