

CONFIDENTIAL

6th

Anniversary Issue

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

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- NEW TURBO HEAT EXCHANGERS FOR DRIERS (PAGE 4)

COFFEE LOSES IMPORTANCE IN BRAZILIAN STOCK EXCHANGE

The volume of coffee futures contracts and options negotiated at Brazil's BM&FBovespa dropped almost 70% between 2008 and 2012, from 838,000 to less than 257,000. The reduction was more severely felt after 2011 when the government imposed a tax on foreign investments that drove off international speculators. In 2012, the volume of coffee contracts negotiated at ICE Futures in New York was 25 times higher than that of the Brazilian stock exchange. BM&FBovespa now expects a recovery with the recent suspension of the tax on foreign derivatives operations.

Source: Valor Econômico

COFFEE PRICES DOWN BY 24% IN 2013 HARVEST

Significant reduction in coffee prices led Brazilian growers to accumulate losses. Coffee is currently being sold for the average price of R\$ 340 (US\$ 151), 24% lower than at the previous harvesting season. In some areas of Minas Gerais state, coffee is being sold for R\$ 260 to R\$ 290 (US\$ 116 to 130), which is less than the minimum price stipulated by the government. The coffee sector now expects government support and new measures to stimulate sales at better prices.

Sources: CaféPoint and ABIC

FALLING PRICES DISTRESS SPECIALTY GROWERS

The fall in coffee prices is also affecting Brazilian growers of specialty beans. According to BSCA, the Brazil Specialty Coffee Association, the average price for a bag of Brazilian specialty coffee was US\$ 660 in 2011; it now ranges from US\$ 330 to US\$ 400. This difficult situation is leading growers to diversify their sources of income. In South Minas, for instance, coffee growers are now investing in olives and vineyards. Gourmet coffees generally receive premiums of 15% to 20% (when prices are up) to 30% to 40% (when prices are down) over the ICE Futures Arabica "C" contract. Of the estimated 51 million bags of coffee produced in Brazil in 2013, between 5.7 and 7.6 million bags were of the gourmet/specialty type.

Source: Valor Econômico

Coffee in NY
(US\$ cents/lb)



IMPORTS INCREASE TO SUSTAIN AGRICULTURAL EVOLUTION

Although the overall situation of the Brazilian trade balance is deteriorating, the agriculture and livestock sector maintains a good sales pace and avoids major instability in the trade balance. From January to June 2013, the leading 18 agribusiness companies in Brazil reported sales of US\$ 24.3 billion to other countries, 23% more than in the same period in 2012. On the other hand, positive results in the countryside are increasing expenses with imports: Syngenta, Basf and Bayer, the big 3 of the crop protection segment, have imported the equivalent of US\$ 1.9 billion, 43% more than in January to July last year.

Source: Folha de São Paulo

AGRICULTURE BOOSTS EMPLOYMENT IN BRAZIL

Of the 123,800 formal jobs created in June in Brazil, 59,000 were generated by the agricultural sector, according to recent data released by the Ministry of Labor. New jobs were concentrated in the coffee, sugar cane, cotton, maize and orange production chains.

Source: CaféPoint



BRAZILIAN CONSUMER SPENDS OVER R\$1,000 IN COFFEE PER YEAR

A recent study showed that a typical Brazilian consumer spends R\$ 1,314 (US\$ 585) per year by drinking only one cup of coffee per day in bakeries and coffee stores, considering an average price of R\$ 3,60/cup (US\$ 1.60/cup). This amount is considerably high since it represents almost two times the Brazilian minimum salary.

Sources: Globo.com and P&A

BRAZILIAN SCIENTIST IS NEW MEMBER OF SCAA STANDARDS COMMITTEE

Professor Flávio Borém of the Federal University of Lavras (UFLA) has been announced as a member of the Statistics and Standards Committee of the SCAA. The professor, one of the world's top researchers on specialty coffees, is the first Brazilian to participate in the group. Among Professor Borém's main studies are the effects of climate change on coffee quality and agricultural practices, and innovation regarding the transport of differentiated coffees, among others.

Source: UFLA

STARBUCKS HIGHLIGHTS BRAZIL BLEND IN WINTER CAMPAIGN

Starbucks' new winter campaign highlights the Brazil Blend. Sold in packages, it is 100% Arabica composed of natural, pulped natural and washed coffees from South Minas Gerais, with mild acidity, medium body and medium roast. The Brazil Blend was specially developed for the arrival of Starbucks in Brazil in 2006.

Source: ABIC



Source: Starbucks

COFFEE DRINKERS LIVE LONGER



A survey conducted in the United States with more than 400,000 people over 14 years has shown that coffee consumers live longer than those who do not drink coffee. Men who drank 4 to 5 cups of coffee daily revealed 12% less chances of dying whereas women who drank the same amount of coffee presented 16% more chances of living.

Sources: ABIC and Superinteressante



Pictures of the Month

HARVESTING IN BRAZIL



Source: Portal do Agronegócio

TIME, COFFEE QUALITY AND MONEY REVISITED*

Coffee quality, always important, gains special relevance when coffee prices fall and premiums for quality become relatively larger. The passing of time causes coffee quality to deteriorate, with very few exceptions. Delays in harvesting, processing, storage, transport and consumption can damage quality, increase costs and lower prices. Processing losses are particularly noteworthy.

Coffee cherries must be processed as soon as possible after they are harvested and no later than 8 hours after picking. If processing is delayed, undue fermentation may develop and cause quality losses that may be impossible to revert later. That is why projects to improve coffee quality often include the construction or recovery of rural roads besides, of course, modern high-technology ecological wet mills and drying facilities with enough capacity to handle the cherries as they are picked.

Time is critical when natural fermentation is used. The negative effects of overfermentation on quality are well known. When mechanical removal of mucilage is used, time has a different but also important effect because the faster coffee goes from tree to drying, the more it will weigh. In other words, the time spent in natural fermentation causes coffee weight to be lost and this loss can be as high as 5 or 6% depending on the temperature. This loss can be avoided by mucilage removers, that may replace fermentation or shorten it.

The choice of wet milling and drying capacity is decisive to minimize delays in coffee processing. Fermentation tanks and sun drying space are milling bottlenecks that usually cause harvesting to be delayed, cherries to be stored prior to wet milling and parchment to be stored before drying, all of which are very deleterious to coffee quality and price. Mechanical removal of mucilage and mechanical drying of coffee are quick and reliable ways to eliminate these bottlenecks in order to maintain coffee quality and consistency and to ensure better prices.

Drying requires the highest investment and has the highest operating cost of any post-harvesting processing step, from cherry to export or roasting of green coffee. With the rising costs of labor everywhere and labor scarcity in many producing countries, mechanical drying becomes an important option in most coffee growing areas. Managing drying time is a tricky task. Faster drying optimizes the use of equipment but may affect quality if the coffee temperature becomes too high. The solution is to improve temperature control and hot air distribution and to increase hot air flows in order to transfer the most heat to coffee without overheating and to remove moisture from coffee and drier quickly. New generations of heat exchangers combined with efficient fans and driers address the challenges above.



The longer coffee is stored, the lower the final quality will be. Quality losses are greater when coffee is overheated in processing, be it in drying itself (sun and mechanical) or in hulling-polishing, specially so in the case of parchment coffee. Ideally, dry coffee should be stored in parchment or cherry rather in green form because the latter loses quality faster. Drying, hulling and polishing with full temperature control help to preserve quality, to extend "shelf life" and to minimize price losses.

Transit time, specially the period spent in the high moisture environment of harbors and ships, can affect quality substantially. The way coffee is stuffed into containers may help minimize these negative effects.

The old adage that time is money holds for coffee processing too because the quality losses described above are directly associated with lower coffee prices. One important exception is Brazilian naturals that often sell better after they "age" for half a year.

* Note: Modified version of Outlook originally published in March 2009.

NEW TURBO HEAT EXCHANGERS FOR DRIERS

Pinhalense has launched a new, more efficient, eco-friendly line of turbo heat exchangers to heat clean air for its pre-driers and SRE rotary driers.



The advantages of the new turbo heat exchangers are listed below.

- Much longer flow of clean air before it enters the drier
 - more efficient heat exchange
 - larger heat-exchanging chamber (twice the size of the previous FCCI exchanger)
 - larger air flow
 - longer air time in heat-exchanging chamber
- Improved combustion gases flow
 - smaller heat loss
 - smaller combustion chamber
 - greater retention of sparks
 - easy to clean
- Greater efficiency
 - higher air temperatures
 - smaller fuel consumption

The turbo heat exchangers are designed to operate with most solid fuels (e.g.: wood and husks) and fossil fuels (e.g.: diesel). They can be equipped with the coffee husk feeder shown in the picture above that is compatible with both parchment and dry cherry husk.

Brazilian Prices

July 31, 2013

Main Producing Regions / Farm Gate

Arabica Naturals (R\$/ 60 kg bag)	
Cerrado-MG fair average quality T.6	305,00 ↑
Mogiana-SP fair average quality T.6	300,00 ↑
South Minas fair average quality T.6	300,00 ↑
Arabica Pulped Naturals (R\$/ 60 kg bag)	
Cerrado-MG	330,00 ↑
South Minas	325,00 ↑

+ 10%

Conilon/ Robusta (R\$/ 60 kg bag)	
Colatina-ES fair average quality	257,00 =
BM&F (US\$/ 60 kg)	
Sep 2013	141,30 ↓
Dec 2013	145,60 ↓
Mar 2014	148,30 ↓
Real R\$/ Dolar US\$	
July 31	2,29 ↑

Source: www.qualificafex.com.br