

CONFIDENTIAL

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

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DROUGHT KNOCKS DOWN 2014 COFFEE PRODUCTION

The severe drought that affects the states of Minas Gerais and São Paulo is expected to cause great losses to coffee growers. Losses in new plantations may reach as much as 50%, according to Cooxupé. The cooperative's president says that coffee areas of South Minas, Cerrado and Vale do Rio Pardo (in São Paulo) may have a 30% loss in the current crop not only due to the lack of rain but also because growers have invested less in fertilizers and husbandry as a result of last year's low coffee prices. Drought is also harsh in the Alta Mogiana region, where coffee output may fall by 40% in 2014 according to Cocapec, the regional coffee growers coop.

Source: Valor Econômico

LOWER FERTILIZATION TO AMPLIFY COFFEE LOSSES

Apart from the adverse climate in the Brazilian coffee areas since January, with record high temperatures, great insolation and lack of rain, the 2014/15 crop will also be affected by the lower investments in fertilizers, especially among small growers. Lower coffee prices in 2013 led many growers to cut costs and several small holders have not made any fertilization round for this crop, to be compared with the usual 3 to 5 rounds. Even if the rains do come, experts believe that bean density and size will be smaller and more coffee beans will be needed to fill a 60kg/bag.

Sources: Valor Econômico and CaféPoint

WEATHER IN BRAZIL MAKE COFFEE PRICES GO UP

Due to the unusual dry weather in Brazil's producing regions, prices of Arabica coffee soared in New York's stock exchange and reached the highest level since January 2013. Recent rain showers were not enough to improve crops conditions. If the weather does not change, coffee prices may soon reach US\$2.00/lb in New York, which has not happened since March 2012. The full extent of the losses in the current crop season due to scarce rainfall and high temperatures are still uncertain. However estimates are that at least 20% of the total production can be affected, with high risks of losses in the 2015/16 season as well.

Source: Folha de São Paulo

REVENUES FROM COFFEE DECREASES IN MINAS AND PARANÁ

Revenues from coffee in Paraná dropped to US\$478 million, a reduction of 36% in relation to the same period in 2013, according to the Ministry of Agriculture. In Minas Gerais, revenues fell to US\$8 billion, a 30% drop compared to last year.

Source: Folha de São Paulo

FREE FALL - COFFEE REVENUES IN PARANÁ
(in million R\$; US\$ 1 = R\$ 2.35)

Source: MAPA



RURAL CREDIT INCREASES IN BRAZIL

Credit uptake by small and large growers hit a record high in the first semester of the 2013/14 crop, with R\$ 103 billion (US\$43 billion) contracted, a 48% increase in relation to 2012 according to the Ministry of Agriculture. Approximately 67% of the total credit, or R\$ 91 billion (US\$ 38 bi), were taken by large growers, while small holders contracted only R\$ 12.5 billion (US\$ 5.2 bi).

Source: Valor Econômico

CAN WORLD CUP AFFECT HARVESTING IN BRAZIL?

Brazil expects to face serious disruptions during the 2014 coffee harvesting season due to the World Cup, to take place right in the middle of the three-month May-to-July harvesting period. Some traders are advising clients to avoid farm visits during the World Cup, fearing high airfares, traffic jams and other hassles. Many workers will probably get time off to watch Brazil play although it is too early to tell whether that alone will delay harvesting or shipments.

Source: Daily Coffee News - Roast Magazine



CERRADO OBTAINS DESIGNATION OF ORIGIN

The Cerrado of Minas Gerais received the registry of Protected Designation of Origin (DO, from its initials in Portuguese) from the National Institute of Industrial Property on December 31, 2013, the first of its kind for coffee in Brazil. The region, comprising 147,000 hectares of coffee and 3,500 growers, already held the Geographical Indication (GI). In practice, the DO attests that the Cerrado region produces coffee with unique quality and features that add value to the product and open new market opportunities for specialty coffees grown in the area.

Sources: Estado de Minas and AgroDBO magazine

COFFEE CONSUMPTION FALLS FOR THE FIRST TIME IN BRAZIL IN 10 YEARS

Brazilian coffee consumption totaled 20.08 million bags in 2013, 1.23% less than 2012's 20.33 million bags. One of the reasons could be competition from other ready-to-drink beverages – juices, chocolate, milk and soy drinks –, products that are rapidly expanding among consumers. Small roasters are also leaving the market as a result of industry concentration in recent years. However, out-of-home coffee consumption continues to grow, with coffee shops, restaurants and bakeries now accounting for 36% of total coffee consumption, according to a recent AC Nielsen survey.

Source: Valor Econômico

SINGLE-SERVE COFFEE MARKET ON THE RISE IN BRAZIL

Single-serve coffee consumption in Brazil has increased 46.5% between 2012 and 2013, according to a recent Nielsen survey. Although the number of homes that have single-serve machines represent only 0.6% of the total, the data clearly indicates a trend. Some of the reasons behind the growth are the higher purchasing power of the population, the search for better quality coffees, convenience, and also innovation like the new machine launched by market-leader 3Corações.

Source: Valor Econômico



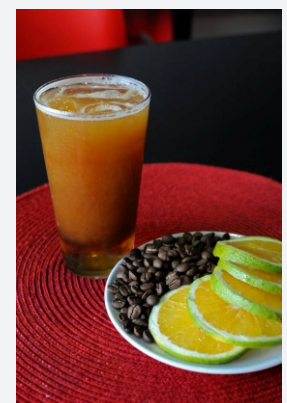
SP COFFEE WEEK

The second edition of the SP Coffee Week held in the city of São Paulo from February 17th to March 2nd, had the participation of 48 coffee shops besides restaurants, bars and other food establishments. The Coffee Week's concept is to offer consumers an appealing price for a beverage that uses coffee in its recipe.

Source: Folha de São Paulo

Pictures of the Month

2nd SP COFFEE WEEK



SEATTLE: HOW ABOUT A CUP OF COFFEE?

Seattle is a coffee reference on American land. Some say it may be losing its post to Portland, in Oregon, but the city breathes coffee and keeps its coffee scene vibrant through dozens of new business openings each year.

The legendary Starbucks was founded in Seattle in 1971 and two other well-known companies in the sector were also born there: Tully's and Seattle's Best Coffee, the latter acquired by Starbucks in 2003. Apart from large roasting operations, the city has hundreds of specialty coffee shops and micro roasters that help to consolidate the coffee culture among the locals. It is really hard to walk around without stumbling upon a coffee house; the majority of them serving as meeting places for students or work place for independent professionals, with engaging ambience and great coffee menus.

For those preparing to attend the 2014 SCAA Symposium and Trade Show in Seattle, which will take place between April 23 and 27, there are lots to see and experiment in this city in terms of coffee and tourism, for adults and children alike.

The Pike Place Market is a historic market downtown, in operation since 1907! This is the place where the famous fish vendors throw salmon among themselves and make jokes, amusing the hordes of tourists that pass by every day. The market gathers growers of fruits and vegetables, cheese, seafood and flowers. It is inside Pike Place that the "first" Starbucks store is located; in reality it was moved there from its original location a block away five years after its foundation. It still preserves its unique vintage style.

The Downtown Waterfront facing Elliot Bay is a must see, with numerous shops and food stands. There lays the Seattle Great Wheel, standing at 175 feet high, that allows for spectacular views of the city, the bay and the mountains once you are up there.

A few blocks from the Space Needle tower – built for the 1962 World Fair and later turned into a city icon – is the Olympic Sculpture Park, a great pick to enjoy (free) art outdoors. Filled with sculptures by celebrated artists such as Alexander Calder and Roxy Paine, it is open every day. The park store is worth a visit offering interesting designer pieces, souvenirs and home décor objects.

For coffee lovers, the recommendation is Victrola, on Pike Street. This roastery and coffee house is assembled inside a beautiful 1920s historic building which once was a car dealership, a local classic. The architectural charm allied to the omnipresent jazz and excellent coffees, sourced at the best origins around the world, makes Victrola one of the best places in Seattle to savor an espresso. There are also free cupping sessions held there every Wednesday at 11am and open to the public. Although there are two other Victrola stores in town, this one is their largest and works as the brand's showcase. Other coffee options to be highlighted are the hip Bauhaus books+coffee in Capitol Hill, which is always full, and the sophisticated Café Fonté, part coffee house, part wine bar and bistro downtown, near Pike Place Market. How about a cup of coffee?

After 7 years in the coffee business, Maria Fernanda founded TravelBox and is now dedicated to developing curated travel itineraries for all types of travelers. To order a special itinerary for Seattle or any other destination, please access: www.travelbox.com.br.



ARABICA AND ROBUSTA WASHING AND DRYING: ECHOES FROM A WORKSHOP IN INDIA

Pinhalense has been progressively improving its line of pulpers with unripe cherry separators (called screen pulpers) in order to decrease water consumption, improve product separation and minimize damage to coffee. The latest models not only meet these challenges but also greatly exceed their nominal capacity which in turn means that even less water is required per ton of coffee cherry. This is being confirmed in a new model mill in India that is 100% Pinhalense, from fresh cherry reception to finished-export quality coffee. Its pulpers have been processing up to 24 tons/hour of Arabica and 20 tons/hour of Robusta, to be compared with the nominal capacity of 16 tons/hour. Arabicas coming out of this mill have won awards at the 2014 Indian International Coffee Festival (IICF) and washed Robustas have earned high price premiums, which once again demonstrates that Pinhalense offers state-of-the-art pulpers.

Robusta washing poses specific challenges that Pinhalense LSC mechanical siphons, ecoflex pulpers and DMPE mucilage removers have been able to address with substantial advantages to users: clean parchment, no loss of parchment with pulp and no physical damage to coffee. In the case of Arabicas, the Workshop "Modern Approaches to Wet Milling in an Environment of Labor Scarcity" held at IICF 2014 showed the advantages of using a pulper with unripe (green) cherry separator: less astringency, no fermented cup, etc. Yet another advantage of the Pinhalense wet milling line is the potential to pulp the unripe cherries that have been separated and thus eliminate most or all of the harsh taste that they typically have.

Last but not least, the Workshop again demystified the fears of drying coffee mechanically. Samples of Arabica coffee 100% dried in Pinhalense pre-driers and SRE rotary driers were judged to have a "brighter" cup than the same coffee dried under the sun.

The Bombay Burmah Trading Corporation Ltd (BBTC) has a state-of-the-art Pinhalense Arabica and Robusta coffee processing facility composed of mechanical siphons LSC, pulpers with unripe cherry separators ecoflex, mucilage removers DMPE, pre-driers, rotary driers SRE, resting silos, precleaner PRELI, destoner CPFBNR, cherry huller CON, parchment huller-polisher DEPOS, size grader PFA, gravity separator MVF, silos, conveyors and self-cleaning elevators. The nominal capacities are 16 tons/hour for wet milling and drying and 4 tons/hour for dry milling (or "curing", as it is called in India). This integrated facility is located in Coorg, an Indian region that is known for the high quality of the coffees it produces.

Besides its long experience supplying small and mid-size wet milling and drying equipment, Pinhalense has a unique track-record of supplying large facilities to estates, cooperatives and traders alike. The design of large wet and drying mills entails challenges that are quite different from the supply of small processing lines. In Pinhalense's concept, a large facility is not a series of small machines placed one next to the other but, instead, large capacity machines that are especially designed for commercial millers, made to deliver top quality coffee and work long hours with high efficiency and little labor.



Brazilian Prices

February 28, 2014

Main Producing Regions / Farm Gate

Arabica Naturals (R\$/ 60 kg bag)	
Cerrado-MG fair average quality T.6	405,00 ↑
Mogiana-SP fair average quality T.6	400,00 ↑
South Minas fair average quality T.6	400,00 ↑
Arabica Pulped Naturals (R\$/ 60 kg bag)	
Cerrado-MG	445,00 ↑
South Minas	440,00 ↑

+ 11.3%

Conilon/ Robusta (R\$/ 60 kg bag)	
Colatina-ES fair average quality	265,00 ↑
BM&F (US\$/ 60 kg)	
Mar 2014	208,00 ↑
Sep2014	220,00 ↑
Dec 2014	225,15 ↑
Real R\$/ Dolar US\$	
February 28	2,34 ↓

Source: www.qualicafex.com.br