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COFFIDENTIAL

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

BRAZILIAN PRODUCTION BELOW 47 MILLION BAGS IN 2015

Rabobank estimates that the 2015 Brazilian crop may reach 47 million bags in the best-case scenario. Even with rain expected for the coffee areas over the course of the next weeks, the future crop volume should remain similar to that of 2014. However, if it does not rain or if the world-leading coffee producer faces other problems, there will be a decrease in coffee supply in the near future.

Source: Reuters

PRICES AND EXCHANGE RATES UNLOCK INTERNAL MARKET

After a halt in coffee trade in September due to high price volatility, higher coffee prices at ICE Futures and the depreciation of the Brazilian Real brought more action to the market with deals closed for delivery in the 2015/16 and 2016/17 crop years. Trading was more intense in the South Minas, Cerrado Mineiro and Bahia regions. Sales of the current crop have reached 54% (26.64 million bags) of the total 2014 estimated production of 48.9 million bags.

Source: Valor Econômico

EXPRESSIVE INCREASE IN COFFEE EXPORTS; ROBUSTA SOARS

In spite of a scenario of high volatility, Brazilian exports had an exceptional performance from January to September 2014 and totalled 26.6 million bags, a 17.2% increase (equivalent to 4 million additional bags) compared to the same period in 2013. From the total coffee volume exported over these nine months, Conilons accounted for 2.2 million bags, 117% more than in the previous period. Cecafé estimates that Brazil will export between 34 and 35 million bags of coffee until the end of 2014.

Source: Valor Econômico

SPECIALTY COFFEE PROGRAM INVESTS US$ 105 MILLION IN ESPÍRITO SANTO

Coffee supply chain leaders and the Development Bank of Espírito Santo (BANDES) met in October to discuss the next steps in the state's Specialty Coffee Program launched by the bank in July 2014. As of 2015, all coffee growers that are in the program will have access to technical assistance offered by the Brazilian Agency for the Promotion of Small Business (SEBRAE). Over 4 years BANDES will make available R$ 260 million (US$ 105 million) for all stages of the coffee producing chain and plans to assist 2,500 growers and have 500,000 bags of coffee certified. Among the goals of the program are to encourage the production of sustainable coffees and to expand the offer of high quality coffee by roasters in the state of Espírito Santo.

Source: CaféPoint

100th CUP OF EXCELLENCE COMPETITION

The award ceremony of the 100th Edition of the Cup of Excellence competition, that took place in Brazil last October, revealed 21 pulped natural coffee lots scoring above 85 points. The winning lot was produced at Ouro Verde Estate in the municipality of Piatã, state of Bahia, and scored 94.05 points. The second, third and fourth lots also scored more than 90 points and were produced in the same Brazilian municipality. The 21 winners of this COE edition will participate in the online auction on November 26. Coincidentally, the first and the one-hundredth editions of Cup of Excellence took place in Brazil where the competition was created and developed as part of an International Coffee Organization (ICO) project. For several years after it started the competition was restricted to Brazil, where the first auctions also took place, before it was introduced in other countries.

Sources: BSCA and P&A

FIRST COFFEE HARVESTER IN THE WORLD CELEBRATES 35 YEARS

A project ahead of its time. This is what the launch of the first mechanical coffee harvester 35 years ago represented, as the need for it was not as obvious to the coffee sector as it is today. The machine was a result of a visionary partnership between IAC (Campinas Agronomy Institute), IBC (the extinct Brazilian Coffee Institute) and a Brazilian equipment manufacturer. Manual picking has always been a limiting factor for the expansion of coffee production in Brazil (and recently elsewhere) due to the increasing lack of labor and its growing costs. Since then, mechanization of harvesting has largely contributed to the expansion of coffee production in Brazil. Pinhalense has recently launched the P1000 self-propelled mechanical harvester that has several innovative features including the ability to negotiate the steepest slopes of any machine in the market today.

Sources: Revista Attalea Agronegócios and P&A

NEW COFFEE VARIETIES WITH EXOTIC FEATURES

Coffees with natural exotic flavors such as eucalyptus, rosemary and mint have been identified in studies carried out by the Campinas Agronomy Institute (IAC). These flavors were obtained from the crossbreeding of commercial and wild varieties that are part of IAC's germoplasm bank. The Institute is now multiplying a part of the materials to check if the resulting trees will retain the same characteristics. The study will also monitor the overall quality of the coffees produced.

Source: Valor Econômico

FIRST CONILON CULTIVAR REGISTERED BY EMPRAPA IN RONDÔNIA

The cultivar BRS Ouro Preto, developed by EMBRAPA (Brazilian Institute of Agricultural Research), was registered in the state of Rondônia. It is the first Conilon cultivar to receive the Protection Certificate given by the National Cultivar Protection Service. The BRS Ouro Preto cultivar, that resulted from studies that started in 2012, was obtained after a careful selection of coffee trees adapted to the climate and soil conditions of Rondônia. It is recommended for dry areas or those that require irrigation. With adequate husbandry, BRS Ouro Preto offers yield potential of 70 coffee bags per hectare in non-irrigated areas or 100 bags/ha in irrigated areas. These are outstanding results for a region that suffers with recurrent dry periods and where the majority of coffee growers are small and non-technified.

Source: CaféPoint

37th FESTA NACIONAL DO CAFÉ

Espírito Santo do Pinhal, where Pinhalense and P&A are located, held its 37th Coffee Festival that included conferences and a trade fair. Highlights of the event were presentations by leading coffee companies and institutions – Nespresso, FMC, BM&F, Sebrae, São Paulo State University (UNESP), Hanns R. Neumann Stiftung Foundation, etc. – and the exhibition of mechanical harvesting equipment. A recurring theme in the conference program was climate change and perspectives for the current and future Brazilian crops. Production losses in 2014 and 2015 are indeed a fact but due to quite different processes: poor bean development in the former and fewer cherries in the latter.

Sources: O Pinhalense and Pinhal News

Pictures of the Month

100th CUP OF EXCELLENCE COMPETITION




Source: BSCA

CLIMATE CHANGE, BRAZILIAN CROPS AND THE *CEILING DISCREPANCY*: A LAYMAN'S VIEW

Never before have climate experts' opinions been in such a high demand by Brazilian coffee people and I am certainly among those demanding information. So much have I heard from different sources that I venture to advance here my layman's conclusions in the hope that they can elicit further debate.

I start by mentioning in very general terms the major difference in the causes of crop losses in 2014 and 2015. Flowering was normal even vigorous in 2013 which led to the initial formation of a quantity of cherries that caused the expectation of a very good crop. However the drought in the first quarter of 2014 led to the frustration of expectations because the cherries failed to develop fully and produced beans that were smaller and lighter than usual, defective, and black due to excessive temperatures even in areas that are irrigated.

BLACK | HOLLOW | NORMAL, BUT SMALLER | MAL-FORMED | NORMAL

Source: Procafé

This same lack of rainfall curbed the development of coffee tree branches that are now bearing flowers and will produce coffee in 2015. Assuming that rainfall will be normal from now on and the flowers develop into full cherries, it is already possible to state that the 2015 crop will be smaller than average because there will be fewer cherries due to smaller branch growth. There was not enough cherry-bearing branch growth and there is not enough branch length or *internodes,* which is where flowers and cherries develop. Flowering not followed by enough rain to make flowers develop into cherries did occur in some regions leading to further losses. Recent flowerings followed by rain may compensate these losses but not in all regions.

In summary, the drought caused plenty of cherries not to develop to produce full beans in 2014 and a reduction of cherry production for the 2015 crop. Whether the losses in 2015 will be restricted to the smaller number of cherries that will develop to full potential or there will be further losses due to poor bean formation will depend on the weather in coming months and especially in the first quarter of 2015. What is the climate forecast for these months?

There are several theories about what happened in 2014 ranging from an extraordinary fact not to be repeated to a pattern that occurs every so many years and including a new pattern whose frequency is yet to be determined. Current forecasts indicate that rainfall next January to March may be smaller that average but not as low as in 2014. Reference to similar rainfall patterns in the past hint that rainfall may be smaller than average in the next five to seven years, progressively closing the gap from actual to average.

What to expect in 2015? If rainfall and temperatures return to normal, a crop about the same size as 2014's or somewhat smaller due to the losses already incurred because of insufficient branch growth and lost flowerings. If there is lack of rainfall and/or higher than average temperatures, the 2015 crop may be lower than the one in 2014, how much lower depending on the harshness of climate.

Those who insist on a 2015 crop that is substantially higher than the one in 2014 are ignoring that the 2015 crop potential is already impaired by the factors mentioned before – insufficient branch growth primarily but lost flowering too – and they are therefore establishing a higher potential or ceiling than should be expected. It is this *ceiling discrepancy* that often creates great disparities between estimates that report the same processes and predict similar losses but depart from different crop potentials (or *ceilings*) that are widely apart at times. This may explain a long series of differences between official Brazilian estimates and those of companies and the USDA. Who is right is yet to be determined but this time we believe that the market seems to be setting a *ceiling* that is simply not there.

Brazilian Prices

October 31, 2014

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	535,00 =
South Minas	530,00 =

+ 16.3%

Conilon/ Robusta (R$/ 60 kg bag)	
Colatina-ES fair average quality	260,00 =

BM&F (US$/ 60 kg)	
Dec 2014	218,00 ↓
Mar 2015	225,60 ↓
Sep 2015	241,65 ↑

Real R$/ Dolar US$	
October 31	2,44 ↓

Source: www.qualicafex.com.br

UNDISPUTED WORLD LEADER IN DRY MILLING EQUIPMENT, LARGE AND SMALL

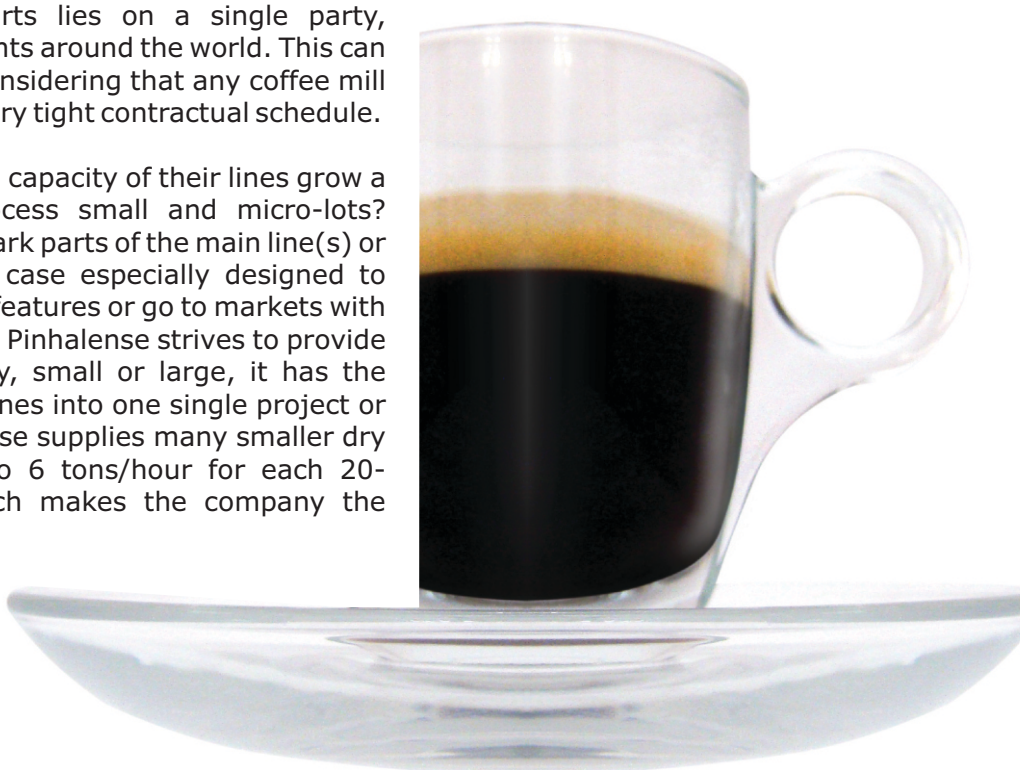
The tendency toward ever larger coffee export processing facilities has definitely consolidated with Pinhalense's supply of several Arabica mills with capacities of 28 to 42 tons/hour and Robusta ones in the range 28 to 36 ton/hour. These mills can process up to 10,000 bags of 60kg per day in two shifts or up to 4 million bags of coffee per year with enough idle time to add a third shift and 50% extra capacity. These Arabica mills handle all the production of Mexico or Guatemala under one roof. The Robusta mills can in turn process all the production of Uganda or India. Amazing as these numbers are – two of these mills are perhaps the largest of their type in the world – they represent the continuation of a trend for larger mills that started in the last decade and is gaining speed in this decade.

Pinhalense has always claimed that the success of a coffee mill depends equally on the performance of the equipment and the efficiency of the process flow. The reliance on process flow becomes even more important as the size of the mills grow beyond 12 tons/hour for Arabica and 14 tons/hour for Robusta. At those capacities and larger, not to say at any capacity, it no longer makes sense to improve or expand small existing lines let alone for clients to design new mills themselves, which prevents them from benefiting from Pinhalense's unparalleled ability to design coffee mills of all sizes.

Pinhalense's computer aided design (CAD) facilities created an environment of permanent design improvement that benefits all clients. No matter how large a miller, exporter or multinational trader is, chances are that its in-house engineers and technicians may have designed a few coffee mills only if any because their main attribution is mill operation and maintenance instead of design. This is to be compared with over 19,000 mills designed by Pinhalense, with a record of over one mill per day in the last two years. This is a reliable indicator of the technology that is transferred free of cost to clients who buy Pinhalense coffee mills.

A complete Pinhalense project for a dry mill includes equipment layout (top view and cross-sections), process flow, minimum dimensions for the architectural and civil works (length, width and heights of warehouses), foundation drawings for the equipment (including elevator pits, platforms, etc.), location of electric motors and other supporting drawings. A site layout may also be supplied upon the client's request. Although the set of drawings is the same independently of project size and mill capacity, large projects have needs of their own.

Problems that are easy to solve in small projects are aggravated when the size of the mills increase, e. g., coffee reception, shifting types of coffee to be processed, coffee dispatching (regular bags, big-bags and bulk), dust suction, and disposal of rejects. That is why Pinhalense has developed items like high-capacity, low-friction, self-cleaning elevators that address the problem of coffee damage and idle time to clean elevator feet, bag - big bag - bulk interfaces, and bulk handling of products and rejects, to mention only a few features. Besides the technological and efficiency benefits that clients enjoy when buying a complete Pinhalense mill, there are other tangible benefits, for example, the responsibility for performance, maintenance services and spare parts lies on a single party, Pinhalense itself and its network of agents around the world. This can have a major impact on profitability considering that any coffee mill and specially large ones operate on a very tight contractual schedule.



As the average size of dry mills and the capacity of their lines grow a new problem develops: how to process small and micro-lots? Pinhalense's solution has been to earmark parts of the main line(s) or to supply an exclusive line in either case especially designed to process small lots that require specific features or go to markets with special demands. In the same way that Pinhalense strives to provide top-performance lines of any capacity, small or large, it has the ability to combine even extreme size lines into one single project or mill. It is needless to say that Pinhalense supplies many smaller dry lines with capacity in the range 2 to 6 tons/hour for each 20-tons/hour-plus line that it sells which makes the company the undisputed world leader in the supply of dry milling equipment and dry mills around the world. This is why it is not an exaggeration to say that over one half of the coffee drunk in the world today goes through Pinhalense machines.