

CONFIDENTIAL

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

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PROCAFÉ ESTIMATE OF THE BRAZILIAN COFFEE CROP RELEASED

A study commissioned by the Brazilian Coffee Council (CNC) and carried out by Procafé Foundation estimated the 2015 Brazilian coffee crop at 40.3 to 43.3 million 60 kg bags, which means a cutback of 4.6 to 11.1% in comparison to the 45.3 million 60 kg bags harvested in 2014. From this estimate, 30.0 to 32.1 million bags refer to the Arabica variety, representing a decrease of 0.5 to 7.1% compared to 2014. Conilon (Robusta) production is estimated at 10.3 to 11.1 million bags, with a great reduction compared to 13.03 million bags last year. Minas Gerais' estimate is close to last year's 23 million with Espírito Santo falling to around 10 million. São Paulo and Bahia will also experiment crop losses with Paraná showing a major increase that is however far from enough to offset other losses. The main reason for the reduction of volumes of coffee to be harvested in 2015 were the climatic adversities that started in early 2014 and lasted until February this year. It is expected that these adverse circumstances will also reduce the crop potential for 2016.

Sources: CNC and CaféPoit

COFFEE SUSTAINABILITY CURRICULUM LAUNCHED

IDH's Sustainable Coffee Program (SCP) in Brazil launched its Coffee Sustainability Curriculum (CSC) at Espírito Santo's Incaper, the State Agricultural Research and Extension Institute, on March 19. Attended by key stakeholders in the Brazilian coffee business – institutions, extension services, sustainability standards, etc. – and representatives of the international roasters active at SCP, the launching event generated strong support for the implementation of the Curriculum that is now starting. Based on Embrapa's PI-Café standard and complemented by a collaborative effort with the extension services, local and international sustainability standards and institutions representing the main segments of the Brazilian coffee business, the Curriculum has been designed to assist coffee growers to become sustainable and as a stepping-stone into verification or certification if the grower so desires. It addresses all relevant economic, social and environmental aspects of coffee production with a user-friendly approach that enables small growers to produce responsibly and to achieve a better livelihood. Initial events to introduce the Curriculum are already planned in partnership with CeCafé (the Brazilian Coffee Exporters' Association) and the Minas Coffee Circuit organized by the Minas Gerais extension service agency Emater. Incaper and Sebrae Espírito Santo's Specialty and Sustainable Coffee Project have decided to incorporate the Curriculum into their programs. Negotiations are under way with other institutions, agencies and cooperatives.

Sources: CaféPoint, Embrapa and P&A

WINE.COM TO MAKE AND SELL COFFEE CAPSULES

Wine.com.br, the largest e-commerce wine company in Latin America, announced the acquisition of Mocoffee, the Swiss manufacturer of coffee machines and capsules, for US\$ 26 million. Mocoffee was created by Eric Favre, inventor of the Nespresso single-serve system back in 1976 and is today present in 17 countries. Wine, based in the metropolitan area of Vitória, state of Espírito Santo, intends to popularize espresso the same way it did with wine. In operation since 2008, Wine has 200,000 clients in Brazil, half of them subscribers that pay a monthly fee to receive a pack of selected wines at home. The company plans to start selling Mocoffee products through its website still in 2015.

Source: O Estado de S. Paulo



SMALL COFFEE COMPANIES ENTER CAPSULE SEGMENT

Small and medium Brazilian coffee roasters have begun to offer capsules compatible with Nespresso machines. Kaffa, a company that produces coffee capsules, plans to increase its production from 1 million in 2014 to 24 million in 2015. Today about 50 small and medium companies compose Kaffa's portfolio of clients. A 60kg-bag of green coffee sold for about R\$ 550 (US\$ 170) may generate revenues of R\$ 13,000 (US\$ 4,000), when made into 7-gram capsules that are sold to consumers for about R\$ 1,50 (US\$ 0.45) each.

Sources: Folha de São Paulo and P&A

TRÊS CORAÇÕES BUYS ANOTHER COFFEE OPERATION

The Brazilian Anti-trust Council (Cade) recently approved the acquisition of Itamaraty's cappuccino segment by Três Corações, the Brazilian leading coffee roaster. This is the second operation involving the two companies in the last five months. Although Três Corações already held 60% to 70% of the Brazilian cappuccino market, Cade's opinion is that the purchase will not affect competition due to Itamaraty's small market share. Três Corações had already acquired Itamaraty's roast and ground, instant coffee and coffee filter segments last October.

Source: Valor Econômico

SÃO PAULO STATE COFFEES WINS ILLY COMPETITION IN BRAZIL

A grower from the municipality of Sarutaiá, in western São Paulo state near Paraná, was the winner of the 24th edition of the Ernesto Illy Espresso Coffee Quality Competition held in March. Among the finalists were four other growers from São Paulo state, a different scenario from the last editions, dominated by Minas Gerais coffees. This year's first and third best coffees were from São Paulo.

Source: Peabirus

FEMAGRI DOUBLES TRADEFAIR VOLUME OF BUSINESS IN 2015

Coffee growers from South Minas Gerais, Cerrado Mineiro and Vale do Rio Pardo (state of São Paulo) showed that it is time to make investments aimed at reducing costs during the 14th Femagri tradeshow for machinery, implements and agricultural inputs. About 30,000 people attended the event held by Cooxupé, the world's largest coffee coop, that took place from March 18 to 20. The volume of business transacted reached R\$ 55 million (US\$ 16.8 million), more than double 2014's figures. The increase in the number of attendees and sales shows that growers understand that mechanization will offer them higher productivity, cost reduction, greater competitiveness and higher profitability.



Source: CaféPoint

LACK OF BUYERS FORCES CANCELLING OF AUCTION

CONAB, an agency of the Brazilian Ministry of Agriculture, reported that the government failed to attract buyers for the first auction of federal coffee stocks in 2015. The prices set between R\$ 426 and 498 (US\$ 130 to 150) per bag for coffees from Minas Gerais' 2002/2003 crop and Espírito Santo's 2008/2009 crop were considered too high by potential buyers.

Source: UOL

FALL IN EXPORTS OF LEADING AGRI COMPANIES

Sixteen of the leading Brazilian agribusiness companies were responsible for 60% of the downfall in total shipping revenue of the sector in the first two months of 2015, according to the Secretariat of Foreign Trade (Secex/Mdic) and the Ministry of Agriculture. Sales from the 16 companies, listed as Brazilian 40 largest exporters, totaled US\$ 4 billion in January and February, 20.3% less than in the same period of 2014. The positive highlight was Cooxupé that took advantage of the increase in coffee prices; the cooperative's sales went up 157% in the first two months of 2015 in comparison to the same period of 2014.

Source: Valor Econômico

THE FUTURE OF BRAZILIAN PRODUCTION: WHAT TO WATCH FOR

The dance of figures for the size of the coming Brazilian crop is in full swing this April as it was 12 months ago but with an important difference: the range of the estimates is smaller now. Whereas the figures in the April 2014 Confidential showed a difference of almost 8 million bags between the highest and lowest estimate, this year's number is close to 4 million if one removes the outliers. This narrower range becomes even more interesting to address if one considers that the size of the 2014 and 2015 crops are likely to be very close to each other irrespectively of the source one uses! The explanation may lie in the difficulty to incorporate hulling losses into the crop forecasting process, a difficulty that gains magnitude in the case of Brazil, a country that produces predominantly naturals and whose hulling yields consequently change dramatically as a result of weather conditions, as reported more than once in this Outlook section.

A simple, crude way to explain this narrower range is that last year coffee trees bore a number of cherries that was close to normal for a good crop but the loss was primarily caused by large hulling losses that are much harder to estimate and only become evident at hulling time. This year the trees are bearing a substantially lower number of cherries due to reduced branch growth last year but hulling yields are likely to be closer to normal after rains and temperatures approached a closer to normal pattern in February and March after another dry and hot January. Smaller than usual hulling losses are therefore a less important factor in crop estimates in 2015. Vested interests apart, this shows well the peculiarities of crop forecasting in Brazil.

It is surprising that there is so much effort going into crop forecasting - two official and one institutional sources in Brazil and many traders in Brazil and abroad - and proportionally so little into estimation of coffee inventories in Brazil, considering that the impacts of stocks on prices are substantial. Of course, crop forecasting is easier since the "data" are in "public domain": anyone can visit coffee plantations and satellites can see them too! The situation is different with inventories, especially those held by private companies. Efforts to estimate inventories should be definitely encouraged since today the highest estimates seem to be 100% above the lowest.

Along this line of cause-effect relationship, what will be the impacts of current crop losses in the potential for future coffee production in Brazil? First, from a layman's non-agronomist perspective, the crop losses in 2014 and 2015 that may still resonate in 2016 will not affect the potential to produce future crops. Second, solutions exist or are in the pipeline if similar problems occur again and/or tend to become a common feature. Third, the strengthening of the US dollar, felt much more strongly in Brazil due to its economic woes, is making the country a more competitive grower as a weakening real (R\$) brings coffee prices down. Fourth, the Brazilian coffee business has a resilience of its own and a unique ability to deal with adverse conditions as it did in the past with frosts, rust, low productivity and rising labor costs, to mention only a few.

If current foreign exchange projections in Brazil prove right and the dollar remains in the range R\$ 3.00 to 3.20 until the end of 2016, Brazilian coffee growers will progressively lose competitiveness as the cost of dollar-pegged fertilizers and agrochemicals rise and, in the longer run, other costs, especially labor, escalate in an environment of a relatively stable real (R\$) to dollar (US\$) rate. This is the short term window of opportunity for Brazil to start to create the conditions to remain competitive in the future. But if all fails - irrigation, shading, mechanization of harvesting in Conilon and mountain-grown Arabica, etc. - there is a solution of last resort: "micro-migration" into areas not far away from current plantations but that are cooler and were frost-prone not long ago. This is to be compared with the "macro-migrations" that took Arabicas to Paraná and the Cerrado in the past and is currently taking Conilon to Southern Bahia. Should one expect Arabicas to move to higher areas and Conilon to be planted in areas formerly occupied by Arabicas? Maybe. But innovation may take other paths that are hard to predict and may change the course of things in different directions.

Brazilian Prices

Main Producing Regions / Farm Gate

March 31, 2015

Arabica Naturals (R\$/ 60 kg bag)		Conilon / Robusta (R\$/ 60 kg bag)	
Cerrado MG	465.00 ↓	Colatina-ES fair average price	305.00 ↑
Mogiana	460.00 ↓		
South Minas	460.00 ↓		
Arabica Pulped Naturals (R\$/ 60 kg bag)		BM&F	
Cerrado MG	535.00 =	May 2015	170.70 ↓
South Minas	530.00 =	Sep 2015	169.60 ↓
		Dec 2015	172.10 ↓
	+ 16.3%	Real R\$ / Dolar US\$	
		Mar 2015	3.20 ↑

Source:
www.qualicafex.com.br

STAINLESS STEEL WET MILLING MACHINERY

Pinhalense has always manufactured stainless steel wet milling machinery to order: mechanical siphons, pulpers and mucilage removers. The intensity of use of stainless steel components depended on clients' requests, specific applications and place of installation. For example, nearly 100% stainless steel mechanical siphons have been made for use at sea-side plantations in Hawaii and machines with stainless steel screens have been supplied to many countries.

In response to increasing demand from clients in a few coffee producing countries, Pinhalense has decided to standardize its line of stainless steel wet milling machines using a practical cost-benefit approach that meets with the demands of most clients: the stainless steel parts are those subject to most frequent wear-and-tear due to corrosion and that require replacement more often. These include coffee inlets, chutes and outlets, most screens and processing parts, some walls and byproduct (e.g.: pulp) outlets that we convened to call "critical parts". Structures, service platforms and operator protection items remain in regular steel.

The approach adopted incorporates the benefits of using stainless steel – durability mostly but appearance ("good looks") too – without undue costs that would lead to prices higher than wished. Machines manufactured using this approach will respond to most if not all demands incorporated into the stainless steel wet milling machines that Pinhalense supplied in the last five years. In other words, the new line of stainless steel machines, identified by the letters NX after their codes, is a good, proper response to market demands.

A word of warning is required here regarding the type of stainless steel used in this new line of Pinhalense machines. In its constant pursuance for quality, Pinhalense has always used 304 type stainless steel, chosen as the best option available in the 300 and 400 "families". Stainless steel 304 has a high content of chromium and nickel that recommends it for the type of corrosion expected in a wet mill. The 400 family has a lower chromium and nickel and larger iron content which makes it more susceptible to corrosion (rust), thus defeating one of the very purposes for using stainless steel. Type 430, for example, is more recommended for good appearance, like in stoves and their hoods, than the sought after benefits of longer useful life.

If the types and codes above make it difficult for clients to actually know what they are buying or using, there is a simple way to distinguish between the 300 and 400 families of stainless steel and especially between the 304 used by Pinhalense and the 430 that some manufacturers are said to favor: use a magnet! Whereas a magnet will not stick to a part or machine made with higher quality, more expensive 304 stainless steel, it will adhere to items made with the 400 family, especially the much cheaper 430. Be aware that a full machine made of 430 steel may be less durable and have a shorter useful life and higher maintenance costs than a Pinhalense machine with critical parts made of 304 stainless steel.

P&A and/or the Pinhalense/P&A agent closest to you will be pleased to show which items are made of 304 stainless steel in the NX line of mechanical siphons LSC, pulpers with unripe cherry separators ecoflex and upward flow mucilage removers DMPE.

Last but not least, most wet millers around the world still find that the best cost-benefit relationship, considering investment (price of the machine) and maintenance (price of spare parts and labor), lies with high quality regular carbon steel machines that are painted at the end of every processing season. Witness to this are the many Pinhalense carbon steel wet mills around the world that are 10, 15 and even 20 years old and still perform to satisfaction. But, if clients wish, Pinhalense will be pleased to supply its NX line of wet milling equipment with critical parts made of 304 stainless steel.

