

Domestic Market Recap:

Sugar prices decline continuously in major domestic spot markets in this month. Sugar prices came down owing to lackluster trade in various markets. Also, sluggish demand keeps the prices on the lower side. Weak demand couple with incremental production y-o-y and relatively higher quota when compared with 3 years average results in more supply than previous supply crunch expectation. At the same time obligation of the millers to liquidate their allotted quota before beginning of new month further results into selling pressure from the mills which further soften sugar spot prices in different trading centers. Major factors which weigh on the market sentiments are as follows:

- Relatively higher sugar production scenario for 2010-11 compared with 2009-10.
- Exceeding expectation of sugar from Maharashtra and subsequent extension of the crushing period till mid Jun added a bearish hue to the market sentiments.
- Meanwhile, subdued demand in various markets especially when demand is expected from the bulk consumers stands discouraging for the sugar prices
- Expectation of increase in cane acreage, and yield estimates for 2011-12 which might translate into higher sugar production during FY 2011-12.
- Aggressive selling by millers increases the supply side.

Planting Situation for 2011-12

With congenial weather scenario and pre-seasonal rainfall, sugarcane has been planted in 48.96 lakh hectares as on 20th May 2011 as compared with 45.65 lakh hectares at the same period previous year as reveal from the latest report announced by the government.

Sugarcane Crop Estimate (2011-12)

Area Estimation (2011-12)

Sugarcane area may likely to be increased by 8.94% for 2011-12 planting season compared with previous year. Remunerative return from sugarcane and timely payment to the farmers by mills stands encouraging for farmers to go for sugarcane planting and to bring some additional area under the crop.

State	2009-10	2010-11
UP	2300	2050
Maharashtra	2264	1751
Punjab	2080	2120
Haryana	2450	2150
Gujarat	2450	1500-1700 (Till Second installment)
Andhara Pradesh	1885	1931
Karnataka	2400	1740
Tamil Nadu	1663	1948

Area is likely to be increase in UP, India's biggest sugarcane producing state by 8% in 2011-12. It is evident that Mills in UP are paying the price weekly to farmers and completed almost all the dues which stand encouraging for the farmers. Despite marginal decline in the actual cane prices paid to the growers for 2010-11 when compared to 2009-10, actual realization to the farmers still on the higher side. Assuming cane prices to improve marginally for 2011-12 realization to the farmers is expected to improve further as for ensuing season of planting we expect the percent share of ratoon will be more compared with the plants which needs less input and thereby lower cane producing cost. At the same time given the successive two years of return there are ample chances of bringing additional area under sugarcane as well. Meanwhile, positive planting intention by the farmers in UP further supported our view for increase in sugarcane planting acreage for 2011-12. There are ample chances that government of UP might increase the SAP of sugarcane while keeping in view the coming assembly elections to lure farmers. As a matter of fact mills in UP so far paid on an average of Rs 205/Qtl during 2010-11 compared with Rs 245/Qtl during 2009-10.

Situation is no more a different from Maharashtra as we expect area might go up by 14.89% in 2011-12 y-o-y. Better realization of cane prices compared with rice, banana soybean, wheat, maize and cotton. It is noticeable that average cane price paid by millers in 2010-11 was Rs.175/Qtl lower than last year average cane price payment that stood at Rs226/Quintal. It is important to note that despite lower prices paid to farmer's y-o-y basis net realization still remain satisfactory for the farmers as return from rice, wheat and soybean declined significantly owing to softening market prices of these commodities. Meanwhile, farmers are getting good return in Maharashtra where the cane prices stay much above the government fixed FRP (Rs 145/Qtl). Moving forward, anticipation of better return for the canes during 2011-12 crushing season is likely to increase sugarcane acreage in Maharashtra.

In Tamil Nadu, good remuneration price paid by millers in 2010-11 encourage the farmers to plant sugarcane crop where the area is anticipated to increase by 15% in 2011-2. Farmers get more prices both over FRP (Rs 145/Qtl) and previous year which help them to decide to go for more cane crop this year compared with previous year. Meanwhile lower return from Paddy the principal competing crop in the state tilt their intention to show more cane for 2011-12. As a matter of fact mills paid Rs.194/Qtl in comparison to Rs.166/Qtl in 2009-10.

Similarly the area in Andhra Pradesh is expected to increase by 3.07% in 2011-12. The main reasons are prompt cane payment and good remuneration to farmers by mills. Also, a healthy competition within mills to get the cane from farmers also encourages the farmers to increase crop area. Mills have paid Rs.193/Quintal which is higher than previous year price remuneration i.e Rs.188/Quintal.

However, marginal decline in acreage is expected in Karnataka where the area might see a decline of nearly by 5.78% owing to moderate returns to the growers against anticipation of getting the previous year prices level. At the same time cotton remain competitive for sugarcane in major cane growing region of Karnataka and better realization of cotton and maize compared with cane stands discouraging for the growers to go for active cane planting. However, intention might change during June when active planting is expected considering recent decline in cotton prices. In 2010-11, mills paid Rs. 174/Quintal to farmers in comparison to Rs.240/Quintal in 2009-10.

Marked decline in cane area is expected from Gujarat, owing to relatively lower return to the growers in 2010-11 which is likely to drop cane area by 16.05% in 2011-12. In 2010-11, millers paid Rs.150-170/Quintal till second installment to farmer's less than last year cane price of Rs.245/Quintal. At the same time cane payment during 2010-11 hovers very close to government set FRP which stand discouraging for the farmers to go for aggressive cane planting.

Meanwhile, cane acreage in Haryana may go up by 12.41% in 2011-12. Marginal returns from crops like wheat and paddy encourage the farmers to shift to sugarcane. Similarly it is likely to go up in Punjab by nearly 33% owing to area shift from Paddy to sugarcane. Higher autumn planting in Punjab owing to extended rainfall till Sep 2010 favours cane planting in the state which accounts for sharp growth in cane planting which is likely to harvest during Oct 2011. At the same time higher realization from cane to farmers in 2010-11 (i.e Rs. 212/Quintal) compared to Rs.208/Quintal during 2009-10 further divert the farmers attention towards cane.

States	Area (000 hec)		% Change
	2010-11	2011-12 (E)	
UP	2125	2295	8.00%
Maharashtra	964	1108	14.89%
Tamil Nadu	336.2	426	15.00%
Andhra Pradesh	192	198	3.07%
Karnataka	421	397	-5.78%
Gujarat	188	158	-16.05%
Haryana	85	96	12.41%

Punjab	69	92	33.00%
Others	574	629	9.50%
India	4955	5398	8.14%

Yield Estimation (2011-12)

It is too early to comment on the actual yield for 2011-12 but we assume the yield is likely to hover in the normal range given no weather aberration during July –Aug period. With respect to production we assumed the average yield to hover near its 2 years of average considering normal precipitation forecast by Indian Meteorological Department. However actual yield is likely to dependent on the amount of precipitation during July –Aug and any positive or negative deviation of monsoon from its normal would define the yield accordingly.

States	Yield (Kg/hect)	
	2010-11	2011-12(E)
UP	57411	58331
Maharashtra	82318	83592
Tamil Nadu	101962	101707
Andhra Pradesh	78000	76051
Karnataka	86449	88392
Gujarat	75745	78132
Haryana	73506	72800
Punjab	59855	60761
Others	39936	40335
India	68733	73345

Cane Production Estimate (2011-12)

While considering the incremental area and assuming normal yield we expect sugarcane production to improve by 15% in 2011-12 y-o-y backed by gain in both area and yield.

States	Cane Production (000 MT)		% Change
	2010-11	2011-12 E	
UP	122.00	134	10%
Maharashtra	79.35	93	17%
Tamil Nadu	34.28	43	15%
Andhra Pradesh	14.98	15	0%
Karnataka	36.40	35	-4%
Gujarat	14.24	12	-13%
Haryana	6.25	7	11%
Punjab	4.13	6	35%
Others	22.94	25	11%
India	340.54	396	15%

Sugar Production Estimate (2011-12)

Sugar production is expected to improve by nearly 6.58% backed by normal crushing expected and normal recovery. Assuming percent recovery to stay close to the 3 years average total sugar production is likely to hover near 26 million tons. Meanwhile, cane for crushing is likely to stay close to 68.1% of the total cane production while cane diversion for Gur/Khandsari might hover near 20%. 11.9% cane diversion is expected for Seed/Feed purpose which is likely to stay steady when compared with previous year. State wise sugar production estimate for 2011-12 is enlisted in the following table:

States	Sugar Production Estimate (2011-12)(MMT)
UP	7.7
Maharashtra	8.6
Tamil Nadu	2.0
Andhra Pradesh	1.0
Karnataka	3.0
Gujarat	1.0
Haryana	0.3
Punjab	0.3
Others	0.0
India	26.0
Total India 2010-11	24.4

Domestic Sugar Balance Sheet:

Apart from sharp jump in sugar production (~29%) for 2010 total availability is improved by nearly 6.17% when compared with previous year. Considering yearly growth of consumption to the tune of 2.2% and export permission of 5 lakh tons OGL system and 1.5 million tons exported so far against Advance License Scheme, total usage for 2010-11 is likely to up by 10%. This would result into overall decline in the ending stocks of sugar (12.8%) and this situation is likely to stay close to the levels of 2008-09 when India imported nearly 2.8 million tons of sugar to maintain its normative requirement of sugar stocks sufficient for 2 months.

Meanwhile, at the other side of the coin, despite expected sharp decline in the opening stocks for 2011-12 marketing year sugar production is expected to increase by nearly 7.4% considering normal monsoon and equitable distribution in the major cane growing region of India. Keeping in view surge in sugar production y-o-y total availability is expected to increase by ~4% which results in to marked improvement in the sugar ending stocks to the tune of 14.7% considering consumption to grow by nearly 2.6% for 2011-12.

The detail of the supply and demand component is enlisted in the following table:

All Units in Million Tons	2009-10	2010-11	2011-12
Opening stocks	3.73	4.68	4.08
Production	18.9	24.40	26.00
Imports	4.76	0.00	0.00
Total Availability	27.39	29.08	30.08
Domestic consumption	22.50	23.00	23.60

Exports	0.21	2.00*	2.00
Total Usage	22.71	25.00	25.60
Closing stocks	4.68	4.08	4.48
Average Monthly consumption	1.88	1.92	1.97
Stocks in months to use	2.50	2.13	2.27
Stock/Consumption Ratio	0.21	0.18	0.19

*Export break up – OGL – 0.5 million tons(subject to govt permitting), ALS – 1.5 million tons

Expectation of marked gain in the ending stocks for 2011-12 owing to better production scenario, stock to month use ratio and stock to consumption ratio is expected to improve significantly indicating satisfactory supply scenario. This might prompt the government to review its current export policy to avert a situation of glut similar to 2006-07 and 2007-08. However, any policy change will be dependent on the monsoon and amount of precipitation received during July and Aug.

Possible Government Measure:

Government though will be watching the sugar production scenario closely and in case of higher availability of cane following are the measure which government can take to control the sugar prices further going down to ensure that the mills will be paying cane prices in time. In any case government this time will not allow cane payment delay to the farmers and direct the mills to ensure timely payment to the mills. For this reason government might take the following initiative sooner or later to cap any marked downfall in sugar prices below the economic cost of production:

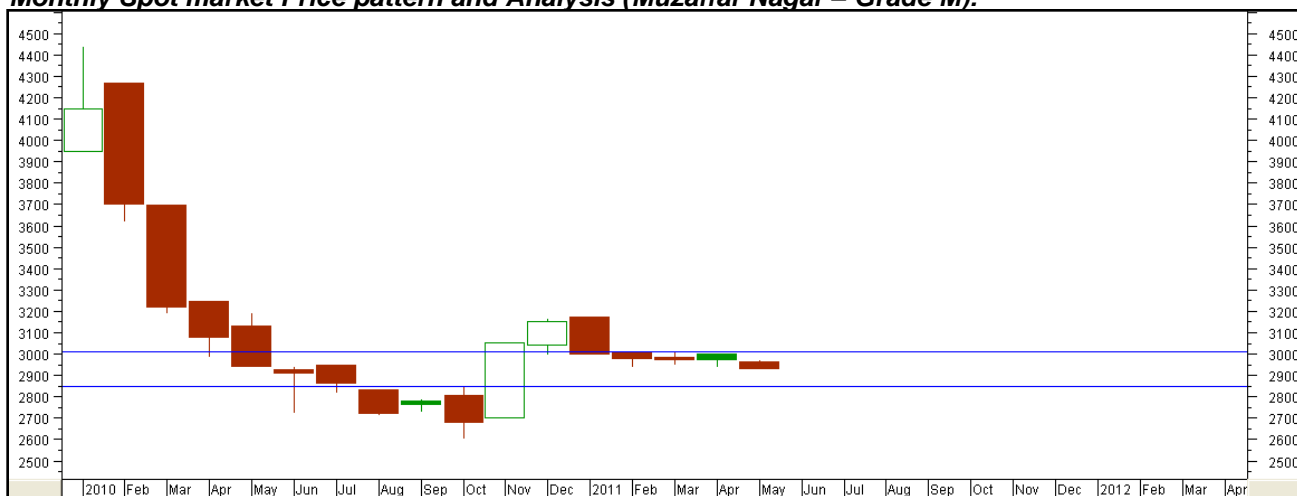
1. Government may issue directives to the mills to build buffer as that of 2007-08 to tackle excessive sugar production. Warehouse cost of additional buffer allotted to mills will be taken care by the government and buffer stock should not be liquidated in the open market without prior approval by the government.
2. Meanwhile, government can contemplate re-opening of export for 2011-12 marketing year which is likely to lend underlying support to the sugar prices.
3. At the same time government can also increase the sugar supply through PDS and can use its additional stocks for different schemes as that of cereals.

Sugar Production estimate for 2011-12 (In Million Tonnes)	
USDA	25.5
Agriwatch	26.0
Sucden	25.7

Spot Sugar Prices Scenario (Monthly)

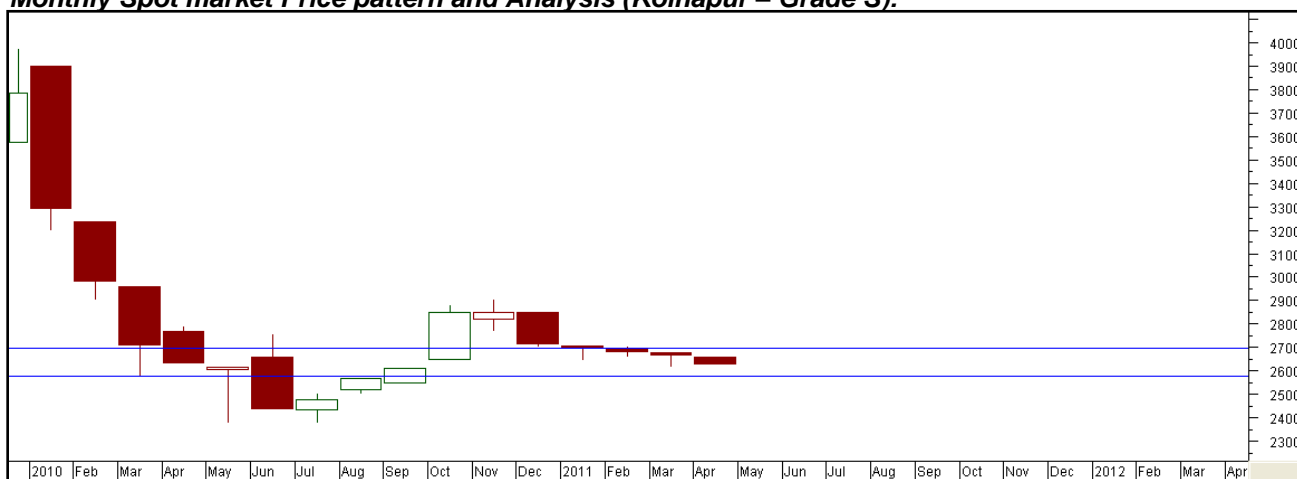
	28-May-11	28-Apr-11	change
Mumbai M-30	2851	2891	-40
Mumbai S-30	2716	2771	-55
Muzaffar Nagar M	2860	2885	-25
Delhi M-30	2900	2950	-50
Delhi S-30	2860	2850	+10
Kolhapur M-30	2691	2731	-40
Kolhapur S-30	2556	2611	-55

Monthly Spot market Price pattern and Analysis (Muzaffar Nagar – Grade M):



. Technicals and fundamentals of Muzaffar Nagar spot market, reveal that prices to stay steady to weak in the upcoming month. Prices of Sugar M in Muzaffar Nagar spot market might soften by Rs. 50-60 per quintal and expect to come down to Rs. 2575 due to subdued demand and ample supply in the market. However demand is likely to improve at lower price quotes which are likely to lend underlying support to the sugar prices.

Monthly Spot market Price pattern and Analysis (Kolhapur – Grade S):



Spot prices declined in Kolhapur. Subdued demand in the Kolhapur spot market drags the prices downwards by Rs.30 last month. Extended crushing coupled with aggressive selling by millers and cautious approach by bulk users who further pull their hands from the market are the reason for immediate decline in sugar prices.

We expect sugar prices in Kohlapur to trade steady to negative in the upcoming month. Prices of Sugar-S in Kolhapur spot market is likely to go down further by Rs. 50-60 to Rs 2575 in the upcoming month.

Gur Fundamentals

Gur arrivals in the muzaffarnagr market are 500 mund and are likely to stop in the coming days that can make selling pressure on Gur stored in Cold storage. Dull lifting of gur stored in cold storage keeps the prices steady to negative. Market traders expect that the demand may pick up from 15 June 2011 as temperature may likely to cool down that will help to sell the gur (Cold storage) in the open market. Till date, around 8 lakh bags lying in the cold storage in Muzaffar Nagar in the current year. Demand of gur from Gujarat is likely make a temporary pause as peak season of marriage is over. However it might improve after June 15th as the regular demand and local festivals during July might encourage the buyers to go for booking orders during the period thereby lending underlying support to the gur prices at subdued price levels. With the fag end of gur production in principal gur producing state of UP and remaking of cold storage gur after 15 june may attract the buyers and the prices might find buying support which is likely to keep gur prices on an encouraging note moving forward. Also Gur production may likely to start in Karnataka after June. Meanwhile, anticipation of excess cane left after closing oⁱ mills might get diverted towards Kohlu in Maharashtra which might results into marginal improvement in gur production in the state.

GUR Spot prices (Rs/Qtl)				
Commodity	Markets	30/05/2011	30/04/2011	Change
Jaggery(Gur)	Muzaffar Nagar (Chaku)	2400	2500	-100
	Ahmedabad (Lal Gur)	2550	2450	-100

Commodity: Sugar
Contract: July

Exchange: NCDEX
Expiry: July 20th, 2011

SUGAR

Technical Commentary:

- Prices of sugar are moving in a channel range between Rs. 2592 to Rs. 2811. Prices are hovering at channel support. If prices breached the channel then prices may fell down to Rs. 2500 and then may touch to Rs. 2441 level. However, Oscillators like RSI is hovering in oversold region.



Strategy: It is advisable to sell from support level.

Intraday Supports & Resistances			S2	S1	PCP	R1	R2
Sugar	NCDEX	July	2441	2500	2622	2603	2645
Intraday Trade Call			Call	Entry	T1	T2	SL
Sugar	NCDEX	July	Sell	<2567	2500	2441	2603

Commodity: Gur
Contract: July

Exchange: NCDEX
Expiry: July 20th, 2011

GUR

Technical Commentary:

- Gur future prices are moving downwards and hovering above strong support level of Rs. 991 if breached then it may go down to its next support level of Rs. 971 and then Rs. 960. However, strong fundamentals may likely to support the prices upwards. Range bound movement recorded in gur prices which hovers between Rs. 994.5 to Rs. 1096. RSI is also hovering in a oversold region.



Strategy: Buy from resistance level is advisable.

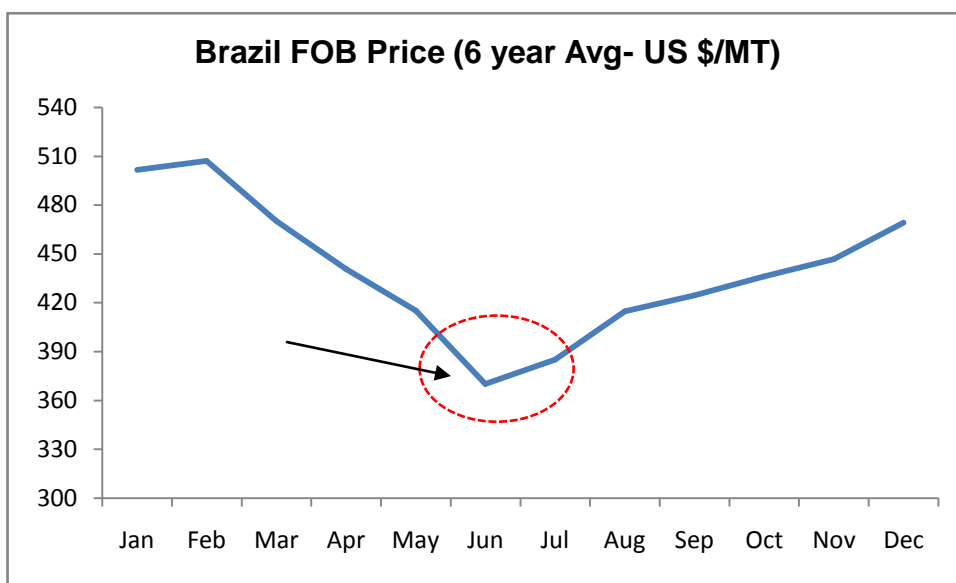
Intraday Supports & Resistances			S2	S1	PCP	R1	R2
Gur	NCDEX	July	962	976	1000	1025	1056
Intraday Trade Call			Call	Entry	T1	T2	SL
Gur	NCDEX	July	Buy	>995	1025	1056	976

International Scenario

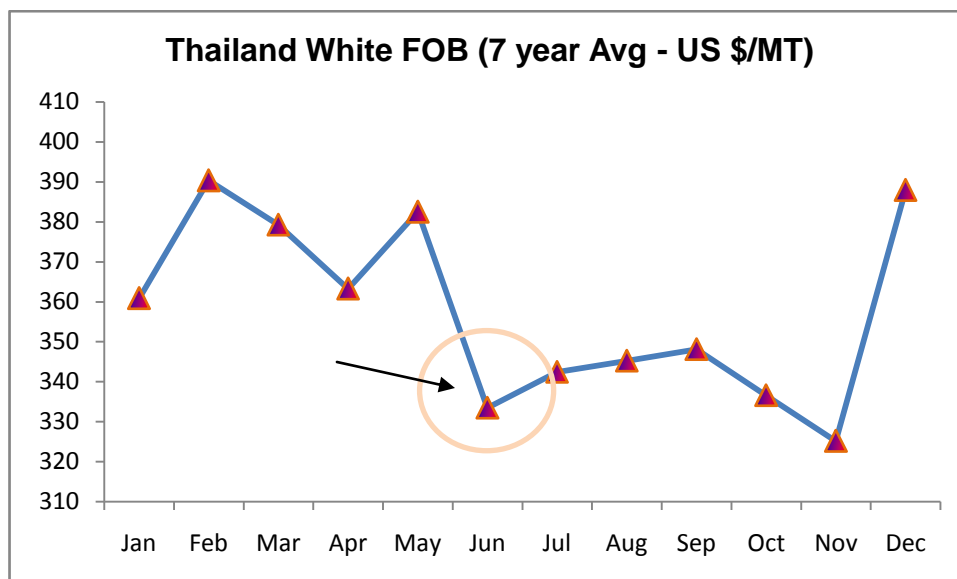
Demand may likely to pick up from Russia as Moscow has switched to buying the sugar from Thailand after its traditional seller, Brazil facing port congestion at present. Also, Sugar import from Mexico may pull the prices up in LIFFE for the short term. Prices in LIFFE Sugar Futures have recorded some correction in prices last month as Brazil output goes down drastically. We are expecting that the prices may go down further owing to fresh supply from Brazil and Thailand may ease the prices in the coming month.

International Market News Highlights:

- Sugar output in Brazil's Center south, world's largest producing region, slumped 17 percent in the first half of May. Output dropped to 1.55 million tonnes in the first half of May from 1.87 million tonnes in the same period last year. Brazil's sugar output is expected to rise by about 2.7 million tonnes to 40.9 million tonnes this year. Meanwhile keeping the historical price trend and overall record sugar production scenario in Brazil we expect that the prices may ease in the month of June as it is a seasonal trend.



- Thailand expects to export a record 7 million tonnes of sugar in 2011. The 2010/11 crushing season had almost ended and a total 9.62 million tonnes of sugar was likely to be produced. Thailand, the world's second-biggest sugar exporter after Brazil, shipped 4.42 million tonnes in 2009. Also sugarcane production in 2010/11 (Nov/Oct) is now seen at a record 93 mln tonnes, prompting the extension of the current 2010/11 crushing season by a month to the end of May which supports the sugar output. However, keeping the historical price trend and record sugar production prospect in Thailand we expect prices to cool off during June as it is a seasonal trend.



Moreover incremental gains in the sugar production y-o-y at Thailand front shall keep weighing on the Thailand prices which is likely to soften the Thai premium moving forward.

- EU approves plans to import additional 2,00,000 MT of sugar at zero duty to increase supplies in the domestic market. Sugar prices have jumped as much as 70 percent in the EU this year, even as futures prices decline in London and New York owing to shortage of sugar in countries like Poland.
- Mexico has approved a sugar import quota of 150,000 tonnes until the end of this year. Mexico has so far produced 4.98 million tonnes of sugar in the 2010/2011 harvest, 11.5 percent more than in the same period last year.
- The sugar line-up at Brazilian ports totalled 60 vessels, up 2 percent on 25th May from a week ago. At Santos, Brazil's main port for sugar exports, queue remained at 45 from previous week. At Paranagua, the No. 2 sugar port, there were 13 ships on 25th May, up from 12 vessels last week.

Brazil Sugar Vessel Line up					In Tonnes	
Ports	Vessels		White		Raw	
	24-May	17-May	24-May	17-May	24-May	17-May
Santos	45	45	41950	28500	1580000	1550000
Paranagua	13	12	0	5500	425800	399600
Vitoria	2	1	0	5200	14000	0
Total	60	58	41950	39200	2020000	1950000

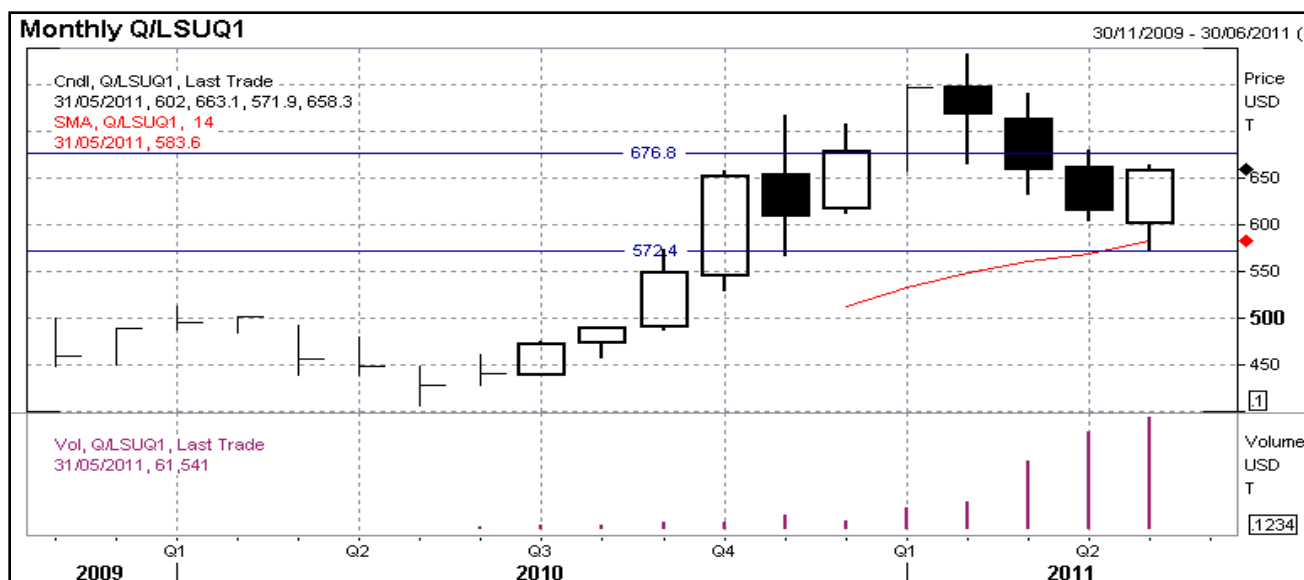
- Sugar production in Brazil's key Centre/South region in 2011/12 through May 1 was down 68.9% on the year at 795,000 tonnes from 2.555 mln a year ago as rains through mid-April hindered cane harvesting and mills prioritized ethanol production.
- Itau BBA forecasts a 2011/12 global sugar surplus of 6-8 million tonnes, up from a surplus of around 3 million tonnes in 2010/11.

- Sugar imports by China, the world's second-biggest consumer after India, may jump 35 percent as output trails demand, helping push global prices higher. The nation may produce 12.5 million tons in the year from Oct. 1, while demand may be 15 million tons. Buyers in China may take advantage of a slump in prices that has seen sugar plunge about 42 percent since reaching a three-decade high on Feb. 2.
- Indonesia has issued a permit to import 100,000 tonnes of raw sugar. According to DGI, it would import 2,84,000 tonnes of raw sugar till the end of 2011 in order to fill idle milling capacity. In marketing year 2010/11 Indonesia is estimated to produce 1.77 million tonnes of plantation white sugar, a decrease from 1.91 million tonnes produced in the previous year.
- South Africa's 2011/12 sugar output is estimated at 1.923 million tonnes, up from the previous season's output of 1.909 million tonnes. Sugarcane crush is forecast at 16.537 million tonnes, up from the previous season's output of 16.016 million.

International Sugar Futures Price Projection (Monthly)			
	Contract Month	Present Quote	Expected Price level for Coming Month
ICE Sugar #11 (US Cent/lb)	Jul'11	22.99	20.51
LIFFE Sugar (US \$/MT)	Aug'11	658.3	572.4

International Sugar Prices (Monthly)				
	Contract Month	27/4/2011	27/5/2011	Change
ICE Sugar #11 (US Cent/lb)	Jul'11	22.96	22.99	+0.03
	Oct'11	23.16	22.86	-0.3
	Mar'12	23.49	23.02	-0.47
LIFFE Sugar (US \$/MT)	Aug'11	626.50	658.3	+31.8
	Oct'11	609.20	613.40	+4.2
	Dec'11	613.70	606.40	-7.3

LIFFE Future Market Sugar Monthly Scenario (Aug'11 Contract):



Prices in LIFFE Exchange of Sugar Future August contract shows bullish trend last week as Brazil output declined drastically supports the prices. We are expecting that prices may go down in the upcoming month as improved supply from Brazil and Thailand may pressurize the prices down.

ICE Raw Sugar Future Market Monthly Scenario (July'11 Contract):



New York raw sugar prices may likely to trade downwards in the coming month owing to good production of raw sugar by Thailand. Out of total 9.95 million tonnes of sugar produced in Thailand, 6.15 million tonnes are raw sugar.

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