

Domestic Market Recap:

Sugar extended its previous weakness and stayed at lower levels during the week under review. Sugar prices have come down due to persistent sluggish demand of sugar in the open market. Also, higher sugar stocks with mills just after ending of the cane crushing season and obligation to off-load monthly non-levy quota also added to the market sentiments. Meanwhile, traders are taking cautious approach to go for aggressive buying and slow down their purchase due to subdued demand.

Poor demand even reflected from the PDS system as well as government agencies failed to up-lift the levy quota allotted to them from Maharashtra and seeking further extension of the time period. As per media sources, levy sugar quota has not been lifted for the past two months. Given the above facts, weak sugar demand during peak sugar consumption period from different sectors such as PDS, bulk buyers and other industries might continue to weigh on the market sentiments moving forward.

Again on the supply front, government has released 16.5 lakh tonnes non-levy sugar quota for the month of June. However, the 4 year average of June sugar quota stays close to 15.25 lakh tonnes which suggests that the 16.5 lakh tonnes sugar quota for June month is higher which might discourage the sugar prices going up in the coming week.

Relatively higher return from sugarcane when compared to competitive crops stands encouraging for the growers to go for active planting during May – June in principal producing states of UP and Maharashtra. In 2011-12, overall sugarcane area is expected to increase by 8.14%. Assuming normal monsoon with equitable distribution thereby improvement in yield, the sugarcane production is likely to go up by 15% in 2011-12 which might add to the sugar production. However, it is too early to comment on the sugar prices for next season as price direction will be dependent on the government policies further.

Considering above factors, sugar prices are likely to stay range bound with weak bias amid lack of fresh cues to support the sugar prices.

News Highlights:

- India's sugar mills will soon seek government permission to export an additional half a million tonnes of the sweetener as output is expected to rise in the next season from October.
- Bulk consumers like cold drink makers were not active in the market. Retail demand was there, but wasn't enough to support prices.
- India's Maharashtra state, the biggest sugar producer in the country, has revised downward its 2010/11 sugar output forecast to 9 million tonnes from the previous 9.1 million tonnes.
- According to the Directorate General of Foreign Trade, India has allowed upto 10000 tonnes of organic sugar exports per annum. The step came to encourage the farmers to adopt organic farming. The government tries to give some relaxation on exports of sugar produced without using chemical fertilizers and pesticides.
- Government released 375224.1 tonnes for sugar exports under OGL. Total 395 mills has got the permit for overseas sugar shipments out of total 5,00,000 tonnes of unrestricted export quota.

Further Sugar Export Opportunity:

Sugar prices in International market moved up by \$135/MT in last one month from \$582 /MT on 6th May 2011 to \$714.40 quoted on 8th June, 2011 in LIFFE white sugar futures. Prices have increased due to delayed start of crushing operations in Brazil followed by expectation of improved buying from Russia and European nations where losses to beet crop during beginning of the year might result into immediate demand of white from these nations. As a matter of fact the lower availability of white with respect to raws in the international trade channel further stand supportive for the white sugar in Liffe. .

Keeping in view the short term bullish factor we expect international sugar prices to stay firm. However, domestic sugar prices still remain subdued thereby increasing the price spread between domestic market and international prices. This opens the way for Indian exporters to off-load white (150 ICUMSA) into destinations like Indonesia and Middle East.

Export Parity Calculation (Break Bulk)			
Sugar Parity Calculations	South (T.N)	West (Maharashtra)	North (U.P)
	Chennai S 30	Kohlapur S 30	Muzzfarnagar M 30
CIF to Implied Destination (USD/MT)	746.52	726.62	791.54
CIF to Implied Destinations (Over Liffe USD/MT)	771.51	771.51	771.51
Parity/Disparity (USD/MT)	24.99	44.89	-20.03

Keeping in view the limited quota available for export and millers interest in off-loading their sugar quota for export tight competition exists in the market. High profit margin and export parity with limited stocks available for exports there exists a stiff competition among exporters and traders to get an export license for sugar. They start offering premiums over the mill gate prices to get the export quota from the mills. Sugar export parity improved significantly during recent time with sharp upward movement of the whites at its bench mark market of Liffe as mentioned in the above table. However, after considering Indian premiums sugar export remain viable from Chennai and Kolhapur region taking the freight advantage when compared with land locked region of principal cane growing region of UP.

Meanwhile, cooperative sugar mills federation started floating tenders seeking sugar exporters having license to export sugar quota allotted to them. This raises hope for the millers to fetch premium compared to the open market prices. However, the quantity allotted is not significant when compared to their crushing capacity and might not be able to keep sugar prices at higher levels.

Sugar production for 2010-11 kept unchanged to our previous projections as there were no major factor seen impacting the sugar production especially in Maharashtra where crushing was extended.

Sugar Production estimate for 2010-11 (In Million Tonnes)	
Indian Government	24.5
ISMA	24.2
Agriwatch	24.4
Sucden	24.0-24.5
ED&F Man	24.5
Maharashtra State Cooperative Sugar Factories Federation (MSCSFF)	24.5

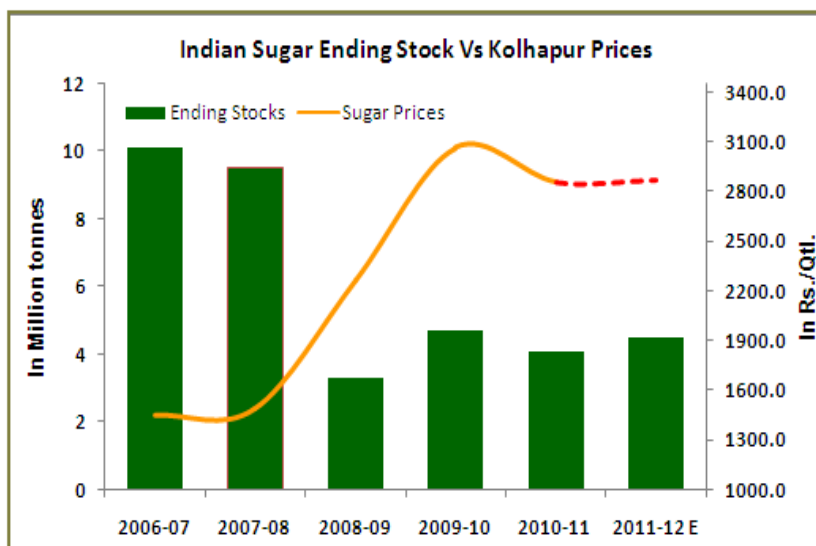
Meanwhile, sugar production projection for 2011-12 is kept unchanged as well as there was no major deviation seen in acreage while keeping the yield constant. No marked changes in fundamentals during the recent past lead us to project sugar production at 26 million tons as shown in the following table.

Sugar Production estimate for 2011-12 (In Million Tonnes)	
Agriwatch	26.0
Czarnikow	26.1
Sucden	25.7

Sugar prices pattern viz-a-viz Ending stocks:

A strong inverse correlation exists between sugar ending stocks and average yearly prices with time (t+1) lag. With a negative correlation coefficient of 0.90 between sugar ending stocks and prices for 2010-11, prices are witnessing a fall (6% decline) y-o-y. Moving forward, with better sugar production prospects for 2011-12 and expectations of a surge in total demand, we expect sugar ending stocks to decline marginally by 13% to 4.08 million tons when compared with 2010-11.

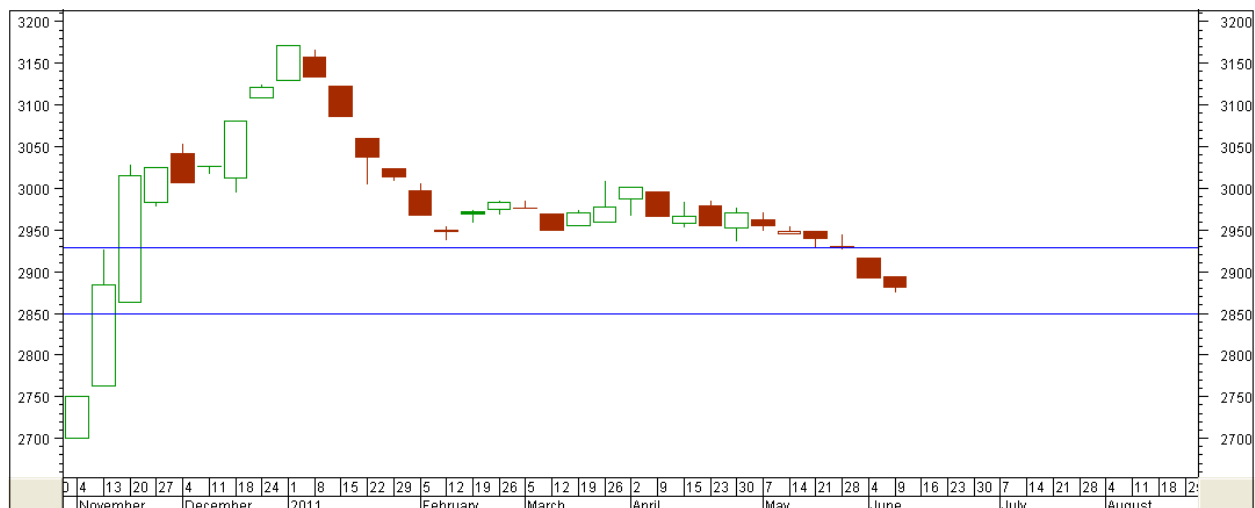
With expectation of decline in the sugar ending stocks for 2011-12 and considering strong inverse correlation that exists we expect average sugar prices to inch up marginally during 2011-12 marketing year and likely to stay in the range of Rs 2865 to 2870/Qtl.



Spot Sugar Prices Scenario (Weekly)

	02-June-11	09-June-11	change
Mumbai M-30	2831	2790	-41
Mumbai S-30	2701	2681	-20
Muzaffar Nagar M	2850	2835	-15
Delhi M-30	2870	2820	-50
Delhi S-30	2820	2800	-20
Kolhapur M-30	2671	2630	-41
Kolhapur S-30	2541	2521	-20

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



As the chart suggests, the spot prices are going downwards in Muzaffarnagar. Subdued demand in the Muzaffar Nagar spot market drags the prices downwards by Rs.10.

We expect sugar prices in Muzaffarnagar are likely to stay steady to negative in the upcoming week. Prices of Sugar M in Muzaffar Nagar spot market may go down by Rs. 10-30 to Rs. 2850/Qtl when compared with the prevailing prices of Rs. 2879/Qtl.

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



At the same time, sugar prices at spot market of Kolhapur continue the previous weak trend owing to ample supply and subdued demand which drags the prices downwards by Rs.34 last week.

Considering the above factors, we expect prices to stay steady to weak during coming week. Prices of Sugar S in Kolhapur spot market may likely to go down by Rs. 20-30 and is likely to stay near Rs. 2471/Qtl when compared with average price of Rs. 2489 per Qtl.

Gur Scenario:

Gur prices remain steady to negative in various spot markets during the week under consideration. Lackluster trade coupled with weak demand and lower off-take both from the Mandi and cold storage continue to weigh on the gur market sentiments. . However, negligible arrivals of gur from Muzaffarnagar could be seen as Kolhu's have started closing their units owing to relatively lower cane availability.

According to leading sources, traders are waiting for monsoon demand to set in with expectation of showers during June end which may give some relief from temperature as demand is comparatively low when the temp goes above 40 degree Celsius in Rajasthan and Gujarat, leading consumers of Chaku variety gur. With the onset of monsoon demand is likely to pick up which might give some respite to the gur fundamentals. Currently, the relatively higher temperatures in Rajasthan and Gujarat is deteriorating the quality of gur stored in open leading to fall in market prices which may only change when rains come.

In Muzaffarnagar market, there are about 1,350,000bags of gur (both chaku and raskut variety) stored in the cold storage. Out of these 1,350,000 bags, 850,000 bags are of Chaku variety and rest Raskut. Remade gur sold at Rs. 2700 per quintal in the open market arrived recently from shamli. Haryana and Punjab are the leading consumer states for remade gur.

However, closing of cane crushing in Maharashtra and Karnataka may divert additional cane to kolhus which may increase the supply of Gur in the market after 15th June. Meanwhile, expectation of demand to pick up during coming couple of weeks we expect additional gur production is likely to off-set by the demand thereby keeping prices almost range bound moving forward.

Considering the above factors we expect gur prices to stay range bound during coming couple of weeks.

Commodity: Sugar
Contract: June

Exchange: NCDEX
Expiry: June 20th, 2011

SUGAR

Technical Commentary:

- Prices of sugar are moving in a channel range between Rs. 2450 to Rs. 2591. Prices are hovering at channel support. Two consecutive prices trading below existing channel may drag the sugar future prices down to Rs. 2427 and then may touch to Rs. 2400 level. However, Oscillators like RSI is hovering in oversold region.



Strategy: It is advisable to sell on rallies.

Supports & Resistances			S2	S1	PCP	R1	R2
Sugar	NCDEX	June	2400	2427	2650	2510	2531
Trade Call			Call	Entry	T1	T2	SL
Sugar	NCDEX	June	Sell	<2485	2427	2400	2510

Commodity: Gur
Contract: July

Exchange: NCDEX
Expiry: July 20th, 2011

GUR

Technical Commentary:

- Gur future prices are moving in a consolidation phase and moving in a channel between Rs. 988 to Rs 970 if breached either side may decide the movement of the prices. However, RSI is hovering in a oversold region which suggests bullishness.



Strategy: Selling from resistance level is advisable.

Supports & Resistances			S2	S1	PCP	R1	R2
Gur	NCDEX	July	965	970	972.5	990	999
Trade Call			Call	Entry	T1	T2	SL
Gur	NCDEX	July	Sell	<982	970	965	990

International Scenario

International sugar prices have gone up in previous week. Less production estimates from Brazil's center south region and short supply of white sugar in the world market have supported the prices in LIFFE. Sugar prices in LIFFE have shot up by \$135/mt owing to increased demand from West Asian countries and North Africa on the occasion of Ramazan. Usually, these countries pile up their stocks of sugar at this point of time. International demand is likely to continue and we expect international sugar prices to perk up during coming week.

International Market News Highlights:

- Brazil's Center South, the world's largest producing region, is expected to produce 33 million tonnes of sugar this year, less than previously expected on lower crop yields. Sugar output in Brazil's Center South, which accounts for about 90 percent of the country's sugar, was earlier estimated at 34.5 million metric tons.
- The Thai 2010/11 sugar harvest followed by subsequent cane crushing is extended in June which is the longest extension in the Thai history. On 6th June 2011, 192 days of crushing completed by mills in Thailand. Sugar production in 2010/11 (Nov/Oct) in the period ended June 6 amounted to 9.98 million tonnes, raw value, up from 7.2 million tonnes produced in the same period a year ago. Out of 9.98 million tonnes, 3.96 million tonnes was whites.
- China's sugar production in May 2011 amounted to 91,000 tonnes, white value, up from 68,000 tonnes produced during same period previous year. This brought total sugar output in 2010/11 to 10.45 million tonnes, white value, down 3% from 10.74 million tonnes in 2009/10.

International Sugar Futures Price Projection			
	Contract Month	Present Quote	Expected Price level for next week
ICE Sugar #11 (US Cent/lb)	Jul'11	24.97	26.24
LIFFE Sugar (US \$/MT)	Aug'11	715.00	748.00

International Sugar Prices (Weekly)				
	Contract Month	2/6/2011	9/6/2011	Change
ICE Sugar #11 (US Cent/lb)	Jul'11	23.52	24.84	1.32
	Oct'11	23.38	23.99	0.61
	Mar'12	23.60	23.95	0.35
LIFFE Sugar (US \$/MT)	Aug'11	683.90	712.10	28.2
	Oct'11	628.30	648.60	20.3
	Dec'11	617.90	633.40	15.5

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



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



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