

Domestic Market Recap:

Sugar prices continue the bearish trend in various spot markets last week. Despite of marginal improvement in demand, prices are continuously declining owing to ample sugar stocks with sugar mills. Meanwhile, no fresh cues on export front have dampened the market sentiments. It is noticeable that the prices in International markets are rising while domestic sugar prices are declining. This creates parity for millers to export sugar overseas but government is still deciding whether or not to allow sugar export on inflationary concerns.

Sugar millers are asking for an allocation of an additional 15 lakh tonnes of sugar under OGL for 2010-11 to cash the existing spread opportunity with respect to the international market.

In UP markets, demand has improved. Upcountry buyers of UP like Haryana and Punjab have started buying premium quality Sugar L grade. Earlier, buyers from Haryana and Punjab bought sugar from Maharashtra as is cost less including transportation in comparison to UP. However, despite of improved demand for the premium quality, prices of M-grade declined in UP markets during the week under review.

Sugar S-grade demand has also improved marginally from retail buyers and traders of Central and South-West India and Tamil Nadu. Sugar from A.P. and Karnataka mills are getting into the T.N. market owing to spread advantage. Higher supplies from other states resulted decline in sugar prices in Chennai as the mills of TN offered relatively higher sugar prices when compared to Karnataka and A.P. Traders in Chennai market buys sugar at Rs. 2480/Qtl from Andhra Pradesh and Rs. 2370/Qtl from Karnataka market which is lower than Chennai spot price i.e Rs. 2560/Qtl.

No fresh cues from the government front and obligation to the mills to liquidate assigned quota in the market is likely to keep sugar prices under pressure during the coming week. However, improved demand scenario in few states might lend underlying support to the sugar prices for short term.

News Highlights:

- Indian sugar millers want to export an extra 15 lakh tonnes of the sweetener under the Open General Licence (OGL) scheme this season.
- According to news sources, Sugar production in India's top sugar producer Maharashtra may fall by 9% in 2011/12 to 8.3 million tonnes from a record 9.15 million tonnes in 2010/11. However, farmers planting status reveal sugarcane area in Maharashtra is set to increase by nearly 9% which is likely to add to the total sugar production in Maharashtra for 2011-12.
- The Food Ministry has proposed 15% import duty on sugar from July 1 as the country's production is higher than the domestic demand. The government had abolished import duty to boost domestic supply in February 2009.
- Maharashtra state is likely to have five lakh tonne excess sugarcane, which sugar factories may not be able to crush. The wet-field conditions due to rainfall, acute shortage of labour and cultivation at distant locations are the major hurdles in transporting the excess sugarcane to the factories for crushing. This will reduce the original estimate by 50,000 tonnes of sugar from the overall 24.4 million tonnes sugar production for 2010-11.
- India's sugar inventory rose 25.6 percent to 23.26 million tonnes on June 1 from previous year, which is more than sufficient to cover a year of domestic demand.
- According to news published by FO Litch Research Team, India's sugarcane acreage is likely to rise by 4.1% in 2011/12 (Oct/Sep) as farmers are still finding the crop remunerative over

competing crops. However, as per the survey conduct by Agriwatch, area is likely to rise by 9.6% in 2011-12.

Sugar Import Scenario:

Food Ministry has sent a proposal to Finance ministry asking for imposition of 15% import tax on sugar. This import duty was abolished by government of India in 2009 and is up for review by 30th June 2011. Considering relatively better sugar production for 2010-11 and optimistic sugar production outlook for 2011-12E, government is not expected to extend duty free sugar import period further as it does not make sense during the current context.

The existing disparity in sugar import at current prices does not support sugar imports. Considering the current Liffe prices, Thai premium, Countervailing Duty and VAT the total landed cost of white sugar from Thailand at Indian ports is likely to stay in the range of Rs 38-40/kg. Meanwhile, prices in the domestic markets at present stay close to Rs.25-28/Kg. Considering the above facts it is immaterial whether or not an import duty on sugar is imposed from 1st July 2011.

Further Sugar Export Opportunity:

White sugar prices in International market moved up by \$99/MT in a month from \$607 /MT on 15th May 2011 to \$706.50 quoted on 15th June, 2011 in its bench mark market of Liffe. Delayed start of crushing operations in Brazil, apprehension for decline in cane production and quality in Brazil followed by expectation of improved buying from Russia and European nations are the reason to support white sugar prices in recent past. With the pace of sugar crushing from Brazil and Australia we expect international sugar prices to soften with expectation of supply to start from these countries during coming couple of months.

At domestic front, higher supply for 2010-11 continue to weigh on the market sentiments and the spread between domestic and international prices improved significantly thereby creating export opportunity for exporters. Moreover, export parity is likely to extend further for coming couple of weeks despite expectation of marginal softening in the international prices. Indian FOB prices are still competent when compared with its competitors like Thailand and Brazil. However, limited export quota allowed by the government is not likely to attract any major demand towards Indian ports unless government increases the export quota.

Comparative Sugar FOB Prices (USD/MT)			
Sugar Parity Calculations	South (T.N)	West (Maharashtra)	North (U.P)
	Chennai S 30	Kolhapur S 30	Muzaffarnagar M 30
FOB India (USD/MT)	710.78	687.05	755.37
	Brazil	Thailand	
FOB (USD/MT)	705.40	740.00	-

Given the limited quota available for export there is high competition amongst millers for the licences. They are offering premiums over the mill gate prices to get the export quota from the mills. However, after considering Indian premiums sugar export remains viable from Chennai and Kolhapur region taking the freight advantage when compared to the land locked UP.

Meanwhile, cooperative sugar mills federation have started floating tenders seeking sugar exporters with licenses 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 Scenario:

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.

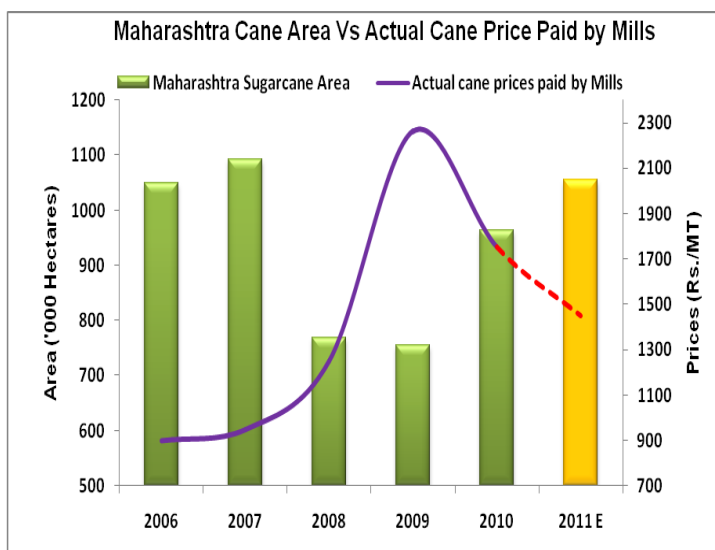
Sugar Production estimate for 2010-11 (In Million Tonnes)	
Indian Government	24.5
ISMA	24.2
Agriwatch	24.4
Sucden	24.0-24.5
ED&F Man	24.5
Maharashtra State Cooperative Sugar Factories Federation (MSCSFF)	24.5

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

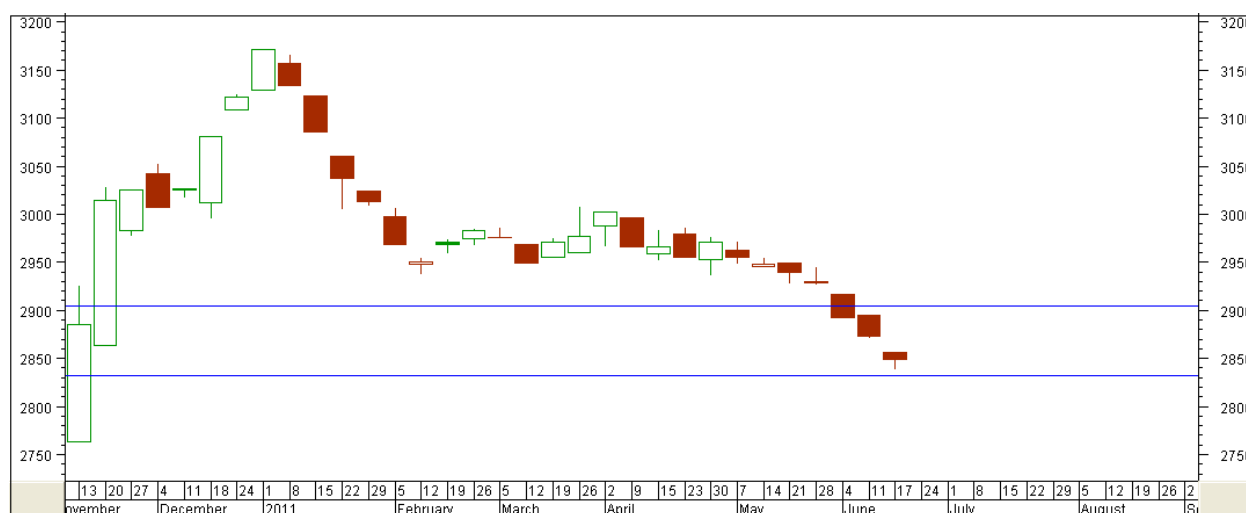
Maharashtra Cane Area viz-a-viz Actual Cane Price Paid by Mills:

As per a survey conduct by Agriwatch, Maharashtra cane area is expected to go up by 9.6% for 2011-12 as active planting is reported from the state. Surge in cane area from Maharashtra is mainly due to higher cane prices paid by the mills and relatively better realization to the farmers compared to other crops. Since sugar cane production is highly cyclic in nature and is entering a phase of good production in 2011-12, we expect cane prices paid by the mills to decline owing to higher cane availability and might come close to government set FRP to Rs. 1450/MT as cane area and actual cane prices paid to farmers are inversely related. Mills have paid Rs. 1750/MT to farmers in Maharashtra during 2010-11.



Spot Sugar Prices Scenario (Weekly)

	09-June-11	16-June-11	change
Mumbai M-30	2790	2780	-10
Mumbai S-30	2681	2646	-35
Muzaffar Nagar M	2835	2785	-50
Delhi M-30	2820	2790	-30
Delhi S-30	2800	2740	-60
Kolhapur M-30	2630	2620	-10
Kolhapur S-30	2521	2486	-35

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


Sugar spot prices continue to decline in Muzaffarnagar. Subdued demand in the Muzaffar Nagar spot market drags the prices downwards by Rs.20.

We expect sugar price in Muzaffarnagar to stay steady to weak in the upcoming week. Prices of Sugar M in Muzaffar Nagar spot market may go down by Rs. 15-20 to Rs. 2832.60/Qtl when compared with the prevailing prices of Rs. 2848.35/Qtl.

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


Sugar prices at spot market of Kolhapur increased marginally due to improved demand from upcountry buyers like Tamil Nadu. Sugar prices rebound by Rs.10-15 previous week.

Considering the current fundamentals, we expect sugar prices to stay steady to weak during coming week. Prices of Sugar-S in Kolhapur spot market may to go down by Rs. 15-20 and is likely to stay near Rs. 2471/Qtl when compared with average price of Rs. 2487.30 per Qtl.

Gur Scenario:

Gur witnessed lack luster trade last week with low buying interest seen from spot which kept gur prices steady to weak in various spot markets during the week under consideration. Rising temperature in Rajasthan and Gujarat dampens the demand of Chaku gur. Traders from Rajasthan and Gujarat are waiting for monsoon when temperatures will be suitable and only then buying of Chaku variety Gur will start. Demand of remade laddu variety gur from Haryana and Punjab market also dampened as recent rains don't favour remade laddu variety gur. It is noticeable that there are 1,250,000 bags (40 kg each) stored in cold storage in bench mark market Muzaffar Nagar. Out of total bags of gur, 840,000 bags are for Chaku variety gur and rest are Raskut and Papdi variety gur. Traders have to clear the pipeline of gur within 75 days as new arrivals are expected in 2.5 months that might put pressure on Gur. Traders of Muzaffarnagar market are also worried about fresh arrivals of gur from Karnataka and Maharashtra market that Gujarat and Rajasthan buyers might prefer due to lower transportation costs. Meanwhile, crushing is at its last stages in Maharashtra and Karnataka and any uncrushed cane will be taken by kolhus for making gur which further increase the supply of gur.

Lackluster demand for gur may continue for the coming week until temperature declines in Rajasthan and Gujarat. We expect prices of gur remains steady to negative in coming week.

.

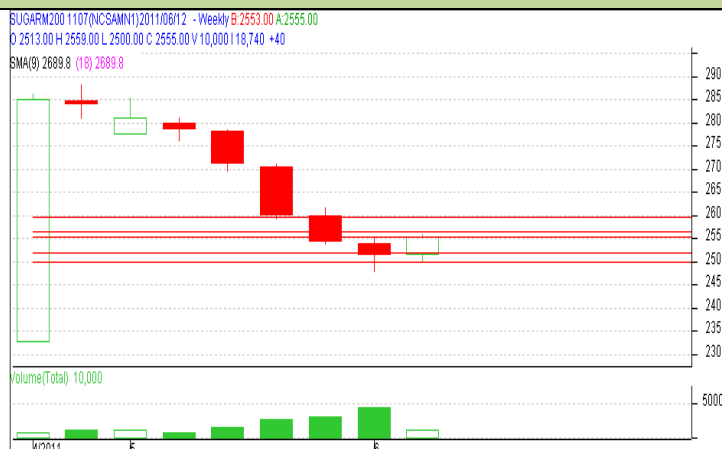
Commodity: Sugar
Contract: July

Exchange: NCDEX
Expiry: July 20th, 2011

SUGAR

Technical Commentary:

- Range bound movement recorded in sugar prices and moving in a range between Rs. 2519 to Rs. 2552, if breached either side will decide the direction of prices further. However, present fundamental suggests bearish trend continues in the coming week. However, RSI is moving upwards and hovers in a neutral zone.



Strategy: It is advisable to sell on rallies.

Supports & Resistances			S2	S1	PCP	R1	R2
Sugar	NCDEX	July	2501	2519	2544	2568	2598
Trade Call			Call	Entry	T1	T2	SL
Sugar	NCDEX	July	Sell	<2552	2519	2501	2568

Commodity: Gur
Contract: July

Exchange: NCDEX
Expiry: July 20th, 2011

GUR

Technical Commentary:

- Gur future prices consolidate and are moving in a range between Rs. 964 to Rs 984 if breached either side may decide the movement of the prices. However, RSI is hovering in a oversold region which suggests bullishness. Prices closing above 9 day SMA further suggest bullishness in the prices.



Strategy: Buy on dips would be advisable.

Supports & Resistances			S2	S1	PCP	R1	R2
Gur	NCDEX	July	964	968	975	992	999
Trade Call			Call	Entry	T1	T2	SL
Gur	NCDEX	July	Buy	>976	992	999	968

International Scenario

International prices have increased slightly in previous week. Port congestion in Thailand and Brazil and Ramadan festive season lend underlying support to the sugar prices during the week under review. Moving forward with expectation of surge in crushing in Brazil and Australia during next coming couple of weeks we expect international prices to ease owing to better supply expected from these nations. At the same time supply from Thailand is also likely to improve as port congestion is likely to ease in a few days. At the same time, dwindling Thai premium might encourage global competition for the sweetener and is likely to put pressure on Liffe white.

International Market News Highlights:

- The US Department of Agriculture cut its sugar production estimate for 2010/11 (Oct/Sep) marginally to 7.946 million short tons, raw value, in its June WASDE report from 7.950 million in May due to lower production in Texas.
- The 2011 sugarcane crush in Australia has commenced in earnest with eight of the 21 mills now in full swing, the Australian Sugar Milling Council said.
- Mexico's 2010/11 sugarcane crush continues to wind down as only 19,600 tonnes were produced in the week to June 4, down from 31,363 tonne the week before and compared with 30,217 tonnes a year ago. That brought total sugar output in the season to date to 5.155 million tonnes, tel quel, up 8% from 4.772 million tonnes in the same period last season. The harvest is expected to end this month.
- Sugar production in Brazil's centre-south region totaled 2.37million tonnes, up 6.8% from a year ago, with cane crushing reaching 42.7million tonnes, an increase of 5.5% from the same period in 2010.
- Port Congestion in Brazil and Thailand ports is driving up the sugar prices of sugar. Ships waited to take on cargoes of sugar at ports in Brazil and Thailand, the world's two biggest exporters. As many as 68 vessels were lining up at Santos and Paranagua in Brazil to load about 2.22 million metric tons of sugar
- Total sugar consumption in Indonesia will rise more than 3 percent to an estimated 5.17 million tonnes this year, Southeast Asia's largest sugar consumer consumes 5.01 million tonnes in 2010 According to media sources. It is noticeable that Indonesia is expected to produce 2.7 million tonnes of white sugar in 2011.

International Sugar Futures Price Projection			
	Contract Month	Present Quote	Expected Price level for next week
ICE Sugar #11 (US Cent/lb)	Jul'11	25.08	23.97
LIFFE Sugar (US \$/MT)	Aug'11	706.50	678.9

International Sugar Prices (Weekly)				
	Contract Month	9/6/2011	15/6/2011	Change
ICE Sugar #11 (US Cent/lb)	Jul'11	24.84	25.08	0.24
	Oct'11	23.99	24.15	0.16
	Mar'12	23.95	23.88	-0.07
LIFFE Sugar (US \$/MT)	Aug'11	712.10	706.50	-5.6
	Oct'11	648.60	648.90	0.3
	Dec'11	633.40	635.00	1.6

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

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

Disclaimer

The information and opinions contained in the document have been compiled from sources believed to be reliable. The company does not warrant its accuracy, completeness and correctness. Use of data and information contained in this report is at your own risk. This document is not, and should not be construed as, an offer to sell or solicitation to buy any commodities. This document may not be reproduced, distributed or published, in whole or in part, by any recipient hereof for any purpose without prior permission from the Company. IASL and its affiliates and/or their officers, directors and employees may have positions in any commodities mentioned in this document (or in any related investment) and may from time to time add to or dispose of any such commodities (or investment). Please see the detailed disclaimer at <http://www.agriwatch.com/Disclaimer.asp>
 © 2005 Indian Agribusiness Systems Pvt Ltd.