

**Domestic Market Recap:**

Sugar prices rebounded last week in various spot markets. Increased retail demand due to lower price level of sugar, additional sugar exports rumors and plans to remove stock holding limit for traders supports the sugar prices upwards. Demand has improved in Maharashtra market as upcountry buyers like AP, Karnataka, Rajasthan and Gujarat are buying sugar to complete their market requirements of sugar. UP markets witnessed increase in sugar prices due to retail buying and additional export rumors. However, in Tamil Nadu market, prices have decreased in this week with increased supply of sugar from upcountry suppliers like Karnataka and AP.

India has allowed additional 5 lakh tonnes sugar for exports under OGL. The decision has been taken in the meeting on dated 23<sup>rd</sup> June 2011. Total sugar quota for export allowed so far is 10 lakh tonnes which is much below the industry expectation of 15 lakh tonnes. Recent decision on allowing additional 5 lakh tonnes of sugar quota under OGL might lends underlying support to the falling sugar prices. At the same time sugar millers are likely to get a premium in the market when they sell their quota to the export houses holding export licenses.

Government has still not taken a decision on revising sugar stock holding limits. Earlier, Government was planning to ease the stock holding limit for traders. Earlier EGOM had relaxed the limit on sugar from 200 metric tonnes to 500 metric tonnes per month in March 2011. This may put bearish impact on the sugar prices for the short term.

Considering the present supply and demand scenario of sugar prices may move steady to positive in the coming week owing to additional allowance of 5 lakh tonnes sugar exports and improved demand of sugar in various spot markets.

**News Highlights:**

- Maharashtra sugar mills have crushed 800 lakh tonne sugar cane till Saturday, surpassing the state's earlier record of 798.49 lakh tonne sugar cane in 2006-07.
- EGOM panel did not take any decision on removing stock holding limits for sugar. India, the world's top producer behind Brazil, had put the stock holding restrictions in 2009 when production fell due to bad monsoon rains.
- Govt. Allows Additional 5 lakh Tonnes Sugar Exports under OGL which totaled the sugar quota for export to 10 lakh tonnes which is much below the industry expectation of 15 lakh tonnes.
- Sugar mills in India, the second- biggest producer, is seeking to export more sweeteners after winning government approval yesterday to ship 500,000 metric tons, potentially widening global supplies and lowering prices.
- Farmers in India have planted sugar cane in 5.09 million hectares (12.6 million acres) as of June 17, 223,000 hectares more than a year earlier, according to the farm ministry.
- India's sugar production may be 26 million to 26.5 million metric tons in the 2011-12 season, according to National Federation of Co-operative Sugar Factories Ltd. The sugar cane area will expand by between 8 percent and 10 percent due to favorable weather and the profitability of cane compared with other crops

### Monthly Sugar Quota Outlook

Sugar non-levy quota for July might likely to hover around 14 lakh tonnes which is higher than previous three years average sugar non-levy quota. It is noticeable that sugar production may likely hover around 24.4 million tonnes which exceeds consumption in 2010-11. Due to less production of sugar in 2008-09, prices shot up in the domestic market which led the government to increase the non-levy sugar quota to 14.90 lakh tonnes to help ease the sugar supply in the open markets. Government has released 16.50 lakh tonnes non-levy sugar quota for June.

Considering the past trends of released non-levy sugar quota for June month, government normally decreases the sugar quota limit for millers during the rainy season. Based on the above assumptions, we expect that non-levy sugar quota would be around 14 lakh tonnes which might put the bearish impact on sugar prices in the coming month.

### Further Sugar Export Opportunity:

White sugar prices in International market moved up by \$120.4/MT in a month from \$612.90 /MT on 23<sup>th</sup> May 2011 to \$733.30 quoted on 23<sup>th</sup> June, 2011 in its bench mark market of Liffe. Port congestion in Brazil and Thailand and increasing imports from countries like EU and US 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.

In domestic market, recent additional export allowance by central government give some respite to millers which now can dictate their terms and may charge increase premium price over current domestic price from export houses. Low domestic and high international prices increase the spread 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.

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	690.39	755.37
	Brazil	Thailand	
FOB (USD/MT)	733.30	783.30	-

Given the additional sugar export quota available there is high competition amongst exporters for the licences. They may offer 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, millers get benefitted from existing additional sugar exports as export parity widens which urges exporters to give more premium over existing domestic sugar prices which helps sugar mills to cover their losses. However, the quantity allotted is not significant when compared to their crushing capacity and might not 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.

<b>Sugar Production estimate for 2010-11 (In Million Tonnes)</b>	
Indian Government	24.5
ISMA	24.2
<b>Agriwatch</b>	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.

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

**UP Molasses Scenario:**

UP sugar mills have crushed 643 lakh tonnes sugarcane and produced 28.94 tonnes molasses in 2010-11 with an average recovery of 4.5%. Recently, UP mills have contracted to supply 260 lakh liters of ethanol of which 95 lakh liters has been lifted till now. But mills found themselves in a big financial trouble as UP government denied permission to transport molasses/ethanol. UP government wants to impose an administrative charge of Rs.10 per quintal for captive consumption of molasses by sugar mills. Mills had taken the issue to the Lucknow bench of Allahabad High Court where the decision was in favor of millers. After the UP government failed to impose cess on millers, it stopped issuing permits for transport of ethanol from this April.

Mills have produced 639.17 lakh liters ethanol in 2010-11 and contracted 260 lakh liters ethanol of which only 95 lakh liters ethanol have been lifted till now. This directly impacts the profits of millers. It is noticeable that ethanol/molasses are the top revenue earner for millers after sugar.

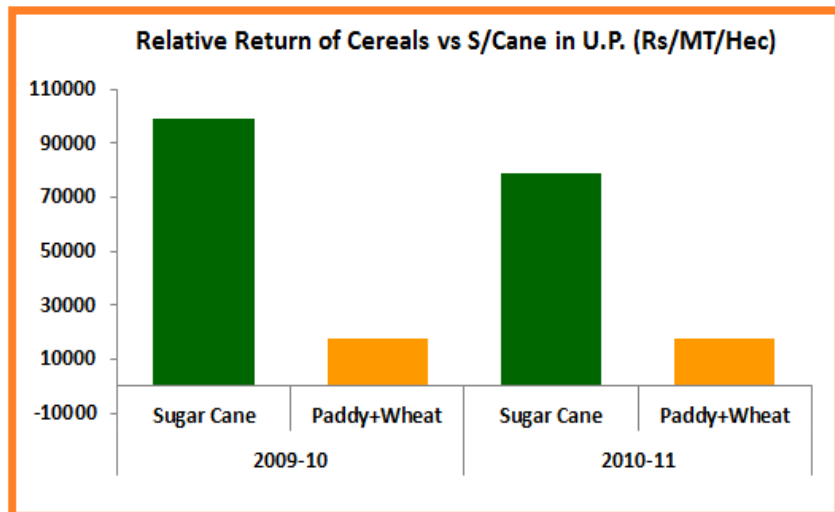
### LPA (Long Period Average) Forecast and its impact on Cane:

As per the latest IMD's long range forecast for the 2011 south-west monsoon (June to September) precipitation is likely to stay in the normal range of 96-104% of Long Period Average (LPA). Apart from normal prediction IMD also stated that there is very low probability for season rainfall to be deficient (below 90% of LPA) or excess above 110% of LPA. Monsoon season rainfall is likely to be 98% of the LPA.

According to the LPA forecast, there is very marginal impact of current monsoon prediction on sugarcane output in the country as irrigation facilities are good in the cane producing states like UP and Maharashtra which covers almost 60 percent of the total sugarcane production in India. Current sowing intentions by farmers further supports the statement as farmers have already cultivated sugarcane in 50.94 lakh hectares by June 17, 2011 which is more than 2009-10 cultivation by 2.23 lakh hectares.

### Crop Intention:

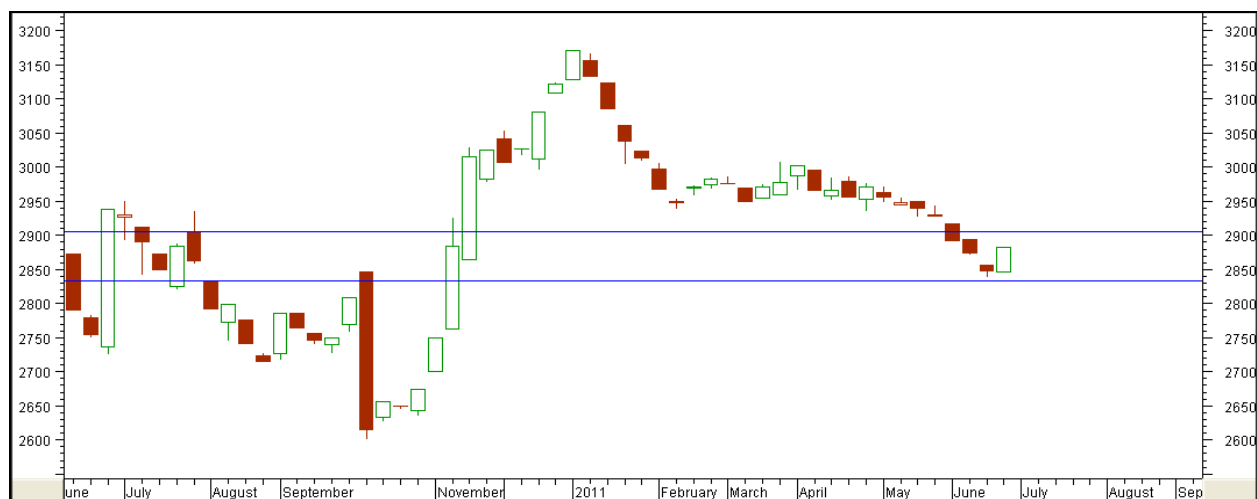
There are fair chances that crop area shift from wheat and paddy to sugar cane in UP owing to greater realization by farmers for cane compared with combined returns from both wheat and paddy. Farmers get net return of nearly 99 thousands from one hectare land from sugar cane during 2009-10 when sugar mills paid on an average of Rs 2300/MT backed by cane shortage during 2009-10. Meanwhile, crop realization from combined



wheat and rice from UP during the same period stays close to 17.5 thousand per hectare.. Better cane production and supply during 2010-11 stands discouraging for the farmers as they got an average cane price of Rs 2050/MT with marked decline year on year. These results into shrinkage of the net realization (Rs. 79203/mt/hectare) by the growers from cane y-o-y though still remain substantially higher when compared with combined realization from wheat and paddy. Comparative better realization from sugar cane in UP as shown in the above chart is likely to divert acreage of paddy and wheat towards sugarcane in UP (as we are getting positive sowing intention) which might get reflected in the overall production of Kharif and Rabi cereals.

**Spot Sugar Prices Scenario (Weekly)**

	16-June-11	23-June-11	change
Mumbai M-30	2780	2831	+51
Mumbai S-30	2646	2641	-5
Muzaffar Nagar M	2785	2820	+35
Delhi M-30	2790	2830	+40
Delhi S-30	2740	2780	+40
Kolhapur M-30	2620	2671	+51
Kolhapur S-30	2486	2481	-5

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


Sugar spot prices improved in Muzaffarnagar. Improved demand and exports rumors in the Muzaffar Nagar spot market kept the sugar prices upwards by Rs.30-40.

We expect sugar price in Muzaffarnagar to increase further in the upcoming week. Prices of Sugar M in Muzaffar Nagar spot market may up by Rs. 20-25 to Rs. 2905/Qtl when compared with the prevailing prices of Rs. 2882.80/Qtl.

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


Sugar prices at spot market of Kolhapur increased due to improved demand from upcountry buyers like Rajasthan, Gujarat, Karnataka and AP. Sugar prices rebound by Rs.40-50 previous week. Also, exports rumors give prices supports.

Considering the current fundamentals, we expect sugar prices to increase during coming week. Prices of Sugar-S in Kolhapur spot market may go up by Rs. 25-30 and is likely to stay near Rs. 2578/Qtl when compared to average price of Rs. 2550.30 per Qtl.

**Gur Scenario:**

Gur witnessed improved demand last week. Demand of remade chaku gur came from Rajasthan, Haryana and Punjab market. Despite improved demand, prices of chaku gur remained steady in the previous week. However, high temperature in Rajasthan and Gujarat market limits the possibilities of increase in demand. Demand might rebound in the next two weeks which may support the Gur prices upwards. It is noticeable that there are 1,250,000 bags (40 kg each) stored in cold storage in benchmark market Muzaffar Nagar. Out of total bags of gur, 850,000 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.

Production of Gur in Karnataka and Maharashtra market started which may increase pressure on Muzaffarnagar chaku variety gur as buyers from Gujarat and Rajasthan market would prefer buying gur from Maharashtra in comparison to UP market owing 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 will further increase the supply of gur.

Demand might improve in UP market for the coming week as temperature declines in Rajasthan and Gujarat. We expect prices of gur remain steady to positive in coming week.

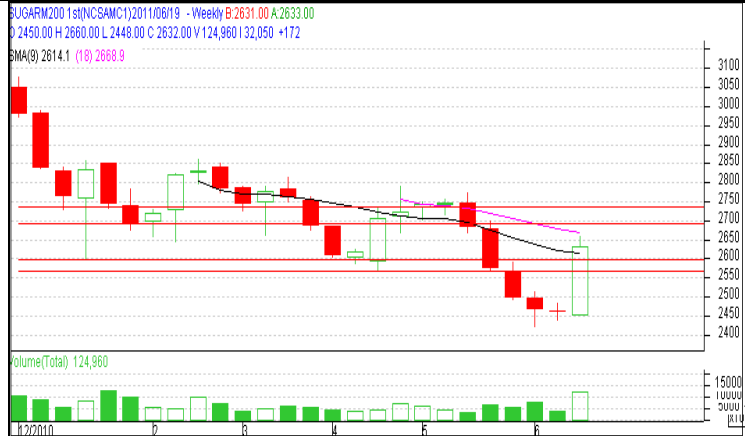
**Commodity: Sugar**  
**Contract: July**

**Exchange: NCDEX**  
**Expiry: July 20<sup>th</sup>, 2011**

### SUGAR

#### Technical Commentary:

- Prices are moving upwards and hovering near strong support level of Rs.2602 if breached then it may go down further to Rs.2570. However, RSI is in overbought region which further suggests bearishness in the prices.



**Strategy:** It is advisable to sell on rallies.

Supports & Resistances			S2	S1	PCP	R1	R2
Sugar	NCDEX	July	2570	2602	2632	2695	2741
Trade Call			Call	Entry	T1	T2	SL
Sugar	NCDEX	July	<b>Sell</b>	<2660	2602	2570	2695

**Commodity: Gur**  
**Contract: July**

**Exchange: NCDEX**  
**Expiry: July 20<sup>th</sup>, 2011**

### GUR

#### Technical Commentary:

- Gur future prices consolidate and are moving in a range between Rs. 964 to Rs 999 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	974	984	999	1016
Trade Call			Call	Entry	T1	T2	SL
Gur	NCDEX	July	<b>Buy</b>	>984	999	1016	974

### International Scenario

International prices have increased in previous week. Backlogs of sugar shipments from Brazilian ports are expected to last an additional 20 to 30 days. Also, import quota increase by US and EU also supports the prices upwards. We expect that the prices may decrease as supply may increase from countries like Australia, Mexico, India and Brazil.

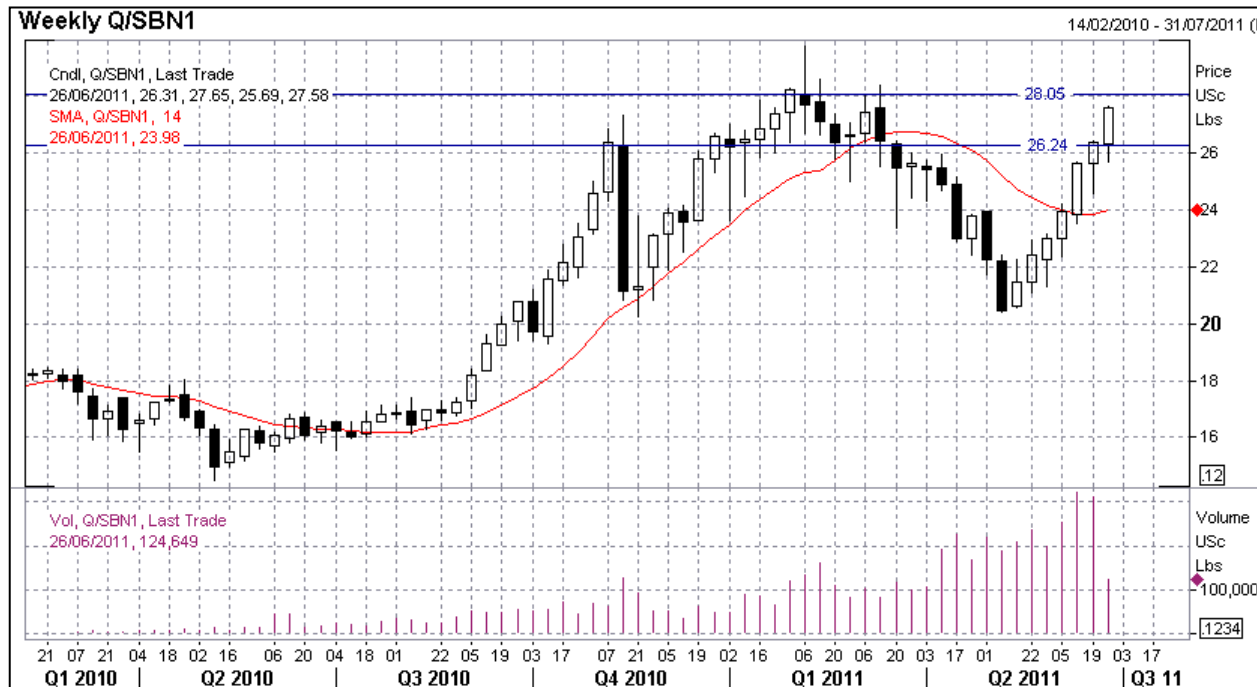
### International Market News Highlights:

- The Russian sugar refining from imported raws rose 27 percent in the year upto June 20 to 1.68 million tonnes, compared to 1.32 million tonnes a year ago. Russian raw sugar imports rose to 960,000 tonnes in the first four months of this year from 763,100 a year ago with 0.85 million tonnes shipped in March and April.
- Global sugar production will rise by 10.5 million metric tons in the season starting in October to about 176 million tons, according to German researcher F.O. Licht.
- Australia, the world's third largest raw sugar exporter, is likely to lift output this year after heavy rains lowered last year's yield. Raw sugar production is estimated at 3.852 million tonnes in 2011/12 up from 3.620 million tonnes the previous year Australia's raw sugar exports would rise 1.9 percent year-on-year in fiscal 2011/12 to 2.476 million tonnes,
- Mexico has so far produced 5.18 million tonnes of sugar in the 2010/11 season, nearly 8 percent more than in the previous harvest.
- Brazil's government may finance fuel distributors to build ethanol stocks equivalent to one month of consumption in an attempt to avert price spikes between cane harvests.
- Main cane producing areas in Brazil's center-south will see no rain through the beginning of July, a condition that should favor harvesting but could hamper the development of the crop.
- The European Union may import as much as 500,000 metric tons of sugar. The EU last month allowed additional duty-free imports of 200,000 tons of sugar

International Sugar Futures Price Projection			
	Contract Month	Present Quote	Expected Price level for next week
ICE Sugar #11 (US Cent/lb)	Jul'11	27.58	26.24
LIFFE Sugar (US \$/MT)	Aug'11	733.30	701.8

International Sugar Prices (Weekly)				
	Contract Month	15/6/2011	23/6/2011	Change
ICE Sugar #11 (US Cent/lb)	Jul'11	25.08	27.58	2.5
	Oct'11	24.15	26.08	1.93
	Mar'12	23.88	25.50	1.62
LIFFE Sugar (US \$/MT)	Aug'11	706.50	733.30	26.8
	Oct'11	648.90	663.50	14.6
	Dec'11	635.00	647.20	12.2

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

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

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