

**News Highlights:**

- Government extended the zero duty on import of sugar by two months till August 2011 which expired on 30<sup>th</sup> June 2011.
- Mills in Maharashtra facing problem in making cane payments to farmers which they suppose to pay within 14 days of delivery of cane as domestic prices have fallen below the cost of production.
- To tackle the excess sugar production in 2010-11 the state government of Maharashtra and the state Federation of Co-operative sugar factories have urged central government to create a buffer stock of 50 lakh tonne.
- The government might take a decision on lifting the monthly stockholding limits on sugar for traders by the end of August or early September, as it expects supply to exceed demand in the current crop season.
- The Union government is expected to discuss on decontrolling sugar industry in coming 8-10 days.
- In the current sugar year, mills are struggling from overproduction of sugar which forcing them to sell sugar below the cost of production.

**Domestic Market Recap:**

Sugar prices moved higher during week ending July 7th in all the key cash markets amid increase in demand from wholesalers and lower sugar quota (non-levy) for the month of July. Also the news reports that government may soon discuss on decontrolling sugar industry further supported the sentiment. However, it is still to be watched that what decision government is going to take for levy, non-levy and sugar export front because price movement will depend on these factors. Decision of total decontrol may push up the prices despite expected higher production in 2011-12, while partial decontrol may restrict the upward movement in prices to some extent.

Meanwhile, on 6<sup>th</sup> of July, government has decided to continue with zero percent import duty on sugar till August as there were no import parity currently due to higher international and domestic market prices. However, extension of zero import duty unlikely to help in imports as the domestic sugar production is estimated higher for 2010-11 and 2011-12 season.

In coming week, we expect that sugar price may remain range bound. Any decision on decontrolling of sugar industry may give direction to the prices.

**Sugar Export Opportunity:**

White sugar prices in International market moved up by \$108.4/MT in a month from \$696.20 /MT on 6<sup>th</sup> June 2011 to \$770 quoted on 6<sup>th</sup> July, 2011 in the bench mark market "Liffe". Port congestion in Brazil and Thailand and Y-o-Y less sugar production in Brazil are mainly attributed to increase in prices.

Meanwhile to provide some relief to the sugar millers who are struggling due to lower domestic prices amid estimated higher production in 2010-11, recently government has notified additional 5 lakh tonnes of sugar exports to take advantage of higher international prices.

Moreover, the price spread between domestic and international prices are continuously widening giving opportunity to exporters for exports. Also the Indian FOB prices are much lower than the FOB prices of its key competitors like Thailand and Brazil.

Comparative Sugar FOB Prices (USD/MT)			
	South (T.N)	West (Maharashtra)	North (U.P)
	Chennai S 30	Kolhapur S 30	Muzaffarnagar M 30
FOB India (USD/MT)	747.57	734.76	779.90
	Brazil	Thailand	
FOB (USD/MT)	771.30	801.30	-

At the same time, reportedly millers are expected to get good returns from the recent decision of additional sugar export allowance as the export houses (involved in exports) are offering premium to the millers over and above the price quoted by them amid attractive prices in international market.

In a recent meeting of Maharashtra government delegates which led by Maharashtra Chief minister filed a petitioned in front of central government asking for 40 lakh tonnes sugar exports allowance as against 10 lakh tonnes sugar exports allowed so far by government. It might give some hope for millers and export houses to get more sugar quota license for further export.

### Sugar Production Scenario:

We kept the sugar production estimate unchanged for 2010-11 to 24.7 million tonnes. It is noticeable that sugar production estimate by Agriwatch is higher than Government and Industry estimates by 0.2 million tonnes and 0.5 million tonnes respectively. Extended cane crushing by mills in Maharashtra and better sugar production results from T.N supports the overall sugar production for 2010-11.

Sugar Production estimate for 2010-11 (In Million Tonnes)	
Indian Government	24.5
ISMA	24.2
<b>Agriwatch</b>	<b>24.7</b>
Sucden	24.0-24.5
ED&F Man	24.5
Maharashtra State Cooperative Sugar Factories Federation (MSCSFF)	24.5

We also kept sugar production estimate for 2011-12 unchanged at 26.4 million tonnes as compared to the estimate. Increase in overall sugarcane acreage by 9.79% Y-o-Y i.e 5439000 for 2011-12 and i.e. 73345 kg/hectare may result in increase in the overall sugar production for 2011-12.

Sugar Production Projection for 2011-12 (In Million Tonnes)	
<b>Agriwatch</b>	<b>26.4</b>
Czarnikow	26.1
Sucden	25.7

Production projection based on 2 years average yield

### Trade Channel Parity (Wholesale)

Interesting phenomenon could be seen keeping in view the wholesale parity from various source markets to consumption center. Trade channel parity from various source markets to destination center has shown in the chart below:

Trade Channel Parity/Disparity				
Sourcing market	Muzaffar Nagar M	Kolhapur S	Kolhapur S	Kolhapur S
Consumption center	Delhi M	Delhi	Chennai S	Kolkata S
Loose prices (Rs/Qtl)	2760	2600	2600	2600
Excise duty (In Rs/Qtl)	99.85	99.85	97.85	97.85
Loading Charges (Rs/Qtl)	3	4	4	5
Market expenses borne by purchaser /miller/ crushers	102.85	103.85	101.85	102.85
Transportation Cost (Rs/Qtl)	36	170	180	180
Insurance (Rs.2/Bag)	2	2	2	2
Unloading at destinations (Rs/Qtl)	3	3	4	5
Total transport cost + loading/unloading	41	175	186	187
Total Cost (Rs/Qtl)	2903.85	2878.85	2887.85	2889.85
Local Prices at Consumption Center (Rs/Qtl)	2950	2950	2825	2830
Parity/Disparity (Rs/Qtl)	46.15	71.15	-62.85	-59.85

\*Transport by Rail.

\* Transportation cost delivered to warehouse destination

Despite of disparity from Kolhapur market, buying interest has been witnessed from Kolkata traders keeping in view expected surge in sugar prices in the coming weeks. This might increase the demand of sugar in Kolhapur market which may reverse the situation (Disparity to Parity). On other hand, reportedly no demand from Chennai in Kolhapur market due to disparity.

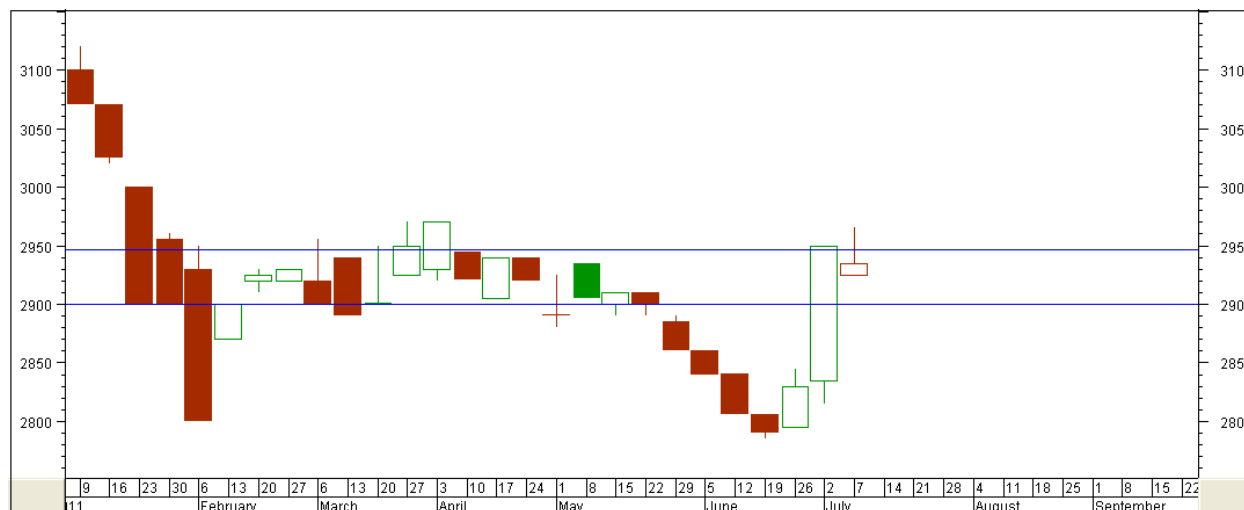
As far as Delhi market is concerned, traders are showing great interest to buy sugar from Kolhapur instead of UP market as traders are getting better returns from Kolhapur as compared to UP.

### Spot Sugar Prices Scenario (Weekly)

	1-July-11	7-July-11	change
Mumbai M-30	2961	2981	+20
Mumbai S-30	2751	2781	+30
Muzaffar Nagar M	2920	2935	+15
Delhi M-30	2930	2950	+20

Delhi S-30	2910	2930	+20
Chennai S	2725	2725	Unch
Kolhapur M-30	2801	2821	+20
Kolhapur S-30	2591	2621	+30

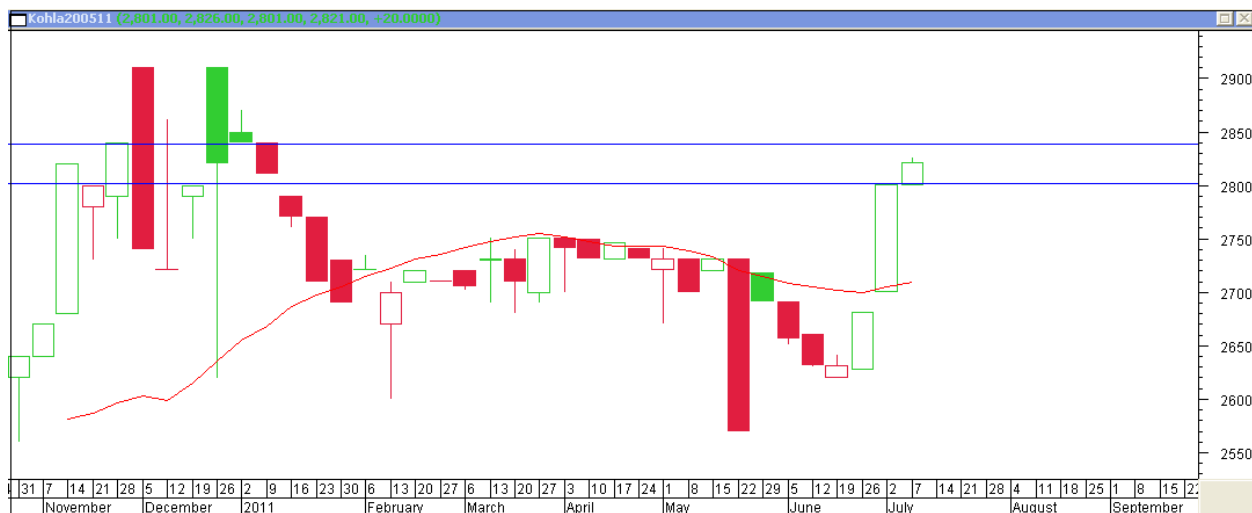
### Spot Market Technical Analysis (Muzaffar Nagar –Grade M)



#### Price Expectation for Muzaffar Nagar market for the coming week.

- As evident from the chart prices failed to sustain above the 2950 level which is acting as a good resistance. However, prices are well above its support at 2900.
- Also, shooting star candle stick formation in the chart indicates bearishness in the prices.
- Prices are expected to move in a range between Rs. 2900/Qtl to Rs. 2946/Qtl.

### Spot Market Technical Analysis (Kolhapur –Grade M)



**Price Expectation for Kolhapur market for the coming week.**

- Kolhapur spot prices have increased in previous week.
- Prices are likely to move up further technically.
- Prices are expected to move in a range between Rs. 2801/Qtl to Rs. 2838/Qtl. Presently prices have closed at Rs.2821/Qtl and hovering near to its resistance Rs. 2838/Qtl if breached then it may move up further.

**Gur Scenario**

Gur prices surged in the benchmark market Muzaffar Nagar during the period despite of sluggish demand as traders are trying to speculate the market to sell their stock at higher prices level. However, upward movement in market looks unsustainable as production prospects is good this year.

In UP markets, demand from Gujarat is reportedly weak as the demand is shifting towards the key markets in Maharashtra (Latur and Kolhapur) due to fresh arrivals of Gur. Meanwhile, currently around 800,000 bags of Chaku variety gur is stored in cold storage which is 150,000 bags higher than a year ago.

Prices are likely to trade steady to weak in the coming week owing to subdued demand and competition from Karnataka and Maharashtra market may drag the prices downwards.

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

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

## SUGAR

### Technical Commentary:

- Range bound movement recorded in sugar prices between Rs. 2728 to Rs.2799, if breached the level either side will decide the movement of prices further.
- However, RSI is in overbought region which suggests bearishness in the prices.



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

Supports & Resistances			S2	S1	PCP	R1	R2
Sugar	NCDEX	August	2704	2729	2799	2835	-
Trade Call			Call	Entry	T1	T2	SL
Sugar	NCDEX	August	<b>Sell</b>	<2799	2729	2704	2735

**Commodity:** Gur  
**Contract:** September

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

## GUR

### Technical Commentary:

- Prices are moving in a range between Rs.1004 to Rs.1036, if breached either side will decide the movement of the prices further. However prevailing weak fundamentals may drag the gur prices downwards.
- Also, RSI is in overbought region which suggests bearishness in the prices.



**Strategy:** Sell on rallies would be advisable.

Supports & Resistances			S2	S1	PCP	R1	R2
Gur	NCDEX	September	994	1004	1026	1052	1060
Trade Call			Call	Entry	T1	T2	SL
Gur	NCDEX	September	<b>Sell</b>	<1036	1004	994	1052

### International Scenario

Prices have witnessed upward movement in LIFFE owing to worst cane productivity prospects in Brazil for 2011-12. Prices are expected to rise further due to high port congestion at Brazil. At present, 84 ships queued at ports which increase the congestion on ports support the prices for the coming week.

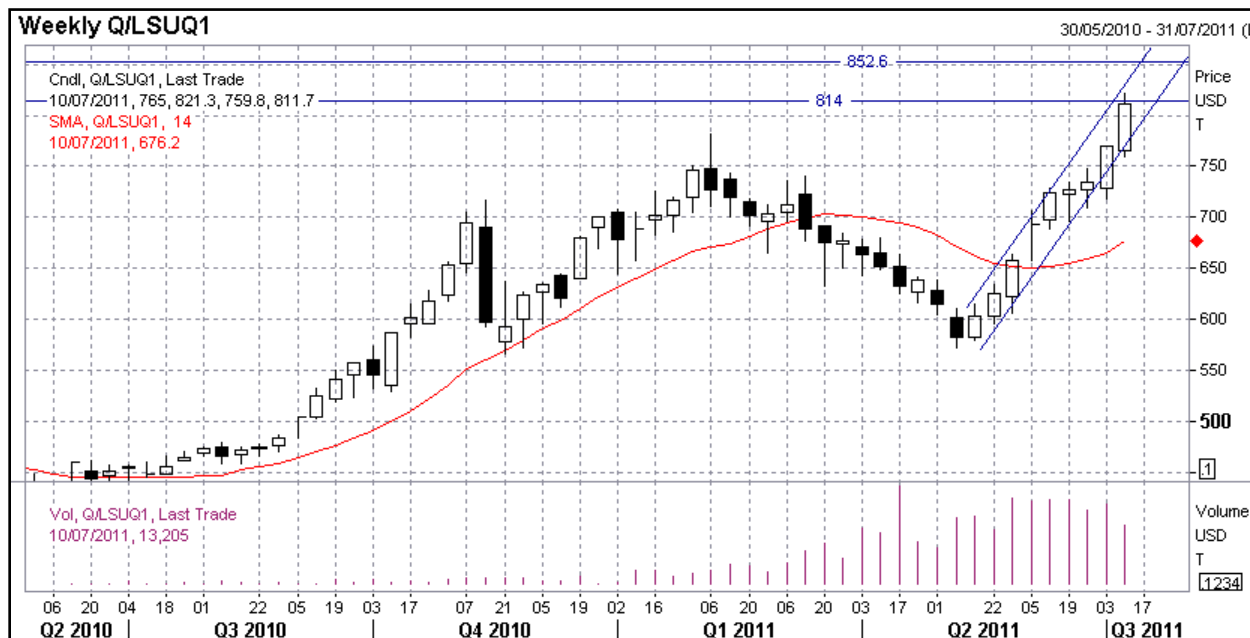
### International Market News Highlights:

- Czarnikow has revised down its Centre-south Brazilian sugarcane production forecast by 40 million tonnes to 535 million tonnes for 2011-12. It is for the first time in over a decade that Brazilian production is expected to fall year on year. According to Czarnikow, global financial crisis led the Brazilian sugarcane growers to cut back on cane renovation to reduce costs which leads to fall in productivity. Last year drought and falling productivity means decrease in sugar production for 2011-12 season.
- China sold all the 250,000 tonnes of sugar it offered for sale on Wednesday in the sixth such round of auctions during the 2010/11 crushing year that started in October.
- Brazil exported a total of 2.543 million tonnes tonnes, raw value, in June 2011, up from 1.618 million in May and almost unchanged, 2.549 million tonnes exported in the same month a year ago. This brought cumulative exports in the first quarter of 2011/12 (Apr/Jun) to 5.478 million tonnes compared with 6.087 million tonnes in the same period a year ago. Of the June total 639,500 tonnes were whites and 1.848 million tonnes raws.
- Thailand sugar production in 2011-12 is forecast to reach 105.1 million tonnes, raw value, up from 95.4 million tonnes in 2010-11. The area under sugarcane is forecast to reach 1.3 million hectares up 2.6% Y-o-Y.
- Mexico produced 5.18 million tonnes of sugar in the 2010/11 season that drew to a close on July 2, a 7.42 percent jump from last year's harvest. It is expected that Mexico will produce 4.8 - 4.9 million tonnes in 2011-12, down 6% in comparison to previous year due to drought.
- The sugar lineup at Brazilian ports rose to 86 vessels, up from 64 on June 14, 2011. At Santos, Brazil's main port for sugar exports, the queue rose to 58 from 47. At Paranagua, the No. 2 sugar port, there were 24 ships this week, up from 17 vessels on June 14, 2011

Brazil Sugar Vessel Line up					In Tonnes	
Ports	Vessels		White		Raw	
	14-June	6-July	14-June	6-July	14-June	6-July
Santos	47	58	83200	68500	1650000	2290000
Paranagua	17	24	54000	68900	424350	664.7
Maceio	-	2	-	0	-	21.9
Vitoria	0	2	0	16450	0	0
Total	64	86	137200	153.850	2070000	2970000

International Sugar Prices (Weekly)				
	Contract Month	30/6/2011	7/6/2011	Change
ICE Sugar #11 (US Cent/lb)	Oct'11	26.34	29.52	3.18
	Mar'12	25.71	28.42	2.71
	May'12	24.99	26.92	1.93
LIFFE Sugar (US \$/MT)	Aug'11	739.00	814.80	75.8

	<b>Oct'11</b>	670.30	745.00	<b>74.7</b>
	<b>Dec'11</b>	648.60	715.90	<b>67.3</b>

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

**Technical Commentary:**

- Prices indicate bullish trend and moving in a range between \$780 to \$814 per mt.
- However, RSI is hovering in an overbought region which indicates bearishness in the prices.
- Profit booking expected from the current level and prices might come to its immediate support level of \$780, if breached then it may go down further.
- Buy on dips would be advisable.

International Sugar Futures Price Projection			
	Contract Month	Present Quote	Expected Price level for next week
LIFFE Sugar (US \$/MT)	Aug'11	814.80	852.6

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



**Technical Commentary:**

- Prices are in bullish trend and moving in a range between 27.6 to 29.7 cents/pound.
- However, RSI is in a positive zone which suggests bearishness in the prices.
- Buy on dips would be advisable.

International Sugar Futures Price Projection			
	Contract Month	Present Quote	Expected Price level for next week
ICE Sugar #11 (US Cent/lb)	Oct'11	29.52	30.6

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