

News Highlights:

- Government might take final decision on allowing more sugar exports by September end after assessing supply and demand scenario. Government pegged sugar production for 2010 to 24.5 million tonnes with marginal improvement of 0.1 million tonnes from its prior estimates 24.4 million tonnes. Considering sugar production (24.7 million tonnes) and consumption (23 million tonnes), total availability to stay near 29.38 million tonnes resulting carry out stocks to stay near 3.88 million tonnes indicating tight stock situation against food ministry expectations.
- Indian sugar mills have received export licences for 15,898 tonnes of sugar out of the additional 500,000 tonnes under OGL allowed by the government in late June,
- Sugar exporters are quoting FOB \$775 per tonne to take advantage of recent spike of International sugar prices. Exporters are taking recent spike in prices as a golden opportunity to sell 500,000 tonnes of sugar exports under OGL approved by Government three weeks ago. Recent price rise also give opportunity to millers to cover their losses as they can ask for premium on domestic price from the export houses.
- The Andhra State government slaps 4% VAT (Value added Tax) on Sugar which has been implemented from July 11, 2011. Industry and Trade has reacted sharply on imposition of 4% VAT on sugar as sugar prices has gone up by Rs120 per Quintal and settle at Rs.3120 per Quintal for M grade in Vijayawada. However, Khandsari sugar is exempted from VAT. It is noticeable that Andhra Pradesh is the first state which has imposed VAT on sugar in India.
- UP industry demanded to remove levy quota mechanism and linking of sugarcane and sugar prices.

Domestic Market Recap:

Sugar prices extend its previous bullish trend in various spot markets during week ending on July 14th owing to improved demand from exporters as international price touches its contract high. Retail demand also pick up in various centers gives support to the prices. However, markets participants are vigilant on awaited decision on sugar decontrolling. Fate of sugar prices will much depend on government policy change but we expect total sugar industry decontrol is not on the card. If need to take decision on sugar decontrol, government might decide on removing levy quota system as requested by the sugar industry. Considering cyclic nature of sugar production with sharp variation during every 5-6 years might prompt the government to maintain *status-quo* for non-levy quota system. Any near term decision on total decontrol of sugar industry may result to steep increase in sugar prices despite expected sharp surge in sugar output during 2011-12.

On demand front, it improved in Mumbai market due to good lifting of stock at lower level and supported by high export demand. It is expected that prices may increase further due to increase in forward booking moving forward indicating demand to stay intact from Maharashtra during coming week. Meanwhile, lack of aggressive demand could be seen from UP due to export parity disadvantage when compared to Maharashtra and Chennai. UP lags behind Maharashtra as far as export demand is concerned. Sluggish retail and export demand from UP may keep sugar prices on soft note moving forward. Any marginal decline in sugar prices might attract up-country buyers towards UP market based on trade channel parity and likely to lend underlying support to sugar prices moving forward.

In coming week we expect sugar price to remains range bound with buying is expected at lower price quotes. However, any decision on sugar decontrol or additional export allowance will support the prices further in the coming week.

Sugar Export Opportunity: Likely to Continue

White sugar prices in International market moved up by \$119/MT in a month from \$645.50 /MT on 14th June 2011 to \$764.50 quoted on 14th July, 2011 in the bench mark market "Liffe". Increase in port congestion and concern over Brazilian sugarcane production for 2011-12 are the reasons to keep sugar prices on encouraging note at international front (Liffe and ICE).

Recently, government notification for additional 5 lakh tonnes sugar exports stands supportive for millers as of now. They are fetching premiums over spot market prices from export houses and selling their quota at comparative higher prices over spot. As per the trade sources, this help to minimize the losses which they made during recent past when prices declined significantly. Government release licenses of export to millers for 15,898 tonnes out of additional 5 lakh tonnes sugar exports and rest will release during coming couple of week to cash the current export opportunity.

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)	753.06	768.19	804.51
	Brazil	Thailand	
FOB (USD/MT)	764.50	794.50	-

Millers are getting good returns from the recent export allowance of sugar as the export houses are offering premium of \$110 to 120/MT to the millers over domestic sugar prices due to attractive prices in international market. Recently, one of the export house quoted FOB \$775 per tonne to take advantage of recent spike in international prices.

It is noticeable that India FOB price are competitive for Brazil and Thailand. Export parity is shown in the table above indicating prices to stay competitive from Kolhapur and Chennai when compared with Muzaffarnagar due to freight advantage.

Sugar Production Scenario:

We kept our sugar production estimates unchanged at 24.7 million tonnes for 2010-11. It is noticeable that sugar production estimate by Agriwatch is more than Government and Industry estimates by 0.2 million tonnes. Extended cane crushing in Maharashtra and Tamil Nadu supports the overall sugar production in 2010-11.

Sugar Production estimate for 2010-11 (In Million Tonnes)	
Indian Government	24.5
ISMA	24.2
Agriwatch	24.7
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 compared to our previous estimate of 26.2. Increase in overall sugarcane acreage by 9.79% Y-o-Y will help to boost cane production assuming yield to stay normal. This might help optimistic sugar production estimates.

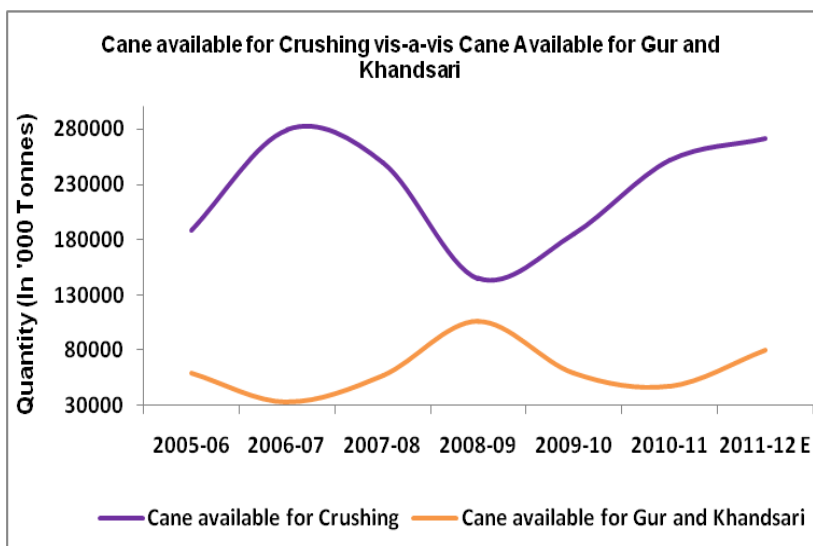
Sugar Production Projection for 2011-12 (In Million Tonnes)

Agriwatch	26.4
Czarnikow	26.1
Sucden	25.7

Production projection based on 2 years average yield

Cane Crushing Estimates for Sugar and Gur/Khandsari (2011-12):

Chart shown below depicts the trend of cane availability for sugar and gur/khandsari for subsequent crushing. It is important to note that during 2008-09 there is significant improvement in cane to be crushed for gur/khandsari with subsequent decline in cane crushing for sugar. Moving forward, with greater production of cane from 2009-10 onwards, demand for cane from Kohlus declined significantly and cane starts moving to mills for crushing. Phenomenon is primarily attributed to higher cane prices paid by Kohlu's to the cane growers when compared to the mill's offered price especially during the period of cane shortage.



However, with better production estimates we expect cane crushing to improve by both mills and kohlu's with greater share of cane to be crushed by sugar mills. Greater cane availability to both sugar mills and kohlu's might brighten the prospect of both gur and khandsari production but we rule out any stiff competition between kohlu's and sugar mills and any sort of cane war for 2011-12 crushing season considering current scenario.

Weather Outlook and Sowing Progress:

Fairly widespread to widespread rainfall would occur over West Coast, Northwest, Central and Northeastern States during 1st half of the week. This indicates sufficient rainfall during the coming week to meet moisture required for proper germination and emergence. As of now weather looks congenial for cane germination and growth. However, cumulative July – Aug rainfall is critical for optimum cane yield as yield is positively correlated with precipitation received during July to Aug period.

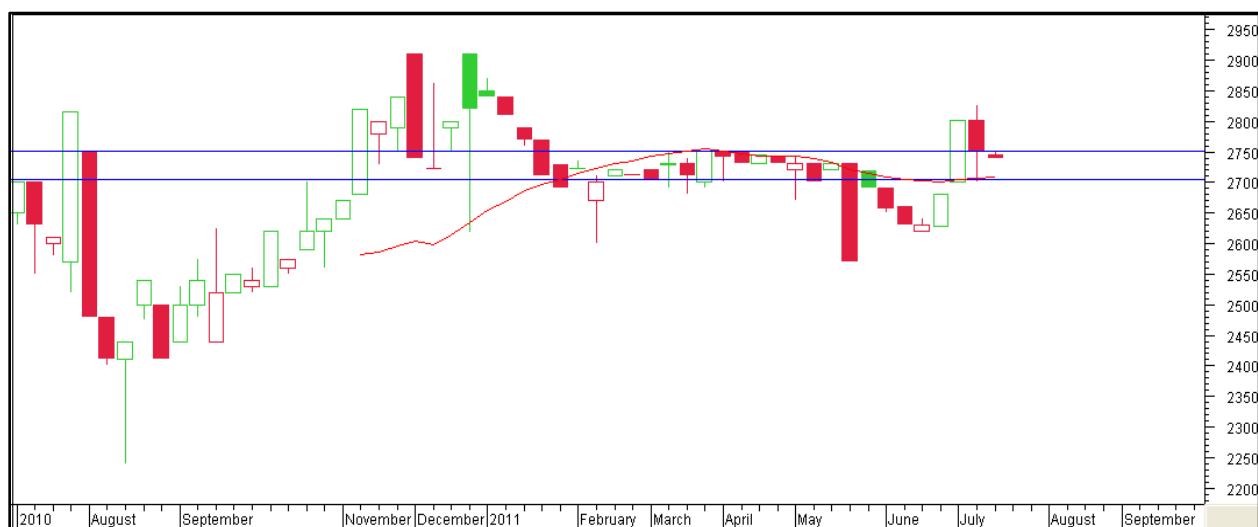
Sugarcane planting is gaining momentum with onset of active precipitation over the major cane growing regions. With better realization from cane during previous year and bright prospect of initial intercropping with crops like lobia, gourds and beans it is profitable for growers to go for aggressive cane planting during 2011-12. Encouraging cane sowing progress is enlisted in the following table:

Normal Area for Whole Kharif Season	Sugarcane Sowing Progress (lakh hectares)			
	As on 8.07.2011 (Area sown reported)			
	2011	% of Normal	2010	Y-o-Y (Absolute Change)
46	51.38	111.7	49	2.4

Spot Sugar Prices Scenario (Weekly)

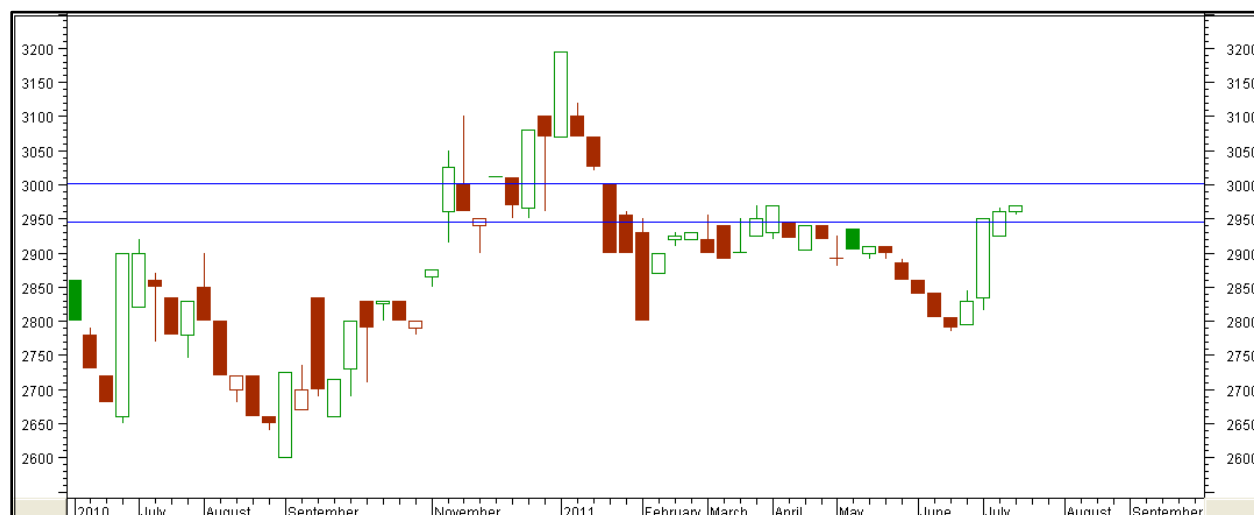
	7-July-11	14-July-11	Change
Mumbai M-30	2981	2978	-3
Mumbai S-30	2781	2835	+55
Kolhapur M-30	2700	2740	+40
Kolhapur M-30	2650	2700	+50
Muzaffar Nagar M	2935	2970	+35
Delhi M-30	2950	2960	+10
Delhi S-30	2930	2940	+10
Chennai S	2725	2740	+15
Kolhapur M-30	2801	2821	+20
Kolhapur S-30	2591	2621	+30

Spot Market Technical Analysis (Kolhapur–Grade M)



Price Expectation for Kolhapur market for the coming week.

- Kolhapur spot prices stay range bound with weak bias during week ending 10 -14 July 2011.
- Prices might find support at lower levels technically.
- Prices are expected to move in a range between Rs. 2701/Qtl to Rs. 2751/Qtl, if breached these levels then it will decide the movement of the prices further.

Spot Market Technical Analysis (Muzaffar Nagar –Grade M)**Price Expectation for Muzaffar Nagar market for the coming week.**

- Muzaffar Nagar spot market price increase during week under review.
- Prices are likely to stay range bound between Rs. 2945 to Rs.2971, if breached present range on either side will decide the direction.
- However, technically chart showing upward price movement for the coming week and may move up further Rs.20 to Rs.30 per Quintal from present level.

Gur Scenario

Gur prices have surged in Muzaffar Nagar market during the period owing to improved demand of Chaku Gur for making remade gur as well as retail demand (Direct Consumption). Daily 13000 bags have lifted for Chaku variety. Also, demand came from Haryana, Rajasthan and Gujarat. However, fresh supply of Gur from Karnataka and Maharashtra give strong competition to UP markets

Meanwhile, around 720,000 bags of Chaku variety gur left in cold storage out of total 10,90,000 bags. Rest 3,70,000 bags are left for Khurpa, Raskat and Papdi variety.

Prices are likely to trade steady to positive in the coming week owing to expected rise in demand of Chaku variety which further supports the Gur prices further in the coming week.

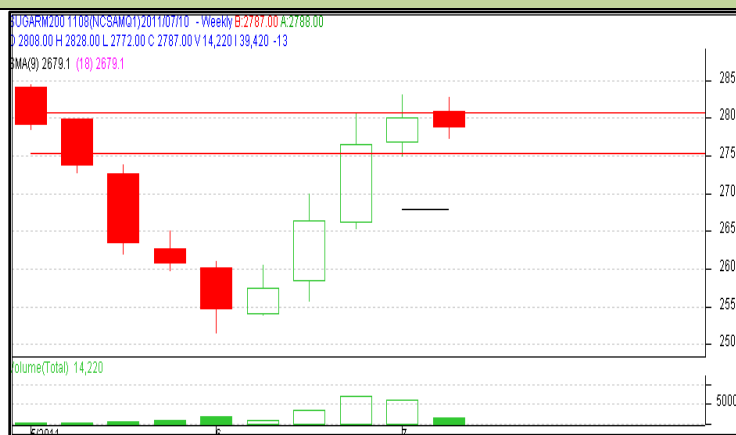
Commodity: Sugar
Contract: August

Exchange: NCDEX
Expiry: August 20th, 2011

SUGAR

Technical Commentary:

- Range bound movement recorded in sugar prices between Rs. 2752 to Rs.2806, 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	2752	2771	2787	2823	2835
Trade Call			Call	Entry	T1	T2	SL
Sugar	NCDEX	August	Sell	<2806	2771	2752	2823

Commodity: Gur
Contract: September

Exchange: NCDEX
Expiry: September 20th, 2011

GUR

Technical Commentary:

- Prices are moving in a range between Rs.1014 to Rs.1038, if breached either side will decide the movement of the prices further. However prevailing strong fundamentals may support the gur prices downwards.
- Also, prices are trading above 9 and 18 day EMA further suggests bullishness in the prices.



Strategy: Buy from support level would be advisable.

Supports & Resistances			S2	S1	PCP	R1	R2
Gur	NCDEX	September	1014	1020	1040	1038	1046
Trade Call			Call	Entry	T1	T2	SL
Gur	NCDEX	September	Buy	>1027	1038	1046	1020

International Scenario

International sugar prices are steady to positive in ICE and LIFFE markets. Prices of sugar in LIFFE have come down after touching its all time high due to profit booking. However, ease in port congestion and cane harvesting pick up speed in Brazil may drags the sugar prices downwards in the coming week.

International Market News Highlights:

- Brazil sugar industry association UNICA projected cane output at 533.5 million tonnes 6.2% less than previous estimate of 568.5 million tonnes. Crop damaged by frost in June and dry weather between April to August last year put impact on plant development. UNICA also cuts its sugar production forecast by 6.4% to 32.38 million tonnes
- China has produced 97905 tonnes of sugar in June that is 60.5% higher than previous year same period production.. Total output January-June period rose 2.8% to 8.06 million tonnes compared to last year same period. According to National Bureau of Statistics
- Russia produced 2.08 million metric tonnes of refined sugar from imported raws in Jan. 1-July 11, up 18.9% from 1.749 million tonnes in the corresponding period last year, according to Dow Jones.
- Russia imported 624,500 tonnes of raw sugar in May 2011, nearly double of the 344,800 tonnes imported in April but down sharply from the exceptional 1.4 million tonnes in May last year. That brought total raw sugar imports in the first five months of 2011 to 1.585 million tonnes, down 11% from 1.782 million imported in the same period in 2010. The Russian Sugar Producers Union has said Russia may import 2.24 million tonnes of raw sugar this year, up by 150,000 tonnes from 2010.
- The sugar lineup at Brazilian ports tumble to 68 vessels, down from 86 on July 06, 2011. At Santos, Brazil's main port for sugar exports, the queue rose to 45 from 58. At Paranagua, the No. 2 sugar port, there were 22 ships this week, up from 24 vessels on July 06, 2011. There is major improvement in the situation over 2010 when at this time there were 108 ships queuing at the Brazilian ports due to wet weather repeatedly halted loading last year.

Brazil Sugar Vessel Line up				In Tonnes		
Ports	Vessels		White		Raw	
	14-July	6-July	14-July	6-July	14-July	6-July
Santos	45	58	66000	68500	1730000	2290000
Paranagua	22	24	80400	68900	490200	664.7
Maceio	-	2	0	0	0	21.9
Vitoria	1	2	12700	16450	0	0
Total	68	86	159100	153.850	2220000	2970000

*Numbers include ships loading, waiting to berth or expected to arrive in the coming week.

International Sugar Prices (Weekly)				
	Contract Month	7/7/2011	14/7/2011	Change
ICE Sugar #11 (US Cent/lb)	Oct'11	29.52	29.2	-0.32
	Mar'12	28.42	28.07	-0.35
	May'12	26.92	26.69	-0.23
LIFFE Sugar (US \$/MT)	Oct'11	745.00	764.50	19.5

	Dec'11	715.90	727.60	11.7
	Mar'12	703.80	709.5	5.7

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

Technical Commentary:

- Prices indicate bullish trend and moving in a range between \$702 to \$779 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 \$715, if breached then it may go down further to \$702 per tonne.
- Price decline with volume further suggests bearishness in the prices.
- Sell from resistance level would be advisable.

International Sugar Futures Price Projection			
	Contract Month	Present Quote	Expected Price level for next week
LIFFE Sugar (US \$/MT)	Oct'11	764.5	715.4

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



Technical Commentary:

- Prices are in bullish trend and moving in a range between 27.3 to 29.57 cents/pound if breached 28.23 cents/pound level then may go down further to its support level to 27.3 cents/pound.
- However, RSI is in a positive zone which suggests bearishness in the prices.
- Sell on resistance level 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	29.2	27.3

Disclaimer

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