

### **News Highlights:**

- The Government has decided to make available 19.25 lakh tonne of sugar quota (levy sugar – 2.22lakh tonne, 0.03 lakh tonne of white processed from imported raws and non-levy sugar – 17 lakh tonne) for the month of August 2011. August quota is higher compared to last three years average sugar quota for August month which might pressurize the price in the coming week.
- India may allow 3 million tonnes sugar exports in 2011-12 backed by good sugar production prospects. Agriwatch pegged its sugar production estimate at 26.4 million tonnes which is 6.88% higher Y-o-Y. Earlier, trade house ED&F Man also predicts that India can export 3 million tonnes sugar exports in 2011-12.
- Food minister K.V Thomas denies the possibility for further sugar exports till September against industry demand of allowing additional half million tonnes sugar exports under OGL. Earlier, government has allowed in total 2.5 million tonnes (1.5 – ALS and 1 million tonnes – OGL) sugar exports in 2010-11.
- Government of AP taken back its decision for imposing 4% VAT on sugar. According to traders, existing VAT imposition on sugar squeeze the profit margins out from the business.
- National Federation of Co-operative sugar factories (NFCSF) demanding 5 lakh tonnes additional sugar exports under OGL for 2010-11. According to NFCSF, this will help the millers to clear the arrears of the cane farmers.
- Government's un-willingness to allow additional quota for export helped to ease the prices during the week under review.
- The food ministry has approved 3.20 lakh tonne of sugar allocated to the sugar mills for export till 27th July 2011. Total 313 mills have got the license to export sugar so far.

### **Domestic Market Recap:**

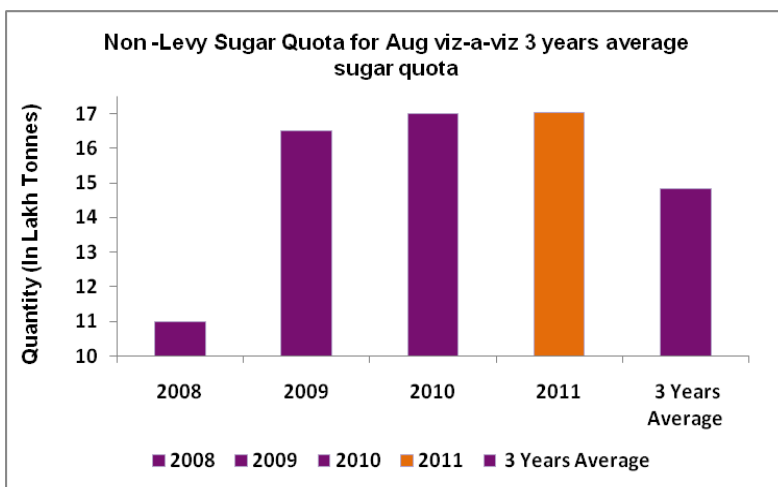
Mixed sentiments witnessed in sugar prices during the week ending 29<sup>th</sup> July 2011. Improved demand for sugar owing to approaching festivals helped to keep prices range bound during the week under review. Sugar prices soften during the weekend as government release comparative higher quota m-o-m to meet the festival requirement of Aug. Moreover, higher supply might weigh on the market sentiments but expectation of sharp improvement in sugar demand during second week of Aug might off-set the impact of higher supply. This might keep sugar prices range bound for short term but intermittent spike in sugar prices is possible at lower price quotes.

On policy matter, Food Ministry denial for additional sugar exports was against the market expectation when sugar industries are hoping additional export sugar quota considering optimistic sugar output for 2011-12 season. This helped to soften the sugar prices in spot after marked gain during last couple of weeks. Considering the current tight ending stock situation we do not expect any additional sugar export quota for 2010-11 till Sep. However, government might consider for opening of sugar export during new crushing season which starts from October. However, the quantum of sugar quota will depend on the sugar production during 2011-12 which is expected to surpass 26 million tonnes based on the current conditions.

Sugar prices increases marginally in UP spot markets during the week under review owing to comparative lower sugar quotes from UP mills when compared with other trading centers. Upcountry buyers of UP buy sugar in the first half of the week to fulfill their sugar requirements before the kavad yatra which supports the spot sugar prices in UP till middle of the week. However, demand weakens during later half owing to road blocks due to Kavad Yatra hence a temporary disturbance to the sugar shipment.

### Sugar Quota Release:

As per the release order, total sugar quota for Aug is allotted to 19.25 lakh tonnes out of which levy sugar – 2.22lakh tonne and non-levy sugar – 17 lakh tonne with additional release of 0.03 lakh tonnes of white from imported raw which stay higher compared to previous three years average and even higher than last month sugar quota. This stand mandatory for the sugar mills to liquidate higher sugar stocks during the month of Aug to meet the festival requirement of Aug. Higher supply during the period might contain sugar prices and is likely to keep sugar prices range bound. Earlier market participant were expecting sharp rise in sugar prices during Aug.



Higher sugar quota will pressurize the sugar prices initially but might regain afterwards owing to upcoming festive sugar demand.

### Sugar Export Opportunity: Likely to Continue

Sugar international prices surge by \$24.2/MT in a month from \$765.8/MT on 28<sup>th</sup> June to \$789/MT on 28<sup>th</sup> July, 2011 in “LIFFE”. Concern for Brazilian sugar output owing to anticipation of lower cane production and relatively lower sugar recovery are the reasons which stand supportive for international sugar prices.

Marked price differential between domestic sugar prices and its bench mark stands supportive for sugar export from India. However, current policy regarding sugar exports limits any major sugar shipment as exporters/millers need prior government approval. Government is not in hurry this time to open additional quantity for export and will take decision after new crushing season starts from October. .

Meanwhile government is in haste for releasing already approved export sugar quota to cash the existing international prices. Food ministry has approved export of over 3.20 lakh tonnes of sugar till 27<sup>th</sup> July 2011 out of 5 lakh tonnes export. Rest of the quantity will be release during coming days.

It is evident from the following table; Indian prices stay competitive from major international players which stand supportive for Indian sugar export. India at this juncture can compete well if more sugar quota is allowed to export. However, government might take cautious approach this time considering tight stock position during the season end.

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)	757.53	759.24	811.22
	Brazil	Thailand	
FOB (USD/MT)	789.00	879.00	-

Export houses are offering premium of US \$110 per tonne to get the export licenses from the millers. West Maharashtra exporters are quoting \$775 FOB at present.

Sugar prices at Chennai and Kolhapur centers were seen more competitive than UP due to freight advantage and proximity to the ports. Even sugar from Muzaffar nagar also remains competitive over Thailand offered FOB. Recently Thailand raised its sugar premium from USD 22 to 90 over LIFFE. At these higher levels of Thai premiums buyers are seen inactive and waiting for Thai premium to come down. This again stands favorable for the Indian exporters to bag import orders from SE Asian nations. Moving forward, we expect Indian prices to stay competitive in international arena till Sep which might lend spill over support to the domestic market prices.

### **Sugar Production Scenario:**

Agriwatch kept the sugar production estimates unchanged at 24.7 million tonnes for 2010-11 which is slightly higher (0.2 million tonnes) compared to government and industry estimates. Extended cane crushing in states like Maharashtra and Tamil Nadu helped to raise the production estimates.

<b>Sugar Production estimate for 2010-11 (In Million Tonnes)</b>	
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

Sugar production estimate for 2011-12 kept unchanged at 26.4 million tonnes during the current period as yield situation will be clear only after Aug rainfall. Surge in sugarcane acreage by 9.79% Y-o-Y and normal yield assumptions help to increase the overall sugar production for 2011-12.

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

Production projection based on 2 years average yield

### **Weather Outlook and Sowing Progress:**

<b>Statewise Rainfall Distribution (In Millimeter)</b>			
	<b>Actual(31.7.2011)</b>	<b>Normal (01.06.2011)</b>	<b>% Change</b>
Eastern UP	387.6	405.8	-4%
Western UP	398.2	329.3	21%
Central Maharashtra	374.9	387.8	-3%

Andhra Pradesh	243.5	264.3	-8%
Northern Karnataka	229.9	239.6	-4%
Southern Karnataka	355.7	357.6	-1%
Gujarat	287.4	466.6	-38%
Tamil Nadu	98.9	114	-13%
Bihar	495.6	512	-3%
<b>Country as a Whole</b>	<b>429.2</b>	<b>452.4</b>	<b>-5%</b>

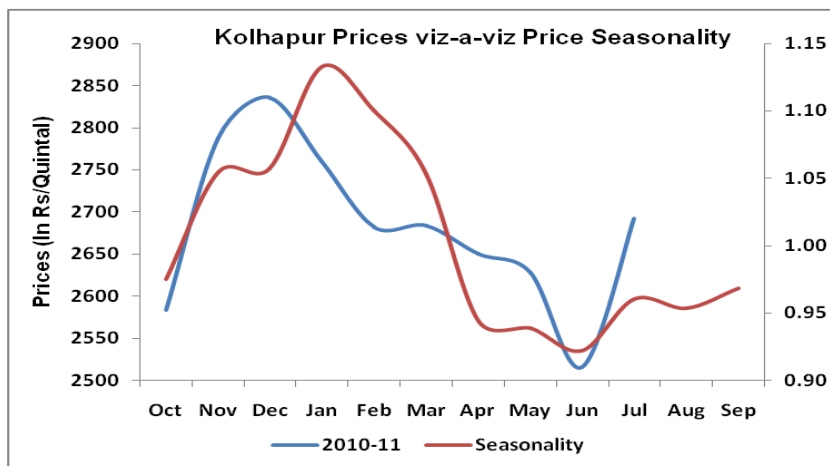
Source: IMD

According to Indian Meteorological Department, overall actual precipitation in the country is 5% below normal during 31<sup>st</sup> July 2011. Good precipitation recorded in Western UP where the sugarcane needs good rainfall which might support the yield of sugarcane in western UP. However, rainfall is 4% below normal recorded in Eastern UP which is unlikely put any impact on sugarcane yield as Eastern UP lies under low lying area. Meanwhile, Gujarat has witnessed around 38% below average rainfall which might decrease the sugarcane yield Y-o-Y. Also, rainfall in states like AP, Maharashtra, Bihar, TN and Karnataka recorded slightly below normal rainfall but will hardly matters as these areas are 90% irrigated already which will put no or very marginal impact on yield of sugarcane in these states.

Sugarcane crop progress during the week ending 29<sup>th</sup> July 2011 indicates satisfactory progress y-o-y as major shift in area towards sugarcane could be seen from competing crops like soybean, pulses, and coarse cereals in major producing states. Sugarcane has been planted in 51.81 lakh hectares till 29<sup>th</sup> July. Higher area has been reported Y-o-Y from Karnataka, Punjab, Uttar Pradesh and Maharashtra which hold our view of increased acreage this year during beginning of the planting time.

### Kolhapur Prices Viz-a-Viz Price Seasonality:

Seasonality index reveal prices to stay at lower levels during May and June in bench mark market of Kolhapur. However, it starts improving from July onwards due to buying support to cover the festivals requirements which starts from Aug. Current prices though remain in tandem with the seasonality index with marginal variation, but average monthly sugar prices at Kolhapur improved significantly during July showing marked variation from its index. The un-usual spike is primarily attributed to market



expectation of additional sugar export release order which helped to keep sugar prices firm during July. However, with no fresh cues on export front from the food ministry might contain the spiraling sugar prices for short term and is likely to follow its seasonal price trend. Seasonal trend depicts marginal decline in sugar prices in Kolhapur spot during Aug and we expect similar trend moving forward.

### Spot Sugar Prices Scenario (Weekly)

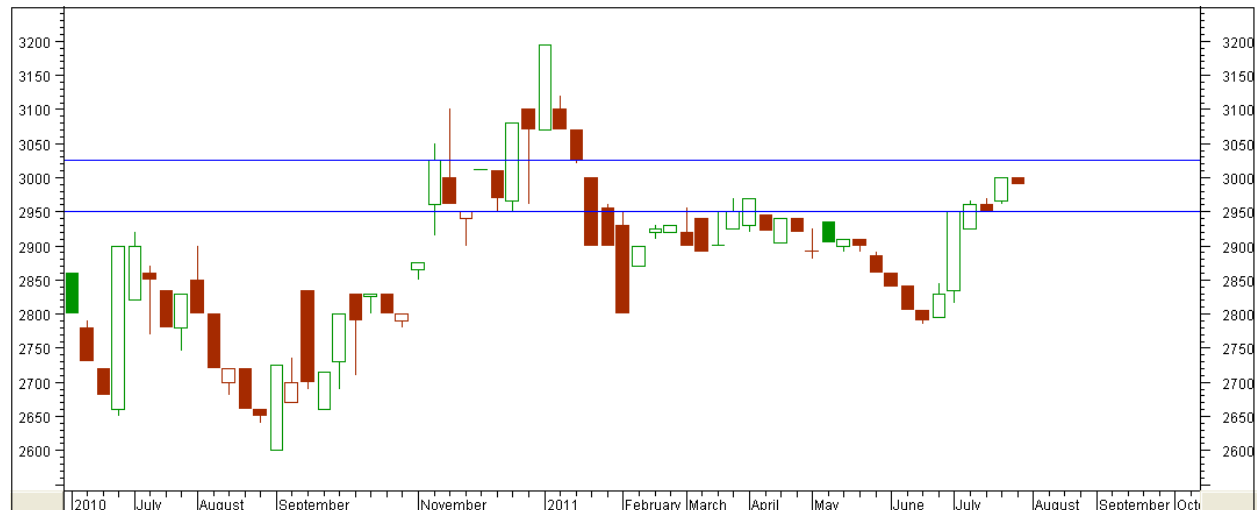
	21-July-11	28-July-11	change
Mumbai M-30	2991	2956	-35
Mumbai S-30	2851	2791	-60
Kolhapur M-30	2750	2700	-50
Kolhapur S-30	2700	2660	-40
Muzaffar Nagar M	2970	2990	+20
Delhi M-30	3000	2985	-15
Delhi S-30	2900	2870	-30
Chennai S	2725	2760	+35
Vijayawada M-30	3120	3120	Unch
Kolkata M Variety	2940	2980	+40

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



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

- Kolhapur spot prices declined during the week ending 28<sup>th</sup> July.
- Prices might test its immediate support from where it is expected to get a technical bounce.
- Any bounce from its immediate support shall keep sideways price movement intact for short term.
- Prices are expected to move in a range between Rs. 2700/Qtl to Rs. 2750/Qtl, for short term.

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

- Muzaffar nagar spot prices soften during the week under review.
- Any marked decline might bring the prices to test towards its immediate support near 2900 to 2950.
- Fair chances are possible for prices to stay range bound in Muzaffarnagar spot in the range of Rs. 2950 to 3000 per Quintal during coming week.

**Gur Scenario**

Gur prices have increased in Muzaffar Nagar market during the week ending 29th July. Despite weak demand, prices have increased marginally due to seller's un-willingness to sell gur at lower price quotes. Off-take for Chaku variety of gur declined during the week under review as evident from daily off-take. On an average daily off-take from Muzaffarnagar mandi is reported to 2500 bags which was significantly down from 13000 bags reported from previous week.

Decline in demand is primarily attributed to the road blockades by Kavadi Yatra which stand discouraging for active gur trade and its shipment. At the same time, demand of Gur from Gujarat and Rajasthan shifted towards Karnataka and Maharashtra due to price difference between Chaku gur and Achhu variety gur in Karnataka.

At present Karnataka and Maharashtra gur makers compete with UP for short time. Moving forward with up-coming festivals such as Mahashivratri in North and Ganesh Chaturthi in West might give some respite to the demand.

Gur production is likely to gain momentum in South Karnataka with new cane crushing for gur is expected to pick up during Aug and Sep. This might result into sharp increase in Gur arrivals in its major gur market 'Mandya'. With expectation of increase in arrivals in Mandya we expect prices to soften going ahead which might impart spillover weakness other trading centers.

Total gur stock at Muzaffarnagar is reported at 9,50,000 bags out of which 6,25,00 bags are of Khurpa variety while rest 3,25,00 bags are of Raskat and Papdi. .

Considering the above factors we expect gur prices to stay under pressure during coming week but might gain buying support at lower price quotes thereby keeping prices in a tight range.

Gur Spot Prices (Rs/Qtl)				
Markets	Variety	21-Jul-11	28-Jul-11	Change
Muzaffar Nagar	Chaku	2525	2535	+10
Bangalore	Achhu	2400	2500	+100
	Mudde	2800	2700	-100
Belgaum	Mudde	2200	2300	+100
Belthangadi	yellow (Average)	2700	2700	Unch
Bijapur	Achhu	2500	2500	Unch
Gulbarga	Other (Average)	2530	2550	+20
Mahalingapura	Penti (Average)	2550	2610	+60
Mandya	Achhu (Medium)	2350	2350	Unch
	Kurikatu (Medium)	2200	2100	-100
	Other (Medium)	2250	2250	Unch
	Yellow (Medium)	2300	2300	Unch
Shimoga	Achhu (Average)	2850	2800	-50

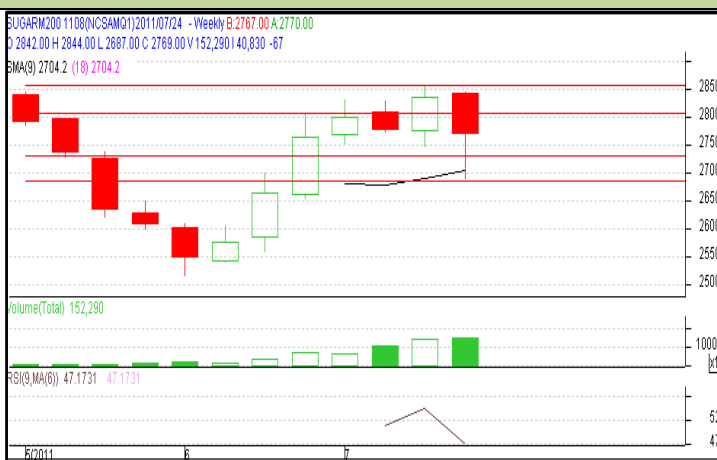
Commodity: Sugar  
Contract: August

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

## SUGAR

### Technical Commentary:

- Sugar prices have decreased and stay in a range of Rs. 2700 to Rs.2857, and breaching the levels in either side will decide the price movement.
- Prices are testing strong support at Rs. 2750 and any decisive close below the same might initiate a bear run.
- However, it is likely to find support towards its EMA support region where it might find technical buying



**Strategy:** It is advisable to buy from support level

Supports & Resistances			S2	S1	PCP	R1	R2
Sugar	NCDEX	August	2686	2700	2769	2806	2858
Trade Call			Call	Entry	T1	T2	SL
Sugar	NCDEX	August	Buy	>2730	2806	2858	2700

Commodity: Gur  
Contract: September

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

## GUR

### Technical Commentary:

- Prices are moving in a range of Rs.1028 to Rs.1069. It got resistance towards its 61% retracement levels. This might trigger technical sell from the regions which is expected to cool the prices towards its 38% retracement levels as depicted in the adjacent chart.
- Any decline towards might find support from its rising trend line which is expected to keep gur prices in a tight range. Meanwhile, it is expected to get additional support towards its EMA support zone.



**Strategy:** Buy from support level would be advisable.

Supports & Resistances			S2	S1	PCP	R1	R2
Gur	NCDEX	September	1015	1028	1049.5	1047	1057
Trade Call			Call	Entry	T1	T2	SL
Gur	NCDEX	September	Buy	>1036	1047	1057	1028



### International Scenario

International sugar prices have increased marginally in ICE and LIFFE. After touching its Oct month contract high at \$821/mt, prices have come down owing to ease in port congestion in Brazil. Prices are likely to stay range bound for short term and will depend on Brazilian sugar production which is expected to decline during 2011-12. Any marked variation from its latest production estimates of 32.5 million tonnes shall guide the price direction going ahead with the Brazilian cane crush.

### International Market News Highlights:

- Australia's 2011 sugar crush is starting to gather pace with nearly 25% of the crop now harvested. Australia is the world's third largest sugar exporter and is likely to harvest around 30 million tonnes of cane, up from last year's rain affected 27.5 million tonnes, but still below a typical harvest of 33 million tonnes.
- Brazil's top sugar producing region, Center South, has produced 11.9 million tonnes sugar, down by 15% Y-o-Y, from the start of the season till July 16. However, sugar production is catching up the pace of 2010 which started exceptionally early. The major reason for lower sugar production in Brazil was frequent rain from February to April month this year which results in lesser cane crush lagging last year crushing progress. However, dry weather since May has helped the crop to get ready to harvest. As per UNICA.
- The Thai Sugar Trading Corp. expects to export more than 2 million tonnes of sugar in 2011 compared with 1.6-1.7 million tonnes a year earlier on the back of strong global demand for the sweetener and a bumper Thai crop in 2010/11
- White sugar production from imported raws reached 2.249 million tonnes as of July 25, up 20% from 1.873 million in the same period a year ago, the Russian Sugar Producers Union said. There are currently 12 refineries operational, compared with 6 at the same time last year. Remaining raw sugar stocks at the refineries on July 25 totaled 113,300 tonnes, up from 18,500 a year ago.
- The sugar lineup at Brazilian ports goes down to 56 vessels, down from 62 on July 20, 2011. At Santos, Brazil's main port for sugar exports, the queue declined to 41 from 43. At Paranagua, the No. 2 sugar port, there were 15 ships this week, down from 18 vessels on July 20, 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	
	27-July	20-July	27-July	20-July	27-July	20-July
Santos	41	43	71450	82500	1440000	1530000
Paranagua	15	18	71900	71900	352200	412500
Maceio	-	-	0	0	0	0
Vitoria	-	1	0	12700	0	0
Total	56	62	143350	167100	1790000	1940000

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

International Sugar Prices (Weekly)				
	Contract Month	21/7/2011	28/7/2011	Change
ICE Sugar #11 (US Cent/lb)	Oct'11	29.85	29.92	0.07
	Mar'12	28.72	28.66	-0.06
	May'12	27.29	27.20	-0.09
LIFFE Sugar (US \$/MT)	Oct'11	781.30	789.00	7.7
	Dec'11	737.70	745.00	7.3
	Mar'12	726.30	731.40	5.1

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



### Technical Commentary:

- Prices find strong resistance towards \$782 and \$821 per mt which lead marginal decline from its near term high.
- Near term correction is expected at these price ranges which are likely to bring the prices to test towards its support zone. US \$760 might act as an immediate support and breaching the same might bring the prices to test towards its key support level of \$749 per mt.

International Sugar Futures Price Projection			
	Contract Month	Present Quote	Expected Price level for next week
LIFFE Sugar (US \$/MT)	Oct'11	789.00	749.00

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



### Technical Commentary:

- Long term bullish trend stay intact while prices getting strong resistance from the region of 30.61 cents/pound. This bring the prices to test towards its near term support of 28.76.
- Breaching the same might define its direction further. Profit booking is expected at current prices as the Bull Run is not getting support from volume. This indicates near term correction which might bring the prices to test towards its key support zone of 26 cents/pound.

International Sugar Futures Price Projection			
	Contract Month	Present Quote	Expected Price level for next week
ICE Sugar #11 (US Cent/lb)	Oct'11	29.92	28.76

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