Line of Recent Events which make us believe that there is more to come

India's net sugar imports to continue for 2 yrs

The domestic output is expected to be 16 million tonnes (mt) in the next season. After taking into account the 1.7-mt opening stock, we will be left with a deficit of 5.3 mt (as consumption is estimated at 23 mt). It will be possible to meet this through imports. While import of 4 mt has been contracted, we can expect further imports during the year.

For the next year, even if India produces optimistically 23 mt, then also we need to build buffer stock of around 8 mt – 10 mt. For the next two seasons (2009-10 and 2010-11), we will certainly remain a net importer. However, domestic availability is expected to improve from the 2011-12 season.

Government ups price of levy sugar

Food ministry has decided to raise the levy price at which it buys sugar from mills to supply the public distribution system (PDS) by 50 per cent in Maharashtra and 63 per cent in Uttar Pradesh (UP) for the new sugar season starting next month. The two states account for 55 per cent of India's sugar output. Prices have also been revised for other sugar purchasing states.

The decision to revise the price, which has been unchanged for over seven years, comes after a Supreme Court order last year directing the government to revise prices and announce a different price for mills that pay a state advised price (SAP) to buy sugarcane from farmers. The price of levy sugar was so far being decided on the basis of statutory minimum price (SMP), which is a central government price, and is generally lower than the SAP. The new levy price for UP mills will, therefore, be higher as they pay SAP, while mills in Maharashtra pay SMP. The decision to have a SAP-based price will benefit top companies like Bajaj Hindusthan and Balrampur Chini, who have all their operations in UP.

Currently, the levy price ranges between Rs 1,275 to Rs 1,383 a quintal (100 kg) in UP, the country's second-largest producer. In Maharashtra, the largest producing state, the price ranges from Rs 1,318 to Rs 1,344. The new price is likely to be around Rs 2,087 a quintal for the UP mills and Rs 1,984 for the Maharashtra mills for the 2009-10 season.

Centre to pay additional ~Rs 300 cr on levy sugar, a windfall gain for sugar mills

The mills may soon give bills amounting to Rs 300-crore to government on account of depressed levy sugar payments for the current sugar year (Oct'08-Sept'09). The liability came up after a Supreme Court ruling on levy sugar pricing earlier this month.

According to the Sugarcane Control Order, levy sugar pricing by the Centre has to be based on the statutory minimum price (SMP), the cost of conversion into sugar, excise and other taxes. Sugar mills have been arguing that the price of levy sugar should be based on the state advised price (SAP), the actual price paid by mills to farmers, and not SMP. Many states announce their own price for sugarcane, which is usually significantly higher than the centre's SMP.

The SC judgement rejected Centre's position that it would base levy sugar pricing on the SMP. The Centre informed the apex court that it is working out the additional burden it will have to bear on account of this.

Who benefits how much from sugar imports?

Companies that contracted sugar overseas some weeks ago are better placed than others as prices were lower earlier. Companies located closer to port gain because of lower freight costs in an extremely price sensitive market. Finally, local prices are the most critical because they are wholly influenced by government controls. One can buy smartly overseas, but if local Indian prices are lower, then refining raw sugar can never be profitable. This is exactly what has been happening recently, when the government swung a stick to keep domestic prices deliberately low.

Sr. No.	Name of the company	Total raw sugar contracted (MT) 08-09 & 09-10	Average price of raw sugar contracted Rs/kg
1	Shree Renuka Sugar	1500000	19
2	Bajaj Hindusthan	700000	23
3	Balrampur Chini Mills	120000	20.5
4	Dhampur Sugar Mills	280000	NA
5	Simbhaoli Sugars	200000	22
6	Triveni Engg	120000	21
7	Dalmia Cement	100000	17.8
8	Sakthi Sugars	360000	NA
9	Thiru Aroon Sugars	200000	NA
10	Cargill / EID	60000	NA
11	Others	900000	NA
	Total	**4540000**	

Profitability depends on three factors: price of imported sugar, cost of transportation to factory and processing, and local sugar prices.

A large part of the sugar contracted by the mills so far has yet to arrive in India. Mills can square off those positions, if domestic prices are not at par with global prices. If mills square off the positions then again we will have deficit. So we are of the belief that a current depressed price is a temporary phenomenon. The price has to move up eventually.

Rest of the world scenario

According to the latest figures from UNICA, the sugarcane growers' association, crushed cane volume in Brazil's Central-South from the 2009/10 harvest totaled 246.7 million tonnes through August 1st. The production mix continued to prioritize sugar, in comparison with the previous season there was a shift of around 3 percentage points towards sugar, which retained 42.3% of the mix, versus 57.7% to ethanol.

Pakistan is also suffering from poor weather, with a drought in most production regions. Cane growers in Thailand, China and Australia have been enjoying favorable conditions. In the first two countries, rainfall level is above or in line with the historical average, while the latter has been experiencing dry weather, ideal for harvesting.

According to the latest USDA estimates, U.S. sugar inventories have reached critical levels, having fallen from 10% of consumption in 2008/09 to 6.7% in 2009/10, assuming consumption remains at current levels, due to the decline in sugar beet planted area (migration to other crops) and unfavorable weather conditions. Until now, there has been no decision on new quotas for raw sugar imports or the implementation of quotas for refined sugar imports, although imports from Mexico are expected to increase. Unable to meet expected demand, in August, the Mexican government approved sugar imports of 400,000 tonnes.

- World consumption is projected to grow at 2% to 2.5% p.a. Increase in consumption is anticipated from Indian subcontinent, China and Africa.
- The ocean freight cost is rising after going low to a record level in Jan 09.
- Consumption of chemical sweeteners is declining in China, per capita demand of 14 kg p.a. (2008-09) is showing an increase.

The above scenario makes us believe that the sugar sector is riding on global constructive fundamentals which are unlikely to be corrected soon.

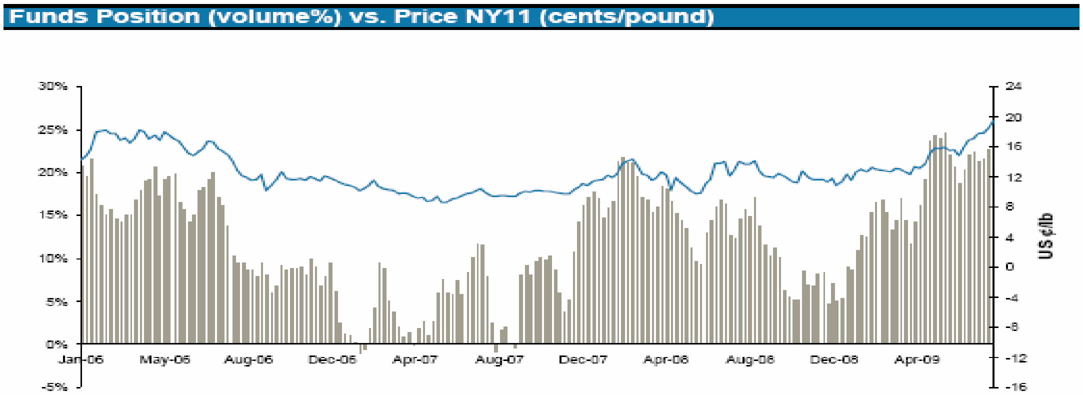
Stocks estimates of many countries in critical levels

- USA with low stocks levels could import raw sugar;
- Mexico opened import quotas of 400 thousand tonnes;
- In Egypt, import tariff is suspended. Tariff was 2% for raw sugar and 10% for white sugar from August 15th until Dec/09;
- Pakistan may suspend import tariff; to import its major quantity in Dec, at present it has made imports of 0.2 mt. The president has asked public to eat less sugar during Ramzan.
- Russia Import forecast is of 2.7 million tonnes for 2009/10 crop.
- Global inventories will be at their historic lows in 2010.

Funds increase their positions attracted by good fundamentals

Major hedge funds, plus smaller funds and speculators, increased their long positions to 199,000 lots and 22% of total open contracts, 59.4% up on the 4Q'09 and 11.1% up year-on-year. The current net long position totals 254,000 lots and 22% of open contracts.

Funds Position (volume%) vs. Price NY11 (cents/pound)



Source: NYBOT & CFTC (Commodities Futures Trading Commission)