

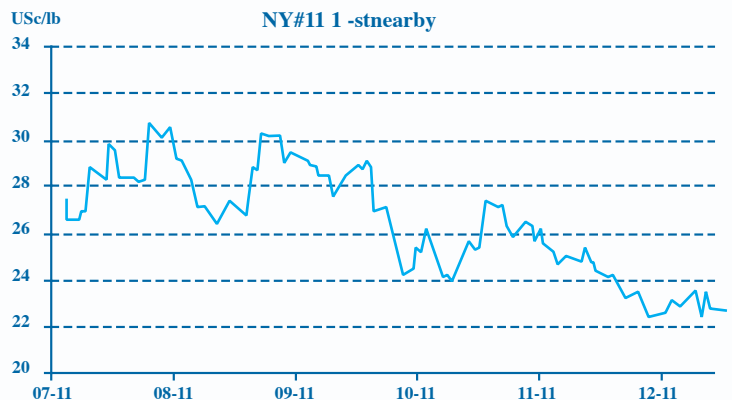


QUARTERLY MARKET REPORT

From Russia with Love

Sugar has continued to experience sharp price movements over the past quarter. The most striking periods were at the end of September, when raw sugar lost almost US\$5/lb or 15% in only two weeks and in October when it rebounded strongly by 13% in only six days. Since then, sugar has been on a downward trend, sliding from almost US\$28/lb in mid-October to its current level of below US\$23/lb, an almost 20% loss over the past month and a half.

Periods of optimism and pessimism over the ability of policymakers to solve the EU crisis have been taking turns. Sugar has been under the influence of this volatile macro environment through two different channels. Firstly, because the ongoing crisis impacts the investors' appetite for risky assets, among which commodities lie. Secondly, because the crisis strengthens the US dollar and, conversely, weakens emerging market currencies, themselves an important factor in the price of sugar.



But the month and a half long downward trend also points to changing fundamentals. The hangover from the disappointing Brazilian crop is fading -also because the crop is not as disappointing as previously feared. Meanwhile, bumper crops in the major exporting countries of the Northern hemisphere are underway. Importing countries are also relying on increased domestic production, resulting in a lack of demand on world export markets. The nearly-completed record crop in Russia, once the biggest importer of raw sugar, is heralding these changing fundamentals.

In addition, the crisis is far from over in Europe and will likely continue to impact global markets.