



QUARTERLY MARKET REPORT

Singin' in The Rain

Sugar traded in a relatively narrow band of USc23-26/lb during five months from November 2011 to March 2012. The range suddenly broke lower in early April and sugar lost 22% in two months, closing at USc18.9/lb on 4 June.

The focus of the market then turned to how low sugar prices would go and whether ethanol would provide a strong floor or not. Just then, prices rebounded strongly. They rose to USc21.7/lb on 20 June, gaining 15% in only 12 trading days, and are now closer to USc23/lb. The nearby calendar spread, July12/October12, also shot up from -47bp to +87bp in a matter of a few days.

This sudden rebound was triggered mostly by the unexpectedly rainy weather in CS Brazil which hampered crushings and kept sugar stocks tight, disrupted loading operations at ports and fuelled concerns about the total amount of cane crushed.

As a result, the much-anticipated surplus has been postponed yet another time. It is nevertheless still looming on the horizon. Bearish pressures should therefore resurface around September. In the meantime, stretched logistics in Brazil will keep supplies tight and the market will remain nervous about weather adding delays in Brazil or impacting crops elsewhere.



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Outlook

1. Brazil: ups and downs of a rainy season

1.1 How Brazil fostered the price rebound

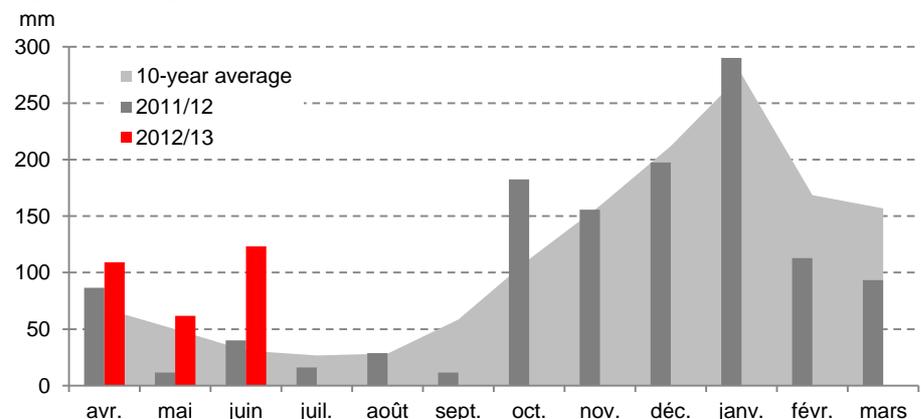
In the first three months of the (supposedly) dry season -from April to June-, CS Brazil received 300mm of rain. This is twice as much as the average of 150mm. June was particularly rainy, experiencing 120mm of precipitation when the normal should have been around 30mm. Furthermore, the state of Sao Paulo, which has a 60% share in the production of CS Brazil, was particularly rainy, as well as the state of Parana.

Firstly, these unexpected rains added more delays to the already very slow start of the crushing season. Mills had already planned to delay starting crushing to take advantage of possible late rain after the severe dryness of February and March. When these rains finally occurred, they forced mills to stop crushing operations which had only just started. At the end of June, cumulated crushed cane reached no more than 135mt, 40mt or almost one quarter less than at the same time last year. These delays kept stocks tighter than earlier anticipated and also fuelled concerns that a rainy season through 2012 would ultimately affect the total amount of cane being crushed in 2012/13.

In addition, the rainy weather also disrupted vessel loading operations in the ports. In June 2011, when CS Brazil exported 2.6mt of raw sugar, only 2.4 days of loading were lost because of the rain in the port of Santos. In June 2012, as many as 8 days were lost, therefore limiting exports to no more than 2.0mt, a small number for this time of year.

These unexpected problems occurred just when the demand for sugar from the new Brazilian crop soared. Vessels did arrive at ports of CS Brazil at a brisk pace in June, with China being a major destination. The combination of brisk arrival of new vessels and of slow loading because of the rain led to a quick build-up in the number of vessels queuing at the ports. This situation explains the sudden rebound of sugar prices and the dramatic shot up of the nearby spread.

Figure 1: Average rainfall in CS Brazil



Untimely rain in Brazil delayed the crop and disrupted logistics, leading to a quick build-up in vessels queuing at ports

1.2 Will there be time to crush 512mt?

Sucden's forecast for the CS Brazil cane crop is at 512mt. It is at the higher range of the published forecast which is between 470 and 520mt.

The harvested area should grow by 1.4%. This is a relatively small growth compared to the previous years. Indeed, the renewal rate has started to recover and, as a consequence, the area lost for harvest this year -because it has just been renewed with 18-month cane- is bigger than the area which was renewed last year and will be harvested for the first time this year. Moreover, with only two new mills coming on stream, expansion on new land is limited and comes mostly from existing mills expanding their sugar cane supply base.

The agricultural yield should also improve slightly. We forecast 69.5t/ha, 2.2% above last year (68t/ha) but still a dismal performance compared to the above 80t/ha achieved in the previous years. Agricultural yields in April and May were below the level achieved at the

In normal weather condition, CS Brazil still has time to crush 512mt

Above-average rain would limit crushings, possibly to 492mt

same time last year. Still, yields should be supported later thanks to the recent rain and the absence of flowering and frost which affected the second part of the season last year.

Based on area up 1.4% and yield up 2.2%, we see the total crop increasing by 3.6% from 494mt to 512mt.

However, the question is gradually shifting from how much cane will CS Brazil harvest to how much cane will Brazil have time to crush?

Indeed, late rain in April-June have slowed down crushing operations considerably, with only 135mt of cane crushed by the end of June. Will there be time enough to catch up and crush the remaining 377mt by the end of the season?

In normal weather circumstances, the answer is yes. But weather conditions have been far from normal in the past three months, being much more rainy than usual. Fears are growing that it could be the case throughout 2012 because of the increasing probability of an El Nino episode by the end of the year. If rainy conditions persist, the total amount of cane crushed will ultimately depend on how far the mills decide to delay the end of the season. On the one hand, they will be tempted to continue to crush as long as possible for cash flow reasons and for avoiding "cana bizada". On the other hand, harvesting muddy fields is also likely to have lasting impacts on future crops and mills could choose to bet on an early start of the next crop instead.

This range of possibilities leaves various scenarios open. But, should rainy conditions resume in September, around 20mt of cane could be left unharvested. Furthermore, these rain would also negatively impact the sucrose content or ATR. Also, because of further delays, mills would have to maximize cane crushing which would weigh on the sugar/ethanol mix. Overall, if cane crushed decrease by 4% from 512mt to 492mt because of too much rain, sugar production would fall 5% from 32.0mt to 30.3mt.

Figure 2: 2012/13 scenario for CS Brazil

		11/12	12/13	
			Average weather	Rainy weather
Cane crop	million t	494	512	492
ATR	kg/t	137,6	135,7	134,5
Sugar mix	%	48,3%	48,3%	48,1%
Sugar production	million t	31,3	32,0	30,3
Ethanol production	million m3	20,6	21,1	20,2

1.4 Is Brazilian ethanol still a bullish risk?

Since the beginning of the harvest, sugar has been more profitable than ethanol and producers in CS Brazil have, therefore, been maximizing sugar production. This should continue until sugar prices decrease down to the level of the ethanol parity.

Until recently, there was also a perceived bullish risk that the level of the ethanol parity could increase. This risk was linked to the uncertainty regarding the ethanol sector in Brazil and potential regulatory changes regarding:

- an increase of the retail price of gasoline, which would have allowed ethanol prices to rise as well,
- a cut in taxes paid by ethanol producers, which would have allowed ethanol producers to receive a higher price,
- an increase of the mandatory blend level to 25%, which would have increase the demand for anhydrous ethanol.

Regulatory risks on the Brazilian ethanol sector have almost disappeared with recent news

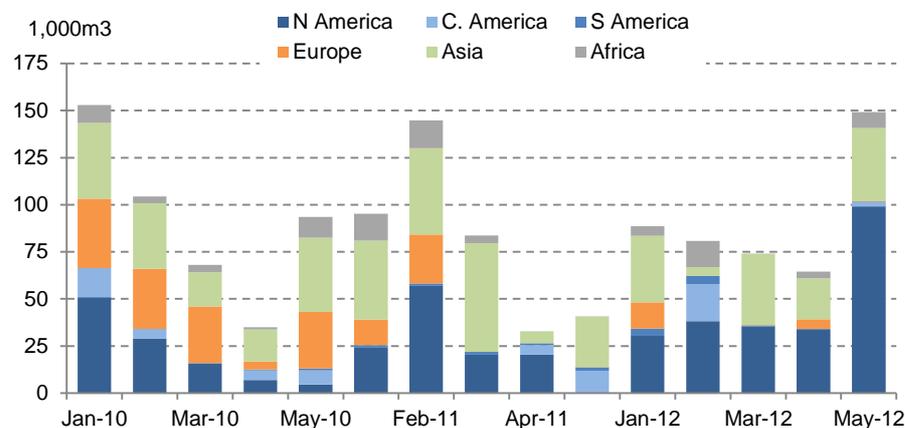
Most of the uncertainty has been clarified recently and the regulatory risk has, in our opinion, disappeared.

Firstly, the announcement made by Petrobras that wholesale price of gasoline were to increase by 7.8% on 25 June was immediately followed by government intervention to cut the CIDE tax to 0 therefore negating any impact of the wholesale price increase at the consumer level. Given that the retail price of gasoline is unaffected, this measure had no impact on the price and the demand for ethanol.

Secondly, there are on-going rumours of a possible reduction of the Pis/Cofins taxes on hydrous ethanol. The purpose of this measure would be to allow producers to receive a higher price, therefore encouraging them to produce more. However, the amount of the Pis/Cofin taxes is r\$48/m3. Should this tax be cut to 0, the price received by producers could increase by approximately 4.5% and the level of the ethanol parity would increase by only US\$0.6/lb. Given that the gap between sugar prices and ethanol parity is currently above US\$4/lb, such a move would be unlikely to alter the sugar/ethanol production mix.

Thirdly, over the past few months there have been widespread expectations of an increase in the mandatory blend level of anhydrous ethanol into gasoline. As time passed, Petrobras did increase the wholesale price of gasoline, but no changes were made to the blend level on this occasion.

Figure 3: Brazil's ethanol exports by destination



In addition to the regulatory uncertainty, trade flows are another important feature of the Brazilian ethanol market. As a matter of fact, Brazil has become both a significant exporter and importer of ethanol and a potential upside risk could arise from either higher-than-anticipated exports, or smaller imports.

On the export front, the biggest destination for Brazilian ethanol in 2011 was the US which, with 664,000m3, took the largest share in order to fulfill its RFS2 requirements related to ethanol considered as advanced biofuel (generating D5 RINs). In 2012, the RFS2 obligation has increased and the US already imported in the first five months of the year 237,000m3 of cane ethanol from Brazil. The RFS2 obligation should lead the US to import a total of 1.4 million m3 from Brazil in 2012. Combined with other traditional export markets, Brazilian exports should therefore reach around 2.4 million m3.

Exports could drive prices higher if the Brazil-to-US arbitrage opens the way to additional exports on top of what is needed to comply with the mandate for advanced biofuels. For the time being, despite a weaker BRL (depreciating by more than 20% against the USD since February), the recent hot, dry weather in the US corn belt that pushed corn and US ethanol prices sharply higher, Brazilian ethanol is not yet competitive in the US against corn-based ethanol.

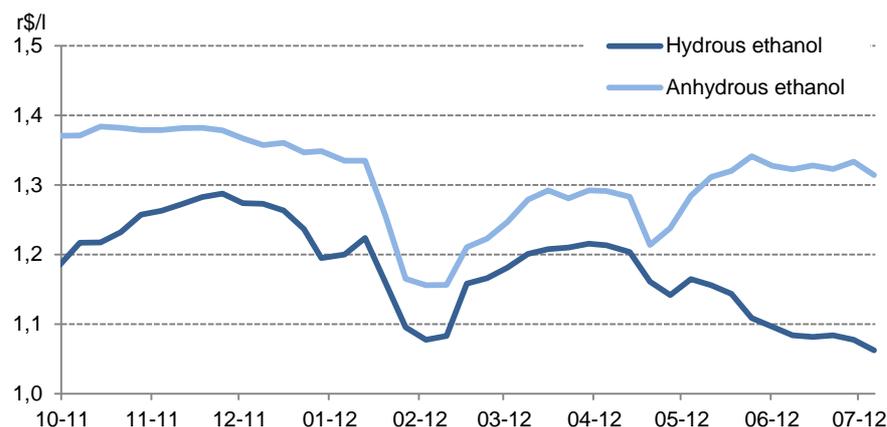
If the hot, dry weather persists, the US corn crop could be affected further and corn prices will continue their upward trend. However, corn would need to go substantially above the \$8/bu mark to allow Brazilian ethanol to be imported to the US outside the volume required for the advanced biofuel mandate. This is not yet the case as the December12 corn contract is currently trading around \$7.20/bu.

Net Brazilian exports of ethanol should increase without tightening supplies, except for the anhydrous grade. US corn crop need to be monitored

On the import front, Brazil imported around 474,000m3 from January to May 2012, almost all from the US. However, the US-to-Brazil arbitrage is now closed on the back of higher corn and US ethanol prices which lead us to expect that 2012 imports will be substantially below those of 2011.

Overall, net Brazilian exports will be much higher in 2012/13 than in the previous season. Thanks to weak domestic consumption, total supplies should not tighten significantly. However, because most exports will be of the anhydrous grade, it is possible that anhydrous supplies will get tighter. This should not impact significantly the sugar/ethanol mix at the production level given that the bottleneck for producing more anhydrous ethanol will be dehydration capacities.

Figure 4: Producers' level ethanol prices in CS Brazil



2. India: 2012/13 crop threatened by monsoon worries

2.1 2011/12: 26.2mt crop and significant exports

India's production reached 25.7mt at the end of June. Thanks to the second crushing season in Tamil Nadu, total production for the 2011/12 crop should therefore reach 26.2mt (Oct/Sep basis). This large output, significantly above the domestic consumption estimated at 22.5mt, led to an ample exportable surplus. This surplus has been exported on world markets mostly as white sugar (crystal and refined) but also as raws, first within the framework of OGL schemes and lately within the new scheme of free exports with no quantitative limit set.

From October 2011 to June 2012, total Indian exports reached 2.3mt, of which 750kt were bulk raw sugar. These have been exported to traditional destinations such as Bangladesh, Dubai or Malaysia when international prices were high enough to offer a better return than the domestic market. Crystal sugar was exported regularly thanks to the logistical advantage to neighbouring destinations such as Sri Lanka, Bangladesh and Eastern Africa.

The free export system will end in September 2012. India should therefore continue to export crystal sugar to their traditional markets at a regular pace over Q3. Availability of raw sugar should be more limited as the producing season has ended and producing more raws on purpose is now limited. In addition, domestic prices have increased ahead of the peak consumption period on growing worries about the next crop. Overall, Indian exports should reach 3.3mt in 2011/12 leaving end-of-season stocks at a comfortable level around 5mt.

India's crop: 24.0-24.5mt in 2012/13 if the monsoon returns to normal

2.2 2012/13: 24.0-24.5mt crop, early monsoon concerns

The 2012/13 crop was off to a good start thanks to a favourable economic background. Cane arrears, the factor which usually signals the start of the downside phase in the Indian cycle, were kept under control. Furthermore, cane remained a remunerative crop compared to other alternatives.

However, the disappointing end of the previous monsoon prevented the replenishment of water reservoirs in the South-West cane belt of Maharashtra and northern Karnataka. This, in turn, hampered late cane plantings in early 2012. As a result, the area planted to cane has decreased by 10% in Maharashtra, and 12% in northern Karnataka according to official data

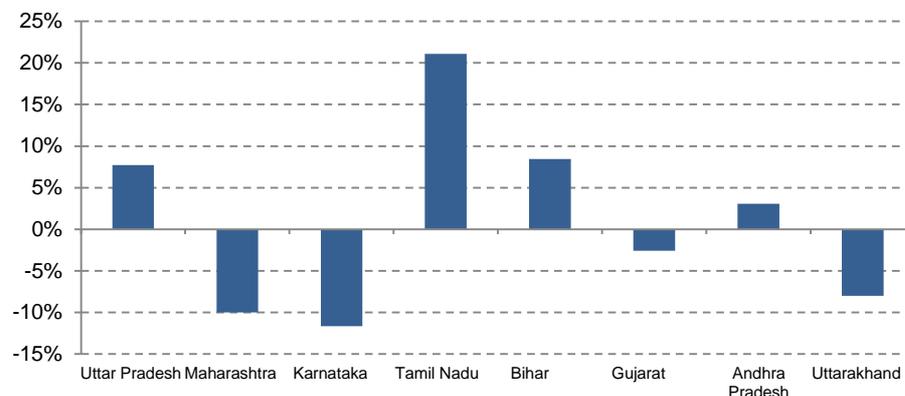
Furthermore, the weak monsoon so far (up to late June about 100 mm rain were missing in the main growing districts such as Kholapur, Sangli, Pune) is to have two adverse effects on the crop: the first is a decrease of the tonnage per hectare since the lack of rains will not be fully compensated by irrigation due to low reservoirs levels; the second is the increase of cane diversion towards cattle fodder viewing the high prices currently offered by the Authorities compensating the lower yield at that stage of the crop and allowing the farmers to use the land for another crop during the "Khariff" season.

In Uttar Pradesh, the high State Advised Price for cane and good water availability in reservoirs have allowed strong plantings. The area planted to cane has increased by 7-8% according to official data. Here the start of the monsoon has also been slow. But irrigation has been able to make up for the lack of rain so far so that the potential of the crop is maintained for the time being.

Based on changes in the planted area, potential agricultural yields and assumption of a stable production of gur (a competing sweetener made from sugar cane), we believe that the Indian crop should reach 24.0-24.5mt in 2012/13. This obviously assumes a normal monsoon from now on.

India should therefore export 2mt of sugar during the next campaign. The more remunerative markets of crystal and refined sugar should account for the bulk of these exports.

Figure 5: India's sugar cane area growth from 2011/12 to 2012/13



3. What's in store outside Brazil and India?

3.1 China: any more surprise on the upside?

Despite early weather-related concerns, China finally produced 11.5mt of sugar in 2011/12, an increase of 10% compared to the previous crop. Domestic consumption is seen flat on strong competition from HFCS leading to a deficit of around 2.2mt.

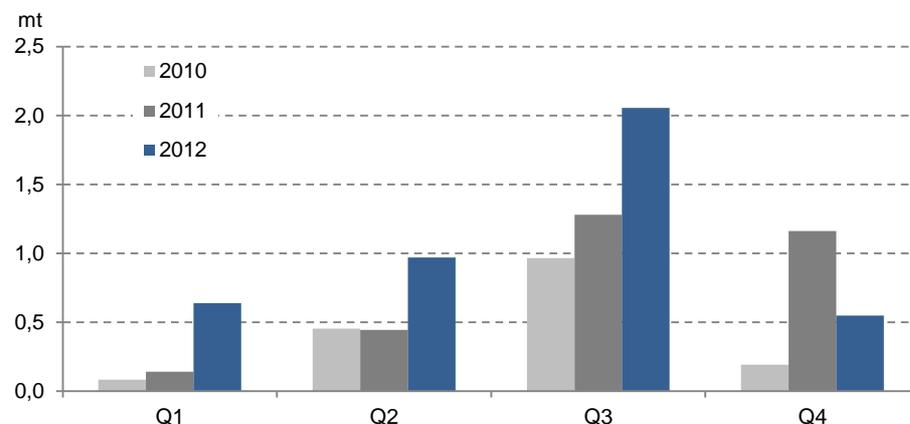
Still, 2012 Chinese imports will exceed the level of the deficit by far. During the first half of the year, imports totaled 1.6mt. This is 1mt more than during the first half of 2011. These imports are made of 1.2mt of raw sugar, including the Cuban protocol, and of white sugar, some being smuggled from Vietnam.

Chinese demand recently jumped. Rising stocks should limit future demand in Q4-12 and early 2013

NE Brazil hit by a severe drought

The surge in imports was triggered by positive import margins on raw sugar in April and May, not only for holders of import licenses who pay 15% import duty, but also for out-of-quota which bears 50% import duty. It was not the case in the first half of 2011 when import margins were negative which delayed the bulk of import flows until the end of the season.

Figure 6: China's sugar imports



Based on current line-ups which suggest that 0.8mt could be shipped from Brazil in July, total Chinese imports should reach 4.2mt for the 2012 calendar year, of which 3.7mt is raw sugar. Against the background of a 2.2mt deficit, Chinese stocks are therefore set to increase significantly at the end of the season. We forecast 3.2mt in October when stocks reach their seasonal low. These stocks will account for almost three months of domestic consumption, a much more comfortable level than in the previous year when they stood below 1mt.

Massive imports are therefore rather unlikely in 2013. Sugar cane area in the main producing region, Guangxi, is stable compared to last year. Based on roughly stable yields, total production could reach 12mt, slightly more than in 2011/12, and lead to a deficit of around 2mt against domestic consumption.

3.2 NE Brazil: severe drought

There is limited expansion for sugar cane in North-East Brazil and some fields are even lost to other uses. The harvested area should therefore be roughly stable.

In addition, a severe drought hit the country in April and May. In Alagoas, the main producing state accounting for not far from 50% of the production of the zone, rainfall did not exceed a meager 60mm in April and 90mm in May, much below average numbers. June received some much-needed rain but it remains to be seen whether weather will return to normal in July and August. The impact of the earlier dryness has likely been significant and the next crop should be almost 10% below the previous one, around 60mt.

Contrary to CS Brazil, the bulk of the fuel-ethanol consumed in NE Brazil is the anhydrous grade. In 2011/12, it accounted for almost 70% of the total demand for fuel ethanol, whereas this ratio amounts to 40% in CS Brazil. Demand for anhydrous ethanol is less volatile and less price-sensitive as demand for hydrous as it is consumed blended with gasoline at a level mandated by the government.

As a consequence, the smaller crop will likely come along a decrease in the sugar ratio and sugar production should decrease comparatively more than ethanol. Our current forecasts for 2012/13 stand at 60mt cane crushed and 4.2mt sugar produced, compared to 65.8mt and 4.6mt respectively for 2011/12.

3.3 Russia: towards another limited deficit

Last year, Russia produced a bumper crop of sugar beet thanks to a strong increase in the planted area and ideal weather conditions which led to record yields. The long processing period, which lasted 140 days instead of 90 days on average, was yet not long

Next Russian crop could come close to last year's 5mt

Prospects in Australia and Thailand are favourable

A significant surplus is still looming on the horizon

enough to allow to process all the sugar beet. Even though sugar production reached a new record at 5mt, some sugar beet were lost.

This year, the area planted to beet has decreased by 13% from 1.29mha to 1.12mha. Despite early dryness in the southern regions, beet growth has recently surprised on the upside so that, providing that favourable weather conditions persist through the summer, agricultural yields could well reach very satisfactory levels.

Prospects for the next Russian crop are therefore rather favourable at this stage and coming close to the last year's record of 5mt of sugar produced looks feasible. Such production level would again generate limited import requirements.

3.4 Australia and Thailand: favourable prospects

In Australia, after two consecutive crops being hard hit by detrimental weather conditions, this year's harvest is set to rebound to somewhere around 4.3mt, up 15% compared to the 3.7mt produced last year. Whilst recent rains have delayed the start of the harvest in some parts of Queensland, it does not put the final production number into question.

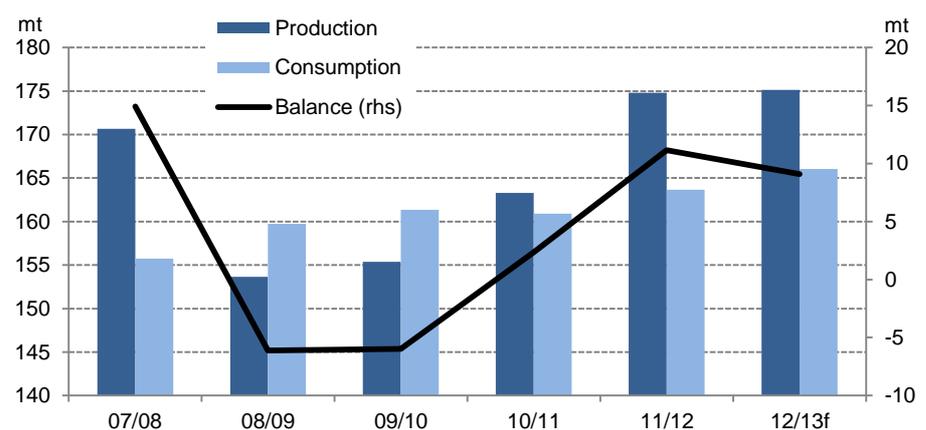
In Thailand, sugar output rose significantly from 6.8mt in 2010 to 9.5mt in 2011 and to a new record of 10.3mt in 2012. Thanks to sugar cane remaining a remunerative crop, the planted area for the next season has again increased from 1.34mha to 1.43mha. Assuming normal weather conditions, this should help deliver a new record crop at 105-110mt of harvested cane and 10.5mt of sugar produced.

4. The mid-term outlook

4.1 A third consecutive surplus still on the horizon

Despite the delays accumulated since the start of the season, it is still possible for mills in CS Brazil to catch up and crush 512mt of cane, producing 32mt of sugar. This limited increase year-on-year should offset the losses in North Brazil where the crop was hard hit by a severe drought in April-May. In total, Brazil's output should therefore be roughly stable compared to last year.

Figure 7: World sugar production & consumption (Apr/Mar, raw value)



Elsewhere, weather risks may be growing with the probability of an El Nino episode by the end of the year gradually increasing - but this episode is likely to be either moderate or weak. In India, although the monsoon was off to a slow start, we keep our crop forecast for 2012/13 at 24.0-24.5mt for the time being. In Thailand, similarly, weather conditions have recently been disappointing but, based on a satisfactory start, the country could still harvest a new record crop. In Russia, the ideal weather conditions of last year are unlikely to repeat themselves. The crop looks nevertheless in good shape. Even in Australia,

Strected logistics leaves sugar exposed to further bullish risks in the short term...

where an El Nino episode would be expected to foster dry weather, the start of the new harvest has been delayed by...rain.

Overall, world sugar production in 2012/13 should be roughly at the same level as in the previous season around 175mt.

Meanwhile, world consumption should continue to grow steadily in 2012/13. Prices are lower than last year which should rekindle consumption to some extent. However, demand in the US and the EU is stagnating. In some other countries, local prices have not always reflected the lower international prices because, in particular, weaker currencies have increased the cost of imports. In India, domestic prices have even increased ahead of the peak consumption season and on growing concerns about the next crop. Based on a close-to-average growth of 1.8%, world consumption should reach around 166mt.

In total, the 2012/13 season could still deliver a third consecutive and significant surplus of around 9mt. This production surplus is also set to translate into a surplus for the world trade, meaning that sugar available for exports will be larger than import requirements over the coming months. We expect this surplus to build gradually once the logistical backlog has been cleared in Brazil and reach around 2.5mt for raw sugar by the end of the 1st quarter of 2013.

4.2 June rebound spurred by temporary factors

The June price rebound was fostered by untimely rain in Brazil which not only hindered cane crushing and sugar production, but also disrupted ship loading operations at ports. Therefore, June shipments were limited at 2mt, much less than the 2.6mt achieved in June 2011.

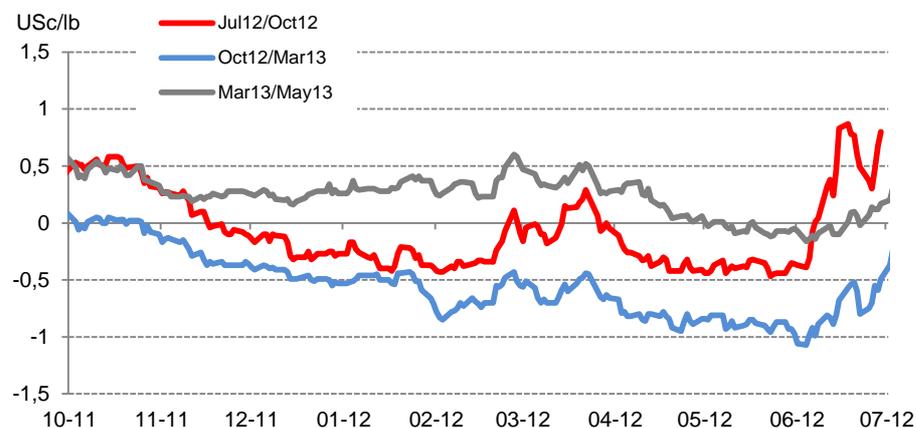
This occurred at a time when demand for Brazilian sugar soared. As a matter of fact, the traditional seasonal pick up was increased by more exceptional demand itself triggered by the earlier price fall of April. In total, June demand reached 3mt of which 0.6-0.7mt for China. Because of the rain, only 2mt were shipped and the backlog suddenly shot up to 1mt.

In July, the demand for Brazilian exports should remain strong with more vessels to China. It should reach 3.3mt, including the 1mt carried over from June, whereas the maximum loading capacity is limited to 2.5-2.6mt. The backlog to be carried over to August would therefore still be significant.

The logistical backlog that appeared so suddenly in June justifies the rebound in the flat prices and the still more dramatic rebound of the July12/October12 spread. Furthermore, the fact that the delays will not be cleared before September explains the reaction of the October12/March13 spread.

Stretched logistics, exposed to the risks of more days lost to rain, will continue to pose an upside risk to prices until September. This represents however, in the essence, a temporary situation which should return to normal in the coming months.

Figure 8: NY#11 raw sugar calendar spreads



But bearish forces could resurface around September...

Unless more rain further delay crushings in CS Brazil or detrimental weather conditions impact crops elsewhere

4.3 What happens next?

Once the delay is caught up with, somewhere in September, the surplus will finally start to build. It should weigh on price and spreads as was the case in April-May before the rain-related disruptions.

When prices are back towards the USc20/lb mark, demand may again be rekindled. We suspect however that the demand reaction could be less significant than in April-May. Chinese imports have soared leading to more comfortable stock levels in September just before the start of the local producing season. Moreover, Chinese domestic prices have decreased by around 5% since April and, in the current market situation, imports paying full duty would become profitable only around USc18.5/lb.

Lower prices could also lead to more diversion to ethanol in Brazil. Yet, the ethanol parity is currently below USc16.5/lb and, contrary to the recent past, any bullish risks on the regulatory front have almost disappeared. The hot, dry weather hitting the US and currently driving the US corn and ethanol prices higher could provide some short-term support. However, even though it should lead to a substantial increase in the net Brazilian exports (more exports/less imports), it should not lead to a tightening of total ethanol supplies.

More precisely, the main impact of the hard hit US corn crop should be felt on anhydrous ethanol but, with dehydration capacities being the potential bottleneck, this should not affect the sugar/ethanol mix of Brazilian producers.

Another possible upside risk for the Brazilian ethanol parity is a stronger Brazilian real. But with the weakening global economy, disappointing growth in Brazil and the EU crisis still in the background, the appreciation of the Brazilian real in the coming months should be limited. Combined with the government and the Central bank likely to intervene to prevent too much appreciation, there is little risk in seeing the Brazilian real going below 1.80 against the USD. All else being unchanged, the ethanol parity would rise by around USc2/lb with a real at this level to USc18.2/lb.

As a matter of fact, the main risks to resuming the broader, bearish trend in September are linked to possible cuts in global crop forecasts due to detrimental weather conditions in the meantime. In this respect, the most acute risk certainly is located in Brazil where any further delays from rainy conditions would force producers to leave some cane unharvested. Therefore, risks to the Brazilian crop are tilted to the downside: normal weather will leave enough time to crush the total harvest -which is today our central scenario- whereas above-average rain would decrease the amount of cane crushed and cut sugar production by up to 1.7mt. This explains why we are keeping a keen eye on weather forecast in Brazil.

OUTLOOK

- The sharp rebound in prices and spreads which started in early June were triggered by untimely rain in Brazil which not only hindered cane crushing, but also disrupted sugar loading at ports. These disruptions took place just when demand for Brazilian sugar increased thanks to, most notably, strong Chinese demand. A logistical backlog quickly built up and long queues of vessels appeared in Brazil.
- We estimate that the logistical backlog will not be cleared until September. This explains why the October12/March13 time spread was also significantly impacted, though to a lesser extent than the July12/October12 spread. Until then, sugar markets will clearly remain susceptible to upside spikes due to either further logistical disruptions or surprisingly firm demand. Current rainy forecasts for the ports of Santos and Paranaguá could again slow down loading operation and increase the logistical backlog.
- Nonetheless, these are, in essence, temporary factors that are bound to fade away in the next few months. From a fundamental perspective, a significant surplus is still set to grow quickly after September. This is based on the fact that mills in CS Brazil still have enough time to crush 512mt of cane and to produce 32mt of sugar, therefore offsetting drought-related losses in North Brazil. Elsewhere, we remain confident that major crops will stay close to their recent high levels: 24.0 to 24.5mt in India, above 10mt in Thailand, 4.3mt in Australia, that Chinese demand for imports will decrease next year and Russian imports will remain limited.
- In such case, we expect to see weaknesses in prices and spreads to resume around the start of Q4. Out-of-quota imports to China are currently profitable only around US\$18.5/lb. The ethanol parity in Brazil is still lower than that at around US\$16.5/lb and the bullish risks from potential changes to the regulatory environment has almost disappeared. Developments for the US corn crop which is hard hit by hot, dry weather are to be monitored closely as they could impact ethanol trade flows between the US and Brazil. If risks materialise on this front, anhydrous ethanol supplies will tighten. In such case, dehydration capacities will be the bottleneck and the impact on the sugar/ethanol ratio in Brazil would be limited.
- In short: persisting bullish risks until September, bearish trend to resume afterwards. With the surplus already postponed several times, two to three months may appear a long period of time before bearish forces are able to resurface. In the meantime, the most significant risk that could alter the fundamental outlook lies in Brazil. If rainy conditions persist, producers will not be able to crush the totality of the sugar cane crop.

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