



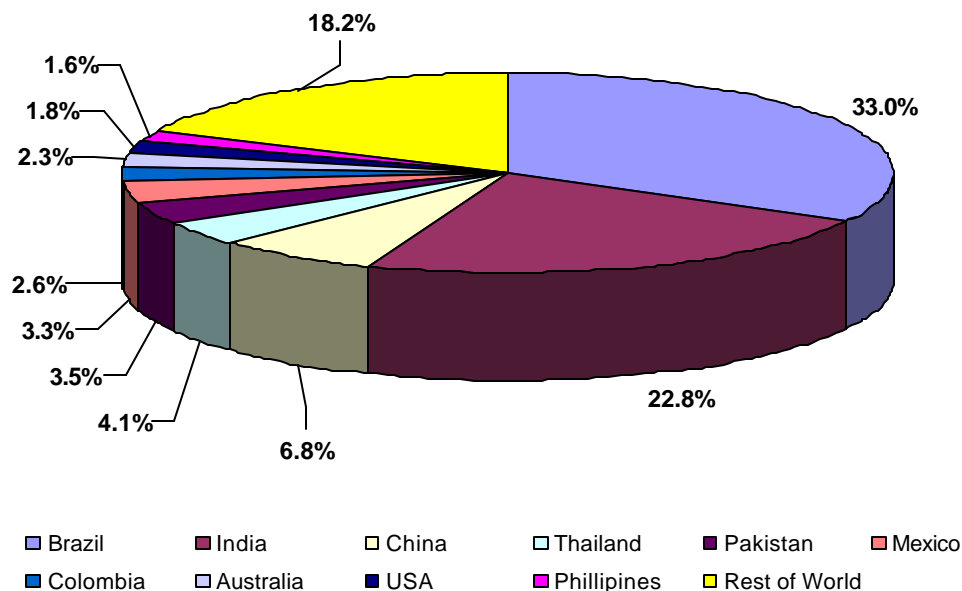
Bittersweet Year For Sugar

The sugar cane is a tall perennial grass of the genus *Saccharum*. Its thickly jointed and fibrous stalks are at home in warm temperate to tropical regions of India, Asia, South American and the Caribbean. When Christopher Columbus took this plant with him on his second voyage to the Americas, he set in motion a series of events that resulted in the establishment of a global trade network that founded and funded Empires, made princes out of paupers and transplanted multiple diaspora across oceans.

In the past, raw sugar from the New World produced by slave labour made its way across the ocean in hogsheads for trading on the markets of London, Paris, Amsterdam, and New-York. It was a commodity whose value and taste drew traders like bees to honey; and today, the same scenario is playing out, albeit under some different conditions

As at June 2008, Brazil was the world's largest producer of sugar cane by metric ton, followed by India, and the Peoples Republic of China. In the current year however, we find that all is not so sweet in the world of sugar in terms of production.

Top Ten producers of Sugar Cane – June 2008

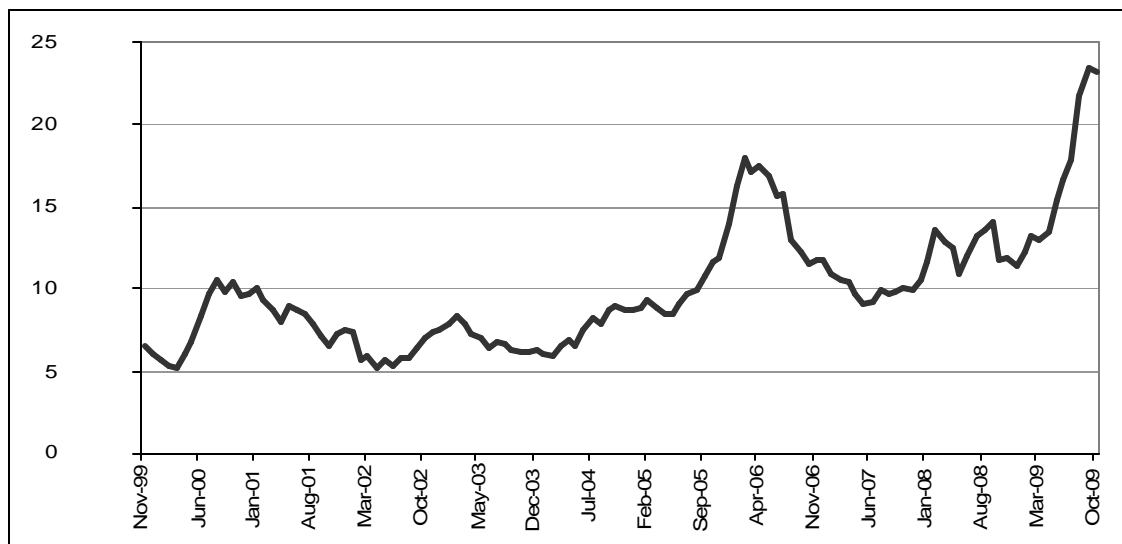


Source: Wikipedia

In the crop year 2009/10, world production of sugar is estimated at 160 million tons, with consumption at 159 million tons; according to the US Department of Agriculture in May of 2009. The International Sugar Organisation (ISO) said in August of

this year, consumption was expected to exceed production by over 9.35 million tons as adverse weather conditions in Brazil and India has limited harvests, coupled with lower outputs in Mexico, Pakistan and China. These factors have all combined to drive up world prices to 30-year highs. The ISO has estimated sugar production to decline to 155.3 million tons, while forecast consumption is to increase to 164.6 million tons in the current year.

Ten-Year price of Raw Sugar #11



Source: indexmundi.com

The graph shows the price in US cents for a pound of raw sugar at just under US25 cents per pound. In addition to the output problems previously mentioned, the devastating effects of Typhoons Ketsana, Lupit and Mirinae on the Pacific Rim would not have been factored into world prices at that time.

Trading in the Raw Sugar #11 contract for the year to October reflects an increase in the commodity of 89.2 per cent from January to October, with the contract peaking at 23.45 US cents in September. The March contract recently traded at 23.6 cents as at November 5th. An estimate by JPMorgan has the commodity trading at 26 cents in the first quarter of 2010 and forecast to fall to 19.8 cents by the fourth quarter. This forecast concurs with the expected increase in production from the large producers, Brazil and India, to make up current shortfalls, as the increase will come in the 2009/10 crop season. We shall now delve into the issues facing the two major World suppliers, and what has led to this sticky situation.

In Brazil, sugar cane for sugar production is expected to be increased from the prior 40 per cent allocation in the 2008/09 crop season. In previous years, however, a larger percentage of the sugar cane crop had been allocated to the production of ethanol. In the 2006/07 crop season, the allocation to sugar and ethanol production was roughly at 49.5 and 50.5 per cent respectively; however, by the 08/09 season, the disparity had widened to an alarming 40 per cent for sugar and 60 per cent for ethanol. This increased demand for ethanol and the resulting increased percentage of the crop being diverted to "alternate energy" rather than sugar production has ultimately contributed hugely to the global shortage in sugar production. Almost 92 per cent of cars in Brazil now run on ethanol, or a mixture of gas and ethanol according to data from British Petroleum. These 'flex-fuel' vehicles can conserve valuable petroleum and that saving can, in turn, be exported.

Across the ocean in India, the world's largest consumer of sugar is expected to import the commodity for the third consecutive year into the 2010/11 crop season. The Indian government has extended the duty-free import of raw sugar to December 2010 as it seeks to quell local demand and avert huge draw-downs on inventories according to Bloomberg.

Unusually wet spells in the cane-producing state of Maharashtra have contributed to low yields, and in early November farmers in Uttar Pradesh threatened to burn their crops if they were not paid higher prices for their cane: both these states are the highest producing regions in India. There has also been a decline in the sugar cane production due to an unseasonably dry monsoon season, the driest in over 35 years in some areas.

India seems to be reaping the results of its lack of adequate policies on sugar cane. Bumper crops in the 2006/07 and 2007/08 seasons were followed by a shortfall in 2008/09 as acreage was reduced in favour of wheat, particularly in the high production area of Uttar Pradesh due to a shortage that caused the Government to import wheat during the 2006/08 period. The problem of shortages continues to exist, but now in a different crop; and the vicious cycle perpetuates itself again and again.

These production and allocation decisions that face the farmer, company in the industry, and governments by extension, can have a pronounced impact on world commodity prices and the price graph lucidly illustrates this. We have seen where crop allocations resulted in reduced acreage for sugar cane and the emergence of alternative uses of sugar cane other than in the production of sugar. Take these together with the active monsoon season in the Pacific Rim countries and we have had a 'perfect storm' in the world sugar supply.

Table 1: Regional Market Performance (as at 6 November 2009)

Index	Closing Value	Weekly Change (%)	Monthly Change (%)	YTD Change (%)	1 Year Change (%)
TTSE Composite	785.05	-0.34	-0.45	-6.87	-14.45
All Trinidad	1,109.24	-0.34	-0.15	-3.94	-10.67
JSE Index	80,826.54	0.32	0.95	0.84	-14.15
JSE Select	1,810.17	0.68	0.76	-8.80	-28.57
All Jamaica	65,888.55	0.67	0.80	-10.96	-29.10
BSE Composite	812.20	-1.01	-2.30	-11.70	-18.66

Table 2: International Market Performance (as at 6 November 2009)

Index	Closing Value	Weekly Change (%)	Monthly Change (%)	YTD Change (%)	1 Year Change (%)
S&P 500	1,069.30	3.20	1.38	18.38	18.17
Nasdaq Composite	2,112.44	3.29	0.42	33.95	31.31
Dow Jones Industrial	10,023.42	3.20	3.00	14.21	15.27
German Dax	5,488.25	1.35	-2.99	14.10	14.02
FTSE 100	5,142.72	1.95	0.09	15.98	20.37
Nikkei 225	9,789.35	-2.45	1.01	11.91	10.00
Hang Seng	21,829.72	0.35	4.89	51.73	58.30
DJ Eurostoxx	2,794.25	1.85	-2.49	13.98	9.92

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