

Report for Jun 09 2017

Price outlook Summary for the coming 1-2 months

Current price as on 8th June'17	Molasses: Uttar Pradesh: INR 4300 per ton, Maharashtra INR 7000/Ton ENA (Extra Neutral Alcohol) : Uttar Pradesh: INR 40 per litre	
Key price drivers	Price driver	Impact
	Expectation of normal monsoon June-Sept	Bearish
	6% higher cane planting area y-o-y, resulting in 14% higher cane production	Bearish
	~20% higher molasses production in upcoming season compared to 15% deficit last year	Bearish
Quarterly Outlook	Molasses- Uttar Pradesh ENA (Extra Neutral Alcohol)	Marginal weak
Quarterly Outlook	Molasses- Maharashtra	Marginal weak

Price Review

Indian molasses prices (Uttar Pradesh) marginally fell in month under review on back of anticipation of above normal monsoon forecasted by IMD along with projection of 14% higher cane production in upcoming season. This is likely to translate into ~20% rise in Molasses production in SS 17/18. Under this influence, Uttar Pradesh price fell -4% to INR 4300/Ton where as Maharashtra quoted lower by INR 500/ton to ~ 7000/Ton.

Price Movement (INR)-UP

Product*	Jan 17	Feb 17	Mar17	Apr 17	May 17	June	Change%
Molasses-UP (per ton)	4700	4800	4900	4700	4500	4300	-4%
Rectified Spirit (per litre)	31	32	33	33	34	34	0%
ENA (per litre)	36	37	38	38	39	39	0%

**Specific product Rates are considered from private industries in Uttar Pradesh*

Fundamental Analysis

Sugarcane Production, Outlook and trade review June 2017

- Latest on sugarcane pricing, rise in FRP of cane @INR 25/qt by CCEA (Cabinet Committee on Economic Affairs), from INR 230/qtl to INR 255/ on basic recovery of 9.5% applicable in SS 2017-18 crushing season is notified.
- As per UP's CM new announcement for overhauling sugar industry in state, it has proposed change in sugarcane price fixation policy from next crushing season SS 17/18. Currently, SAP (State advisory Price) is at INR 305/quintal against FRP (fixed by Central Govt) of INR 230/qt.
- Further, adding the incremental 0.1% recovery over and above 9.5% basic FRP will be paid @ INR 2.68/qtl than earlier rate of Rs.2.42/qtl. ~ 11% hikes in basic cane rate and likely to tempt farmers to enlarge area under sugarcane cultivation now applicable for harvest from Oct 1st 2018 cane crushing season. (SS 18/19).
- IMD (Indian Meteorological Department) reported average monsoon precipitation between 96-104% of a 50 year average of 89 cm for entire four month monsoon period. On account of above, TG expects sugar production to recover in 2017-18 due to avg

precipitation with consideration of spatial distribution of rain in cane planted area all over nation.

- Weather front, IMD has forecasted timely entry of S-W monsoon in India with weakening of El Nino phenomena and strengthening of IOD (Indian Ocean Dipole) condition. Further it is hoping of 100% precipitation on consideration of LPA rainfall.
- By expecting above average monsoon with spatial distribution of rain on cane planting area, market likely to remain underpinned moving forward on above dynamics.
- On latest from Maharashtra, unusual heat waves in current April month with absence of pre monsoon showers could affect cane production in SS 17/18 (though too early now). Water reservoir level has come down and currently administering for drinking provision in some parts of MH.
- In view of import decision, sugar millers which were having more than 50% underutilized capacity in 16/17 season (western/southern India), to make better margin on refining/earn extra buck on refining (thanks to timely steep fall in international market making import at parity/cheaper than local price coupled with end of crushing season in western & southern part of India –boilers about to close).
- This way millers/refiners will be able to payback farmers cane due pending for last 2-3 years which is also a Govt policy to make payment to farmers as early as possible.
- Food Ministry has given more time to complete the process of Raw Sugar import i.e. on or before June 30th 2017 from earlier June 12th. In order to ensure the sugar availability on time and to keep local prices under check, Govt. allotted a timeline of two months from the date of the bill of entry. On account of above refiners will have more days to import and subsequently sufficient sugar will be available during festive season from Aug-Oct month limiting price gain if any with higher supply.
- In Current SS 16/17, Uttar Pradesh sugar production, has reached all time high due to high yielding variety resulting in higher tonnage and recovery. The final output could be

about 8.8 mln ton till crushing season ends. The next SS 2017-18 estimates likely to come with 9.5 mln ton and UP will hold its position as largest producer of sugar followed by Maharashtra with 7-7.5 mln ton.

- According to Maharashtra Cooperative Sugar Factory Federation (MSCSFF) officials, the 2017-18 sugar output is projected to touch 72 lakh ton from 725 lakh ton of cane availability with considered avg. 11.24% sugar recovery. This forecast of sugar production from MH is slight higher compared to 70 lakh ton estimated by Western India Sugar Mills Association.
- On the other hand TG is estimating 17/18 production at 79 lakh ton for Maharashtra on better groundwater recharge, higher recovery projected in state.
- USDA in its latest report predicted, India SS 17/18 sugar prod to be ~ 25.8 mln ton from 21.9 mln ton anticipated in SS 16/17(raw value). TG on the other hand is projecting 17/18 production at 26.8 mln ton on account of bumper harvest from Uttar Pradesh and recovery in production from Maharashtra along with stable production from North India however south India prices are likely to remain subdued along with Karnataka.
- On the other hand, Uttar Pradesh CM met with delegation of UPSMA (Uttar Pradesh Sugar Mill Association) regarding fresh investments in sector, and issue in loan procedure, cane pricing, de-reservation policy on molasses along with electric power payment from Govt.
- Due to regulated market of Molasses, sugar millers revenue is passed to liquor manufacture as current Molasses price is close to ~ 54/kg due to high demand where as ethanol price fixed by Govt is 39/kg resulting in dent in revenue collection by sugar mills

Molasses and Ethanol Market Information:

- Molasses price fellon back of increased demand from industrial consumers owing to anticipation of GST regime from 1st week of July 2017.

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- On Ethanol revised taxation, as per Revenue Secretary Mr.Hasmukh Adhia, Industrial ethanol will be taxed 18% under GST from 1st July 2017 from current applicable rate of approx~13-14%, 3-4% higher tax burden is likely to result in ethanol to cost more.
- After implementation of GST, taxation in molasses is going to be applicable @28%, such scenario is likely to keep molasses prices up resulting in more demand from consumers at current prices, thus might keep molasses prices on positive note in immediate front.
- However prevailing higher prices might limit molasses industrial consumption due to anticipation of normal prices in medium term ahead of 2017-18 SS.
- In Uttar Pradesh Molasses were quoted INR 4300/Ton, 200 less than previous month traded price of INR 4500/Ton. Similarly in Maharashtra, price fell by INR 500/Ton and it is offered at ~7000/Ton. Price variation of INR 200-300/Ton is noticed from mills to mill on TRS % and Brix value.
- Rectified spirit from Uttar Pradesh traded at INR 34/litre where as ENA (Extra Neutral Alcohol) were offered at INR 39/litre. From Punjab ENA was offered @ INR 39/litre where as from Maharashtra it was quoted higher @ 42/litre.
- Currently higher rate of rectified spirit is being offered by liquor manufacturer @46-48/litre than ethanol rate from OMC. On account of this, higher quantum of molasses is being diverted towards making rectified spirit than fuel ethanol required by OMC for blending with petrol.

Attributes in Lakh tons	SS 15/16	SS 16/17	SS 17/18*
Cane production	3443	3131	3574
Molasses production	86.07	74.30	89.40
% change	-10.71	-13.67	20.31
*Projected			

- Molasses production for SS 17/18 is expected to be higher by 20.31% at 89.40 lakh ton. On account of above molasses price likely to weaken further on ground of projected 14% higher cane harvest and ~21% higher molasses production next season.
- Moving forward, GOI is working on grand plan on which all existing fermentable molasses will be procured by Central Govt except need for liquor segment. These accumulated molasses will be supplied to OMC at for Bio ethanol manufacturing directly. Price of molasses likely to be controlled by GOI. Non fermentable molasses will be unaffected by above ruling and likely to be available for animal feed segment.
- Implementation of GST from July 1st onwards likely to have impact on Molasses/ethanol trade on further clarity needed for tax treatment under GST. On account of this market looks to be on bearish note on uncertainty over tax treatment post July 1st week.

Molasses and Ethanol Price Outlook				
Commodity	Current price	One month	Two months	Three months
Molasses-UP (per ton)	4300	4300-4100	4000-3800	3800-3600
Molasses-Maharashtra (per ton)	7000	7000-6500	6500-6200	6200-6000
ENA-UP (per litre)	39	38-39	38	37-38

Indian Currency Outlook

Currency markets:

- Previous week, Dollar traded mixed to positive against the basket of currencies during yesterday's session following former FBI director Comey's testimony to US Congress where he said that he assured president Trump that he was never under investigation in the FBI probe relegated to former NSA Michael Flynn supporting Trump's claims.
- Meanwhile, markets remained in a narrow and mixed range eyeing the UK elections scheduled to happen today where the conservatives are most likely to keep their mandate if

not improve upon it. Investors are also expected to eye the ECB meeting with rate decision due today. While rates will be kept unchanged the guidance and member projections will be keenly eyed for further direction in Euro for the medium term.

- At the US front, the rate hike expectations for the upcoming meeting (June 13-14) remain intact despite the downbeat economic data released earlier. CME fed watch tool is indicating that the fed futures are pricing in a probability of around 95% for June rate hike, up from 65 to 70% levels seen during mid of last month.
- At the Indian front, RBI, in its bi monthly policy meet, kept the rates unchanged in expected lines but with a 5-1 majority. However, RBI did announce some stimulus measures to spur credit growth and economic growth which has remained subdued following the demonetization drive.
- The statutory liquidity ratio (SLR) for all banking institutions was reduced from 20.5% of their NDTL to 20% effective June 24th freeing up close to INR 50 thousand crore capitals for the banks to infuse into the economy. Further, the risk weight on housing loans of INR 35 lakh to 75 lakh having a loan to value ratio of 0.75% was reduced to 35% from 50% that shall improve housing credit disbursement supporting the housing sector.
- The measures follow the downbeat GDP number released last week. JFM 2017 growth was reported at just 6.1%, sharply lower than expected growth of 6.8-6.9%, as construction sector contracted by 3.7% amid after effects of liquidity crunch due to demonetization. For the year 2016-17, growth stood at 7.1%. Downbeat numbers may cap the inflow of FIIs and pressure Rupee in the short-term.

In Summary, Indian Rupees likely to trade mixed within INR 63.90 to 64.70 ranges against USD in next 3-5 trading days time frame.

Market Prices

Exchange	Contract	08 Jun 2017				Change	Previous Close
		Open	High	Low	Close		
NCDEX Sugar M INR/Qtl	July'17	3721	3721	3721	3721	0.00	3721
	Oct'17	NA	NA	NA	NA	0.00	NA
ICE Sugar 11 USc/Lb	July'17	14.18	14.45	14.07	14.34	0.20	14.14
	Oct'17	14.36	14.64	14.27	14.53	0.20	14.33
LIFFE Sugar 5 USD/MT	Aug'17	419.00	423.50	415.30	420.30	2.10	418.20
	Oct'17	402.90	407.90	400.00	405.60	4.70	400.90

Market	Commodity	08 Jun 2017	07 Jun 2017	Change	% Change
Brazil	FOB Raw Sugar USD/MT	315	314	1.00	0.32%
Brazil	FOB Refined Sugar USD/MT	401.75	400.75	1.00	0.25%
Black Sea	C&F Raw Sugar USD/MT	343.25	342.5	0.75	0.22%
ISA	Daily Sugar USc/Lb	14.47	14.36	0.11	0.77%
ISA	15 – Day Average price USc/Lb	15.52	15.64	-0.12	-0.77%
India Muzaffar nagar	Gur Chaku INR/40Kg	3186.13	3212.13	-26.00	-0.81%
India Muzaffar nagar	Sugar M30 INR/Qtl	3870.45	3876.65	-6.20	-0.16%

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Market	Commodity	08 Jun 2017	07 Jun 2017	Change	% Change
India Mumbai	Sugar M30 INR/Qtl	3710	3710	0.00	0.00%
India Kolhapur	Sugar M30 INR/Qtl	3820	3817.5	2.50	0.07%
India Kanpur	Sugar M30 INR/Qtl	4022.2	4028.2	-6.00	-0.15%
India North	Mawana Ex-Mil Sugar M30 INR/Qtl	3630	3630	0.00	0.00%
India North	Simbhaoli Ex-Mil Sugar M30 INR/Qtl	3645	3635	10.00	0.28%
India North	Simbhaoli Ex-Mil Sugar M30 INR/Qtl	3660	3660	0.00	0.00%
India North	Shamli Ex-Mil Sugar M30 INR/Qtl	3750	3750	0.00	0.00%
India North	Khatouli Ex-Mil Sugar M30 INR/Qtl	3655	3660	-5.00	-0.14%
India Mumbai	Sugar S30 INR/Qtl	3630	3630	0.00	0.00%
India Kolhapur	Sugar S30 INR/Qtl	3720	3740	-20.00	-0.53%

Currency	08 Jun 2017	07 Jun 2017	Change	% Change
EURUSD	1.1212	1.1255	0.00	-0.38
GBPUSD	1.2951	1.2959	0.00	-0.06
USDJPY	109.97	109.79	0.18	0.16
USDBRL	3.2607	3.2685	-0.01	-0.24
USDTHB	34.07	34.02	0.05	0.15

Currency	08 Jun 2017	07 Jun 2017	Change	% Change
USDINR	64.24	64.41	-0.17	-0.26
USDCNY	6.799	6.7945	0.00	0.07
USDMYR	4.267	4.259	0.01	0.19

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Bi-weekly AP COCOA Market Intelligence	NU, FA, WA, PI, TA, PS, PO, FF, MP, 6W, 2M	IN.COCOA.AP

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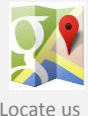
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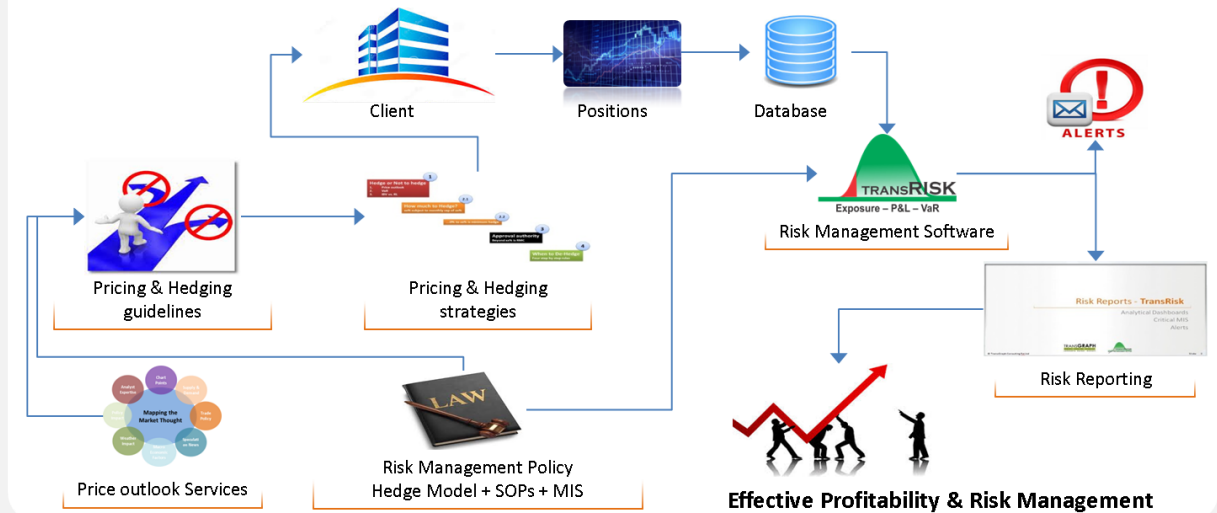
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