

PROVIDING WEATHER GUIDANCE FOR  
**COMMODITY TRADING**



# GLOBAL WEATHER AND COMMODITY RESEARCH: **WORLD SUGAR**

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## WORLD SUGAR STILL AT GOOD FUNDAMENTAL VALUE, DRYNESS DEVELOPING IN BRAZIL'S CENTRE-SOUTH

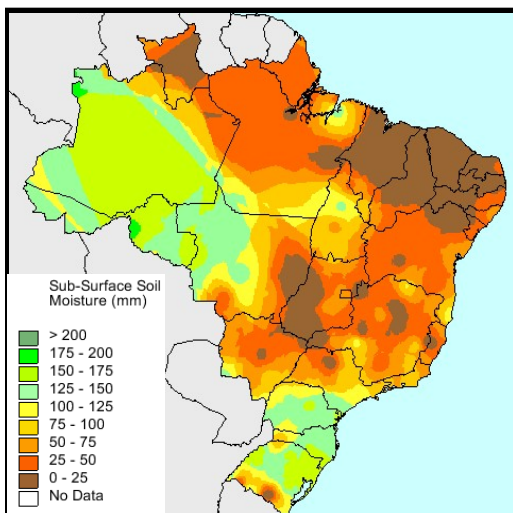
### WEATHER RECAP FOR MAJOR ORIGINS

\*After a break for a few weeks so WTI could visit with sugar producers in India the Weekly World Sugar report resumes publication this week.

**LAST WEEK:** Last week's fronts brought some moisture to the Centre-South, with most cane areas in Sao Paulo and Parana receiving rainfall totals that are typical for this time of year. While the precipitation pattern in November lead to some improvements to both surface and subsurface moisture, the extended outlook through January08 is starting to point to signals for the development of drier conditions as the current La Nina dictates the South American pattern.

### OUTLOOK FOR NEXT TWO WEEKS

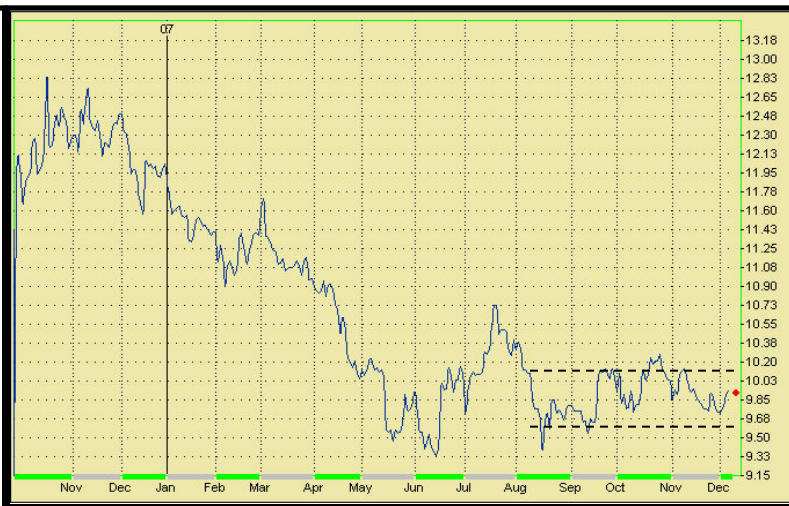
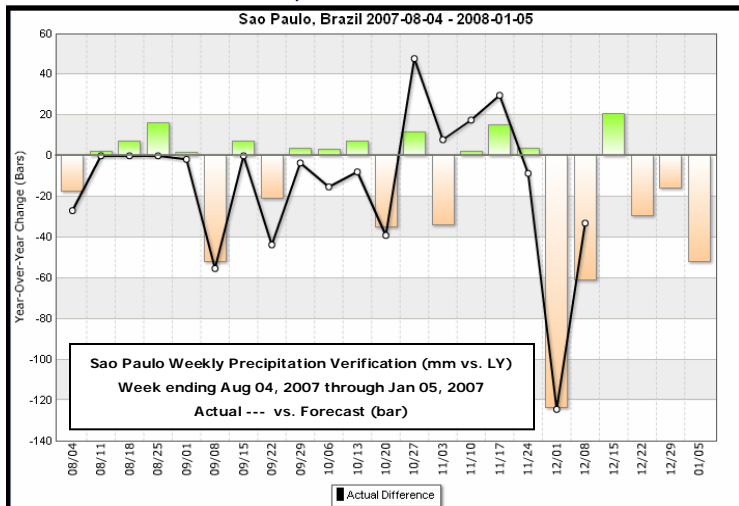
**THIS WEEK:** Rain in the Centre-South will be lower than last week, as much of the moisture from the current systems is concentrated in areas to the north of most of the cane production region. The USDA FAS map (below left) for the third dekad (10d) in November hints at some improvement in soil moisture, but the Jan08 outlook will start to hint at more dryness developing, and this will be reflected in the soil moisture profile going forward. Looking out to the next 1-2 weeks, the pattern in South America will turn cooler, with year over year temperatures in Sao Paulo, Parana and MGDS between 4 and 10°F cooler than the same time last year. Rainfall totals will also start to trend lower than last year across much of the Centre-South, so the market will start to hear traders talk up this potentially bullish news. While some dryness for Dec into Jan is not a major problem for Brazilian cane production, if this extends further into late Jan/early Feb, there will be the potential to start reducing yields.



### WEEKLY OUTLOOK

Week Ending December 22, 2007

Location	Country	Normal	Normal	LAST YEAR	LAST YEAR	THIS YEAR	THIS YEAR	Temp Change	Precip Change
		Mean Temp (°F)	Precip (in.)	Mean Temp (°F)	Precip (in.)	Mean Temp (°F)	Precip (in.)	TY - LY (°F)	TY - LY (in.)
Recife	BRAZIL	84.4	0.46	84.1	0.00	80.3	0.27	-3.8	0.27
Cuiaba	BRAZIL	83.9	0.48	86.7	0.62	75.6	2.84	-11.1	2.22
Londrina	BRAZIL	77.3	0.78	78.9	1.94	69.8	0.38	-9.1	-1.56
Campinas	BRAZIL	75.9	1.55	78.9	1.40	68.4	1.63	-10.5	0.23
Foz Do Iguacu	BRAZIL	78.7	0.89	82.3	3.56	74.8	0.60	-7.5	-2.96
Sao Paulo	BRAZIL	74.7	0.56	78.1	1.58	68.7	1.63	-9.4	0.05
Cairns	AUSTRALIA	81.2	1.13	80.1	0.42	79.3	0.56	-0.8	0.14
Brisbane	AUSTRALIA	75.4	0.45	71.8	0.26	72.4	1.39	0.6	1.13
Nanning	CHINA	57.7	0.16	53.9	0.00	58.8	1.47	4.9	1.47
Guangzhou	CHINA	60.0	0.19	57.8	0.00	63.4	0.67	5.6	0.67
Gwalior	INDIA	60.8	0.14	62.7	0.00	60.0	0.00	-2.7	0.00
Lucknow	INDIA	61.5	0.05	62.6	0.00	60.1	0.00	-2.5	0.00
Patna	INDIA	62.2	0.07	65.5	0.00	56.8	0.00	-8.7	0.00
Coimbatore	INDIA	75.5	0.20	74.8	0.00	74.7	0.64	-0.1	0.64
Khonkhaen	THAILAND	74.1	0.00	69.0	0.00	78.2	0.00	9.2	0.00
New Orleans	US	54.4	1.12	61.4	5.33	56.6	1.12	-4.7	-4.21
Lafayette	US	53.6	1.25	64.2	1.95	53.7	1.22	-10.5	-0.73



**DISCUSSION:** As we are in a period of high speculative trading in World sugar, the fundamentals are still pointing at a favorable supply situation in 2008. Weather is generally favorable in Brazil, India, and Thailand, and conditions are improving in Australia. While Australia's percentage contribution to the global supply of exportable sugar has decreased in recent years, the Weather Trends long range outlook is looking favorable for much of coastal Queensland, and next year Australia may bounce back and contribute a larger share to global stocks; this could make one of the swing countries in determining the size of the global surplus (or deficit). Now that we are in the midst of the holiday season for much of the world, global stocks are still healthy, even in the face of an increase in demand. However, there is the hint of extended dryness in Brazil's Centre-South, and the current La Nina may serve to support drier than normal conditions through the first few months in 2008. The March08 chart above shows that #11 trading range has been relatively rangebound between 9.6 and 10.1 for the better part of the last four months; this neutral trading pattern has persisted even as we have seen the recent surge in both crude oil and soybean futures prices. So as March is the next tradable contract, where do we go from here?

We have been discussing the 'correct' valuation of world sugar for months, and our fundamental view hasn't changed; world sugar prices at or just below 10 cents is a reasonable level for sugar, even with external drivers that might suggest some more significant upward pressure. Sugar price support coming from oil is still evident, but crude has come off slightly from the record high of \$99.29/barrel that we saw in November, and January crude traded as low as \$85.82 last week. The outlook from OPEC and EIA is that demand going forward is projected to slow. As oil prices soften, the grains complex, notably soybeans, should follow, as biodiesel demand should see a reduction. While the northeastern US has been experiencing real winter weather over the last few weeks, the WTI outlook is for the second half of winter to see a demand decrease, thereby easing pressure for distillates. These factors in the ancillary markets should serve to limit the upward movement of world sugar futures for the first quarter of 2008.

So we are in the 'quiet period' from a sugar fundamental perspective, so we will continue to closely monitor the activity in grains and oil for breakout signals. The next level of technical support for the March08 sugar contract (chart shown above) will still be 9.95; daily closes above this level indicate short term lows have been posted. Daily closes below 9.85 indicate that a bearish sentiment is starting to build, and lower prices would follow. For more discussion on global weather and the impacts to sugar and other commodities, visit the Weather Trends International commodity blog at [www.commodityweather.com](http://www.commodityweather.com).

