

PROVIDING WEATHER GUIDANCE FOR  
**COMMODITY TRADING**

## GLOBAL WEATHER AND COMMODITY RESEARCH: **SUGAR/SOFTS**

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### WEATHER RECAP FOR MAJOR ORIGINS

**LAST WEEK:** Not much weather activity last week in the major sugarcane origins. Brazil's Centre-South had relatively normal conditions; this week we will start to see a transition in the pattern that extends through next week. In a rare occurrence, the WTI weekly rainfall forecast for the CS did not verify (see p.2); the WTI forecast was for last week's totals in Sao Paulo to be 18 mm below the same week of the previous year – in fact, rainfall

was nearly 100 mm above 2007. Going forward, we see a relatively normal precip pattern for most of Feb; the next big rainfall milestone for the Brazil cane crop will be April.

The lack of any real weather news had March sugar trading sideways last week; staying rangebound between 11.3 and 11.7; trading was driven more by speculation from activity in other markets rather than anything specific to sugar fundamentals.

### OUTLOOK FOR NEXT TWO WEEKS

**THIS WEEK:** There may be some activity in World Sugar trading this week as a result of a transition in the South American pattern. Rainfall won't be as much of an issue, but temperatures across much of the C-S will be between 4° and 7°C colder than normal for mid January. Cane, as a grass, needs consistent warm days to continue to produce sugar, thus contributing to higher agricultural yields. This week's pattern will usher in a sharp transition to cooler temperatures, and this change may

be enough to start to cut into yields. This is still early, but it is a factor to keep in mind later in the year when crop estimates start to surface.

The overall rainfall pattern has been favorable over the last two months, and this is supported by the healthy vegetation health indices for Brazil; cumulative precipitation is slightly behind last year, but the pattern over the next few weeks should serve to start to narrow this gap seen in the rainfall

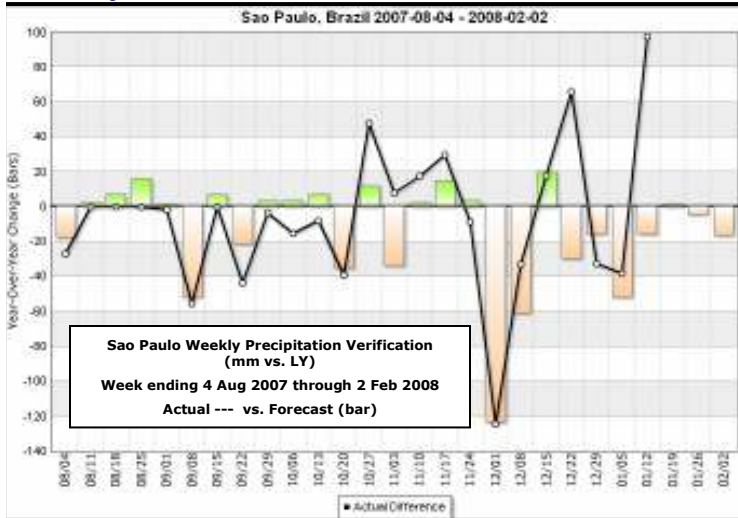
curves on the chart on p.2. Northeastern Australia should receive some rain over the next 5-10 days, helping to improve cane conditions; unfortunately, grains regions where precipitation is most needed (NSW & WA) are still severely dry, and do not show signs of improving in the near term.

Given the high degree of speculative activity across the agri commodities space, while we still see a positive global S-D for sugar in 2007/08, we expect to see traders push the market up.

#### WEEKLY OUTLOOK - WORLD SUGAR ORIGINS

Week Ending January 26, 2008

Location	Country	Normal	Normal	LAST YEAR	LAST YEAR	THIS YEAR	THIS YEAR	Temp Change	Precip Change
		Mean Temp	Precip	Mean Temp	Precip	Mean Temp	Precip	TY - LY	TY - LY
		(°F)	(in.)	(°F)	(in.)	(°F)	(in.)	(°F)	(in.)
Recife	BRAZIL	84.7	0.35	85.1	0.00	80.6	0.11	-4.5	0.11
Cuiaba	BRAZIL	84.0	0.93	87.5	4.13	77.7	3.53	-9.8	-0.60
Londrina	BRAZIL	78.0	0.80	76.9	4.16	70.7	2.37	-6.2	-1.79
Campinas	BRAZIL	76.9	0.98	75.0	0.22	70.9	5.39	-4.0	5.17
Foz Do Iguacu	BRAZIL	80.3	0.88	78.8	3.43	71.7	1.73	-7.1	-1.70
Sao Paulo	BRAZIL	76.6	1.05	73.7	1.22	71.2	5.12	-2.6	3.90
Cairns	AUSTRALIA	81.6	1.90	81.9	3.23	79.2	4.28	-2.7	1.05
Brisbane	AUSTRALIA	77.0	0.75	79.4	1.74	73.6	0.35	-5.9	-1.39
Nanning	CHINA	55.1	0.33	52.6	0.16	49.9	0.57	-2.7	0.41
Guangzhou	CHINA	56.9	0.36	53.6	1.23	56.5	0.59	2.8	-0.64
Gwalior	INDIA	59.1	0.13	60.3	0.00	62.3	0.00	2.0	0.00
Lucknow	INDIA	59.7	0.15	60.6	0.00	64.0	0.00	3.4	0.00
Patna	INDIA	60.2	0.12	60.9	0.00	60.7	0.00	-0.2	0.00
Coimbatore	INDIA	77.6	0.00	77.2	0.00	74.2	0.00	-3.0	0.00
Khonkhaen	THAILAND	77.4	0.02	76.1	0.00	76.9	0.00	0.9	0.00
New Orleans	US	52.7	1.39	52.4	1.00	46.3	2.65	-6.1	1.65
Lafayette	US	51.9	1.39	51.4	1.90	41.3	1.97	-10.1	0.07



**DISCUSSION:** Oil and grains will again drive sugar futures, in the absence of any significant weather in the origins. Most current estimates are placing the global sugar surplus at being 11.1 mmt favorable, so at this point, there is no reason for supply issues. Even if China’s buying escalates, there is still a cushion that should prevent any supply disruptions. That being said, \$90-\$95 crude oil is still making the economics of biofuels profitable, and the more strain that is placed on the current corn and soybean supplies, makes sugar look very attractive as an energy play. Producers who have the ability to manufacture both sugar and ethanol from cane are in a great position to support prices above 12 cents in the near term. More adverse weather from soybean origins, such as the dryness in Argentina, will further support higher sugar prices. On top of the physicals, speculative money is pouring into the agricultural futures sector, and sugar will continue to ride the wave of this constructive scenario, at least until the March contract goes off the board.

As money from the specs is loosely moving from one commodity to another, we have also been paying close attention to activity in ancillary markets such as coffee and cocoa. Minas Gerais (Brazil) is still dry, and impacts to flowering are looking more likely. The WTI forecast is not showing a significant increase in rainfall over the next couple of months, and this will lead to more volatility in coffee futures, and support for overall higher prices. A warmer outlook in the northeastern US should help put some downward pressure on crude and distillates prices through February. The current warm pattern in the Midwest states will remain in place, and start to transition to a cooler pattern by the end of the week. This hot/cold variability is not favorable for the dormant wheat crop. A continuation of this pattern will cause the crop to use energy that it needs for spring, and therefore could be a factor that may impact potential yields later in the season. While traders have not yet turned their attention to yield potentials, this is a factor to consider when framing a seasonal outlook for US wheat.

The 11.4 barrier has been crossed, and March sugar still trading in the mid 11 cent range. The next level of technical support for March is now 11.55; daily closes above this level indicate short term lows have been posted. Daily closes below 11.3 indicate that a top might be in place and bearish trading will follow.

The ideas discussed in this newsletter are our own views, and WTI does not assume responsibility for negative financial performance. Readers use this information at their own discretion. 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).

