

PROVIDING WEATHER GUIDANCE FOR  
**COMMODITY TRADING**

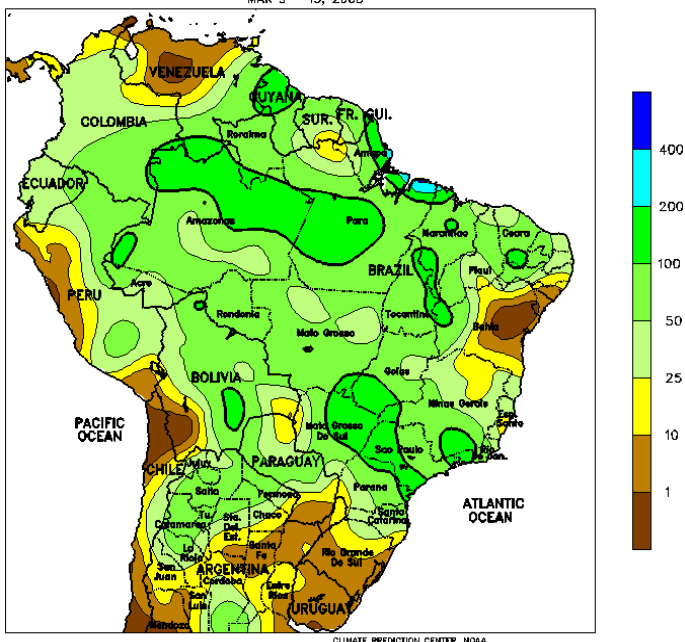
**SUMMARY**

The rainfall map for last week shows that the front that moved across central South America last week brought healthy rainfall totals to sugarcane growing areas in central and western Sao Paulo and northern Parana – notable because these are the Centre-South areas that could have used the moisture. The WTI long range forecast for Brazil continues to verify, and we are still anticipating favorable conditions going forward through the end of March. The drier conditions are allowing the final stages of harvest in the North-Northeast to proceed smoothly. As we transition out of March, we will keep a close watch on the April pattern, as some slightly drier conditions will be beneficial to both current crop (harvest begins in May) as well as the new crop. Satellite images indicate positive vegetation health and chlorophyll production. India's cane fields in the north and northeast remain dry, while the growing areas in the southern belt have slowly improved their soil moisture profile as a result of recent storms that passed through the region; weekly totals last week ranged from 10 to 55 mm. Australia's cane areas benefited from recent storms as coastal Queensland received between 10 and 60 mm last week; heavier rains to the north.

**OUTLOOK**

The recent drop in sugar futures was an important signal in the market, and it is one that is long overdue. ICE sugar futures exhibited their largest drop in nearly five years; on Monday, the May contract closed at 12.09 after trading as high as 13.75 last Friday. Many analysts were making connections to poor performance on Wall Street, but the fundamental situation regarding sugar has been calling for this for a long time. The global supply situation is still in a structural surplus, and even with high oil prices, a surge in commodities open interest and a weak dollar, fair value in this market is still in the 11.75 to 12.5 cent range. World sugar benefited from the commodities run, and increased on the heels of gains in the grains complex; however, there are supply concerns in wheat, soybeans and corn, which are not present in sugar. As we are now in the third year of a global surplus, even with a higher percentage of Brazilian cane going to ethanol, prices above 13.25 cents are not justified. Despite this pullback, there is still cause for upward speculation not that prices are back in a fair range. Dryness in April is helpful for both current and next year's Centre-South crop in Brazil, and additional rains can provide some price support. In addition, the Indian Monsoon is forecast to start off better than normal, but the onset will be delayed vs. last year (see June map vs. last year below). Given the current poor soil moisture conditions across India, any delay in the start to the Monsoon this year will be interpreted by producers and traders as a bullish signal. Our downside target is 11.8; if these weather delays do materialize, the next upside target for May futures will be around 13.2.

Total Precipitation (mm)  
MAR 9 - 15, 2008



CLIMATE PREDICTION CENTER, NOAA

