

SUMMARY

The major concern during January was whether or not the massive jump in the market toward the end of 2004 was going to prove to be a flash in the pan and we would witness a sharp correction, or whether or not the jump was based on sound fundamental reasons.

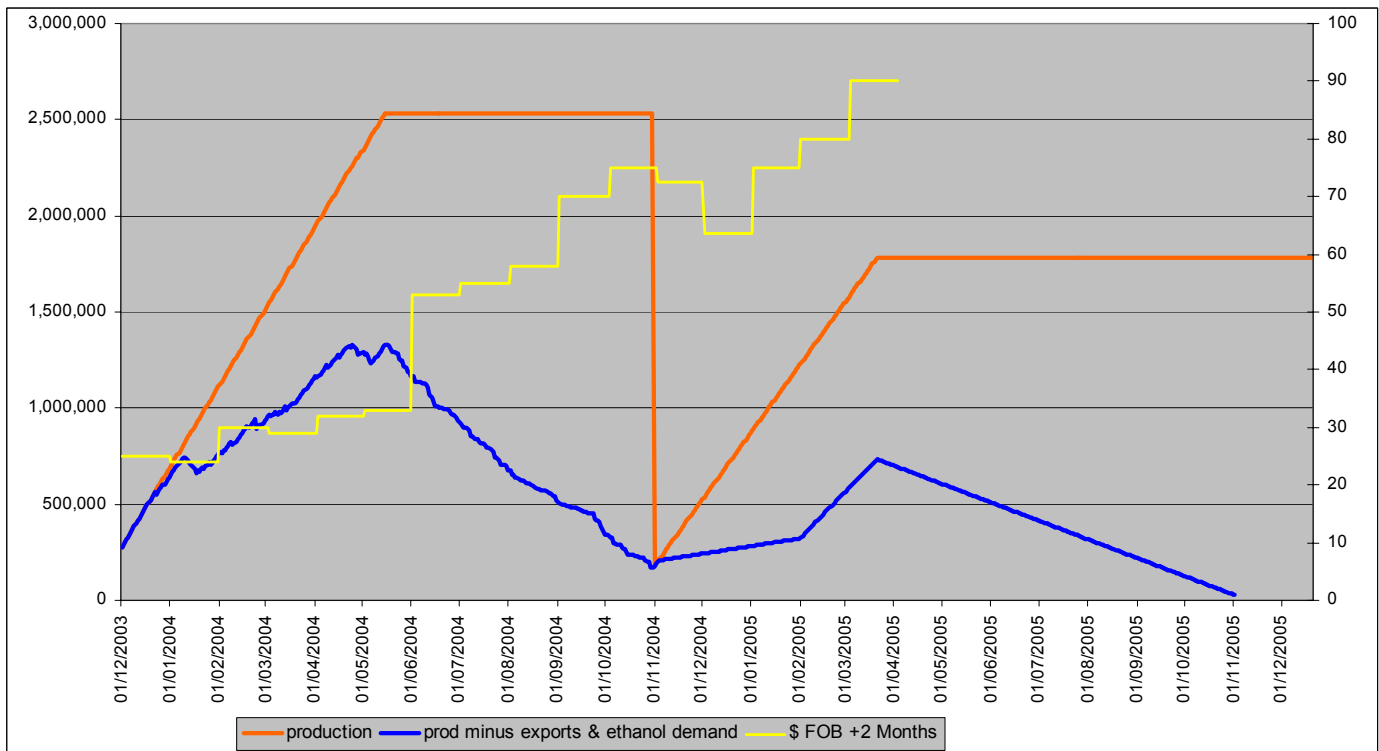
A number of theories started to come to fruition toward the end of January; namely the Pakistani crop is proving to be lower than expected, the Thai crop is unlikely to climb much over the 50 million tons of cane crushed and the Indian crop is turning out to be as bad some had been predicting.

Possibly in recent years this alone would not have caused the massive jump in prices, but aggressive purchasing by domestic distillers in Pakistan and sales being made into India meant that the prices had no choice but to jump higher.

It appears that prices have now reached a plateau, but where will they go from here? The largest demand area, Europe, has not surprisingly been reluctant to cover requirements and is only buying on a hand to mouth basis. Therefore one would expect that prices should start to ease from these levels until they reach a level where buyers show more interest.

However, a number of reasons suggest this is unlikely to happen. In a "normal" year it is the actions of these European buyers that determine the market but this year it is the suppliers that have the upper hand. Secondly buyers in the Far East are less price elastic and Indian buyers, while reluctant to absorb the increases, are also continuing to purchase molasses.

Lastly, the situation in Pakistan is very different. Normally trade buyers would expect some logistical pressure to force some price pressure on the market, however if we look at the chart below we can see that is highly unlikely that there will be any logistical pressure this year due to a lower crop, aggressive purchasing by domestic distillers and adequate storage facilities. High revenue returns also mean that domestic sellers are under less pressure to sell molasses this season.



The upshot for the best part of the year is that prices are unlikely to slip from current levels due to the lack of supplies, but at the same time further sharp increases are also unlikely due to lower demand because of the higher prices. It is probably fair to say that this equilibrium will remain until the later part of the European summer when ideas over next season's crops become clearer.

CANE MOLASSES SUPPLY

CANE MOLASSES SUPPLIES

PAKISTAN

As time moves on the situation in Pakistan is becoming clearer. Those mills with distilleries attached aggressively bought molasses from other producers at the start of the season. Around 300,000 tons has been bought by the distilleries and ties in nicely with the 70,000 tons of ethanol that have been produced, sold and exported.

Combine this with the fact that these distilleries are holding back around 300,000 tons of their own molasses so that they can contribute their own "cost" to the molasses later in the year when a tariff for ethanol sales into Europe may or may not come in.

At the moment this tariff may come into force from April 1 2005, but even if it does the molasses market fundamentals should not shift significantly. As it stands, our understanding is that the import duty will come in from April 1 2005 but exporters will be allowed to land duty free ethanol until June 31 2005.

Some Pakistani producers will continue to produce ethanol, but either way the total amount of molasses produced this season will fall short of the 1.65 mln tons exported in 2004.

This figure could fall significantly further if crushing in the Punjab region starts to replicate the dire state of the crop in the Sindh region.

Either way, tariff or not, worse production or not, the exportable surplus will be tight. Couple this with the fact that the returns sugar millers are getting for their molasses is significant, compared to other years, so having to sell for financial reasons is highly unlikely and there is plenty of storage available to handle a 1.6 mln ton crop.

A point to remember is that ethanol production is likely to tail off toward the end of the year as the introduction of this tariff will curtail production as will a lack of bagasse. If the amount of sugar produced is indeed around the 3.2 mln ton mark, then that could mean 5 mln tons less bagasse available this year, which should mean that distillers are less likely to buy in alternative fuel for power their distilleries due to the cost of doing so.

One point of concern for the international trade is the deteriorating quality of the molasses that is arriving at port in Karachi; it would appear that the sugars are falling quicker than usual this season.

CANE MOLASSES SUPPLIES

THAILAND

The Thai situation remains largely unchanged from last month, but unlike Pakistan it is the international trade that has been the dominant driver for the molasses market.

Unlike Pakistan the expectations of a poor crop in Thailand were well known to all, therefore the international trade purchased a significant amount of the available surplus early on.

This continued throughout the month, which depending on the final outcome of the crop, will mean that there is probably going to be somewhere in the region of 200,000 tons left uncommitted on the export market.

Unlike Pakistan, domestic buyers have been less aggressive this season as the dynamics of their ethanol market is completely different to that in Pakistan.

What this means is that domestic demand will be lower than previous years and it is this slight drop in demand that means that there remains an exportable surplus of 200,000 tons at most still to go at. However, this figure will alter drastically should the final crop come in below 50 million tons of cane.

Last month we touched on the prospects for next year's Thai crop, and while it is still very early days, there are some signs starting to point to another year of poor production. High domestic tapioca prices are encouraging producers to grow this instead of sugar, secondly the very dry weather should discourage further planting and the cane that is in the ground has been suffering. This should conspire to a 2005/2006 crop of circa 55 million tons of cane, but a lot can happen between now and then!

CANE MOLASSES SUPPLIES

Other supply areas

Turning toward the Americas, in Brazil, the very high molasses price on the international market has managed to tease out a cargo but little more is expected to be exported given the amount of ethanol that has been exported from Brazil this season.

Indeed, going forward the anticipated demand for ethanol world wide is likely to mean that molasses exports from Brazil will be a minor factor on the international market.

Heading back to the US, the spate of hurricanes toward the end of 2004 will mean that Floridian production, in the past a supplier to the European market, will fall by around 20% this year.

Going on cane estimations it appears that around 600,000 tons of molasses will be produced this year against a total of 750,000 tons last year.

Long term molasses availability in Florida may be severely restricted. Florida Crystals Corp. in West Palm Beach and the Sugar Cane Growers Cooperative of Florida in Belle Glade have received a preliminary report from two Miami firms they hired to determine the feasibility of producing ethanol from molasses, said Jose Alvarez, senior vice president for planning and operations at the cooperative.

Elsewhere, in Morocco there will be a tender held shortly for 18,000 tons of cane molasses.

CANE MOLASSES DEMAND

CANE MOLASSES DEMAND

INDIA

Purchasing by Indian buyers continued during January with circa 350,000 tons being sold thus far, and probably around another 150,000 tons at least still to be done.

Realistically this import demand is the main driver for the market at the moment and the main outlet for sales. The only reason Indian buyers are able to afford these higher prices is because they are

using the molasses for the potable ethanol production and can pass on the increases.

The purchases by buyers in India is the main reason keeping the market at the current levels, admittedly the situation in Thailand and Pakistan is also helping a great deal.

Longer term the question over India's sugar production will remain of keen interest to the molasses world. Current thoughts suggest that the 04/05 production will start to recover followed by a glut of molasses in 06/07.

Maharashtra State Sugar Factories Federation's managing director said that higher cane prices this season, good rains from August and poor returns for other crops such as soybeans, have stimulated farmers in the state to increase cane area for the 2005-2006 crop to 4.5 million ha from 2.9 million ha in 2004-2005, Reuters reports.

As a result, he expects Maharashtra's cane output to rebound next season to 40 million mt from 17 million mt and sugar production to reach 3.5 million mt, up from 2.1 million mt. This would mean national sugar output in 2005-2006 rising to 15 million mt against 11.5-12.0 million mt in 2004-2005. He added that if the monsoon is normal this year, there could be a 'flood of cane' in 2006-2007 but the monsoon would not have much impact on the crop starting in October.

FAR EAST CANE MOLASSES DEMAND

Buyers in the region remain reluctant to cover requirements given the high prices, but unlike Europe they are covering when the need arises.

It appears that buyers have accepted these higher levels and will continue to cover on a hand to mouth basis until they can buy further forward at lower levels, which seems unlikely given the crop prospects around the world in the months ahead.

Aside from the high prices in the region, freight is increasingly becoming a problem. It is not so much the high rates but more a problem of actually sourcing a vessel.

EUROPE CANE MOLASSES DEMAND

Unsurprisingly demand in Europe is now well down, and on a very rough comparison vessels booked from Pakistan into Europe for new crop supplies to date are around 25% down compared to last year.

The reasons for the lower demand have been well documented and there appears little reason why we should see an increase in inclusion rates in the months ahead due to the very low grain prices and high molasses prices.

In their latest release of feed demand figures DEFRA shows the extent to which demand has dropped off in the UK. Note that these figures are for the end of 2004, the 2005 figures have yet to be published, but what it highlights is the start of the trend for lower molasses use and increased wheat usage throughout the UK.

	Oct	Nov	Dec	Crop Yr	12 Mo Avg
Molasses	-16%	-10.2%	-18.9%	-9.7%	6.4%
Wheat	-0.9%	8.3%	6.7%	0.4%	-4.6%

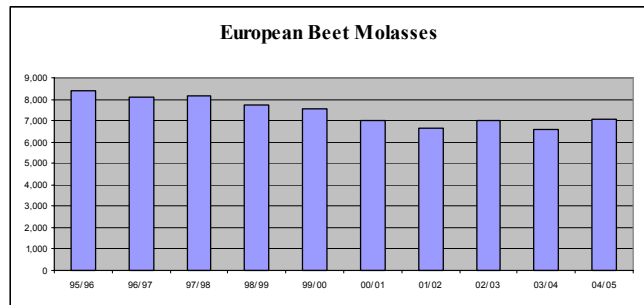
The other factor hindering demand for cane molasses is an excellent beet molasses crop across most European beet sugar producers. Indeed, there is likely to be more beet molasses around in Europe this year than normal due to the high price of molasses which stopping some ethanol production within the region.

BEET MOLASSES

EUROPE BEET MOLASSES

Following on from the tenders last month in Egypt, Morocco is likely to tender shortly for around 36,000 tons of beet molasses and given the interest at the Egyptian tender competition is likely to be fierce.

As mentioned earlier European beet molasses production is likely to recover somewhat this season, back to levels last seen in 1999/2000.



TARIFF, FOREIGN EXCHANGE, LEI & USDA PRICING & REGULATIONS

TARIFF TARIFF, FOREIGN EXCHANGE, LEI & USDA PRICING AND REGULATIONS

Once again there was no tariff during the month, and it appears unlikely that tariff will return in the near future.

FOREIGN EXCHANGE TARIFF, FOREIGN EXCHANGE, LEI & USDA PRICING AND REGULATIONS

Both the euro and sterling declined over the month as the dollar staged a small rally, whether this is a longer term rebound remains to be seen.

Currency	Jan 3rd 2005	Jan 31st 2005
Euro	1.3545	1.3035
Sterling	1.9203	1.8875

LEI

Oct-04	84.80
Nov-04	83.75
Dec-04	85.85
Avg For 04	77.20

Tariff, Foreign Exchange, LEI & USDA Pricing and Regulations

USDA

USDA Prices	Start of Jan	End of Jan
New Orleans	No quote	No quote
Houston	\$75.00-\$90.00	\$82.50-\$90.00
South Florida	\$70.00	No quote

All prices per short tonne ex-tank basis 43% Sugars

TARIFF, FOREIGN EXCHANGE, LEI & USDA PRICING AND REGULATIONS

REGULATION

The following was reported in Pakistan recently: "Pakistan has put age restriction to obviate from substandard oil tankers calling at country's ports. This has been necessitated to avoid any mishap in port areas which may result in pollution and damage to ecology and environment. The government has fixed April 5, 2005 last date for the enforcement of this condition.

So far there has been no age restriction or guidelines for oil tankers calling at ports. The ministry of ports and shipping took note of the situation and issued guidelines for all type of oil tankers calling at country's ports."

It remains to be seen what impact, if any, there will on molasses shipments from the country.

TARIFF, FOREIGN EXCHANGE, LEI & USDA PRICING AND REGULATIONS

FREIGHT

MED/CONTINENT MKT

The market generally remains firm as owners have been able to find longer voyages and much shorter ballasts for their next cargo and consequently are happy to hold rates where they are. Adding to this has been the ability for owners to pick up part cargoes to keep vessels constantly in 'work'.

The same can be said for owners who operate in the Med and overall the market is likely to remain strong for the time being but there could be the option for cheaper rates if a vessel finds its self out of place.

DEEP-SEA

With oil output likely to remain around current levels for the remainder of 2005 VLCC rates are likely to stay firm and in turn keep all other categories well supported as well.

The age old story of few non – approved vessels for the molasses industry remains the case and is likely to mean that rates remain high as we compete with other products for space. The more serious problem being actually finding a vessel that can do the voyage.

On the back of this molasses rates are likely to remain firm through February and March with Karachi to Europe rates around the \$40/ton level.

Adding to the problems for the molasses tanker market is very strong scrap prices, with Bangladesh offering over \$435/ton.

INTER FAR EAST/SE ASIA (SHORT SEA)

Similar to other regions rates remained firm and tonnage was difficult to source. The slight dip toward the end of December now looks to be

temporary as the veg-oil market into India remains active and for some reason owners just don't want to look at molasses.

The puzzling thing is that rates for molasses from Bangkok to EC India remain on a par with those for veg oils but the truth of the matter is that the owners simply prefer other cargoes to molasses.

INTER AMERICA'S OVERVIEW

The reduced space in the Intra-Americas trade was partly due to heavy delays experienced by many owners in the US Gulf due to fog and resulting berth congestion. Adding to the woes in the region were a number of vessels which would normally trade in the area leaving to trade other routes.

Molasses cargoes continued to be fixed regularly, particularly from the West Coast South America to the US Gulf as well as inter-caribs. Rates remained for the molasses vessels remained steady as owners were keen to get back into the Gulf.

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