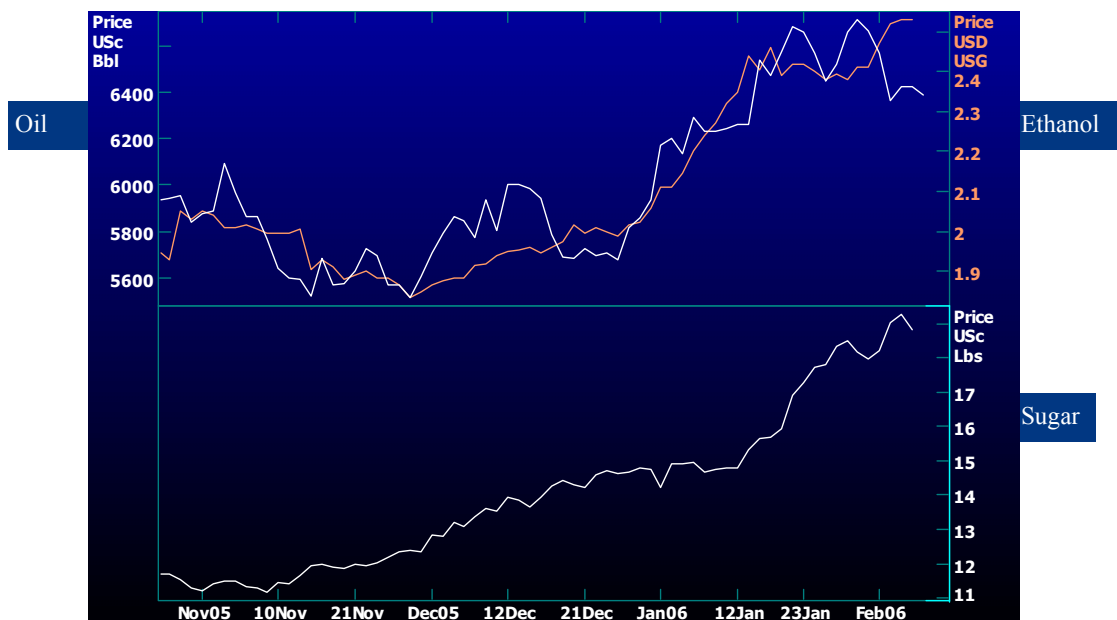


SUMMARY

Molasses prices climbed an average of \$15-\$20 a metric ton over the month due to a combination of low stocks at destination and a lack of supplies from the main origins. A smaller crop in Thailand means that the logistical system is more than able to cope with the flow of molasses, the country has had deal with over a third more molasses a season than it scheduled to produce this crush.

Adding the very bullish tone of the molasses market was massive surges in sugar prices. The benchmark raw sugar contract traded in New York, which since the beginning of 2006 has surged to a 25 year high of 19.73 cents/lb – a gain of 60%!!!

While molasses and sugar are not directly correlated a combination of high oil, high sugar and consequently high ethanol prices has meant that the molasses market has experienced gains on a similar scale. Given that the world sugar market is likely to remain in deficit for the remainder of the year it is highly likely that all three commodities will remain near or at their record highs.



The demand for ethanol, and demand for sourcing ethanol from areas other than Brazil, has meant that liquidity on the international molasses market has dried up making it very hard for the trade to source and supply molasses as they have done historically. International buyers now face fierce competition in an ever increasing number of countries from domestic distillers, combine this with the well published crop problems around the world and it is easy to see why high prices and limited volumes will be a feature of the market for some time yet.

However, it is not all doom and gloom. If we look a long way into the future then there is light at the end of the tunnel as these record high sugar prices will undoubtedly encourage producers to grow significantly more sugar. When this feeds through to molasses though remains unclear at this stage as there is often a significant time lag between rises in prices and what a grower actually receives.

In terms of demand many destinations made the conscious decision to run stocks down last year as a result "demand" appeared to drop faster than perhaps thought. This year end users do not have this luxury and demand is holding level as users are left with a stark choice.

Indeed, a lack of stocks in destination markets mean that buyers are operating on a hand to mouth basis and will continue to do until prices are at a level where they feel comfortable replenishing stocks and covering further out requirements. One of the biggest problems is that apart from ethanol the majority of the products that use molasses as a substrate have not risen in price.

MOLASSES Monthly Market Report

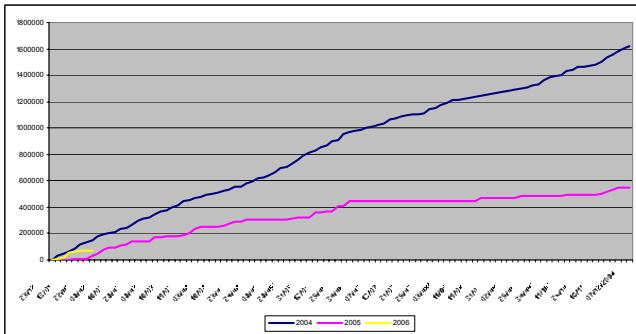
CANE MOLASSES SUPPLY

Nowhere has the marked change in the market been more pronounced than in Pakistan. During the middle of the month molasses prices were trading in the low \$80's a metric ton but in a short space of time prices shot higher as both domestic distillers and the international scrambled for tonnage.

The reason for the scramble seems to have coincided with the sharp move in ethanol and sugar prices in Brazil and ethanol traders looking for more competitively priced ethanol.

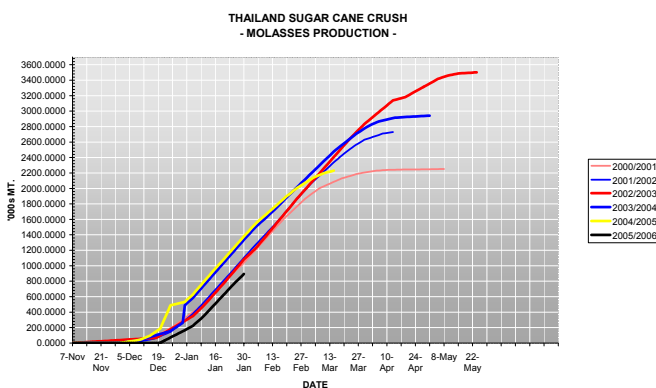
Indeed, there was a definite play on sourcing ethanol in the Karachi/ West Coast India region for the US market. In a normal year this sudden increase in demand may not have resulted in sharp increase but problems with crushing meant that there was actually very little molasses to compete for.

This lack of liquidity combined with a lack of logistical harvest pressure means that prices are likely to continue appreciating in the season ahead.



The chart above highlights again by how much molasses shipments out of Karachi have fallen again so far this season; indeed it is probably fair to say from now on that less than fifty percent of the country's production will be exported going forward.

Again the situation is similar in Thailand whereby a late start to the crushing of the cane, see the chart below, meant that there has not been any logistical pressure to force prices lower.



Thai prices have jumped significantly over the month with exporters now asking prices around the \$115/ton FOB for prompt dates.

The significant jump in prices over the month was again caused by the competition between exporters and domestic buyers. One domestic buyer bought around 100,000 tons in one slug of business and this volume and price very much set the tone going forward.

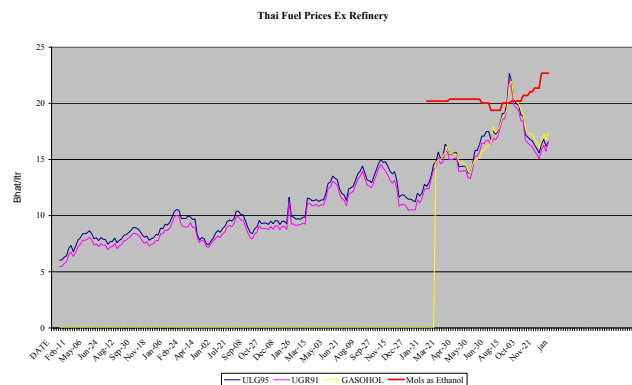
There was talk before crushing started that the crop may come slightly higher than previously thought, but judging by the progress of the harvest thus far it would appear that this is not going to make a significant impact on the final tonnages available.

The Thai government has been a victim of its own success as thanks to government promotion, the popularity of gasohol has left the country in short supply, the Nation reports. Gasohol consumption has soared from just 200,000 litres per day in 2004 to an average of 1.8 million litres/day in 2005 and to over 3.5 million litres a day last month.

But operations at three ethanol plants have been suspended and construction of 18 delayed due to the uncertain supply of raw materials, notably molasses and cassava. As world market prices of sugar and molasses have shot up, ethanol producers are no longer able to compete with the export market- the price of ethanol is linked to petrol and not cane prices, giving farmers little incentive to plant more cane to make the bio-fuel, and forcing the country to fall back on imports.

Producer Thai Alcohol Company said it could not survive basis the current price structure as the government capped ethanol at Baht19 per litre based on a previous world price of US\$95 per mt but the world price is now US\$110-115 per mt so ethanol should cost Baht 22-23 per litre. TAC has a production capacity of 200,000 litres a day, but it plans to shut down part of its plant for six months in order to switch a production line over to using cassava.

Indeed, if you refer to the chart below it is easy to see what impact the high price of molasses has had on the compatibility of ethanol in the fuel program.



Elsewhere in the region the higher international prices are teasing out more supplies from countries which in the past have only been marginal exporters of molasses.

The "extra" exports are helping to alleviate some of the tightness in and around Asian region but even grouped together they are a long way from making up the lower availability in Thailand.

The real swing factor for the market is India and recovery in production prompted hopes for some significant exports. However, three oil companies have begun selling a five percent ethanol blend in the country's 9 southern states which should mean that molasses exports are limited to those done for purely logistical reasons.

Indeed, it currently appears that the government is reluctant at present to grant export licences for molasses in view of the fact it wants to keep ethanol prices in check so that the fuel program will go ahead.

Having said this there has already been a significant volume of ethanol exported from the country, which could further jeopardise the fuel program but also indicates that molasses may well be exported this season.

While India is not having its usual significant impact upon the international molasses market this year, all eyes will be on the country next year as it is highly likely to increase production again as part of the year cycle it is currently in.

Turning further west the Floridian crop is likely to be down ten percent on last year's harvest and around 30-40% on the year before as another season of strong hurricanes once again damaged the crop. Harvesting has been delayed as well this season due to some unseasonably strong frosts.

While not a significant exporter in terms of volume, the loss of two or possibly more cargoes is a real blow as Florida is one of the few origins that is GMP accredited for the European market.

Mexico was an origin that offered some relief to the international market last year due to a record crop and relatively poor domestic demand for molasses.

However, this season there has already been a sizeable proportion of the crop committed to the export market and like other countries in the area, such as Columbia, Mexico is now talking about a domestic fuel program.

While it is too early to say whether or not this will take off it will add to the problems of being able to source molasses globally all year round.

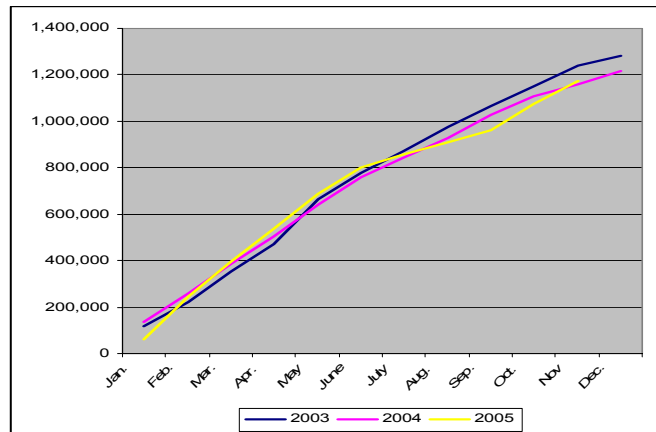
With the main origins not producing the quantities of ethanol needed for the exports markets other countries such as Egypt, Algeria, Morocco and becoming increasingly more significant.

CANE MOLASSES DEMAND

Unsurprisingly the high price of molasses has meant that buyers are very reluctant to cover forward, but having said this because end user's stocks are low they are faced with little choice.

If we look to the West first and the US it is perhaps surprising that the import numbers are going to be higher in 2005 than they were in 2004, bucking the trend of other regions.

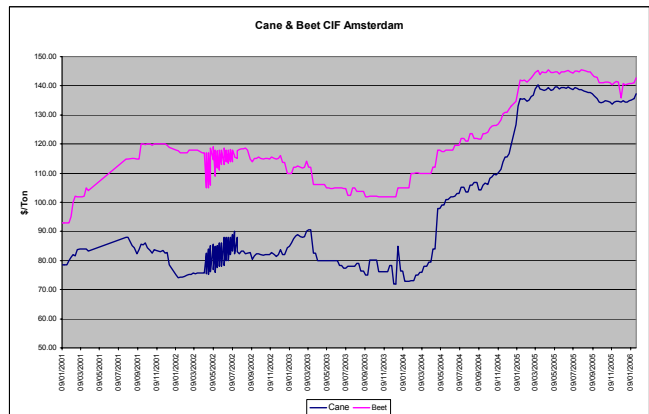
The reason for the improved numbers, see the chart below, appears to be on the back of a very strong cattle market in the US and lower production in a number of areas as already mentioned.



Turning toward Europe demand is static and cheap wheat prices and relatively high molasses prices continue to keep inclusion levels at their lows. Traditionally this would have resulted in a fall in molasses prices as "demand" set the market but now there is this ethanol demand and no logistical pressure at harvest time, this is no longer the case.

Given the improved beet crops across the region some are now looking toward using more beet molasses for the feed market as in some cases it can offer better value for money.

It is a similar picture for the industrial users of molasses, although many have covered their requirements until the end of the first quarter. While they have some flexibility on what substrates they use not all can switch away from molasses. Indeed, some are actually increasing their usage of molasses given what is happening to ethanol prices at the moment.



Finally in the Far East industrial users are reluctantly lifting their price ideas when it becomes necessary to cover requirements, again as it would appear that stocks were run down significantly the year before.

Some industrial buyers had been pitching molasses against raw sugar import values and buying whichever represented better value, but with raw sugar prices now well over the \$400/ton level molasses once again looks good value!!!

BEET MOLASSES

Beet molasses production has exceeded all expectations this year. At the beginning of September 2005 FO Licht estimated the crop at 4.6 mln tonnes, unchanged year-on-year. Licht said that favorable weather conditions throughout the growing and harvesting period could push production up to 4.750 mln tonnes, 150,000 tonnes more than had been produced the previous season. According to Licht, producers will profit from high molasses prices but it will not help to get rid of surplus sugar stocks before the new sugar market regime comes into force from July 2006.

From May 22nd next year (plus 6 months for utilizing the export licenses) the EU will no longer be allowed to dump its surplus sugar onto the world market. This leaves two unpalatable alternatives, namely to export the surplus before that date with subsidies, which will be costly and politically sensitive, or to sell it on the domestic market forcing the Commission to cut production quotas temporarily. The second alternative and the reform of the EU sugar regime will lead to significantly lower production during the transition period.

The second of the Egyptian beet tenders, for 80,000 tons, will be held shortly and will form the benchmark for the beet molasses market for the year ahead.

ETHANOL

Prices of ethanol firmed significantly over the month as a lack of product and strong demand from the US spurred the market on. Despite the massive gains, on a like for like basis the recent sugar rally means that producers are better off producing sugar than ethanol. Spot anhydrous values are trading around the \$700/ton FOB currently!

How this balance plays out when harvesting begins, possibly at the start of March given the low stocks, is likely to determine the fortunes of ethanol prices.

The problem is that world sugar market is in deficit and the only way to fulfill the deficit is by price and thereby diverting more cane to sugar than ethanol in Brazil. At present the market is out of kilter, sugar prices mean that too much sugar would be diverted away from ethanol production. To do this the Brazilian government would have to allow ethanol prices to rise to cut off demand enough, but given that is an election year...

The sharp increases in Brazil, due to demand from the USA, meant that buyers quickly looked for other origins for their ethanol supplies. Even with Freight of around \$100/ton from AG to the US buyers bought material.

They were able to pay the higher prices because they were avoiding the 0.54 cents per gallon duty into the US because the customers they were selling to were exporting jet fuel.

Given the lack of molasses in this area prices for ethanol quickly surged higher and given the anticipated demand for Europe, US and new areas in Asia prices are unlikely to slide in the near future.

European prices have also risen significantly on the back lower supplies, particularly from Pakistan. Higher Brazilian prices mean that all EU producers are lifting theirs levels but it remains to be seen whether or not the EUR60/hl level will be broken.

The Asian region continues to make noise about starting fuel programs with many countries making new enquiries, but as yet few of these are actually coming though to fruition.

From April 1 2006 the Japanese ethanol market will become fully liberalized, as a result demand is expected to grow from just over 550,000 KL per annum through to 620,000 KL in the next couple of years.

TARIFF, FOREIGN EXCHANGE, LEI & REGULATIONS

TARIFF, FOREIGN EXCHANGE, LEI & USDA PRICING AND REGULATIONS

TARIFF

Once again there was no tariff due to the very high FOB values which have kept prices well above the EU reference price. Representative prices for cane molasses started the month at \$132.55/ton and finished at \$132.53/ton highlighting the stagnation in the market. Beet molasses prices were pretty much unchanged over the month starting at \$140.04/ton and finishing at \$140.03/ton.

TARIFF, FOREIGN EXCHANGE, LEI & USDA PRICING AND REGULATIONS

FOREIGN EXCHANGE

Both the Euro and sterling climbed over the month as the dollar weakened from worse US economic data.

Currency	Jan 1st 2006	Jan 30th 2006
Euro	1.1845	1.2190
Sterling	1.7215	1.7858

LEI

Month	LEI Euro Ex-Tank
Oct-05	106.70
Nov-05	109.75
Dec-05	112.25
Avg For 05	107.85

FREIGHT

Tonnage remains easier to source from the USAC or US Gulf due to the 'UAN' transatlantic market leaving tonnage open ideally placed from WPB or Mexico and with freight prices now softening in the west on products, we may see some cheaper numbers for March – April dates. Tonnage in the east remains difficult to find for molasses with most owners, excluding the parcel operators, looking for any other alternatives ideally focusing on clean to West Africa and Argentina. Older, single skin tonnage will only look at molasses as a last resort as 'Port State Control' issues are becoming a major deterrent when owners consider onward business especially increased risks associated with Europe and to a lesser degree, the United States.

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