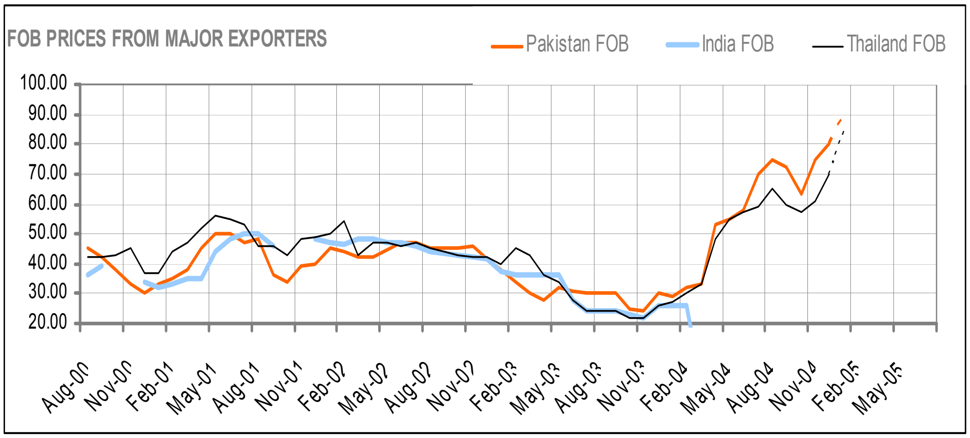
MOLASSES
Monthly Market Report

TATE & LYLE
CONSISTENTLY FIRST IN RENEWABLE INGREDIENTS

JANUARY 2005

SUMMARY

Instead of the market winding down for the end of the year it ignited, as all the ideas about smaller crops in the major origins and demand from key player India, hit the market at once. From the beginning of December, through to early January prices, on a FOB basis rallied nearly 30% on the back of strong demand from India and a lack of tonnage in Thailand and Pakistan, highlighted in the chart below. This all comes at a time when the Thai crop is being crushed at an almost record pace.

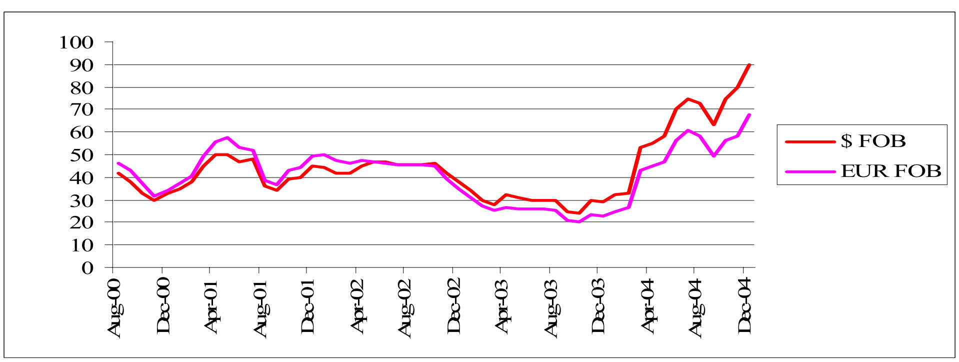


With regards to Thailand, many consumers in the Far East had foreseen the tightness going into the year end, and a large proportion of the new crop tonnage had already been covered. Therefore when buyers from India started making enquiries, at a time when most assumed they would be inactive due to domestic new crop supplies, traders were forced to cover tonnage in Thailand and the resulting lack of liquidity forced prices sharply higher.

The lack of liquidity was also the reason why prices shot higher in Pakistan as well. Again it was the emergence of buying interest from consumers in India that was the driver. In a “normal” year Pakistani prices ease slightly at new crop as logistical constraints mean that sellers have to shift tonnage quickly. However, increased demand from Pakistani distillers for domestic ethanol production, Pakistani duty free access for ethanol into the EU ends at the end of June meaning the domestic distillers are doing their up most to produce as much ethanol as possible for shipment into Europe before the deadline, meant that competition for new crop tonnage was unusually fierce.

Combine this lack of liquidity with demand from India and it is easy to see why the market rose so sharply in such a short space of time. The big question on everyone’s minds is what happens from here. Well the supply situation is going to remain tight for the reminder of the year, and demand from India is likely to remain strong as well. So the big unknown for the market now is what will happen to European feed demand.

Given the excellent grain harvest across Europe last season, prices for cereals are at very low levels meaning that molasses can not compete at these very high levels in most rations. However, in terms of percentage cost, molasses accounts for less than 10% of the overall cost of a ration. Secondly the weak dollar has helped to limit some of the gains for European buyers, see chart below. The chart plots the FOB price in Karachi in both dollars and euros, and highlights that the euro price has not risen nearly as sharply as the dollar price.



What the recent gain will probably mean for European demand is that molasses will be pared right back to absolute minimal inclusions, but the tail off in demand in Europe will be taken up by demand from India, as well as other countries using molasses for industrial processes meaning that prices are unlikely to see much respite during 2005.

KEY AREAS FOR CANE MOLASSES

CANE MOLASSES SUPPLIES

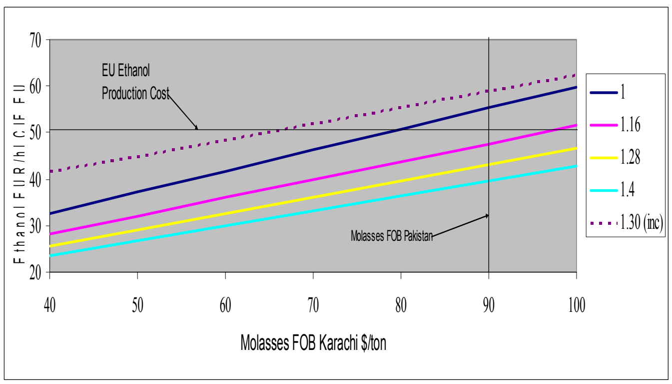
PAKISTAN

The contrast between November and December could do not have been more pronounced. After very little trading during November, volumes and prices jumped during December and the early part of January as a result of Indian buyers coming to the market at time when their own new crop supplies were becoming available.

The enquiries from Indian buyers forced traders to purchase in Pakistan, at same time as facing stiff competition from domestic ethanol distillers, meant there was a severe lack of liquidity in the market which meant that prices jumped rather than rising steadily.

The increased competition from domestic buyers is predominantly down to the fact that Pakistan's tariff free access to Europe for ethanol will finish at the end of June. Therefore domestic distillers are purchasing as much molasses as possible to take advantage of this break before it ends.

The graph below highlights how even with molasses prices at current levels; Pakistani ethanol exports to Europe remain competitive.



What the chart highlights, with differing euro dollar exchange rates, is how competitive Pakistani ethanol remains even when the molasses prices nears the $100/ton FOB Karachi. The dotted line on the chart shows what impact losing the tariff free access will have on the molasses market, at a fairly realistic exchange rate of EUR=$1.30.

In what could be called a normal year this would not be so much of a problem, but with ideas toward the end of 2004 that the crop would be at least 20% down now starting to be borne out there is no logistical pressure emerging.

Therefore lower production combined with aggressive domestic buying, and Indian buyers being ever present, the market will remain very firm for the remainder of the year.

This intense competition for tonnage caused the FOB market to race higher from the low $70's per ton in the early part of the month and hit $90/ per ton in the very early part of January.

The only factor that may affect this is a sharp tailing off of European feed demand, the traditional home for Pakistani molasses, due to the very high molasses CIF prices and very low cereal prices. This probably is the one big unknown, and hard to predict factor, that the market is facing in 2005.

CANE MOLASSES SUPPLIES

THAILAND

Thailand was definitely leading the charge higher in November, and continued in much the same vane during December as the tightness became more apparent to buyers.

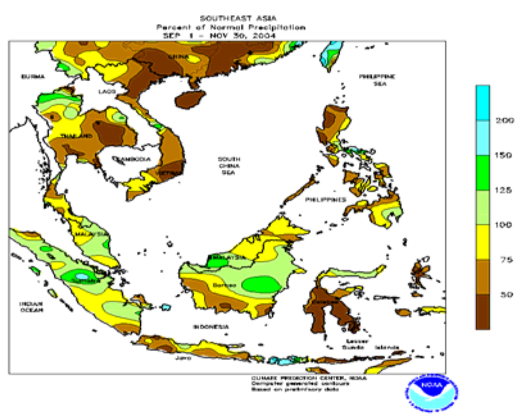
The lower production in Thailand has been well publicised and daily data from the crush suggests that the crop will indeed be below 55 million tons of cane, down from 65 million tons produced in 2003/2004.

The lower production will mean that exports this coming season are now likely to be significantly lower than previous years, possibly just sneaking over the 1 million ton mark as domestic demand remains fairly constant. Having said this, the very high international FOB levels should mean that some of molasses that is used domestically is teased out onto the international market, but the volumes involved are highly unlikely to make any significant difference overall.

Similar to Pakistan, international traders were aware of the impending tightness in the market but were reluctant to buy more tonnage until it emerged that end users would cover their requirements at these higher levels. Once it emerged that end users would, again including India, the trade stepped back into the market and have now covered a significant proportion of the tonnage that will be available on the export market.

The outlook for Thailand remains bullish due to the strong demand in the region and a limited tonnage of molasses available for the remainder of the year.

Looking much further ahead there are relatively strong warning signs for next year's crop as recent drought has prevented producers from planting cane. The process normally starts in November. The map below highlights % of rainfall over this critical period.

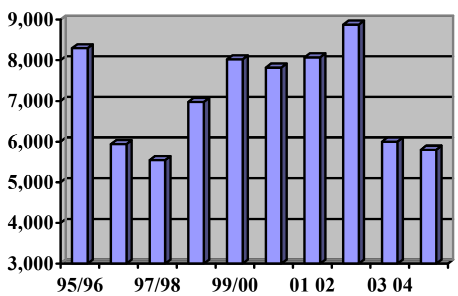


INDIA

While the entire market was expecting India to import more molasses this season, what really caught the international trade by surprise was the timing of the buying.

Most had been anticipating that buyers would not come forward until the harvesting of the Indian crop had been completed, as they did last season. However, what is apparent is that last season there were still old crop stocks available for domestic Indian users, but now that the country is faced with a second season of deficit buyers were forced to come forward again.

The demand for molasses in India is being driven by ethanol demand; which is roughly around 8 millions tons of molasses a year, so as you can see from the graph below production is now well below demand.

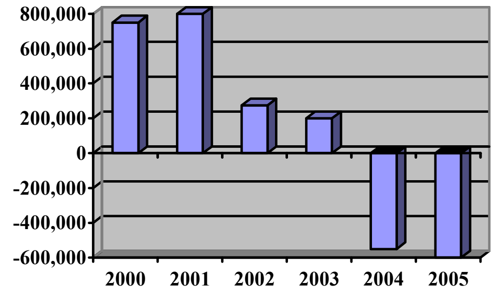


Having said this, not all of this ethanol demand can be met by molasses imports and then the domestic production of ethanol. So what has happened is that India has been a major importer of Brazilian ethanol for industrial use, but it cannot import ethanol directly for potable, human consumption, use as the import tariffs are far too prohibitive.

Therefore all the molasses that is being imported is going for potable alcohol consumption, a market which can absorb these higher prices and pass gains on more easily onto the consumer. However, there is a check to this. There are reports emerging from India that actual sugar production will be down further this season due to increased production of gur, basically a very basic liquid raw sugar, which is not crushed as such thereby limiting the amount of sugar and molasses produced. The gur is then used for alcohol production.

While this may cause an issue, it is unlikely to have a significant impact on the global molasses market as India will still have to import large quantities of molasses, mainly for logistical reasons in this huge country.

The graph below shows exports and imports of molasses in and out of India over the last few years, and gives a clear indication of what impact this has had on the international market.



CANE MOLASSES DEMAND

While it is very easy to justify from a supply point of view why these cane molasses prices have been rising significantly over the last few months, it is harder to do so from a demand point of view.

Having said this, a lot of consumers in the Far East correctly predicted that the supply and demand situation would be tight for this coming year and covered a lot of requirements before the end of 2004. Indeed, these buyers have now accepted where the market is trading and are covering spot requirements on a hand to mouth basis.

The story in Europe is slightly different as most consumers remain uncovered, but are now accepting where the market is heading. The problem is that in Europe molasses is used in feed rations, and with grain prices across the continent at very low levels molasses is struggling to be included in rations on a cost basis.

The one big issue that now remains for the market is whether or not the current high prices will turn off EU demand completely, which if happened would have serious implications for the world market.

However, there are a couple of things that still favour molasses in European diets. The major one being, as discussed before, the weak dollar against the euro which has gone some to help off-setting the FOB gains.

BEET MOLASSES

The end of the year was relatively subdued as most of the European beet harvests drew to a close. Indeed, most buyers remained on the sidelines waiting to see what happened at the first of the new season beet tenders being held in Egypt.

The Delta and the Dakalia tenders were held for a combined total of 90,000 tons for shipment between January and June 2005, the results of which are not yet known

The only other major origin, in terms of beet molasses, is Moroccan and they have given no indications yet as to when a tender may be held.

TARIFF, FOREIGN EXCHANGE, LEI & USDA PRICING & REGULATIONS

TARIFF

Unsurprisingly, there was no tariff during December or the early part of January due to the massive rise in FOB values at origin.

Cane values started December at the $114/ton and ended at $133/ton, while beet molasses prices went from $130.51/ton to $138.43/ton. It is highly unlikely, given the high levels, that tariff will return in the near future.

TARIFF, FOREIGN EXCHANGE, LEI & USDA PRICING AND REGULATIONS

FOREIGN EXCHANGE

Both the euro and sterling firmed over the month, although both end the month off their mid-month peaks.

Currency	Dec 1st 2004	Dec 30th 2004
Euro	1.3282	1.3580
Sterling	1.9095	1.9196

Month	LEI Euro Ex-Tank
Sep-04	85.70
Oct-04	84.80
Nov-04	83.75
Avg For 03	68.00

USDA Prices	Start of Dec	End of Dec
New Orleans	No quote	No quote
Houston	$75.00-$80.00	$80.00-$86.00
South Florida	$60.00-$70.00	$70.00

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

From January 1st 2005 the USDA will continue to publish its market report on molasses but prices will be reported on the business day closest to the 1st and 15th of the month.

TARIFF, FOREIGN EXCHANGE, LEI & USDA PRICING AND REGULATIONS

REGULATION

Following the Athos 1 striking an under water object in the Delaware River in November and leaking 1,500 tons of crude oil it appears as if another nail has been placed in the coffin for single hulled tankers.

As a result of this, a couple of US senators have called single hull tankers “inherently dangerous” and called for their ban from US waters.

TARIFF, FOREIGN EXCHANGE, LEI & USDA PRICING AND REGULATIONS

FREIGHT

MED/CONTINENT MKT

Generally the market remained firm during the first half of December with many forward fixtures which meant a quiet end to the year. The Black Sea / East Med market remains steady despite lower than expected volumes. The west med area saw an increase in volumes which lead to firmer rates.

Meanwhile, inter cont rates jumped substantially during the last six weeks of the year, and given the owners involved rates are likely to hold firm. Cont to med tonnage was also in short supply and rates are expected to rise accordingly.

All owners remains buoyant about the state of the market, and with open positions harder to come by, helping owners to pick and choose tonnage, rates are only likely to firm.

DEEP-SEA

The clean markets held firm during December, with weather the driving factor so any cold snap in January or February would cause a spike in rates. The scrap market also remains firm with a sizeable tonnage of single hull tankers likely to head for the beeches in 2005.

Indeed, Intertanko is estimating some 260 vessels or about 9.4 mln tons is likely to be scarped.

As with previous months there remain few non-approved vessels available globally for molasses, while chemical tankers remain disinterested both from the US or Arabian Gulf. The reason being that petroleum form the Arabian Gulf and veg oils from the straits simply offer greater returns.

Molasses rates remain very hard to predict but owners are now quoting $39/$40/ton from Karachi to NW Europe.

INTER FAR EAST/SE ASIA (SHORT SEA)

Sourcing tonnage for the molasses market remained difficult during December, but unlike October and November there are now cargo requirements. There are now a number of cargoes on the market but very few vessels showing the least amount of interest, particularly for South Korean requirements.

Generally, the palm oil market to India and China is relatively slow and one would expect to see more vessels interested in molasses, but this has not been the case; so when the veg oil market does pick up rates are likely to firm.

INTER AMERICA’S OVERVIEW

The clean market for petroleum remained firm in the Americas during December, although there was evidence of owners looking for last minute cargoes – a sign that weakness could be around the corner.

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