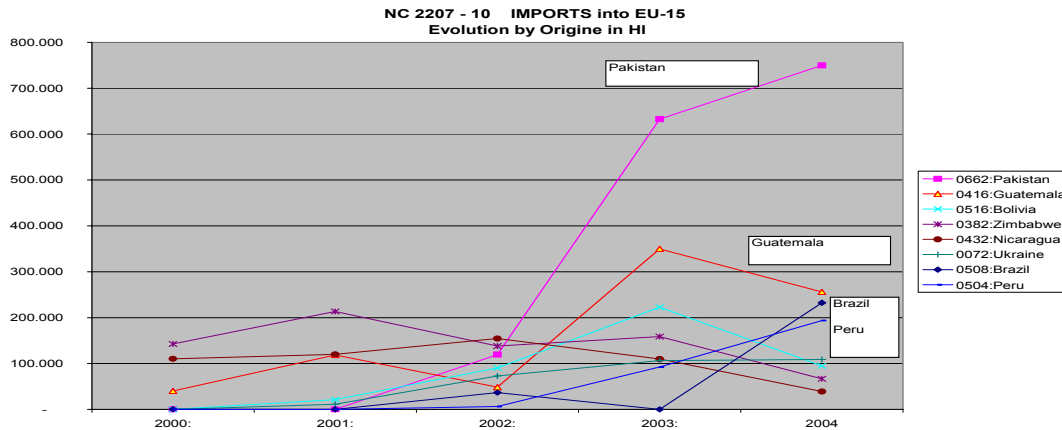


### SUMMARY

There appears to be little reason to see why prices will ease for the remainder of the year. The high price of molasses has impacted on demand in nearly every area of the world; however prices have been unable to slip because as quickly as demand has been tailing off supply has been falling away faster.

One area where supply continues to tail off quickly is Pakistan. If we look at the chart below, that highlights the growth of Pakistani ethanol exports to Europe, we can see why:



The massive expansion in ethanol production continues, and with the outlook for Pakistani ethanol producers now not so bleak, it is highly likely that the country will once again exceed its previous year's exports. It is this use of molasses as a feedstock for ethanol that is likely to have changed the way the product is viewed and priced from now on.

The massive increase around the world in using molasses more for industrial processes means that the molasses price is no longer a function of European cattle feed demand. Indeed as we have said before, the price of molasses will be now very much driven from the supply side, but now with a floor in it.

### CANE MOLASSES SUPPLY

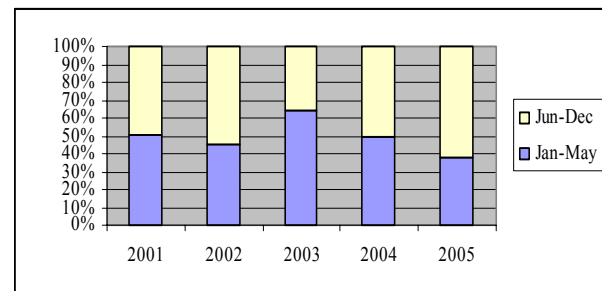
#### CANE MOLASSES SUPPLIES

#### PAKISTAN

Following on from last month activity remains unusually subdued for this time of year as the high prices and poorer quality continue to deter buyers.

Now that other origins have become available buyers are shying away from Pakistan because they can source better quality from other origins as well as having the necessary feed assurances for the European feed markets.

Indeed, if we look at the chart below, it shows that exports for January-May this year are well behind those of any previous years, and given prices and what has happened to demand in Europe it is debateable whether a great deal more molasses will be shipped.



Regardless of what is happening to the country's GSP status a significant volume of molasses has already been converted into ethanol. If this volume is combined with the molasses that has been exported from the country then there is likely to be around 500,000 tons left in Pakistan unsold.

What is unclear is exactly what will happen to this tonnage. It now appears that Pakistan will be able to export ethanol duty free to Europe for the remainder of 2005, therefore this molasses could well

get converted into ethanol although the lower sugars will make the ethanol less competitive, even with the duty free access.

It is therefore highly likely that given the lower feed demand in Europe and the prospects for another poor crop in Pakistan a lot of this material will be carried over into next year for blending with new crop material.

In previous years as much a quarter of a million tons of molasses has been carried over, given that returns have been good this year it is possible this level of carryover could be taken through to next year.

This looks as it will be increasingly the case given the prospects for next year's crop. While it is early days yet, most feel, with a degree of confidence, that around 1.65 million tons of molasses will be produced, a figure that has been exported in the past!

For these reasons alone it is hard to see why prices will slip below the \$90/ton level for the remainder of the calendar year.

CANE MOLASSES SUPPLIES

**THAILAND**

With the possibility of only two or three export cargoes remaining activity has been very subdued in Thailand, and as a consequence prices are also unlikely to slip from their current levels.

With limited activity the betting shops are opening up early this year to see which of the estimates from the government backed 46 million ton, the industry backed 43 or millers backed 40 million ton cane crop will come in.

While it is very early to be predicting exactly what the crop will do in 2005/2006, it is safe to say that two years of drought will severely hamper the crops prospects.

In other news, a Thai energy official has today said that from January 1 2006 Thailand will ban the use of MTBE in fuel, a year ahead of its original plan. If banned then ethanol will be the substitute. Thailand roughly uses 1 million litres per day of MTBE.

Hopes remain that the country will produce the ethanol domestically, but given the prospects for the sugar most remain very skeptical that this will actually take place.

Indeed, ethanol producers have recently announced that they intend to increase the price of ethanol from \$0.32/lit to \$0.41/litre

CANE MOLASSES SUPPLIES

**Other Supply Areas**

Remaining in the Far East, the smaller Thai crop and higher prices are helping to tease more tonnage out of other origins in the area, but it is not enough to make up the deficit left by the smaller Thai crop.

Not helping the situation in the area are predictions that the Australian crop will be lower, as well as having a smaller exportable surplus due to strong domestic demand.

Indeed, drought in many cattle producing areas coupled with strong export demand for Australian beef saw the number of cattle in Australian feedlots hit record levels in the first three months of the year.

Until new crop Thai material becomes available at the end of the calendar year the market is going to remain very tight until the new crop Thai material becomes available.

Turning toward US shores there was another tender held by the Florida molasses company; the tonnage for November shipment unsurprisingly went for around the \$100/ton level as it is the only origin that is available at that time of year.

Indeed, the only cane molasses available at the moment is from either Sudan or Egypt, with Egypt recently holding a cane molasses tender with bids reaching as high as \$116/ton FOB. These origins remain in high demand from the industrial sector, and given the upcoming changes in the EU sugar regime their strategic importance will only grow.

Heading westward again, harvesting of the Mexican crop is about to draw to a close and looks on course to be around 15% higher than last year, and a national record.

As a consequence exports are expected to reach around 350,000 tons, around 50,000 tons higher than last year. However, this is only a guide as state owned mills are believed to have oversold tonnage.

Elsewhere, the Fijian and Mauritian harvests are just about to start, with Mauritius claiming that they will be starting ethanol production by August/September time.

Finally on the supply side the South African Sugar Association has released an estimate for the 2005/06 sugar cane crush of 21,725,000 tons, up from the 19,095,000 crushed during the 2004/05 season.

CANE MOLASSES DEMAND

CANE MOLASSES DEMAND

**INDIA**

There were no fresh molasses contracts struck during the month as domestic demand slowed significantly, however further imports are likely to occur before harvesting of next years crop begins.

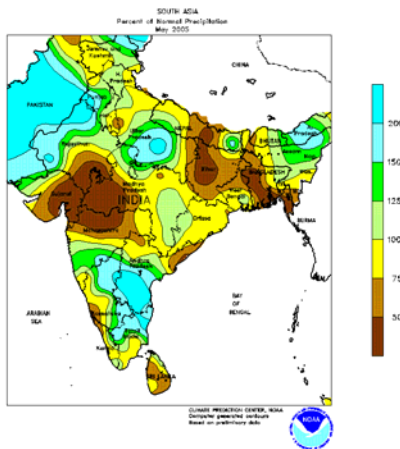
The debate regarding next years crop has already started, but the upcoming monsoon rains will hold the key:

The Meteorological Office of India has said that the monsoon has just started and should be normal, which is in complete contradiction to information released by the Centre for Mathematical Modelling and Computer Simulation that said June rains would be 34% below normal.

The question really is do you believe the government or the computer-either way people generally dislike both – so the only real option is to wait and see!

However, if we look at the chart below we can see the south eastern corner of the country is receiving rains, which would suggest that a normal monsoon is under way. If we turn our attention further

north though toward Maharashtra then we can see that there has been 50% less rain fall than normal for the same period which could mean that the damage has already been done.



The main problem when looking at molasses and India is that what ever happens to the crop in 05/06 molasses imports will be needed. If the crop turns out to be worse then expected molasses imports will be need, albeit a small quantity.

If the crop is better than expected due to exceptional monsoon then molasses imports could be needed as well, as a significant crop improvement would lead to the fuel ethanol program taking off again.

CANE MOLASSES DEMAND

**OTHER DEMAND AREAS**

The high price of molasses continues to impact on demand around the world, although it has not been as bad as some of the prophets of doom and gloom had been predicting.

The biggest fall in demand has been in the European feed sector where buyers are particularly sensitive to prices changes, and there appears little chance of demand recovering in the near term as grain prices remain low and molasses prices remain high. The sharp rise in cane prices are also turning off industrial demand in Europe as well, with buyers looking at very competitive beet prices in comparison to cane or simply looking at other feed stocks.

Turning to Asia buyers continue to operate on a hand to mouth basis with only routine business being concluded, and are likely to continue in this vain until there is some light at the end of the tunnel in terms of lower prices.

While the US market has also been impacted by the higher prices, beef sales are very strong which in turn has helped to limit the decline in demand for molasses in the area. Indeed, some are predicting a deficit of around 0.5 million tons in the later part of this year as a result of the demand but also because the Central Americas have now shipped all their material for the year.

As a result prices in the area have risen from the high \$80's a ton to over \$100/ton in recent months. It is a similar situation in the

Caribbean where a series of smaller than expected crops are forcing a lot of the rum producers to come to the international market.

While those buyers who have always had to obtain molasses from sources other than domestic supplies have accepted the increase, those who have not been to the import market for a while are getting quite a shock!

**BET BEET MOLASSES**

BET BEET MOLASSES

**EUROPE**

For the first time in a long time we have witnessed beet molasses prices being lower than those of cane molasses in Europe, consequently feed buyers are now switching to beet instead of cane molasses.

The beet molasses trade is now waiting to see where the French will set their local prices for the 2005/06 season, but in reality the biggest piece of news to hit the European beet sugar market will be happening on June the 22<sup>nd</sup> when the European Commission releases its updated reform proposals to the sugar regime.

The Commission's proposals are likely to go even further than the last set of proposals and could well have a significant impact on the future of beet sugar production in Europe. We will look at the potential impacts and consequences in next months report.

BET BEET MOLASSES

**POLAND**

Both the state and privately owned mills have already sold a large percentage of next years crop already and are therefore reluctant to keep selling until the material actually becomes available.

Elsewhere, the bids for the last Egyptian beet tender have not been awarded as the bids at the last tender were circa \$10/ton lower than previous tenders. Sellers are reluctant to release the molasses at these levels, so we will have to wait and see what happens in the coming weeks.

**MOLASSES & ETHANOL**

A lot has been made recently about the strong US beef market and the subsequent demand for molasses. While a significant quantity of high energy feed is needed, it is possible that this may come form the huge increase in ethanol capacity in the US.

Ethanol in the US is predominately produced from corn, and as a consequence there will be a large number of bio-products which can be used for cattle feed.

The US Department of Agriculture estimates that in 2005/2006 the total amount of corn used in this sector will be 2.660 bln bushels, compared to 35 mln bushels.

**TARIFF, FOREIGN EXCHANGE, LEI & REGULATIONS**

TARIFF, FOREIGN EXCHANGE, LEI & USDA PRICING AND REGULATIONS

## TARIFF

Once again there was no tariff during the month as strong FOB values and high freight rates kept values well above the EU reference price. Representative prices for cane molasses rose from EUR107.10/ton to EUR112.90/ton, while beet prices went from EUR112.00/ton to EUR117.50/ton.

TARIFF, FOREIGN EXCHANGE, LEI & USDA PRICING AND REGULATIONS

## FOREIGN EXCHANGE

The euro and sterling fell sharply against the dollar over the month partly sparked by the "non" votes against the European Union.

Currency	May 1st 2005	May 31st 2005
Euro	1.2875	1.2160
Sterling	1.9065	1.8075

## LEI

Month	LEI Euro Ex-Tank
Feb-05	103.60
Mar-05	105.05
Apr-05	106.95
Avg For 04	77.20

TARIFF, FOREIGN EXCHANGE, LEI & USDA PRICING AND REGULATIONS

## REGULATION

The European Commission (EC) is investigating alleged dumping of ethyl alcohol into European Union (EU) member countries by exporters from Pakistan. Well-placed sources told Dawn on Saturday that the EC had notified the investigation on the plea that surge in the export of ethyl alcohol into EU countries was damaging their local industries.

TARIFF, FOREIGN EXCHANGE, LEI & USDA PRICING AND REGULATIONS

## FEED REGULATION

In response to the need for harmonisation of assurance schemes throughout the world, four organisations – the British AIC, the Belgian OVOCOM, the Dutch Product Board Animal Feed and the German QS – together with FEFAC, are working closely on a co-operative initiative to create the International Feed Safety Alliance (IFSA).

This Alliance is developing a single common standard for the quality assurance of feed ingredients. The individual standards which are currently owned by the four national organisations will then be replaced by a common standard to be managed by IFSA and will cover the requirements of the global sourcing of feed ingredients to the European Feed manufacturers.

The IFIS Standard will require a chain of compliance and accreditation from the point of the products production to the end user. This will affect all critical control points and modes of transport and storage as well as production and trading companies.

All the parties involved in this important initiative recognise the benefits which will be achieved by bringing certification and auditing

under a common international IFSA Programme. In addition, this single standard will also facilitate European co-operation and harmonisation.

There will be a phased replacement of existing standards from 1st January 2006. In the interim period the sooner any company within the supply chain is accredited to the existing standards the better, enabling a smooth transition to the new IFIS standard during 2006.

TARIFF, FOREIGN EXCHANGE, LEI & USDA PRICING AND REGULATIONS

## FREIGHT

### MED/CONTINENT MKT

Rates have eased by a dollar or so and charters have had one or two options when fixing tonnage which has given them greater opportunity to negotiate with owners. However, a lot of forward tonnage has been fixed already so rates are unlikely to crash in the near to short term.

### DEEP-SEA

General weakness in the petroleum sector, particularly in the eastern hemisphere, there has been a softening of freight rates across the board. A two tier market currently exists for the older single skins running close to phase out grabbing veg oils to the east with the obvious scrap incentive.

This enables the lower class of tonnage to reduce prices to some destinations including Iran and Bangladesh and to some extent China. Also likely to add pressure is more tonnage opening in West Africa.

Molasses rates are therefore on the slide with more opportunities opening up east of the Suez, although the market is unlikely to collapse there is definitely a weaker trend developing.

### INTER FAR EAST/SE ASIA (SHORT SEA)

The second half of May saw a change in fortunes for the market as tonnage was no longer being booked on forward dates and owners were being forced to seek employment, not something that they have had to do in a long time. It would appear that a more normal situation is likely to return for the short term.

### INTER AMERICA'S OVERVIEW

The Caribbean basin was very active during the month of May for CPP, but it was hard to gauge a level for molasses tonnage as very little was actually moved.

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