

SUMMARY

When it comes to looking back at October it may be characterised as the calm before the storm. Relatively little tonnage changed hands over the month as the high inventories in most demand areas prevented traders from moving fresh tonnage, while uncertainty regarding new crop pricing kept many participants on the sidelines.

There are now signs buyers are accepting that prices will not ease significantly for new crop, consequently new crop activity is likely to increase significantly next month. If this increase in activity also coincides with the moment that buyers in India come to the market, then the chance of any significant easing of prices in highly unlikely.

Over the last few months we have devoted a significant amount of time talking about how India will be the driver this coming year, but of almost equal importance, and significance, will be Thailand. If early indications prove to be correct and the crop is smaller than most had been expecting, then exports numbers could well drop to a level not seen for several years. If this is the case then the region as a whole will be extremely tight, and in turn place the onus of satisfying Indian demand almost solely on Pakistan. This would then have serious repercussions for the world market.

Longer term, and slightly in the background, crude oil prices remain above the \$50 a barrel level which is keeping ideas of domestic fuel ethanol programmes high on the agenda in many countries. Even if a quarter of them come to fruition then the global market is likely to tighten significantly. Another impact of the high oil prices is that bunker fuel levels are at record highs and showing no signs of easing, adding to the overall cost of molasses. (See the chart in the freight section.)

CANE MOLASSES SUPPLY

PAKISTAN

A very subdued month for the world's leading exporter of molasses as a combination of limited supplies, poor demand and high prices are combined to discourage any fresh business. The fact that crushing of the new crop is now only weeks away; it is hardly a surprise that many participants are sidelined for the time being.

While there was no fresh business during the month, just below 100,000 tons of freight was booked, the majority bound for European shores to cover old sales. Freight was also booked direct by an Indian buyer for 12,000 tons to be shipped prompt from Karachi to Kandla.

Given the lack of fresh tonnage traded there was no real movement in price although in theory FOB values have eased back to around the \$65-\$66/ton for old crop material of poorer quality. What this means for new crop pricing is unclear at this stage, especially as nothing has actually traded for a while.

It remains highly likely that there will be pressure on prices when new crop material does start to flow, but the extent of any falls and future direction will definitely lie with when, but not if, Indian buyers return to the market.

In terms of the crop, estimates have been estimating for production to fall anywhere between 10% and 20%. However, recent figures from the PSMA (Pakistan Sugar Millers Association) suggest the fall is more likely to be nearer 10%.

Figures from the PSMA show that production this year is likely to reach 50.875 million tons of cane, down from 53.776 million tons in 2003/04. However, this does not tell the full story; if you look at

the Sindh region, area is 14% down on last and the crop is reported to be under stress.

THAILAND

According to Thai millers FOB values remain around the \$60/ton level for old crop material left unsold, but given that there is probably less than 80,000 tons spread between the millers and exporters it is highly unlikely that any fresh purchases will occur.

As with the situation in Pakistan, no new crop traded on the international market during the month as buyers and sellers maintained their nervous stand-off. Both sellers and buyers appear to be in agreement that prices will firm next year, but neither is too sure where the floor in the market will be, hence the stand-off.

The main reason for the hesitation is due to the situation in Pakistan. While demand from India will undoubtedly take a lot of Pakistani molasses this coming year, the high prices have almost shut off demand to Europe, thereby taking away the main home for Pakistani material when the pressure builds at the ports at harvest.

It is this potential build up of supplies in Pakistan when crushing starts, at the same time when new crop supplies will be available in India and Thailand, that is causing traders concerns especially as stock levels within Europe are currently high; thereby shutting off the usual release valve for the pressure build up.

Domestically, around 100,000 tons of new crop material traded, but as yet the levels for the trades have not been revealed.

PHILIPPINES

Production for the 2004/05 season is likely to slip slightly to around 975,000 tons from last year's production of around 1 million tons.

CANE MOLASSES SUPPLIES

INDONESIA

Molasses production is likely to recover in 2004/05 to around 1.2 million tons, up around 100,000 tons from the previous year. The slight recovery has been prompted by producers returning to cane production after being discouraged growing sugar by low world prices.

There are plans afoot to increase cane production through opening up existing areas as well as introducing new cane varieties, although new cane varieties could cause molasses yields to drop.

CANE MOLASSES SUPPLIES

FIJI

Harvesting of the Fijian crop is now in full swing, and will be drawing to a close toward the end of the calendar year. Production is likely to be up slightly to around 115,000 tons, although of greater concern to the Fijian sugar industry are the proposed reforms to the European sugar regime.

CANE MOLASSES SUPPLIES

AUSTRALIA

There was no fresh freight booked during October despite a very active month during September. It now looks like exports this calendar year will near the 190,000 ton mark, up significantly from the 80,000 tons exported during 2003.

Elsewhere, with 2004 failing to offer sufficient rains to break Australia's recent long drought the Australian Bureau of Agriculture and Resource Economics, ABARE, has forecast little recovery in the national cattle herd.

ABARE is forecasting a cattle herd of 26.5 million head by June 30 2005, up just 100,000 head on the year.

CANE MOLASSES SUPPLIES

IRAN

While no new business occurred during the month, Iran remains of high importance to the international cane molasses market, particularly given that Indian buyers appear to have a developed preference for the origin.

This year Iran has exported over 100,000 tons of molasses and is likely to do that again, if not more, given the expectations for demand in India. Indeed, it would appear that certain speculators have latched onto this, and are now long of Iranian tonnage, and are busy searching out a buyer.

CANE MOLASSES SUPPLIES

SUDAN

Very little activity during the month as participants sit back and wait for the harvest to begin in November, which is likely to be little changed from last year's production.

Elsewhere, Sudan's Ministry of Finance and the Arab Fund for Economic Development have signed an agreement to extend a US\$71 million loan by the latter to be used to set up water pumps and irrigation works at the US\$409 million White Nile Sugar project, the Sudan Tribune reports. The White Nile plant is planned to produce 340,000mt of sugar a year and 40,000mt of various cash crops.

CANE MOLASSES SUPPLIES

EGYPT

Egypt's state-owned Sugar and Integrated Industries Company, SIIC, held a tender in the middle of the month for 15,000 tons of cane molasses. It was a domestic tender and not open to the international trade. The results of the tender, both in terms of price and buyer, were not released.

CANE MOLASSES SUPPLIES

MAURITIUS

The country is likely to produce around 160,000 tons of molasses this season. The Alcodis plant is still undergoing repairs and it is unlikely that production will restart within the next month. Separately, there is talk that a fuel ethanol program is going to be introduced.

CANE MOLASSES SUPPLIES

SOUTH AFRICA

Harvesting continues to progress at a steady rate, but a build of molasses was exported for logistical reasons.

CANE MOLASSES SUPPLIES

UNITED STATES

Quotes remained flat over the month due to a lack of activity, but toward the end of the month quotes for South Florida came back by \$10/ton as new crop material started to become available.

Quotes for Houston remained stable around the \$72.50-\$75.00/ton level, while South Florida was quoted around the \$70.00/ton level until the end of the month when bids appeared at \$60.00/ton.

The majority of South Floridian mills are now up and running which is likely to keep prices under pressure in the short term, although increases in freight rates and higher fuel costs continue to hamper the movement of molasses.

Recent rains in California have delayed sugar beet harvesting and processing, but processors are still anticipating completing the harvest by the end of the month.

CANE MOLASSES SUPPLIES

MEXICO

Harvesting is likely to begin by the start of November, with early expectation for the crop to be an improvement on last year's 1.7 million tons. Last season a total of 310,000 tons of molasses was exported from Mexico.

CANE MOLASSES SUPPLIES

VENEZUELA

Due to strong local demand, for potable ethanol production, exports are likely to fall to around a maximum of 35,000 tons, of which nothing has been bought.

CANE MOLASSES SUPPLIES

COLUMBIA

This year's exportable surplus is likely to be down, but probably not as much as some had feared as there are doubts surfacing over whether or not the domestic fuel ethanol program will commence as soon as some had thought.

CANE MOLASSES SUPPLIES

BRAZIL

Given the sharp rise in ethanol prices this year it is hardly any surprise that molasses exports have fallen significantly over the year. In the period January to September 2004 around 20,000 tons of molasses were exported. This is significantly down on the 95,000 tons exported during the same period in 2003.

CANE MOLASSES DEMAND

CANE MOLASSES DEMAND

INDIA

Old crop inquiries tailed off sharply during the month, mainly because importers in India are supposed to have large stocks in port, which they have not been able to shift due logistical constraints.

Following on from last month there were no confirmed new crop deals, although there have been a large number of inquiries as buyers look at the possibility of speculative positions.

The anticipated fall in Indian production has now been well documented, and we will not go into again until harvesting begins and a much more accurate prediction can be made.

There is no doubt India will be importing a significant amount of molasses in 2004/2005 the question now on traders minds is when will this interest materialise. If Indian buyers come forward when new crop material starts to flow then prices for 2005 are likely to remain at a constant but firm level.

However, if this buying does not materialise until long after new crop material is available then prices will ease before ending the year on a very strong note indeed.

CANE MOLASSES DEMAND

KOREA

Another relatively subdued month in Korea as firm international prices deterred buyers from being aggressive when it came to purchases for the New Year.

There was a domestic tender during the month for around 10,000 tons, but again this was to cover final old crop requirements for the remainder of the calendar year.

With little or no new crop covered it is highly likely that the main tenders for the new crop business will occur in early to mid November, especially as buyers are becoming concerned regarding reports of a smaller Thai crop.

CANE MOLASSES DEMAND

CHINA

Generally Chinese buyers have been absent from the international market due to firm international prices, but buyers could be forced to return if predictions about next years crop come to fruition.

Widespread drought in China's southern provinces, the most severe in ten years, has damaged over 40% of the cane crop in the Guangxi region, the Ministry of Agriculture said. Local officials said that sugar production would fall below 5.5 million mt if the drought continued.

Last season, Guangxi produced 5.88 million mt of sugar or 58% of China's total.

CANE MOLASSES DEMAND

TAIWAN & VIETNAM

Buyers are believed to still be requiring cover for the last part of this calendar year, and as a consequence are prepared to pay a slight premium to ensure delivery. However, pricing ideas for the next calendar year remain very different, and such no new crop tonnage has been covered.

In other news Cargill has opened a third animal feed mill in Vietnam, in the Northern Hung Yen Province, in order to help meet demand from farmers in the North of the country. When fully operational the factory will have an annual capacity of 200,000 tons of feed.

CANE MOLASSES DEMAND

US

Imports of molasses between October 2003 and August 2004 came to 1.599 million tons down from 1.799 million tons in the same period the year before. Imports from Mexico saw a significant increase during that period largely at the expense of Guatemala.

CANE MOLASSES DEMAND

EUROPE

The story for Europe is little changed from the last few months as high molasses prices and an abundance of cheap grains continue to dampen demand. The knock on effect is that current stock levels are high and will be able to be eked out over a longer period of time.

Adding pressure to the situation was a recent report from the International Grain Council, IGC, which left wheat stocks unchanged but critically raised global coarse grain stocks. The IGC said that higher than expected yields in Europe and the United States had prompted a further 2 million ton increase in it's world production estimate to a record 617 million tons.

CANE MOLASSES DEMAND

UK

The latest MDC dairy farmer intention survey of 1,200 farmers carried out in October shows that producers are more positive now that the implications of the Mid Tem Review are better understood. This is combined with a growing confidence that milk prices will not fall as much as was previously feared.

The report also highlighted the number of producers who intend to expand increases significantly if they are currently producing over 500,000 litres annually. This means that many farms with less than 75-80 dairy cows do not intend to expand and will cease production in the future.

Arkady Feed, the UK's largest animal feed importer, has begun importing molasses through a new dedicated facility at the Port of Cardiff. Associated British Ports has invested GBP350,000 to convert two storage tanks at the port and to install ship to shore pipelines as part of a five year contract with Arkady.

"The creation of a dedicated facility at Cardiff will enable us to gain a foothold in the UK molasses market and provide a cost-effective and quality service to our customers," managing director Graham Atkinson told the Western Mail.

The Port of Cardiff has many years' experience handling fuel oil and petrochemicals, and considers the diversification into liquid feedstuffs to be way of strengthening the port's position in the liquid bulks sector. The new facility will be able to store up to 10,000 tonnes of molasses.

CANE MOLASSES DEMAND

GERMANY

According to some reports prices for imported cane molasses have fallen, which given that FOB values have hardly changed and freight rates remain very firm appears strange. Values ex-tank Weser ports reached EUR75.00/ton for October 2004 to April 2005, with weaker values being attributed to lower demand following a fall in inclusion rates.

CANE MOLASSES DEMAND

SPAIN

Separately, Spain's feed industry confederation Cesfac has said it expects the European Union to lift its ban on fishmeal in ruminant feed by the beginning of next year.

CANE MOLASSES DEMAND

FRANCE

Of the 220,000 tons of molasses imported into French ports during October, France Melasse imported 36% of the tonnage, while Loiret imported 34% and SVG 12%.

BEET MOLASSES

BEET MOLASSES

EUROPE

While cane molasses is facing increasing competition from cheap grain prices within Europe this coming season, it could also face competition from extra beet molasses availability.

A number of European distillers have indicated that they may cut back on ethanol production due to increased competition from cheap imports of ethanol from Pakistan, whose ethanol currently enjoys tariff free access into the European Union.

This means that the molasses that would have been used for ethanol production could well find its way out of the domestic market and be competing directly with cane molasses.

BEET MOLASSES

FRANCE

According to the President of the National Union of French Sugar Manufacturers beet sugar yields are expected to increase this year due to favourable growing conditions, but the amount of molasses produced is expected to fall due to a smaller planted area. Molasses production is pegged at 800,000 tons down from 850,000 tons in 2003/04.

BEET MOLASSES

UK

Rhizomania, a soil borne virus disease, is more prevalent in UK sugar beet this year than 2003 but the total area infected is still less than 1% of the total area, according to a joint survey between British Sugar and the National Farmers Union.

BEET MOLASSES

GERMANY

The fifth test on beet arriving at German sugar factories this season continued the recent positive trend, according to figures from the German industry association WVZ.

WVZ said it estimated this season's beet crop at 25,551,000 tons against 23,715,735 last season, which should equate to molasses production of 800,000 tons against 775,000 tons last season.

BEET MOLASSES

TURKEY

Demand remains relatively strong despite the new crop just starting, and around 100,000 tons is likely to be imported this season.

BEET MOLASSES

POLAND

Activity was relatively quiet despite new crop material just becoming available with prices around the \$105/ton level. Local producers remain subdued and the only notable trade was between two international trading houses.

BEET MOLASSES

UKRAINE

According to a Ukrainian agricultural official farmers have harvested 16.7 million tons of beet from around 94% of the area sown, which should lead to a molasses production total of 690,000 tons up from 670,000 tons last year.

ETHANOL

With crude oil at record levels and interest never greater in ethanol, for use as an alternative fuel, from now on we will take a monthly look at the ethanol market, the factors driving it and what this could mean for the molasses market.

This has been quite a year for ethanol. Prices started the year languishing near their lows as the Brazil was faced with high stock levels and paltry demand.

However, this situation did not last for long as the cheap levels encouraged significant imports into the US and then, and perhaps most significantly, India which last month became the largest importer of Brazilian ethanol this year. The problem was then further compounded by wet start to the Brazilian harvest, which meant that stocks were further depleted.

All of this conspired to ramp up ethanol prices in Brazil to over R\$1,000/m3, as well as prices internationally. Going forward prices are unlikely to ease as flex-fuel car sales in Brazil are building significantly each month which will keep domestic demand competing strongly with export demand.

Finally, if the end of the harvest turns out to be wet and millers can not crush at a reasonable pace then ethanol supplies will remain tight into the year end.

Currently hydrous ethanol returns are 3% better than those for sugar, while anhydrous returns are giving an extra 11% for producers over sugar. Therefore we have molasses exports, as mentioned above, dropped significantly this year.

On the face it Brazilian ethanol exporters are making good returns, but despite prices in Real terms being at record levels in dollar terms they are lower than the last 3 years. This raises the question if the Brazilian exchange rate continues to appreciate then how will it impact returns going forward?

TARIFF, FOREIGN EXCHANGE, LEI & USDA PRICING & REGULATIONS

TARIFF, FOREIGN EXCHANGE, LEI & USDA PRICING AND REGULATIONS

TARIFF

Once again there was no tariff during the month due to the high FOB values and firm freight rates. In dollar terms representative prices for cane molasses rose from \$106.24/ton at the start of the month to \$108.99/ton at the end of the month. Beet molasses values also rose from \$124.05/ton to \$124.98/ton. Both gains were mainly as a result of a stronger euro against the dollar.

TARIFF, FOREIGN EXCHANGE, LEI & USDA PRICING AND REGULATIONS

FOREIGN EXCHANGE

Both the euro and sterling climbed over the month against the US dollar, benefiting European buyers of molasses.

Currency	October 1st 2004	October 30th 2004
Euro	1.2381	1.2797
Sterling	1.7925	1.8380

LEI

Month	LEI Euro Ex-Tank
Jul-04	82.00
Aug-04	83.50
Sep-04	85.70
Avg For 03	68

Tariff, Foreign Exchange, LEI & USDA Pricing and Regulations

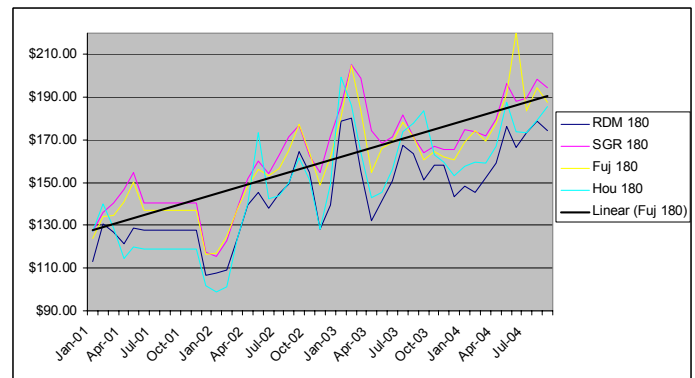
USDA

USDA Prices	Start of October	End of October
New Orleans	No quote	No quote
Houston	\$72.50-\$75.00	\$72.50-\$75.00
South Florida	\$70.00	\$60.00-\$70.00

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

TARIFF, FOREIGN EXCHANGE, LEI & USDA PRICING AND REGULATIONS

FREIGHT



The proceeding chart highlights what has happened to bunker fuel levels, in dollars a ton, since 2001.

MED/CONTINENT MKT

It was a slightly more subdued month in terms of fixtures concluded, mainly due to slower exports from the Black Sea region. Despite the slower activity rates have not eased due to rising bunker prices, but the lack of tonnage being exported has meant that open positions have been easier to source.

Generally owners remain bullish and are reluctant to accept lower rates instead of choosing to take the stance of something else will come along, there is also talk of bunker clauses being included in spot fixtures. Without the usual flurry of veg oil cargoes several molasses fixtures were completed around the Med, but when the veg oil demand does come, combined with increased molasses demand it could become almost impossible to source tonnage.

The inter-cont market is already firming which point to tough times ahead for traders wishing to fix molasses tonnage. Owners already have an eye on the potential market changes in 2007, and while this will cause them some hard work and cash, they see rewards as a result.

DEEP-SEA

There are few non-approved vessels globally for the molasses industry and fewer numbers of chemical vessels in position or indeed interested east of the Suez for molasses exports. The only salvation for the molasses industry has been the lack of tonnage to ship due to high inventories in destination areas and a general lack of exports from the main areas due to current high prices.

With VLCC rates not far from the \$200,000 a day on one route, OPEC continuing to pump at maximum capacity, massive demand for petroleum and heating oil in the US it is highly unlikely that rates will shown any sign of weakness in the near future.

INTER FAR EAST/SE ASIA (SHORT SEA)

The market held firm during the month, this despite a dip in palm oil demand from India which allowed several vessels not normally associated with molasses to do voyages into India.

Toward the end of the month there was increased demand for tonnage into Korea, and with Russian vessels no longer available, the

alternatives on the market were at least a couple of dollars higher. Again the only real saving grace for the molasses market has been the low volumes of molasses being traded; otherwise rates could have been significantly higher.

INTER AMERICA'S OVERVIEW

All types of tanker rates have firmed over the month, in particular clean petroleum products from the Caribbean to various destinations to the USEC have risen from world scale 285 to world scale 430, a fifty percent increase.

Heating oil demand in the US, demand for other refined products is keeping chemical tankers busy as a result they do not have to rely on vegoil and molasses shipments to fill in time until they can get their next high paying chemical cargo.

With molasses season now upon the area and healthy veg oil crops in the US rates in the area are only likely to strengthen in the short to medium term.

Any comments or opinions in this report merely state our views and carry no guarantee as to their accuracy. Although the views in this report were compiled in good faith and to the best of our knowledge, Tate & Lyle shall not be liable for errors contained therein. The report is confidential. No material may be reproduced or transmitted, in whole or in part, in any manner, without written consent. Tate & Lyle.

All rights reserved, Tate & Lyle

Tate & Lyle, Thames Refinery , Factory Road, London, E16 2EW, UK. E-mail: molassesenquiry@tateandlyle.com	Tel: +44 (0) 20 7816 2831 Fax:+44 (0)20 7816 2731 Telex: 8951976/7
---	--
