

Brazil March 25, 2014

This Sugar Cane growing season could prove to be a difficult year for the Sugar Cane growers and the sugar producers.

Brazil's Growers, refiners and traders are closely watching the long range weather forecasts for Brazil's South Central region, which accounts for almost 90% of Brazil's sugar output.

Sugar producers in India are also concerned about the possibility of an El Nino effect and the impact the weather El Nino would have on this seasons Monsoons. Should El Nino come early and cause the Monsoons in India to fail, the effect could be devastating on the season's yield and production.

Australia's Bureau of Meteorology reports a significant rise of the "below surface water temperatures". This warming generally precedes a rise in surface water temperature, which is viewed as a key indicator of an impending El Nino. A spokesperson for the Bureau of Meteorology says that the tropical Pacific Ocean is currently warming. The Bureau says that many weather models are predicting this warming to reach El Nino threshold levels during the southern hemisphere winter months.

The pending El Nino will affect each continent differently. India is expected to have substantially lower precipitation during the traditional monsoon season, while Brazil can expect excessive rain during the harvest months.

Excessive rain can pose several challenges for the growers of sugar cane. It can be extremely difficult to harvest the cane standing in waterlogged fields. Harvesting machinery and transport trucks may not be able to operate as efficiently and this means that much of the sugarcane will be left standing in the fields until the weather improves.

The El Nino related rains are expected to reduce the sucrose content of the cane. While normally the production of one metric ton of ICUMSA 45 requires approximately 9 metric tons of sugarcane. The lower sucrose content could easily raise that number to 10 Metric tons of cane. That would mean a 10% increase in raw material cost. In addition the cane, which has been already weekend by the drought at the beginning of the growing season, would be susceptible to the possible increase of pests and disease.

The El Nino in 2009 substantially reduced sugar production in Brazil's South Centre region. During the 1997-1998 season, which was the previous El Nino year, the production for that region fall by 2.3% according to production records.

How will this affect sugar prices? Industry experts and traders alike are predicting increasing prices. Some are predicting sharp price increases. Some producers have already stopped writing one year delivery contracts and are focusing on renewable short term contracts.

As always, we suggest that you:

- **Perform thorough due diligence before opening any financial instrument.**
 - **Buy directly from the producer and not from a reseller.**
 - **Ask to visit the refineries after sending pre-advice but before opening the Payment Instrument.**
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