Sugar is produced in 115 countries and is extracted from either Sugarcane or Sugar beet; around 70% of the world sugar is extracted from Sugarcane. Sugarcane thrives well under tropical climates and Brazil, India, China, Thailand & Australia are the largest sugarcane producers; whereas sugar beet is grown mainly in temperate regions like EU.

**SUGARCANE CONSTITUENTS**

- Bagasse: 33%
- Recoverable Sugar: 11%
- Molasses: 5%
- Press Mud: 4%
- Sugar Losses: 2%
- Water: 45%

**SUGARCANE USAGE**

- Sugarcane
  - Juice
    - Sugar
    - Molasses
      - Rectified Spirit
      - Biogas
        - Fuel Ethanol
        - Industrial Alcohol
        - Potable Alcohol
  - Bagasse
    - Exportable Power
  - Press Mud
    - Bio Fertilizer
SUGAR CYCLICALITY

Sugar season in India starts from October and ends in September. In India, Sugar production follows a cyclical pattern. The general trends in production have been noticed to follow this cycle:

Higher Sugarcane production → Improved profitability low sugarcane arrears → Lower sugar availability, increase in cane area → Lower sugar production → 2 - 3 yrs → Higher Sugar Production → 4 - 5 yrs → Decline in Sugar Prices low Profitability → High Sugarcane arrears → Decline in area under cultivation, lower production → Lower sugar production

VALUE CHAIN

FARMER
Produces Sugarcane considering present prices & future outlook

MILLER
Converts Cane to sugar & sells as per the quota allotted by the government

WHOLESALE
Purchases from millers & sells to retailers or stores in keeping in mind the stock holding & turnover limit

GLOBAL PRODUCTION & CONSUMPTION SCENARIO

Estimates for 2010-11

PRODUCTION

CONSUMPTION
Sugar is produced in 19 states in India. Largest producers are; Uttar Pradesh (30%), Maharashtra (27%), Tamilnadu & Karnataka (10%), Andhra Pradesh & Gujarat (6%). Recovery rates achieved by west & south Indian states are higher than that achieved by north Indian states. Sugarcane Mills in India fall under 3 categories; Public (6%), Private (41%) & Cooperative (53%).

**Indian Sugar Fundamentals**

<table>
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<tbody>
<tr>
<td>Opening Stock</td>
<td>11.6</td>
<td>8.5</td>
<td>4.0</td>
<td>4.3</td>
<td>11.0</td>
<td>10.5</td>
<td>4.4</td>
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<tr>
<td>Production</td>
<td>14.0</td>
<td>12.7</td>
<td>19.3</td>
<td>28.3</td>
<td>26.4</td>
<td>14.5</td>
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<tr>
<td>Imports</td>
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<td>2.1</td>
<td>2.4</td>
<td>2.4</td>
<td>2.4</td>
<td>2.4</td>
<td>4.1</td>
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<tr>
<td>Total Availability</td>
<td>26.0</td>
<td>23.3</td>
<td>23.3</td>
<td>32.6</td>
<td>37.4</td>
<td>27.4</td>
<td>27.3</td>
</tr>
<tr>
<td>Internal Consumption</td>
<td>17.3</td>
<td>18.5</td>
<td>18.5</td>
<td>19.9</td>
<td>21.9</td>
<td>22.9</td>
<td>2.1</td>
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<tr>
<td>For Exports</td>
<td>0.2</td>
<td>0.0</td>
<td>1.1</td>
<td>1.7</td>
<td>5.0</td>
<td>0.2</td>
<td>0.2</td>
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<tr>
<td>Closing Stock</td>
<td>8.5</td>
<td>4.8</td>
<td>3.6</td>
<td>11.0</td>
<td>10.5</td>
<td>4.4</td>
<td>5.8</td>
</tr>
</tbody>
</table>

Note: All the above figures are in Million Tonnes (Source: Indiastat.com)

**Sugar Crop Calendar in India**

- Sugarcane crop in Maharashtra is classified under three categories depending on the season in which they are sown: Adsali (18 month crop); Pre-monsoon (15 month crop); Suru (12 month crop).
- Out of these three varieties adsali is the dominant crop and constitutes around 75% of total sugarcane crop in Maharashtra.
- Sugarcane crop in Uttar Pradesh has a maturity period of 8 to 10 month.
- Sugar marketing year in India starts from October and extends till September. Major crushing period is November to April.
A major portion of the Sugar produced is consumed by Sweet meat industry. In addition to this only 22% of the total sugar production is used for household purposes; whereas the remaining 78% is used by various industries.
FACTORS TO WATCH OUT FOR

Sugarcane Pricing
The Central Government fixes the Fair and Remunerative Price (FRP) for sugarcane. Some of the State Governments announce State Advised Prices (SAPs) for sugarcane, generally higher than the FRP.

Monthly Release Mechanism
Government controls the release of sugar from mills in market every month by the quota mechanism. Mills' have to sell 10% of the quota to government for PDS (Public Distribution System) known as Levy Quota and the rest of the quota is allowed to be sold at market price, known as Non Levy Quota/free sale quota.

Foreign Trade Policy
Exports & Imports are government controlled.

Related Products
Ethanol: Ethanol is an environment friendly automotive tool and is obtained from molasses distillation. Government of India has mandated 5 per cent blending of ethanol with petrol in India and plans to increase the ethanol blending ratio to 20% by 2017.

Stock holding and Turnover Limits
Stock holding limit is the maximum amount of sugar that can be stocked by a trader. Presently stock holding limit is 500 MT per license.

Recovery
Sugar recovery rate from Sugarcane ranges between 9% to 12%

Climatic conditions
The demand for sugar normally increases during summer season, due to increase consumption of cold drinks

Monsoon Progress & Acreage

Festive Demand

Global production, Supply & Carryover stocks

Cost of Carry, Exchange Deposits & FED wise stock position

International Price parity
**TRADING STRATEGIES**

**Hedging**

Mitha Exporters has an export commitment of 50 MT of Sugar for delivery in October 2011 @ Rs. 2900 per quintal. The exporter faces the risk of Sugar prices going up. As soon as he enters into export contract, he buys 5 contracts of October 2011 expiry. Sugar futures at existing price of Rs. 2850/ quintal. In the month of October, price of Sugar in spot market (as well as in futures on expiry) becomes Rs. 2950/ quintal. He incurs a loss of Rs. 50/ quintal in meeting the export obligation but gains Rs. 100/ quintal in futures market. Thus, he manages to hedge from adverse price risk by taking corresponding positions in futures market.

**Cash & Carry Arbitrage**

Mithabhai has no direct exposure to Sugar trade, however, he has interest in commodity investment. He finds out that Sugar August 2011 futures are trading at Rs. 2900/quintal and current spot price is Rs.2800/quintal. He notices that after accounting for cost of carry (assaying, storage, interest etc), his cost to deliver in December is around Rs 2850/quintal. He procures 20 MT from spot market today and deposits it in NCDEX accredited warehouse & at the same time, he sells 2 Sugar futures contracts of August expiry on NCDEX. At expiry, Mithabhai delivers Sugar and realises the profit of Rs. 10,000.

**Calendar Spread**

Gannamal is a keen observer of futures price of Sugar traded at NCDEX. From his experience over the years, he knows that normally the prices of September expiry contract exceeds that of August contract by around Rs. 50. This difference is called “spread” in trade terminology. Due to some fluctuation in market, this spread shrinks to Rs. 30. Gannamal believes that eventually the spread will resume normalcy and increase to around Rs. 50. He, therefore, buys 10 contracts of September Sugar and shorts 10 contracts of August. In a few days, spread widens to Rs. 48. He squares off his position in both the contracts and realises the profit of Rs. 28,000.

**Speculation**

Ms. Sweety has thorough understanding of the fundamentals of Sugar trade and keeps a continuous track of domestic and international developments that affect the price of Sugar. In the present scenario, she is convinced that the price of Sugar is likely to increase in coming months. She takes a long position by buying 5 futures contracts of NCDEX Sugar for 3 months at Rs. 2750/quintal. In few days, the price increases to Rs. 2800/quintal and she squares off her position and realises the profits.

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**Websites to be tracked for news on Sugar**


Agriwatch.com (http://www.agriwatch.com/default.asp)


Business line (http://www.thehindubusinessline.com/)

The Financial express (http://www.financialexpress.com/section/Commodities/375/)

Sugarbazar.com (http://www.sugarbazar.com/)
**CONTRACT SPECIFICATIONS**

<table>
<thead>
<tr>
<th>Name of Commodity</th>
<th>SUGAR</th>
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<tbody>
<tr>
<td>Ticker symbol</td>
<td>SUGARM200</td>
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<tr>
<td>Trading System</td>
<td>NCDEX Trading System</td>
</tr>
<tr>
<td>Basis</td>
<td>Ex-warehouse Kolhapur inclusive of all taxes</td>
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<tr>
<td>Unit of trading</td>
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<tr>
<td>Delivery unit</td>
<td>10 MT</td>
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<tr>
<td>Maximum Order Size</td>
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<tr>
<td>Quotation/base value</td>
<td>Rs per quintal</td>
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<tr>
<td>Tick size</td>
<td>Re 1</td>
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<tr>
<td>Quality specification</td>
<td>Rs/quintal (Rs. Per One Hundred Kgs)</td>
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<tr>
<td>Price Band</td>
<td>3% + 1%</td>
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</tbody>
</table>

**Position Limit**

- **For Member:**
  - All Contracts: Higher of 1 lakh MT or 15% OI
  - Near Month: Higher of 40,000 MT or 15% OI

- **For Client:**
  - All contracts: 20,000 MT
  - Near Month: 8,000 MT

**Delivery Logic**

Compulsory Delivery (Open Positions on expiry will result in delivery)

Detailed Contract Specifications Visit:

For any query/information on Sugar please contact:

- **SRIKANTH AMBATI (HYD)** - 9951922000
- **VIKRAM SINGH (KOLKATA)** - 9051454777
- **ANUP RAJ (DELHI)** - 9958110086
- **DEEPAK SAYANA (HYD)** - 9848220310
- **T. UMESH (JAIPUR)** - 8239101000
- **SREEKANTH CHERITIYAR (COCHIN)** - 9946761411

- **GAURAV MIDDHA (DELHI)** - 9711159060
- **SANDEEP DUBEY (GUNTUR)** - 9949152475
- **ANIL JAISWAL (GUJARAT)** - 9898066934
- **TARUN KATOCH (INDORE)** - 8889121118
- **JITENDRA SINGH (JAIPUR)** - 9983325699
- **AMIT DARAK (MUMBAI)** - 9819179128