



The North American Sugar Complex:

The challenge of
managing
incongruous markets

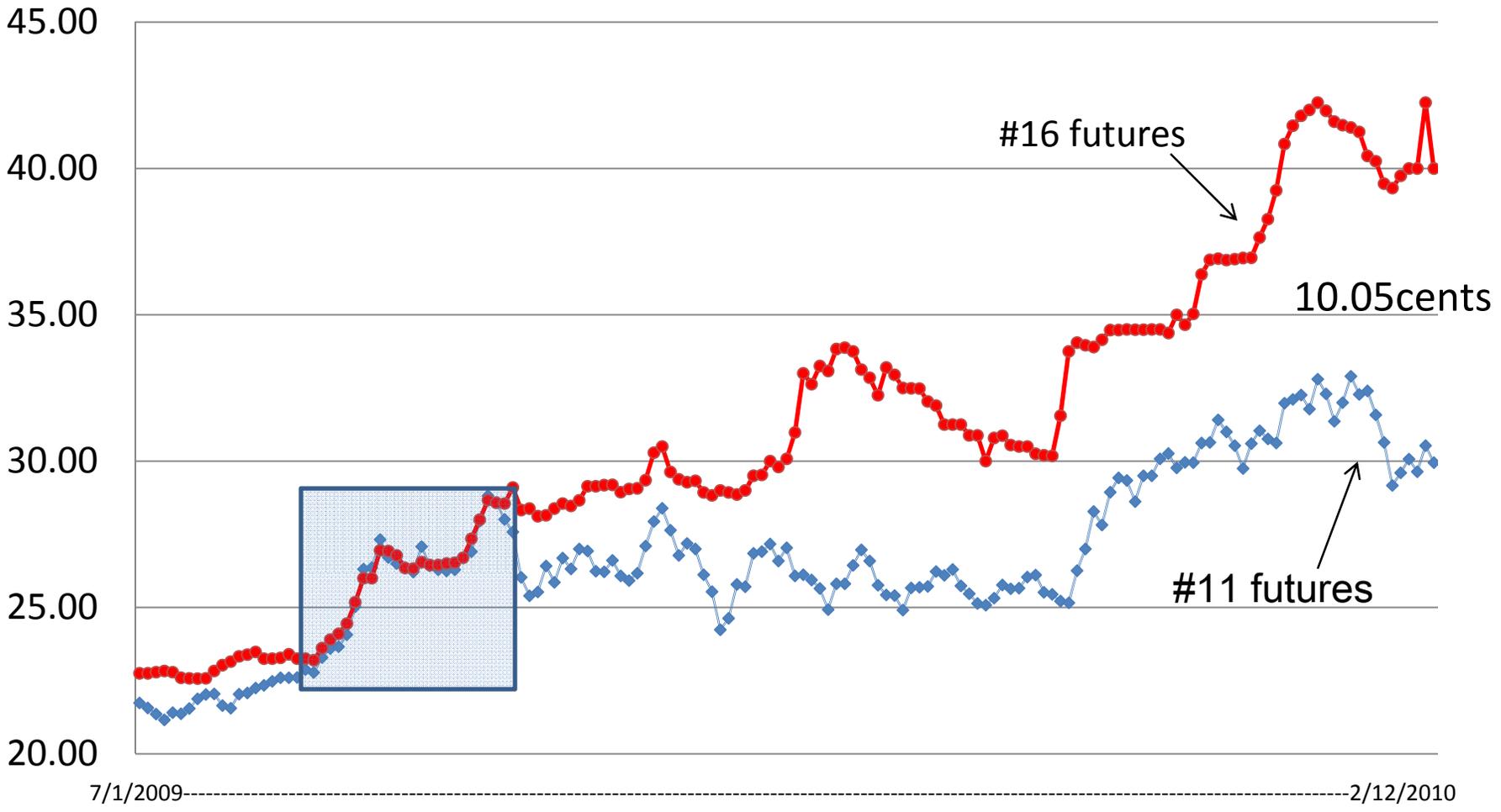
Premise:

- World market has helped set the stage for the current US price structure, but not a factor at present
- The USDA has created the current situation
 - Low beginning stocks for 2009-10
 - Reluctance to increase imports
 - Reliance on Mexico to balance US S&D
- Mexico has a very tight supply situation and will not be a reliable supplier to the US in 2009-10

World Market Influence:

World market impact on #16 futures

ICE 2nd month #11 futures + 3.00 cents CIF'ing costs vs. ICE #16 futures



The US Sugar market

Made in the US_(D)A

US Supply and Demand:

2009-10 (1,000 strv)

USDA Feb. series

JSG estimate

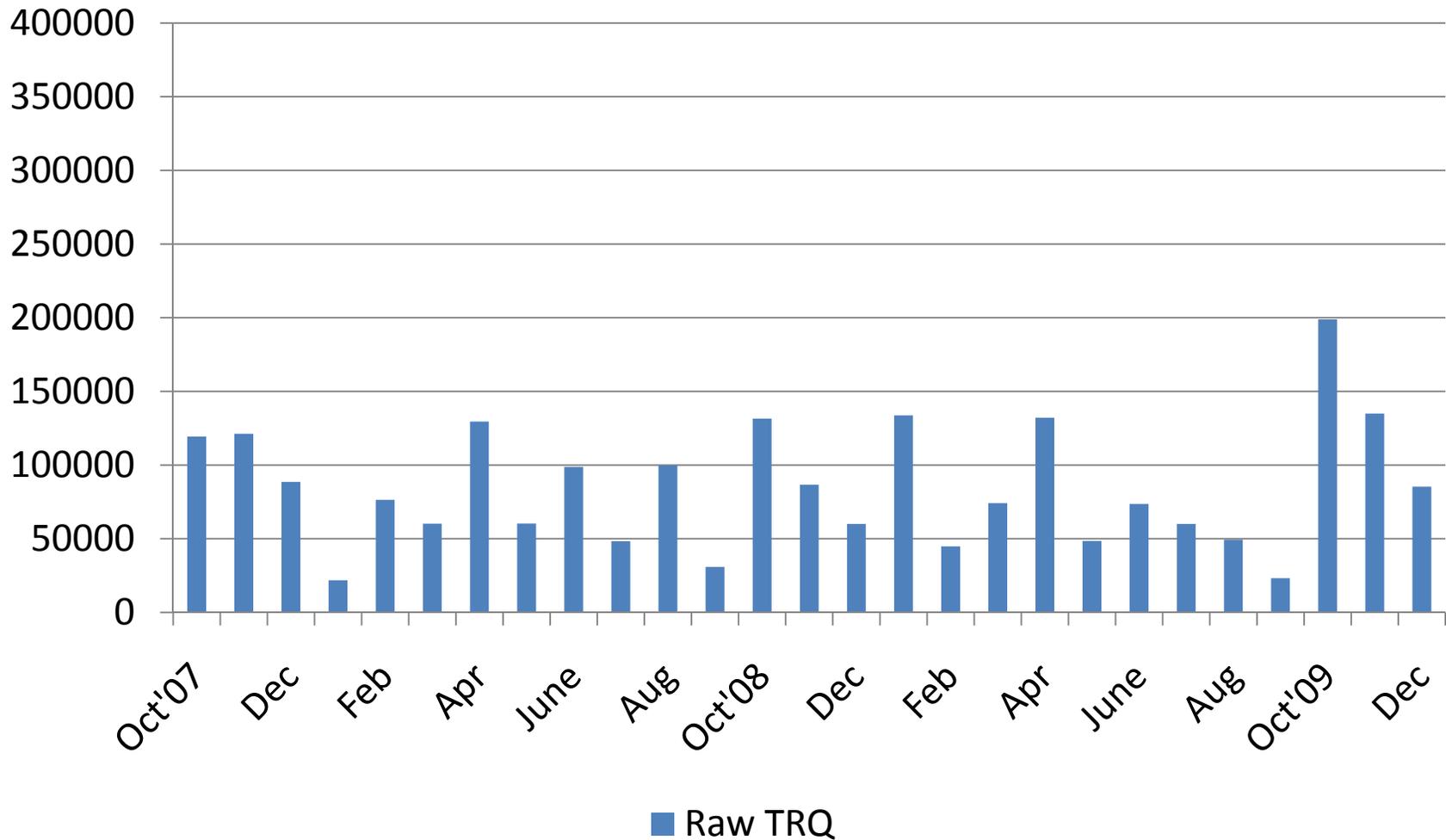
US Supply and Demand:

2010-11 proj. (1,000 strv)

2010-11 proj.

2010-11 proj.

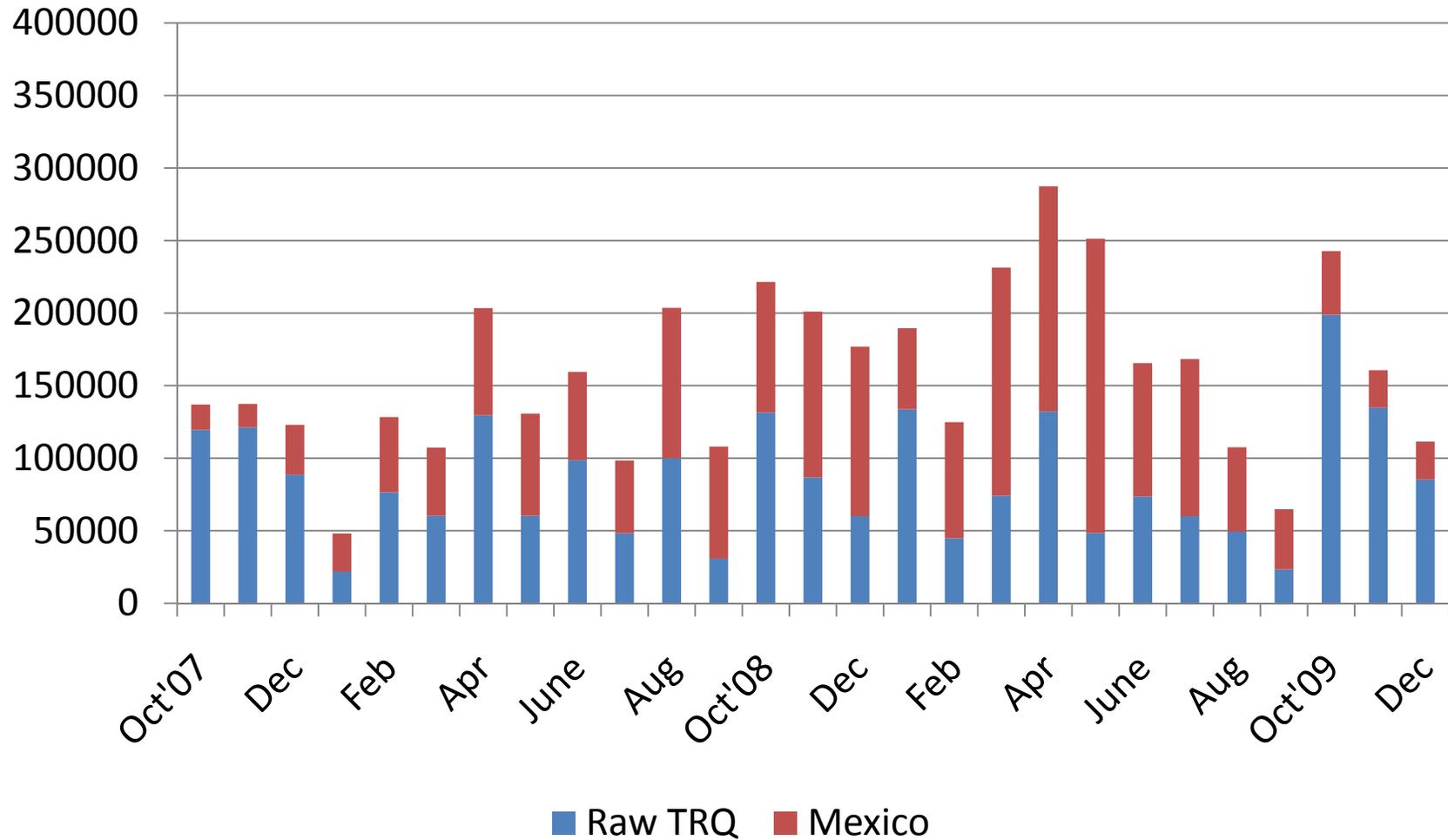
US imports by classification:



Source: [USDA](#)

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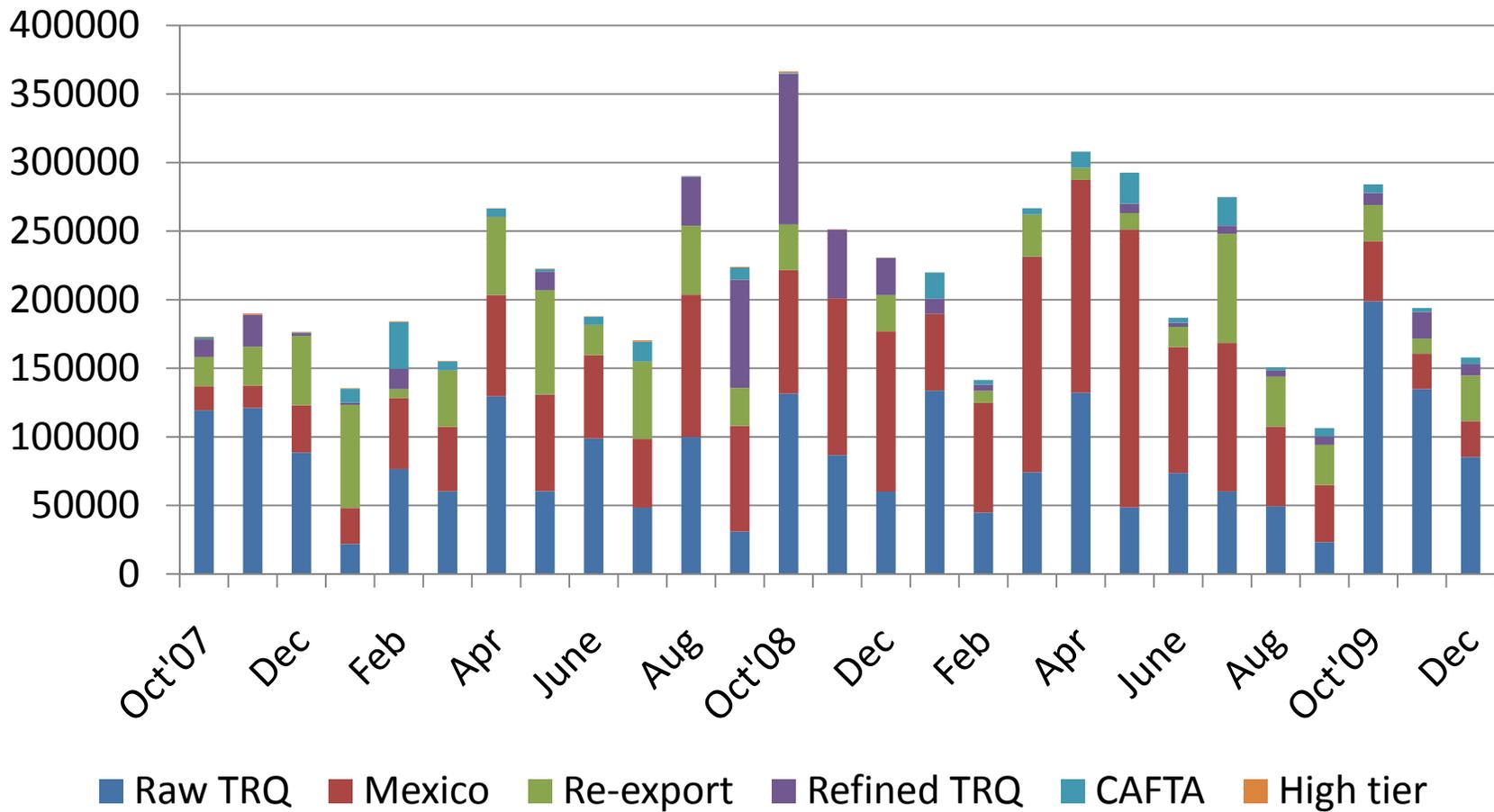
US imports by classification:



Source: USDA

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US imports by classification:



Source: [USDA](#)

The Mexican standoff:

- US depends on Mexico for supply
- USDA must manage situation to preclude oversupply and loan forfeiture
- Two potential courses of action:
 - Allow sufficient WTO imports to discourage Mexican exports
 - Keep market sufficiently tight (exclude WTO shippers) to draw in Mexican supply
- 2009-10 realities not compatible with USDA philosophy

Mexico's seat at the US table:

USDA ERS Sugar and Sweeteners Outlook, Jan 2010:

“Sugar imports from Mexico for FY 2010 are projected at 760,000 STRV. Although Mexico is forecast as a small net importer next year, strong U.S. demand for raw sugar is projected to be a large draw for Mexican estandar sugar, especially if the U.S. raw sugar TRQ does not increase in the second half of FY 2010.”

Mexico

Mexican situation: Feb. WASDE

1,000 mtrv

2008-09

2009-10

• Carry-in	1975	• Carry-in	488
• Production	5260	• Production	5100
• Imports	166	• Imports	720
• Consumption	5540	• Consumption	5300
• Exports	1367	• Exports	490
• Carry-out	488	• Carry-out	518

Source: [USDA](#)

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Mexican situation: JSG est.

1,000 mtrv

2008-09

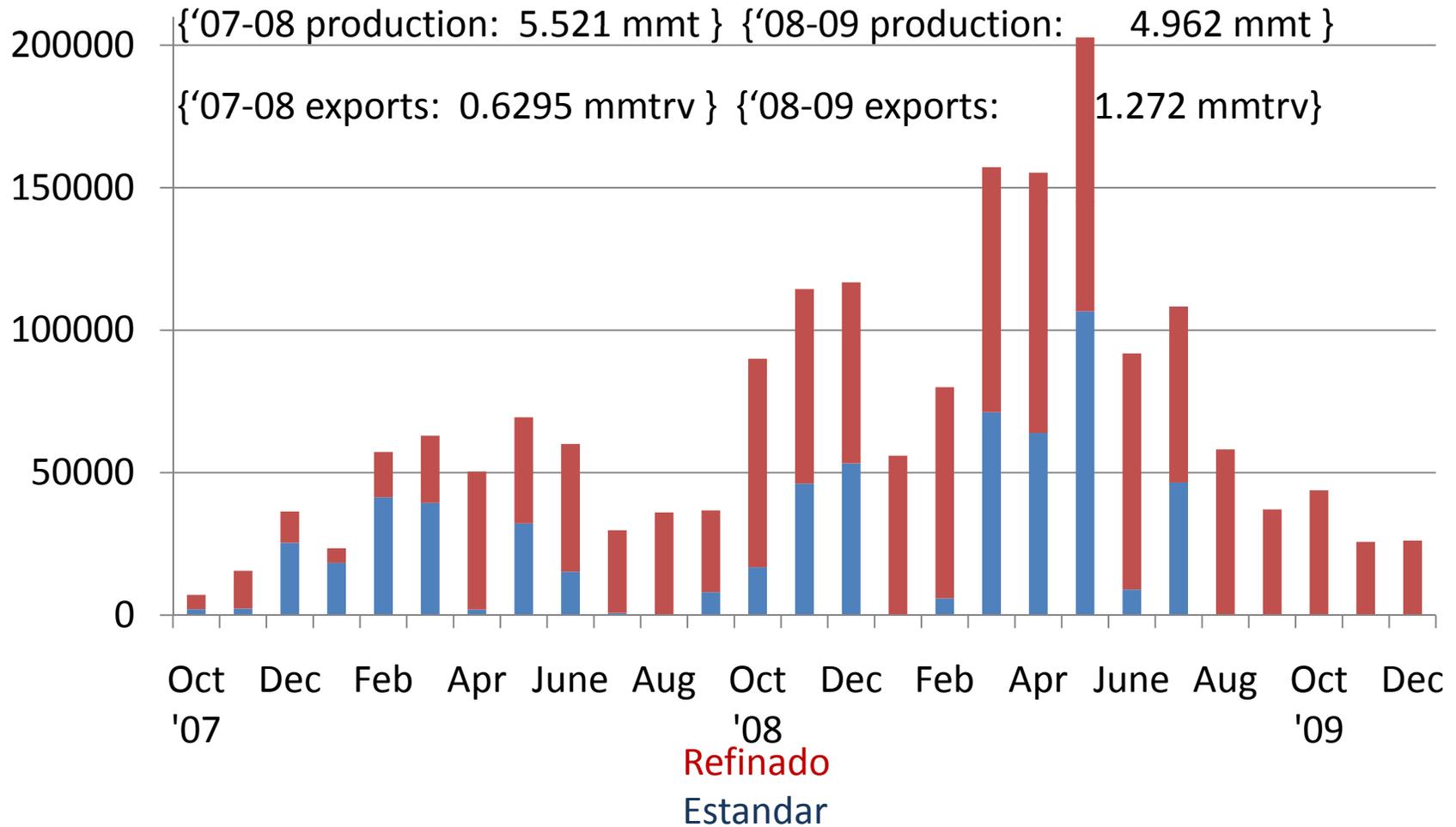
2009-10

• Carry-in	1975	• Carry-in	488
• Production	5260	• Production	4815
• Imports	166	• Imports	720
• Consumption	5540	• Consumption	5300
• Exports	1367	• Exports	490
• Carry-out	488	• Carry-out	233

To achieve carryout equivalent to two months' consumption, imports must be increased or exports reduced by 650,000 tonnes.

Mexican exports to US

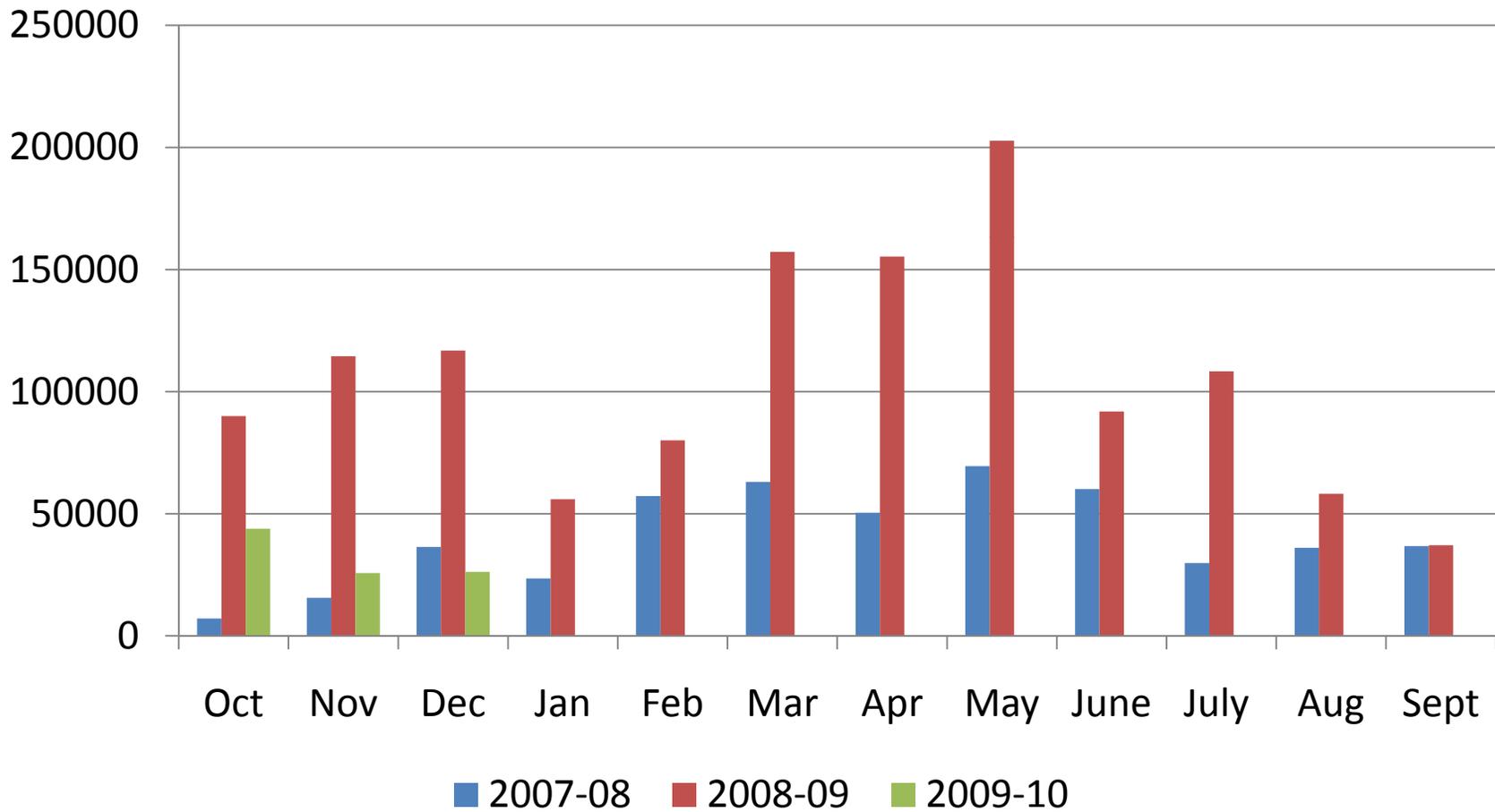
October 2007-present - mtrv



Source: US Census

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Mexican exports to US:



Source: [USDA](#)

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Mexican export potential:

1,000 mtrv

- | <u>Year</u> | <u>Beginning Stocks</u> | <u>Production</u> | <u>Imports</u> | <u>Use</u> | <u>Exports</u> | <u>Ending Stocks</u> |
|----------------|-------------------------|-------------------|----------------|------------|----------------|----------------------|
| 2004-05 | 1237 | 6149 | 268 | 5561 | 128 | 1965 |
| 2005-06 | 1965 | 5604 | 240 | 5649 | 866 | 1294 |
| 2006-07 | 1294 | 5633 | 474 | 5523 | 160 | 1718 |
| 2007-08 | 1718 | 5852 | 226 | 5504 | 677 | 1975 |
| 2008-09 | 1975 | 5260 | 160 | 5540 | 1367 | 488 |
| 2009-10 | 488 | 4815 | 720 | 5300 | 490 | 233 |
| 2010-11 (proj) | 233 | 5000 | 1555 | 5300 | 0 | 1488 |

- To achieve average stock level from 2004/05-2008/09, Mexico will need to import 1.555 million tonnes net in 2010-11.

Conclusions:

Timing is everything:

- World market near 30 year highs
- March futures, representing March-May 15 shipment, expire February 26th
 - March currently 50 points over May
- Early- to mid-April TRQ announcement is effectively “fishing behind the net”
- An incremental approach will exacerbate supply issue dramatically
 - Available supplies will only diminish until October-December period except for center-south Brazil & southern hemisphere

Next 30 days:

- Character of the US market for the next six to eight months will be largely determined in the next month
- If TRQ is not increased by at least 750,000 tons by mid-March , availability of sugar in the third quarter will be “challenged”
- If the USDA manages the program solving for single-digit ending stocks, the current state of near-crisis will extend into the next several years regardless of world market realities

On the other hand...

- Deficit for 2009-10 roughly 1.0 million tons
- If met with 50 % refined and 50 % raw sugar, average duty would be 34.80 cents per kilogram or 15.79 cents per pound
- Total revenue to US Treasury would be \$315,800,000.00



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USDA Agricultural Outlook Forum
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Jenkins Sugar Group, Inc.