

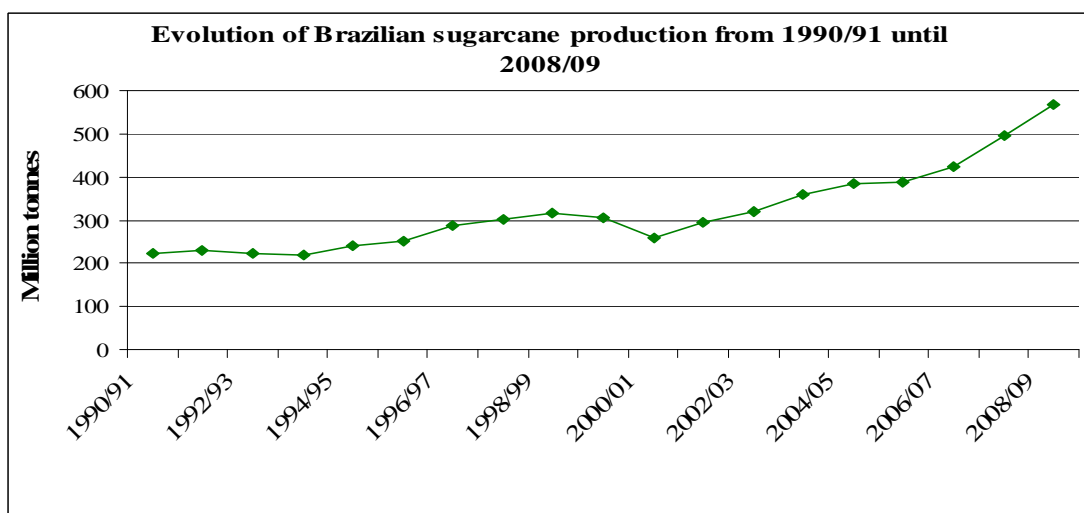


About the 2011-12 Brazilian campaign in Centre/South region

Despite global macroeconomic uncertainties pressuring down markets, world sugar prices have remained quite firm since the beginning of August. With almost 90 % of total Brazilian sugarcane produced in Centre/South region, the area is key to world sugar market trend by that time of the year. As a consequence, the successive downward revisions of 2011-12 Brazilian Centre-South campaign since June 2011 have been very supportive for world sugar prices.

1 – Brazilian sugarcane production to decrease for the first time since 2000

For the first time since 2000, the Brazilian year-on-year sugarcane production is to decrease in 2011/12. According to different sources (UNICA, Datagro, Canaplan), the Centre/South region should harvest no more than 520 Mt in 2011/12, more than 8% less than in the previous campaign.



Source: UNICA

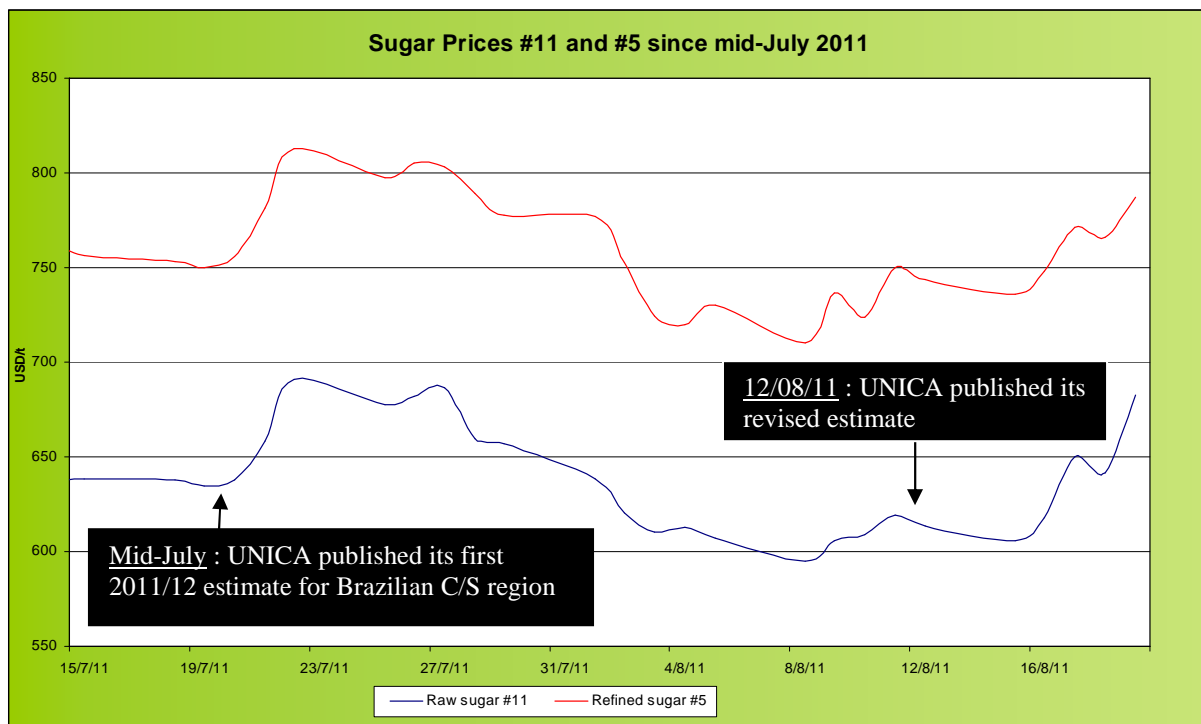
Considering that sugarcane production in North/NorthEast region will average [65-70] Mt this campaign, **total Brazilian sugarcane production should reach [585-590] Mt at maximum in 2011/12.**

Main reasons for such decrease are the following:

- ✚ Some difficulties emanating from the 2008 financial crisis which prevented growers from renewing their ageing sugarcane and led to sharp decrease in plant's productivity for this campaign,
- ✚ A lack of rains between April and August 2010 which significantly hampered 2011/12 sugarcane growth,
- ✚ Too much rains between February and April 2011 as well as cloudy days prevented a more vigorous sugar cane growth
- ✚ A decrease in the amount of "24-month" harvested cane (locally called "bisada" cane) whose yields are generally higher than the "12-month" cane,
- ✚ A decrease in sugarcane productivity due to frost and "plant flowering" whose effect on cane productivity was initially underestimated.

2 – Another downward revision to come?

As UNICA revised its production estimates downwards, world sugar prices have capitalized on this short-term support and prices went up.



Source : WABCG

Interestingly, the strong increase in sugarcane used for producing sugar (48% forecasts in 2011/12 against 45% in 2010/11) may mitigate the sharp decrease observed in the sugarcane quality (see graph below).

2011/2012 SUGARCANE HARVEST ESTIMATE / SOUTH-CENTRAL REGION					
Description	A Final values harvest 2010/2011	B 1 st review harvest 2011/2012	C New estimate harvest 2011/2012	C/A (%)	C/B (%)
CANE PRODUCTION					
Total (thousand of tons)	556,945	533,500	510,238	↓ -8.39%	↓ -4.36%
PRODUCTS					
Sugar (thousand tons)	33,501	32,380	31,570	↓ -5.76%	↓ -2.50%
Anhydrous ethanol (million liters)	7,413	8,550	8,140	↑ 9.80%	↓ -4.80%
Hydrous ethanol (million liters)	17,971	13,995	12,865	↓ -28.41%	↓ -8.08%
Total ethanol (million liters)	25,385	22,545	21,005	↓ -17.25%	↓ -6.83%
SUGARCANE QUALITY					
TRS (thousand of tons)	78,249	72,396	68,934	↓ -11.90%	↓ -4.78%
TRS / ton of sugarcane	140.50	135.70	135.10	↓ -3.84%	↓ -0.44%
SUGAR / ETHANOL PRODUCTION SHARE					
cane used to sugar production (%)	44.93%	46.94%	48.06%	↑	↑
cane used to ethanol production (%)	55.07%	53.06%	51.94%	↓	↓
SUGAR AND ETHANOL MARKET					
Sugar exports (thousand tons)	24,640	23,130	22,320	↓ -9.42%	↓ -3.50%
Ethanol exports (million liters)	1,767	1,350	1,350	↓ -23.60%	↑ 0.00%

Source: UNICA. Note: TRS = Total Recoverable Sugars; 1st review of the estimate for the 2011/2012 sugarcane harvest released on July 13, 2011.

Department of Economics and Statistics

Source: UNICA

To conclude, it sounds quite clear that Brazil is now at a turning point and may have difficulties to sustain both national demand for ethanol and world sugar demand which grows at an average 2% rate a year, especially with new emerging developments in bioplastics. Getting back to strong growth rate for sugarcane production will require heavy investments. The recent decisions of the Brazilian government to finance a 22 billion USD investment program should undoubtedly help the sector to rebound in the next years.

About sugarcane « names » in Brazil

According to the timing by when sugarcane is planted during the year, sugarcane has a distinct name in Brazil as described below :

- Cane planted between January and May and to be harvested next campaign: sugarcane is called « 18-month » cane or « year and a half cane ».
- Cane planted between June and August and to be harvested next campaign: sugarcane is called « winter cane ».
- Cane planted between September and October and to be harvested next campaign : sugarcane is called « 12-month » cane or « year » cane.
- Cane « bisada » refers to a « 24-month » cane.

In the Brazilian CS region, sugarcane is mainly planted between January and May. Since last year and considering that the renewal of sugarcane was way less than usual growers have apparently privileged « winter » cane and « 12-month » cane in some areas but with great variability from one region to another.