



J. Ganes Consulting, LLC

The Hard Facts on Soft CommoditiesSM

SOFTS: Fast Facts



WHAT'S AHEAD?

Weather Watch: Spring flowers, El Niño & La Niña * **NEW STUDY***

Seasonal Swings: Cotton, Sugar

Crop Reports & Other Indicators: Cotton, Coffee

Fundamental Favorites: Bear Market Blues—Sugar and Cocoa

ICE Update

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Weather Watch

Spring is in the Air

Soon the cherries blossoms will be out in full bloom in the nation's capital and Tokyo. Snow is starting to melt and the spring time holidays are just weeks away. For commodity traders, keeping tabs on the weather at this time of year is a full time occupation as it could set the tone for many markets for the months ahead. Early rains bring welcome flowerings or provide good soil moisture coverage for a timely start to spring plantings of grains and cotton. Last minute shifts in acreage are often dictated by the amount of precipitation that has fallen matched against optimal planting conditions and timing. For tree crops, such as coffee and cocoa, bursts of rain followed by intermittent bouts of sunshine spur flowering of the following year's harvest. Once blossoms appear, there is generally a six month span before the crop is ripe for picking, so there is a long lead time to beware of the next harvest's potential outcome.

Certainly this past year, less than ideal weather set the stage for some production problems worldwide. For the most part, there was simply too much of a good thing within tropical regions, although some areas suffered from drought. Colombian coffee production was impacted by both; first far too much rain and then an absence of rain that kept the summer crop from flowering properly. A return to more normal shower activity has returned to Colombia and flowering for the next main crop has been excellent, especially after the trees had a period of rest due to the low output this season and last. Rejuvenation efforts should start to kick in as well, aided by the better weather.

There has also been a gradual increase in precipitation levels for many countries over the past 30 years based on a thorough analysis of weather patterns for the newly published study by J Ganes Consulting.

During periods of increased shower activity the rains have become even more acute. Mountainside slopes that have been deforested are particularly vulnerable now to mudslides, threatening full villages and the crops grown on them.

The short list of places to watch that could have the most significant impact on production is detailed as follows:

Cotton: Weather in the United States and China are always the top spots to watch. With improved seed varieties that are more disease resistant and have shortened growing cycles, adverse weather does not affect the cotton crop to the same extremes as it used to. Farmers have a greater window to adjust planting times and varieties to offset less than perfect weather. In the past, mild winters also increased the incidence of disease or pests threatening the crops because they were able to continue to populate, but this is no longer much of a concern either due to genetically modified seed varieties.

In the non-irrigated regions of Texas, farmers (and the price of the cotton market itself) climb a wall of worry about getting the crop in the ground. Oftentimes, rains don't start on a timely basis and soil moisture levels dry out, which would make it hard for the seed to germinate. As nervous as farmers may get each year, there is hardly a time when the crop doesn't get planted and even with initial uncertainty, yields are typically above average. For most seasons, the worry about the weather is generally worse than the actual conditions. This season, the area planted to cotton in the United States is expected to increase by at least 10% and probably higher given current prevailing prices and the hopes that prices will continue to be attractive as world demand for cotton starts to recover. Similar increases could be expected elsewhere, including China. The cotton area harvested in China last season dropped sharply following a relatively small decline the year prior. Acreage was at the lowest level since 2003-04, but yields are far higher.

MONTHLY OUTLOOK

Sugar: Brazil is by far the single most important country to watch at this time of year as the new cane crop harvest is just getting underway. Dry conditions are preferable so equipment can move through the fields and sucrose content is not reduced. Rainfall totals in Brazil, up to this point have been above average and while this may have hampered last year's harvesting operations, it is leading to excellent prospects for this year's crop. Not only is the area planted to cane expected to expand further but there is also uncut cane left over from the 2009-10 campaign that will further boost totals. A promising start to the harvest will help to bridge the gap in supplies created by a smaller Indian crop this season.

Similar to cotton, estimates of losses tend to be exaggerated. For instance, the sugar market raced to 30 cents per pound on the possibility that India would see production slip under 15 million tonnes against domestic use of 21-23 million tonnes. However, late monsoonal rains helped to boost the production total as did more careful cutting of the cane because of the higher prices and final Indian sugar output may now have reached 17 million tonnes. While this is still below use, it is not to such an extreme. Furthermore, while it is still too early to say whether the monsoonal rains will come on time this year, the likelihood of three consecutive years of a poor start are rather slim.

European beet sowings will be starting soon. Last year's production far exceeded original expectations due to excellent weather throughout the planting, growing, and harvesting period. A good mix between rain and sunshine is optimal for the sugar beets development.

Coffee: Most of the main crop harvests are finished by this time, so weather impacts the development of next year's crop rather than having any strong bearing on this season's. In another two months, attention will be riveted on possible cold fronts that could harm Brazil's flowering of the next harvest, which is already expected to be cyclically

reduced. The chance of a frost affecting the coffee regions has been reduced due to the migration of the main coffee belt further north away from frost prone areas.

Cocoa: The weather from April-June is critical for the West African cocoa region with periods of intermittent showers helping the trees to flower and promote a healthy start to the next main crop cycle. While showers could also hamper harvesting and drying of the mid-crop, the positive benefits generally outweigh the bad and if rains happen early enough this could cause the pods to swell for better development of the tail end of the mid-crops. Again, the best conditions are where there is a good mix of rain and sun. If there is precipitation with too much cloud cover, the high moisture becomes a fertile feeding ground for the spread of diseases, such a black pod.

Softs Weather Study Now Available: For more detailed weather information please visit www.jganesconsulting.com A new 173-page study has been published by J Ganes Consulting that analyses the impact of weather anomalies on coffee, cocoa and sugar output. Aside from the comprehensive research the report includes an appendix with all the raw data. It can be purchased as a full report or a standalone study for each of the three commodities. The coffee section is also available in Spanish.

Seasonal Swings

Cotton

Old crop-new crop spreading tends to intensify at this time of year. One would normally expect new crop values to remain steady on crop uncertainty and to assure that sufficient cotton seed got planted this spring. Old crop values show mixed results, but ordinarily would be expected to stay on the defensive to assure more cotton got sold but also shipped to be able to meet or exceed the USDA export target. If old crop values became too high, international buyers could back away from making new commitments and postpone delivery contracts, rolling them later in the year or into next year.

The supply situation this year, however, lends itself to the spread moving in the opposite direction than logic would normally dictate. The 2009-10 season is expected to end with both domestic and foreign stocks at exceptionally lean levels due to a combination of production being intentionally slashed and demand starting to recover at faster pace due to the need to replenish mill inventories after having been drawn down last year to extreme levels as credit tightened. Old crop values have pushed upwards but should still be capped as higher prices would cause the demand spigot to be shut off.

New crop cotton prices have not kept pace with the move in old crop values as planted acreage is expected to post a strong gain and this will boost production next season, quickly erasing any concerns about supplies being pinched in 2010-11. The increase in acreage should be worldwide given the steadier prices and known low stocks. As bearish as this may seem, new crop values still need to stay firm enough for the cotton to get into the ground this spring. If prices drop too prematurely, this won't happen and the market would be forced higher at a later date,

Sugar

Last year's bull market has certainly turned into the bear market of 2010. Sugar has lost ground at a swift pace after peaking at 30 cents per pound and is now back down to about 20 cents. Further losses are possible as the market slices through support on fund liquidation and a steady dollar. The period of tightness is ending. The Brazilian new crop harvest and crush of the cane will soon kick into higher gear and this fresh supply will bridge any remaining gaps for the balance of the 2009-10 season. How far the market can slide will be determined by the production levels and export flow out of Brazil, but then the market could continue to weaken later in the spring if it appears the Indian monsoon will start on time, after two years of erratic rainfall. Expect most of the bull market gains to be erased.

The trouble is that production improvements won't stop at just Brazil and India. The high prices this year should spur increased productivity worldwide and that could quickly shift the market from a supply deficit to a surplus in 2010-11. Once the investment is made in expanding production, it is a multi-year above average increase in output that could be anticipated. Sugar prices even at 20 cents are still fairly high and so demand is likely to show below normal growth, leading to back to back production surpluses. It is not uncommon for sugar to see a string of surpluses following a period of rising prices. Unless the weather becomes an issue again for next season, the sugar market could slide another 5-7 cents, if not more in the months ahead.

Crop Reports & Other Indicators

Cotton Prospective Plantings

Market attention will be riveted on the Cotton Planting Intentions Report at the end of the month. US cotton acreage is expected to jump and based on historical yields the crops potential is wide ranging. More than likely, the yield per acre will be above average due to the increased amount of disease resistant seed varieties now being planted. Based on historic all-time yields, the crops potential is as high as 16.77 million bales should planted acreage increase 10.3% and assuming an abandonment of 11.6%, which is the 5-year average. If yields are at the upper end, chances are, however, that abandonment would not need to be as high and therefore the crops potential could be even slighter larger than indicated with the same bump up in planted acres.

The planting intentions report is only an early indicator of what farmers are presently thinking will go in the ground, but there is

certainly flexibility within this based on prevailing market prices in the coming 2-3 months, prices of competing farm crops and of course weather conditions. A crop of 16.77 million would be sufficient to cover expected domestic demand and exports, but not allow for a large build in the US carryout from expected low levels this year. As a result, new crop cotton prices should find excellent support below current market levels and would not be expected to weaken by very much in the months ahead. There is much greater risk to the upside, especially if there is any unfavorable weather that threatens the yield potential.

Brazilian Coffee Crop Prospects

Estimates on the size of the Brazilian 2010-11 upcoming coffee harvest remain wide ranging, but some of the projections are being scaled back slightly from earlier views. As it gets closer to the harvest period, more adjustments will certainly be made. The development of the crop started erratically with above average shower activity from the outset, sparking fears that there would not be a uniform development of the crop, but then improved weather conditions thereafter have aided the sizing of the cherries.

A recent government estimate placed the

2010-11 US Cotton Production Range

	Southeast	Delta	Southwest	Far West	Total Upland	Total Pima	Total Cotton
Acres to plant	2,167.0	1,764.0	5,713.0	272.0	9,916.0	176.0	10,092.0
Chg from Previous Year	12.3%	8.4%	9.1%	25.9%	10.1%	23.9%	10.3%
Estimated Abandonment	2.2%	1.4%	21.1%	2.0%	11.8%	0.6%	11.6%
Acres to Harvest	2,118.9	1,741.4	4,510.2	266.4	8,637.0	175.1	8,812.1
Low Yield	2,135.8	1,889.8	3,363.9	551.7	7,941.2	352.7	8,293.9
Medium Yield	3,484.0	3,397.8	6,803.4	790.8	14,475.9	445.2	14,921.1
High Yield	3,798.0	3,799.6	7,933.2	703.3	16,234.1	538.6	16,772.7
Chg from Previous Year	9.2%	4.1%	18.2%	25.9%	12.7%	21.3%	13.0%

Source: USDA, J Ganes Consulting

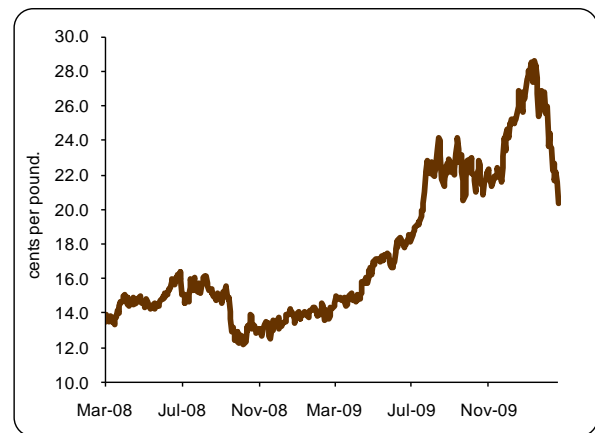
Brazilian harvest down slightly from the prior indication and suggested output would be under 47 million bags. Trade house estimates still place the crop over 50 and even 55 million bags, but it is doubtful that production will be substantially above this. Favorable weather recently and the coffee areas being well groomed have reduced the impact of the shaky start to the season, bulls argue.

Whether one leans with the larger or smaller crop views, there is no denying that the flowering of the crop started unusually early and this jump start should cause the flow from this harvest to start sooner. This would help bridge a gap in supplies created by a shortfall in 2009-10 due to disappointing harvests in Colombia, Mexico, and across much of Central America. This has led to extreme tightness of Mild Arabica supplies and is being reflected in sky high differentials being paid for coffee; even then the quantities being offered for sale are minimal. Roasters will need to keep turning to certified coffee stocks to cover the shortfall. These stocks have already been reduced, but will drop further in the coming months.

Fundamental Favorites: Bear Market Blues for Sugar and Cocoa

Best bear markets always follow bull moves

[Sugar Can Dissolve Even More](#)



Source: [Futuresource](#)

The sugar market has plunged as funds hastily retreated from the market the past several weeks and while the move down has been quite steep, even greater losses could be expected. Bull markets turn to bear markets quickly. While there may have been a substantial supply shortfall in 2009-10, that tightness will now be alleviated with the start of the Brazilian harvest. Assuming a return to more normal weather, sugarcane output is expected to jump sharply and the percentage of the crop used for sugar production could be slightly more than last year, leading to even higher output. Yields should also be up, leading to even more sugar production. In addition, there was uncut cane left over from 2009-10, that will help to increase the flow of the crop early in the season.

According to a projection made by UNICA, Brazil's center/south key producing region could see cane output rise to 580 million

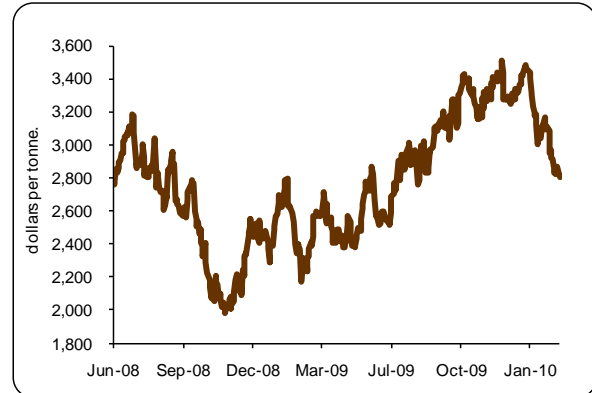
tonnes of cane from 533 million in 2009-10 while the extraction rates or yields of sugar will also be up, leading to a greater production increase than just 10%. The increased supply will come at a time when world import demand will be contracting due to an expected recovery elsewhere, especially in India. As it is, India's production in 2009-10 seems to have fared better than earlier feared with output overall expected to top 16 million tonnes rather than drop under 15 million. This still represents a large shortfall, but simply not as massive as it could have been.

Buyers have retreated from the market, reluctant to make purchases when the market is dropping so fast; unwilling to commit to major purchases on the expectation that prices could get cheaper still. While major buyers may still have some needs that need to be filled, it is unlikely that these purchases will be done in an aggressive manner that would stop the market from continuing to freefall.

In addition to major buyers stepping to the sidelines, there is an increased risk that purchases made at much higher price levels will be cancelled. Large scale buyers would be looking to average down their purchase price as well, which should also keep buying interest more limited even though current prices would seem rather attractive compared to quotes of even just a few weeks ago. It is this psychology that causes bull markets to unravel even faster and harder than the fundamentals may seem to warrant.

Cocoa: Another Bearish Market

More Room to Go on the Downside



Source: [futuresource](#)

While the market had been rising on fears of successive reduction in stocks last year, the reality has been that there was only one season with a fairly substantial drawdown but this had followed two seasons of significant surpluses. According to the first estimate for the 2009-10 season, the ICCO has pegged supply and demand at a deficit of a mere 18,000 tonnes based on production rising 1% and consumption increasing 2.5%. However, the gain in use might be too optimistic, in which case the balance could easily shift to being a modest surplus.

Just as significant, however, is that the ICCO now has reversed their view on the 2008-09 season and believes that it ended with a surplus of 32,000 tonnes rather than a deficit as indicated for the past year. Initially, the ICCO had estimated the 2008-09 shortfall to be 193,000 tonnes based on a fall in production of 5% and a drop in use of 2.1%, but as the season progressed they kept narrowing the gap between supply and demand, mostly due to a drop in usage.

The political situation in the Ivory Coast could have turned a corner recently with the road to recovery and stability perhaps just ahead. The market has been carrying a war risk premium the past several years and this can be eliminated if the Ivory Coast reform efforts start to move on track.

ICE Update

ICE Dollar Index Options Go Electronic!

Average Daily Volume in the Softs Contracts Jumps in February

Average daily volume in Sugar No. 11 futures & options in February, 2010, was 192,373, a 49.3% increase from February 2009. February ADV in the other ICE soft commodity futures and options also grew by over 45%. See the ICE monthly press release [here](#).

Temporary Changes to Opening Times for Sugar, Coffee and Cocoa Contracts and Settlement Time for Cocoa, March 15 - 26

ICE Futures U.S. is temporarily changing the opening times for its sugar, coffee, and cocoa contracts. The temporary change begins on trade date Monday, March 15, and ends on trade date Friday, March 26. During this two-week period, Sugar No. 11 and Coffee "C" Contracts will open for trading at 4:30 am ET (8:30 am GMT) and Cocoa contracts will open at 5:00 am NY time (9:00 am GMT).

In addition, for this same two-week period, there is also a temporary change to the daily settlement window for the cocoa contracts. For this period only, the cocoa daily settlement window will be from 12:48 to 12:50 pm ET; at the end of this period, the window will revert to the normal 11:48 to 11:50 am ET. Because of the temporary change in the settlement window, the allowable hours for the execution of cocoa futures Trade At Settlement (TAS) orders is extended to the end of the settlement window, or 12:50 pm NY time.

These temporary changes have been made to accommodate the difference in the beginning of Daylight Saving Time in the US on March 14 and the start of British Summertime on March 28. Other trading

times for these products, including the pre-open time, daily settlement windows, floor trading hours for related options products, and the daily close of trading (other than for cocoa as noted above), remain unchanged as expressed in ET during this period. Traders outside the US should be aware that Daylight Saving Time (DST) in the US begins on March 14, and should make the appropriate adjustments if required in the calculation of local time equivalents of the pre-open, daily settlement window, options floor hours and close of trading. Read the entire Exchange Notice [here](#).

Increase in No Cancellation Range (NCR) for Cocoa Futures

On March 1, the No Cancellation Range (NCR) for cocoa futures increased to 20 points (the prior NCE was 15 points). Under the Exchange's Error Policy, the NCR for a product establishes a range within which executed trades will not be cancelled under normal circumstances. The NCR is calculated from an anchor price that reflects the exchange's calculation of current value for the contract; the anchor price is usually the last sale in the most actively traded contract month, but may change depending on market conditions.

The NCR for a product also affects the placement of Stop Limit Orders and Stop Orders With Protection. With this change, the allowable price range between the stop price and the limit price of a Cocoa Stop-Limit order is 20 points, and the Exchange-set limit price on a cocoa Stop Order With Protection will be equal to the stop

price plus the NCR for buy stops and the stop price minus the NCR for sell stops. Read the entire Exchange Notice [here](#).

Increase in Reasonability Limit for Sugar No. 11 Futures

On March 1, the Reasonability Limit for the Sugar No. 11 futures increased to 75 points from the prior 50 point level. The Reasonability Limit for a product establishes a range outside of which the electronic trading

MONTHLY OUTLOOK

platform will not accept bids or offers. Read the entire Exchange Notice [here](#).

Reminder: Trade at Morning Marker (TAMM) for ICE Soft Commodity Futures

ICE Futures U.S. supports Trade At Morning Marker ("TAMM") orders for all its soft commodity futures on the ICE electronic trading platform. Using a TAMM order, a trader can enter a buy or sell order at a price equal to the Morning Market Price, or at a price up to two ticks above or below the Morning Market Price. The Morning Market Price for each eligible contract month is calculated by the Exchange at the end of the specified Morning Marker Period. The Morning Marker Period for each product is as follows (all times are ET):

Sugar No. 11 – 8:10 am to 8:12 am

Coffee "C" and Cocoa – 8:00 am to 8:02 am

Cotton No. 2 – 10:30 am to 10:31 am

FCOJ – 10:00 am to 10:01 am

For most futures contracts enabled for TAMM, the first three delivery contract months are eligible for TAMM trading on any trading day. The only exception is Cotton No. 2 futures (the first five delivery months are TAMM eligible). TAMM orders for any eligible contract month can be entered from the start of the pre-open period through the end of the Morning Marker Period for that contract.

[Morning Marker Prices](#) are published online by the Exchange at its Report Center shortly after the end of the Morning Marker Period for the contract. You can use the drop down menu on the left hand side of the page under "Filter Your View," choosing the product, report name (Morning Market Prices) and year.

More information about TAMM orders is available in a [TAMM FAQ](#).

About J Ganes Consulting

Food and agricultural businesses can rely on the pertinent research, expert analysis, and historical perspective of J. Ganes Consulting, LLC. Our market reports, customized research, consulting services, and workshops offer insight, on-target forecasting, and objective thinking.

We filter and synthesize supply-and-demand information drawn from critical industry publications and our personal contacts in the field; we interpret that information; and we put it in a context to support your business

About ICE Futures U.S.

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[Exchange and Clearing Fees](#)

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[Cocoa](#)

[Coffee "C"](#)

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[FCOJ-A](#)

[Sugar No. 11](#)

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