

Brazil fears cloud world's return to sugar surplus

ABN Amro echoed forecasts of a return to a sugar production surplus – but not by as far as some other observers, warning that the threat of disappointing Brazilian production left the market facing "another season of uncertainty".

World sugar output will jump to 169.3m tonnes in 2011-12, well ahead of consumption, pegged at 161.5m tonnes, the bank said.

However, the estimate of 7.8m-tonne production surplus is below some other forecasts, with Czarnikow earlier this month pegging the gap at 10.3m tonnes, and Swiss-based Kingsman expecting a 10.6m-tonne figure.

"It has become more apparent that the 2011-2012 Brazilian harvest will seriously undershoot expectations, and that disappointment will hardly be compensated for by a gradual return of India to export availability," ABN said.

"There is yet another season of uncertainty to negotiate – possibly even more than one," if Brazil's waning sugar productivity, a hangover from a dearth of investment during the world recession, proves "a structural as opposed to a merely transient problem".

'The big question'

The comments follow a weak start to 2011-12 for sugar output in Brazil's Center South region, which is responsible for most of the output in the world's top producing, and exporting, country.

While dryness in May allowed mills to catch up some production lost since February, when frequent rains slowed cane harvesting, this dearth of rain itself will come with a hangover later in the season, in terms of stunting development of the crop.

Raizen, the joint venture between Brazilian sugar giant Cosan and Anglo-Dutch oil group Shell, warned earlier this month that Center South sugar output could fall to 31.1m tonnes, compared with industry estimates of nearly 35m tonnes.

"The big, and unanswerable, question is - how far will Brazil's cane and sugar output in 2011-2012 drop below initial expectations?" said ABN, whose research is undertaken with the VM Group.

"If the Brazilian harvest does undershoot by as much as 30% consistently throughout the rest of its season, then the price will surely rise further."



'Worries pre-eminent'

The comments came as sugar futures, once again, swung between positive and negative territory in New York, although not as strongly as in the last session, when the July lot slumped 5.6% after India announced consent for an 500,000 tonnes of exports, only to close in positive ground.

"It seems worries about Brazil's output are still pre-eminent," Nick Penney at Sucden Financial in London said.

New York's July contract closed 0.2% lower at 27.54 cents a pound, with London white sugar for August ending up \$0.10 at \$734.60 a tonne.

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