

## **Sugar prices may 'spike' despite better supplies**

Sugar prices remain vulnerable to "spikes" despite improved hopes for a production surplus, given the extent to which stocks have fallen – and with 2012-13 unlikely to usher in freer supplies.

The International Sugar Organization, in quarterly briefing, raised by 250,000 tonnes to 4.46m tonnes its forecast for the output surplus in 2011-12.

The revision reflected firmer expectations for European Union and Russian output, following bumper beet harvests, tempered by a further downgrade to hopes for top-ranked Brazil which looked set for a 3.3m-tonne drop in production, higher than the 2.9m-tonne drop previously expected.

"In many other major producers the [2011-12] season is expected to bring significantly higher production than in 2010-11," the ISO said, flagging also improved export prospects from Australia, India and Thailand.

'Price spikes possible'

But it urged against complacency amongst buyers despite the first production surplus in four seasons, given the extent to which stocks depleted by successive shortfalls.

"Even if the currently anticipated differential between export availabilities and import demand goes to stocks at the end of the season, the stocks-to-consumption ratio of about 37% would still remain at a historically low level," the organisation said.

The stocks-to-use ratio is an important guide to the availability of a commodity's supplies, and therefore of its price potential.

Indeed, the "low level" of sugar stocks was "likely to mitigate the potential bearish pressure of surplus fundamentals throughout most of the current cycle to end in September 2012".

And it left the market vulnerable to supply shocks, meaning that "any currently unforeseen, weather driven supply disruption would not be moderated by releases of sugar from stocks, making further price spikes possible despite the surplus character of the season".



'No further stock rebuilding'

Nor could buyers hoping to hold out for another year bank on cheaper supplies, given that Brazilian output looked set for only a partial recovery in 2012-13 from this season's decline, and India looked set for a substantial decrease in production.

"Next season, world production may equal global use of sugar," the ISO said.

"Therefore no further stock rebuilding in 2012-13 is anticipated and the stocks-to-consumption ratio is unlikely to rise."

The fears for India, the second-ranked sugar producer, stemmed from New Delhi's reluctance to approve exports, to avoid running down domestic supplies of an important foodstuff, and risk stoking price rises.

However, it risks a build-up of arrears in sugar mills' payments to growers, so discouraging cane production.

## *Agrimarket*