

Early days to call sugar sweet

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Mark to Market | Ravi Ananthanarayanan

It's that time of the year again when sugar companies—and investors in them—will begin watching cultivation numbers to assess their prospects. Before the monsoon's onset, it appeared as if it would be a repeat of last year, when there was plenty of sugar, resulting in a flat trend in sugar prices. India's surplus production and relaxation on exports ended up keeping global prices flat, too. But a poor start to the Indian monsoon and excessive rain in Brazil add a twist to the bearish tale.

The government said on 22 June that preliminary reports indicated an increase of 2.7% in the area under sugarcane to 5.15 million hectares. That's not surprising as cane prices are remunerative, especially in Uttar Pradesh. In the ongoing season (October-September), 25.5 million tonnes of sugar had been produced till end-May, according to the Indian Sugar Mills Association. It expected the season to end with total output set to cross 26 million tonnes.



India's sugar consumption is estimated in the region of 22-23 million tonnes, leaving a three-four million tonnes surplus, which the industry would want to export. An increase in cultivation in the forthcoming season would have meant more sugar in the market, keeping prices down.

The US department of agriculture, in its June 2012 edition of *Sugar and Sweeteners Outlook*, said that it expects India's raw sugar production to increase by

3.2% in 2012-13, while exports are expected to be lower, due to building up of domestic stocks.

Another large producer Brazil was expected to see its sugar cane output rise by 4%, according to the *Sugar and Sweeteners Outlook*. It expects global production to increase by 2%, and closing stocks to rise by 4.7%. The favourable supply outlook has meant sugar prices have been on the decline, with ICE sugar futures down by 11.4% in 2012 so far. Domestic prices have been flat, but 2012 has seen a 1% increase in the year so far.

CHANGING COURSE

Global sugar prices have fallen in 2012, though fears of lower-than-expected output in Brazil appear to have provided support in June.



News coming out of Brazil has put a question mark on whether its sugar output will grow as robustly. Heavy rains have affected harvesting and the second half of May saw an 18.7% decline in sugar production, said Unica, Brazil's sugar industry association. A *Bloomberg* news report said that Brazil's sugar output fell 32% in the first half of June. And June also brought news that India's monsoon was off to a weak start. In both countries, the situation can improve, as has happened in the past. But these developments have only added a twist to what was most certainly a flattish to bearish phase for sugar prices. They may just make sugar prices a bit

volatile, especially in international markets.

Domestic sugar prices, too, could rise if the monsoon does not come back on track. Investors will take all this with a pinch of salt. After all, sugar stocks have been in the dumps for years now. Monday saw some of them perk up. If the current developments cause an increase in sugar prices, it may spark some interest in these companies, as prices have a much bigger impact on earnings than a mere increase in output. As things stand, wise investors would know it is too early to predict a recovery.