

# Sugar surplus declines on cane diversion to ethanol

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**T**he global sugar surplus will be 23 per cent smaller than forecast as millers in leading producer Brazil direct more cane to making ethanol at the expense of the sweetener, according to Green Pool Commodity Specialists Pty.

Sugar supplies will be 2.89 million tonnes (mt) higher than consumption, the Brisbane, Australia-based researcher said in its second estimate for the 2013-14 season that starts in most countries in October. That compares with a previous forecast of 3.75 mt and excess supplies of 8.99 mt in 2012-13. Millers in Brazil's center south, the main growing region, will direct 45.2 per cent of the cane harvested to making sugar, down from a previous estimate of 47.6 per cent and last year's 49.4 per cent.

Ethanol obviously pays more than sugar, and it is usually paid for more promptly than is sugar, Tom McNeill, a director at the company, said in a report.

While there is some price pressure from stronger supply, we expect that consumption will kick in strongly for hydrous ethanol at the pump, and steady prices, he said.

The price of hydrous ethanol, the pure biofuel used in flex-fuel cars in Brazil, is about 16.50 cents a pound, according to Green Pool. That's 1.6 per cent more than raw sugar futures for July delivery traded on ICE Futures US in New York.

Sugar production in the centre south will be 34.5 mt, Green Pool estimates. That compares with a previous estimate of 35.8 mt and last year's 34.2 mt.

Global sugar production will fall to 177.7 mt in 2013-14 from 181.8 mt a year earlier as output drops in countries including India, the world's second biggest grower, and Mexico, the company fore-



casts. Consumption will rise to 173.8 mt in the 12-months started in April from 170.8 mt a year earlier.

## INDIAN OUTPUT

Dry weather in some of India's main producing states will cut the nation's sugar output by 9.6 per cent in 2013-14 from a year earlier to 22.5 mt, according to the report. Production in Mexico will probably fall to 5.8 mt from 6.5 mt in 2012-13, Green Pool estimates.

Mexico had very good growing conditions for its crop in the past year, and a sharp reduction in the pest and disease issues that usually beset the crop also helped maximise output, McNeill wrote. Can that be repeated in 2013-14? Current returns say no, and the statistical probability of two record crops is also low in Mexico. Hence the lower forecast for 2013-14.

In Thailand, the second-biggest exporter, production will rise to 10.5 mt in 2013-14

from 10.1 mt in the current season, Green Pool estimates. The cane crop there will be a record 100.1 mt in 2012-13 even with a poor monsoon, according to the report.

## PLANTINGS BOOSTED

Sugar prices have fallen 54 per cent since reaching a 30-year high of 36.08 cents a pound in February 2011, as farmers from Brazil to China boosted plantings. Futures, down 15 per cent in 2013, are heading for a third year of declines. That would mean the longest slump since 1992.

The market is working at taking away the incentives it so strongly provided to producers in the past two to three years, McNeill said. At present, even deferred contracts are trading at or below the cost of production of the major exporters, so that the balance sheet must see serious rectification before the market will trade above those levels again.

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