

A not-so-sweet year for sugar

Both international and domestic prices of sugar have remained weak

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This year has not been a sweet year for sugar prices, both in the international and domestic markets. The international prices of raw sugar have remained volatile in the last ten months.

The price of Sugar 11, which is the most widely traded contract in the US ICE Futures market, has fallen by over 15 per cent in the last one year.

Sugar prices started to trend lower since last October, after Brazil reported record cane harvest. Between October 2013 and January 2014, Sugar 11 contract lost about 17 per cent – from \$20/lb in October 2013 to about \$16.6/lb by end January 2014.

The prices began to stabilise in January 2014 after Brazilian sugar mills diverted a large chunk of cane towards ethanol production. From around \$16 levels in January 2014, the price of Sugar 11 contract jumped to \$19.3 by early March this year.

Expectations of lower sugar



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cane harvest this year have also helped prices. The Brazilian Sugarcane Industry Association (UNICA) and other producer associations have estimated a cane crush of 580 million tonnes (mt) in 2014-15, compared to 596.94 mt in 2013-14.

The fall in sugarcane yield by almost 7 per cent to 78.4 tonnes for harvests until the end of May, due to severe drought has also aided a marginal recovery in prices.

Looking ahead, investors may have some reason to cheer.

Ethanol production

The cane diverted for ethanol production has seen a sharp rise in 2014. According to data released by UNICA, until the end of May about 59.06 per cent of the processed sugar cane was diverted for ethanol production. With sugar prices at around \$16-17 per lb, the proportion of cane that went towards ethanol produc-

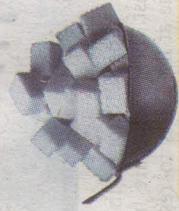
tion has only gone up in the last four months. By the second half of September, over 60 per cent of the cane output was diverted to ethanol production.

Lower output

The total sugar production in Brazil from the start of the season has also been marginally lower. Production so far has been lower by over 1 per cent at 25.08 mt, according to UNICA's latest release. Also, severe drought conditions in Brazil has forced many mills to close crushing operations earlier than usual this year. Almost 22 mills in the key South-central region have wound up crushing operations for the 2014-15 sugar season; only six mills had closed operations last year. Should other mills follow suit and wrap up early, sugar output can slip even lower, which may support international sugar prices.

Home front

The trend in sugar prices in the domestic market have been quite different from the global market. The movement in the domestic sugar prices has been guided more by cane availability, sugar production and inventory



Getting crushed
Increased sugar output and higher inventories may keep domestic sugar prices subdued

levels in the domestic market, than the movement in the international sugar prices.

Even as international prices are showing initial signs of recovery, the price of Sugar M contract traded on the NCDEX continues to remain weak. While international prices (Sugar 11 contract) have recovered from the September lows of about \$13.5/lb to about \$16.4; the price of India's Sugar M contract has fallen to about ₹29 a kg from ₹31 a kg in early September.

Further, industry body Indian Sugar Mills Association (ISMA) has estimated sugar production of about 25.3 mt for 2014-15, higher than the 24.3 mt produced in 2013-14. This may not bode well for domestic prices.

According to a recent release by ISMA, sugar inventory (opening stock) as of October 1, 2014, is estimated at 7.2-7.5 mt, which is about 2.5 mt higher than the sugar required by the country.

"Given the high inventory and current year's initial production estimate of about 25 mt, domestic sugar prices may languish at these levels over the next one year," says M Manickam, Executive Vice-Chairman of Shakti Sugars.

Business line
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