

Sugar turns bitter for hedge funds on fifth year of oversupply

Sluggish global demand and bumper harvest in India add to the downtrend

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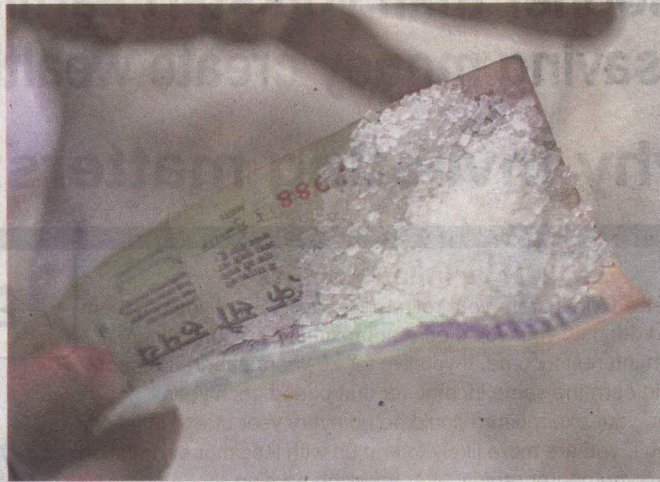
Even sugar's best rally in a month wasn't enough to make hedge funds bullish.

Money managers, instead, expanded their net-short position to the most in 11 weeks, US government data show. Speculators wagered on a rally just once since August and while prices jumped 3.5 per cent last week, they're still near the lowest level in six years.

Global harvests will exceed demand for the fifth straight year in 2015, according to Paris-based trade house Sucres et Denrees SA. While heavy rains threaten yields in Brazil - the top supplier - shipments from others should cover any shortfall. Exports from India, the biggest grower after Brazil, could double in the season that starts in October, a Bloomberg survey shows.

"Even with weather problems, supply is probably growing faster than demand," said Sameer Samana, a senior global strategist at Wells Fargo Investment Institute in St. Louis, which manages \$1.6 trillion. "It seems that India is going to have another pretty big crop, and that's just adding to the negativity."

Raw sugar dropped 18 per cent on ICE Futures US in New York



this year. The contract for October delivery slipped 0.2 per cent to 11.93 cents a pound as of 9:44 a.m. in London.

The Bloomberg Commodity Index of 22 raw materials fell 3.7 per cent in 2015, while the MSCI All-Country World Index of equities gained 2.8 per cent.

Rising stockpiles

The net-bearish position in sugar reached 97,815 futures and options contracts in the week ended June 23, according to data from the US Commodity Futures Trading Commission published three days later. Short holdings rose to the highest since March 31.

World inventories will climb to a record in the season that ends in September, US Department of Agriculture data show. Rabobank International expects

prices to reach 11.3 cents in the third quarter, the bank said in a report e-mailed on June 19.

Declining sugar prices have contributed to the lowest global food costs since 2009, according to the United Nations Food & Agriculture Organisation. Farmers have reaped record grain and oilseed crops in the past several years, in turn lowering feed expenses for dairy and meat producers.

Sugar glut

The sugar glut could start to ease next season. The USDA is projecting a small deficit in the 12 months that start October 1. Output in Brazil's Center South, which grows about 90 per cent of the nation's cane crop, fell 15 per cent in the first half of June, Sao Paulo-based industry group Unica said last week. The area is

expected to get more wet weather in early July that could hamper yields, according to forecaster Somar Meteorologia.

In Thailand, the second-biggest exporter, a lack of moisture is threatening to stunt development of cane crops, says MDA Weather Services in Gaithersburg, Maryland.

El Nino will boost volatility in the coming months, Rabobank said in report on June 26. The weather pattern will bring dry conditions that can limit yields and plantings of sugar crops in Asia and Australia, while spurring above-average rainfall in Brazil that hampers harvesting, the bank forecasts. Stockpiles will help to buffer crop losses, the analysts led by Stefan Vogel said.

Stockpiles have expanded amid slowing consumption. The USDA expects global sugar demand will rise 1.6 per cent next season, down from 2.3 per cent in the 12 months ending September 30. In Europe, the world's largest market for confectioneries, demand has peaked, with negligible growth in the past five years, according to researcher Euromonitor International Ltd.

The trend is clearly downward for sugar, said Walter Hellwig, who helps manage \$17 billion at BB&T Wealth Management in Birmingham, Alabama. "There's been no supply dislocation; rather the bias on supply is to the upside. And with fairly low global growth, the incremental demand isn't there."

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