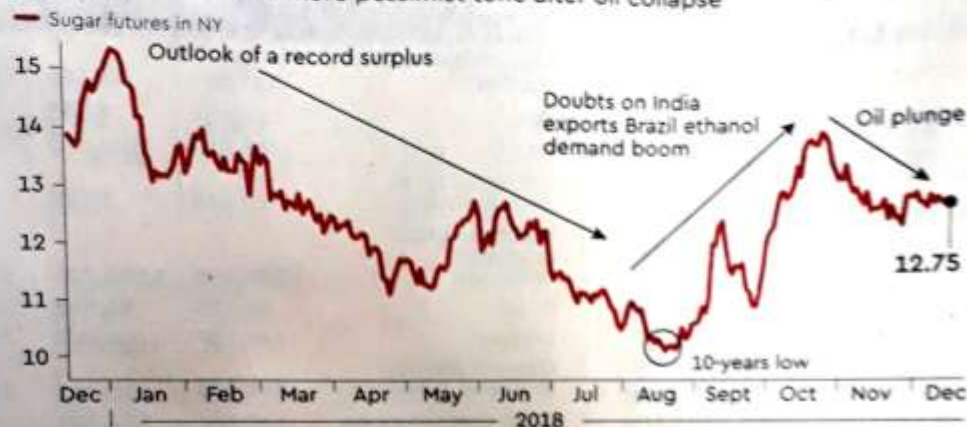


Bitter end for sugar as investors bet for losses

Ups and downs

Sugar ends 2019 on a more pessimist tone after oil collapse



Source: ICE Futures US in New York

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Bloomberg, December 17

SUGAR IS ENDING 2018 on a bitter note on signs that a price collapse could get even worse next year.

Futures have slumped 17% this year, a second straight annual loss, as booming global production sparked a supply glut. The one thing that kept the rout from being even deeper: robust demand for ethanol in Brazil, the world's biggest sugar grower and exporter. But now that backstop looks like it's going away.

Cane millers can turn crops into either sweetener or biofuel. For a lot of 2018, high gasoline prices meant Brazilian processors favored making ethanol, helping to cap the sugar glut. The recent plunge for crude oil is signaling that trend is about to reverse.

Most drivers in Brazil own flex-fuel cars that can run on either gasoline or ethanol. Consumers choose the alternative fuel when it's below 70% of the price of gasoline because it yields less energy per liter. Now that crude oil is tumbling, the outlook for traditional fuel consumption is improving,

and ethanol prices are slumping as a result. In 2019, cane millers stand to make as much as 13% more by turning the crop into sweetener instead of biofuel, according to data from consulting firm FGA, based in Ribeirao Preto, Sao Paulo state. That compares with a sugar discount of as much as 30% this year.

At projected levels for premiums, prices will likely be attractive enough to spur millers to produce an additional 2 million metric tons of sugar in the 2019-20 season that starts in April, Willian Hernandez, a partner at FGA, said in a telephone interview. His forecast is for producers in Brazil's Center-South, the top region for output.

Investors are betting on more declines. Hedge funds held a sugar net-short position of 5,810 futures and options as of Dec. 11, according to US Commodity Futures Trading Commission data published Friday. The holding, which measures the difference between bets on a price increase and wagers on a decline, has been negative for three straight weeks. There are still looming questions for sugar in 2019. Currency fluctuations could spark volatility.