Sugar export rebound at risk from rising domestic prices

Mumbai, Aug 27: Sugar prices in India are firming on fears of short-term supply constraints and seasonal demand even as global prices are sliding, posing a threat to a recent recovery in exports from the world's second-biggest producer of the sweetener.

A raised sugar import duty in India, festival demand and an expected delay in cane crushing in a key producing state have helped push domestic prices to a $70 a tonne premium to international prices, making it more lucrative to sell domestically. A year ago the premium was just $20 a tonne.

Lower exports from India could provide short-term support to global sugar prices that hit a seven-month low on Monday and give leading sugar exporters such as Brazil and Thailand an opportunity to take more of the market.

India last week raised the import duty on the sweetener to 25% from 15% to help mills, which are struggling with overflowing warehouses due to bumper crops over the past few years. Government-set prices for sugar cane are also hurting them.

"The import duty hike has isolated the Indian market from global price trends. Local prices won't fall due to global surplus," said Ashok Jain, president of the Bombay Sugar Merchants Association.

Thailand is offering white sugar at around $430 per tonne, but Indian mills won't offer below $500 due to relatively higher local prices, said a dealer, who declined to be named as he is not authorised to talk to media.

India's local prices have risen 10% so far in 2014, while global prices have fallen 4.3%.

"Exports are not possible unless local prices drop by at least 15 to 20%," said the dealer with a global trading firm that has been one of the top sugar exporters this season ending September. "I don't see that happening in 2014."

On the eve of Dussehra and Diwali in the next two months, sugar demand goes up and prices rise.

Since the start of the 2013-14 sugar marketing year last October, mills have aggressively exported to reduce surplus sugar. India usually produces white sugar, but this year it also produced raw sugar, especially to cater to demand from the growth of refining capacity in Asia and Africa.

Exports are likely to swell to 2.5 million tonnes in the current year ended September 30, compared with just 35,000 tonnes a year earlier. But in 2014-15 India is likely to ship much less than the current year as mills are not interested in producing raw sugar, industry executives say.

"Mills are not keen to produce raw sugar as they are getting a higher price for white sugar (in the domestic market) than the realisation for raw sugar from exports," said a senior Maharashtra State Cooperative Sugar Factories federation official.

Sugar mills in Uttar Pradesh have threatened to not crush cane in the new season starting in October, saying they will not be able to pay a high state-set cane price to farmers. The mills suspended crushing this sugar year too for two months and had halted operations in earlier years as well.

A raised sugar import duty, festival demand and an expected delay in cane crushing in UP have helped push domestic prices to a $70 a tonne premium to global prices

"If crushing gets delayed, it will obviously support sugar prices. But it is unlikely to lead to shortfall due to ample carry-forward stock," said Ashwini Bansod, a senior analyst at Phillip Commodities India.

India is likely to start the new sugar year with an opening stock of 7.5 million tonnes, down from 9.3 million tonnes a year ago. *Reuters*