World sugar high expected to wane

A RENEWED run-up in world raw-sugar prices to test the 29-year high hit earlier this month is looking unlikely.

Low output from India, Mexico and No 1 producer Brazil, a weak US dollar and a boom in speculative interest in commodities all conspired to send the front-month raw-sugar contract on February 1 up to US30.4c/lb, the highest since January 1981.

But futures have dropped 12 per cent since the beginning of the month as the US dollar firmed and forecasts for a rise this year in global supplies seeped into the market.

Although March sugar on ICE Futures US settled on Friday at US26.8c/lb, up on the day as the dollar trimmed much of its overnight gains, further losses may be on the horizon.

"I believe the bull run in sugar is over," Liberty Trading Group analyst and president James Cordier said.

Mr Cordier said sugar prices over the next month or two could slip as low as US22c/lb, a level last seen in December.

The International Sugar Organisation announced last week that global sugar output for the 2009-10 crop year was expected to fall 9.4 million tons short of demand, estimated at 166.6 million tons for the period.

But looking ahead to 2010-11, the ISO said the world sugar balance may return to a small surplus of about a million tons, leading many in the market to look for further price declines.

Indian sugar production suffered during back-to-back years of paltry monsoon rains, turning the world's biggest sugar consumer and No 2 producer into a net importer.

Betting on another dry monsoon season in India would be risky, according to Steel Vine Investments' analyst and chief executive Spencer Patton, who predicts sugar futures will drop to US22c-US23c/lb.

The Indian Sugar Mills Association predicted last week that the country would produce about 23 million to 24 million tonnes of sugar in the 2010-11 crop year as farmers took advantage of high world prices and planted more cane.

Meanwhile, Brazil's sugar will begin hitting the market in the next month or two and Mr Patton said this would lead to increased hedging pressure as end users tried to lock in lower prices as supplies loosened up.

A weak US dollar is normally supportive for commodities such as sugar because it makes them cheaper to foreign buyers, whereas a strong dollar has the opposite effect and reduces investors' appetite for riskier commodity bets.

But not everyone agrees sugar futures have reached their apex.

"I don't think we've seen the highs yet," Sugar Group analyst and senior vice-president James Cassidy said.

He said the global sugar deficit was focused in the white refined-sugar market traded in London and raw-sugar prices would probably be dragged higher again as white-sugar buyers attempted to fill their needs.

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