

Quarterly Market Outlook



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QUARTERLY MARKET OUTLOOK MAY 2011

Sugar

World sugar statistical surplus increases to 0.8 mln tonnes
Strong production recovery in India and record output in Thailand
World consumption to grow by 3.35 mln tonnes or 2.19%
Less tightness in trade balance
Stocks remain at historically low level
Looming higher world surplus in 2011/12
Abrupt fall of world prices
Weaker USD heightening sugar export price fall
Domestic prices at fresh records in China, retreating in Russia and Brazil

Special focus: Cane Supply Outlook in Brazil

Uncertainties about the cane supply outlook due to rising production costs
Exchange rate movements and fuel ethanol demand growth underpinning
outlook on cane use

Commodity Prices

Sugar prices fall but food commodity prices touch fresh records
Strong gains for crude oil, cotton, maize and coffee prices

World Fuel Ethanol

Forecast slump in world production and consumption growth to less than 4%
Slow introduction of E15 in the US
Brazil's output to fall by 3%
Expanding inclusion mandates in the EU
RED sustainability provisions not widely implemented
India output to double
No recovery in global fuel ethanol trade
E90 trade to the EU to continue

Alternative Sweeteners

US HFCS production rising to meet strong import demand from Mexico
Corn sweetener costs double over past 9 months
Stevia supplier PureCircle and Nordzucker form joint venture
Tate and Lyle to market monkfruit sweetener

Molasses

Molasses prices to remain firm
India set to be globe's largest exporter

WTO Update

Doha Round on brink of failure

RTAs

EU-Colombia, Peru trade deal

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EXECUTIVE BRIEF

16 May 2011

World Sugar Market

Over the period since our previous *Quarterly Market Outlook* in February, world market values suffered a major downward correction. The ISA daily price subsided from the 30 year high of 32.57 cents/lb at the beginning of February to 20.89 cents/lb on 6th May. White sugar prices have followed a similar scenario. The ISO White Sugar Price Index collapsed from USD832.40/tonne (37.76 cents/lb on the 2nd February to USD572.95/tonne (25.99 cents/lb) on 6th May. Similarly to raw sugar, white sugar values have lost all the gains acquired during the 2010/11 price peak. From the point of view of sugar fundamentals, the price fall can be attributed to a large extent to a sharp increase in sugar availability following a record harvest in Thailand, a long awaited reappearance of India as an exporter, as well as the fast approaching start of bulk production from the new season's crop in Brazil.

In this issue we make our *third revision to the world sugar balance* in the 2010/11 (October/September) crop cycle, which shows a modest increase of the expected gap between global output and world consumption. Now the statistical surplus is put at 0.779 mln tonnes, compared to 196 thousand tonnes only expected in February. Although we have revised world totals for both consumption and production, an increase in the world surplus can be mainly attributed to the recent crop developments in one country only – a striking improvement in sugar output in Thailand which is now estimated well in excess of 9.5 mln tonnes. Without the gigantic and unforeseen increase in sugar availability in Thailand, the 2010/11 world balance would show a deficit of more than 1 mln tonnes. The third revision of the world sugar balance puts *world production* at a record 166.958 mln tonnes, raw value, up 8.964 mln tonnes or 5.67% from the last season. *World consumption* is now put at 166.179 mln tonnes, raw value, up 3.560 mln tonnes or 2.19% from the previous season. Consumption is still expected to grow at a slower rate than the 10-year average of 2.49%. From the very beginning of the season, the ISO has warned that low *stocks* would support market values despite a modest statistical surplus predicted throughout the season. No stocks rebuilding is foreseen for the current season. After two seasons of large deficits, the stocks/consumption ratio has reduced to the lowest level for more than 20 years – since 1989/90. The ratio is expected to decrease further to 33.79% in 2010/11 from 34.56% in the deficit season of 2009/10. However, the new version of the trade balance does not indicate any longer a tightness in sugar availability in 2010/11. Indeed, *world export availability* (51.287 mln tonnes) is expected to exceed *import demand* (50.422 mln tonnes) by 865 thousand tonnes as against less than 200 thousand tonnes projected in February.

The market attention is increasingly focusing on prospects for the coming 2011/12 year. Our tentative projections indicate that the coming crop cycle may bring a significantly higher statistical surplus exceeding 3 mln tonnes putting further bearish pressure on world market prices. It is also important to note that stocks are still low and any currently unforeseen weather induced production shortfall or logistical bottlenecks in key exporters (similar to those witnessed in the middle of 2010 in Brazil) may, at least temporarily, result in the return of extreme volatility.

A summary of the fourth assessment of the world sugar balance in 2010/11 is provided on page ii.

World Sugar Balance
(mln tonnes, raw value)

	2010/11	2009/10	Change	
			in mln t	in %
Production	166.958	157.994	8.964	5.67
Consumption	166.179	162.619	3.560	2.19
Surplus/Deficit	0.779	-4.625		
Import demand	50.422	53.776	-3.354	-6.24
Export availability	51.287	54.236	-2.949	-5.44
End Stocks	56.159	56.199	-0.040	-0.07
Stocks/Consumption ratio in%	33.79	34.56		

Currency Movements and Domestic Markets and Prices

The US Dollar weakened relative to the currencies of most importers and exporters over the past 6 months. This ensured that the fall of world sugar prices when expressed in the currencies of both sugar exporters and importers was even greater than the collapse of prices in USD. Significant currency appreciation occurred for the Brazilian Real and the Australian Dollar, with the latter reaching an almost 30-year high against the USD in April. Domestic sugar prices reached fresh records in China but have fallen in Brazil and in Russia and to a lesser extent in India. In the US and Mexico, domestic prices have remained flat.

Special Focus - Cane Supply Outlook in Brazil

This edition of the QMO once again turns its special focus to Brazil. The 2011/12 cane harvest in Brazil's Centre-South, the country's dominant and growing region, has gone off to a flying start with as many as 200 mills out of 335 already crushing cane by the end of April. The move to bring forward the beginning of the harvest followed an agreement between the industry and the government after prices of anhydrous ethanol skyrocketed from mid March. However there is little hope that cane output will be much higher in 2011/12 than last year. All in all, the ISO expects cane supply in the Centre-South to rise by only about 11 mln tonnes this year to reach 568 mln tonnes, well short of the previous 4 years' average growth of 50 mln tonnes. Agricultural yields are expected to suffer due to a further ageing of the cane, increase in harvest mechanization and a lower share of left-over cane. What is the outlook on cane supply beyond 2011/12? Events to watch for in future are investment plans by international trading houses and oil groups, futures exchange rate movements and production costs as well as profitability of cane growing in both absolute terms as well as against other crops. Demand drivers are also important, particularly the cooling in ethanol markets, which could ensure continued increase allocation of cane to sugar.

Commodity Prices

In contrast to sugar, food commodity prices escalated further during the first months of 2011. With this latest push, commodity prices have moved in a new price boom, similar to that started in 2005 and ended in 2008. The biggest rises in prices between January and April 2011 have been for crude oil at 28%, swine at 23%, cotton prices at 21%, maize and orange prices at 20%, and coffee prices at 15%.

Fuel Ethanol

Growth in global fuel ethanol [production and consumption](#) in 2011 is forecasted to slump to less than 4% (reaching around 89 bln litres and 88 bln litres respectively), well below average annual growth of 21% over the prior 5 years. Ethanol producers in the US are constrained by the inevitable delays in commencing widespread sales of E15. Brazil's ethanol

output is forecasted to decline with a continuing focus by millers on the domestic and international sugar markets. Bumper molasses output in India and a higher government set price for fuel ethanol are expected to double ethanol output. Consumption in the US remains constrained by legislative hurdles whilst gains in Brazil are forecast to be only modest with likely high prices preventing a hike in hydrous ethanol offtake. Rising inclusion obligations in the EU are a primary source of global consumption growth, along with anticipated significant increases in smaller consumers such as Argentina, Australia, Canada, Colombia and India. Little expansion in global [fuel ethanol trade](#) from the low 2010 level of 2.3 bln litres can be expected. Brazil's exports are anticipated to remain relatively weak until international values rise to match returns from sugar. The United States will remain a very significant supply source, but, given high corn prices, it may lose some of its competitiveness (although a weaker dollar might partly compensate for this). The trade in E90 alcohol blends to the EU will continue and will only decline if and when the EU modifies its ethanol custom codes.

Alternative Sweeteners

US [HFCS](#) offtake is forecasted to fall modestly again in 2011, by 1% after shrinking last year by 1.6%. Declining HFCS consumption, but rising sugar consumption is a key feature of the US sweeteners market. Consumers have moved away from carbonated soft drinks (traditionally sweetened with HFCS) to alternatives such as energy drinks, functional waters and juices, compounded by adverse publicity over HFCS consumption and human health. Sugar producers have recently filed a lawsuit in an attempt to prevent the Corn Refiners Association from renaming HFCS as corn sugar.

In the world of [Stevia](#), PureCircle has announced a joint venture with Nordzucker to handle development, sales and marketing of stevia and stevia-sucrose blend ingredients in Europe. Late April, Tate & Lyle announced that it had entered a five-year exclusive global marketing and distribution agreement for BioVittoria's zero-calorie monkfruit or [Lou Han Guo](#) sweetener.

Molasses

Molasses prices are unlikely to retreat significantly during the remainder of 2011. An overall tight molasses market is expected for much of the year despite forecast higher molasses production in key exporting origins – particularly in India and Thailand. Higher demand from fuel ethanol producers could act to limit molasses export availability. Furthermore, in the two key importers – the US and the EU - any additional demand for molasses from the livestock feed sector, due to continuing high grain prices, may only be fulfilled by paying a premium over domestic market prices in key export origins.

WTO

Almost a decade after the Doha Round of WTO negotiations started, the inconclusive nature of ongoing bilateral and other discussions call into question whether governments are able to meet their stated goal of concluding a multilateral trade deal by the end of the year. WTO members failed to meet an interim target for revised draft negotiating texts by the late-April Easter holiday. Similar Easter deadlines for progress in the Doha Round went unmet in 2006, 2007, and 2008.

Regional Trade Agreements

The EU, Colombia, and Peru have inked their much-anticipated free trade agreement. Once implemented, the trade agreement will eliminate tariffs on all industrial and fisheries products, increase market access for agricultural products and improve access to public procurement, services, and investment markets. The Agreement provides some access into the EU sugar market.

International Sugar Organization

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