International Sugar Organization

QUARTERLY MARKET OUTLOOK

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EXECUTIVE BRIEF

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World Sugar Market

In this issue of the *Quarterly Market Outlook* we make our 4th assessment of the world sugar balance for 2007/08 (October/September). From the very beginning of the season, the ISO has suggested that the world sugar economy is facing the second consecutive season of a massive gap between world production and consumption. The third revision of the world sugar balance forecast has not changed our general view of the global supply/demand situation. World production is expected to be 7.812 mln tonnes higher than world consumption. Although this represents a downgrading from 9.309 mln tonnes expected in February, a massive global surplus is still anticipated - the third largest ever.

What are the factors behind the downward revision of the world surplus? The third revision shows an increase in production. World output in 2007/08 has been revised upwards by 0.296 mln tonnes only. It is expected to reach a new record of 168.734 mln tonnes, a considerable 3.315 mln tonne rise from the last season. This time, an upward revision to world consumption reduces the gap between global output and demand. All corrections introduced for individual country consumption in 2007/08 reflect changes over the previous seasons based on official statistics received since February. Normally, changes in consumption estimates would result in only marginal adjustments. This time the situation is different as the official statistical information received recently by the ISO has triggered a number of substantial revisions.

The bearishness of the statistical outlook is further reinforced by the still projected trade surplus and high level of ending stocks. World export availability is still expected to exceed import demand by a massive 3.3 mln tonnes. Ending stocks may grow by 4.5 mln tonnes. By the end of the season, the stocks/consumption ratio may be as high as 42.3% as against 40.4% in 2006/07 and 37.2% in 2005/06. Therefore, in spite of a reduction in the expected global surplus, the statistical outlook for the market up till the end of the season in September 2008 remains bearish and little upward pressure is expected on world market values by sugar fundamentals.

In this issue we also provide our preliminary thoughts on the market fundamentals in the coming two seasons. In order to prevent any further build up in stocks, world sugar production in 2008/09 would have to fall by about 4 mln tonnes. For the time being, the ISO expects sugar production during the next crop cycle to decrease in the EU and India as well as in some smaller producers but to grow in Brazil and some sugar producing LDCs. As a result the gap between world production and consumption may disappear and even a possible 1 to 2 mln tonne global deficit comes into view. Crucially, better balanced world production and consumption may still be accompanied by a significant trade surplus as the huge stocks accumulated during the two surplus seasons of 2006/07 and 2007/08 worldwide continue to overhang the market. Looking further ahead, the global deficit may increase further in the following 2009/10 cycle. At this stage it remains unclear what could be the future prevailing levels of world market prices for sugar and other food commodities and how they could influence sugar supply response.

In the meantime, since February the world market prices have continued the rollercoaster ride. While on the 3rd March the raw sugar price (ISA daily price) was as high as 15.21 cents/lb, the highest daily quotation for 20 months since July 2006, by the end of the month it collapsed to 12.11 cents/lb only. By mid-April raw sugar prices recovered to 13.3 cents/lb but were as low as 11.60 cents/lb fixed on 29th April. Then, a new upward wave started and on 12th May the ISA daily price reached 12.80 cents/lb. White sugar prices followed a very similar pattern. The ISO White Sugar Price Index has varied from USD328.50/tonne (14.90 cents/lb) to USD400.75/tonne (18.18 cents/lb). On 12th May the ISO White Sugar Price Index was USD342.05/tonne (15.52 cents/lb).

How can our understanding of fundamentals be interpreted in terms of future market values? The statistical outlook for the market up till the end of the season in September 2008 remains bearish. However, presently non sugar factors are playing an increasinly important role in determining sugar market values. The list of non-sugar factors is long and includes the outlook for crude oil and other hard and soft commodities, exchange rate fluctuations, developments in ethanol production and use, the upsurge in renewable energy programmes and growing criticism over use of food for energy, the general outlook for different classes of investment assets, and last but not least funds activity in sugar futures markets. In the near future sugar market sentiments and dynamics are still likely to be driven more by non-sugar factors and the continuing presence of the funds, in particular, than the current statistical supply/demand situation.

A summary of the third revision for the world sugar balance in 2007/08 is provided in the table below.

World Sugar Balance
(mln tonnes, raw value)

	2007/08	2006/07	Change in mln t	Change in %
Production	**168.734**	**165.419**	**3.315**	**2.00**
Consumption	**160.922**	**157.227**	**3.695**	**2.35**
Surplus/Deficit	**7.812**	**8.192**		
Import demand	**44.907**	**46.096**	**-1.189**	**-2.58**
Export availability	**48.218**	**47.064**	**1.154**	**2.45**
End Stocks	**66.693**	**62.192**	**4.501**	**7.24**
Stocks/Consumption ratio in%	**41.44**	**39.56**		

Currency Movements

Back in November 2007, ISA prices averaged 10.09 cents/lb. Since then, world prices expressed in US Dollar (USD) have risen by 24.5% to 12.56 cents/lb (average of April). Similarly to previous months, there has been some further currency appreciation against the USD among key importers and exporters, which has, to some extent, cushioned world market price rises when expressed in national currency. The exceptions have been South Africa and South Korea, whose currencies depreciation between November and April exacerbated the rises in world price when expressed in national currency terms.

Domestic Prices

Between November and April, domestic market prices rose by about 20% in Brazil and Russia, around 10% in India and in the US, but fell by 5% in China. While in Brazil the rise came in the context of the inter-harvest period in the Centre-South, in Russia it followed from lower supplies on the back of higher import duties and a smaller than expected beet crop.

Special Focus

Since 2006, food prices have been rising rapidly, putting agriculture back in the spotlight of the world economy. This QMO's Special Focus describes the long-term and short-term drivers behind commodity price rises, such as income growth in emerging markets, the role of crude oil prices, the weak USD, freight rates, weather disruptions, and speculation in the futures market as well as biofuel production. On biofuel production, it focuses on the links between sugarcrops and corn, on the one hand, and ethanol, on the other. The cost-effectiveness of using sugarcrops for ethanol production, in particular when compared to other feedstocks, is also analysed in the context of the growing food versus fuel debate.

Fuel Ethanol

Global fuel ethanol production and consumption is forecasted to rise to new highs in 2008 to around 64.3 bln litres. New energy legislation in the US mandates sharply higher inclusion whilst in Brazil continuing robust sales of flex-fuel vehicles drive production and offtake higher than last year. New and increased inclusion mandates will boost EU consumption. India's government still intends to implement its E10 mandate from October this year, despite the existing E5 programme running below target. Thailand's government continues to encourage consumption of E10 and E20 using consumer price incentives. Brazil will remain the key origin of internationally traded ethanol. The recent surge in US corn prices has helped boost ethanol prices there considerably, providing a window of opportunity for full duty paid exports from Brazil. Prices for ethanol have risen considerably in the US over recent months supported by rising crude oil values and the record high corn prices, whilst in Brazil ample supplies with the commencement of the new campaign are likely to result in seasonal supply pressure on prices.

Alternative Sweeteners

For US HSFC producers, by-product credits have failed to keep pace with the very pronounced rise in corn prices this year, resulting in a surge in net corn sweetener costs back up to levels seen late in 2006 and early in 2007.

Excessive intake of aspartame may inhibit the ability of enzymes in the brain to function normally, suggests a new review that could fan the flames of controversy over the sweetener.

Molasses

Molasses prices remain high after rallying strongly between December and February. The rise was mainly driven by buoyant grains markets which have acted to boost demand for molasses from the livestock feed and fermentation sectors. Fundamentally, the molasses market is anticipated to remain well supplied this year, with continuing high exports likely from India and Pakistan.

WTO

The Committee on Agriculture Chairperson on 30 April 2008 allowed WTO Members more time before he produces another revision of the draft "modalities", the blueprint for the final Doha Round deal. He scheduled more meetings in the first week of May to discuss the latest proposal on "sensitive products", and assess progress in tropical and preferential products. As a result, his next revision of the modalities draft will now definitely not be circulated before 19 May.

Regional Trade Agreements

Caribbean leaders urge the US President to renew Washington's trade preference scheme for exports from Caribbean countries before it expires on 30 September.