



International Sugar Organization

QUARTERLY  
MARKET  
OUTLOOK

November 2008

MECAS(08)20

# QUARTERLY MARKET OUTLOOK NOVEMBER 2008

## **Sugar**

The first revision of the world sugar balance in 2008/09 (October/September) shows a world statistical deficit of 3.6 mln tonnes  
World production to decrease for the first time since 2004/05  
World consumption to grow by 3.8 mln tonnes  
No shortages in physical supply are expected  
The most constructive sugar fundamentals since 2005/06  
World market values remain depressed by non-sugar specific factors and the credit crunch  
World prices are still disconnected from sugar fundamentals  
Strong USD appreciation  
Sharp BRL, AUD and ZAR depreciation  
Domestic prices falling in Russia and China, rising in India and Brazil

## **Special Focus: The Credit Crunch and the Sugar Market**

Slowdown in new production projects in Brazil  
Credit crunch affecting futures positions of commercials, non-commercials and index traders

## **Fuel Ethanol**

Global production and consumption growth to slow down in 2009  
United States and Brazil remain dominant but strongest growth in the EU  
Brazil's export to rise by 40% in 2008  
EU and US imports sharply up this year but growth subdued in 2009

## **Alternative Sweeteners**

US HFCS use declining  
Tate and Lyle lose US sucralose patent case

## **Molasses**

Export availability to decline in 2009

## **WTO Update**

Doha Round of WTO trade negotiations stalemated since the failed ministerial talks in July

## **RTAs**

The first full EPA signed between EU and CARIFORUM

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# Quarterly Market Outlook

November 2008

## Contents

<b>i-iii</b>	<b>Executive Brief</b>
<b>1</b>	<b>World Sugar Market</b>
1	World Balance
2	Supply
4	Production
14	Export Availability
16	Demand
16	Consumption
18	Imports
19	World Market Events and Prices
22	Currency Movements
23	Domestic Markets and Prices
25	Policy Development - Brief(08)04
<b>30</b>	<b>Special Focus</b>
30	The Credit Crunch and the Sugar Market
<b>34</b>	<b>World Prices for Commodities</b>
<b>36</b>	<b>World Fuel Ethanol</b>
36	Overview
36	Production
39	Consumption
41	Ethanol Trade
43	Prices
<b>45</b>	<b>Alternative Sweeteners</b>
45	High Fructose Syrup
49	Intensive Sweeteners
<b>51</b>	<b>Molasses</b>
<b>53</b>	<b>WTO Update</b>
<b>54</b>	<b>Regional Trade Agreements</b>
<b>55</b>	<b>World Sugar Balance Estimates</b>

*The views expressed in this document are those of the ISO Secretariat. They do not necessarily represent the views of the ISO Members.*

## EXECUTIVE BRIEF

11 November 2008

Since our previous *Quarterly Market Outlook* in August, world market prices have suffered a considerable downward correction. On 22<sup>nd</sup> August the ISA daily price was as high as 15.14 cents/lb, the second highest daily price in 2008 after 15.21 cents/lb fixed on 3<sup>rd</sup> March. Nine weeks later on 24<sup>th</sup> October, the ISA daily price was as low as 11.04 cents/lb, the second lowest daily price in 2008 after 10.98 cents/lb fixed on 5<sup>th</sup> June. On 7<sup>th</sup> November the ISA daily price was 12.30 cents/lb. White sugar prices followed a very similar pattern but the October crash was even more severe. On 26<sup>th</sup> August the ISO White Sugar Price Index reached USD413.80/tonne (18.77 cents/lb), the highest daily quotation for nearly two years since mid-September 2006. Two months later in the second half of October, it was as low as USD303.90/tonne (13.78 cents/lb), the lowest daily quotation since mid-December 2007. White sugar prices finished October at USD338.20/tonne (15.34 cents/lb).

In this issue we make our second assessment of the world sugar balance for 2008/09. The first revision of the world sugar balance forecast for the period from October 2008 to September 2009 has not changed our initial view of the global supply/demand situation. *World production* is put at 162.258 mln tonnes, raw value, a significant 6.389 mln tonne or 3.8% decrease from last season. *World consumption* is expected to reach 165.884 mln tonnes, raw value, 2.35% up from the previous season. Therefore, global output is forecasted to be 3.626 mln tonnes lower than world consumption. Consequently, the statistical outlook for the market till the end of the season in September 2009 remains constructive and supportive to world market values.

A significant production shortfall in India and a further contraction of production in the EU, on the one hand, and continuing expansion of sugar output in Brazil, on the other hand, are the three major supply features of 2008/09. The combined effect of output reduction in the EU and India is expected to shave off a massive 8.7 mln tonnes from the world sugar supply. In the past the Latin American giant could often cover production shortfalls of other producers. This is not the case for this season as losses are too big while Brazilian millers keep focusing more on ethanol rather than sugar production. However, Brazil's sugar output is expected to grow by 2.6 mln tonnes, which will partly compensate lower production in the EU and India. In this issue we also provide our preliminary thoughts on the market fundamentals in 2009/10. Tentative indications show that the next season's gap between world consumption and production may remain for one more season and even increase to a level of 4.5 to 5.0 mln tonnes.

How can our understanding be interpreted in terms of future market values? Following two years of record-breaking crops and surpluses, the sugar market seems to have turned the corner with a medium-size deficit currently on the cards for 2008/09. Moreover, preliminary indications point toward a further growth of the world sugar deficit in 2009/10. Clearly, the final numbers may differ from these early forecasts but the current fundamental outlook is the most constructive for market values since 2005/06. Therefore, it can be suggested that when sugar fundamentals and world market prices are eventually reconnected, sugar prices should rebound from the low levels that have emerged after the recent bout of panic liquidation by funds and speculators. For the time being, however, non-sugar specific factors (including 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 continuing criticisms over use of food crops for energy, the general outlook for different classes of investment assets, funds activity in sugar futures markets, etc) and the credit crunch, in particular, have overplayed fundamentals.

A summary of the first revision for the world sugar balance in 2008/09 is provided in the table below.

**World Sugar Balance**  
(mln tonnes, raw value)

	2008/09	2007/08	Change	
			in mln t	in %
<b>Production</b>	<b>162.258</b>	<b>168.647</b>	<b>-6.389</b>	<b>-3.79</b>
<b>Consumption</b>	<b>165.884</b>	<b>162.073</b>	<b>3.811</b>	<b>2.35</b>
<b>Surplus/Deficit</b>	<b>-3.626</b>	<b>6.574</b>		
<b>Import demand</b>	<b>47.766</b>	<b>45.811</b>	<b>1.955</b>	<b>4.27</b>
<b>Export availability</b>	<b>47.781</b>	<b>47.471</b>	<b>0.310</b>	<b>0.65</b>
<b>End Stocks</b>	<b>65.660</b>	<b>69.301</b>	<b>-3.641</b>	<b>-5.25</b>
<b>Stocks/Consumption ratio in%</b>	<b>39.58</b>	<b>42.76</b>		

## Currency movements

The past few months have been marked by a significant appreciation of the USD with respect to most of the major importers' and exporters' currencies, which has reverted the trend of the recent past. The stronger dollar has cushioned the recent sugar price fall when expressed in the currencies of major importers and exporters. Among sugar exporters, the largest USD appreciation has occurred against the Australian Dollar (AUD) at 34%, followed by the Brazilian Real (BRL) at 29%. The biggest currency movements among importers have been the depreciation against the USD of the Korean Won (KWN) by 25%, the Euro (EUR) by 14% and the Russian Rouble (RUB) by 10%.

## Domestic markets and prices

While domestic sugar prices have fallen in Russia and China over the past 6 month period, they have risen in Brazil and in India. Domestic prices expressed in national currencies have shown a strong disconnection from the line of world prices expressed in US Dollars, which reflect different national fundamentals as well as exchange rate movements.

## Special focus: The Credit Crunch and the Sugar Market

The global current financial crisis has strongly affected the ability of banks to provide credit and this has not come without impacting the world's largest and fastest expanding sugarcane industry – Brazil. The recent tightening of lending conditions in the financial markets has suddenly increased the cost of borrowing, and therefore the volume of debt, as well as availability of new financing for Brazilian mills. The thinning of financing for Brazilian sugar and ethanol processing has already generated considerable spillover effects that are slowing down the sector expansion. Of importance, lower availability of earmarked loan money for machinery purchases has hit the sales of harvesters and other equipments to Brazilian mills. Independent growers, responsible for up to 30% of Brazil's cane supply, are struggling with rising production costs, which are now allegedly higher than the price received for the cane. As a result, fewer than expected greenfield projects may be implemented in 2009/10. The credit crunch has also affected the sugar futures market by altering the positions of key players. Not only have fewer commercial hedgers fixed positions in the futures markets this year compared to 2007 as a result of lack of financing, but the confidence of non-commercials and index traders in sugar futures has also been dented.

## Fuel Ethanol

Global fuel ethanol production and consumption growth is forecasted to halve in 2009, growing by around 16% to reach 76 bln litres. Even though 2008 proved to be a challenging year for many fuel ethanol producers, global output is still forecast to reach 65.3 bln litres up 32 % from the 2007 level. High grain prices for much of this year boosted production costs substantially for fuel ethanol manufacturers, denying them the benefit of record high crude oil prices. At the same time the "food vs fuel debate" began to see governments revisit their biofuels policy and proposals have been made to pare back inclusion mandates in some countries over coming years.

## Alternative Sweeteners

Few annual price agreements between US **HFCS** producers and major users for calendar year 2009 have been concluded to date. Many buyers are wary of entering into agreement whilst corn values have been falling from the peaks seen mid-year. Indications are that HFCS manufacturers are now seeking a price rise of around USD0.035/lb, lower than initial expectations of as much as USD 0.05/lb. Producers last year negotiated higher prices for deliveries in 2008 on the back of both increasing net corn sweetener and energy costs. Britain's Tate & Lyle mid-September lost a US patent case against manufacturers and importers of Chinese **sucralose**. Tate and Lyle said that it intended to appeal against the preliminary ruling by a judge at the US International Trade Commission. PureCircle is reviewing its operational strategy and development plans, as high purity Reb-A, derived from **stevia**, is attracting attention as a potential complement to sugar as well as a replacement for existing high intensity sweeteners.

## Molasses

Traditional molasses exporters in Asia will have less to sell in 2008/09 and currently there is no country in sight with particularly large export availabilities. Europe is also unlikely to bolster world molasses supplies.

## WTO

The Chair of the Committee on Agriculture has downplayed the likelihood of a new modalities text being issued in the near future unless Members make significant progress in a series of informal meetings that have taken place since early October on sensitive issues including tariff rate quota creation, tariff simplification, sensitive products, cotton, green box subsidies and tropical products. Furthermore the changing financial climate, coupled with upcoming elections in the US, India and the EU, may mean that the negotiating positions of many countries in key areas of the negotiations could be significantly different next year.

## Regional Trade Agreements

The European Union and countries of the Caribbean region signed an Economic Partnership Agreement (EPA) on October 15. The EPA includes transitional arrangements for sugar (and rice).