



International Sugar Organization

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Sugar

Projected world deficit for 2008/09 (October/September) upgraded to 7.8 mln tonnes

World production to decrease by 10.7 mln tonnes from the previous year

World consumption to grow by 3.1 mln tonnes or 1.9%

Constructive sugar fundamentals supporting world market prices

Renewed interest of funds in sugar futures

ISA price at a nearly three-year high

Mild currency movements among exporters; Some significant depreciation among importers, including the RUB and the NGN

Currencies of Brazil and Colombia remain relatively weak over the longer-term

Domestic prices rising sharply in Brazil and India, firm in Russia and China, but weaker in the US

Commodity Prices

Commodity prices resilient in 2009 after sharp downward correction in the second half of 2008

Soybean, sugar and orange prices with recent strong gains

Special focus: Import demand for fuel ethanol and implications for sugar

Import demand for ethanol to decrease for the first time in 6 years

Lower wheat prices stimulating production in the EU at the expense of imported cane ethanol

Higher cane allocation to sugar at the expense of ethanol in Brazil during 2009

But longer term outlook for the world fuel ethanol trade remains firm

World Fuel Ethanol

A challenging year for fuel ethanol

Production and consumption growth to halve

Alternative Sweeteners

US HFCS loses competitiveness against sugar

Stevia prospects may suffer because of high price

Sucralose supply set to expand as Tate & Lyle loses US patent case

Molasses

Prices to remain high with a sharp contraction in export availability

WTO Update

New Chair of Agriculture Negotiations faces tough task

RTAs

Economic Partnership Agreements make slow progress

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EXECUTIVE BRIEF

14 May 2009

World Sugar Market

Since our previous *Quarterly Market Outlook* in February, world market prices have shown a considerable improvement on the back of constructive fundamentals. After a relatively calm March and April, prices showed remarkable growth during the first fortnight of May. The ISA daily price for raw sugar started February at 12.99 cents/lb and reached 16.17 cents/lb on 12th May, the highest daily quotation for nearly three years since mid-July 2006. White sugar prices followed a very similar pattern but the rally has been even more pronounced. The ISO White Sugar Price Index grew from USD376.95/tonne (17.10 cents/lb) on 2nd February to USD449.20/tonne (20.38 cents/lb) on 7th May 2009.

From the very beginning of this crop cycle, the ISO has expected that, after two years of a large statistical surplus, in 2008/09 the world sugar economy would face a season with a significant gap between world consumption and production. The third revision of the world sugar balance forecast for the period from October 2008 to September 2009 testifies, however, that the global production shortfall is considerably higher than initially expected. *World production* is put at 156.625 mln tonnes, raw value. A significant production shortfall in India and China, as well as a further contraction of production in the EU, on the one hand, and a continuing expansion of sugar output in Brazil, on the other hand, are the four major supply features of 2008/09. The combined effect of output reductions in China, the EU and India is expected to shave off a massive 17.183 mln tonnes from world sugar supply. The magnitude of changes in the domestic crop in India (11.9 mln tonnes) is particularly remarkable. Meanwhile, *global consumption* is forecasted to grow by 1.91% to 164.412 mln tonnes, raw value. The growth rate, lower than the long-term average (2.69%), can be attributed to the impact of the global economic slowdown. World production is now expected to be 7.787 mln tonnes lower than world consumption as against 4.274 mln tonnes projected in February. Consequently, the statistical outlook for the market till the end of the season in September 2009 remains constructive and supportive to world market values.

Despite a forecasted decrease in world sugar output, world export availability is expected to rise due to projected growth in output in exporting countries, mainly in Brazil (in 2008/09, if our projection is validated by actual shipments, every second tonne of sugar traded internationally will come from Brazil). The ISO puts *world export availability* for 2008/09 at 50.146 mln tonnes, raw value, as against 46.623 mln tonnes in the previous crop cycle. Smaller output in importing countries and in India, in particular, is expected to trigger additional *import demand* which is estimated to reach 50.258 mln tonnes, up 4.394 mln tonnes. The additional import demand is expected to be met by export availability but the trade balance for the period till next September looks tight.

The sugar market fundamentals have reasserted themselves. Not only does the global supply/demand situation look constructive, but the projected global deficit has increased considerably. The impact of India's appearance in the market as a large scale importer of raw sugar and possibly a buyer of whites on the market mood is of particular importance. Having been the world's third largest exporter of sugar in 2007/08 India is expected to become the world's fourth largest importer of sugar this season. Moreover, it may remain a large-scale buyer in the coming 12 months as well.

The bullish mood of the market can be also attributed to a generally constructive tone for commodities. The positive fundamental picture remains supported by the renewed interest of funds in sugar futures too.

In this issue we also provide our preliminary thoughts on the market fundamentals in the coming two seasons. For the time being, the ISO expects sugar production during the next crop cycle to increase in India and other Asian producers, as well as in the US and some LDC exporters but to decrease in Brazil. As a result, the gap between world consumption and

production remains for one more season. The global deficit, however, is expected to decrease to a level of about 4.5 to 5.0 mln tonnes. Looking further ahead, world production and consumption may be neatly balanced in the following 2010/11 crop cycle with a full recovery of India's output.

A summary of the third revision to 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 %
Production	156.625	167.289	-10.664	-6.37
Consumption	164.412	161.335	3.077	1.91
Surplus/Deficit	-7.787	5.954		
Import demand	50.258	45.864	4.394	9.58
Export availability	50.146	46.623	3.523	7.56
End Stocks	62.048	69.723	-7.675	-11.01
Stocks/Consumption ratio in%	37.74	43.22		

Currency Movements

In terms of monthly averages, world sugar prices expressed in USD have risen by 13% since November. Currency movements in relation to the USD for most major sugar exporters and importers have been relatively mild since November. Significant currency movements were the 23% depreciation against the USD of the Russian Rouble (RUB) and the 25% depreciation of the Nigerian Naira (NGN). As a result, world sugar prices expressed in the currencies of Russia and Nigeria have risen by as much as 40% over the past 6-month period.

Domestic markets and prices

Domestic sugar prices have risen throughout most countries monitored. Domestic prices in Russian and Brazil have risen by around 50% since November, while in China and India price rises reached a respective 20% to 26%. In the US, prices have fallen by over 20% from peaks observed in mid 2008.

Special focus: Import demand for fuel ethanol and implications for sugar

The Special focus of this edition analyses the drivers underpinning the world fuel ethanol trade during 2009 and implications for sugar. Five drivers are believed to be of particular importance. These are: (i) feedstock prices; (ii) oil prices; (iii) ethanol prices; (iv) the credit crunch and (v) government legislation. Of note, lower feedstock prices in the European Union and consequently higher homegrown fuel ethanol production in the bloc this season will negatively impact its import demand, estimated to more than halve in 2009 from the record 1.4 bln litres of 2008. This, combined with lower US import demand and prices augur for a significantly less dynamic world ethanol market in 2009. In addition, Brazil's ethanol prices have reached a 4-year low, which is denting export profitability. The immediate implication of the cooling world market of fuel ethanol is the higher estimated level of Brazil's sugar production and exports. Longer term, the prospects remain firm, as the US continues to implement its Renewable Fuels Standard, the EU its 10% biofuel target incorporation and other countries besides Brazil appear as potentially large net exporters of the biofuel.

Commodity Prices

The February edition of the QMO indicated that, despite the sharp downward correction in commodity prices observed during the second half of 2008, there were early signs that the general fall in prices was being halted during the beginning of 2009. The trend of price recovery has continued since January. In terms of monthly averages, particularly noticeable were the rises in the prices of oranges, sugar and soybeans, which rose by a respective 19%, 19% and 17% since last December.

Fuel Ethanol

Global fuel ethanol production and consumption growth is forecasted to more than halve in 2009, growing by around 14% to reach around 73 bln litres. The retraction in crude oil prices and the credit crisis has dented short term expansion prospects in the US, the globe's largest producer and consumer. Brazil's output continues to expand but at a reduced pace given better returns for export sugar and no growth forecast in ethanol exports. Outside of these two dominant countries, output and consumption is growing strongly in EU on the back of additional mandates. Thailand's fuel ethanol market is expected to grow considerably but remain in surplus, whilst in India limited availability of the chief feedstock (molasses) is constraining ethanol inclusion to 5% in gasoline.

Alternative Sweeteners

HFCS offtake in the United States fell by 4.3% in 2008 according to the USDA and demand could fall by another 3% this year according to analysts. Reduced price competitiveness of HFCS against sugar during the first months of the year, and a lacklustre carbonated softdrinks (CDS) market both contributed to the poor offtake. At the same time however, switching has also been the result of some companies making a marketing decision to use only natural ingredients.

Tate & Lyle has lost its US sucralose patent case as the International Trade Commission gave its final ruling early April that Chinese manufacturers did not infringe Tate & Lyle patents. The final ruling by Commission upheld its preliminary decision made last September. The case is significant because it effectively opens up the market to competitors.

Molasses

Molasses values are presently relatively high and are not anticipated to weaken over the remainder of the year. Reduced production in India and Pakistan limit export availability as does the expanding use of molasses in fuel ethanol programs. The molasses trade will be characterised by constrained supplies and uncompetitive values over coming months. This will likely see global molasses trade retreat from the 2008 level.

WTO

David Walker, New Zealand's Ambassador to the WTO, is the new chair of the agriculture negotiations. General opinion suggests he faces a tough task achieving consensus in talks on agricultural issues in the WTO's Doha Round.

Regional Trade Agreements

On 25 March, the European Parliament voted to support an interim Economic Partnership Agreement (EPA) with Côte d'Ivoire. The same day, European lawmakers also passed resolutions affirming their resolve to continue work on agreements with a number of other states and partnerships within the Pacific and African regions, including the East African Community (EAC) and the South African Development Community (SADC).