



International Sugar Organization

QUARTERLY
MARKET
OUTLOOK

September 2009



MECAS(09)14



ISSN 1994-4969
Quarterly Market Outlook
September 2009

QUARTERLY MARKET OUTLOOK SEPTEMBER 2009

Sugar

The world sugar economy faces a second consecutive year of a large deficit projected at 8.4 mln tonnes
World production to rise by 4.8 mln tonnes from the previous year
World consumption to grow by 2.9 mln tonnes or 1.7%
Constructive sugar fundamentals supporting world market prices
Continuing interest of funds in sugar futures
World market prices at 28.5 year highs
Main exporters' currencies strengthening against US Dollar
Domestic prices rising sharply in India and Russia, firm in China, Brazil and US

Special focus: Brazil's Centre-South

Cane production still set to reach a new record but sucrose extraction yields at a 10 year low
Higher cane and sugar prices to stimulate planting in 2010 but crop response not to be felt until 2011/12

Commodity Prices

Commodity prices rising in 2009 after sharp downward correction in the second half of 2008
Sugar and soybeans prices showing strong gains

World Fuel Ethanol

Global production and consumption growth slows in 2009
Demand higher due to mandated inclusion
World trade to contract

Alternative Sweeteners

HFCS offtake in the United States falls further in 2009
Corn sweetener costs outlook improves
US HFCS exports to Mexico slump
European distributors prepare for possible stevia sweetener approval
New sucralose suppliers

Molasses

World production and export availabilities slump
Prices to remain firm

WTO Update

High levels calls for a quick end to the Doha Round at odds with slow technical progress in the negotiations

RTAs

An interim EPA signed between the EU and three SADC member countries

International Sugar Organization

One Canada Square
Canary Wharf
London E14 5AA

General Enquiries:
00 44 20 7513 1144

Publications:
00 44 20 7715 9436

E-mail:
economics@isosugar.org
Website:
<http://www.isosugar.org>

Contributors:
Mr Sergey Gudoshnikov
Senior Economist

Mr Lindsay Jolly
Senior Economist

Dr Leonardo Bichara
Rocha
Economist

Editor:
Dr Peter Baron

Quarterly Market Outlook

September 2009

Contents

i-iii	Executive Brief
1	World Sugar Market
1	World Balance
2	Supply
2	Production
13	Export Availability
14	Demand
14	Consumption
16	Imports
19	World Market Events and Prices
22	Currency Movements
24	Domestic Markets and Prices
28	Special Focus
28	Rainfall, Yields and Cane Planting in Brazil's Centre-South
31	Commodity Prices
33	World Fuel Ethanol
33	Overview
33	Production
37	Consumption
40	Ethanol Trade
41	Prices
43	Alternative Sweeteners
43	High Fructose Syrup (HFS)
47	Intensive Sweeteners
49	Molasses
52	WTO Update
54	Regional Trade Agreements
55	World Sugar Balance Estimates

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

2 September 2009

World Sugar Market

In this issue we make our first assessment of the world sugar balance in the upcoming 2009/10 crop cycle. The world sugar economy is facing a second consecutive year of a significant gap between world consumption and production. The first forecast of the world sugar balance for October 2009 to September 2010 puts **world production** at 159.042 mln tonnes, raw value. **World consumption** is expected to grow at a rate significantly lower than the long-term 10 year average (1.73% and 2.75%, respectively). Lower consumption growth is attributed to the impact of the current global recession as well as soaring world sugar prices. However, consumption is expected to reach 167.446 mln tonnes. Therefore, the **world statistical deficit** is projected to reach 8.404 mln tonnes.

Thus, the distinctive deficit phase, characterized by a significant excess of global consumption over production, as well as a significant reduction in stocks and tightness in the global trade balance, is expected to continue for at least 12 more months. Crucially, although the statistical deficit projected for this season is lower than in the previous crop year, the supply tightness is likely to increase as most of the sugar stocks accumulated during the surplus seasons of 2006/07 and 2007/08 have been already used during the first deficit season. A continuing decrease in the level of stocks is expected to further support world market prices. According to our forecast, global stocks will reduce in the course of 2009/10 by 8.4 mln tonnes following a massive (10.3 mln tonnes) de-stocking last season. The projected stocks/consumption ratio (31.8%) is the lowest for twenty years since 1989/90.

With such a constructive fundamental background the bullish tone of the market comes as no surprise. Since our previous *Quarterly Market Outlook in May*, world market prices have shown a remarkable rise. World market values demonstrated moderate increases during May, June and July, but prices rocketed in August to a level, which has not been seen since the last large-scale sugar price boom at the beginning of the 1980s. On 31st August the ISA daily price was as high as 25.18 cents/lb, a level not reached since February 1981. White sugar spot prices followed a similar path, but the rise was smaller. The result of greater gains in raw sugar prices as against white sugar values is an erosion of the white sugar premium. Of importance, the white sugar premium has been extremely volatile since 2006/07, after the supply shock caused by a structural decrease in white sugar availability triggered by the reform of the EU sugar regime in mid 2006. The positive fundamental picture remains also supported by the continued interest of funds in sugar futures as well as a weaker USD, in particular, against the currencies of major exporters.

A summary of the first assessment of the world sugar balance in 2009/10 is provided in the table below.

World Sugar Balance
(mln tonnes, raw value)

	2009/10	2008/09	Change	
			in mln t	in %
Production	159.042	154.225	4.817	3.12
Consumption	167.446	164.593	2.853	1.73
Surplus/Deficit	-8.404	-10.368		
Import demand	51.930	50.962	0.968	1.90
Export availability	51.964	50.903	1.061	2.08
End Stocks	53.234	61.672	-8.438	-13.68
Stocks/Consumption ratio in%	31.79	37.47		

Currency Movements

World sugar prices expressed in USD have had a considerable increase over the past 6 months, reaching 28.5 year highs. When expressed in the currencies of major sugar exporters, world market values have risen by less due to strengthening exchange rates. By contrast, milder currency movements have been felt among major importers, meaning that skyrocketing world market values have been reflected in importers' currency terms to a larger extent.

Domestic Market and Prices

Domestic sugar prices have risen by around 30% in India, China and Russia since February while in Brazil and the US little variation has been noticed. Of note, since September 2008, domestic prices have been rising sharply in India and Russia, by a respective 65% and 71%.

Special Focus: Rainfall, yields and cane planting in Brazil's Centre-South

Given the exceptionally wet weather in the Centre-South region of Brazil during June and July, combined with the credit crunch and a slowdown in Brazil's cane output growth, there are expectations in the market that the region's 2009/10 crop may be worse than some of the most pessimist projections. Cane output in the region to August 15 reached a 15% growth over the year-ago period. Nevertheless, erratic weather as well as lower fertilizer use have been having a significant negative effect on cane sucrose yields, now widely expected to fall to a 10-year low of less than 140kg/ tonne of cane. While there are still uncertainties regarding the possible cane crop in 2010/11 in the region, it is likely that growth in cane output will be subdued. Most of the plantings for the 2010/11 harvest have already been done. The significantly higher cane prices (as a result of skyrocketing sugar market prices) for 2009/10 have still not materialised, and plenty of growers and millers are still struggling with debt. The ISO expects cane production growth in Brazil's Centre South during 2010/11 to be the smallest since 2005, of the order of only 24 mln tonnes. However, it is likely that greater plantings through 2010 will bring a bumper crop during 2011/12.

Commodity Prices

Most commodity prices have risen during 2009, recovering part of the losses that took place during the second half of 2008. The IMF food commodity price index rose by 14% between December 2008 and July 2009. In terms of monthly averages, particularly noticeable were the rises in the prices sugar and soybeans which rose by a respective 57% and 25% since last December.

Fuel Ethanol

Global fuel ethanol production and consumption growth is forecasted to more than halve in 2009, growing by 12% to reach 73.4 bln litres. This compares to average annual growth of 28 % over the prior 3 years. The retraction in crude oil prices over the past 12 months, as well as the credit crisis, significantly dented both profitability and short term expansion prospects in the US, the globe's largest producer and consumer. Brazil's output is forecasted to continue to expand, but at a reduced pace given that millers are focussing on better returns for export sugar. Elsewhere, output and consumption is growing strongly in the EU on the back of existing and new inclusion mandates. Thailand's fuel ethanol market is expected to grow but to remain in surplus. In contrast, India's limited availability of the chief feedstock (molasses) is constraining fuel ethanol production and inclusion in gasoline. The volume of global fuel ethanol trade is contracting in 2009, particularly because low ethanol prices in the US so far this year have not been sufficient to draw full duty-paid exports from Brazil.

Alternative Sweeteners

No real negotiations have yet commenced for 2010 annual **HFCS** supply contracts with large users, such as beverage manufacturers. With corn prices well below levels seen this time last year and a lack of demand for many wet-milled products, negotiations are likely to be difficult. Even so, a factor helping to support HFCS prices may be the expected high price of

sugar given the fundamental outlook of tight supply both globally and in the US/Mexico market.

In Europe, the European Food Safety Authority has yet to give its opinion on the safety of steviol glycosides derived from the **Stevia** plant, including Reb A. However France's food safety agency, AFFSA, cleared use of 97% pure Reb A earlier this year and French distributors are taking advantage of transition arrangements that allow authorised use of any new sweetener for a two year period, pending full EU approval.

The BioPlus Life Sciences company is introducing a new **sucralose** to manufacturers around the world, and sees future market growth in developing new versions of the popular sweetener.

Molasses

Molasses values are anticipated to remain firm over the remainder of this year. Reduced production in India and Pakistan's limited export availability with its expanding use of molasses in fuel ethanol production underlay the supportive market fundamentals. The molasses trade will be characterised by constrained supplies and uncompetitive values over coming months.

WTO

Several high level meetings have called for a prompt conclusion of the Doha Round of trade talks, which are now in their eighth year. However with slow progress and missed deadlines in the negotiations, the high-level proclamations seemingly have failed to produce any true progress in the negotiations.

Regional Trade Agreements

Three members of the Southern African Development Community (SADC) - Lesotho, Swaziland, and Botswana – signed an interim economic partnership agreement (EPA) with the European Union on 4 June. The deal will give the SADC countries access to EU markets while the parties negotiate a permanent EPA.