



International Sugar Organization

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OUTLOOK

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Quarterly Market Outlook  
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# QUARTERLY MARKET OUTLOOK NOVEMBER 2009

## **Sugar**

The first revision of the world sugar balance in 2009/10 (October/September) shows a decrease in the world statistical deficit to 7.2 mln tonnes  
World production to the rise by 6.9 mln tonnes from the previous year  
World consumption to grow by 2.8 mln tonnes or 1.7%  
The stock/consumption ratio at 32% only  
World market prices are high but volatile  
Emerging dichotomy between short-term bullish fundamentals and looming global surplus in 2010/11  
Exporters' currencies continue to strengthen against US Dollar  
Domestic prices sharply higher this year in Brazil, Russia and India, firm in China and the US

## **Special focus**

Dry bulk vessel oversupply underpinning bearish freight market  
Lower sugar freight rates boosting competitiveness of long haul sugar shipping  
Brazil's sugar exports to Asia at a historic record

## **Commodity Prices**

Sugar, cocoa and orange prices rising strongly  
Grain prices falling

## **World Fuel Ethanol**

Global production forecasted to rise by 12% to reach 84 bln litres in 2010  
New and expanding inclusion mandates in the US, the EU, Central and South America  
Continuing growth in Brazil's consumption  
Trade to show little growth

## **Alternative Sweeteners**

US HFCS consumption to rise in 2010 – the first increase since 2001  
Sustainable supply and quality assurance crucial for stevia sweeteners

## **Molasses**

Only a limited recovery in molasses production in key exporters  
World prices forecasted to remain firm  
Minimal inclusion in the livestock feed sector in major importers

## **WTO Update**

WTO DG urges delegates to spur progress to a world trade deal by end-2010

## **RTAs**

EU signed a free trade agreement with the Republic of Korea  
An interim EPA sign between the EU and three SADC member countries

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# Quarterly Market Outlook

November 2009

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*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

12 November 2009

### World Sugar Market

In this issue we make our first revision of the world sugar balance in the 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 revision of the world sugar balance for October 2009 to September 2010 puts **world production** at 159.887 mln tonnes, raw value, up by 6.911 mln tonnes or 4.5% from the last season. A forecasted limited growth in sugar output in Brazil, a modest production recovery in India after last season's unprecedented shortfall, and a higher sugar crop in the EU have become the three major supply features of 2009/10. **World consumption** is expected to grow at a rate significantly lower than the long-term 10 year average (1.71% and 2.66%, respectively). The lower growth is attributed to impacts of the 2008/09 global recession on sugar consumption growth rates in developing countries as well as soaring world market prices. The ISO does not anticipate that the projected renewed global economic growth will significantly stimulate sugar consumption in the course of 2009/10, particularly taking into account high world market prices. Even so, global use of sugar is expected to reach 167.134 mln tonnes. Therefore, the growth in global production is far too small to cover sugar consumption and the **world statistical deficit** is expected to reach 7.247 mln tonnes as against 8.404 mln tonnes projected in September.

The distinctive deficit phase characterized by a significant excess of global consumption over production, as well as a further reduction in stocks and tightness in the world trade balance is expected to continue for at least 10 more months. Crucially, although the statistical deficit projected for this season is significantly lower than in the previous crop year (11.340 mln tonnes), the supply tightness is likely to increase as an estimated 70% of the sugar stocks accumulated after the previous two surplus seasons (2006/07 and 2007/08) were 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 7.254 mln tonnes following a massive (11.261 mln tonnes) de-stocking last season. The stocks/consumption ratio has not been as low as the current 32% for twenty years since 1989/90.

Despite a constructive fundamental background world market prices have shown a remarkable instability. Since our previous *Quarterly Market Outlook* at the beginning of September raw sugar prices oscillated within a wide trading range between 20.82 cents/lb and 24.97 cents/lb. On 11<sup>th</sup> November the ISA daily price was 22.11 cents/lb. White sugar spot prices followed a similar roller-coaster ride. What are the factors behind the high price volatility? Recent developments show how price sensitive some key importers are. Not every importer is ready to cover domestic shortfalls at any price quoted in the international trade. Another family of uncertainties is imposed by prospects for a less constructive fundamental picture in the next crop cycle. According to our tentative projection, the gap between world consumption and production is likely to disappear in 2010/11 and even a small global surplus (about 0.5 mln tonne) comes into view. Therefore, in the short term there is a supply tightness but a global surplus is looming in a matter of 9 to 12 months. With such a contradiction between short-term and medium-term fundamentals the instability of world prices comes as no surprise.

A summary of the revised 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 %
<b>Production</b>	159.887	152.976	6.911	4.52
<b>Consumption</b>	167.134	164.316	2.818	1.71
<b>Surplus/Deficit</b>	-7.247	-11.340		
<b>Import demand</b>	52.072	48.180	3.892	8.08
<b>Export availability</b>	52.079	48.250	3.829	7.94
<b>End Stocks</b>	53.471	60.725	-7.254	-11.95
<b>Stocks/Consumption ratio in%</b>	31.99	36.96		

### Currency Movements

Most of the major sugar exporters have seen a strengthening of their currencies against the US dollar over the past six months. This has, to a large extent, cushioned the magnitude of world sugar price rises when expressed in national currencies. While Brazil, Australia and Colombia have experienced currency appreciation in excess of 14% over the past 6 months, the Guatemalan Quetzal has depreciated, giving the country a further degree of export competitiveness relative to other major exporters. Currency movements among importers have been mild.

### Domestic Markets and Prices

Since May, domestic sugar prices have risen by around 30% in India and by 28% in Brazil. In Russia and in China prices have increased by a respective 13% and 10%. Over the short term, domestic prices expressed in national currencies show a relative disconnection from the line of world prices expressed in US Dollars, which reflect different national fundamentals as well as exchange rate movements and border protection. Since November 2008, domestic prices have been rising sharply in Brazil, Russia and India, by a respective 86%, 74% and 66%.

### Special Focus: Freight Rates and Sugar

The last few years have seen a high level of volatility in ocean freight rates, mainly due to changes in demand and supply of new bulk vessels, developments in the world commodity trade and crude oil price volatility. The outlook for the global ocean freight has become significantly bearish due to a record number of new vessels which have started to reach the global market this year. Moreover, estimated demand for new vessels should run well below supply over the coming 5 years. As sugar trade is a price taker in the world freight market, sugar freight rates are highly connected to the dynamics of the global dry bulk freight market. The recent sharp fall in ocean freight rates has certainly been of further benefit to long haul sugar trade routes from the Western Hemisphere, particularly Brazilian sugar destined to Asia. The fall in freight rates since late 2008 has contributed to slash as much as USD 80/tonne off the c.i.f price of Brazilian raw sugar going to Asia. While the volume of Brazil's sugar exports to Asian markets decreased significantly during 2008 largely due to the high freight combined with strong competition with Indian sugar, during the first nine months of 2009 alone, export volumes to Asian markets have hit historic records following the collapse in freight rates.

### Commodity Prices

Commodity prices, particularly softs, have experienced some price resurgence in 2009, partly recovering from the losses in the second half of 2008. Crude oil has seen a 76% price

increase from December 2008 to October 2009, reaching a 12 month high in October. Sugar prices in October 2009 were 160% higher than January 2005. Cocoa prices were 118% higher than January 2005, having risen by 20% over the past three months to USD 3,372.5 per metric tonne. Both commodities have hit historic highs; sugar prices are the highest for 28 years, while cocoa prices have not been matched since before 1980. Wheat prices, by contrast, have failed to rise over the past few months. Wheat prices have dropped 23% from May 2009 to October 2009 to USD 198.8 per metric tonne. This price fall has made the grain a more competitive feedstock for ethanol production.

### Fuel Ethanol

Global fuel ethanol production and consumption is forecasted to grow by 12% to reach around 84 bln litres in 2010. This compares to growth of 14% last year but far higher average growth of 28% over the prior 3 years. Profitability returned to the US industry only recently with lower corn prices and firm ethanol prices. Whilst the sector remains highly leveraged and idle plants will unlikely come back on stream quickly, capacity should be sufficient to meet the mandated rise in ethanol consumption in 2010. In Brazil ethanol output is forecasted to rise again after having stagnated in the current campaign. Elsewhere, output and consumption is growing strongly in the EU on the back of greater inclusion mandates. Thailand's fuel ethanol market is expected to grow markedly as capacity expands and government incentives act to boost E-20 and E-85 offtake. In contrast, India's continuing limited availability of the chief feedstock (molasses) and strong competition from the industrial alcohol sector for available supplies is forecasted to result in a modest fall in fuel ethanol output in the coming year.

### Alternative Sweeteners

In the United States **HFCS** consumption is forecast to rise in 2010 after shrinking every year since 2002. Food and beverage manufacturers have switched away from HFCS to sugar over the past few years with sugar deliveries having moved ahead of HFCS deliveries by a growing margin since 2007. However, next year HFCS deliveries are expected to increase and recapture a significant proportion of the market share it lost in 2008 and 2009 to imports of sugar from Mexico. Since Mexico is forecasted to have far less sugar available to ship to the US next year, HFCS consumption is set to recover. However, it remains to be seen if consumer preferences can change sufficiently to accept HFCS in products that had made the switch to sugar and/or if firms producing HFCS will aggressively market their products to recapture markets lost to sugar.

A significant challenge facing the **Stevia** market is anticipated constraints in raw-material supply. The commercial production of stevia is primarily concentrated in Argentina, Brazil, Cambodia, Chile, China, Colombia, Kenya, India, Indonesia, Malaysia, Paraguay, Peru, and Vietnam. China accounts for close to 75% of the world stevia leaf production.

### Molasses

Molasses values over the past year have risen to unprecedented levels at both origin and destination. The US blackstrap cane molasses price is approximately double its long-run trend level. Supply side fundamentals including sharply reduced production in India and in Pakistan explain the surge in prices. At the same time the expanding use of molasses in fuel ethanol programs is boosting global molasses demand. Crucially, 2009/10 molasses production in Pakistan and Thailand together is forecasted to rise only slightly. Furthermore, with only a limited recovery in molasses output foreseen in 2009/10, India is not likely to return to playing a major role as a molasses exporter.

### WTO

Delegates need to move to text-based negotiations if they want to spur progress toward a global trade deal, according to WTO Director-General Pascal Lamy. The current speed with which negotiations are advancing is too slow to arrive at modalities by early next year. These 'modalities' would be the skeleton of a global deal to cut tariffs and subsidies. If they are not

agreed within the next few months WTO officials will almost certainly fail to meet their goal of wrapping up the Doha Round by the end of 2010.

### **Regional Trade Agreements**

The European Union and South Korea signed a free trade agreement late October that will remove 'virtually all tariffs' on trade between the two economies. The deal is the biggest trade pact ever signed by the 27-nation bloc.

The United Nations Framework Convention on Climate Change (UNFCCC) convenes its 15th Conference of the Parties, in December in Copenhagen. Current negotiations under UNFCCC are working towards a new agreement that will serve to enhance the implementation of the Convention. The Convention, together with its Kyoto Protocol, include commitments that address climate mitigation and adaptation globally.