



International Sugar Organization

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# QUARTERLY MARKET OUTLOOK FEBRUARY 2010

## **Sugar**

The second revision of the world sugar balance in 2009/10 shows a statistical deficit of 9.4 mln tonnes

World production to rise by 4.8 mln tonnes from the previous year

World consumption to grow by 2.4 mln tonnes or 1.48%

The stock/consumption ratio at 32% only

The trade deficit to reach 2.1 mln tonnes

World prices rise to 29-year highs

Looming global surplus in 2010/11

Indian Rupee strengthens while Euro weakens against the USD

Domestic prices at record levels in the globe's major consuming markets

## **Special focus: NAFTA and its Impact on Sugar**

Mexican sugar exports to the US at high levels, despite slump in domestic cane production

Liberalized HFCS trade set to continue to impact the region's sweeteners market

## **Commodity Prices**

Commodity prices rebound in 2009 pushed by crude oil and softs, particularly sugar, but also cocoa and cotton

## **World Fuel Ethanol**

World production and consumption to grow by 13%

New and expanding consumption mandates

US EPA issues final RFS2 implementation rules

Brazil lowers gasohol blend rate

Brazil ethanol market deficit to be shortlived

Large capacity expansion in the EU and Thailand

India's ethanol sector stifled by molasses deficit

Pakistan's ethanol programme prospects uncertain

## **Alternative Sweeteners**

US HFCS contract prices fall

New Chinese supplier to US and EU Stevia markets

Nutrilab company to commence Tagatose production

Neotame to compete directly with Saccharin

## **Molasses**

World prices to stay high in 2010

No boost to world trade until 2010/11

## **WTO Update**

WTO Members need breakthrough framework accords

## **RTAs**

China-ASEAN trade pact commences

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# Quarterly Market Outlook

February 2010

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## EXECUTIVE BRIEF

19 February 2010

### World Sugar Market

The second revision of the world sugar balance forecast for the period from October 2009 to September 2010 shows a widening gap between world consumption and global output. The world sugar economy is facing the second consecutive year of a significant gap between world consumption and production. **World production** is now put at 157.160 mln tonnes, raw value, up by 4.678 mln tonnes or 3.07% from the last season. Generally sugar crops in the world's leading producing countries – with the exception of the EU, Russia, and, probably, India – are now likely to be lower than expectations at the beginning of the season. **World consumption** is expected to grow at a rate significantly lower than the long-term 10 year average (1.48% and 2.66%, respectively). The lower growth is attributed to soaring world market prices as well as some lingering impacts of the 2008/09 global recession on sugar consumption growth rates. 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 166.585 mln tonnes. Therefore, the growth in global production is far too small to cover anticipated increases in sugar consumption, and the **world statistical deficit** is expected to reach 9.425 mln tonnes as against 7.247 mln tonnes projected in November.

Crucially, although the statistical deficit projected for this season is lower than in the previous crop year (11.671 mln tonnes), the supply tightness is increasing 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 7.300 mln tonnes following a massive 11.673 mln tonne de-stocking last season. The stocks/consumption ratio has not been as low as the current 32% for twenty years since 1989/90. Moreover, the second revision of the world supply/demand situation has added to the bullish picture another strong element – a trade deficit - as the expected export availability is 2.125 mln tonnes short of anticipated import demand.

Driven by the constructive fundamentals world market prices have shown a remarkable improvement since our previous *Quarterly Market Outlook* in mid-November. By the end of January the ISA price reached a new 29 year record high (27.74 cents/lb). During the first half of February, there was a technical downward correction but prices remained historically strong. On 16<sup>th</sup> February, the ISA price was 26.28 cents/lb. Throughout January, the settlement price of the first futures position in New York ICE No 11 several times approached the psychologically important level of 30 cents/lb but was unable to reach this level. The price rise was equally stunning in the case of white sugar. The ISO White Sugar Price Index improved from USD 595.75/tonne (27.02 cents/lb) in mid-November to USD741.35/tonne (33.63 cents/lb) on 11<sup>th</sup> February falling thereafter to USD714.3/tonne (32.40 cents/lb). The period under review has been also characterized by a fast growing white sugar premium. In January the differential between the ISO White Sugar Price Index and the ISA daily price for raws increased to USD146.39/tonne, the highest nominal white sugar premium since July 1995.

Will the current 25 to 26 cents/lb level become a launching pad for further price advances or can the recent price consolidation be interpreted as a retreat signal for world values? In the short run, the possibility of world prices rising further can not be written off. The situation seems particularly alarming for importers in the second quarter of 2010, before fresh supplies from Brazil's new crop hit the market. However, there are prospects for a less constructive fundamental picture in the next crop cycle. According to our tentative projection, with a neutral weather assumption the gap between world consumption and production is likely to disappear, and even a small (about 1 mln tonne) global surplus comes into view. It is important to stress that a surplus of such a magnitude will not allow the rebuilding of

depleted stocks. Thus, it can be assumed that in 2010/11 the impact of likely bearish fundamentals might be limited.

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>	<b>157.160</b>	<b>152.482</b>	<b>4.678</b>	<b>3.07</b>
<b>Consumption</b>	<b>166.585</b>	<b>164.153</b>	<b>2.432</b>	<b>1.48</b>
<b>Surplus/Deficit</b>	<b>-9.425</b>	<b>-11.671</b>		
<b>Import demand</b>	<b>54.281</b>	<b>50.068</b>	<b>4.213</b>	<b>8.41</b>
<b>Export availability</b>	<b>52.156</b>	<b>50.070</b>	<b>2.086</b>	<b>4.17</b>
<b>End Stocks</b>	<b>53.068</b>	<b>60.368</b>	<b>-7.300</b>	<b>-12.09</b>
<b>Stocks/Consumption ratio in%</b>	<b>31.86</b>	<b>36.78</b>		

### Currency Movements

While the INR has strengthened relative to the USD over the past 6 months, the Euro has weakened by over 5%. Longer-term looking back over the past year, the USD has weakened against the currencies of most exporters and importers. Notable exceptions are Guatemala and Argentina, which, as a result of currency depreciation, have since last year gained some exchange rate competitiveness relative to most large sugar exporters as well as the ISO exchange rate index.

### Domestic Prices

Domestic sugar prices rose by around 30% in India and Brazil, 20% in China and the United States, and by 15% in Russia between September 2009 and January 2010. Domestic prices have remained flat in Mexico, after a sharp rise seen during mid 2009. Domestic prices are at record levels in most of the world's largest markets, although their recent rise has generally failed to match the surge in world market prices expressed in USD. Domestic market prices in the European Union have continued to fall over the past 6 months, reaching new lows of around EUR 500/tonne in October, although since then they have recovered somewhat.

### Special Focus: NAFTA and its Impact on Sugar

The Special Focus edition of this QMO reviews the outlook of the integrated sweeteners market (sugar and HFCS) of Mexico and the US as well as its drivers. The United States and Mexico are together the world's third largest sugar market (after India and the EU), with consumption estimated at 15 mln tonnes, raw value, or 9% of the world's total. As a result of trade liberalization between the two countries, Mexico has seen US-bound sugar exports grow over the past couple of years, in part sustained by higher quantities imported from third countries, in a process known as backfilling. At the same time, US HFCS exports to Mexico, despite high year-on-year volatility, have risen over the recent years. In 2010, HFCS import volumes by Mexico should keep growing as sugar prices are set to remain high. An important factor helping to determine the market share of HFCS in Mexico is how the MXN (Mexican Peso) exchange rate and the price of corn will impact the price of imported HFCS relative to domestic sugar. In addition, if HFCS use patterns in Mexico change to reflect the current situation in the US, where 95% of beverage producers use HFCS, then HFCS imports could skyrocket. As a result, Mexico could see the surplus of sugar sharply rise. However two factors may constrain their future bilateral sugar trade. First, during times of high world sugar prices (such as now), the incentive for backfilling is severely diminished. Second, further US free trade agreements with third countries could block additional increases in US demand for Mexico's sugar.

## Fuel Ethanol

Global fuel ethanol production and consumption is forecasted to grow by 13% to reach around 83 bln litres in 2010. This is similar growth to that of last year but still far below the average growth of 28% over the prior 3 years. New and expanding consumption mandates in the US, several countries in Central and South America, and the EU, along with anticipated continuing growth in Brazil's domestic ethanol consumption drive the expanding world ethanol market. Profitability returned to the US industry late in 2009 and production margins are expected to average considerably higher this year due to likely lower corn costs and improved ethanol prices. In Brazil ethanol output is forecasted to rise again after having contracted in the current campaign for the first time in a decade. Consumption and output are growing strongly in the EU due to rising inclusion mandates and the commissioning of new facilities. Thailand's fuel ethanol market is expected to grow further as 6 new production facilities are due to come on stream in 2010, whilst India's continuing limited availability of molasses and strong competition from the industrial alcohol sector is forecasted to result in a modest fall in fuel ethanol output in the coming year. Brazil's tight supplies have limited export availability and boosted ethanol prices recently, but there is potential for some growth in traded volumes in 2010 on the expectations that Brazil's ethanol production will be considerably boosted.

## Alternative Sweeteners

In the United States **HFCS** consumption is forecast to rise in 2010 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 in 2010, HFCS consumption is set to recover. Negotiations between HFCS producers and large users over annual supply contracts for 2010 were settled only recently. Contract prices have reportedly fallen by 3-4 US cents/lb, wet basis, representing a 15% decline.

Chinese ingredients supplier Fenchem intends to make its **Stevia**-based Reb A sweetener available in the United States. Nutrilab expects to begin commercial production of **tagatose** towards the end of 2010, pending agreement that it is substantially equivalent to lactose based tagatose, which already has novel foods approval. The NutraSweet company is positioning its **neotame** sweetener as a better-tasting alternative to saccharine, and expects it to compete with the world's most used sweetener on cost.

## Molasses

Prices are forecasted to remain high in 2010 as the global supply/demand balance is not expected to ease markedly until early 2011 when molasses production could be boosted. Molasses values last year rose to unprecedented levels at both origin and destination. The 2009 surge in prices can be explained by a sharp contraction in molasses production and tradable surpluses, as well as expanding use of molasses in fuel ethanol programs. Molasses trade also contracted because of relatively lower grain prices which made molasses values uncompetitive in compound feed manufacture.

## WTO

The WTO Doha Round negotiations are in their ninth year. For the goal of concluding the talks before end of 2010 to be achieved, WTO members will have to strike breakthrough framework accords in the early part of this year. This would allow members ample time to 'schedule' their specific tariff and subsidy commitments. However, some developing countries might need up to nine months to complete this process. Earlier in December, a new proposal was put forward to offer a potential resolution of long-standing differences among exporters of tropical farm products.

## Regional Trade Agreements

On the first day of January, one of the world's largest free trade areas - between China and the ten-member Association of Southeast Asian Nations - came into being. Officials hope that the trade pact will bring cheaper manufactured goods into ASEAN while providing China with easier access to ASEAN's raw materials exports.