

Sugar soars as commodities rise again

Tom Sellen

SUGAR futures have soared to new highs, bolstered by buying from speculators and a continuing bullish supply-and-demand picture for sugar, analysts say.

In London, Liffe white-sugar futures hit their highest level since the market began being quoted in US dollars in 1983. In New York, October sugar on the ICE Futures US exchange touched a 3½-year high of US\$19.43c a pound, and the March 2010 contract secured a new all-time high of US\$20.44c.

Liffe October sugar settled at \$US502.90 a tonne, up \$US11.10, while ICE October sugar rose US\$0.53c to settle at US\$19.14c a pound.

Sugar's gains were also supported by a 3 per cent advance in crude oil futures and strength in the major commodity indexes, with a weak US dollar also supportive for the commodity sector.

Cocoa hit an 11-month high, coffee touched a seven-week high, and copper rose to a 10-month high. Comex copper for August delivery rose US\$1.5c a pound, to \$US2.7315.

ICE September cocoa was at \$US2935 a tonne, up \$US43. ICE September coffee was at \$US1.33 a pound, up US\$0.52c.

Other commodities, such as gold and corn, also advanced, contributing to an overall bullish theme.

New York Mercantile Exchange September crude hit a high of \$US72.20 a barrel, the highest mark since June, before pulling back slightly.

Comex August gold rose \$US2.90, to \$US956.60 a troy ounce, while most-active December corn on the Chicago Board of Trade surged US\$18.75c to \$US3.6825.

Analysts said an increase in risk tolerance was a factor helping commodity and other financial markets generally, with equities also higher. This was encouraged by stronger purchasing manager's indexes in China, the eurozone and US.

"We're seeing a flow of money going back into the markets," said Daniel Pavilonis, Lind-Waldock senior market strategist. "It's going back into the stock-market and it's going back into all of the commodities."

Some flows into commodities might also be in anticipation of eventual inflation, observers said.

For sugar, the commodity's specific supply-and-demand picture is central to the gains.

An underlying world deficit for



Supply hit: Heavy rain in Brazil has fuelled sugar production concerns

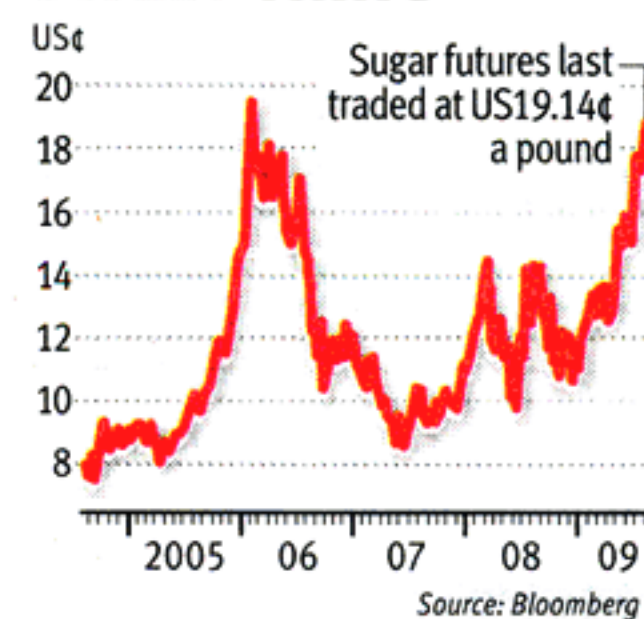
Picture: Bloomberg

sugar and concerns in India and Brazil, the world's top two sugar producers, contribute fundamental reasons for the rise in sugar-futures prices.

Jonathan Kingsman, head of Switzerland-based consultancy Kingsman, said Monday, the first trading day of the month, might have meant fresh fund allocations

to sugar. Mr Kingsman said the 2009-10 world sugar deficit was expected to be about 5.1 million tonnes, compared with 15.1 million tonnes in 2008-09. Weather

SWEET THING



is the primary cause for concern in India and Brazil. India's erratic monsoon season and too much rain in Brazil have fuelled production concerns for the coming sugar crops.

The production concerns were expected to keep upward pressure on ICE sugar futures, said Barclays Capital analyst Nicholas Snowdon.

Michael McDougall, a broker with Newedge Group, said Brazilian production could decline further on forecasts for additional rain. "Since long-range weather forecasts still point to a potentially wet end of harvest period in December, there is a chance we could see production numbers fall a bit more before all is said and done," he said.

Brazilian sugar and biofuel consultancy Datagro last week pegged the country's 2009-10 crush at 535 million tonnes. This compared to a forecast from the Sugarcane Industries Association, or Unica, which originally projected the crop at 550 million tonnes but was now "cautiously reassessing the crop size", an official said, explaining that it was unlikely to reach that original estimate.

In addition, forecasts calling for dry weather in the next two weeks in India's main growing region would probably keep the sugar bull alive and kicking.

India has extended a deadline on importing tax-free white sugar until November 30, compared with a previous deadline of August 1, to help make up for the domestic shortage. Output is expected to fall to 14.5 million tonnes in 2009-10, from 26.3 million the previous year.

Mr Snowdon's current target on ICE March 2010 sugar is US\$22c a pound, which could prove conservative if El Niño "lives up to its reputation". The weather phenomenon could mitigate prospects for a dry end to the Brazilian harvest, he said.