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Bull run in sugar likely to continue

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NEW YORK: After a four-year bear market, sugar has found its sweet spot.

Its steepest bull run in years has seen prices of US raw sugar, the global price benchmark, more than double in less than a year, making one of the smallest commodity markets one of the best performing so far this year, outpacing two of the biggest, gold and oil.

Investors who have ridden the market to 2012 highs, betting on expectations of dwindling supplies from key growers like India and Thailand, are now wondering how much higher prices can go, still awaiting a long-anticipated deficit.

"It's uncertain how much further the run-up can go ... The upside may be limited to another 10 to 15%," said David Martin, founder and managing member of Martin Fund Management LLC in New York which has $82 million of assets under management.

He placed bullish options bets when sugar, currently over 20 cents a pound, broke through 17 cents in May, reversing a longstanding bearish position. "I am now positioned neither bullish or bearish."

World demand is expected to exceed supply for the first time in six years this year as drought in India, the world's second-largest grower, and unfavourable weather elsewhere in Asia threatens output.

But there is little sign yet of extreme nearby tightness to justify lofty prices above 20 cents, some say.

"I imagine (a correction) could be quite violent," said Doug King, chief investment officer of Merchant Commodity Fund in London. "There is no reason to believe the market could go to 25 cents. We don't have a shortage of sugar now."

Still, some commodity trading advisors (CTAs) that typically rely on technical indicators see little in the charts to call an end to sugar's sizzling run just yet.

Sameer Ahuja, founder and chief investment officer of Dera Capital Management in Harrison, New York, said he was watching for October futures to break a resistance at 21.25 cents, and then 24 cents, which would mark the highest since July 2012.

"We could be heading for levels seen in 2011," he said.

For the CTAs that caught the run-up early, sugar's turnaround from seven-year lows around 10 cents per lb seen in August 2015 has been sweet.

Sol Waksman, president and founder of BarclayHedge Ltd, an Iowa-based firm that tracks CTA performances, said Martin's was the best performer of the 51 agricultural funds he tracked through the end of May.

Martin attributes that to exposure to sugar and coffee markets. The fund was up 17.5% in the first five months of 2016, according to its website.

By any measure, June saw a spectacular rally as cash continued to pile into the market.

Turnover for the month hit 3.74 million lots, worth 190 million tonnes of sugar, the third highest, according to records going back almost four decades, as prices hit their highest in almost four years.

Much now depends on top grower Brazil, where the harvest runs through December.

Martin said he was watching the premium of nearby futures over prices further out, an indication of supply concern.

The premium of the second-month March contract over the third-month May spiked to a near five-year high this week.

"You could still put another three or four cents on this," said Jobe Moss, a broker with MCM Inc in Lubbock, Texas, whose interest in sugar has been renewed amid this year's rally. "(But) I'm not going to chase the market up right now." REUTERS

COMMODITIES

A labourer carries a sack filled with sugar at a wholesale market in Kolkata, India. REUTERS