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World dealing with massive sugar glut

Stockpiles set to swell to new high this season

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NEW YORK: Sugar stockpiles are poised for a record as slowing demand growth and surging production creates the worst-performing commodity of 2018.

Consumers have become increasingly wary of the health impact of their sweet tooth, and companies from canned-fruit maker Del Monte Foods Inc to snack-food seller Mondelez International Inc are touting products made with less sugar.

While global consumption is still rising, the pace of growth has slowed to an average 1.4% in recent seasons, down from 1.7% over the past decade, according to researcher Green Pool Commodity Specialists.

That's coming at a time when production is booming, especially in India, the world's No. 2 producer. Farmers in Thailand are also collecting massive crops.

World stockpiles are set to swell to the highest ever this season and stay near the record next year, according to the US Department of Agriculture.

Sugar futures in New York have already slumped 25% in 2018. That's the biggest loss on the Bloomberg Commodity Index, which tracks returns for 22 components.

"Unless there's a weather issue, it doesn't look that the bulls have any hope for a sustained rally," said Donald Selkin, a New York-based chief market strategist at Newbridge Securities Corp, which oversees about \$2 billion.

"Everybody is trying to do away with sugar and sugary products. You see that in supermarkets and grocery stores. Demand is going to remain less than what's been in recent years. The price is doomed to stay low for a while."

On Monday, raw sugar for October delivery dropped 1% to 11.4 cents a pound on ICE Futures U.S. Inc in New York.

Investors are setting up for more declines.

In the week ended July 3, money

managers more than tripled their net-short position, or the difference between bets on a price increase and wagers on a decline, to 54,736 futures and options, according to US Commodity Futures Trading Commission data released on Monday.

The move came as short holdings increased 15%, while long bets fell almost 7%.

"Global production will top demand by 19.6 million metric tonnes in the 12 months that end Sept 30, the biggest overhang ever," Brisbane-based wholly Australian consultancy firm Green Pool said in a report last month.

The excess would be more than enough to meet annual demand in China, the world's top importer.

After farmers collected a mammoth crop, the Indian Sugar Mills Association said on July 3 that processors were seeking to increase export quotas to a record six million tonnes.

The group estimates the country's output at as much as 32 million tonnes, a gain of 58% from a year earlier. Meanwhile in Brazil, surging ethanol stockpiles and tumbling prices for the biofuel mean cane millers could process more of the crop into sugar.

Of course, crops can still fail, especially if the weather turns worse than expected. Dry conditions have hurt plants in Brazil's Center-South, the world's biggest producing region. The potential for an EL Nino weather pattern later this year could also

mean some damage to Asian crops.

But in a market where demand slowing, small supply shocks can often be absorbed.

While health concerns and taxes on sugary drinks that erode consumption have been more pronounced in developing economies, Green Pool said that these factors "are now being replicated in emerging markets."

"All the bearish elements that had sugar pinned down initially are still in place, and some are even worse," said Frank Jenkins, the president of JSG Commodities in South Norwalk, Connecticut.

"We are looking for a long period of time with a very substantial surplus. We are in the fourth or fifth inning of this bear market," he added. BLOOMBERG