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Sugar's Surge, Deficit May Cause 'Demand Destruction' (Update1)  
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(Adds Sucden official's comment in eighth paragraph.)

By Thomas Kutty Abraham

Jan. 12 (Bloomberg) -- A global sugar deficit for a second year and the biggest annual gain in prices in more than three decades will lead to "forced demand destruction," according to an executive at Al Khaleej Sugar Co., the biggest refiner.

"White-sugar demand far exceeds the supply, and there's very little stock pipeline to squeeze," Cyrus Raja, general manager at the Dubai-based company, said in an e-mail.

Indonesia, Iraq, Egypt, Pakistan and Tanzania are among nations seeking to buy sugar to cool local prices, straining global supplies forecast by broker Czarnikow Group Ltd. to fall short of demand by 13.5 million tons in the 2009-2010 season.

Sugar had its biggest annual gain since 1974 last year because of weather disruptions in Brazil and India, the largest growers.

"In my view, there will be further demand destruction in the second-half of 2010," Raja wrote in reply to questions.

March-delivery raw sugar fell 2.8 percent to 26.75 cents a pound yesterday in New York, the most since Nov. 5. White, or refined, sugar for March delivery dropped 1.3 percent to \$717 a ton in London yesterday, the most since Dec. 21.

India, importing sugar for a second year, may need to buy at least 7 million tons this season, Macquarie Group Ltd. said Jan. 8, as the government tries to lower prices from more than a four-year high. China, the biggest consumer after India, may have a deficit of 3.3 million tons this year after drought and cold weather cut yields, the Guangxi Bulk Sugar Exchange Center cited an executive as saying yesterday.

Pakistan, Asia's third-biggest sugar consumer, plans to buy 500,000 tons of white sugar by June as a shortage pushes prices to near-record levels, a millers' group said last month.

#### 'Severe Impact'

"Rising prices are certain to impact consumers and the impact will be more severe on them in the coming weeks," Yatin Wadhwa, managing director of Sucden India Pvt., said in a phone interview from New Delhi. "It's difficult to quantify the extent of demand destruction."

The Middle East and Africa is seeking more sugar than usual, Khaleej's Raja said, adding Tanzania, Sudan and Kenya were among "surprise buyers" of white sugar this season.

India may need to import more than 2 million tons of white sugar this season, he said. Al Khaleej, which sold 50,000 tons of the white variety to India in the 2008-09 season, plans to increase sales to the South Asian country.

"The doubt is whether the world will have this much to give them considering the increased requirement for white from Pakistan, Indonesia, Kenya and Tanzania," Raja said.

White sugar's premium over the raw form may jump to \$145 a ton as demand climbs, he said. The variety was \$127.26 a ton more expensive than raw yesterday.

Al Khaleej is operating its Dubai refinery at full capacity of 4,800 tons a day to take advantage of rising demand, Raja said. The company doesn't plan to expand capacity as it would mean a disruption to operations, he said.

The plant is the largest standalone sugar refinery in the world, according to the company's Web site.

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