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Sugar Caught in 'Perfect Storm', May Jump on Deficit (Update2)
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(Adds New York prices in fifth paragraph.)

By Thomas Kutty Abraham

Jan. 28 (Bloomberg) -- Sugar futures may jump 39 percent by August, extending the sweetener's rally to its highest level in 30 years amid global supply shortages, Commerzbank AG said.

"Forty cents is a very bold number, but it seems achievable in my opinion," Eugen Weinberg, an analyst at the bank said in an interview. "At the moment, it seems like a perfect storm and the speculative money should keep pouring in." Raw sugar for March delivery gained as much as 1.8 percent to 28.87 cents a pound in New York today.

India, China, Indonesia, Pakistan, Egypt and Russia are among countries planning to buy sugar to cool domestic prices, straining supplies forecast by broker Czarnikow Group Ltd. to lag behind demand by 13.5 million tons in the current season.

Sugar had its biggest annual gain since 1974 last year after bad weather pared harvests in Brazil and India, the largest growers.

"While demand is rather price-inelastic and remains robust, problems are piling up on the supply side," Weinberg said from Frankfurt.

Raw-sugar futures for March delivery added 1.5 percent to 28.79 cents a pound in after-hours trading on ICE Futures U.S. in New York at 3:57 p.m. in Mumbai. The contract reached 30.1 cents on Jan. 25, the highest level since Jan. 15, 1981.

Prices could increase to 35 cents a pound by June, Thai Sugar Trading Corp., the country's top exporter, said Jan. 21.

Indonesia, Southeast Asia's largest sugar buyer, this week agreed to import 85,500 tons of refined stock to fill a deficit. The Philippines, importing for the first time in eight years, will auction rights allowing private firms to buy as much as 150,000 tons, an official said yesterday.

Asian Deficit

"The supply shortfalls in Asia eclipse sugar shortages elsewhere," said Weinberg.

India, the biggest user, needs to import an additional 1.6 million tons this season, the Indian Sugar Mills Association said yesterday. The country has bought 7 million tons since October 2008. Pakistan, which stopped taxing imports, plans to buy 1.25 million tons by June.

In China, prices have risen despite the government selling from stockpiles, signaling that the market remains tight, Yang Yunsheng, vice chairman of the Yunnan Sugar Association, said Jan. 22. Output may fall to 12 million tons from 12.43 million tons a year ago, the China Sugar Association said in November.

"Developments in China could trigger a genuine if mainly psychological upheaval on the market since China appears unable to meet its domestic demand from its own production," Weinberg said. The

country's imports may be "significantly higher" than last year's 1 million tons, he said.

Counterinterview

Not everyone is bullish. Raw-sugar prices may fall to about 26 cents by July with the arrival of Brazilian crop, G.S.C. Rao, executive director at Simbhaoli Sugars Ltd., a 75-year-old mill in India, said in an interview in Mumbai today.

"Money from funds has been responsible to a great extent for the current rally and if they book profit, there could be some decline," Rao said. "The Brazilian crop will arrive in May and that will cool prices."

Hedge-fund managers and other large speculators increased their net-long position in raw-sugar futures in the week ended Jan. 19. Speculative long positions exceeded short positions by 194,919 contracts, up 2.1 percent from a week ago, according to the U.S. Commodity Futures Trading Commission.

White, or refined, sugar prices may reach \$900 a ton on rising demand from nations including Iraq, Tanzania and Egypt, Commerzbank's Weinberg said.

Refined sugar for March delivery jumped as much as \$9.90, or 1.4 percent, to \$732.40 a ton in London today. Prices rose to \$767 last week, the highest level in at least two decades.

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