

(BN) Indian Sugar Shortage Deepens as Cane Crop Set to Disappoint (1)

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By Isis Almeida

(Bloomberg) -- India's sugar shortfall is worsening as disappointing cane crops boost the need for imports this season.

Reduced cane supplies in the states of Maharashtra and Karnataka mean output will probably fall to the equivalent of

21.3 million metric tons of white sugar, according to Tropical Research Services, which advises several hedge funds on agriculture markets. That's 4 percent smaller than forecast last month and 15 percent below a year earlier.

The El Nino weather pattern that ended this year hurt cane crops in India, the biggest sugar-consuming country and second-largest producer. At the same time, the harvest in No. 2 exporter Thailand is running behind last season's pace, helping tighten global supplies already forecast to fall short of demand.

"Early reports from both the key Maharashtra state in India and also from Thailand suggest their cane crops could disappoint," James Liddiard, a partner at Agrilion Commodity Advisers LLC, said in a report Wednesday.

Sugar Rallies

A smaller crop and the potential for more imports has helped boost Indian futures almost 10 percent in the past month.

In London, white sugar for March delivery rose as much as 2.7 percent to \$522.70 a ton, the highest for a most-active contract since Dec. 12.

"The rally in futures is indicative that the local market is concerned that the country's production may not reach official estimates and, or stocks are not sufficient enough to supply the domestic market until the end of the off-season,"

Joao Botelho and Pedro Shinzato of brokerage INL FCStone Inc.

said in a report dated Wednesday, commenting in Indian futures.

Indian production will be less than forecast, partly because growers decided to hold on to some of the cane as seed for the 2017-18 crop, said Sean Diffley, head of sugar and cane ethanol research at TRS. That means imports of raw sugar will be

3.3 million tons, 11 percent more than an earlier estimate.

While some will be refined and re-exported, 2.4 million tons of the supplies brought into India will be consumed in the domestic market, he said.

While traders have been forecasting growing shortages in India, the government still hasn't scrapped an import duty of 40 percent on raw sugar. In previous years of shortfalls, the levy was removed to allow local refineries to supply the domestic market. Under normal market conditions, these factories bring in sugar to process and re-export, a mechanism known as toll-refining.

India won't need to import any sugar in the next 12 months and may even have a surplus in the 2017-18 season, the Indian Sugar Mills Association said in statement earlier this month.

The country's reluctance to remove import duties has fueled speculation the nation won't have enough time to import and process raw sugar to meet demand. That would mean more imports of white sugar, which has helped boost prices this week. Futures for March delivery were trading 2.5 percent higher at \$521.80 a ton by 2:34 p.m. in London.

ED&F Man Holdings Ltd. and Simbhaoli Sugars Ltd. aren't running their refinery on the west coast of India as it wouldn't be profitable under current market conditions, according to a person familiar with the matter, who asked not to be identified because the information isn't public. The plant is ready to restart when it's more economically viable, the person said.

"Each day that goes by without the Indian government reducing the import duty is a day refiners can't process to supply the local market," said John Stansfield, an analyst at Group Sopex, who has followed the market for more than 20 years.

"So there may be more white sugar imports than people had expected and that's why futures in London are rising."

To contact the reporter on this story:

Isis Almeida in London at ialmeida3@bloomberg.net To contact the editors responsible for this story:

Lynn Thomasson at lthomasson@bloomberg.net