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Sugar Rising on Worst Thai Port Congestion: Freight Markets (1)
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(Adds Winney comment in 15th paragraph.)

By Supunnabul Suwannakij and Luzi Ann Javier

June 14 (Bloomberg) -- Thailand, the world's second-biggest sugar exporter, is driving up global prices as the worst port congestion in memory restricts shipments.

Vessels are waiting to load as much as 7 percent of this year's supply, said Piromsak Sasunee, chief executive officer of Thai Sugar Trading Corp., the largest shipper. A shortage of barges, a sunken ship blocking the biggest river and a lack of labor combined to delay exports, he said. Prices climbed 19 percent to 24.38 cents a pound since May 6 and may go as high as 30 cents over the remainder of the year, said Alan Winney, chairman of Queensland Sugar Ltd., Australia's biggest supplier.

"I've never seen so many ships waiting to load sugar," said Prasong Serisathien, 62, general manager of Siam Sugar Export Co., Thailand's second-biggest exporter. "Problems have intensified because every step in the export chain from the warehouse to the vessel is congested."

Even after the rebound, sugar is still this year's worst-performer in the Standard & Poor's GSCI index of 24 commodities. Prices slumped as a supply glut emerged after two years of shortages, potentially helping Nestle SA, the world's biggest food company, trim the $1.7 billion it spends annually on the sweetener. Supplies are needed now because of fewer cargoes from Brazil, the world's largest exporter, Piromsak said.

Bulk and Bags

Thailand exports sugar in bulk and bags through ports at Bangkok, and at Laem Chabang and Koh Si Chang in the Gulf of Thailand. While the ports can handle about 1 million metric tons of cargo a month, exporters are competing with suppliers of steel and wood-chips. They are also contending with congested roads and waterways. A sunken barge blocked the Chao Phraya River for almost two weeks before being salvaged on June 12.

Exports may jump 52 percent to 7 million tons this year, according to the country's Office of the Cane & Sugar Board. It will have little impact on the freight market because global seaborne sugar shipments account for 1.5 percent of the bulk commodities trade, according to data from Clarkson Research Services Ltd., a unit of the world's largest shipbroker.

About 90 percent of global trade moves by sea, the Round Table of International Shipping Associations estimates.

Sugar is usually loaded on supramaxes, which carry about 52,000 tons, or handysizes, with a capacity of 28,000 tons.
Returns for owners of supramaxes fell 44 percent in the past 12 months to $14,005 a day, according to the London-based Baltic Exchange, which

publishes daily rates for more than 50 maritime routes. Returns on handysizes fell 42 percent to $11,073.

Freight Rates

The plunge in freight rates reflects a glut of capacity rather than a weakening world economy. The fleet of 2,613 handysizes expanded 6.5 percent in the past 12 months and new vessels on order at shipyards are equal to 31 percent of existing capacity, according to Redhill, England-based IHS Fairplay, which compiles data on ships and ports.

While Clarkson is forecasting global trade in dry bulk commodities to expand 4.1 percent this year, rates aren’t expected to rebound anytime soon. Forward freight agreements, traded by brokers and used to bet on future transport costs, anticipate handysize returns of $10,169 next year and supramax rates of $12,292, Baltic Exchange data show.

That contrasts with the sugar market, where buyers are paying a premium to secure Thai supplies. The sweetener costs 2.5 cents a pound more than prices on ICE Futures U.S. in New York, a global benchmark, and the premium will likely climb to 3 cents by the end of the year, Piromsak said.

Securing Supply

“The current line-up of vessels and the continued strength in regional demand are expected to support Thai premiums,” Peter de Klerk, an analyst at C. Czarnikow Sugar Futures Ltd., said in an e-mail. Czarnikow Group, based in London, handles about 10 percent of the global sugar trade.

Futures markets are reflecting concern about securing supply in the next several months. The October contract on ICE Futures U.S. closed at 24.38 cents on June 13. Sugar for delivery a year later was at 23.24 cents. That also indicates the surge in prices is not expected to last.

Should Brazilian cargoes accelerate and Thailand’s congestion ease, prices may resume their drop to reflect the return to a supply surplus. Harvests may outpace demand for a second year in the next season, with the glut increasing to 6.5 million tons, from 1.6 million tons, the U.S. Department of Agriculture estimates.

Smarties and Aero

Futures may go no higher than 26 cents in the remainder of the year before declining to 20 cents, the median in a Bloomberg survey of 17 analysts and traders shows. While prices may climb as high as 30 cents on disruptions caused by poor weather or shipping delays, they may bottom at 20 cents as global production increases, said Queensland Sugar’s Winney.

Lower prices may help Vevey, Switzerland-based Nestle, which said on June 8 its raw-materials bill may rise by as much as 3 billion Swiss francs ($3.6 billion) this year, the biggest gain ever. The company, whose candy brands include Smarties and Aero, spends about 1.5 billion Swiss francs a year on sugar.

For now, futures markets are trading in backwardation, when near-term supplies are costlier than longer-dated contracts.

“If Thai exporters want to benefit from the inverted market by shipping as much as they can in the next two to three months,” transport capacity could be strained, said Pierre- Henri Dietz, a Paris-based analyst at Sucden, the trading arm of Sucres et Denrees SA.

Chinese Buying

Purchases by China, the world's second-biggest consumer after India, are surging. The country bought 157,508 tons in April, compared with 16,736 tons a year earlier, according to customs data compiled by Bloomberg. Imports in the marketing year that ends in September will climb 19 percent to 1.82 million tons, the USDA estimates.

Demand for Thai sugar has strengthened because of problems in Brazilian output, which normally represents about a quarter of the global total. While production in Brazil's main producing region, the Center South, increased 6.8 percent in the second half of May from a year earlier, output was down 47 percent from mid-March to May 16, according to Unica, an industry group. The area will harvest less than expected on lower yields, according to Raizen, a sugar-cane venture between Cosan SA Industria & Comercio and Royal Dutch Shell Plc.

"The market has bottomed out or is near to bottoming out," said Abah Ofon, a Singapore-based analyst at Standard Chartered Plc. "Anything that will add to supply concerns in the short term is going to be seen as bullish."

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