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agribusiness

Economic Report

Rural Commodities Wrap

Vyanne Lai, NAB Agribusiness Economist

May 2013

- **First-quarter economic data was mostly disappointing for major economies, pointing to increased expectations for further policy stimulus.**
- **The Commonwealth Treasury's Budget papers note that while the Australian economy continues to be affected by the enormous structural changes taking place in the global economy, Australian economic fundamentals remain strong and the outlook favourable. NAB's view is more pessimistic.**
- **Australian lamb exports in 2013 are setting up to be a record as a result of competitive pricing.**

April proved to be a month of little cheer on the economic news front. The after effects of the Cyprus crisis were still palpable in the first half of the month with commodity markets bearing most of the brunt, as fears that highly indebted European countries like Cyprus may resort to selling gold reserves prompted a massive drop in gold prices. However, global attention soon shifted to some important economic updates emerging from China and the US, which turned out to be mostly disappointing. First-quarter GDP results for the top two economies of the world came in below market expectations and soft manufacturing data in April in both countries acted as the final nail in the coffin that cemented market's views that global growth recovery has not been tracking as well as originally expected. That said, weaker global growth has increased expectations for more policy stimulus across major economies, with the latest interest cut by the Reserve Bank of Australia (RBA) on Tuesday 7 May a testament to this sentiment.

In the wake of all these negative news, financial markets were relatively resilient without any apparent demonstration of risk aversion, although a higher level of market volatility, as indicated by the VIX index was experienced relative to the recent low in March. Major equity markets were more mixed - loose monetary policies have helped to sustain rallies in the American and Japanese markets while weaker-than-expected data have kept a lid on share prices in China, Europe and Australia.

Across the advanced economies, soft first-quarter growth data have doused the initial optimism expressed that the pace of recovery was going to pick up after a weak second half of 2012, with the US leading the way. Apart from the US's results falling short of market expectations, the UK just barely managed to avoid a triple-dip recession with just 0.3% growth in the quarter, while the low inflation and manufacturing growth figures from the euro zone also suggest that more contraction will have to be endured in the region. The pace of growth in emerging economies have slowed as well, given that most of these export-driven countries are feeling the pinch of stagnant global demand.

2012-13 Outlook, Rural Prices & Production		
Commodity	**Production**	**Price**
Wheat	-29%	17%
Beef	2%	-14%
Dairy	-2%	3%
Lamb	2%	-16%
Wool	0%	-16%
Sugar	21%	-23%
Cotton	-11%	-17%
Oil	–	-4.0%

Source: NAB Group Economics

These forecasts represent year-on-year average changes in Australian production and corresponding AUD prices between 2011-12 and 2012-13 financial years

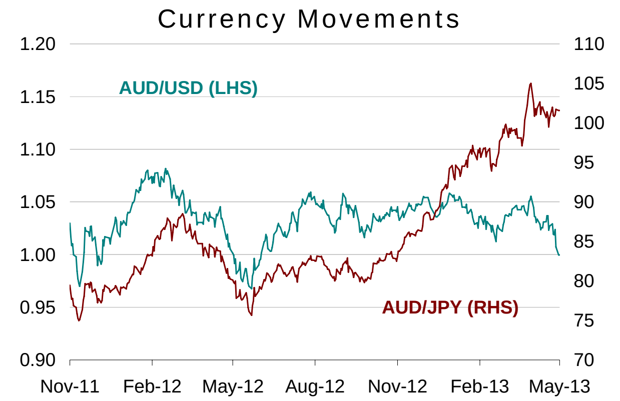
The Commonwealth Treasury's Budget papers note that while the Australian economy continues to be affected by the enormous structural changes taking place in the global economy, Australian economic fundamentals remain strong and the outlook favourable. The Treasury forecasts Australia GDP to grow by 3% in 2012-13 and 2.75% in 2013-14. However, NAB's view is notably more pessimistic for 2012-13, largely reflecting our predictions of slower near-term public sector demand and a shaper decline in terms of trade. Moreover, NAB monthly business survey continues to highlight the difficulty in business conditions, which remained challenging in April, while business confidence stumbled into negative territory. NAB expects GDP growth to ease from 3.4% in 2011-12 to a modest 2.7% in 2012-13, before softening to 2.6% in 2013-14, and unemployment rate edging up to around 6% by late 2013. While the RBA is likely to wait and see how the economy responds to previous rate cuts, including the most recent 25 bp reduction on 7 May, we believe that a weakening economy as the mining sector transition intensifies will necessitate another rate cut by late 2013 (possibly November).

With the exception of dairy, the prices of most other agricultural commodities have headed south this month. Global grains prices have deteriorated under the prospects of record crops in the US and Brazil. Beef and lamb prices are now reflecting the effects of oversupply at saleyards, trending lower in the month. Excess surplus continues to weigh on sugar and cotton prices. Dairy was the standout in April, as the severity of the New Zealand drought has pushed global prices to record highs. This month, lamb is our commodity in focus.

Currency Movements

The strength of the AUD has been challenged by a bombardment of negative news in April and early May. Earlier in the month, sharp falls in gold prices have renewed some downside vulnerabilities of the AUD/USD. Globally, weaker than expected GDP and manufacturing data from China and the US have sparked renewed concerns about the rate global recovery. This sent commodity prices skidding, while incoming domestic economic data — in particular soft inflation and manufacturing data —have defied the optimism expressed by the RBA that past rates cuts are doing their work in lifting consumer confidence and spending. This led to the lift in expectations, and the eventuation of a 25 basis points cut by the RBA on the 7 May. By the end of the week of the interest rate cut, the AUD slipped to around parity as the USD gained grounds from solid domestic labour data, improved bond yields and a depreciating yen.

AUD weaker as global risk appetite rises



Source: Datastream

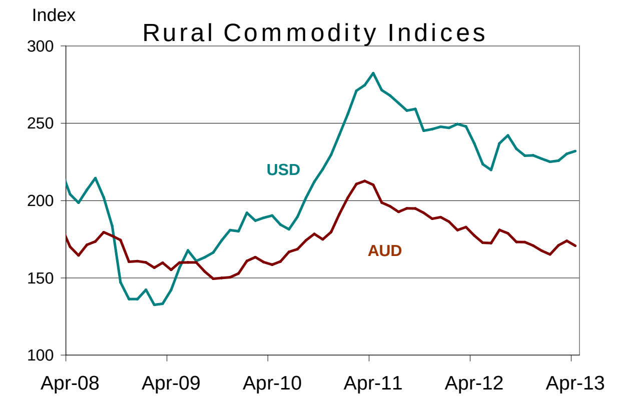
NAB Rural Commodity Index

In April, the Rural Commodity Index rose marginally USD terms by 0.8% while fell by 2% in AUD terms. The relative strengthening of the AUD against the USD in the month has resulted in the index in USD terms to rise more than the one denominated in AUD terms. Dairy was the main positive contributor to the indices in the month, rising by 13% and 16% in AUD and USD terms respectively. The "sandwich effect" of both critically low southern hemisphere production due to a drought in New Zealand and a delay in the Oceania spring flush from an unseasonally cold April in the northern hemisphere have resulted in a severe global dairy shortage. In contrast, the prices of most other commodities have either fallen or stayed unchanged in the month, and if these trends continue, are likely to exert downward pressure on the index in the near-term.

NAB Farm Input Indices

Input prices continued their upward trend in April for the third consecutive month, with the NAB Weighted Fertiliser Index tracking higher by 3.0% from higher demand as a number of planting programs are now underway in the northern hemisphere. Contributing to the growth in the index in the month had been a 6% rise in the price of natural gas and 3.0% in Diammonium Phosphate (DAP), while urea has tracked lower by 9%, most likely due to the delay in corn planting season in the US as a result of concerns over rain and freezing conditions, although that fear has ameliorated by the beginning

Input prices range-bound, look to rise in 2013 Q2 onwards



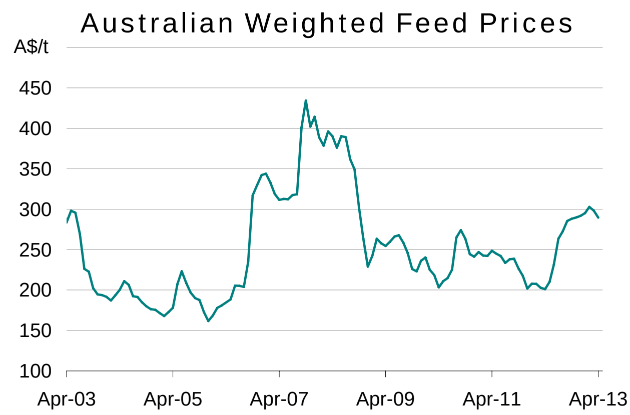
Source: Bloomberg, NAB Economics

of May. High levels of global inventory have been putting a lid on prices, with short-term price movements likely to be reasonably range bound until a more substantial build-up of planting activity, partly detracted by unfavourable weather. The imminent opening of a low export tax window for fertilisers by China will also keep the supply side conditions reasonably comfortable, weighing further on prices. Also contributing to overall lower input costs in the month were also lower fuel prices which depreciated by 5% as oil prices were dragged lower by softer industrial activity indicators across major economies.

NAB Weighted Feed Grains Price

After rising for ten consecutive months since May 2012, the feed grains price index finally took a mild negative turn in March and a further fall in April, suggesting that the index is potentially on its way down on the back of a production recovery in the US, China and India. Global feed grains prices have been relatively bearish recently, due to higher stocks for corn, wheat and soybeans recorded in the latest stock report by the United States Department of Agriculture. In the month, feed grains fell across the board, led by a 5% drop in feed wheat, 4% in triticale and 2% in barley. Oats, sorghum and maize recorded a relatively modest fall of 1% each.

Feed grain prices at a turning point



Source: ABARES, NAB Economics

In Focus – Lamb

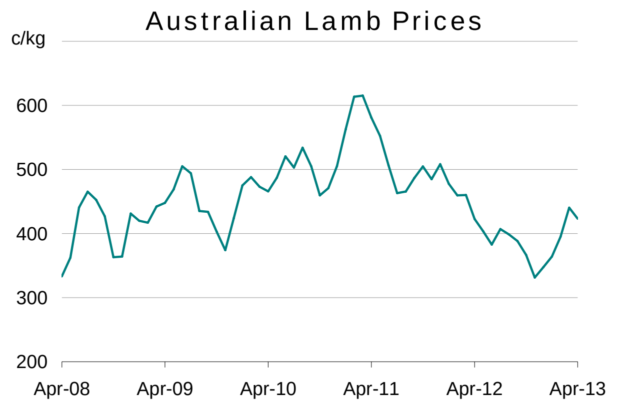
- **Australian lamb prices looking to ease this year due to high slaughterings induced by persistent dry conditions. Prices to pick up in 2013-14 from reduced lamb production.**
- **Lamb slaughter growth to slow as the momentum of stock rebuilding consolidates.**
- **Australian lamb exports in 2013 are setting up to be a record as a result of competitive pricing, however competition from New Zealand products is intensifying.**

After long enduring the effects of the drawn-out drought in the 2000s, the lamb industry experienced a revival in the back-to-back wet years of 2010 and 2011. The combination of improved seasonal conditions – which allowed producers to rebuild flocks – plus the impact of dwindling flocks elsewhere and historically high prices, has seen the gross value of lamb production settle at around $2 billion in 2011-12, providing a considerable income boost to producers. However, as 2012 progressed, it became clear that a positive start to the year was to be eroded by a return to dry conditions, low pasture growth and lower stocking rates. The drought conditions, which were at their worst in the last few months of 2012 have since ameliorated, giving rise to short-term prospects which are looking less volatile, with a slowing growing flock, modest increases in lamb and sheep supply, slow but steady demand growth and a small decline in average prices.

Recent rally in lamb prices reaching a turning point…

Post 2010 drought, we saw a period of intense focus on stock rebuilding, which generated enough activity to halt the long-term decline in the national flock over the last few decades. While this has an effect of lifting lamb and sheep prices in general, the price levels reached in early 2011 were a historical record. The short supply both at saleyards meant that processors had to raise their price offers across lighter, and in some cases, heavier lambs, just to fill orders. Peaking in March 2011, prices for all categories corrected in to winter and stayed relatively resilient until the beginning of 2012. Seasonal conditions started to deteriorate in autumn months of 2012, which caused sentiment and prices to erode. The restocker lamb price indicator, which had been stronger for so many months, started to match or even fall below the prices of the heavier categories. The falling trend continued for most of the rest of 2012.

Lamb prices pulling back



Source: MLA, NAB Economics

Since reaching their four-year low in November, lamb prices have been on rebound rally for four straight months, before turning the corner in the latest month of April. The rally was somewhat counterintuitive, given abundant supply at the saleyards from increased weather-related slaughterings. According to the Bureau of Meteorology, the start of 2013 was the second warmest on record. The crucial missing piece of the puzzle was that the increase in supply during this period was able to be absorbed readily by overseas markets, which saw record volumes being shipped to China and the Middle East, thereby helping to lend some support to prices. Some decent rain in February also provided some relief to producers with dwindling feed supply, which helped to stoke an increase in restocker demand. Since November, heavy lamb prices have gained more than 30% by March, before moderating slightly in April.

In the near-term, we expect lamb prices to moderate further, but not to the extent of the lows in 2012, as the long-awaited autumn break has been shunning most sheep rearing regions, keeping supply at seasonally highs. That said, the slaughtering rate will moderate as we enter into winter before picking up gradually to a spring flush which peaks in November. For 13-14, ABARES has forecast a modest pickup in the average weighted average saleyard price for lamb of 4% to 395 cents a kilogram, following a forecast fall of 21% in 2012-13. This reflects reduced supplies as producers respond to lower lamb prices in 2012–13 by joining fewer ewes for lamb production. Some support to prices is also expected to stem from a steady growth in export demand, as the competitive prices of both Australian lamb and live sheep at the global market has made significant inroads into the Middle East, with a number of individual markets there such as United Arab Emirates, Jordan and Iran ranked among the top ten of Australia's export destinations.

Australian lamb slaughter growth to slow from consolidation in sheep flock

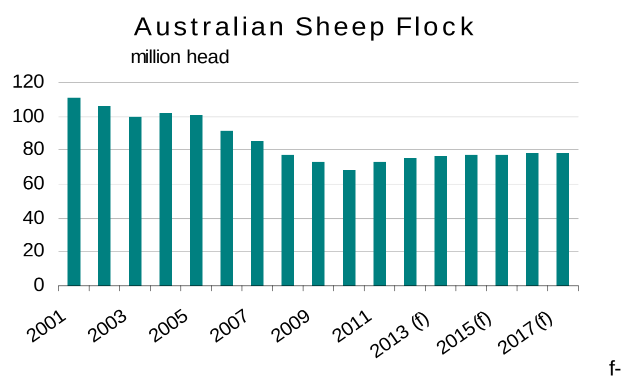
In 2009–10, the size of the Australian sheep flock declined to its lowest level at around 68 million head. The return of more favourable seasonal conditions in 2010-11 and 2011-12, combined with high lamb, sheep and wool prices, led to a rapid turnaround in the sheep flock and resulted in sheep numbers increasing to around 76 million head by the end of 2011–12. The eventual development of drier conditions in the main sheep producing regions — notably south-eastern parts of South Australia and western Victoria — have discouraged further flock expansion, leading to ABARES' forecast number of sheep to be maintained around 76 million head in 2012-13. Based on the assumption of improved seasonal conditions next year, Australian Bureau of Agricultural Resource Economics and Sciences (ABARES) has forecast a gradual and stabilising build-up of sheep flock over the medium term, to be around 80 million head by 2017-18.

Following the period of intense flock rebuilding, Australian lamb slaughter in 2012 was significantly higher than in 2011, lifting 13% to 20 million head, with each month higher year-on-year. Western Australia, which received above average rain fall in most parts in the second half of 2012, was the exception, with lamb slaughter falling below the previous year for most months in 2012. At the start of the year, lamb slaughter was expected to be higher than the previous year on the account of a larger lamb supply due to two years of stock rebuilding.

The growth in lamb slaughter continued into the second and third quarter, this time due to the worsening of seasonal conditions which raised concerns about the availability of winter feed. The quality of lamb became more variable, as more lambs were turned off and restockers' interest waned. Large numbers of lambs were sold directly to processors, thereby reducing competition at saleyards and driving prices down.

The high slaughter rate continued into the final quarter of 2012, as drier than average conditions persisted across the east. Due to the high turn-off rate earlier in the year, stocking rates reached the equilibrium "maintenance" rate and by December, there was some renewed vigour in restocker buyer activity, which started to nudge lamb prices higher before the end of the year. With the strong lift in slaughter during 2012, lamb production rose by 13% to a record level of 445,000 tonnes in carcass weight (cwt). This was partly the result of heavier average carcase weight than the previous high set in 2007.

Sheep numbers expected to fall in

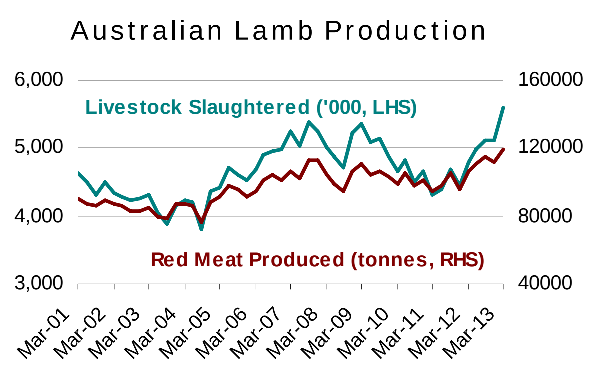


f-forecast
Source: ABS, ABARES, NAB Economics

In the first few months of 2013, throughput remained high reflecting a warmer-than-average summer and the lack of a major event associated with the 'autumn break'.

However, in contrast to two years ago, growth is not forecast to be steady through the year, corresponding to slowing restocking activity. According to Meat and Livestock Australia (MLA), total lamb slaughter in 2013 is forecast to increase by 3.2% to 20.7 million head, reflecting the large number of lambs marked in the previous two to three years which are now in reproductive stage of their life cycles. Looking forward, a slowing restocking rate is expected to lead to a decline in the number of slaughterings and corresponding lamb production in 2013-14, with ABARES forecasting a fall of 2% and 3% in slaughterings and production respectively.

Lamb production to peak in 2013



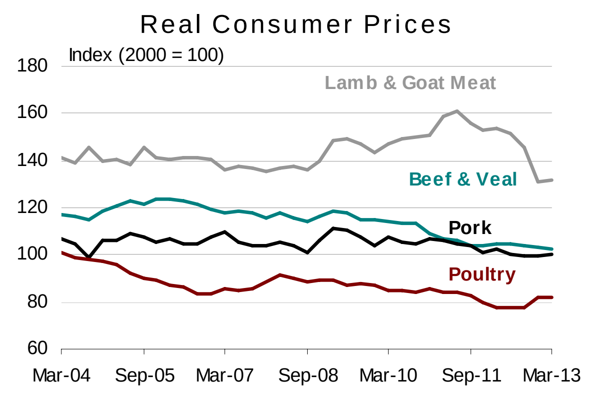
Source: ABS, NAB Economics

Australian lamb consumption to lift following recent falls

Domestic consumption of Australian lamb has fallen considerably in recent years. In 2011-12, per capita consumption of sheep meat had fallen to around 9.3 kg.

The decline in production for most of the period from 2008-2011 coincided with ongoing growth in overseas markets, which resulted in a much stronger relative price for lamb over competing products for which prices have generally fallen in real terms over the past decade. However, the record level of production combined with intensifying competition between Coles and Woolworths in 2012 saw retail prices falling, which helped to improve the value proposition of lamb to consumers. As such, 2012-13 annual per capita consumption is forecast to be higher than the year before at 9.5 kg. There is plenty of scope for per capita lamb consumption to grow as it still occupies a relatively small proportion of the domestic protein market value at 6%, with chicken, beef and seafood still being preferred by consumers.

Real Consumer Meat Prices

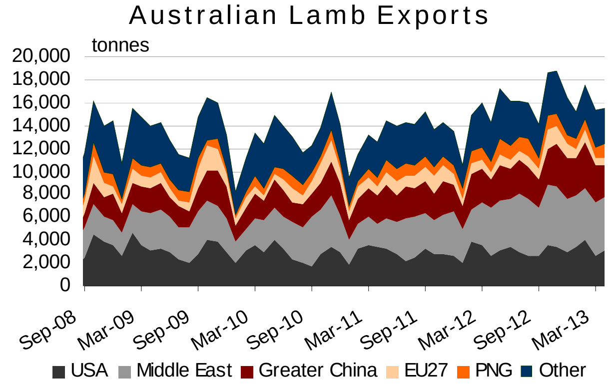


Source: ABS, NAB Economics

Lamb exports in 2013 expected to trump 2012 record levels

According to the MLA, shipments of Australian lamb reached their highest ever annual total in 2012 at 188,618 tonnes in shipped weight (swt), which is 18% above that of 2011 and significantly higher than the previous record of 165,035 tonnes swt set in 2009. The pace of lamb exports accelerated in the last quarter of 2012 and maintained a reasonably strong momentum going into 2013. In the first four months of 2013, they were 15% above the same period last year, driven by solid increases in shipments to the China and the Middle East, with some recovery in the shipments to the US, EU and Papua New Guinea (PNG). Korea and Japan contracted over the same period. One of the main features of last year's export trend was the increase in carcase trend, which included bagged carcases, mainly to the Middle East, and "assorted cuts" which is a package consisting of at least three of the major primals such as chump-on-leg, square cut shoulder, foreshank etc. Contributing to this was the abundant supply which resulted in cheaper processing costs, which made Australian lamb exports much more competitive.

Lamb export growth remains solid



Source: MLA, NAB Economics

Looking ahead, export volume in 2013 is setting up to topple the record set in 2013, with the MLA forecasting a 3% increase to 193,000 tonnes swt, with the majority of the increase in lamb production to be exported.

The strong markets of recent years, especially the Middle East and China, are expected to be the leading trading destinations, while the US will maintain its position as the largest individual country and most valuable market. The improvement in the EU market is likely to be gradual, with the prolonged nature of its economic malaise. That said, Australian exporters are facing increasing competition from New Zealand, with a 9% resurgence in exports by the country in 2012 to 280,000 tonnes swt. This, combined with a 6,000 tonnes swt decline in NZ's prime market of the EU, saw a huge diversion of NZ lamb products to other markets, driving overall prices lower.

Outlook of Australia's major export markets

In 2012, the **Middle East** consolidated as Australia's largest export region, with volume growing by 48% compared to the previous year to 51,813 tonnes swt. The encouraging aspect of the record volumes was the steady growth throughout the year despite more intense competition from NZ products. The increasing popularity of western-style supermarkets and hypermarkets in place of traditional markets have lifted demand for "aspirational goods" to which Australian lamb belongs, attributable to its reputation of being safe and reliable. Looking ahead, we think it likely that Australian lamb exports to the Middle East will increase further 2013, with supply shortages in the region expected to lead to greater demand from Australia. The strength will span across different facets of the lamb trade as Middle Eastern cuisine is known for utilising all parts of the carcases, including offal. Above world average economic growth forecast for the region (we expect the region to grow by 4% in 2013 and 3.7% in 2014) , supported by solid population growth, should support the medium-term demand outlook for the region.

Exports of Australian lamb to the **United States** have recovered somewhat in the past calendar year, up 6.8% from 34,334 tonnes swt in 2011. Driving this improvement was the competitive pricing of Australian lamb, as demand in the US was generally soft otherwise, evidenced by the sharp fall in local farm gate and HRI prices. The most popular cut to the US remained legs, which accounts for 30% of the yearly total, although this was down on the previous year. Similar to the case of the Middle East, carcasses exported as assorted cuts have gained popularity at the expense of the traditional favourites of legs and racks, preferred by traders due to its relative ease in moving product. We expect export growth to lift modestly in the coming year. While the US is expected to remain the largest export market for Australia in 2013, the growth in the market is constrained by subdued lamb prices and soft, albeit improving consumer demand. Rising demand from the Middle East and China is likely to spur more exporters choosing to favour those regions over the US.

China has maintained its position as the second largest lamb export market by volume in 2012. It saw an increase of 39% on 2011 and almost doubled 2010's volume. Constituting more of the shipments are lower-value bone-in cuts such as breast and flap, and rack cap, which are often used as flavour enhancers in traditional hotpots and soups. The solid growth expected for China is expected to boost exports to the country further in 2013, although this is unlikely to have any effect on prices, with large volumes of NZ products entering the country at a lower tariff rate.

Comments from the Field

Local conditions continue to be dry with very little summer rainfall and no autumn break to speak of yet. Due to the lack of feed and producers off-loading tail end stock there is currently an oversupply of underdone lambs which is placing downward pressure on lamb prices. This along with major domestic buyers (Supermarkets) having offered and now filled forward contracts over the hooks has seen the local lamb prices suffer to lower than normal levels.

Mick Walker–Agribusiness Manager, Wagga Wagga, NSW

Speaking to farming customers, they are waiting on an autumn break to fatten old seasons' lambs before the winter or they cut their second tooth. Very dry autumn conditions right through South West Victoria is causing supply to be down in the sale yards at present. Lamb prices are almost the same as this time last year due to the shorter supply. Agents are expecting a flat 4-5 months until new season lambs are ready in the spring. Customers sold most of their lambs in the spring last year due to dry conditions and poor re-stocker demand at the time. Therefore with most of the lighter lambs going to the abattoirs last spring, the normal autumn- winter supply of lambs is going to be lower then previous ones on top of the dry autumn.

Andrew Davis – Agribusiness Manager, Geelong, VIC

Prime lamb producers in Western Victoria continue to have an optimistic long term view of the industry. This is despite producers experiencing their toughest conditions in recent times over the past 6-9 months. Ongoing dry conditions along with depressed prices are forcing producers into a heavy supplementary feeding program and with many producers now having utilised the majority of their feed reserves and are having to source grain and hay. Prices in the primary selling season of November – February were lower, with many producers selling lambs early to avoid excess fodder costs; producers who have been able to hold onto lambs are now seeing the benefits of this with strong contract prices available for delivery over the coming months. Rain over the next month would be greatly appreciated by producers to ease the pressure on both supplementary feeding and to restore some confidence.

Nigel Cross – Agribusiness Manager, Hamilton, Victoria

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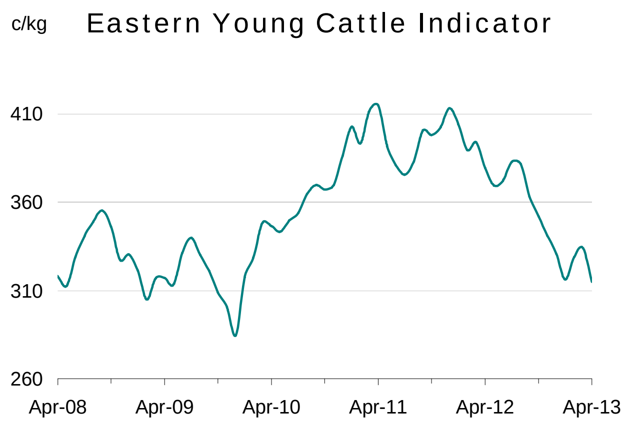
Key Commodity Prices

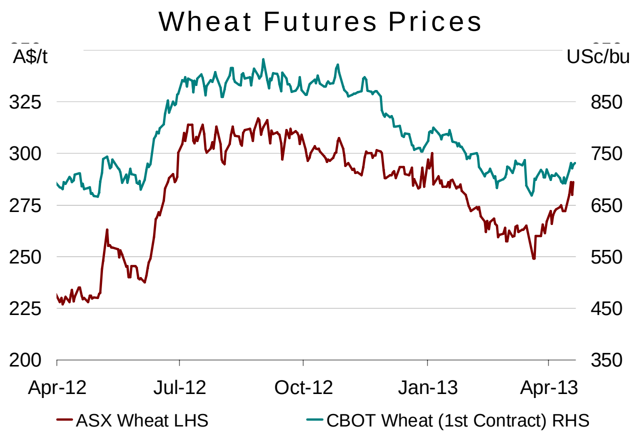
Cattle prices reached the lowest in more than three years



Source: MLA

Beef prices have been battered in recent months under the weight of oversupply as the elusive autumn break continues to shun most cattle farming regions. Given the low cattle prices at the moment, it appears that producers are selling such a large number of cattle out of worries of a deteriorating season, which suggests that perhaps financial woes might be in the offing. The Eastern Young Cattle Index recorded the sharpest fall of all major rural commodities in the month of 6%, bringing the index to its lowest point since December 2009. As a result of the ample supply, monthly beef exports have reached record highs in recent months, tantamount to 19% higher in April relative to the same time last year, with China and the Middle East absorbing record volumes of Australian beef. The persistence of dry conditions has discouraged herd building, with increased turnoff and higher slaughter rates expected to continue throughout 2013. As such, the EYCI is likely to fall further, although a major rain event could turn things around very quickly.

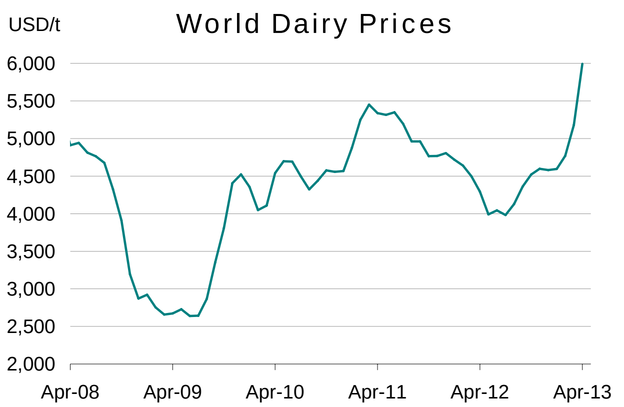
Australian wheat futures gained on production concerns



Source: Bloomberg

In April, the domestic wheat ASX index rallied more rapidly than the global Chicago Board of Trade (CBOT) index on the back of low stock levels and a dry start to autumn impacting production outlook in Australia. Apart from Esperance in Western Australia, most cropping regions have very low moisture profile. Some dry sowing activity has progressed, although some farmers have chosen to wait for a while longer for an autumn break or leave their land fallow altogether. Consequently, the basis for the new crop has rallied $40 per metric tonne in the last 6 months. On the other hand, CBOT wheat index has largely tracked sideways as major wheat sowing programs get underway in the US, although some crop damage has occurred due to frost, causing an upward blip in prices. Looking forward, domestic prices might trade a tad higher until June and July when northern hemisphere exports get under way and the sowing of Australian crop is complete. Conversely, CBOT prices are likely to stay subdued from higher global production.

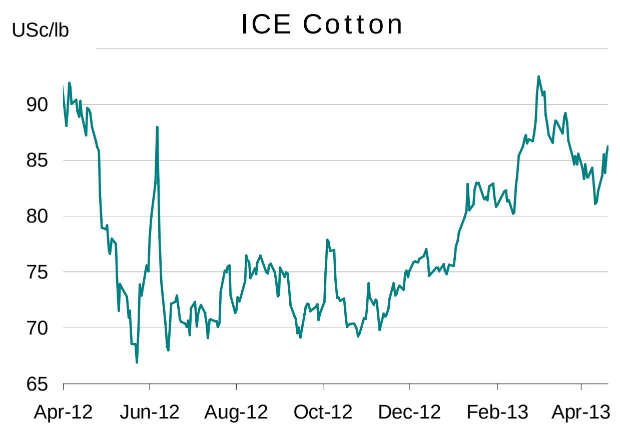
Global dairy prices set new records



Source: NZX

The rally of global dairy prices reached fever pitch in April from the sharp decline in production due to the drought conditions in New Zealand and Australia sending markets short. This coincides with the slow start to spring in the northern hemisphere which delayed the build-up of milk production activity. In early April, dairy prices rose to their highest in records going back 14 years in early April, comfortably surpassing the previous peak reached in October 2007. Since the start of the year, the trade weighted index indicated by GlobalDairyTrade, the leading online auction platform for internationally-traded commodity dairy products, has increased by around 55%. This was led by whole milk powder price which has leapt by around 80%. More recently, however, world dairy prices fell for the first time in 10 online auctions on 1 May as rains signalled the end of drought in some North Island regions and as economic data showed global growth may be faltering. This suggests that the peak of dairy prices is truly over and prices should moderate further from now on.

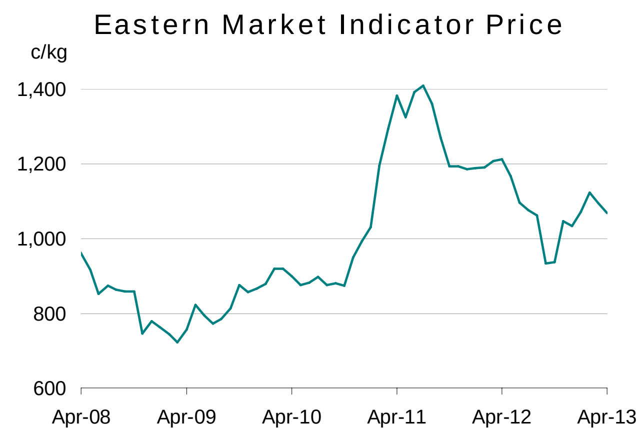
Falling prices in cotton halted on revised ICAC price estimates



Source: Bloomberg

After experiencing their steepest stretch of fall in a nearly a year from mid March to late April, cotton prices have rebounded slightly after the International Cotton Advisory Committee (ICAC) raised price expectations, despite lifting its estimate for world inventories on enhanced global production prospects. The ICAC now expects average cotton price in 2012-14, as measured by the Cotlook A Index, to reach 122 US cents per pound, significantly higher than the 88 US cents for the current season. Underpinning their views had been the stronger-than expected import demand by China – 3.0m tonnes, compared with a March forecast of 2.0m tonnes, which would deplete stocks left on international markets available for trade, exerting upward pressure on prices. Stronger prices have also reduced the extent to which farmers may switch acreage from cotton to the higher-priced grain crops, such as soybeans and corns. Closer to home, the dry conditions in April favoured cotton picking, which has extended into New South Wales. Australia has exported over 600,000 bales of cotton to China in the 12-13 international marketing year to date, making it the lead supplier of imports for the country.

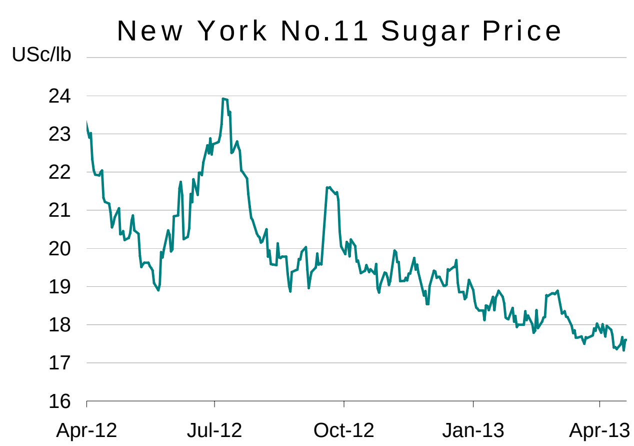
Wool fell on slowing global demand



Source: Bloomberg

The Eastern Market Indicator (EMI) weakened further in April, driven by the surge in supply at auctions across the country in the trading week after the Easter break and lack of buying activity from China and India as buyers from these countries wait for a fresh injection of indent and forward orders. Prices of the long-suffering superfine Merino fleece types of 18.5 micron and finer continued to depreciate over the month from a high base, while prices for the medium to strong and crossbred types were more resilient. The first production forecast for the 2013-14 season by the Australian Wool Production Forecasting Committee (AWPFC) suggests that wool production will be slightly lower than that of 2012-13 at 345mkgs. This decrease is largely due to an expected reduction in opening sheep numbers, as a result of increased sheep and lamb slaughterings this season and lighter average fleece weight as a result of the dry seasonal conditions being experienced across many wool-growing regions. This is likely to support prices in the medium term.

The slide in sugar prices continues…



Source: Bloomberg

Sugar prices continued their relentless flagging trend in April to come within a hair's width of the cost of production in No. 1 sugar-cane grower Brazil. Yet a near-record number of speculative investors are betting prices will fall further, driven by the anticipation that Brazilian producers would reap their largest harvest ever this year, which is anticipated to peak in the coming months. The London-based International Sugar Organization forecasts that global sugar supplies will outstrip demand by 8.5 million metric tonnes in the current season, which ends on 30 September. The average price of ICE No.11 futures eased to around 17.7 US cents in April, the lowest since July 2010. In the current low-price environment for sugar, many producers have instead chosen to divert some production into ethanol which fetches a higher margin. However, its effects on sugar prices are expected to be marginal as it is only likely to make a small dent to the overall surplas. Similarly in Australia, the sugar cane crops are in peak growing season and are expected to produce higher cane and sugar volumes compared to last year. This suggests that sugar prices are likely to stay relatively subdued for some time to come.

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