

By **Martin de Sa'Pinto**, Senior Financial Correspondent
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Sugar prices seen rising further as stocks deplete

- Prices jump as harvests disappoint, reserves fall
- Sugar price spikes tend to lag stock lows
- White sugar may prove best opportunity

GENEVA, Oct 28 (Reuters) - World sugar prices could rise further as poor harvests deplete inventories, demand rises and Brazil, the world's largest producer, earmarks more sugar for ethanol production, fund managers said on Wednesday.

Sugar rose last month to the highest levels since a price spike in 1981, but some commodities managers said on Wednesday they believe the bull run in sugar has only just begun.

"Sugar is the biggest opportunity in agricultural this year,"

— **Olivier Pairault**, a portfolio manager at **BlueGold Capital Management**, at the **Jetfin Commo & Energy conference in Geneva**.

He noted that prices have doubled this year following a heavy depletion of stocks after the harvest in India, a major producer and consumer, slumped almost 50 percent. However prices could still have much further to run.

According to Morgan Stanley/FT Research data the global sugar stocks-to-use ratio is at its lowest level since 1973 when crop failures pushed the ratio to half its historic average and precipitated the biggest spike ever in sugar prices by 1975.

Depleted stocks in 1980 also led to panic buying and a price spike in 1981, even though stock ratios had already recovered to above-average levels well before prices peaked.

"In previous supply shocks the price has spiked, it increased seven times in the 1970s and five times in the 1980s. The reason is that the elasticity of demand is very low," said Pairault, whose company manages \$1.5 billion.

Pairault said the price rise will accelerate as supply information is digested: "Also, it is now too late to plant the cane to meet the shortfall. There is an 18-month lead time, so the supply response is delayed."

"History points to a price spike in 2010, possibly extending further"

— **Francis Featherby**, chief analyst at the **Louis Dreyfus Commodities Alpha Fund**, which manages around **\$400 million**.

Featherby said the main opportunity could lie with white sugar.

"The market remains very tight for sugar," he said. "The time has mostly passed for India to import raw sugar to refine. Instead, to meet demand they will have to import white sugar next year, which could blow out spreads between white and raw sugar."