

# Sugar and cotton

## Sugar prices have jumped ...

### Sugar: price surge

The great sugar price surge has exceeded expectations. At the time of our last quarterly report, the expectation was that prices would moderate as supply responded. World prices in June averaged US15.50¢/lb. However, the rally had prices above US22¢/lb in October.

## ... as 2008/09 crop disappoints.

The rise in prices has occurred as the international sugar supply deficit widened. The 2008/09 deficit, which was earlier estimated to be 4mt, came in at around 8mt. While consumption rose by 2mt, production declined by 12mt to 155mt. Pivotal was less than average rainfall from the 2009 monsoon in India, a key sugar producing and consuming nation. Also, there have been large declines in EU sugar production for the last three seasons with the implementation of reform measures.

## Production to rebound in 2009/10.

ABARE is forecasting prices to average US16.5¢/lb in 2009/10. World production is expected to rebound to be a touch below 2007/08 output. Half of that increase comes from Brazil, where sugar production is forecast to rise by 12.5% to a record 45mt. Contributing to this 12.5% lift is an expectation that the proportion of sugar cane used in sugar production will increase, rather than decrease – thereby breaking the trend of increasing cane usage for ethanol since 2002/03. As the 2009/10 year advances, sugar prices are also expected to be dampened by anticipation of a recovery in Indian sugar production in 2010/11.

## Government legislates for renewable energy targets ...

Australian cane production in 2009/10, the harvest of which commenced in June 2009, is forecast to be 31.3mt, down 0.4mt on 2008/09 and the smallest crush since 2000/01 – largely because of reduced plantings. With global prices on the rise, the average return to growers for cane in 2009/10 is forecast to be \$43.40/t, up from \$31 last year and \$26 in 2007/08.

## ... Australian growers stand to benefit.

The sector has the potential to benefit from the Governments renewable energy targets (RET) legislation, enacted in August. This establishes a target of 20% of Australia's electricity supply by 2020 to be derived from renewable resources, a four fold increase over the previous targets set in 2001. This could see a boost to cogeneration of electricity in sugar mills, using cane harvest waste, whereby electricity surplus to sugar processing is exported to the national grid. This would follow the world trend toward increased cogeneration of electricity in sugar mills.

## Cotton prices to reverse 2008/09 losses ...

### Cotton: prospects brighten

The cotton market is improving as general global demand conditions improve. That was the view three months ago and remains the case. However, one significant qualification is that the Australian dollar is now much higher – thereby acting as a headwind to export prices in Australian dollar terms.

## ... as demand improves.

World cotton prices are expected to reverse the losses of 2008/09. ABARE is forecasting prices to average US72.3¢/lb in 2009/10, an 18% rebound from 61.2¢ in 2008/09 and just a fraction below the 72.9¢ achieved in 2007/08. The view on 2009/10 prices – in US dollar terms – is as it was three months ago.

## World cotton production to stabilise after sharp fall.

World cotton production is forecast to be all but unchanged in 2009/10, after contracting by a sharp 11% the year prior. An expected lift in lint yields in 2009/10 offsets a slight 1% decline in the harvested area of cotton. Low world cotton prices are deterring plantings in most key producing countries apart from India and Australia.

World cotton consumption, which plunged almost 10% in 2008/09, is on the improve reflecting strengthening global economic conditions. ABARE is forecasting a 1.1% rise in 2009/10. The upshot is that world cotton stocks are forecast to decline by around 8% in 2009/10 to 12mt, the lowest since 2003/04.

## Australian cotton production on the rise.

Domestically, production is forecast to be 375kt this year, up 14% (46kt) from that in 2008/09. Plantings are expected to rise by almost 20%, although overall irrigation conditions in the traditional cotton growing regions are only marginally better than a year ago. A key driver is that returns from irrigated cotton are likely to continue to be more attractive than for alternative irrigated crops, such as sorghum and sunflowers.

# Sugar and cotton

Chart 1.

## Sugar prices jump

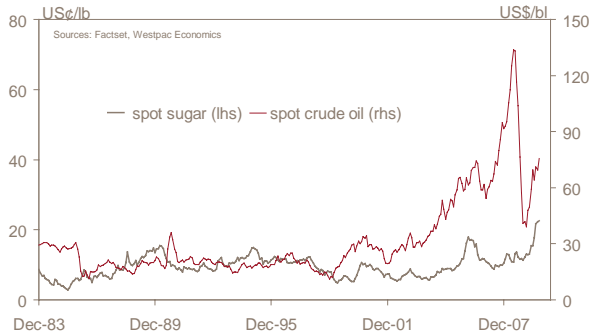


Chart 2.

## Global sugar market tightens

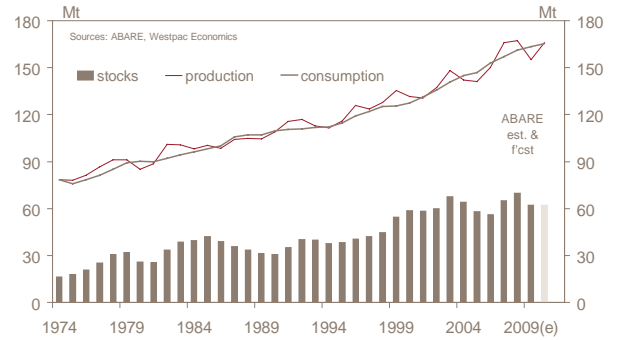


Chart 3.

## World sugar prices & stocks

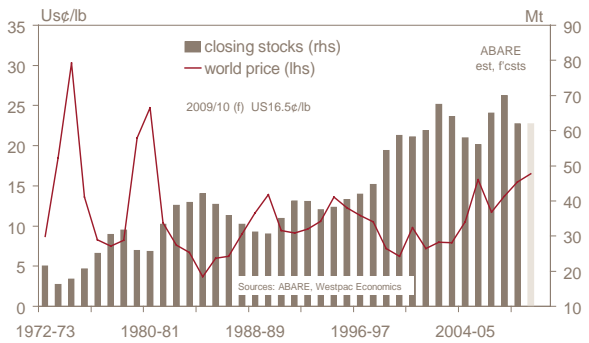


Chart 4.

## Cotton prices

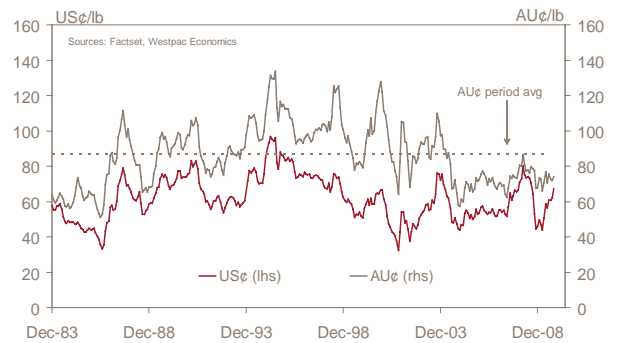


Chart 5.

## Production of cotton textiles

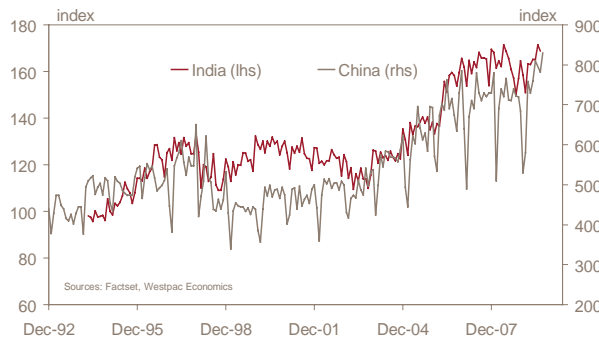
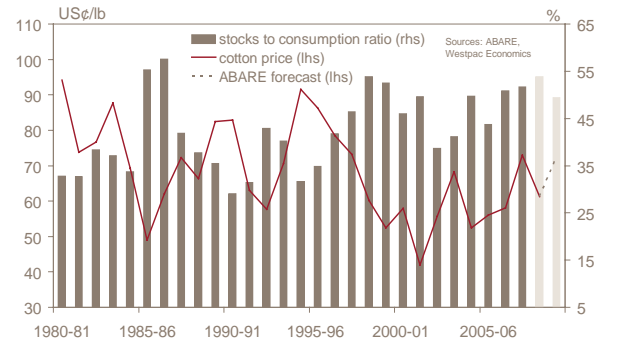


Chart 6.

## Cotton prices: expected to rebound



Past performance is not a reliable indicator of future performance. The forecasts given above are predictive in character. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The results ultimately achieved may differ substantially from these forecasts.