Brazil January 30, 2015

Sugar Futures have been rising and dropping at speeds which make a logical investment decision difficult for many investors.

Let's not forget that while both, ICE and LIFFE have physical settlement requirements, the actual value of sugar delivered via these trading vehicles is quite a bit lower than most people realize.

The total amount of sugar contracts traded at the NY Exchange in 2013 was 29.8 million contracts. The estimate is that 2014 ICE will have traded 29.2 million contracts, a 2% reduction in the volume in relation to last year.

Even at this reduced volume ICE traded a staggering total of 1,483,428,328 Metric Tons (One Billion Four Hundred Eighty Three Million Four Hundred Twenty Eight Thousand Three Hundred Twenty Eight Metric Tons) of #11 Sugar **on paper**.

How many of the contracts traded annually on ICE or LIFFE are physically settled is anyone's guess. This information appears to be a well guarded secret. Based on the total annual world sugar production minus direct sales by producers and local consumption it becomes clear that the delivered tonnage is fairly small when compared to the total tonnage amount of the contracts traded.

Some buyers and agents believe the daily prices on LIFFE and ICE should is the price they can buy sugar and have it delivered to them or their clients. Prices an LIFFE and ICE are FOB and not CIF. This makes the buyer responsible for any and all cost beyond having the sugar loaded on the vessel. Sea Freight, Port Fees, Insurance and much more are for the buyers account. Buyers should also be aware that the contract size in ICE is 50.80 Metric Ton. Therefore, a buyer wishing to purchase a 25,000 M/T order would have to hold 492 contracts.

Many sugar producers have switched to the production of ethanol because of the current below-production-cost sugar prices. The producers are under financial pressure by rising prices of sugarcane, higher taxes and depressed sugar prices. During the first month of 2015, one of the larger sugar producers, Grupo Virgolino de Oliveira SA became the latest sugar producer to miss a debt payment. Since 2011, 47 ethanol and sugar mills have closed and 70 are under bankruptcy protection, according to Unica, Brazil's sugarcane millers group.

Agents and buyers should not be surprised if sellers and producers refuse to even consider some of the price requests by buyers with target prices falling below production cost. For a producer, a positive cash flow is a matter of survival. If someone offers unbelievably low sugar prices, then there is probably no sugar behind the offer.

Information offered by the our Sellers desk.