



Crop Death Shrinks Sugar Stockpiles to 37-Year Low: Commodities

By Joe Richter - Oct 7, 2011

U.S. sugar stockpiles are shrinking to the lowest in 37 years after rain and freezing weather damaged the beet crop, potentially reversing a price slump and forcing the government to ease import limits.

Farmers in [Minnesota](#), the biggest beet grower, will reap 19 percent less than last year and output will drop in four more of the 10 biggest producing states, the U.S. Department of Agriculture estimates. Domestic prices may rise 10 percent to 41 cents a pound by year end, said Frank Jenkins, the president of Jenkins Sugar Group Inc., the largest U.S. raw-sugar broker.

Sugar is the only major agricultural commodity produced in the U.S. that is subject to import quotas, and the USDA increased the limit by 45 percent this year as futures surged 21 percent in the three months through August. Retail prices have gained 9 percent since the start of January, twice the rate of food inflation. Rising costs are squeezing margins for Kraft Foods Inc. and Hormel Foods Corp.

"If you're a candy or pop maker, you're going to have a headache," said Sterling Smith, an analyst at Country Hedging Inc. in [St. Paul](#), Minnesota. A smaller beet harvest "is going to increase the costs of sweeteners in general," he said.

The price of the No. 16 contract for domestic sugar, which ICE Futures U.S. introduced in 2008, dropped 8.9 percent in New York since the end of August to 37.13 cents a pound yesterday, as the government increased import quotas. The contract, which touched a record 42.5 cents on Feb. 11, 2010, covers deliveries to five U.S. ports with sugar refineries. Futures for January delivery rose 0.3 percent to 37.25 cents as of 9:27 a.m. today.

Import Quotas

The quotas mean No. 16 futures trade at a premium to ICE's more actively traded No. 11 contract, which covers deliveries to ports in 29 countries. The No. 11 contract fell 17 percent since Aug. 31 to 24.74 cents a pound.

Stockpiles in the U.S., the world's fourth-largest consumer, will drop more than 35 percent in the year through August 2012 to almost 1.13 million short tons (1.02 million metric tons), the lowest since 1975, the USDA estimates. Inventories will equal 9.8 percent of consumption this year, the least in 38 years. India, China and [Brazil](#) are the world's biggest consuming nations.

Consumers are still paying more. Retail sugar averaged 70.1 cents a pound in U.S. cities in August, 16 percent more than a year earlier and the highest since at least 1980, Bureau of Labor Statistics data show. Food-price inflation is running at 3 percent to 4 percent this year, the USDA estimates.

Rising Costs

"Supplies have been very tight for our members," said Susan Smith, a senior vice president of public affairs at the [National Confectioners Association](#), whose members include Kraft and Hershey Co. "The price that our companies are paying is higher than it would be on the world market."

The premium for the No. 16 domestic-sugar contract over raw-sugar for international markets has almost doubled to 12.5 cents a pound since mid-July.

Kraft, based in Northfield, [Illinois](#), raised prices this year. Costs will probably increase in the "low teens" compared with 2010, Chief Financial Officer Dave Brearton said on a conference call in August. Sugar "is a big one because of what we make," said John Simley, a spokesman for the company, which makes Oreo cookies and Cadbury chocolate.

Operating profit at Austin, Minnesota-based Hormel's specialty food unit, which makes ingredients for food manufacturers, fell 8 percent in the quarter ended July 31, as "steep" cost increases for sugar and dairy helped erase the benefit of rising sales, Chief Executive Officer Jeff Ettinger said on a Sept. 7 conference call.

Smaller Crops

Beets supplied about 42 percent of the sugar consumed by Americans last year, with

imports and domestic cane accounting for the rest, government data show.

The USDA has cut its crop forecast twice in as many months and will probably do so again in its next report on Oct. 12, said [Jimmy Tintle](#), an analyst at Transworld Futures in Tampa, [Florida](#).

As many as 10,000 acres of beets were lost to disease or floods in May and June, equal to 2.3 percent of Minnesota's harvested area last year, according to Mohamed Khan, a sugar- beet specialist from [North Dakota](#) State University and the [University of Minnesota](#). More wet weather that followed delayed planting and made the crop more vulnerable to disease, he said.

Temperatures in mid-September in areas from eastern North Dakota into Minnesota averaged 28 degrees Fahrenheit (minus 2 Celsius) to 33 degrees, according to World Weather Inc., based in [Overland Park, Kansas](#). The cold snap came three weeks earlier than normal, damaging crops, the forecaster said.

More Acres Planted

The U.S. harvest started last month. Losses may not be as large as the USDA expects because expanded plantings will compensate for damage, said Luther Markwart, the executive vice president of the [American Sugarbeet Growers Association](#) in [Washington](#).

A smaller U.S. crop may not mean higher prices, which will depend more on economic growth in the U.S. and [Europe](#), said Claudio Oliveira, the head of trading at Castlestone Management LLC in [New York](#), which manages about \$500 million of assets. The Standard & Poor's GSCI Index of 24 raw materials plunged 12 percent in the third quarter, the most since 2008, led by cotton, lead, copper and crude oil.

The [U.S. economy](#) will expand 1.4 percent next year, compared with 1.7 percent in 2011, Goldman Sachs Group Inc. said in a report Oct. 3. The bank had previously expected growth of 2 percent in 2012.

Six Months

The USDA can only change sugar quotas in the second half of the marketing year that began Oct. 1. The country will need 750,000 to 900,000 short tons more imports in those six months, said Jenkins of Wilton, Connecticut-based Jenkins Sugar.

The government agency raised limits on refined sugar by 150,000 short tons on Sept. 30 and on specialty sugar by 10,000 on Aug. 1, adding to 109,251 short tons of existing quotas in that category. The USDA increased raw-sugar quotas twice, allowing an extra 445,000 short tons to the 1.23 million short tons already allocated.

"When you have to write a letter to the government pleading for more sugar, don't you think that's a problem?" said Mitchell Goetze, the owner of Baltimore-based Goetze's Candy Co., founded more than a century ago. "The increase is appreciated, but not enough and too late to fix the damage already done to domestic manufacturers that use sugar."

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