COMMODITIES | JANUARY 11, 2012 Orange-Juice Futures Surge

By LESLIE JOSEPHS And LIAM PLEVEN

The market for orange juice futures received another jolt after the federal government said some Brazilian imports contained a potentially harmful fungicide.



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An FDA spokeswoman said a juice company anonymously called the government agency late last month to report the presence of the fungicide carbendazim. Above, workers inspect oranges on the production line at a Sucocitrico Cutrale orange juice plant in Araraquara, Brazil, in November.



The FDA is testing imported orange juice for a fungicide not approved in the U.S., causing the market for orange futures to spike, Leslie Josephs reports on the News Hub. Photo: Getty Images. The news on Tuesday sent prices of the January contract soaring 9.7% to a record settlement as traders fretted that the appearance of the fungicide could lead to a sharp reduction in Brazilian orange juice imports.

Traders already had driven prices higher this year amid worries that a recent cold snap in Florida had damaged crops. In just six trading days, frozen orange juice concentrate futures have soared 26%, settling at \$2.1275 a pound on Tuesday on the ICE Futures U.S. exchange.

"Today's move is in reaction to fears that supplies are going to be limited as a result," of the fungicide discovery, said Judy Ganes-Chase, president of J. Ganes Consulting, an independent commodities consulting firm.

If prices remain at these elevated levels, it soon could be reflected in prices on supermarket shelves, analysts said, potentially crimping already flagging demand for the beverage.

In a letter to the industry dated Monday, the Food and Drug Administration said "low levels" of the fungicide carbendazim had been found in juice from the 2011 orange crop from Brazil. The FDA said the fungicide was discovered by a U.S. juice company, which it wouldn't name, saying it was confidential.

Carbendazim is used in countries such as Brazil to control mold in fruit and other crops, but at high levels can cause cancer, researchers said. The U.S. doesn't allow its use.

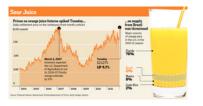
The FDA said the fungicide was found at traces of a few parts per billion, a level that wouldn't be enough to be harmful to humans, according to James Adaskaveg, a professor of plant pathology at the University of California, Riverside. The agency echoed that assessment.

The FDA said it is running tests on imported juice and will reject any shipments that test positive for the fungicide. The testing will be complete in mid-January, an FDA spokeswoman said.

Brazil accounts for about half of all orange juice products imported into the U.S., making it the second-largest supplier behind Florida.

"Brazil's industry has always respected all the technical specifications of its buyers," said a spokesman for the Brazilian Association of Citrus Exporters. "The U.S. case is an outlier, and we're trying to identify what happened and why it happened."

Michael Smith, president of T&K Futures and Options Inc. in Port St. Lucie, Fla., said news of the fungicide combined with existing supply worries explains Tuesday's big price move.



The orange juice futures market is volatile, in large part because it is so tiny; it is the smallest agricultural market on the ICE Futures U.S. exchange, with outstanding contracts of less than \$1 billion of orange juice.

Big moves at this time of the year are especially common as speculators bet on the likely impact of cold weather on the Florida orange crop. Two years ago, prices shot up 7% on one January day amid concern about crop damage, then plunged 13% the following day after fears eased.

As of last week, hedge funds and other money managers were betting that prices would rise, with more than 50% bullish bets in place as they had three months earlier, and fewer bearish bets, according to government data.

The extent of the damage to the Florida crop, which provides 75% of the country's orange juice, isn't known, but traders expect the U.S. Department of Agriculture on Thursday to reduce its estimate for the 2011-12 harvest. If Brazil's shipments are in question, it could put a further squeeze on juice supplies.

According to Nielsen data published by the Florida Department of Citrus, in the four weeks ending Dec. 24, retail sales of orange juice dropped 8.8% from a year earlier. Meanwhile, prices climbed 7.8%, to \$6.12 a gallon.

Further price gains could lead to a greater falloff in demand, hurting some of the biggest producers such as <u>Coca-Cola</u> Co., the maker of Minute Maid, and Tropicana producer PepsiCo Inc.

Coca-Cola and Pepsi together controlled almost two-thirds of the U.S. market in the past year, Sanford C. Bernstein & Co. said, citing Nielsen data.

Spokesmen for Coca-Cola and Pepsi declined to comment. Shares of both companies were little changed on Tuesday.

Bernstein analyst Steve Powers said Coca-Cola and Pepsi are known to be conservative when it comes to buying and hedging commodities risk, making them less subject to short-term volatility.

"But if these trends hold and persist, we could see these companies needing to raise prices again," Mr. Powers said.

-Paul Kiernan and Annie Gasparro contributed to this article.