Oil Price Impact on Sugar Prices

Why in news?

The prices of raw sugar for May 2020 delivery at New York crashed to 9.75 cents per pound, the lowest closing for a nearest-month futures contract since June 2008.

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Why have global sugar prices collapsed?

- All commodities have taken a demand hit from subdued economic activity and lockdowns imposed to combat the COVID-19 pandemic.
- But sugar is one commodity that, until quite recently, was on growth phase.
- [Most estimates showed global production in 2019-20 (October-September) to fall short of consumption by 8-9 million tonnes (mt).]

- One reason for the collapse now is the closure of restaurants, weddings and other social functions not taking place.
- People are also avoiding ice-creams and sweetened cold beverages that might cause throat infections.
- The impact of coronavirus-induced lockdowns on out-of-home consumption and institutional demand for sugar is thus obvious.
- Sugar consumption in India alone is said to dip by 1.5-2 mt in 2019-20, from the normal 25.5-26 mt levels.

Have oil prices played a role?

- The juice from crushing sugarcane can be crystallised into sugar or fermented into alcohol.
- When oil prices are high, mills (especially in Brazil) tend to divert cane for making ethanol (alcohol of 99%-plus purity) to be blended with petrol.
- In 2019-20 (April-March), only 34.32% of cane crushed by Brazilian mills went for manufacturing 26.73 mt of sugar.
- The rest was used to produce 31.62 billion litres of ethanol.
- But with oil prices falling, mills will not find it attractive to divert cane for

ethanol.
- Brazil’s mills are thus seen to produce up to 36 mt of sugar and hardly 26 billion litres of ethanol this year.

Will this affect India?

- Before COVID-19 happened, the Indian industry was expecting to export 5.5-6 mt of raw sugar in 2019-20.
- Mills had already entered into contracts of some 3.8 mt, out of which 3.05 mt have been shipped out so far.
- The sugar industry’s woes from excess stocks are thus slow to happen aided by both exports and lower production.
- However, dip in sugar consumption, together with higher Brazilian output, is unfavourable for both Indian sugar mills and cane farmers.
- Nevertheless, in Indonesia, there is an increased import requirement.
- Also, it decided recently to slash the duty on Indian raw sugar from 15% to 5%.
- Indonesian refiners are projected to import 3.3 mt of raw sugar this year, up from 2.6 mt in 2019.
- They buy mostly from Thailand but Thailand is experiencing a bad drought which could lead to its production falling.
- This offers an opportunity for India.

What is the situation with respect to cane farmers?

- Decreasing exports and falling domestic use of sugar by institutional consumers has significantly undermined the mills' ability to make cane payments.
- E.g. Uttar Pradesh’s factories have till now crushed cane worth roughly Rs 32,000 crore in the 2019-20 season.
- But they have managed to pay only around Rs 16,400 crore.
- The state government recently announced a scheme of mills giving “willing farmers” one quintal each of sugar for the next 3 months, instead of payments due.
- Moreover, the industry’s problem is not from sugar alone.
- The lockdown has reduced off-take of alcohol, be it potable liquor or ethanol for blending with petrol.
- With cars and two-wheelers not running, oil market companies are not very keen to procure ethanol.

What are the other implications of oil price fall?

- The oil price crash has affected other agri-commodities as well.

- Prices of corn, which is also used for making ethanol, fell to their lowest since 2009 at Chicago.
- Likewise, palm oil, again a feedstock for bio-diesel, ended 7.5% lower at the Bursa Malaysia futures exchange.
- Corn prices can, in turn, drag down other cereals, just as palm oil could do to soyabean and other oilseeds.
- All these are ultimately linked to oil, whose prices matter as much to farmers as petroleum companies.

Source: Indian Express