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The U.S. Department of Agriculture took 85,000 short tons of sugar as payment for \$34.5 million of loans to processors that came due last month and said there is "substantial risk" of more forfeitures after government measures failed to erase a domestic glut, Bloomberg news service reported. Borrowers repaid loans from the USDA's Commodity Credit Corp. with sugar rather than cash after the price of the sweetener dropped more than 30 percent from a year ago and below the government's minimum support price, Kent E. Politsch, a department spokesman, said today in an e-mailed statement.

Most of the loans will come due at the end of September, "presenting a substantial risk that borrowers will repay some off these loans with collateral instead of cash," he said. The USDA took steps to remove sweetener from the market, including export waivers and subsidized sales to ethanol makers, after a record beet-sugar crop and surging imports from Mexico sent domestic prices to the lowest in more than four years. The U.S. limits sugar imports to protect domestic growers and provides loans that assure a minimum price.

About \$306.7 million of sugar-beet and cane loans are coming due at the end of this month, USDA data show. The loans are for a maximum term of nine months. The agency doesn't identify the borrowers. USDA loans to processors can be repaid with sugar if prices fall below certain levels, currently about 21 cents a pound for raw sugar and 24.09 cents for refined product. Unrefined sugar for November delivery closed today at 21.02 cents on ICE Futures U.S. in New York. While prices are up 12 percent from a record low of 18.7 cents on July 8, after the USDA began taking steps to curb the surplus, they are down 23 percent from a year earlier.

The agency spent about \$61.7 million in June and July to reduce the glut through a mix of purchases and export credits. The department also subsidized the sale of 7,100 tons at 6 cents a pound to ethanol makers for the first time under the Feedstock Flexibility Program. Almost all U.S. ethanol is made from corn, and farmers this year are harvesting the biggest crop ever, sending prices down 42 percent from a year ago.