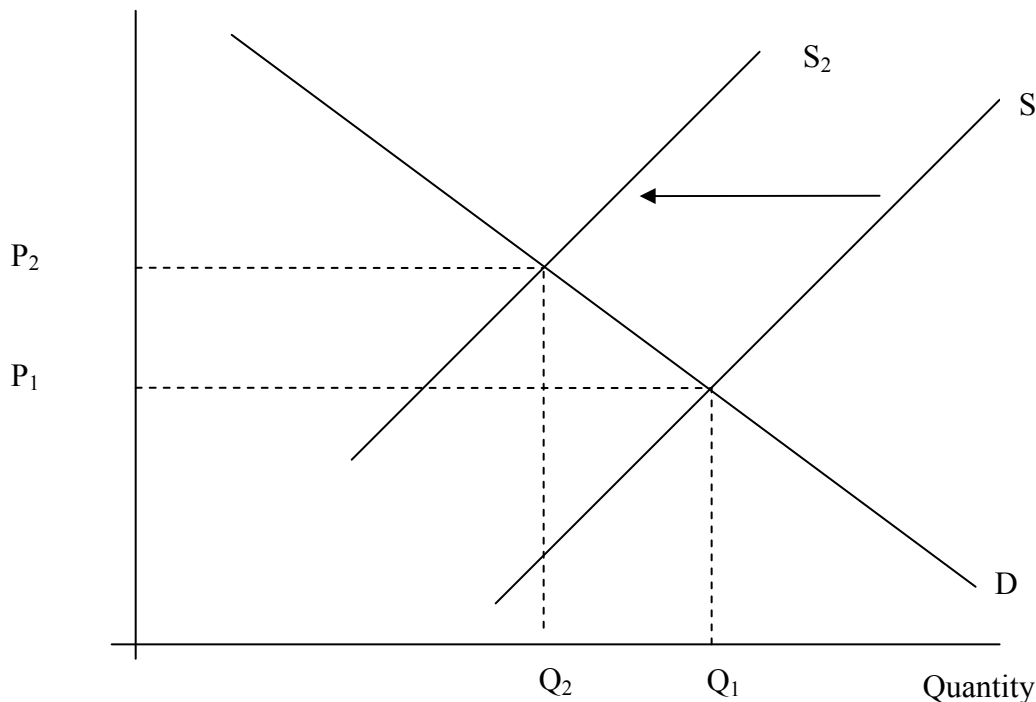


“Weather gloom sends tea and sugar high”

Weather phenomenon throughout the globe is causing a dramatic price shift in both sugar and tea. The largest sugar cane producing country in the world is Brazil, and they are experiencing extremely heavy rains in the most important sugar growing region called the center south. In April, the Brazilian government predicted sugar production to be 31.2m tonnes, and the estimate was reduced last week to 29.4m tonnes. This has driven the price of March raw sugar futures up 4% to its highest price since 1981. The Mexican government who is normally a producer of sugar is now importing at least 550,000 tonnes of sugar. The article also indicates that Egypt is cancelling orders for sugar because the price is too high. Similarly, the article discusses how a drought in Kenya is driving up global tea prices in fears of a bad tea crop.



Sugar Market

The above graph represents the situation that is described in the article. The article demonstrates clearly how much price is affected by the supply. What is interesting to note is that it's not only current supply that matters, but the possibility of lower future supplies. It is possible that the weather could improve in Brazil and save the sugar crop putting prices back into a normal range, but prices move not only with a change in actual supply, but with a possible disruption in future supply as well. This article demonstrates a shift in the supply curve as in the graph above from S₁ to S₂ causing an increase in price from P₁ to P₂. Another thing this article demonstrates is the

interdependency of global markets to local problems. Too much rain in just one area of one country can drive up the price of sugar 4% in a single day. It would not be a surprise to see the price of artificial sweeteners rise as well as people avoided the higher sugar costs and switched to other comparable products. Additionally, these run up in sugar prices might be seen eventually in virtually all baked goods. It might not be long until the American consumer sees a rise in the price of fruit snacks and cookies. The increased prices have already made Egypt cancel shipments; which is a demonstration of the price moving up the demand curve with the shift in supply and a lower quantity being used.

Unfavorable weather is also causing the same situation in Kenya in the tea market. However, the tea scenario is due to drought rather than flood conditions. The only different question in this situation is how high prices have to get in order to make it worthwhile to irrigate? It may not be feasible to irrigate in that area, but if the price gets high enough, water can always be imported.

“<http://www.ft.com/cms/s/0/e68760ac-acd4-11de-91dc-00144feabdc0.html>”