Leading sugar issues seen as excellent investment

BY BABSON'S REPORTS

As 1974's fall season waned, the year-long pyrotechnics on the world sugar marts began to show signs of quieting. But meanwhile sugar prices had been hauled upward to incredibly high levels, and the retreat still has a long way to go before prices again become tolerable to consumers and industrial users. It will be an even longer trek to the well-deflated prices in effect before the runaway.

Consumers need not be reminded how high supermarket prices of table sugar went before the downturn. The situation is also painfully clear to many small bake shop owners forced to close their doors, especially after having been placed in a precarious position by the surge in wheat prices not too many months before.

There were many causes of the frantic spurt in sugar prices, each responsible for at least a small part of the disaster. But the seeds of the rampant speculation in sugar contracts and the scramble for the sweet commodity were sown when election-conscious politicians took dead aim at the U.S. Sugar Act, letting it run out at the end of 1974.

The advancing price of sugar failed to deter Congress from voting against extending the Sugar Act, even in amended form, or permitting the bars to be lowered against the importation of sugar from South Africa. So sugar was left vulnerable to weather adversities.

If the wasteful aspects of the Sugar Act had simply been excised, giving the legislation new life, its quotas might well have influenced the producing nations to allocate enough sugar for this country to protect their own quotas. This could have moderated the scramble for sugar and the accompanying wave of speculation.

Rather, the costly lessons of the food and feed grains price dislocations only a few months before were ignored. The congressional vote was heavily against retaining the Sugar Act in any form. As sugar prices shot upward, President Ford invoked his Executive authority and extended restrictions temporarily, but with a world-wide quota and no specific national targets. It was too late, of course, for congressional haggling followed by unfortunate action had already done the job. In characteristic fashion, the protectors of the consumer attacked the industry and related businesses, ignoring the workings of free markets—domestic and international—and their own role.

Early in 1974 it was expected that the carryover of sugar from 1973 and the projected output for the upcoming season would be more than adequate to meet world consumption needs. But the picture was drastically changed by the hurricane devastation of Louisiana's sugar cane crop, followed by losses in the top sugar beet areas of eastern Europe, the Russian Ukraine, the Philippines, Belgium, and France.

It now appears that the only saving grace has been our good sugar beet crop, although even here growers had cut back plantings by 5 per cent, not expecting the spectacular surge in sugar prices.

While curtailments of consumer use and increased industrial reliance on substitutes have pared sugar prices at least temporarily, an early return of cheap sugar is not likely. Much will depend on next year's sugar cane cuttings and on planting conditions for the sugar beet crop in the northern hemisphere. And then there is the longer wait to determine the size and quality of the latter harvest.

As for stock market prospects, the Research Department of Babson's Reports advises retention of leading sugar issues; Amstar, Great Western United, Holly Sugar, and Utah-Idaho Sugar. Purchase of Castle & Cooke — which has a stake in cane sugar — is recommended at this time. For a free detailed report on Castle & Cooke, write to Babson's Reports Inc., Wellesley Hills, Mass. 02181.