For a More Orderly Marketing of Philippine Sugar

Possible Hedging Operations for Price Protection

By DONALD A. COOK,
Member N. Y. Coffee & Sugar Exchange
Managing Partner, S. E. Levy & Co., Manila.

To quote from a recent article written by Mr. Rafael R. Alunan, during the time he was president of the Philippine Sugar Association, and undoubtedly one of the best informed men in the Islands on questions pertaining to the Philippine sugar industry:

"No report on the condition pertaining to the Philippine sugar industry would be complete without a reference to the circumstances which necessitate the shipment of the bulk of each crop during the seven-months' period from December 1st to June 30th.

". . . The production of centrifugal sugar in the Philippines is a joint undertaking by the planters (who grow the cane) and the milling companies (who turn it into sugar). The result is that the disposal of more than half the Philippine sugar crop is in the hands of planters (a large proportion of whom are small producers) who wish to sell their sugar whenever they consider it convenient so to do, thereby preserving for themselves the inalienable right of an individual to dispose of his own property as he deems convenient. In actual practice, this state of affairs results in large quantities of P. I. sugar being offered for sale in the Philippine market whenever there is a rise in U. S. prices and, as most of the financing firms' crop loan agreements give planters the right of disposal of their sugar up till June each year and at the same time compel the financing firms to take the sugar over at the market price whenever the planter wishes to sell, it is quite impossible to regulate the sale and shipment of Philippine sugar . . . .

"Another difficulty which presents itself in this connection is the exposed location of many centrals' shipment wharves, from which it is impossible to load steamers except during the northeast monsoon period—mostly between December 1st and April 30th. These wharves, although protected from northeast winds, are completely exposed during the south-west monsoon, which is accompanied by heavy rains and includes the most dangerous part of the so-called typhoon season. As a result, it has been the practice for many years for the shipment of P. I. sugar to be made during the (mainly dry) northeast monsoon period, which coincides with the milling season. Milling companies' storage accommodation has been based on this practice and is inadequate and unsafe for the warehousing of large quantities of sugar during the rainy months. Even if it were possible to persuade planters to dispose of their crops gradually heavy charges would be incurred in moving a large proportion of the sugar from the exposed shipping points to ports where it could be handled at all times of the year and in storing it there for shipment.

"Yet another serious disadvantage in the gradual or so-called 'orderly,' marketing of P. I. sugar, as compared with the produce of Hawaii, Puerto Rico and Cuba, is the distance between the Philippines and the principal U. S. (East-Coast markets). Philippine producers are compelled either (1) to sell their sugar for shipment, i.e., 2 to 4 months before the due delivery date in the U. S., or (2) to ship it unsold and risk a decline in prices during the voyage. It is far easier to adopt an 'orderly' marketing scheme when the voyage-distance between the shipment and arrival ports is a matter of seven days instead of seven weeks."

The foregoing sums up in brief the difficulties experienced in selling Philippine sugar in the United States. As a result, many cargoes of Philippine raws are literally "dumped" on the New York market at a time when Puerto Rico and Cuba are also heavy sellers. Naturally, refiners are cautious buyers when sugar is in plentiful supply. Later on in the year when the pressure of selling is lessened, prices often gradually improve, but our producers in the Philippines are seldom able to take advantage of these higher prices, as their crop has already been sold.

There is a way, however, that local planters, centrals and financing firms can often obtain a better average price for their sugar, and that is by "covering" and also "hedging" on the New York Coffee and Sugar Exchange. This is a system that has been in vogue for years and in constant use by Cuban and Puerto Rican planters and producers since the New York Coffee and Sugar Exchange began dealing in sugar contracts in 1914. Some of the more progressive Philippine centrals and sugar exporters have also been using the facilities of the Exchange in New York, more especially since Philippine sugar was

DAWSON WHISKY

WITH ANY MINERAL, IS THE SAFEST AND MOST SUITABLE BEVERAGE IN THE EAST

PETER DAWSON
SPECIAL SCOTCH WHISKY
SMITH, BELL & CO. LTD.
SOLE DISTRIBUTORS

Luzon Stevedoring Co., Inc.

Lightering, Marine Contractors
Towboats, Launches, Waterboats
Shipbuilders and Provisions

SIMMIE & GRILK

Phone 2-16-61 Port Area

admitted as a "good delivery" under the No. 3 contract, in which trading started on January 2, 1935.

The No. 3 contract, the most active contract in the New York Exchange, is quoted on the basis of Cuban centrifugal sugar in bond, but provided for the delivery of any duty free sugars (including Philippine Sugar) which can be processed or consumed under any quota or allotment plan decreed by any Uniited States government department or agency. These sugars are bought and sold on the Exchange in contract units of 50 long tons each, based on 96° average polarization. The New York Coffee and Sugar Exchange provides a broad market and a central trading point for producers, refiners, operators, speculators, and all others interested in any way in buying or selling sugar for any purpose.

With so many important large operators buying and selling at all times through brokers on the New York Exchange, we are assured of an active market in which buyers or sellers can practically always be found. One of the most beneficial results of so many traders operating is that bids and offers are very close, usually differing by only 1 cent per 100 lbs.

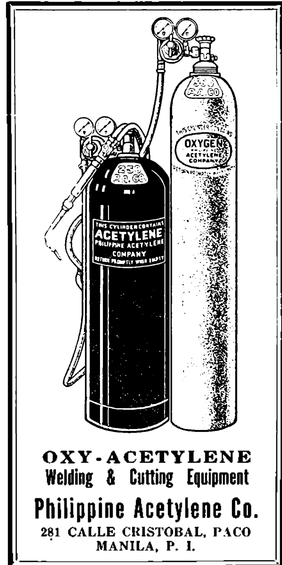
Quotations on the Exchange are naturally governed by the basic rules of supply and demand, and are regulated by very strict trading rules which are equally fair to buyer and seller. Prices for nearby deliveries are generally very close to the prices prevailing in the actual market for raw sugar, while the price for future deliveries is generally based on the nearby quotation plus the cost of storing and handling sugar until the month of delivery. Numerous other factors also enter into the price for forward deliveries, all of which are familiar to the student of the market.

The various methods by which local centrals, producers, and operators can take advantage of the facilities afforded by the New York Coffee and Sugar Exchange, Inc., are as follows:

1. Realizing that it is frequently impossible for local sugar interests to arrange to ship sugar to arrive in New York for sale when the price is favorable, and realizing the necessity for taking advantage of shipping space when the same is available, an up to date and aggressive Philippine sugar trader will not only sell his sugar in the usual way at the price prevailing in New York, but, at the same time that the sale is consummated may purchase, by contract on a conservative margin basis, an equal amount of sugar for future delivery on the New York Coffee and Sugar Exchange. The expense involved is comparatively negligible and results in the operator selling his actual sugar but still retaining an open position in the market. The seller thus takes advantage of available shipping facilities, relieves congestion in his warehouses and also receives cash for his sugar,—all without finally fixing the price which his sugar will ultimately bring him. These future contracts which may be bought on a conservative margin basis, may be sold out at any time prior to maturity, with differences settled immediately on sale. For example, a sale of Philippine raws made today for nearby arrival in the United States would bring a price of only 3.15, while it is generally admitted that the outlook for sugar prices should be somewhat higher later in the year. Under the system of covering outlined in this article, the operator who sells his actual sugar at 3.15 could buy raw sugar contracts on the New York Coffee and Sugar Exchange for September delivery at 2.25 (Cuban basis) which is equal to 3.15 duty paid. If the operator sold 2,000 tons for actual delivery at 3.15, he would buy 40 contracts of 50 tons each for delivery in September, 1938, this leaving him as far as price is concerned, an open position in the market. (Note: The current price of September futures at the time this article is written is unusually low as futures for delivery six months forward would ordinarily command a premium of 15 to 20 points over nearby deliveries—representing carrying charges as mentioned above.) Then, at any time before the September contracts nature for delivery the holder could sell out whenever the price prevailing suited him. Suppose, for example, the September futures which were bought in March at 2.25 were sold out in May, June, or July at 2.35. The operator would make a profit of 10 points less approximately 3 points for brokerage and expenses, or a net profit of 7 points which, added to his sale of actual sugar at 3.15 would result in the sale really having been made at 3.22. Of course, if the market should become noticeably stronger later in the year the profit would naturally be greater. Also, it is understood that if the operator feels that the outlook for the sugar industry warrants, possible, lower prices later in the year than those prevailing at the time he sold his raws, he would not purchase future contracts at the time he sold his actual sugar.

2. On the other hand, there are times when prices prevailing in New York appear exceptionally high, but local operators are unable to take advantage of these high prices as their actual sugar is possibly not yet milled, or if milled, cannot be shipped owing to lack of steamer space. On occasions like this the operator can sell futures contracts on the New York Exchange, repurchasing them possibly at lower prices which may be prevailing when his actual sugar is sold to a refiner or American operator. The resulting profits, added to the price received for the actual sugar when sold, shows a better selling price for the lot. This method of operating is called "hedging" and is in constant use by both producers and consumers of most of the principal commodities in the world. We could write several volumes on the methods

(Please turn to page 46)



OXY-ACETYLENE
Welding & Cutting Equipment
Philippine Acetylene Co.
281 CALLE CRISTOBAL, PACO
MANILA, P. I.

ALHAMBRA
CIGARS

continue to be the
recognized leaders
in QUALITY cigars

CORONAS DE LA
ALHAMBRA

For a More...

(Continued from page 39)

used by traders in cotton, grain, rubber, and other staple commodities, all traded in on the principal exchanges in New York and elsewhere.

3. Trading on the New York Coffee and Sugar Exchange may also be used to advantage by local sugar operators who are buying up quantities of Philippine sugar for export but who have not yet made a sale to a refiner or operator abroad. As sugar is bought locally the Philippine operator may sell a corresponding amount of sugar on the New York Exchange for forward delivery, thus eliminating any risk of price fluctuation on the sugar which he has already bought in the Philippines. Thus, as the market price might decline on the sugar which he is holding unsold in the Philippines, the corresponding decline would occur in connection with his contracts in New York. The result would be that any loss resulting from his local holdings would be compensated by a profit on the futures sales in New York. Refiners are large operators in this basis. One can well understand this when he stops to think that refiners purchase large quantities of raw sugar as and when offered at current prices and are not able to dispose of their sugar until it has gone through the process of refining and ultimate sale, all of which takes a considerable length of time. To protect themselves against loss in this connection, refiners frequently sell future contracts on the Exchange whenever they buy raw sugar for refining. When the sugar which they have purchased is refined and ready for sale, the refiners are then in a position to sell refined sugar and buy in to cover the future contracts previously sold. Any market fluctuation that may have occurred in the meantime automatically results in the refiner receiving a correspondingly higher or lower price for his refined sugar which is equalized by a similar profit or loss on his future contracts.

4. Another very important factor in trading on all exchanges is the speculative element. Whenever any commodity seems unusually cheap there are both operators and speculators who wish to buy. Likewise, when the price appears too high, many wish to sell. Purchases or short sales are handled with equal facility on the New York Coffee and Sugar Exchange. How many times does one hear a planter or operator say when the price is high, "How I wish I had more sugar to sell at these prices." Not having sugar to sell, the trader or speculator is quite at liberty to sell future contracts on the New York Exchange at prevailing prices merely by depositing the required amount of cash margin which protects both the buyer and the seller of all contracts. Of course, in case of a decline in price prior to the maturity date of the contract, the trader may close his position at a moment's notice and fix his profit. On the other hand, if the market should go against his judgment, he may also close his position immediately and settle the corresponding loss without waiting until his contract month is due.

Full details of trading on the New York Coffee and Sugar Exchange are available at the Manila Office of S. E. Levy & Co., who also have available for ready reference, numerous statistics showing price fluctuations, crop movements, etc. A convenient folder giving in very condensed form, the highlights and essential details of trading in Sugar futures may be obtained on request from S. E. Levy & Co.

---

223 Dasmariñas, Manila

Line	VESSEL	Leave Manila	Leave Hongkong	Leave Batavia *Haiphong
NLRM*	1J. DEWITT			Mar. 30
MM	SPHINX		Apr. 1	
NYK	TERUKUNI MARU		Mar. 25	
BF	FLINTSHIRE		Mar. 29	
NDL	SCHARNHORST	Mar. 29		
SEA*	CSHANTUNG	Apr. 8		Apr. 3
P&O	NALDERA		Apr. 2	
LT	CONTE ROSSO	Apr. 5		
BF	AENEAS ("A")		Apr. 5	
BF	AENEAS		Apr. 5	
EALJS	INDIA		Apr. 6	
RL	INDRAPOERA			Apr. 6
MMIC	CHENONCEAUX			*Apr. 3
HAL	LEVERKUSEN	Apr. 5		
NYK	HAKUSAN MARU		Apr. 9	

Legend—
- DSSL —Dollar Steamship Lines
- P&O —Peninsular & Oriental
- BF —Blue Funnel Line
- NYK —Nippon Yusen Kaisha
- MM —Messageries Maritimes
- LT —Lloyd Triestino
- NDL —Norddeutscher Lloyd
- CR —Chargeurs Reunis
- EALJS —East Asiatic Line—Japan Service

John Gunther's...

(Continued from page 41)

Harpers will publish this year, Outside Asia. The Commonwealth will be in this somehow, but China, Japan, and India will claim major space. Our guess would be

N. Y. K. Line

(Japan Mail)

THE HIGH WAYS TO REACH JAPAN, PACIFIC COAST, EUROPE, AUSTRALIA etc.

Travel N. Y. K. and the whole voyage will be an unforgettable experience of perfect satisfaction and enjoyment.

Continental and American cuisine, prepared by hotel-trained chefs, gratify the most fastidious of palates.

Alluringly low round-trip fares and economical round-the-world tours will be quoted on application.

For complete information, please consult

WARNER, BARNES & COMPANY, LTD.

General Agents

Soriano Building **Phones: 2-22-31—2-22-35** **216 Dasmariñas, Manila**