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FUND VIEW - Pioneer stays long on sugar, goes neutral on oil

- * Speculation on sugar crop masks real inventory concerns
- * Inventory signals change of stance on oil

By Veronica Brown

LONDON, March 5 (Reuters) - As once red-hot sugar prices give way to speculation over the market's supply outlook, current inventory levels tell another story -- giving solid reasons to stay long, asset manager Pioneer Investments said.

Peter Konigbauer, senior portfolio manager of Pioneer's actively managed commodity alpha portfolio said the fund follows the "inventory theory" in its selection, on the premise that those with low inventories have a better chance of bringing in yields.

It uses **past performance** and the relative steepness of the futures curve as indicators of inventory levels.

"What we see right now in the market is speculation that we will see a good harvest in Brazil and India this year that could rebuild a part of the inventory level," Konigbauer told Reuters.

"But at the moment...the inventory levels are low due to all the things that happened last year, especially in India," he added.

Sugar prices surged more than 120 percent in 2009 on disappointing harvests in leading producers Brazil and India, a factor that also helped prices to rally to multi-year highs at the top of this year.

Since hitting a 29-year top in early February, raw sugar has dropped more than 30 percent as market participants focus increasingly on expectations for a large crop from top producer Brazil.

While the ICE sugar futures forward curve has flattened since nearby prices started to fall, the market still remains in backwardation where distant prices are lower than nearby values.

Konigbauer said that while speculation was driving current price levels, a risk premium remained in the market.

"If there is not enough rain in India then the expected production will decrease. If something happens to expectations then you'll see that the price will increase strongly,"

WARMING TO OIL

Massive government injections of liquidity to shore up leading economies has been one of the key factors driving oil prices up from lows hit as the global downturn dominated market sentiment. But the demand engines that drive growth have not returned uniformly to pre-crash levels, and overhanging crude stockpiles remain. U.S. crude was trading at \$81.15 per barrel by 1342 GMT.

Konigbauer said that the fund had been underweight oil until the beginning of March, but the fund's model had given a signal to increase to a more market neutral and small overweight position.

"We have seen from the fundamentals side that demand is picking up from the curve and from our selection process we see there is more stability from these signals," he added.



Pioneer Investments is the asset management arm of Italy's UniCredit and had 177 billion euros (\$240.4 billion) in assets under management as at end-January 2010.

(Editing by James Jukwey)

((RM:veronica.brown.reuters.com@reuters.net; Tel: +44 207 542 6745)) (\$1=.7362 Euro)

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