Monthly Sugar Note

29 April 2024

Markets

The US economy continues to send signs that the Fed may need to keep rates unchanged during the rest of the year. US core CPI, non-farm payrolls and retail sales numbers for March all came in higher than expected – all reflective of a strong economy. If the previous was not enough to support the USD higher, worrying signs of an escalation of geopolitical tensions in the Middle East pushed equities and risk markets lower, while safe havens like gold, USD, treasuries and the CHF rose.

This led to the majority of emerging economies undergoing significant depreciation of their currencies against the dollar. The BRL moved from 5.0 to 5.3 in less than 10 days, although it has recovered considerably in the past days. The macro environment also sent bearish signals to the speculative community who took risk off and reduced long exposure across many Agri commodities in the past days. In the case of NY sugar, the latest COT reports showed a considerable decrease of lots in the net spec position, turning the net length to a short condition for the first time in the past 18 months.

To make things worse for NY11, the weather of Brazil has also improved. After 3 months of dry conditions, rains have returned to the C/S cane belt, just before the start of the season. The market had been factoring a cane crush volume below 600mmt on recent dryness, but analysts are now reviewing their yield forecasts and taking cane figures back to the 610-620mmt range.

Figure 1: BRL/USD ratio vs. NY11 front month

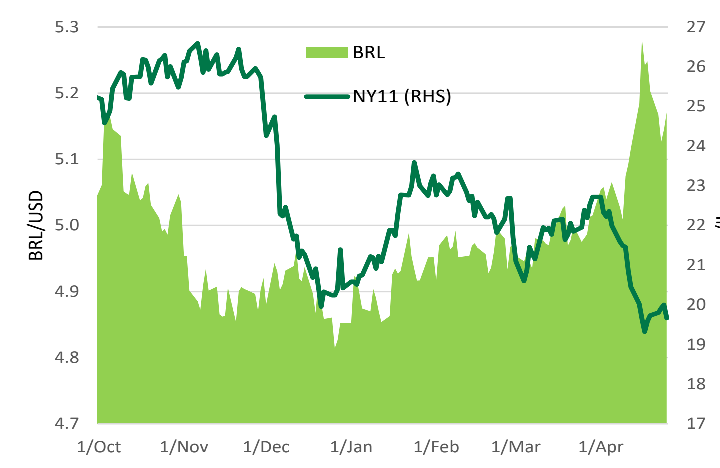
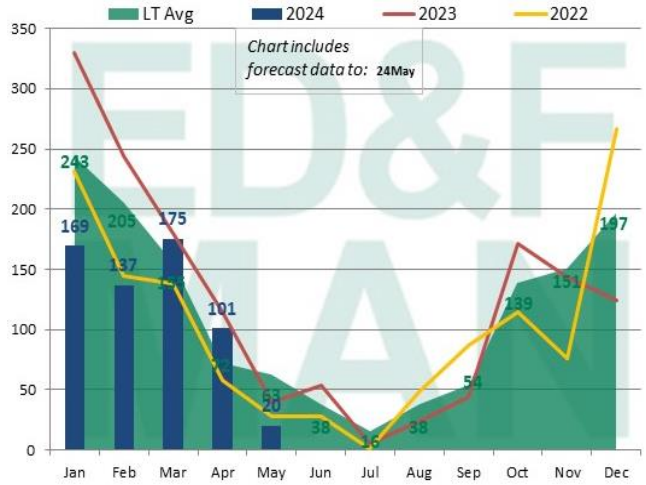


Figure 2: C/S rainfall (mm)



Source: ED&F Man Commodity Research

Indian producers were busy in April pushing the government to end the ban on sugar exports. However, the government has already informed that this is unlikely to happen. As of mid-April, Indian sugar production surpassed 31mmt, suggesting that the crop will be above 32mmt, about 4mmt more than the local demand. Also in India, we saw preliminary forecasts of the next monsoon released. At this stage, rains are expected to be above average, which will be positive for the next crop, if realized.

Over in Europe, we are seeing good prospects for the CIS region – which is showing an increase in beet acreage for Ukraine and a steady pace of planting operations in Russia. In the EU region, estimates are pointing to an area increase close to 5% for beet, although there are warnings that pests incidence may prove to be higher in the coming cop. Elsewhere, the Pakistani crop ended close to 6.7mmt, leading to producers there asking for a 1mmt export quota - something yet to be decided by the government.

All in all, sugar prices are now under 20c/lb level, the lowest value since Jan/23. The lower price is starting to attract importers. Egypt has already come to the market announcing a large tender. Chinese bookings may be timid for the time being, but values under 19c/lb should result in more demand from the Asian country. In Brazil, ethanol is still about 400 points below today's sugar prices, but strong demand for biofuels in Brazil, combined with a potential increase in the gasoline price which is still not on the cards by the Brazilian government, could make ethanol more competitive at the end of the year.

Unless UNICA releases poor numbers on the Brazilian crop progress over the next weeks, we see little scope for global sugar prices to increase. On the other hand, we are also conscious that world sugar demand remains unsatiated following several years of back-to-back deficits. As such, we would expect many destination countries to return to the market if prices continue to go south, which could offer some support to NY11.

Fundamentals

- **Brazil C/S:** The 23/24 crop has officially ended with 654mmt of cane crushed, ATR of 139.4kg/t and sugar mix of 48.9%, resulting in 42.4mmt of sugar and 33.6Mcbm of ethanol. This sets new records for crush, mix and production of both sugar and ethanol. Weather has been challenging for CS cane development, with below average rains during most of the important months of development. However, it has improved from mid-March to mid-April bringing some timely relief, especially for SP state. The market projects a cane crush around 600mt for the 24/25, which assumes a 9% drop in agricultural yields YoY. However, with a higher ATR and sugar mix, sugar production should be close to 42mmt. Exports were also at a new record in 23/24, with a total of 28.8mmt of bulk raws moved from 8 different sugar terminals, including the new operations at Antonina and Sao Sebastiao. For the new crop, about 29mmt of bulk raws should be exported and volumes should pick up strongly after April, when most of the terminals' maintenance takes place.

- **India:** Sugar production up to 15th April was 31.1mmt, 146kt below the same time of the past season. Out of the 207 mills in operation this season, 201 mills in Maharashtra have ended their crushing so far, compared with all mills being closed during the same time last year. In Karnataka, out of 72 mills in operation this season, all mills have ended their main crushing season. Out of the 117 mills in operation this season in Uttar Pradesh, 87 mills have stopped crushing vs 37 mills a year ago. The market forecasts sugar production above 32mmt for 23/24. On the other hand, sugar production for 24/25 is likely to decrease given the lower acreage following the dryness in 2023 which impacted the planting activities in Maharashtra. It will be key to see the pre-seasonal rains and onset of monsoon, which for now are projected to be good. The SouthWest Monsoon over India is expected to be 106% of the LPA (Long Period Average) in 2024. Last year, at the same time, the forecast was 96% of LPA. Private forecaster Skymet also projects the impending monsoon at 102% of normal. Currently, domestic sugar prices in central west India are around 35500 to 36000 INR/MT. The prices are slightly higher higher than last month due to higher summer demand, hot weather and election rally.

- **Asia:** Thailand has now ended its 23/24 crushing with all 57 mills shut down. The accumulated cane processed reached 82.2mmt, almost 12 mmt lower than the previous crop, due to lack of rainfall and high temperature during cane development period. Sugar output totalled 8.8mmt and sugar yield during production was 10.67%, a 9% drop from last year on an equivalent days-to-days basis. This harvest was an improvement if we consider that initial market estimates were in the range of 68-75mmt for cane production before the crushing started. With the current crop figures, we expect Thai raws export in 2024 to enter a small deficit and refined export having a manageable surplus which could balance each other eventually. As NY11 moves below 20 cents/lb, we see some fresh inquiries from refineries, whilst noting that China's OOQ import parity has also turned positive after 4 months. It recovered to $10/MT this week, although still not profitable enough to trigger excessive buying.

- **US:** The April WASDE report came out increasing ending stocks by only 16k MTRV, still at the theoretical balanced level of 13.5% STU ratio. Although it was an overall small change, there were big shifts within the components of the SnD. US beet sugar production was down by 25k MTRV due to lower forecast sucrose recovery and exports were up by 34k MTRV (but there is still room for further increases). On the imports side, Mexican imports were down by 151k MTRV due to low production and limited low pol raws production. This was offset by reexports up by 80k MTRV, raws TRQ up by 23k MTRV and high duty imports up by 127k MTRV to a massive 760k MTRV, as it is basically the only source of imported sugar (as Mexico and more TRQs are very limited). The new campaign of sugarbeets planting has started - up to April 21st, 26% of the acreage had been planted, ahead of 16% of last year's or 19% 5yr average.

- **Mexico:** Up to 13 April, about three quarters of the expected acreage had been processed and the pattern of the crop continues - better agricultural yields YoY, improving (but still behind last season) sucrose, and reduced acreage. Cumulative figures show sucrose levels at -7.6% YoY (vs -8.5% a month ago) but agricultural yields show growth of 4.2% (vs 1.8% a month ago), resulting in sugar production per hectare 3.7% lower YoY (compared to -6.8% lower a month ago). The main point of concern is now the harvested area, which is 9% lower YoY. This is a major factor for this season, as some areas were just too bad to be harvested at all. All these factors resulted in sugar production of 3790kt, down 12% from the same period last year. Refined production is 6% lower YoY, Estandar is 5% lower with the main reduction remaining on the low pol raws side, -55% YoY, with only 270kt produced. Exports to the US remain slow, only 241kt so far, only 30kt more than a month ago, which is almost all of what was produced so far. A few small mills are already finishing their crop, but the majority will finish during May.

- **Centrals:** Guatemala's sugar production up to April 14th has reached 2071kt, 8% behind last year due to harvested area 7% lower so far, with 4.7% lower sucrose, despite a 3.4% increase in agricultural yields. El Salvador's crop numbers continue to point to a reduction YoY while production up to April 14th reached 680kt, also 8% lower YoY, given a delayed start and due to sucrose levels 1.2% lower and agricultural yields 2.4% lower YoY. The pace of nominations has improved, but is still quite delayed when compared to the previous crop, for both bulk raws and bagged sugar.

- **CIS:** A new restriction has been imposed to control the amount of Ukrainian sugar entering the EU. The quota for Ukrainian sugar after June 5th 2024 will be determined as the arithmetic mean of 2023, 2022 and the last 6 months of 2021 (about 270kt). Ukraine's sugar beet acreage is expected to increase by 10% for the 2024/25 crop. As of April 20th, approximately 230k hectares of beets have already been planted. Assuming sowing remains on schedule and yields remain high, Ukraine could produce an additional 200-300k tonnes of sugar, to around 2.2mmt. In terms of exports, Ukrainian sugars have been slowly flowing to the world market at a range of 20-25 kmt every month, but the logistics remain difficult. However, come June this value may need to go up dramatically so that they do not end up with a large build-up of stocks given their big 24/25 crop. Russian sowing has been excellent, with about 402.9k hectares sown, compared to 217.8k at the same time last year, owing to warm weather. Russian sugar exports slowed down in April due to an impending export ban, set to take effect this week. Given the good weather conditions for sowing in these two regions, we will need to see how the crop evolves as they can very quickly become key players in the overall sugar market.

Focus – EU

Europe and the United Kingdom are anticipating a significant **increase in sugar beet** planting for the 24/25 crop. Farmers are eager to expand their beet plantings due to reduced winter crop plantings and the perceived profitability of planting beets. This has led to an increase in planting estimates ranging from 3% to 6%. If this acreage increase holds, it could result in a production number that exceeds that of the 23/24 crop by more than 1 million metric tons. However, whether this increase in production will be possible depends on two key factors: weather and disease incidence.

The **weather** in the EU and UK has been quite wet, with soil moisture levels across western Europe being wetter than normal, while eastern Europe has been drier than normal. Due to the rains in March and April, plantings across western EU have been delayed. French planting is said to be delayed by 15 days, especially in the northern regions of France. Netherlands planting is roughly at 50%, while Germany is also making progress.

In terms of **disease**, aphids have been caught in France, the Netherlands, and the UK. Farmers have been advised to spray the fields whenever required and continue monitoring the fields. The risk of slugs has become more prominent in Denmark and Belgium due to the wet weather. Beet weevils have destroyed some planted areas in Austria, which may need to be replanted. Disease monitoring is going to be a key part of assessing how big the EU production is going to be.

Figure 1: EU(27) sugar exports

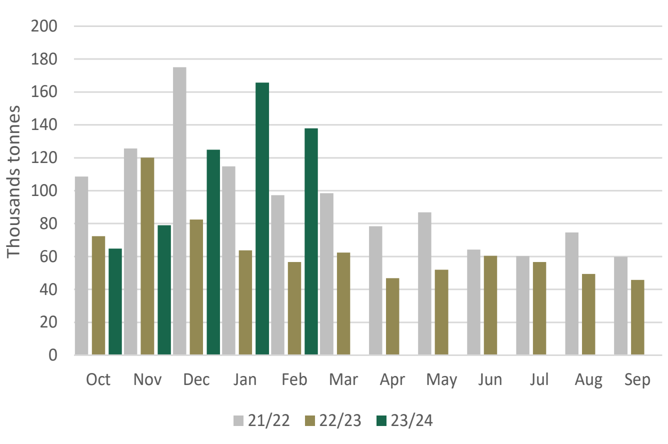
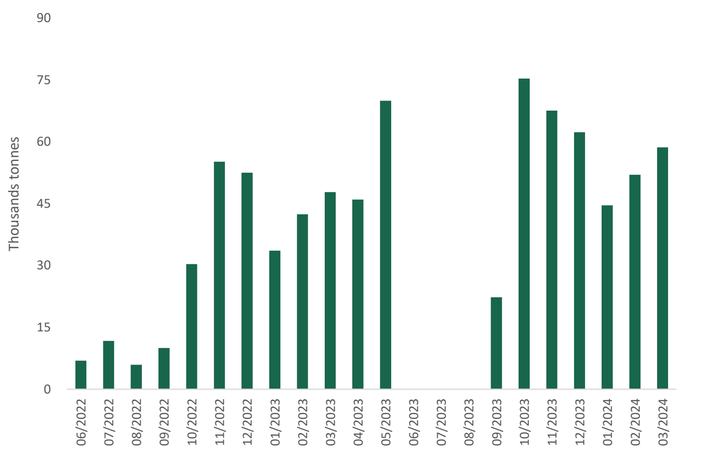


Figure 2: Ukraine sugar exports to the EU(27)



Source: Eurostat and ED&F Man Commodity Research

Turning to **trade**, we note that EU exports have been high this year, with more than 500,000 metric tons exported till Feb 2024, compared to 390,000 metric tons the previous year at the same time. Major destinations for EU exports continue to include Israel and the UK, while there are newer destinations like Mauritania, Libya, and Lebanon. EU exports are expected to reach 1.5mmt for the 23/24 crop year.

Lastly, the EU Commission has decided to add **restrictions on Ukraine** imports. The quantity of Ukrainian imports should be the arithmetic mean of 2023, 2022, and the last half of 2021. These restrictions should come into effect by the 6th of June. However, we have been seeing that Ukraine has been trying to push as many imports as it can to the EU. They should be in line to pass the restrictions by June if they continue this pace of exports. Considering all these factors, we estimate that **EU and UK production** should be between 17.2-17.5mmt. This should result in exports for the 24/25 season at 1.6mmt. However, imports should be reduced compared to previous years, partly due to import parities, prices, and restrictions on Ukrainian sugars coming into the EU. But we will need to see the impact of increased production on prices in the EU. Everything is pointing towards a bearish price, but weather and disease can change views quickly.

Macro

Up until a week ago, the thought was that with the US economy still going strong, markets would re-think how many rate cuts the Fed would make this year. US data had been coming in above expectations, confirming a soft landing had been achieved. But much rested on whether the stickiness seen in US inflation was temporary, or more persistent in nature. As of last Friday, we now have confirmation that US CPI over the same period was 3.7%, well up on the Q4 print of 2% and substantially above the consensus estimate of 3.4%. More worryingly, US GDP grew by only 1.6%, considerably below expectations of 2.5-3%. How the Federal Reserve responds to this surprising set of data, will set the tone for macro in coming weeks, with the FOMC's meeting this week likely to send a potential hawkish signal. Depending on how big a pivot the Fed undergoes, it will inform market views on Fed policy and determine whether this year's broad-based USD rally still has legs.

Figure 7: US Dollar Index vs Commodity index

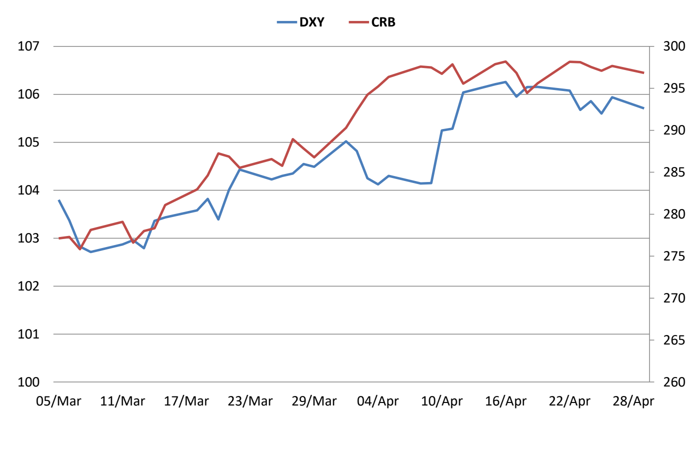
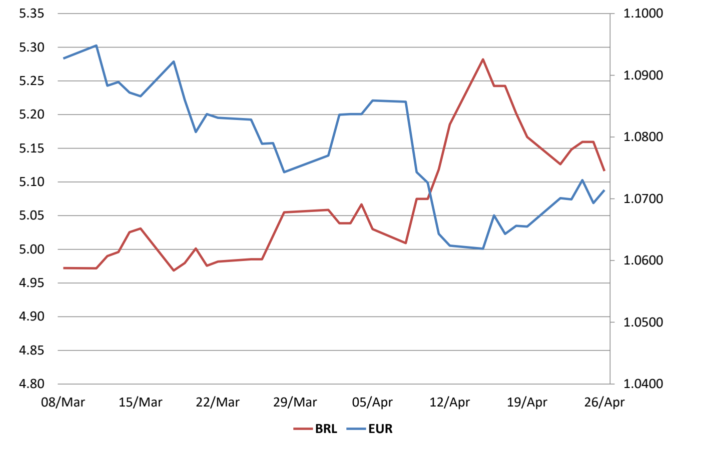


Figure 8: BRL and EUR both weaken vs USD



Source: Reuters, ED&F Man Commodity Research

The strong dollar has had a surprisingly limited negative impact on commodity markets, which have been rebounding in April thanks to a resurgence in speculative buyers returning to invest in commodity futures. Despite the typical inverse relationship between dollar and commodities, crude oil, gold, softs and metals have all witnessed a strong performance this past month. This was partly because of the stickier than expected inflation, but also on growing geopolitical risks. The tensions in the Middle East threatened to escalate into Iran last month, pushing Brent to $90/bbl. Coming on top of the ongoing war in Ukraine, this led to a flight to safety; demand by investors, alongside greater central bank buying, has seen gold reach record highs of nearly $2500/oz. In the softs space, Cocoa and Robusta coffee

also broke new records on tight fundamentals, while demand for transition metals tied up to the ESG space, has seen the likes of aluminium and copper also rally.

Conversely, the dollar has had a negative impact on Emerging market currencies, which have suffered against the dollar. The Brazilian real weakened sharply to 5.30, having languished at 4.80-4.90 for much of this year so far. While it has since recovered a little, our expectations of a strong dollar does not bode well for the BRL medium term. A later-than-currently-expected FOMC easing, along with a challenging Brazilian fiscal situation add depreciation risks in 2024. A lacklustre economic performance out of China, a key trading partner for Brazil, is also a potential headwind.

Prices Tab

New York #11					**London #5**				
(cents/lb)	24-Apr	28-Mar	% change		*($/tonne)*	24-Apr	28-Mar	% change	
May (24)	20.00	22.52	-11.2%	↓	Aug (23)	576.6	630.9	-8.6%	↓
Jul (24)	19.77	22.15	-10.7%	↓	Oct (23)	555.9	615.6	-9.7%	↓
New York #16					**White Premium**				
(cents/lb)	24-Apr	28-Mar	% change		*($/tonne)*	24-Apr	28-Mar	% change	
Jul (24)	38.50	40.05	-3.9%	↓	Aug/Jul	140.7	142.6	-1.3%	↓
Sep (24)	38.49	39.76	-3.2%	↓	Oct/Oct	123.4	129.5	-4.7%	↓
Macro					**Currencies**				
Indicators	24-Apr	28-Mar	% change		*Against US$*	24-Apr	28-Mar	% change	
CRB	297.1	290.3	2.3%	↑	Euro (EU) *	1.070	1.079	-0.8%	↓
Gold	2,316	2,232	3.7%	↑	Pound (GB) *	1.246	1.262	-1.3%	↓
Brent Oil	88.02	87.48	1%	↑	Real (Brazil)	5.146	5.013	-2.6%	↓
Baltic Dry	1,774	1,821	-3%	↓	Rupee (India)	83.32	83.35	0.0%	↑
Handysize	751	772	-3%	↓	Rouble (Russia)	92.30	92.32	0.0%	↑
					(* rate is US dollars per FX)				