Research

Monthly Sugar Note

28 June 2024

Markets

As we get to the middle of the year, some aspects of the sugar market are getting clearer, while the macro-outlook is becoming murkier. Money markets are still undecided on their view on US rates, with many now believing the Fed will not lower rates until the end of the year. Latest US and EU economic data is coming in line with market expectations, but global geopolitical uncertainty is worsening. Ongoing wars in the Middle East and Ukraine, political shifts to the right in EU, trade rifts with China, and upcoming elections are causing uncertainty. But commodity prices have taken this in their stride in June so far, easing down following the broad-based rally in May. The dollar remains strong, while the Brazilian currency weakened more than expected, reaching a low of 5.5 against the USD on concerns over the Lula administration's handling of the fiscal budget.

In the case of sugar, the Brazilian crop is proving to be the opposite of the past season, when forecasted numbers were getting higher as the crop progressed. The current crop started with lower agricultural yields expectations due to the dry weather observed since December 2023. Despite cane area having expanded significantly, the C/S Brazilian cane number was projected in the range of 600-620mmt, about 40mmt below the previous crop.

Figure 1: C/S – Sugar mix and ATR (23/24 vs. 24/25)

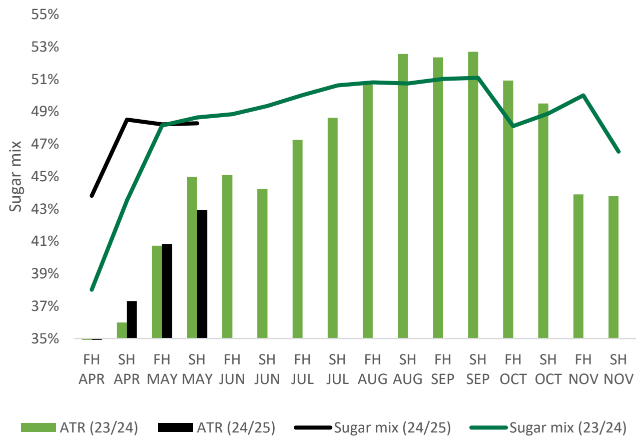
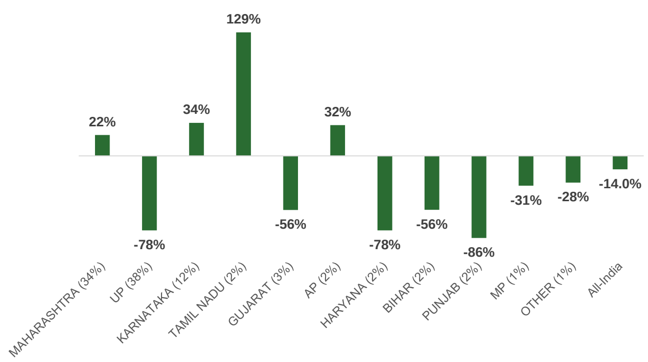


Figure 2: Monsoon 2024 vs. LTA (01/06 – 26/06)



Source: UNICA and ED&F Man Commodity Research

But UNICA's May results revealed lower than expected values for cane quality and the sugar mix. According to UNICA, a third of the C/S Brazilian mills had made investments in crystallization capacity but the high volume of left-over cane and the recent dryness is impacting the ATR numbers, which are 2kg behind the past crop, at 122kg/ton as of end-May. As such, the sugar mix is not evolving as expected, staying at 47.9%, only one percentage point above the past crop. Still, the dryness has been good for the harvest pace. Up to end-May, 140mmt of cane were crushed, about 14mmt ahead of the past crop. All in all, sugar output in the season so far is close to 7.9mmt, 12% higher YoY.

With a quarter of Brazil's harvest done, the lower-than-expected levels of cane quality and sugar mix mean that the initially projected figures will be hard to achieve by the end of the year. To get ATR values over 140.5kg/ton, we will require high cane quality for the next crop results, which is unlikely to happen even with the dry weather. Equally, a sugar mix above 51% may be impossible to reach. As a result, C/S sugar production may end up being closer to 41mmt, 1.5mmt below the past crop.

Agricultural yields are still high, at above 80ton/ha, similar to the past season. Despite the dryness, this was expected as the cane being harvested now developed well during 2023. The uncertainty for producers is how low the volume of the cane to be harvested in the second half of the year could fall. That's the period where we'll see the impact of the dryness observed in the past months. For now, we are still comfortable with a cane volume close to 600mmt, but do not discount the possibility of volumes falling below this.

Elsewhere, we are seeing a weak start to the monsoon in India. Rainfall has been lower than usual in the north but above average in the south. As the southern states like Maharashtra are more dependent on rains than the northern states, which have good irrigation, we don't see the current monsoon as a concern for the next India crop for now. The same cannot be said for Thailand though, which is seeing dry conditions so far in June.

Meanwhile, in Australia, the Australian Sugar Milling Council, indicated that as of June 6th, cane crush reached 187kt, 63% below the same time of the past year. The delay is attributable to Wilmar employees, representing almost 50% of the country's sugar production, being on strike. An agreement has been reached in the past days to get them back to work. However, the delays mean more cane being harvested at the end of the year, which may result in lower sucrose.

As a result of the above events, sugar prices continue to be trapped in the 18-19c/lb range. However, unlike in the past month, the Brazilian figures are starting to give support to the back end of the forward contracts, bringing some bullish sentiment to the sugar market. The same cannot be said for whites though. With the good prospects for the European beet crop, large availability of Ukrainian sugar in the World Market and high stocks at the MENA refineries, the White Premium may struggle.

Fundamentals

- **Brazil C/S:** The dry weather of C/S Brazil and the significant volume of bis cane that was harvested in May resulted in lower-than-expected yields in the current crop. The dryness has been positive for the harvest operations, with 140mmt of cane crushed until the end of May, 11.2% higher y/y. Nevertheless, the lack of water will result in lower yields during the Second Half of the year, indicating that the tail of the crop will be small. At the same time, the dryness combined with a significant volume of left-over cane from the previous crop is resulting in low ATR values and sugar mix. The former is close to 122.1kg/ton (vs. 124.5kg/ton in 23/24) while the latter is 47.9%, only 1 pp above the last crop. This is a small increase, considering a third of the C/S mills invested in crystallization capacity. As a quarter of the harvest is already done, cane quality will hardly surpass 140kg/ton while sugar mix should stay close to 51%. Assuming cane values close to 600mmt, sugar production may reach 41mmt. The weather has not only good for harvest operations, but also for performance at the ports, with bulk raw export close to 3mmt per month, record volumes for the period.

- **India:** During the first half of June, the rainfall distribution weighted by the cane areas of the main sugar-producing states, Maharashtra and Karnataka, received above-normal rains. The initial higher rainfall in FH of June over the main cane-producing regions will be helpful for crop growth. Considering the good rainfalls, we could see better agri yields, resulting in an upside of total crystal production which will likely be a healthy supply to balance both domestic needs and desirable ending stocks for Sep 2025. Hence, we could potentially add this upside in crystal production into ethanol diversion. Key will be the rainfall distribution in July, but so far there is positive sentiment for the 2025/26 crop planting as the rain forecast for the next weeks seems to be supportive. Currently, domestic sugar prices in central west India are around 35500 to 36000 INR/MT and around 38000 to 38500 INR/MT in North India. Domestic prices are slightly lower than last month because of the end of summer when the beverage industry typically buys more. Sugar bodies are asking for a hike in domestic sugar MSP prices to 42 INR/KG against the current MSP of 31 INR/KG. The proposal was submitted to the Central govt and focuses on addressing the rising fair and remunerative price (FRP) of sugarcane versus the increasing production cost of sugar to ensure the industry's viability.

- **US:** The June WASDE report decreased the 24/25 beet production by 45kt raw value (RV) to 8.2mmt given lower sugar from desugared molasses forecast by processers. At the same time, Mexican sugar imports were reduced by 28kt RV due to the lower production of low pol raws. On the other hand, over quota imports were increased by 43kt RV. All in all, the Stock to Use (STU) level stood above the target of 13.5%, at 13.65%. For the 24/25 crop, the USDA made a small adjustment to production which is now projected at 8.4mt RV, while consumption was unchanged at 11.3mt RV. The Mexican quota was unchanged as expected at 1.1mt RV. This quota will be corrected only in July when 50% of the projected volume will be guaranteed to the Mexican producers as per the Suspension Agreement rules. Note that the USDA is still considering a large volume of Over Quota Imports which are projected at 239kt RV. As such, the STU ended at 11.5%. Just one day after the WASDE release, the US Foreign Agricultural Service announced the establishment of refined sugar quota of the 24/25 crop at 232mt RV, as expected. Considering this quota, the estimated STU would be 13.5%.

- **Asia:** We are in the growth phase of Thai cane, but rainfall has been quite inconsistent - with dryness in April followed by some respite in May. And now June rains appear below expectations too. Given the hot weather, prospects for the cane crop also vary widely, between 85mmt to >100mmt. Indeed, there is still a lot of weather to come before the cane range can be further narrowed. Regardless, new crop Thais are pricing at around +130pts vs current premiums at >250pts. This at least partially reflects some optimism that the regional supply in 2025 will not be as tight as 2024, of which how much Brazilian sugar can continue to flow into the region is a big factor. The Australian crop harvest is underway with good rainfalls during the growth phase, but too much rainfall may result in a lower ATR which could tighten the overall market. Adding to this are the complications surrounding worker strikes in some mills. On the destination front, the domestic crops of several countries, like Indonesia and Japan, may not be doing so well and, together with tight stocks, could mean potentially more demand in 2025. Generally speaking, destinations are still buying hand-to-mouth, with political factors a major reason for not importing as much as their balance sheets would suggest they need.

- **Mexico:** According to the Mexican government, domestic sugar sales reached 265kt in May, almost 40% lower YoY. From Oct/23 to May/24, sugar sales totalled 2.3mmt, about 500kt behind last season. On the other hand, sugar imports were close to 560kt (vs. 41kt last crop). The crop is close to the end, with only 3 mills still crushing (up to June 15th), and production should end at 4.7mmt. The proportion of municipalities affected by drought has increased from 85.1% to 88.1% in the second half of May. This may result in another poor crop next season.

- **Centrals:** The tail of the Guatemala crop ended being better than expected. The 23/24 season ended at 2,538kt of sugar (excluding AMA's), 0.4% higher than the last crop. Bulk raw sugar output ended at 440kt, LQW at 1328kt and refined with 770kt. Nicaragua's crop ended at 735kt, almost 11% higher than the past crop. Raw sugar output stood close to 240kt while the balance was whites.

- **EU/UK:** It has been consistently wet in most western EU regions, including the United Kingdom. The heavy rains in Germany led to flooding and caused delays in planting. There is ongoing concern about the impact of the delayed planting on sugar production due to the high risk of aphids, rubbery beet disease, and beet weevil. In France, there has been a high incidence of aphid infestation, exceeding the threshold for spraying in many regions, prompting farmers to closely monitor their crops and spray as needed. Despite these challenges, the overall crop expectations remain high, with an estimated increase of about 1 mmt over the 23/24 crop year due to expanded acreage. Increased imports from Ukraine, along with an average crop and a slight decrease in consumption, have led to increased stocks in the EU, resulting in accelerated exports. Total exports for the 23/24 crop year until March 2024 are at 650kt. As exports rise and prices drop in the EU, a decrease in imports is anticipated for 23/24 followed by 24/25. Additionally, we note a significant increase in beet cultivation this year and subsequent higher sugar production, which may raise concerns about a potential reduction in beet cultivation in the following year due to a potential collapse in beet prices.

Focus – CIS

Figure 3: Russia sugar production and acreage

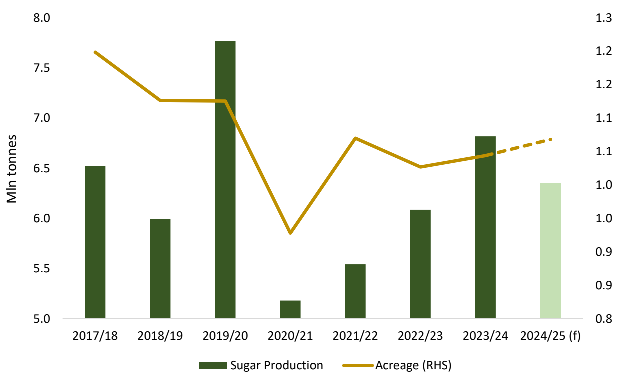
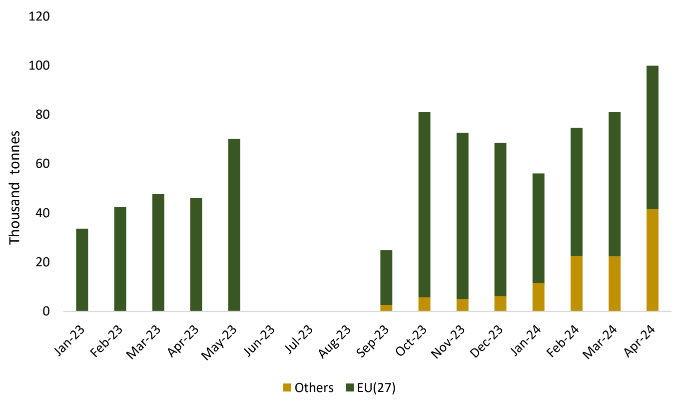


Figure 4: Ukraine exports per market



Source: ED&F Man Commodity Research

In June 2024, Ukraine ceased exporting sugar to the EU for the year. By the end of May, Ukraine had exported approximately 270 thousand metric tons (kmt) to the EU. A surge in exports before the restrictions led the Ukrainian government to impose a ban on sugar exports to the EU starting from June 5th. However, Ukraine has been attempting to increase its exports to other countries, having exported around 140 kmt to non-EU countries from January to May. They aim to export about 100 kmt from June to August 2024. For the 2024-2025 crop, Ukraine has planted slightly over 250 thousand hectares (kha), which is expected to result in a crop of between 1.8-1.9 million metric tons (mmt), leaving Ukraine with a significant surplus. This surplus will need to be exported to the world market until the EU Quota opens again in January 2025. The coming months will reveal how Ukraine manages its exports without the EU as a viable option, necessitating an assessment of logistics for increased exports to other countries.

On the other hand, Russia planted slightly over 1100 kha, 50 kha more than the last season. The planting season was affected by frosts and cold temperatures, resulting in farmers having to re-sow some of the crop. As a result, we may see a reduction in sugar production from Russia. This expected decrease is influenced by various factors, including the impact of weather on yields, seed quality, and the ongoing invasion. Despite export bans in place until August 2024, Russia continues to export sugar to neighbouring countries such as Kazakhstan, Belarus, and Kyrgyzstan through the quota it established for Eurasian Economic Union. Export values have significantly reduced due to the ban. Following Russia, many CIS regions have enforced export bans to safeguard domestic sugar stocks. The impact of the Russian sugar export ban and low sugar prices can be seen in the purchasing patterns of Uzbekistan and Azerbaijan, who have resumed purchasing Brazilian raw sugars.

Macro

As we reach the half-way point of 2024, it is pleasing to see that a major recession has been avoided for the most part. Despite much higher interest rates, and a stubborn inflation that caused economic hardship to many around the world, global growth has held at around the long-run average over the past year. The Eurozone came close to a recession at the end of last year, but in the end managed to eke out modest growth. The US economy continues to remain strong, while many emerging markets are coming out of the currency crisis that hampered them in the aftermath of the Ukraine war. With China also now showing modest signs of improvement, the global economic resilience is likely to continue into 2025. However, with inflation still sticky, and growth okay, modest monetary may be slower than expected will this year. Although central banks in Europe have begun to cut interest rates, with the Swiss bank cutting for a second time this past week, we think the US Federal Reserve and Bank of England may, at best, only have one cut during the remaining year, while the European Central Bank may be unable to cut further.

The US dollar has remained strong over the past month, benefitting from both interest rate differentials in the US over that of other major economies, as well as geopolitical uncertainty stemming from upcoming French elections and the swing to the European far right, as well as a potential escalation of the war in Gaza to Lebanon. The latter has also benefited crude oil prices, which have recovered sharply from the lows of May. The summer driving season in the US has begun, and with OPEC+ suggesting they will restart production only if the market warrants it, sentiment towards the crude oil market has improved.

The same cannot be said for the Brazilian currency, which plunged to 5.5 this month amidst growing concerns over the growing fiscal deficit. The Brazilian central bank decided to keep the Selic rate unchanged at the last COPOM meeting, the first time since it started the easing cycle. Inflationary concerns led to the more dovish stance, which was unanimous despite Lula pushing for rate cuts. The BRL is likely to remain under pressure until the market gains more confidence in the government’s ability to handle the fiscal problem.

Overall, the second half of the year is set to be dominated by political uncertainty, with major economies going to elections. With the UK likely to shift back to the left, but USA and Europe shifting potentially to the right, concerns over fiscal responsibility will grow. The dollar should benefit from the uncertainty, and risk aversion may temper the rally in stocks. A weaker EUR and JPY (the former is being hit by concerns over France’s shift to the populist right, while the latter is still suffering from historically low interest rates) will support the dollar too. But a Republican win over the Democrats in the USA could open up greater risks, which could create havoc to the world as we know it.

Figure 5: Commodities weaker as dollar rises

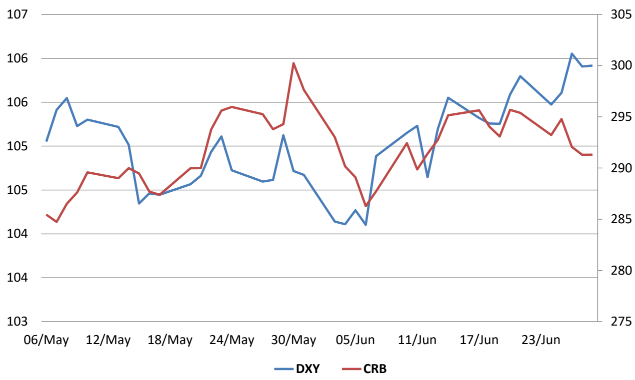
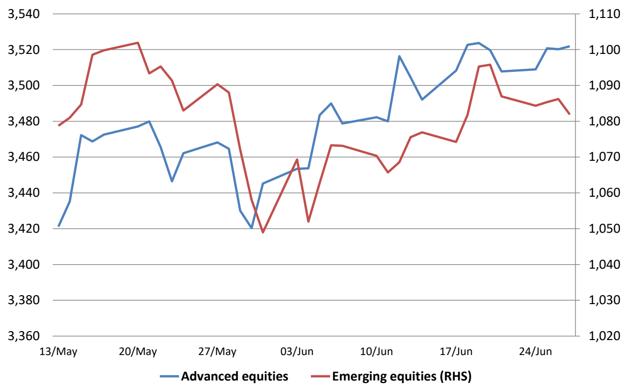


Figure 6: Equities have stayed resilient



Source: Reuters, ED&F Man Commodity Research

Prices Tab

New York #11					**London #5**				
(cents/lb)	26-Jun	31-May	% change		*($/tonne)*	26-Jun	31-May	% change	
Jul (24)	19.24	18.30	5.1%	↑	Aug (23)	569.2	541.7	5.1%	↑
Oct (24)	19.51	18.29	6.7%	↑	Oct (23)	549.7	518.7	6.0%	↑
New York #16					**White Premium**				
(cents/lb)	26-Jun	31-May	% change		*($/tonne)*	26-Jun	31-May	% change	
Sep (24)	37.46	36.80	1.8%	↑	Aug/Jul	145.0	138.3	4.9%	↑
Nov (24)	37.86	37.05	2.2%	↑	Oct/Oct	119.6	115.5	3.6%	↑
Macro					**Currencies**				
Indicators	26-Jun	31-May	% change		*Against US$*	26-Jun	31-May	% change	
CRB	291.3	290.2	0.4%	↑	Euro (EU) *	1.068	1.084	-1.5%	↓
Gold	2,298	2,327	-1.2%	↓	Pound (GB) *	1.262	1.274	-0.9%	↓
Brent Oil	85.25	81.62	4%	↑	Real (Brazil)	5.519	5.244	-5.2%	↓
Baltic Dry	1,964	1,815	8%	↑	Rupee (India)	83.56	83.42	-0.2%	↓
Handysize	763	720	6%	↑	Rouble (Russia)	88.25	90.38	2.4%	↑
					(* rate is US dollars per FX)				