Research

Monthly Sugar Note

28 May 2024

Markets

The dry weather observed in Brazil has been very bearish for the market in the past month. At the same time, weather forecasts for Asian producers point to good prospects for monsoon development, which should promote good yields for the next Indian and Thai crops. We are also seeing improved crop prospects in Europe, despite some wet weather which delayed planting. As such, it has been hard to find much bullish sentiment in the past month, and NY11 fell almost 6% since the end of last month, reaching a low of 18 c/lb, the lowest since Oct/2022.

Up to end April, C/S Brazil crushed 50mmt of cane, 43% higher than the same time of the past season. Cane quality has also been high thanks to dry weather in the C/S cane belt. According to UNICA, ATR was close to 113kg/ton in the first month of the season (April), 2% higher than the previous crop. Higher cane quality and the investments made in crystallization took the sugar mix to 47% during the period, about 6 percentage points higher than the previous crop. As a result, sugar output reached 2.6mmt, 1mmt ahead of the 23/24 crop. Large figures can also be expected for First Half of May as weather has been favourable for harvest. Low rainfall at the ports has allowed for a good exports pace in the past weeks.

Figure 1: NY11 vs. Net specs

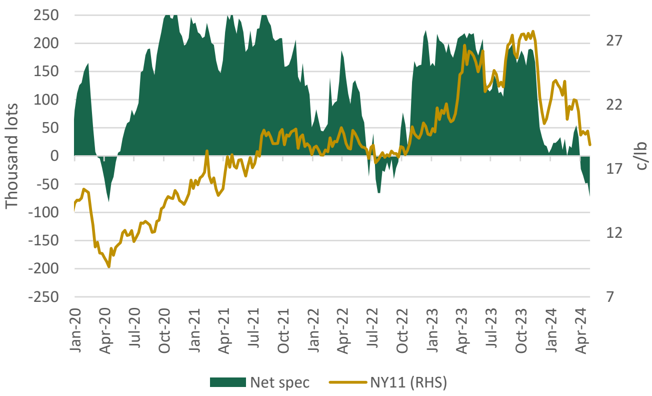
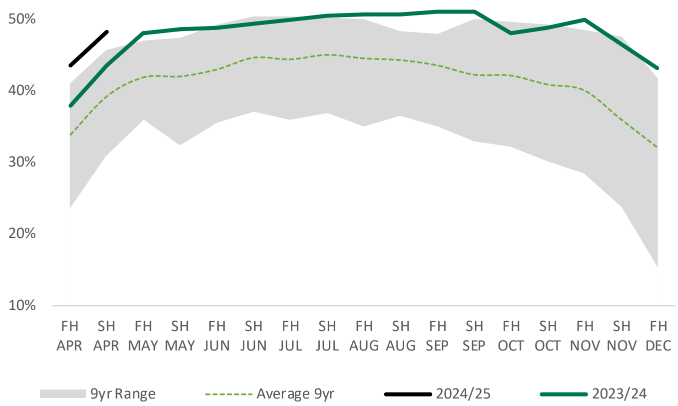


Figure 2: Brazil C/S sugar mix evolution



Source: ED&F Man Commodity Research

Both India and Thailand suffered a severe heat wave in the first quarter of the year, but are now enjoying high volumes of rains, providing good prospects for the next crop. For the time being, the market is anticipating Thai production figures for the 24/25 crop of between 10-11mmt; even the lower end of the range is still about 1.5mmt higher than the previous crop (8.2mmt).

Similar to the last season, EU/UK experienced wet weather during the beet plantings period, but producers think the delay should not be a problem for the next crop. There is still some concern regarding aphids though, which for now we are not considering in the next crop's figures. Preliminary area estimates from producers and local authorities are pointing to a decent area increase, which stems from the high beet price of the past years. Using historical average yields, we assume a crop production 1mmt higher than the past season. In the meantime, spot prices are falling, due to the growing presence of Ukrainian sugar. In turn, this is pushing EU sugar to the World Market and adding pressure to the White Premium.

The lower price environment is resulting in higher Chinese demand, which should start to show up in big Brazilian line up numbers over the next couple of months. The higher short-term demand is the main buffer for the price fall. However, the overall raws imports from China is likely to stay at low levels - under 4mmt in 2024 - as the country is replacing raw imports with whites sugar. We also see higher cane acreage in China, with 24/25 crop figures projected close to 11mmt, the highest crop since the crop 18/19.

The bearish tone gained strength with the net spec short position surpassing the 70kt lots level (as of May 14th), the lowest since April 2020. Meanwhile, the commercial short position is at 466kt lots, almost 40% below the past year level, which suggests Brazilian producers are under-hedged (although some in the market disagree).

Fundamentals

- **India:** Sugar production up to 15th May reached 31.8mmt, 1.5% down from last year. On a cumulative basis, sugar production is down by only 482kt compared to the same time last year. Indeed, Maharashtra's final sugar production reached 11mmt, Karnataka 5.2mmt and Uttar Pradesh 10.4mmt. All in all, final sugar production for the 23/24 season should stay just above 32mmt. Due to below-normal rains in 2023 and low reservoir levels, cane area will decrease more than 10% in the next crop. The market works with a production range between 28-30mmt. The area reduction in central west India is the key reason for the drop, but it will be key to see the June/July rainfall distribution. Currently, domestic sugar prices in central west India are around 36500-37000 INR/MT. They are slightly higher than last month due to higher summer demand. The IMD (Indian Meteorological Department) forecasted South West Monsoon over India to be 106% of the LPA (Long Period Average) in 2024. Also, IMD released their forecast of the Onset Date of Southwest Monsoon 2023 over Kerala for 31st May with a model error of ± 4 days.

- **Asia:** The Thai crop is looking to enter its rainy season after one of the hottest periods in history for Q1. Rainfall forecasts that seem healthy will be a welcome respite to the crop, although the realized amount so far in May has been below average, especially in the key Northeastern region. For this reason, we have not been too eager to change our crop estimates until evidence suggests either way. Market consensus for the crop now is still big, at around 85mmt-105mmt cane - but we would be biased towards the lower end for now. Regional crops in Vietnam and Philippines are also entering the key intercrop period where rainfall and temperatures can have a big impact on next crop's production. With high temperatures and low rainfall, their situation is similar to that of Thailand and will be key in determining their demand prospects in Q3'24 onwards. On

demand, China EPZ flows remain strong with YTD shipments coming in slightly above our expectations. That being said, the lower flat price is triggering raws imports which should have an effect of slowing down EPZ demand later in the year. Other regions like the Philippines remain highly political with the authorities having a difficult task of pleasing the farmers who want higher prices vs industrial and local availability of sugar. How much they import will demand on politics as much as the weather. On raws, with Thai supply effectively sold out, logistics and loading from Brazil has become more critical in the execution and fulfillment of demand in 2024 . Overall, domestic stocks in key importers like Indonesia remain tight with domestic prices trending up.

- **US:** The May WASDE report brought a small increase in 23/24 US ending stocks on a combination of lower production, but also lower domestic demand and a small increase in TRQ imports. These changes have increased STU levels to 13.9%, which is considered a balanced level. Despite that, exports were unchanged which seems odd, as more than 90% of the volume projected for the season were already exported until March, with almost all of it to Mexico. Also, USDA released its first look at the 24/25 SnD, projecting a 92k MTRV increase in sugar production YoY and an 89k MTRV drop in exports. Assuming USDA's high duty imports estimate of 196k MTRV and adding the Specialty Quota volume, which should be released in a few weeks, US ending stocks is looking balanced for 24/25 (assuming 1086k MTRV of Mexican quota imports). At this point, it seems that this amount of Mexican sugar is quite optimistic, which could lead to more high duty imports.

- **Mexico:** Up to May 11th, about 90% of crop has already been processed. Results so far continue to present better agricultural yields YoY but still behind last season. Cumulative figures show sucrose at -7.1% YoY (vs -7.6% a month ago) and agricultural yields up 5.6% (vs 4.2% a month ago), resulting in sugar production per hectare ratio 1.9% lower YoY (vs -3.7% a month ago). All in all, sugar production reached of 4447kt, down 11% YoY. About 30% of Mexican industry has already finished their crop with a 16% reduction in sugar production. Ending stocks point to above balanced levels, while imports should be above 700kt. Given weak domestic sugar sales (but high HFCS), stocks should reach 3.5 months of consumption, instead of the target of 2.5 months. This could slow down imports for the next season, especially if production comes in closer to 5.0mmt.

- **Centrals:** Guatemala was the main highlight as sugar production up to May 12th reached 2595kt, only 0.5% behind last year with 4.3% lower sucrose, but a 4.0% increase in agricultural yields. As some mills are still running, final production should actually finish above last year. El Salvador's crop has finished, and sugar production reached 754kt, 4.3% lower YoY, due to sucrose levels 1.3% lower combined with agricultural yields 1.8% lower YoY. The pace of exports continues to be quite slow and although new nominations have improved, it is still quite delayed compared to the previous crops for both bulk raws and bagged sugar.

- **EU/UK:** Weather gave way in April and May for planting to be completed in most regions of the EU. Southern Netherlands has been battling rains which caused some delays in planting, but they are on track to finish beet plantings this month. Countries in the EU have increased their plantings sharply YoY given the profitability of the beet crop prices for farmers. Germany's agricultural ministry released an acreage number of 422 kha which suggests a large increase in area. Similarly, the French ministry estimates acreage to be at 402 kha. France and UK have already started monitoring aphids. Spraying has already been suggested for most farmers in France. The impact of aphids may be higher this year, as planting have been delayed and beet plants are still young - meaning they are more susceptible to the yellow disease. However, we remain optimistic regarding this year's crop and we estimate EU+UK production will be about 1.0 mmt higher than the 23/24 crop. Given a higher crop, imports will be lower than the previous years. Conversely, exports will be higher than last year.

- **CIS:** We have reached the tail end of the Ukrainian planting season, with 250 kha planted as of 17th May. Production is likely to be high as the past crop, which gives Ukraine a sizeable surplus to export. However, with EU restrictions coming into place, Ukraine will need to export a good amount of this surplus to the World market. They have already exported as much sugar as they can to the EU and thus there have been talks to ban sugar exports to the EU after the restrictions come into place in June. On the other hand, Russia has finished its sowing season, with 1067.2 kha, about 70 kha more than last year. The Russian government imposed a temporary ban on sugar exports from May to August 2024, to maintain domestic stability. However, they allocated a quota of 181.5 kmt of sugar to be exported to the countries of the Eurasian Economic Union. Kazakhstan and Kyrgyzstan have followed suit and banned the exports of sugar to maintain the domestic markets.

Focus – C/S Brazil

The 24/25 crop has started at a very strong pace, with April crush at 51mmt, vs 35mmt back in April 2023. The sugar mix was at an impressive 47.0% vs the 41.4% registered last year, resulting in sugar production of 2.56mmt, 1.0mmt more than April 2023. A combination of the mills starting at or even slightly earlier than their normal timeframe due to good prices, along with high performance at the fields and industry due to dry weather in April, have helped the strong results. This pattern should persist during May, which has registered a completely dry first half with forecasts for a below average second half. Although this is very positive in terms of the crushing pace, it adds to weather concerns in terms of cane development. If the good rains from March brought a feeling of relief over the cane fields, that was temporary, and the dry weather since mid-April is already putting pressure on soil moisture levels, even before the official dry period starts.

Figure 3: C/S rainfall (forecast up to Jun 24th)

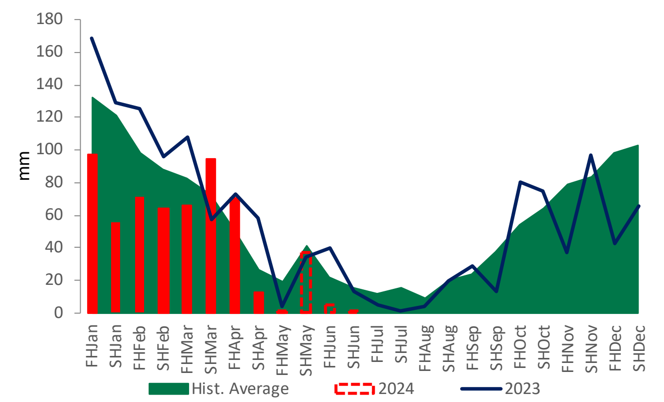
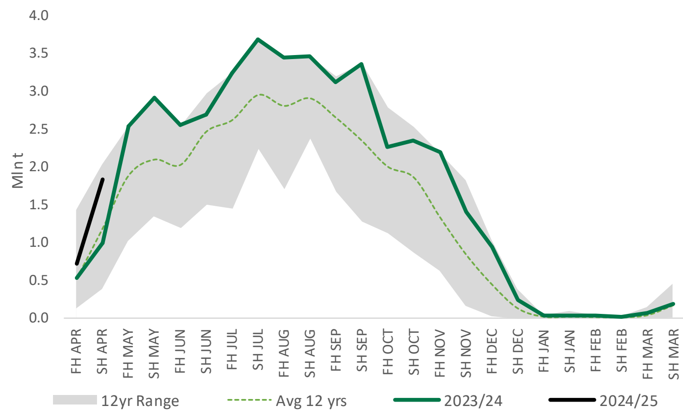


Figure 4: Sugar production evolution



Source: UNICA and ED&F Man Commodity Research

Based on the recent weather profile, projections for Centre South Brazil agricultural yields will probably show more signs of stress during the second half of the season. Still, the combination of acreage expansion and lower renovation rates should result in an increase in harvested acreage, offsetting part of the losses in agricultural yields side. With that, cane crush should finish above the 600mmt level, about 7% lower YoY. Despite the recent narrowing of the sugar advantage over ethanol, this season should still be very sugar-oriented with new records expected for the production mix close to 52%, (vs. 48.9% for 23/24season), resulting in sugar production just over 42mmt, only +0.1% YoY.

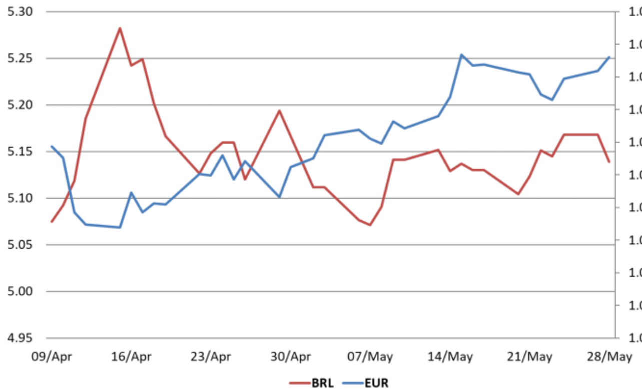
Total sugar exports at the 23/24 season finished at 33.4mmt, 3.3mmt more than the previous record and for 24/25 it should increase to 33.7mmt, with operations from many traditional and non-traditional sugar terminals. With maintenances and wet days at the ports, April and May bulk raws exports had some delays and slowdowns, but this pace should soon increase, and volumes should pick up to close to 3.0mmt at the peak of the crop.

Macro

The month of May might have been weak for soft commodities - with sugar, coffee and cocoa all falling amidst speculative selling pressure - but the broader macro environment wasn't too unfriendly overall. If anything, macro was positive, with many speculators shifting out of Softs and switching into oil, gold and copper. These are commodities that are benefiting from the growing scenario of a sticky-inflation, but soft-landing global macro environment. Indeed, evidence that the EU and China are witnessing nascent economic recoveries, while the US economy maintains its strength, is re-fuelling renewed interest in commodities. The idea that interest rates will start to ease soon is prompting huge risk appetite across financial markets. The stock market has been particularly buoyant, with AI-led stocks driving a frenzy of buying, causing most equity indexes to reach new highs.

Figure 5: US treasury yields support the dollar

Figure 6: BRL and EUR vs USD



Source: Reuters, ED&F Man Commodity Research

Yet all of this market rally has taken place amidst a strong dollar environment. While the USD is not as strong as it was in April, it is still firm, propped up by rising treasury yields in the USA. Indeed, minutes of the May FOMC meeting mentioned that some members would be willing to tighten monetary policy further if inflation risks materialized. The fact that we have seen a surge in commodities despite a strong dollar suggests that the inverse relationship between USD and commodities has broken. Time will tell how long it can last. Meanwhile, the BRL appreciated modestly against the US currency during May. The BRL is still subject to volatility due to local fiscal uncertainty in a context where the Fed is not close to cutting interest rates. Brazil's finance minister made dovish comments about domestic inflation, whereas the Brazilian central bank hawkishly reinforced commitment to the Brazilian inflation target.

The eurozone economy is emerging out of recession, with Germany eking out modest gains in GDP growth last quarter. With inflation in the region also easing as the base effects of the previous year's energy supply shock now fading, the EUR has managed to recover against the dollar. Eurozone aggregate CPI inflation in April registered in line with expectations, putting the market well-positioned for a June cut. Chinese industrial production also rose in April, further confirmation that the government's attempts at stimulating the economy and halting losses in its real estate sector are bearing fruit. In response, Chinese import demand for copper and oil prices has been very strong. That being said, crude oil prices remain rangebound at $78-85/bbl, with geopolitical risks and stronger economic growth offering support, but ample OPEC spare capacity and lingering concerns of a higher for longer rates outlook weighing on sentiment.

Prices Tab

New York #11				
(cents/lb)	23-May	30-Apr	% change	
Jul (24)	18.26	19.41	-5.9%	↓
Oct (24)	18.27	19.46	-6.1%	↓

London #5				
($/tonne)	23-May	30-Apr	% change	
Aug (23)	539.7	569.3	-5.2%	↓
Oct (23)	518.4	546.5	-5.1%	↓

New York #16				
(cents/lb)	23-May	30-Apr	% change	
Jul (24)	37.10	38.10	-2.6%	↓
Sep (24)	37.44	38.00	-1.5%	↓

White Premium				
($/tonne)	23-May	30-Apr	% change	
Aug/Jul	137.1	141.4	-3.0%	↓
Oct/Oct	115.6	117.5	-1.6%	↓

Macro				
Indicators	23-May	30-Apr	% change	
CRB	293.8	291.5	0.8%	↑
Gold	2,328	2,286	1.9%	↑
Brent Oil	81.36	87.86	-7%	↓
Baltic Dry	1,796	1,685	7%	↑
Handysize	686	746	-8%	↓

Currencies				
Against US$	23-May	30-Apr	% change	
Euro (EU) *	1.081	1.067	1.4%	↑
Pound (GB) *	1.270	1.249	1.7%	↑
Real (Brazil)	5.144	5.193	0.9%	↑
Rupee (India)	83.24	83.45	0.3%	↑
Rouble (Russia)	91.62	93.45	2.0%	↑

(* rate is US dollars per FX)