ED&F MAN Research

Monthly Sugar Note

28 February 2025

Markets

Over the past two months, NY11 prices have formed a perfect V shape. They dropped sharply in late January when the March contract hit 17.79c/lb and then rose above 20c/lb by mid-February. This trend reflects the immense recent market volatility, with both positive and negative fundamentals driving it. The initial drop followed rumours of an Indian export quota, which was confirmed on January 20 with a 1mmt quota. By then, the market had already adjusted for the additional supply.

This was a classic “sell the rumour, buy the news” scenario, leading to an upward movement in sugar prices. The rally was further aided by growing evidence of the poor Indian crop. Analysts at the Dubai conference predicted a crop of 27mmt (down from 32.2mmt in 2023/24), which created a domestic deficit of nearly 2mmt, driving Indian prices higher. The Indian government’s export quota announcement effectively addressed producers' demands for a higher minimum selling price. But the Indian sugar exports came at a cost, as higher world prices were needed to facilitate these exports.

Figure 1: Daily front month sugar prices NY11

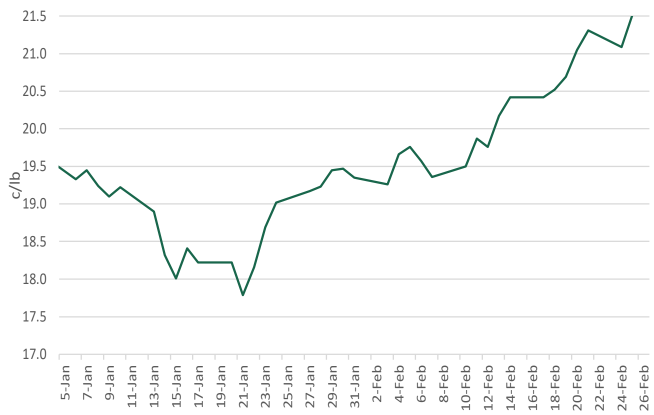
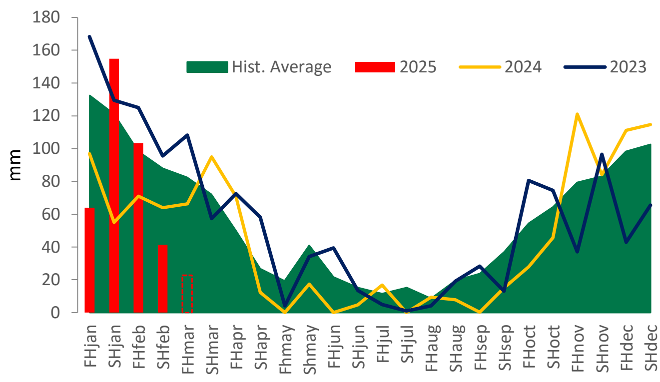


Figure 2: Centre South rainfall - Fortnightly



Source: Reuters and ED&F Man Commodity Research

In Brazil, weather concerns have intensified in recent months, adding momentum to the price rally. While rainfall in November and December was favourable for crop development, January precipitation fell 20% below the historical average. February has been even worse, with low rainfall and high temperatures resembling the conditions of early 2024, which led to poor cane quality last season. If the forecasted dry weather persists, production could drop below 600 MMT in the coming weeks, further fuelling market bullishness.

Additionally, the recent increase in gasoline prices—driven by the reinstatement of state taxes—has made ethanol more competitive. The Brazilian real (BRL) has also shown notable strength, appreciating 8% year-to-date, despite global macroeconomic volatility. So far, Trump's proposed tariffs appear to be more of a threat than an immediate action, reducing their impact on the currency. Lastly, the significant net short position held by funds continues to support the market, with the potential for a short-covering rally becoming increasingly likely.

Fundamentals

- **Brazil C/S**: The 24/25 crop is currently in its intercrop months, with mills expected to start crushing from mid-March. Cumulative figures up to the end of January indicate a crop of 614mmt compared to 646mmt last year, and 39.8mmt of sugar versus 42.1mmt during the same period last year. Market estimates for the 24/25 crop remains at 621mmt, with a 48% sugar mix, resulting in about 40mmt of sugar and almost 35mln cbm of ethanol, including 8.2mln cbm of corn ethanol. The weather had started very favourably for the 25/26 cane development. However, after slightly below-average rainfall in January, the dry forecast for the second half of February and March raises concerns about cane availability. Market estimate remains close to 600mmt of cane and 41mmt of sugar, but any upside potential is now gone.

- **India:** As of February 15, India's sugar production for 24/25 stands at 19.07mmt, a 12.01% decline from the same period last year. Maharashtra has seen a 14% drop in production due to a cane shortage, leading to the closure of 53 mills. Karnataka saw a 17% decrease in production, with 46 mills closing. An additional 80-90 mills in Maharashtra and Karnataka are expected to close in H2 of February, potentially leading to significant production cuts. Lower agricultural yields, reduced acreage, increased sucrose diversion for ethanol production, and higher seed cane requirements for 25/26 plantings are expected to result in a significant decline in India's net crystal output. As of February 16, Maharashtra has produced 6.8mmt of sugar (86% of the season completed), and Karnataka has produced 3.6mmt (92% of the season completed). In central west India, 121 sugar mills have closed due to a cane shortage. Additionally, many mills are expected to close by the end of the month. The Indian government allowed 1mmt of exports on January 20. If the current season's export quota connects to the world market, export campaigns for 25/26 may be delayed from Q4/25 to Q1/26. Domestic sugar prices currently range between INR 37,500-38,500/t in central west India and INR 40,000-41,000/t in north India. With the 1mmt export allowance and lower production, domestic prices have rallied by INR 2000-2500 compared to last month. Expected lower production figures in the upcoming 2-3 fortnights will further support the domestic market.

- **Asia:** Thailand's 24/25 cane crushing has reached 70.1mmt, marking a 5% increase comparing on an equivalent day-to-day basis from the previous season. This growth is primarily driven by a 15-16% rise in cane crushed in the Northern and Eastern regions, relative to the 23/24 season. Despite this overall improvement, the lack of rainfall during the summer and stringent government measures on controlling cane burning have resulted in a slight deceleration in crushing pace this month, compared to January. On the demand side, Indonesia has allocated 200kt of import permits to state-owned enterprises, rather than private companies, aiming to bolster the country's stock levels. Meanwhile, the EPZ situation between China and Thailand remains challenging, with no significant developments since the ban was imposed in December 2024.

- **US:** The February WASDE report included several updates: lower production and imports, as well as lower demand, resulting in minimal impact on ending stocks. There was a reduction of only 23kt Raw Value (RV), maintaining a 15.3% STU ratio, which represents a surplus of around 210kt RV. These components may still change in the coming months, but the report is significant ahead of the March update, which will adjust the SnD estimate, particularly the Mexican quota, to achieve a balanced 13.5% STU. With Mexico's minimum quota of 405kt RV, the US might still end up with a theoretical surplus after the March report. The postponement of the potential tariff on imports hasn't changed probable origins of sugar, but even with a 25% tariff on Mexican sugar, we expect the entire quota to flow into the US.

- **Mexico:** The delay in the Mexican harvest area persists but is reducing weekly. Agricultural and industrial yields remain strong, at +5% and +3% higher YoY, respectively. Cumulative cane crush up to February 15th reached 20.0mmt, compared to 21.5mmt last season, with sugar production at 1.9mmt versus 2.0mmt. Despite good overall yields YoY, the South region shows poor results, indicating the crop should be under 5mmt of sugar produced. The lower crop still hasn't impacted export availability due to a small volume of imports at the season's start and a 9.4% decrease in total domestic demand from October to January compared to last year. IMMEX is also down 51% YoY in the same period. Almost 250kt of exports to the World Market were already nominated, including US reexports, Morocco, Canada, and Venezuela. The recent threats of a 25% tariff on Mexican goods imported into the US have increased US quota nominations, though the tariff is postponed until early March and may be delayed further. Even with a potential tariff, exports to the US remain a good option for Mexican farmers.

- **Centrals:** Guatemala's crop started with a year-on-year delay, but sugar production has nearly reached last season's figures. As of February 16th, the cane crush reached 13.3mmt (-1% YoY), and sugar production was at 1340kt (same of the past season), nearly halfway through the crop. Agricultural yields match last year's, and sugar production per hectare is 0.8% higher, supporting good production ahead. El Salvador's production shows less promising results, with agricultural yields and sucrose 3.1% and 1.6% lower YoY, respectively, but still on track for a good overall crop. Central exports have picked up with several new nominations in recent weeks. However, logistical challenges lie ahead for Guatemala to export its heavy lineup of conventional bagged sugar, plus the massive delivery of refined sugar expected in the March London expiry.

- **EU/UK:** The EU's sugar beet harvest for the 24/25 season is nearing completion, with most producers finishing their processing. This season's harvest and processing have gone more smoothly compared to 23/24, largely unaffected by rain, frost, or cold weather. Import levels have remained low, while exports have continued at a pace of 150,000 tonnes until January. However, we may see a slight uptick in imports with the entry of Ukrainian sugar into the EU. Current stocks in the EU are high due to increased production and reduced consumption, creating pressure on producers to make decisions about acreage for the 25/26 season to restore stability to the market. There is a consensus that acreage will be reduced by at least 5% across the EU, but beets continue to provide better returns than many other crops. The key regions to watch will be France and Germany, where a number of large producers operate. The competition among these producers may lead to a smaller than expected reduction in acreage. In recent months, we've seen the closure of the Soc Ouvre factory in France and the merger of two producers in the country. Production levels for the 25/26 season will be crucial in determining future imports and exports, making it an important aspect to monitor closely.

- **CIS:** In the 24/25 season, 28 factories that are members of the National Association of Sugar Producers of Ukraine produced 1.72mmt of sugar. Additionally, one factory produced approximately 0.08mmt, bringing the total production to 1.8mmt. For the upcoming season, sugar planting is expected to be similar to last year's acreage estimates, beginning in late March to early April 2025. Ukraine continues to seek new markets outside of the EU for exporting sugar, having exported 365,000kmt to various global markets, including Turkey, Libya, Somalia, and Sri Lanka. If production reaches 1.7mmt for the 25/26 season, Ukraine should be well-positioned to export to the EU, provided EU prices do not decline significantly. Meanwhile, Russia has processed a substantial amount of beets. The acreage for the 25/26 crop is expected to remain stable. Russian exports have been robust, with around 85kt exported in January. It is important to note that while acreages in both countries are stable, actual production can fluctuate significantly due to weather conditions.

Focus – China

China's 2024/25 crushing season was expected to see a significant crop recovery, with market consensus predicting sugar production to return to nearly 11 MMT after falling below 10 MMT over the past three years. This recovery is primarily driven by increased cane acreage in Guangxi, spurred by government efforts to allocate more farmland to food crops, and a rebound in beet cultivation in northern China due to lower cash returns from competing crops such as corn and potatoes.

However, since November 2024, Guangxi has been experiencing severe drought. While cumulative output by the end of January 2025 was 1 MMT higher than the previous year, the original target of 6.8 MMT (compared to 6.2 MMT in the 2023/24 season) now seems increasingly unlikely. Market estimates for Guangxi's production have been revised downward to a range of 6.3–6.5 MMT. In contrast, beet collection in Inner Mongolia has exceeded expectations. As a result, the overall production estimate for the 2024/25 crop is now expected to reach approximately 10.7 MMT.

Figure 3: China Raws Import (shipment basis)

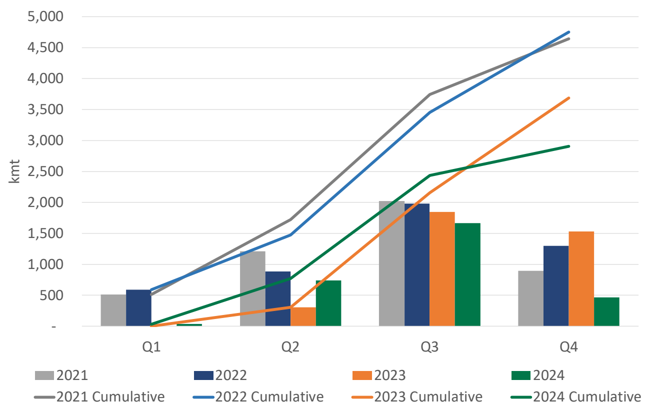
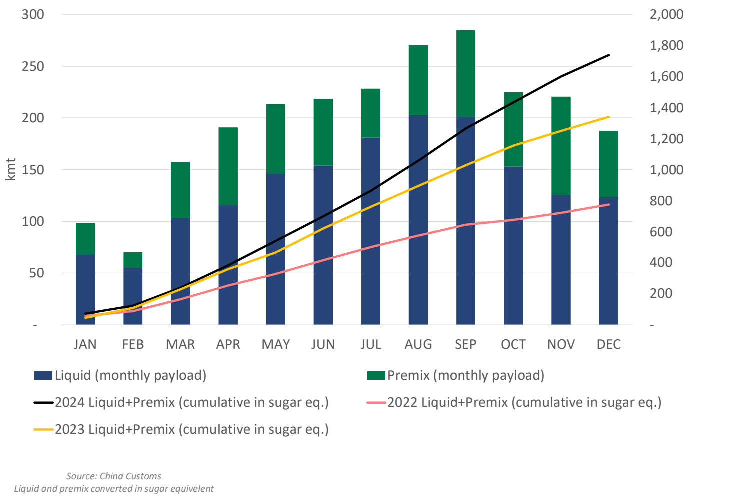


***Figure 4: China liquid sugar and premix import in 2024**



**(arrival basis)*
Source: China customs and ED&F Man Commodity Research

Domestic demand for white sugar has remained steady, supported by the food and beverage industry. Modest growth is expected, primarily driven by the food processing sector, though health trends and the increasing use of alternative sweeteners may continue to limit any significant rise in sugar consumption.

Looking back at 2024, China once again demonstrated strong performance in sugar imports to offset its domestic deficit, bringing in a total of 6.1 MMT (sugar equivalent) across various products, including liquid sugar and premixes. Without government intervention, refineries imported 3 MMT of raw sugar in 2024. While this volume is lower than the 4–5 MMT imported annually in previous years, it aligns well with market conditions, especially as import margins turned positive and remained sustainable for more than two months.

Demand for white sugar has been stable, but restrictions on bonded warehouse storage in China have encouraged duty-free imports of liquid sugar and premixes from ASEAN countries. A major development at the end of 2024 was the sudden suspension of liquid and premix imports into China due to concerns over substandard hygienic conditions in production. As of now, Thailand—which accounts for more than 95% of these imports—has yet to resume exports, as its factories are still conducting investigations and awaiting feedback from Chinese customs. This suspension has led to significant losses for factories in Thailand's Export Processing Zones (EPZ), not only due to idle capacity but also because of the logistical costs of transferring stock from Chinese ports after missing clearance deadlines.

Although stock levels remain healthy for now, as crushing operations are still ongoing, China will require imported raw sugar by May–June. If Thailand's EPZ operations do not resume by then, the need for imports will become urgent. At present, China's raw sugar imports are expected to reach at least 3.4 MMT in 2025. However, if EPZ operations face further delays or a complete ban, import parity for refineries may need to be adjusted to attract sufficient supply, pushing raw sugar demand beyond 4 MMT.

Macro

We are over one month into the new US presidency. Trump has wreaked havoc on the geopolitical status quo, and injected a healthy dose of volatility in financial markets. Following Trump's first 30 days' blitz of tariff threats and sweeping executive actions, investor sentiment has been growing steadily more bearish. Markets worry that tariffs may spark quicker inflation, keeping the Fed from cutting interest rates, whilst uncertainty will hinder investment. Business and consumer sentiment had soared back in November, following Trump's victory on hopes for a less-stringent regulatory environment, tax cuts and low inflation. But latest data show US consumer sentiment plummeting, while 12-month inflation expectations have reached 4.3%, the highest since Nov 2023. Over the next five years consumers see inflation running at 3.5%, the highest since 1995. US composite PMI index, which tracks the manufacturing and services sectors, fell to 50.4 this month, the lowest since September 2023.

Figure 5: Markets are getting gworried

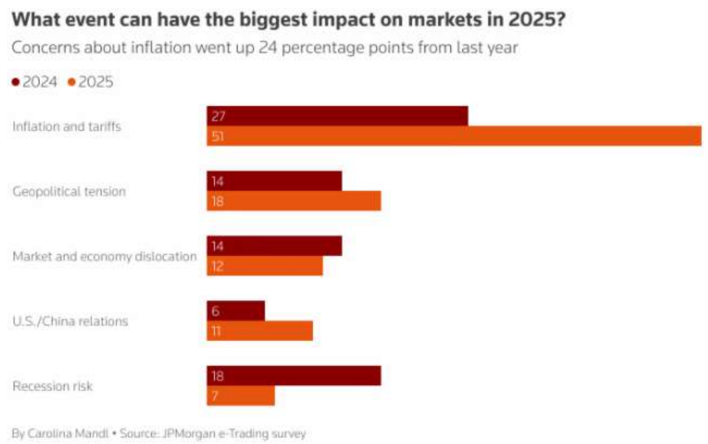
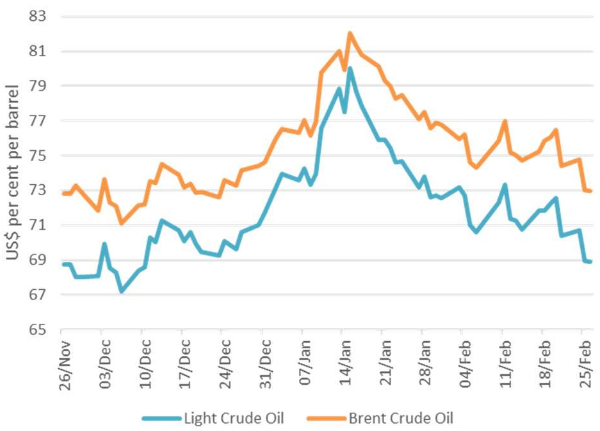


Figure 6: Crude oil prices falling



Source: Reuters, ED&F Man Commodity Research

Commodities started February strongly, amidst US dollar weakness, and trade war volatility. But a potential peace deal between Russia and Ukraine, and tariff-led uncertainty on global economic sentiment have weighed on energy and metal markets. Crude has fallen for six straight weeks, with WTI reaching the lowest price this year to below $70/bbl as Trump's tariff threats and other policies have dimmed the outlook for demand. Further, the possibility of increased flows from Russian, following a potential ceasefire, has offset potential supply constraints elsewhere. However, agri commodities fared better, with inclement weather in South America and Russia leading to a bout of short-covering by speculators, pushing prices higher.

February has seen the dollar fall to 11 week lows. Originally, being long the dollar (as tariffs reignite inflation and drive up US bond yields) was a favourite trade for the market, rising 4.5% from Election Day through mid-Jan. But it appears the market may have been overestimating the positive impact of tariffs for the USA.

Brazil has so far managed to avoid a trade war with the US (despite chatter on Brazilian ethanol export tariffs to US, which have sent US ethanol prices higher). This is because the trade balance between the two countries actually favours the US, which was the fourth-biggest source of Brazil's trade deficit in 2023 after Russia, Germany and France. The BRL (up 7% ytd) is expected to keep firming as traders return to towards higher-risk assets, where the high yield offered by the BRL is notable.

Prices Tab

New York #11				
(cents/lb)	25-Feb	31-Jan	% change	
Mar (25)	21.46	19.35	10.9%	↑
May (25)	19.97	17.88	11.7%	↑
New York #16				
(cents/lb)	25-Feb	31-Jan	% change	
May (25)	38.49	36.65	5.0%	↑
Jul (25)	38.00	36.01	5.5%	↑
Macro				
Indicators	25-Feb	31-Jan	% change	
CRB	306.5	305.0	0.5%	↑
Gold	2,915	2,801	4.1%	↑
Brent Oil	73.02	76.76	-5%	↓
Baltic Dry	1,039	735	41%	↑
Handysize	543	377	44%	↑

London #5				
($/tonne)	25-Feb	31-Jan	% change	
May (25)	563.8	502.1	12.3%	↑
Aug (25)	545.6	484.7	12.6%	↑
White Premium				
($/tonne)	25-Feb	31-Jan	% change	
May/Mar	90.7	75.5	20.1%	↑
May/May	123.5	107.9	14.5%	↑
Currencies				
Against US$	25-Feb	31-Jan	% change	
Euro (EU) *	1.051	1.036	1.5%	↑
Pound (GB) *	1.266	1.239	2.2%	↑
Real (Brazil)	5.740	5.841	1.7%	↑
Rupee (India)	87.13	86.54	-0.7%	↓
Rouble (Russia)	86.60	98.57	12.1%	↑
(* rate is US dollars per FX)				