Monthly Sugar Note

29 November 2023

Markets

Confirmation that US inflation continued to cool in October has given markets more confidence that the Fed is now definitely done with further rate hikes. US jobless claims also rose more than expected while October US retails sales fell slightly, causing many in the market to start pricing in outright Fed rate cuts in early 2024. The dovish views triggered a strong risk-on sentiment, with stock markets and EMs all rallying in the past month and currencies making sharp recoveries against the US dollar. Commodities were mixed however, with crude oil notably struggling, falling nearly 10% on the month following higher production from Non-OPEC countries and weak economic indicators from China.

Against this backdrop, the sugar market has remained trapped in a range of 26-28c/lb. Preventing prices breaching the 30c mark has been the strong crop in Brazil, while support has come from the general scarcity of Northern Hemisphere supplies before harvests commence. While the market may have priced the lower Indian and Thais crops, a growing factor that will drive markets going forward is the likely return of key Asian buyers back to the market in order to replenish their stocks following low import levels during 2023.

Figure 1: NY11 front month contract

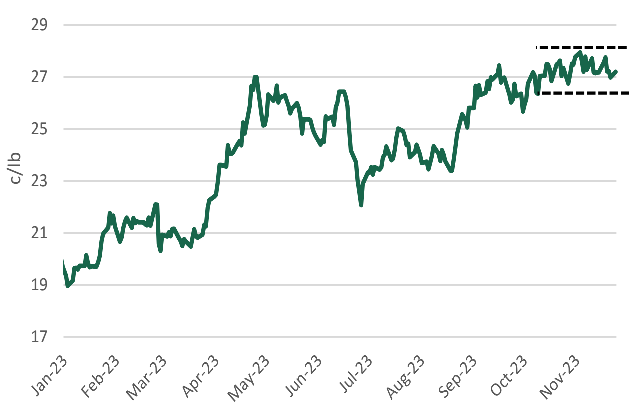
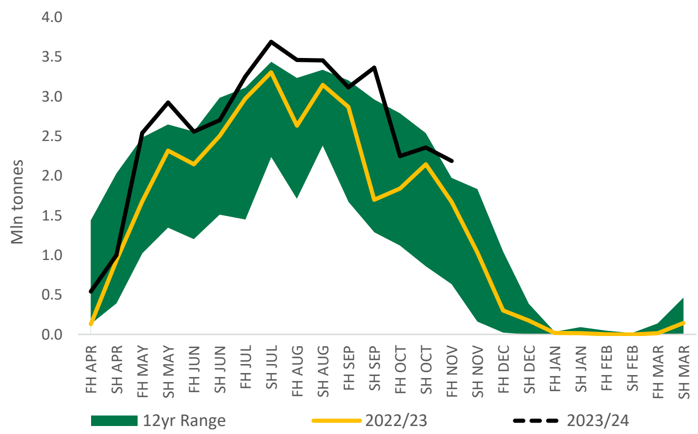


Figure 2: C/S sugar production evolution



Source: Reuters, UNICA and ED&F Man Commodity Research

C/S Brazil's harvest up to the mid of November produced nearly 39mmt of sugar, 7mmt ahead of the same time of the past season. Brazil exported about 1mmt less bulk raw sales than its potential capacity in October due to wet weather at the C/S ports – news that sent NY11 past the 28c/lb mark. November weather has been comparatively better than October for exports and the crushing. If this continues into December, it will add bearish pressure to prices, as the total 23/24 cane crush output could surpass

630mmt. However, any production gain will only serve to increase stocks due to limited port capacity. Lack of elevation capacity, along with strong competition from grains and beans will cap the amount that can be exported in 2024. The logistical constraints have led some to argue that the C/S Brazil sugar mix could decrease due to record sugar stocks; however, given that sugar prices are about 13c/lb higher than ethanol, and that the peak of the season is already behind us, we expect mills to continue maximizing sugar output.

Early crop progress numbers out of India indicate close to 1.4mmt of sugar was produced by mid-November, almost 700kt lower than the past season. Lower figures at this stage results mainly from the late start and is not necessarily indicative of a lower crop, even though we remain pessimistic on Indian production in 23/24.

Over the coming days, the market will be waiting for the Indian government's much anticipated announcement of the ethanol price reference. A low price could reflect the government foresees lower production of sugar, by encouraging less diversion to ethanol. Only 5.6 bln litres of ethanol were presented at the first tender of ethanol in India against an enquiry for 8.2 bln litres. Out of the 5.6 bln, the sugar industry offered 2.9 bln litres, almost 1 bln litres less than the volume presented last season. Given the trend, producers may be afraid production will be considerably lower in the coming season.

The Thai market is displaying classic signs of a country whose crop has fallen short. The government announced it may impose sugar export controls, while penalising those mills that cause domestic supplies to fall. It also reversed a 20% increase in domestic sugar prices after the cabinet approved classifying the commodity as a controlled good. Weather improved in the past month, but it's not just about yields; the lower planted cane area due to competition from cassava in the past year will also have a negative impact on the crop. The crop harvest should start in the first half of December.

In summary, the market has some market quandaries to resolve over the next months. However, we keep our view neutral for the short time, as further bullish support will depend on news emanating out of India and Thailand. The December refined sugar contract expired on November 14th with a delivery of 263kt, of which 182kt came from Brazil, 42kt from UAE and 39kt from India. The delivery was the lowest for such a contract in the last 3 years.

Fundamentals

- **Brazil CS:** The pace of CS crop continues to improve and, weather permitting, still has room for further increases. FH October suffered from wetter than average weather, but the second half of the month and the First Half of November had outstanding results. Cumulative figures up to the mid of November indicated 595mmt of cane crushed (+15% YoY) and sugar mix at 49.4% (vs 45.9% LY). This resulted in sugar production of 39.4mmt, 23% above the 32.0mmt from the year before. The return of rains is very irregular within the CS states, an expected pattern for El Nino for CS; but if we get more months with below average rains, the total crush could increase over 630mmt. October had poor exports due to rains, but November so far has had a great performance on significantly improved weather, and may register a record of 2.8mmt of VHP exports.

- **India:** India produced 1.43 mmt of sugar utnil 15th Nov 2023 vs 2.16 mmt of last year, some 34% below last year. This season, 284 sugar mills have so far started their crushing operation, out of a total of 530 mills. The balance of mills are expected to start within the next two fortnights. As of 16th Nov, MH produced 438 KMT sugar, 534 KMT lower than the same time last year, with 133 mills operational vs 174 mills which were operating at the same time last year. In Maharashtra and Karnataka the realized harvested agri yields and recovery are lower than last year, as expected, but slightly better in Uttar Pradesh. Overall, the crushing season will be very short compared to the last three seasons because of the lower availability of cane. Looking ahead to the 24/25 season, the deficit rains throughout the 2023 monsoon season and resulting lower reservoir & groundwater levels pose concerns for new pre-seasonal and seasonal plantings. Based on the crop survey of Oct, we see sharply lower acreage in Maharashtra and Karnataka respectively for 24/25. India sugar production for 24/25 will likely be lower than the current season and possibly with zero sucrose loss for ethanol. On Oct 18th, the Director General of Foreign Trade (DGFT) notified the restriction on the export of sugar beyond 31st Oct 2023. Although the crushing season has started. domestic sugar prices have gained support in FH Nov in anticipation of tight domestic stocks. Currently, the domestic market is trading around 36500 to 37000 INR/MT.

- **Asia:** While regional demand avoids buying at record high sugar price, there have been more vessels lining up at Brazilian ports to load sugar for Asian destinations like China and Malaysia. It now gets clearer that with a supportive raws fundamentals in Q1'24 and despite import parity remains closed, countries with tight national stock could take initiative to lock in supply in advance. Similar in Indonesia where sugary foods will be largely consumed during festive time, domestic sugar price increases more than 5% in a month but still leaves raws imports with negative margin. It is appealing to have additional whites import. Vietnam is going to host its WTO tender of 119kmt on 28 Nov and there is no split between raws and refined. Due to high flat price, the operation in Thailand EPZ producing liquid and premix has slowed down. The operational margin of these two products is generally shrinking due to price deterioration in China. We will need rise in domestic price and better FX to stimulate regular demand. The next watchpoint is the start of Thailand 23/24 crop crushing, around mid Dec 2023.

- **US:** The November WASDE had several important changes. The ending stocks of the 22/23 crop was lowered by 93k MTRV due to slightly higher production and imports, but stronger increases on exports and domestic deliveries reduced beginning stocks for the 23/24 season. The 23/24 production is up by 237k MTRV, including in Louisiana where the weather was extremely dry. Imports went down by 132k MTRV after USDA added Philippines TRQs as a shortfall, reduced Mexican imports by 77k MTRV, but increased raw TR2s by 91k MTRV in anticipation of the volumes to come. The combination of these factors has left a shortage of around 130k MTRV. However, the USDA's estimate for Mexico is much higher than Conadesuca's, and by using their numbers the US tightness is closer to -500k MTRV. Possible solutions would be a very likely early reallocation of TRQs shortfall of around 230k MTRV and push for a less likely early increase of the TRQs. In the meantime, we should continue to see heavy volumes of TR2 imports as it has been the case of the past several months.

- **Mexico:** The 2023/24 season has just started, and it is still too soon to make any conclusion based on the numbers released so far. However, concerns over total crop production remains. Conadesuca released a higher estimate, at 5.19mmt, which is only 0.7% lower YoY. They do see an export availability at 677kt, considering a much lower domestic demand assumption which historically seems too low. These factors should sustain high prices domestically and a significant volume of imports.

- **Centrals:** Production has commenced, and although in early days, projections for the crop size have improved, suggesting an increase close to 3% YoY after good weather during the previous months. It is a small growth, but further increases may still come once we more figures are presented. As production is just starting, the highly anticipated export flows are still slow, but they should start to pick up in the next few weeks.

- **EU/UK:** The European region is going through yet another dramatic change in weather, resulting in unfavourable conditions for the crop. Countries like France, Germany, Netherlands, and the United Kingdom have received heavy rains which have affected the harvest of sugar beets. In France, half of the sugar beet crop is yet to be harvested, which could lead to delays in harvest pushing the campaign date forward for many countries. Netherlands, United Kingdom, and Germany have also faced similar issues. Additionally, frost damage could become a real problem if the harvest continues to be delayed. There has also been an explosion at a boiler plant in Sweden which will cause a delay in the season. Elsewhere, Southern Germany has been grappling with a new disease known as the rubbery plant disease which is affecting the sugar beets in the region. The disease causes a reduction in sugar content and moisture in the beets. These weather and disease-related issues have resulted in a reduced outlook for the EU crop which is now expected close to 16.5mmt, about 500kt lower than the projection in the past month. However, prices in the EU have been reducing in the past month, and thus, the export estimates have been increased.

- **CIS:** As per the latest reports, the favourable weather conditions in Russia have resulted in good progress for both the harvest and processing operations. By November 13th, farmers had harvested about 942 kha of sugar beet areas, which makes up 90% of the total sugar beet area planted. This has resulted in the production of 45mmt of sugar beets, compared to 36mmt produced last year at the same time. The average beet yield in Russia has been recorded at 48.4 mt/ha, which is 4.5% higher than last year. The processing factories in Russia have already processed around 29mmt of beets, which has led to production of 4mmt of sugar, in contrast to 3.6mmt last year. The current processing and harvesting numbers indicate a positive trend in terms of the Russian production numbers. On the other hand, in Ukraine, around 11mmt of sugar beets have been harvested by mid-November from an area of about 227 kha, with an average yield of 47.6 t/ha. Ukraine exported approximately 450 kmt of sugar to the EU for the 2022/23 season. It is expected that exports in 2023/24 will be considerably higher. In the past few months, Ukraine has already exported about 150 kmt, most of which went to the EU. Ukraine has also shown signs of increasing its acreage for the 2024/25 crop year, which can go up to 300 kha, according to the chairman of Ukraine's sugar producer union.

Focus – Brazil NNE

Although some states start their crush prior to it, Brazilian North/Northeast crop has officially started in October and the perspectives on cane crush are very good for the second year in a row. After a great recovery at the 2022/23 crop, when the crush increased by 14% YoY to 61.6mmt, a small increase to 62.0mmt is expected for the 2023/24. These are the highest volumes since 2011/12 and were driven mostly by great weather and some cane treatment, as current prices have allowed it.

Despite the small increase on crush, sugar production should increase by 4.5%, to 3.5mmt, on a small increase on ATR and sugar mix. Last year's ATR suffered after heavy rains in November while this year's rains are within expected. At current price parities between sugar and ethanol the mills should continue to focus as much as possible on the sweetener and ethanol production could be around 1% lower YoY.

According to MAPA, the cumulative cane crush until November 15th was 8% ahead of last year at 31.0mmt, about half of the projection, and sugar production was 13% higher at 1.52mmt, about 45% of the projection, which is expected as the most sugar-oriented states start their crops later in the year.

With total sugar output increasing by around 150kt, the volume of sugar available for exports should also increase by similar amount and about 2/3 of the increase should come as bulk VHP and the balance as refined sugar. Along the past few seasons NNE millers were benefitted by several reallocations and/or increases on raw sugar TRQ to the United

States with substantial additional volumes, situation that should be repeated this season as NNE millers might benefit from volumes close to the double of the original volume due to the heavy tightness forecasted for the US market. In general, nominations have already started very strong at NE ports, pointing to a good pace of exports.

Figure 3: NE monthly rainfall (Up to Dec 27th)

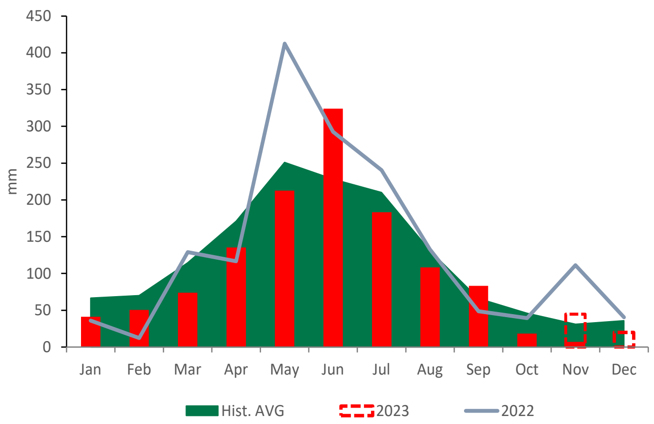
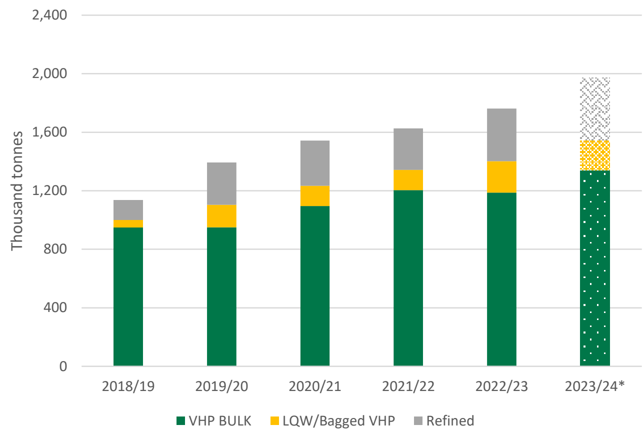


Figure 4: Sugar exports - NNE



Source: MAPA and ED&F Man Commodity Research

Macro

Ever since the release of the softer than expected US October CPI inflation data on November 14, the US dollar has been softening. The dollar index is nearing a three-month low on a cloudier US economic outlook, less-hawkish Fed rate expectations and a risk-on market mood – trends that are expected to hold into early 2024 too. The CPI inflation release was a pivotal moment in the market's interpretation of the outlook for Fed interest rate policy, with markets now betting that the Fed will start cutting rates as early as March 2024.

Softening growth and inflation, especially in the US, will keep US rates and the USD capped in 2024. US 10y treasury yields have fallen from highs of 5% last month, to 4.43% this week, while stocks staged their largest one-month rally in three years. The potential unwinding of inflation fears and the delicate balance between a soft and hard landing in the US economy will be critical for risky assets. This includes commodities, which typically tend to do well under a soft dollar environment. However, the sluggish economic outlook for key market, China, alongside stagnation in eurozone economies, provide a less benign environment for the likes of industrial metals and energy.

Figure 7: Oil prices (US$/brl)

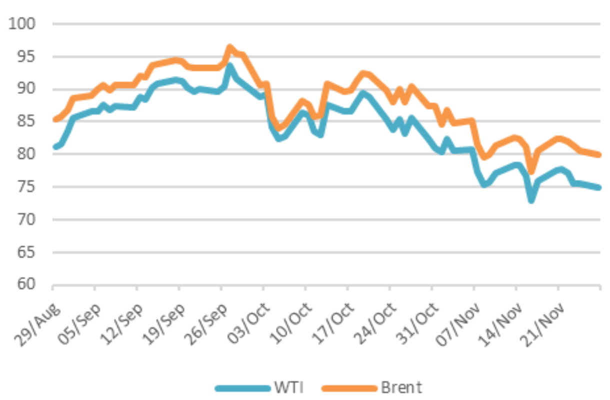
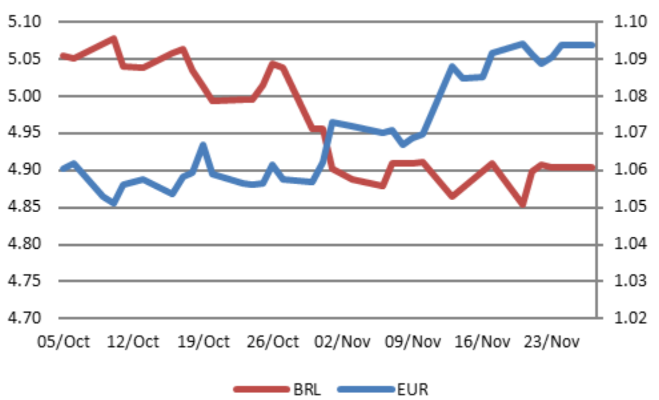


Figure 8: BRL and EUR evolution ($/USD)



Source: Reuters, ED&F Man Commodity Research

Indeed, crude oil prices have been falling precipitously throughout November, despite elevated geopolitical tensions in the Middle East, to stand at $80/bbl. Global energy markets have been flooded with supply so far in November, which coincided with lower demand across the gas and oil complex. The outcome of the OPEC+ meeting scheduled for 30 November will support crude price volatility as members gather to discuss oversupply concerns. The most likely outcome of this meeting is a continuation of the current oil production cuts, although deeper cuts by Saudi Arabia and Russia to prop up prices cannot be discounted.

The weaker dollar benefitted the currency markets this month, with both the EM currencies and the Euro strengthening against the USD. The BRL has recovered to 4.90 following the more risk-on macro environment, helped also by inflation greatly coming in under control in the Brazilian economy. The BRL has continued to benefit from Brazil's stellar external accounts and high real interest rates, both of which offset lingering fiscal risks. On the external side, Brazil continues to print a near-record trade surplus, which has been driving the current account deficit towards 1.5% of GDP. Brazil is witnessing sustained growth in commodity export volumes, in particular booming production of agrarian exports, that help to offset volatile cyclical commodity prices.

Upcoming Areas of Interest

- **Brazil C/S –** Rain development
- **Brazil C/S –** Ports efficiency
- **India and Thailand –** Start of the crop
- **EU/UK –** Crop evolution

Prices Tab

New York #11					**London #5**				
(cents/lb)	28-Nov	30-Oct	% change		*($/tonne)*	28-Nov	30-Oct	% change	
Mar (24)	26.99	26.75	0.9%	↑	Mar (23)	738.2	720.4	2.5%	↑
Apr (24)	25.86	25.48	1.5%	↑	May (23)	719.1	706.1	1.8%	↑
New York #16					**White Premium**				
(cents/lb)	28-Nov	30-Oct	% change		*($/tonne)*	28-Nov	30-Oct	% change	
Jan (24)	44.00	44.50	-1.1%	↓	Mar/Mar	143.2	130.7	9.6%	↑
Mar (24)	44.01	44.49	-1.1%	↓	May/Mar	124.1	116.4	6.6%	↑
Macro					**Currencies**				
Indicators	28-Nov	30-Oct	% change		*Against US$*	28-Nov	30-Oct	% change	
CRB	273.7	280.8	-2.5%	↓	Euro (EU) *	1.099	1.061	3.6%	↑
Gold	2,041	1,996	2.3%	↑	Pound (GB) *	1.269	1.217	4.3%	↑
Brent Oil	81.68	87.45	-7%	↓	Real (Brazil)	4.871	5.047	3.5%	↑
Baltic Dry	2,391	1,502	59%	↑	Rupee (India)	83.34	83.25	-0.1%	↓
Handysize	695	669	4%	↑	Rouble (Russia)	88.87	92.55	4.0%	↑
					(* rate is US dollars per FX)				