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Research

Monthly Sugar Note

28 December 2023

Markets

A year ago, back in December 2022, NY11 prices stood at 20c/lb. However, as the market realized that alongside a small Thai crop, the Indian crop would also fall short of expectations, prices proceeded to rise over the course of 2022 to an eventual 12-year high of 28c/lb. One year later, December 2023 is also proving to be a turning point for the sugar market - but this time in the opposite direction. Since the start of the current month, the raw front month contract has fallen almost 20%, with prices now back to where it started a year ago, near 20c/lb.

The bulls, who drove most of the market action this past year, have been wracking their brains to interpret why prices fell so sharply in such a short period of time. Three reasons can explain the market movement over the past weeks. The first, and perhaps the more important, is less related with fundamentals, than with funds. The speculative community decided to take profit on the net long position they had been sitting on for nearly a year. From November 28th tot December 19th, the net length was reduced by about 120k lots to 32k lots, with more expected in the next COT update given the price movement of the past days. We are now close to a balanced, or even slightly net short position.

Figure 1: Net spec position vs. NY11

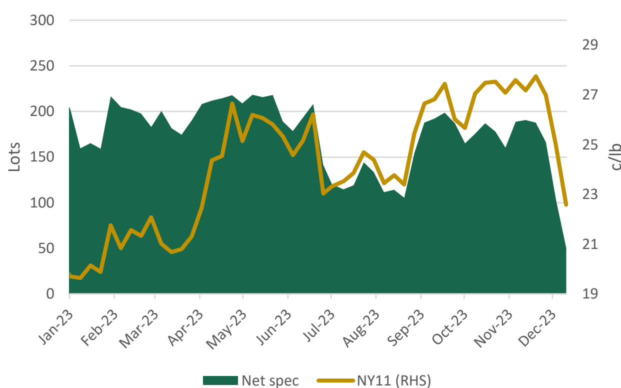
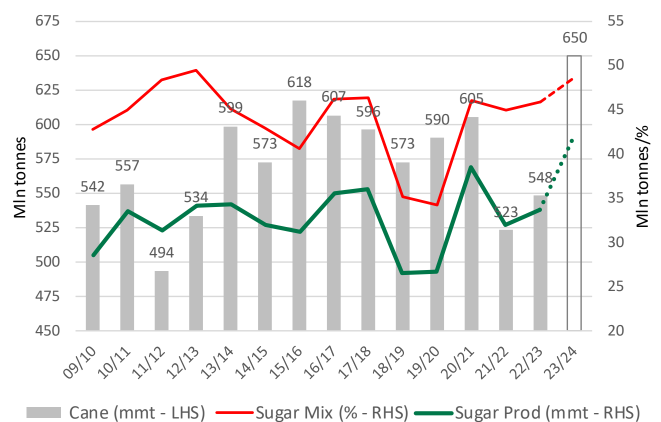


Figure 2: C/S cane, sugar and sugar mix crop evolution



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

The second reason was C/S Brazil's ever-growing crop. This was not an unknown factor; but given the consensus view that not all of this sugar would be able to be shipped, the market got complacent. Dry weather in the Centre South means the cane crop will be a record one. Defying El Nino trends, December weather has been very good for the harvest pace and shipments performance. There is plenty

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of cane still to be harvested and the mills will maximise sugar as much as they can. The latest UNICA result to mid Dec showed only 3 mills have ended their crushing. At the same time, cane crush reached 638.4mmt, 18% higher YoY with a sugar output 25% ahead of the past crop at 41.7mmt. Given such results and considering there are still four months till the end of the crop, a cane volume of 660mmt is very likely to happen.

The dry weather, together with some small new terminals, have allowed for an outstanding export performance. Brazil's December bulk raw sales are close to 3.2mmt, about 1mmt more than the record registered for the month. In other words, Brazil has against all expectations been able to attend to World Demand. Furthermore, more supply is there if needed, given high level of stocks and cane still to be crushed.

The final reason for the NY sell-off was undoubtedly the recent developments in India. After assessing the India crop performance and the potential effects of *El Nino* on the next crop, the government decided to ban the use of cane juice and B-heavy molasses in the production of ethanol on 7 December. The net increase in sugar production that this resulted in was a bearish surprise. However, after complaints from millers, the government announced that the equivalent of 1.7mmt of sugar would now be allowed to be diverted for ethanol. But by then, the damage was done to the technical charts, which turned negative, and momentum sent prices sharply lower.

The World Market SnD is now seen in a surplus for the 23/24 (Oct/Sep) season. Interestingly, though, the trade flows are not loosening much compared to what we previously had. We believe the World Market is more balanced in the first part of 2024. Brazil should have enough sugar to meet the market needs during this period and the price is reflecting this. Nevertheless, we do believe the end of 2024 looks tight, with a lower Indian crop, irrespective of the development of the next monsoon. Thailand may bring see a higher cane crop, but even with Brazil, their supply may not be enough to replenish World Market Stocks. We also note that the good weather that the C/S Brazil has been enjoying for its harvest in December is not a good sign for the cane development for the next season. In summary, we may be trapped in lower price range in the next months, but further out, the market is still in need of a solution.

Fundamentals

- **Brazil C/S:** One more month with outstanding production and new records for C/S. Despite some rains in C/S regions, the weather was still favourable for cane crush and November crush registered a total of 58.7mmt, a record for the month. With 67% of capacity running by the end of November (vs 40% average) the projections for forward crush were revised up and total crop is now forecasted at 660mmt, with sugar mix of 48.8% resulting in a sugar production of 42.5mmt. With rains substantially below average and several mills still running, 2H December numbers should also be very strong. Brazil also enjoyed a strong export performance in December thanks to dry conditions at the ports. The sugar terminals have been exporting at

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an extremely robust pace, even with one less terminal, as TEAG has already shifted to grains. However, while this dry condition is allowing for great crush and exports, it may start to raise concerns about cane availability for the 2024/25 season as soil moisture is behind last year and the average. Q1 rains will be very important to determine the cane availability, something to monitor closely.

- **India:** After the market rumours about a change in the ethanol policy, the government issued a notification to bring clarity to the industry. Initially the government had said that mills should immediately stop the use of sugar syrup for fuel ethanol, but would allow the use of B-molasses for ethanol quantities already offered and contracted to Oil Marketing Companies (OMCs). At the time, Indian mills had contracted a total of 1.3 bln L of B-molasses based fuel ethanol. After strong complaints from the mills, the government decided to make further regulatory changes, setting the use of a total quantity of sucrose for fuel ethanol of 1.7 mmt (sugar equiv. terms). The country produced 7.4mmt of sugar as of December 15th, compared to 8.3mmt at the same time the previous year. Compared to the previous year, the total amount of sugar produced is lower by -10.7%. The estimated sugar production for India's 23/24 seasons should be close to 30mmt, compared to 32.7mmt of the 22/23 seasons, i.e. around - 8.7% less. We expect to see poor results after the SH Jan/FH Febvdue to a shortage of cane, mills in North Karnataka and Maharashtra's rainfed region i.e. Solapur/Marathwada mills will begin to close their crushing operations i.e. thirty to thirty-five days earlier than they did in the previous year.

- **Asia:** The month of December marks the start of the crush in Thailand with preliminary results coming in (unsurprisingly) at the poorer end of the spectrum. Sugar yields are especially lower compared to last year on an equivalent days-to-days basis, reflecting the effects of a dry growing period due to El Nino. Dry weather in Thailand so far has been progressing the start of the crush well, with the pace above that of last year. As always it is the tail of the crop that matters most with regards to total cane and sugar production, and our expectations are around 75-80mmt. On the demand side, Indonesia has released its import licenses for 2024 with the amounts for refineries lower YoY due to weak end-product demand but higher mill import quotas as the government looks to taper the rally in domestic prices. The flat price drop in the world market has caused import parities for Indonesia to widen again which will be positive for the import program overall. For other countries in the region, it remains to be seen whether a lower world market would incentivise more sugar use in various industrial processes, like MSG production, as it does take time for switches of feedstock to take place. Similarly, HFCS use in the region, which has been increasing, may need time before industrial buyers make the switch back to sugar even if prices were to fall lower.

- **US:** The December WASDE had several important changes highlighting the local tightness. Ending stocks for the 22/23 crop went down by 16k MTRV, reducing the beginning stocks for the 23/24 season. On top of this, production was up by 13k MTRV, although it is unlikely to go up further. Exports were up by 59k MTRV given strong flows to Mexico, and this should increase more. Imports were up by 113k MTRV as only 148k MTR of the TRQ reallocation were accounted for, TR2 rose by 172k MTRV, but Mexican quota fell by 207k MTRV. This resulted in a small increase of 48k MTRV in 23/24 ending stocks, to a 12.7% STU level, which is unusual given that for the Dec report USDA always aims for the 13.5% level, which is considered a balanced level. With this tightness and a still relatively high volume expected from Mexico, it only reinforces the view that the US SnD should remain under pressure, with high levels of high duty imports.

- **Mexico:** The initial data released so for the 23/24 crop has been alarming. The dryness during the past months, combined with the wet start of the season, has negatively impacted both agricultural yields and sucrose. Up to Dec 16th - or week 11 – sugar production reached 264kt, 4% lower YoY, but the area harvested was 15% higher and cane crush 7% higher. It represents a sugar production per hectare 16% lower YoY. It is still early in the season, accounting for only 5% of production - but extrapolating this number, the crop could be closer to 4.45mmt, vs our current estimate of 4.90mmt. Imports continue at a strong pace - not only bagged sugar ready for consumption, but also bulk raw vessels have arrived to Mexico.

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- **Centrals:** Production has already started for Centrals, but the low level of beginning stocks for the whole region is impacting the level of exports so far. Guatemala's exports, for instance, are projected at 130kt for Q4 23, 45% lower than the 240kt registered at the same period last year – and no bulk raw vessel so far vs 90kt in Q4 22. The first bulk raw vessel reported for now is 45kt from El Salvador. The Panama Canal drought may pose a challenge for shipments, but once production is better established, exports should start to pick up as the sugar from Centrals will be highly demanded given the regional tightness.

- **EU/UK:** A cold and wet spell in November and December has delayed the back end of harvesting, as the rains made it difficult to remove beets from ground. Weather forecasts for the next weeks show average rainfall to continue in Germany, France and Netherlands. The market now expects production in the 15-15.5mmt range (on a EU commission methodology), about 500kt lower than projected a month ago. Trade figures show about 75 kmt of Ukraine exports to EU in November, in line with the large crop in Ukraine. There seems to be some retaliation by sugar producers and unions in the EU against the rising export volumes from Ukraine. The EU commission has not yet decided on whether a quota would be the best way forward, something we will be monitoring.

- **CIS:** Ukraine's sugar harvest is nearly complete with about 98% of area already harvested by mid-December. Around 11.8 mmt of sugar beets have been harvested. Exports from October to November have reached a record number of about 150 kmt, most of which went to the EU. In addition to Ukraine, Russia has also had a huge crop this year. They are also approaching the end of their crop harvesting cycle. However, the weather has turned harsher and colder in Russia, leading to a slowdown in harvesting and processing of sugar beets. Based on the current processing numbers, the country may produce close to 7mmt of sugar. Russia is also expected to export raw sugars to Uzbekistan, and Azerbaijan as Russian raw sugar prices are amongst the cheapest in the world. We are also seeing record exports from Russia to regions like Kyrgyzstan and Kazakhstan.

Focus – 2023 review and outlook for 2024

- **Brazil C/S:** The 23/24 crop posed many challenges and surprises for C/S producers. The crop year started with an optimistic view for cane development, but the market certainly didn't expect it to finish with agricultural yields around 20% higher YoY, resulting in almost 100mmt higher cane availability than the year before, at close to 660mmt. The limits for crystallization capacity were also tested, as with an average of more than 10c/lb price advantage for sugar over ethanol, millers were focused on sugar as much as possible, leading to fresh records in terms of sugar mix and monthly crush. With massive crops in both sugar and grains, the competition for logistics was a key factor during the year, forcing players to find creative solutions in moving sugar from unconventional ports. The great performance by terminals during the dry periods were important to keep the flow of exports strong. Still, production of sugar has been so strong that ending stocks will still be very high, allowing heavy exports even at the beginning of the new season. With the high volume of cane, ethanol production is also very large, despite the high sugar mix. In addition, more than 6.2mln cbm of corn ethanol should be produced this season (vs 4.4mln cbm last year). Although ethanol has been a better option than gasoline for the consumer in SP state since mid-June, ethanol demand has increased; but not to the levels seen in the past. As a result, we are seeing growing stocks and consequently very low prices for the producers. While the drier than average past few fortnights have been a big contributor for cane crush and sugar exports, looking ahead it starts to raise a flag over the 24/25 cane availability. It is still too early for any major concern, but with the low rainfall and high temperatures, the soil moisture levels are lower than average. Q1 rains will the be main factor in determining cane availability, but for now the cane fields are healthy and with good agricultural yields likely at start the new crop. Even if C/S were to face a

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10% loss in cane crush next crop, sugar production would still be around 40mmt, with exports at full capacity. The market estimate for the next crop is close to 620mmt, with sugar production at above 42mmt as several mills should have higher crystallization capacity due to investments in their factories, allowing a sugar mix close to 51%. It means another year of huge pressure for exports, competition for elevation from grains and high stocks during the whole season.

- **India:** The Indian 22/23 crop started with prospects of a lower crop than the previous year but still at high levels, close to 35mmt. The preliminary numbers were good and the market was calm until the middle of December 2022. By then, field surveys were showing very poor yields and the first alarming numbers of the crop were being sent to the market. This led the Indian government to stop allowing more exports after the initial 2mmt quota opened at the end of 2022. By the end, India's crop finished at 32.7mmt with the lowest stocks since the 16/17 crop. The poor monsoons of 2023 will significantly impact the yields of the southern portion of the country, especially in Maharashtra, which will make it hard for India see a sugar output above 30mmt. The recent government action, decreasing the use of molasses and juice to ethanol, will help the stocks from reaching critical lows, but the ban on exports will remain. For the 24/25 crop, production may fall to 26mmt. The main reason is lower planted Adasali area than the previous season, as well as an expected reduction in pre-seasonal, seasonal, and retaining ratoon cane area. Farmers have already switched to other short-duration crops that require far less irrigation than cane, due to a shortage of water.

- **Asia:** 2023 has been a year of surprises, see-saw supply & demand imbalances and unprecedented events for the region. On the Thai crop, due to the large advantage of cassava prices vs cane, quite a lot of area was switched from cane to cassava. Additionally, fertilizer prices were at a record high in 2022, leading to very low applications by farmers and therefore thin stems. Even though the height of cane and the growth of leaves was good due to ample rains, the thin stems and lower area had a significant offsetting effect. The resulting cane crop ended being lower than the market expected, at 94mmt, vs initial expectations of >105mmt. On the demand side of the equation, we saw higher sugar use by liquids and exports to China as low prices and positive parities encouraged flows there. A persistently poor crop, together with supportive consumption and industrial use post-Covid, also led to higher import demand from Philippines for refined sugar. This, along with a disappointing Indian crop had the effect of supporting Thai refined cash premiums from the +$20-30 range during the crush to +$40-60 range in 2H'23 as Thai refined sugars were effectively the only source supplying the region, especially after trade barriers were put up against regional tolling operations. The major story on demand in Asia was from Indonesia, where the strong rally in world prices closed Indonesia's import parity for the first time in history. This led to buyers being quite tentative on using their allocated licenses, which led to lower import demand. It was only after the caps on domestic price were lifted in Q4'23, that parities made sense again. High prices also attracted greater substitution to HFCS, lower sugar use for industrial processes, and towards ethanol. The market was doing its job to balance the deficit. As we look forward to 2024, the supply side outlook looks poor and regional supply should remain tight. The effects of a dry El Nino will be felt in 2024 with crop expectations of around 70-80mmt in Thailand. Crushing has commenced and preliminary results are unsurprisingly poor on sugar yield compared to last year due to the dry growing period. But as always, it is the tail of the crop that matters most with regards to total cane and sugar production. On the demand side, domestic prices are quickly catching up with the world market, which is going in the opposite direction. This will be overall positive for the region's import program. Many countries in Asia are working with tight stocks and this trend will provide some relief to the hand-to-mouth situation, as Brazilian raws and whites should flow in larger volumes in 2024. A lower world market price may also re-incentivise more sugar use in various industrial processes – although switching can take time.

- **US**: The 22/23 season produced 8389k MTRV, which represents a growth of 1.0% YoY. However, despite this good production, the feeling of tightness persisted during the whole season, impacting prices and creating a good environment for high levels of high duty imports, which reached a record of 413k MTRV. Domestic demand was relatively stable, while exports rose to 74k MTRV, most of which were high duty exports to

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Mexico given the even tighter situation there. This has left the beginning of the 23/24 crop in an already tight situation, and the current SnD forecast for the crop looks challenging. The US production estimate is currently unchanged YoY, but it includes a record season of beet sugar production, which the market deems too optimistic, and a drop of 10% in Louisiana cane sugar production after an extremely dry year. Some important forecasts were already made by USDA such as, increased exports (to Mexico) and high duty imports in anticipation of the volumes to come, instead of only acting afterwards as they used to. The reallocation of unused raws TRQs was already made, which is also very early in the season, but even with all these measures there is still a significant tightness in the market. It wouldn't be a problem if Mexico had enough supply for all this shortage, but that won't be the case. USDA is currently working with a relatively high number for the Mexican quota, yet still only seeing a 12.8% STU ratio. When they update their forecasts with a more realistic number for Mexican imports, this will get worse. Therefore, major concerns remain for 2023/24, as production-wise a reduction is currently more likely than an increase. The USDA already has a very strong TR2 number (although full season should be even more), their Mexican number is still quite high and yet the ending stocks remain below the desirable level. This should keep the high duty imports market very strong over the whole season and give pressure for early releases of additional raws TRQ volumes.

- **Mexico**: After a good recovery in the 21/22 crop to 6.19mmt, the 22/23 crop suffered a 16% drop in production following a combination of below average rainfalls and low use of fertilizers. This led to a very tight situation, and consequently the past few months saw record high domestic prices with imports jumping to a record of 300kt (not including any potential, and likely, smuggling of sugar into the Mexico). On top of that, the weather during the crop development period was very challenging for the 23/24 crop. Despite better fertilization at the fields, a significant reduction in agricultural yields due to the extreme dry conditions during most of the development period is expected. In addition, recent rains have caused delays to the start of the crush and negatively impacted sucrose levels. With only about 5% of the crop processed so far, cumulative sugar per hectare is 16% lower YoY. Our current forecast of 4.9mmt represents only a 6% reduction YoY, something to monitor. Given the poor prospects, the season should continue to see massive imports in Mexico and a high price environment. With this scenario, the current projection for US quota would reach a maximum of 677kt, with no WM exports. It will be a challenging situation, as US's needs will be much higher than this.

- **Centrals:** The 22/23 season finished with a loss of around 4% in sugar production compared to the stronger 21/22 season. The drop was mainly attributable to unfavourable weather during the development period. Out of the approximately 4.9mmt produced, around 2.6mmt (-270kt YoY) were exported on a combination of bulk raws, refined, bagged raws and LQW. With the regional tightness spreading to most of Americas, the sugar from Centrals was highly in demand, causing the season to finish with very low ending stocks. For the 23/24 crop, better weather conditions during the cane development phase are supporting projections for an improvement in production. We currently estimate the crop to rise about 150kt to 5.05mmt. So far, given the low beginning stocks, exports are yet to pick up and are running behind last year. However, with better production and a still tight market regionally, sugar from Centrals will be once again highly in demand. This will require strong solutions to overcome logistical challenges posed by the long vessel queues to cross the Panama Canal.

- **EU/UK:** After a disappointing 22/23 season, there were high expectations going into the planting season for 23/24 given the high prices in the EU at the time. However, heavy rains in March and April resulted in late plantings, which led to some negative expectations for the 23/24 crop. Following the late planting, the EU faced heavy rainfall and the development of aphids in June and July, which resulted in a further drop in expectations for the crop. But in August, the conditions improved with warmer climate and average rainfall, which aided the development of the beets during the growing phase. This helped boost the sugar content of the beets. In September, beet tests around the EU showed big tops and high root weights, however, the sugar content was still lower. Finally, when harvest came around, extreme rainfall in the countries of the

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beet belt resulted in delays in harvesting and sugar beet processing. The EU(27)+UK countries have truly gone through a very dramatic year, with the weather playing a key role in determining the true outcome of the crop for the 23/24 season. While the weather was changing every 2 months, spot prices in the EU also dropped from the €1100-1200 levels to about €780-790 levels currently. The price levels in the EU can be explained by an increase in production and the excessive dumping of sugar from Ukraine, which is priced much lower than EU sugar. We also see a slowdown in raw sugar imports compared with last year, based on the import parities. EU(27)+UK may export about 1.5 mmt of sugar based on the lower prices. However, this season, production has increased by more than 1 mmt, which will ease the requirements of imports (we can see this with the CXL's not being fully utilized). The question now is what is the EU going to do regarding the record Ukrainian exports. Is there going to be a quota or will the FTA go on? This, along with prices, will determine the planting decisions in the EU. We are already seeing a market consensus of about 2-3% increase in acreage, but whether EU farmers choose to plant more will require active monitoring.

- **CIS:** Putin's war in Ukraine undoubtedly had a huge effect on the entire world and commodity prices in general, with sugar no exception. Despite the war, and in reaction to higher prices, Ukraine doubled down on their planted acreage for the 23/24 season resulting in a crop of about 1.7 mmt of sugar, about 30% higher YoY. Ukraine has taken advantage of its Free Trade Agreement (FTA) with the EU, and exported approximately 450kt of sugar to the EU (27) countries, well above the 20kt quota they had before. Subsequently, the main export destinations for Ukraine shifted towards the EU(27), as their access to the CIS region was blocked. With the current sugar prices and FTA in place, Ukrainian farmers are expected to increase their sugar beet acreage for 2023/24 by at least 20% year on year. Russia, on the other hand, produced a substantial crop of 6.8mmt and is now exporting its surplus to the CIS regions. Russian sugar is competitively priced vs the world market due to the devaluation of the ruble, which makes it more affordable for CIS countries. This, in turn, has led to Russia replacing raw sugar imports from Brazil. Russian exporters have started exporting white sugar along with raw sugar in high quantities to these regions. It remains to be seen whether the CIS regions will continue to purchase raw sugars from Brazil, or if Russia will be able to curb the demand in this region with their raw sugar exports.

Macro outlook

2023 was characterised by fairly choppy FX price action, as markets' focus swung through the year between rates and risk, and inflation and growth. The year is ending on a fairly volatile note, something we should continue to expect in 2024, with inflation, geopolitics and policies all likely to surprise. Below are some macro views on what might be in store next year for key moving parts.

US dollar - The consensus view on the dollar outlook for 2024 is that it should continue to weaken as the US interest rates are cut. However, time after time, markets have been surprised by USD resilience, in turn supported by US economic outperformance and Fed rates staying higher for longer. US "exceptionalism" should continue into 2024, outperforming the likes of EU, Japan and China, as it avoids a recession. Even if the US economy slows more meaningfully, it's unlikely to cause persistent USD weakness. It remains the reserve currency of choice in international transactions, will likely benefit hugely from geopolitics and safe haven demand, and will likely also gain support from interest rate differentials, as other central banks cut rates before the Fed does.

Central banks - The US is expected to lead a shift among advanced economies toward lowering interest rates next year, bringing an end to a 2-year tightening cycle that defeated inflation. Last week, markets jumped on the Fed "pivot", when Chair Powell for the first time talked about rate cuts …"It's not likely we will hike further ... policymakers are thinking and talking about when it will be appropriate to cut rates". The FOMC dot plot sees 3 rate cuts totalling 75 bps in 2024, whereas the fed fund futures see 6 cuts of 150 bps (see chart below). However, with relatively low levels of unemployment in the US, combined with a still strong economy, decent levels of wage support could keep prices sticky going forward. If the Fed were to cut rates in line with market expectations, there is a risk that inflation risks would rise, meaning that the length of the rate cutting cycle could prove to be very short.

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Commodities - Given the above view, it stands to reason that commodities as a whole should not rally too much either. After a fairly dismal overall performance in 2023 (after 2 consecutive years of double digit, this year BCOM is down 10%), we enter the new year with weaker demand. This follows 22 months of rate hikes, as well as some good supply responses (e.g. grains, natural gas, crude oil). As such, fundamentals are less tight than they were 2-3 years ago. China is unlikely to resurge with demand for industrial commodities either, given its struggling property sector, despite promises of further stimulus. However, there are upside risks that can cause some commodities to flare up.

Crude oil - Given how much prices have fallen since October, it figures that there may be some upside in 2024. World oil demand will remain strong at 1.6 mbd in 2024, but will be offset by growth in non-OPEC supply of 1.7mbd. To keep the oil market balanced, OPEC+ will need to make good on their pledge of 2.2mbd of supply cuts (including the extension of Saudi and Russia's existing voluntary cuts of 1mbd and 0.3mbd respectively). The market may continue to view these pledges with scepticism (non-compliance by members) and a bearish stance (the implied rise in spare capacity to 5.5mbd and the fact that the very need to cut back means demand must be weak). However, if the cuts are enacted, then the second half of 2024 will see a return of the tight physical market especially. Add to this an escalation in the Israel-Hamas war to the broader region, plus associated geopolitical tensions at key ocean choke points (Red Sea today, Hormuz straits next?), then crude prices could rise substantially higher.

Figure 7: The Dollar index fell 2% this year

Figure 8: The Commodities index fell 10% this year

Source: Reuters, ED&F Man Commodity Research

Key economies - The US may just about avoid a recession in 2024, or at worst see a "shallow" recession. Low unemployment levels, consumer spending and a recovery in housing starts suggest the US economy remains in good health for now. By contrast, the euro area will be stagnant, while the UK should endure a recession – both weighed by low PMI numbers, adverse demographic trends and an ongoing cost of living crisis. Emerging markets will be mixed, but overall slower, with China's property slump a big headwind. India will outperform but its economy is still too small to be a major global growth driver. That leaves the world economy expanding by 2.7% next year, the weakest (after taking out the crisis years of 2009 and 2020) since the dotcom bubble burst in 2001.

Inflation - While 2023 may have begun with double digit inflation, disinflation has been the prevailing theme of the past six months. However, this is unlikely to persist into 2024. The easier part is behind us, as typically, the final stretch of disinflation tends to pose the greatest challenge. Barring a more severe downturn in growth, inflation levels should become more stable at current levels due to strong wage growth and risks of energy prices moving higher. Core inflation has remained sticky in some markets, signalling persistent underlying pressures. Structural factors – including higher fiscal deficits, the cost of the climate transition and recent under-investment in fossil fuels – could keep inflation higher than during the pre-COVID period. Oil prices and geopolitical conflict are also sources of upside inflation risk.

BRL - In 2024, the Brazilian real should strengthen to 4.90 BRL/USD on a perceived weakness in the US dollar as the Fed starts cutting interest rates next year (although the confidence level on a weaker USD outlook is low, as

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mentioned above). Still, Brazil's low domestic risk premium and a good trade balance performance will support the currency. Carry trade opportunities should remain positive, even if Copom keeps cutting the Selic rate further to 9% (from 13.75% a few months ago) and the Fed lowers US rates to 4.75%). Brazilian fiscal risks remain high though, considering the uncertainty surrounding the government's willingness to curb expenses and the effective impact on government revenues from the measures approved this year.

Happy New Year!

Prices Tab

New York #11					**London #5**				
(cents/lb)	20-Dec	30-Nov	% change		*($/tonne)*	20-Dec	30-Nov	% change	
Mar (24)	20.92	26.04	-19.7%	↓	Mar (23)	605.8	717.1	-15.5%	↓
Apr (24)	20.47	25.04	-18.3%	↓	May (23)	590.1	698.9	-15.6%	↓
New York #16					**White Premium**				
(cents/lb)	20-Dec	30-Nov	% change		*($/tonne)*	20-Dec	30-Nov	% change	
Mar (24)	39.50	42.99	-8.1%	↓	Mar/Mar	144.6	143.0	1.1%	↑
May (24)	38.92	43.26	-10.0%	↓	May/Mar	128.9	124.8	3.3%	↑
Macro					**Currencies**				
Indicators	20-Dec	30-Nov	% change		*Against US$*	20-Dec	30-Nov	% change	
CRB	266.4	273.6	-2.7%	↓	Euro (EU) *	1.094	1.089	0.5%	↑
Gold	2,029	2,036	-0.3%	↓	Pound (GB) *	1.264	1.262	0.1%	↑
Brent Oil	79.70	82.83	-4%	↓	Real (Brazil)	4.916	4.921	0.1%	↑
Baltic Dry	2,150	2,937	-27%	↓	Rupee (India)	83.14	83.36	0.3%	↑
Handysize	896	751	19%	↑	Rouble (Russia)	89.65	89.97	0.4%	↑
					(* rate is US dollars per FX)				

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