ED&F MAN EST. 1783 | Research

Monthly Sugar Note

29 February 2024

Markets

Most economic data out of the USA is coming out stronger than expected. Whether it is inflation, employment data or GDP, the strong numbers support the thesis that the US economy has achieved a soft landing, and will therefore not need to cut interest rates in a hurry. As a result, the dollar is at 3-month highs, and is stronger versus most G10 currencies year to date.

The latter is negative commodities and may have partly contributed to the lower sugar prices in the past weeks. But the reality is that sugar market fundamentals in the past month have overall been more negative than positive, pressuring NY11 prices. After the rally in January, which took prices from 20c/lb to 24c/lb, all sugar contracts have been in a negative trend over the past weeks, pushing the front NY contract back to the mid 22c/lb levels, before gain some support in the end of the month.

Figure 1: Sugar price evolution (front month NY11)

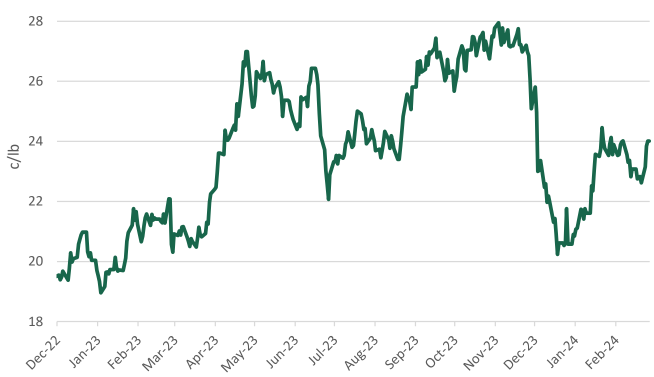
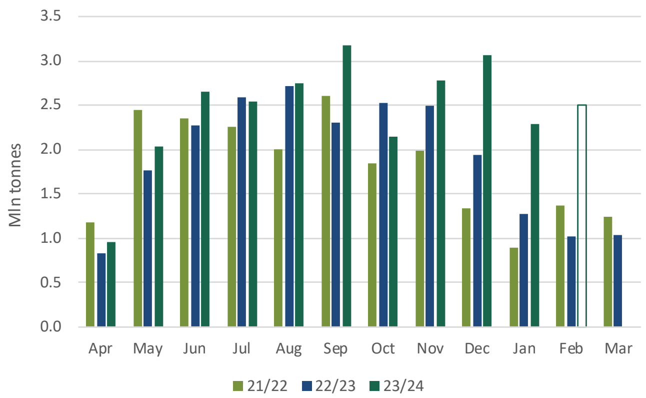


Figure 2: C/S bulk raw sugar exports



Source: Reuters and ED&F Man Commodity Research

It would appear that the crops in India and Thailand are not bad as previously anticipated. In India, the negative dry weather impact during the off season was mitigated somewhat by late rains registered just before the start of the season. The government's December ethanol solution had already helped increase sugar supply, but since then we have also seen a recovery in Maharashtra's yields. This, along with mills extending the crushing period, means we now we see India's crop reaching 32mmt. The latter, combined with a limit on the use of cane for ethanol, has given India about 4mmt of additional supply in a short period of time.

In the case of Thailand, while sucrose values were low during the entire 23/24 season, the volume of cane may not be as low as the market had expected given strong cane crush numbers observed in the past weeks. We now think a total cane crop of over 75mmt can be achieved, resulting in sugar output above 8mmt.

Perhaps more important than the changes in Thailand and India, has been the record volume of bulk raw sugar coming out of Centre South Brazil in the past 4 months. November exports were close to 2.8mmt, 11% higher YoY, but December was even more extraordinary with almost 3.1mmt of exports, a 60% increase YoY. January exports were 1mmt ahead of the same month of 2023 at 2.3mmt, while February may surpass 2.5mmt, a whopping 130% increase YoY. The late (and smaller) grain crop, along with small pockets of ports solutions and favourable weather, explains the good pace of the C/S exports. These volumes imply that what could have been huge ending stocks for 23/24, will now be closer to historical levels.

Brazil's weather may have been positive for port logistics, but it is negative for the following crop. December and January rains were below historical levels, and several analysts are already taking their C/S Brazil 24/25 cane crop figures closer to 600mmt - about 50mmt lower than this season. Ethanol will not be a threat though, and the sugar mix will be higher, but we are getting to the point where the sugar output may end up below the 23/24 crop.

A C/S Brazilian crop of above 41mmt in 24/25 should be high enough to meet World Market needs. However, there will be little room for error; a port stoppage in Brazil or a surge of demand from Asia can easily shift the small surplus into a small deficit. All in all, we continue to see the market as neutral, but with risks of turning positive or negative at any moment.

Fundamentals

- **Brazil C/S:** Even during the intercrop, weather has been playing a major role in the C/S crop. On the one hand, the dry conditions at the ports have allowed record volumes of sugar exports over the past few months, with February also set to break records. On the other hand, the dry conditions are also affecting producing regions, causing very irregular distributions of rains, which is cause for concern for producers. Cumulative crush until the end of January reached 646mmt vs 543mmt same time last year, with sugar production at 42.1mmt vs 33.6mmt. March production should still be relatively good, but after the great performance in Q4, most of the cane initially expected to be left uncut (bisada cane) was processed and March numbers should be closer to historical levels. The current weather situation at the fields is leaving the soil moisture at concerning levels, which may result in cane crush values under 610mmt for the 24/25 crop. With the upcoming weeks critical in terms of weather, we will continue to closely monitor weather, as it can still change the direction of the new crop.

- **India:** India produced 22.4mmt of sugar up to 15 Feb, about 500kt less than the same time of the past year. As of 20 Feb, Maharashtra has produced 8.3mmt, almost 600kt less than the past crop. For the time being, only 7 mills have ended the crop (vs. 27 in the past crop) indicating that the tail of the season will be longer than last year's. Karnataka produced 4.3mmt as of 15th Fe. Mills in Uttar Pradesh are seeing a lower crop than expected. Nevertheless, the latest crop figures in the South of India are going in the opposite direction, with good yields that should result in higher than expected production figures. All in all, India's sugar output may be close to 31.5mmt. The unseasonal rains in late November delayed the start of the crush, which along with the slow harvest pace due to labour shortages, resulted positively on cane growth. In the past days, the government hiked the (country-wide) sugarcane Fair and Remunerative Price (FRP) by INR 25/quintal to INR 340/quintal (USD 41/mt) for the 24/25 season. The new FRP will ensure prosperity of cane farmers and keep sugarcane production at high levels, weather permitting.

- **Asia:** Thailand 23/24 crop cane crushed reached 68.4mmt as of 20 Feb 2024, resulting in cumulative sugar output of 7mmt, 8% lower than last harvest on an equivalent days-to-days basis. However, the deceleration in crushing pace at the tail of the season is not as sharp as expected, which indicates the crop may end up higher than 75mmt, with sugar production above 8mmt. On the demand side, with the higher cash premium of Thai raws, the market is finding ways to replace Thai supply with sugar out of the region. Origins like Brazil, South Africa and Centrals are locking more demand in Asia. Whites demand remains steady, while people are buying hand to mouth. There is no major import program so far from countries like Philippines and Indonesia despite their low stock level, but Thailand EPZ demand has been recovering in the last few weeks due to higher orders in preparation for production post Chinese New Year.

- **US:** The February WASDE projected US ending stocks at a small surplus of 80k MTRV for the 23/24 season. The USDA cut 37k MTRV of production as a higher cane crop (mostly in Louisiana, for the 6th consecutive month), was offset by a cut on the beet sugar side. Further cuts are still expected on the beet side. Exports were unchanged, although they should increase in the next few months due to the heavy flow to Mexico. Domestic deliveries were lowered by 68k MTRV, in line with the actual numbers released so far. Finally, imports were raised by 15k MTV following another massive increase in high duty imports (up 127k MTRV to 649k MTRV), but down by 112k MTRV to 725k MTRV (684kt tq) from Mexico due to the lower crop. All in all, ending stocks were raised by 44k MTRV to a 14.2% S/U. This new SnD basically eliminates the need for additional TRQs. Once more, this already accounts for massive TR2s, but still overestimates Mexican availability by around 80kt tq (85k MTRV). There are still significant factors that could lead to a US shortage - such as overestimated Mexican numbers, beet sugar production or underestimated exports. However, with USDA already assuming these large numbers for TR2, it is hard to advocate for too much additional TRQ.

- **Mexico:** Up to February 10 about a third of the 2023/24 crop acreage had been processed. The figures so far remain concerning on the sucrose content side. The rains at the end of the crop development period increased the water content in the cane, boosting agricultural yields by 0.4% YoY. On the other hand, these rains significantly damaged the sucrose content, which is 8.8% lower YoY. With that, the sugar per hectare ratio is 8.5% lower YoY. The harvest area is also about 5% lower YoY, which along with the other factors, means sugar production stands at 1801kt, -13% less than same period last year. Refined production is only 3% lower YoY, Estandar is 7% behind last year but the main reduction is on the low pol raws side, down 44% YoY. This should be another limiting factor for exports to the US, as at least 70% of the quota must be low pol raws. Extrapolating the results so far, Mexico's crop seems closer to 4.6mmt. Imports remain high, but are reducing as the local crop progresses. However, as we expect an early end to the harvest, import volumes should continue and intensify again by Q3/Q4.

- **Centrals:** The slow pace of exports continues from Central American origins, despite production being past the halfway mark. Bulk raws nominations finally started to pick up in February, but remain significantly below last season, while refined exports are still very slow. This is due to a combination of very low stocks at the beginning of the season and poor crops. Guatemala's sugar production up to Feb 11th has reached 837kt, 9% behind last year - due to 5% lower sucrose and despite a 1% increase in agricultural yields. El Salvador's crop

numbers also look poor, with production up to Feb 18 at 399kt given the delayed start, but also due to sucrose levels 1.1% lower and agricultural yields 3.6% lower YoY.

- **EU/UK:** The EU/UK crop is virtually finished, although Germany and UK are still ending operations. Market consensus points to sugar production (including ethanol) in the range of 16.3-16.5mmt, about 1mmt when compared to last season. There has been a lot of discussion regarding consumption; while some producers indicate lower demand, some believe the sales are the same as last season. Higher production, lower sales and good beginning stocks, together with the huge volumes of imported sugar from Ukraine, is resulting in a higher volume of exports – although we have yet to see these happen. We should see EU/UK presenting good availability of sugar in the next months, which may impact the White Premium. Preliminary estimates for the next EU crop show a rise in acreage of about 3-5% due to the high beet price offered to producers.

- **CIS:** After strong complaints from EU producers, the EU commission decided to limit the amount of Ukrainian exports with free access to the EU market. The new rule allows Ukraine to export as much sugar as they can until June 5th, after which the full duty will be imposed. For the next year, Ukraine will have a quota of the average export volumes between 2022 and 2023, which is estimated close to 300kt. As a result, we will continue to see about 70kt of exports per month until June. From June onwards, Ukraine may have to export sugar to the World Market as storage capacity is limited, especially during the start of the next season. Next season, production may increase again as beet remains more profitable than grains. In Russia, the crop is virtually over, with a sugar output close to 6.8mmt. The country is also exporting big volumes of sugar to the CIS region, reducing the need of raw imports from Brazil. The next season's acreage should remain large, but lower availability of EU beet seeds in Russia may impact yields.

Focus – China

Beet harvesting in Inner Mongolia decreased by 9.5%, producing 50k less sugar in the region compared to last season. However, the 2023/24 on-going crush preliminarily shows good results in cane areas like Guangxi, where the plantation area has expanded. The latter follows government support for farmland returning to food crops instead of cash crops. As a result, China's 2023/24 sugar production might reach 10mmt, higher than 9mmt in 2022/23.

Figure 1: China raws import

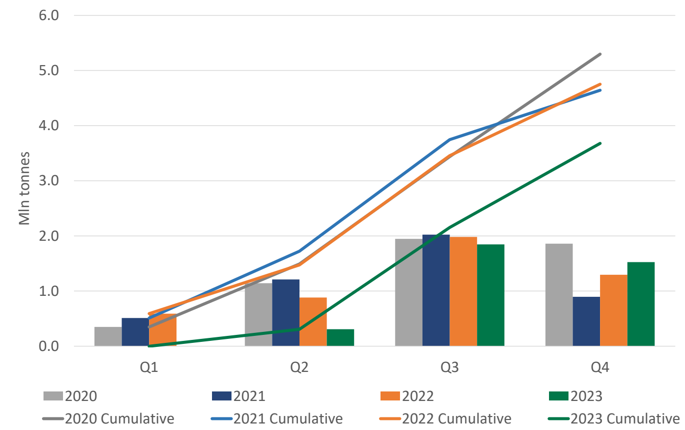
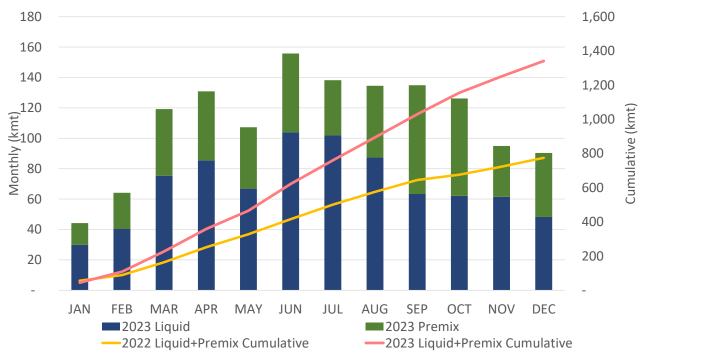


Figure 2: China monthly liquid/premix* Import



Source: China Customs (*liquid and premix converted in sugar equivelen) and ED&F Man Commodity Research

Looking back to 2023, we were impressed how radically the import policy was modified by the government to cope with the complex international market. With out-of-quota raws import parity continuously trapped in a negative range from -$200/MT to -$80/MT since the beginning of last year, there was little incentive for refineries to import while NY11 price was trading at 10-year highs. Moreover, consumer spending post-Covid was not as good as expected. Due to the economy heavily affected by the struggling real-estate sector, the outlook for the F&B sector was also concerning. Weak domestic demand lowered market participants' enthusiasm to build stock during the course of the year. Considering the domestic SnD deficit of 5.5mmt in 2023 and typical whites imports of around 1.5-2mmt, if raws imports ended being less than 3mmt, the market deficit would have driven domestic prices higher to encourage other means of imports. Unfortunately, refineries were unwilling to import more than 1mmt under the 50% duty (out-of-quota). As such, together with normal in-quota raws of around 1.4mmt, destocking became inevitable in 2023. However, the government decided to step in not only by releasing state reserves, but also by giving extra quota to COFCO in the spirit of ensuring food security. The extra quota is estimated at 1.5mmt by market, which is unprecedented since the introduction of AIL import scheme.

In other sugar trade flows, we witnessed a year-on-year growth of 70% in liquid and premix imports, reaching 1.8mmt in 2023. This translated to around 1.3mmt of sugar equivalent supply to market. More than 90% of the volume is exported from Thailand thanks to zero import duty on products under ACFTA, but origins like Brazil and India also contribute to the flow in the form of original feedstock.

Look at 2024, the market is less fascinating and tradable for private refineries this year, with many racking their brains for a way to survive. We expect whites demand, including liquid and premix imports, to remain steady in 2024, while raws import could be a question mark in terms of the actual utilization of out-of-quota.

Macro

With the US economy still going strong, markets are re-thinking how many rate cuts the Fed will make this year. The latest FOMC minutes showed the committee is not ready to kickstart the Fed-fund easing cycle yet, with many Fed speakers reinforcing the case for patience. US data has been coming in above expectations in the past weeks, confirming a soft landing has been achieved. But economic releases over the next few months should reveal whether the current stickiness in US inflation is temporary, or whether it is persistent in nature. This will inform market views on Fed policy and determine whether this year's broad-based USD rally still has legs.

The strong dollar may have had little impact on equity markets, which have been strong thanks to buoyancy in the tech and AI sectors. But commodities have performed poorly, in line with the typical inverse relationship between dollar and commodities. With the exception of some soft commodities (cocoa and coffee), most agricultural commodities weakened this month. Emerging markets have also suffered against the dollar. In Brazil, the first reading of the year brought a positive surprise for tax revenues, with January's federal tax collection coming in higher than expected, thanks to a positive GDP print. Still, the BRL has been languishing at the high 4.90s for much of this month. Given a later-than-currently-expected FOMC easing, the Brazilian fiscal and election calendars all add depreciation risks in 2024.

Oil prices remained fairly rangebound this month in the low $80s/lb, albeit higher than a month ago. The delays to potential US interest rate cuts, weak economic data out of China and healthy US crude stocks have been weighing on markets, offsetting both geopolitical risks and a boost from a potential extension to OPEC+ supply curbs. The outlook from here will depend on further escalation (or de-escalation) of tensions in the Middle East, as well as Chinese economic health. If not, crude oil prices should keep trading at around current levels into March too.

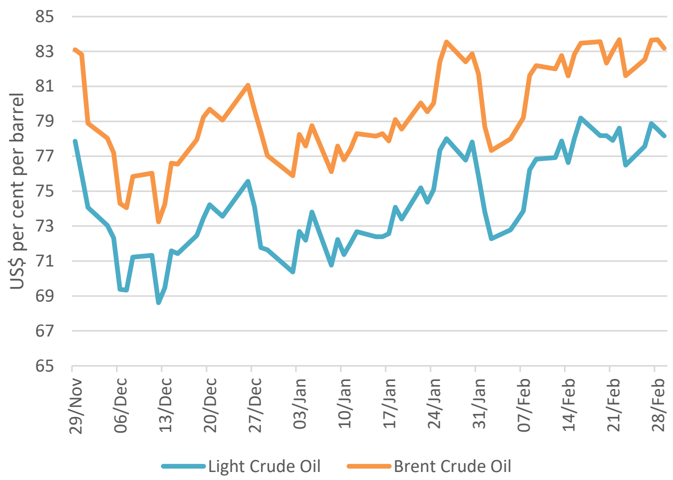
Research

Monthly Sugar Note

29 February 2024

Figure 7: US Dollar Index (DXY)

Figure 8: Oil prices



Source: Reuters, ED&F Man Commodity Research

Prices Tab

New York #11				**London #5**			
(cents/lb)	28-Feb	31-Jan	% change	*($/tonne)*	28-Feb	31-Jan	% change
Mar (24)	24.01	24.13	-0.5%	May (24)	635.0	652.2	-2.6%
May (24)	22.69	23.25	-2.4%	Aug (23)	620.4	636.3	-2.5%
New York #16				**White Premium**			
(cents/lb)	28-Feb	31-Jan	% change	*($/tonne)*	28-Feb	31-Jan	% change
May (24)	41.00	41.49	-1.2%	May/Mar	105.7	120.2	-12.1%
Jull (24)	41.24	41.50	-0.6%	May/May	134.8	139.6	-3.5%
Macro				**Currencies**			
Indicators	28-Feb	31-Jan	% change	*Against US$*	28-Feb	31-Jan	% change
CRB	275.3	272.4	1.1%	Euro (EU) *	1.084	1.082	0.2%
Gold	2,035	2,037	-0.1%	Pound (GB) *	1.266	1.269	-0.2%
Brent Oil	83.68	81.71	2%	Real (Brazil)	4.968	4.953	-0.3%
Baltic Dry	2,041	1,398	46%	Rupee (India)	82.90	83.10	0.2%
Handysize	686	591	16%	Rouble (Russia)	91.55	89.95	-1.8%
				(* rate is US dollars per FX)			