ED&F MAN EST. 1783 | Research

Monthly Sugar Note

27 March 2024

Markets

March sets the transition between the end of the Northern Hemisphere crops and the start of the C/S crop of Brazil. At present, the market is aware of the size of the Indian and Thai crops, but is unsure how dryness will impact the next C/S Brazil crop, which will start in the next days.

After the poor monsoon, the India crop had begun with low expectations, resulting in the government changing the ethanol program to avoid any potential shortages of sugar; but the late rains that delayed the start of the season proved to be good for the cane that is currently being harvested. As a result, the crop which was first projected to be close to 30mmt will now be above 32mmt. According to ISMA, up to mid-March, the country has produced 28mmt of sugar, 0.6% lower YoY, with 375 mills still operating, 54 more than the same period last year. The better-than-expected crop results are leading some mills to ask for an end to India's export ban. This would be negative for price sentiment, but is unlikely for now.

Figure 1: Sugar production changes 22/23 vs. 23/24

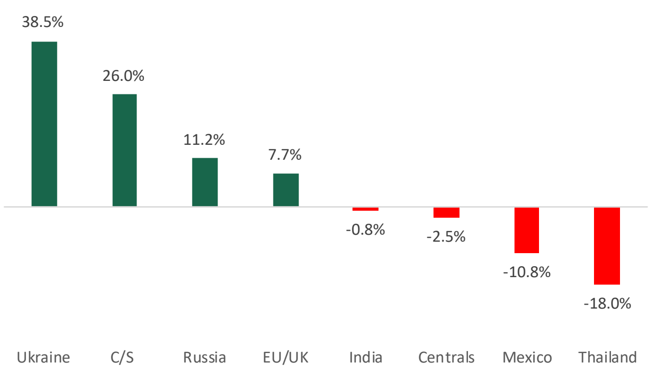
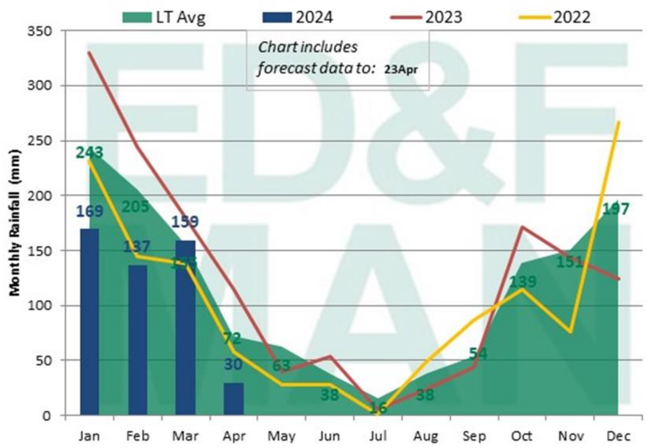


Figure 2: C/S Brazil rainfall



Source: ED&F Man Commodity Research

Thailand proved again that the tail of the crop is always a surprise. As of now, only 2 mills are still crushing and sugar production (before remelting) is about 8.7mmt, almost 1mmt higher than the value expected at the start of the season.

Similar to India, production in the Centrals were also impacted by late rains; but unlike it, sucrose content was low, resulting in lower production in Guatemala. Mexico, as expected, should have a crop of just over 4.5mmt, significantly lower than originally expected. Elsewhere, the EU/UK is seeing some production growth while Ukraine and Russia crop are finishing with good production volumes of 1.8mmt and 6.8mmt, respectively.

In the case of Brazil, the market is aware that rainfall has been lower than average in the past 3 months, but the impact that it will have on agricultural yields is yet to be revealed. For the time being, we expect a 10% drop in agricultural yields, which may result in a crop of about 600mmt of cane, almost 60mmt less than last year. Lower cane will be partially compensated by an increase in the sugar mix due to investment in crystallization, while the hot weather should support higher ATR values. All in all, Brazil may produce just under 42mmt, a quantity we consider sufficient to meet demand. Nevertheless, if any of the production factors (cane, sugar mix and ATR) end up being lower than expected, we could see higher sugar prices.

We believe that logistics are likely to be less of a risk for Brazil in the coming season compared to last. The smaller grains crop, combined with various port solutions created by producers, may be enough to allow a good flow of exports, weather permitting. Ethanol remains uncompetitive for millers, while sugar stocks are at historical levels.

All in all, we see a global market that is balanced for the time being, which suggests neutral prices for the next months. Unless politicians from India surprise us, we believe that the first crop numbers out of Brazil will be the main driver for prices in the coming weeks. We should be alert to all production aspects at C/S Brazil’s cane fields to have more clarity on the market during 2024.

Fundamentals

- **Brazil C/S:** The weather during the intercrop period continues to be concerning, as cumulative rains from October to March are around 30% lower than last year. The full impact of this dryness is yet to be determined, but crop estimates continue to trend lower and lower. The market is working with a 24/25 crop close to 600mmt of cane. This is based on a considerable drop in agricultural yields. Still, with good ATR levels and sugar mix increasing above 51% levels, sugar production is expected to be just over 41mmt. While the dry conditions may be a problem at the fields, it has helped a lot with the exports over the past months. The fast export pace has reduced C/S ending stocks to only a small surplus; and for the following crop, just balanced. March exports should finish close to 2mmt (vs previous record of 1.66mmt). Although all eyes are on the new crop development, the 23/24 C/S Brazil season still has a month to go. The cumulative crush until the end of February reached 647mmt vs 543mmt same time last year, with sugar production at 42.2mmt vs 33.6mmt. March production should remain relatively in line with historical average, as most of the cane to be left uncut (bisada cane) was processed during Q4/Jan.

- **India:** Sugar production up to 15 March was 28.1mmt, down 0.6% from last year. On a cumulative basis, sugar production was down by only 181kt YoY, and on a fortnightly basis, up 129kt YoY. In the upcoming fortnight to 31 March, the expected sugar production should be 29.97mmt vs 30.04mmt last year. This is nearly the same on a cumulative basis and around 100kt higher sugar production on a fortnightly basis compared to the same time last year. Indeed, in Maharashtra, sugar production up to 18 March is 10.28mmt (vs 10.34mmt last year). Out of the 207 mills in operation this season, 110 mills in Maharashtra have ended their crushing so far, compared with 148 mills that were closed during the same time last year. Another 80-90 mills are expected to close by end March and 17-20 mills by mid-April. In Karnataka, sugar production up to 15 March was 4.8mmt (vs 5.35mmt at the same time last year). In Karnataka, out of 72 mills in operation this season, 68 mills have ended crushing, with the remaining 4 mills to close within this week. In Uttar Pradesh, sugar production up to

15 March was 8.8mmt (vs 7.89mmt at the same time last year), higher by 906kt YoY mainly because of an early start and lower diversion towards ethanol. Out of the 117 mills in operation this season in Uttar Pradesh, 20 mills have stopped crushing vs 10 mills a year ago. Currently, the domestic sugar prices in central west India are around 34500 to 35000 INR/MT. With the likely higher production and higher ending stock, domestic prices are coming under pressure.

- **US:** March WASDE report reduced US ending stocks for the season by 95k MTRV to a theoretical balanced level of 13.4% STU ratio. The SnD changes included a cut of 98k MTRV on production (-141k on beet with a +43k on sugarcane); and on the imports side, a drop in the Mexican quota by 121k MTRV to 604k MTRV (570kt tq) on lower availability of sugar in general and of low pol raws more specifically (as at least 70% of the quota must be this quality). This was mostly offset by the recently announced 125k MTRV additional raws TRQ. On top of this, exports were kept unchanged while there is a strong flag for upside. All in all, the main question remains how much sugar Mexico will be able to supply. The recent increase in TRQ already shows how limited the upside can be from these mechanisms as it is a bit late in the season to find much new supply available to arrive before Sep 30th, while high duty imports continue to flow at full speed.

- **Mexico:** Up to week 23, or March 9th, about half of the 2023/24 crop acreage had been processed. The figures have improved but remain concerning on the sucrose side, which is 8.5% lower YoY. Agricultural yields on the other hand saw gains of 1.8%, resulting in sugar production per hectare 6.8% lower YoY (compared to -8.6% a month ago). The harvest area is about 6% lower YoY and this should be a major factor for this season. Conadesuca has recently released a new estimate pointing to a 7.3% reduction in acreage as some fields are just too bad to be harvested. All these factors have resulted in sugar production of 2,705kt, 13% lower YoY. Refined production is only 4% lower YoY, Estandar is 7% lower and the main reduction remains on the low pol raws side, -49% YoY, with only 239kt produced. Exports to the US remain delayed vs last year, but have recently picked up. Low pol raws nominations for the season have already reached 211kt, almost all of which has been produced so far. Imports continue to be strong, as expected, and recently a new bulk raw vessel from Brazil was announced for April.

- **Centrals:** The market estimates a crop close to 4.8mmt, which represents a 2.7% reduction YoY. Guatemalan sugar production up to 3 March has reached 1,553kt, 10% behind last year due to harvested area down 6%, and 5% lower sucrose (and despite a 1% increase in agricultural yields). El Salvador's crop numbers are also looking weak when compared to the previous year, with production up to 17 March at 549kt, also 10% lower YoY. This is due to the delayed start and due to sucrose levels being 0.9% lower and agricultural yields 2.8% lower YoY. The pace of nominations has improved, but remain quite delayed when compared to the previous crop for both bulk raws and bagged sugar.

- **EU/UK:** The European Union's 23/24 crop has concluded, and production estimates remain within the range of 16.3-16.5 mmt. The UK harvest has been delayed due to increased rainfall in February and March, but it should end by the last week of March. The planting season for the 24/25 crop is approaching, and some countries plan to begin planting by April. Rainfall in the EU persisted until the end of February, while March saw a decrease in rainfall, which may allow beet planting to begin soon. Due to reduced winter crop plantings, good soil moisture levels in the main beet-producing countries in the EU and high prices being offered for beets, there will likely be an increase in the 24/25 season beet acreage of 3-5%. This increase should lead to production of approximately 1 mmt above the 23/24 crop. However, weather and disease monitoring will continue to play a crucial role in the 24/25 crop. The ITB beet institute in France has warned that aphids are expected to arrive earlier than usual this year, and farmers are advised to destroy any beetroot that may have yellow disease before planting for the 24/25 season begins. The question remains if weather conditions will permit plantings to begin on time, or whether there will be another delayed crop.

- **CIS:** A new restriction was imposed on Ukrainian sugar entering the EU recently. The quota for Ukrainian exports starting in 2025 should be close to 300 kmt. At the same time, any exports from June to the end of 2024 will be at full duty to enter the EU. Despite this restriction, Ukrainian sugar beet acreage is expected to increase by 30-50k ha, resulting in an additional 200-300 kmt of sugar. With the EU limiting imports from Ukraine, Ukrainian sugar will now need to find homes in the world market. It has already been exporting to countries other than the EU, but in small volumes. Now these quantities are expected to increase as they will have excess sugar given the EU quota. The question now is the logistics of exporting to the world market with higher quantities coming into play. Elsewhere, Russia has ended its crop at about 6.8 mmt for the 23/24 season. In the need to export this bumper crop, Russia has exported about 440 kmt of sugar by rail alone, compared with the 164 kmt exported at the same time last year. The Russian Ministry of Agriculture has come up with a decree to ban sugar exports from Russia until August 31, 2024, except for sugar exported to the Eurasian Economic Union. The ban will put a strain on countries like Azerbaijan, Uzbekistan, and Kazakhstan, which depend on exports from Russia and will now have to find new avenues to import sugar.

Focus – Thailand

Thailand is currently concluding the 23/24 crush season with 3 mills still crushing as of 24th March 2024. Based on the projections of the capacity of the mills still left crushing and the estimated mill closure date, we're likely to see a final cane crush of about 82-83mmt which is about a -13% drop year-on-year.

While this number is quite close to the estimates done by OCSB and Thai Cane Committee back in Aug 2023, the market was working with a lower consensus number due to the extreme dryness related to a strong El Nino and poor initial crush results from the North and Central region. Perhaps the story for the 23/24 crush was a disappointing sugar yield of about 10.67% vs the recent years, where sugar yields were between 11% to 11.7%. This is a big factor impacting sugar production, as a 1% decrease in sugar yield on an 83mmt cane crop would mean a lower sugar crop of 830k.

High temperatures were a key reason for lower sugar yields as heat stress resulted in short internodes, higher stalk fibre and ultimately lower sucrose. Crush data also showed sugar yields started to disappoint sometime in mid-December. This may have also resulted in more leaves within the cane weighing process, in a season where extreme dry spells have led to very poor agricultural yields in the North and Central regions. This means that despite the lower use of burning, which has improved sugar yield in recent years, this effect was more than offset by the various negative factors explained above.

Figure 1: Daily sucrose content (cumulative)

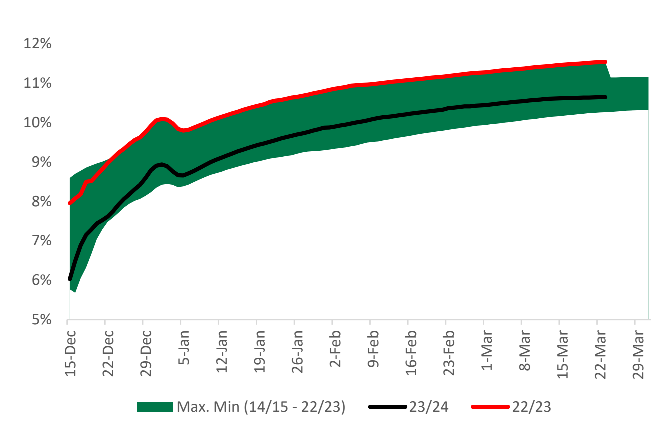
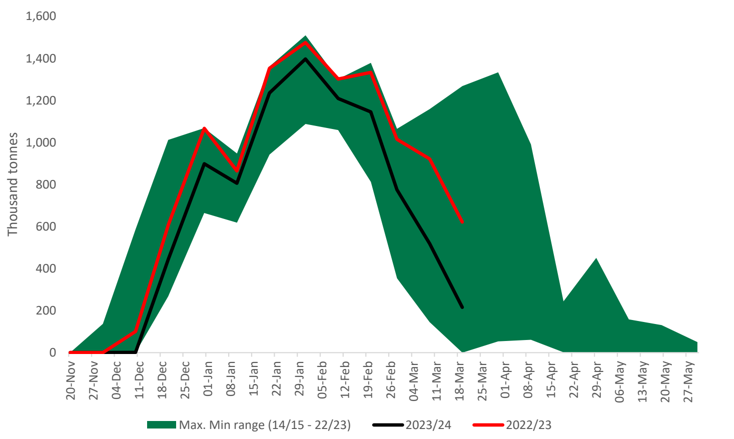


Figure 2: Decadal sugar production



Source: ED&F Man Commodity Research

On a regional basis, the North-East has done well relative to North and Central, with a crush that is coming close to 22/23 levels whereas the North and Central regions have fallen far below. The main reason is due to favourable rainfall distribution during the cane growth phase back in mid-2023, where the North-East received near normal rainfall volumes while other regions were in a severe deficit.

Looking ahead to 24/25, the lack of sufficient rainfall in the current planting phase is somewhat of a concern although not as bad as the disastrous years of 2019 and 2020. However, better rainfall evolution through the next few months is important for cane growth. On cane area, despite the increase of cane prices, our study suggests that it still might not be a decisive enough change to convince farmers to plant cane instead of cassava, given that cassava prices have also been on the rise since mid-2023. Assuming some overall improvement in rainfall as El Nino starts to lose strength, we might have a cane crush range of between 90-100mmt.

Macro

As we end the first quarter of 2024, we see that markets have performed far above expectations. Equities, led by the tech and AI sectors, have been the runaway top performing asset class. But commodities have not done badly either, with the CRB index rising 10% in the first three months. This strong performance has been despite the US dollar and treasury yields also strengthening over the period. This reflects the positive sentiment over the world economy and optimism over interest rate cuts. These factors, combined with easing inflation, are now seen as key in achieving the much-coveted soft landing. Tied with excitement over the business opportunity in artificial intelligence, investors have been betting on continued growth not just in equities, but also in the growing demand for commodities.

Figure 7: YTD asset performance has been strong

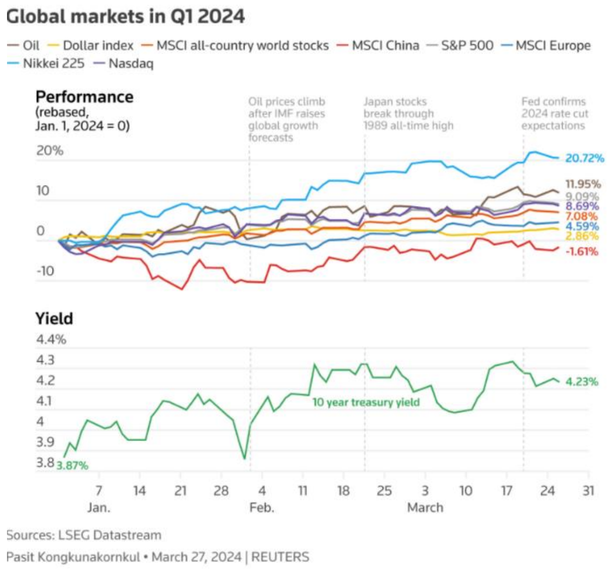
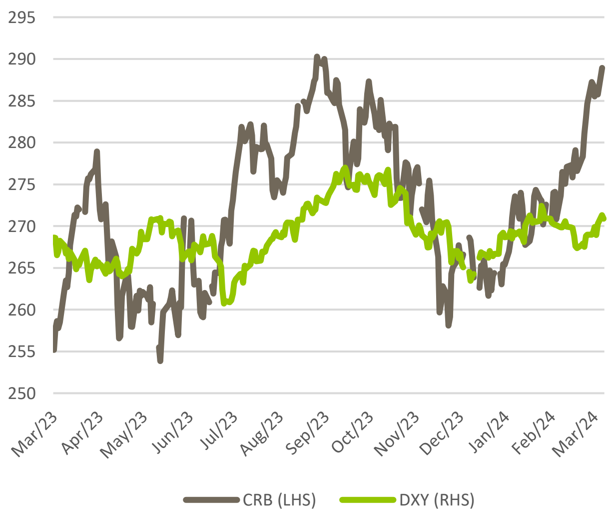


Figure 8: Commodity and Dollar index both up



Source: Reuters, ED&F Man Commodity Research

Crude oil is now over $87/bbl thanks to OPEC+ cuts as well as geopolitical risks in the Middle East and Ukraine/Russia – offsetting previous concerns over slow demand from China. Unlike the USA, the latter economy remains weak and lacklustre, and we have seen a sharp fall in iron ore prices as demand for steelmaking plummets as the property sector there weakens. But we have seen a surprising surge in copper and other base metal prices too – perhaps driven by supply-side tightness as well as nascent demand for green/ESG transition metals. Gold prices have reached record highs as the market anticipates easing monetary policy, as well as on strong central bank buying. Grains remain weak as the Brazilian harvest and comfortable US inventories weigh on the market – but there is a sense that

a trough may be set as we enter the northern hemisphere “weather market”. Cocoa, up a whopping 100% in the past three months alone, has been the stellar performer, but coffee prices have held up well too, alongside other softs.

As we enter the second quarter, the macro environment appears to offer a more supportive backdrop for risk-taking. As market confidence is buoyed by recent dovish Fed messaging and broadly falling inflation, stocks and commodities could continue to firm. A strong dollar could be a headwind though, and provides a downside risk. This would be especially so if US inflation proves to be stickier than expected, causing the Fed to cut rates more slowly than expected. This would be bearish for the Brazilian real, which has struggled to move out of the 4.85-5.05 range year-to-date.

Prices Tab

New York #11					**London #5**				
(cents/lb)	25-Mar	29-Feb	% change		*($/tonne)*	25-Mar	29-Feb	% change	
May (24)	21.95	21.69	1.2%	↑	May (24)	641.4	615.1	4.3%	↑
Jul (24)	21.66	21.53	0.6%	↑	Aug (23)	615.8	600.8	2.5%	↑
New York #16					**White Premium**				
(cents/lb)	25-Mar	29-Feb	% change		*($/tonne)*	25-Mar	29-Feb	% change	
May (24)	40.32	41.00	-1.7%	↓	May/May	157.5	136.9	15.0%	↑
Jull (24)	40.32	41.24	-2.2%	↓	Aug/Jul	138.3	126.1	9.6%	↑
Macro					**Currencies**				
Indicators	25-Mar	29-Feb	% change		*Against US$*	25-Mar	29-Feb	% change	
CRB	288.9	275.1	5.0%	↑	Euro (EU) *	1.084	1.080	0.3%	↑
Gold	2,171	2,043	6.3%	↑	Pound (GB) *	1.263	1.262	0.1%	↑
Brent Oil	86.75	83.62	4%	↑	Real (Brazil)	4.975	4.972	-0.1%	↓
Baltic Dry	2,123	2,111	1%	↑	Rupee (India)	83.41	82.90	-0.6%	↓
Handysize	792	708	12%	↑	Rouble (Russia)	92.90	91.50	-1.5%	↓
					(* rate is US dollars per FX)				