ED&F MAN EST. 1783 Research

Monthly Sugar Note

31 July 2024

Markets

Macro was dominated by political events this month, starting with the French elections that weighed on the euro, and ending with major twists and turns in US presidential race with commodities falling hard. The dollar remained firm amidst the uncertainty, although US treasury yields eased back as latest US inflation figures showed further signs of cooling. Growing expectations that the Fed will finally be able to reduce rates initially weighed on the US dollar, before being offset by the so-called “Trump Trade”, as markets started to trade a Trump win, with his policies of lower taxes, high tariffs and low immigration - all of which are considered inflationary. Commodities suffered during July, following weak demand from China and rising inventories. A rally in the JPY led to the unwinding of carry trades, which led to a sell-off in many EM currencies. The BRL suffered again in July, one of the worst performing currencies YTD.

Against the weaker macro backdrop, sugar prices eased MoM. Global supply prospects have been improving, adding to the bearish sentiment. In India, the monsoons continue to be positive for cane development. In Maharashtra, the monsoon is now running 23% above average, while in Uttar Pradesh it is 3% higher. The good rains, along with higher ending stocks (which should be 3mmt above last year at the end of the season), are leading producers to ask the government for an end to the ban on sugar exports. For the time being, we still believe the ban to remain until the government has more clarity on the next crop - but we note some analysts are already assuming some exports out of India at the end of the year.

Figure 1: India – Rainfall Departure than Normal

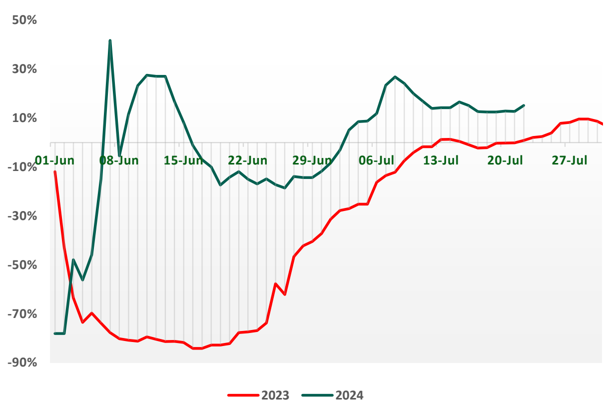
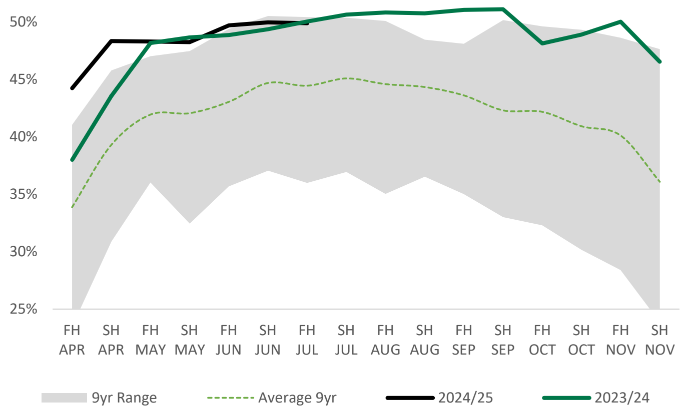


Figure 2: C/S – Sugar mix evolution



Source: UNICA and ED&F Man Commodity Research

We have completed our first ever crop tour in Thailand. Our team visited 22 cane producing provinces across North, Central, NE and East regions and interviewed 71 farmers and 9 Sugar Mills. These provinces account for nearly 82% of the cane area in Thailand. According to the crop tour findings, cane acreage is 6.7% higher than the past season, while yields are projected to increase 6%. As a result, cane production will be close to 93mmt, 13.1% higher than the past season.

Meanwhile in the Western hemisphere, Brazil's crop continues to show strong progress thanks to dry weather in the C/S region. The market had been worried about the crop following lower-than-expected sugar mix figures during the past few Unica updates. In the first half of July, sugar mix ended at 49.9%, below last year's 50%. With that, sugar mix is unlikely to surpass 50% at the end of the season, considerably lower than expected by the market at the start of the season (of 52%). However, the latest agricultural yields figures have been resilient, falling less than expected by the market, suggesting that the cane volume in the 24/25 crop will pass 600mmt (vs. 654mmt in 23/24). This cooled any talk of supply limitations for a while, adding pressure to flat prices, which fell close to 18 c/lb.

Sugar prices remain at the behest of supply-side developments, and future crop updates from Unica will likely dictate where sugar prices head next. But what we can be sure of is that the tail of the C/S season will be short and the transition to the north hemispheres crop might be longer than usual. But a crop close to 620mt should be enough to meet the World demand until India and Thailand come to the market.

White sugar has been performing better than expected, especially considering record exports from EU, with over 200kt being exported in May, and large volumes of raw imports into the MENA refineries during the first half of 2024. Add to this, strong export availability of white sugar from Ukraine as well, we wouldn't be surprised if the WP comes under pressure in the coming weeks.

Fundamentals

- **Brazil C/S:** The dry conditions observed in Brazil during the first half of 2024 have resulted in a strong pace of harvest and exports. However, it should negatively impact cane yields in the second half of the year, as well as cane planting, which may result in lower sugar production in the 25/26 crop. Up to the mid of July, C/S crushed 282mmt of cane, 8.7% higher YoY. Sugar mix was lower than expected due to high fibre content and elevated ATR observed at the start of the season. As a result, sugar mix is only 0.7p.p ahead of the past crop, at 48.9%, a low figure when considering a third of the mills invested in sucrose production capacity in the past year. ATR is similar to last crop, at 130.6kg/ton. All in all, sugar production is almost 1.6mmt ahead of last season at 17.1mmt. Despite the lack of rain, producers managed to achieve decent agricultural yields in June, which ended close to 90 ton/ha, 1.7% lower than the past season. The latter supports a cane production figure of over 600mt for the current season and suggests values above 620mmt may be achievable. Sugar production is projected close to 41mmt. We should expect lower cane figures for the next season (25/26), as the dryness will certainly impact in the planting of 18-month cane which happens in the first months of year.

- **India:** The rainfall distribution across the main sugar-producing regions of central west India (Maharashtra, Karnataka, and southern states of India), which account for around 60% of India's sugar production, has all experienced above-normal rainfall. As of July 23rd, the precipitation in Maharashtra weighted by sugarcane areas is 23% above average, while in Karnataka it is 22% above average. The rainfall in Uttar Pradesh, weighted by cane area, is 3% higher than normal. The improved rainfall distribution will help the agricultural yields for the current 24/25 season, however due to the increased ratoon cane proportion in central west India, we are unlikely to compute the potential agricultural yields. Overall, the 24/25 season recorded a 20-25% reduction in acreage YoY, primarily in Maharashtra and Karnataka. This, along with reduced agricultural yields due to a greater ratoon crop share, will likely translate into a decrease in production compared to last year. Any further upside in crystal production will be moved to ethanol. The above-average rainfall is favourable for planting for the 25/26 season. The major reservoirs, which provide water for irrigation in Maharashtra and Karnataka, have increased by 15% and 30%, respectively, compared to June. It will be important to watch the Aug/Sep rains to determine potential sugarcane plantings area for 25/26 season. Given the improved rainfall in all producing regions, as well as the good stock availability for domestic consumption, the market has softened since June. The domestic market is now trading around 36000 to 36500 INR/MT in the Central West states and 37500 to 38000 INR/MT in the northern part of the country.

- **Asia:** Thai rainfall seems to be recovering since the start of July, mostly in the second half, up by 60% YoY from what it received in the same period last year. This is an improvement from the El Nino conditions contributing to dry and hot weather in the second quarter of the year. The key region in the Northeast has the weakest improvements in rainfall, as compared to the Eastern regions, with constant rainfall weekly over July up till date. Following our recent crop tour, Thai sugarcane production for crushing is estimated to increase 13.1% from 2023/24 to 2024/25. In terms of demand, we are anticipating the release of an additional Q4'24 import permit in Indonesia due to increase in demand, and the approval of the import program from Philippines in Q3'24 for refined sugar with an aim to stabilize domestic prices and boost domestic stock levels.

- **Centrals:** Central American sugar production ended the 23/24 season with mixed figures across the countries. The main sugar producer of the region (Guatemala) produced 2,538kt of sugar, 2% higher than the previous crop. Nicaragua's sugar production was also higher, reaching 774kt, about 24kt lower than the previous crop. According to the local producer association (CONSSA), El Salvador produced 754kt of sugar in the 23/24 crop, down from 787kt last season and a 6-year low due to poor weather and a lower area. Centrals have registered abundant volume of rains in June which may be positive for the cane development during the next season.

- **EU/UK:** The EU Commission released its latest JRC MARS report which confirmed what we all have been seeing with the weather. Western EU has experienced heavy rainfall, while the eastern part is facing both dry and wet conditions. Despite increased acreage, production may still be affected due to yield variability. Germany has been hit particularly hard by the rains, with one of the wettest periods on record. Reports from Strube indicate that beets are larger than average due to excess water absorption, leading to lower sugar content in the initial tests. This is likely a preview of conditions in western EU regions. The Netherlands also suffered from the rains, with only 98-99% of the estimated acreage being planted. However, France has surpassed initial expectations, with farmers planting 411 kha compared to the expected 398 kha. In terms of exports, May saw one of the highest volumes since 2018, with significant quantities shipped to countries like Israel, the United Kingdom, and Lebanon. Import activities have experienced a slowdown, which we anticipate will persist through the 24/25 campaign.

- **CIS:** Ukraine's crop is developing well, and the harvest should start by end August to mid-September. It's been quiet in Ukraine, given the export ban to the EU, however there have been flows to the world market. It would be interesting to see how much Ukraine realistically exports to the world market this season, as it will give us some insight for the 24/25 season. Over in Russia, we received the second beet test for the beet crop. Overall, the root weight is good and higher than the long-term averages. However, the top weights have not been developing as fast as the roots. Top weights were at 230 g compared with 298 g last season. There has been quite a bit of dryness in the Southern part of Russia, but central Russia has received weather which will be conducive for the beets.

Focus – North America

Figure 3: US sugar imports per type of quota

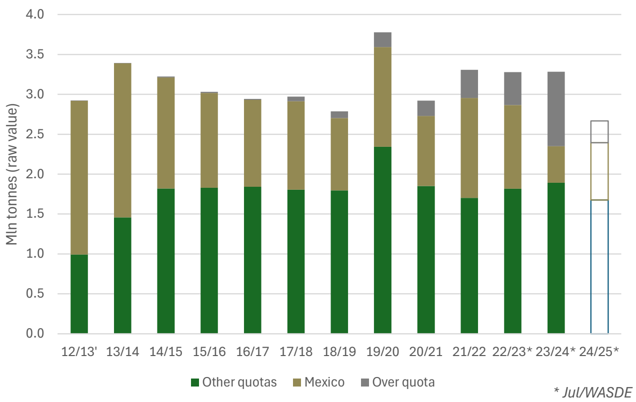
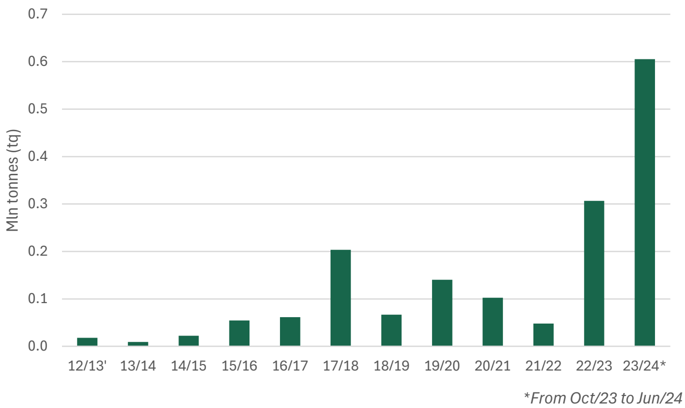


Figure 4: Mexico sugar imports



Source: USDA, Conadesuca and ED&F Man Commodity Research

After 3 years of absence from the World export market, Mexico may be making a return. The country could find itself exporting to countries outside the US next season even with the prospects of a small crop. This would be due to the higher-than-expected volumes of sugar that the US and Mexico imported in the 23/24 crop, which is resulting in high stock levels in the North America region.

According to the latest WASDE report from the USDA, the 23/24 crop should have a stock to use ratio of 15.6%, considerably above from the USDA target of 13.5% - indicating the US market is over supplied. Although Mexican exports to the US were a record low at 457kt Raw Value (RV) during the season, the over quota import imports (TR2) more than compensate for the absence of the Mexico sugar. TR2 imports reached a record of 933kt RV, 126% higher than the volume registered in the crop 22/23. As a result, the US will start the following season with high opening stocks and assuming normal production and no consumption increase as projected by the USDA, the Mexico quota is estimated at 717kt, about 260kt higher than last season, but still low for a country that exported to the US, on average, 1.2mmt RV over the past 13 years.

The low presence of Mexican exports to the US in the 23/24 crop results from the record low crop the country reaped, which ended at 4.7mmt, 500kt lower than the previous crop. Similar to the US, Mexico became an appealing market for exporters of sugar from the World Market as domestic prices reached a record, providing arbitrage opportunities to importers. From Oct/23 to Jun/24, Mexico imported over 600kt of sugar, flooding the domestic market and also resulting in high ending stocks. The latter should be close to 1.3mmt at the end of the current crop, almost 500kt tonnes higher than last season.

All in all, Mexico should also start the season with high stocks and even in a scenario with a small production increase, we may see the country exporting to the World Market. Assuming a production of 5mmt, Mexico could easily send more than 100kt to the World Market – something that can change the dynamics of trade in the Americas region. Centrals would lose import demand from the neighbouring country and the region may also have to compete for Mexican markets such as Canada. At the same time, Brazil may also have to compete with Mexican sugar in destinations like Canada, Morocco and the Black Sea.

Macro

July was not a great month for commodities, which fell around 10% from June. Political uncertainty and some profit-taking ahead of the summer vacation led to a sharp fall in equities too (with the greatest losses in the over-valued tech sector), whilst boosting safe haven currencies. Meanwhile, a strong yen led to the unwinding of bearish JPY carry trade bets ahead of today's hike in Japanese interest rates, hurting emerging market currencies as well. The dollar remained resilient throughout the month, although not necessarily higher MoM, due to cooling inflation trends. The Brazilian real, the worst performing currency in 2024, weakened further to 5.7 against the dollar on ongoing scepticism that the Lula government will be able to reduce Brazil's primary deficit.

Further evidence that US inflation is abating is contributing to growing calls for the Federal Reserve to lower rates. Markets have fully priced a 25-bp reduction in the Fed Funds rate for September, something likely to be repeated by the European Central Bank too. The Fed's preferred gauge of inflation, the personal consumer expenditure (PCE) price index, is getting closer to the 2% target, and there are signs that the tight US job market is beginning to loosen a little too. Although US GDP in Q2 2024 came in higher than expected, it may be a challenge to maintain this in Q3 too. Eurozone GDP also managed to eke out a 0.3% higher than expected gain in Q2, but Germany contracted by a disappointing 0.1%. With Chinese economic data also coming in week, we are seeing demand pressures on commodities.

Crude oil has retreated to a fresh seven-week low following a deteriorating outlook in China, and decent inventories generally. This allowed WTI to fall to below $75/bbl despite continued tensions in the Middle East, with possible fear of escalation to Lebanon. The Bloomberg commodity index shed all of its gains this year as a challenging outlook in China, a selloff in US natural gas and losses in grains and oilseeds, weighed on raw materials. The index is on course for the worst monthly performance since May 2023. A steady-but-sluggish global economy is offering little respite on the demand side, while cooling inflation means demand for commodities as an inflation hedge is also limited.

Figure 5: Equities weakened have finally weakened

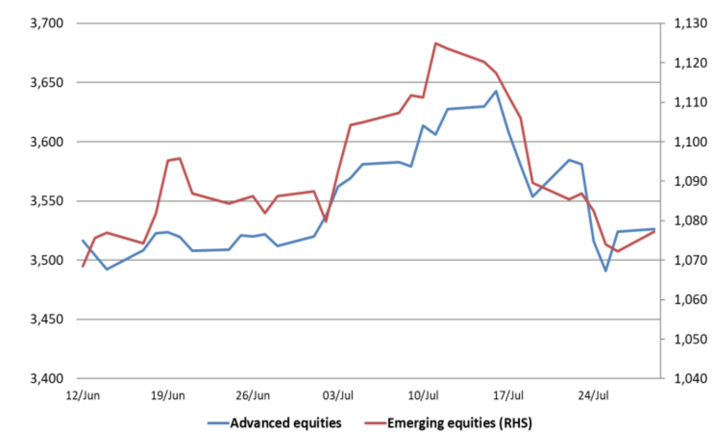
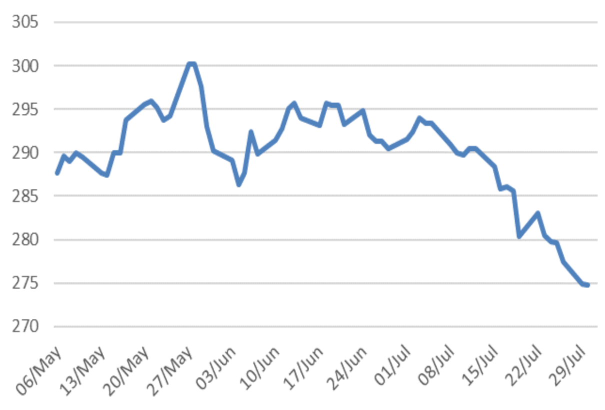


Figure 6: July saw the commodity index sell off



Source: Reuters, ED&F Man Commodity Research

Prices Tab

New York #11					**London #5**				
(cents/lb)	29-Jul	28-Jun	% change		*($/tonne)*	29-Jul	28-Jun	% change	
Oct (24)	19.01	20.30	-6.4%	↓	Oct (24)	536.7	574.3	-6.5%	↓
Mar (25)	19.32	20.59	-6.2%	↓	Dec (24)	524.9	562.1	-6.6%	↓
New York #16					**White Premium**				
(cents/lb)	29-Jul	28-Jun	% change		*($/tonne)*	29-Jul	28-Jun	% change	
Sep (24)	37.24	38.49	-3.2%	↓	Oct/Oct	117.6	126.8	-7.2%	↓
Nov (24)	36.99	38.82	-4.7%	↓	Dec/Oct	105.8	114.6	-7.6%	↓
Macro					**Currencies**				
Indicators	29-Jul	28-Jun	% change		*Against US$*	29-Jul	28-Jun	% change	
CRB	274.9	290.5	-5.3%	↓	Euro (EU) *	1.082	1.071	1.0%	↑
Gold	2,384	2,326	2.5%	↑	Pound (GB) *	1.286	1.264	1.7%	↑
Brent Oil	79.78	86.41	-8%	↓	Real (Brazil)	5.616	5.593	-0.4%	↓
Baltic Dry	1,797	2,050	-12%	↓	Rupee (India)	83.75	83.36	-0.5%	↓
Handysize	759	763	-1%	↓	Rouble (Russia)	86.40	85.75	-0.8%	↓
					(* rate is US dollars per FX)				