Monthly Sugar Note

28 August 2024

Markets

A turbulent macro environment provided a bearish backdrop for sugar prices for much of August, at a time of summer season sluggishness. An initial sell-off in risk markets, following US economic data worries and the unwinding of Japanese yen-funded carry trades, gave way to a more benign macro last week, when the Fed finally indicated that a September rate cut was on the cards.

While the initial macro sell-off certainly influenced the sugar market into weakening in early August, the subsequent risk-on sentiment failed to lift sugar alongside. That is, until the pictures of widespread fires across cane fields in the Centre South of Brazil started to circulate last week. For much of the month though, the sugar market remained trapped in the 18-19c/lb range, despite testing the 17s multiple times, something not seen since Oct/22. Strong Brazilian hedge pressure, weak physical demand, and net selling from funds capped upside moves. The NY net spec short position moved from 1kt net long at the start of July to 71kt net short on 20 Aug, but likely covered some of their shorts in the past few days following Brazil's fires.

Figure 1: Net spec positions vs NY11 futures prices

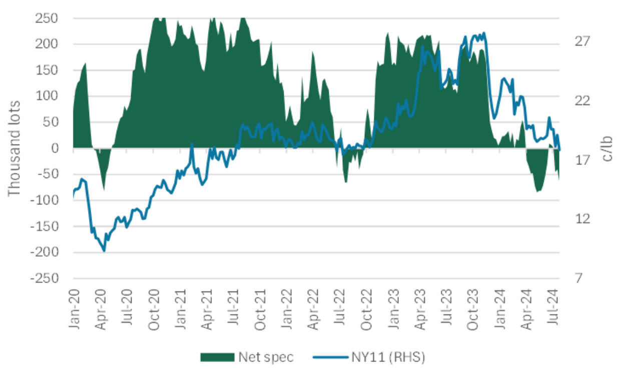
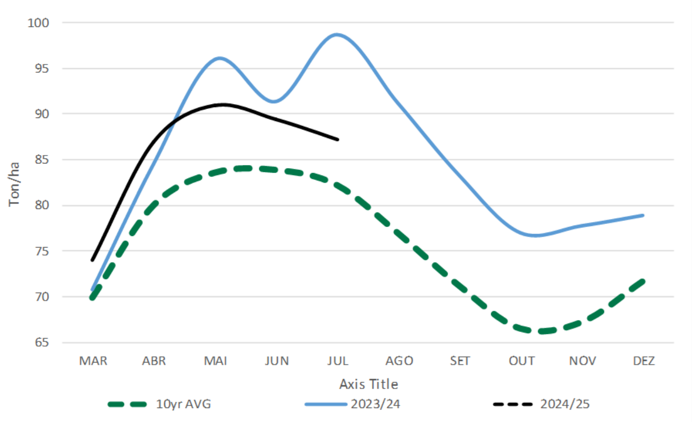


Figure 2: C/S Brazil – Monthly agricultural yields



Source: UNICA and ED&F Man Commodity Research

Encouraging the funds' initial bearish sentiment was the good monsoons in India and improved crop projections for next season. ISMA released its first Indian crop projection for the 24/25 harvest, with a drop in area due to the dryness of the past year. But this was more than offset by strong yields from the good monsoons of 2024, resulting in a gross sugar production of 33mmt. According to the entity, the high level of stocks in the current season and the good production expected for the next season are enough reasons for the government to end the ban of exports. ISMA's message weighed on the market despite the Indian government subsequently saying that no decision would be taken until the end of the rainy period.

While the Indian news may have influenced some of the sugar price behaviour this past month, the C/S of Brazil was once again the main driver of the market. With each UNICA updates, we are seeing the impact of the ongoing dryness in the weather there. On the one hand, agricultural yields have been more resilient than expected by the market, staying above 87 tonne/ha in July. With that, and assuming an area increase, it is reasonable to expect cane volumes of over 610mmt. At the same time, ports are operating at high capacity, resulting in bulk raw export volumes of over 3mmt per month, allowing Brazilian raws to meet the strong demand from the world market.

On the other hand, the hot and dry weather is causing serious alarm bells on the crop outlook. The abnormally high incidences of fires across the SP state's cane regions means many growers cannot get to the cane and harvest it quickly, while in some cases the cane will need to be replaced. The continued dry weather also means that it is getting too late to plant 12-month cane for next year, whilst preventing higher values of sugar mix. Sucrose level has been good, but the quality of the cane has been poor. According to Unica, up to the end of July, the sugar mix was 49.2%, higher than the past season (48.6%) but lower than expected considering the huge crystallisation investments made by mills in the past year. With more than 50% of the crop complete, C/S Brazil is unlikely to surpass a sugar mix of 50%. It was only late last week that the market finally began to price in the substantial risks to the C/S Brazil's agricultural yields at the end of the season. Worryingly, the latest forecasts point to no rains into September too.

India's news and the higher crop figures from Brazil (for now), together with the speculative activity may have been dictating the price moves during 2024 so far, but a potential sudden death of the Brazilian cane crop, combined with low stocks, may support prices towards the end of the year. Assuming India will maintain its ban on sugar exports, we see low supply availability of sugar to the World Market at the start of next year.

Fundamentals

- **Brazil C/S:** Similar to the first half of the season, Unica's July crop update presented strong progress figures due to the dry weather in the C/S cane belt. Up to the end of July, C/S crushed 332mmt of cane, 6.7% higher YoY. ATR values are also higher, at 133.1kg/ton (vs. 132.9kg/ton in 23/24). The sugar mix reached 49.2% (vs. 48.6% in 23/24), a level that is quite low when considering a third of the mills made investments in crystallization capacity. Little by little the market is seeing the effects of the dry weather that the current crop is observing. The weekend's devastating videos and pictures of burning cane fields is one such example. As of the last Unica update, agricultural yields have so far been resilient, reaching a decent level in July of 87.5 ton/ha. Although ATR values are good, cane quality is not, and this will prevent the mills from increasing the sugar mix. As forthcoming UNICA updates provide guidance on how cane yields are faring, we will be adjusting our crop numbers, which in turn will impact Brazil's export volumes.

- **India**: Given good precipitation levels for the development of the next crop and increased water reservoir levels, ISMA released its first 24/25 crop projection at 33.3mmt, only 0.6mln lower than the previous crop. The association estimated the acreage at 5.6mln ha, 6% lower than the past season, but the good weather allowed them to project substantially higher yields. Armed with their forecast for the new season, ISMA asked the government again to end the export ban. However, the government has said any change of direction will be considered only at the end of the year. The Indian government is planning for E5 for diesel and to eventually use biofuels for aviation fuel at a rate of 20%. The latter suggests that ethanol has the potential to gain more demand in the future, displacing potential sugar exports as more sucrose is kept within the country.

- **Asia**: Thailand weather has turned drier in August compared to July, with weaker rainfall in the first half of August. The distribution of rainfall has been uneven over the past month in all regions, although the North-East region notably experienced a 63% decline of rainfall in late July, and a 17% increase in mid-August, as compared to 2023. Despite this, we maintain our crop estimate assuming wetter weather in the second half of August. EPZ demand has increased by two-fold compared to 2023 in July due to strong demand for premix and liquids to China. The approval for the Philippines sugar export program of 25,300 metric tons of raw sugar to the United States has been finally approved for 2024 under the Tariff Rate Quota (TRQ) allocation, with the last export program done in 2020-2021. At the same time, the country is looking to import approximately 200,000 tonnes of refined sugar to maintain domestic prices.

- **US**: The August WASDE projected a record crop for the 24/25 season. According to the USDA, sugar production will reach 8.6mmt raw value (RV), 171kt RV higher than the July forecast and 300kt RV higher than 23/24. Consumption was reduced by 45kt RV to 11.3mmt RV. More importantly, US ending stocks for the current season rose substantially following large imports in 23/24. USDA projected the Stock to Use (STU) ratio for 23/24 at 16.1%, indicating the market is over supplied (a balanced market should have STU at 13.5%). The latter, combined with expectations of a record crop, will require less sugar from Mexico. For the time being, USDA is projecting the Mexico quota at 717kt RV, but we expect this number to be reduced by 250kt to bring stocks to balanced figures.

- **Mexico**: The over-supplied market in the US should push Mexican sugar to the World Market even in a scenario of a low crop. After a dry start of the year, the past two months saw good volumes of rains in Mexico which may result in a crop increase. However, inadequate cane treatment and area decrease should play against a strong crop growth. For the time being, we are projecting the 24/25 crop at 5.0mmt, 300kt more than last year, but 1.0mmt lower than the historical crop level of 6mmt. Similar to the US, Mexico's imports were large in 23/24, taking ending stocks to anything close to 1.4mmt, 400kt higher than the desirable level. All in all, Mexico may have to export 40kt-500kt to the World Market in 23/24.

- **Centrals**: Central America is enjoying an abundant volume of rains during the off-season, which is starting to be a concern for the next crop. We are monitoring the situation without changing in our figures. For the time being, we are considering a small increase in the 24/25 crop of 80kt to just over 5.0mmt. Guatemala saw two mills invest in crystallization capacity, which should result in about 80kt of addition refined production YoY. The same will translate to about 90kt less raw production.

- **EU/UK**: The weather in the EU is a major variable that is confusing analysts' expectations for the crop. Rainfall in the EU was above average until July, but there was a reduction in actual rainfall and forecasts in August. When rainfall decreases and temperatures rise, there is a higher probability of an increase in Cercospora, as observed in the Orleans region of France, which has a significant Cercospora problem. The estimated crop for 24/25 is much higher than the past two years, at a range of 16.2-16.5 mmt. Most of the increase is coming from expansion in acreage while yields remain average, or even below average, in some countries. The crop within and between countries shows significant variability due to weather conditions, leading to the expectation of average sugar content. However, the next few weeks are crucial in the crop's development; if there is sufficient sun, reduced disease incidence, and moderate temperatures, crop estimates can increase sharply. In the UK, the NFU and British Sugar have agreed on a beet price of £33, marking a 17% decrease from 24/25 to 25/26 due to lower sugar prices. A contraction in the area for 25/26 in the EU and the UK is expected.

- **CIS**: Russia's beets are reaching the tail end of the growing period. Some regions in Russia have already started the harvesting and processing of beets. The 5th Russian beet test showed a lower root weight at 388g compared with 451g in 2023 and, a lower top weight at 256g compared with 399g in 2023. However, there is a silver lining as the sugar content has increased to 15.6%, the highest in the last 2 years. Despite the smaller beet size, Russia is still expected to produce a good crop, estimated at 6.2-6.4 mmt of sugar. Russian regions of Balovsky and Krasnoyarsk have been evacuated due to an incursion by Ukraine, which collectively produced around 70kt of sugar last year. This may have a minor impact on the overall crop, and the situation should be closely monitored. Ukraine, on the other hand, exported approximately 10000 tonnes of sugar to the global market in July, bringing their total exports from January to July to 449kt. Ukraine is also approaching the end of its crop, with harvesting expected to begin at the end of this month. The crop faced a heatwave in July, which may have affected the yields. Nonetheless, Ukraine is still anticipated to produce 1.8 million tonnes of white sugar, with a surplus of 850-900kt available for export.

Focus – White premium

Since March 2022 the White Premium has been consistently trading above $100/tonne, and surpassing $150 on some occasions. Nevertheless, recently the difference between refined and raw prices has been trending lower, with the Oct/Dec and Mar/Mar White Premiums testing the $100 levels. What could be behind this move and what should we expect over the next months?

The MENA (Middle East and North Africa) region is a key driver influencing the market. The high White Premiums last year led to a big rise in stand-alone refinery activity, yet refined supply has not been as large as it would seem. The United Arab Emirates have been often seen in the Brazilian line ups, importing over 1.5mmt so far (and possibly reaching 1.8mmt of bulk raw imports to the end of the year). Saudi Arabia and Morocco have also been present, with high imports of raws. In the case of Egypt, lower production reduced the country's ability to export refined sugar, leading it to import record volumes of raws. More important though was the absence of Algeria, which had a prolonged period with low refined exports given the ban of exports introduced by the government just after the pandemic.

Figure 3: Monthly front month White Premium

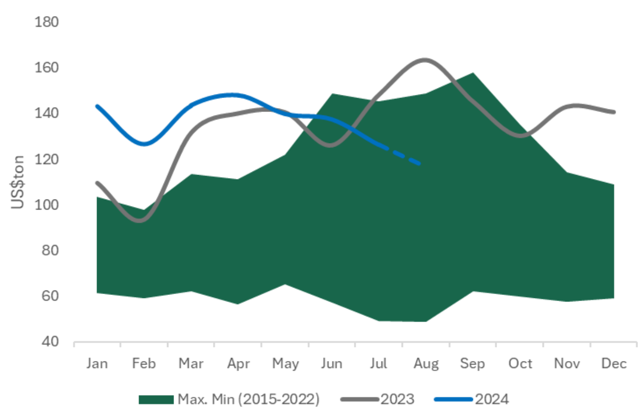
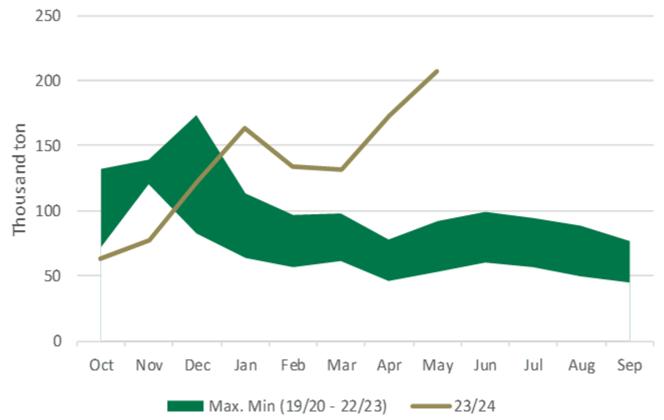


Figure 4: EU monthly sugar exports



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

India’s stand-alone refineries came to the rescue, having also enjoyed the high White Premium in the past two years. However, it is not as competitive as the MENA refineries, given the higher freight costs. Still, considering it could not refine locally produced sugar due to the export ban, India was also a big buyer of Brazilian raws this season, importing close to 3mmt of raws, which ended up as refined sugar and re-bagged raws.

Lately, we have started to see good supplies of white sugar coming out of Ukraine and EU too. The duty free access of Ukrainian sugar into the EU market, combined with a decent 23/24 crop in the EU, pushed EU refined sugar to the World Market in large volumes. In June, the EU put a stop to duty-free Ukrainian sugar imports, which subsequently had to find alternative outlets in the World Market. Assuming another large EU and Ukraine crop in 24/25, this should add more refined supplies to the MENA region in 2025.

Last but not least, is the potentially larger Thailand crop. The market is confident that Thailand will see a bigger crop in 24/25 due to the increase in cane area and reasonable rainfall (as of now) for cane development. Through remelt, Thailand can easily increase its refined exports in 2025, adding more refined to the World market.

All in all, we may be close to a tipping point for the refined market; but as usual, nothing is ever certain in the sugar market. A higher EU crop is not guaranteed, and the same is true for Ukraine. Meanwhile, the tail of the Thai crop always brings surprises, while the latest dry weather spells in Brazil raise concerns for white sugar exports from that origin too.

Macro

The macro environment started the month with some major turbulence following some negative US economic data and the unwinding of Japanese yen funded carry trades, which caused equities, EM currencies and commodities alike to plunge. The VIX reached the highest level since the financial crisis of 2009, while the BCOM index gave up most of the year’s gains, as the Japanese yen soared, causing leveraged trades to be unwound. But the resumption of more positive US data (in particular, cooler inflation figures mid-August) and Fed Chair Powell’s announcement last week in Jackson Hole that “the time has come” to reduce rates, reinjected confidence in the markets.

Figure 5: Stronger EUR vs choppy BRL

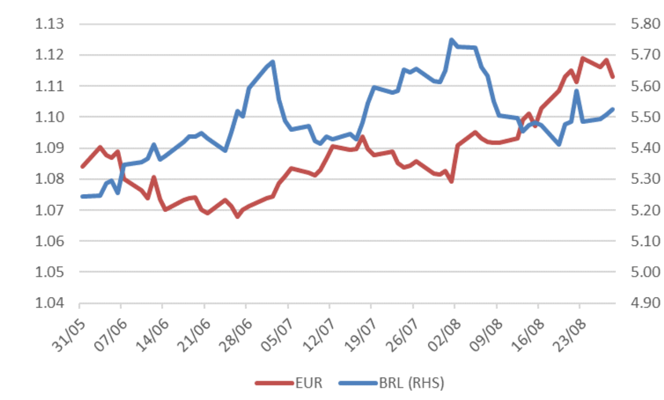
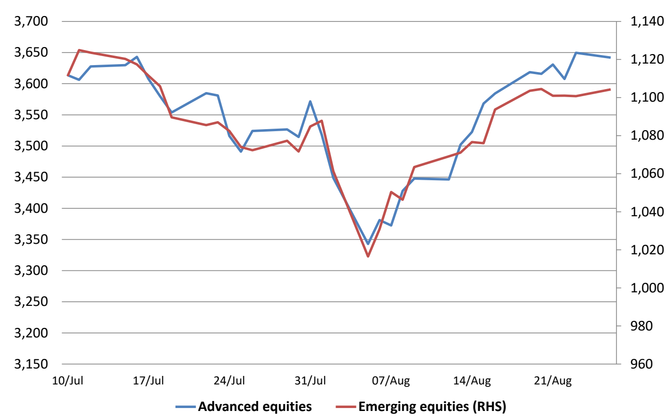


Figure 6: Equities have recovered from earlier lows



Source: Reuters, ED&F Man Commodity Research

With the US no longer expected to fall into recession, broader markets have now recovered much of what was lost. Dovish minutes from the July FOMC meeting have cemented expectations of a September rate cut. The only topics still up for debate seem to be how much the FOMC will cut next month - a 50bps or 25bps cut. Core PCE has declined to 2.6% y/y, and the unemployment rate has increased from 3.7% to 4.3% YTD. Two-year US treasury yields have fallen to around 4% and has exerted significant downward pressure on the USD, which fell to 1-year lows. The euro has emerged as an unlikely winner against the dollar this month, trading at its highest of 1.118.

The BRL suffered deeply early in August, as the carry trade unwind sparked a sell-off; but has since managed to stage a good recovery, reaching lows of 5.4 last week. Brazil's inflation readings are coming in higher than expected, and should Gabriel Galipolo, the expected new head of the central bank, ignore political pressure to cut rates, and hike instead, then renewed investor confidence could help the BRL sustain further gains.

Oil remained surprisingly weak in August despite heightened fears in the Middle East for an escalation in the war. Plans for OPEC+ supply curbs to be lifted in October, alongside poor economic demand in major economies like China, has prevented WTI from rallying past $74/bbl. Grains too have been suffering from oversupply, with good crops in the US Midwest weighing heavily on Chicago futures that have fallen to 4-year lows. By contrast, gold has hit consecutive records since 2022, and has surged over 20% so far this year. Heightened security risks, coupled with political and economic turmoil were the initial bullish triggers, but since then the prospect of US interest rate cuts, pressuring the dollar, has further boosted gold.

Prices Tab

New York #11					**London #5**				
(cents/lb)	27-Aug	28-Jun	% change		*($/tonne)*	27-Aug	28-Jun	% change	
Oct (24)	19.60	20.30	-3.4%	↓	Oct (24)	548.0	574.3	-4.6%	↓
Mar (25)	19.93	20.59	-3.2%	↓	Dec (24)	534.6	562.1	-4.9%	↓
New York #16					**White Premium**				
(cents/lb)	27-Aug	28-Jun	% change		*($/tonne)*	27-Aug	28-Jun	% change	
Nov (24)	35.50	38.82	-8.6%	↓	Oct/Oct	115.9	126.8	-8.6%	↓
Jan (25)	35.80	38.25	-6.4%	↓	Dec/Oct	102.5	114.6	-10.5%	↓
Macro					**Currencies**				
Indicators	27-Aug	28-Jun	% change		*Against US$*	27-Aug	28-Jun	% change	
CRB	280.5	290.5	-3.4%	↓	Euro (EU) *	1.118	1.071	4.4%	↑
Gold	2,525	2,326	8.6%	↑	Pound (GB) *	1.326	1.264	4.8%	↑
Brent Oil	79.55	86.41	-8%	↓	Real (Brazil)	5.508	5.593	1.5%	↑
Baltic Dry	1,721	2,050	-16%	↓	Rupee (India)	83.91	83.36	-0.7%	↓
Handysize	748	763	-2%	↓	Rouble (Russia)	91.50	85.75	-6.7%	↓
					(* rate is US dollars per FX)				