Research

Monthly Sugar Note

30 September 2024

Markets

After months of anticipation, September finally brought financial markets their first Fed rate cut in four years, and with it, a surge in positive sentiment. The lowering of the world's most important interest rates benchmark spurred a strong risk-on move, with stocks, bonds and even commodities soaring over the past weeks. As the dollar eased to multi-month lows, most currencies, including the Brazilian real, appreciated against the dollar too.

While the macro environment was positive for sugar over the past month, it was Brazil that gave sugar a proper fundamental to the market. The country, which has been facing increasingly dry conditions in the past 9 months, is now suffering from several fires across the C/S Brazilian cane belt. According to CTC, fires episodes damaged around 400k ha in the past 30 days. At the same time, there remains little sign of rains in the horizon. As such, the sugar mix, which was already struggling to improve given the poor quality of the cane, may have already reached its peak.

According to UNICA, the sugar mix in the First Half of September ended at 47.9%, well behind the 51% achieved a year ago during the previous crop. According to UNICA, one mill has already had ended the season. Such an early stop indicates that our fears of a short tail to the season may turn out to be true.

Given the above, a C/S Brazil sugar production crop of 39mmt is now more likely to be the case this season. This is 3mmt less than the volume expected at the start of the season. Furthermore, considering the fires and the continued dryness, prospects for the following season are looking worse than before. As such, for the moment we have little reason to project much of a recovery for the 25/26 crop.

Figure 1: Front month sugar daily prices

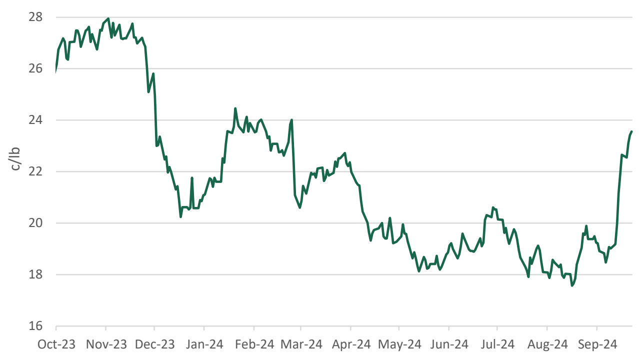
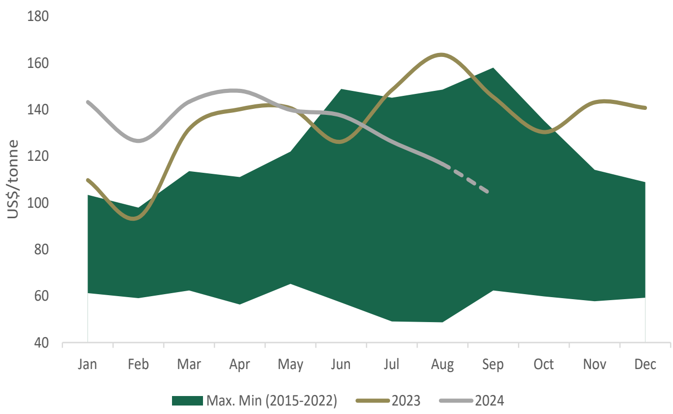


Figure 2: Front month monthly white premium



Source: Reuters and ED&F Man Commodity Research

During the first three months of 2024, Brazil exported close to 6.7mmt of bulk raw sugar, a record for the period during a time when the Thai crop was poor and India was absent from the market. For the first 3 months of 2025, we should see an improvement in Thai sugar sales, but we maintain that India is not likely to be exporting. Meanwhile, C/S Brazil may not have more than 3mmt for exports due to the lower crop and the huge volume of sugar already exported in the past months. All in all, the market appears to have finally changed sentiment, with NY raws reaching 23.5c/lb in the past days, the highest value over the past 7 months.

In the case of white sugar, we continue see good prospects for the next EU crop, with large sales over the past month. At the same time, MENA refineries are still showing good volumes of availability. Ukraine is expected to enjoy a significant export pace given the new crop and the stocks from the past season. Due to the above, white premiums have been coming under pressure, and are already trading under $100/t. If the lower WP discourages refineries enough to reduce demand for raws, this could pressure NY prices lower. However, this does not seem to be happening so far, and unless India ends the ban on exports, we may yet see higher price in the next months.

Fundamentals

- **Brazil C/S:** Crop results from the First Half (FH) of September were disappointing again for the sugar mix, leading the market to believe sugar output will be lower than expected this crop. According to UNICA, in FH of September, cane crush reached 42.9mmt, 2.4% higher YoY. ATR stood at 159.5kg/ton (vs.153.4kg/ton in the past season) while sugar mix ended at 47.9%, almost 3p.p. lower than the same time of the past season (51.0%). Since the start of the crop, cumulative sugar output is 30.3mmt, still ahead of the past crop (29.3mmt) but the gap is decreasing with every new crop update, due to the low sugar mix. The ability for the C/S crop to improve has become more complicated with the several fires that the Centre South region has been suffering from. According to CTC, over 400k ha were impacted by the fires which will reduce chances of higher sugar mix during the rest of the season, whilst damaging cane development for the next crop. All in all, we have reduced our crop view for the 24/25 and 25/26 crops. We don’t see sugar output surpassing 40mmt in the current crop while the next crop’s (25/26) cane crush will struggle to pass 600mt.

- **India:** The cumulative rainfall distribution in India, weighted by sugarcane area, during the period 1st June to 16th September, is now above normal by +15%. Maharashtra’s is above normal by +40% and Karnataka is above normal by +18%, while Uttar Pradesh received -9% below normal rains. Although the rainfall is better this year, last year’s dryness in summer reduced the sugarcane area in Maharashtra and Karnataka by 21% and 15% respectively. We did a crop tour in August SH in Maharashtra and Karnataka and based on the crop tour findings we believe that the gross sucrose production for 24/25 will be about 31mmt. This considers lower sucrose production and higher sucrose diversion for ethanol based on early clearance issued by the Government of India. The exact quantum of potential sucrose diversion to ethanol will be a function of the Oil companies’ offtake tenders, which will likely happen in November. Given decreased crystal production and a September 2025 ending stock of only 2.8 months' consumption, the Government of India will not allow sugar exports to the world market in the 2024/25 season. The crushing season is expected to start from the second week of November and at full pace from the SH of November. As all sugar-producing regions have received above-average rainfall, this will be very supportive of planting for the 25/26 season. The acreage for 25/26 is estimated to increase to historically high levels in Maharashtra, Karnataka, Tamil Nadu, and in all the central west Indian sugar-producing states. Also, so far, the major reservoirs that provide water for irrigation in the main sugar-producing states are full.

- **Asia**: Rainfall in Thailand rebounded during the latter half of August, particularly in key cane-growing regions such as Northern and North-East areas. The latter saw increases of 63% and 43% respectively, compared to August 2023. The dry spell resumed in September though, with a 51% decrease in rainfall in the Northern region and a 24% decrease in the North-East region. Nevertheless, we are anticipating wetter weather in Q1 2025, along with better cane quality, and have accordingly raised our estimates for the 2024/25 Thai crop from 95 to 97 million metric tons. EPZ demand reached a new high in August 2024 to 148k metric tons, despite high prices in June and July. Nonetheless, we expect EPZ demand to slow down from September onwards and towards the end of 2024 in view of weakening Chinese demand for liquid sugar and low domestic prices.

- **US:** The September WASDE presented another production increase to the US crop, leading to a strong reduction of imports. According to the USDA, the 23/24 crop will end with a Stock To Use (STU) value of 18%, almost 2 p.p. higher than the value projected in the August report and 4.5 p.p. above the USDA target (13.5%) which means the US sugar balance is oversupplied. With that, and considering a high production number of 8.6mmt in the crop 24/25, the US imports need was reduced by 366kt Raw Value (RV) to 2.3mmt RV. According to the Suspension Agreement, Mexico's quota is the reference to balance the market. In other words, much of the imports reduction was allocated to Mexico, which now has a quota of 358kt (RV), 358kt lower than the volume presented in August. Also, in line with the Suspension Agreement, 70% of the September WASDE Mexico quota is guaranteed to the Mexicans millers based on the September WASDE report. Despite the reduction of the Mexican quota, STU of the crop is still above the target, at 14.2%. Overall, Mexico, Centrals and Brazil will have limited opportunity to increase exports to the US market.

- **Mexico:** Rainfall in the Mexican cane region have been good for the crop development. Nevertheless, the market is not sure Mexico will be able to harvest a cane area close to 800k after the big drop observed in the past crop when the harvested area ended below 750k ha. For the time being, we are working with sugar production in 24/25 of 5.0mmt, 300kt higher than the past season. With this volume, and considering the low US quota, Mexico will have to export around 500kt to the World Market. The strong potential availability of Mexican sugar in the World Market will compete with Centrals and Brazil for markets like Canada and Morocco.

- **Centrals:** Like Mexico, Central America is observing abundant volumes of rains, which will result in high agricultural yields - although producers are reporting that sucrose levels may decrease if the weather conditions persist in the next months. For the time being, we are projecting a sugar output of 5.0mmt for the region, only 50kt higher than the crop 23/24. Since the start of the season, Guatemala exports totalled 1.2mmt, 200kt below the past season.

- **EU/UK:** The weather in the EU improved dramatically in August and the beginning weeks of September, with light rains in most regions of western Europe and the UK. These regions also received cooler temperatures

which kept pest incidence at low levels. The outlook for the 24/25 crop has been highly positive with huge upside flags. However, there is quite a lot of variability in terms of the crop due to late plantings and wet growing season. Most countries have already started their campaigns including France, Germany, and Poland. EU has been exporting huge quantities in the past few months - in July, the EU exported about 190 kmt to the world market, leading to a total a cumulative export number of approximately 1.4 mmt with 2 months trade data still left to be published. We expect exports to continue this high pace into the 24/25 campaign given the build-up of stocks and high production estimates.

Focus – CIS

Russia's 24/25 sugar campaign began last month. The area sown was slightly higher than previous year's at 1168 kha. Until mid-September, Russia as a whole harvested 280 kha this year as compared with 263 kha last year. The 23% area harvested led to 10 million tonnes of beets being harvested as compared with the 12.3 mn tonnes last year. Even through harvested area is higher this year, the beet yields are lower, resulting in lesser beets being harvested, in turn leading to lesser sugar. The yields for the Russian federation stood at 35 mt/ha compared with the 46 mt/ha last year. Overall, the crop has been affected by extreme dryness and warm temperatures in the months of August and September, which affected the crop all around. Four sugar factories near the Kursk region in Russia are unlikely to re-open based on the rise in hostility there, which could lead to the loss of 700 kmt of beets. Finally, the ministry of agriculture does not plan to extend the ban on sugar exports, which was in effect till the 31st of August 2024.

Figure 3: Production - Ukraine and Russia (Mn t)

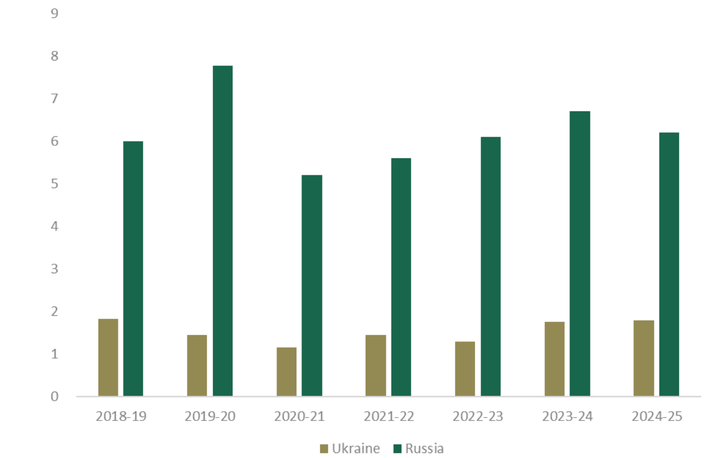
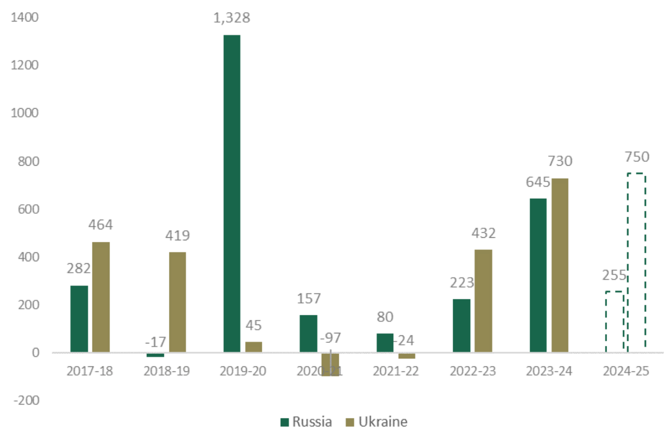


Figure 4: Trade Flow (X-M) for Ukraine and Russia



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

Ukraine has had an increase in acreage as well. Final acreage numbers were around 255 kha, leading to an overall sugar production of 1.8 mmt. However, the weather in Ukraine has been very dry which has caused a negative impact on the overall production. Sugar harvesting has been underway in Ukraine for a few weeks, with 1.7 mmt of beets harvested by the 20th of September. Some 14 sugar factories in 8 regions of Ukraine have already started sugar beet processing. In the third week of September 2024, sugar production amounted to 50 thousand tonnes. Sugar exports have averaged around 10 kmt every month from Ukraine to the world market. Exports to the EU markets will open again in January for a quantity of 100 kmt till June. This would leave a surplus of 800 kmt for exports to the World market.

Macro

As the third quarter of 2024 ends, we look back at a what was a very volatile macro environment. Commodity performance in July-Aug was weak, and while stocks may have performed more strongly, it masks a very turbulent August when the normally docile yen soared as Japanese interest rates were hiked, sending cheap JPY-funded carry trades up the spout. This led to a collapse in the BRL and many tech sector equities. With China's economy continuing to weaken, so did commodities, which gave away all its year-to-date gains. As inflation started to cool around the world, and some US and European economic data began to weaken, the top central banks started to fret about their economies. September's round of cuts by the ECB and, most importantly, the highly anticipated 50 bps cut by the US Federal Reserve on 18 September, were just the medicine that markets needed.

Stocks, bonds and commodities alike have soared on the back of the Fed move. Benchmark global borrowing costs have fallen almost 15% since August. With US and EU inflation coming in lower than expected, there is a chance that another rate cut could take place in the November Fed meeting too. Too add to the macro positive sentiment, last week China announced a set of enormous stimulus measures that kickstarted its erstwhile sluggish stock market. This mega boost to the Chinese economy, along with anticipation of further rate cuts in the USA and Europe, has pushed commodities sharply higher too, with gold at record highs. Only crude oil prices seem to be stuck in a range (despite enough geopolitical risks in the Middle East), as OPEC is set to bring back online some of its production cuts.

The weak dollar has certainly helped commodities recover, and stocks to keep hitting new highs. Even the Brazilian real is now recovering thanks to the softer dollar, helped too by a more hawkish Brazilian central bank who is noting some inflationary domestic pressures. But how much lower can the US dollar fall? This will be a key theme in Q4 2024. The Fed may make another rate cut or two next quarter, but US interest rates are still higher than many of its counterparts. This could still support the dollar. Furthermore, we have a highly uncertain US election ahead of us which could also send the dollar higher as investors seek safe havens.

Figure 5: Commodities recover as dollar falls

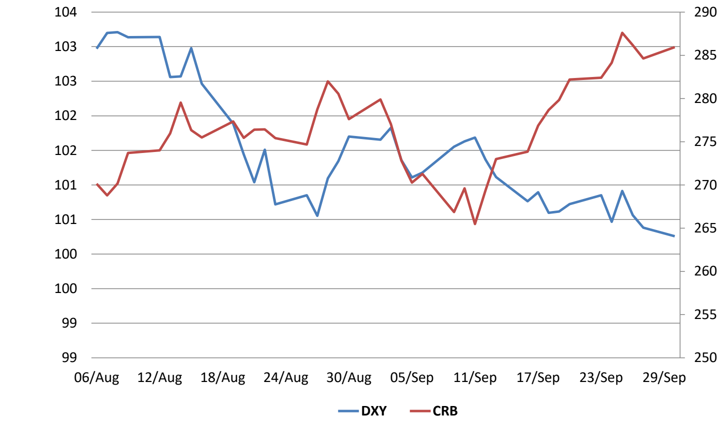
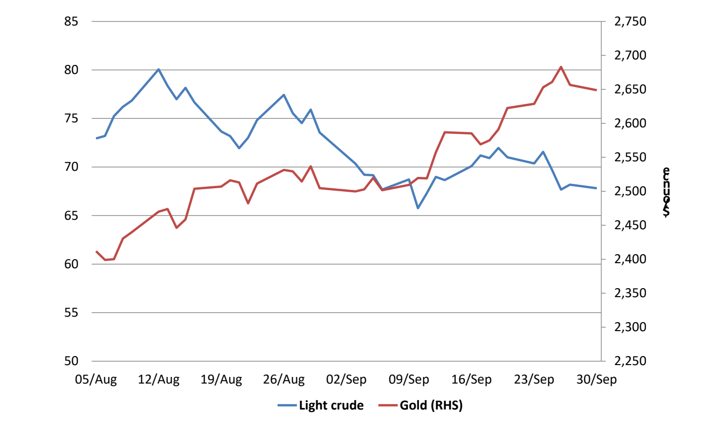


Figure 6: But crude oil has underperformed gold



Source: Reuters, ED&F Man Commodity Research

Prices Tab

New York #11					London #5				
(cents/lb)	26-Sep	30-Aug	% change		*($/tonne)*	26-Sep	30-Aug	% change	
Oct (24)	23.31	19.38	20.3%	↑	Dec (24)	593.9	533.0	11.4%	↑
Mar (25)	23.23	19.66	18.2%	↑	Mar (25)	596.8	528.3	13.0%	↑
New York #16					**White Premium**				
(cents/lb)	26-Sep	30-Aug	% change		*($/tonne)*	26-Sep	30-Aug	% change	
Nov (24)	37.25	35.25	5.7%	↑	Dec/Oct	80.0	105.7	-24.3%	↓
Jan (25)	38.25	36.00	6.3%	↑	Mar/Mar	84.7	94.9	-10.8%	↓
Macro					**Currencies**				
Indicators	26-Sep	30-Aug	% change		*Against US$*	26-Sep	30-Aug	% change	
CRB	284.6	277.0	2.7%	↑	Euro (EU) *	1.118	1.105	1.2%	↑
Gold	2,670	2,503	6.7%	↑	Pound (GB) *	1.342	1.313	2.2%	↑
Brent Oil	71.60	78.80	-9%	↓	Real (Brazil)	5.438	5.610	3.1%	↑
Baltic Dry	2,091	1,814	15%	↑	Rupee (India)	83.60	83.87	0.3%	↑
Handysize	712	744	-4%	↓	Rouble (Russia)	92.61	90.65	-2.2%	↓
					(* rate is US dollars per FX)				