Research

Monthly Sugar Note

31 October 2024

Markets

We are one month into the 24/25 (Oct/Sep) season, and we seem to have entered a new higher price range. Heightened production risks in the Brazilian Centre/South crop, following an increasingly dry spell that culminated in fires in August and September has spooked markets. Not only has the remainder of Brazil's 24/25 C/S crop been impaired, leading to a short tail, but potentially so has next season's. The front month NY contract reacted to these events by rallying from below 18c/lb to 23c/lb in a very short period. But by late October, the arrival of much-needed rains, along with slightly improving UNICA crop results from Brazil, took the market back to 21-22c/lb levels.

As we have been saying in the past reports, the risk of a smaller C/S Brazilian crop means that given our assumption of still no exports from India and only small additional amounts from Thailand, there will be minimal raw sugar available for the world market in Q1 2025. We are now truly in a weather market. Good rains henceforth can help next year's cane development given the dryness of 2024. However, it can also turn the already-short tail of the current crop even shorter, reducing the much-needed supply of Brazilian sugar over the next 5 months.

Up to mid-October, sugar production in the C/S of Brazil is still just about running ahead of the past crop, at 35.6mmt. But at just 1.9% higher YoY, the gap over last year has been decreasing steadily over the past months and should turn negative very soon from mid-November. The market continues to expect total C/S Brazil's cane crush at around 600mmt and sugar output close to 39.5mmt, almost 3mmt lower than the previous crop.

Figure 1: C/S rainfall per fortnight

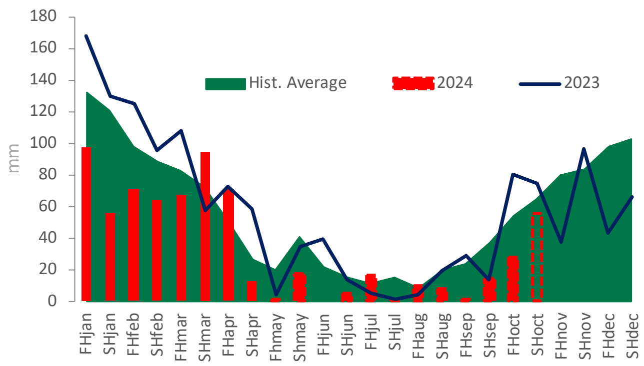
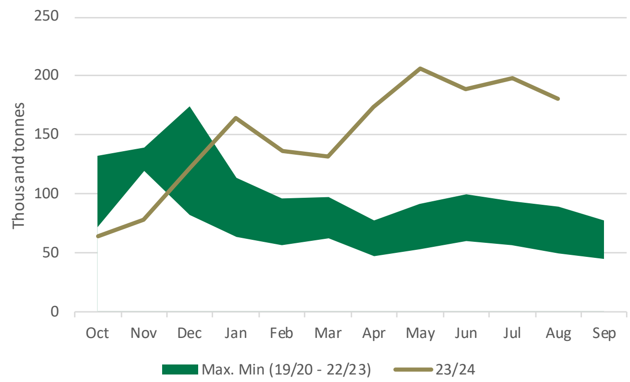


Figure 2: EU27 sugar exports



Source: EuroStat and ED&F Man Commodity Research

While Brazil may have been dominating sugar headlines this month, the market is also eagerly waiting to see the first crop updates of the Indian 24/25 crush, which will start in November. Rainfall has been almost 10% higher than last season across India's cane area, but we believe acreage will be lower given the dryness observed during the planting season in 2023. The Indian government has been actively promoting its ethanol program, which continues to support diverting sucrose for biofuels over that of sugar exports. As such, we continue to believe India will remain absent from the world market this season too, regardless of crop size.

If the raws market has turned constructive for the next months, the same cannot be said for the whites market. The NY11 rally pushed the front month White Premiums (WP) down to two digits, the first time it has fallen below $100/t in many years. At below $80, margins are negative for most stand-alone refineries. Hedge and price fixations that already took place when the WP was in the $130-150s will guarantee some raws demand from MENA and India until the end of year. However, lower raw imports should be expected in the first months of 2025, which will help to reduce the raw deficit projected for the period.

The big EU/UK crop is also an important factor weighing on the whites market. The region is likely to produce close to 18mmt of sugar (including ethanol), about 1mmt more than the past year. Poor consumption is also resulting in a higher surplus. The region has been exporting close to 200kt of refined sugar over the past months and the trend is likely to continue with the start of the crop. The question for EU is now less about availability, and more about port capacity.

All in all, we are approaching the peak price period of the raws market, which will regulate the balance of the whites sugar during 2025. Market participants should take advantage of the higher price levels over the next months, as early indications point to the 25/26 season having even bigger crops in Thailand and India. However, larger crops in the northern hemisphere may well be needed, as the C/S Brazil's 25/26 crop is likely to be far from ideal after the poor development observed in the current season.

Fundamentals

- **Brazil C/S:** Cumulative production figures up to mid-October are still higher YoY, but this trend has been narrowing over the past few fortnights. Production henceforth should soon fall behind the 2023/24 season due to a combination of many factors. Firstly, agricultural yields continue to present disappointing numbers, especially the second half of the crop, with fields visibly suffering from the effects of the fires and severe drought. According to Sugarcane Technology Center (CTC), agricultural productivity in September was lower than that observed in the last harvest, with 69.7 t/ha in the current season compared to 83.4 t/ha in the previous one. With that, expectation for the total crush of the 24/25 Apr-Mar crop should be close to 600mmt (vs 654mmt LY), but if we see many mills shutting down in October, this number could be even smaller. Secondly, mills continue to struggle to sustain a high sugar mix given issues with cane quality, despite more investments. Up to mid-October, cumulative mix is at 48.7% (vs 49.5% LY). ATR is currently the only element that is still performing better YoY, but the quality of the cane to be crushed is concerning and could lower this number as well. All in all, despite sugar production currently 1.9% higher, at 35.6mmt, the 24/25 crop should finish under 40mmt (vs. 42.4mmt produced last year). Weather remains a concern for the potential recovery for the following season, and despite a recent improvement since late October and good rains forecast ahead, C/S Brazil will need rains at least in line with average for the next few months to support a cane output above 600mmt for the 25/26 crop.

- **India:** The southwest Monsoon (June-Sept) rains have withdrawn. Despite a shaky start, the rains ended being +13.5% above normal across the sugarcane areas. Central west and southern sugarcane states received above-normal rains while northern states received near-normal to below-normal rains from June to Sept. Lower sugarcane acreage and a higher share of second-cut crops will limit potential agri yields, while the E20 mandate of ethanol blending will lead to lower crystal production in the 24/25 season vs 23/24. Gross sucrose production for 24/25 should be close to 32mmt (vs 34.25mmt last year). The Oil Marketing Companies of India (OMCs) have finalized the allocation quantity of ethanol to procure from sucrose feedstock. Total sucrose used for ethanol based on the allocation was higher than expected, equivalent to 3.7 MMT vs last year's 2.2 MMT. Crystal production in 24/25 should be close to 28mmt (vs 32. 2mmt last year). With decreased production and a September 25 ending stock of only 2.6 months' consumption, we maintain that the Government of India will not allow sugar exports to the world market in 2024-25. The crushing season is expected to start from the first week of November in North India and from the 15th of November in Central West India, with the full pace commencing 2H of November. The 2024 monsoon performance was very supportive for planting of the 25/26 season. The acreage for 25/26 is expected to increase to historically high levels in central West India. All the major reservoirs that provide water for irrigation in the main sugar-producing states are full.

- **Asia:** Rainfall in Thailand concluded in September coming in line with historical averages. We currently anticipate a slight further upside to the crop, and currently see a cane figure close to 97mmt. Demand for EPZ has significantly decreased in the first half of October 2024 compared to September 2024, with current figures at only 29% of those from the previous month. This aligns with our expectations, given the historically high EPZ figures recorded in 2024 so far. We anticipate EPZ demand will continue the downtrend due to limited Thai sugar availability for export. Additionally, shipments to China in September 2024, primarily from CS Brazil, have plummeted by around 50%. This decline reflects our view of weakening demand in China, exacerbated by the recent rally in the NY11 flat price in September, which has led to several washouts/cancellations.

- **US:** The USDA made a few small changes in the October WASDE on 23/24 production and import figures. They reduced ending stocks by 43k MTRV but still left them at a very comfortable level of 17.6% STU, indicating that the market is oversupplied (as a balanced level is around 13.5%). For the 24/25 season, production continues to look very strong, and a record volume is forecasted. The combination of high beginning stocks and great production is keeping the US market very oversupplied, which directly impacts the need for Mexican sugar. The latter is currently estimated at only 358k MTRV, the minimum already guaranteed to Mexico. Even with such low volume, ending stocks are already above balanced levels at 14.3% STU ratio, as on top of the above, TR2 imports continue to happen, although at a much slower pace than in the 23/24 crop. A lot still needs to be defined on the US crop, but with potentially much lower need for sugar from the Centrals, more of these regional origins will end up at WM destinations.

- **Mexico:** The prospects for the Mexican crop are good and should results in sugar output above 5.0mmt, although this number could be around 100kt higher. It is currently the end of Mexico's intercrop and stocks are about 50% higher YoY due to the massive level of imports seen in 23/24. Given that the US crop was also large this year, exports to the US should be low, currently expected at 368kt tq, which is already guaranteed to Mexico. All in all, Mexico may need to export around 500kt to the WM .

- **Centrals:** The sugarcane mills in Central America are about to start their crop in the next few weeks and the overall view for the season is good. Good rainfall should translate into good agricultural yields, and the weather for the next few weeks will set the tone of the sucrose content. The market projects a sugar output of 5.0mmt of sugar, about 50kt higher YoY. With good production and good supply in the US/Mexico region, more sugar from Centrals should be seen at WM destinations.

- **EU/UK:** It's been approximately 2 months since the campaign started in the EU. Most regions have reported higher than average beet yields, however sugar content has been lower than average. Germany has been battling the effects of the Rubbery beet disease and Cercospora, while France has been hit by Cercospora as well, which is affecting sugar content in both countries. Both countries have reduced their production estimates due to the lower sugar content. Czech Republic and Croatia have had their own problems with weather which are affecting all the crops in these regions. Overall, the most important factor in production estimates for this season has been the weather, which has been very volatile. Despite this, we continue to expect a bumper crop in the EU thanks to strong acreage expansion. This has put pressure on producers who are bracing for a tough year ahead because of the falling EU prices. EU continues to export at a strong pace, with 1.6 mmt of sugar already shipped till the end of August. We are now moving from a deficit to a surplus market, with the EU reducing imports and maximising exports. For the next season we continue to see EU exporting at maximum capacity with bare minimum imports coming in. The next question is with producers reducing beet prices, will acreage fall in the next season, or are beets still giving farmers a good payout relative to other crops.

- **CIS:** Ukraine and Russia are continuing to face the after-effects of the drought and increased temperatures. The sugar content in the beets is reportedly lower than last year. Even though Russia increased its planted acreage for beets, the production is expected to be 600 kmt lower than last year. By 18th October 2024, about 6.5mmt tonnes of sugar beet had been harvested in Ukraine. The expectation continues to be that Ukraine will produce between 1.7-1.8 mmt of sugar for the 24/25 season. However, they have a considerable surplus of about 800-900kt which will need to be exported to the world market. They have been exporting to the Med regions along with Africa, but the conditions in the Black Sea have made it more difficult for them to export at a high pace. Russia on the other hand has been catering to the Uzbekistan and Azerbaijan markets, sending raw beet sugar for further processing. This has replaced some of the raws demand that would be coming from Brazil. Overall, Russia should export 300kt less than last year on the back of a lower crop.

Focus – World sugar balance 24/25 (Oct/Sep)

After two years of higher prices, sugar output has increased in much of the world. 2024 weather development has also been good for North Hemisphere crops that will start in the next weeks. As a result, the World sugar production should

see an increase in supply from key producers such as Thailand, US, Mexico and Europe. Nevertheless, countries like India, Brazil C/S, Russia and Australia should see lower production figures, taking the sugar balance into a deficit.

Thailand and India have benefited from good weather, but acreage trends have been different. While Thailand should increase its cane area (given lower cassava prices), India should have a lower area as planting conditions in 2023 weren't ideal. While ISMA continues to ask for export permits given higher ending stocks and also good international prices, most of the market believes that ethanol will be the priority. In the case of Thailand, the tail of the season is always a surprise and sugar figures close to 11mmt level (vs. 8.6mmt in 23/24) shouldn't be discarded.

North American producers over-imported in the past season and, assuming a higher crop, both the USA and Mexico will have to find solutions for the surplus supply. After having a record low crop, Mexico's production is likely to increase given the good weather in the past months. Despite this, the market is not convinced cane area will return to 800k ha, which could result in a crop of 6mmt. For now, presented numbers are close to 5mmt. In the case of USA, growth condition was good for beet and cane, although the latter may see a reduction given the latest adverse wet weather in Louisiana and Florida. Still, the latest WASDE projects a record crop close to 8.6 MTRV, 3.2% higher YoY.

Similar to Thailand, European producers also increased their planted area given the high prices offered by the millers during the planting season. Weather has been reasonable with some disease incidence, but beet production will definitely increase, turning Europe into a net surplus region, something not seen in a while.

Figure 3: World sugar balance (Oct/Sep)

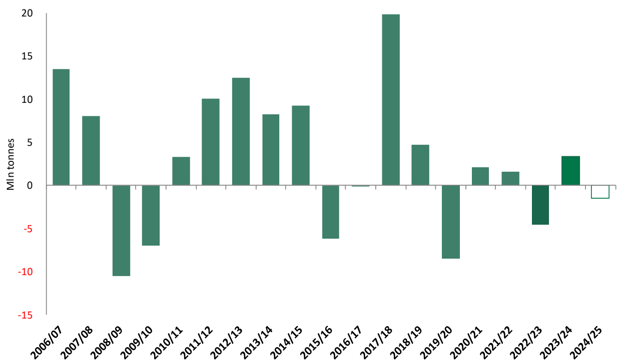
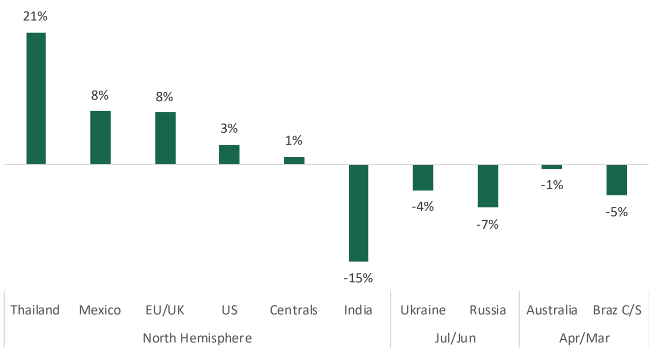


Figure 4: YoY production changes (Oct/Sep)



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

On the other hand, Russia's crop is looking less positive. Despite higher area, dryness observed just before the start of the harvest has impaired beet yields. Australia also had a late start to the season and some production losses can be expected. But perhaps most important of all, C/S Brazil's outlook is under question. The dryness and fires episodes certainly impacted the planting operations and development of the cane that will be harvested in the next year. As a result, with all the elements we know now, we see little reason to project an increase in C/S Brazil's cane volume. But we do expect a higher sugar mix with all the investments made in the past 2 years.

Regarding world consumption, the strong dollar and regional wars around the World are leading to lower demand. The best example is Sudan, which reduced its import volume by about 35% in the past 2 years. The impact in Ukraine and the Middle East is still unclear for now, but lack of dollars is a general issue in many importing regions. For the time being, we assume consumption growth close to 1% for 24/25.

All in all, we see the World Sugar Balance moving from a surplus of about 3mmt in the 23/24 (Oct/Sep) season to a deficit of 1.5mmt in 24/25. It's worth mentioning that since the 20/21 season, surpluses and deficits episodes have been small, reducing the ability of the World to increase stock levels. In turn, the absence of a significant build up in stocks will keep market volatility high.

Macro

Commodities saw a less favourable macro backdrop in October compared to September, thanks to a firming US dollar. The Bloomberg Agriculture index is down -4.7% MTD, erasing most of September's big +7.2% gain. Initial views that the Fed would continue to cut interest rates aggressively following last month's bumper 50bp cut gave way to a less dovish view as US economic data kept coming in stronger than expected. This supported the dollar higher, with resulting negative impacts on commodities and emerging market currencies.

With less than a week to go to the US elections, markets appear to be pricing in a Donald Trump victory. Equities, the US dollar and bond yields are all soaring – reflecting Trump's policies of low regulation, anti-immigration stance and plans for widespread import tariffs. The latter two are seen as highly inflationary (due to resulting implications of a tight labour market and rising costs of imported goods), which in turn would require a more hawkish Fed view on rates. This is further supporting the dollar. Indeed, the US economy posted another solid period of growth in the third quarter, at 2.8%, propelled higher by strong consumer spending that has defied expectations for a slowdown.

Figure 5: LatAm currencies weaken as dollar rises

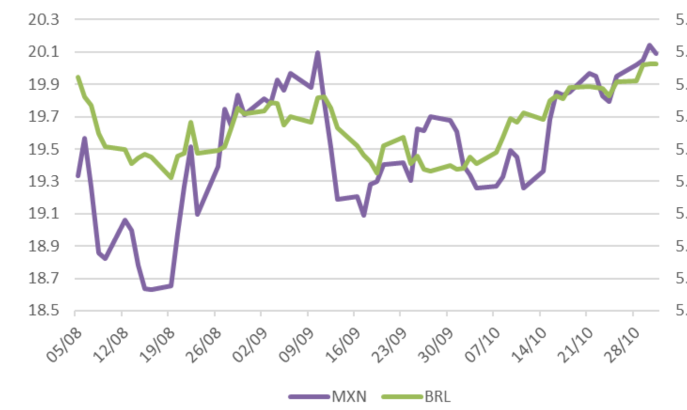
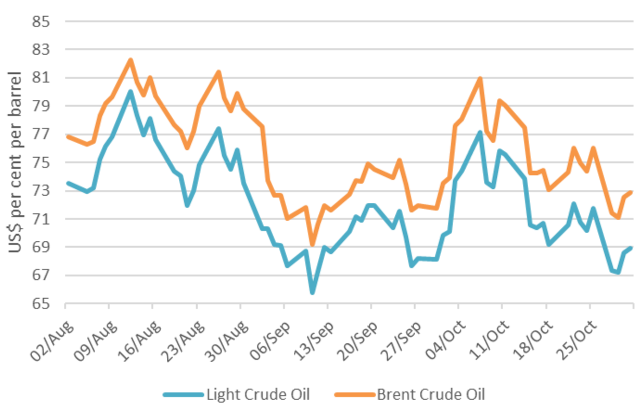


Figure 6: Crude oil has been very volatile



Source: Reuters, ED&F Man Commodity Research

Brent crude has been very volatile this month, rising sharply after the Gaza war escalated to Lebanon and Iran. But it dropped more than 9% in the last three weeks on easing geopolitical fears that Israel might attack Iran's nuclear facilities or oil infrastructure. Brent crude has averaged around $81 a barrel so far this year. Markets believe that despite geopolitical tensions in the Middle East, ample spare production capacity among key OPEC producers has mitigated any upward price movements. OPEC+ is scheduled to raise crude output by 180,000 b/d in December. This, along with poor demand trends from China, has been weighing on crude oil prices.

The other casualty of the strong dollar this month has been the Brazilian real. The BRL weakened to 5.76 per dollar, its weakest level since March 2021, having fallen 5.77% this month. The turbulent domestic environment with lingering fiscal uncertainties, along with investor frustration over stimulus measures in China and the growing likelihood of a

Republican victory for Donald Trump in US election, are creating an even more challenging landscape for Latin American economies.

Prices Tab

New York #11					**London #5**				
(cents/lb)	29-Oct	30-Sep	% change		*($/tonne)*	29-Oct	30-Sep	% change	
Mar (25)	22.08	22.47	-1.7%	↓	Dec (24)	564.2	577.5	-2.3%	↓
May (25)	20.45	21.05	-2.9%	↓	Mar (25)	571.5	581.2	-1.7%	↓
New York #16					**White Premium**				
(cents/lb)	29-Oct	30-Sep	% change		*($/tonne)*	29-Oct	30-Sep	% change	
Jan (25)	38.31	38.25	0.2%	↑	Dec/Mar	77.4	82.1	-5.7%	↓
Mar (25)	38.01	38.49	-1.2%	↓	Mar/Mar	84.7	85.8	-1.3%	↓
Macro					**Currencies**				
Indicators	29-Oct	30-Sep	% change		*Against US$*	29-Oct	30-Sep	% change	
CRB	278.3	284.9	-2.3%	↓	Euro (EU) *	1.082	1.113	-2.8%	↓
Gold	2,775	2,634	5.3%	↑	Pound (GB) *	1.302	1.337	-2.7%	↓
Brent Oil	71.12	71.77	-1%	↓	Real (Brazil)	5.760	5.448	-5.7%	↓
Baltic Dry	1,402	2,084	-33%	↓	Rupee (India)	84.05	83.76	-0.4%	↓
Handysize	722	711	2%	↑	Rouble (Russia)	97.50	93.00	-4.8%	↓
					(* rate is US dollars per FX)				