



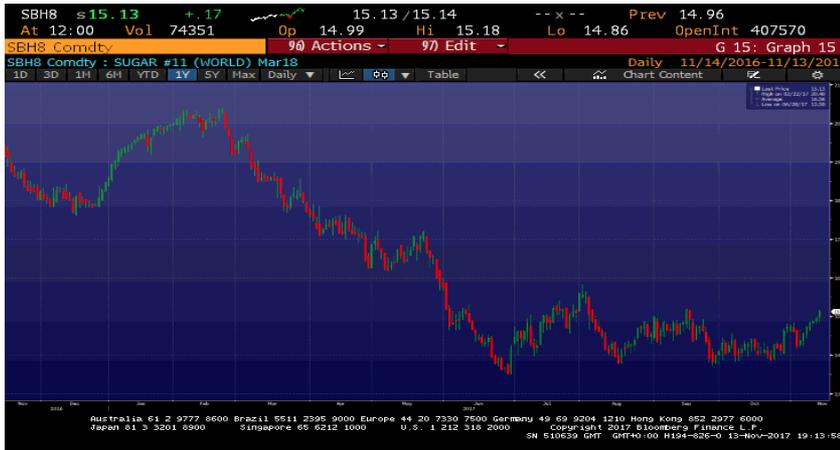
European Association of Sugar Traders

# World Market and Trade Flows

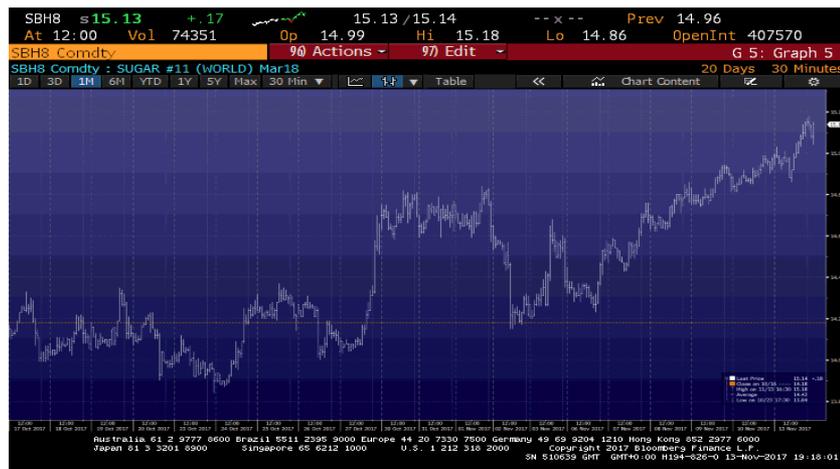
Economic Board Of The Sugar  
Market Observatory

Wednesday 15<sup>th</sup> November 2017

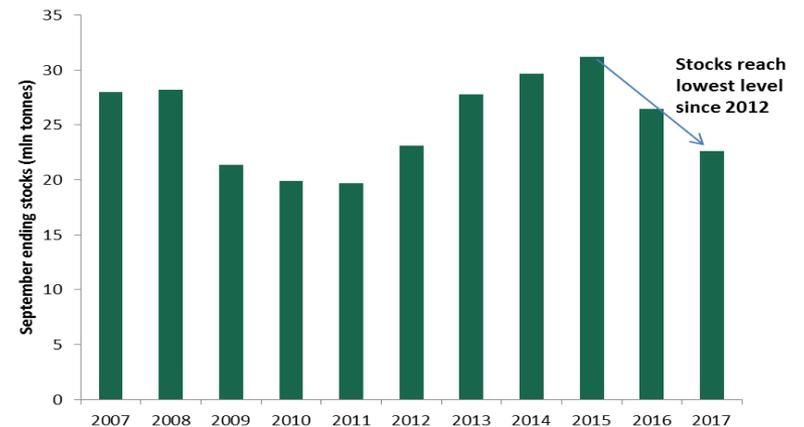
# World market prices and stocks fall



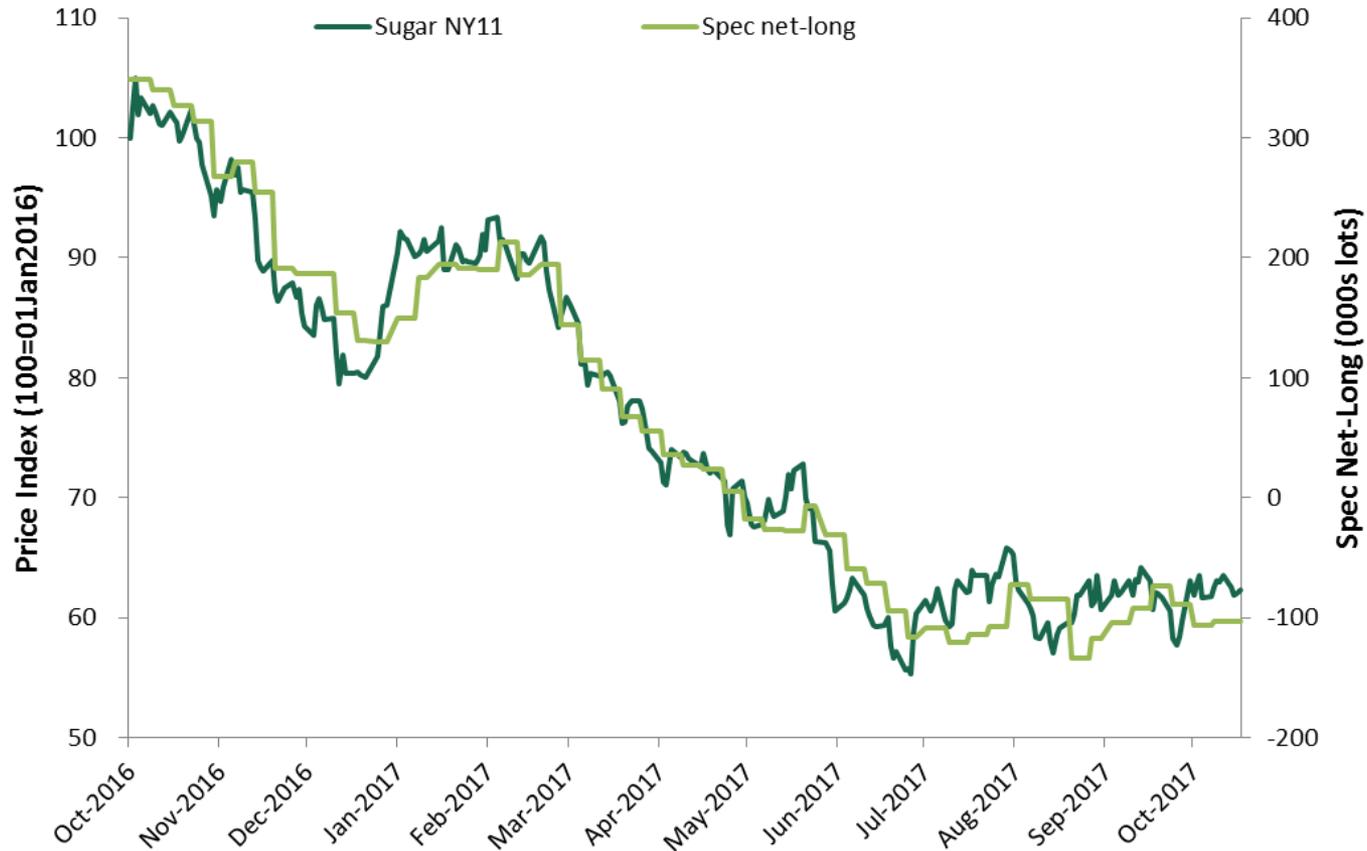
- Stocks at major origins have fallen to their lowest level in five years
- Big crops for 17/18 have pressured producers to clear out stocks
- Demand from usual big players such as China and India has been absent



Major origin stocks



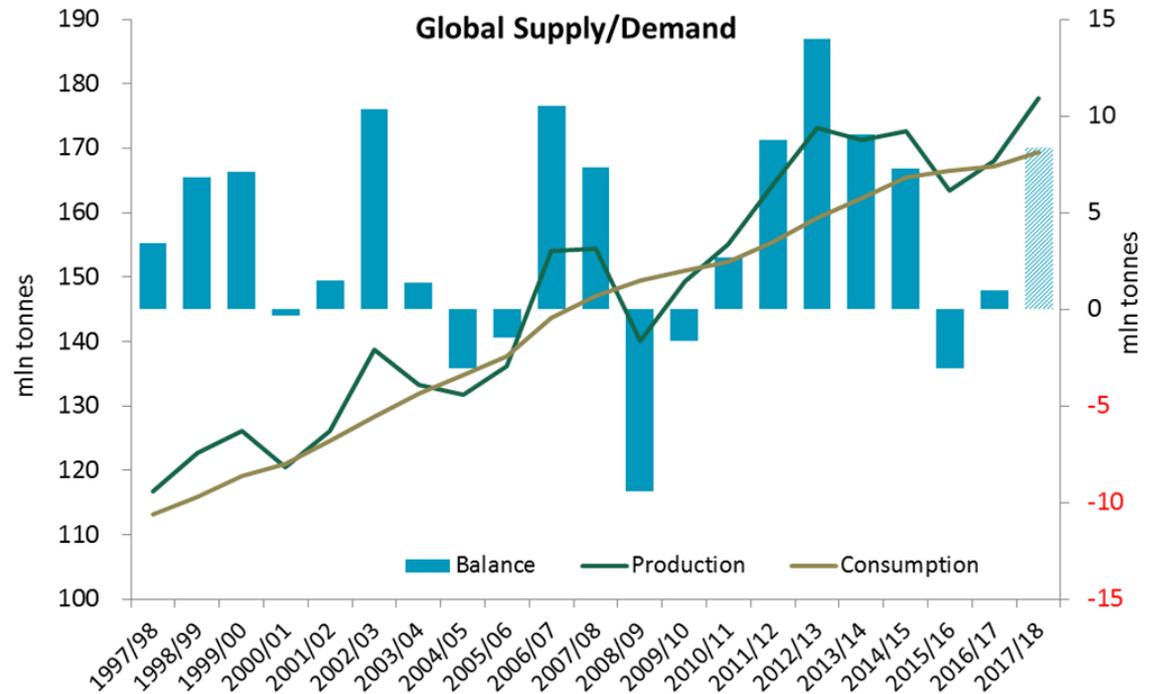
# Sugar falls as Specs shift to net short



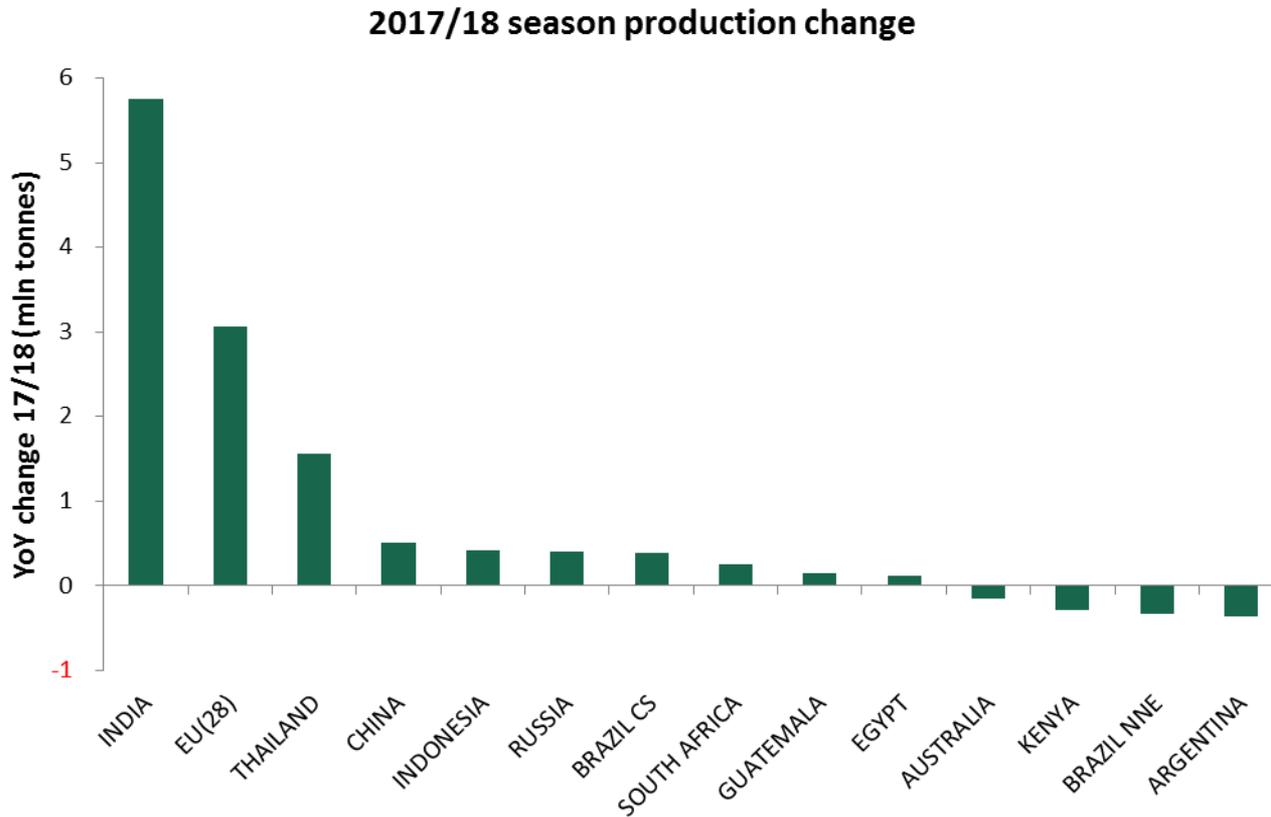
# Global sugar surpluses ahead!

**Three possible ways to resolve the looming global surpluses:**

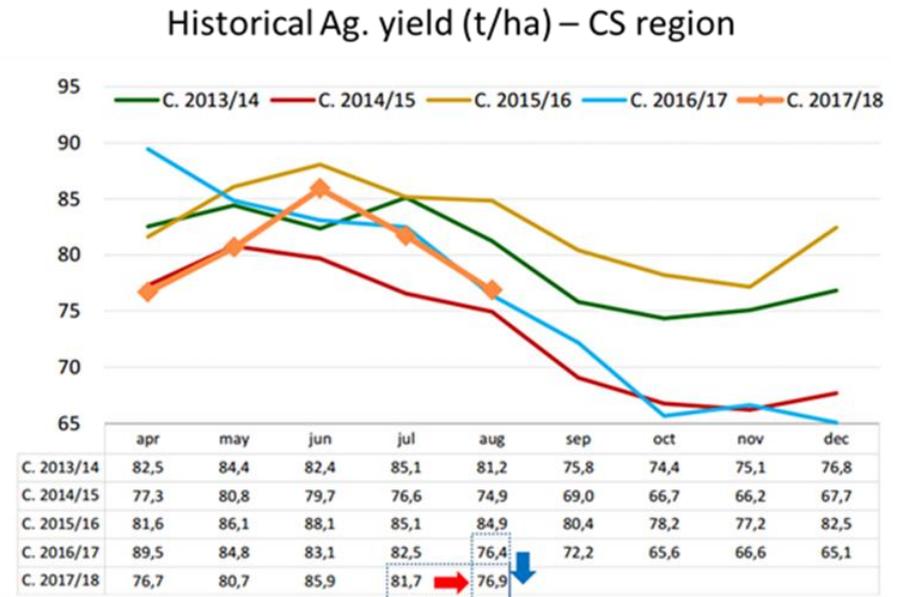
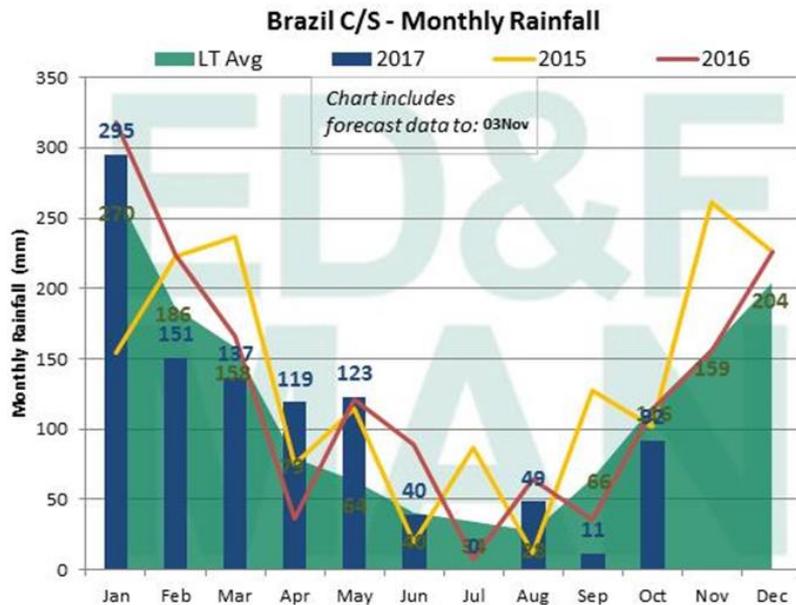
- 1) Lower prices to trigger new demand, and/or**
- 2) Stocks buildup, and/or**
- 3) Switching away from sugar, e.g. to more ethanol; to other crops, or mills shut down.**



# Major origins increasing output by 11.5mmt in 17/18 season

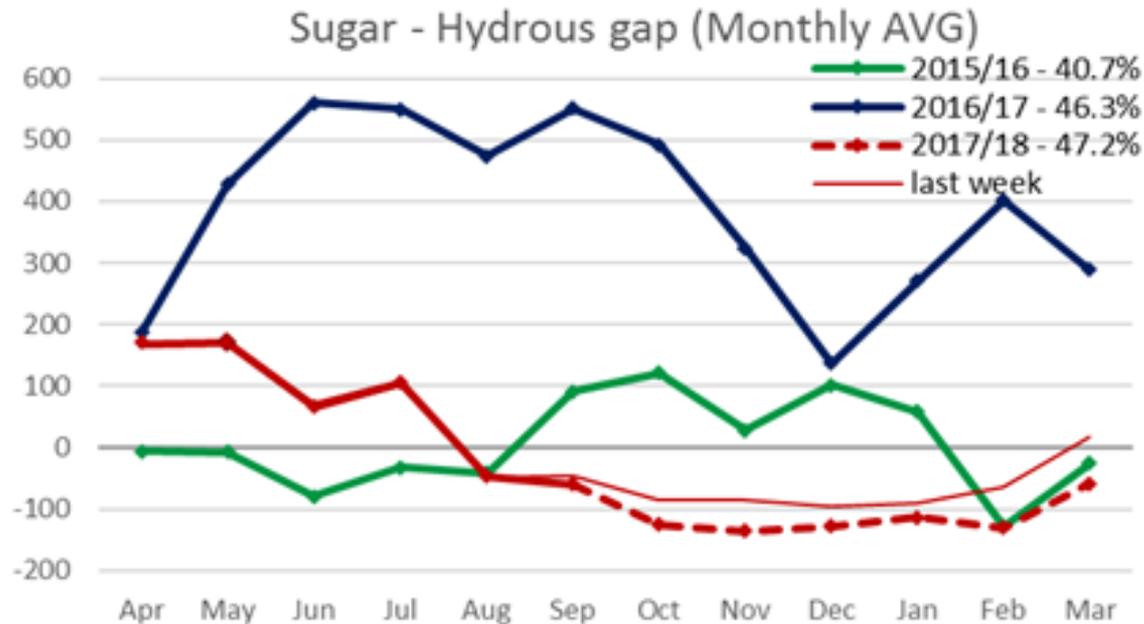


# Brazil CS – rains return after prolonged dryness



- 2-3 months of dryness hit ag. yields for 17/18
- Lower renovation rates also a concern for 18/19 yields and beyond

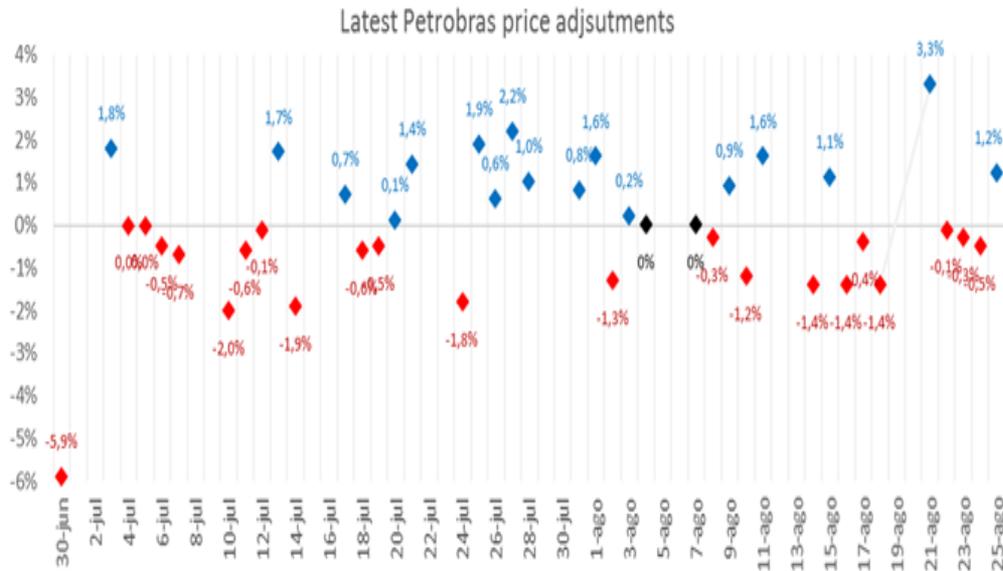
# Brazil CS – switching cane juice to ethanol



- Ethanol paying better than sugar for rest of year
- Price uncertainty from Petrobras gasoline changes could reduce appetite for producers to switch to ethanol

# Brazil CS – policy an unknown factor

## Daily changes to Petrobras gasoline price

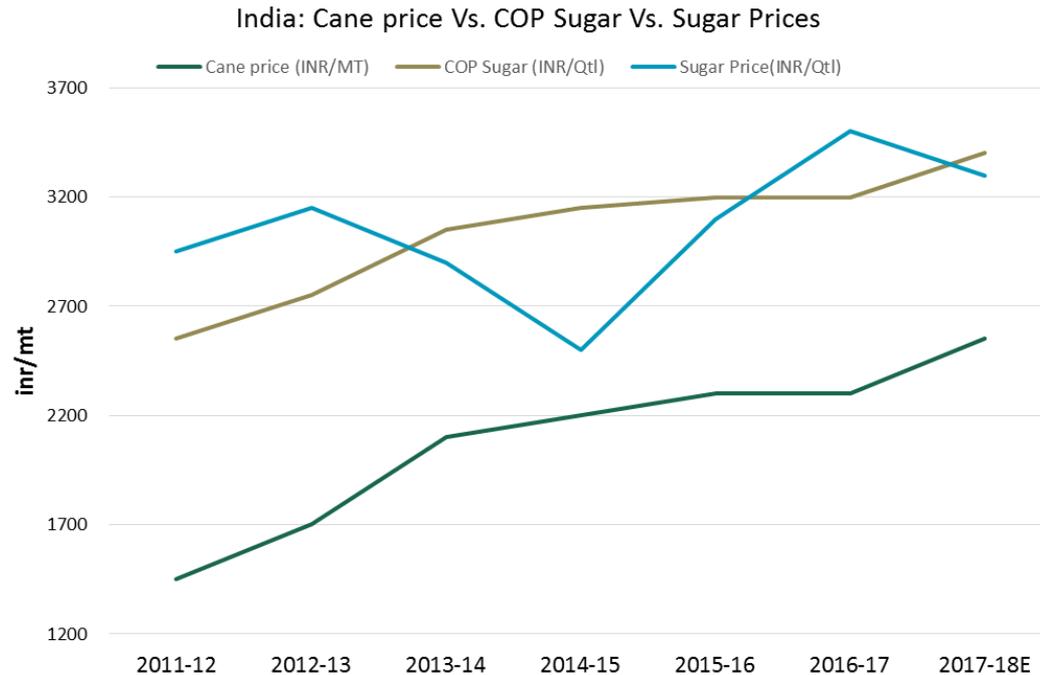


## Changes to gasoline tax



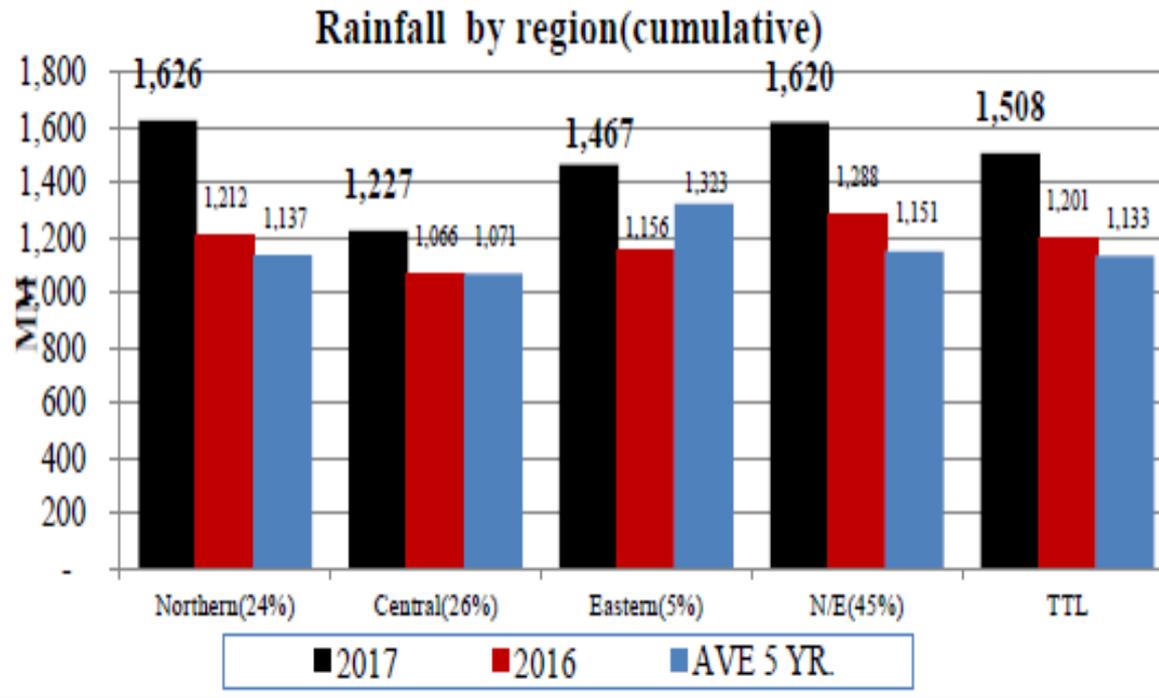
- **Govt and Petrobras policy will be a decisive factor to watch during 2018**
- **2018/19: Low prices could encourage producers to max. crush and lower avg. costs**

# India – balanced year ahead of big surplus 18/19



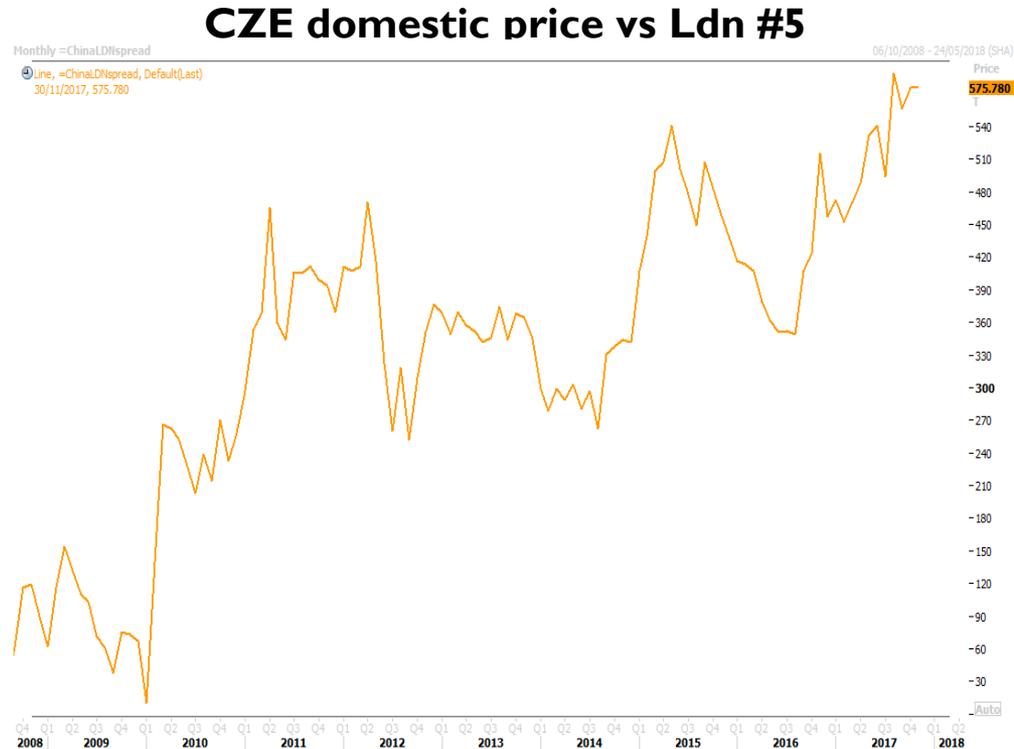
- **17/18 output: to rebound to 26mmt on higher area and yields**
- **18/19: could be a huge crop; higher cane price and prompt payments are encouraging farmers to grow cane**

# Thailand – in line for a record crop



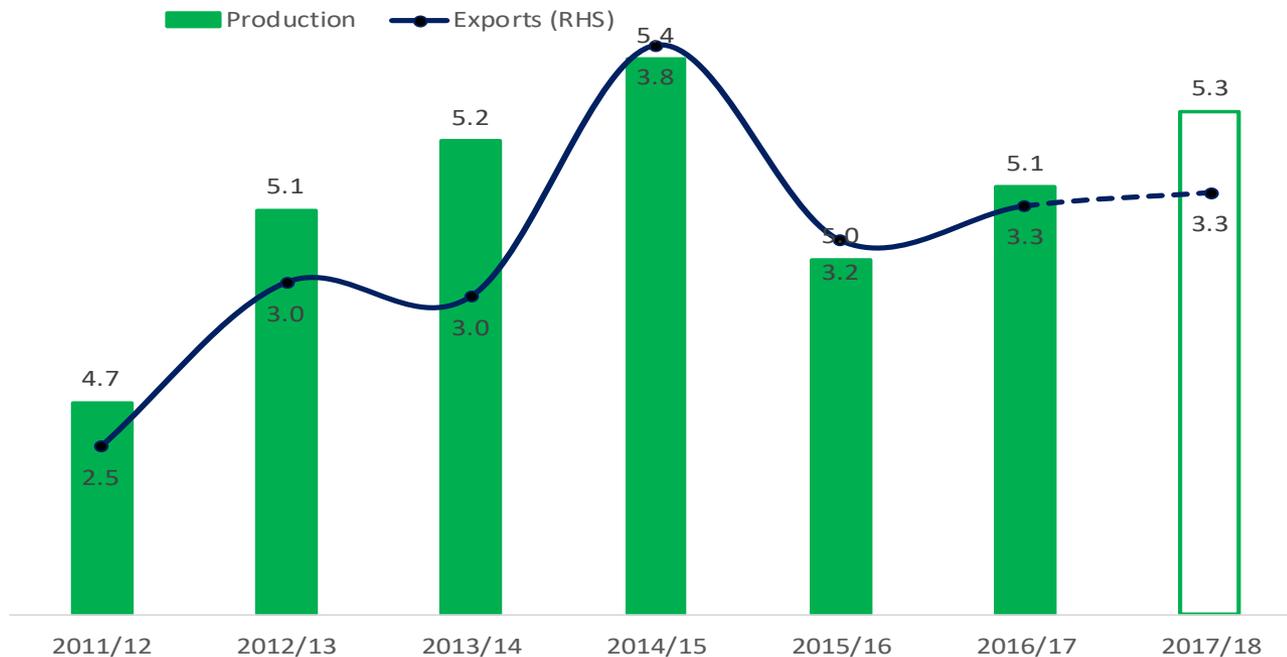
- 17/18 output to record 11.4mmt (prev. high 13/14 crop 11.2mmt)
- Majority of increase will be raws, which stays in region

# China – Govt to limit imports: quota and cross-border trade



- Risk of Govt clampdown on imports, *despite* record high premiums (+\$575/mt) versus world market imports

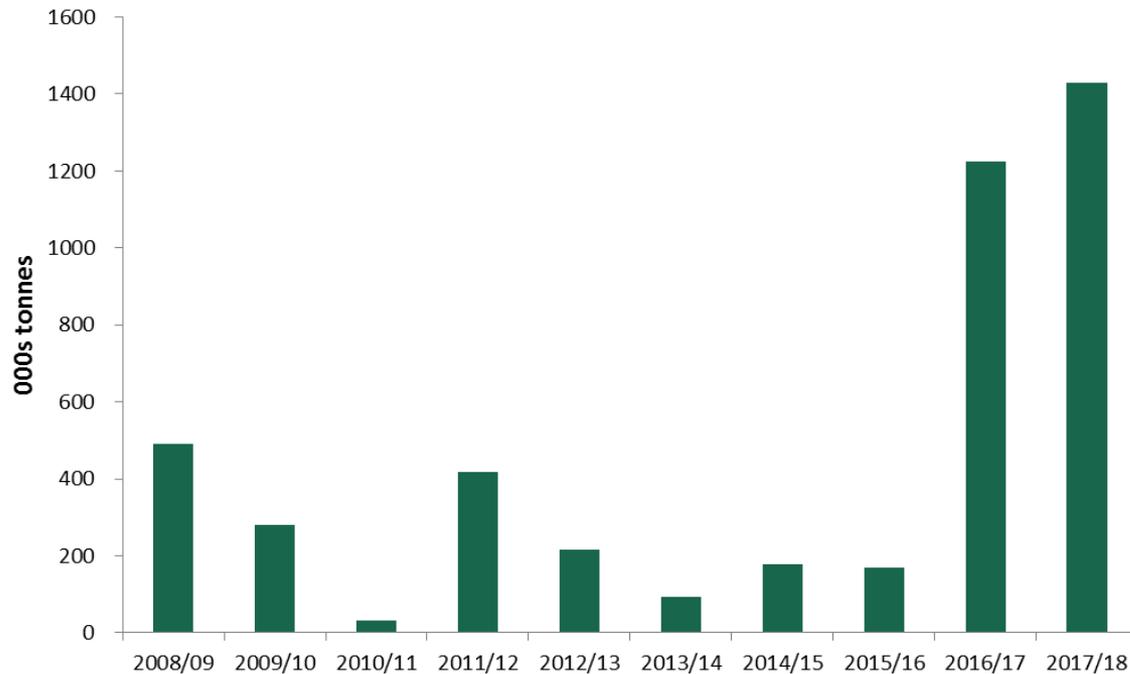
# Centrals – production may fall short of record



- Recent rains adding to upside for crop
- Whites will struggle to compete against EU exports to Africa

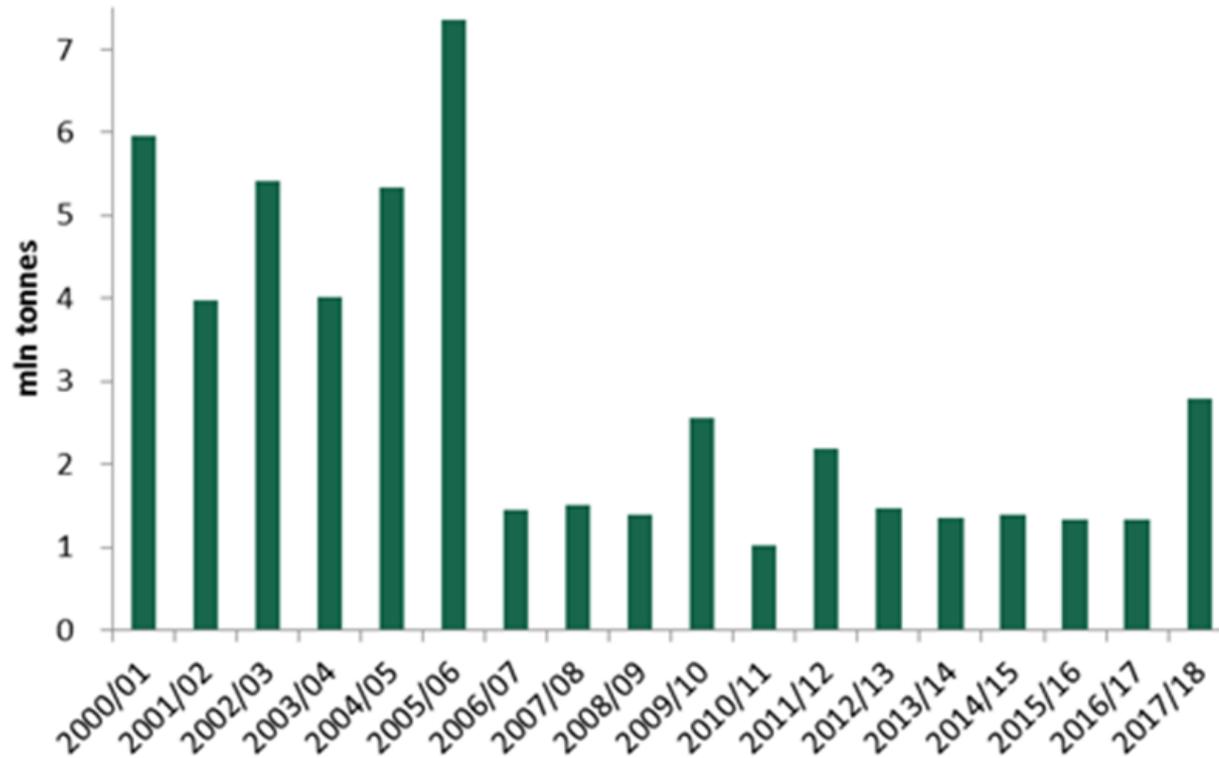
# CIS surplus will flow to world market

Russia & Ukraine Export Availability



- Higher production in Russia and Ukraine increases availability for the WM
- Whites will offset raws imports to neighbouring *Stan* countries

# EU: exports and/or restocking?



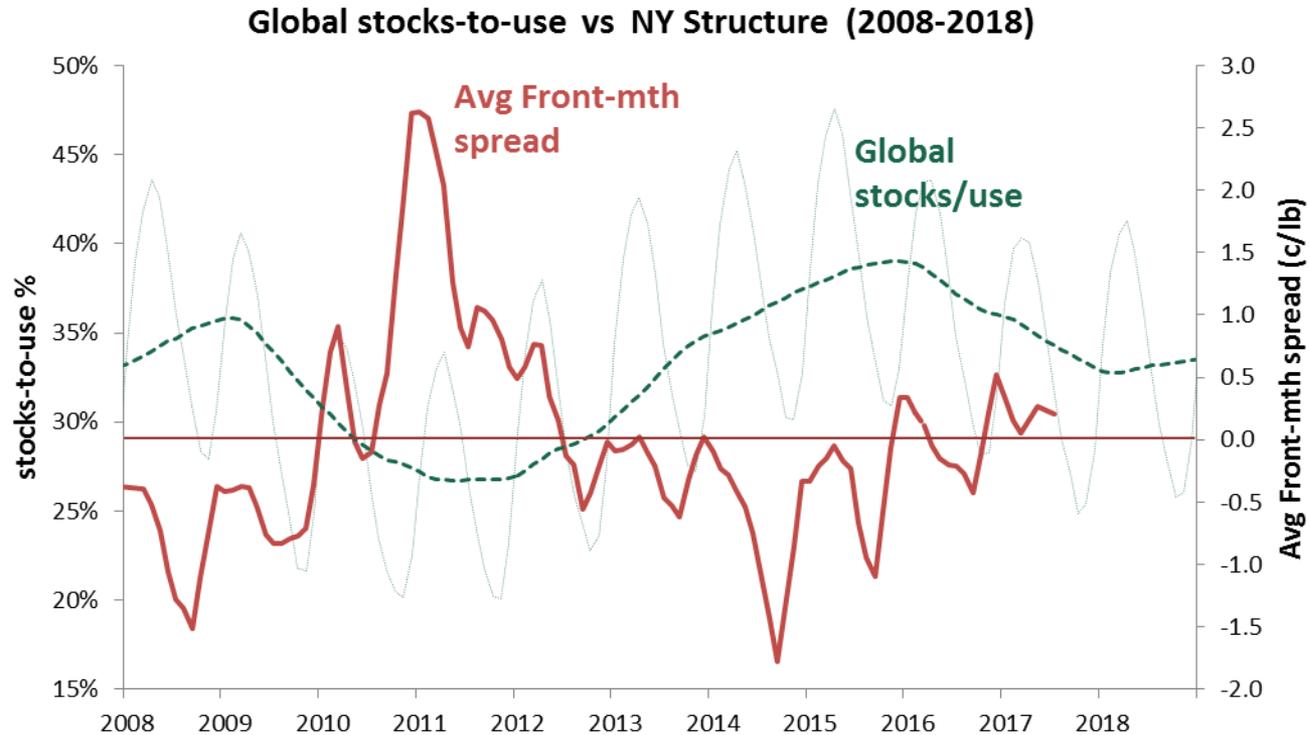
# Doubts concerning consumption growth

Global Consumption Growth (2000-2017)

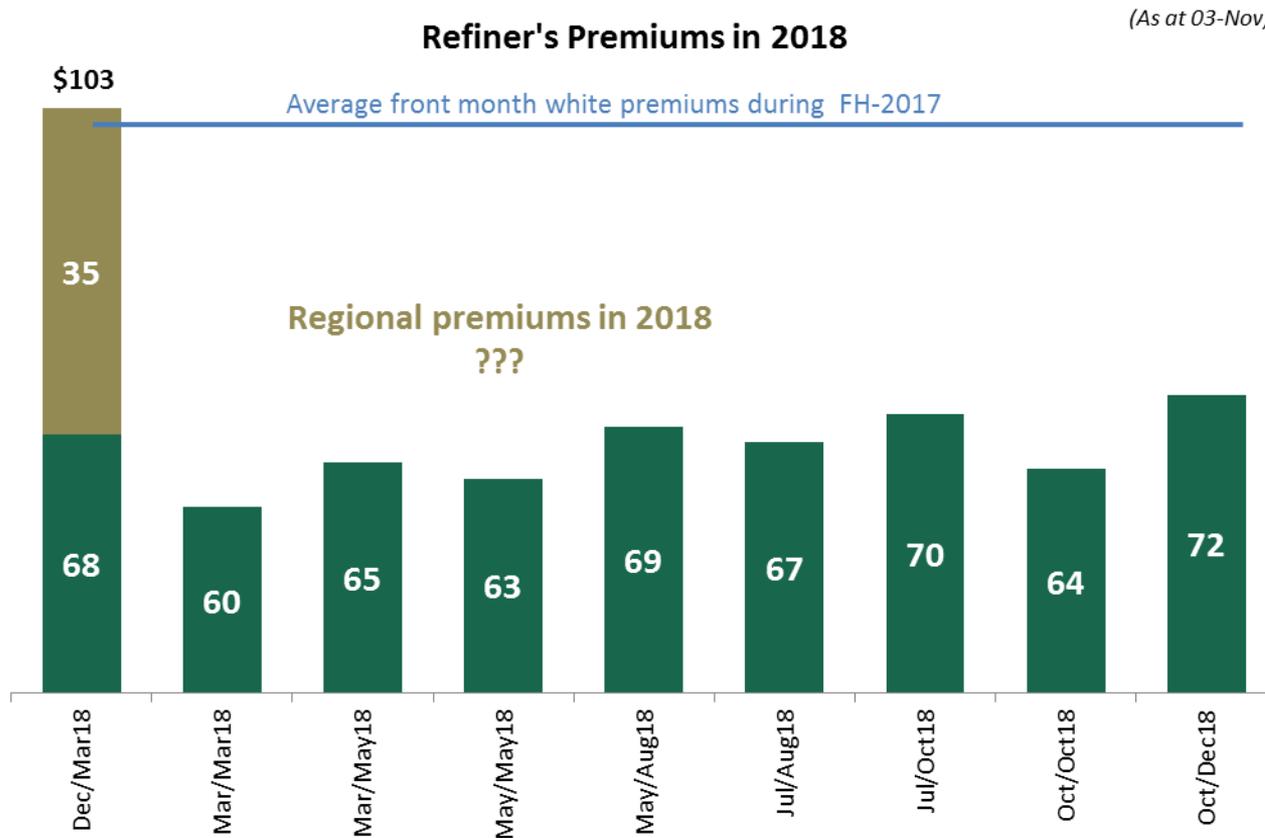


- Challenging era for consumption growth has painted pessimism about ability to eat through 17/18 surplus

# Outlook for spreads

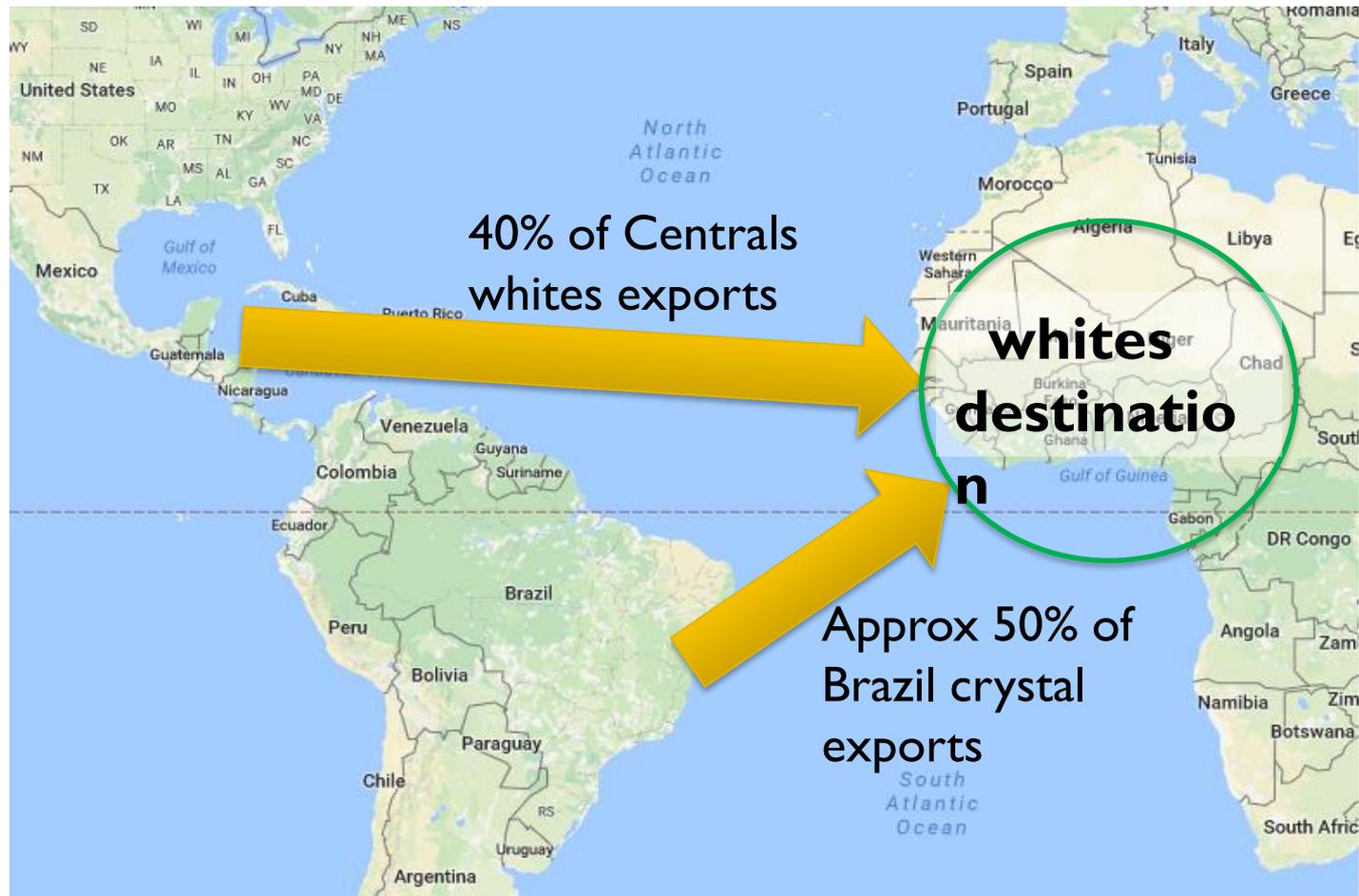


# Whites surplus: low WP...offset by local premiums?



- A lower WP is one mechanism to reduce whites supply
- But, strong regional premiums are helping refiners

# Whites surplus – Price signals for Brazil & Centrals



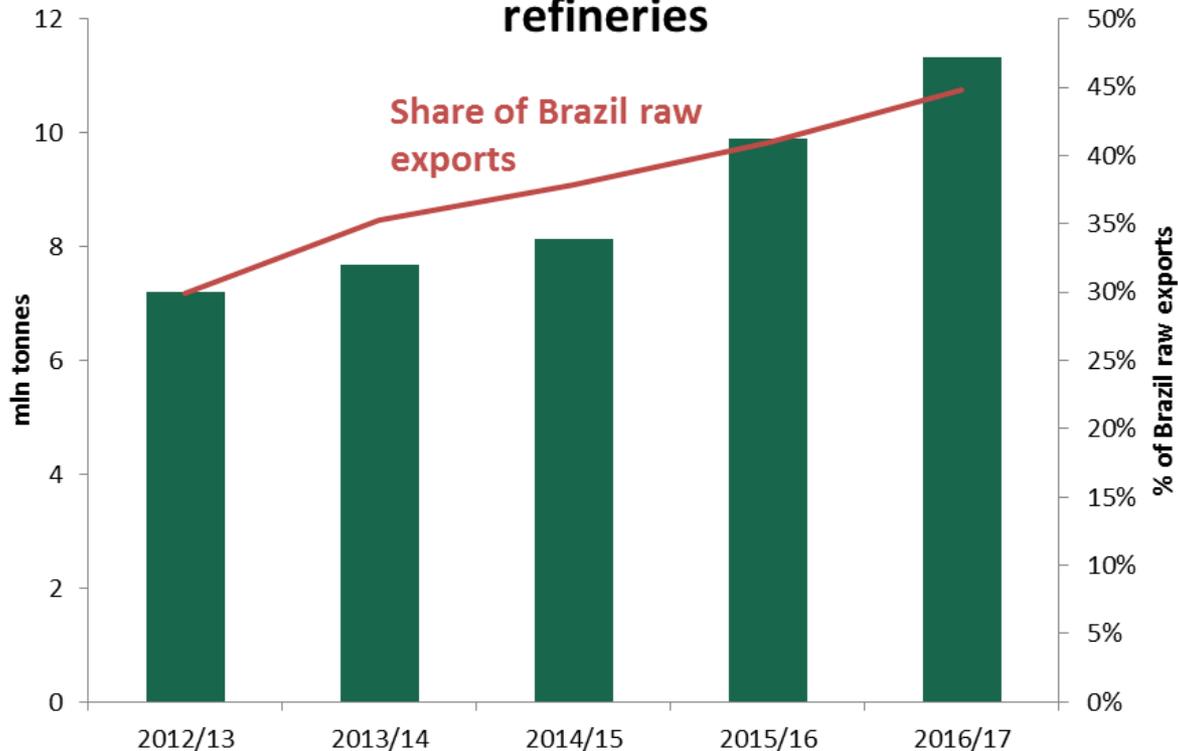
# 2017/18: there's also a surplus of raws to resolve



- Switching whites to VHPs will add to raws surplus
- Lower EU import demand will mean EPA/EBA origins have to look to WM

# 2017/18: less refinery whites = more Brazil raws

## Brazil: raw exports to MENA & India refineries



**MENA & India refiners buy nearly half of all Brazil raws exports**

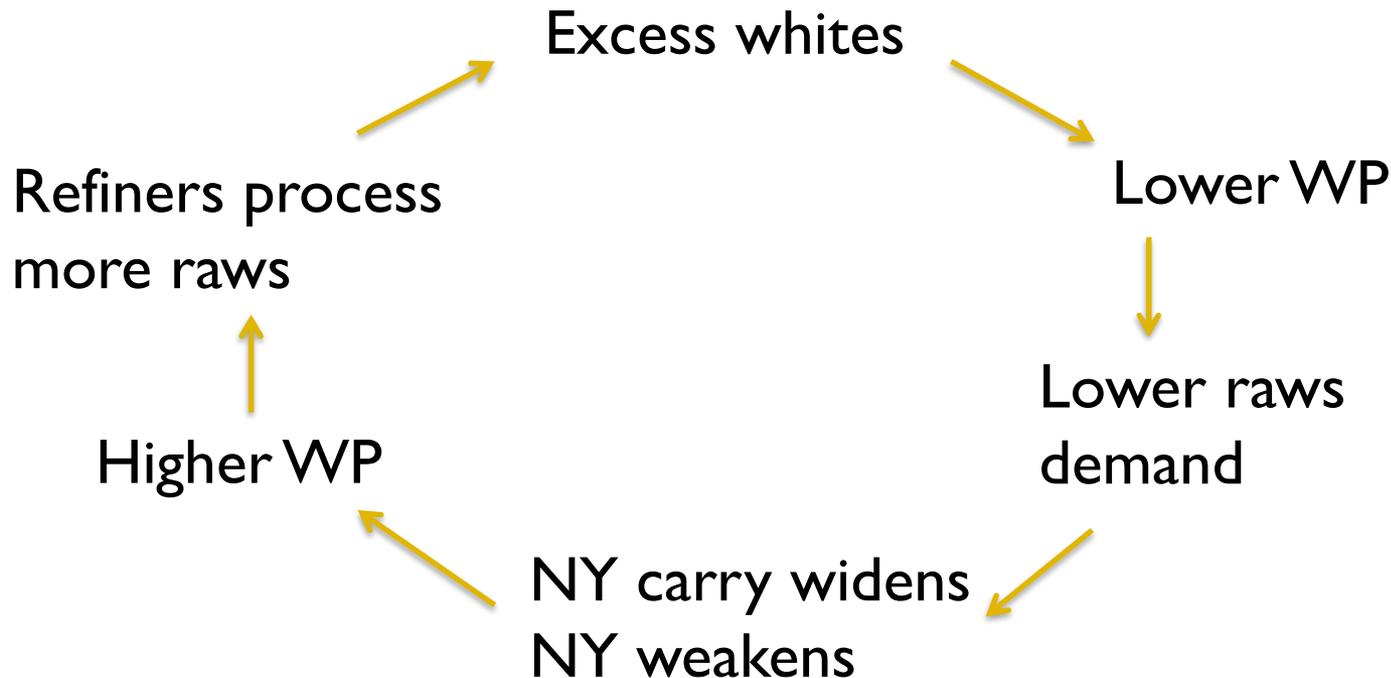
- Low WP could hit refiners' demand for Brazilian raws later in 2018, weighing on raws surplus and values

# Resolving the surplus: the carry



- One outcome of surpluses is to carry of excess sugar
- Downward pressure on NY & Ldn spreads until the surplus outlook changes
- Hard-up industry: lower margins & cash flow constraints could limit ability to carry sugar this year

# The WP – a vicious circle



- Oscillating returns for refiners and cane sugar producers
- Leading to price volatility during the period

# Disclaimer!

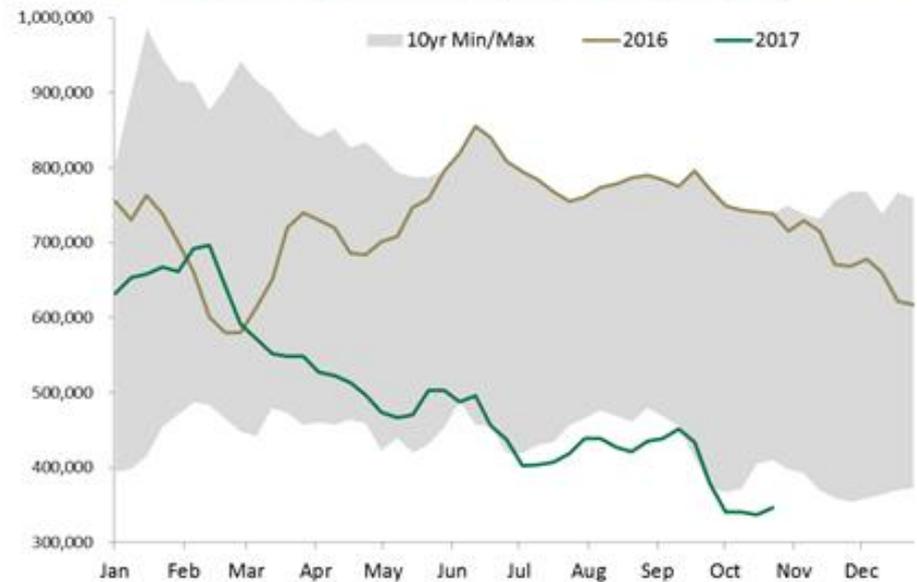
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# Producer pricing and speculative short

## Commercial & Spec shorts (2015-2017)



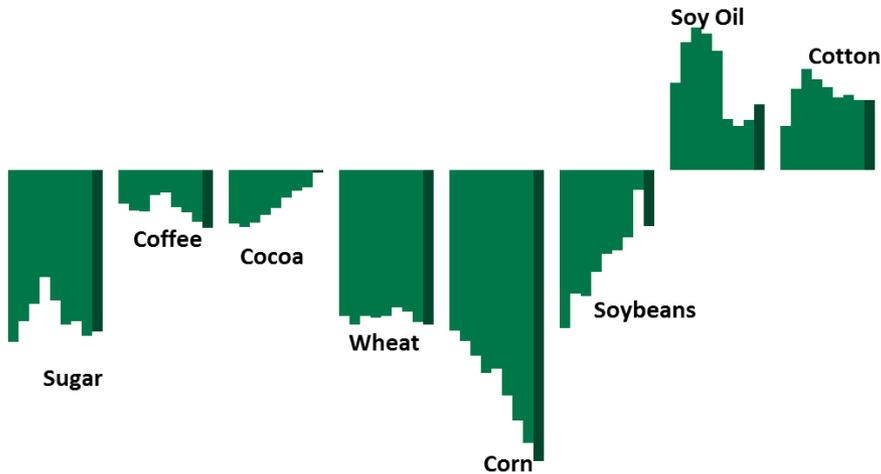
## Commercial shorts (YoY comparison)



- Specs a big part of open interest and supply & demand of futures contracts
- Funds currently net-short: short covering is a potential bullish risk
- Producers under-priced today – can limit price upside

# Macro risks: moving prices beyond fundamentals

Spec net position - Past 2 months



- Speculative community often move positions in unison across Ag sector
- Geopolitical risks to influence wider commodity complex via USD, for sugar the BRL is also key

# Conclusions – outlook for 2018

- Surplus will have to resolve itself through combination of:
  - low prices encouraging increased demand
  - carry and restocking
  - switching to ethanol & alternative crops, or just switching off altogether
- Large raws surplus should keep NY under pressure, whites prices will trade on the timing of EU exports and persistence of refiners to maintain market share
- Brazil CS harvest is pivotal – lower mix, watch for weather risks to cane
- Known unknowns ....weather events; freight rates; oil price; macro shift; policy changes; Govt buffer stocks; refinery/mill closures; China import policy

The logo for ASSUC, featuring the letters 'ASSUC' in a white, sans-serif font. The letter 'S' is partially obscured by a dark blue vertical bar that extends through the 'S' and the 'U'.

**Thank you!**

**ASSUC aisbl**

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