The European Association of Sugar Traders

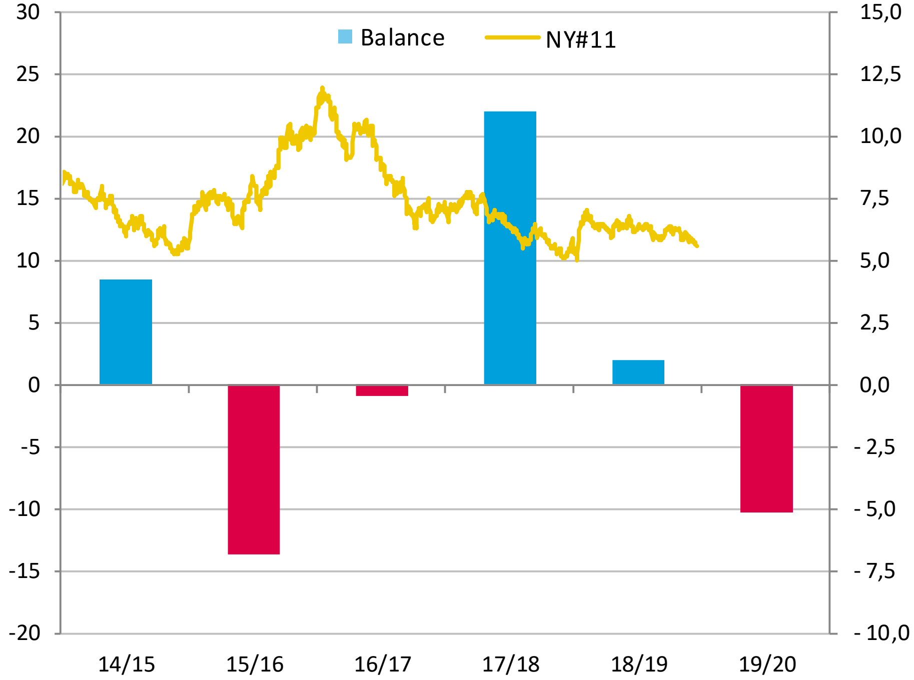
SUGAR MARKET REPORT

Brussels, 15 November 2019
Sugar Market Observatory

EXECUTIVE SUMMARY

- 19/20 will post a deficit after 2 years of surplus. It combines low CS and EU sugar productions and, new features of 19/20, lower Indian and Thai crops.
- Despite this supportive picture, world sugar stocks are at their highest. Also, the deficit is partly caused by a minimal sugar mix in CS: a mild price increase would shift back the mix and it could lead the world in surplus.
- With large stocks and still a small surplus in 19/20, India is expected to export and if required, to adjust down its local prices to allow a minimal export flow. Recent good rains and historically high levels of water reservoirs point toward a crop increase in the next season. This shall imply India to be an exporter in 20/21 again.
- In such surroundings, funds may not fear a deficit as they did in 2016. At that time, India imports perspective brought much of the market attention.
- CS raws exports have been delayed in 2019. The main world exporter lost market shares to emerging exporters such as Mexico, South Africa or India. CS export pace will have to accelerate by the end of the crop and it shall weigh on Western Hemisphere trade flows.
- Raw sugar trade flows in the Far East could tighten during 2020, once the large 18/19 Thai carry-out is handled.

Global production-consumption balance & NY#11
[Oct/Sep, Left: c$/lb – Right: Mt raw value]

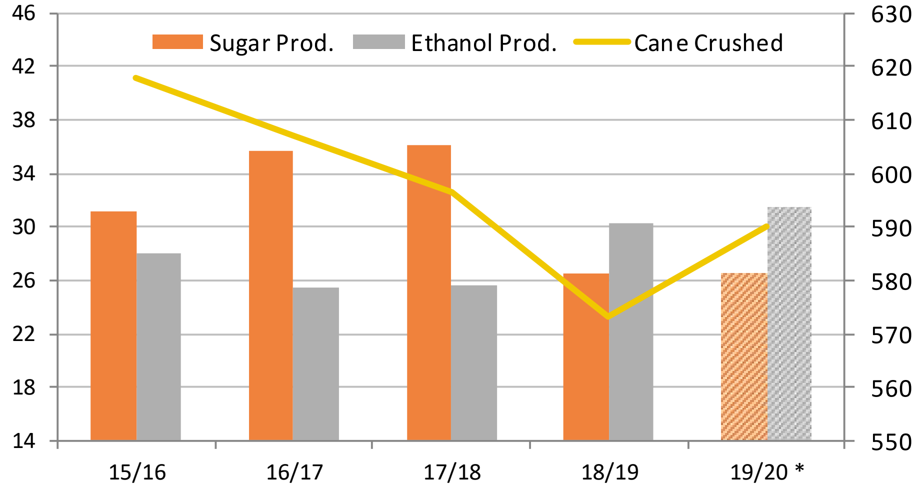


Brazil CS: Steady sugar production

- 19/20 cane crop was satisfactory, helped by abundant rainfalls in March and April. By end September, yields reported were about 4.5% higher year-on-year.
- ATR suffered first from the intense autumn rainfalls. Then it grew at a stronger pace than usual helped by a dry and hot winter. It should end close to last year at 137.5 kg/t cane.
- Mix showed the same pattern as in 18/19. Mills maximized ethanol throughout the season with sugar-ethanol parities similar to the previous year. Ethanol production will grow slightly by 4% with a sugar mix around 34%.
- With a sucrose production slightly up on the campaign by 2%, sugar production will stay unchanged at 26.5 Mt, ethanol capturing the sucrose excess year-on-year.
- 20/21 cane did not suffer from the drier-than-usual winter. The regular rainfall distribution helped to keep a good cane development.
- Diversion away from cane should remain under control with soybeans prices not sufficiently attractive during the year.

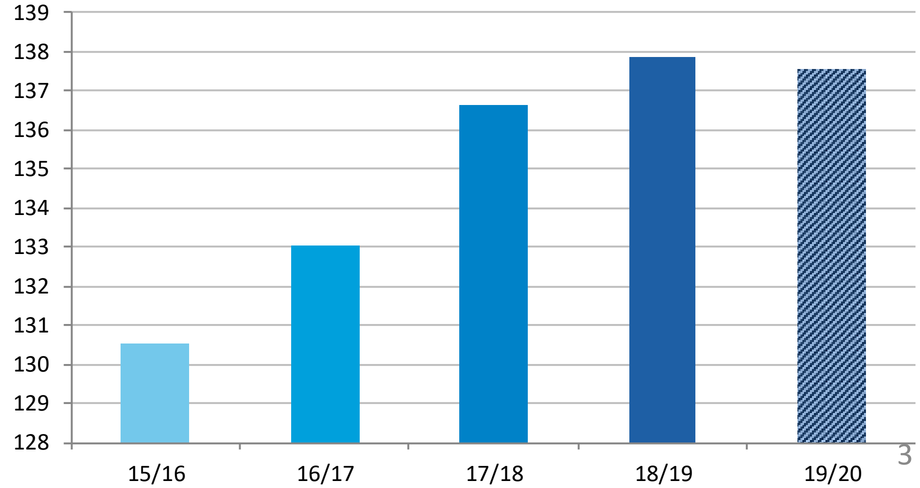
CS Brazilian production

[Apr/March, Left: Mt sugar & Mm^3 ethanol - Right: Mt cane]



CS Brazilian cane sucrose content (ATR)

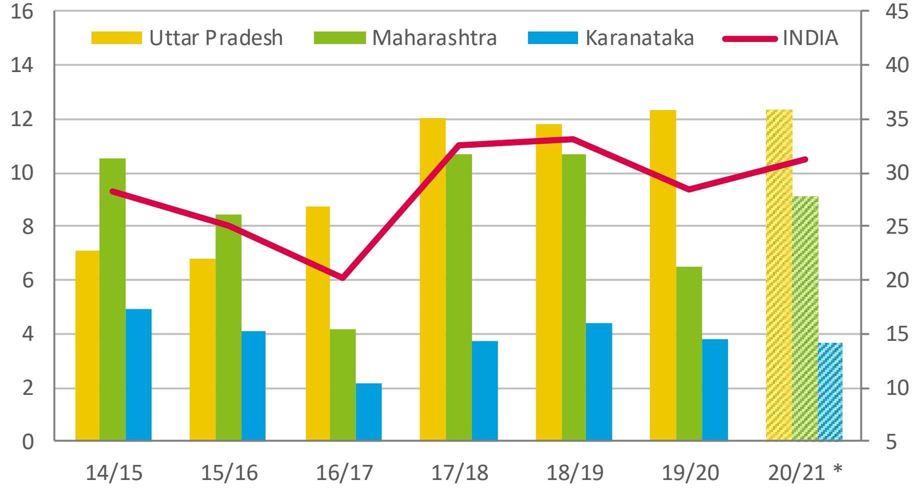
[Apr/March, kg sugar / t cane]



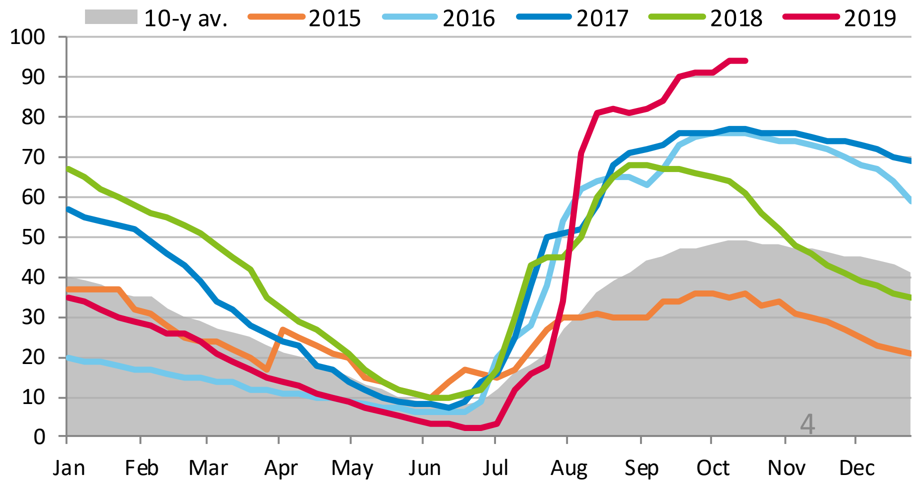
India: 19/20 down, 20/21 looking better

- India 19/20 crop will mostly suffer from the lower cane area in Maharashtra and Karnataka. This decrease is due to low reservoir levels as a result of short-ended 2018 monsoon.
- Other States in India will have a stable or moderate growth of their sugar production.
- Indian 19/20 sucrose production should drop to 28.5 Mt. Growing ethanol production could potentially absorb 1 to 1.5 Mt sugar equivalent of this amount, for a final sugar production between 27 Mt to 27.5 Mt.
- Monsoon 2019 finally recovered from an initial delay. The poor distribution did not help the 19/20 summer cane growth, but it filled up the reservoirs which now stand now at a record high level in Maharashtra.
- High reservoir levels allow ample irrigation of the standing crop and a good run of the plantings. 20/21 cane area in Maharashtra should recover accordingly.
- Other Indian producing States benefit continuously from high cane prices, making it the best crop alternative. Limited cane arrears will also prevent cane uprooting.
- As a result, India 20/21 shows an improved crop perspective compared to 19/20.

Indian sugar production of main states
[Oct/Sep, Left: States-wise Mt - Right: All India Mt]



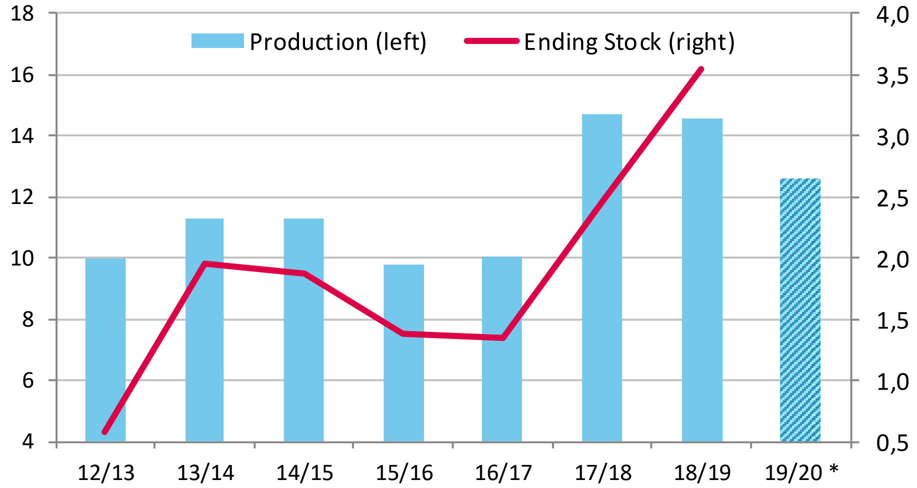
Maharashtra reservoir levels
[Calendar year, % capacity]



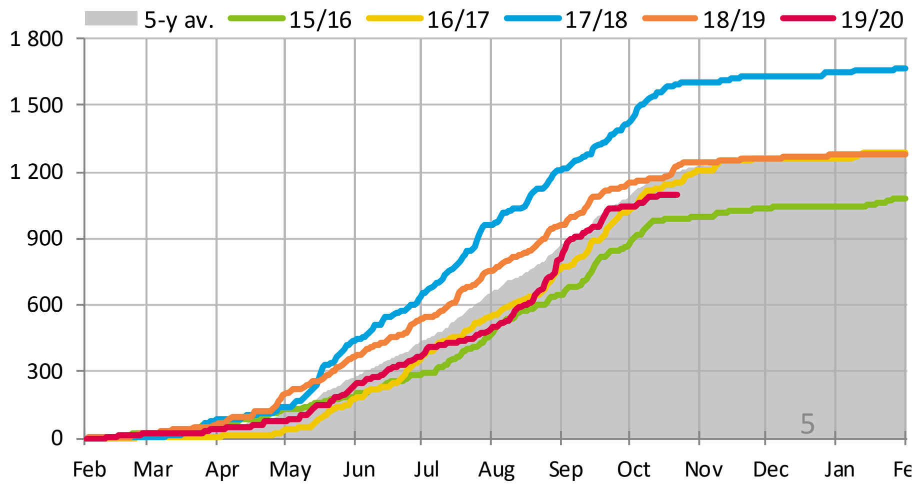
Thailand: high stocks, lower crop

- Thailand 19/20 cane suffered from a poor monsoon: late start, uneven rainfalls distribution and overall deficit of 6% vs average.
- Still, a late increase of rains in August prevented a disastrous monsoon as in 2015.
- Crop will decrease by about 15% after 2 consecutive record crops. Sugar production is assessed at 12.5 Mt.
- Raw sugar exports in 18/19 were slow mostly due to a lower offtake from Indonesia. It has not been offset by larger flows to China and South Korea.
- The high 18/19 crop and low exports created record high stocks which should be reduced with the perspective of a lower 19/20 crop.
- Next year stocks could be back to more usual levels especially with the higher demand from Indonesia, although India could be a new competitor for that destination.
- Despite cane price remains low, collapsing cassava prices will limit land diversion.

Thai sugar production and ending stock
[Dec/Nov, Left: Production Mt - Right: Stock Mt]



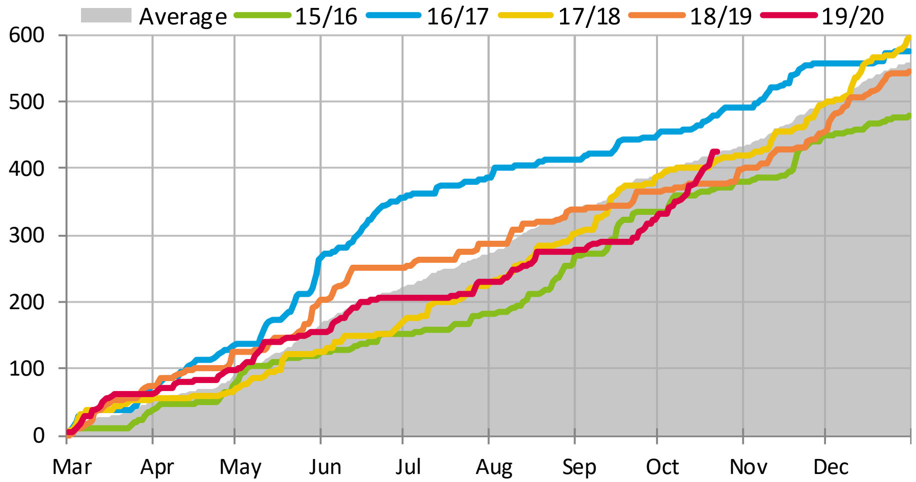
Thai cumulative rainfall (weighted index)
[Feb/Jan, mm]



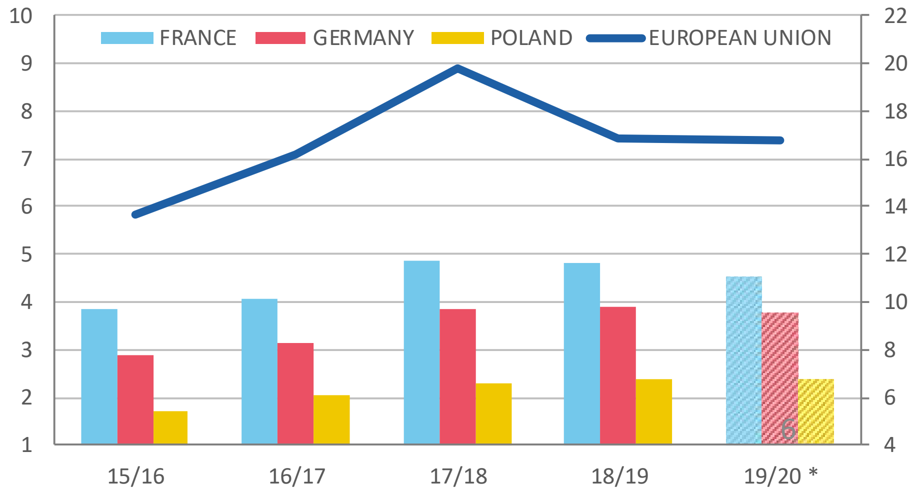
The EU: lowest exports since 10/11

- The EU beet crop suffered twice in a row from detrimental weather conditions.
- 2019 came with insufficient rainfalls, and harmful changes from cold weather to heat-waves.
- Adding to this poor beet performance, 19/20 beet area was also reduced 5% year-on-year because of land diversion toward wheat.
- 19/20 production should be lower than last year at 16.8 Mt (excluding ethanol production basis beet feedstocks).
- As a consequence, EU 19/20 exports should be further reduced. It may be just a bit more of 1 Mt, a level not seen since 10/11.
- Oppositely, higher domestic prices may attract more preferential sugar into the EU.
- Another consequence of higher domestic sugar prices, is the better remuneration of beet to the farmers in a stable wheat price environment.
- If no further land diversion is expected, a minimal beet area should be lost in 20/21 because of closing factories. However, basis an average weather scenario, yields should recover from 19/20, so as the sugar production.

French cumulative rainfall (weighted index)
[March/Dec, mm]



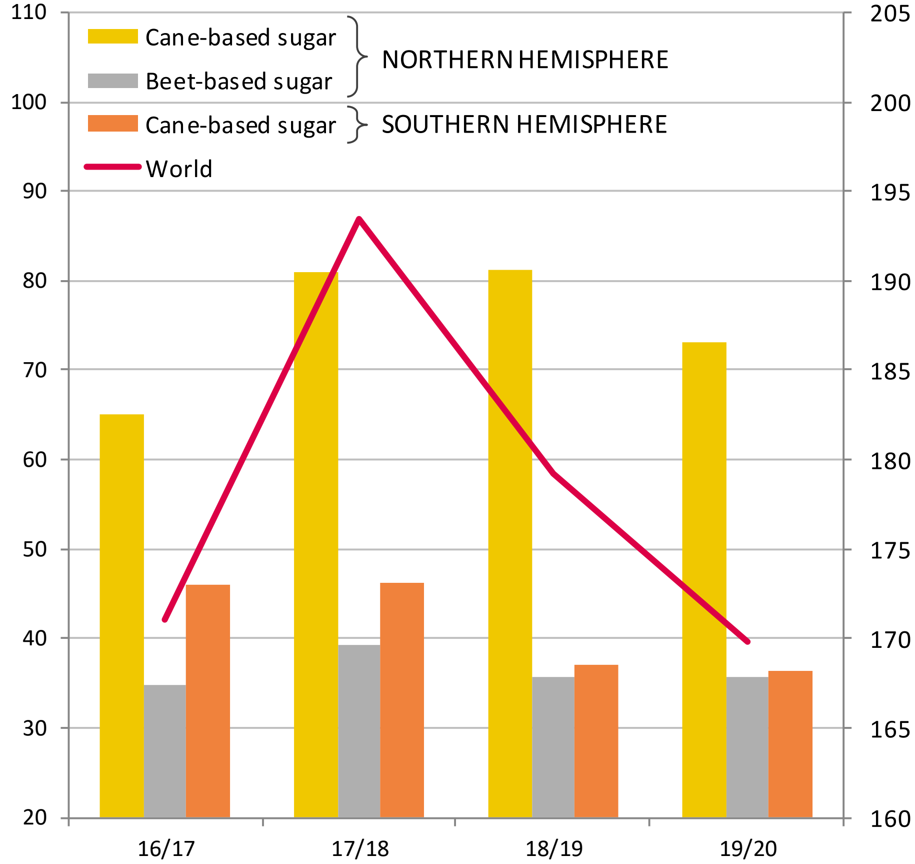
EU sugar production of main states
[Oct/Sep, Left: States-wise Mt - Right: All EU Mt]



World production back to 16/17 level, In a different context

- 18/19 production was down mostly because of Brazil CS low mix and the EU and Pakistan crop failures. Most of other sugar producers saw a good crop performance.
- 19/20 will repeat these features, but with lower crops in India and Thailand. Both are responsible of the major part of the world production decrease year-on-year.
- World production is down to its 16/17 levels, a year that was characterized by a rising price environment and a shortage fear.
- Still, some differences emerge between these two crop years. World stocks stand at a record high levels and CS low production is mostly due to the mix: cane and ATR have performed well.
- Next crop cycle 20/21 points also toward a higher world production. India just ended an abundant monsoon tail that refilled reservoirs. CS weather is satisfactory as of today.
- Another changing component of the market is the slow-down of the sugar consumption growth through cultural changes and public policies. Such phenomenon has a direct impact on the trade flows. For instance, South Africa higher exports result from good crops coupled with low demand due to the implementation of a sugar tax.

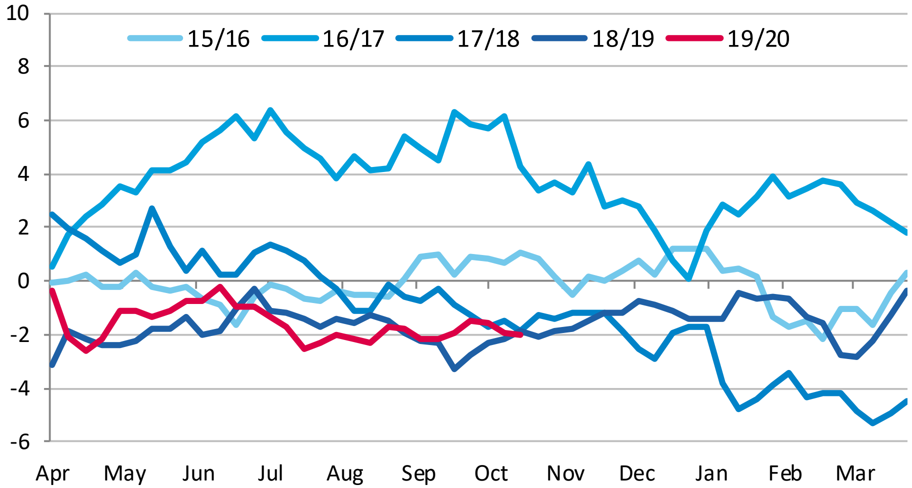
Sugar production per feedstock and hemisphere
[Oct/Sep, Left: Mt sugar - Right: Mt Total world production]



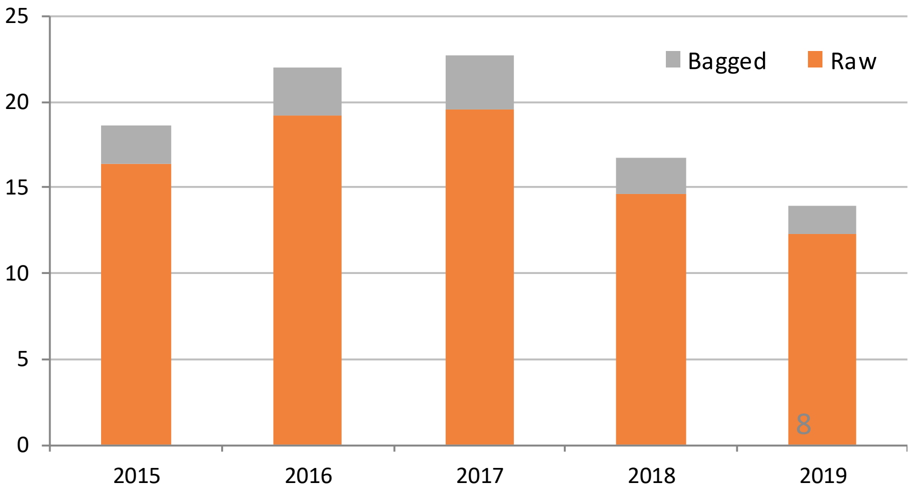
Minimum sugar mix in CS

- Sugar/Ethanol mix was again very low in 19/20. Ethanol was maximized all along the harvest.
- Despite lower ethanol stocks, mills have not decreased further the sugar production year-on-year. It seems the industry is close to maximal ethanol production capacity.
- On the basis of low stocks, ethanol prices could increase further during the intercrop. But the impact on sugar production will be limited, by that time.
- Hydrous ethanol consumption was high during the whole season. However, it remained quite stable year-on-year from August onward.
- With relatively steady prices at pump for both gasoline and ethanol, crude oil prices and Petrobras adjustments had less influence during this crop. It reveals a certain maturity of the Brazilian energy complex.
- Both raw and white sugar exports will remain at a record low for the second consecutive year.
- If prices return to around 14 c$/lb, with an exchange rate of about 4 BRL/USD, CS could redeploy its crystallization capacity for the production and exports to be back at their previous levels. This would gradually shift 19/20 world deficit back to surplus again.

Brazilian Sugar/Ethanol parity per crop year
[c$/lb, *positive parity = sugar more remunerative*]



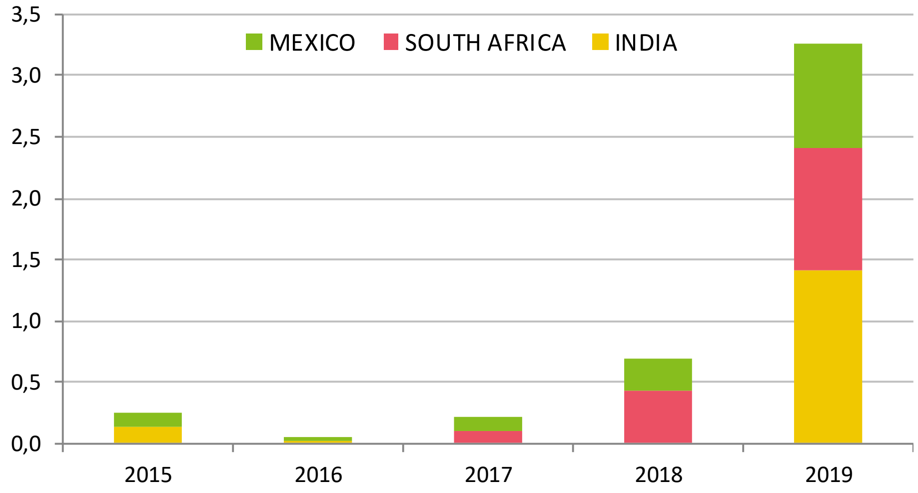
CS Brazilian sugar exports from Jan to Oct
[Jan/Oct, Mt]



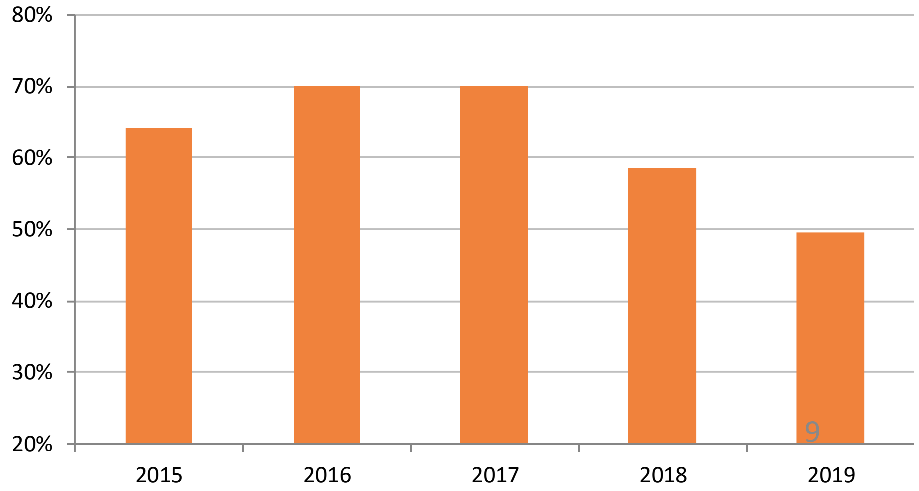
Alternative raw sugar suppliers: not only India

- Although marked down, India 19/20 production will still surpass its consumption. The country also bears large carry-in of about 60% stocks-to-use ratio.
- Both elements will push mills to exports a similar volume than in 18/19, especially if world prices combined with the subsidy are close to the Minimum Support Price.
- In a surplus environment and with a perspective of higher 20/21 production, local prices may be the adjusting variable rather than world prices to stimulate exports.
- Beside India, two other exporters have gained significant market share: South Africa and Mexico. The first exported about 1 Mt in 2019. The latter exported 1 Mt during its 18/19 crop year (excluding NAFTA).
- India, South Africa and Mexico have exported more than 3 Mt since the start of 2019. This flow displaces mostly CS sugar and explains today's delay of CS exports of about 1.5 Mt year-on-year.
- 19/20 large Mexico exports are unlikely due to a lower crop forecast. Oppositely South Africa shall keep a sustained raw export flow, with weak consumption and a crop seen stable.
- With a 19/20 high crop, Russia could also substitute further Brazilian raw sugar in the CIS.

Alternative raw sugar suppliers exports per year
[Calendar year, Mt]



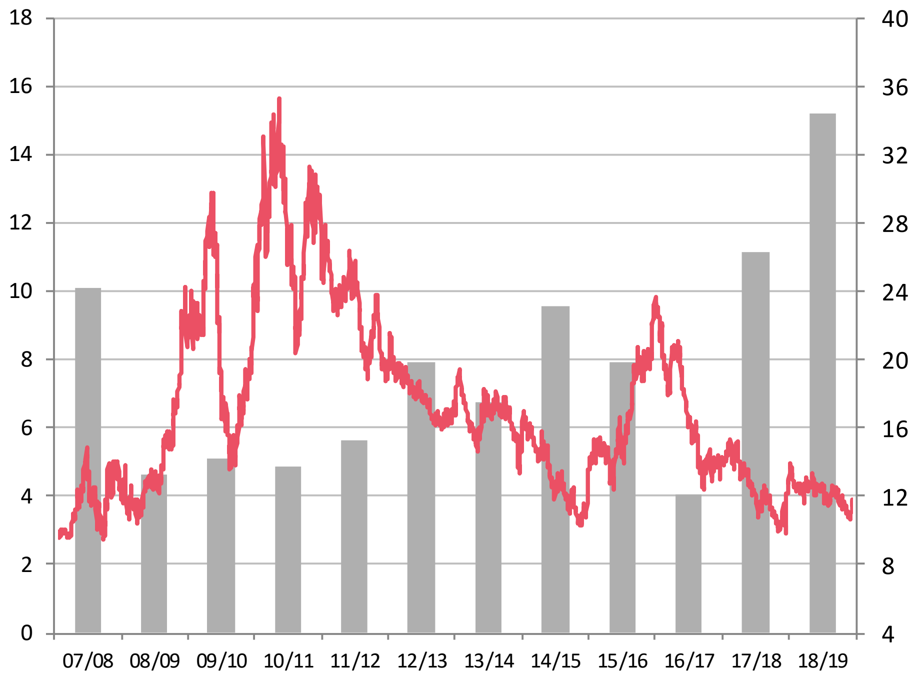
CS Brazilian market share of raw sugar flows
[Calendar year, %]



World stocks at record high weighing on trade flows

- World sugar stocks reached a high by the end of 18/19 with a cumulated 25% increase since 16/17.
- A good part of these stocks are located in exporting countries: India, Thailand, CS.
- At destination, China is marginally decreasing its stocks, due to lower white sugar flows. Similarly, Indonesia has reduced its stocks during 2019, with weaker raw sugar imports.
- The market situation presents a contradiction between high stocks – a good part being available for the market - and lower production forecasts for the current crop.
- On the near-term, especially for Q4-19 and Q1-20, a delay in CS exports implies higher availabilities year-on-year by the end of the crop.
- Crystal sugar markets are limited, so Indian large stocks shall be mostly absorbed by coastal refiners and regional refining destinations at the expense of CS exports.
- Another feature of Q1-20 will be the 18/19 Thai raw sugar stocks that will need to find suitable homes.

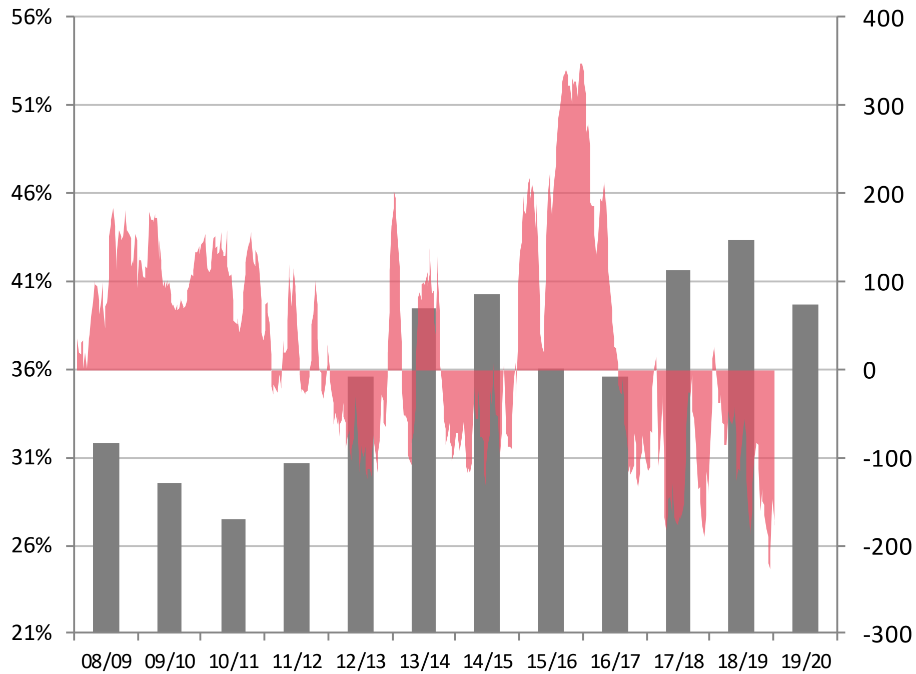
Indian sugar ending stock & raw sugar prices
[Left: India stock Mt – Right: NY#11 c$/lb]



Order flow: funds short for 2 ½ years. Is it Time to change?

- Funds are almost continuously net short of the market since May 2017. This strategy coincided with a surplus perspective after 2 years of tightness.
- The combination of a prod/cons deficit in 19/20 and a short position of the funds could trigger a short-covering rally, as in 2016. Funds indeed shifted from a neutral position early 2016 to a record long of almost 350 k lots in October of the same year.
- Still, 15/16 and 18/19 deficits display many differences. India was foreseen as an importer back then. CS did not have such a potential shift-back in terms of sugar production. World stocks-to-use ratio was lower.
- The different context behind the 19/20 deficit could influence the funds view and reduce their buying appetite.
- On the other hand, producers are lagging behind their pricing. Commercials hold indeed a neutral net position today while coming from a 300 k lots short back in June 2018.
- Millers might want to price actively in front of a potential buy-back of the funds, including in CS what corresponds to their sugar mix buffer.

World stock-to-use ratio & net spec. position
[Left: World ratio % – Right: thousand lots]



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