Monthly Sugar Note

31 January 2023

Markets

Sugar has exhibited much volatility in the past 30 days as the market digested the fact that India would not provide an additional sugar export quota to the 6mmt approved by the government in November 2022. Confirmation of such came in the past days when ISMA announced to the market their reduction of the crop estimate from 36.5mmt to 34mmt. The macro scenario is also starting to turn more positive, which is bringing speculators back to commodities. The combination of the above factors took NY front month contract to 21.76c/lb on 31 of Jan, the highest level since November 2016.

The latest CPI number from the US confirmed that inflation is peaking, rising just 6.5% y/y from 7.1% the previous month. This has increased market expectations that the Fed may increase rates by only 0.25% from here on (instead of 0.5%), resulting in a weaker USD and prompting decent risk-on rallies across equities and commodities alike. China, which is re-opening its economy after months of Zero covid, is particularly supporting commodities. Accordingly, specs have been fast to add to their long positions in commodities, with NY sugar reaching 223k lots in the last week of December, a record of the past 16 months. The first weeks of January saw a decrease from this level by about 50k lots, as funds took profit - but they remain high at about 165k net long as of 17/01/23.

Figure 1: NY11 front month price

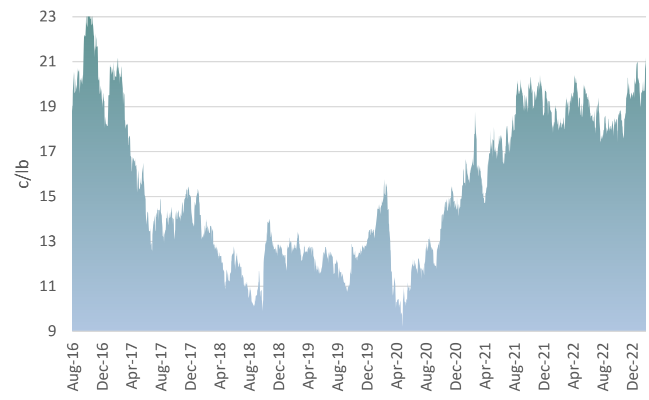
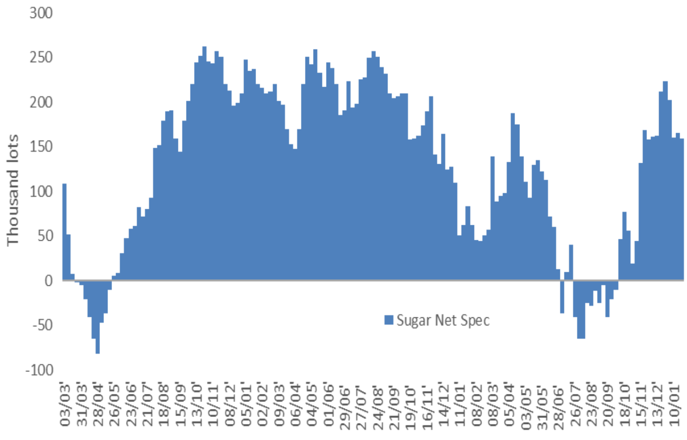


Figure 2: Net spec positions



Source: Reuters, CFTC and ED&F Man Commodity Research

India's crop progress until the beginning January shows production coming in above the past season, at 15.6mmt, 4% higher YoY. Despite data so far, ISMA's latest revision in crop eliminates any additional export quota expected by the market. As a result, the sugar market will be in a tight condition over the next few months, regardless the size of the Thai crop. The results of the C/S sugar crop during December were above market expectations, with cumulative sugar output up to the mid-January at 33.5mmt, about 1.5mmt higher than last year. Rains are also abundant in the C/S cane belt which supports the view of more cane availability for the 23/24 crop. The Brazilian government has postponed the end of the federal taxes on fuel until the end of February, weighing on ethanol prices. Despite this, Petrobras increased the gasoline prices by 7.5% after 45 days without any change, which should bring some support to ethanol in the coming days. Still, sugar prices continue to be much higher than ethanol, suggesting that C/S millers will keep sugar mix at high levels.

Thailand's output numbers are also returning very high sucrose levels of above 10.5% (vs.10.1% in the previous crop), producing 3.3mmt of sugar until the first half of January, up 300kt y/y. Smaller exporting regions' (Centrals and Mexico) crops are coming in below last season. Centrals' production will likely stay just below the previous crop, while Mexico's figures suggest that the crop may be considerably lower than what is currently being projected by the government (6.0mmt).

Considering that the Brazil crop will gain traction only in the second half of 2023, and that India will not bring more than the original export quota of 6mmt to the World Market, as well as better macro conditions and possibly a new El Nino event from June/23 onwards, we find it hard to see price dropping in the next few months. Moreover, we are conducive to high sugar prices remaining in place for a considerable period of time.

Fundamentals

- **Brazil C/S:** December's production results were interesting as the month had heavy rains for most C/S areas. Despite the heavy rains, the month still registered 8.2mmt of cane crushed, a relatively good level given the weather. As of January 15th, cumulative sugar production reached 33.5mmt (vs. 32.1mmt in the past season). 13 mills are still operating, being 3 with cane feedstock and the rest with corn. Nominations still happening, exports continue to maintain good pace, with December the third highest, and January so far also decent. Most of the production still projected for the current crop is expected for SH March, so weather by that time will be key to determine the final production. January has been very wet and the forecast is favourable for cane development for the new season.

- **India:** India produced 15.68 MMT of sugar up to 15 Jan vs 15.08 mmt the same time last year. Mills are crushing at a higher pace from last year because of increased capacity and the early start of the season in anticipation of lower cane availability in a few states. Based on the crop surveys in Sep and Dec we see potential for production numbers below 33mmt given the low agricultural yields informed by the millers. We are cross-checking our estimates often with Agri Department officials at mills, their feedback on expected closures and the balance cane left for harvesting. Indeed, a reduction in the daily crushing capacity is already being seen in some areas of Maharashtra and Karnataka. We could see several mills closing by the 1st week of Feb. In line with the previous, ISMA new crop projection estimated that India is likely to produce 34mmt of sugar in the current season, down 7% from the previous forecast, as sugar cane yields in major producing states fell due to weather conditions. The production estimate has been revised based on field visits, the current trend in per hectare sugar cane yields and sugar recovery rate. We expect to see a major reduction in the crushing pace from H1 Feb onwards. Out of the 6.09 mmt of export quota, some 5.6-5.8 mmt of sugar has been contracted so far, as per trade sources. More than 2 mmt of sugar is physically exported in various qualities.

- **Asia:** At a full pace of crushing since new year, 57 mills in Thailand have produced 3mmt sugar till mid Jan'23. Rainfall has been very supportive in 2022 for cane development which leads to a great improvement on cane availability of 22/23 crop and sugar content is currently higher than previous crop. We forecast 22/23 Thailand cane production slightly above 110mmt with sugar output around 11.5/12mmt. Thai cash premium is supported by growing demand in the Asian countries recovered from Covid. Although regional demand remains constructive in the absence of extra supply from India, challenge exists with Brazil being a key competitor as ocean freight starts to drop. Thailand refined export in 2023 shows a surplus for now but if we consider the record level of refined premium in other origins like Brazil and Guatemala as well as the normalized freight out of Thailand, Thai refined stays competitive and namely the best choice for Asian container buyers. It shall gradually connect to more demand. Additionally for regional whites demand, Philippines has announced a new import program of 64kmt sugar this week, for Feb/Mar arrival.

- **EU/UK:** The weather over the past month or so saw a cold snap followed by a warm spell that resulted in a quick freeze and thaw that could have caused some frost damage to any recently harvested and piled up beets, . Any actual damage will not be clarified until another month or so. The European Commission released its latest update on the balance sheet estimate, reducing EU production by 470kmt. With this reduction, they increased imports by 400kmt and reduced the export estimate by 190kmt. The commission expect ending stocks to fall by 190kmt. Neonic exemptions have now been ruled out for 23/24, casting planting estimates in doubt for the spring.

- **CIS:** Ukraine's production has been revised upwards significantly to a surprising 1.3mmt. This is supported by very strong export data out of Ukraine, with both November and December managing a monthly total of above 50kmt despite logistical issues given the conflict. All these exports have found their way into European Union destinations, enjoying the newly formed quota-free agreement, and has prompted an increase in expected flows for the rest of the year to 300kmt. With planting area looking likely to increase, this flow may even increase further, as long as the agreement is continued past the June 2023 current timeframe.

Focus – Centrals and North America

The 2022/23 crop has started for a few weeks now, but the sentiment of regional tightness persists. Although these regions have different perspectives in terms of sugar production, the high demand and heavy trade flows are supporting prices and keeping them busy.

From the Mexican perspective, the expectations around the crop are changing fast. A reduction YoY was already expected, but the results up to Jan 21st released by Conadesuca points to a worse crop than anticipated. It started with a delay on the beginning of the crush, but the acreage harvested is now in line with this same time last year while sugar production is 11% lower at 1.6mmt. This is the result of poor agricultural yields and sucrose levels, resulting on a sugar/ha ratio of 7.2 tons per hectare, the worst levels of the past 10 years. Based on this, final sugar production could finish around 5.8mmt or even below, but as only around a quarter of the crop has been processed so far, this final number can still change. With that, export availability from the country is around 1.3mmt resulting on world market exports below 100kt.

United States on the other hand, is on its way to its second highest crop. While the beet sugar production looks good, but still 2% below the year before, the cane sugar is expected to hit a record driven by Louisiana production which presents a small growth on acreage and its second highest agricultural yield in its history. Still, US is a net importer and for the current season, USDA projects a relatively high shortfall on raws TRQs and despite having a good crop, local prices continue at a much higher levels than a few years ago still incentivizing high duty imports as well as the regular import mechanisms. With that, it is possible that the final Mexican quota come out 100 to 150k MTRV below the current volume projected by USDA, 1340k MTRV. Although it should reduce, it should not be lower than 1070k MTRV, volume that is already guaranteed to Mexico based on the current Suspension Agreement (which accounts for 80% of the volume reported at the December WASDE).

Figure 3: US Sugar production (MTRV)

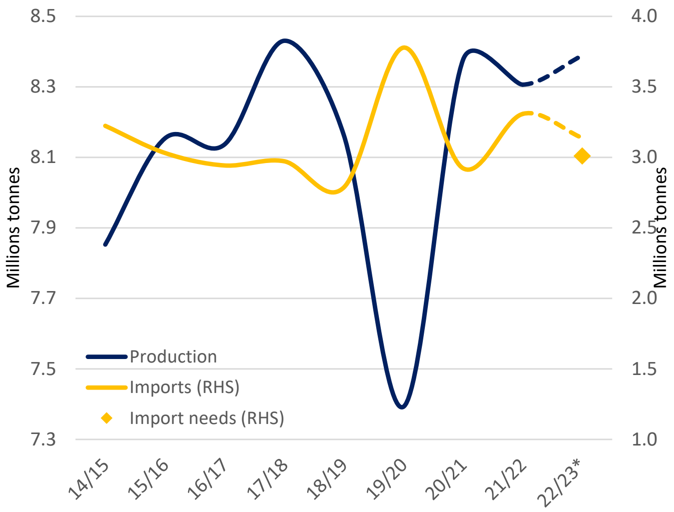
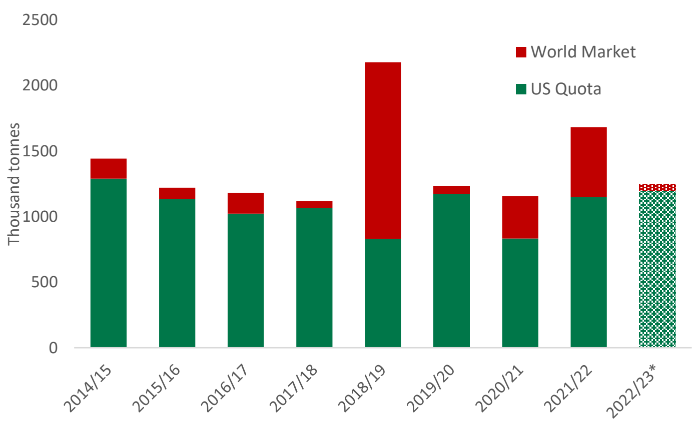


Figure 4: Mexican exports



Source: USDA and ED&F Man Commodity Research

With the Central American mills fully running, all eyes are now on the results from the fields indicating if the crop is in line with expectations and on the strong pace of nominations. Production in general presenting good agricultural yields but slightly lower sucrose. Overall, the combined crop should be similar to the previous season, only around 1 to 2% lower. El Salvador had a delay on the beginning of the season and sugar production up to Jan 22nd reached 301kt vs 362kt at the same period last year. Guatemala had a very small delay on average, and up to Jan 8th has produced 892kt of sugar vs 934kt on the year before. Exports continue to present strong pace on both refined and bulk raws side as despite being early on the season, approximately a third of the bulk raws projected for the season has already been nominated.

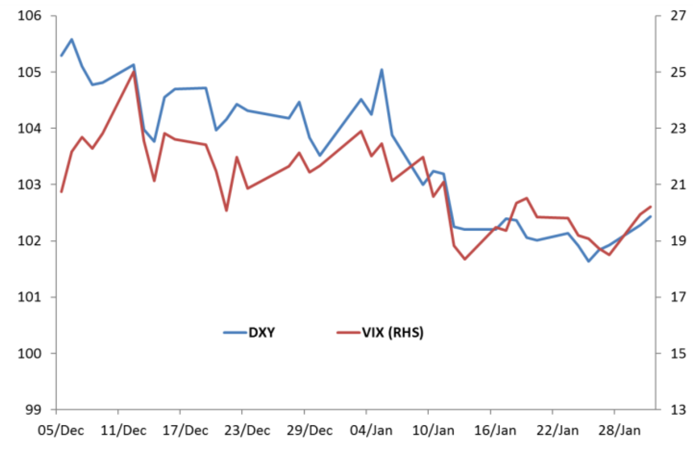
Macro

Since the turn of the new year, the macro has been quite supportive towards financial markets with a cautious optimism being displayed towards risk. The US dollar has continued its downward trend in the view that US has achieved peak inflation which has led to capital flows leaving dollar-based assets and looking for value elsewhere in equities, commodities or FX. Adding to the dollar's woes has been the market's refusal to believe Federal Reserve guidance that there will be no rate cut in 2023. However, this may be false hope, as the Fed will likely hold rates at their peak until 2024 as the US job market remains very resilient. As such, the USD may pick up support in the middle of this year as the market revises its expectations on FOMC policy. Today's February FOMC meeting will provide market with clarification over latest rake hike, with expectations of a 25 basis-point hike.

The Eurozone managed to escape moving into a recession as Q4 saw small growth in GDP of 0.1%. Germany saw negative growth for the period, while France, Belgium, Spain, and Ireland managed to balance the scales in favour of growth. However, with stronger resilience being shown it is likely the ECB continue to increase rates as inflation remains in double digits and Ukraine war continues. Recession risk still looms large for 2023 for both EU and UK.

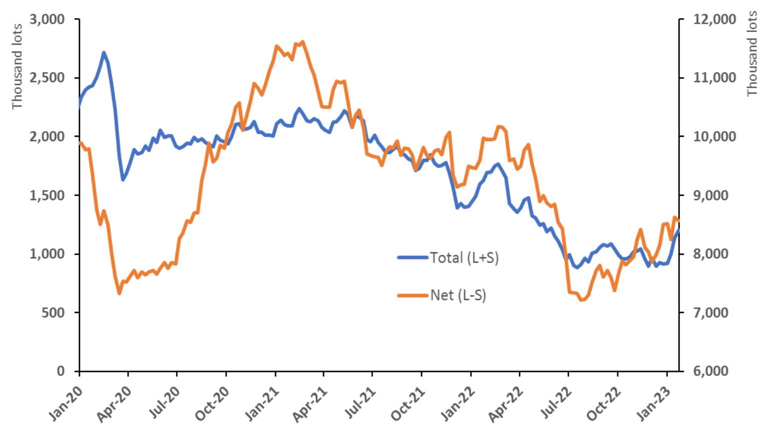
China's reopening of the economy remains the one of the largest influencers on all macro indicators for 2023. Mobility has improved against the backdrop of the last three years but is still lagging behind pre-pandemic years. Should we reach full autonomy of travel, this should bring new demand on oil prices. China's GDP growth is expected to rebound from last year's 3% to close to 6%, and if realised commodity prices will likely be dragged higher. In fact, January has seen an increase in speculative inflows within the commodity markets to highest level of spec participation since May 2022, but we are still a long way behind the inflation trade levels from this time last year.

Figure 7: Dollar drops in January



Source: Reuters, ED&F Man Commodity Research

Figure 8: Commodity Speculative Positioning



Source: Bloomberg, ED&F Man Commodity Research

Upcoming Areas of Interest

- **Brazil C/S –** Weather developments
- **India –** ISMA crop projection update
- **India –** Export quota
- **Thailand –** Crop evolution
- **Weather –** El Nino evolution

Prices Tab

New York #11					**London #5**				
(cents/lb)	31-Jan	23-Dec	% change		*($/tonne)*	31-Jan	23-Dec	% change	
Mar (23)	21.76	20.98	3.7%	↑	Mar(23)	580.7	572.1	1.5%	↑
May (23)	20.44	19.50	4.8%	↑	May (23)	573.1	549.0	4.4%	↑
New York #16					**White Premium**				
(cents/lb)	31-Jan	23-Dec	% change		*($/tonne)*	31-Jan	23-Dec	% change	
Mar (23)	37.10	36.50	1.6%	↑	Mar/Mar	101.0	109.6	-7.8%	↓
May (23)	37.20	36.51	1.9%	↑	May/Mar	93.4	86.5	8.0%	↑
Macro					**Currencies**				
Indicators	31-Jan	23-Dec	% change		*Against US$*	31-Jan	23-Dec	% change	
CRB	278.1	278.1	0.0%	↓	Euro (EU) *	1.086	1.061	2.3%	↑
Gold	1,928	1,798	7.2%	↑	Pound (GB) *	1.232	1.206	2.2%	↑
Brent Oil	84.49	83.92	1%	↑	Real (Brazil)	5.073	5.165	1.8%	↑
Baltic Dry	681	1,515	-55%	↓	Rupee (India)	81.74	82.78	1.3%	↑
Handysize	433	663	-35%	↓	Rouble (Russia)	70.57	69.25	-1.9%	↓
					(* rate is US dollars per FX)				