Monthly Sugar Note

27 April 2023

Markets

A more buoyant April macro environment, together with ever-tightening global sugar availability, was enough to push sugar prices up to 26c/lb, the highest level in 11 years. As we get closer to the end of the crop, India's production figures continue to come in lower each week. This suggests the sugar crop will end up below 33mmt, a number that external analysts were reluctant to accept back in March. Meanwhile, Thailand's crop, which is now over, has seen its sugar output end at 10.9mmt (before remelt), considerably lower than the view held at the start of the season (of 12mmt).

Adding to the bullish market sentiment is the looming El Niño, forecasts for which are getting stronger each and every day. The US Climate Prediction Center raised the likelihood of a strong El Niño emerging in the second half of the year to above 74% from 61% a month ago. In fact, we are already starting to see El Niño effects in a few countries. Thailand's rainfall over cane areas between 1 January to mid-April was 83% below the past season and 75% lower than the historical average. History shows us that whenever dry periods like this occur, the next Thai crops ends up with very low yields. Add to this the fact that cassava prices are very competitive, and the next Thailand crop will likely need a miracle to be over 90mmt of cane (vs. 94mmt in the current season).

Figure 1: Sugar prices (c/lb)

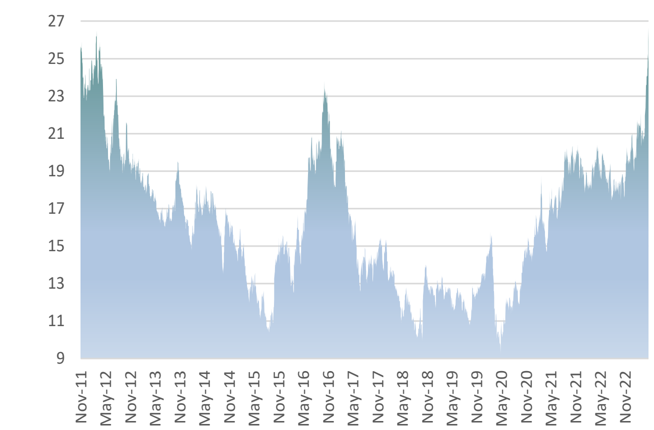
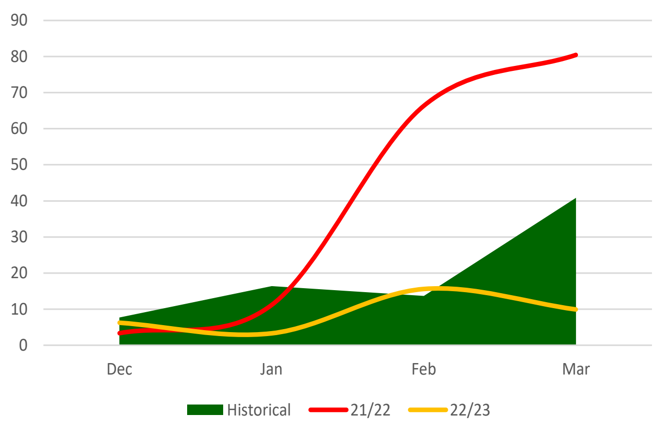


Figure 2: Thailand monthly rainfall - Dec22/Mar23 (mm)



Source: The Ice and ED&F Man Commodity Research

India's rainfall has been low in the past days too, but not as bad as Thailand. According to the Indian Meteorological Department (IMD), the Southwest Monsoon over India in 2023 is likely to be 96% of the LPA (Long Period Average) with a model error of ± 5%. Last year at the same time, the forecast was 99% of LPA. However, the IMD usually misses its forecast during El Niño years. India will need more sugar to produce ethanol next year - and if the weather ends up being poor for crop development, there may be no sugar exports available for the World Market.

Brazil's C/S rainfall during the first half of April was good for the cane but not for the start of the season. We estimate the C/S cane belt registered about 110mm of rains in the first half of the month, 22% higher than the typical precipitation of the entire month. Given the scarcity of sugar, the weather forecast has been dictating sugar prices in the past days, with rains causing lost days of crush. If we see lower sucrose levels or cane figures out of Brazil each fortnight, we can expect prices to reach even higher values.

With the coming deficit and the already high prices, countries are delaying exports and buying just the bare minimum for the short term (hand to mouth). Perhaps the best example is China who has not imported a single tonne of bulk sugar from Brazil, Thailand or India in the first 3 months of the year. The latter raises the question whether the country will destock or not, especially considering the Chinese crop will be only 9mmt, the lowest since 2005/06. The Chinese government decision is the only bearish risk we foresee for this market. Better than expected development of Brazil's cane crop could also suppress prices from shooting sharply higher, but we still believe the sugar market view remains, on balance, highly constructive.

Fundamentals

- **India:** India's sugarcane harvest is finally reflecting the much-expected poor tail of the season in major sugar producer states Maharashtra and Karnataka. The latest production figures from ISMA up to mid-April showed -5.4% lower sugar output YoY. Moreover, the number of mills that have ended their crush is increasing rapidly, reaching 400 in the period, about 188% higher than the same time of the past crop. ISMA revised their estimate downward to 32.81 mmt. India's sugar production to 15th April is 31.1 mmt, 5.4% down from last year. On a cumulative basis, sugar production is down by -1.77 mmt compared to the same time last year, and on fortnightly basis, down -741 kt compared to last year's same fortnight. The Maharashtra state sugar mills have ended their crushing season and produced 10.5 mmt sugar vs 13.76 last year. Karnataka produced 5.53 mmt of sugar and only one mill is operational now and that's going to close soon. In Uttar Pradesh, out of the 117 mills in operation, this season in UP, 42 mills have stopped crushing vs 49 mills last year and produced 9.66 mmt of sugar. The remaining mills are expected to close by end April and very few will run to May 1st half. Out of the 6.09mmt export quota and contracted, more than 5.2 mmt of sugar has been physically exported in various qualities. With the lower sugar output, we foresee tight domestic availability. Domestic sugar prices rose sharply in early April to around INR 34 per kg in central west India (vs INR 31.5 in March). The smaller crop and export volumes have reduced the stock availability in India, driving a bullish sentiment which will continue for the rest of the year until the new crop hits the market. As per the IMD's first stage forecast, the South West Monsoon over India in 2023 is likely to be 96% of the LPA (Long Period Average) with a model error of ± 5%. Last year same time forecast was 99% of LPA with ± 5%. Skymet a private forecaster expects the upcoming monsoon to be 'below normal to the tune of 94%, Interestingly, the Skymet is giving only a 20% chance of above-normal rains in Aug and Sep (important for yields for the 23/24 season). Currently, the summer rains are 4% above normal and around 50% cane area of the central west states received above normal summer rains since 1st March. It will be key to watch pre-monsoon showers and June rainfall.

- **Asia:** With the continuous futures price rally, Asian sugar demand has been clearly affected and being postponed. However, cash prices remain supported amid the tightness of Thai sugar supply after the crop reduction and a relatively bearish view on the next sugar crop in countries like China and Thailand. As reviewed in last report, Thailand's 22/23 crop coming in below expectations and the sudden death of the tail removes almost 1mmt sugar supply for this year. Moreover, there is a severe drought in Thailand since the start of the year, with cumulative rainfall during Jan/Apr'23 80% below last year. Together with the incentive to switch plantations to competitive crops like cassava, we expect minimal improvement in Thailand's 23/24 crop. Similarly in China, the dryness in Q4'22 affected Guangxi cane production greater than expected, which led to a downward adjustment of the 22/23 crop to 9.0mmt. Despite the decreasing local supply, refineries in Indonesia and China continue to trim down feedstock procurement due to persistent negative import margins. In terms of regional whites demand, with higher production costs for Malaysian and Korean refined sugars this year, Thailand is still the most competitive origin. Around 11kmt of Thai refined sugar was delivered to LNWS K3, which will only serve to tighten the whites availability in Q2'23.

- **Centrals:** Producers in the Central Americas are reaching the final weeks of the 22/23 season. Guatemala and El Salvador are seeing small reductions on the previous season, but production output should be close to 5.0mmt, in line with the 21/22 crop. Importantly, the region has practically run out of sugar as demand has been strong for much of the season. A combination of full duty imports from the US, the absence of Mexico, strong World Market exports and the lower Indian crop have resulted in the Centrals having little sugar available in the next months.

- **US:** The April WASDE report mostly saw changes in the import side. High duty imports rose by 63k MTRV to 204k MTRV, following the strong volume that entered in March (this volume can still see further increases in the next reports given the strong pace maintained). Despite the USTR's reallocation of 224k MTRV, USDA expects only 46.5% of it to be fulfilled and projects a big shortfall, given tightness at the origins of TRQs. Thus, although these countries have the right to export additional volumes, USDA is already working with a more conservative number. Note that this refers to entry up to the end of September – should the USDA postpone the entry to end of Dec, we could see a higher volume of TRQs being used. While the domestic market remains heated with high prices despite high level of imports, producers are starting to focus on the new crop. Sugarbeet planting had a good boost on the week ending April 16th and 13% of the expected acreage has already been planted. This is in line with the 5 year average and ahead of the 7% planted same time last year.

- **Mexico:** Conadesuca has reduced Mexico's production forecast to 5.4mmt, almost 400kt lower than the previous estimate and 800kt lower than the past crop. Still, crop figures showing sugar output of 4.5mmt (vs. 5.0mmt a year ago) until mid of April indicates that the projected forecast may still be too optimistic. Sugar produced per hectare is 16% lower than the year before on a combination of mostly lower agricultural yields and sucrose levels. Some 9 mills have already finished their crops, with very disappointing numbers. As there aren't any WM exports left for the lower production to be deducted from, mills will focus on fulfilling the US quota and domestic market needs, where prices are at very high levels. Despite the crop still active, imports can be expected, together with a significant volume of smuggling likely arriving from Central America.

- **EU/UK:** The European Commission's March report update showed only small changes in the region's balance for 22/23. Production was kept at 15mmt with consumption at 14.9mmt. Small changes in trade figures shows 2.8mmt of imports and 31.1mmt of exports. Ending stocks remain perilously low at 1.4mmt, which is supporting high prices in the region. The next crop planting operations have started slowly due to the past 2 weeks' wet weather in much of Europe. Despite this, producers are confident that weather will not be a problem. Producers indicate that acreage may increase by about 2% despite the neonic ban. Poland and UK are likely to be the countries with most gains, given the exemptions there.

- **CIS:** Ukraine and Russian planting is showing good progress; area is likely to increase which should raise production YoY by 300kt in Ukraine to 1.5mmt, and by 200kt in Russia to 6.3mmt. Poland, Bulgaria, and Romania decided to ban Ukrainian agricultural imports which would impact the so-far large sugar flows to the region. Ukraine may have to find other markets for its surplus, albeit by-passing ports, which continues to be inaccessible due to the war.

Focus – Brazil C/S

The 22/23 crop that ended last month can be divided into two parts. In the first phase, ethanol had been enjoying good premiums above gasoline, which encouraged C/S millers to focus much of its production towards to biofuels. The second phase began when former Brazilian president (Bolsonaro) reduced state and federal taxes on fuel prices in Brazil in the middle of 2022, causing gasoline prices to drop and pushing ethanol lower. In turn, this made sugar more profitable for millers, which increased sugar's share in the sugar/ethanol mix. The 22/23 crop finished with a cane crush of 548mmt, 4.6% higher than the previous season, a sugar mix of 45.9% (vs. 45.0% in 21/22) and ATR per tonne of cane of 140.8kg (vs 142.9kg). As a result, final sugar output ended at 33.7mmt, almost 1.7mmt more than the previous crop.

The 23/24 crop, which starts in April '23, has inherited the same market conditions of the second phase of the crop described above. Following the disappointing Indian and Thai crops, sugar prices are soaring, indicating that the market requires Brazil to turn its mills towards a maximum sugar mix. Rainfall has been very good during the off season, allowing for very good cane development so far. This will improve agricultural yields, enabling a cane crush of close to 600mmt. The C/S cane mills are expected to reach its maximum sugar mix capacity, close to 48%. All in all, we expect sugar production to be in a range of 36-38mmt, depending on the cane quality (ATR).

Figure 3: C/S fortnightly rainfall

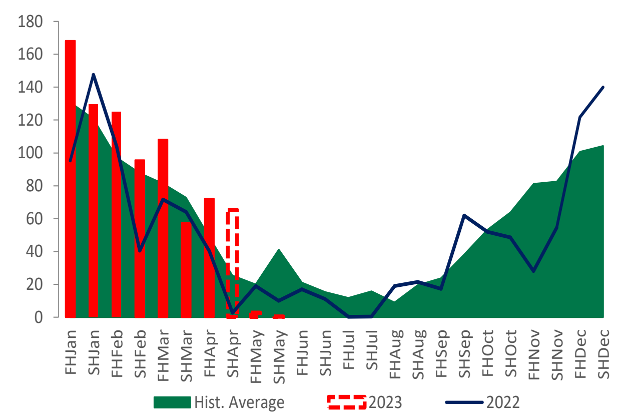
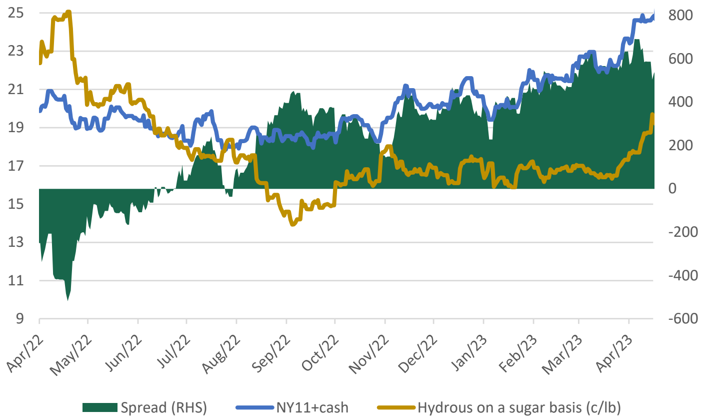


Figure 4: Ethanol on a sugar basis – daily (c/lb x points)



Source: The Ice, Cepea and ED&F Man Commodity Research

But the World's demand for Brazilian sugar has some hurdles to get through before Brazilian raws can reach importers in sufficient volumes. The first is the competition between sugar and grains for logistics in Brazil. A record soybean crop of close to 150mmt (15mmt more than the past crop) means that the ports of Santos and Paranagua will have to perform without any interruption. In March, Santos registered record volumes of combined bulk raw sugar and grains exports, totalling 7.1mmt, some 200kt above its previous record. As such, C/S Brazil may not be able to export more than 8mmt of raw sugar during the first 3 months of the crop.

Secondly, beyond port bottlenecks, weather can also make things more complicated, especially in a *El Niño* year. The first half of April gave us a taste of what could be expected during the rest of the year. Rainfall was above historical levels, delaying the start of the crop. It was even higher than the rainfall observed in 2022/23 when millers postponed the start of the season. Wet weather can also impact cane quality, reducing millers' ability to maximize sugar output.

Finally, we have ethanol. Competition from biofuels is so far not posing much risk at the moment, given the large premium that sugar is commanding over hydrous; but things can change towards the end of the season, depending on the new Brazilian administration's policies and world economic (and oil price) developments. Given the over-reliance on Brazil for raw sugar exports this year, we expect the market to pay close attention to the C/S Brazil. There is little room for error.

Macro

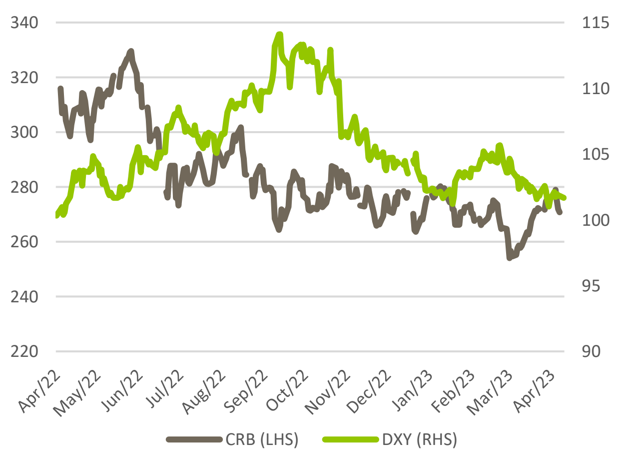
Last month's banking crisis appears to have ended without a major contagion effect on the broader macro economy for now. Markets have picked up again since the wobble, helped by recent data on the US economy, with March CPI figures coming in below expectation at 5.0% y/y. This boosted hopes for the US central bank to pause rate hikes following an expected 25 bps hike in May, and in the medium term begin a cycle of interest rate easing. Over the month equities rallied, the BRL reached 10-month lows of 4.90, the US Dollar index fell to 1-year lows and commodities stayed resilient.

Markets have been seeing some economic data ratifying a looming end to US monetary tightening, but there are plenty of Fed hawks who still believe inflation is sticky, requiring interest rates to rise further. While base effects suggest that headline CPI inflation measures in various countries are set to come down sharply in the coming months, tightness in labour markets in OECD currencies suggests that is could be tough for many central banks to shave the last percentage point or two from core inflation. As such the direction of the dollar from here looks uncertain. The Chinese economy's growth in Q1 2023 beat expectations, but elsewhere advanced economies are seeing tighter monetary conditions impinge on economic output, with PMI numbers all coming in lower.

Still, a stable/weak dollar, along with inflationary conditions and strong Chinese demand, is providing an attractive environment for funds to invest in commodities. Seasonally, we have seen record levels of fund money inflows in commodity futures markets. The soft commodities complex have seen particularly strong inflows due to El Nino and tight fundamentals. Oil prices have benefitted from the surprise OPEC cutback announcement a few weeks ago which have led to sharp cuts by analysts on the global oil market surplus into deficits for H2 2023.

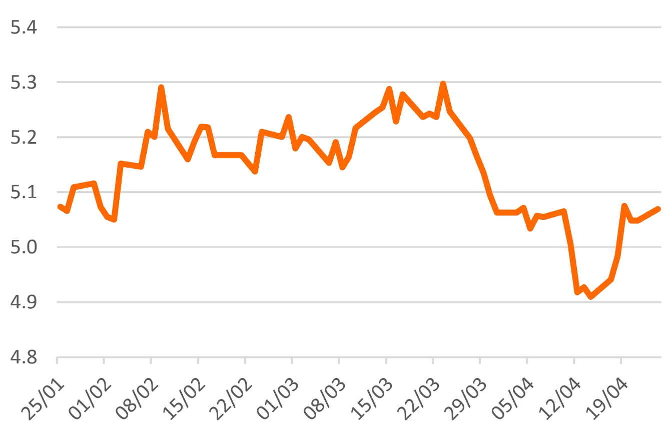
In Brazil, President Lula introduced the new fiscal framework bill into Congress. The bill did not materially change much from the original presentation of the proposal, which was well received by markets. Inflation in Brazil is cooling, yet despite the President's laments over high interest rates, we believe that the BCB is likely to keep rates restrictive. The above factors allowed the BRL to appreciate to below 4.90 mid-April (before returning to 5.05).

Figure 7: Dollar weakens on Fed path views



Source: Reuters, ED&F Man Commodity Research

Figure 8: The BRL has been whipsawing



Source: Bloomberg, ED&F Man Commodity Research

Upcoming Areas of Interest

- **May raw sugar contract expiry** - Will there be a large receiver?
- **Brazil C/S –** Crop progress and weather hiccups
- **Brazil C/S –** Ports efficiency as record exports go through
- **Weather –** El Niño evolution

Prices Tab

New York #11					**London #5**				
(cents/lb)	25-Apr	31-Mar	% change		*($/tonne)*	25-Apr	31-Mar	% change	
May (23)	26.65	22.25	19.8%	↑	Aug (23)	705.1	619.2	13.9%	↑
Jul (23)	25.97	21.83	19.0%	↑	Oct (23)	692.5	605.3	14.4%	↑
New York #16					**White Premium**				
(cents/lb)	25-Apr	31-Mar	% change		*($/tonne)*	25-Apr	31-Mar	% change	
Jul (23)	43.24	38.90	11.2%	↑	Aug/Jul	132.6	137.9	-3.9%	↓
Sep (23)	42.90	38.90	10.3%	↑	Oct/Oct	129.2	132.0	-2.1%	↓
Macro					**Currencies**				
Indicators	25-Apr	31-Mar	% change		*Against US$*	25-Apr	31-Mar	% change	
CRB	268.8	267.7	0.4%	↑	Euro (EU) *	1.097	1.084	1.2%	↑
Gold	1,998	1,968	1.5%	↑	Pound (GB) *	1.241	1.233	0.6%	↑
Brent Oil	80.77	79.77	1%	↑	Real (Brazil)	5.050	5.063	0.3%	↑
Baltic Dry	1,510	1,389	9%	↑	Rupee (India)	81.97	82.16	0.2%	↑
Handysize	667	687	-3%	↓	Rouble (Russia)	80.70	78.00	-3.5%	↓
					(* rate is US dollars per FX)				