Monthly Sugar Note

30 June 2023

Markets

With the Federal Reserve leaving interest rates unchanged in their June meeting - the first time since they started hiking in March 2022 - macro was more buoyant this month. Although the Fed pause was expected and already priced in, both stocks and commodities markets made good recoveries on the back of it, while the USD weakened. However, with central banks keen to push the message that more rate hikes may still be necessary to tackle sticky core inflation, the mood soured by month-end.

In the world of sugar, the market continues to play out the battle between the strong progress of the Brazilian crop vs the less-than-ideal weather in Asia. An El Nino was officially confirmed early in June by the US Climate Prediction Center, and we are already seeing signs of it in India and Thailand. In the case of India, monsoons in cane areas came in very late, resulting in rain volumes (as of June 22nd) 78% below the historical average. Some rains have been observed in the north of Thailand but cumulative volumes since the start of the year is at a record low. As a result, NY11 put in a good performance during the first half of the month, moving from 25.06c/lb at the end of May to 26.22c/lb on June 20th.

Figure 1: NY11 evolution

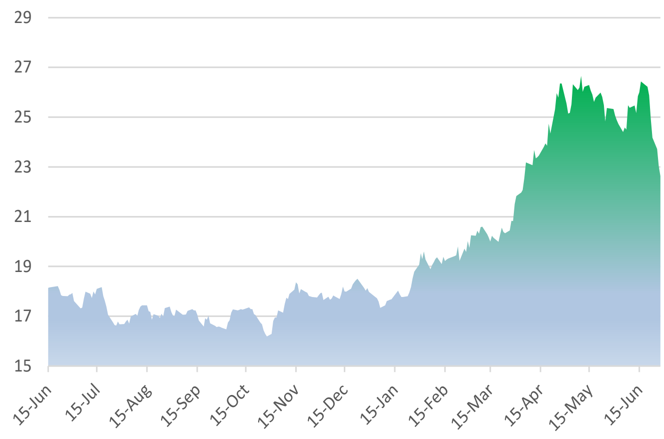
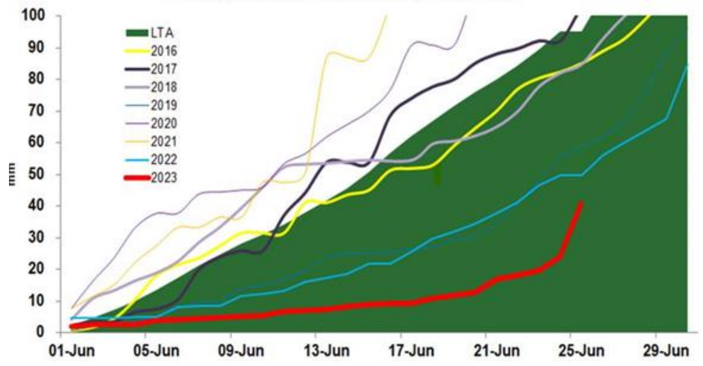


Figure 2: India monsoon cumulative rainfall – Cane area



Source: Reuters and ED&F Man Commodity Research

The sugar market changed sharply, however, during the last days of June. The delayed Indian monsoon finally hit cane areas, while forecasts in Brazil point to continued benign weather for the C/S's cane harvest. According to UNICA, up to the first half of June, C/S crushed 166mmt of cane, 14% higher YoY with a sugar output of 9.5mmt, about 2.3mmt ahead of the past season. The region is seeing outstanding agricultural yields, leading some sources to increase sugar production to above 39mmt, almost 6mmt higher than the past crop. Also, the flow of C/S sugar to the world market has been good, with minimal logistical issues for now, keeping at bay any bottleneck concerns for the time being. The bearish sentiment increased with the futures market indicating that a large receiver had stepped out of the July expiry. Consequently, NY11 lost about 350 points in the last days of the month, taking the market to 22c/lb. The collapse in the market means that we are getting close to opening up the Chinese import parity.

We also saw important developments in the whites market. There were unconfirmed rumours that Algeria's refineries will be allowed to export more than 200kt of sugar. This, together with the war in the main refined importer of the world, Sudan, negatively impacted the white premium. We saw a significant drop in the Aug/Jul WP back to the $120/t levels, from a high of $150 at the end of May. We also see demand falling in some African countries due to the lack of hard currencies restricting their ability to import. A weaker dollar would be a positive for the return of imports from key destination countries over the course of the year.

Despite the recent market events, we remain constructive on the market in the medium-to-long term as we are not optimistic about the next Asian crops. India's crop numbers of below 32mmt are starting to circulate in the market, while the country's low ending stocks will mean that its government will only allow exports in 2024, if any. In Thailand, a lower crop is all but certain, but as always, we will only know the size of the crop by the tail of the season. We need an extraordinary event to not see this market tightening in the next year. As such, the recent bearish sentiment may end up being short lived.

Fundamentals

- **Brazil CS:** The first half of June's crop results came in line with market expectations, showing close to 40mmt of cane was crushed, 4.2% higher YoY. ATR during the period was 135.7kg/tonne, about 4kg ahead the previous season. Sugar mix ended at 47.3% (vs 41.6% in 22/23). As a result, sugar output totalled 2.6mmt, almost 20% higher YoY. Since the start of the crop, C/S produced 9.5mmt of sugar, 32% higher than the previous crop. UNICA said that agricultural yields were 95/tonne/ha by the end of May, 26% higher than the past crop. The improvement is not just attributable to the favourable weather during the off season, but also reflects harvesting of a higher share of planted cane in the current season. Even so, it's possible that C/S Brazil may crush over 600mt, which could take sugar output above 39mmt, as some sources are starting to predict. To reach such a cane volume would require perfect weather during the harvest period (Apr-Nov), which is not in typical for an El Nino year.

- **India:** The latest production figures for the 22/23 season shows 9% lower sugar output YoY. By mid-June, the harvest generated 32.2 mmt of sugar, with the total output of the 22/23 season expected to be 32.7 mmt, including special season production. Concerns over the late monsoons have supported domestic sugar prices, which were trading in a range since mid-April. So far, the cumulative rainfall deficit weighted by cane areas is 78% below normal. The main producing states of Maharashtra and Karnataka are seeing deficits of 89% and 76% respectively. It will be key to see the realized volume and distribution across the cane areas. If the deficit continues into FH July then we shall have to downgrade our Indian crop numbers, leading to further shrinkage of Indian exports in 2023-24. Historically, whenever we have seen lower Jun-to-Sep rains in India, the major impact has been on the subsequent season.

- **Asia:** Thailand continues to experience dry weather in their cane areas. However, the Northeast, which has the largest share of cane, is quickly gaining moisture following the recent recover in June rains. The other cane areas, such as Central and Northern, continue to be dry and in need of more rainfall. The official Thai millers association's estimate for cane of 90mmt look to be too optimistic at this point. A range of 70-80mmt cane seems more realistic given today's rainfall expectations, although <70mmt is a possibility if rainfall continues to disappoint. The impact of the Thai crop reduction would mean a regional redirection of demand to Brazil and Australia, given that India seems to be short on supply as well. Generally, importing countries in the region are consuming domestic stocks first before considering potentially unpopular decisions to raise domestic price caps and / or increase import quotas. In the last month we heard several rumours that China will return to import raw sugar. From January to April, the country imported only one vessel of raw sugar, the lowest seen for the period, suggesting that destocking is happening. Alongside these rumours, we have started to see an increase of nominations from Brazil. Still, it is unclear as of yet if China will increase its imports in 2023.

- **US:** In the June WASDE report, Mexican imports were reduced by 83k MTRV as the Mexican low pol raws production, which must account for at least 70% of the imports, fell short of the quota. There was a small increase in the high duty imports, but ending stocks for 22/23 still fell, projected now at a 13.1% stock:use ratio. For the 23/24 season, in addition to the lower beginning stocks, production was reduced by 89k MTRV, leaving ending stocks at a 10.8% ratio, which means that even with approximately 220k MTRV of refined TRQ (which should be announced in the next few weeks), there would still be a shortage of around 120k MTRV. If this gets added to Mexico, Mexico should have no WM exports next season.

- **Mexico:** Crop figures up to June 17th are almost final as there was only one mill still running. Production reached 5.2mmt, a 15% reduction YoY. The delay in production, combined with domestic sales 6% higher YoY, resulted in May ending stocks at 2.3mmt, 22% lower than in May 2022. As production is already finishing, we expect a strong increase in the pace of imports from now until the beginning of the new crop at the end of Q4. Exports to the US should also be below potential due to lack of supply. USDA projects new crop at 5.9mmt, assuming all export availability should be to the US.

- **CIS:** Ukraine beet sowing is close to 215k ha (as of June 17st) confirming expectations of a crop area about 30k-40k ha higher than the past season. Ukraine's ban on sugar exports began on the 5th June, but high volumes of exports were recorded before the ban went into effect. The ban will continue to 15th September - but local companies are lobbying the government to remove the ban earlier. From Oct to May, more than 350kt of refined sugar were exported. Russia has completed its sugar beet sowing which stands at 1043.9 kha/t, some 1.9% higher than last year. In Russia, there has been shelling around the Belgorod region that has sugar beet fields and factories, which could affect production. The country is also in talks to renew the Black Sea Grain Initiative which expires on the 18th of July. In case an agreement is not reached, this could stress freight moving through the area.

Focus – EU

Over the past few months, there has been a debate over sugar beet production in the EU (27) and the UK due to various reasons including aphids, delayed planting, and weather. As we know, in 2018, the EU countries banned the use of neonicotinoids on field crops to protect honeybees and wild pollinators. However, in 2020 some EU countries offered an exemption to this ban to sugar beet growers, which expired at the beginning of the 2023/24 sugar beet planting season. Thus, without the neonicotinoids, the sugar beet crops in the region have become more susceptible to the yellow virus. France, Poland, and Austria have all reported damages to crops caused by aphids, making the forecasting of EU sugar numbers extremely difficult and open to speculation.

Some of the EU countries have increased their planting area, with Poland increasing its area by 18% y-o-y to 260 kha and Germany is at 358 kha, up by 2% y-o-y. On the other hand, France has reduced its area by 7% to 324 kha, along with Austria whose beet-planted area reduced to 34 kha which is 4% lower than last year. However, most countries have finished their sugar beet planting, yields are a matter of importance for the 23/24 crop. Taking the June MARS estimates we can see the combined EU & UK production at 16.3 kmt a 1% drop from the May MARS production estimate and 3% higher than the 5-year average estimate. However, MARS is only a weather-based model and it does not take into account impact of late sowing or aphids. The crop did start off poorly as a cold and rainy Mar-Apr period led to a delay in the sowing of sugar beets in many countries which was followed immediately by rain deficit and sunny conditions in May-June in beet areas. The sunny and warm conditions seem to be doing well for the EU crop, but they also create conditions for the multiplication of the aphid population. Sugar beets are a very resilient crop, and we still have a long way to go; but given the less-than-favourable start, the back end of the growing period will be crucial for end-of-season yields, particularly regarding sugar content.

Trade will continue to be a large driver of the EU market, with net imports expected for another season. With EU sugar prices skyrocketing and Ukrainian sugar having free access to the EU, large imports have been taking place from Ukraine to most parts of the EU. Imports have increased to a 3.0-3.1 mmt level up from 1.5-1.8 mmt level for the 2022/23 season. Exports have dropped to a range between 0.7-0.8 mmt as compared to last year which was around 1.1-1.2 mmt due to the non-competitive prices of the EU. We will need to watch this market carefully as the next few weeks are crucial in the development of the sugar beet crop in the EU and the UK.

Figure 3: France beet area rainfall

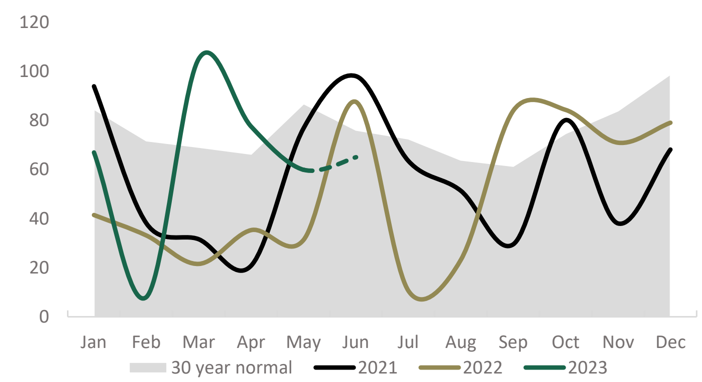
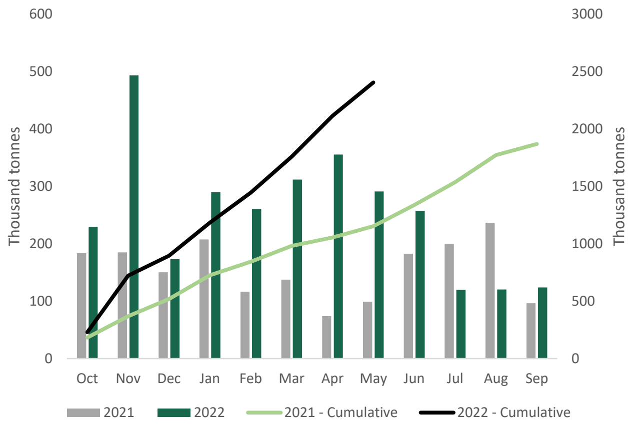


Figure 4: EU sugar imports



Source: Eurostat and ED&F Man Commodity Research

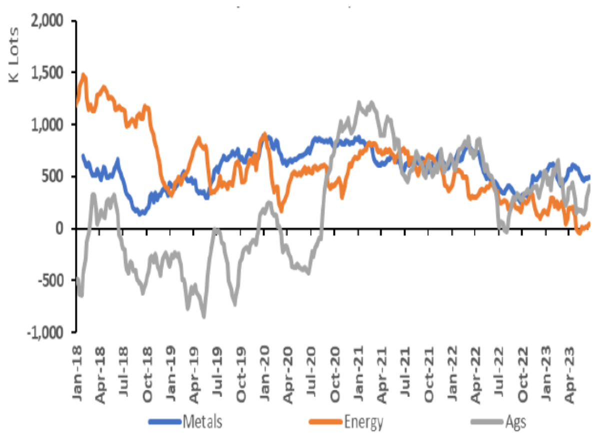
Macro

As we approach the second half of 2023, we look back upon one of the most aggressive phases of monetary tightening ever seen. Yet, while inflation has definitely peaked, core inflation is proving to be more sticky to control, and it certainly feels like we're not yet done with hiking interest rates. Some emerging market central banks, which were among the first to respond to rising inflation back in 2021, like in Brazil, are now confident their work is done, even as every G10 central bank, except Japan's, has surprised in a hawkish direction, either in action or communication.

At the global level broader economic data has not been terrible in recent months. Despite a global industrial recession, the services sector has kept the global composite PMI on an upward trend. The outlook is precarious though. The feared deeper financial sector turmoil following the regional banking sector crisis of early March has not, as yet, materialised but financial conditions are tightening and there are more signs that delinquencies are rising. China's reopening boom appears to have stalled and the eurozone did not manage to avoid recession after all. Yet throughout this, labour markets remain very tight, consumer spending is resilient (at least in the US, but certainly not in China), and the equity markets are back up again. But countries or sectors that are reliant on leverage or the US dollar are feeling the strain. African and South Asian net importing regions are struggling to replenish hard currencies reserves, which is hurting the economies.

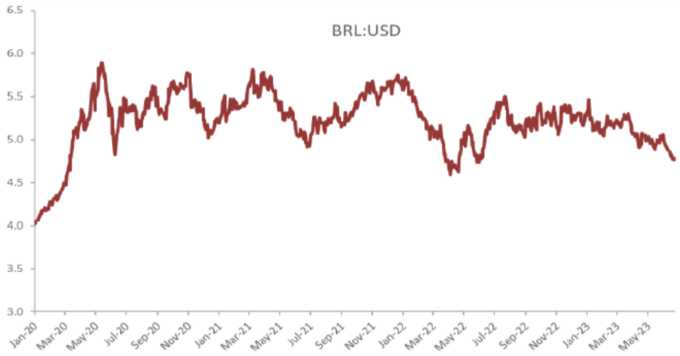
The resilient US economy (so far at least), alongside the still hawkish Federal Reserve, will continue to support the US dollar into the second half of the year. This may put pressure on commodities and EM currencies alike. Regarding the former, rising interest rates and the lacklustre performance of the Chinese economy since they came out of lockdown has led to disappointing commodities demand. Metal prices have been weak, as have grains (despite a brief US dry weather spell related rally earlier this month), with only those softs that have an El Nino weather story to go with it, outperforming Crude oil prices should recover from current weak levels of below $70/bbl as supply tightens due to OPEC cutbacks. Regarding currencies, we expect outperformance amongst Latin American currencies, including the BRL, where solid fundamentals and strong carry trade opportunities (helped by easing inflation) should support exchange rates.

Figure 7: Commodity fund net positioning



Source: Reuters, ED&F Man Commodity Research

Figure 8: The Brazilian currency has been strengthening



Source: Bloomberg, ED&F Man Commodity Research

Upcoming Areas of Interest

- **NY11/July –** As one large receiver disappears, who else will be receiving
- **LDN5/Aug –** Following the recent market dynamics, what will the expiry be like
- **Brazil C/S –** Can the recent strong crop progress continue
- **Brazilian ports –** Can the Brazilian ports handle bumper sugar and grain crops
- **El Nino –** Implications for both Brazil and Asia's crops

Prices Tab

New York #11					**London #5**				
(cents/lb)	27-Jun	31-May	% change		*($/tonne)*	27-Jun	31-May	% change	
Jul (23)	23.03	25.06	-8.1%	↓	Aug (23)	627.2	696.1	-9.9%	↓
Oct (23)	22.98	24.74	-7.1%	↓	Oct (23)	630.1	686.5	-8.2%	↓
New York #16					**White Premium**				
(cents/lb)	27-Jun	31-May	% change		*($/tonne)*	27-Jun	31-May	% change	
Sep (23)	40.25	41.39	-2.8%	↓	Aug/Jul	119.5	143.6	-16.8%	↓
Nov (23)	41.24	41.51	-0.7%	↓	Oct/Oct	123.5	141.1	-12.5%	↓
Macro					**Currencies**				
Indicators	27-Jun	31-May	% change		*Against US$*	27-Jun	31-May	% change	
CRB	259.7	253.8	2.3%	↑	Euro (EU) *	1.096	1.069	2.5%	↑
Gold	1,913	1,962	-2.5%	↓	Pound (GB) *	1.275	1.244	2.5%	↑
Brent Oil	72.26	72.66	-1%	↓	Real (Brazil)	4.810	5.057	4.9%	↑
Baltic Dry	1,183	977	21%	↑	Rupee (India)	81.98	82.68	0.8%	↑
Handysize	454	572	-21%	↓	Rouble (Russia)	85.47	81.55	-4.8%	↓
					(* rate is US dollars per FX)				