Monthly Sugar Note

31 January 2025

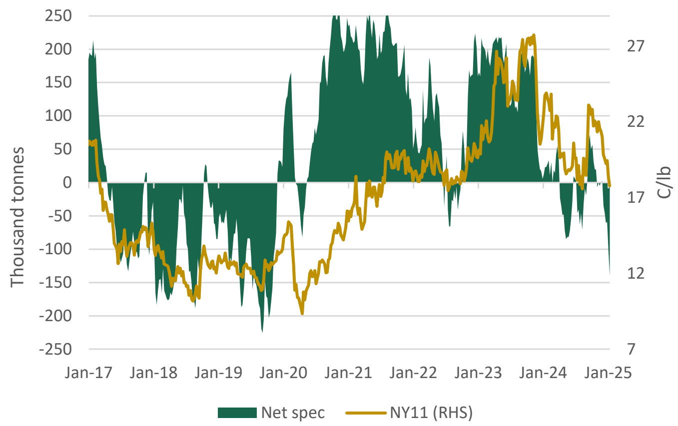
Markets

The year started with a slew of negative news in the sugar market, pushing prices from above 19c/lb to 17.56c/lb as of January 19th—a drop of over 10% compared to mid-December levels, before recovering again this week. The initial decline was driven by positive updates on the crops from Brazil's Centre-South (C/S) region, Thailand's cane crush, and India's export quota. Market consensus, which originally had been predicting a C/S crop close to 600 MMT, started shifting towards more optimistic scenarios, initialising the bearish market sentiment. By mid-December, when UNICA released results for the second half of November, analysts realized that the Brazilian crop could easily reach 620 MMT of cane crush, adding approximately 500 KMT of additional sugar supply to Brazil by the year's end.

Moreover, rainfall over the past three months has been favourable in the C/S cane fields, fostering optimism for the next crop, despite the fires and dry conditions experienced in 2024. However, the planted area may decrease as mills take advantage of the good rains for replanting. Cane development remains constrained by ongoing weather challenges in 2025, adding uncertainty to the sugar production outlook for C/S in the upcoming season. Current estimates for sugar production range from 41 to 43 MMT.

Figure 1: Daily front month sugar prices NY11

Figure 2: Net spec short position (as of Jan 21st)



Source: Reuters and ED&F Man Commodity Research

As of mid-January, the Thai crop continues to enjoy strong performance. Cane crush volumes are up 10% year-on-year, while sugar output has risen nearly 15% compared to the same period last year. In the Northeast region, however, which accounts for 50% of the country's production, sucrose content is similar to the previous crop. Consequently, the tail end of the crop could still yield unexpected results—something the market has yet to fully account for. Aside from production developments, a significant headline for Thailand in December was China's ban on EPZ product imports. January EPZ import figures have yet to be released but are expected to be significantly lower than in previous months. This new policy could lead to increased exports of white sugar from Thailand to the global market, while potentially boosting China's raw sugar imports later in the year.

In India, the government appears focused on appeasing producers rather than addressing crop conditions. The southern region (Maharashtra) has reported lower-than-expected yields, while pest issues in the north (Uttar Pradesh) have contributed to an overall gross sugar production estimate of approximately 30 MMT. By mid-January, crop figures were also discouraging, with production nearly 14% behind the previous season at 13.0 MMT. Despite these challenges, the Indian Sugar Mills Association (ISMA) has been advocating for exports due to high carryover stocks from the prior season. Crop area is also projected to increase substantially for the 2025/26 cycle, thanks to favourable rains during the recent monsoon. This may have supported the government's decision to enable a 1 MMT export quota, which was the main factor driving prices lower in January.

All of this was music to the ears of the bears, who were able to bring sugar prices down to under 18c/lb. Nevertheless, prices rebounded in the past week, rising back above 19 cents. This movement was a classic case of "sell the rumour, buy the confirmation." The rumour in question was the Indian export quota. The rally was also a reaction to the speculative position reaching a net short of 139,000 lots as of January 21st, the lowest since November 2019. The falling prices also created some opportunities for Chinese business. But perhaps the main factor behind the price increase was the export parity from India, which had been close to zero. Even with the better-than-expected result at the end of Brazil's crop, C/S supply is low in the first months of 2025, meaning that Indian sugar is needed. The imbalanced Indian SnD is resulting in higher domestic prices, and NY11 may be chasing these prices higher to encourage their sugar to the world market. The market bears may have to wait this out before resuming the party.

Fundamentals

- **Brazil C/S:** The 2024/25 season is currently in its intercrop period. Cumulative figures up to mid January indicate 614mmt versus 645mmt last year and 39.8mmt of sugar output versus 42.1mmt at the same time last year. With that, the crop should end close to 620mmt, resulting in 40mmt of sugar and 34.8million cubic meters of ethanol, including 8.1mln cbm produced from corn. Weather conditions have been favourable for cane development for the 25/26 season. As of now, the market consensus for the next crop is projected in a range of 590-630mmt, resulting in sugar output between 40-43mmt. Some analysts believe that the good weather over the past three months will be enough to take the cane volume above 620mmt, while others believe the dryness in 2023 has already compromised the cane development.

- **India:** The government has officially approved the export of 1.0mmt of sugar for marketing year 24/25 (Oct-Sept). The 1.0mmt export quota will be pro-rated amongst those sugar mills which operated in at least one of the last three sugar seasons by taking into account their average production of sugar during the last three operational seasons. All the sugar mills have been allocated a uniform export quota of 3.17% of their 3-year production average. Those sugar mills who do not wish to export the allocated quantity may exchange their export quota with the monthly release quota of any other sugar mill which is willing to take it for export. Despite this, Indian traders have been struggling to sign export contracts, as mills seek hefty premiums over London prices, which overseas buyers are unwilling to pay. Assuming a sugar crop close to 27mmt, India could deplete ending stocks by September 2025.

- **Asia:** As of 26 Jan 2025, crushing operations have maintained a steady momentum, with 58 mills active to date, benefiting from the dry conditions persisting throughout January. On the demand side for raws, most countries have remained relatively subdued, as they are largely covered for at least the first quarter of 2025. Indonesia particularly, has experienced a significant reduction in demand, influenced by ongoing discussions around self-sufficiency. Current buying patterns suggest a potential further softening in demand.

- **US:** The January WASDE report increased the theoretical US surplus by 103k MTRV by raising its beet sugar production. This change is due to a combination of reduced 2023/24 (but increased 2024/25) production, a slight reduction in demand, and higher high-duty imports. This raised the US SnD to a 15.5% STU level (up from 13.5% in December). Since September, each monthly report has increased the high-duty imports estimate. The USDA is working with a refined crop estimate, adding raws volumes as they arrive. With a record combined production estimate, the US SnD shows a small surplus, even accounting for a relatively small import quota from Mexico. The USDA numbers did not reflect the sugarcane crops in Louisiana and Florida that were hurt by the cold snap in the area in late January. The region is expected to produce 4.1mmt short tons out of total US production of 9.4mmt short tons in the current season.

- **Mexico:** According to Conadesuca, December sugar sales totalled 267kt, 26% higher YoY. Since the start of the crop (Oct/24), sugar demand reached 790kt, 23% higher YoY. With 100kt of sugar being exported to the World Market, overall exports from Oct to Dec are close to 1.2mmt. During the same period, production reached 592kt (vs. 622kt in the past crop). Although exports and local demand have been strong, Mexico's ending stocks were 879kt at the end of December, 60% higher YoY due to high stocks at the start of the season.

- **Centrals** Central American exports are picking up, with several new nominations for January, mostly to Asia, the US, and Canada. The region started the season with much higher inventories YoY, allowing exports to outpace the previous year. Up to the end of January, Guatemala exported (including nominations) over 500kt of sugar, 200% higher than the same period of the past year.

- **EU/UK:** The EU is nearing the end of the 2024/25 harvesting campaign, with some countries already finished. The crop is considered average in terms of sugar yields, but beet yields were enormous across Europe. January brought frost to the UK, Germany, and the Netherlands, potentially damaging harvested or being-harvested beets. The impact of the frost is yet to be seen. The EU had a strong start to its 2024/25 export season, with about 160 kmt exported to the world market. Imports remained weak, but with prices steadily increasing in the EU, market dynamics may change. The EU commission estimated 2024/25 production at 16.6 mmt, close to our estimate of 16.7 mmt. However, they forecast exports at 2 mmt, which may be challenging under current market conditions. The main market question remains how much acreage will be reduced for 2025/26.

- **CIS:** Ukraine completed their beet harvest with about 12.1 million tonnes harvested from 254 kha of land. 2024 was a record year for Ukraine's sugar exports, reaching 745 kt, the highest within a calendar year according to the National Producers of Ukraine. Astarta completed their sugar campaign, producing 280 kt, the highest in seven years. Final Ukrainian sugar production is estimated at 1.7-1.75 mmt. The Eurasian Sugar Association reported that about 6.5 mmt of sugar has been produced in the region, with Russia producing 5.8 mmt, Belarus 566 kt, Kazakhstan 59 kt, and Kyrgyzstan 94 kt. Production continues in most regions, and beet

processing should be completed by mid-March in EAEU countries. Russian production is estimated at 6.2-6.3 mmt for 2024/25.

Focus – North Hemisphere crop update

Apart from Thailand, major Northern Hemisphere crops are seeing lower-than-expected results. In Thailand, approximately 48 mmt of sugarcane have been crushed up to January 26th, a 7% increase compared to the same period in the 23/24 season. Sugar yield improvements have seen a 10.1% rise, 4% higher YoY, bringing total sugar production to 4.6 mmt, about 400 kmt ahead of the previous crop. However, several sources have recently reduced the crop view from 11 mmt to 10.5 mmt due to dry conditions in the Northeast regions, which should impact the tail end of the season.

As of January 15th, India's sugar production for the 24/25 season stands at 13.0 mmt, a 13.7% decline from 15.1 mmt last season. Out of 515 sugar mills, 507 have commenced operations, with a recent increase in crushing pace. Maharashtra reported an 18% production decrease due to a delayed start and cane shortages, resulting in 10 non-operational mills. Karnataka experienced a 13% YoY decline in production. Mill closures in these states are anticipated in late January and early February, potentially leading to further production cuts. Negative agricultural yields, lower acreages, increased sucrose diversion for ethanol production, and higher seed cane requirements for the 25/26 plantings are expected to significantly reduce India's net crystal output, with estimates suggesting a 20% reduction compared to previous years.

Figure 3: Decadal Thailand sugar production

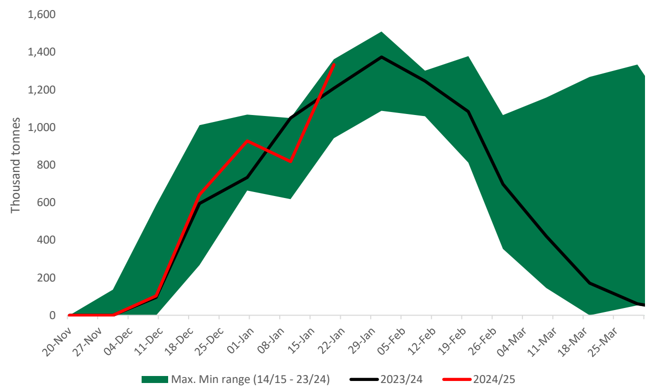
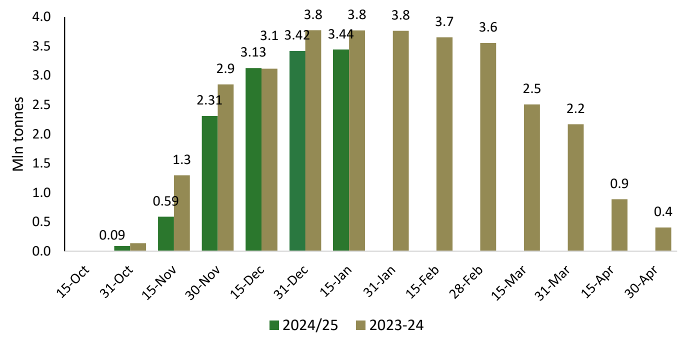


Figure 4: Fortnightly India sugar production



Source: ED&F Man Commodity Research

The Mexican crop has started with a significant delay compared to last year. Despite the slow start, agricultural and industrial yields are up 5% and 2% YoY, respectively. As of January 18th, cumulative cane crush is at 11.3mmt versus 13.2mmt last season, with sugar production at 1039kt versus 1187kt. Given higher yield, the crop can still surpass 5.0mmt, but delays raise concerns about cane quality and the risk of early rains.

Due to wet weather at the start of the crop, Guatemala's production is delayed. As of January 12th, cane crush reached 7.8mmt, 6% less than the same time last year, while sugar production is at 765kt, about 5% lower than 807kt last year. Agricultural yields are similar, only 0.2% lower YoY, but tonnes of sugar produced per hectare are 2% above last year, supporting good future production. As of 19th of January, El Salvador crushed 2.3mmt of cane, 11% higher YoY. Sugar production is 21Kt higher than the past crop, at 232kt. Out of the total, 193kt of the output consists of raw sugar and the balance is whites.

Macro

Trump’s second term has started, and the fireworks have begun already. Businessmen around the world are excited, burying differences and towing his line, while governments around the world watch with nervousness. Markets have also been on tenterhooks since the inauguration of Donald Trump, with his plethora of announcements – be it threats, policies, proposals – increasing both opportunities and risks in equal measure. The dollar eased a little as investors sought clarity on tariff threats, but equities soared following Trump’s business-friendly comments. His America First agenda is clearly supportive of US companies, and S&P 500 has had the best start for a new president since Ronald Reagan was sworn in to power in 1985.

The dollar remains strong, not just because of US exceptionalism (Trump is actually inheriting a solid US economy), but because of the risk that his policies are highly inflationary, requiring higher US interest rates. However, according to Goldman Sachs, the US economy is “in the sweet spot of healthy growth and gradual disinflation.” Real GDP grew 2.6% in Q4 and they expect a similar pace of expansion in 2025 without the labour market overheating. Indeed, this week the Fed kept rates unchanged as it maintains a wait and see mode on how Trump’s policies will impact growth and inflation.

Figure 5: The US economy is in a sweet spot

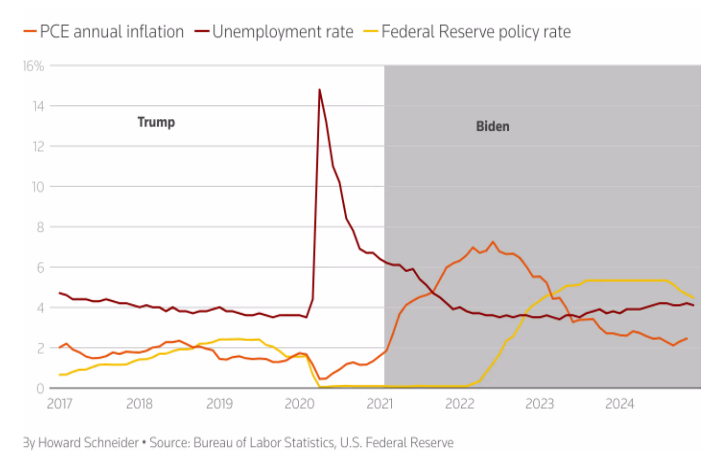
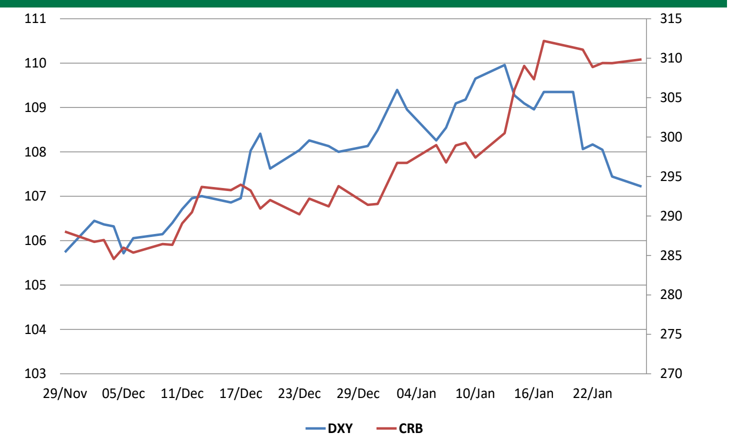


Figure 6: Dollar index vs Commodity index



Source: Reuters, ED&F Man Commodity Research

While all is good and rosy in the USA, the rest of the world is naturally worried over Trump’s tariffs threats. While Canada and Mexico have been threatened with 25% tariffs (causing both currencies to sell-off), China’s has changed from 60-100% tariff threats during the election campaign, to only 10% last week. It is the retaliation of the threats from these countries that will determine the final impact. As such, before analysing economic implications from tariffs, for now we should only look at Trump’s threats as an opening gambit in forthcoming negotiations.

The BRL has gained 4.8% in the new year so far, leading gains among currencies. Brazil's central bank raised the Selic rate by 100 bps to 13.25% for the second straight meeting this week. It signalled another hike of that size in March, leaving the door open for subsequent moves amid mounting inflationary pressures. Foreign investors have reduced their short BRL positions, allowing it to strengthen through the 6.0 barrier to 5.85 against the dollar. So long as fiscal imprudence doesn’t worsen from here on by the Lula government, and assuming tight monetary policy helps ease domestic inflation, then Brazil can offer very attractive carry trade opportunities for investors.

With Trump’s “drill baby drill” support for US oil producers, coupled with global economic uncertainty relating to his trade threats, oil prices have suffered. Compared to the near $80/bbl reached mid-Jan when Biden sanctioned Russian oil producers, Brent prices have eased back to $75/bbl, offsetting the good rally seen at the end of 2024. Trump has announced sweeping plans to boost domestic oil and gas production, while demanding that OPEC moves to lower crude prices. Where it goes from here will depend on the mood market, something that is very hard to predict right now given the new US regime’s unpredictable strategies.

Prices Tab

New York #11					**London #5**				
(cents/lb)	28-Jan	31-Dec	% change		*($/tonne)*	28-Jan	31-Dec	% change	
Mar (25)	19.23	19.26	-0.2%	↓	Mar (25)	511.5	507.0	0.9%	↑
May (25)	17.80	17.85	-0.3%	↓	May (25)	499.8	507.0	-1.4%	↓
New York #16					**White Premium**				
(cents/lb)	28-Jan	31-Dec	% change		*($/tonne)*	28-Jan	31-Dec	% change	
Mar (25)	36.76	36.00	2.1%	↑	Mar/Mar	87.6	82.4	6.3%	↑
May (25)	36.50	36.00	1.4%	↑	May/Mar	75.9	82.4	-7.9%	↓
Macro					**Currencies**				
Indicators	28-Jan	31-Dec	% change		*Against US$*	28-Jan	31-Dec	% change	
CRB	306.2	296.7	3.2%	↑	Euro (EU) *	1.043	1.035	0.7%	↑
Gold	2,763	2,624	5.3%	↑	Pound (GB) *	1.244	1.251	-0.6%	↓
Brent Oil	77.49	74.64	4%	↑	Real (Brazil)	5.857	6.178	5.2%	↑
Baltic Dry	746	997	-25%	↓	Rupee (India)	86.58	85.55	-1.2%	↓
Handysize	389	569	-32%	↓	Rouble (Russia)	98.00	113.50	13.7%	↑
					(* rate is US dollars per FX)				