



# Sugar Quarterly

**Q4 2019**



# Summary



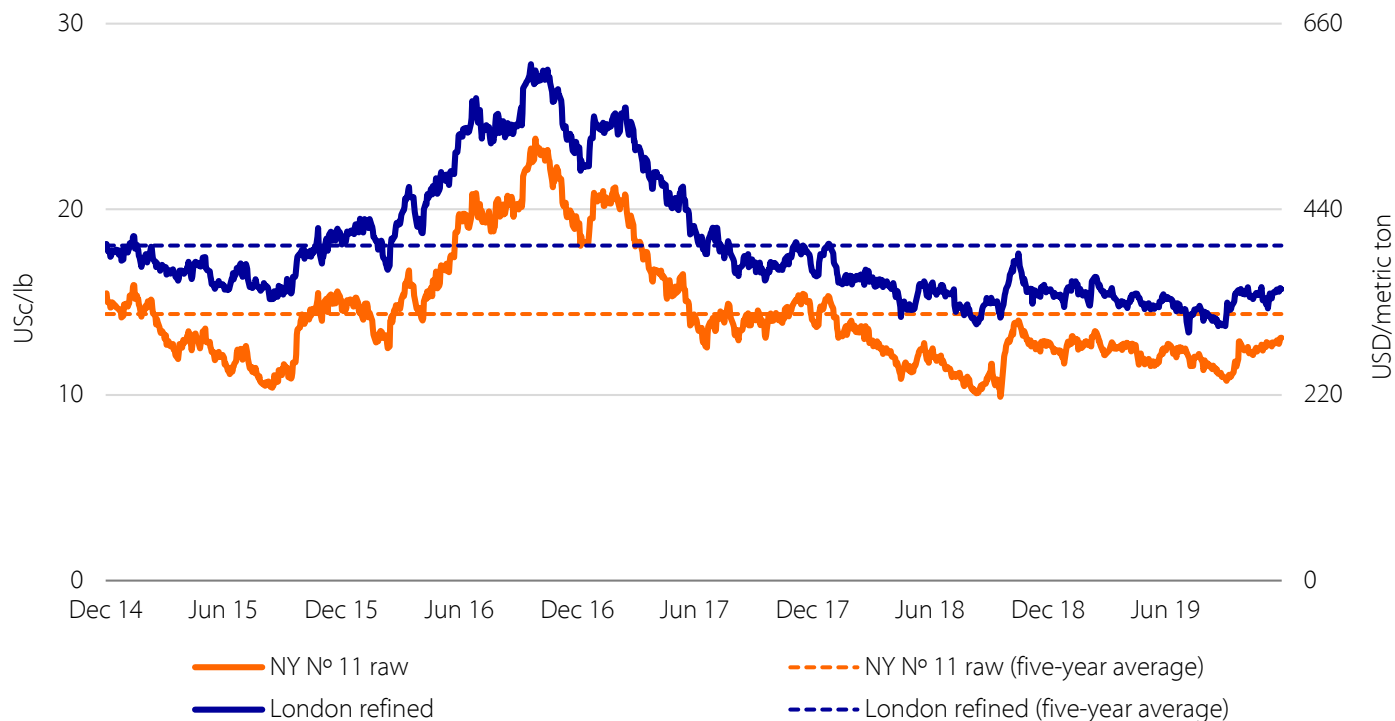
- Following reductions in our 2019/20 (Oct-Sep) production forecasts for India, Thailand, and the EU, Rabobank's projected global deficit has deepened to 8.2m metric tons raw value. This is 3m metric tons more than our previous forecast and, if realized, would be the largest deficit since 2015/16.
- NY futures (basis March 2020) broke above USc 13/lb in early December. Expectations of falling 2019/20 global production and a tightening of stocks have provided support, and funds have been particularly active in reducing short positions through the quarter. Nevertheless, the near-term abundance of stocks – coupled with largely disappointing import demand – continues to weigh on prices.
- The new cane harvests in Asia – particularly in India and Thailand – will warrant close short-term attention, as the outcomes here have considerable potential to influence the global fundamental picture.
- Meanwhile, while the current harvest is drawing to a close in Centre/South Brazil, the sugar/ethanol arbitrage for the 2020/21 harvest – beginning in March/April 2020 – is a key part of the global puzzle. If a tightening world market requires more sugar from Brazil in 2020, and if world oil prices are firm (Rabobank projects Brent oil prices at USD 70/bbl during the year), we believe that NY prices would need to reach USc 14/lb.

# World Market Prices

US\$/lb, USD/metric ton



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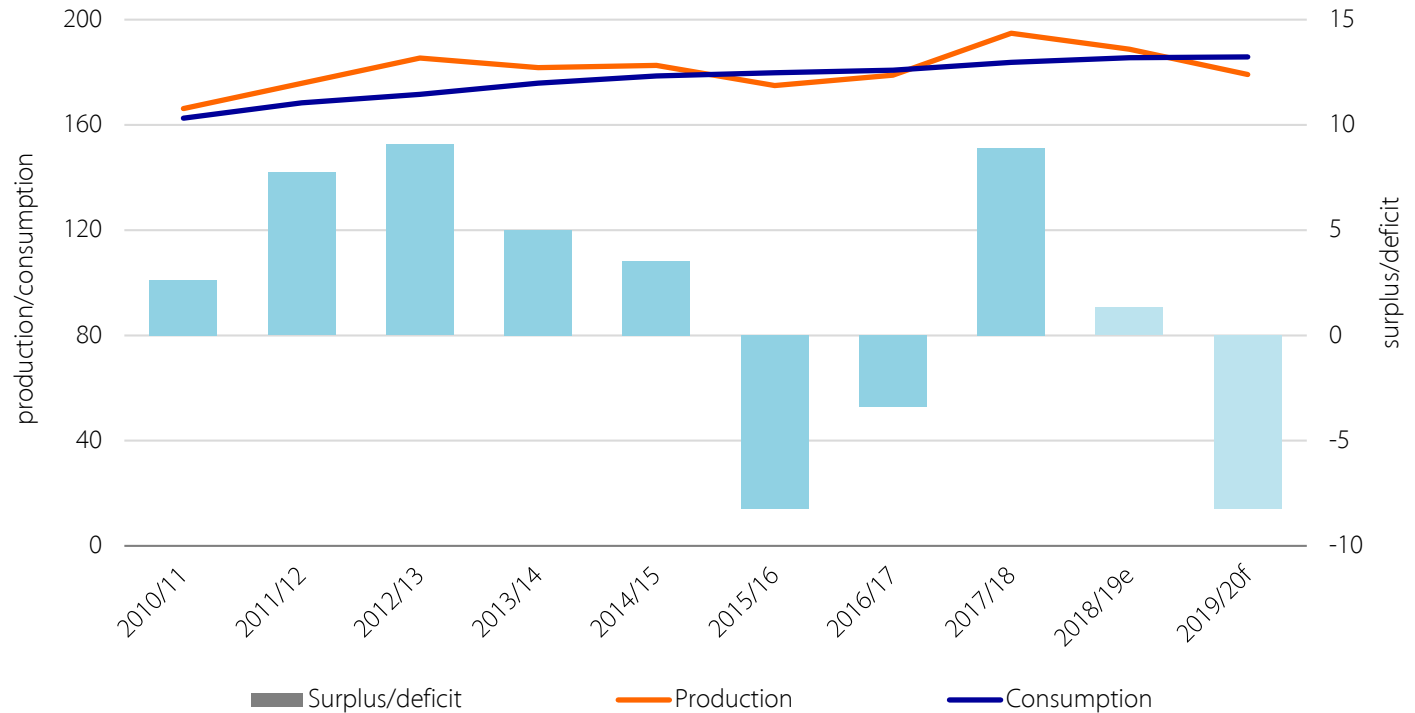
Source: Bloomberg, Rabobank 2019

# Global Supply/Demand Balance

million metric tons, raw value



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# India



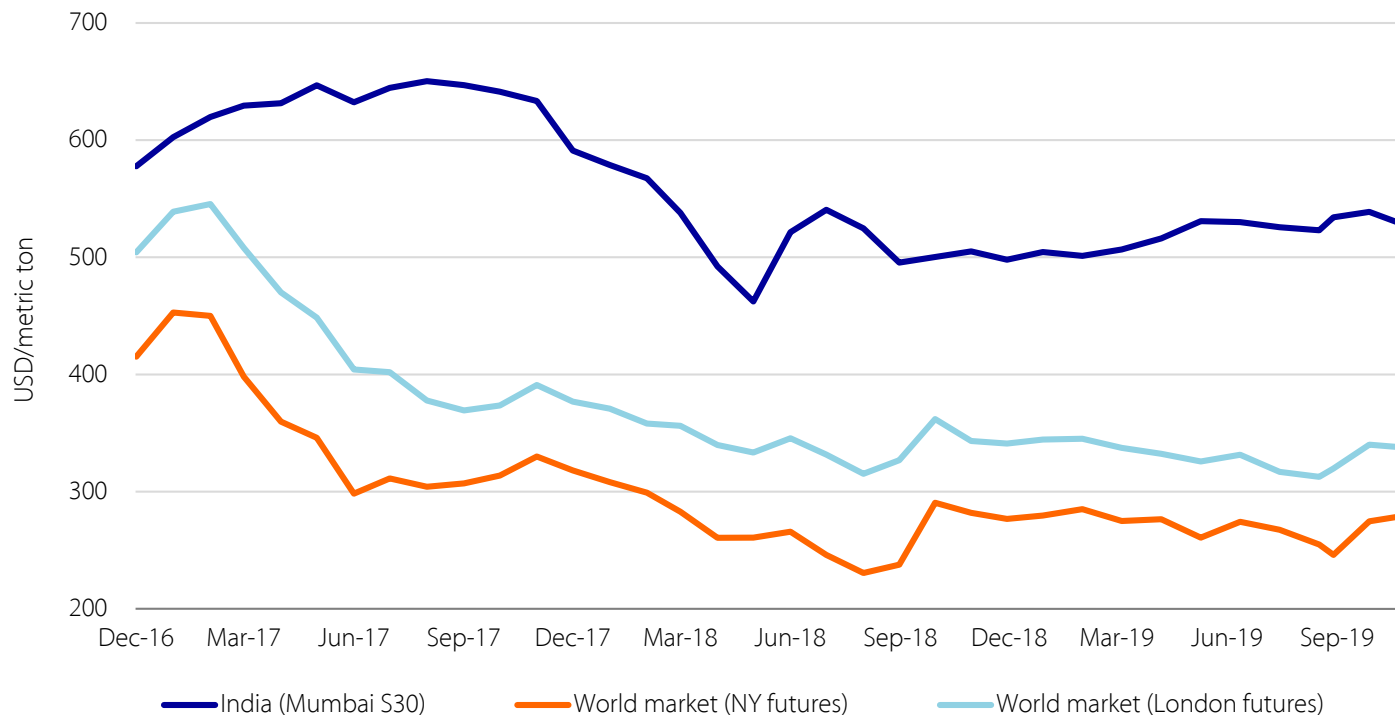
- Rabobank forecasts 2019/20 production at 28.1m metric tons raw value, down 21% YOY, as early-season dryness, followed by heavy rainfall and flooding, cut prospects. In addition to reduced cane supply, increased ethanol production is expected to reduce sugar output by as much as 1.0m metric tons. Delays to the start of the campaign plus lower cane quality resulting from wet weather meant that, as of November 30<sup>th</sup>, just 1.89m metric tons of sugar had been produced, down from 4.1m metric tons in 2018.
- Domestic reservoirs have reached near 100% capacity in the central and southern regions, which should be particularly favorable for the 2020/21 crop (early forecasts suggest over 30m metric tons raw value). Plantings are now underway in Maharashtra and Karnataka.
- **Over 1m metric tons of Indian exports have been contracted for 2019/20, split roughly 60:40 between raws and whites. Iran emerged as a major buyer of Indian raws (0.35m tons). Northern mills – the location of vast stock volumes with high interest and storage costs – have been key sellers.**
- **Raw export parity remains at USc 13/lb to USc 14/lb, but the arrival of new season supplies could pressure export sales at a discount to this – likely in late Q1 2020. This pressure could build further if 2020/21 output prospects remain strong, forcing northern mills to potentially offload supplies below export parity.**

# India: Sugar Prices

USD/metric tons



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# Thailand / China



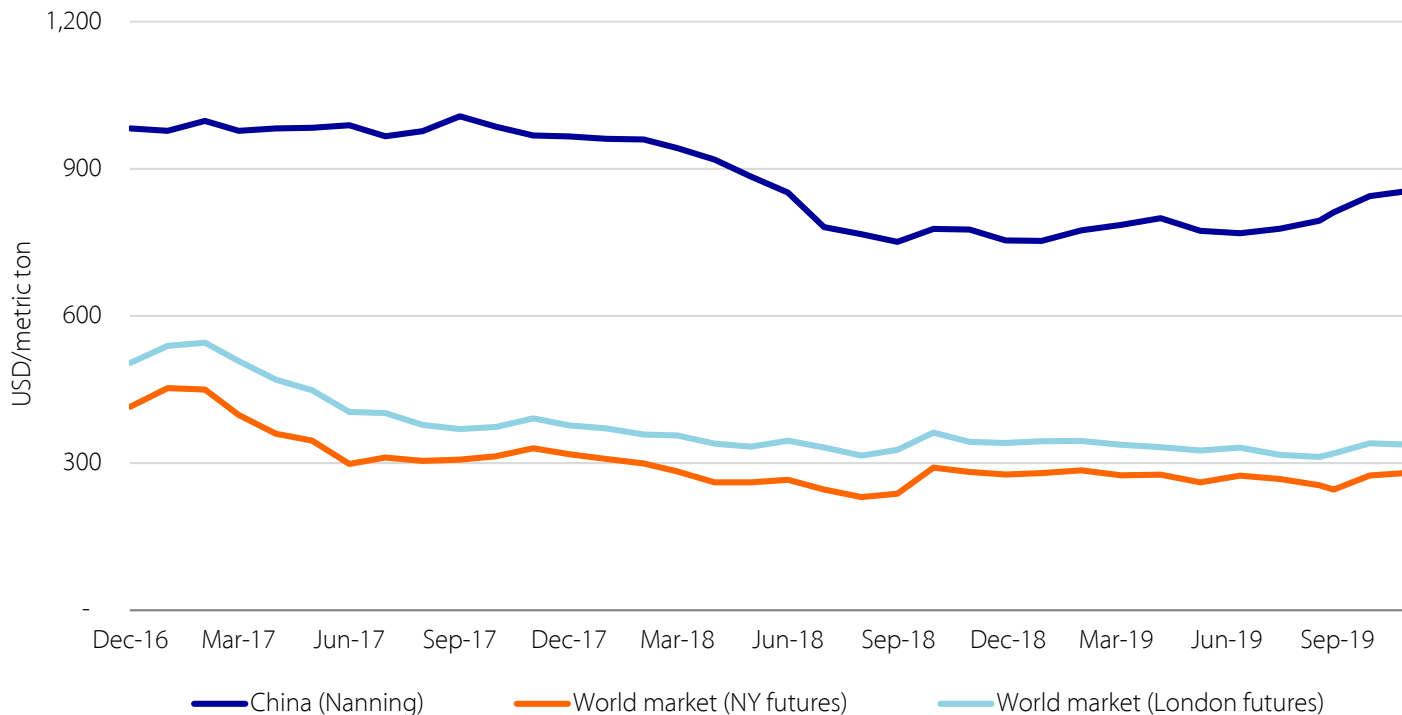
- Chinese sugar production for 2019/20 is forecast at 10.5m metric tons, raw value. This follows modest production losses in Guangxi and Yunnan. That said, increased beet production in Inner Mongolia and Xinjiang should partly offset cane losses. China's 2019/20 consumption is expected to stabilize at 15.3m metric tons raw value.
- Uncertainty surrounds the removal of existing additional tariffs on out-of-quota imports after May 22<sup>nd</sup>, 2020. Nevertheless, the automatic import license scheme should remain in place. China's 2019/20 imports are projected at 3.5m metric tons, including in-quota imports of 1.9m metric tons. Smuggled sugar volume will continue to drop, possibility towards 600,000 tons next year.
- China is forecasted to sell around 500,000 to 1m metric tons of state reserve through auction in 2019/20 to fulfill unmet demand. With opening bids likely set around CNY 6,500/metric ton, Rabobank sees domestic sugar prices having upside potential in 2019/20.
- Thai 2019/20 output is expected to fall 20% YOY, to 12.2m metric tons raw value, following drought earlier in the year. Rainfall arrived too late to reverse poor cane prospects, with harvest beginning imminently. Exports have disappointed so far – year-to-September raw and white exports are down 12% and 22% YOY, respectively. However, possible shifts in Indonesian and Vietnamese import policies could create opportunities.

# China: Sugar Prices

USD/metric ton



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Source: Bloomberg, Rabobank 2019



EU



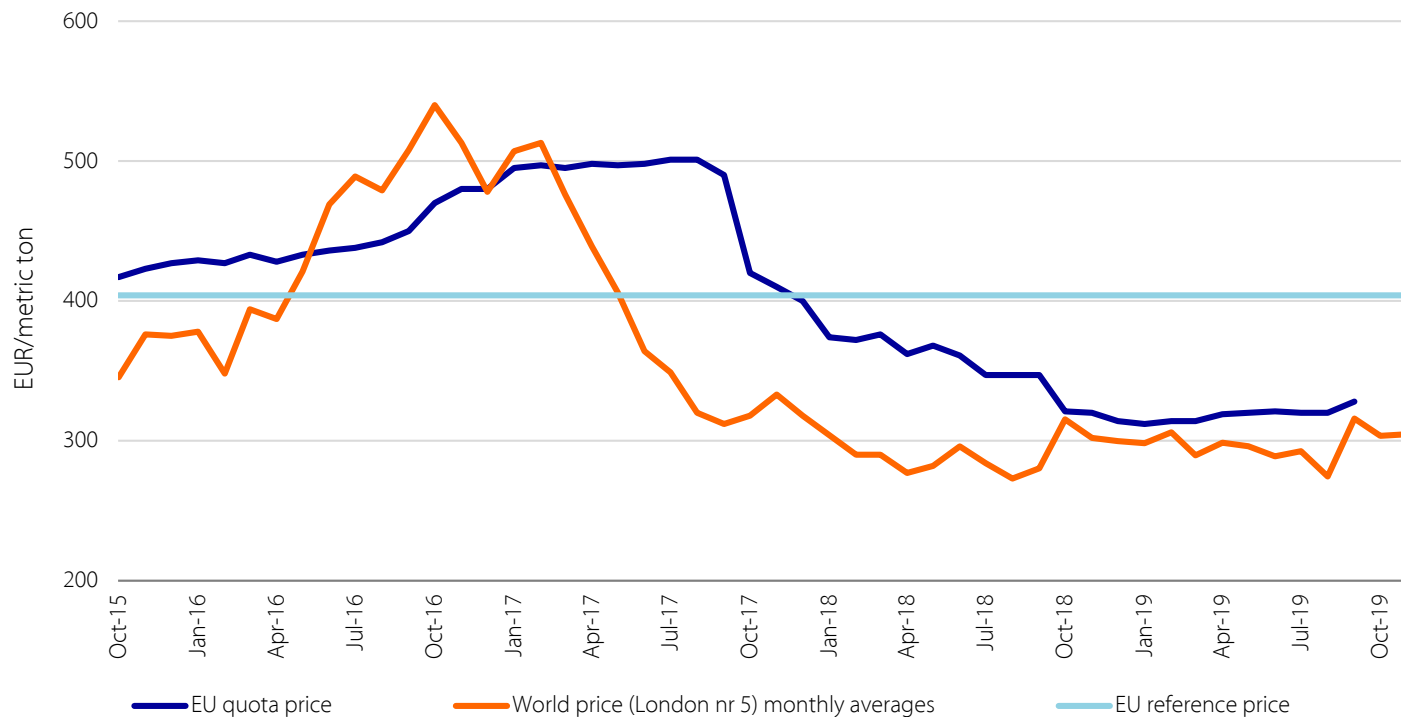
- EU-28 sugar production (excluding ethanol) in 2019/20 is expected to be slightly lower than last season, at 17.8m metric tons raw value. Lower prices last season discouraged farmers from planting, which resulted in a 5.5% decrease in planted area to 1.53m hectares for the current 2019/20 beet campaign.
- High summer temperatures and dryness have reduced beet yields for the second successive year. The EU's latest MARS Bulletin projects this season's average EU beet yield at 71.3 metric tons/ha, 5% below the five-year average but 3% above last season's performance.
- EU sugar spot prices seem to have stabilized since last quarter and are now about EUR 460/metric ton in western Europe. This contrasts with the latest price reported by the European Commission for the month of September at EUR 328/metric ton. This huge discrepancy arises because the prices reported by the Commission are reflective of sales made under contracts fixed up to a year earlier, when prices were much lower.
- Lower production and higher prices this year have leveled off sugar trade in the EU. Eurostat data puts imports for 2018/19 at about 2.2m metric tons raw value, a 43% increase versus last season but still lower than the average of 2.9m metric tons for recent years before quotas were abolished. Meanwhile, exports declined, totaling 1.8m metric tons raw value, a 49% reduction when compared to 2017/18 but still higher when compared to the average of 1.3m metric tons before the quota abolition.

# EU: Sugar Prices

EUR/metric ton



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Source: Bloomberg, European Commission, Rabobank 2019

# Brazil



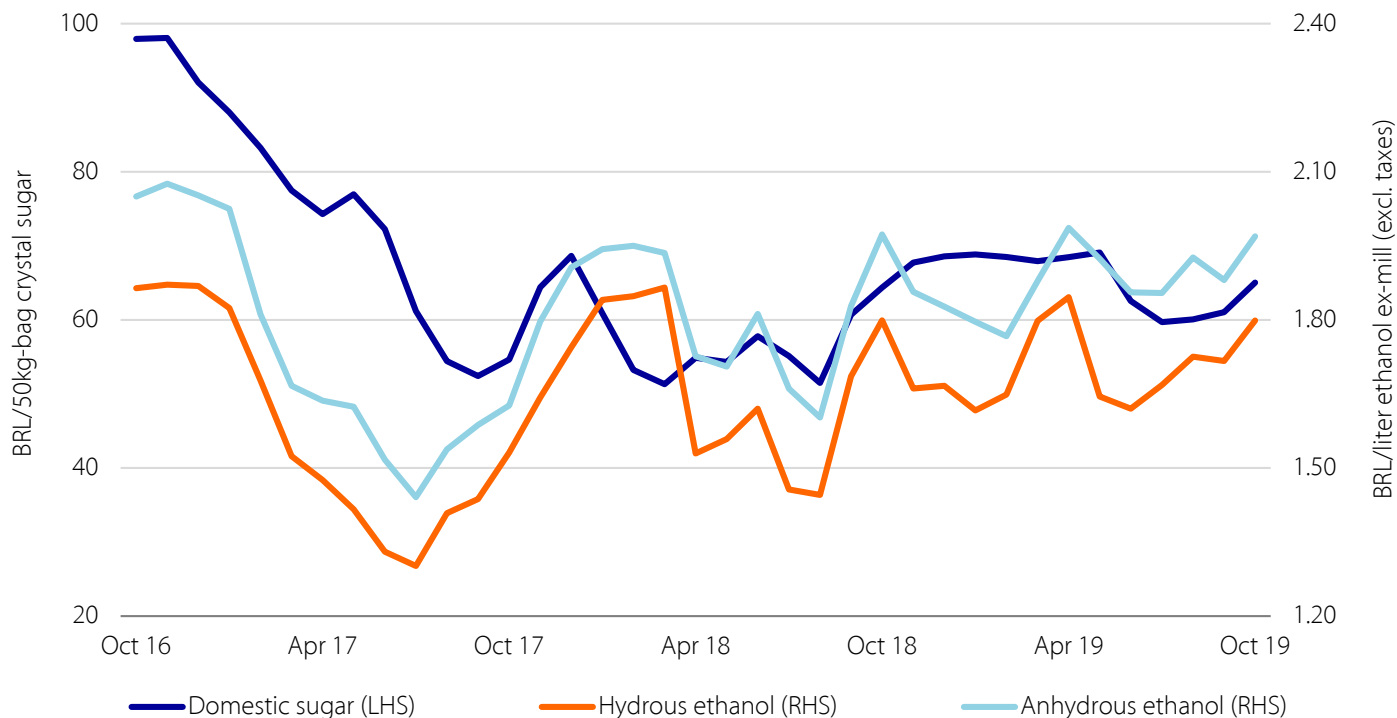
- Dry weather in October and November enabled milling in the Centre/South to progress rapidly, while at the same time helping to maintain high levels of cane ATR (total recoverable sugars). By early December, UNICA estimates that around 200 mills had ended their milling campaigns. Up to mid-November, 562m metric tons were milled, of which 34.8% were used for sugar production, versus 35.8% for the same period last season. We currently project final season numbers at 585m metric tons of cane milled and 26.7m metric tons of sugar production.
- The focus on ethanol this season has paid off, as ethanol pricing has outperformed sugar this year on a like-for-like basis. Furthermore, sales have been booming. Mills' local sales in October totaled 2.1bn liters, a record high for monthly sales volume.
- Meanwhile, Brazil's sugar exports in 2019 (Jan–Nov) reflect the prevailing tone of the market during the year. At 16.6m metric tons, they are 3.0m metric tons (15%) behind exports for the corresponding period in 2018.
- Looking ahead, further weakening of the Brazilian real in late November created good opportunities for mills to forward price sugar at attractive levels for 2020 and 2021. For mills pondering the sugar/ethanol mix for next season, a weaker real is also supportive for local gasoline prices, but the outlook for international oil and gasoline prices is also a crucial element of the puzzle. Rabobank's projection for an oil price of USD 70/barrel (Brent) in 2020 suggests that world sugar prices would have to rise to USc 14/lb to produce a significant swing in the Brazilian mix back towards sugar.

# Brazil: Sugar and Ethanol Prices

BRL/50kg bag, BRL/liter



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Source: Bloomberg, Rabobank 2019

# North America



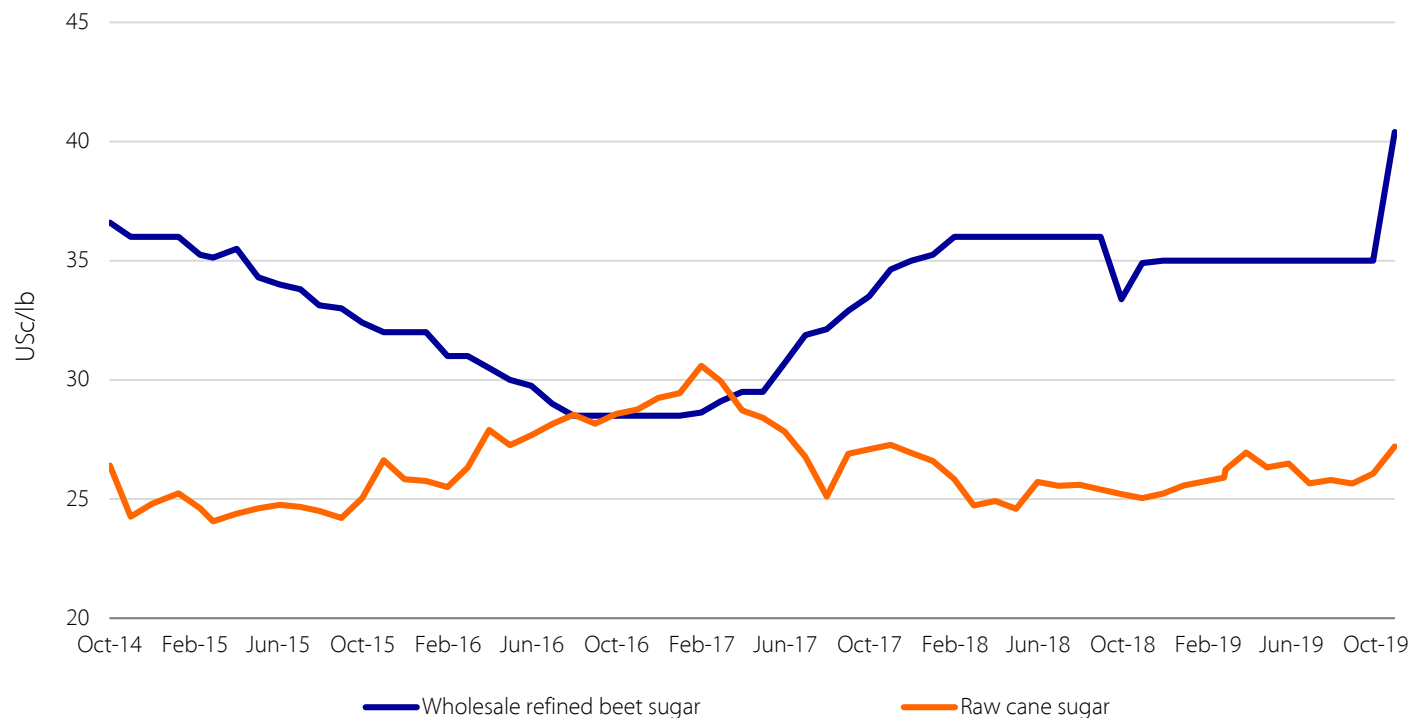
- In the US, late planting coupled with an early fall blizzard and freeze in the Red River Valley resulted in harvest delays and damage to unharvested beets, decreasing sugar content. As a consequence, in the latest December WASDE report, USDA reduced production by 4% from their previous estimate, to 7.51m metric tons raw value, which is about 8% lower than last year.
- According to the same WASDE report, total “US Needs” (the amount of imports needed to achieve a US stocks-to-use ratio of 13.5%) now equals 1.66m metric tons raw value. As of December, 100% of this amount is granted to Mexico. Meanwhile, Mexican sugar production is also projected to be down 5% YOY in 2019/20, at 6.12m metric tons raw value. As a result, we expect Mexican sugar prices should be well supported in the coming season.
- On October 18<sup>th</sup>, the US Court of International Trade (CIT) annulled the 2017 suspension agreement on US sugar imports from Mexico. By mid-November, refined cane sugar prices had risen to USD 0.44/lb. USDA then notified the Department of Commerce (DOC) of an additional need of 100,000 short tons of refined sugar in the US market, which was granted to Mexico. However, this would not change the total amount of sugar imports from Mexico. It would just affect the mix between refined and other sugars.
- As the remaining 2014 suspension agreement is due for review by the end of the year, DOC already proposed a new draft amendment on December 4<sup>th</sup>, ahead of the CIT expiration. The proposed draft looks quite similar to the provisions of the 2017 amendments, including the 70:30 raw/refined split, the definition of refined sugar with a minimum polarity of 99.2 degrees, and the testing of bulk shipments.

# US: Sugar Prices

USc/lb



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# Australia

- The 2019 Australian crush is set to conclude in mid-December, with operations ceasing in November and early-December for the northern and central growing regions. With 99.4% of the national crop cut, the pace of the harvest has caught up with last season after lagging throughout. The Australian Sugar Milling Council forecasts 2019 cane output at just over 30m metric tons, down 7.2% YOY.
- Rabobank forecasts 2019 sugar production at 4.2m metric tons – the lowest sugar output since 2012/13. Seasonal dryness, particularly the lack of in-crop rainfall, widely impacted yields. Furthermore, cane quality, as measured by commercial cane sugar (CCS), has averaged 14.1% YTD versus 14.3% last year. On a October-September basis, Australian 2019/20 output is forecast at 4.6m metric tons raw value.
- Over 3m metric tons of raw exports are forecast in the current season, despite lower YOY output. Rabobank expects Japan, South Korea, and Indonesia to remain key raw off-takers. Indonesian tariff reductions for India to 5% – in line with Australian tariffs – are set to have limited short-term impact, due to the improved quality and color of Australian raws. Meanwhile, Australia's domestic consumption is anticipated to remain flat, at 1.2m metric tons raw value, as concerns around sugar intake stifle growth.

# Global Outlook



- NY futures (basis March) rising above USc 13/lb marks a notable adjustment in market sentiment. This more positive tone has arguably been long-awaited, heralded by the constructive 2019/20 fundamental outlook.
- Nevertheless, the presence of old crop stocks – particularly in India – suggests that further upside will be limited, with the gradual erosion of stocks bringing the global stocks/consumption ratio back to its long-term average over the next three quarters of the year. Any move above the USc 14/lb level in the coming months could well trigger a shift in the mix back towards sugar in the next Brazilian campaign.
- The progress of the Indian and Thai harvests will be subject to close scrutiny in the coming months, as expectations of reduced output in both countries have been major drivers of the change in the global picture, and both have shown themselves capable of surprising the market in the past.
- Broader macroeconomic and political factors also have potential to impact the world of sugar in the coming months. The evolution of world oil and gasoline prices will be a key influence on the sugar/ethanol arbitrage in Brazil. Meanwhile, the effective shutting down of the WTO's Appellate Body makes a swift conclusion to the dispute over India's export subsidies less likely than ever.



# Global Outlook: Oil Price

Brent, USD/barrel



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Source: Bloomberg, Rabobank 2019

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