S&D SUCDEN

# SUCDEN SUGAR MARKET REPORT

## THINGS HEARD AND SEEN

JULY 2021

# EXECUTIVE SUMMARY

- A historic drought in CS Brazil is causing a drastic reduction of cane yield that will only be partially offset by an increase of ATR. More recently, high energy prices and strong BRL set a higher ethanol parity and sugar lost the advantage it had over the past year. This leads to a sugar production at least 15% down from last season.

- The mild recovery for Northern Hemisphere crops – Thailand, the EU or Russia, among others – will not offset this Brazil CS production shortfall. Combined with a higher expected consumption following the sanitary crisis phase-out, world production-consumption balance is turning into a deficit unseen in the past 5 years.

- More than any supplier, the collapse of the world top sugar exporter is having concrete impacts on raw trade flows. While a seasonal surplus is still expected over the harvest, the bridge with the next CS crop should be tight. This will leave alternative suppliers in the driving seat, especially India, that requires a higher world market price or a subsidy to equal its domestic price.

- The white market is currently pulled down by destinations front-loading, high stocks accumulated by refiners and rising freight rates. Such situation weights on CNF values and led the market to allow cash-and-carry operations.

- Over past weeks, sugar followed closely the commodity basket movements and did not present its own specific performance. Still, with Brazil representing as much as 70% of world raw sugar availability, the current weather-related situation leaves significant supply risks ahead.

# AT A GLANCE

## 01 SUGAR CROP OVERVIEW

- Brazil CS: at best a collapse, potentially a disaster
- India: exporter, but at a price
- Northern hemisphere: modest recovery ahead
- World S&D: deficit turning deeper in 21/22

## 02 SUGAR MARKET FEATURES

- Parities: ethanol switch vs Indian exports
- Freight: a new equation for trade
- Whites: digesting excess of the past
- Macro: sugar as a follower

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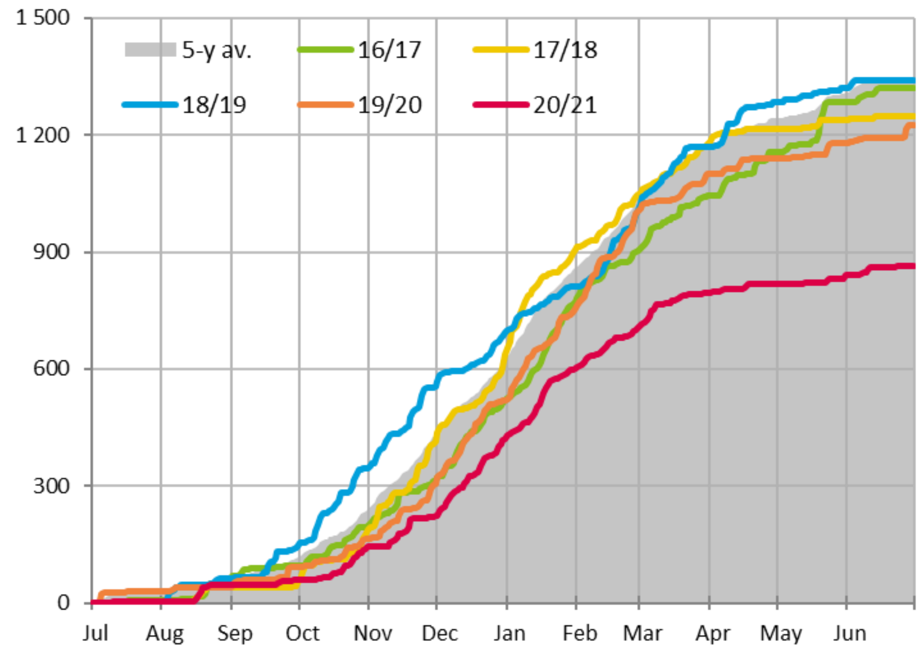
# SUGAR CROP OVERVIEW

# BRAZIL CS: AT BEST A COLLAPSE, POTENTIALLY A DISASTER

- Sugar cane yield is severely hit by record low rainfall since a year now. The extreme dry weather pattern since March 2021 was particularly harmful for cane. Yield is now more than 10% down year-on-year and will probably not recover later this harvesting season.
- Besides low productivity, cane area is also assessed about 2% down year-on-year. These two elements should lead to a cane crop between 530-540 Mt.
- ATR, on the opposite, has been showing record levels, as a result of dry conditions. Such high ATR levels shall remain as long as the weather keeps dry and the recent frost event do not significantly impact it.
- Between cane and ATR, the overall sucrose available is expected to be 13% below past year.
- After being in favor of sugar for a long time, sugar-ethanol parities recently turned neutral or even slightly better for ethanol. This is linked to strong ethanol prices, themselves supported by high energy prices and a tight ethanol S&D.
- The crystallization capacity is hence not maximized anymore, and sugar production should be below the 33 Mt mark.

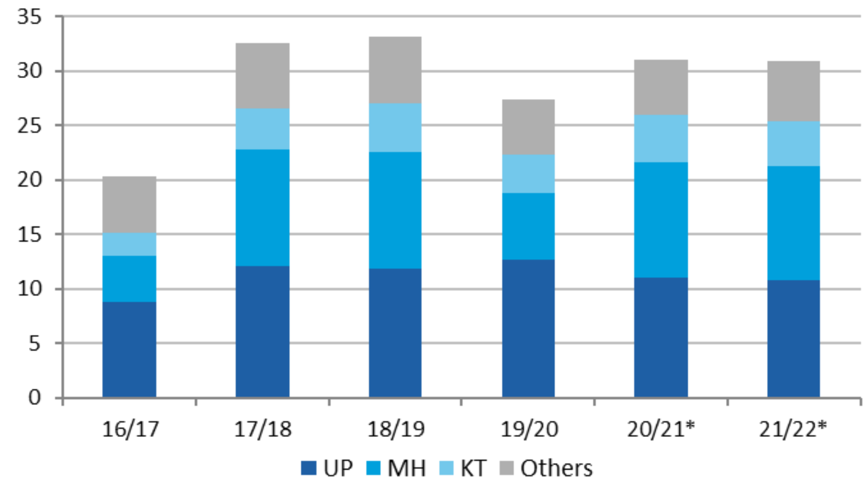
**CS Brazil cumulated rainfall**
[July/Jun; mm rain]



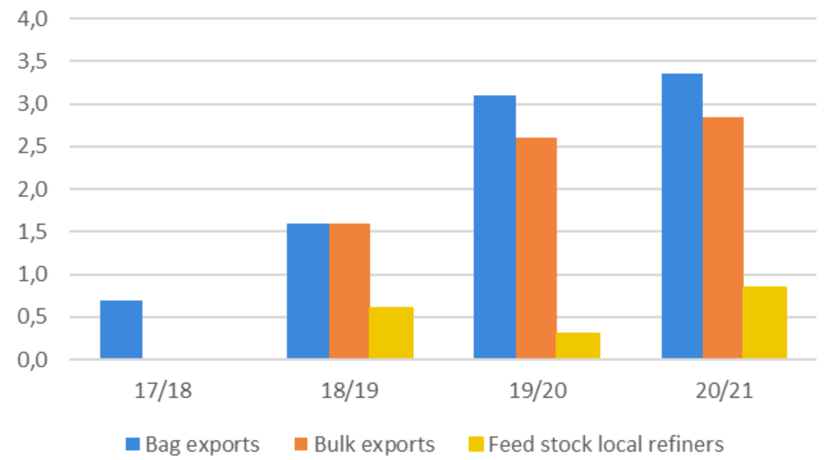
# INDIA: EXPORTER, BUT AT A PRICE

- Indian monsoon is very promising so far, benefitting to both 21/22 yields and plantings for 22/23 crop.
- Furthermore, with high prices and limited cane payment arrears, the cane crop should reach a new record level in 21/22.
- Nevertheless, the share of sucrose diverted to ethanol will increase in 21/22 again and sugar production is thus estimated stable, at about 31 Mt. Again, India should post a significant surplus and turn into a net exporter of minimum 5 Mt.
- Indian exports will hence be at the center of the market attention this season as well. The main questions remaining, whether world market prices will be sufficient to allow exports, and what will be the decision of the authorities regarding the subsidy amount (if any).
- Given recent large monthly quota releases and a lower consumption due to the sanitary crisis, Maharashtra sugar prices are below 31000 INR/Mt, the Minimum Support Price (MSP).
- These low prices allow Indian exports to connect to usual regional crystal markets over the next months and 20/21 exports will be above the MAEQ quantum.
- For next crop, NY#11 needs to reach about 19 cts/lb to breakeven the MSP without subsidy.

**Indian sugar production in the main States**
[Oct/Sep, Mt]



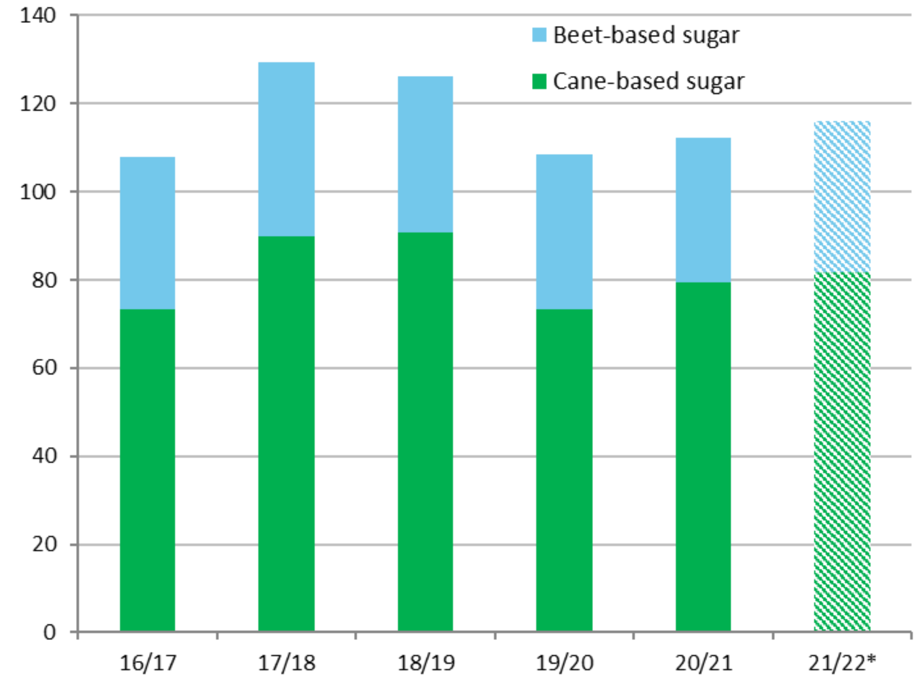

**Indian exports per type**
[Oct/Sep, Mt]



# NORTHERN HEMISPHERE: MODEST RECOVERY AHEAD

- 21/22 Thai crop is expected to be back to 10 Mt, after two low-performing years. Planted area is up 6-7% due to attractive cane prices for the growers. Moreover, the monsoon looks average so far, after two years of disappointing rains.
- From 2022, Thai exports should make a larger footprint on the world stage, for both raw and refined sugar. Raw exports will particularly benefit from advantageous freight rates to the regional markets, pricing better than alternative origins such as CS Brazil.
- The EU is also expected to harvest a better crop in 21/22. Despite a slightly declining area resulting from high grains prices and crop-caring constraints, yields should not be as low as last year, as weather conditions are close to average so far. Still, with a crop at about 16 Mt, the EU exports should not increase from the minimum 600-700 kt of 20/21 season.
- After 20/21 disaster, Russian crop is also assessed to recover. Between a beet area up about 5% and yields so far benefiting from good weather conditions, 21/22 production should reach 6,2 Mt. It would make Russia a minor supplier of the CIS region.

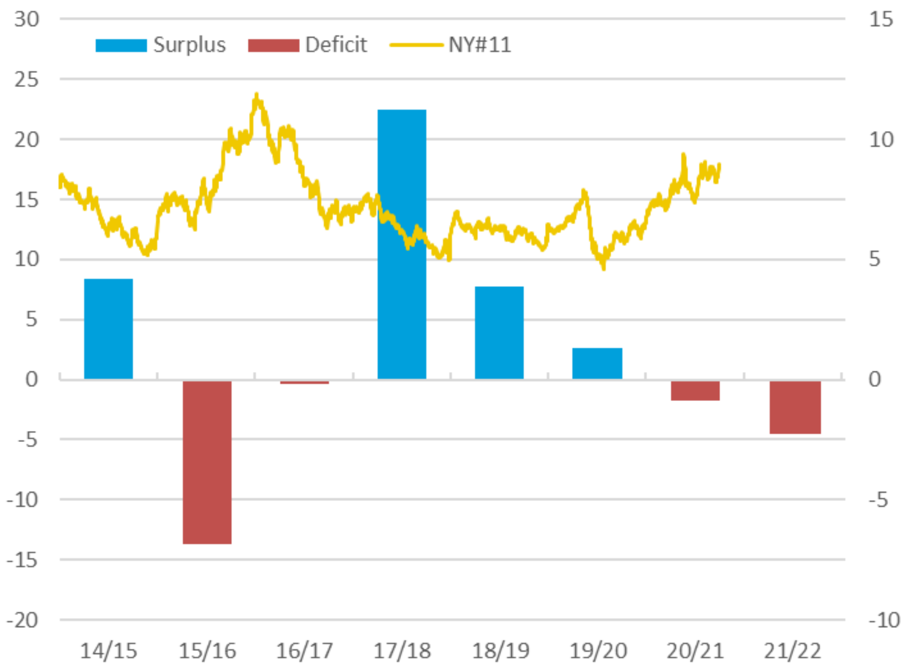
**Northern Hemisphere sugar production**
[National crop year, Mt]



# WORLD S&D: DEFICIT TURNING DEEPER IN 21/22

- 21/22 will only see a partial recovery in the Northern Hemisphere crops. While India is expected to hit a record level again, other main suppliers, such as Thailand, the EU or Russia will not be back to past high levels.
- This modest increase in Northern Hemisphere is offset by the collapse of CS Brazil production. In addition, this low CS production is under two threats: first, a lower sugar mix if ethanol parity gets higher; second, CS sucrose production may be further reduced due to harsh weather conditions, such as the recent frost event.
- Combined with a recovery of the consumption thanks to the perspective of the global sanitary crisis ending, the world production/consumption balance is turning into a deeper deficit, down to a level unseen in the past 5 years.
- Raw trade flows show a tight situation as it is the world top exporter that is under-performing. Indeed, each time CS Brazil production is marked down it means an equal decrease of supply for the world.
- While spot raw trade flows balance shows a usual seasonal excess, the transition to the next CS will require the full potential of other exporters - such as India or Thailand - to avoid a deficit in the Q1 2022.

**Global production-consumption balance & NY#11**
[Oct/Sep, Left: c$/lb – Right: Mt raw value]

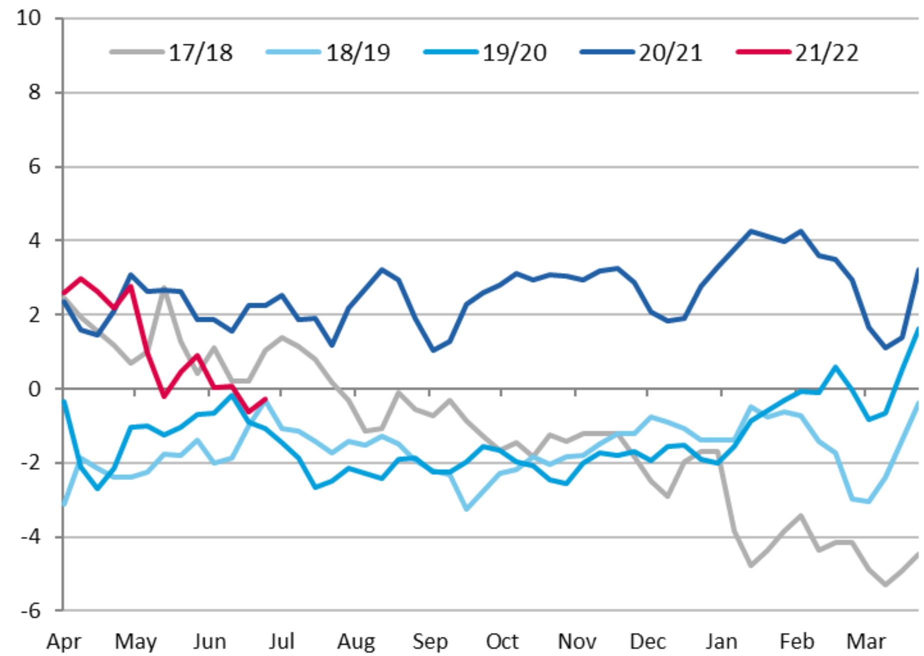


# SUGAR MARKET FEATURES

# PARITIES: ETHANOL SWITCH VS INDIAN EXPORTS

- The tight trade flows environment for 21/22 Brazilian crop year makes the physical market very sensitive to Ethanol and Indian export parities.
- At current spot ethanol prices and BRL, ethanol parity is around 17 cts/lb for the major part of CS Brazil areas. Below this level, mills will turn slowly toward a bigger ethanol production and the market may lose required sugar to balance the demand.
- Since most of CS mills are well committed and cannot hedge ethanol, the sugar mix adjustment should stay in a limited range, but it can still represent a substantial sugar tonnage switch: 1% mix point equals around 700 kt sugar.
- On the opposite side, Indian sugar will be sold at any price increase that can match domestic prices. Without subsidy – i.e. under "OGL" – export parity for bulk sugar to refiners is around 19,00 cts/lb. If current 4 KINR subsidy is extended for 21/22, Indian bulk exports parity would be at 16,50 cts/lb.
- CS Ethanol and Indian exports parities should keep a strong influence on prices until the final number of the CS crop.

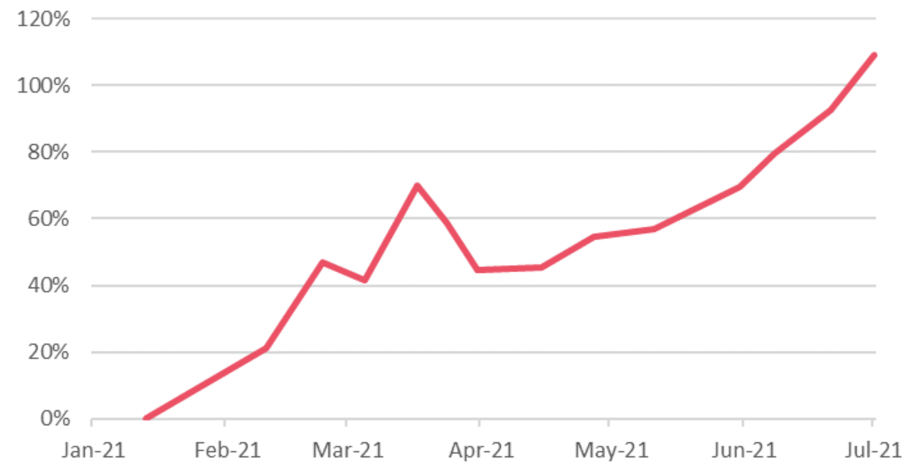
**Brazilian Sugar/Ethanol parity per crop year**
[c$/lb, *positive parity = sugar more remunerative*]



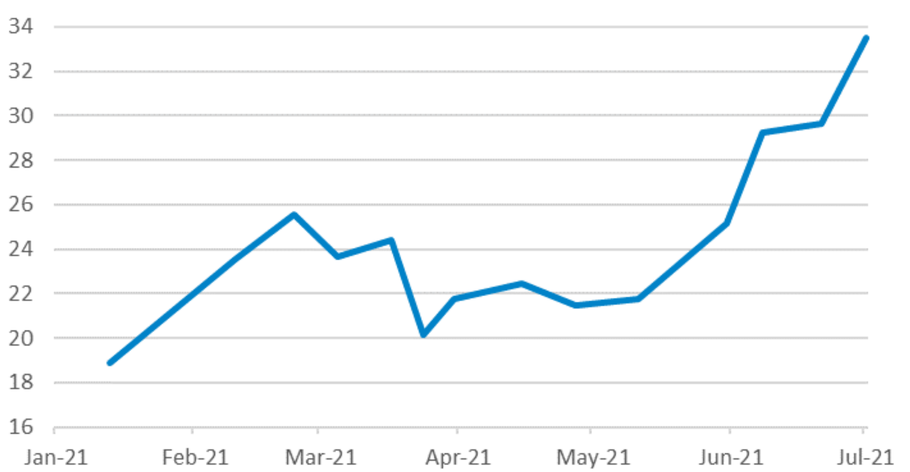
# FREIGHT: A NEW EQUATION FOR TRADE

- Bulk freight rates have considerably increased over the past months. This tendency has affected all importing destinations, with the longer the steaming, the higher the increase of the rate.
- Such an increase has multiple impacts. It will incentivize some domestic refiners that have stocks to delay their purchases. For the re-exporter refiners, the rise of bulk freight will increase their cost-of-whites and will command a higher cash premium to breakeven their tolling operations. This will advantage origins close to large consumption pools, as a long voyages get costlier.
- Thai raw sugar will benefit from a better competitivity within Far East Region, especially Indonesia, Malaysia or South Korea, at the expense of CS Brazil, Centrals, or even Indian origins.
- Compared to CS Brazil, Indian feedstock becomes more competitive for the Indian coastal refiners, as well as for Middle-East refiners. Such moves will help Indian sugar to connect to the raw sugar world market.
- In the white market, beyond the higher CNF cost for the buyers, the new freight context will limit shipments from East to West leaving the Eastern Hemisphere suffering from a bigger surplus in this environment.

**Average freight rates increase from Brazil CS origin**
[since Jan 2021, %]



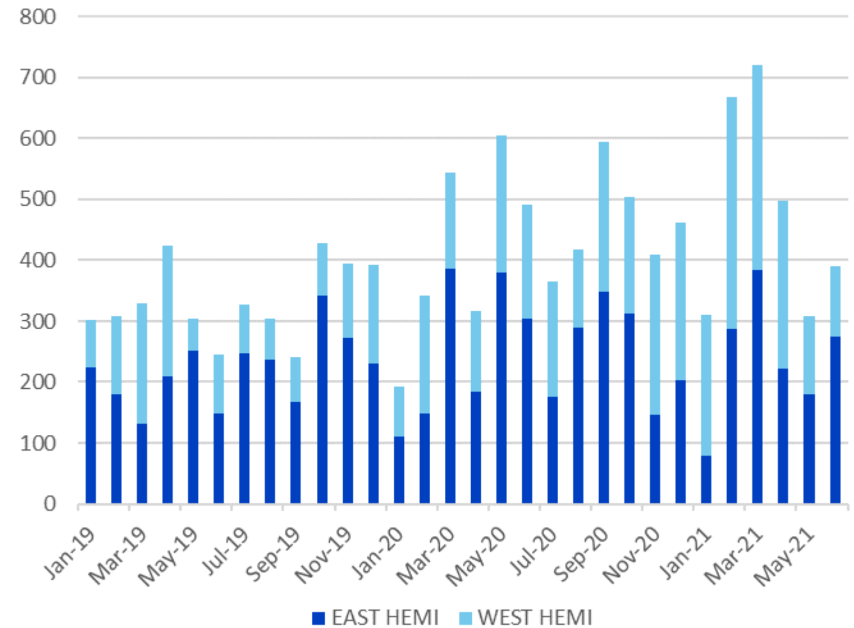

**Freight rates spread: CS-Indonesia vs. Thai-Indonesia**
[since Jan 2021, USD/t]



# WHITES: DIGESTING EXCESS OF THE PAST

- The white market has been well supplied over the past year by the two major crystal suppliers: India and CS Brazil. These two large exporters took important market shares in their respective markets: Western Africa for Brazil, South Asia and Eastern Africa for India.
- The refined suppliers had to concentrate on their 45s captive pools. Exceptional white demand was limited: only Pakistan recently booking volumes, Russia will not import much, and Ethiopia tender was for the usual size.
- Despite this context, refiners worked at a maximum capacity due to the higher white premium levels up to May. This situation has led to record shipments during February and March 2021 and depressed CNF physical values to push the 45s destinations to frontload demand. Some refiners had to store large quantities of sugar that now weight on the market.
- With this poor physical situation – accentuated by high freight rates, limited demand ahead and high stocks in refineries – market conditions now allow cash-and-carry operations.
- Ultimately, it should reduce the pace of refining as white trade flows are in excess whenever CS Brazil & India export large quantities of crystal sugar and refiners are running full blast.

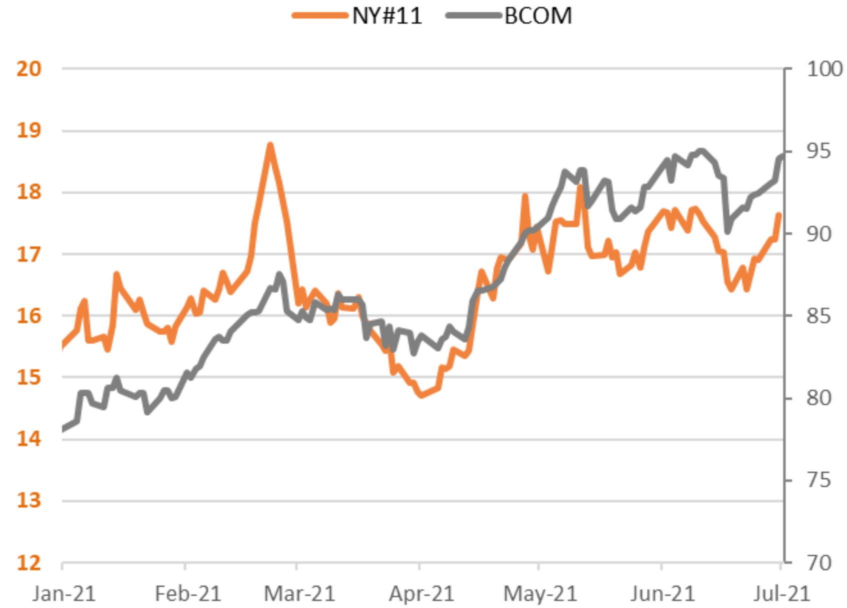
**Breakbulk sugar shipments**
[Monthly, kt]



# MACRO: SUGAR AS A FOLLOWER

- Recent times have been very positive for the macro-economic environment.
- The progressive phasing-out of the Covid restrictions in many countries has set a perspective of a recovered demand combined with large quantities of cash available pushing all asset categories up, including commodities.
- The "ags" have particularly performed, certainly boosted by supply events fears. Indeed, the weather has been unfavorable to crops' performances, such as recent frost in South America or heat wave in Northern America.
- Sugar, among these commodities, did not overperform the overall commodity basket. Over the past weeks, it followed commodities index very closely – posting similar moves everyday. Even intra-day sugar prices seemed to follow external influences.
- Thus, despite the high weather risk induced by CS Brazil for sugar – as it represents more than 70% of world raw exports – sugar didn't show a different path than many other commodities that rely less on Brazil. Prices may integrate this risk further ahead.

**NY#11 and Bloomberg commodities index**
[cts/lb; index points]



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