SUCDEN SUGAR MARKET REPORT

There is a monster

FEBRUARY 2025

EXECUTIVE SUMMARY

- The recent downward trend in 24/25 Northern crop forecasts and lower year-on-year production in Brazil CS region are driving the global production-consumption balance into deficit, following the small surplus recorded in 23/24.
- Looking ahead, the 25/26 cycle could mark the return of a more significant surplus, but for now, that prospect remains distant and uncertain.
- Until then, these tight fundamentals are expected to keep the market highly sensitive to weather events, with a close attention to the Brazilian industry's inclination to maximize sugar production at the expense of ethanol.
- Raw trade flows remain constrained during Brazil CS intercrop period, marked this year by a sharp decline in supply, resulting from both lower production and earlier accelerated shipments. While demand is projected to stay low for the next three months, a sizable deficit persists, as alternative available origins – such as Thailand, Central America or Brazil NE – have sizable costs to supply beyond their captive market.
- Meanwhile, fund positioning is at its shortest since 2019, a year defined by high surpluses amid a maxi-ethanol scenario in Brazil. This leaves the market vulnerable to short covering, a risk that could be amplified as funds have focused their selling activity on sugar whilst taking long positions in the broader agricultural sector. Ultimately, this dynamic could provide producers with an opportunity to catch up on delayed pricing.

AT A GLANCE

01 SUGAR CROP OVERVIEW

- Brazil CS 25/26: uncertain growth amid mixed signals
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- Northern Hemi cane crops falling short of expectations
- Global S&D: short-term deficit, uncertain surplus ahead

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- Funds at their shortest since 2019

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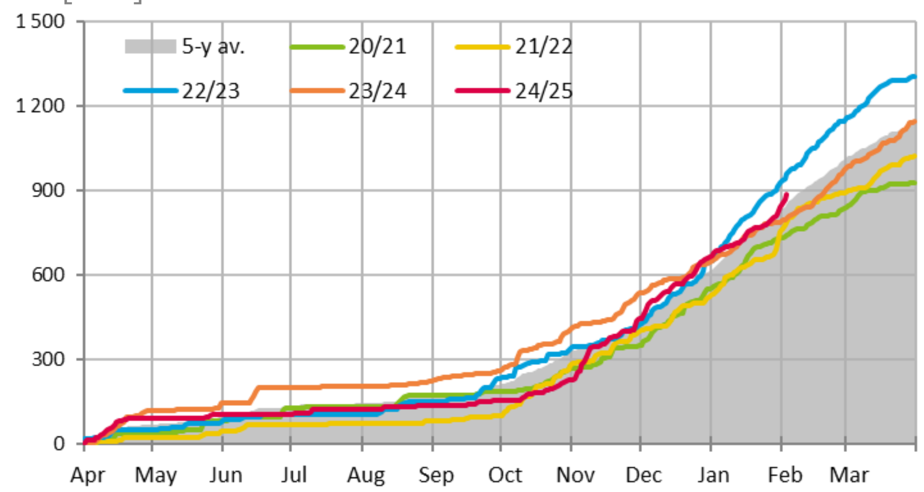
SUGAR CROP OVERVIEW

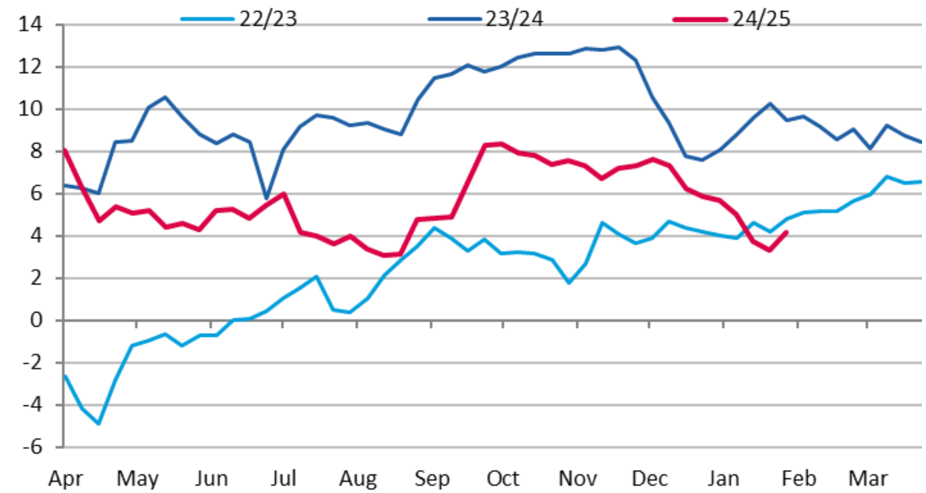
BRAZIL CS 25/26: UNCERTAIN GROWTH AMID MIXED SIGNALS

- The 24/25 CS crop is expected to conclude with 622Mt of cane and 40,1Mt of sugar production. TCH has performed relatively well despite the prolonged drought, but the sugar mix has been disappointing compared to 23/24.
- Looking ahead, the 25/26 crop is shaping up with mixed signals. First, a reduction in harvested area is expected due to the large proportion of cana bisada in 24/25, which will not repeat. Additionally, cane aging is likely, following reduced cane renovation during 24/25, exacerbated by Q1-24 drought conditions. Areas affected by fires are also expected to experience delayed cane growth.
- From mid-October to early January, ample rainfall has however supported cane development, partially offsetting the earlier drought's impact. As a result, the total cane harvest is estimated at around 610Mt.
- The sugar mix is expected to increase, driven by the gradual implementation of crystallization capacity expansion projects and the assumption of a better cane quality compared to 24/25. Nevertheless, the recent narrowing advantage of sugar over ethanol has made the outlook for a higher mix more fragile, particularly in the event of sugar price declines.
- The 25/26 crop projection at 41.5Mt will be highly dependent on rainfall over the next 3 months.

CS Brazil average rainfall on cane area
[mm]

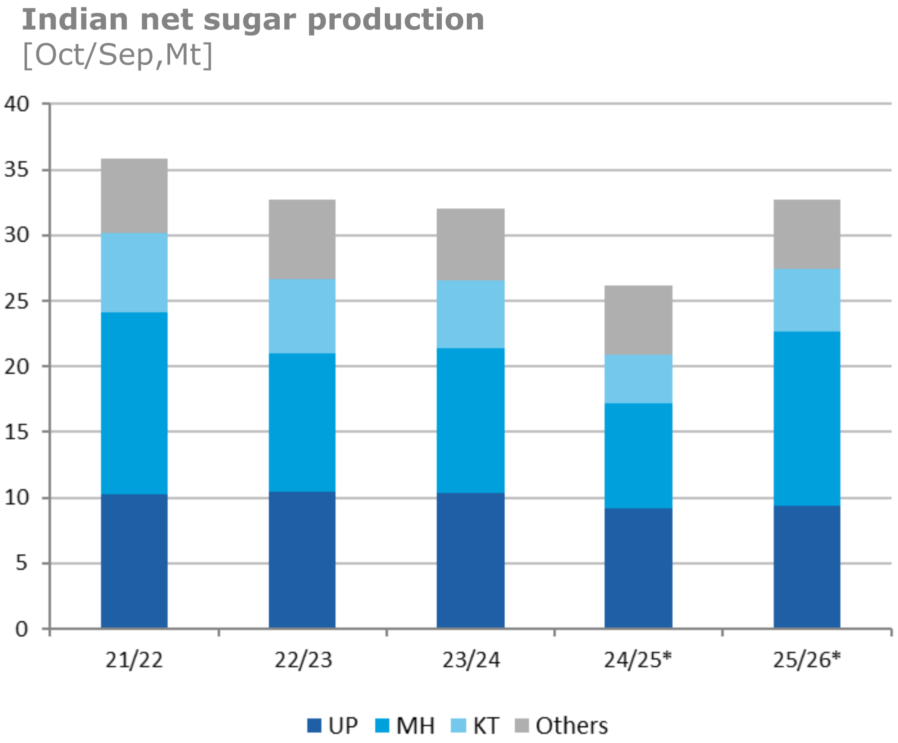


NY11 Sugar – Hydrous ethanol parity difference
[cts/lb]



INDIA: THE SAGA GOES ON

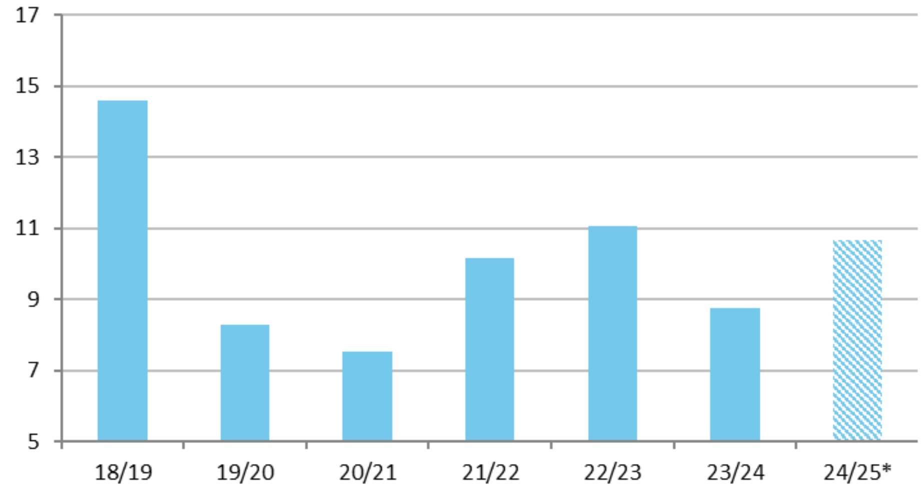
- Despite a good monsoon in 2024, the Southern Indian states show a smaller cane area and a higher proportion of ratoon crops, a consequence of the poor 2023 monsoon. Combined with a disappointing UP crop, the overall gross sugar production should be down 4Mt, to about 30Mt. Sucrose diversion to ethanol is also estimated up by 1,5Mt, resulting in a net sugar production just above 26Mt.
- For the 25/26 crop, the Southern cane area is expected to rebound, helped by high reservoir levels, inducing a greater proportion of high-yield 18-month plant cane. Consequently, India's total sugar production is projected to return to its peak levels at 37,5-38Mt gross and near 33Mt net.
- The government's recent decision to allow the exports of 1Mt should lead carry-out stocks to drop to about 4Mt, provided the export quota is fully executed, making the lowest levels since 16/17.
- Although the prospect of a larger 25/26 crop offers some relief and helps mitigate concerns over those historically low carry-out stocks, market tensions may still emerge: domestic sugar prices have already begun to rise, increasing the risk of a potential export ban or restrictions on sucrose diversion to ethanol. However, given that both exports and diversions are underway, any policy changes would need to be implemented swiftly.



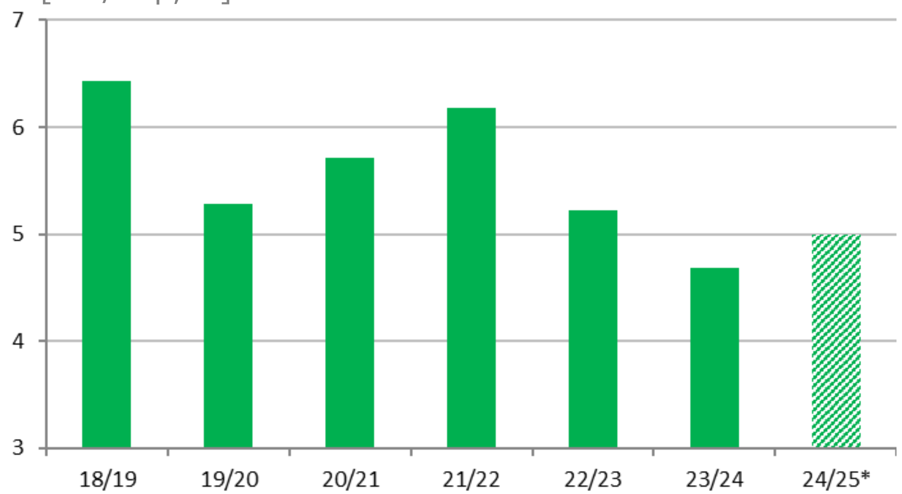
NORTHERN HEMI CANE CROPS FALLING SHORT OF EXPECTATIONS

- Currently underway, cane crops across the Northern Hemi are consistently underperforming expectations.
- In Thailand, production is expected to surpass last year's levels (10.6Mt vs. 8.8Mt), but TCH and extraction rates in the crucial Northeast region are falling short of projections. Similarly in China, the production is seen higher than last year, but recent dry weather in Guangxi has reduced TCH. The Chinese sugar production is estimated at 10.6Mt.
- Both Pakistan and the Philippines are facing harvest delays and notably weak extraction rates, leading to projected year-on-year declines to 6.2Mt and 1.7Mt, respectively. As a result, Pakistan's export potential is becoming increasingly uncertain, especially given the recent rise in local prices.
- In the Western Hemisphere, Mexico is also underperforming due to disappointing TCH and extraction rates, which are now converging toward last year's lows. The crop forecast has been lowered to 5Mt, reflecting only a modest increase from the previous season. However, high domestic stocks driven by excessive imports last year, keeping local prices subdued, are discouraging new imports.
- Meanwhile, Central America is showing weak trend as well, with crops now projected slightly below last year's levels. However, due to the decline in white output, raw bulk sugar availability remains higher.

Sugar Production in Thailand
[Oct/Sep,Mt]



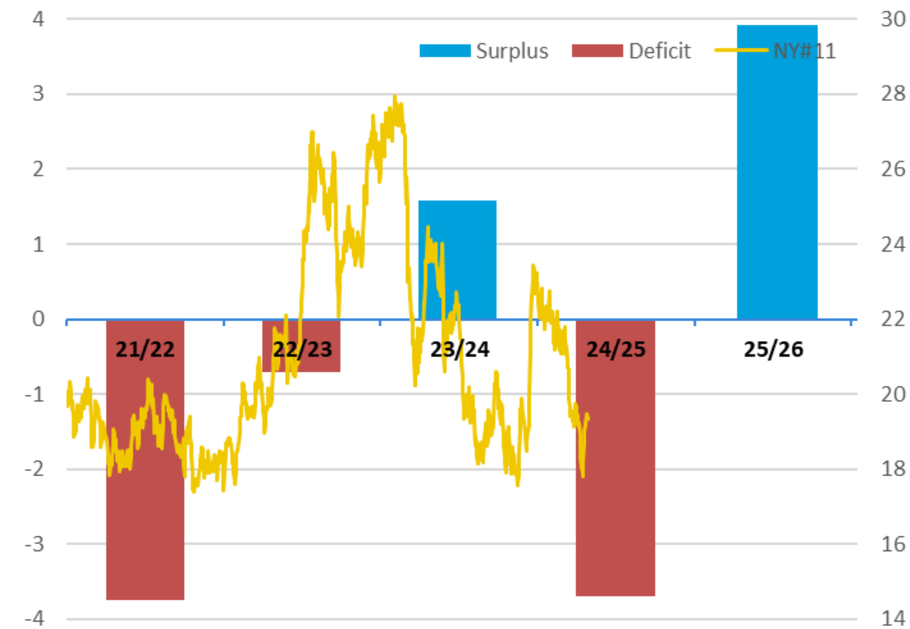
Sugar Production in Mexico
[Oct/Sep,Mt]



GLOBAL S&D: SHORT-TERM DEFICIT, UNCERTAIN SURPLUS AHEAD

- Although many Northern Hemisphere crops are expected to see a year-on-year growth, recent downward revisions in forecasts indicate that these improvements will not fully offset the anticipated sharp decline in Indian production. As a result, overall Northern Hemisphere production is projected to decline significantly in 24/25. In the Southern Hemisphere, Brazil's crop is also expected to post a year-on-year decline of almost 2.5Mt, leading to a sizeable global deficit, in contrast to the small surplus recorded last year.
- Looking ahead to 25/26, global production potential appears promising, driven by a cane area expansion in India and Thailand, as well as higher crystallization capacity in Brazil's CS. However, after combining 24/25 deficit with an uncertain 25/26 surplus, the global balance is expected to reach a precarious equilibrium, generating little relief in an environment of historically low global stocks.
- Weather conditions will hence continue to play a critical role in market dynamics. Over the next 3 months, rains will be decisive for the final TCH output in Brazil CS, while the monsoon's behavior will be crucial for Asian 25/26 production, particularly in India, where low stocks remain a key concern. Finally, it is essential that sugar prices remain more attractive than ethanol in Brazil to maximize the sugar mix and stabilize the global trade flows.

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



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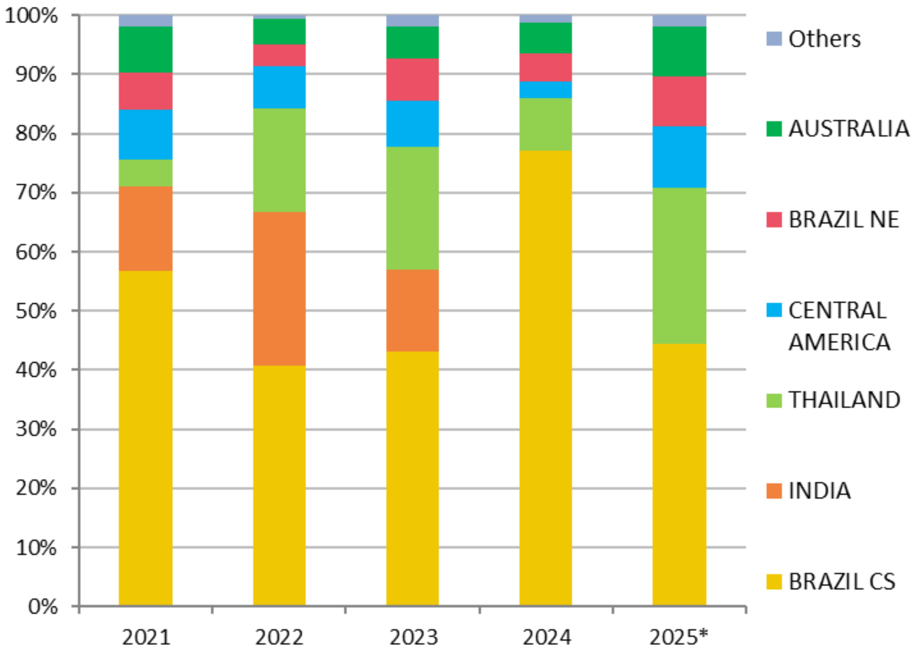
SUGAR MARKET FEATURES

CS INTERCROP: TIGHT SUPPLY VS. SURPLUS IN OTHER ORIGINS

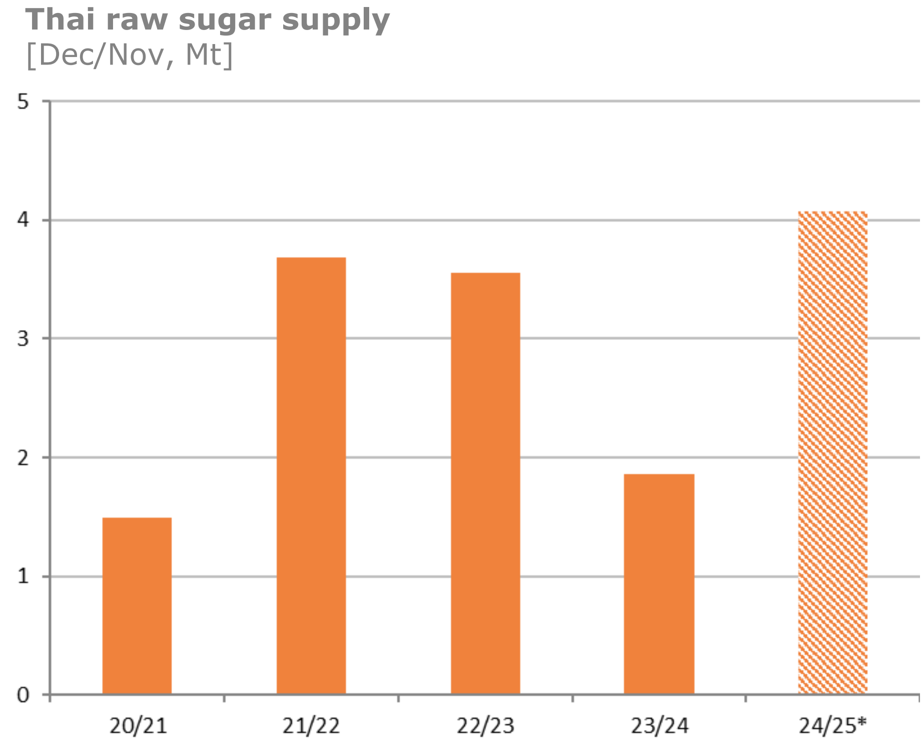
- Brazil CS intercrop period is facing a particularly delicate situation, characterized by a reduction in 24/25 production alongside accelerated shipments in recent months. As a result, CS supply is to be strongly reduced over the next 3 months, within a context of already depleted stocks.
- In response to this tightened supply, alternative origins are stepping in with larger availabilities. Thailand in particular, is benefitting from an increased production while facing a potential loss of its primary white sugar offtake — liquid sugar exports to China — leaving more bulk raw sugar available. Similarly, Central America is experiencing a decline in whites offtake from Mexico, thus producing more bulk raws, although its overall crop is slightly down.
- Demand is expected to remain weak in the coming months, following the frontloading in Q4-24 and unfavorable import parities in key Brazil NE destinations such as the EU, the CIS and the US – though US prices could rise if import tariffs on Mexican sugar increase.
- Consequently, the market witnesses a stark contrast between a significant trade flow deficit in Brazil CS and surpluses in Thailand, Central America or Brazil NE, all remaining valuable within their captive markets but costly to ship beyond their respective regions and not relevant to replace Brazilian CS raws.

Share of raw sugar shipments per origin
[Oct/Sep,Mt]



25/26 TRADE FLOWS: SUPPLY GAINS BUT PERSISTENT RISKS

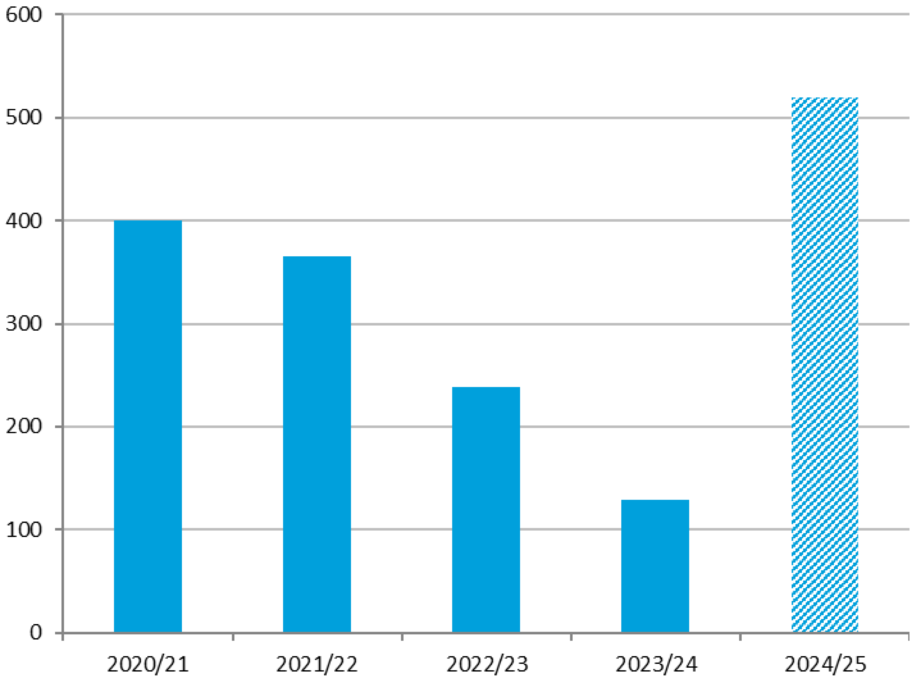
- The 25/26 raw sugar trade flows should benefit on the supply side from larger crop expectations, particularly in Thailand and Brazil CS.
- On the demand side, the outlook is more nuanced. China's raw sugar demand is expected to increase significantly, driven by a projected reduction in liquid sugar imports, which induces a shift in demand from whites to raws.
- Bangladesh, which previously relied partly on cross-border flows from India, is now expected to source primarily from the raw sugar world market.
- Meanwhile, regional markets such as the EU, US, and CIS are likely to remain stable. The EU's 25/26 production decline is not expected to significantly increase import demand, while higher Mexican flows, barring an implementation of tariff hike by the US, should help curb high-tier flows to the US.
- In the CIS region, the import window will likely remain limited to the Russian intercrop, as Russia's 25/26 crop is projected at 6.5Mt.
- As a result, trade flows in 25/26 are moving toward a more sustainable pattern. Yet, in an environment of low global stocks, the overall market stability remains fragile, relying heavily on weather conditions and an attracting price for the Brazilian industry to continue prioritizing sugar production.



WHITES MARKET: VOLATILE TRENDS AMID SUPPLY SHIFTS

- The white sugar market has recently experienced various S&D shocks and imbalances, maintaining high volatility, which has been further amplified by a significant shift in fund positioning.
- In the West, the global market remains well supplied by Central American sugar, as it has lost a main part of its regional market with Mexican prices collapsing. Brazil North-East refined sugar remains also available for the Mediterranean and Western African markets. In contrast, EU and Ukraine exports are now declining, as both have now completed their harvests.
- Meanwhile, in the East, a notable supply deficit emerged due to lowered refining capacity, caused by an unremunerative white premium. However, the recent Indian sugar export quota should help rebalance this shortfall, provided it is fully executed.
- Looking ahead, the potential loss of access of Thailand to the Chinese market could drive Thai refined to regain a foothold in its usual refiner markets after years of absence, particularly in Eastern Africa. In the West, Brazilian crystal sugar availability should strengthen from May onward. Hence, the white sugar market should remain well supplied across both hemispheres, but lower refined availability in the West will make Eastern refiners key suppliers for the London exchange.

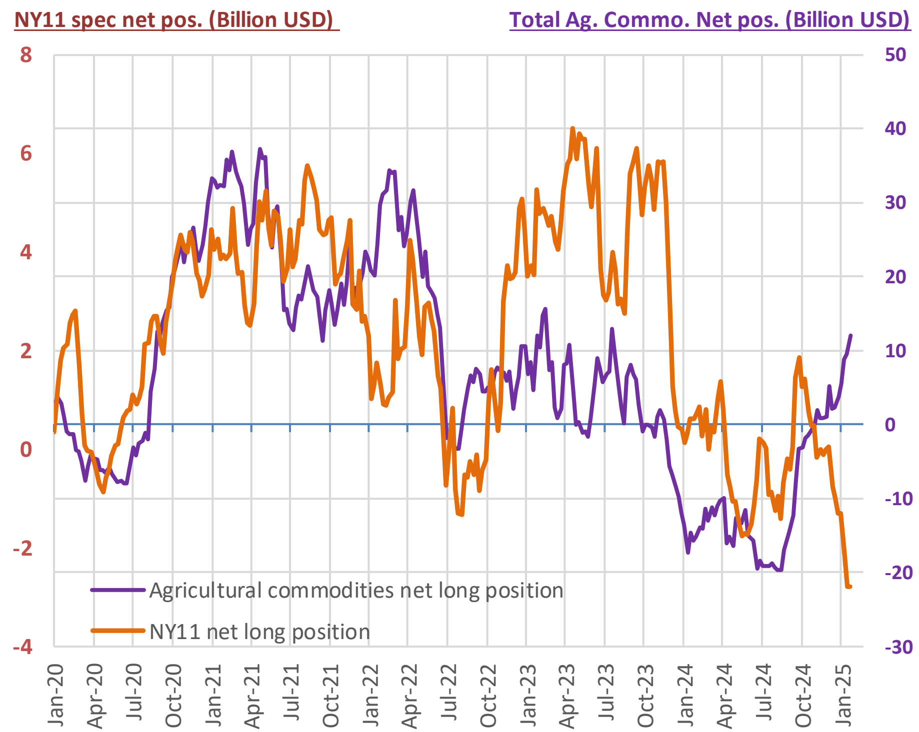
Refined sugar exports from Guatemala to non-American countries
[Nov/Oct, kt]



FUNDS AT THEIR SHORTEST SINCE 2019

- The behavior of funds had a significant impact on the sugar market in the recent months, shifting from a net long position of approximately 70k lots to a net short up to 140k lots. This sharp reversal led to a steep price decline, from above 23cts in late September to below 18cts by mid-to-late January.
- Such an extreme short position has not been seen since 2019, a period when the S&D balance featured a large surplus, driven by record crops in the Northern Hemisphere, which in turn prompted the Brazilian industry to prioritize ethanol production over sugar.
- This situation, however, contrasts with the current S&D, where Northern Hemisphere production is vulnerable to weather events and global stocks are low, both requiring a maximized sugar mix in Brazil to balance trade flows.
- While funds position on sugar generally aligns with a broader positioning on agricultural commodities, a recent divergence has emerged, with funds going long on agricultural commodities while simultaneously increasing short positions in sugar, reflecting an unusual pattern.
- This disconnect from both fundamentals and the broader Ag space could suggest a potential reversal of fund positioning in sugar, contributing to price support but also helping producers to catch-up their current pricing delay.

Agricultural commodities & NY11 net funds long position



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