

# Global Sugar Market COP & Longer term issues

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Palm Springs, CA



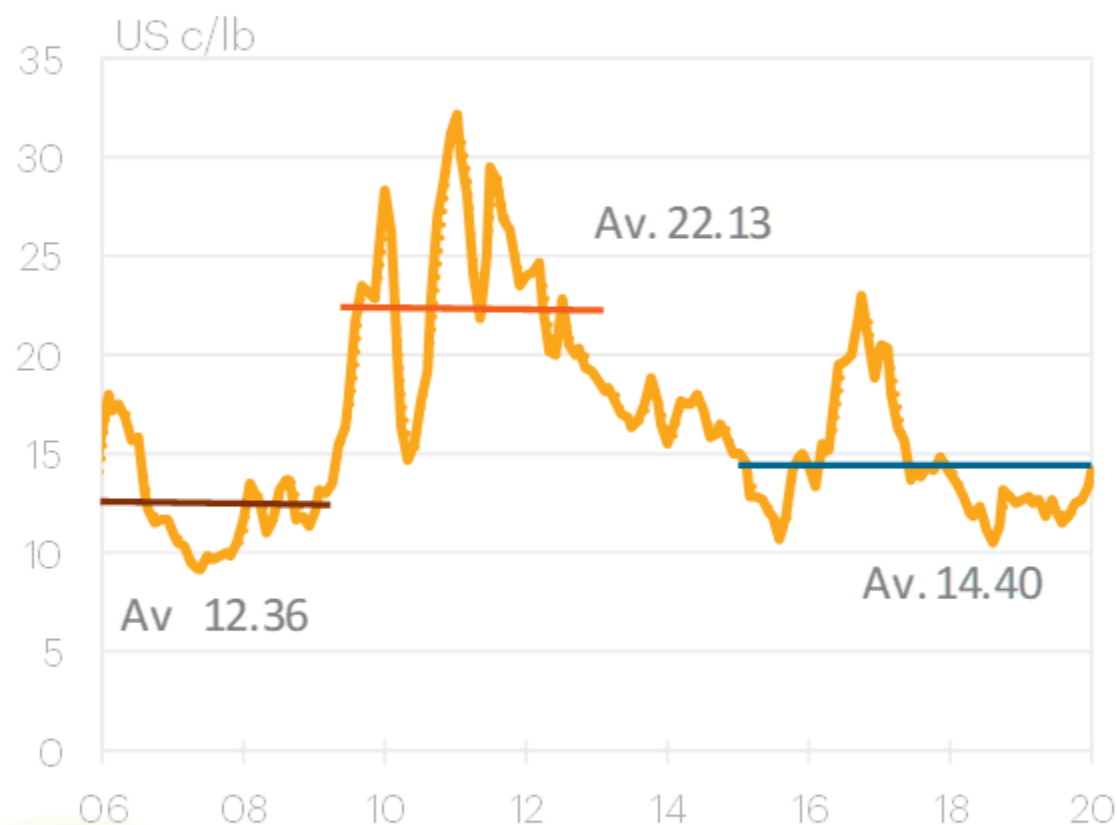
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Mapping tomorrow's markets

# Agenda

<b>Context</b>	Global sugar market volatile and cyclical
<b>History</b>	Sugar lesser trade focus than say grain & pulses
<b>Drivers</b>	COP, flexibility, international trade, ethanol (Brazil)
<b>Prospects</b>	Free global trade, efficient prod'n base @13-16 c/lb?
<b>Lessons</b>	Global trade rules essential for international trade

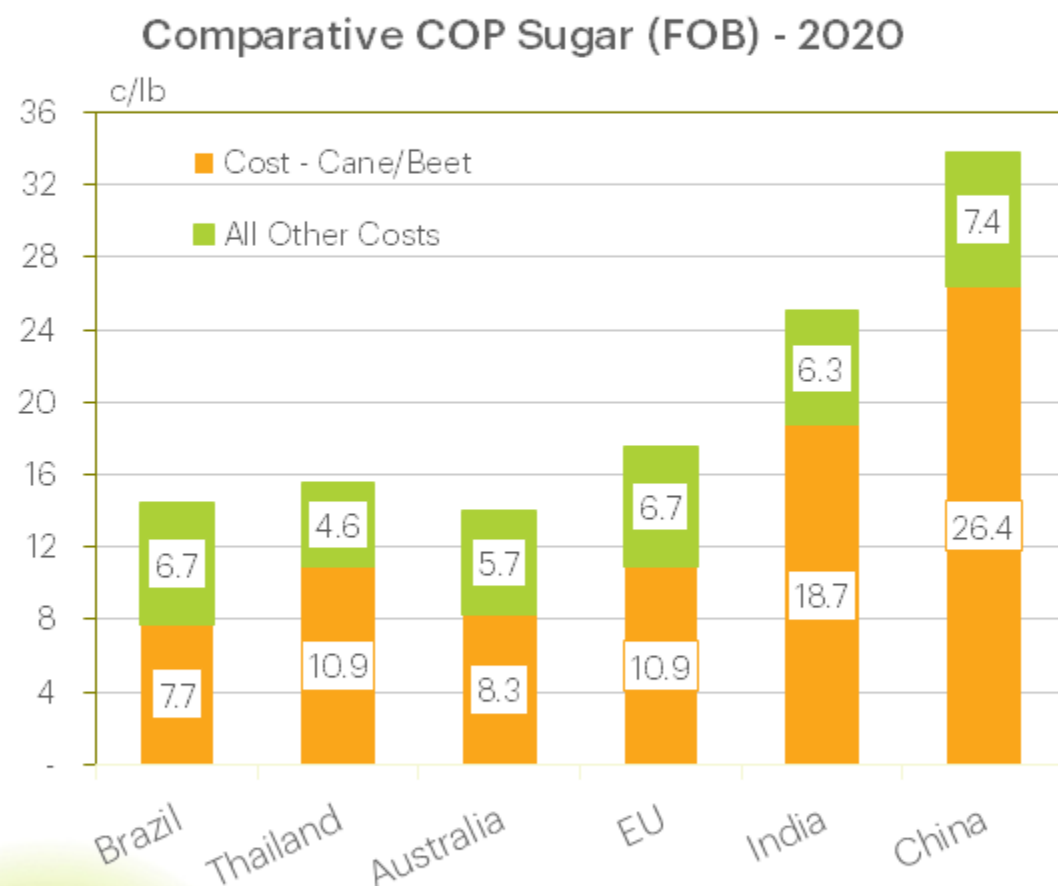
# Longer term global sugar prices

NY11 Monthly Av Price 2006-2020



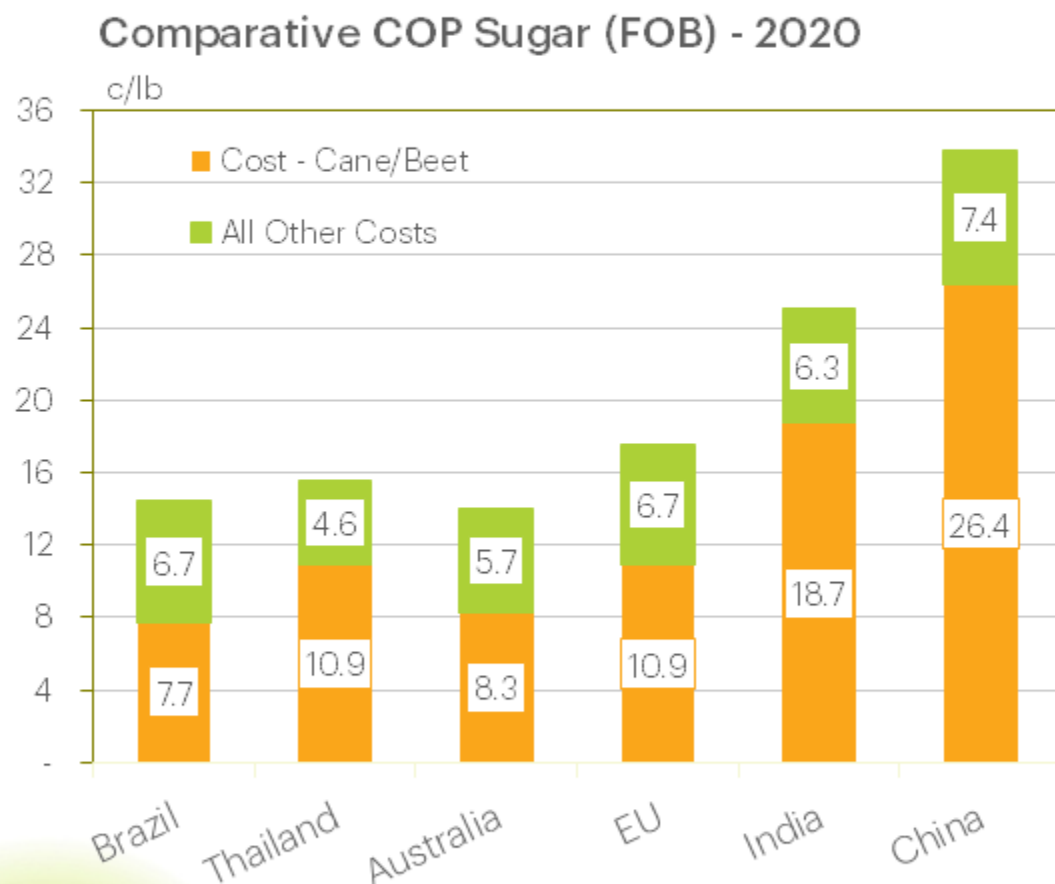
- 2000-06 – average only 7.5 c/lb, costs low, Brazil massively boosted its industry
- 2007-10 – avg 12.36 c/lb, period includes global oil price rise & global financial crisis
- 2010-13 – El Nino/La Nina quick succession, Brazil struggles, Brazil ethanol favoured, major global production stumbles (22 c/lb)
- 2014-20 – India locks in more stable sugar production, stumbles, then overproduces
- In this period, price broadly oscillates around a 14-16 c/lb (current avg 14.40)

# Global Approx. Cost of Prod'n – sugar FOB



Producer	Cost Cane or Beet	Other Costs	Total
Brazil	7.7	6.7	14.4
Thailand	10.9	4.6	15.5
Australia	8.3	5.7	14.0
European Union	10.9	6.7	17.5
India	18.7	6.3	25.0
China	26.4	7.4	33.8

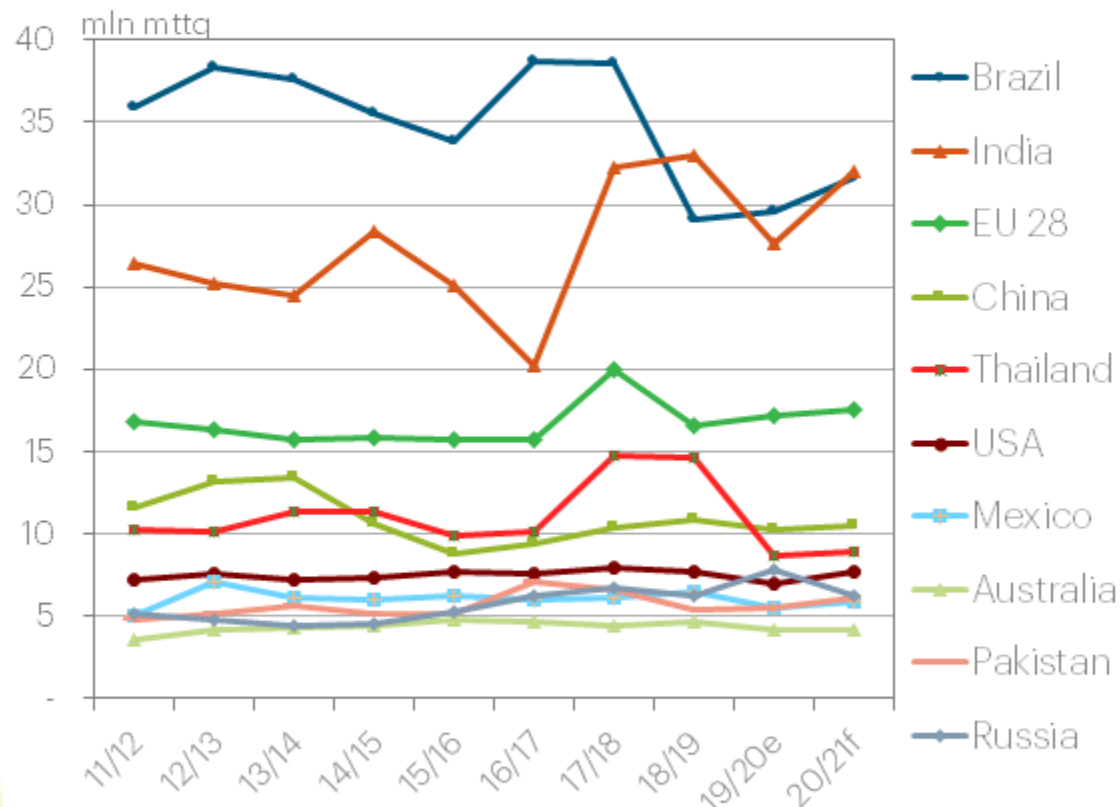
# Global Approx. Cost of Production - sugar



- Note that these are industry averages – so large variations across each industry also
- FOB port cost method - use either:
  - cost of cane to mills where cane cost is set (Thailand, India, China)
  - Or cost of cane/beet adjusted for revenue sharing (EU, Brazil, Australia)
- No single model perfectly captures every industry
- “Efficient” global producer/exporters have sugar cost 14.0-16.0 c/lb
- Roughly in keeping with market longer term average returns (not by coincidence)

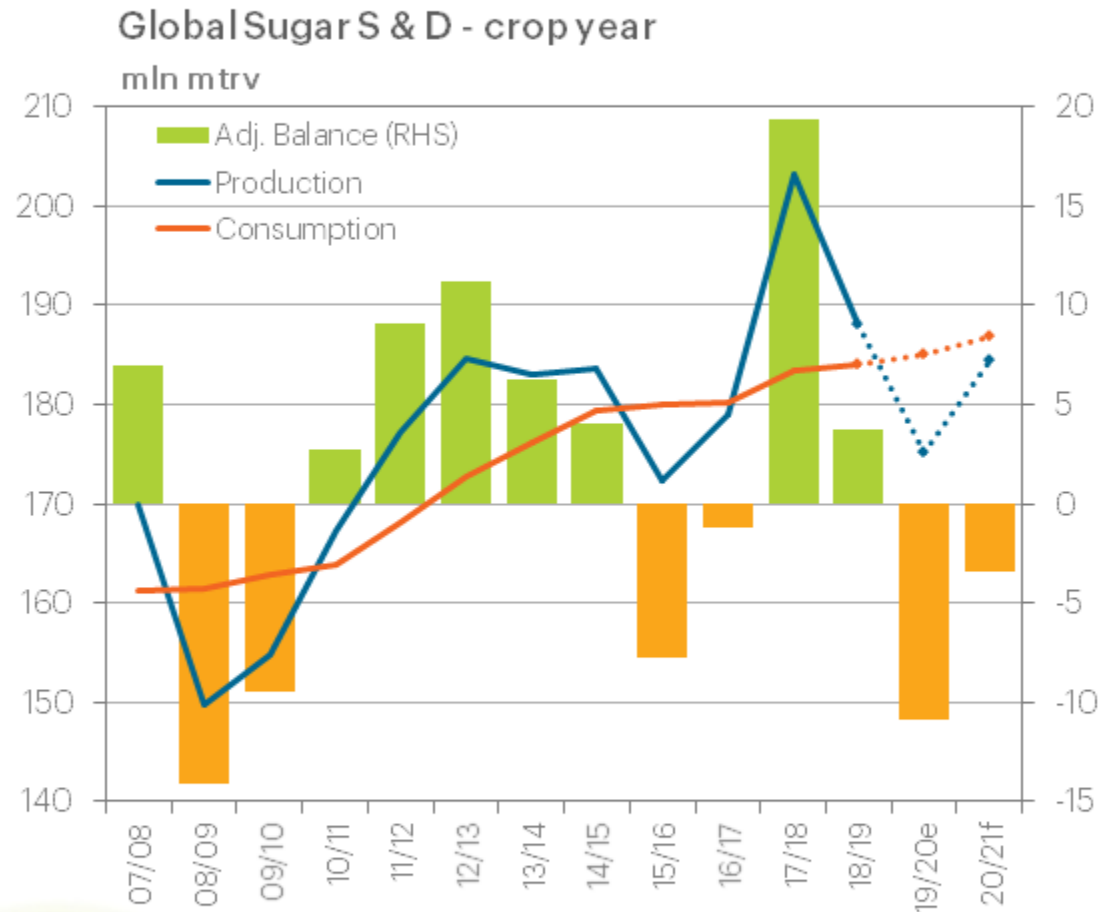
# Top 10 producers

Top 10 producers - Sugar



- Brazil and India vying for top producer position, Brazil will be top in 19/20, but may be outdone in 20/21?
- But India is the major consumer (uses 25-26 mln mt/annum)
- Thailand had outstripped China for several years, but its dramatic production drop in 19/20 takes it back to 5<sup>th</sup> place
- 19/20 crop year seeing quite a few production falls simultaneously (CS Brazil, India, Thailand, Mexico, USA) – which is the cause of our deficit surging to 10.9 mln mtrv

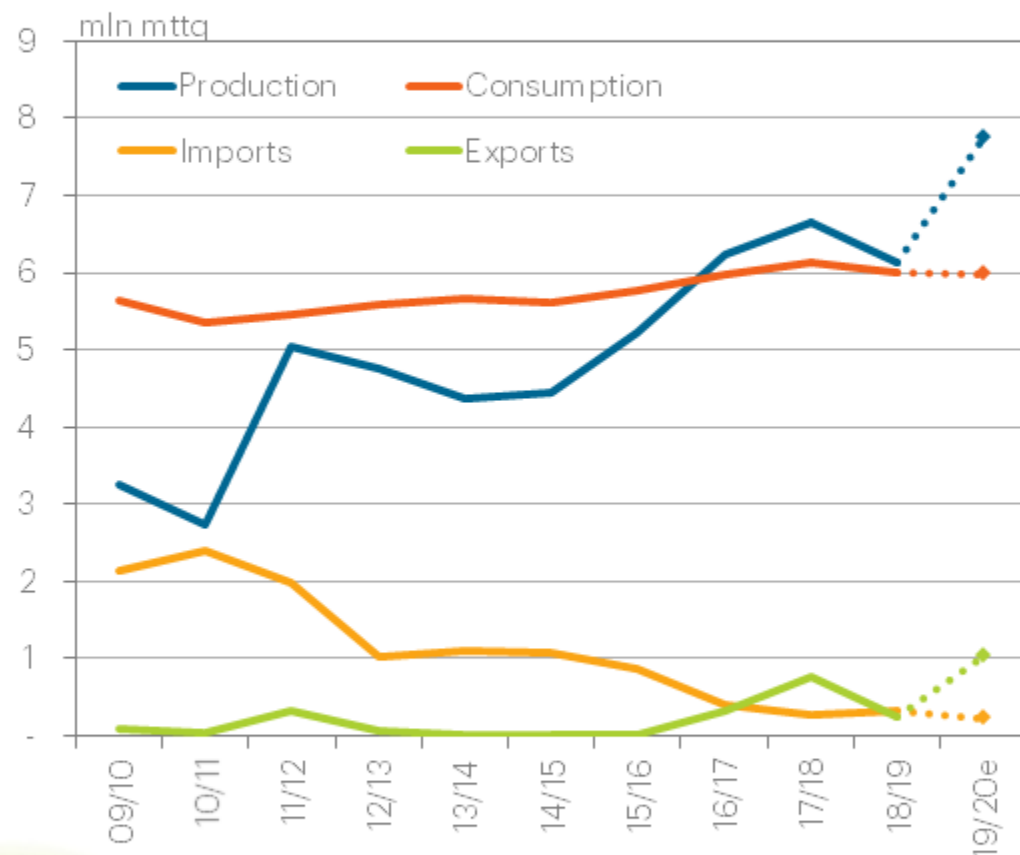
# Green Pool global sugar balances (crop year)



- Market is cyclical, most normally 2/3 surplus followed by 2/3 year deficit
- India's impact of being a more dependable producer seen from 10/11 through 14/15 with 5 consecutive surpluses
- Monsoon failure helped 1 year deficit (16/17), then contributed strongly to massive 17/18 surplus & 18/19 smaller surplus (+3.5 mln mt)
- Brazil pulling 2x10 mln mt off the market into ethanol has enabled balances to rectify
- Green Pool 19/20 Deficit 10.86 mln mtrv
- Green Pool 20/21 Deficit 3.42 mln mtrv

# Digging deeper - Russia

Russia - Production & Consumption



- Productivity gains & some area increase help push Russia to a 7.75 mln mt producer
- Gains since 2015 have been impressive
- Consumption relatively steady at close to 6.0 mln mt
- Given recent years stock builds, if Russia exports around 1 mln mt in 19/20, it will still be left with stocks around 2.0 mln mt
- Net exporter status a very recent phenomenon for Russia
- Import tariffs - \$140-270/t for raws and \$340/t for white sugar

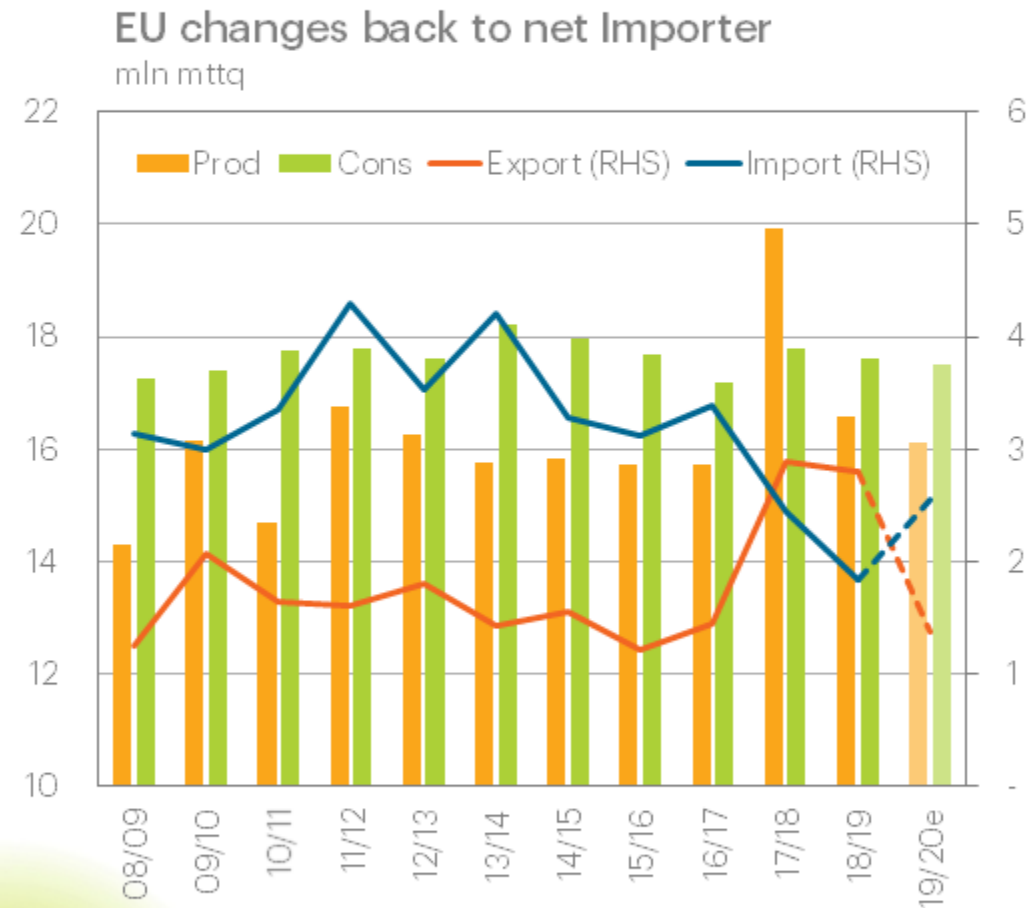


# Digging deeper - Russia



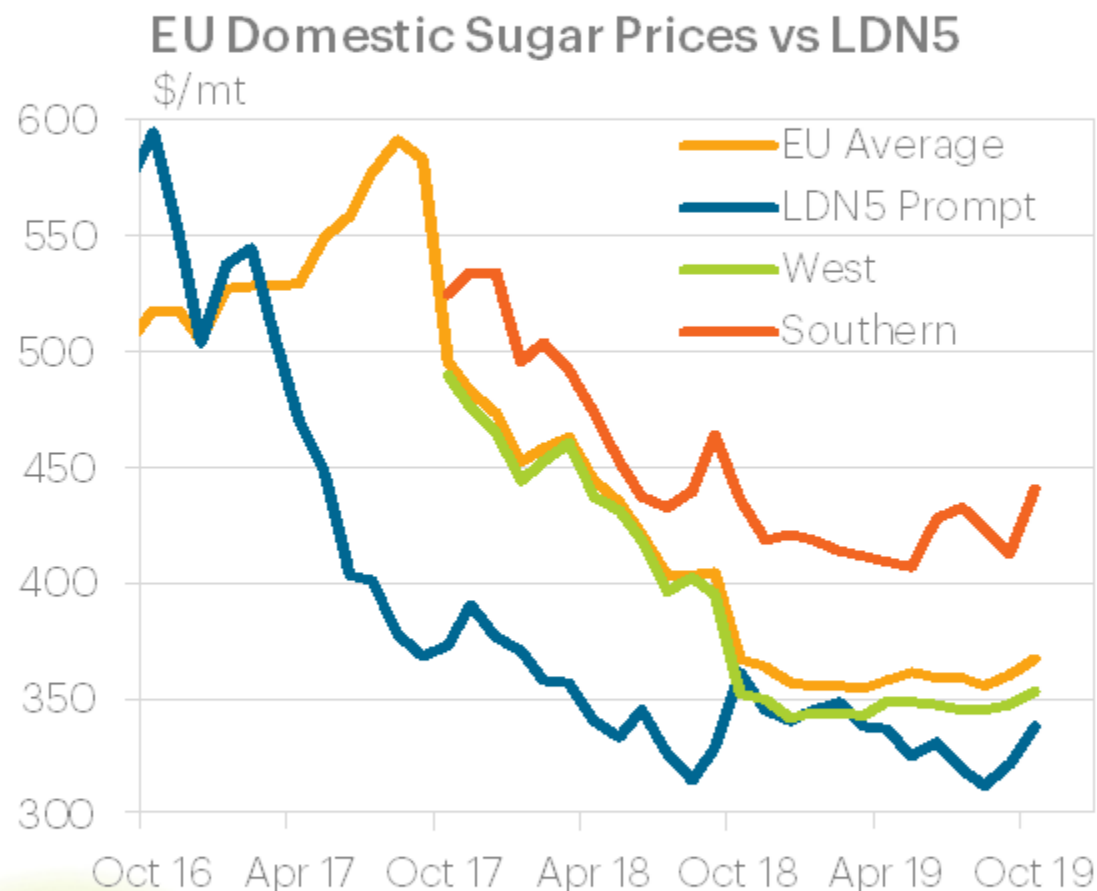
- The move from net importer to net exporter has seen Russian domestic sugar prices collapse
- Import tariff protection is of no benefit to a net exporter
- Russia, like EU in 2017, is not only trying to sell export sugar at a loss, but domestic market also selling at export parity
- Current Russian price below LDN 5, at ~\$335/t in Moscow, some \$70 below LDN5
- In some areas, sugar for sale ex-mill below \$300/t, *"cheapest sugar in the world"*

# Digging deeper - EU



- The EU had a massive surge in 2017/18 (well telegraphed to the market) taking it from 15.8 mln mt to 19.8 mln mt (+5.0 mln mt)
- At the time of decisions, sugar market prices were high, the Euro weak and European producers had underutilized beet capacity
- Yields were also high in 2017/18 (beets t/ha)
- Tariff on imports remained at €98/t, which domestic producers thought would “protect” the premium domestic market
- EU removed production quotas, export restrictions

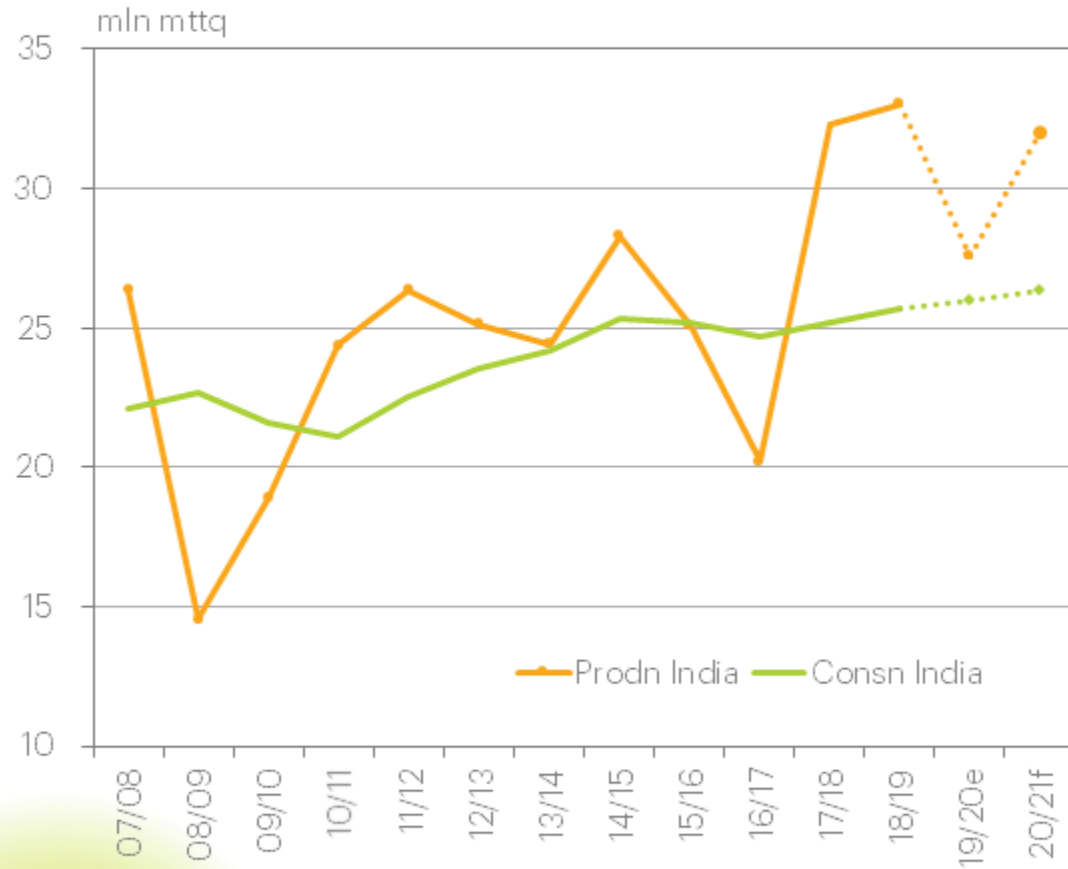
# Digging deeper - EU



- The move from net importer to net exporter saw EU domestic sugar prices collapse
- EU internal prices actually retained a premium to global export prices until around August 2017
- Eventually producers crowded production onto the domestic market and prices collapsed to export parity levels (particularly Western Europe, where export tonnage was)
- Result - steep losses for virtually all EU beet farmers/processors in 2018 and 2019
- Only recently have prices started to recover as EU turned net importer again

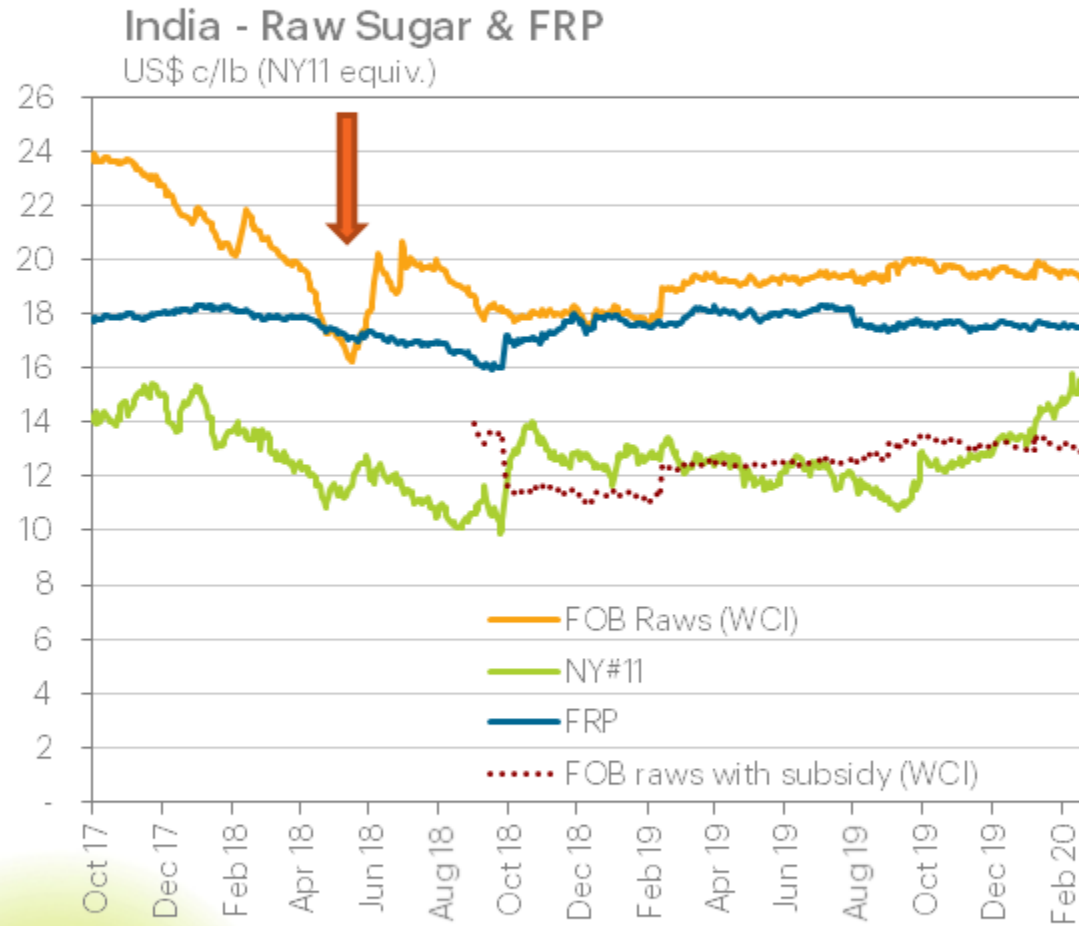
# Digging deeper – India becomes an exporter

India Prodn & Cons + Forecast



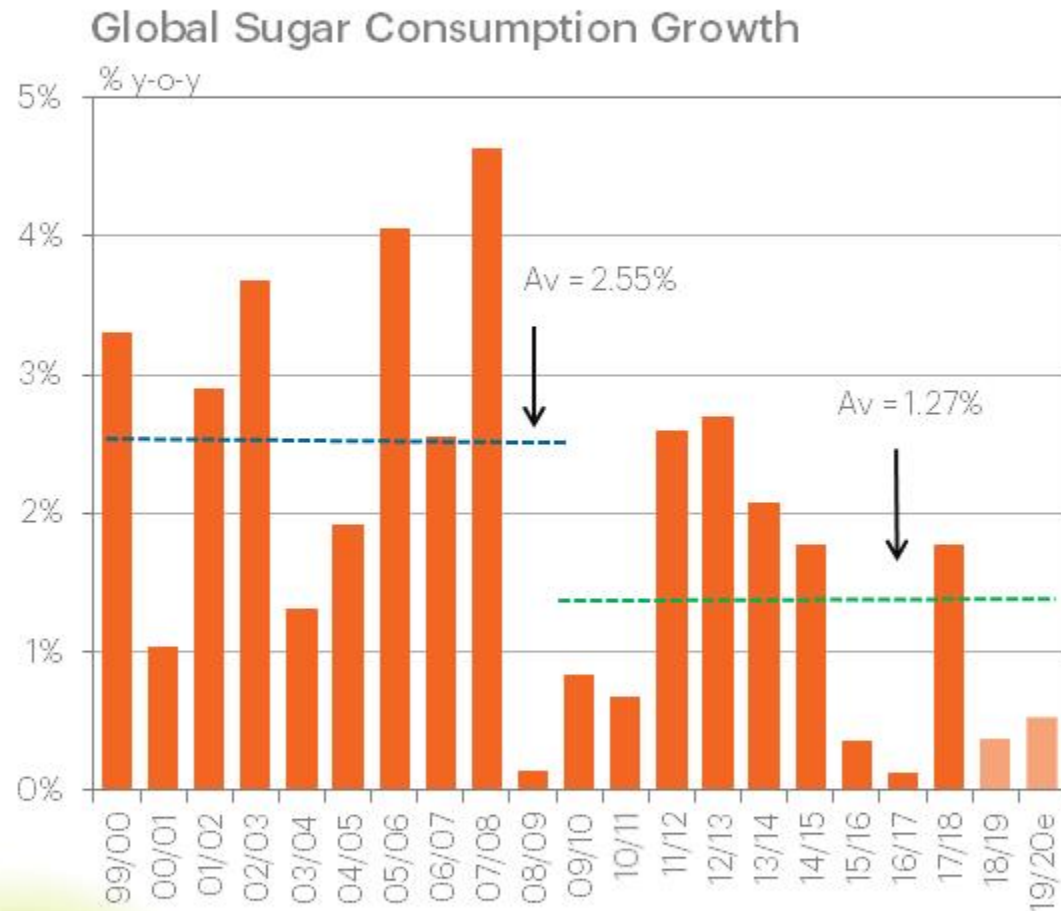
- 2010/11 – 2015/16, Indian farmers benefit from higher govt-set cane prices plus better agronomy, drip irrigation & improved varieties
- Drought in 2016 took 16/17 crop back to 20.2 mln mt.
- Crop bounced back quickly in 17/18, to set a new record of 32.1 mln mt. Stocks built
- Following 18/19 crop ended at 33.1 mln mt
- 19/20 saw drought impact cane in Karnataka & Maharashtra reduce crop (GP current f'cast at 27.6 mln mt).
- 20/21 should bounce back strongly – 32 mln mt a lowish estimate

# Digging deeper – India becomes an exporter



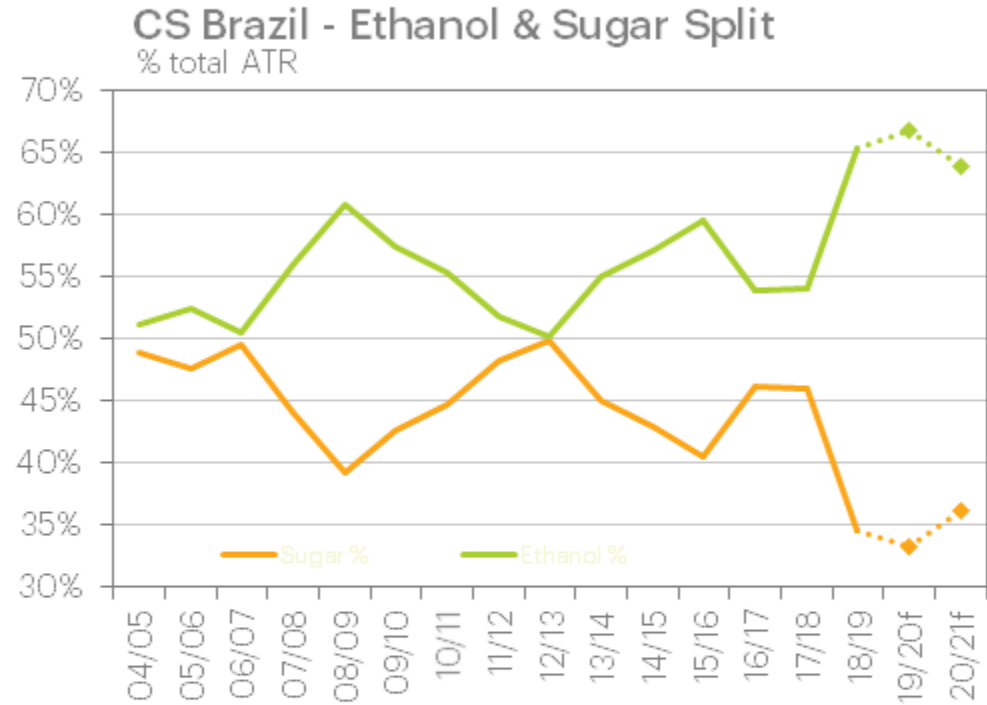
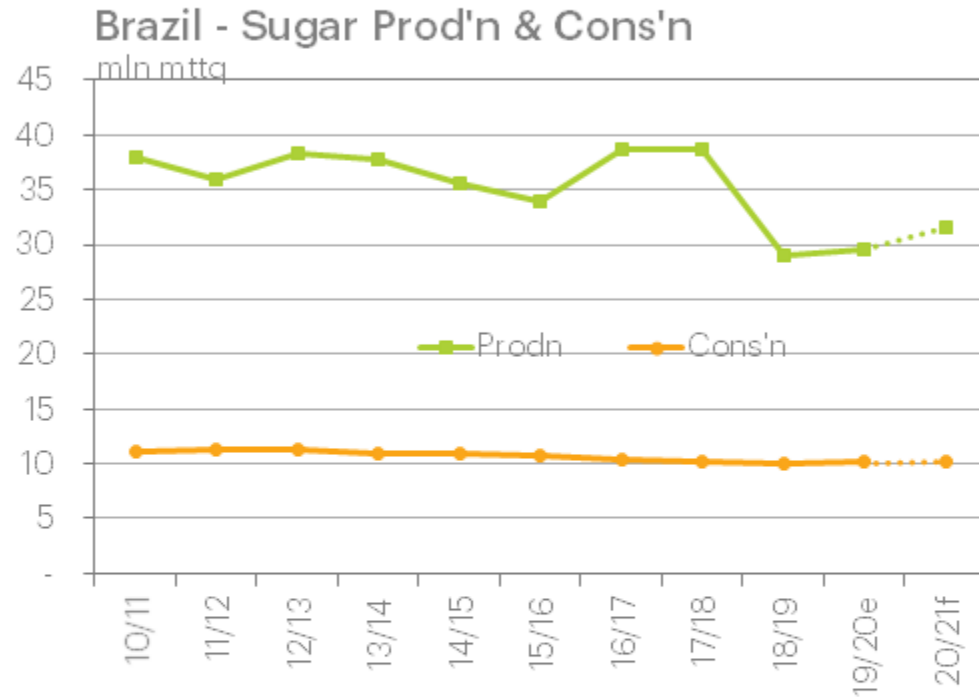
- Early 2017, India domestic price ~24 c/lb
- By Jun 18, after massive 32.1 mln mt sugar output, domestic price fell to 16 c/lb
- Govt puts min. domestic price in place, domestic sales quota tonnages per mill - this boosts domestic price to 18-20 c/lb
- Govt also puts in place compulsory export quotas, export subsidies equal to 6 c/lb, additional subsidies for ethanol plant and equipment
- Subsidised price of sugar – red dotted line
- Processing margins still quite thin vs historical returns in India – but compensation more assured.

# Sugar Consumption Growth Rates



- Sugar consumption growth has fallen quite sharply from 2.5% in 2000-10 to 1.27% in 2010-19
- Current growth reduced by sugar taxes, drink & food reformulation, economic growth in Asia/Africa
- Our view is that 1% growth now top of the range currently

# Brazil – clear flexibility at low cost



- We currently predict a swing back to sugar – CS Brazil to produce 36.2% sugar, for total 29 mln mt sugar from 590 mln mt cane. Others higher admittedly – up to 32/33 mln mt cane
- Much depends on relativity between sugar and ethanol in the harvest – sugar hedges could be bought back & ethanol produced – advantage of fast cash flow

# Sugar market 2020 - risks



- Major risk we see is if CS Brazil produces 32 or 33 mln mt sugar, and then India produces similar (or more)
- That would wipe out our deficit of 3-4 mln mt for 20/21 crop year, instead taking it to a 1-3 mln mt surplus
- Additionally, we are using a 1.0% sugar consumption increase, which may prove optimistic if China coronavirus takes a long period to get under control



## Summary – possible upside on current fundamentals

- 2019/20 yielded a few surprises for market (Thailand, India, Mexico, US)
- But consumption growth tardy, & combination of CS Brazil boost due higher prices + India due better 2019 weather might kill rally by Q3 20.
- Russia's expansion seems overdone, and likely to see contraction
- EU may stay closer to prod'n/cons'n balance, rather than big exports
- India - main disrupter, with "full monty" EU-style high price cane, domestic sales quotas, set domestic sugar prices, export subsidies
- Global efficient producers in a 14-16 c/lb range COP
- Global commodity markets still need a regulator like WTO (with more efficiency would be great).

# Thank you

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