Market outlook: What's ahead for 2019?

By QSL Treasury Manager Ginette Barrett

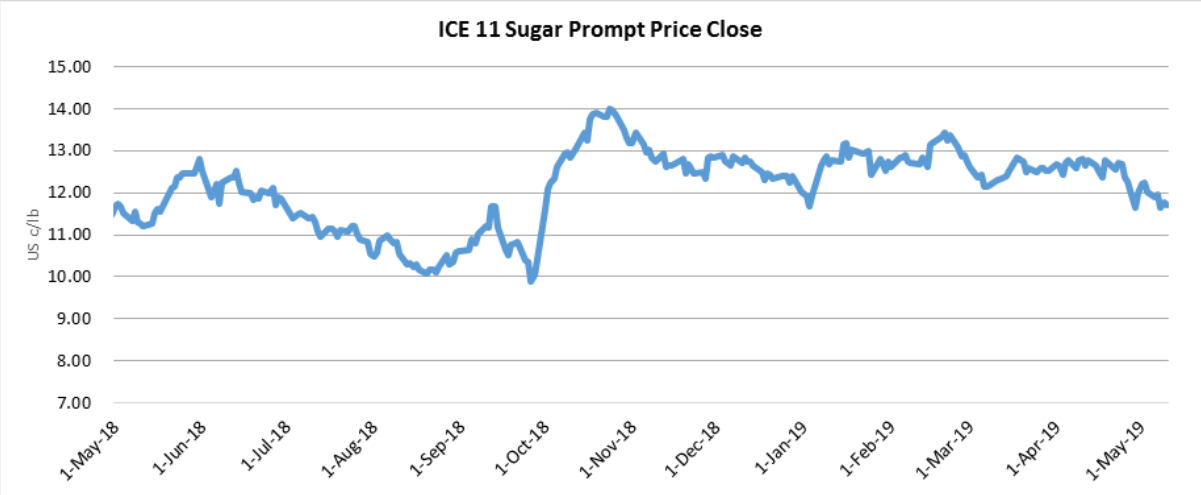
Traders, buyer and sellers of sugar gathered in the Big Apple last month for New York Sugar Week. Many questions were asked, including:

- Is there going to be a surplus or deficit?
- How much cane will Brazil convert to ethanol?; and
- Will India continue to export?

As we head into a new season, it has become clear that the two directions of the sugar market (bulls and bears) are starting to become foggy. We will try to make some sense of it below.

THE EVOLVING MARKET

In the last 12 months sugar has generally traded in an 11-14c/lb range, as per the graph below, but 75% of that time it has been in a tighter 11-13c/lb range. The big fundamental market driver of the ICE 11 raw sugar market has mainly been the surplus that has dragged the market down for the past two years. The key markets were the sizable crops out of India and Thailand, which flooded the market with sugar and extended the period of low prices.



Source: Bloomberg

As the 2019 Season gets underway, the surplus outlook is starting to change. Record ethanol production out of Brazil last year has given the market an uplift, helping to absorb rather than add to the growing world surplus. Sustaining these high levels of world sugar production will be difficult as many producers around the world are sitting below cost of production.

So what the major sugar producers are doing going forward?

<u>Thailand</u>

Crushing is almost complete for the 2018/19 season, producing 14.7 million tonnes (MT) of sugar, and re-melt of 4.1 MT. Expectations for the 2019/20 season are that Thailand will produce approximately the same amount of sugar at 14.6 MT, but talk of a smaller re-melt of 3.5 MT, indicating we could see 1 million extra tonnes on the market.

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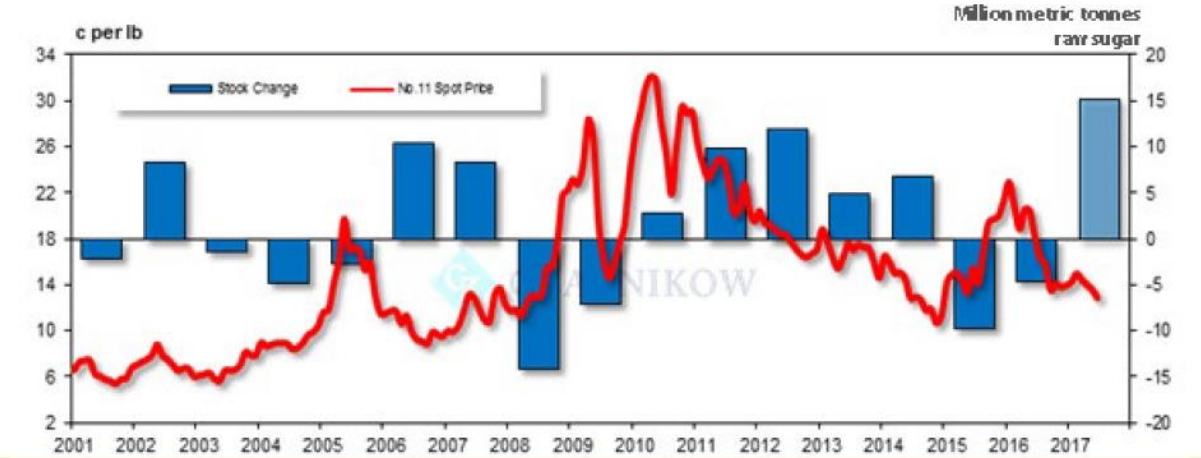
India

As the 2018/19 harvest comes to an end total sugar production is close to 32.9 MT, with expectations next season expectations will sit around 28 MT, a significant decline on the previous year. Indian millers were granted 5 MT of export subsidies, but only 2.1 MT have currently been exported and 2.7 ML contracted for export. The subsidy comes to an end in September and the pressure remains on India to export sugar, with 15 MT accumulated over the last two years in surplus stock. India's monsoons over the last two years have been less than expected, leaving their reservoirs at drought levels. This year's monsoon is due to begin in June and will be the focus point for this year's crop.

Centre South Brazil

Final results for the 2018/19 harvest show sugar production closed at 26.5 MT. As the Brazilian harvest gets underway, estimates for the 2019/20 season have decreased from 33 MT and are now closer to 27.5 MT. The low price has encouraged Brazil to continue to maximize their ethanol production and minimize sugar production which will decrease exports out of Brazil and should once again create a deficit in the region, allowing the surpluses to be exported from other regions.

Global Stock Change



Source: Czarnikow

GOING FORWARD

Unfortunately the price outlook does not look to be breaking outside of the range any time soon, with record raw sugar surpluses still needing to be chewed through. We believe the 2019 Season may be the year to do just that. Thailand and India will create pressure over the next six months as they try to move stock before the next season begins. India have now completed their election and there has been no talk about extending the export subsidy as yet, which would help to dampen exports.

For the moment sugar prices will need to stay low for long enough so that ethanol parity remains above sugar (parity is currently sitting around 13.30c/lb) and Brazil maximizes ethanol production, creating a short-term deficit that can mop up some of this leftover surplus.

In short, any rally in the next few months will be pounced on by under-priced producers worldwide wanting to move stock. Prices look set to remain contained for the remainder of the year, giving rise to ethanol production for the time being, which should lead to higher prices late this year to early next year.

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