Sugar Quarterly

Q2 2020

RaboResearch Food & Agribusiness June 2020

Rabobank

Summary

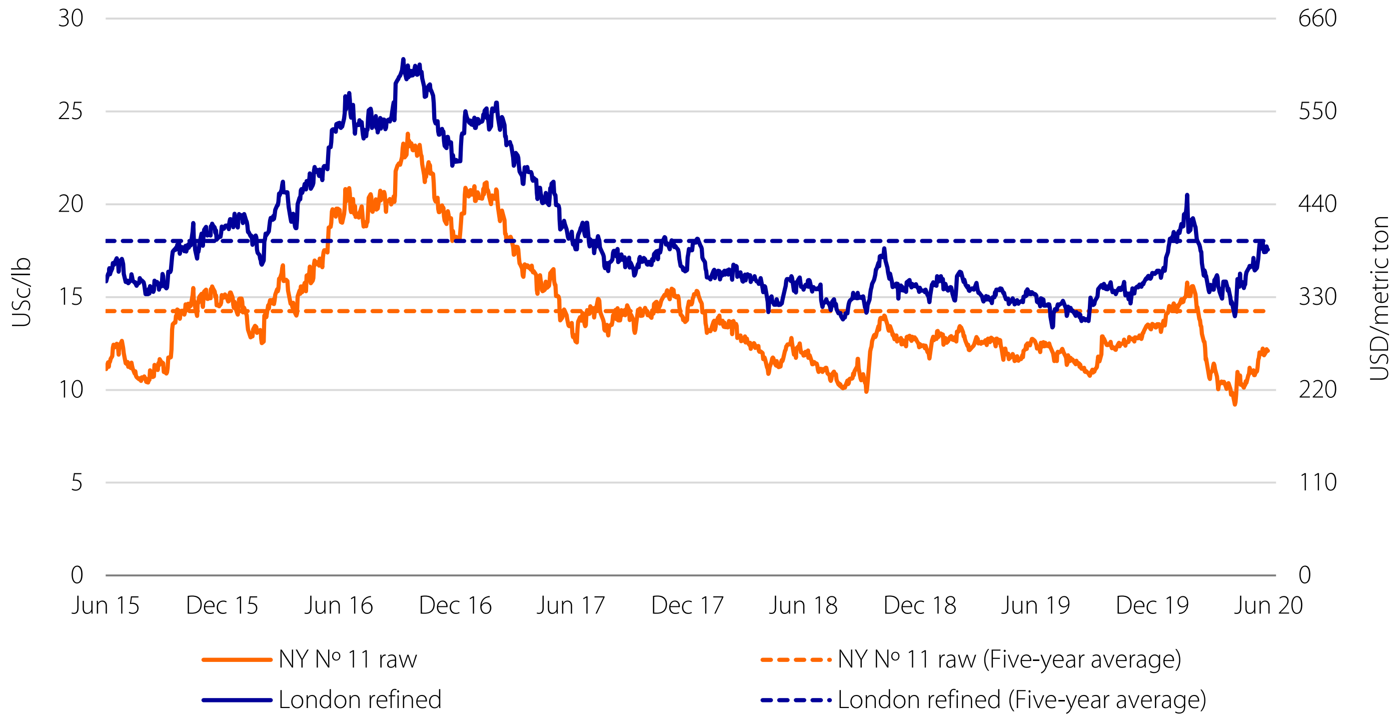
- After the initial impact caused by Covid-19 lockdowns and plummeting oil prices, world sugar prices are starting to rebound. The ICE #11 raw sugar futures finished the third week of June at USc 12.2/lb, a recovery of almost three cents since the end of April when prices dropped to as low as USc 9.2/lb amid strength in the energy markets. The other reason for this strength lies in Brazil, where sugar export volumes are being constrained because the logistics pipeline is still dealing with a large flow of soybeans.

- On the fundamental side, Rabobank now anticipates a 4.3m metric ton raw value (mtrv) global deficit through the 2019/20 (Oct-Sep) season, a change from our previous estimate of 6.7m mtrv, following a reduction of consumption forecasts. For the 2020/21 season, we anticipate the market to go back to having a surplus of 0.9m mtrv, up slightly from our previous forecast of 0.6m mtrv. We expect consumption to recover from the pandemic, rebounding 1.7% in 2020/21 whereas we expect global production to increase by almost 5%, driven by a recovery in crops in India and North America.

- We have reduced our global consumption forecast from flat to a 1% decline due to detrimental effects the pandemic has had, or is having, in countries such as China, India, Indonesia and Brazil. Countries such as the US and Mexico should experience minimal impact as the higher usage of HFCS in soft drinks minimizes the decline in sugar demand for beverages.

World Market Prices

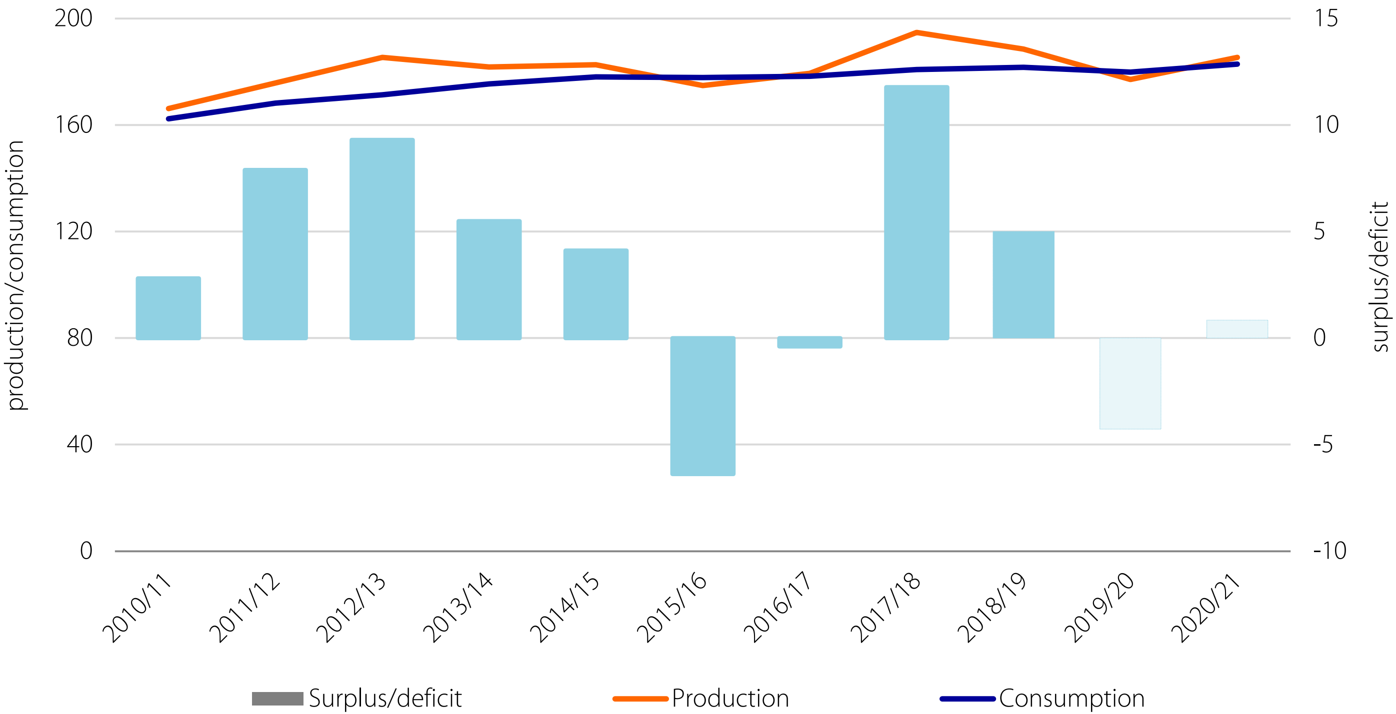
USc/lb, USD/metric ton



Source: Bloomberg, Rabobank 2020

Global Supply/Demand Balance

million metric tons, raw value



Sources: F.O. Licht, Rabobank 2020

India

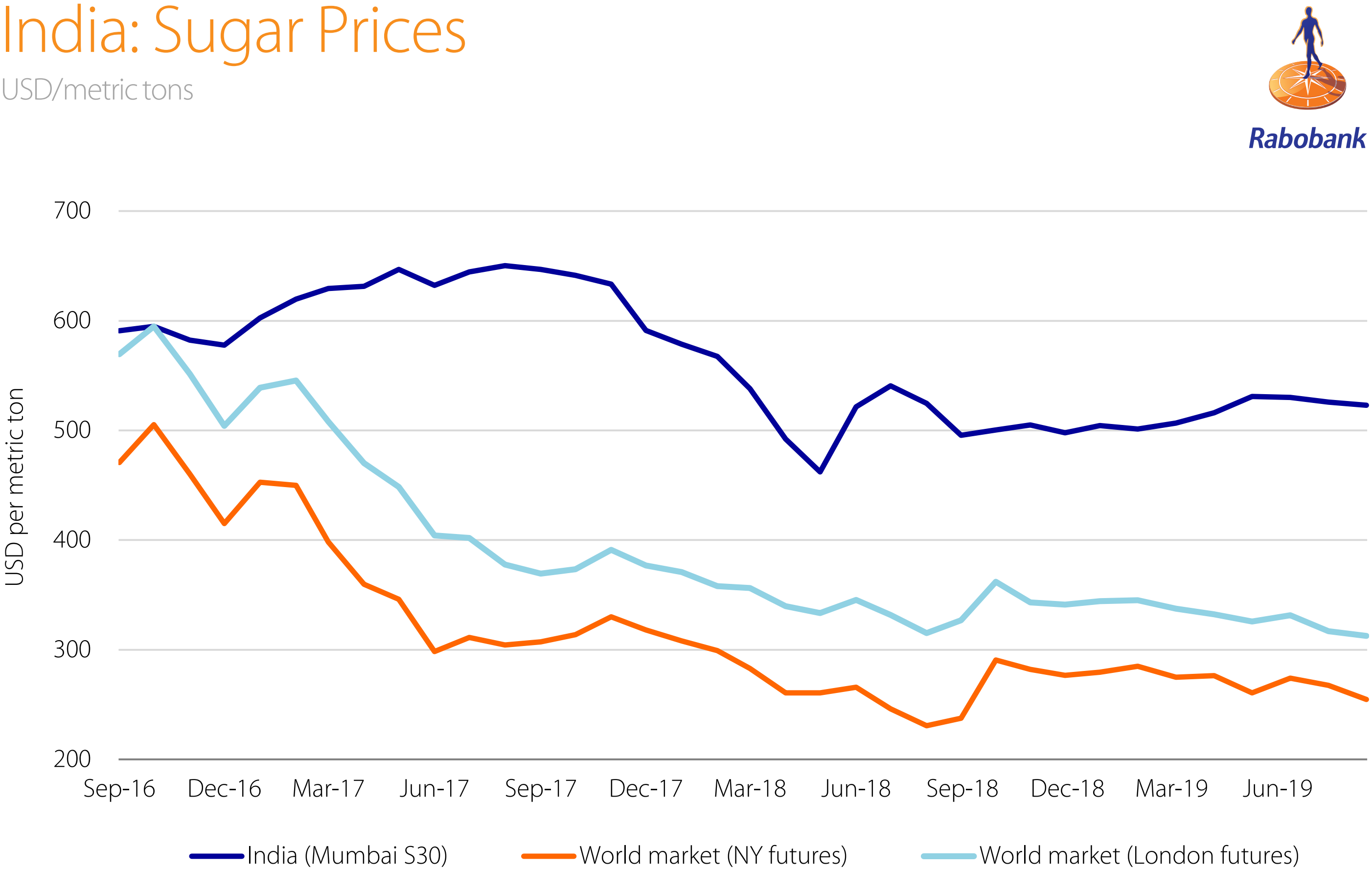
- India's 2020 monsoon has arrived on time and in full force, with abundant soil moisture and high reservoir levels pointing towards favorable 2020/21 replant and cane development prospects. Both Maharashtra and Karnataka report excess rainfall, up 80% and 7% month-to-date, respectively, versus 'normal'. However, any replant will depend heavily on virus restrictions and labor availability. Rabobank forecasts Indian 2020/21 production at 33.5m metric tons, up 16% YOY if realized.

- Exports continue at pace, despite port congestion and labor issues – which have impacted container freight in particular. Continued bulk shipments have allowed sugar exports to flow through to Indonesia, Malaysia and Iran, with +5m metric tons of seasonal exports looking achievable. A possible rise in the **minimum** sugar price (MSP), from INR 31/kg to INR 33/kg, is being evaluated – mills´ difficulties and cane arrears are cited as the reason. If granted, this, in theory, could raise the Indian export parity. However, the level of 2020/21 export subsidies will be a greater influence on future trade – a decision is expected in Q3, with a similar YOY level exports (5m metric tons) expected.

- Strict Covid-19 lockdowns and restrictions across India have led us to drop 2019/20 consumption 3.4% YOY, after several years of consistent growth. While a sharp drop in food service sales and consumption are anticipated in Q2 2020, the quarter also marks a key period for sales of ice creams, beverages and other sugary snacks. Rabobank forecasts a recovery in the 2020/21season, as behaviors return to a 'new normal'.

India: Sugar Prices

USD/metric tons



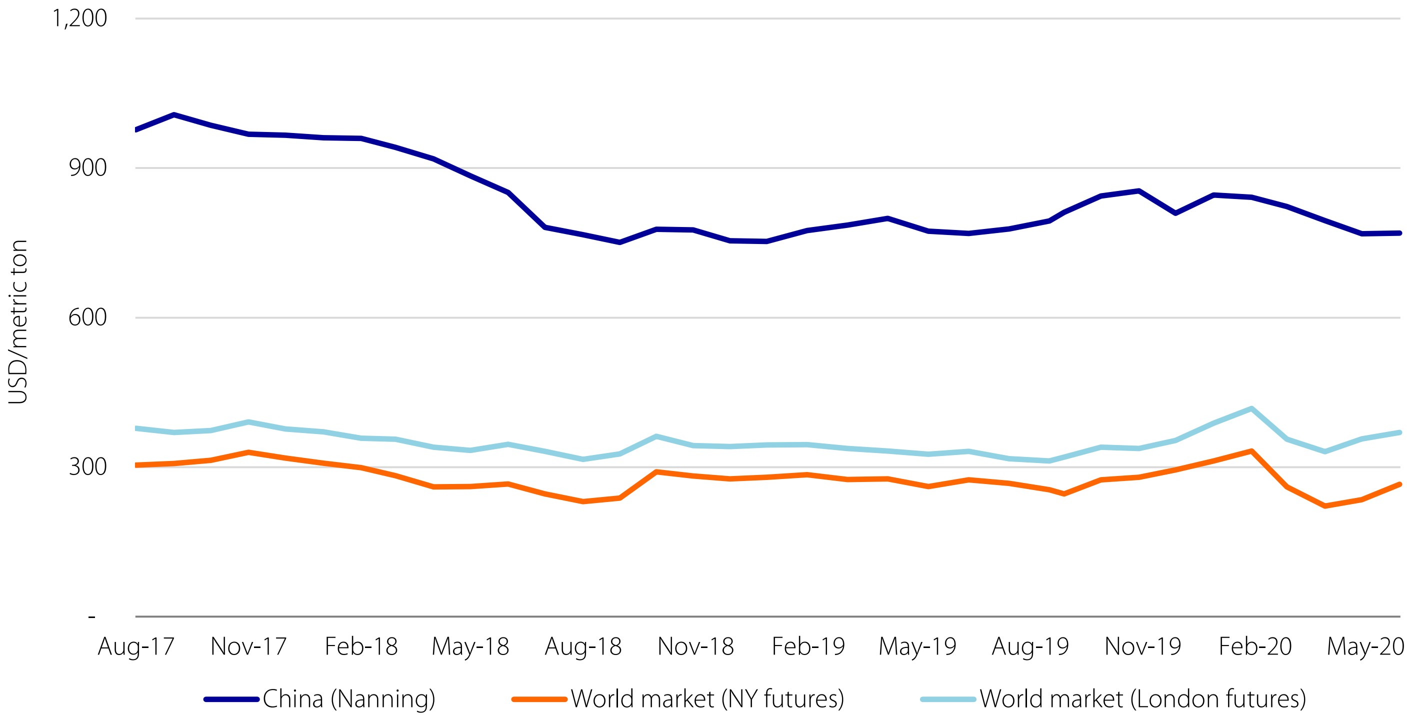
Source: Bloomberg, Rabobank 2020

Thailand / China

- Chinese 2019/20 output is forecast at 10.4m metric tons, with Yunnan output previously underestimated. Rabobank projects consumption to fall 0.5m-1.0m metric tons YOY, despite demand gradually improving since May. On April 1, the Guangxi provincial government announced measures to promote better sugarcane seedlings and farming practice – including a CNY 350/mu (1ha.=15mu) direct grower subsidy to plant high-quality seedlings. The measure should improve provincial yields in the long run.
- On May 22, tariffs on out-of-quota sugar imports were lowered from 85% to 50%. The market now awaits a possible rise in 'out-of-quota' import volumes, from1.35m to 1.85m metric tons, or higher. Until the end of April, in 2019/20, China imported roughly 380,000 metric tons of sugar syrup, mainly from Thailand. Based on 70%-75% sucrose content, this equates to 265,000-285,000 metric tons of refined sugar. Rabobank expects short-term syrup imports to be subdued, due to summer storage difficulties.
- The 2020/21 Thai cane crop remains under threat from persistent dryness. Rainfall across the Northern and Central region is 100mm-150mm below 'normal' year-to-date. This drought impact is compounded by a likely YOY cut in domestic acres and a lower availability of irrigation water. With the OSCB anticipating a 65m-70m metric ton cane crop, Rabobank expects sugar output to reach just 8.15m metric tons, down 5% YOY and 47% from 2018/19.
- 2019/20 YTD Thai exports are in line with last season, amid strong demand and high stocks. However, export availability is set to tighten sharply in late 2020 and 2021 – a factor reflected in +300pt premiums.

China: Sugar Prices

USD/metric ton



Source: Bloomberg, Rabobank 2020

EU

- Restaurants and cafes began reopening in parts of Europe, with some restrictions, such as limiting the amount of customers and ensuring enough space between them. Although this might help boost demand in food service, demand is still unlikely to return to levels pre-Covid-19 in the near term. We are holding a 1%-1.4% decline estimate in demand for the EU (incl. UK), given the loss of demand in beverage and dairy sectors and the overall negative economic impact on purchases.

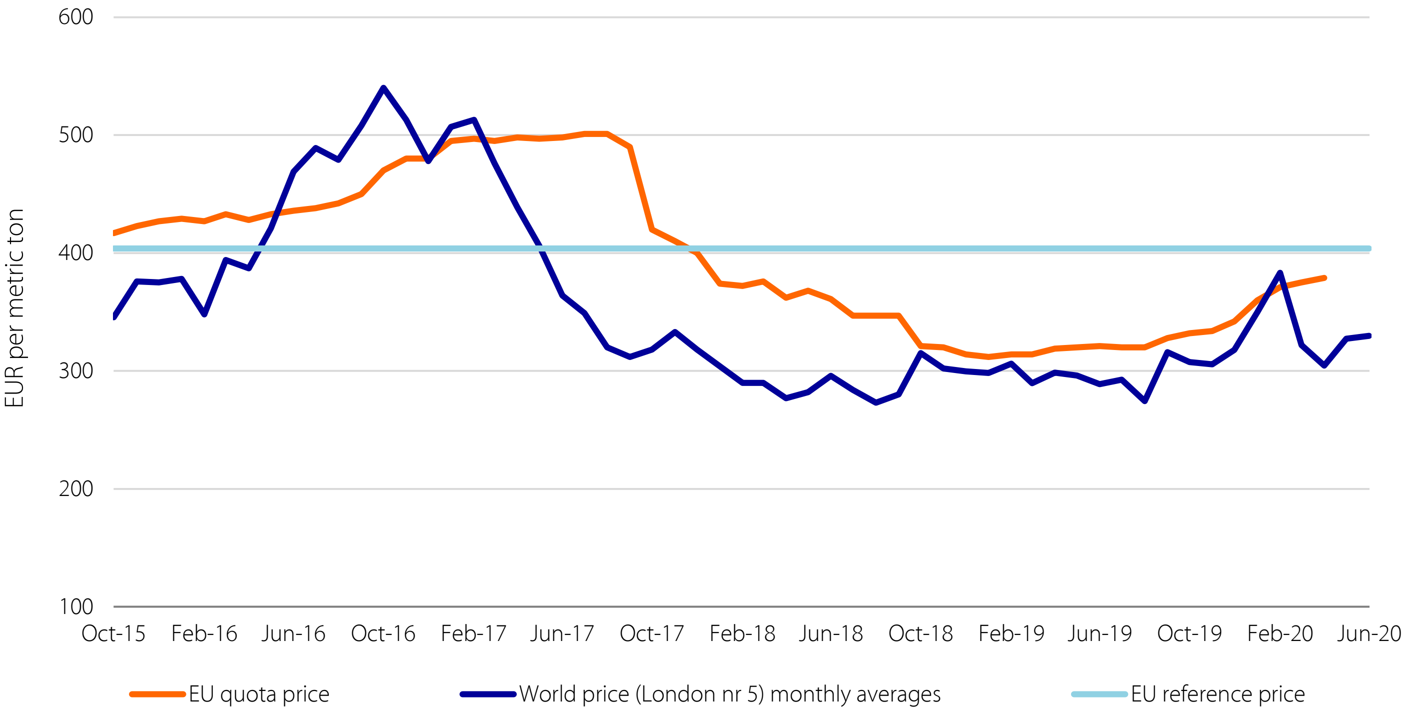
- EU-28 sugar production (excluding ethanol) in 2019/20 has been kept at 17.6m metric tons raw value from our previous quarterly report, however we reduced our 2020/21 projections by 1m to 17.3m metric tons raw value due to an expected 2.5% drop in planted area. Average sugar yield is expected to be similar to last year.

- The EU's crop monitoring unit (MARS) has raised the average sugar beet yield estimate from the month prior slightly (0.1) to 75.5 metric tons/ha. After dry weather in May in most parts of EU, some rains have been observed during the month of June which should be beneficial to crop development. However, those rains would need to persist to revert damages caused by dryness and pest attacks.

- White sugar spot prices for Western Europe have dropped by 5% to EUR 440/metric ton since last quarter, while the EC reported that prices in April have firmed up to EUR 379/metric ton from EUR 360/metric ton in January. The improved prices this year will be very welcome for sugar players - some have recently reported profits after two years of losses.

EU: Sugar Prices

EUR/metric ton



Source: Bloomberg, European Commission, Rabobank 2020

Brazil

- Dry weather has permitted a flying start for the Centre/South harvest. By the end of May, 145m metric tons of cane had been harvested, versus 129m metric tons at the same time last season. The dry weather has also boosted the quality of cane compared to last season. However, it has also generated concerns that, if it were to persist, cane yields in the latter part of the harvest could be disappointing.

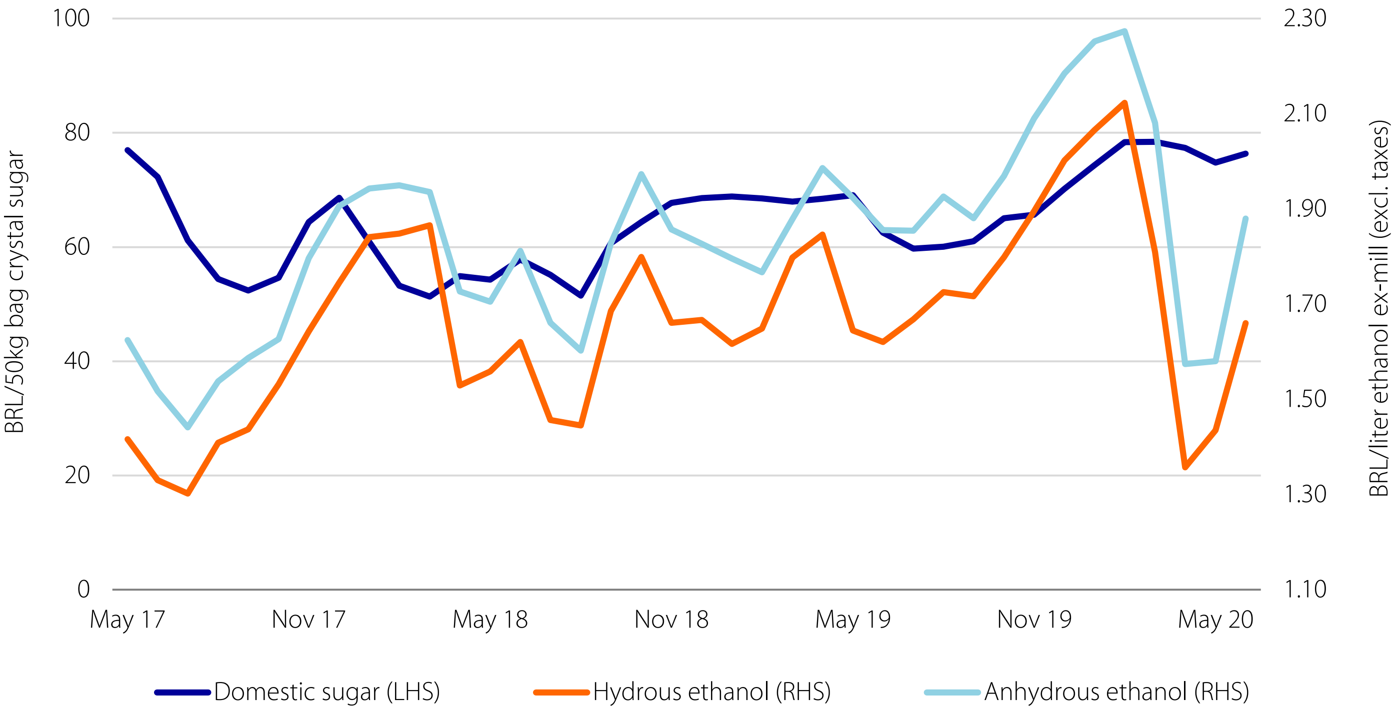
- As expected, progress to date shows a pronounced swing to sugar production this season, with 46% of cane going to sugar production, versus 33% last season. Our current projections for Centre/South output in the 2020/21 (Apr/Mar) season are 35.1m metric tons (26.7m mt last season) sugar and 25.7bn (33.2bn mt last season) liters ethanol.

- Data from UNICA indicates that domestic ethanol sales by mills were down 30% in May 2020 versus May 2019. However, local ethanol prices have been rising since mid-May, and by mid-June, ex-mill hydrous ethanol prices had reached BRL 1.67/liter, equal to their value in June 2019. Sales volumes are likely to tick upwards from now on, as economic activity gradually picks up – subject to progress in containing the spread of Covid-19.

- If consumption really begins picking up in 2H 2020, the local ethanol supply/demand balance could well be tight at the end of the year if the sector maintains a high sugar mix, because of the large reduction - around 7bn liters - in ethanol output versus last season. This possibility is already prompting a rethink of whether a "max sugar" harvest is a certainty this year.

Brazil: Sugar and Ethanol Prices

BRL/50kg bag, BRL/liter



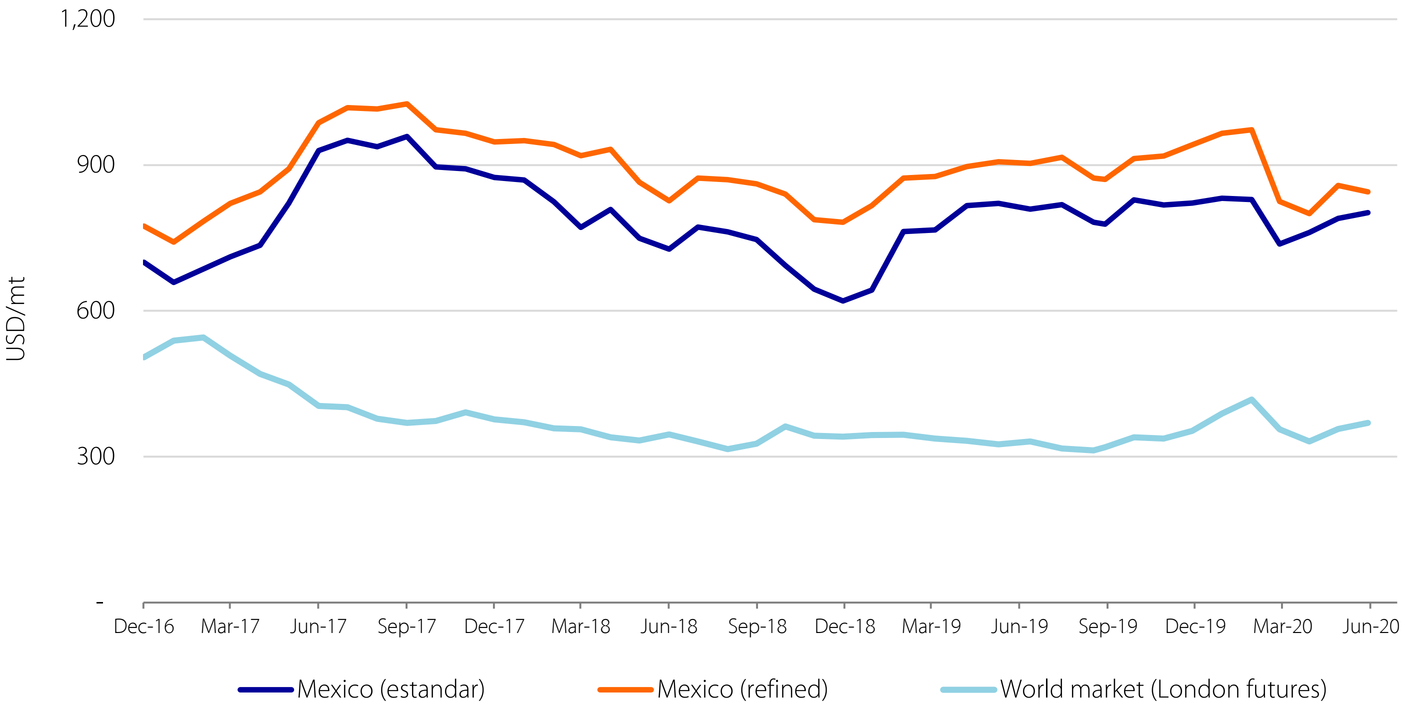
Source: Bloomberg, Rabobank 2020

North America

- The pandemic appears to have less of an impact on consumption in NAFTA compared to other countries. This is likely due to the fact that the sugar share in beverages is lower in the US and Mexico as HFCS considerably replaces sugar in this segment, which has been one of the most impacted in food service during the pandemic lockdown. Mexico government agency Conadesuca reported a 2% increase in consumption for the Oct-May 2019/20 period when compared to last year. In the US, total deliveries were down by 0.5% during the Oct-Apr 2019/20 period vs the same period last year.
- In the last WASDE report, the USDA decreased slightly deliveries for human consumption for 2019/20 to reflect the potential effects of lockdown on sugar demand. On an annual basis, Rabobank is forecasting a 0.6% drop in human consumption for both the US and Mexico for the 2019/20 year. For the 2020/21 year, we believe demand growth will be 1.5% and 0.6% for Mexico and the US respectively.
- On the supply side, the USDA increased imports from Mexico for the 2019/20 crop year by 185,500 mtrv to a total of 1.5m metric tons raw value given that the Mexican crop forecast increased by 111,000 to 5.5m mtrv, which brought the stocks-to-use ratio to 13.4%. For the 2020/21 crop year, US stocks-to-use is pencilled at 12%, below the 13.5% threshold. Mexican imports are forecast at 1.2m mtrv even though the Mexican crop is estimated to increase to 6.4m mtrv. The USDA believes Mexico will export 530,000 mtrv to the rest of the world and will increase consumption by 3.5%, which might not materialize.
- Prices in the NAFTA region are strong despite the pandemic. Mexican Estandar firmed up by USD 60/mt since March and is around USD 800/mt.

Mexico: Sugar Prices

USD/mt



Source: USDA, Rabobank 2020

Australia

- The 2020 crush kicked off in early June, with the first mills firing up in Northern and Central Queensland. The Southern and NSW mills are due to start in late June/early July. Wet weather delays have begun already, dampening early progress in the Burdekin, Herbert & Tully regions. As a result, the weekly crushing pace is some 20% behind last season, and 51% behind 2018/19. The Bureau of Meteorology's three-month forecast calls for above-average rain for much of Australia's east coast – a factor likely to slow 2020 crush progress and bring about a late-season finish.

- Rabobank forecasts Australian 2020 cane production to reach 31m tonnes, up 1m tonne YOY, as widespread and periodic rainfall improve yield prospects. Sugar production is forecast to reach 4.3m-4.4m metric tons, up marginally from 4.3m metric tons in 2019. Risks of Covid-19 disruption remain low, following the industry's implementation of measures to prevent virus transmission, as well as a low national infection rate.

- While 12-month expectations for the ICE #11 are subdued (below USc 12/lb in the 12-month period), depreciation in the AUD/USD – towards 0.60 in the six-month period – along with elevated 2020 regional premiums should assist in maintaining seasonal margins. Demand prospects in Australia's major Asian export markets – namely Korea, Japan, Indonesia – following Covid-19 lockdowns will be keenly watched as the new crop flows.

Global Outlook

- Global fundamentals should take higher priority for short-term sugar markets, as the Southern Hemisphere crush gains pace. Easing Brazilian port congestion, coupled with flowing Australian and Indian raws are expected to keep 2020 ICE #11 prices confined to the USc 10.5-USc 12/lb region. Nevertheless, markets in general remain twitchy, and energy prices, FX and speculators could all still influence the picture.
- It is broadly agreed that Covid-19 will negatively impact 2019/20 global consumption, but the full extent is very much unknown. Potential 'second-wave' infection events, the longevity of social restrictions and the severity of a global recession will all play into consumption, as will consumer behaviour. Rabobank accepts that our projected 1% YOY fall in consumption may require adjustment as the pandemic evolves. Still, falling consumption is set to erode the previously bullish prospects of a sharp 2019/20 deficit – Rabobank now expects less of a decline in the global stocks/consumption ratio than we projected 6 months ago.
- Looking towards Q3 2020, Rabobank identifies three influential supply factors: 1) Brazil's late-season sugar mix, 2) Indian policy on 2020/21 export subsidies and domestic MSP, and 3) an elevated white premium. This year Brazil has returned to its role as the pivotal player in the world sugar market. For this reason, it will remain very much in the spotlight in the coming months, with the market poring over the pace of exports and the cocktail of factors (fuel consumption, oi prices and FX) that may influence this season´s sugar/ethanol mix.

Global Outlook: Oil Price

Brent, USD/barrel

Source: Bloomberg, Rabobank 2020

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