

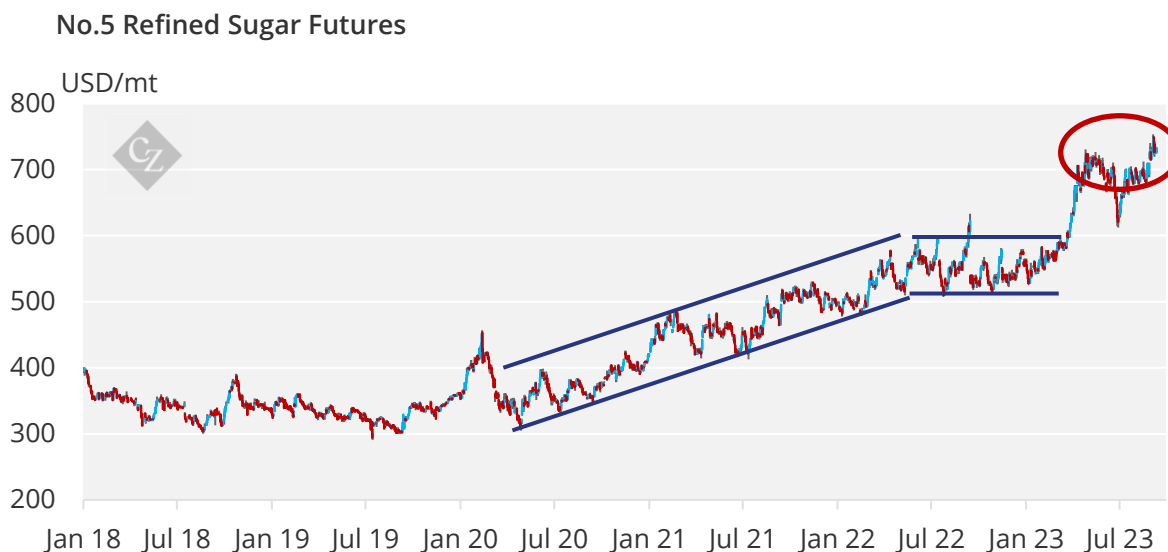


Insight Focus

- Global sugar production isn't growing.
- Sugar supply is becoming more concentrated on a handful of origins.
- Higher prices are needed to drive investment in sugar production and logistics around

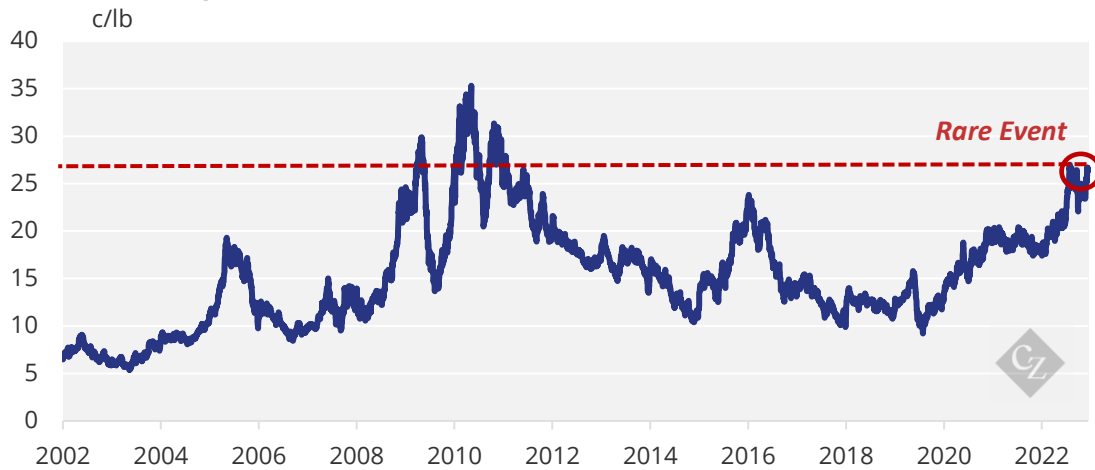
Sugar Price Forecast

In recent weeks raw sugar prices have traded to 12-year highs. Raw sugar has reached 27c/lb, while refined sugar has hit \$770/mt.



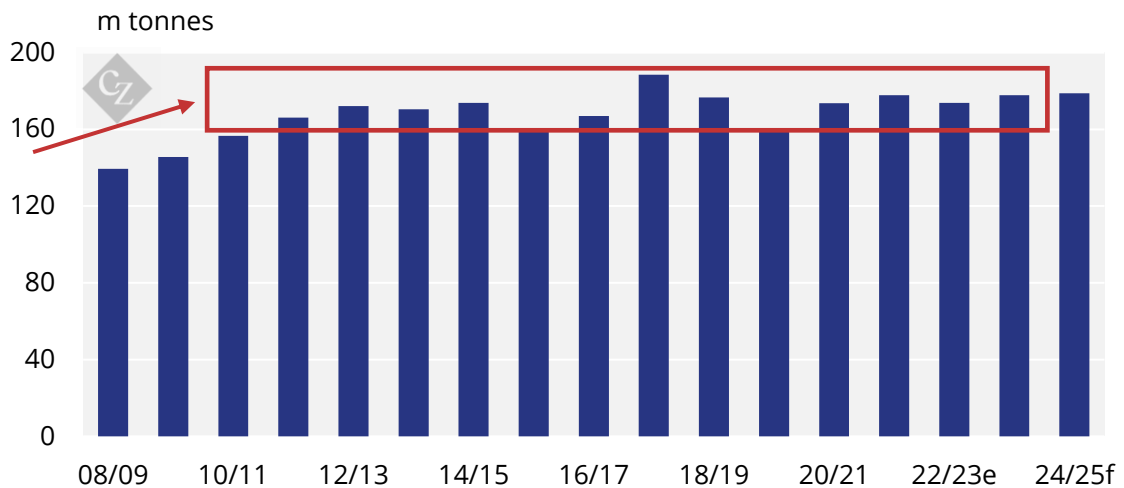
These are extremely rare events. In the past 40 years, refined sugar has exceeded \$700 once only, in the last great bull market of 2009-11. Raw sugar has exceeded 25c on three previous occasions: 2009-11, and before that 1974-75 and 1980-81. Not only are these events rare, but as you can tell from the date ranges, they rarely last for more than a year or so.

No.11 Raw Sugar Futures



There's the old agricultural commodity trading cliché that higher prices are the best fertiliser, meaning that higher prices lead to more plantings and therefore more supply. But one thing that's concerning about sugar's current price strength is how disappointing global production has been. Prices have been strengthening since April 2020 and have been above cost of production for all major origins for more than two years. Yet global sugar production remains stuck in its decade-old range of 175m tonnes (+ or - 15m tonnes).

Global Sugar Production Is Not Growing

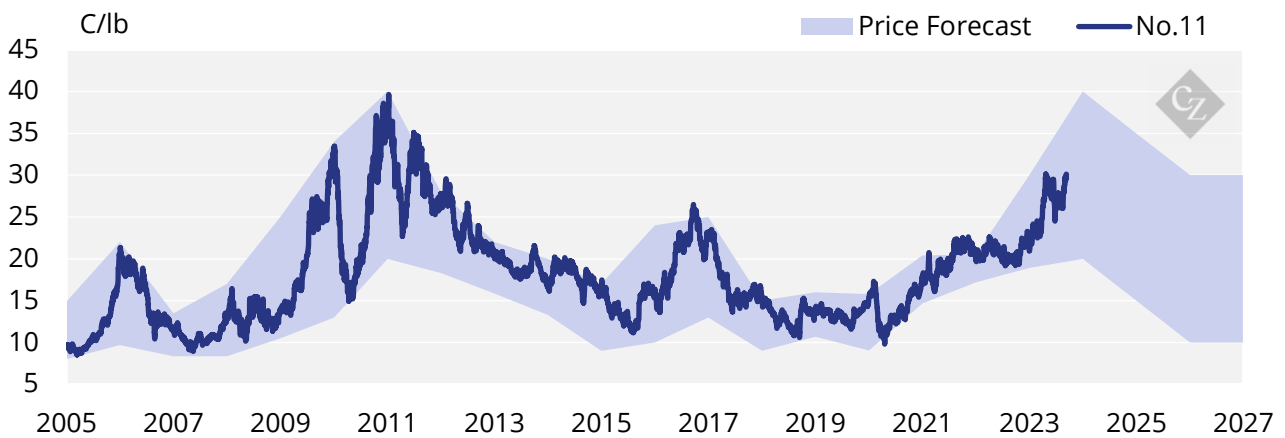


This is a problem, because global sugar consumption is already above 175m tonnes a year and grows by around 2m tonnes every year. If high prices sustained for a long period of time aren't delivering the "best fertiliser", this suggests sugar's problems are deep-rooted. Major problems require radical solutions, and for this reason we believe higher prices are inevitable as we move into 2024.

No.11 Price Forecast

No.11 (c/lb)	2022	2023	2024	2025	2026	2027
High	20.51	30	40	35	30	30
Medium		24	30	25	20	20
Low	17.20	18.92	20	15	10	10

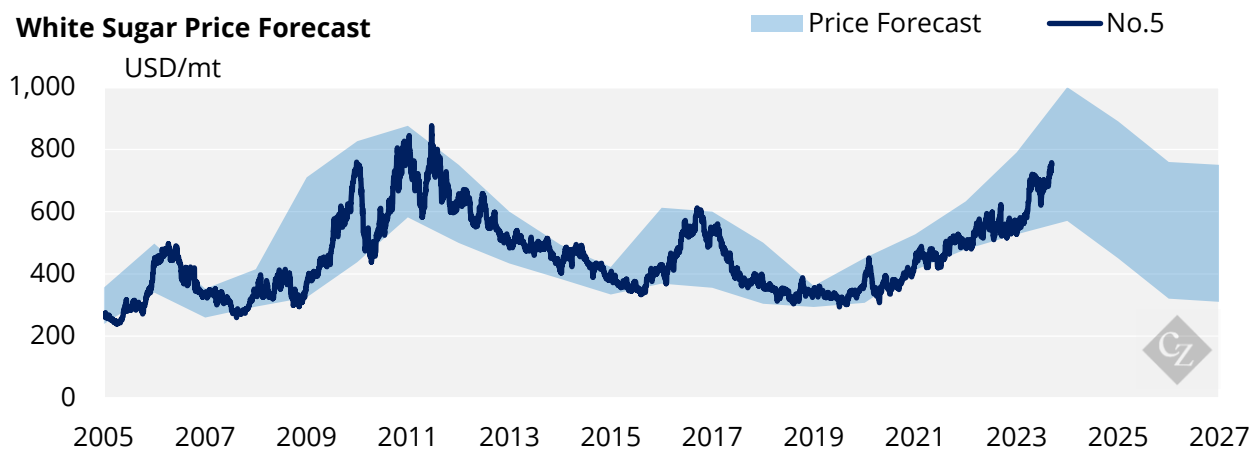
Raw Sugar Price Forecast



No.5 Price Forecast

No.5 (USD/mt)	2022	2023	2024	2025	2026	2027
High	633	790	1000	890	760	750
Medium		660	790	690	540	530
Low	478.80	527	570	450	320	310

White Sugar Price Forecast



Implied White Premium

Arb (USD/mt)	2023	2024	2025	2026	2027
	130	130	120	100	90

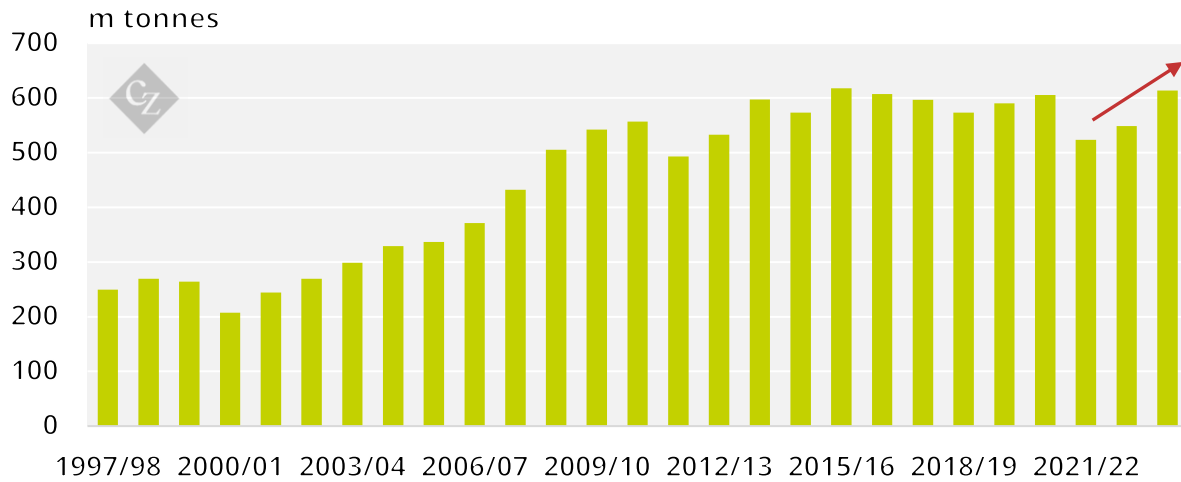
Sugar Production – Good News!

Let's start with the good news.

Centre-South (CS) Brazil is the world's largest cane-growing region and the world's largest sugar supplier. Sugar futures are FOB contracts, and so availability from CS Brazil is a major determinant of price. We've

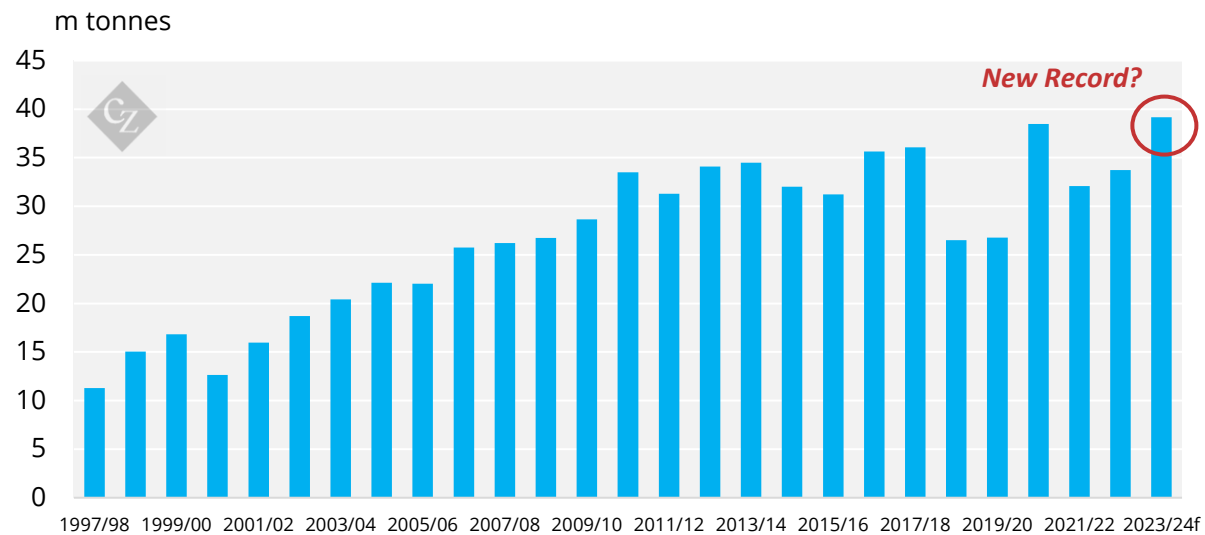
been arguing for more than a year that the raw sugar futures curve needs to trade at a premium to CS Brazilian cost of sugar production to encourage investment in the cane sector.

CS Brazilian Cane Crushing Has Recovered Over 600m Tonnes



This has been happening. Prices have sustained above 20c and Brazil is BACK. The sector is making record sugar returns (though let's not talk about awful ethanol prices) and mills are spending more money on their cane fields once more. This is being reflected in higher cane availability for this year and the coming seasons.

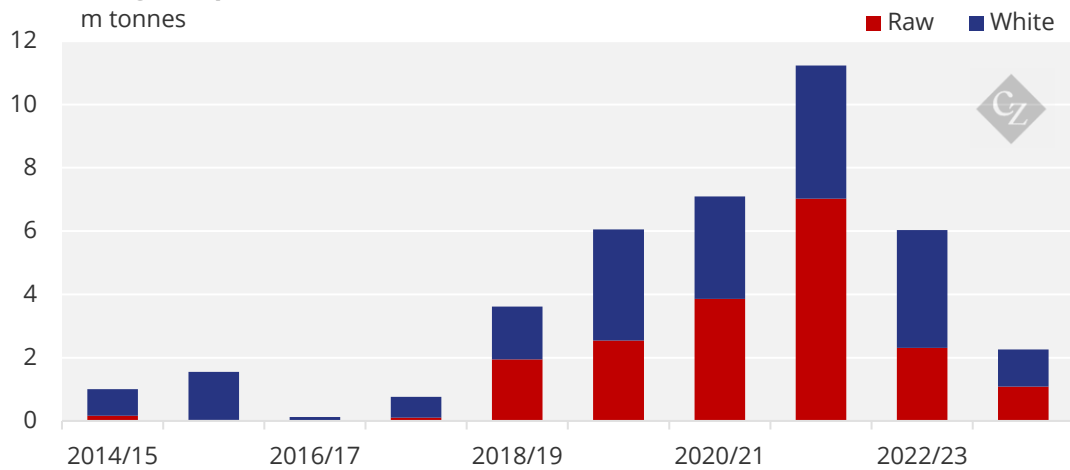
CS Brazil Could Make A Record Amount of Sugar This Year



Mills have also de-bottlenecked their facilities and increased crystallisation capacity so they can make more sugar for export at the expense of ethanol. The CS Brazilian cane industry could make 39.2m tonnes of sugar this season, a new record. It's possible mills reach 40m tonnes sugar for the first time next year.

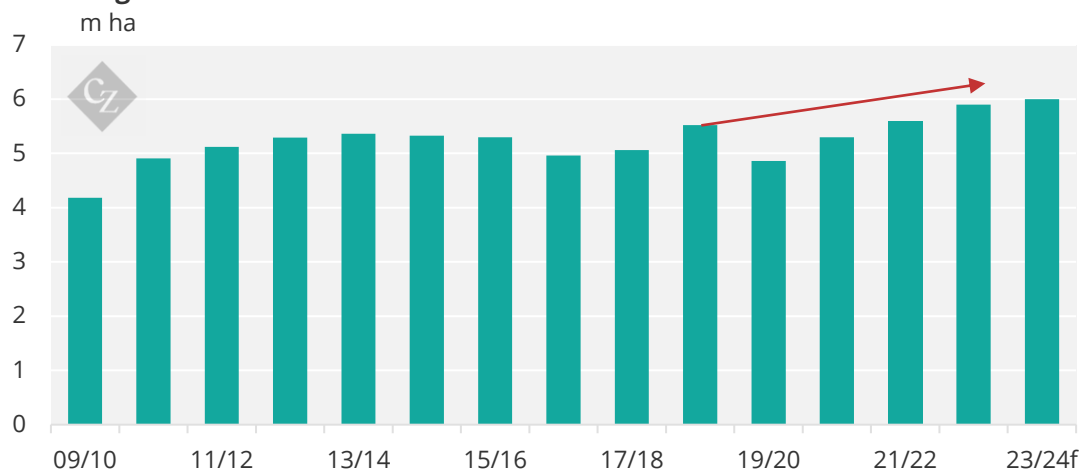
The world's other major sugar origin is India. It's one of the world's largest sugar producers, has been a major exporter in recent years and is also the world's largest sugar consumer.

Indian Sugar Exports



The cane sector here is also investing heavily. The government is offering a range of incentives to increase ethanol distillation capacity as it seeks to reach a 20% blend of ethanol in gasoline by the end of 2025. A side effect of this has been to encourage farmers to plant more cane and for mills to expand their crystallisation capacity. Cane acreage has hit a new record of 6m ha this season, up 23% in 4 seasons.

India Sugarcane Area



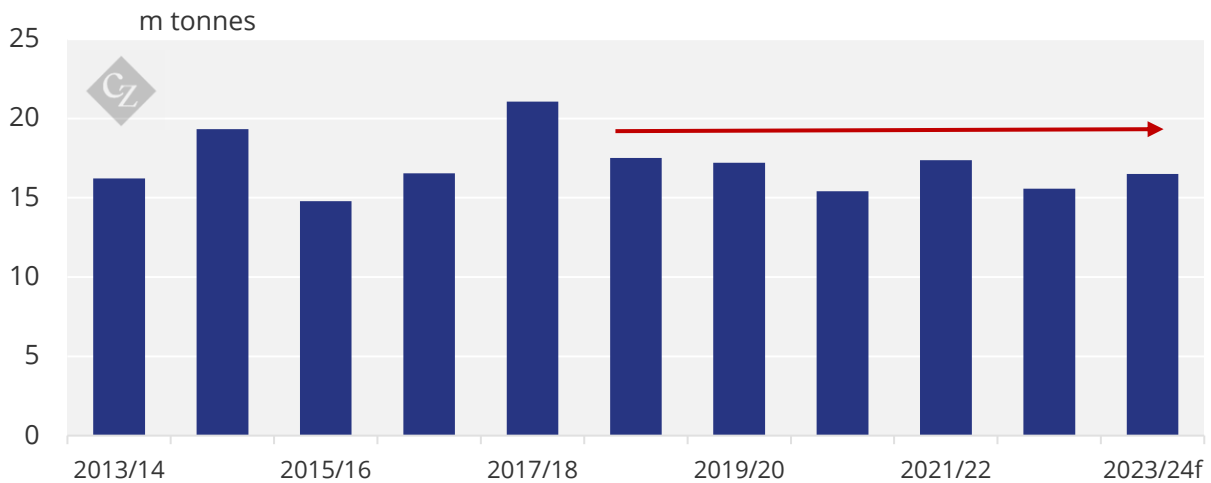
Never mind this year's poor weather for a moment; the Indian cane sector is growing quickly.

Sugar Production & Logistics – Bad News

Now onto the less cheery stuff.

CS Brazil and India account for around 40% of the world's sugar production. Sugar industries which account for the remaining 60% are not growing at all.

EU-27 + UK Sugar Production



Europe is the world's largest beet sugar producer and used to be a major supplier of high-quality refined sugar. Production here has been flat for years and the region is a deficit sugar producer. Recent high world market (and European) sugar prices haven't yet been fully reflected in beet prices paid to farmers, and so beet acreage isn't growing.

Reuters

Suedzucker unit drops plan to lift French sugar output, citing Ukraine imports

Sugar maker Saint Louis Sucre, owned by Germany's Suedzucker, asked French farmers not to increase their beet output in 2024 to avoid a...

3 days ago



European Supermarket Magazine

Cristal Union Invites French Farmers To Go Back To Sugar Beet | ESM Magazine

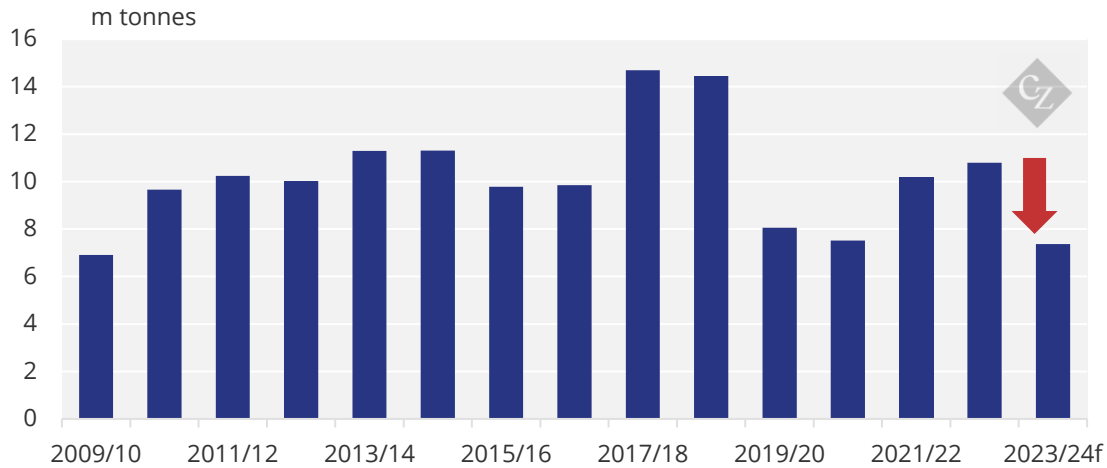
French farmers should consider turning back to sugar beet in 2024 after a drop in planted area in recent years, France's Cristal Union said.

2 days ago



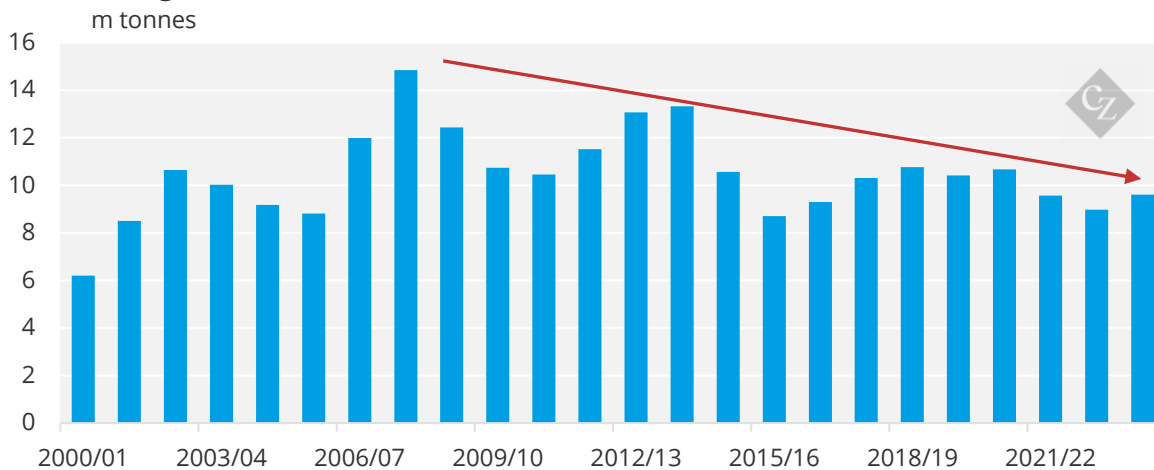
Recent announcements from major grower France are illustrative: Cristal Union, the 2nd largest sugar producer in France, has asked its growers to plant more beet in 2024. Saint Louis Sucre has asked farmers to not increase beet output as it fears increased arrivals from Ukraine. The mixed signals can't be filling any farmer with confidence.

Thailand Sugar Production



Thailand is usually a major sugar exporter. However, the coming cane crop will be the lowest in two decades. Cane has lost acreage to other crops, notably cassava. Even at today's prices, cane payments to farmers probably won't encourage a large increase in plantings for 2025.

Chinese Sugar Production

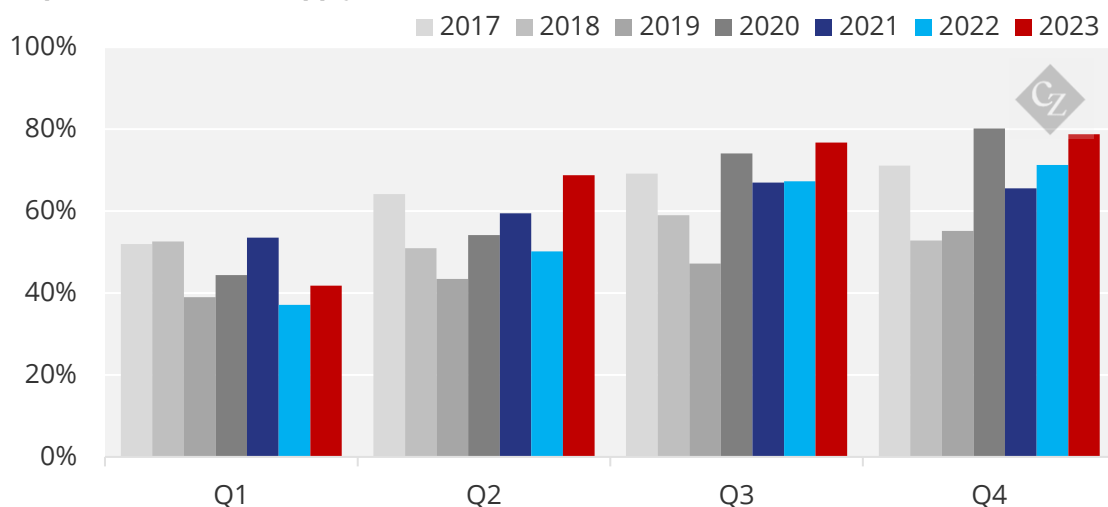


China's sugar sector also isn't growing. China is regularly the world's largest sugar importer and is likely to remain so in the future.

The world's problems extend further than poor production growth among major sugar producers. Let's go back to India for a moment. As cane area increases, more and more cane is being planted on marginal land which isn't ideally suited for the crop. Cane has a high water requirement and is increasingly being planted in areas where water availability may be sporadic. This means that poor rainfall could lead to greater volatility in crop performance, which may be what we're seeing this year with its disrupted monsoon.

In addition, India is diverting increasing amounts of sucrose towards ethanol production, not sugar. In 2 seasons India has gone from exporting 11m tonnes of sugar to the world market to talk of a possible export ban.

Proportion of World Supply from CS Brazil

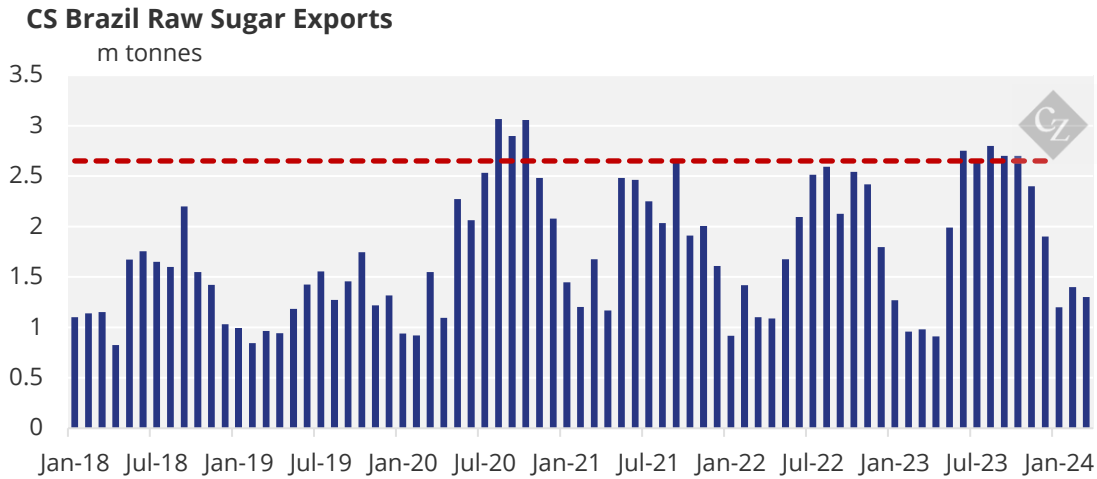


This means the world is becoming increasingly reliant on Brazil for its sugar. Dependence on one origin is never healthy for any commodity. More than 70% of the world's raw sugar supply will flow through the port of Santos in H2'23. And the pressure on Brazil's logistics is set to intensify.

Brazil's geography is a unique challenge. In general, the south of the country has a limited coastal plain. This means there are few deep natural harbours and so many major ports are located on river estuaries. This includes the 2 major sugar ports of Santos and Paranagua. This makes it difficult to expand port infrastructure or to build new modern ports. Warehousing space at ports is frequently constrained.

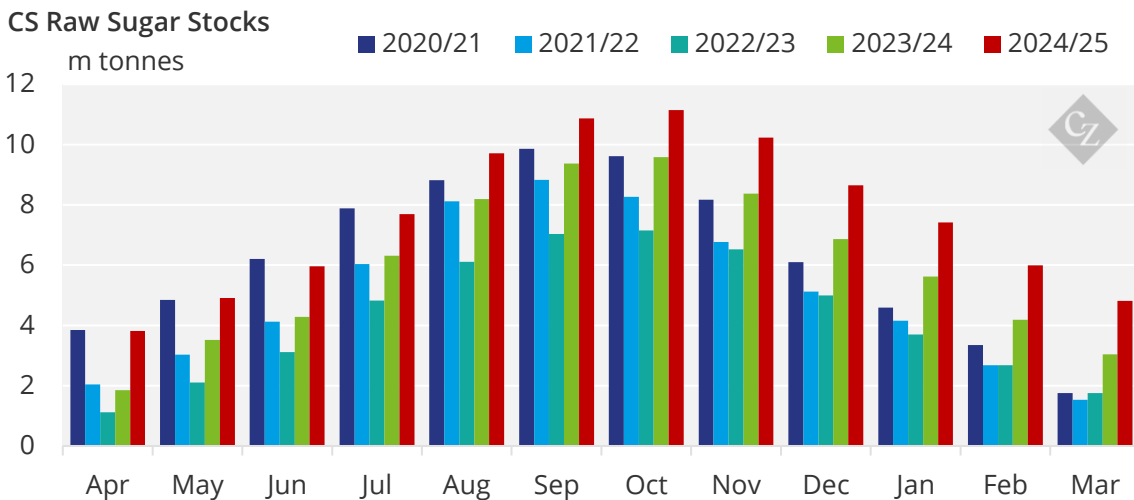
There is also a major escarpment that descends from the upcountry highlands down the ports. This means there are relatively few routes descending to the ports: rivers descend too quickly to be navigable, while roads and railways are close to capacity and can be a bottleneck.

Sugar and grains output is growing rapidly in Brazil, but the infrastructure isn't growing at a fast enough pace to ensure these goods can be transported to ports and loaded onto ocean-going vessels fast enough. In 2023 we think that Brazilian ports can only export around 2.7m tonnes of raw sugar each month. Offers for rail freight in Q1'24 have been withdrawn, presumably because it's already fully sold. If the world needs more sugar faster, tough. Mills make sugar at twice this rate and so inland storage fills quickly.



The combination of high sugar production and creaking logistics is a bad one. Mills will carry record sugar stocks into next season in Q2'24, which will probably be another year of maximum sugar output.

While high sugar prices have led to increased production in Brazil, this is all futile if the sugar can't be supplied to the world. For the coming few years, Brazil may not be able to give the world the sugar it craves at the price it wants. This probably means continued premium futures spreads in 2024 and 2025. It probably means futures prices will remain elevated to reflect the stress at Brazilian ports; recall that sugar futures are FOB contracts. Inland (FCA) prices may become heavily discounted as mills struggle to store sugar.



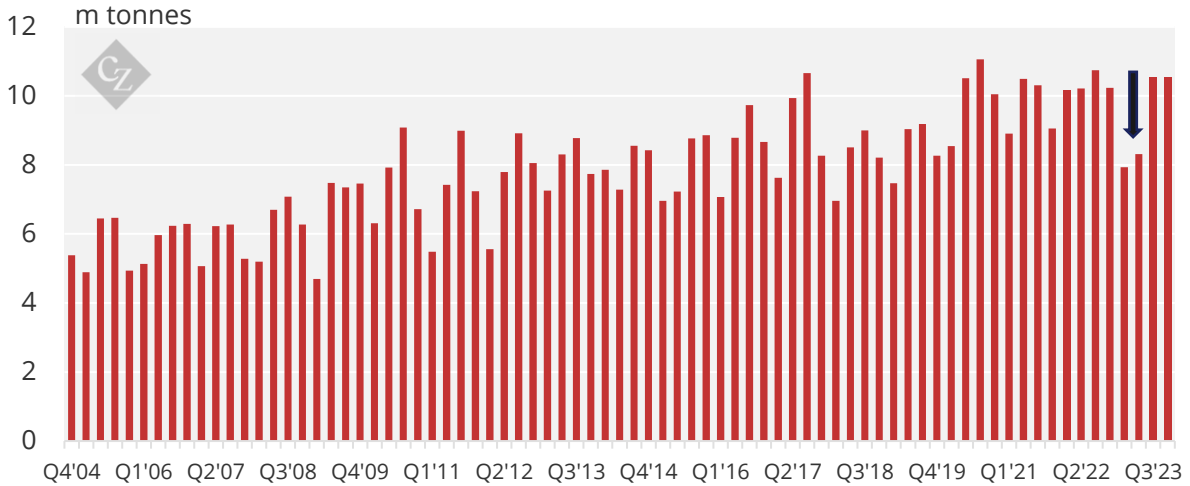
How does the market solve this problem? We need huge investment in Brazilian logistics and we need it quickly. This is hard to achieve through sugar prices alone. It may be that sugar prices need to be high enough to encourage grains to be displaced away from Santos into other export corridors in June-October 2024. This implies higher sugar prices still, sustained over a longer period of time.

Sugar Consumption Keeps Growing

In the background, sugar consumption has continued to grow at around 2m tonnes per year even though prices are high.

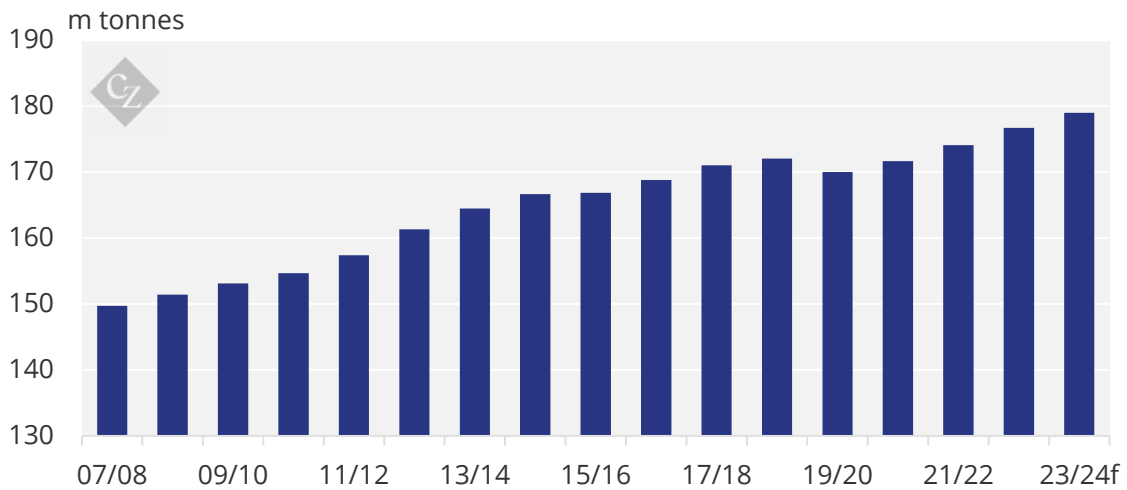
One problem is that from 2020 to 2023, all commodity prices were higher and inflation was awful across most of the planet. UK food inflation hit 20% for months on end in early 2023. If all foods are becoming more expensive, sugar included, consumers don't cut back on each food equally. They cut back on the expensive luxuries, like meat/protein. Conversely, they might recycle some of the savings into cheaper carbohydrates like sugar.

Global Raw Sugar Demand Fell 20% in H1'23

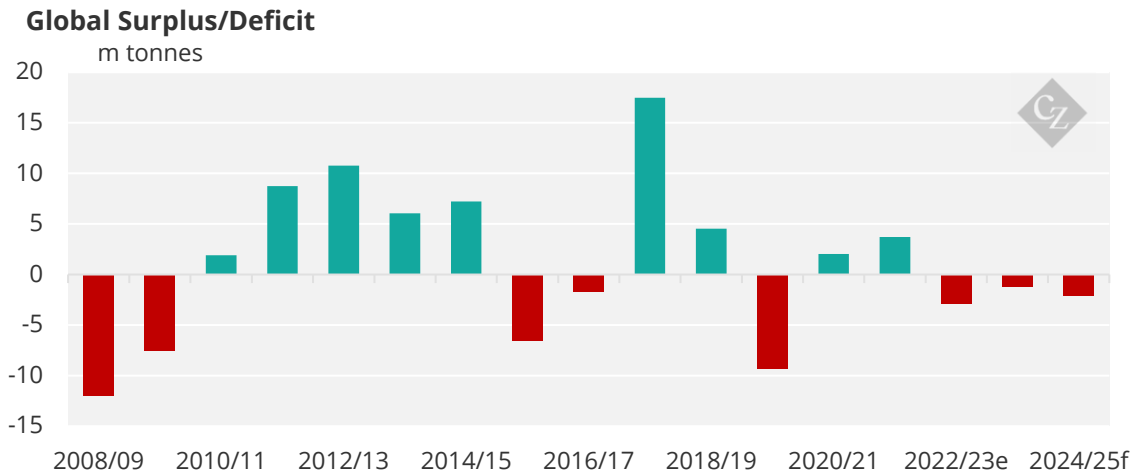


We think this is happening in 2023. Raw sugar demand fell by 20% in H1'23, but refined sugar demand was normal. Raw sugar is an industrial product for further processing, but refined sugar is food. As far as we can tell today, sugar consumption around the world is normal.

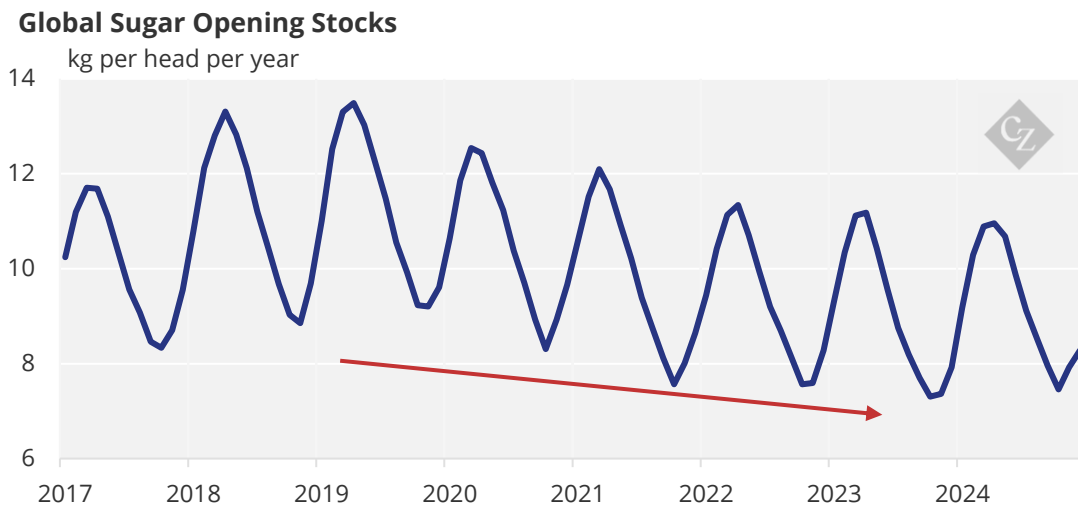
Global Sugar Consumption Is Still Growing



In 2023 global sugar production will exceed 175m tonnes for the first time, which means it will roughly match the level global sugar production has been for the last decade. Global production deficits are inevitable in the future unless more countries' sugar output expands. Brazil can't supply the world's production growth alone.



Global sugar production last exceeded consumption in 2021/22. Since this time sugar stocks around the world have fallen while the world's population has increased. This cannot continue indefinitely. Higher prices are inevitable.



Conclusion

We've argued for months that we needed high sugar prices to boost production. That's happened yet the goal has shifted. We now need higher prices to boost production away from Brazil/India AND to encourage investment in Brazilian logistics.

This is a harder problem for the sugar market to solve, suggesting higher prices, sustained for longer.

This is a tough market for sugar buyers to handle. Our advice remains the same as before. Bull markets are often extremely volatile. Buyers should take advantage of any volatile pull-back to lock in hedges for the long term.

In the last major bull market of 2009-2011, raw sugar traded from 10c to 30c, before more than halving back to 13c in just a few weeks. It then rallied to a peak of 36c. In 2010, the market dropped 8c (!!) in 2

sessions. Today's high prices will probably be sustained for some time to come, but this doesn't mean consumers won't get good opportunities to hedge.

Sugar producers should enjoy the good times while they last.

As always, we wish you plenty of luck in the market, and please get in touch if you have questions.