

Trade Flow Update: Is the World Still Short of Sugar?

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6 min read



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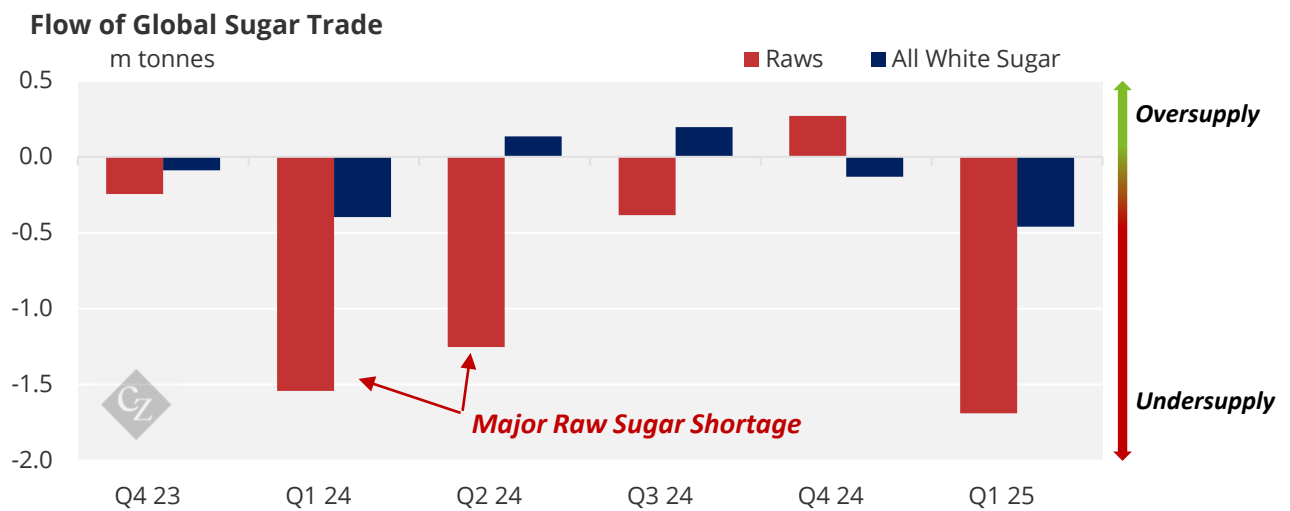


Insight Focus

- Raw sugar futures have collapsed by 5c/lb in the past week.
- Nevertheless, we think the world is still facing a shortage of sugar.
- On top of that, the world is over-reliant on Brazil for sugar supply.

Not Enough Sugar in the World

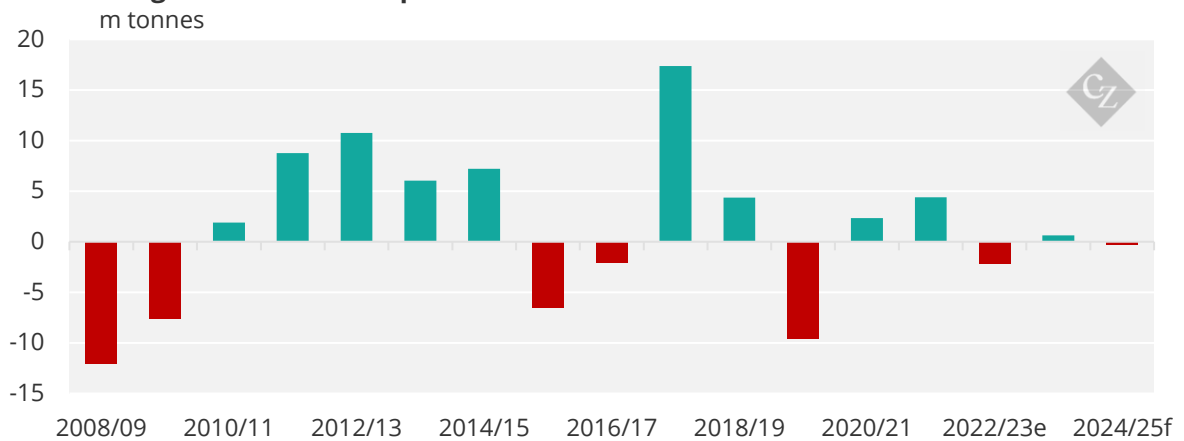
Sugar prices have collapsed in the past week. Nevertheless, we don't think there is enough sugar in the world to meet demand in 2024.



We think the shortfall is as high as 3m tonnes across the next 6 months and is predominantly raw sugar. Of course, in time a shortage of raw sugar becomes a shortage of white sugar too.

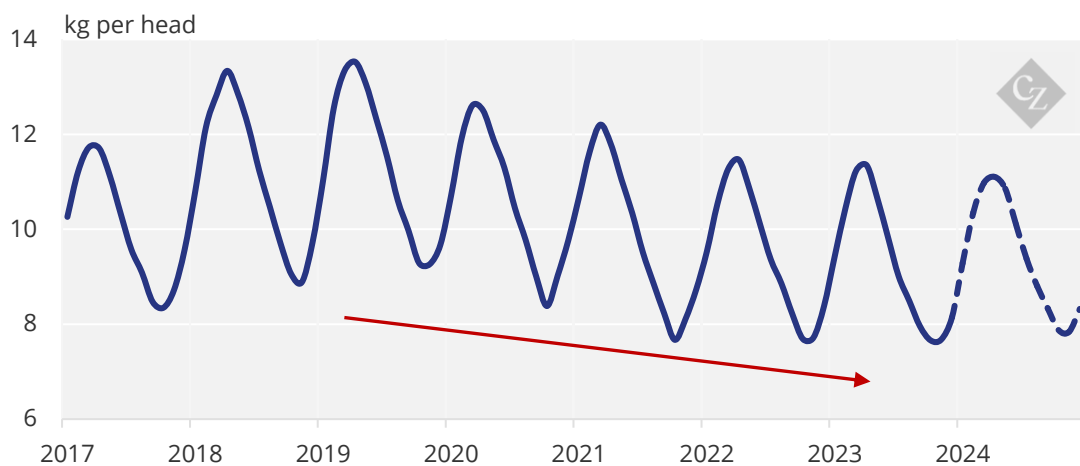
This isn't a problem of sugar production; the world is (just about) making enough sugar.

Global Sugar Production Surplus/Deficit



The problem is that global sugar stocks are lower than they've been for a decade, and the world is utterly dependent on Centre-South (CS) Brazil for supply. Brazil's infrastructure can't keep up with demand.

Global Sugar Opening Stocks



Normally, sugar prices would rise to ration demand. Recall that historically, 20c is a high price for raw sugar.

Raw Sugar Futures



Prices have sustained at this level all year. This means that demand destruction could be happening quietly in the background. But a 3m tonne shortfall requires demand destruction on a level we've not seen before. We suspect that demand destruction will therefore also happen through logistics disruption.

A Brief Warning

Please remember that trade flow analysis is a useful tool for understanding the sugar market but won't tell you when the market's problems have resolved. Trade flows are always reactive; never proactive.

A bull market ends when the last major short capitulates, either by:

- buying futures to cover a paper short,
- buying physicals to meet actual sugar needs,
- not buying sugar and going without.

None of these real-world actions can be accurately foretold in real time by analysing trade statistics.

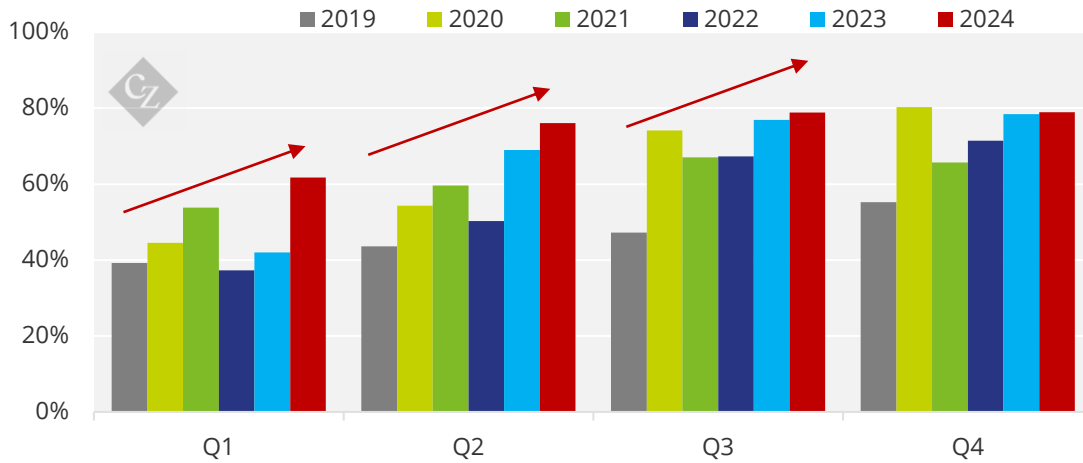
Today's deficit Trade Flows tell us the market is extremely strained and any further adverse events are likely to be positive for price. But they won't tell us the path the market will take in the future. This is why we publish a full suite of premium reports, to help guide your hedging decisions.

Please therefore use these trade flows as a guide to the stresses in the market and not to predict price.

Raw Sugar Supply

The world is utterly dependent on Centre-South Brazil for sugar supply in 2024.

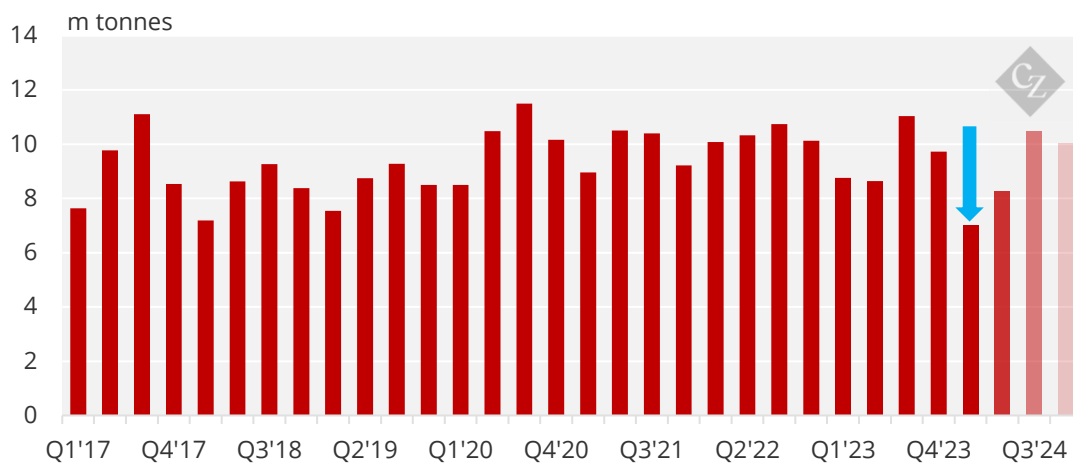
Proportion of World Raw Sugar Supply from CS Brazil



Dependence on one country for supply is dangerous for any commodity. This is especially true for raw sugar in H1'24. This is usually the CS Brazil offcrop, and in the past the region has accounted for 40-50% of the world's sugar supply in this time.

Other origins such as India, Thailand and Central America tend to provide a diverse range of raw sugar supply in the first half of the year. Not so in 2024; India has effectively banned sugar exports and Thai availability will be among the lowest in recent years. Cane growth in both countries has been hit by poor weather.

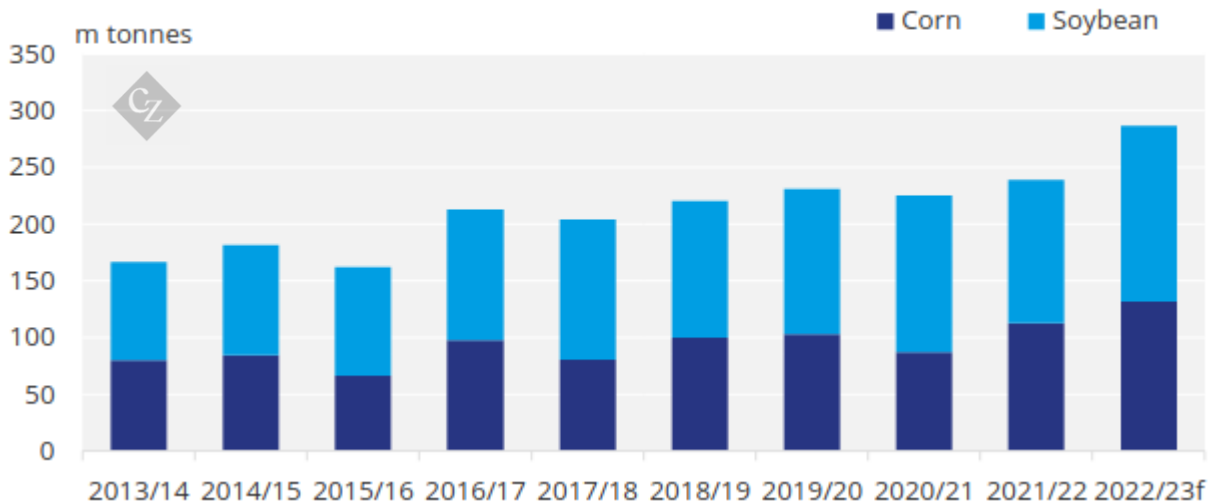
Quarterly Raw Sugar Supply



Raw sugar supply in Q1'24 will be the lowest for a quarter since 2016. 60% of this supply will come from CS Brazil.

This is when weather is wet in CS Brazil, which often delays loading at ports. It's also when port terminals often carry out maintenance, quickly followed by the onset of CS Brazil's huge corn and soy export programmes. This season, corn and soy production will grow by 48m tonnes. The year-on-year production growth in grains exceeds CS Brazil's entire sugar production.

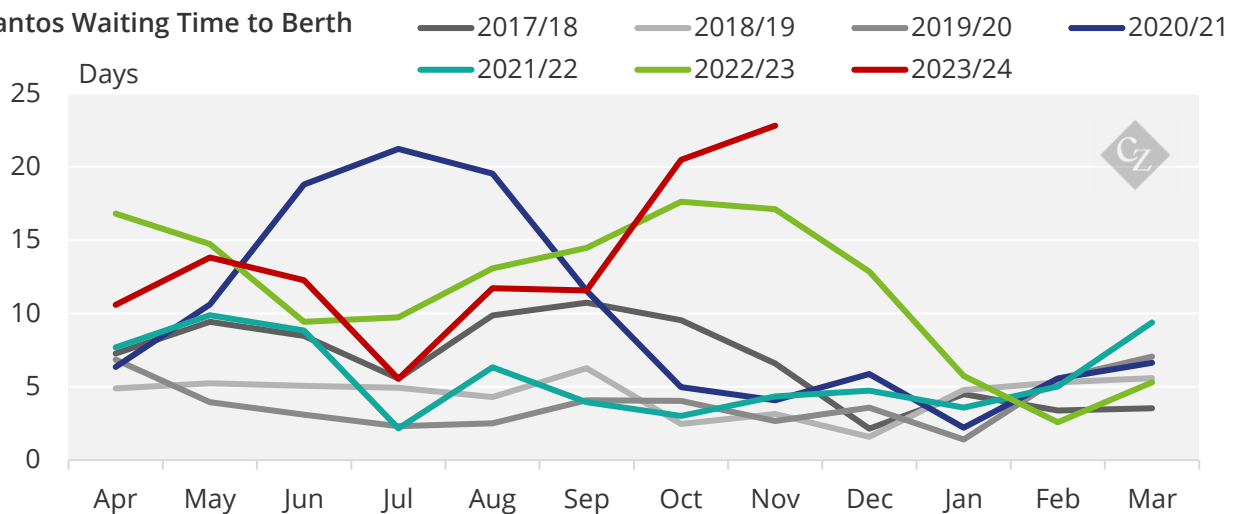
Brazil Grains Production



Infrastructure investments have not kept pace with the growth in food production in Brazil. Sugar exports are less valuable to port terminals. Can sugar outbid those grains to take more elevation space at Santos port, pushing grains onto other logistics routes?

It will take higher prices than we have seen so far, probably more than 30c on the raw sugar futures. Even then, the world's dependence on Santos port for sugar supply is scary. Any adverse event here (strikes, heavy rain, estuary blockages, etc) will have serious implications for sugar availability and price.

Santos Waiting Time to Berth



Already, the vessel queue to load sugar in CS Brazil is enormous. Vessels nominated today may not load until mid-January and won't arrive at destination until February at the earliest. This might be a major problem for those countries which are low on sugar stocks.

It looks as though someone somewhere will have to go without sugar to resolve the tightness in the market. It's an unpleasant thought: going without food is no joke. Sugar prices might not be leading to demand destruction, but Brazil's logistics might.

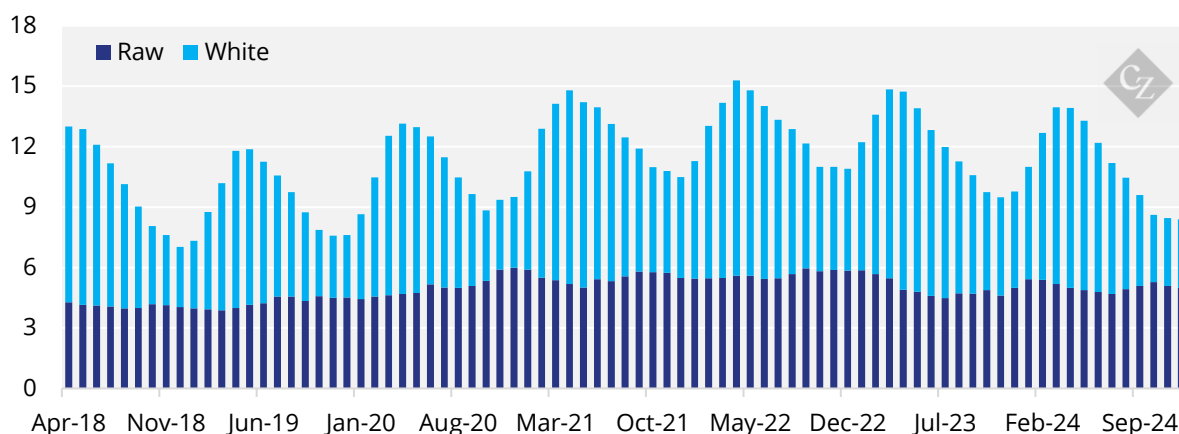
Raw Sugar Demand

Who is at risk of going without?

China is the world's largest raw sugar importer, but the government also holds high levels of sugar stocks which can be released in the event of tight supply in the local market. New season supply should also come from China's cane harvest, which recently started.

China Has Large Sugar Stocks

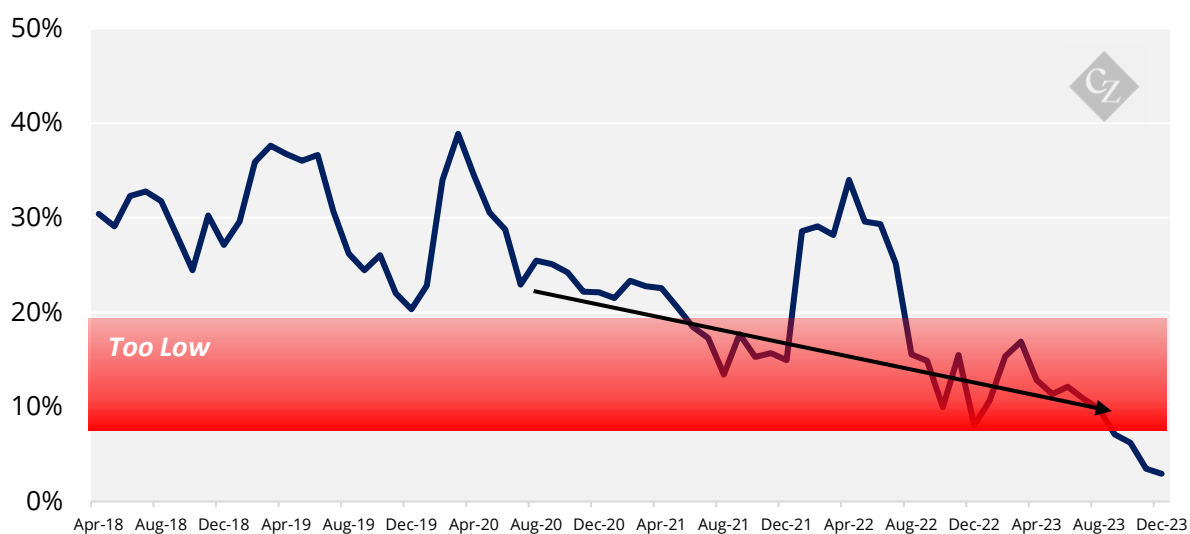
million tonnes



It therefore makes sense to look to raw sugar importers that have recently run down stocks and also don't have significant domestic production during the first quarter of the year. Out of the world's major raw sugar importers, this leaves Bangladesh, Indonesia, Nigeria and Egypt as possible contenders.

Bangladesh has run down its sugar stocks in 2023 in the face of high prices. It also has very little domestic sugar production and is dependent on CS Brazil for raw sugar supply.

Bangladesh Sugar Stocks To Use



We think Bangladesh could look to import as much as 1.4m tonnes of raw sugar in the next 6 months, all from Brazil. [Recent press reports](#) suggest [the domestic sugar supply chain is stressed](#); any problems with sugar flow from Brazil could be problematic.

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Bid for further hike in sugar price

Sugar was found retailing at Tk 150-160 a kg. Bangladesh Sugar Refiners Association sent a letter to the commerce ministry on November 6 regarding the imports...

3 weeks ago



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Onion and sugar prices witness further increase

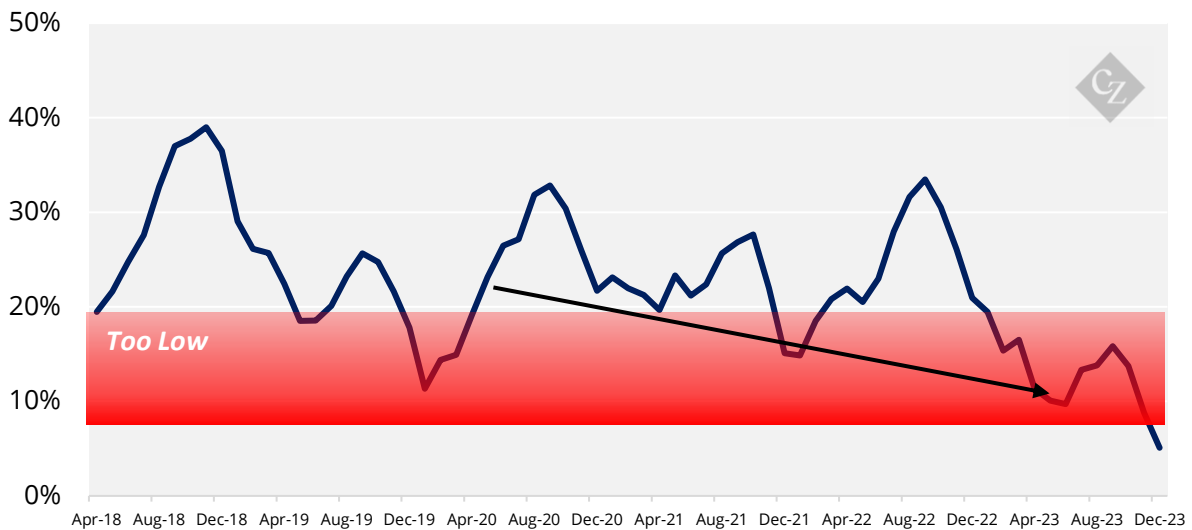
Seed onion has been trading at Tk40-45 a kg at village level, he said. Consumers Association of Bangladesh (CAB) vice president SM Nazer Hossain said onion,...

4 days ago



Indonesia is one of the world's largest raw sugar importers. Raw sugar imports are then processed into high-quality refined for the food and beverage sector. Indonesia also has local sugar production, but the cane harvest begins in June, and so the country is in its off-crop.

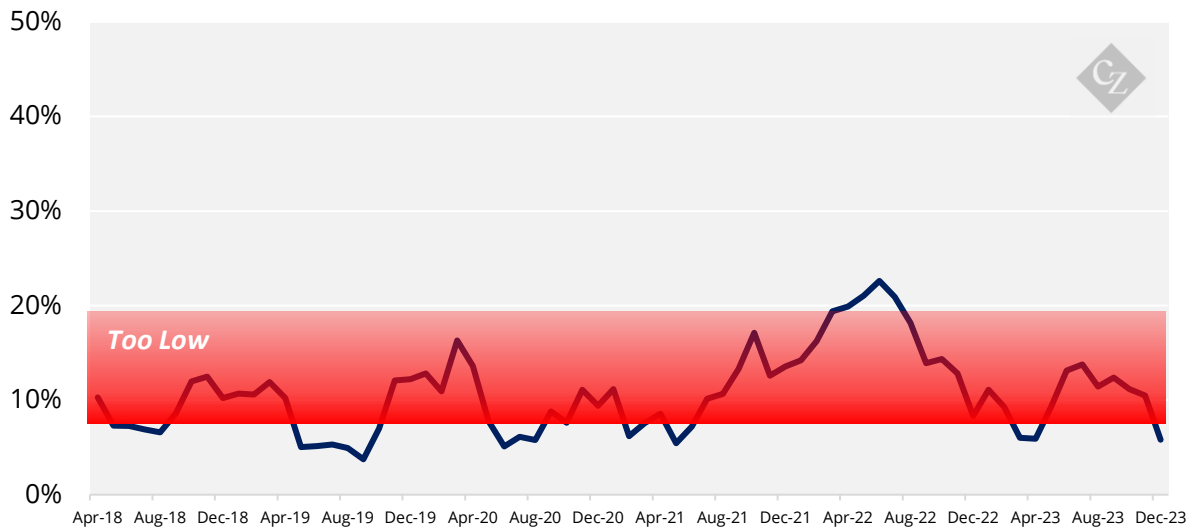
Indonesia Sugar Stocks To Use




Indonesia typically imports sugar from Thailand in the first half of the year, but this year's Thai cane shortfall will lead to a greater reliance on CS Brazil. Stocks are low and will continue to decline into 2024, leading to a real risk of supply problems.

Nigeria has very little domestic sugar production and so depends on imports. All raw sugar is imported from CS Brazil. Stocks are routinely low, with the local refiners efficiently taking advantage of the short sailing time across the Atlantic. We think Nigeria needs to import 1m tonnes in H1'24. US Dollar scarcity adds to the risks.

Nigeria Sugar Stocks To Use



Lastly, **Egypt** is also at risk of stockouts. The domestic beet crop underperformed this year. Prices have risen sharply as stocks have drawn down.


 Aham Online


Egypt increases amounts of subsidized sugar amid shortage

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The Egyptian Ministry of Supply and Internal Trade increases the rations of subsidized sugar to families, amid a shortage felt in the market, according to a...

14 hours ago



 Egypt Independent

Egypt's Minister of Supply reveals reasons for high sugar prices

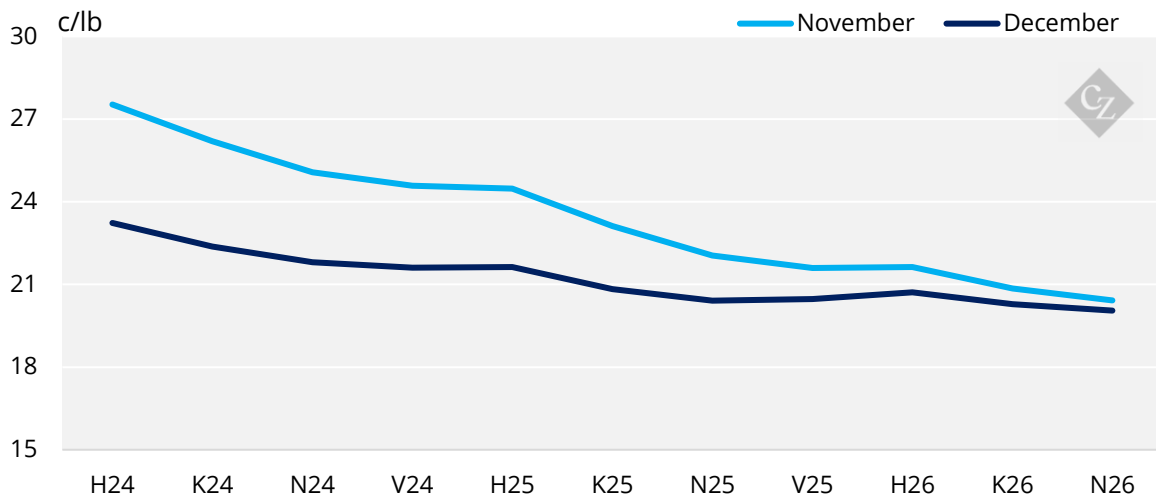
The Egyptian Minister of Supply and Internal Trade Ali Al-Moselhi on Sunday revealed the reasons for high sugar prices in Egypt recently, attributing it to...

1 week ago

The government has reduced the raw sugar import duty to 0% for 6 months. White sugar imports have also recently allowed, again duty free from any origin. Raw sugar imports come almost entirely from CS Brazil. We think Egypt will seek to import 0.5m tonnes in H1'24.

The recent fall in the market could also help the world's re-export (toll) refiners as they seek to manage their price risk. We have seen earlier in 2023 how they struggle to secure raw sugar for processing when the futures spreads are heavily backwardated.

Raw Sugar Futures Curve

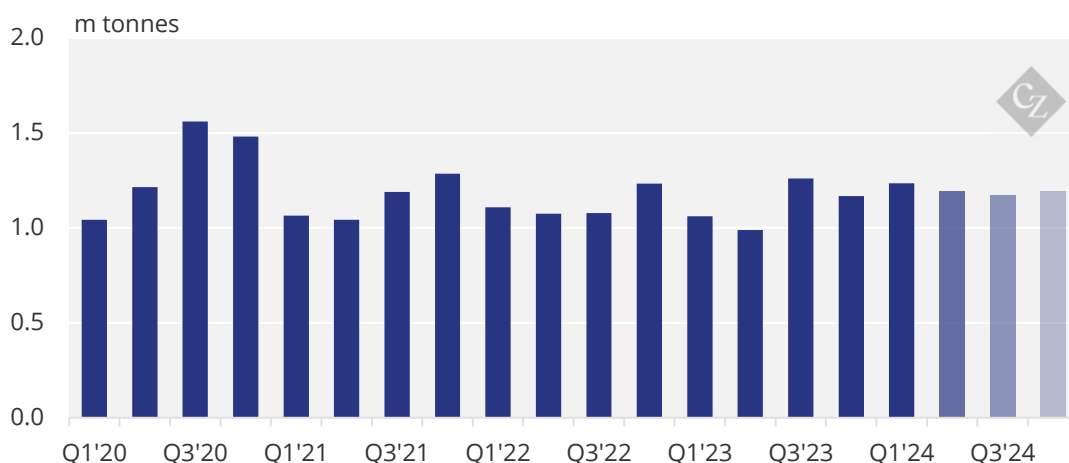


Most of these refiners also procure raw sugar from CS Brazil, and the last thing the market needs now is more raw sugar demand. Perhaps if the raw sugar spreads continue to weaken this will be matched by a decline in the 2024 white premiums too? In which case we may not see additional refined sugar supply from toll refiners in 2024.

Refined Sugar Supply

For the time being we estimate that refined sugar supply from toll refiners in the first half of 2024 will be normal, at around 2.4m tonnes.

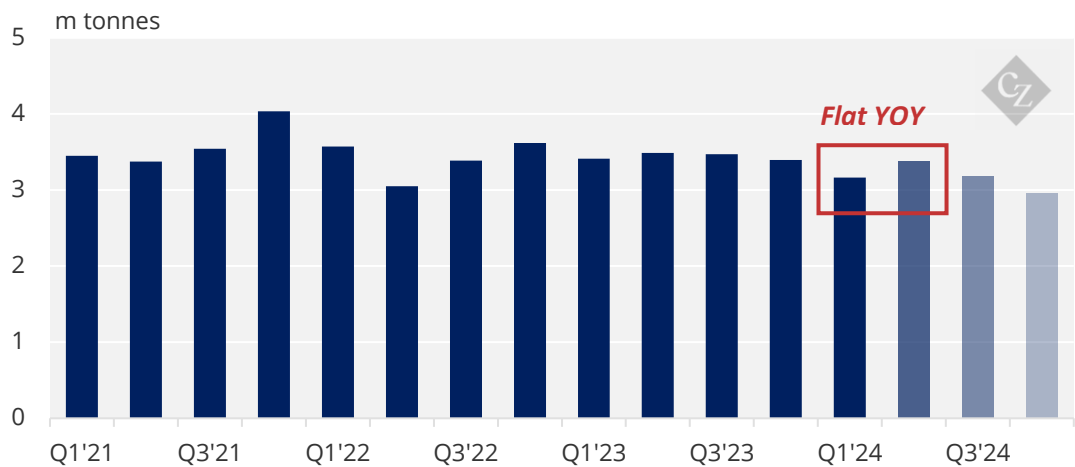
Refined Sugar Supply from Countries with Toll Refiners



This is the highest H1'24 toll refiner supply since 2018 and reflects the strength in the 2024 white premiums and the ongoing lack of sugar demand destruction we've seen around the world.

Interestingly, we think global refined sugar supply from cane/beet and refiners will be flat year-on-year at 6.8m tonnes in H1'24.

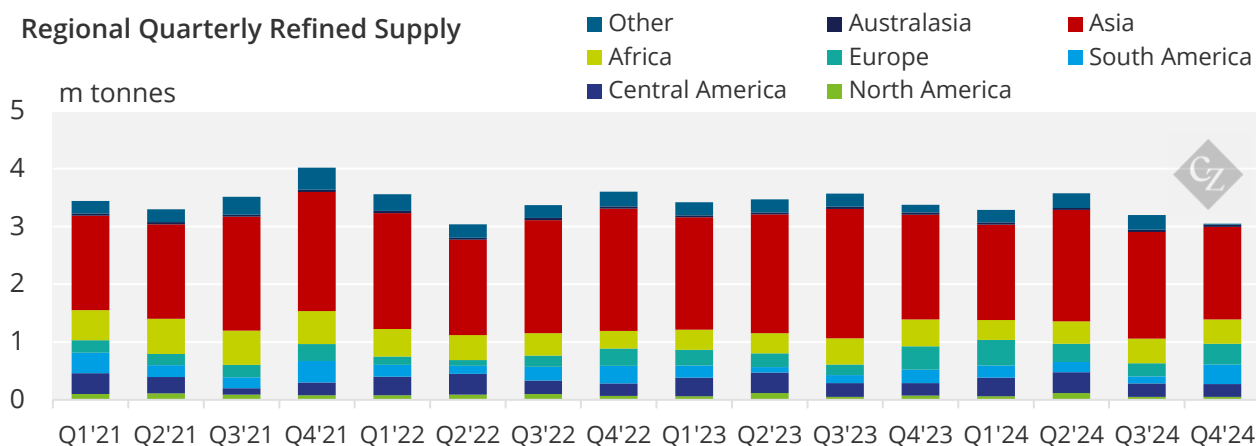
Refined Sugar Supply



This reflects the lower refined sugar export availability from major northern hemisphere cane producers like India and Thailand who are grappling with poor crop development. This means that toll refiners might be able to claim an increased share of the market in 2024.

Given the concentration of risk around raw sugar supply from CS Brazil in H1'24 and the difficulty toll refiners have had in hedging in the futures markets with the raw sugar backwardation, this means the refined market is still vulnerable to supply shocks even though on paper the refined sugar Trade Flows are balanced. It also makes refined sugar prices even more attuned to energy costs and freight costs than usual. Higher processing costs or lower container availability could easily be significant for the white premiums in 2024.

Regional Quarterly Refined Supply

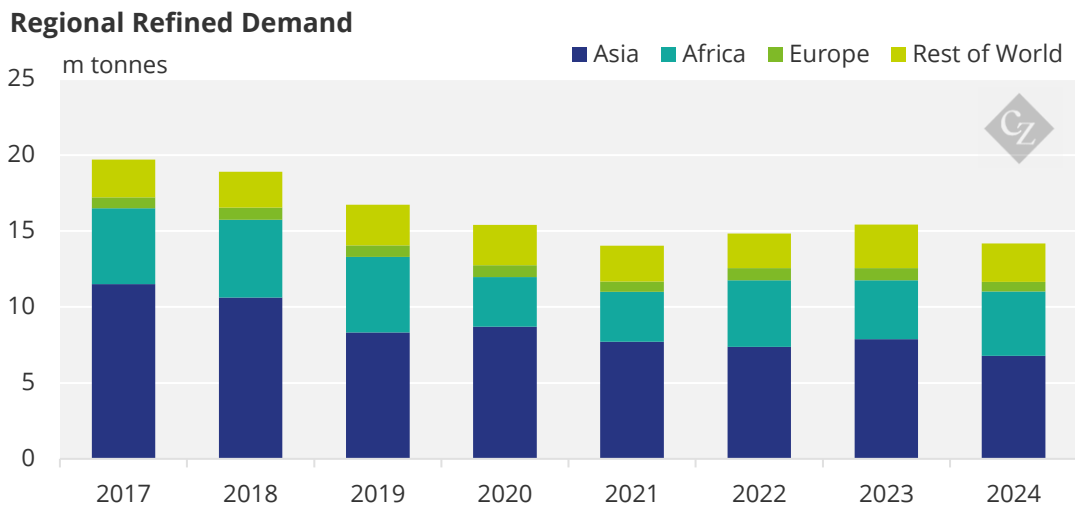


The decline in Indian and Thai refined sugar supply also shifts the world's refined supply geographically. In 2023 West and East Asia accounted for 59% of the world's refined sugar supply. In 2024 this will fall to 55%, with Central & South America, North Africa and the Middle East all increasing their proportion of supply.

East Asia will continue to account for half of the world's refined sugar demand. This implies slightly longer supply chains to meet this demand, with a more pronounced West to East flow of refined sugar through the year.

Refined Sugar Demand

As with the raw sugar market, many countries have drawn down sugar stocks in the face of higher prices, while sugar consumption has remained robust. Refined sugar demand has therefore been strong in 2023 and we expect that to continue into 2024. Indeed where some countries struggle to secure raw sugar in 2024 they may be tempted to seek spot refined sugar instead, as we have seen with Egypt's recent attempts to procure world market whites.

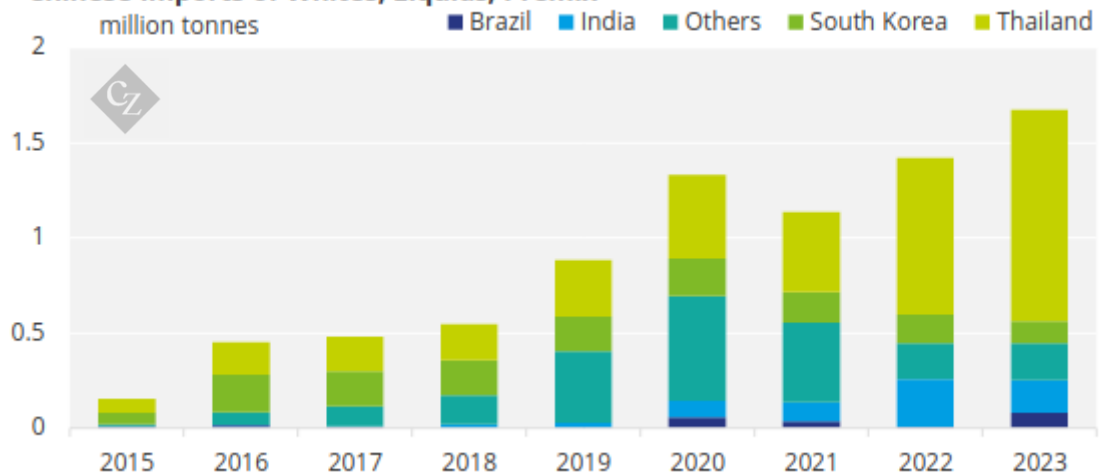


Africa and Asia dominate global refined sugar demand. This means that US Dollar availability may also be a threat for the refined sugar market. Availability is already scarce in parts of North and East Africa, hampering trade in those regions.

White Sugar Demand

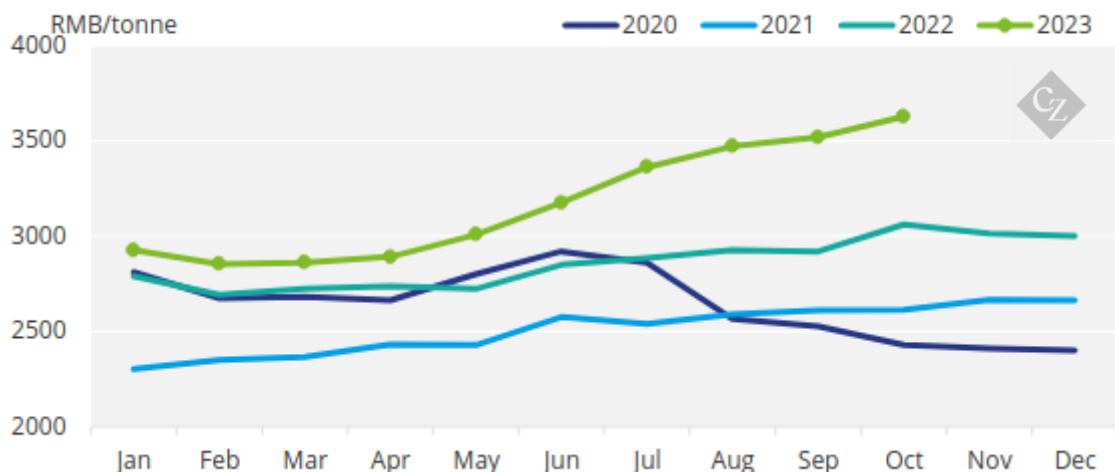
Broadening the scope of our assessment to look at the refined and high-colour whites markets together, by far the world's biggest buyer of white sugar in 2023 was China. Much of this white sugar was imported for liquid sugar/premix powders, which pay zero import duty and so had better margins than raw sugar imports for most of the year.

Chinese Imports of Whites, Liquids, Premix



China imported a record 1.4m tonnes of white sugar, liquid sugar and premix powders in 2022/23. This trend has continued in October 2023, with liquid sugar and premix imports reaching 164k tonnes, the equivalent of 125k tonnes sugar.

CNF Prices of Imported Liquid Sugar Rose 24% in 2023



It's going to be difficult for this to continue in 2024 on the same scale we've seen in 2023. Indian and Thai white sugar availability is lower in 2024. White sugar will need to be sourced from further afield. Import margins for liquid-premix have collapsed. China has plentiful sugar stocks in the short term so doesn't need to rush to import.

This will probably be reflected in lower white sugar demand in 2024.