World Sugar in flux - Forecasting the Market Movements

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The trouble with forecasting ...

Source: https://theprogenygroup.com/blog/the-follies-of-making-market-predictions/
Sugar Fundamentals & Prices

Production vs Consumption (k mt)

Surplus/deficit  Production  Consumption

Price Action – No11 Raws

cents per pound
Spreads are dealing with surplus

1.63 c/lb = 13.1%; 6.4% CAGR

2.24 c/lb = 20.2%, 9.6% CAGR

2.58 c/lb = 25.5%, 12% CAGR
Who is driving the price...?
Lots of Futures

Net Spec Position
No11 Futures

-200,000  -100,000   0   100,000   200,000   300,000   400,000

Jul-15   Jan-16   Jul-16   Jan-17   Jul-17   Jan-18   Jul-18

10   12   14   16   18   20   22   24

cents per pound
But …. they are also in other markets

<table>
<thead>
<tr>
<th>Commodity</th>
<th>Change in spec position since Jan (% of OI)</th>
<th>Price Correlation</th>
<th>Recent direction</th>
<th>Market mood</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coffee</td>
<td>-14%</td>
<td>0.86</td>
<td>down</td>
<td>bearish</td>
</tr>
<tr>
<td>Cocoa</td>
<td>0.2%</td>
<td>0.89</td>
<td>down</td>
<td>bottoming</td>
</tr>
<tr>
<td>Kansas Hard Wheat</td>
<td>20%</td>
<td>0.83</td>
<td>flat</td>
<td>bullish</td>
</tr>
<tr>
<td>Corn</td>
<td>6%</td>
<td>0.86</td>
<td>flat</td>
<td>recovering</td>
</tr>
<tr>
<td>Soybeans</td>
<td>2%</td>
<td>0.77</td>
<td>sliding</td>
<td>bottoming</td>
</tr>
<tr>
<td>Sugar</td>
<td>-11%</td>
<td>0.11</td>
<td>down</td>
<td>bearish</td>
</tr>
</tbody>
</table>
And …. there are currency markets

- Continued talk of Mexican deliveries
- Big swing in CS Brazil ethanol allocation despite Reais
- Indian Rupee steady
- EU exports unprofitable
Market outlook

• Spreads will continue to pay a carry (but not in the whites....)

• Speculative interest in sugar could wain
  .... other markets have better “stories”

• Dollar strength / Reais weakness should cap upside

• But there are changes taking place in the commercial market
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Export availability...

- CS Brazil production – down 6mmt and Apr-Aug export – down 3.3mmt
- Thai mills are allocating higher volume to whites – 4.1mmt remelt
- Indian mills not selling at current prices
Production totals
2014/15 – 32 mln
2015/16 – 31.2 mln
2016/17 – 35.6 mln
2017/18 – 36.1 mln
2018/19 – 30 mln-ish
Other ethanol thoughts

- Oil looks steady near $70
- WTI and Brent are diverging – eliminates Shale Gas
- Other ethanol programmes remain molasses-focused but are expanding
Key drivers for refiners – freight and WP
...and import demand

- Indonesia licences are not price-sensitive
- China raw sugar imports now on level playing field
- Bangladesh / UAE steady
- EU imports disappoint
Domestic Prices

- ISA price has fallen by 45%
- Mexican consumers have not seen any change
- Indian consumers have seen a 17% reduction
- Chinese consumers get a 29% reduction, but import taxes have increased...
Changing Trade Landscape

- From WTO to UN SDGs
- Bilateral Trade Agreements to binary trading routes
- Single-origin traders / brokers => inflexible trading books
The traders’ dilemma
Conclusions: Market in flux

- Consolidation / Rationalisation
- Surplus
- Export (bilateral)
- Ethanol
- Price / Spreads

International Sugar Organization
Forward View

- No obvious increase in industry capacity although de-bottlenecking continues
- No weather guarantee
- Indian swing-cycle returns
Thank you

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