

Sugar

Charley Xia



d Intercontinental Exchange, nearby futures, no. 11 contract (October to September).



Sugar

Sugar prices to fall to a 10-year low, driven by record world supplies.

World sugar prices to remain low and volatile

In 2018–19 world sugar prices are expected to fall to a 10-year low due to elevated world production and record carry-over stocks. World production is expected to exceed consumption for the second year in a row, sustaining high export availability. World import demand is expected to fall due to plentiful supplies in major consuming countries, including China, the European Union, India and the United States.

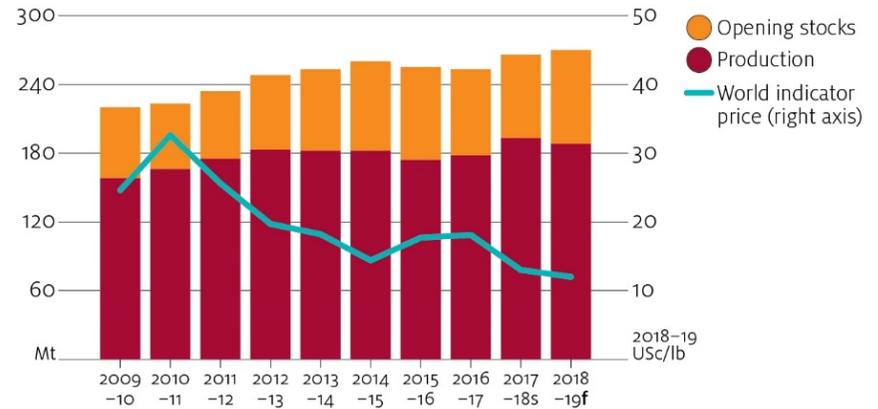
Support policies affecting export decisions in India and Thailand are expected to increase price volatility in 2018–19. Returns to Australian canegrowers are expected to be lower as a result of falling world prices.

High world sugar production

World production in 2018–19 is forecast to be lower than the record level reached in 2017–18. Sugar production in Brazil is expected to fall as the volume of sugarcane allocated to ethanol production increases. EU production is expected to fall more substantially because dry conditions have affected beet yields. Sugarcane yields in India and

Thailand have also been affected by less favourable growing conditions.

World sugar supply and price, 2009–10 to 2018–19



f ABARES forecast. s ABARES estimate.

Despite these declines, world production is forecast to be the second-highest on record. This is a result of previous area expansions in countries with distortionary support policies, including the European Union, India and Thailand.

Opportunities and challenges

Interventionist policies impeding market adjustment

Biofuel and sugar support policies in Brazil, India and Thailand have been revised due to low world sugar prices, uncertainty in global crude oil markets and the rising cost of oil imports resulting from the high US dollar.

Changes in the domestic support policies of these major exporting countries will lead to greater price volatility. The potential for greater

biofuel production to lift world sugar prices over the remainder of 2018–19 will be muted by record world sugar stocks.

World sugar production, forecast year on year change, 2018–19



Trade uncertainty and distortions creating volatility

The Indian Government has mandated domestic sugar mills to export 5 million tonnes of sugar in 2018–19. This volume exceeds Australia's total annual production. However, Indian mills are holding out because of low world prices and in anticipation of greater industry assistance due to looming state elections in 2019. Uncertainty surrounding the timing and volume of Indian exports is creating market volatility.

China's import tariffs on sugar, designed to safeguard its domestic industry, are expected to direct world exports to other Asian and Middle Eastern markets. The redirection of exports to markets such as

Indonesia, Japan and the Republic of Korea is expected to put pressure on returns to Australian canegrowers.

Australia's Sugar Code of Conduct Review

The final report of the review of the Sugar Code of Conduct will be presented to the Australian Government at the end of 2018. The review has examined the appropriateness of the code to regulate unconscionable conduct in the sugar supply chain and guarantee the grower choice of marketing entity for on-supply of sugar. It has also assessed the impact of the code on industry competitiveness and its net benefit to the Australian community.

In their reviews of the sugar industry, the Australian Government Productivity Commission and the Queensland Productivity Commission found no evidence of market failure that could warrant legislative intervention. Both reviews questioned the legitimacy of providing growers an entitlement to the sugar produced by millers.

Health awareness constraining growth in demand

Falling world prices are expected to lead to some growth in world sugar consumption in 2018–19. However, world demand growth is being constrained by health concerns, slow population growth in advanced economies and a substitution towards alternative sweeteners.

Future growth in world sugar demand will depend on income growth in developing countries and whether increasing health-consciousness in these countries limits per person consumption. Expected health policy changes in emerging and developing economies are likely to reduce longer-term growth in demand and place downward pressure on prices.



Outlook for sugar ^a

Category	unit	2016–17	2017–18 ^s	2018–19 ^f	% change
World ^b					
Production	Mt	178	193	188	- 2.6
Brazil	Mt	41.1	31.2	30.0	- 3.8
Consumption	Mt	181	183	186	1.6
Exports	Mt	68.8	63.0	62.0	- 1.6
Closing stocks	Mt	72.5	82.5	84.5	2.4
Stocks-to-use ratio	%	40.2	45.1	45.4	-
Price	USc/lb	17.3	12.7	12.0	- 5.2
Australia ^c					
Area	'000 ha	402	377	380	0.8
Production	kt	4,772	4,500	4,700	4.4
Exports	kt	3,970	3,607	3,600	- 0.2
value	A\$m	2,424	1,687	1,550	- 8.1
Returns to canegrowers	A\$/t	44.4	36.2	31.2	- 13.7

^a Volumes are raw equivalent. ^b October–September years. ^c July–June years. ^f ABARES forecast. ^s ABARES estimate.

Sources: ABARES; Australian Bureau of Statistics; Australian Sugar Milling Council, Annual Review, Brisbane; F.O. Licht, International Sugar and Sweetener Report, World Sugar Balances, Ratzburg, Germany; International Sugar Organization, London; US Department of Agriculture, Washington