

Sugar

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

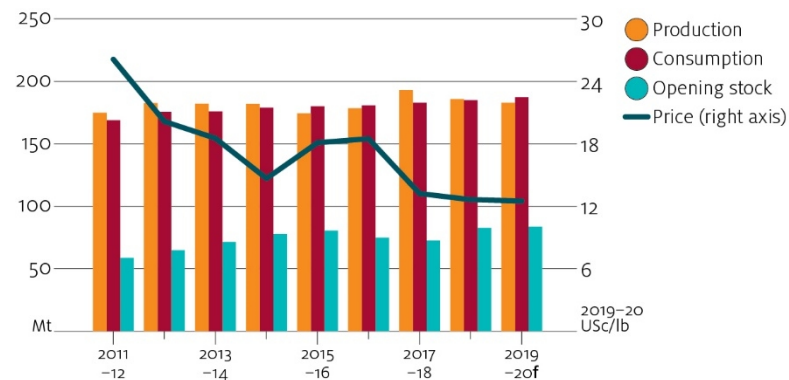
Sugar

Sugar prices to remain low due to record carryover stocks.

World sugar prices to rise marginally in 2019–20

The world indicator price for raw sugar (Intercontinental Exchange, nearby futures, no. 11 contract) is forecast to rise by 1% to US\$12.5 cents per pound in 2019–20. World consumption is forecast to exceed production for the first time in 2 years, placing some upward pressure on prices. However, high carry-over stocks will provide a substantial buffer against any substantial rise in prices.

World sugar balances, 2011–12 to 2019–20



^f ABARES forecast.

Note: October to September year. Volumes are in raw equivalent.

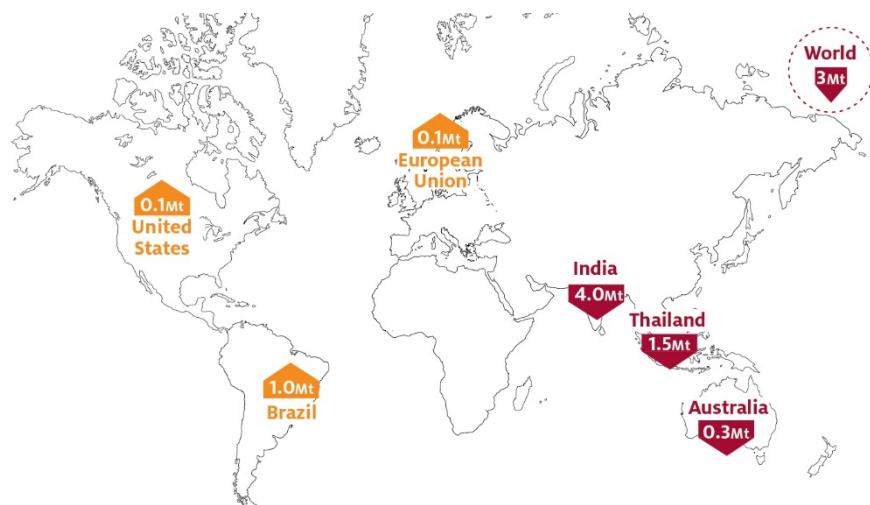
World production is forecast to fall in 2019–20 because production decreases in Australia, India and Thailand are expected to more than offset increases in Brazil. Mills in India and Thailand are under significant pressure to export record carry-over stocks to accommodate forthcoming production and pay farmers. This is expected to cause strong price competition in import markets.

In 2019–20 Brazil's sugar production is forecast to increase from 5-year lows. Brazilian mills have focused on ethanol production in 2019 but are expected to reduce their allocation of cane to ethanol production in 2020. Returns to ethanol are forecast to fall because a depreciating Brazilian real will improve returns to sugar exports and falling oil prices will reduce demand for ethanol. The introduction of a carbon market in Brazil in 2020 is expected to limit falls in demand for ethanol.

India's sugar production is expected to fall significantly in 2019–20. This follows a fall in the area planted to cane in 2018 as a result of below average seasonal conditions during last year's planting season. The current monsoon season has also caused significant flooding to growing regions in Maharashtra, the second largest cane-producing state in India.

In Thailand, the rising prices of corn, cassava and rice relative to sugar cane are estimated to have reduced the area planted. EU beet production is forecast to rise marginally from the low drought-affected levels in 2018. In Australia, below average seasonal conditions are estimated to have reduced cane yields for the 2019 crushing season.

Forecast changes in sugar production, major producing countries, 2019–20



Note: October to September year. Volumes are in raw equivalent.

Lower Australian dollar to support export returns

In 2019–20 the Australian dollar is forecast to depreciate more against the US dollar relative to the currencies of competitors including Brazil, India and Thailand. This is expected to improve Australia's competitiveness in Asian import markets.

A greater proportion of Australia's reduced 2019 crush of raw sugar is expected to be stored and sold later through futures contracts. The price of March 2020 contracts traded at a \$30 per tonne premium compared to October 2019 contracts in early September 2019.

Opportunities and challenges

Record carry-over stocks in India and Thailand

Less than expected falls in production in India and Thailand in 2019–20 risks increasing the pressure on sugar mills to offload record carry-over stocks. Carry-over stocks in both countries are estimated at 22 million tonnes. This represents around 35% of annual world trade and is equivalent to Brazil's average annual exports over the last 3 years. The export of carry-over stocks presents a significant downside risk to forecasts of moderate price rises.

WTO investigation into Indian Government subsidies

Australia's sugar industry has been concerned about India's long-running sugar subsidies for many years, and considers that these subsidies have contributed to a glut in the global sugar market and driven prices lower, negatively affecting Australia's sugar industry.

Australia considers India is in breach of its World Trade Organization (WTO) obligations in providing these subsidies. At Australia's request, the WTO Dispute Settlement Body established a panel on 15 August 2019 to hear the dispute. Disputes against India's sugar subsidies have also been taken by Brazil and Guatemala and dispute panels were established at the same time.

In India, millers are under pressure to reduce inventories and pay the agreed share of their government subsidies to cane farmers. The total mill arrears payable to farmers remains at record levels. However, a range of further Indian Government bailouts has resulted in some millers holding out strategically to minimise losses. Bailouts include increases to domestic sugar prices, ethanol mandates, government purchases, export subsidies and provision of soft loans.

Government subsidies supporting the Indian sugar industry reduce market competition and incentives to innovate. Impediments to resource reallocation and entrepreneurship are expected to constrain long-term productivity growth in the Indian sugar industry.

Consumption growth constrained by health awareness and sugar taxes

World sugar consumption is forecast to increase by 1% in 2019–20. However, world demand growth is being constrained by health concerns, sugar taxes and a substitution towards alternative sweeteners.

In the past 2 years, sugar taxes have been legislated in India, Ireland, the Philippines, Portugal, Saudi Arabia, South Africa, Sri Lanka, Thailand, the United Arab Emirates and the United Kingdom. Malaysia is the latest country to introduce a tax on sugar-sweetened beverages. The introduction of sugar taxes globally is expected to further constrain demand growth and provide an incentive for food and beverage industries to reduce sugar content and diversify products.

Investments in the Brazilian sugar industry

The RenovaBio program is attracting global investments in the Brazilian sugar industry. Brazil already has 339 sugar mills capable of processing 763 million tonnes of cane per year. These investments are expected to further increase the productivity and capacity of sugar milling for sugar and ethanol production in Brazil over the next decade. This will place further downward pressure on prices in the medium term.



Australian Government
Department of Agriculture
ABARES

Outlook for sugar ^a

Category	unit	2017–18	2018–19 s	2019-20 f	% change
World b					
Production	Mt	193	186	183	– 1.5
Brazil	Mt	31.2	30.0	31.0	3.3
Consumption	Mt	183	185	187	1.3
Exports	Mt	63.0	65.3	66.7	2.1
Closing stocks	Mt	82.5	83.5	79.1	– 5.3
Stocks-to-use ratio	%	45.1	45.2	42.3	–
Price	USc/lb	12.7	12.4	12.5	1.2
Australia c					
Area	'000 ha	389	380	375	– 1.3
Production	kt	4,481	4,725	4,450	– 5.8
Exports	kt	4,032	4,217	3,654	– 13.3
value	A\$m	1,536	1,680	1,533	– 8.8
Returns to canegrowers	A\$/t	39.4	35.1	36.9	4.9

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

Sources: ABARES; ABS; ASMC; F.O. Licht; International Sugar Organization; USDA