

What's Hot: On a sugar high, owing to weak supply

Published April 14, 2023

Aneeka Gupta

Director, Macroeconomic Research, WisdomTree Europe

Sugar prices have soared this year, up +21.6%¹ owing to concerns about tight global supplies. Lower Indian supply coupled with weaker than expected output from Thailand, (at the second and third largest sugar exporters respectively) continue to provide a tailwind for sugar prices. While Brazil's harvest in the coming months is expected to be strong, logistical hurdles owing to higher exports of soybean and corn could restrict supplies over the coming months thereby supporting sugar prices higher.

Net speculative positioning on sugar is 139% above the 5-year average². Over the past month, short positioning has declined 16% highlighting the improvement of sentiment on the sugar market.

Figure 1: Net speculative positioning reflects positive sentiment on sugar

Source: Commodity Futures Trading Commission, Bloomberg, WisdomTree as of 4 April 2023.

Historical performance is not an indication of future performance and any investments may go down in value.

Weaker sugar supply from India

India is one of the largest exporters of white sugar, but shipments are controlled by quotas. The Indian Sugar Mills Association (ISMA) latest report indicate that Indian sugar production fell marginally to 28.2mt so far this season through 15 March³. ISMA cut its sugar production estimate for 2022/23 crop year to 33.5mn tons from 34.5mn tons on account of lower output and more use of sugarcane for biofuel.

Sugarcane processing in Maharashtra, the most important growing state, could end 45-60 days earlier than last year because heavy rainfall has reduced the availability of sugarcane. Sugar production in Maharashtra is likely to total a mere 12.8mn tons according to the chief of State's sugar commission, nearly 1mn tons less than previously anticipated. Lower sugar output is raising concerns that the India government could restrict additional exports.

More use of sugar diverted to India's Biofuel program

At the same time, Indian Prime Minister Narendra Modi is pursuing an aggressive biofuel program that will see more sugar cane diverted to make ethanol to help curb air pollution and reduce oil import bill. The biofuel program also lies in the interest of farmers by making use of excess local production and boosting their incomes. This season, the government plans to divert 5mn tons of sugar to make ethanol, up from

3.6mn tons a year earlier⁴. The eventual goal is to divert 6mn tons annually toward fuel production by 2025.

Figure 2: Sugar ending stocks decline for a third year in a row

Source: United States Department of Agriculture (USDA), WisdomTree as of 31 March 2023.

Historical performance is not an indication of future performance and any investments may go down in value.

Lower sugar production in Thailand remains price supportive for sugar

Thailand's Office of the Cane and Sugar board confirmed that Thailand crushed 93.88mt of sugarcane in 2022/23, lower than the initial estimates for more than 100mt of cane⁵. As a result, the bumper crop expected in Thailand is also falling short, resulting in 2022/23 total sugar output in Thailand will be at around 11mn tons (versus the 12mn tons expected earlier in the season)⁵.

Lower than expected output from Thailand combined with less supply from India remains price supportive for sugar. The front end of the sugar futures curve remains in backwardation yielding a positive roll yield of 2.9% reflecting tightness in the market for short term balances.

Figure 3: Sugar futures curve remains in backwardation

Source: Bloomberg, WisdomTree as of 31 March 2023.

Historical performance is not an indication of future performance and any investments may go down in value.

Logistical bottlenecks could restrict supply from Brazil

Looking ahead, progress of the sugar crop in the Centre- South region of Brazil remains a key headwind for sugar prices. Brazil sugar production is expected to be over 36.5mn tons in 2023/24, only slightly less than the all-time high of 38.4mn tons seen in the 2020/21 marketing year⁶. However, shipping Brazilian sugar could face delays in the Port of Santos as it competes with exports of other Brazilian grains such as corn and soybean. Road freight is also likely to face significant price increases. Santos terminals receive sugar and grains by trains and trucks. However, competition from transporting soybeans has been taking space away from sugar in train cars. Higher freight prices impact the margins of the mills.

Likelihood of El Niño, if realised, remains price supportive for sugar

With La Niña over, there is now a chance the Pacific Ocean surface could warm later this year and spark what is called El Niño. The US Climate Prediction Centre has raised the likelihood of an El Niño emerging between August and October to 74% from 61% a month ago. One common knock-on effect is higher precipitation volumes which would be positive for sugar prices over the medium term with fewer milling days and sugar production. El Niño could bring relief to drought parched areas of Argentina and southern US, but it could also lead to hotter and drier conditions in parts of Asia and Australia.

Conclusion

Restricted supply from India alongside lower supply from Thailand have helped sugar along its upward journey so far. Looking ahead, with the Argentinian soybean crop forecasts struggling in the face of the ongoing drought, we expect Brazil to do a lot of the heavy lifting by offsetting the shortfall in supply of both soybean and corn. This is why, logistical hurdles are likely to impede the supply of Brazilian sugar thereby supporting sugar prices higher over the medium term.

1 Source: Bloomberg from 31 December 2022 to 11 April 2023

2 Commodity Futures Trading Commission as of 4 April 2023

3 Indian Sugar.com

4 Bloomberg as of 30 March 2023

5 Oscb.go.th

6 Unica.com.br

Related blogs

+ [What's Hot: Fundamentals favour soybean, sugar and wheat](#)

+ [Brazil dynamics drive sugar higher](#)

Related products

+ [WisdomTree Sugar \(SUGA\)](#)

+ [WisdomTree Sugar 2x Daily Leveraged \(LSUG\)](#)

+ [WisdomTree Softs \(AIGS\)](#)

+ [WisdomTree Sugar - EUR Daily Hedged \(ESUG\)](#)

+ [WisdomTree Sugar 3x Daily Leveraged \(3SUL\)](#)

Important Risks Related to this Article

Important Information

Marketing communications issued in the European Economic Area (“EEA”): This document has been issued and approved by WisdomTree Ireland Limited, which is authorised and regulated by the Central Bank of Ireland.

Marketing communications issued in jurisdictions outside of the EEA: This document has been issued and approved by WisdomTree UK Limited, which is authorised and regulated by the United Kingdom Financial Conduct Authority.

WisdomTree Ireland Limited and WisdomTree UK Limited are each referred to as “WisdomTree” (as applicable). Our Conflicts of Interest Policy and Inventory are available on request.

For professional clients only. The information contained in this document is for your general information only and is neither an offer for sale nor a solicitation of an offer to buy securities or shares. This document should not be used as the basis for any investment decision. Investments may go up or down in value and you may lose some or all of the amount invested. Past performance is not necessarily a guide to future performance. Any decision to invest should be based on the information contained in the appropriate prospectus and after seeking independent investment, tax and legal advice.

The application of regulations and tax laws can often lead to a number of different interpretations. Any views or opinions expressed in this communication represent the views of WisdomTree and should not be construed as regulatory, tax or legal advice. WisdomTree makes no warranty or representation as to the accuracy of any of the views or opinions expressed in this communication. Any decision to invest should be based on the information contained in the appropriate prospectus and after seeking independent investment, tax and legal advice.

This document is not, and under no circumstances is to be construed as, an advertisement or any other step in furtherance of a public offering of shares or securities in the United States or any province or territory thereof. Neither this document nor any copy hereof should be taken, transmitted or distributed (directly or indirectly) into the United States.

Although WisdomTree endeavours to ensure the accuracy of the content in this document, WisdomTree does not warrant or guarantee its accuracy or correctness. Where WisdomTree has expressed its own opinions related to product or market activity, these views may change. Neither WisdomTree, nor any affiliate, nor any of their respective officers, directors, partners, or employees accepts any liability whatsoever for any direct or consequential loss arising from any use of this document or its contents.