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

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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 average[2]. 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 March[3]. 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 earlier[4]. 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.

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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 cane[5]. 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.

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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 year[6]. 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

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