

Sugar likely to have limited gains

Substantial carry-over stocks and net supply exceeding demand may cap the gains

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After a relatively long spell of over-supply and depressed prices, the 2018-19 sugar season (October-September) has finally brought some cheer, with prices at ₹33-34/kg.

As India entered the new crushing season starting October 1, sugar is likely to turn sweeter on expectations of lower output.

Domestic factors

India, now the world's top sugar producer, is heading towards its lowest sugar output in three years primarily due to erratic rainfall leading to floods in Maharashtra and Karnataka.

The Indian Sugar Mills Association (ISMA) estimates the country's sugar output to drop 19 per cent to 26.85 million tonnes (MT) in 2019-20 from 33.46 MT in 2018-19. First, drought and then devastating floods reduced cane acreage by 33 per cent in Maharashtra and by 21 per cent in Karnataka. Together, these two States account for 35-40 per cent of India's sugar output.

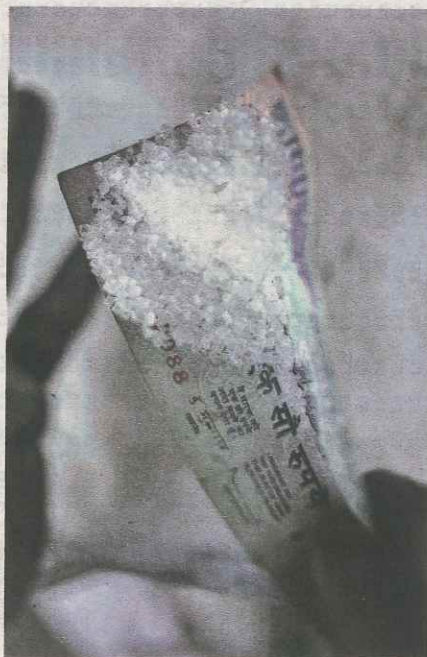
Prolonged water-logging in August and September affected major cane-growing areas such as Sangli, Satara, Kolhapur and Pune in Maharashtra, and Belgaum and Bijapur districts in North Karnataka, which will lower cane yield as well as sugar recovery.

Sugar production in Maharashtra is likely to be 40 per cent lower at 6.2 MT, while that for Karnataka may drop 27 per cent to 3.2 MT in 2019-20 compared with the 2018-19 sugar season.

ISMA's first release on sugar output for the new season (2019-20) signals that the year had a bad start — India's sugar production till November 15 was seen at 64 per cent lower than last year's output.

Ethanol diversion

ISMA suggests that India's sugar output may further go down by at least 0.85 MT because of increased diversion of sugarcane juice and B-molasses for ethanol. So far in the 2018-19 ethanol supply year (December-November), 1.88 billion litres of ethanol have been supplied to oil marketing



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companies (OMCs) against their requirement of 3.3 billion litres of ethanol.

However, ethanol outlook is more optimistic in the new season as OMCs have already floated their first tender of 1.63 billion litres against the total requirement for 5.11 billion litres.

Delhi's worsening air pollution may further induce the government to push for cleaner fuel through higher ethanol blending.

Export prospects

India has shipped 3.8 MT of sugar against the minimum indicative export quota (MIEQ) of 5 MT for

2018-19. In an effort to help mills export the balance and yet remain eligible for receiving export incentives, New Delhi has extended the export window by another three months till December 31.

For 2019-20, the government has set the export quota (MIEQ) at 6 MT, and as per ISMA, 2 lakh tonnes of sugar have already been exported in just a month, and contracts for another 1.2 MMT have been signed.

Global factors

The global sugar market seems to be heading towards a deficit zone of around 6 MMT in 2019-20



Rained in
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due to significant output drops in India, says United States Department of Agriculture (USDA). The current year for India is likely to witness a serious production deficit, after nine years of surplus, barring 2015-16.

Thailand, is likely to produce less due to bad weather and subdued global sugar prices. Brazil, on the other hand, is expected to have lower sugar-ethanol ratio due to strong ethanol demand and inferior returns on sugar. USDA estimates not more than 35 per cent of Brazil's sugarcane output will be for sugar, as opposed to 35.9 per cent in 2018-19.

Outlook

In the light of lower output, both domestically and globally, and the government's support measures, sugar prices are set to go up steadily. India is sitting at a carry-over stock of 14.5 MT, but at the end of sugar season 2019-20, it should fall to 9-10 MT.

However, it is still enough to keep India's net supply higher than its demand. That will cap the prices from hardening too much.

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