Raw Input

Sugar prices to remain firm

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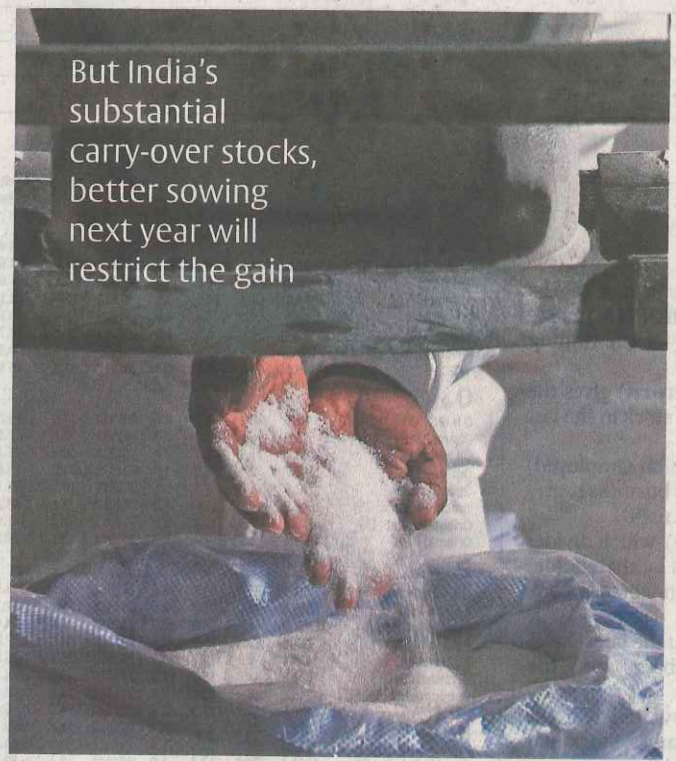
From the beginning of 2020, a renewed sense of optimism has come to characterise global sugar market after a long spell of gloom and doom.

On February 12, London sugar prices on ICE (Intercontinental Exchange) rose to a two-and-a-half years high of 15.56 cents/pound, thanks to the expectation of lower output in Thailand and India mainly due to unfavourable climatic conditions.

That has led to forecasting agencies further pruning down their production estimates for 2019-20.

Overall, tighter supply is expected to keep sugar prices high in the current season, but India's substantial carry-over stocks and better sowing next year will restrict the gains.



AFP

Reduced output

India, which recently dethroned Brazil to become the world's largest sugar producer, is likely to witness a three-year low in sugar output in 2019-20 due to droughts, erratic rainfalls and floods, and increasing ethanol diversion.

The Indian Sugar Mills Association (ISMA) and the trade body AISTA (All India Sugar Trade Association) estimate the country's sugar output at 26.5 million tonnes (mt) and 27.5 mt, respectively, for 2019-20, compared with 33.16 mt achieved in 2018-19. In the ongoing season, sugar output between October 1 and February 15 is short by 23 per cent to 16.98 mt against the same period a year back. ISMA predicts a fall of 40 per cent in Maharashtra's sugar output to 6.2 mt due to droughts in Marathwada, and August-September floods in Sangli, Satara, Kolhapur and Pune. In the case of Karnataka, sugar output is expected to fall by 25 per cent to 3.3 mt.

However, a marginal improvement in sugar output to 12 mt, though on reduced acreage, is likely in the top sugar-producing State of Uttar Pradesh, owing to its high-yielding cane variety, Co-0238.

ISMA expects the sugar output to be low by 0.85 mt due to increasing diversion of cane juice and B-molasses to meet increased demand for ethanol.

The Centre's offer to provide a subsidy of 6 per cent on interest towards loan taken for adding ethanol-production facilities may help in bridging the gap between the ethanol demand of 5.11 billion litres against the current capacities at 3.5 billion litres.

The Centre struggling to do away with a huge stockpile of over 14 mt has mandated an export target of 6 mt in the current season. The government is giving subsidy at $146/tonne to exporters, subject to their meeting the allocated export quota.

With a recent price surge in January-February, the rates have become favourable for India's sugar export over domestic sales. Till mid-February (from October 1, 2019) India shipped close to 2 mt of sugar and signed contracts for over 3 mt. Further, Indonesia has come forward to buy more Indian sugar by reducing duty and relaxing norms under International Commission for Uniform Methods of Sugar Analysis (ICUMSA) amid an India-Malaysia spat (a rival palm oil supplier); more orders are expected from neighbouring countries including Bangladesh, Myanmar and Afghanistan.

Last year, India managed to export only 3.8 mt of sugar against a target of 5 mt.

Scan & Share

The forecasts of a substantial decline in the current season's output and bettering export prospects are expected to keep domestic sugar prices firm. However, in 2020-21 season, things could be different, with relatively good crop conditions, including improved soil moisture, that can push India's sugar output to 30 mt.

However, one must watch the upcoming monsoon.

Global factors

The world sugar market is headed towards a production deficit of over 6.6 mt in 2019-20. This is due to a 28 per cent drop in Thailand's output to a nine-year low, a 25 per cent fall in Mexico's production, a 20 per cent correction in India's sugar output, along with likely shortfalls in Australia, the European Union and the US. Moreover, Brazil has opted for an all-time low sugar-ethanol production mix, as only 34 per cent of its cane is going for sugar production.

There is growing optimism in the market that the sugar production deficit is likely to narrow down to 1.15 mt in 2020-21 on improved crop conditions in India and expectation of more cane diverted for sugar in Brazilian mills to benefit from increased prices. However, timely containment of the coronavirus may increase demand for crude oil and in turn provide a much needed support for crude oil prices. That will be a plus for ethanol and reduce the supply of sugar. Yet, one needs to watch the Brazilian ethanol-sugar mix.

Outlook

In the light of the sharp fall in domestic sugar output and somewhat low global production, sugar prices are expected to remain elevated.

However, the projections of a rebound in India's sugar output in 2020-21 may keep the upside in sugar prices capped.

The writer is co-founder, Director and Head of Agriculture, Food and Retail at Indonomics Consulting.

Not so sweet

India, which recently dethroned Brazil to become the world's largest sugar producer, is likely to witness a three-year low in sugar output in 2019-20