

# Bitter sweet prospects for sugar

Despite some positives, excess stock continues to keep a check on prices

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Amidst a global supply glut, depressed prices, unviable export, the never-ending problem of cane arrears and a huge pile-up of stocks, the Indian sugar industry has something to cheer about going forward, thanks mainly to the recent rally in global sugar prices, government support measures, a falling rupee and concerns over crop damages.

However, despite these favourable factors, the supply overhang will persist, and one shouldn't expect any sustained turnaround in sugar. A lot will depend on the sugar output numbers from Maharashtra and Karnataka affected by drought, and how Indian millers execute the export deals and deal with implementation of subsidies.

After a bumper crop of 32.5 million tonnes (MMT) in the 2017-18 sugar season (October-September), India's sugar stockpiles at the beginning of 2018-19 stays over 10 MMT, more than double the previous year's. With the next crop

expected to lead to 33.5 MMT or so, the total availability of sugar is set to reach an unprecedented level of 44 MMT in the new sugar season. Unfavourable climate and crop conditions have led agencies to trim their current year production estimates from the earlier 35.5 MMT.

Drought-like conditions delayed sugarcane planting in Maharashtra and some parts of Karnataka, the top sugar-producing States after Uttar Pradesh. In Maharashtra, 32 out of the 36 districts are facing water scarcity owing to deficient rainfall. Marathwada, which accounts for almost 25 per cent of the State's output, is the worst-affected region, recording a rainfall deficiency of 22 per cent. Usable water in the State's reservoirs is at 28 per cent against 65 per cent a year ago. This may leave Maharashtra staring at a yield loss of more than 20 per cent despite increased planting.

Further, lower-than-normal rainfall has helped the widespread outbreak of white



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grubs in Maharashtra and Karnataka, which is likely to further reduce the cane output. The Maharashtra government has already reduced the production estimate of sugar for 2018-19 from 10.5 MMT to 10 MMT.

## Export prospects

Given the government's recent financial support — including an increased production assistance paid to cane growers at ₹13.88 per quintal for the 2018-19 sugar year compared with ₹5.5/quintal for the previous year — experts estimate India could export at least 4 MMT sugar against a target of 5 MMT in the 2018-19 sugar season.

The falling rupee has further turned the export market in India's favour, and the recent rally in the global market

due to a significant production decline from Brazil and the EU has made Indian sugar more competitive.

The world sugar market is expected to see a deficit in 2019-20 from an expected surplus of 4-5 MMT in 2018-19 as Brazil, the EU and Thailand revise down their production estimates. The decline is significant in Brazil where mills have diverted more cane for the production of ethanol, and the dry weather has hurt the sugarcane crops. Similarly, dry and hot weather can drop the sugar output of the EU by 10 per cent.

Moreover, the competitive democratic politics in the run-up to the high-stake 2019 national election here may make the Centre come up with more dole-outs and support measures to put a check

over the falling sugar prices. However, the gains in sugar prices look very limited as improving export prospects and concerns over crop damage can't really offset the excess supply and carry-over stocks. Even if the government stores a buffer of 3 MMT to put a check on a price fall, and India succeeds in exporting 5 MMT (though, it looks difficult), the country is still likely to sit on a stockpile of 10 MMT.

## Outlook

The fall in the sugar seems to be over. Prices may witness some gains on the back of the production decline from competing countries, the expected yield loss in major producing States due to drought-like condition coupled with pest attack, and the hopes of continued government support aids.

However, these factors can only provide a little uptick in sugar prices, increasing its benchmark level. Any bullish trend doesn't seem likely at present as the market looks oversupplied.

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



## Export thrust

- Centre's increased financial assistance for growers
- Falling rupee
- Sugarcane deficits in global market due to dry weather

## Little uptick

Prices may witness some gains on the back of production decline from competing countries and hopes of continued government aids

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