

## Global Sugar and Sweetener Market after 2017



**CEFS**  
Dubrovnik – 9<sup>th</sup> June 2017

**José Orive, Executive Director  
International Sugar Organization**

# World Sugar Price Outlook?



## Further Declines? Or Impending Surplus Already Priced In?

SB - Sugar #11 - Weekly Nearest OHLC Chart



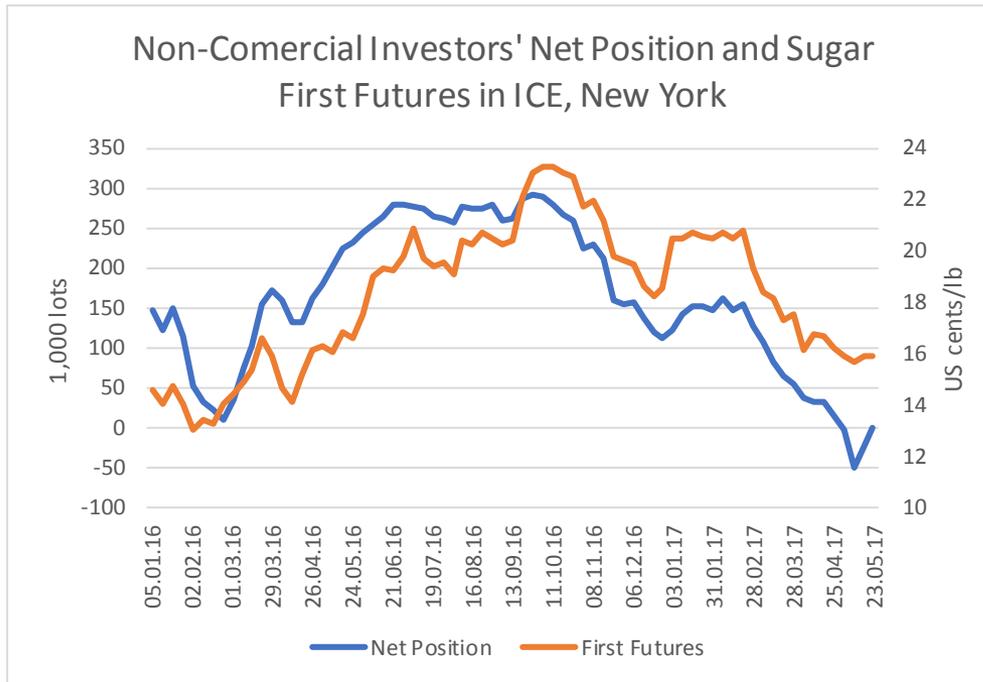
**Surplus**

**Deficit**

**Projected  
Surplus**

International Sugar Organization

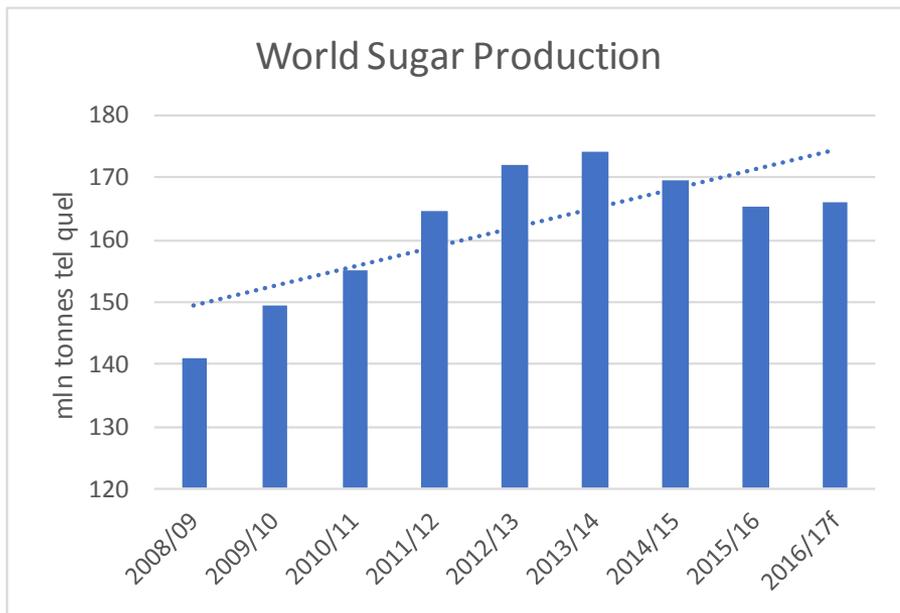
# Role of Speculative Funds?



- Net speculative position moved the price from 12-12.5 cents/lb in February 2016 to 24.1 cents/lb by end September.
- Net long rose from around 21,000 lots to almost 350,000 lots by September 2016.
- Followed by a SELL-OFF.
- At the end of 2016 speculators sold their long positions and by end of year their net long position represented 14% of open interest, compared to a massive 33% in September.
- Sell off continued in 2017.
- By end April had cut net long position to the lowest in 14 months to only 1% of open interest.
- In May hedge funds actually became net-short.



# World Production Down in 2016/17



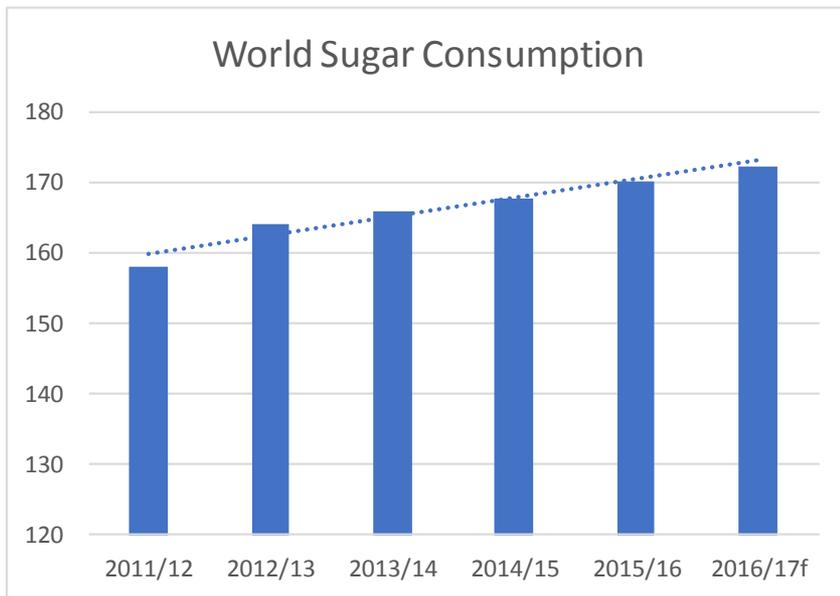
**World Production** in 2016/17 is put at 165.9 mln tonnes, up 0.5 mln tonnes or only 0.3% from estimated production in 2015/16. Global production is still too low to cover growing use of sugar.

## Main Production Falls and Rises in 2016/17 (October/September)

Falls	Changes from 2015/16 in mln tonnes, tel quel	Rises	Changes from 2015/16 in mln tonnes, tel quel
India	- 4.825	EU	+ 1.652
		Russia	+ 0.900
		China	+ 0.600
		Pakistan	+ 0.252



# World Consumption Growth Slows

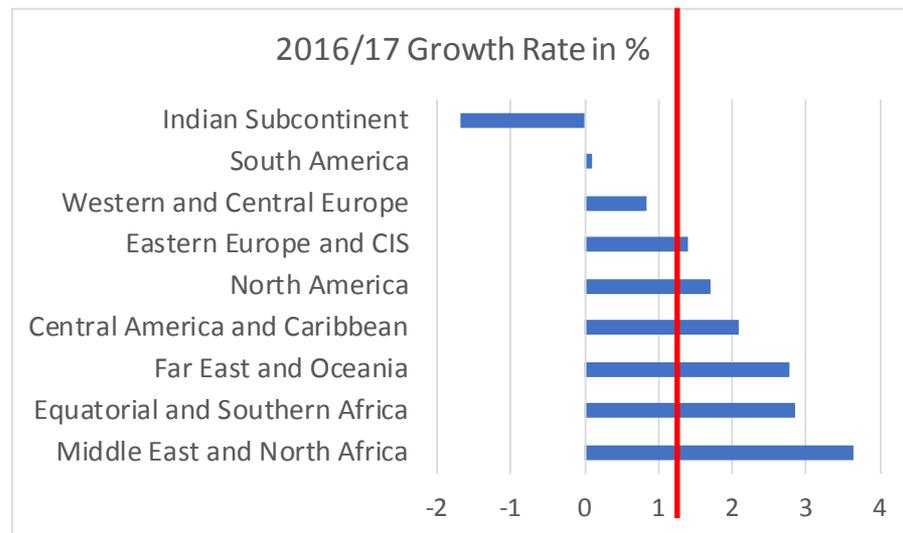


## Poor World Consumption Growth

In 2016/17 world sugar consumption is projected to grow by 1.2% to 172.4 mln tonnes.

The anticipated growth rate is lower than the world 10-year average of 1.94%.

Annual growth rate in %	2016/17	10-year average
Western and Central Europe	0.85	0.64
Eastern Europe and CIS	1.41	-0.86
North America	1.70	0.74
Central America and Caribbean	2.09	1.49
South America	0.10	0.28
Middle East and North Africa	3.64	2.22
Far East and Oceania	2.78	3.14
Indian Subcontinent	-1.69	4.24
Sub Sahara Africa	2.84	3.80
<b>WORLD</b>	<b>1.22</b>	<b>1.94</b>



# World Consumption – Long Term

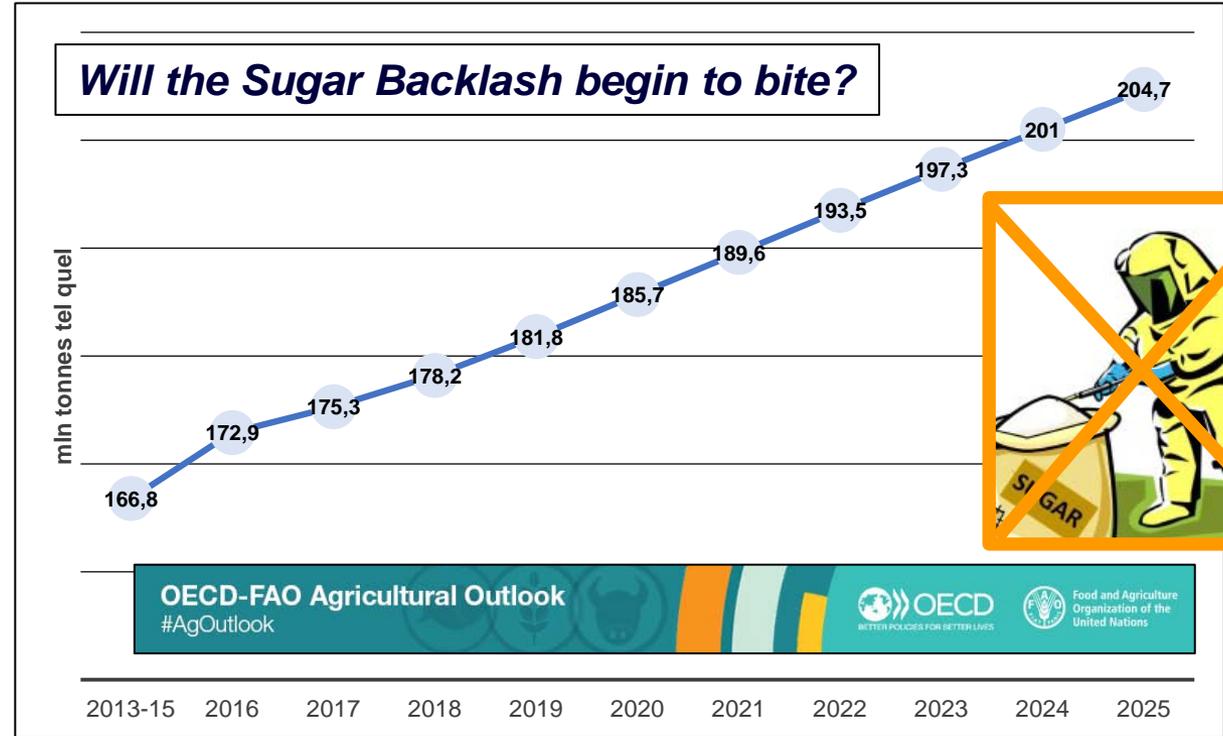


OECD and FAO project consumption of nearly 205 million tonnes of sugar in 2025

Increase of 18% compared to present

Mixed demand with stronger prospects in developing countries in Africa and Asia

## Projected World Sugar Consumption



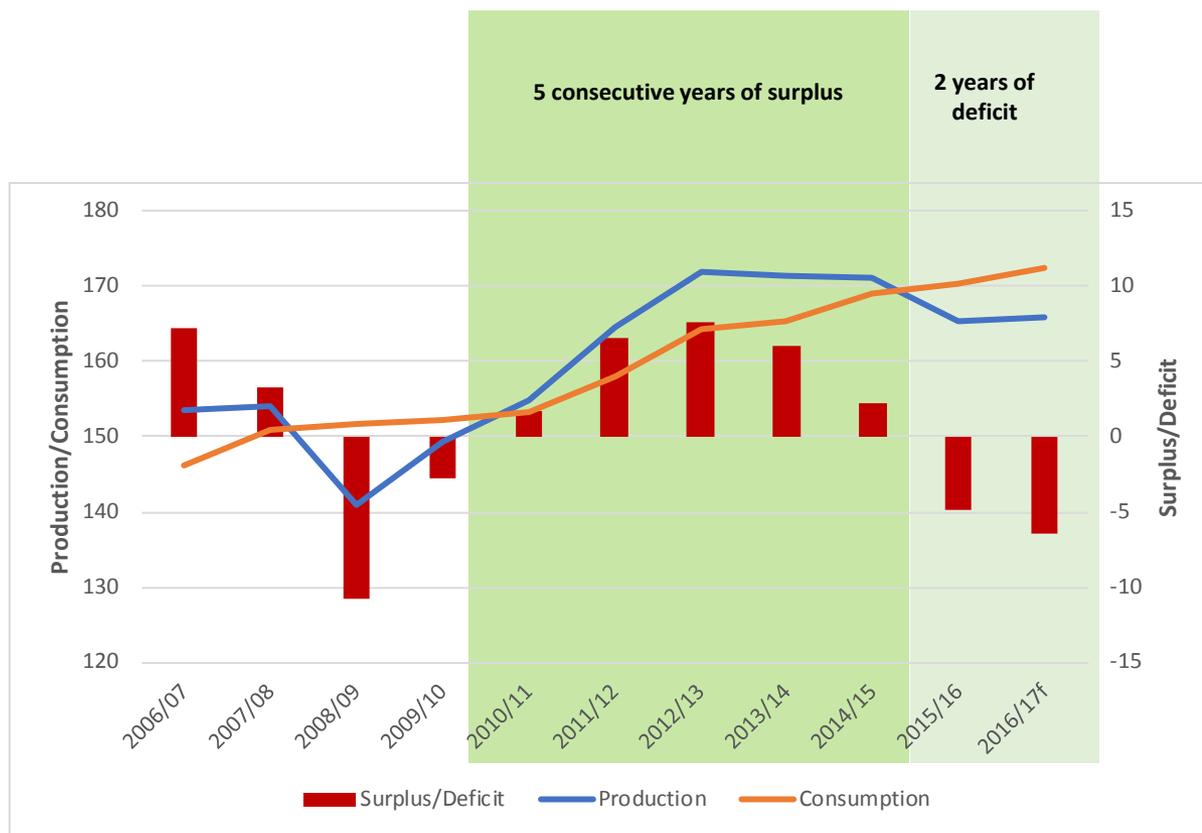
International Sugar Organization

# The World Sugar Balance 2016/17

After 5 years of surplus, the global sugar market moves into deficit in 2015/16 and 2016/17.

World Sugar Market Deficit

2015/16 : -4.9 mln tonnes  
2016/17 : -6.5 mln tonnes



# The World Sugar Balance 2017/18

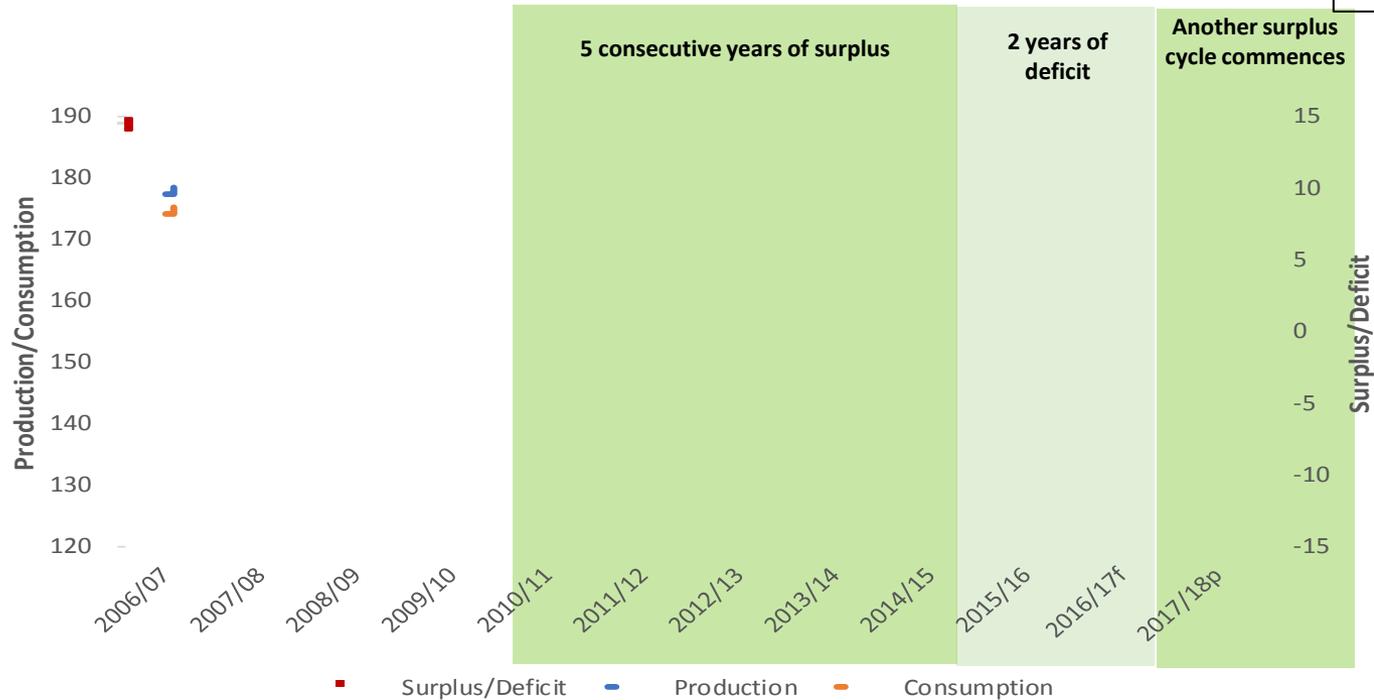


The world market to move back into Surplus in 2017/18...

...with global production possibly reaching a new all-time high of 178.5 mln tones tel quel....

...whereas consumption growth will likely still lag.

## World Sugar Market Surplus

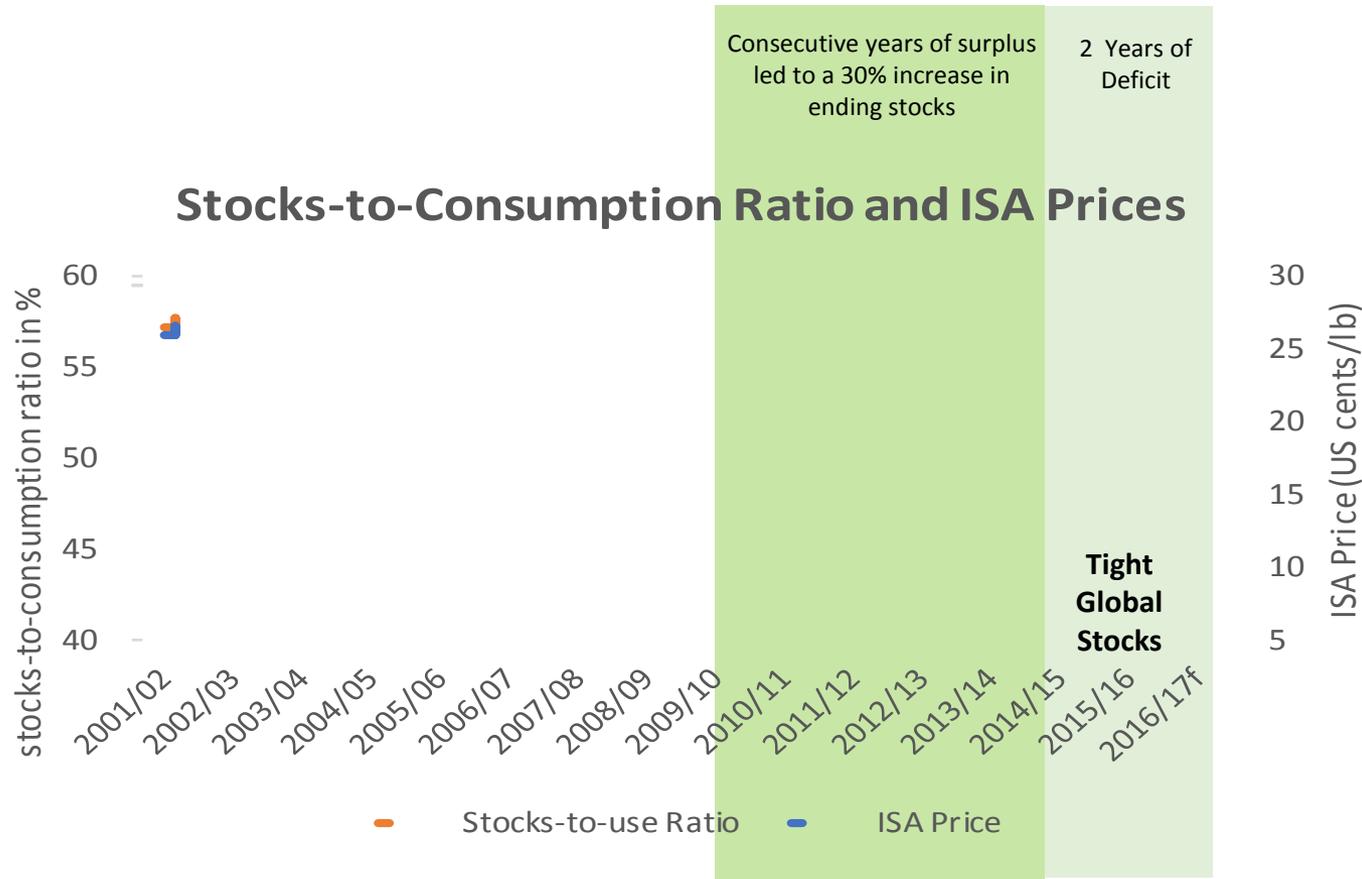


# Stock Levels are Low after 2 years of Deficit



**2 years of global production deficit with a combined stocks draw-down of 14.4 mln tonnes.**

A massive statistical deficit reduces further the stocks-to-consumption ratio in 2016/17 by a significant 4.57 percentage points, to 47.56%. This is the lowest level since 2010/11.



# Brazil Outlook - Fundamentals



## Centre/South

### Sugar Output Rises Despite Challenges to Cane Output

Investment in New Crystallization Capacity Offsets lower cane supply

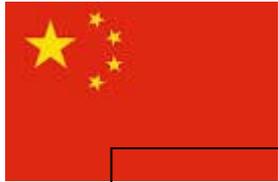
		2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
<b>Cane Crush</b>	Mln tonnes	533	597	571	618	607	596
<b>ATR</b>	Kg/tonne	135.6	133.3	136.6	130.5	133.0	133.4
<b>Sugar Ratio</b>	%	<b>49.5</b>	<b>45.2</b>	<b>43.1</b>	<b>40.7</b>	<b>46.3</b>	<b>48.0</b>
<b>Sugar Production</b>	Mln tonnes	34.1	34.4	32.0	31.2	35.6	36.3
<b>Ethanol Production</b>	Bln litres	21.4	25.6	26.1	28.2	25.7	24.2

**Sugar/Ethanol Mix in Centre South has big impact on world sugar balance. If sugar and ethanol prices begin to converge then sugar/ethanol mix will change!**

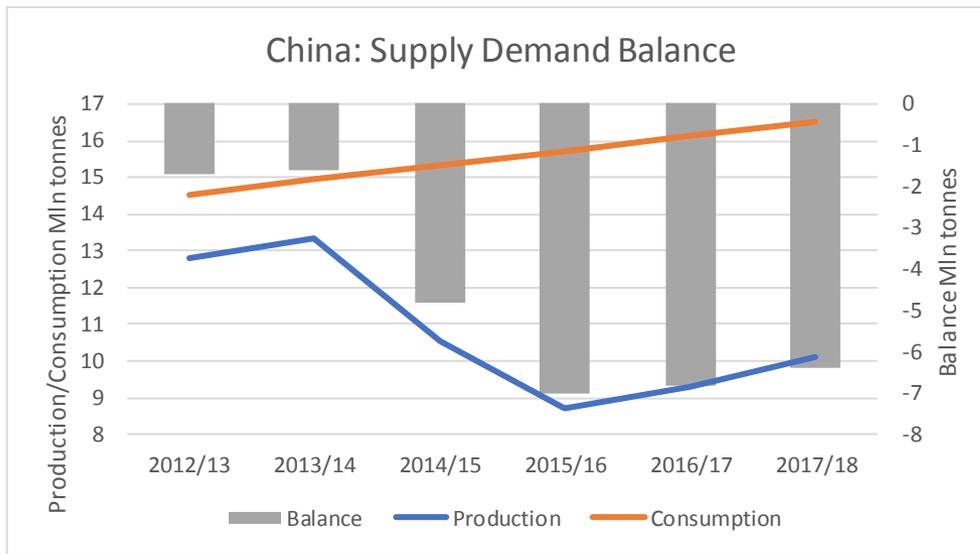
**Brazil is not the driver of boosted global production in 2017/18 – India and Thailand are.**



# China: How to Plug the 16/17 Deficit?



## Sugar Balance

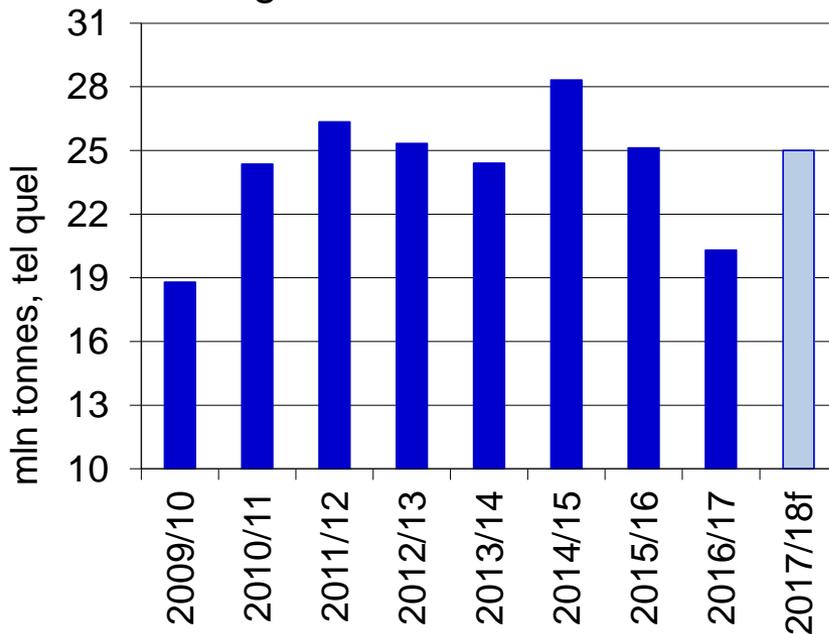


A deficit of around 6.8 mln tonnes in 2016/17 will be plugged by stocks releases (1.6 mln tonnes) and around 5.3 mln tonnes of imported sugar. But the antidumping duty on out-of-quota raw sugar imports from 45% to 90% could cut back imports, especially from Thailand and Brazil.

# How Much Will India Import?



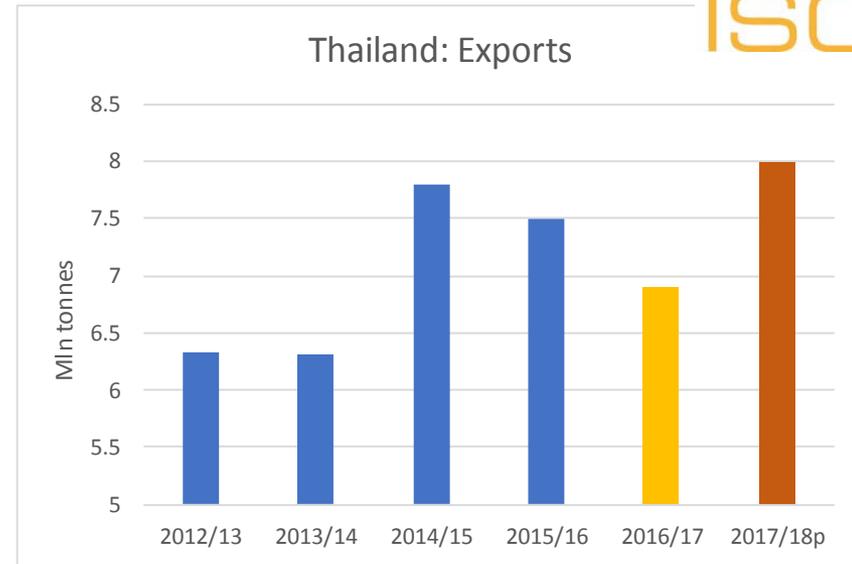
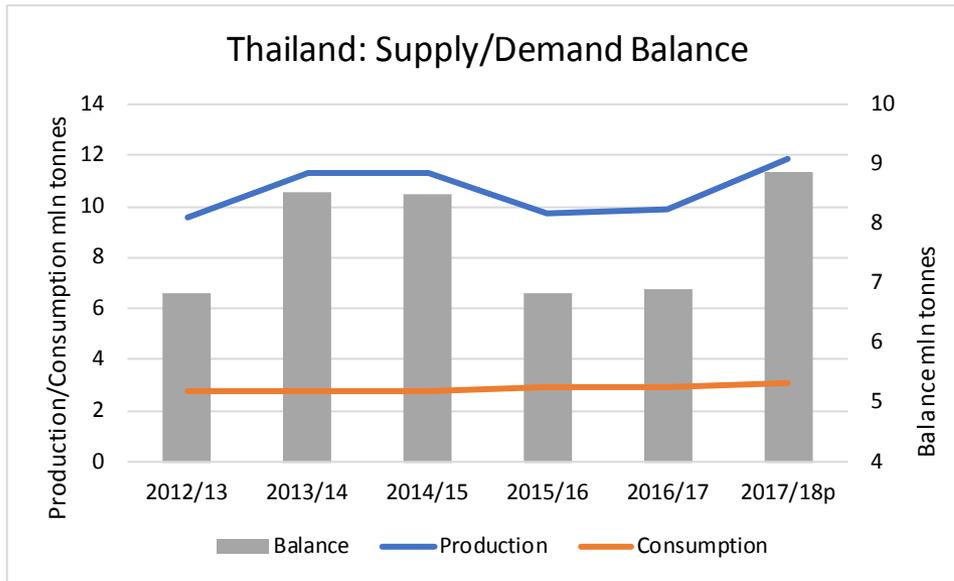
## Sugar Production in India



- 2016/17 crop slumps to 20.3 mln tonnes.
- Consumption forecast at 25.15 mln tonnes.
- Significant domestic deficit of around 5 mln tonnes.
- Government grants imports of 500,000 tonnes
- More imports?
- ISMA argues imports of 0.5 mln tonnes (on top of raw sugar imports by port refineries for re-export after refining) are adequate to meet domestic demand in the interim period, before sugar from the new crop comes onto the market.
- India may still need to import in 2017/18 even if production can recover to 25 mln tonnes.
- Rebound in plantings in Maharashtra and Karnataka following good 2016 monsoon and higher sugar prices.



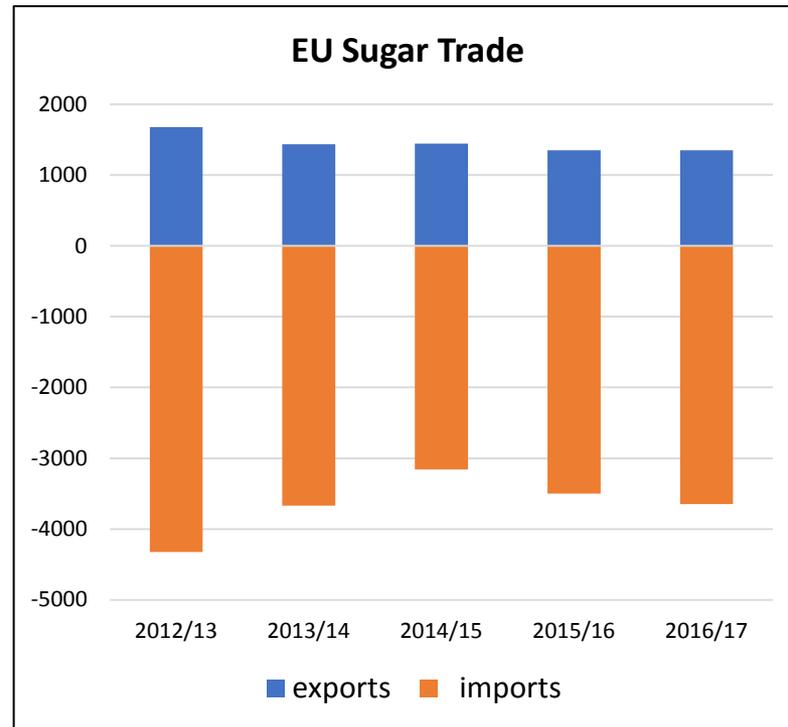
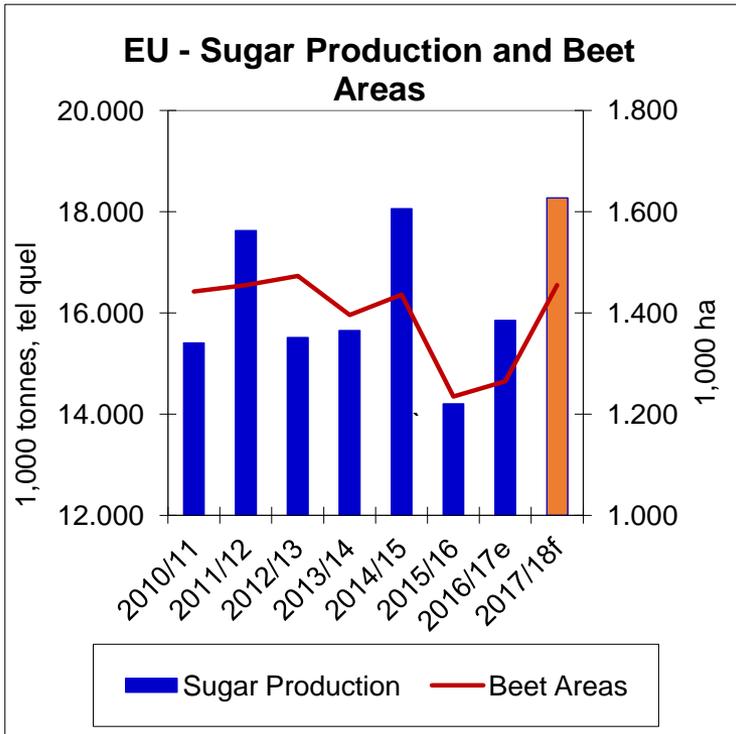
# How about Thailand?



- The Thai 2015/16 crop suffered from onset of a bad drought, cutting the cane crush to as low as 94 mln tonnes and sugar output to 9.7 mln tonnes.
- In 2016/17 the cane crush was cut further to 93 mln tonnes, but a higher sugar content boosted sugar output to 9.9 mln tonnes.
- For 2017/18, prospects point to a strong recovery in output with a return to more normal weather – possibly to as high as 11.9 mln tonnes.
- Changes to sugar policy in response to Brazil's WTO challenge will likely not impact Thailand's outlook but millers will face increased risks and uncertainties.



# EU Sugar : A production (and export) jump in 2017/18



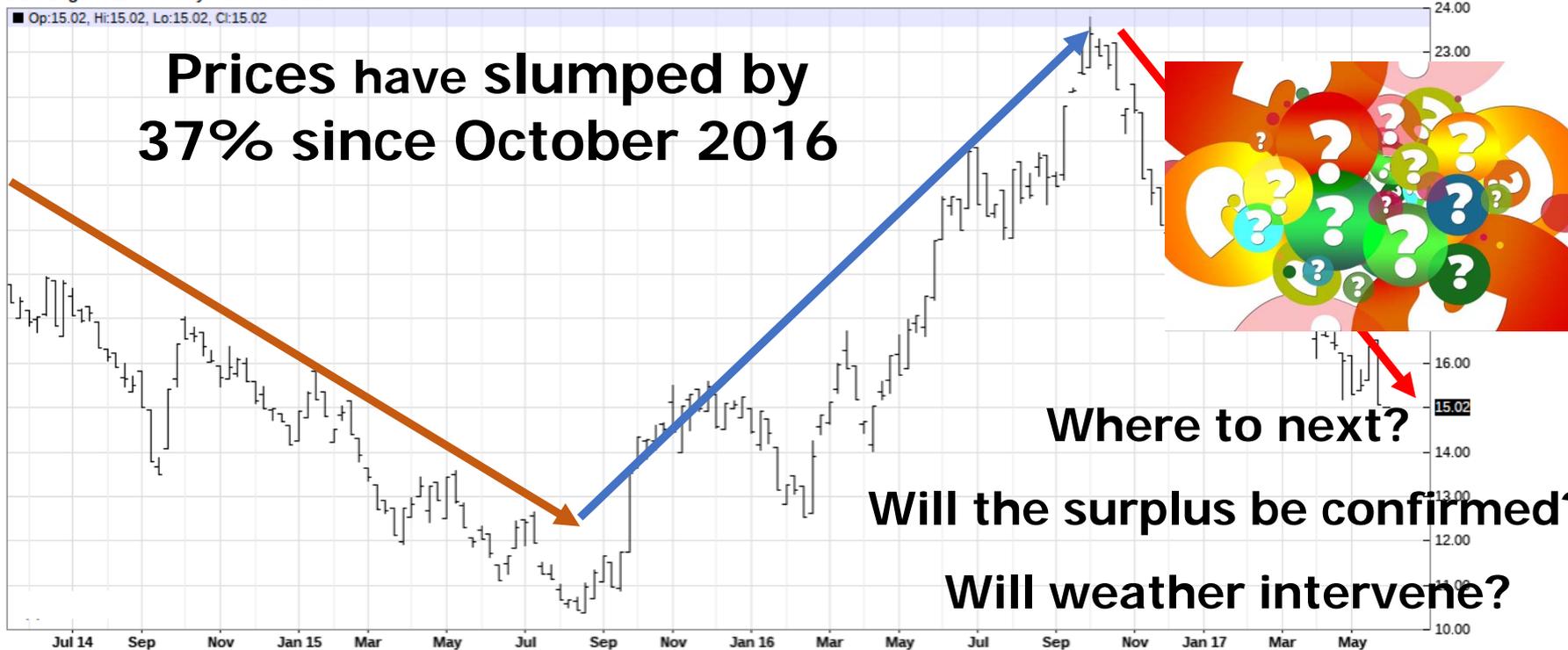
- Sugar production is expected to jump to around 18.3 mln tonnes (up 15.3% or 2.4 mln tonnes) in 2017/18, assuming normal weather conditions in the coming six months.
- Strong increase in planted area in readiness for liberalised EU market.
- Significant implications for EU sugar trade balance.

# World Sugar Price Outlook?



## Further Declines? Or Impending Surplus Already Priced In?

SB - Sugar #11 - Weekly Nearest OHLC Chart



Surplus

Deficit

Projected

Surplus

International Sugar Organization

# Renewed Market Weakness



- Likely return to a moderate surplus in 2017/18 (but stocks remain relatively low).
  - Driven by boosted area under beet in the EU; huge production recoveries in India and Thailand.
- No huge weather shock (although crops in Australia and Russia already downgraded).
- Brazil's Centre-South off to a solid start.
- India's announced import allowance below market expectations. More to come?
- China's raw sugar imports (official and un official) to be curtailed.
- Funds have been selling heavily.



# World Sugar Market Beyond 2017?



**Volatility!**



## Bullish Drivers & Risks

- Stock-to-consumption ratio at low level;
- India: production shortfall and imports - could India import more?
- Stronger BRL?;
- Weather problems - El Nino in 2017?;
- Weak USD, strong commodity and equity markets + higher crude oil prices
- Low world market prices might deter EU exports.

## Bearish Drivers & Risks

- Likely end to sugar deficit next year;
- Surge in EU production and exports;
- Good recovery in India and Thailand;
- Brazilian production remains strong.
- Fewer imports from China?;
- Weaker BRL?
- No/weak El Nino in 2017?
- Strong USD, weak commodity and equity markets + low crude oil prices
- Slower consumption growth

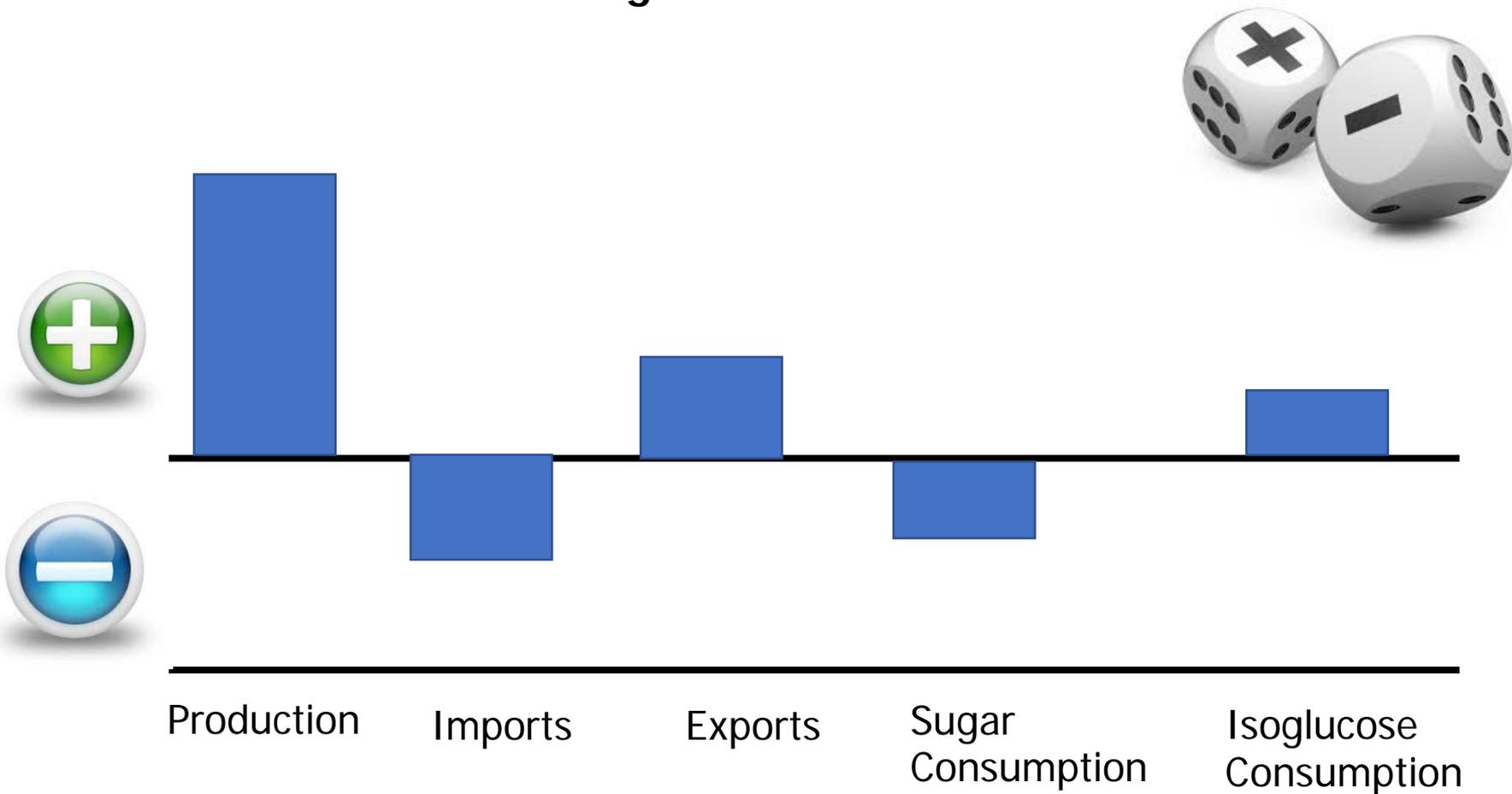
**Will Prices test ethanol floor in Brazil?**

**Weather and cane quality in Brazil can still wipe 1.5-3 mln tonnes off current estimates.**

# EU Post 2017 – Quota Free Market



## New EU Sugar Balance Post 2017



# New EU Sugar Balance Post 2017



ISO

	2016/17	2017/18 INDICATIVE	NOTES
<b>Production</b>	16.0*	18.5*	(up 15% at least + also potential for lower ethanol production. Total production could be as high as 20.5 mln tonnes).
<b>Consumption</b>	18.9	18.0	Isoglucose could be as high as 1.5 mln tonnes, double current level). Impact of sugar backlash?
<b>Exports</b>	1.35	2.8	(limited with rebuilding stocks and displacing imports).
<b>Imports</b>	3.7	1.5	

(mln tonnes tel quel)

\*excludes sugar or thick juice used for ethanol production

# EU Longer Term Issues



- **Production:** EU more responsive to world market price signals.
- **Flexibility** between sugar and ethanol: @1 mln tonnes.
- **Domestic offtake** is flat and isoglucose will capture market share: boosts export availability.
- **Export volumes** will fluctuate year to year depending on production volatility.



## The EU Trade Balance Transformer



### Trade Balance Switch:

From Net Importer

to

Net Exporter



Exports

Sugar  
Consumption

Isoglucose  
Consumption

# EU Post 2017 – Quota Free Market



## The EU Trade Balance Transformer

#1



EU White Sugar Prices vs World Market Price (USD/tonne)



Source: CEFS

- EU prices trade at a premium over world prices.

- Encourages Imports
- Pushes more EU Sugar onto the world market
- Squeezes white sugar premium
- EU competes directly with large destination refiners in MENA.

# EU Post 2017 – Quota Free Market



## The EU Trade Balance Transformer

#2



EU White Sugar Prices vs World Market Price (USD/tonne)



Source: CEFS

- EU prices driven down to world market level.

- Deters Imports.
- EU beet sugar for the EU.
- Displaced sugar (sugar otherwise imported by EU) has to find new homes.
- Countries with preferential access to EU to focus on regional markets (but needs investment in domestic refining capacity)

# EU Transforms to Exporter

## The EU Trade Balance Transformer



- **The EU will export because:**
- Full capacity will generate a surplus.
- To reduce production costs.
- To keep domestic prices higher.
- For logistical reasons.

# Challenges to EU Exports



## The MENA Battleground

### EU Beet Sugar Producers



### Cane Sugar Refineres



Algeria



U.A.E



Tunisia



Iraq



Egypt



Morocco



Yemen



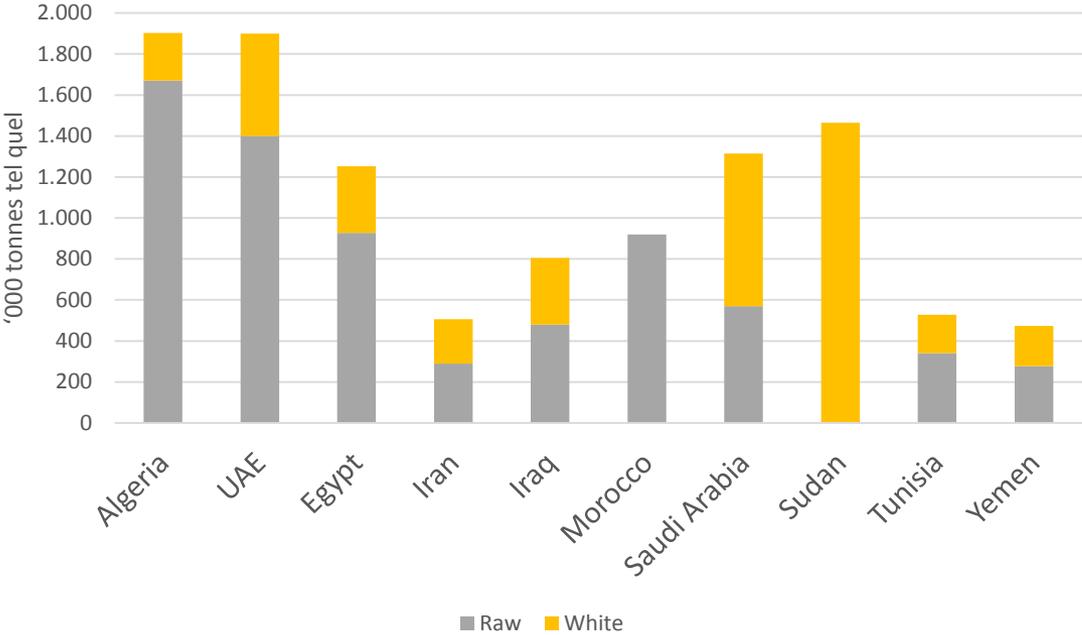
Saudi Arabia

International Sugar Organization

# MENA Sugar Imports



Main MENA Sugar Importing Countries



Algeria



U.A.E



Tunisia



Iraq



BAHRAIN

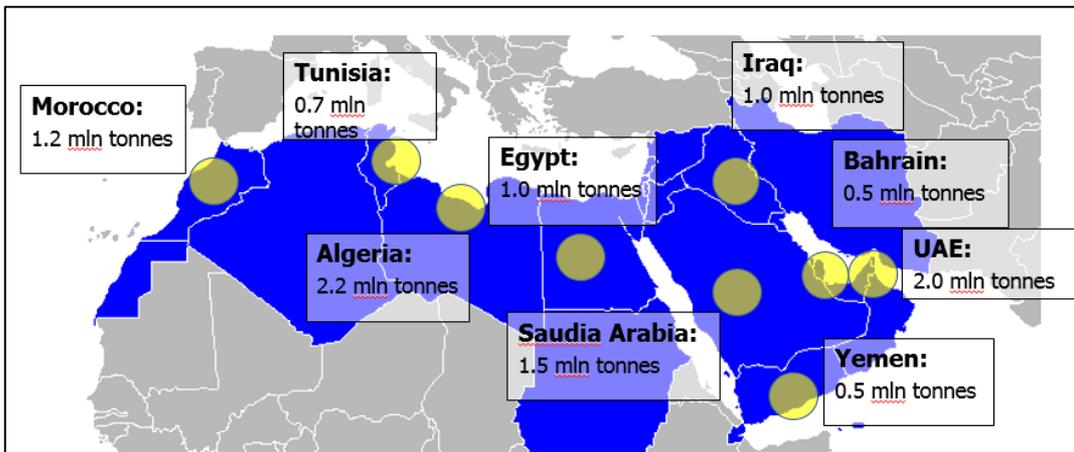


Egypt



Saudi Arabia

# MENA Refiners



- **4 key MENA Refiners:**
- Cevital Group, Bejaia, Algeria.
- Savola – USC, Jeddah, Saudi Arabia.
- Etihad Refinery, Babylon, Iraq.
- Al Khaleej Refinery, Dubai, UAE.

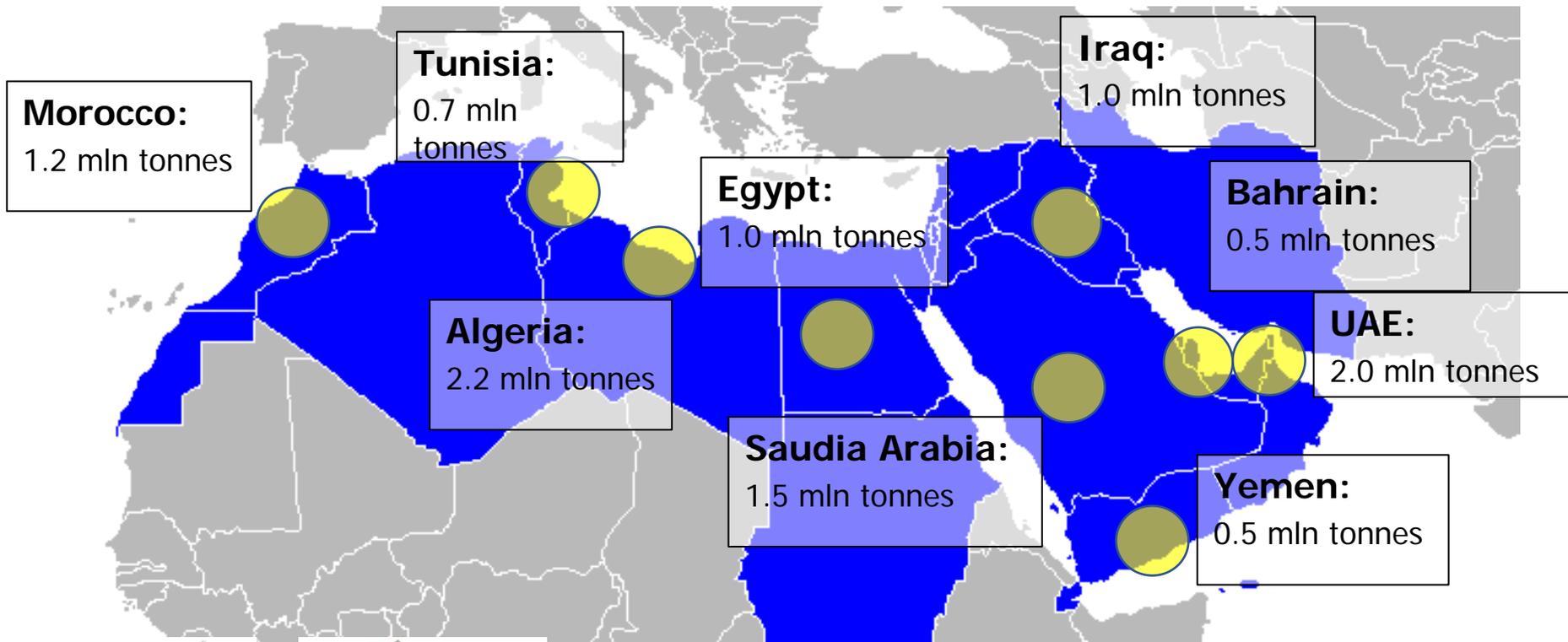
**5.5**



# MENA Refiners

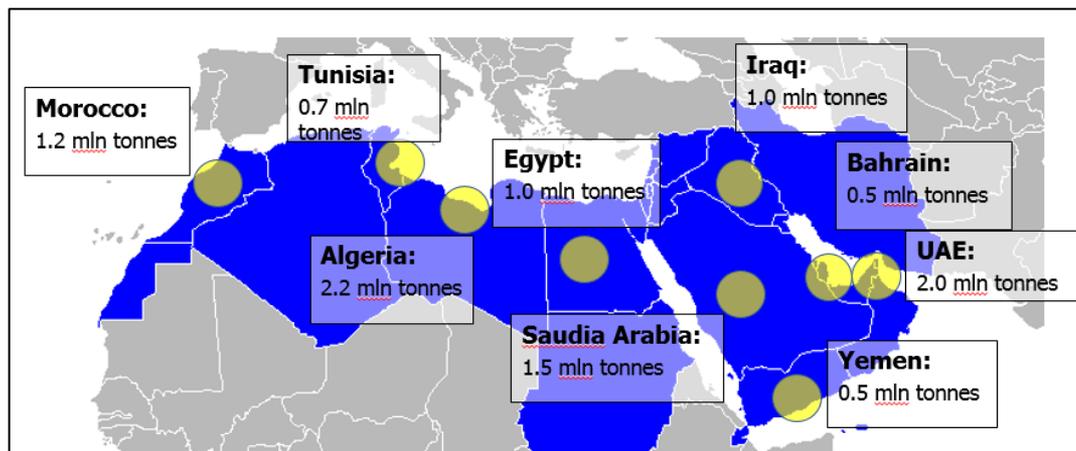


## Refining Capacity



- MENA Refiners account for roughly 1/3 of global raw sugar imports (11.5 mln tonnes).
- @2/3 output is for domestic markets (but varies).
- Impact trade flows by reacting to market environment: flat price and white premium.

# MENA Refiners



- Reliance on re-exports varies...
- ...depending on size of domestic market (and margins earned).
- If re-export business contracts, then this lowers demand for raw sugar for refining.
- Destination refineries best placed to compete with EU are those that:
  - Sell most of their white sugar in protected local and regional markets
  - Benefit from tariff escalation (i.e. a higher tariff on whites over raws)
  - Have access to cheap energy for refinery operation.

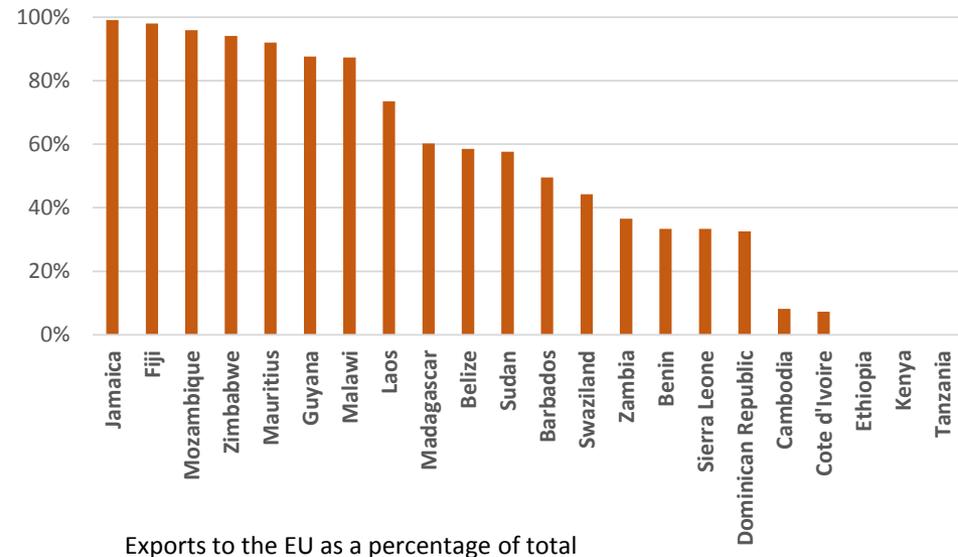


- Anticipated surge in refining capacity in MENA Region of around 4.5 mln tonnes: capacity surplus of around 2 mln tonnes/year by 2018/19.

## Challenges for ACP/LDC Countries

- ACP/LDC group contains a wide variety of sugar industries, ranging from some of the world's lowest cost producers to high cost industries that are heavily reliant on protected markets for survival.
- Impact of EU reform will be greater for some industries than others.
- This depends on 2 main factors:
  - Exposure to the EU market;
  - Level of cost competitiveness.

Exposure to EU Sugar Market 2013-15



# EU Imports Post-2017



## Sub Sahara Africa the Most Vulnerable Source of Supply?



# Overview of Trade Flows

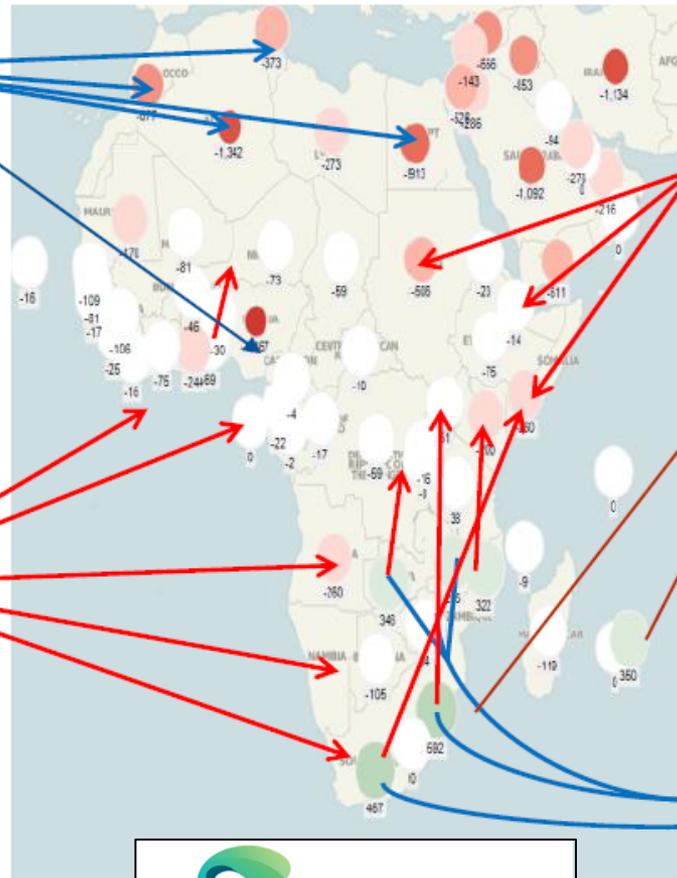
## Raw and white sugar flows

raws+whites to Europe

Raws mainly from Brazil

Imports from Thailand India, MENA

Imports from Brazil, Central Americas



Main raw sugar flow   
Main white sugar flow 

Source : Industry sources 5 year historical (production less consumption)

# African Sugar



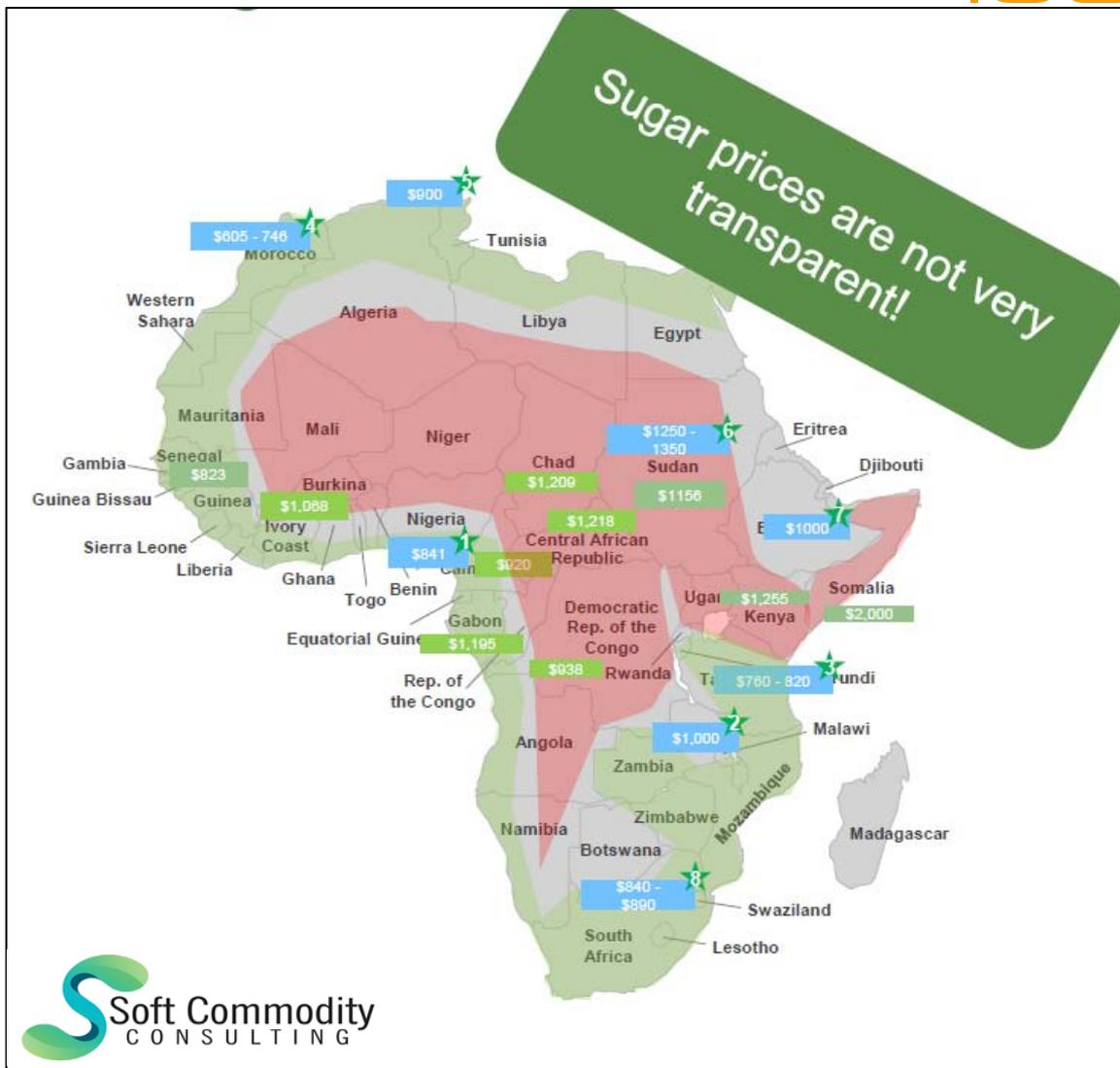
Imports ~8mmt  
exports ~ 3mmt



# Pricing of Sugar in Africa

Driven by a number of factors:

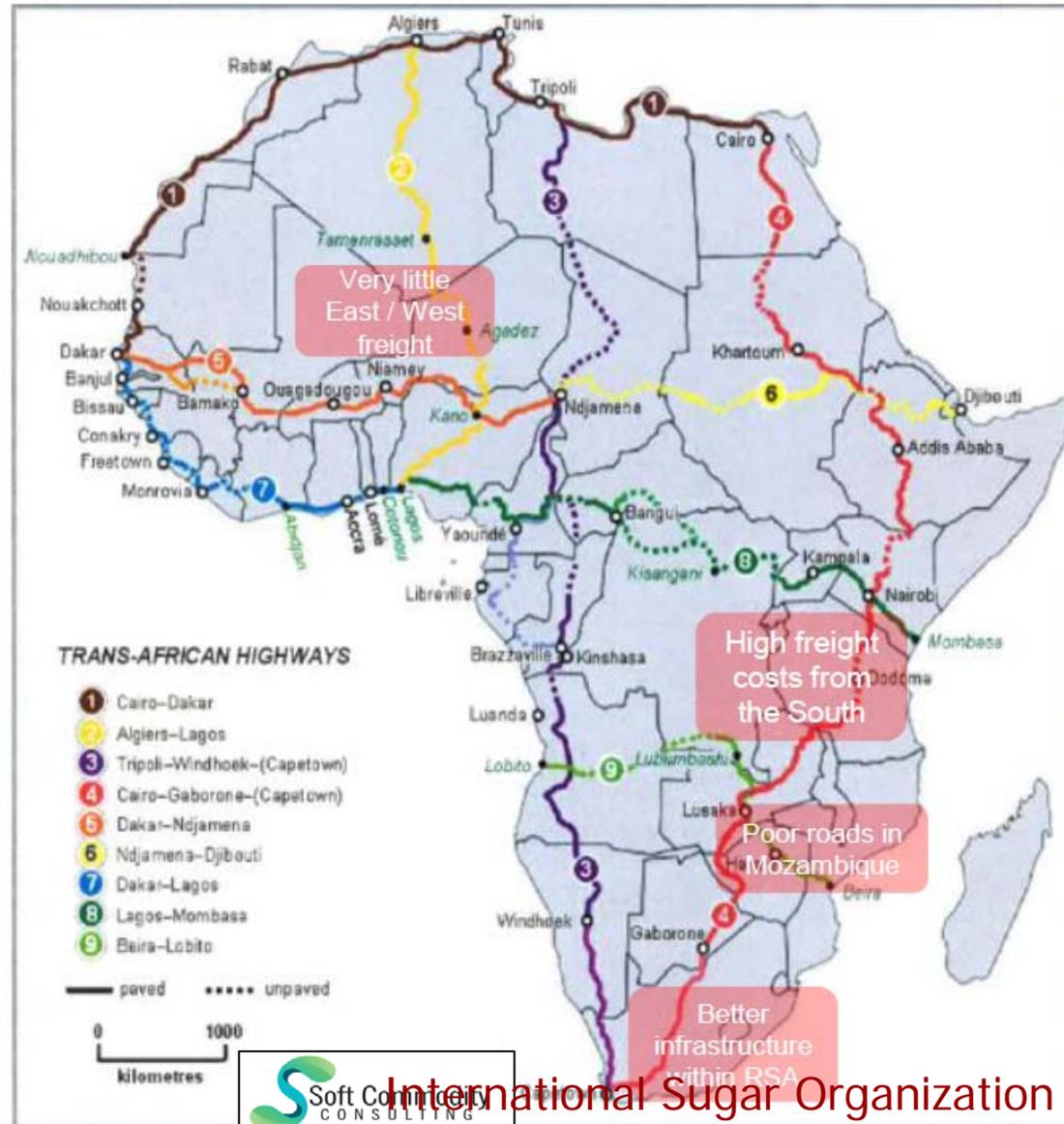
- Domestic production;
- Domestic protection and tariffs;
- Logistics (distances and geography);
- Infrastructure (roads, rail, ports);
- Upheaval and war.



# Limited Logistics

## Railways and Ports:

- Limited old network with two gauges, most unmaintained with low axle loads and many lines inoperable.
- East Africa lines – Mombasa thru Nairobi to Uganda.
- Central lines – Dar es Salaam to Lusaka – then north to D.R. Congo and south to Zimbabwe.
- Zimbabwe line to Bulawayo and Harare – west to Botswana, east to Maputo and south to RSA.
- Mozambique new coal export line from Tete via Malawi to Nakala port north of Beira.



# Key Messages

## World Market Post 2017: Beware the Transformers



- World market to transform from Deficit to Surplus.
- EU to transform from net importer to next exporter.
- Preferential EU suppliers to transform to regional suppliers.
- MENA transformed into a white sugar battleground.
- White sugar premium transformed to a lower level.

Thank You



**Save the Date**  
26<sup>th</sup> International Sugar Organization Seminar



**Sustainability: New Ways Forward**  
28 – 29 November 2017

East Wintergarden  
Canary Wharf, London

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International Sugar Organization

