
WORLD SUGAR REPORT

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WORLD SUGAR SUPPLY & DEMAND (World Table 1)

After a fall to oversold levels, world raw sugar pricing rebounded strongly over the holiday week, albeit on relatively light trading volumes. New harvest numbers from Brazil provided support, showing a sharp drop in output through the first half of December, as did cuts in forecast output for India. Both technicals and fundamentals support an extension of the rebound through the Q1 2017, supported by Brazil's intercrop period and by growing shortfalls for multiple small and non-producer nations. Upside price potential, however, has been tempered by recalculated U.S. dollar forecasts and continued weak Chinese import demand.

As harvest winds down in Brazil, operations are ramping up in Thailand and other key Asian producer nations. Although another poor crop is expected in Thailand, exportable supplies remain abundant thanks to sizable beginning stocks. In addition, Mexico and Pakistan are looking to move surplus stocks. Chinese internal and external demand remains lackluster; shortfalls may be filled from reserve stocks through the first half of 2017. Indian import demand could rise slightly in FY17, but its production shortfall will also likely be met by drawing down existing stocks.

The market has a good handle on supply and demand for major grower and user countries, but the focus on these countries may distract from one driver of the large production deficits of the last two years, the aggregated production shortfalls of more than one hundred import-dependent countries. Sizable combined deficits may be seen for many nations lacking significant reserves or sophisticated purchasing strategies. In Asia, for example, the total production shortfall of countries like Taiwan, Iraq, Saudi Arabia, Sri Lanka, Vietnam, and others—reported as "Other Asia & Oceania"—comes to 6.90 million metric tons (MMT).

An early look at FY18 suggests potential for aggressive hectareage expansion and significant husbandry improvements. If favorable weather is also seen, the world market could return to a narrow production surplus: Production could rebound by 4.50 MMT in Asia, 2.50 MMT in Europe, and 1.50 in the Americas. Due to pressure from prices, alternative sweeteners, slower Asian economic growth, and even sugar taxes, demand growth may languish in the below-average 1.0 to 1.4 percent range.

Some analysts may have gotten carried away with surplus forecasts lately, though. Favorable weather in all of the globe's major sugar producing countries is unlikely and should not be taken as a given, which is why a small production shortfall may remain the likeliest outcome.

Sugar production in Brazil increased 16.7 percent through mid-December, due primarily to a sharp drop in the ethanol share. The sugar share surged to 46.7 percent, up 5.5 points from last season. Harvested cane continued to slip, now up only 1.9 percent over last season. Sugar content averaged 133.9 metric tons (MT) of refined sugar per MT of cane, up around 1.5 points from last season. In the latest two-week period, sugar output fell 43.9 percent, despite sugar content and sugar share strength, due to heavy rains and early harvest closes for many mills. Only 55 mills are thought to have run through the year's end.

Sugar production from Brazil's center-south crop may close out the season at 35.20 MMT, up from 30.83 MMT last season on small gains in cane yield and sugar content and the higher sugar share. Modestly higher output is expected from the current north-northeast harvest, mainly due to a higher sugar share too. Sugar exports jumped in November, totaling 2.07 MMT, *tel quel*, up solidly from October shipments and up 700,000 MT from a year ago.

Brazil's 2017 center-south cane output may fall on poor weather (drought, frost, hail, etc.), aging cane, and low *bisada* (carryover cane). Sugar output, though, may still rise slightly on a still higher sugar share.

Indian FY16 sugar production totaled 26.96 MMT, down more than 3.00 MMT from last season, as drought crippled output in Maharashtra and Karnataka. Production from the FY17 crop totaled 5.33 MMT through mid-December, up from 4.79 MMT a year prior. Uttar Pradesh (UP) output totaled 1.77 MMT, up sharply from 852,000 MT last season, supported by an early harvest start, high-yield varieties, and higher hectareage. Demonetization has directed more sugarcane to mills than to traditional (non-centrifugal) crushers. Output in Maharashtra, however, fell to 1.73 MMT from 2.25 MMT last season, hit by the lingering effects of drought and subsequent reductions in hectareage. Demonetization and the resulting cash crunch cut purchases by and deliveries to large sugar users through Q4 2016. The FY17 demand forecast is down, now showing a minor increase of 200,000 MT.

While most Indian FY17 output forecasts are being cut, ours remains unchanged, with potential for an uptick in coming months due to a Q4 2016 boost from lower cane diversion to non-centrifugal use. Sugar output may still fall 2.50 MMT. Another year of deficit output could swing India from exporter to modest importer; imports may pick up in the second half of the season. Stocks may end FY17 near 5.50 MMT. Assuming an average 2017 monsoon, FY18 output may rebound solidly, fueled by high-yielding varieties and

new expansion in UP and Tamil Nadu and a rebound in hectareage in Maharashtra and Karnataka.

WORLD TABLE 1
WORLD PRODUCTION AND CONSUMPTION
Estimates and Projections (million tonnes raw value)

Country	Production		Consumption		Exports		Imports		Add Stocks	
	FY16	FY17	FY16	FY17	FY16	FY17	FY16	FY17	FY16	FY17
France	4.46	4.22	3.14	3.18	1.30	1.20	0.00	0.00	0.02	-0.16
Germany	3.57	4.11	4.26	4.31	0.30	0.66	0.85	0.80	-0.14	-0.06
Italy	0.16	0.18	2.15	2.18	0.01	0.01	1.95	2.00	-0.05	-0.01
Netherlands	0.72	0.79	1.04	1.06	0.01	0.01	0.25	0.24	-0.08	-0.04
Spain	0.67	0.70	1.81	1.83	0.00	0.00	1.10	1.07	-0.04	-0.06
U.K.	0.97	0.92	3.23	3.27	0.01	0.01	2.20	2.28	-0.07	-0.08
Other EU-15	1.85	2.05	3.93	3.97	0.21	0.29	2.32	2.14	0.03	-0.07
Poland	1.56	2.11	2.27	2.30	0.03	0.02	0.70	0.16	-0.04	-0.05
Other EU-NMS12	0.65	0.75	2.46	2.49	0.05	0.05	1.73	1.72	-0.13	-0.07
Turkey	1.94	2.30	2.42	2.45	0.00	0.10	0.46	0.20	-0.02	-0.05
Russia	5.38	5.65	5.88	5.99	0.09	0.10	0.57	0.40	-0.02	-0.04
Ukraine	1.41	1.75	2.25	2.28	0.06	0.05	0.60	0.56	-0.30	-0.02
Other Europe	1.50	1.78	5.17	5.23	0.00	0.00	3.47	3.40	-0.20	-0.05
TOTAL EUROPE	24.84	27.31	40.01	40.54	2.07	2.50	16.20	14.97	-1.04	-0.76
USA	8.15	8.30	10.78	10.85	0.07	0.14	3.03	2.78	0.33	0.09
Canada	0.13	0.15	1.47	1.49	0.06	0.05	1.35	1.30	-0.05	-0.09
Cuba	0.80	0.78	0.70	0.71	0.20	0.10	0.00	0.00	-0.10	-0.03
Guatemala	2.92	3.04	0.83	0.84	2.30	2.25	0.00	0.00	-0.21	-0.05
Mexico	6.48	6.69	4.97	5.10	1.28	1.36	0.02	0.01	0.25	0.24
Argentina	2.03	2.12	1.85	1.88	0.26	0.29	0.00	0.00	-0.08	-0.05
Brazil	38.89	37.63	12.30	12.46	26.90	25.40	0.00	0.00	-0.31	-0.23
Colombia	2.28	2.38	1.72	1.74	0.95	0.98	0.20	0.29	-0.19	-0.05
Peru	1.25	1.27	1.32	1.34	0.20	0.22	0.10	0.22	-0.17	-0.07
Other Americas	6.34	6.60	5.53	5.60	2.68	2.80	1.66	1.70	-0.21	-0.10
TOTAL AMERICAS	69.27	68.96	41.47	42.01	34.90	33.59	6.36	6.30	-0.74	-0.34
Egypt	2.13	2.18	3.03	2.96	0.17	0.10	0.95	0.69	-0.12	-0.19
Morocco	0.66	0.67	1.27	1.28	0.00	0.00	0.62	0.58	0.01	-0.03
South Africa	1.69	1.80	1.96	1.97	0.30	0.29	0.40	0.35	-0.17	-0.11
Other Africa	5.56	5.72	7.99	8.04	1.87	1.95	4.22	4.20	-0.08	-0.07
TOTAL AFRICA	10.04	10.37	14.25	14.25	2.34	2.34	6.19	5.82	-0.36	-0.40
China	9.09	10.20	17.10	17.20	0.16	0.10	6.60	5.40	-1.57	-1.70
India	26.96	24.50	27.49	27.70	2.10	0.50	0.80	1.60	-1.83	-2.10
Indonesia	2.20	2.35	5.93	6.01	0.00	0.00	3.47	3.60	-0.26	-0.06
Iran	1.07	1.10	2.18	2.21	0.00	0.00	1.10	1.00	-0.01	-0.11
Japan	0.95	0.93	2.42	2.45	0.00	0.00	1.51	1.46	0.04	-0.06
Korea (South)	0.00	0.00	1.61	1.63	0.20	0.20	1.70	1.75	-0.11	-0.08
Malaysia	0.11	0.12	1.66	1.68	0.10	0.10	1.65	1.60	0.00	-0.06
Pakistan	5.21	5.60	4.79	4.88	0.66	0.81	0.20	0.13	-0.04	0.04
Philippines	2.10	2.22	2.37	2.40	0.00	0.20	0.25	0.36	-0.02	-0.02
Thailand	9.82	9.55	2.77	2.81	7.28	7.03	0.00	0.00	-0.23	-0.29
Australia	5.02	5.24	1.29	1.31	4.60	4.66	0.65	0.60	-0.22	-0.13
Other Asia & Oceania	2.40	2.70	9.47	9.60	2.50	2.60	9.40	9.30	-0.17	-0.20
TOTAL A & O	64.93	64.51	79.08	79.88	17.60	16.20	27.33	26.80	-4.42	-4.77
TOTAL WORLD	169.08	171.15	174.81	176.68	56.91	54.63	56.08	53.89	-5.73	-5.53

Severe drought heavily affected Thai FY16 yields and quality, with the crop falling to 9.82 MMT, raw value. The decline comes despite continued expansion in hectareage. Thailand's FY17 crop has suffered from extremes, with severely dry replaced by overly wet weather. Harvest was delayed a month until early December due to an extended rainy season. The abundant rains will help rebound drought-crimped tonnage—at the expense of sugar content. The crop may drop further in FY17, down some 300,000 MT. A strong rebound is forecast in FY18 production as hectareage has continued to expand and improved weather.

Seeking to forestall a trade dispute with Brazil, Thailand agreed, in principle, to overhaul its 30-year-old sugar program. Changes could come as early as February and would be in place for the FY18 crop. Thailand will have to eliminate its 70-30 profit-sharing system, quota system, and domestic sugar pricing scheme.

Chinese production continued to slide in FY16 due to drought and high production costs, which pressured hectareage and yields. Legal sugar imports totaled 3.95 MMT in FY16, down sharply from 5.11 MMT in FY15. Inflows of smuggled sugar, however, rose through the second half of 2015 and the first half of 2016, with illicit imports through Myanmar alone estimated near 3.00 MMT. Production in FY17 may rebound as high domestic prices spur hectareage expansion and improved husbandry. Output may rise by just over 1 MMT.

China's demand growth may stall in FY17 due to the slowdown in economic growth and high sugar prices, which are encouraging HFCS use. Though demand may remain sluggish through FY17, imports may rebound later in the season as a clampdown on smuggling and drawdowns of government reserves will eventually drive higher imports. Illegal inflows from Myanmar have reportedly slowed to a trickle since mid-2016 on ramped up government anti-smuggling efforts. China imported 140,000 MT, tel quel, in November, up slightly from October inflows of 110,000 MT, but down nearly 50 percent from imports a year ago.

Australian FY17 production may increase to 5.24 MMT on favorable weather and high-yielding varieties. Exports may climb to 4.92 MMT. Three to four weeks of rain delays boosted 2016-crop tonnage but increased harvest expense and duration while diluting sugar content. Harvest was completed mid-December.

WORLD SUGAR PRICES

World raw sugar prices rebounded from oversold lows over the past week, lifted by a sharp drop off in Brazilian output through the first half of December, lower Indian production forecasts, and continued gains in the Brazilian real. Mar-17 #11 raw sugar closed at 20.89 today, up nearly 16 percent from the December low of 18.03 after a six-day rally and up 0.33 from the upper Bollinger Band. Resistance is possible between 20.15 and 20.30 and near 21.25 and 21.80. RSI is the highest since mid-October. Support may be found around 20.60 and 20.20, between 20.10 and 20.00, and again between 19.75 and 19.60.

World raw sugar prices may climb back into the low 20s during the Q1 2017 (May-17 #11). During Q2, prices could weaken again as Brazil's new crop comes and higher FY18 crop prospects weigh on values.

Mar-17 #11 Raw Sugar



May-17 #11 Raw Sugar

