Agriculture

# MAREX - Dubai Sugar conference synopsis

10th -13th February 2023

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## Executive Summary

From the discussions around the conference we would say that most participants came to the conference with a mildly bullish mindset, largely based on the fact that the price action had been positive since end January, and that the position of the system funds was judged to be 'too short'. Furthermore the fact the Indian exports were the turning point and mills didn't chase the price down galvanized some feelings that the markets needs the sugar.

This mildly bullish mood was reinforced by a long list of moderately bullish and relatively recent factors:

- Pakistan where exports of 750,000 mt in 2024 look as if they could be followed by imports of about 250,000 in 2025 (we have slightly more per our latest Pakistan team's update).
- White sugar having awoken from a long slumber, with the White Premium going back to 'tolling levels', and March moving to an inverse against May.
- Lower estimates coming in for crops in Asia; China, India, Thailand, EU and now Pakistan.
- The Ethanol Parity lurking around 15.50, implying that the sugar mix would begin to fall from maximum sugar if the prevailing price during the CS Brazil harvest was below about 17.50 c. Much more on that in our deep dive for Brazil weekly. We will begin to send daily parities next week.
- Indian exporters playing very 'hard to get'.
- A continuing steep March/May inverse signaling that we are still in a deficit.
- Low stocks 'proving' that last year's statistical deficit was a fact, not an illusion, and therefore that world consumption had not been overestimated.
- And, as stated above the net short of the non-index funds net short of 127,000 lots remains a looming risk.

All of these factors were discussed as being supportive, and as possibly opening the way for the rally to resume, based on fund short covering. It was apparent that this was a 'white market', based on a revival of white demand, and the need for tolling.

Even the pillars of the belief that in second half 2025 the world goes into a serious surplus, which was likely to grow further as 26/27 comes over the horizon, came under question. Could Indian sucrose production really expand by the 20% needed to assure significant exports? Had Brazilian cane really recovered from the effects of last year's drought and fires? Would the sugar mix fall if the world price fell?

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## Executive Summary continued

But we would say that at the back of participants' minds was the simple fact that production in the 3 main producing areas, India, CS Brazil and Thailand, were likely to increase, and in the case of Thailand, the lower price would not be an impediment to continuing expansion.

But then came the question of weather, which could at any time eliminate a forecast surplus with ease.

In terms of the spec equation we chewed on the fact the big EMFX trade was shorting the BRL. It was not lost on Systematic funds who used sugar as a proxy for the BRL. Almost perversely if one focused upon the BRL alone for sugar in 24 it would have been an outstanding trade. This year we work hard to decipher the impacts and climate domestically for the BRL. A major rally could be prompt Systematic funds to short cover basis Brazil coming closer the USA. Lula's rhetoric remains a wildcard and his desire to spend (though he calls it investing) will continue to be a risk to reverse the recover of late. We cover the Brl daily in our pre open macro updates.

Dr Guy Wolf will also lead a call on Relative Value strategies (RV) where a short in one market such as sugar is offset with a long in another product such as coffee.

All in all, the discussion centered around clear-cut issues, but the outcome is not clear.

## 1. Coming Back To Life: How Will Sugar Evolve? World Market Overview

The session commenced with reflections on the state of the global sugar market over the past twelve months.

- Despite initial price pressures and challenges faced by producers worldwide, the market dynamics are shifting towards a more balanced supply scenario.
- The world sugar market is expected to experience a small surplus in 2024-25 due to lower production estimates from India and Pakistan. For 2025-26, production is projected to increase by 6.26 million metric tons, surpassing consumption growth, which is expected to recover by 0.95% year-on-year. While consumption is set to increase slightly due to lower sugar prices, it remains below the 1% growth threshold.
- South America, particularly Brazil, is expected to see increased availability, while Europe is entering a deficit phase. Asia's production deficit is expected to narrow, depending on India's policies regarding sugar exports and ethanol blending.
- Lower Indonesian imports, reduced Indian demand for Brazilian raw sugar, and increased Thai availability helped address the Q1-Q2 deficit.
- Speculators turned bearish, with net-short positions reaching -139.9k lots by January 21, 2025. Prices found a floor at China's import parity levels, with Brazilian sugar trading between 16.6-17.0 c/lb and Thai sugar between 17.3-17.6 c/lb.
- Brazil is projected to produce between 41-42 million tons of sugar depending on the sugar mix, which could reach a new record of 50.5%, adding nearly 865,000 metric tons of additional sugar output. The ethanol floor in Brazil has risen due to a strengthening BRL.
- India's lower production in 2024-25 is compensated by sufficient domestic stock levels, while the country has significant export potential in 2025-26, contingent on government policies and monsoon performance. Thailand's cane crush is expected to rise to 105.5 million metric tons in 2025-26, with production estimates ranging between 11.6 million to 12.8 million metric tons, depending on acreage and yield conditions.

The panel discussion focused on the disparity between market fundamentals and speculative trading activity. While fundamentals suggest a more balanced market, speculative positions have driven volatility. The market has seen a well-advertised tightness in sugar spreads over the past six to nine months, with traders delaying their demand in anticipation of more favorable conditions.

Historically, the last time net speculative positions were as short as they are now was in 2019 when Brazil maximized ethanol production, and India had excess stocks. However, this time, the scenario is different, as multiple regions—including India, Thailand, China, Pakistan, and Mexico—have seen production declines that have not made headlines. In total, nearly 2.5 million metric tons of production have been lost over the past month, but market speculators have not reacted significantly to these figures.

The discussion emphasized that weather conditions in Brazil remain a crucial factor. If Brazil experiences favorable weather through its summer months, there may not be a major impact, but if adverse conditions persist, the market could face a significant supply constraint. The tightness in supply is well-documented, and the key question is when this will impact pricing and trade flows.

Thailand's production potential was also discussed, with some uncertainty around its ability to exceed expectations. While weather conditions last year were not adverse, acreage remains a crucial factor in determining output. The next two weeks will be critical in assessing whether Thailand will contribute additional supply to the global market.

The panelists identified two distinct market phases: the first half of the year, characterized by tight supply and constrained trade flows, and the second half, where market reactions will depend on whether the supply situation improves. The opportunity for significant market adjustments is expected within the next three to four months before transitioning into the latter half of the year. Overall, the discussion reinforced that while the market is experiencing tight supply conditions, its reaction will depend on external factors, including weather patterns, speculative activity, and government policies in key producing nations.

Production growth is outpacing consumption recovery, leading to supply surpluses. Regional imbalances persist, with South America expanding production while Europe faces tightening supply. The Indian government's policy decisions and speculative trading behavior will be key factors influencing price movements.

**2. Shine On You Crazy Diamond: Will Sugar Shine In Brazil?**

Brazil's sugar market has shown remarkable resilience in the 2024-25 season, despite significant challenges. The season is expected to conclude with a crush of approximately 620 million tons, marking a complex year characterized by a 10.4% yield decline year-on-year. However, this decline was partially offset by an unexpected 5.8% increase in harvested area to 7.95 million hectares. The season faced additional challenges from August/September fires that affected approximately 400,000 hectares, impacting both current and future production cycles.

Contrary to initial expectations of maximum sugar production, the season witnessed record ethanol production. This shift was primarily driven by cane quality issues that limited the utilization of crystallization capacity. The ethanol market dynamics were further complicated by a significant 32% increase in corn ethanol production, introducing new competitive pressures in the domestic fuel market.

Looking ahead to the 2025-26 season:

- The outlook presents a mixed picture shaped by various agronomic and weather conditions. The season began with a notably dry winter compared to both the previous year and the 20-year average, though rainfall patterns improved from mid-October onwards.

- The early drought affected replanting schedules, suggesting lower yields at the start of the crop, with potential improvement as the season progresses. Current forecasts project 41.6 million tons of sugar production from 610 million tons of cane, with an expected sugar mix of approximately 51%, aligning with mills' previous intentions. The corn ethanol sector continues its expansion trajectory, with production expected to increase by 16% to reach nearly 10 million liters

- Area development presents a particular challenge, with expectations of reduced area due to necessary replanting following fires and the renewal of 18-month cane for the following year. However, the favorable economics of sugarcane compared to alternative crops could lead to surprising increases in planted area.

- Weather remains a critical variable, with El Niña expected to dissipate by April, coinciding with the harvest start. Autumn rains could delay the harvest commencement, and the potential impact of the La Niña cycle in the second half of 2025 adds another layer of uncertainty.

The ethanol market dynamics continue to play a crucial role. Current ethanol parity versus sugar is estimated between 15-17 cents, with several factors potentially affecting ethanol competitiveness. These include potential trade wars impacting ethanol exports, domestic gasoline pricing policies in Brazil, government initiatives such as the 30% plan, and the contrasting market structures between sugar (inverse) and ethanol (carry).

Panel discussions indicate general agreement on production ranging between 600-610 million tons, with sugar mix expectations around 51-51.7%. Producers anticipate improved cane quality compared to the previous year, though this remains dependent on weather conditions, particularly during the crucial March-April period. Renewal rates are expected to improve from 12% to potentially 17%, reflecting industry efforts to recover from previous season's constraints.

The market fundamentals remain supportive, with sugar prices maintaining levels above production costs, encouraging continued investment in sugar production. However, the industry faces a potential transition from deficit to surplus market conditions, while the steady growth in corn ethanol production continues.

**3. Money: Sugar Macroeconomics**

The global economy is navigating a complex landscape, with inflationary pressures still present despite signs of moderation. While central banks, such as the ECB, appear optimistic about their inflation control measures, a key concern remains—services inflation is still uncomfortably high. Given that most economies are service-driven (except for China), this suggests that the fight against inflation is far from over.

Economic confidence among producers, measured through the Purchasing Managers' Index (PMI), remains subdued across both emerging and developed markets. Manufacturing and services sectors continue to face challenges, pointing toward a period of sluggish growth. While some regions are experiencing disinflation, others are seeing inflationary pressures reignite. The credit market remains volatile, with capital flowing into assets like gold and even Bitcoin, raising concerns about potential market reversals.

Globally, economies are divided between inflation, disinflation, and stagflation. The Philippines, for instance, shows rising inflation despite stagnant economic activity. The U.S. faces risks if trade policies backfire, potentially leading to inflationary pressures without sufficient countermeasures like lower energy costs. Growth forecasts for major economies remain tepid—Eurozone growth is expected to hover around 1.1% in the near term, while the U.S. may slow to 1.2% by next year. Inflation, however, remains a concern, with projections of 3-4% in the U.S. and around 2.2-2.3% in the Eurozone.

China, meanwhile, continues to grapple with structural economic issues. Despite significant stimulus measures last year, its primary challenge remains a struggling property sector and a reliance on external demand. With increasing global scrutiny of China's trade practices, its economic model is facing growing pressure, particularly in manufacturing. Many countries are now considering tariffs on Chinese exports, particularly in the electric vehicle sector, as China's automotive industry rapidly expands. This shift threatens jobs in traditional automobile-producing regions, further complicating global trade relations.

From a broader structural perspective, demographic shifts are reshaping economic realities. While Japan has long been cited as an example of low population growth leading to deflation, in many regions, labor shortages may actually drive short-term inflation. Emerging technologies like AI could help mitigate these effects, but their high implementation and energy costs make them less immediately deflationary than expected.

Housing markets worldwide present a dilemma—rising prices make homeownership unaffordable for younger generations, while falling prices trigger negative wealth effects that can destabilize economies. Meanwhile, fiscal deficits in both developed and emerging markets are becoming increasingly comparable. Countries like Brazil, with experience in managing inflation, have responded more effectively than many developed economies. Debt levels are also rising across the board, with high-income nations moving toward unsustainable debt trajectories. However, the U.S. remains uniquely positioned due to its ability to finance debt in its own reserve currency.

Sustainability and climate change pose additional economic challenges. Efforts to combat climate change are inherently inflationary, but inaction also leads to inflationary pressures. Striking the right balance in climate-related spending remains a difficult yet critical task.

**4. Biding My Time: What Do We See Ahead For India?**

India has experienced impressive growth in sugar production over the past four decades, with cane output rising from 150 million tons in the 1980s to approximately 450 million tons today. Alongside this growth, sugarcane yields have increased by 40%, solidifying India's position as a consistent global sugar exporter. Over six out of the past seven years, India has been a top exporter, and the country is expected to produce around 31.02 million tons of sugar in the current season. Of this, 3.75 lakh tons will be diverted for ethanol production from B-heavy syrup, leaving a net sugar production of approximately 27 million tons.

In terms of the ethanol blending program, India has made remarkable strides, reaching a 15% ethanol blending level last year and setting a target of 17-18% for the upcoming season. With a production capacity of 16 billion liters, split equally between molasses and grain-based sources, India has more than sufficient capacity to meet its blending targets, even at 80% efficiency and with alcohol requirements taken into account. The country's ethanol capacity is comfortably set at 10.5 billion liters, exceeding the E20 blending targets.

The sugar industry also faces challenges, particularly concerning cane varieties. The decline of the CO-238 variety due to red rot disease has raised concerns, but there is active research underway to address this issue. Twenty-five large sugar mills are collaborating on developing new varieties for both tropical and subtropical regions, with a goal of achieving 100 tons per acre yields and improved recoveries. Over 50 clones are currently under trial to bolster cane quality.

Looking ahead, the industry is focused on several ambitious initiatives. These include collaboration with automobile manufacturers to promote flex-fuel vehicles, with 19 new FFV variants launched in January 2025. Additionally, there is a partnership with IIT Delhi for studies on higher ethanol fractions in commercial gasoline vehicles, as well as the development of green hydrogen projects in collaboration with the Indian Institute of Science, Bangalore. The industry is also working towards sustainable aviation fuel (SAF) targets, with goals of 1% blending by 2027 and 5% by 2030.

In terms of exports, India saw record exports of 11 million tons in 2021-22, followed by 6 million tons in the next year. Currently, India is on track to export around 1 million tons, though future export volumes remain uncertain. One of the key challenges discussed by industry speakers was the adjustment to the crop year, which has led to a delay in sugar production, as no sugar was produced in October, the first month of the season.

Regionally, Karnataka faces challenges with premature cane cutting, exacerbated by increased factory density and reduced crop days. Efforts are being made to educate farmers on proper harvesting timings, and a 15% increase in cane availability is expected, which will help ease these challenges.

On the trading and market outlook, regional premiums for refiners remain strong, though there is ongoing discussion regarding the duration of the export program. Indian millers continue to have high-value expectations, which is influencing regional trading dynamics. The market suggests that more flexible pricing strategies may be required to capture a larger market share in the future.

From a government perspective, confidence remains high regarding sugar production and stock management for the 2024-25 season. The government's opening stocks are projected at a certain level (which can be specified), with a net sugar production of 27 million tons, plus 4 million tons diversion for ethanol production, and an expected consumption of 28 million tons. The export target is set at 1 million tons, and the closing stock is anticipated to be 6 million tons. Furthermore, the government is optimistic about a bumper crop next season, ensuring sufficient sugar for domestic consumption and securing India's position as an exporter.

Indonesia's announcement to import 2 lakh metric tons of prompt raw sugar appears to be the catalyst that jolted the sugar markets out of their slumber. However, participants here remain unconvinced that India will run out of sugar.

**5. US And Them: Where Is Europe Headed?**

The European sugar market remains highly dependent on import requirements, with prices fluctuating based on perceived import requirements. If duty-free sugar is sufficient to meet demand, a premium of approximately €250 per tonne is adequate. However, when duty-paying sugar is needed, the premium can rise significantly, ranging between €350 and €600 per tonne.

Supply conditions in 2022 and 2023 were extremely tight, leading to domestic prices up to €1000. However, as domestic supply has improved, prices have dropped below levels required to attract duty-free imports. Consequently, processors are offering lower beet prices for the 2025/26 season, which may lead to a reduction in contracted tonnage. The total area under sugar beet cultivation in the EU and UK is expected to decline by as much as 7%.

The industry has also been impacted by rising costs. Over the past three years, production costs have increased by 42%, while sugar prices have recently declined by 33%, nearing production cost levels. This decline is driven by an increase in imports of Ukrainian and Inward Processing Relief (IPR) sugar, which come at lower costs, along with falling domestic consumption.

Agricultural challenges further compound these issues. Yields have become more volatile in recent years, influenced by factors such as restrictions on certain pesticides, the spread of diseases, and extreme climate events. While producers aim to maintain attractive beet prices to sustain cultivation, the recent price decline suggests that acreage will likely contract further.

Industrial costs and economic pressures continue to weigh heavily on the sector. Rising energy prices, driven by geopolitical factors, have added to production expenses. Additionally, new regulatory costs related to $CO_2$ emissions and decarbonization further increase financial burdens. Some factories have been forced to shut down due to a lack of modernization funding, making long-term sustainability an increasing concern.

Beet processors need to show that they are able to eliminate surpluses by exporting, even when the export price is far below the domestic price. Downsizing of the industry may be necessary to prevent oversupply and stabilize market conditions.

Marion Hoff, Sales Europe Director, emphasized the importance of maintaining competitive pricing while ensuring sustainable production. She highlighted how regulatory changes and geopolitical factors are shaping market conditions.

Panelists collectively agreed on the need for policy adjustments to support the sugar industry. They explored innovative approaches to mitigate cost inflation and yield volatility, stressing the importance of collaboration between stakeholders to address industry challenges.

**6. Give Birth To A Smile: Will Thailand Oblige?**

Robin Shaw, Sugar Analyst at Marex, emphasized that if Thai sugar production continues its upward trend, global sugar prices will need to decline sufficiently so that mills in Brazil lower their ‘sugar mix’ so as to diminish the forecasted surplus. Shaw highlighted that Thailand’s sugar production has increased significantly, rising from below 8 million metric tons (MMT) in 2020/21 to approximately 11 MMT in the current year. This growth is attributed to favorable weather conditions, government policies promoting cane cultivation over paddy, and rising cane prices.

Compared to other major sugar-producing regions, Thailand stands out as the only country showing a notable increase in production. Brazil's Center-South (CS) region has seen a decline of 2.5 MMT, while Europe experienced a slight increase in acreage last year but is expected to see a reduction this year. With Thai production on the rise, there is growing pressure on global sugar prices.

The Ethanol parity in Brazil currently stands at 15.80 cents per pound, and prices may need to go down and remain closer to this level to discourage excess sugar production. Shaw projected that Thailand's sugar production could rise to 11 MMT in 2024/25, driven by last years high cane prices of 1,420 BHT per ton, despite this preliminary cane price being decreased to 1160 for the 25/26 crop. However, challenges such as restrictions on cane burning and high production costs may influence future output.

Weather conditions play a crucial role in determining production levels. In 2017/18, good rainfall supported higher output, but subsequent droughts led to production declines. With concerns over El Niño, future yields remain uncertain. Economic factors also pose significant challenges, particularly for smallholder farmers.

If world prices continue at present levels, this preliminary cane price will fall to about 1020 BHT for the 26/27 crop. However, the conclusion has to be that even at those low cane prices, cane remains the most attractive crop for growers. Cassava prices have fallen by 37% in the past year.

Shaw ended by saying that it is ironic that Thailand is one of the factors contributing to a surplus of sugar production, which then has to be disposed of in the form of ethanol sued as a fuel in Brazil. Might it not be more logical to convert sucrose to ethanol in Thailand?

During the panel discussion, Jonathan Drake stated that 'Thailand always wins', and that Thailand enjoys major advantages: climate, proximity to Asian markets etc.

Another key discussion point was the potential for increasing ethanol production as an alternative to sugar exports. While this shift is feasible, it would require policy changes to be fully implemented.

**7. Market Consensus Activity**

The market Consensus activity showed that the most significant driver, according to the participants, is weather and climate, which received acknowledgment from 55.36% of the attendees. Sugar market fundamentals were also considered influential, with 26.79% of the respondents highlighting their importance. Macroeconomic or geopolitical impacts were noted by 12.5% of the participants, while technical trading signals and logistics had a lesser influence at 3.57% and 1.79% respectively. Interestingly, no participants predicted any unknown or black swan events as significant drivers.

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The potential impact of a US trade war in 2025 or beyond was also discussed. Supply chain disruptions were identified by 14.75% of the participants as the most likely business impact, followed by market access challenges noted by 11.48%. Tariff-related costs were highlighted by 4.92% of the attendees, whereas 3.28% believed a trade war would not significantly impact their businesses. Additionally, 26.23% of the respondents pointed to other concerns, indicating a range of risks associated with a potential trade conflict.

Indian sugar production projections for the 2024/25 season were detailed, with estimates ranging from less than 25 million tonnes to over 28 million tonnes. The most common estimate, supported by 45.61% of the participants, was 26-27 million tonnes, aligning with the current guidance from ISMA. On the other hand, 22.81% anticipated production to be between 25-26 million tonnes, and 17.54% expected it to be slightly higher at 27-28 million tonnes. A small percentage, 3.51%, believed that production would exceed 28 million tonnes.

The projections for Thailand's sugar production in the 2024/25 season were similarly varied. Estimates ranged from less than 9.5 million tonnes to over 12.5 million tonnes. The majority, 35.59%, expected production to be between 10.5-11.5 million tonnes, while 32.2% projected 9.5-10.5 million tonnes. A smaller percentage, 20.34%, anticipated production to be between 11.5-12.5 million tonnes, and 6.78% predicted it would exceed 12.5 million tonnes.

For the Centre-South Brazil region, the upcoming 2025/26 campaign's sugar production estimates ranged from less than 38 million tonnes to over 44 million tonnes. The most common projection, supported by 60.42% of the participants, was 40-42 million tonnes. Additionally, 20.83% anticipated production to be between 38-40 million tonnes, while 12.5% expected it to be slightly higher at 42-44 million tonnes. A small percentage, 4.17%, believed production would exceed 44 million tonnes.

The activity covered various critical topics, including the E20 mandate in India, which is scheduled for November 2025. A majority of 56.6% of the participants expressed optimism about the rise of the E20 mandate. In terms of global sugar production, 60% of the attendees expected modest production expansion in the 2025/26 season. The projections for the USD/BRL exchange rate ranged from 5.2 to 6.5, with a majority anticipating a weaker real ahead (36.96%).

The consensus activity has not addressed the EU or Thai sugar production forecasts for 2025/26, which are key factors in shaping future sugar prices.

The market anticipates increased production from Brazil and India, estimating Brazil at 41-42 MMT and India at 30-32 MMT—an overall rise of 4-6 MMT. Despite this, the outlook for 2025 prices remains neutral to higher, which is intriguing. Are these production estimates based on ideal weather conditions? Additionally, global consumption is expected to absorb 2-3 MMT of this increase.

# Contact


Emma Sanig
Research Analyst and Meteorologist

esanig@marex.com

Gurdev Gill
Agricultural Options Broker

ggill@marex.com

Tony Sheridan
Sugar Broker

tsheridan@marex.com

David Congdon
Sugar Broker

dcongdon@marex.com

Faizaan Sadiq
Sugar & Grains Options Broker

fsadiq@marex.com

Finlay Denny
Agricultural Sales Broker

fdenny@marex.com