

Market View: Looking For A Bounce



January 3, 2024

6 min read



Author: Ben Seed



Insight Focus

- Raw sugar prices are trying to stabilise after a 25% fall.
- The world remains undersupplied with sugar for the coming months.
- Today's lower prices won't incentivise further investment in sugar production capacity.

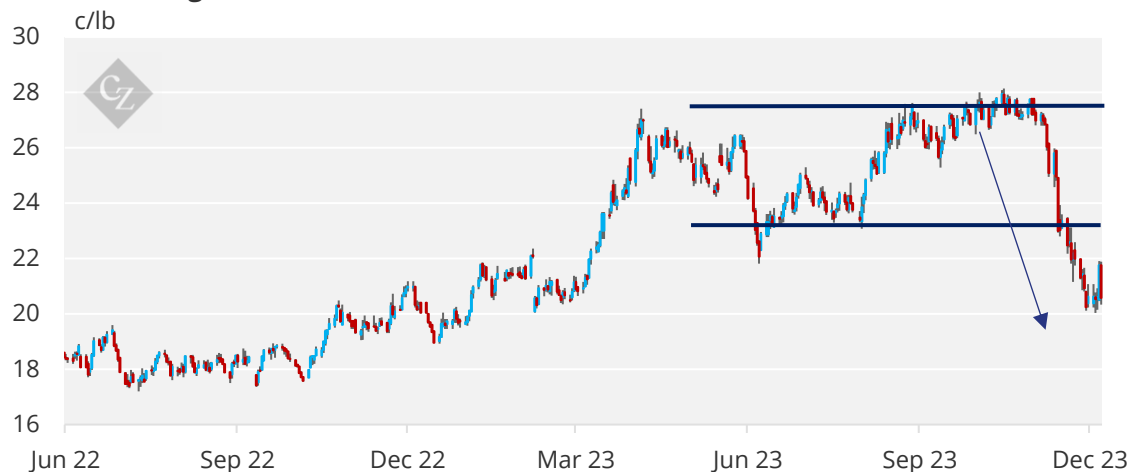
New Year, Same Undersupplied Sugar Market

Happy New Year to all!

After sugar's 25% drop at the end of 2023, we think that many people will be expecting/hoping for a bounce. This would probably be healthy for the market but the problem is it's very difficult to know when or at what price this is likely to happen.

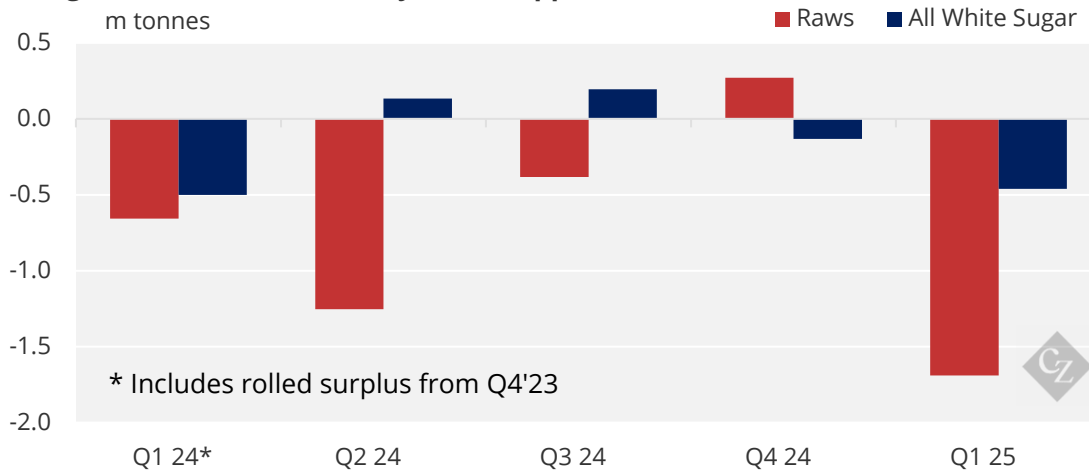
As a reminder, we encourage you to stick to your plan and not try to time the market; the last section of our market view "Managing Your Market Risk" is designed to guide you in this process.

No.11 Raw Sugar Futures Price



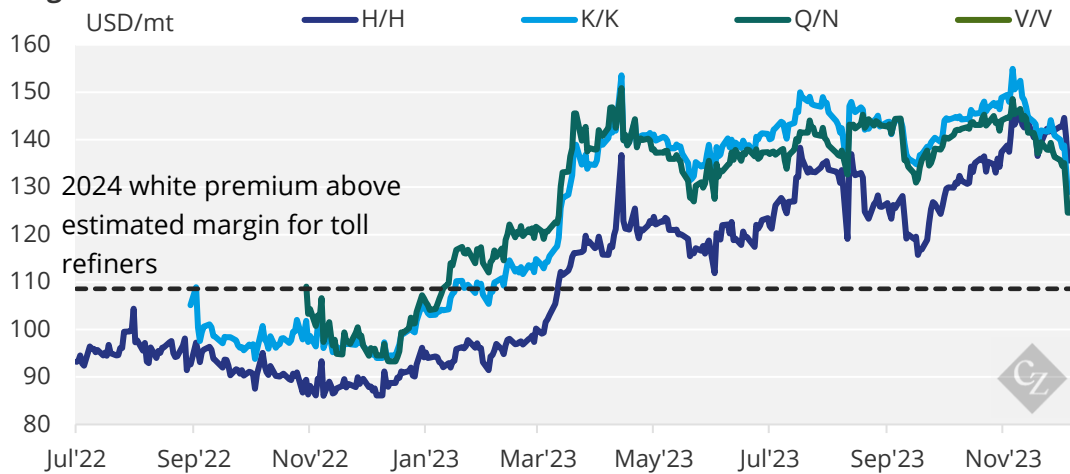
Beyond the short term our view is unchanged. Prices are likely to trade higher once again at some point in 2024. The shortage of sugar supply that we talked about throughout 2023 starts to hit the market in Q1'24; there is a shortfall of almost 2m tonnes raw sugar in H1'24.

Sugar's Tradeflows - Heavily Undersupplied H1'24



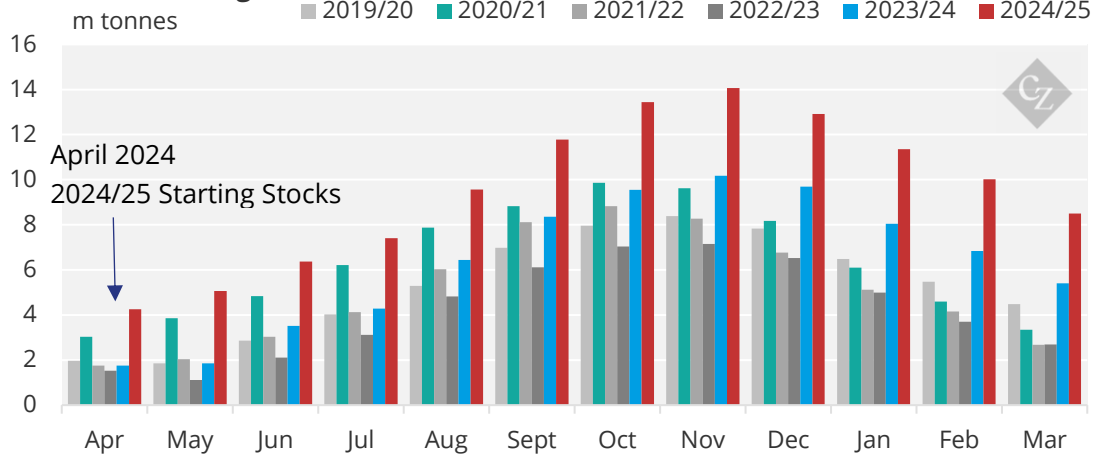
It's a similar problem for the white sugar market in the short term. 2024 white premiums continue to provide returns that are well above what we estimate are needed for toll refiners to operate profitably (110 USD/mt). The strain of the undersupply is clear.

Sugar's 2024 White Premiums



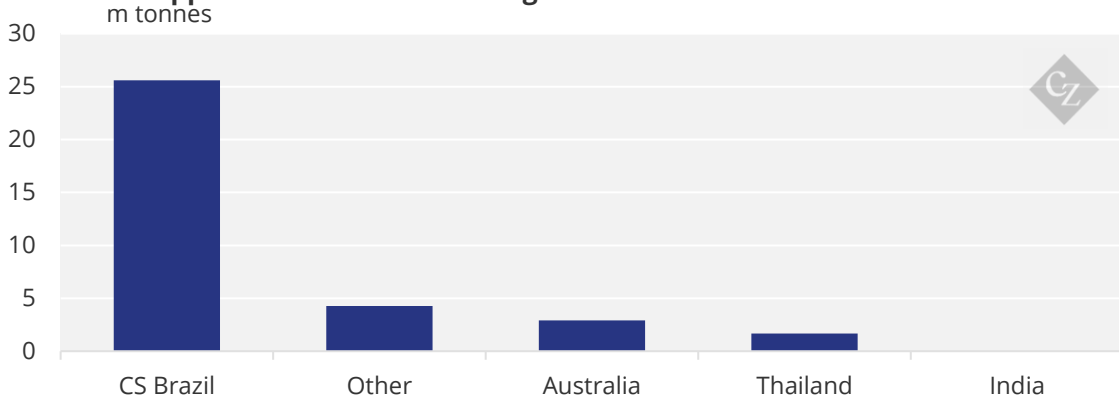
Yes, there will be plenty of raw sugar but this will be stuck in CS Brazilian warehouses (including temporary warehousing) as ports cannot export sugar fast enough to the world market. Mills are already planning to maximise sugar production in their next season (2024/25) which will lead to record stocks of around 14m tonnes at their peak.

CS Brazil Raw Sugar Stocks



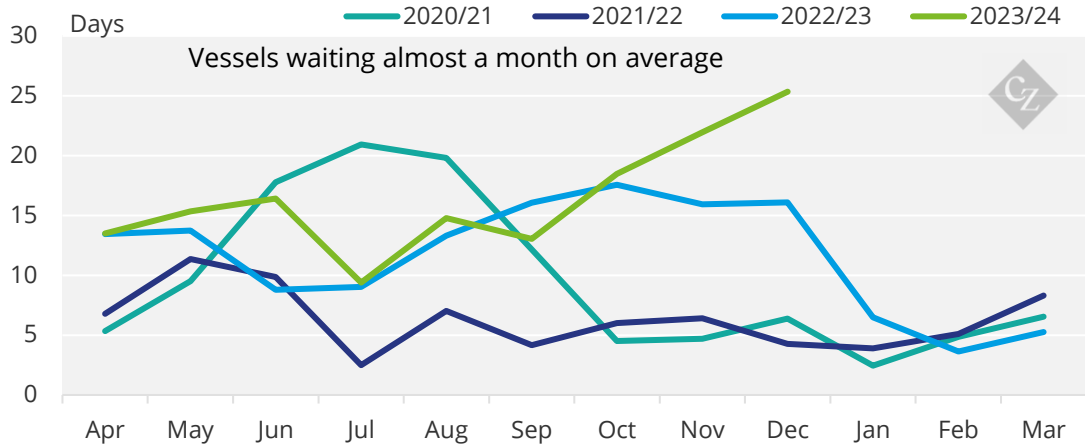
There may be small improvements in export capacity but sugar's supply for most of 2024 cannot easily react to price. CS Brazil now dominates sugar supply (over 75%), which means that the pace of monthly exports effectively limits demand. This leaves demand destruction to solve the market's undersupply.

CS Brazil Supplies Over 75% Of Raw Sugar In 2024



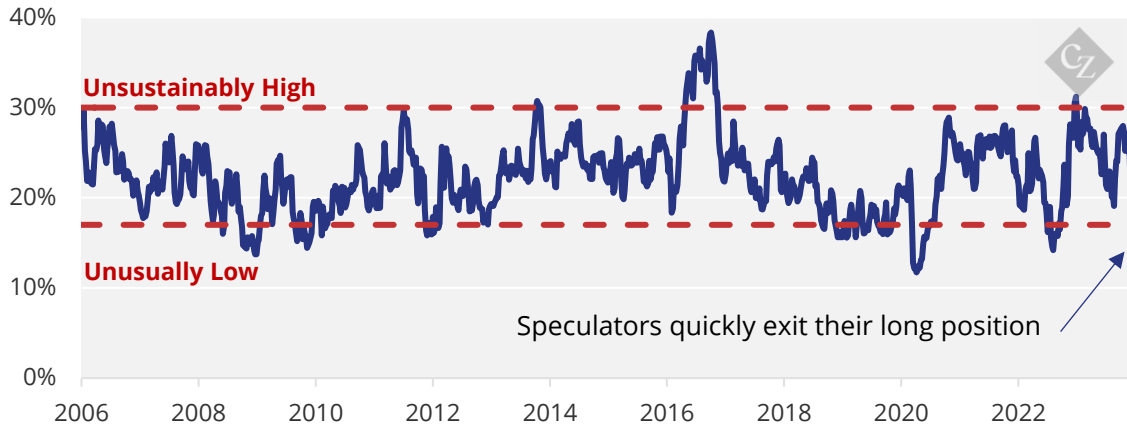
In other words, the queue at CS Brazilian ports is at the very least enforcing demand deferral. For countries whose stocks are very low this could lead to demand loss.

CS Brazil Waiting Time Average



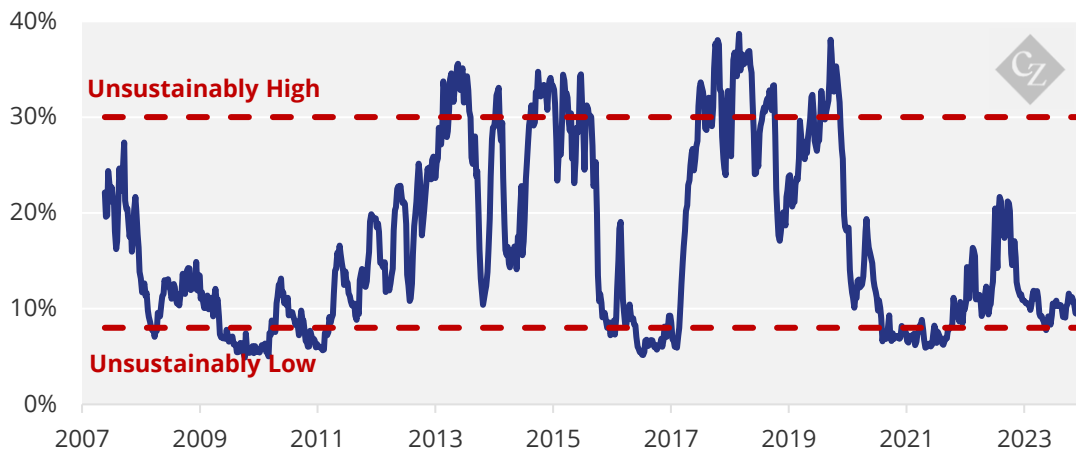
What's more likely to cause a bounce is any more positive fundamental news flow such as if something goes wrong in CS Brazil. [The futures market order flow is now very unbalanced](#) after speculators quickly exited their long position. This gives them every opportunity to build a new long position with the right news flow.

Gross Speculative Long as a % of Open Interest



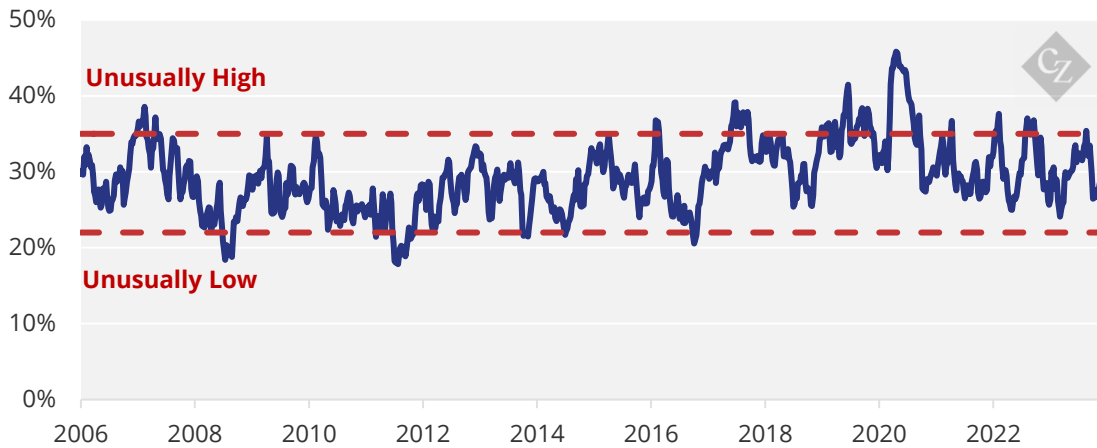
In the short term, we think it's unlikely that speculators will keep selling the market. Unless open interest increases it will be hard to reduce their long position further; it's unlikely speculators would choose to build a short position with the positive fundamentals.

Gross Speculative Short as a % of OI



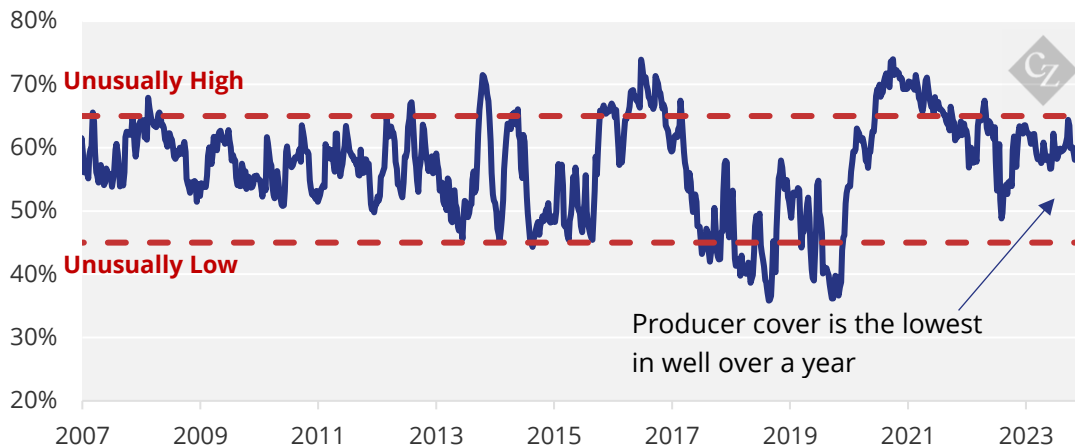
Raw sugar consumers took advantage of spec selling by increasing their cover to well above normal levels. Historically it's been unlikely they can add much more cover so would not be able to support a speculator led rebound.

Gross Commercial Long as a % of Open Interest



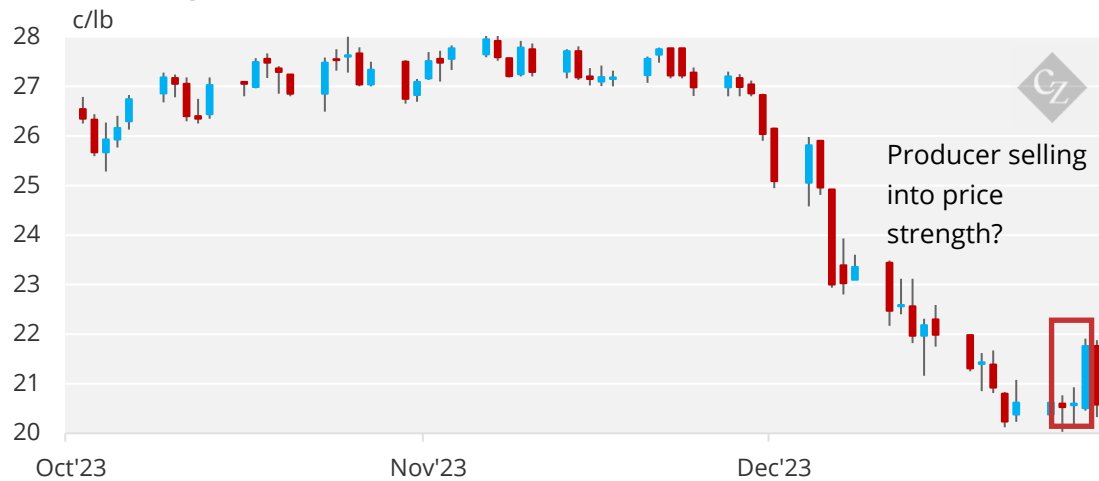
The main potential sellers are producers, who will need to add some more cover during 2024. There's no immediate rush especially so soon after prices collapse.

Gross Commercial Short as % of Total Open Interest



However, the longer prices remain around 20c, the more likely producers are to start selling. Returns are still well above [cost of production \(about 16c in CS Brazil\)](#). Producers may want to sell into any price strength, which may have happened on the last trading day of 2023. Given the size of the producer short position, this could absorb any attempt by speculators to build a new long position on the back of some new fundamental news.

No.11 Raw Sugar Futures Price

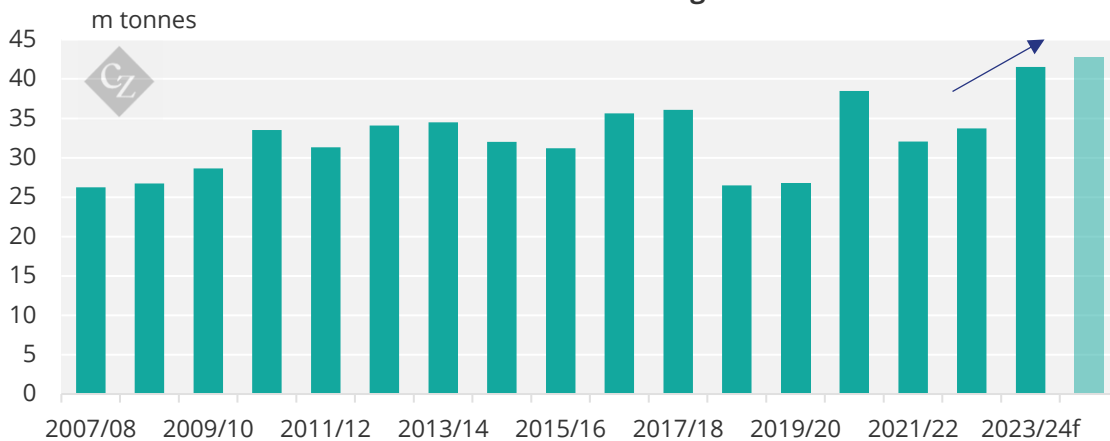


This all means that in the short term, it would be healthy for the market to consolidate. But the market doesn't always take the healthy option.

Longer Term: Production Rebounds; Logistics a Mess

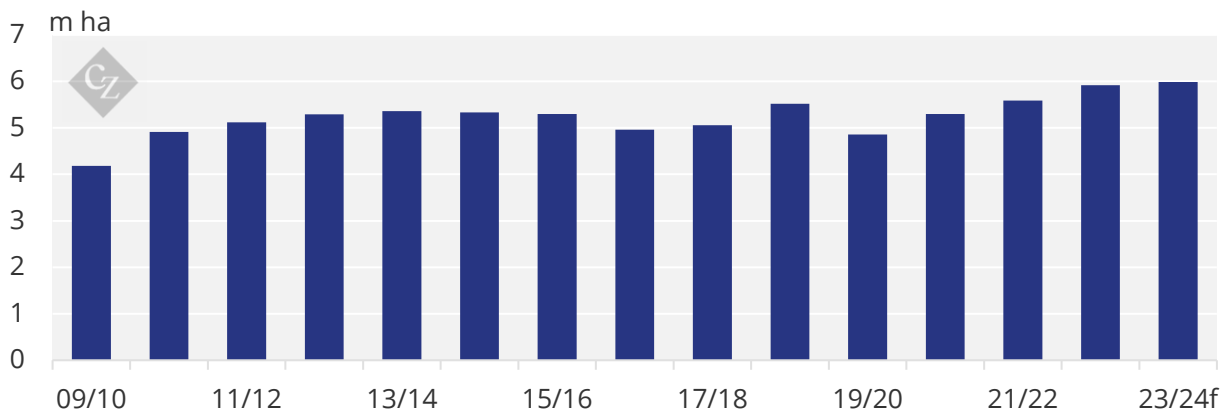
Higher prices have finally had an effect on sugar production. In CS Brazil, it looks like mills will make more than 41m tonnes of sugar for the first time this season; next season (2024/25) will be even higher. This pullback isn't a problem in the short term, but prices will need to strengthen again to avoid investment in sugar production and logistics stopping.

CS Brazil Should Produce At least 40m tonnes of Sugar in 24/25



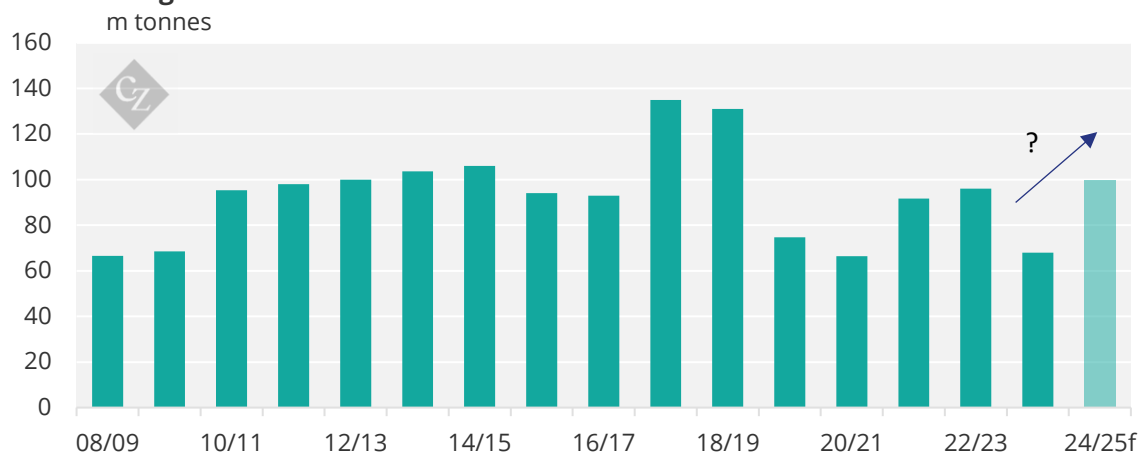
Cane acreage in India continues to grow, reaching 6m ha for the first time in 2023/24. Dry weather has meant that sugar production won't be high this year or next, but farmers are clearly being incentivized to continue planting cane. At some point the weather will turn and so will Indian sucrose output.

India Sugarcane Area Has reached 6m Ha For The First Time



In Thailand, forecast cane prices for next season are enough to encourage farmers to plant cane at the expense of cassava. In a best-case scenario, [it's possible Thai mills could process 100m tonnes of cane in 2024/25](#), up from sub-70m this year. Even with less favourable conditions, more than 80m tonnes of cane should be crushed.

Thailand Sugarcane Production



We also believe that Chinese cane prices are rising, which could lead to greater cane plantings. This news is all welcome. But the focus will now shift to sugar logistics. There's no point in CS Brazil making 40m tonnes of sugar if it can't be exported in good time. Will enough investments be made in inland logistics to bring this sugar to the world market?

Likewise in India, will sugar output rise with a larger cane crop, or will the sucrose growth be entirely diverted to ethanol?

This suggests that sugar prices may need to stay higher for longer to encourage the investments made in production to be replicated across the supply chain.

Managing Your Market Risk

- Producers should be patient and aim to hedge 2024 tonnage above 25c/lb.
- Consumers should take advantage of this pullback to hedge 2024 aggressively; do not try to time the bottom of the market.
- More risk averse consumers should look to start adding some cover below 20c for 2025.
- 2024 white premiums will probably sustain above \$100/mt as the white sugar market is undersupplied.