QSL Monthly Market Update

February 2020

With Matt Page

17 February 2020

View this email in your browser

Welcome to your monthly overview of key sugar market and currency activity with QSL Trading Manager Matt Page

---

If we thought January was wild, February has been nothing short of insane as delegates from around the sugar world last week descended on Dubai for the annual Kingsman sugar conference to try and unpick the key drivers to our currently volatile market.

What became apparent very early on was that, this year, all focus was primarily on the short-term physical tightness in Q1 driven by a Thai crop that has completely collapsed on itself over the past couple of weeks. An estimated 8% decrease in acreage, largely driven by switching to cassava, as well as a 20% to 30% decline in annual rainfall which has resulted in a crippling drought and massive decline in yields, has led to one of the poorest Thai crops in years. While nearly all analysts expected a smaller number, a decrease from last year's 130 million tonnes of cane to what many are estimating will be closer to 80 million to make 8-9 million tonnes of sugar this year, is on a magnitude far greater than anyone foresaw.

The timing of slowdown in crushing rates and the rapid downgrade in the Thai crop has left us with a very volatile expiry of the MAR20 contract and an inverted sugar market where rapid buying of the prompt contract has lifted prices just below 16 cents in an effort to bring

physical sugar forward and fill the void left by the disappearing Thais. It’s also worth noting that if it remains dry through until May, planting will not take place and next year’s crop will be similarly awful.

So with the bullish tone set and the consensus all in chorus, the elephant in the room sat there largely in the periphery, acknowledged but ignored as a second-half story. That elephant is the upcoming Brazil crop.

It’s generally accepted that the upcoming crop in Brazil is looking fantastic and may produce a figure as high as 600 million cane tonnes. But what sugar/ethanol mix are we looking at? With prices well above the estimated 13.50 USc/lb ethanol parity price, Brazilian millers are openly stating their desire to increase sugar production, with some estimates as high as 31-32 million tonnes – more than adequate to fill the ‘Thai gap’. And if crude oil continues to underperform and the Brazilian Real continues to push to record lows, the risk of this moving higher towards maximum sugar and wiping out this year’s small global deficit estimate remains clear and present.

Discussions with Indian millers also confirmed a strong desire and expectation to continue with their export program, ably assisted by a government willing to fund subsidies necessary to incentivise exports and clear the decks for next year’s crop, which looks likely to remain somewhere just above 30 million tonnes of sugar.

The annual dissection of consumption was decidedly underwhelming and symptomatic of the longer-term trend towards lower demand. Growth is anticipated to stay around 1.5%, with the

usual triggers of taxes and health impacts cited. What was interesting was the additional acknowledgement of a more general slowdown in population growth and global GDP as contributing factors.

So there we have it. A first half of 2020 subject to physical tightness driven by a disastrous Thai crop and the large price volatility this brings, while the second half looks to be at the mercy of a bumper Brazil crop that looks set to swing back to sugar almost as aggressively as it swung out of it two short years ago.

For further information or media queries please contact Cathy Kelly on 0409 285 074