

# Sugar Newscast

16 December 2020

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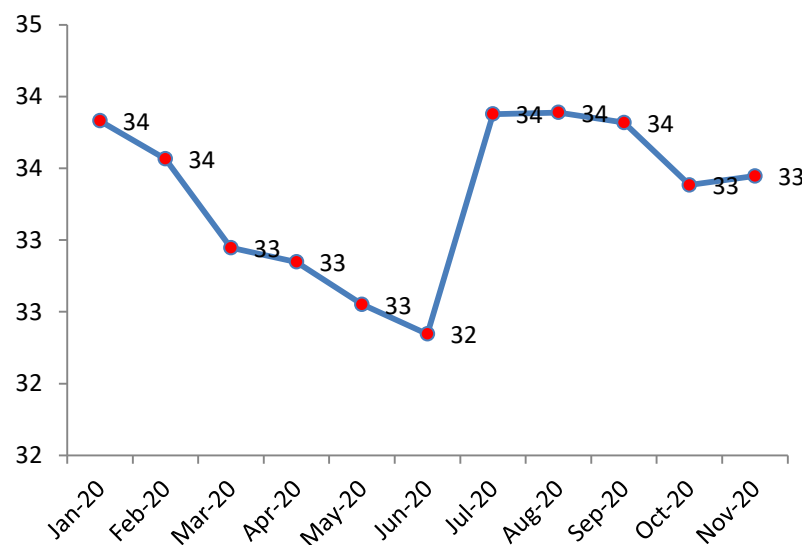
## CCEA approves assistance of about Rs.3,500 crore towards sugar export for 2020-21

On 16 December 2020, the Cabinet Committee on Economic Affairs (CCEA) approves assistance of about Rs.3,500 crore towards sugar export for the sugar season 2020-21. This subsidy aims at covering expenses on marketing costs including handling, upgrading and other processing costs and costs of international and internal transport and freight charges on export of up to 6 million tonnes of sugar limited to Maximum Admissible Export Quota (MAEQ) allocated to sugar mills for sugar season 2020-21.

During the previous season, export subsidy of about Rs.6,268 crore was announced by the government which translated into an export subsidy of Rs.10.4 per kg for export of up to 6 million tonnes of sugar limited to Maximum Admissible Export Quantity (MAEQ) allocated to sugar mills. The recent subsidy announced by the government however is lower by about 44% on a y-o-y basis. The primary aim behind this move is to curtail the sugar glut situation in India and to reduce the quantum of sugarcane arrears owed by sugar industry to sugarcane farmers.

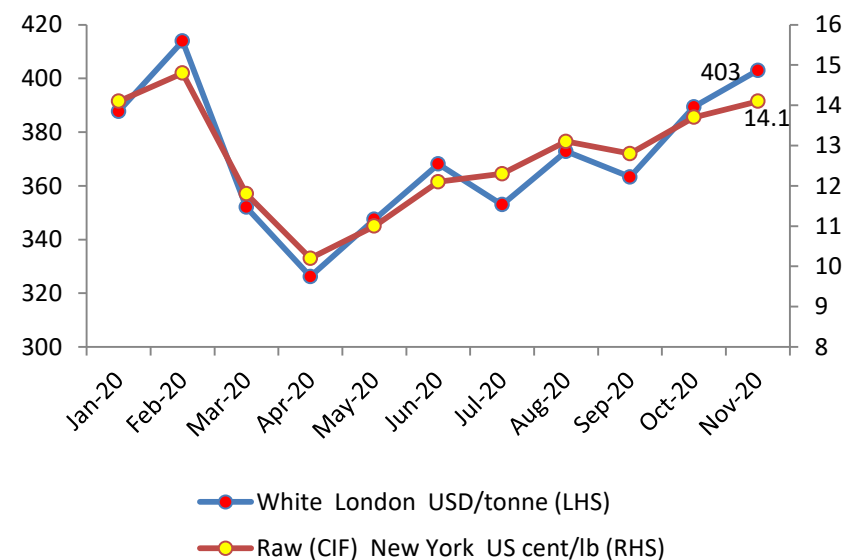
### Movement in sugar prices

**Chart 1: Movement in domestic wholesale sugar prices (Rs./kg)**



Source: CMIE and WPI

**Chart 2: Movement in international sugar prices**



Source: CMIE

From chart 1 it can be seen that domestic sugar prices have remained range bound and have been hovering around Rs.33-Rs.34 per kg during January-November 2020 except for the month of June 2020 primarily backed by revision in Minimum Support Price (MSP) to Rs.31 per kg in February 2019 from Rs.29 per kg in June 2018. The higher sugar inventories have been restricting any major improvement in sugar prices. With the announcement of sugar subsidy for 2020-21, the domestic sugar prices may see some upside in coming months.

The international sugar prices that have increased during October-November 2020 on m-o-m basis (chart 2), on the other hand, may witness some pressure when sugar exports from India starts coming in as delay in sugar outbound shipments from India are believed to have supported the international sugar prices. Also, sugar deficit forecast given by the International Sugar Organisation (ISO) for sugar season 2020-21 aided the growth in prices.

It is to be noted that the raw sugar prices in New York averaged at US 13.9 per lb or Rs.22.6 per kg during October-November 2020. So even if export subsidy of about Rs.5.83 per kg is added to this, the price comes out at Rs.28.4 per kg which is lower than the average domestic wholesale sugar price of Rs.33.4 per kg during the period.

### **Sugar stock situation**

According to the first advance estimates of sugar production for SS 2020-21 by ISMA, the output is estimated to increase by 11.3% to 30.5 million tonnes. This is likely to aggravate the already surplus sugar supply situation in India. The estimate excludes diversion of B heavy molasses/ juice/ syrup towards ethanol which is expected to result in 1.5 million tonnes of less sugar in sugar season 2020-21.



Considering production and opening stock of about 10.5 million tonnes, India will have an availability of about 41 million tonnes of sugar to fulfil the domestic and export requirements. ISMA estimates domestic consumption can be at 26 million tonnes. After adjusting for internal requirement and estimated maximum exports of 6 million tonnes, the closing stock for sugar season 2020-21 will stand at about 9 million tonnes. This quantum again continues to be more than the normal requirement of 2-3 months sugar stock which is around 4-6 million tonnes of sugar.

### **Concluding remarks**

- With the announcement of sugar export subsidy, the domestic sugar prices may see some upside in coming months as the subsidy will enable India to offload the excess stock. The international sugar prices, on the other hand, are expected to witness some pressure when sugar exports from India starts coming in.
- It is to be noted that the raw sugar prices in New York averaged at US 13.9 per lb or Rs.22.6 per kg during October-November 2020. So even if export subsidy of about Rs.5.83 per kg is added to this, the price comes out at Rs.28.4 per kg which is lower than the average domestic wholesale sugar price of Rs.33.4 per kg during the period.

- Even when sugar exports of 6 million tonnes are factored in for sugar year 2020-21, the glut situation will continue as closing stock estimate for the year at about 9 million tonnes continues to be more than the normal requirement of 2-3 months sugar stock which is around 4-6 million tonnes of sugar.

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