

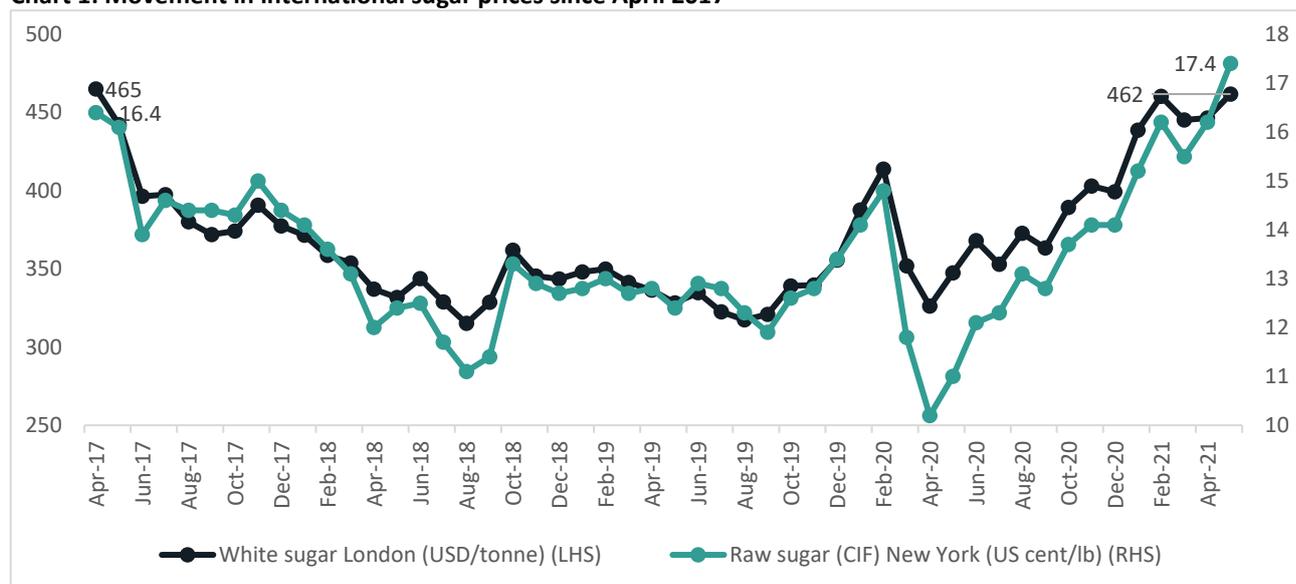
Sugar Update: May 2021

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International sugar prices touch 4 year high in May 2021

In May 2021 (up to 19 May), international sugar prices touched 4 year high as the white sugar prices in London and the raw sugar prices in New York averaged at USD 461.8 per tonne and US cent 17.4 per lb, respectively. Such high price levels for both these varieties were witnessed earlier 4 years back in the initial months of 2017. The price of white sugar in London and that of raw sugar in New York had averaged at USD 465.1 per tonne and US cent 16.4 per lb in April 2017.

Chart 1: Movement in international sugar prices since April 2017



Source: CMIE

During this four-year period, the international sugar prices saw the maximum sequential fall of 15%-20% in the month of March 2020 and further decline of 7%-14% in April 2020 due to Covid-19 disruptions. The white sugar price in London averaged at USD 326 per tonne and the raw sugar price in New York averaged at US cent 10.2 per lb in April 2020. After this, the sugar prices increased on m-o-m basis for most of the months with unlocking of global economies and improvement in international sugar demand supporting the growth in prices in the initial months. In addition to this, expected lower sugar output in the European Union (world's third largest sugar producer) and Thailand (second largest global sugar exporter) and uncertainty over Brazil's (the largest sugar producer and exporter in the world) diversion of cane crop towards sugar for the sugar season 2020-21 led to the upward trend in international sugar prices moving ahead.

While output from the European Union is estimated to decline by 11.1% to 14.7 million tonnes in sugar season (SS) 2020-21 (October-September), production from Thailand (December-November) is expected to fall by 8.7% to 7.6 million tonnes during the year as per the United States Department of Agriculture (USDA). It is to be noted that the sugar output in Thailand was around 14.5 million tonnes in each of the years during SS 2017-18 and SS 2018-19 which declined by a sharp 43.1% to 8.3 million tonnes in 2019-20 and is estimated to fall for second straight year in 2020-21. This, in turn, resulted in lower supply of about 6.3 million tonnes of sugar from the second largest sugar-exporting nation in the year 2019-20 and is estimated to lower supply by another 0.7 million tonnes in the current year.

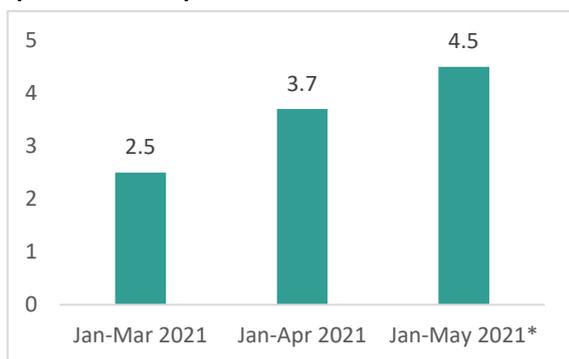
Moreover, expectations of fall in sugar production from Brazil in the current SS (April 2021 - March 2022) due to reduced harvest area has further provided tailwinds to the international prices in recent months. Output from Brazil is likely to decline by 5.7% to 38.9 million tonnes during the year as per Brazil's National Supply Company (Conab).

As a result, tight sugar supply situation in the global market pushed up the international sugar prices and resulted in 4-year high price rise. **The firmness in international prices is expected to continue for the next 3-4 months unless sugar output from the other major sugar producing and exporting nations starts coming in for the next season 2021-22.**

Has growth in international sugar prices supported Indian sugar industry?

Yes. The growth in international sugar prices have definitely augured well for Indian sugar exports amid glut situation in the domestic market. As per the Indian Sugar Mills Association's (ISMA) recent mid-May 2021 press release, about 5.7 million tonnes of contracts for sugar exports have already been entered so far. In terms of actual exports, about 3.7

Chart 2: Sugar export estimates by ISMA (million tonnes)



Note: Export figures are approximate numbers and * indicates estimate

million tonnes of sugar have been shipped out by end of April 2021 and another 0.7-0.8 million tonnes of sugar is expected to be physically exported by end of May 2021 bringing the total physical sugar exports to around 4.5 million tonnes by May 2021.

In addition to international sugar prices supporting outbound shipments, the export subsidy announced by the government for the SS 2020-21 have played a major role in promoting sugar outward shipments. On 16 December 2020, the Cabinet Committee on Economic Affairs (CCEA) approved assistance of about Rs.3,500 crore towards sugar export of up to 6 million tonnes for the SS 2020-21 to curtail sugar glut situation in India and to reduce the quantum of sugarcane arrears owed by the sugar industry. The export subsidy translated into an assistance of around Rs.5.8 per kg for sugar to be exported. Had it not been for this subsidy, the sugar exports from India would have been a bit difficult.

This is because only after including the subsidy white sugar prices in London and raw sugar prices in New York averaged at Rs.38.9 per kg and Rs.31.9 per kg, respectively, during 1 January 2021 - 19 May 2021. The average wholesale sugar prices in India averaged at Rs.33.1 per kg during the same period thus indicating support from the international sugar prices to Indian sugar mills to export sugar.

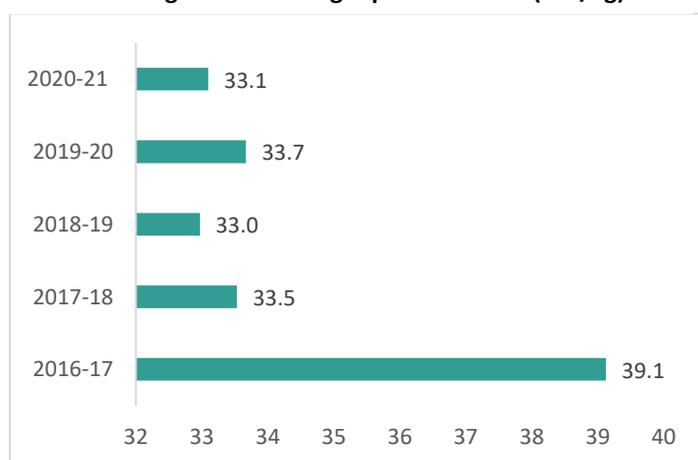
It is important to note that the pace of exports has been favourable enough backed by tight global supply situation which supported growth in international prices and domestic export subsidy scheme (which was announced with a delay on 16 December 2020 by the government). For the sugar year 2019-20, the export subsidy was announced before start of the season in August 2019. As per the ISMA, about 4.5 million tonnes of sugar are expected be exported by May 2021 end, which is only 5-month period after the subsidy announcement and about 5.7 million tonnes of sugar exports have been contracted so far which is quite encouraging. This, in turn, will support the government to achieve the sugar export target of 6 million tonnes by end of this sugar year, September 2021.

While sugar export target appears feasible, concerns of surplus stock looms in the domestic market, which is hindering any growth in prices in India even when international sugar prices are witnessing an uptrend.

Domestic sugar prices continue to remain range-bound

The wholesale sugar prices in India continued to average in the range of Rs.33 per kg - Rs.34 per kg for more than the past 3 years (SS 2017-18 to SS 2020-21 (up to 20 May 2021)). Sugar price that had averaged at Rs.39 per kg during SS

Chart 3: Average domestic sugar prices in India (Rs. /kg)



Source: CMIE

Note: Prices for SS 2020-21 are up to 20 May 2021

2016-17 declined by 14.3% to Rs.34 per kg in SS 2017-18 primarily due to bumper sugar output of 32.5 million tonnes (growth of 60.1% y-o-y) and minimal sugar exports during the year. Following this, India had an opening stock of more than 10 million tonnes of sugar in each of the next 3 consecutive years, which is much more than the normative stock requirement of 4-6 million tonnes for a year. India started SS 2018-19, SS 2019-20 and SS 2020-2021 with an opening stock of 10.7 million tonnes, 14.6 million tonnes and about 10.5 million tonnes, respectively. Such high carryover stocks have been restricting any major increase in domestic sugar prices since SS 2017-18 (refer Chart 3 in left side).

In fact, the prices could have declined beyond the range of Rs.33 per kg - Rs.34 per kg had it not been for sugar Minimum Support Price (MSP) announced by the government at Rs.29 per kg in June 2018 which was further increased to Rs.31 per kg in

February 2019. Lower sugar production by 11.3% to 25.1 million tonnes and 19.3% to 20.3 million tonnes during SS 2015-16 and SS 2016-17, respectively, had resulted in higher average price of Rs.39 per kg in SS 2016-17.

Sugar production and stock situation

According to the ISMA, sugar output in India increased by 14.4% y-o-y to 30.4 million tonnes during the period 1 October 2020 – 15 May 2021 led by 73% growth in Maharashtra to 10.6 million tonnes backed by favourable weather conditions which resulted in increased cane area and better yields in the state. It is important to note that the production numbers are after considering the diversion of sugar towards ethanol which is estimated at around 2 million tonnes of sugar.

In addition to the output, India has an opening stock of about 10.5 million tonnes for the current season. This will bring the total availability of sugar in India to an estimated 40.9 million tonnes. After considering domestic consumption of around 26 million tonnes (as per ISMA) and exports of about 6 million tonnes (target set by government), India will have closing stock of around 8.9 million tonnes for SS 2020-21. This closing stock is 15% lower than the previous year's closing stock of 10.5 million tonnes, however it continues to remain more than the normative requirement of 2-3 months stock for the next sugar season. This, in turn, will prevent any sharp improvement in domestic sugar prices in the coming months even when international sugar prices remain firm. Thus, the domestic sugar industry has been eagerly looking forward for a hike in MSP as sugar prices remain range-bound with sugarcane Fair and Remunerative Price (FRP) seeing an increase of 11.8% during SS 2017-18 to SS 2020-21.

While the industry awaits a hike in MSP, recent update (20 May 2021) indicates that the government has cut down the export subsidy for the current sugar year 2020-21 by 31.4% to Rs.4 per kg from Rs.5.8 per kg earlier. Support from international sugar prices and export contracts of 5.7 million tonnes out of 6 million tonnes export target resulted in announcement of this decision. This subsidy rate comes into immediate effect and shall be applicable on the outbound shipments other than 5.7 million tonnes of sugar export contracted so far.

Apart from sugar exports, the government has been giving much importance to Ethanol Blended Petrol (EBP) Programme to reduce sugar glut situation in India through diversion of sugarcane and surplus sugar towards manufacturing of ethanol. As per the ISMA as on 19 April 2021, 117.7 crore litres of ethanol have been supplied out of 302.5 crore litres of contracted ethanol. Of the total ethanol supplied, about 77% of ethanol is made from sugarcane juice/B-heavy molasses. On an average, India has achieved blending percentage of 7.4% while 11 states that includes Uttar Pradesh, Maharashtra, Karnataka, Uttarakhand, Bihar, Haryana, Punjab, Delhi, Goa, Gujarat and Himachal Pradesh achieved a higher blending percentage of up to 10%.

Concluding remarks

- Tight sugar supply situation in the global market has pushed up the international sugar prices to 4-year high. The firmness in international prices is expected to continue for the next 3-4 months unless sugar output from the other major sugar producing and exporting nations starts coming in for the next season 2021-22.
- The recent announcement of cut in export subsidy from Rs.5.8 per kg to Rs.4 per kg gives an indication of an expectation that the sugar exports from India may not go beyond 6 million tonnes during the current SS 2020-21. However, any increase in exports above 6 million tonnes would mean reducing the closing stock substantially for SS 2020-21 to result in sharp improvement in domestic sugar prices going forward.

Contact:

Madan Sabnavis
Bhagyashree C. Bhati
Mradul Mishra

Chief Economist
Deputy Manager – Industry Research
(Media Contact)

madan.sabnavis@careratings.com
bhagyashree.bhati@careratings.com
mradul.mishra@careratings.com

+91-22-6837 4433
+91-22-6837 4407
+91-22-6754 3573

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Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel. : +91-22-6754 3456 | CIN: L67190MH1993PLC071691

Connect :

