

## Sugar Newscast 2nd July 2019

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### ISMA releases preliminary estimates of sugar production for 2019-20 season

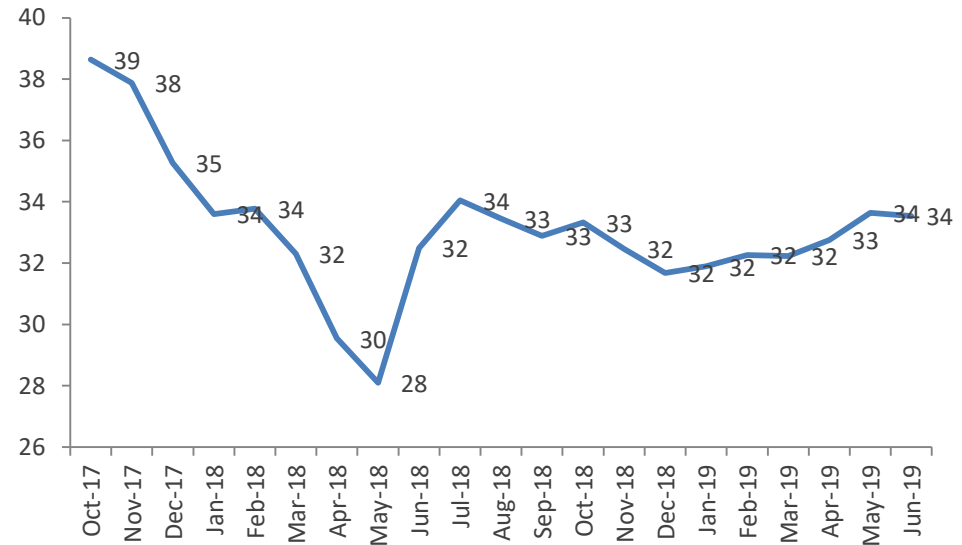
According to preliminary estimates released by the Indian Sugar Mills Association (ISMA), India's sugar output is estimated to decline by 14.4% y-o-y to 28.2 million tonnes during the sugar season October 2019-September 2020. The expected fall in production is mainly due to lower estimates for Maharashtra and Karnataka. Output from Maharashtra and Karnataka is expected to go down by 34.7% to 7 million tonnes and 19.8% to 3.5 million tonnes, respectively, during the year.

While production is expected to fall, the opening stock for the new season 2019-20 stands at an all-time high of about 14.5 million tonnes. Considering production and opening stock, India will have an availability of 42.7 million tonnes of sugar to fulfil the domestic and export requirements. Domestic consumption can be expected to grow by 2.5% and stand at 26.7 million tonnes. In addition to this, exports can be estimated at 3 million tonnes (provided government support exports) assuming that India will export the same quantity of sugar the country had exported last year when there was high sugar production. **Even if domestic consumption and exports are factored in, India will have a supply glut and closing stock of about 13 million tonnes of sugar for 2019-20. This quantum again continues to be more than the normative requirement of 2-3 months sugar stock which is around 4-6 million tonnes of sugar.**

### Trend in sugar prices

The surplus situation is likely to keep the domestic sugar prices under pressure even when sugar output is expected to fall during the year 2019-20. Thus, we expect sugar prices to remain range bound or increase moderately and average in the range of Rs.34-Rs.35 per kg in the coming months.

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



Source: CMIE

The average sugar prices in India have been on a declining trend since the start of the sugar season 2017-18 on account of a surge in sugar production during the year. Sugar production in India jumped by 57% on a y-o-y basis to 32.5 million tonnes in 2017-18.

The prices that averaged at Rs.39 per kg in October 2017 fell to the lowest level of Rs.28 per kg in May 2018. To prevent the downward trend in prices, the government fixed the MSP for sugar at Rs.29 per kg on 6 June 2018. Resultantly, the prices increased and averaged at Rs.32 per kg in the month of June 2018 and grew further to Rs.34 per kg in July 2018. The prices however fell in the next month and remained in the range of Rs.32-Rs.33 per kg during August 2018-January 2019. To provide support to the prices, the government further raised the MSP to Rs.31 per kg on 14 February 2019. The prices, in turn, averaged at Rs.33-34 per kg during April-June 2019.

### **International sugar demand-supply situation**



As per the United States Department of Agriculture (USDA), world sugar production is estimated at 180.7 million tonnes and world domestic consumption is estimated at 176.4 million tonnes for 2019-20. The total production is expected to exceed domestic consumption by 4.3 million tonnes. Further the year ending stock situation for 2019-20 is estimated at 47.8 million tonnes, a y-o-y fall of 6%. With this demand-supply and stock situation, we expect the international sugar prices to remain stable or rise moderately backed by a growth in consumption.

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### CARE Ratings View

- India will have a supply glut and closing stock of about 13 million tonnes of sugar for 2019-20 even if domestic consumption and exports are factored in. This quantum again continues to be more than the normative requirement of 2-3 months sugar stock which is around 4-6 million tonnes of sugar.
- The surplus situation is likely to keep the domestic sugar prices under pressure even when sugar output is expected to fall during the year 2019-20. Thus, we expect sugar prices to remain range bound or increase moderately and average in the range of Rs.34-Rs.35 per kg in the coming months.

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