

Sugar production in India declines by 22.7% during October 2019-mid February 2020

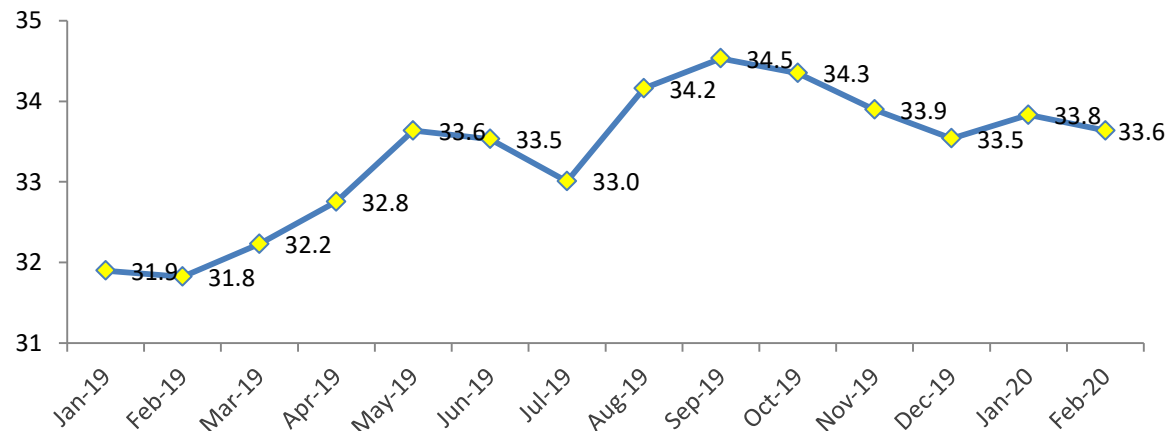
According to the Indian Sugar Mills Association (ISMA), India’s sugar output fell by 22.7% to 17 million tonnes during the period October 2019-mid February 2020 led by a sharp 47.7% fall in Maharashtra’s sugar production to 4.3 million tonnes. Output from Karnataka also declined by 20.5% to 3.1 million tonnes. Drought in these primary sugar producing states affected the overall production. The output in other top sugar producing state Uttar Pradesh however increased by 3.8% to 6.6 million tonnes during the period.

As per the first advance estimates released by ISMA, sugar output is expected to be at 26 million tonnes for the complete SS 2019-20, considering the diversion of B heavy molasses/ sugarcane juice to ethanol, a y-o-y decline of 21.5%.

Sugar prices continue to remain stable

The average wholesale sugar prices have largely remained stable at Rs.34 per kg during the period May 2019 to 18 February 2020 except for the two months July 2019 and September 2019 where the prices averaged at Rs.33 per kg and Rs.35 per kg, respectively. An increase in sugar Minimum Support Price (MSP) to Rs.31 per kg a year back in February 2019 from Rs.29 in June 2018 has supported the stability in sugar prices. In addition to this, a decrease in sugar production and expected lower sugar output for the ongoing sugar year 2019-20 have aided the prices to remain steady. The wholesale sugar prices increased by 4.9% y-o-y to Rs.33.8 per kg during the period 1 October 2019 to 18 February 2020.

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



Source: CMIE

Note: The prices for February 2020 are till 18th February 2020

Sugar Newscast

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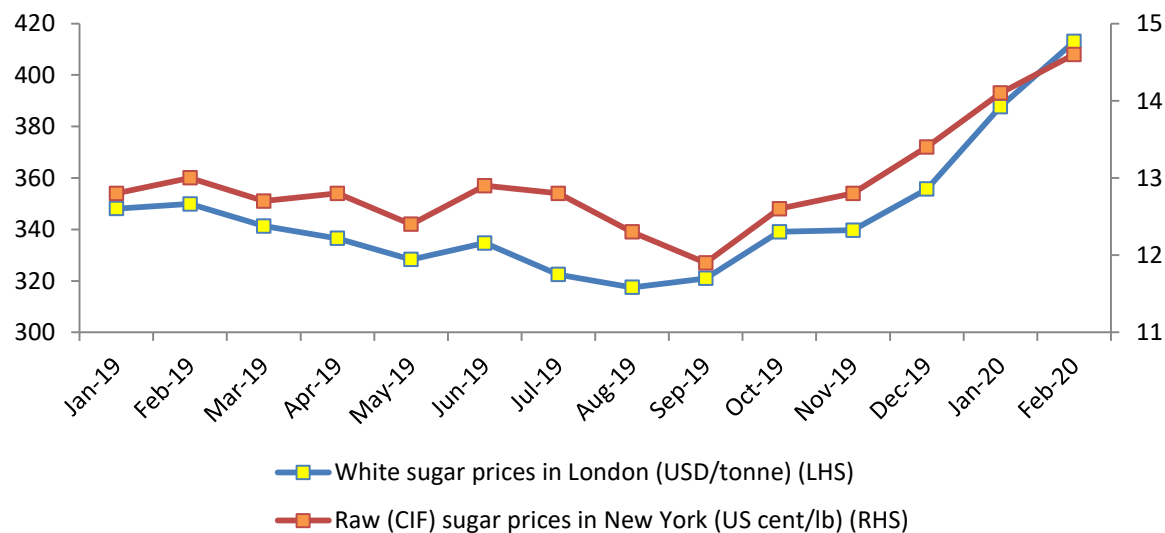
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Moreover, sugar exports aimed at reducing inventory is also believed to have supported the prices. About 3.2 million tonnes of export contracts have been signed and around 1.6 million tonnes of sugar have been exported against Maximum Admissible Export Quantity (MAEQ). In August 2019, the CCEA announced export subsidy at Rs.10.4 per kg to sugar mills for the sugar season 2019-20. The subsidy is to be provided for expenses on marketing costs including handling, upgrading and other processing costs, costs of international and internal transport and freight charges and is applicable to export of up to 6 million tonnes of sugar limited to MAEQ allocated to sugar mills for the sugar season 2019-20.

The sugar exports from India are expected to remain firm in the next few months given the upward trend witnessed by international sugar prices in recent months. The international sugar prices have increased on a sequential basis in each of the months during October 2019 to January 2020 and continued to inch upwards in February 2020 (data is till 15 February 2020). During 1 February 2020 to 15 February 2020, the average international prices were up by 16%-22% compared to the prices in October 2019. The white sugar prices in London and the raw (CIF) sugar prices in New York that had averaged at USD 339 per tonne and US cent 12.6 per lb, respectively, in October 2019 increased and averaged at USD 413 per tonne (white sugar price in London) and US cent 14.6 per lb (raw sugar price in New York) during 1 February 2020 to 15 February 2020.

Chart 2: Movement in international sugar prices



Source: CMIE

Note: The prices for February 2020 are till 15th February 2020

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The growth in international sugar prices is on account of lower sugar production in India. In addition to this, unfavourable weather conditions in Thailand and the European Union are expected to affect the sugar output in these regions thus impacting the global sugar production. All these factors supported the growth in international sugar prices. However it is to be noted that the movement in international sugar prices will be influenced by Brazil's diversion of sugarcane towards production of sugar rather than ethanol given the scenario of rising international sugar prices.

Concluding remarks

- The sugar exports from India are expected to remain firm in the next few months given the upward trend witnessed by international sugar prices in recent months.
- The movement in international sugar prices will be influenced by Brazil's diversion of sugarcane towards production of sugar rather than ethanol given the scenario of rising international sugar prices.

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