



ISO Summer Series

***An Update of the World
Sugar Market***

***Quarterly Market
Outlook - August 2020***

September 4th 2020



ISO Summer Series

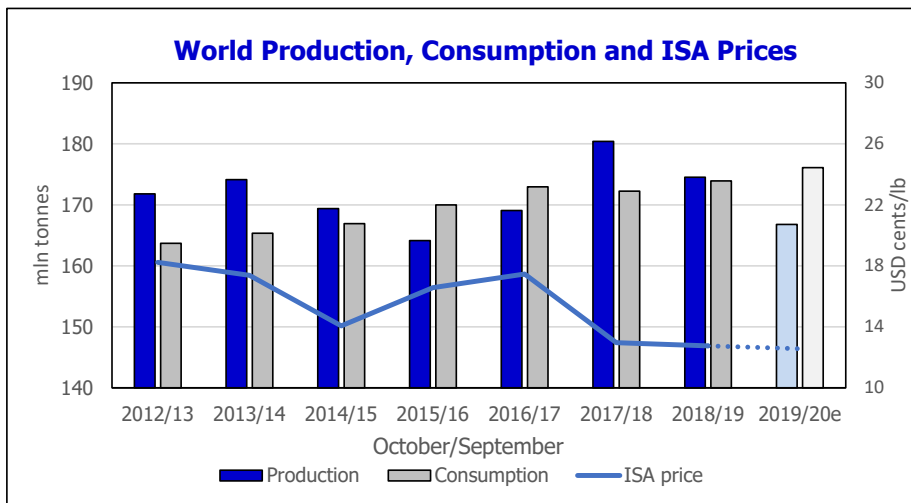
Agenda

- 1 Sugar Market***
- 2 Ethanol Market***
- 3 Molasses & HFCS Market***
- 4 Q&A***





Production and Consumption

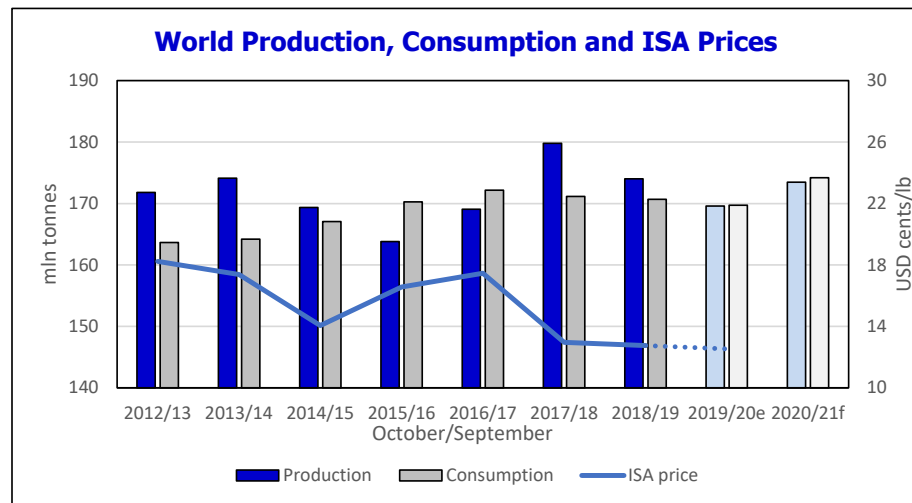


May outlook

Deficit in 2019/20 of 9.298 mln tonnes

Covid-19 provision of 2.1 mln tonnes **not included**

Deficit in 2020/21 of 6.7 mln tonnes



August outlook

Deficit in 2019/20 of 0.136 mln tonnes

Production increase of 2.781 mln tonnes

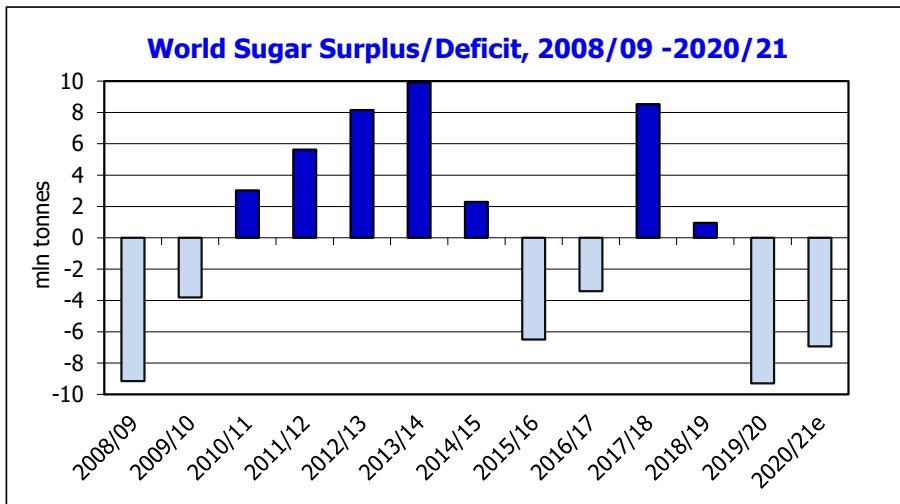
Covid-19 provision of 2.723 mln tonnes **included**

Historic revision of consumption trend

Deficit in 2020/21 of 0.724 mln tonnes



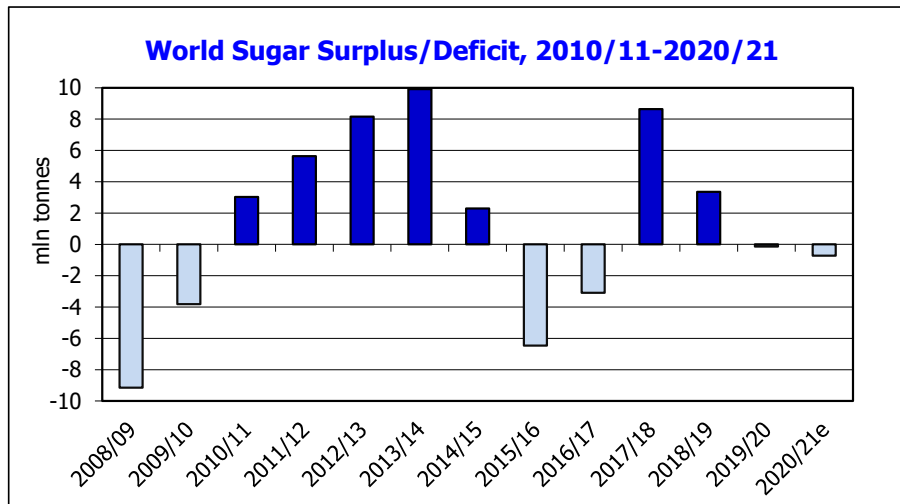
Production and Consumption



May outlook

Stock drawdown in 2019/20 equal to previous 2 surpluses

Resolution of 2020/21 deficit unclear



August outlook

No significant drawdown in stocks, plus lower consumption denominator

Balance for 2020/21 equally un-troubling



Covid-19 impact on Consumption

ISO methodology to estimating lockdown impact on sugar consumption

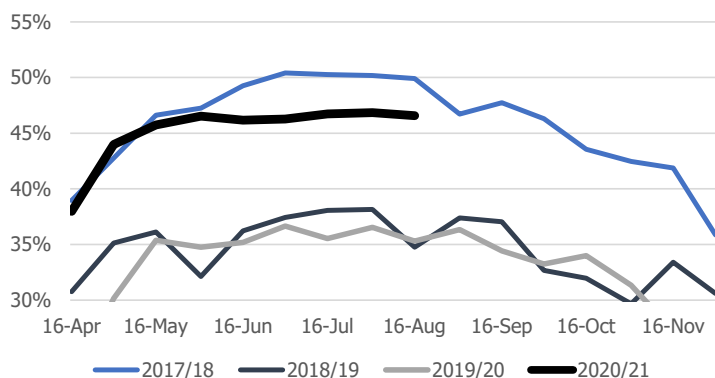
- 1 Source lockdown dates – ranging from 4 to 106 days
- 2 Source national consumption figures
- 3 Estimate percentage of consumption foregone due to restrictions – this is regional as consumption profiles and product mixes vary
- 4 Calculate national statistics and aggregate
- 5 Current impact total stands at 2.723 mln tonnes (up from 2.1 mln tonnes up to May).
- 6 Obvious challenges – post-lockdown behaviour, countries with partial lockdown (incl China), variances in consumption due to pipeline stocks

Country	Thousand Tonnes
India	702
China	300
Brazil	263
EU+UK	205
USA	116
Egypt	100
Colombia	89
Argentina	84
Peru	82
Russia	70
Pakistan	69
Morocco	55
Algeria	51
Others	538
Sum	2723

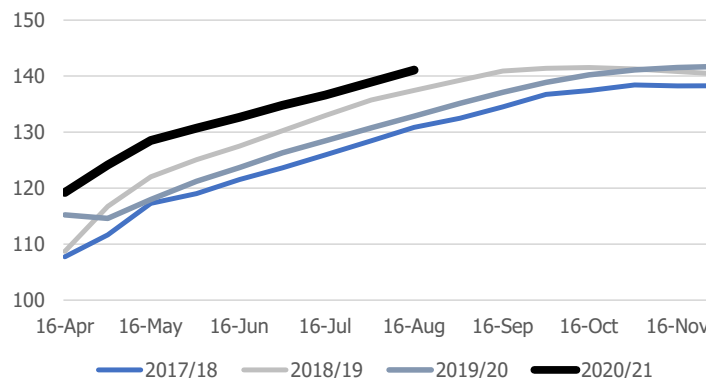


Change in Production

Fortnightly CS Brazil Sugar Allocation



CS Brazil Sucrose Yield (kg/tonne of cane)



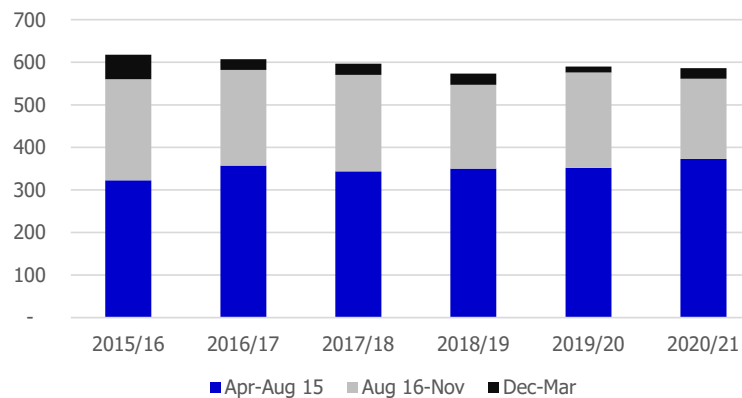
Revised Projection for current CS Brazil harvest

Cane = 585 mln tonnes

Sucrose yield = 140 kg/tonne of cane

Sugar allocation = 45%

CS Brazil cane harvest totals





P&C Balance

Market Moves

Outlook

Conclusion

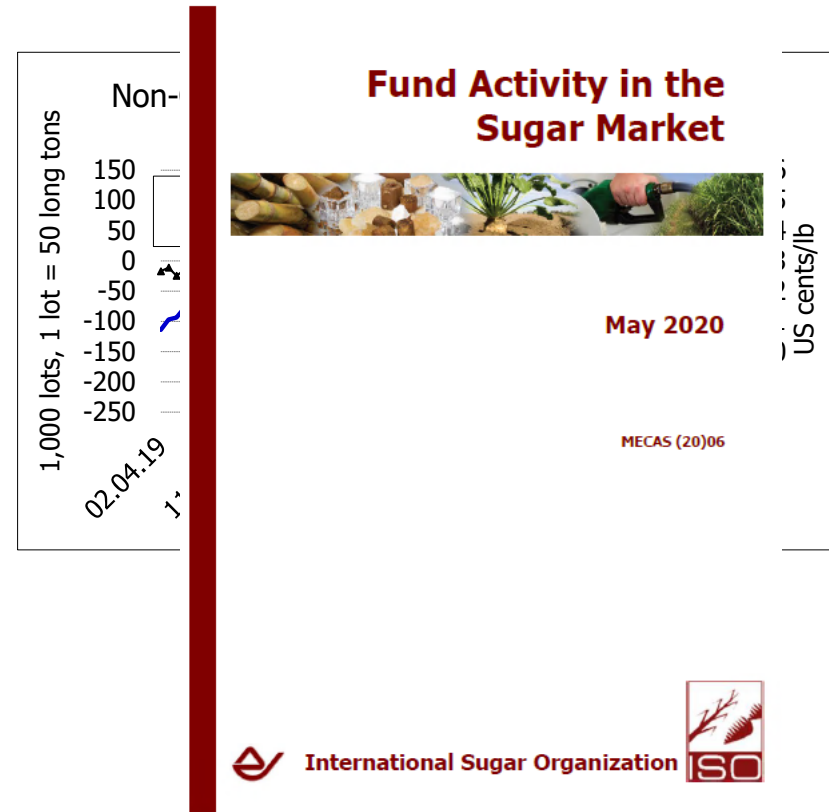
Futures and Specs

Since May, speculators have bought over 200,000 lots of sugar (10 mln tonnes)

Prices have recovered by 20%, but far below 15 c/lb

Perception is that specs are long due to cross-commodity investment strategy

Or it could be something fundamental....



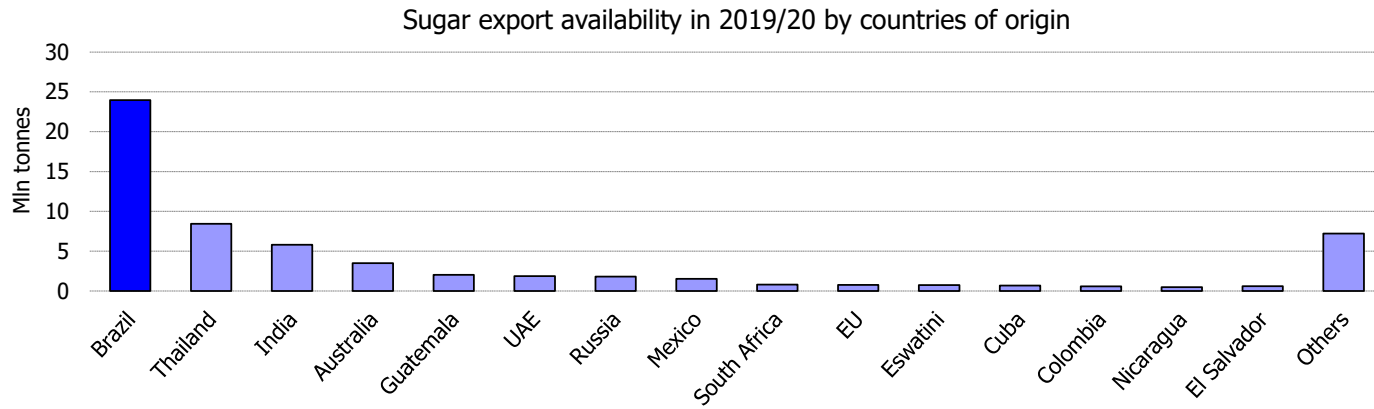
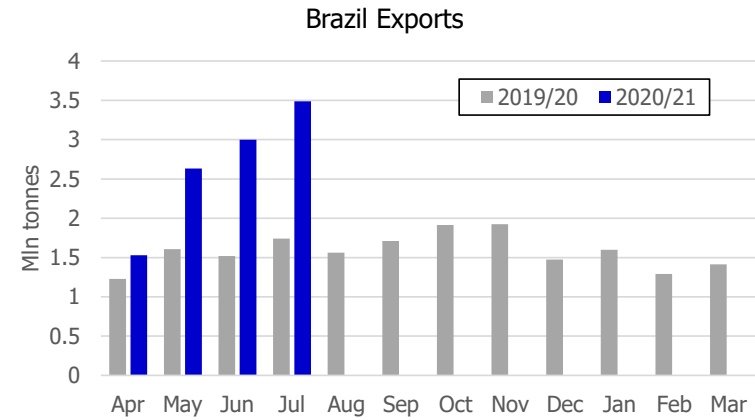


Trade flows

Futures are focused on trade

Brazil export dominance is increasing
but Brazil export capacity is increasing more slowly

Import demand has been firm and frequent





Trade flows

Row Labels	Rumo	Copersucar	Tiplam	Teag	Rumo 19	Noble	Pasa	Soceppar
2017								
Qtr1	1,769,001	1,097,892	89,148	52,464		6,500	378,900	195,160
Qtr2	2,489,536	1,132,829	600,988	765,416			738,090	218,730
Qtr3	2,813,316	1,378,684	1,020,519	1,060,554			1,095,875	474,050
Qtr4	2,245,384	1,125,225	691,352	549,637			853,343	266,605
2018								
Qtr1	1,679,415	930,521	236,716	72,660			290,930	148,815
Qtr2	1,722,385	872,924	637,769	337,359			625,377	127,615
Qtr3	1,758,721	1,249,168	1,031,621	482,199			761,799	252,465
Qtr4	1,299,162	920,844	692,640	358,772			525,088	269,022
2019								
Qtr1	1,469,960	727,110	347,282	45,000			99,500	123,250
Qtr2	1,444,613	723,362	642,164	126,377			647,338	
Qtr3	1,092,274	1,034,470	976,033	367,645			862,791	
Qtr4	1,410,318	901,701	1,116,730	83,436			772,292	
2020								
Qtr1	1,497,348	898,760	601,363				327,890	
Qtr2	2,069,171	1,339,140	690,440	187,188	253,289		875,204	
Qtr3	1,115,586	112,396	44,754	24,756	46,300	92,009	181,020	

Brazil bulk export terminals

Almost entirely dependent on Rumo and Copersucar terminals

Tiplam and Pasa assist, but have draft restrictions and lower volumes

Other terminals also elevate grains

Trade flows

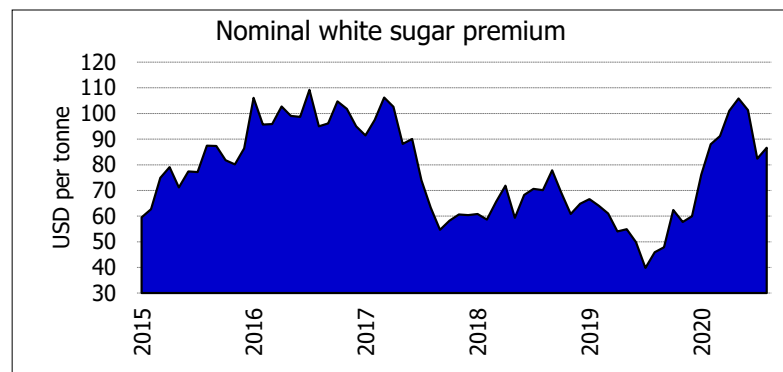
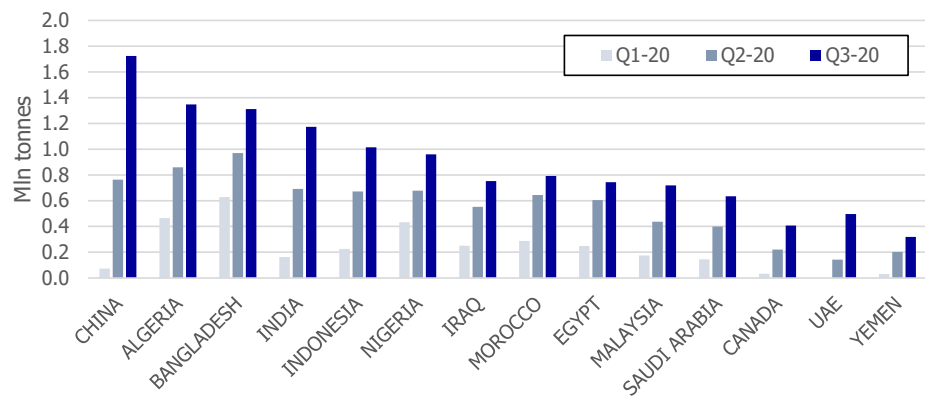
Brazil destinations

China, India and Indonesia are irregular due to domestic policy, availability or sourcing strategy

Algeria, Nigeria and Morocco are regular buyers, although the former has recently considered an export ban

Bangladesh trade is longstanding, albeit a distant destination with logistic challenges at discharge

CS Brazil bulk export destinations in 2020





P&C Balance

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The 2020/21 Balance and beyond

Consumption

Forward path is difficult to quantify

Current two-year growth projection at 1.97%; annual growth below 1%

Regional variations are huge

SS Africa = 3.53%; MENA = 2.63%; Far East = 1.57% South America = -1.25%; Western Europe = -1.56%

Revision in the unrecorded consumption estimate as more accurate trade statistics brings down import / consumption shortfall (from 4.95 mln tonnes to 3.434 mln tonnes).

Production

Variety of issues limiting farmers planting sugarcane/beet – disease prevention, competing crops, saturated markets, smallholdings limit mechanisation, financial pressures

Sugar has borrowed “all there is to borrow” from the ethanol balance.

Brazil harvest is front-loaded. India is the next “support” for the production outlook



P&C Balance

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Global changes

Just in Time – Just in Case / Food security is key political objective

Currency impact has been significant – could BRL continue falling?

Food access in developing countries remains a global challenge

Increased interest in domestic applications of sugarcane industry resources to lock in value-added



P&C Balance

Market Moves

Outlook

Conclusion

Conclusion

- Covid-19, Brazil and historic consumption revisions have nullified the 2019/20 deficit
- 2019/20 has seen increased raw trade, with some importers increasing stockholdings
- High white premium reflecting a tight balance in refined sugar
- Brazil exports have been above capacity, as other producers have sold out
- Indian exports next year are the next big supplier to the market, but only in whites
- For 2020/21 balance
 - End date of pandemic uncertain
 - Little cane but plenty of sugar left in CS Brazil
 - Potential for harvest disruptions in India and Thailand
 - Global trade issues should ease with global economic confidence



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Thank you

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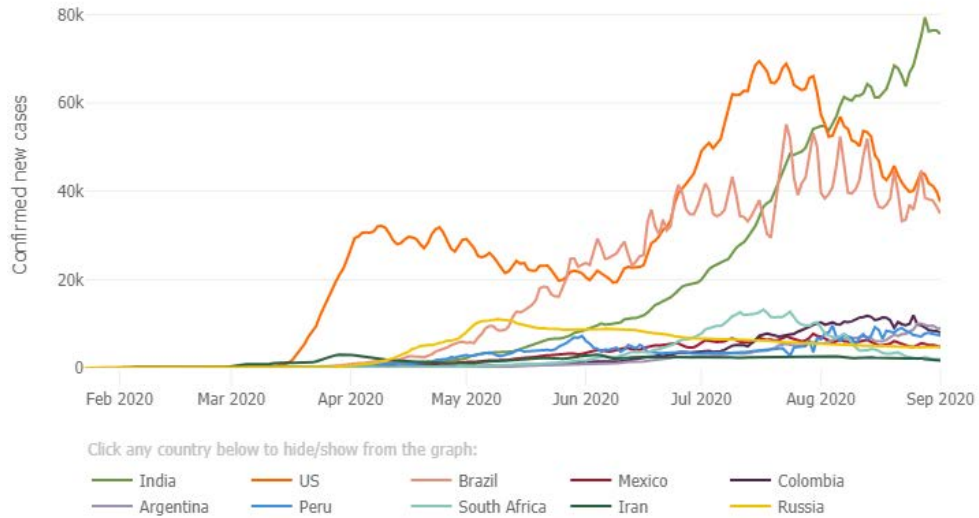
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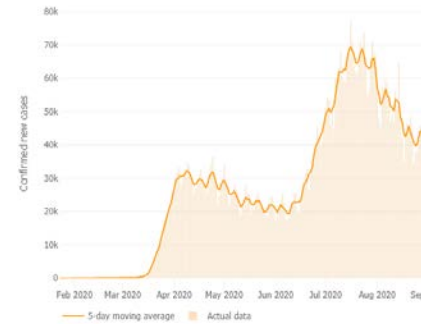


Covid-19 development

DAILY CONFIRMED NEW COVID-19 CASES
(5-DAY MOVING AVERAGE)



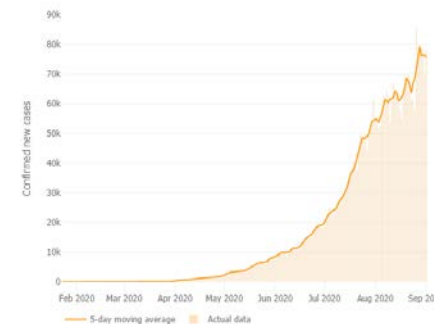
US



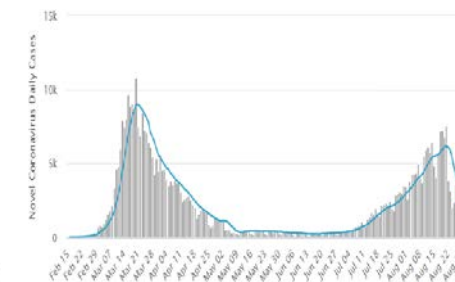
BRAZIL



INDIA

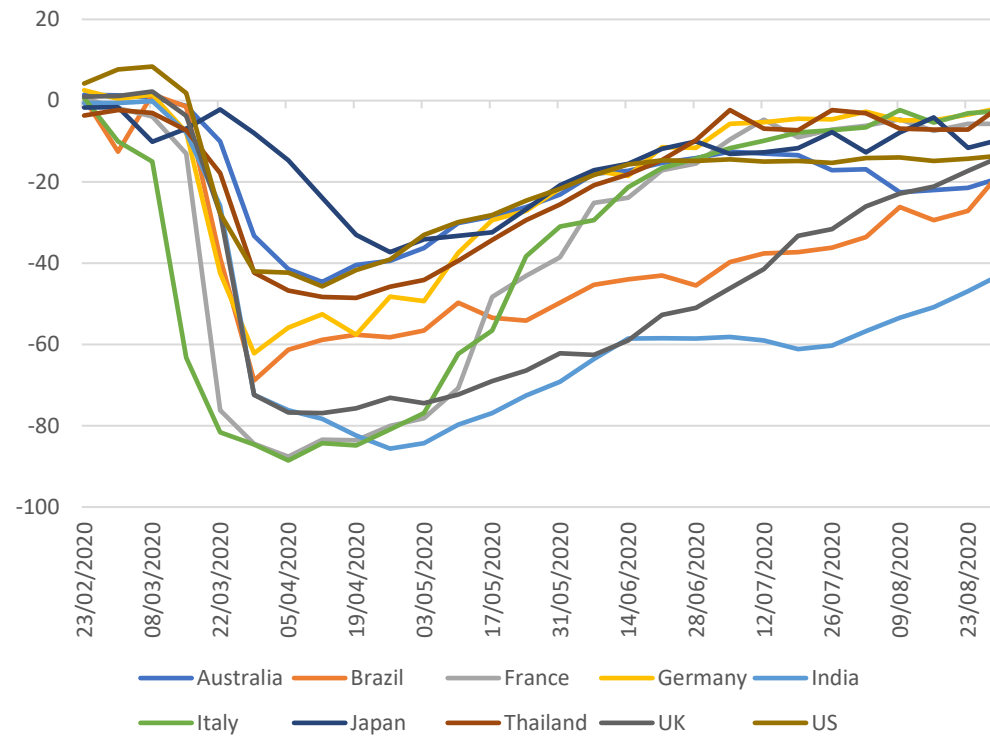


SPAIN



Impact on mobility

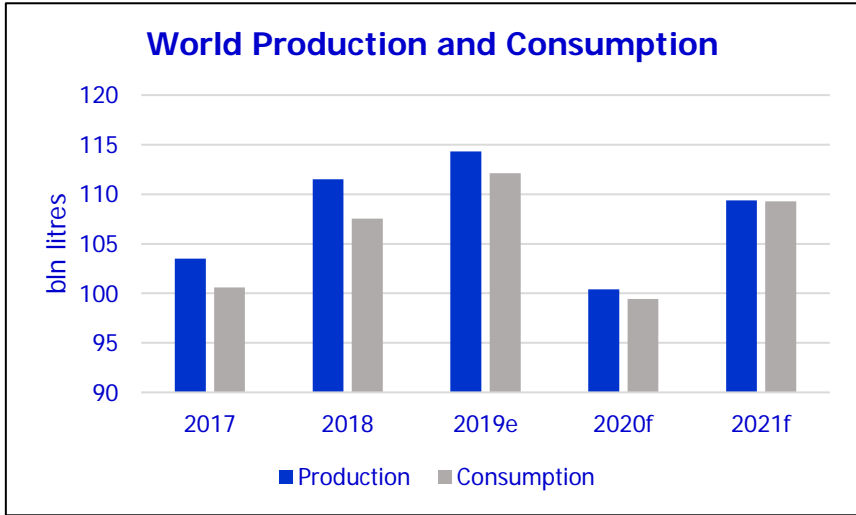
Mobility - Retail & Recreation
change from baseline, rolling weekly avg



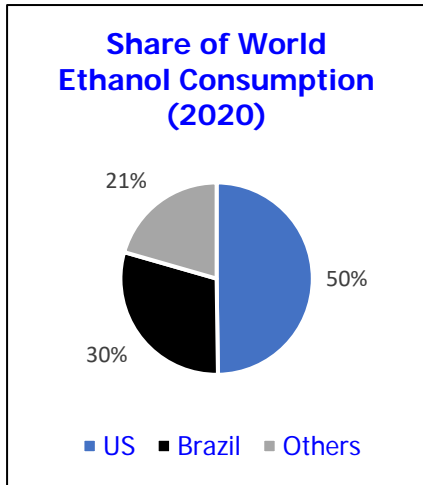
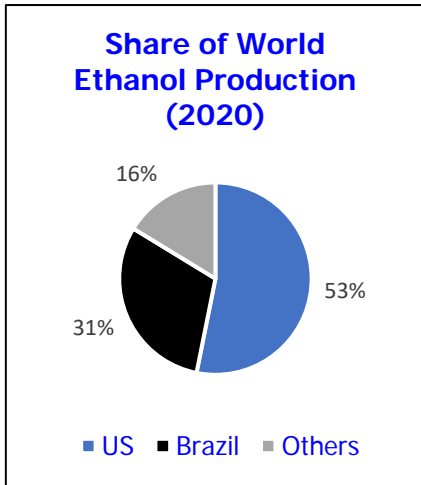
Uncertainties

- Production and consumption numbers will continue to be revised
- Depend on a number of factors:
 - Economic recovery – what is the likelihood of national lockdowns?
 - Vehicle use – public vs private transportation
 - Ethanol inclusion
 - Profitability of alternatives
 - Sugar – Brazil
 - Industrial use – other countries

Production and Consumption

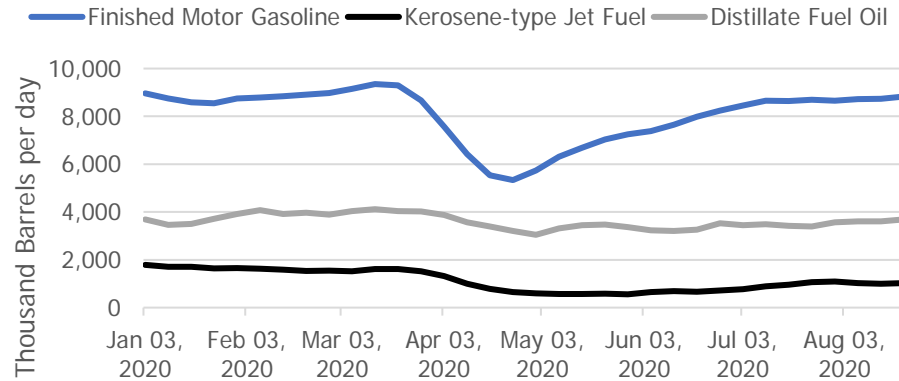


- World **production** in 2020 revised lower to 100.4 bln litres.
 - expected to recover in 2021 to 109.4 bln litres.
- World **consumption** in 2020 revised lower to 99.4 bln litres.
 - expected to recover in 2021 to 109.3 bln litres.
- US and Brazil dominant producers (84% of world total) and consumers (79% of world total).

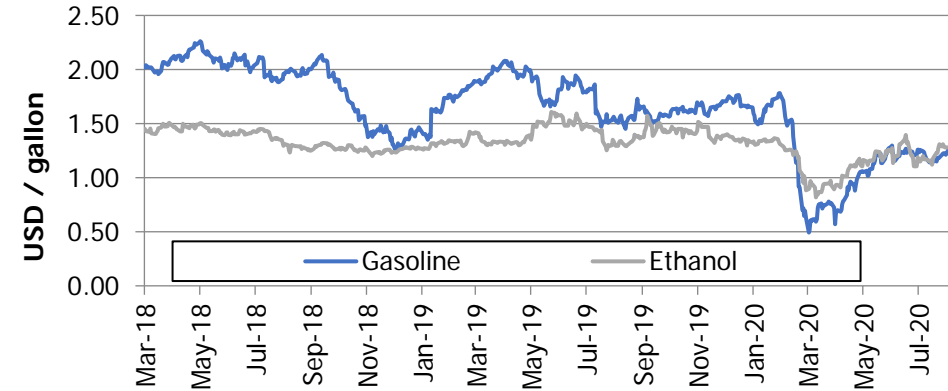


US dynamics

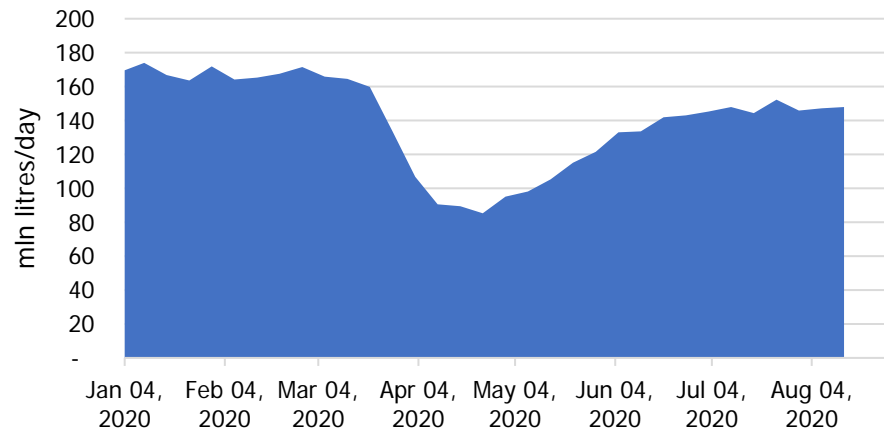
US 4-week average supply



US Gasoline / Ethanol Prices



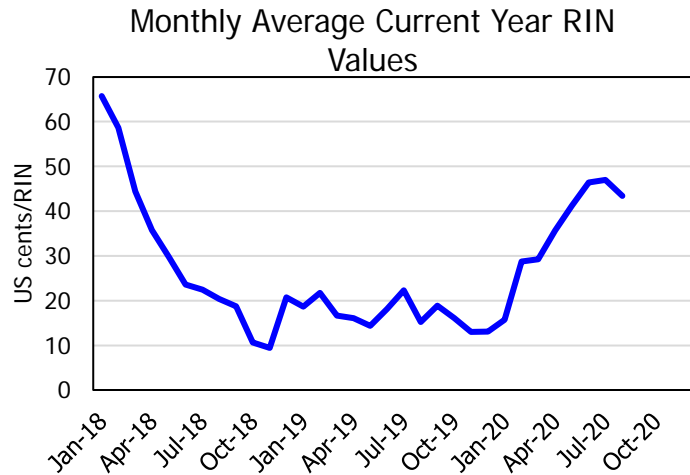
US Weekly Ethanol Production



Source: EIA

- Significant impact on fuel use
 - Motor gasoline and distillate fuel oils recovering faster than jet fuel
- Ethanol production impacted
 - Weekly production recovering nearing pre-pandemic levels

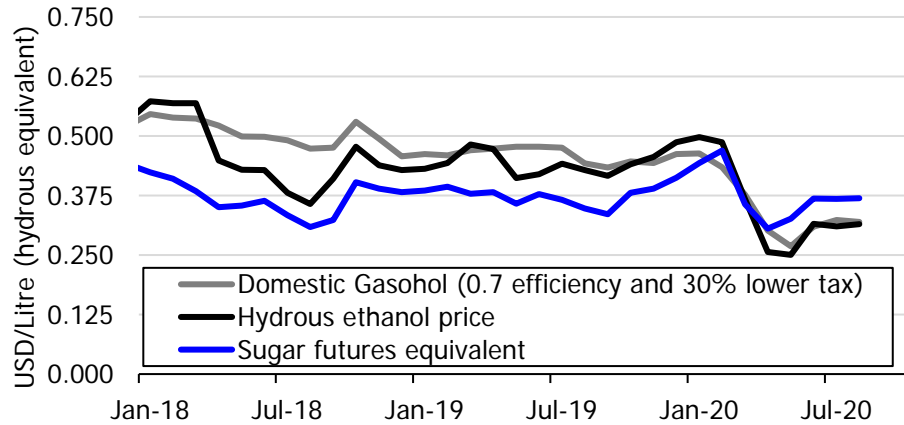
US dynamics cont.



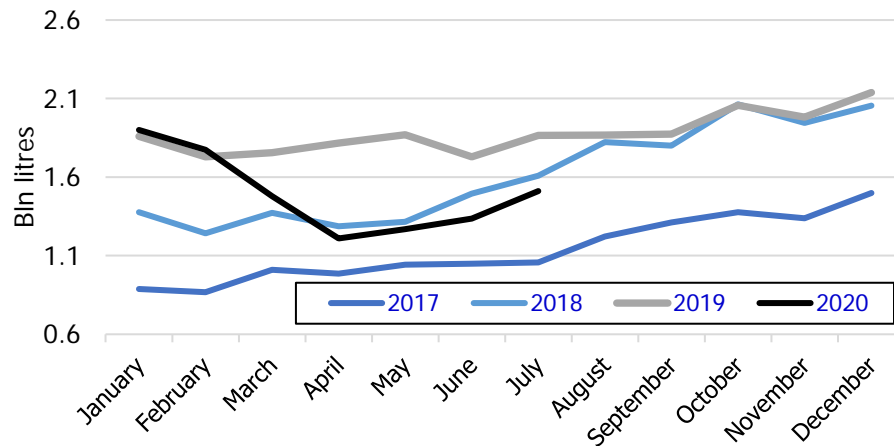
- Producer margins supported by low corn prices, higher RIN values
- Policy uncertainty remains
 - Small Refinery Exemptions
- Push towards higher blends (E15, E85)
- Trade volumes losing momentum

Brazil dynamics

Brazil Hydrous Price Channel



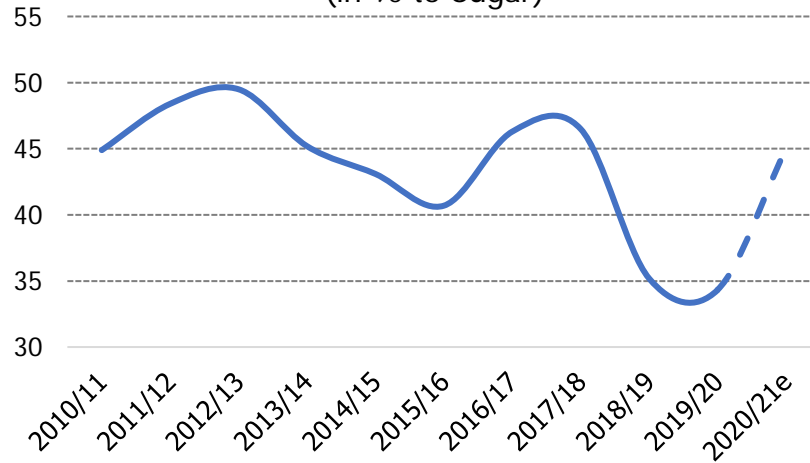
Brazil Hydrous Sales



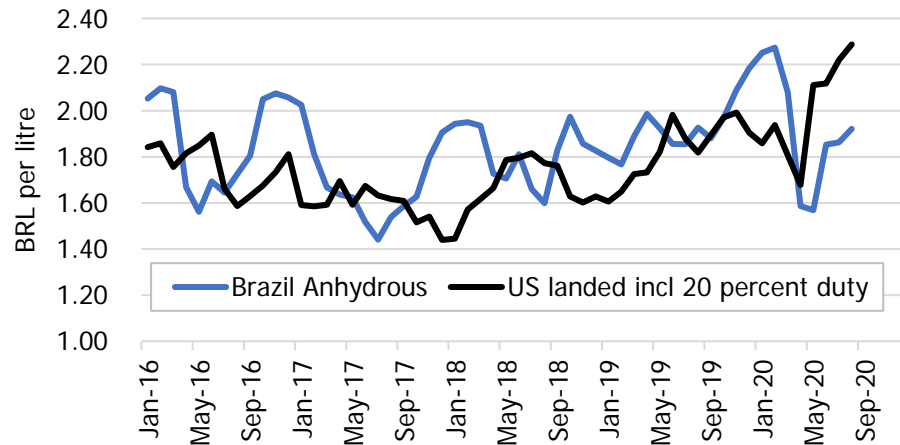
- Significant shift in Mar/Apr of this year – Sugar exports more profitable than hydrous ethanol
- Supported by weak BRL vs USD
- Fuel demand down – hydrous + anhydrous
- Hydrous ethanol still competitive vs Gasohol in major producing states...
 - ... but sales down due to pandemic

Brazil dynamics cont.

CS Brazil production mix
(in % to Sugar)



US & Brazil anhydrous ethanol parity



- CS Brazil production mix swings back towards sugar
- Increased ethanol exports so far this season
- Fewer imports from US
 - End of import quota mechanism?
- Question remains: sufficient stocks to cover off-season?

Others

EU+UK

- Production primarily from grains (around 85%)
- Member States must increase mandates to comply with FQD targets on GHG savings. Meeting targets will be challenging...

China

- Uncertainty for ethanol policy since removal of blend mandate
- Shift to industrial grades this year

India

- Outlook for molasses availability in 2020/21 improved
- Production capacity increasing
- Government support for b-molasses and cane juice, to divert production from sugar... but is price level sufficient?

Thailand

- Uncertainty over the coming 2020/21 crop season cane/molasses total
- E20 rollout pushed back over pandemic

Conclusion

- Uncertainty remains over the impact of the pandemic on global fuel supply and demand
 - How fast will the economy recover?
- World production in 2020 revised lower to 100.4 bln litres, but expected to recover in 2021
- Global consumption to fall to 99.4 bln litres in 2020 and rise in 2021
- US and Brazil remain key to the global outlook in 2021
 - US – return to “normal” or better fuel use levels
 - Brazil – competitiveness of ethanol vs sugar/gasohol



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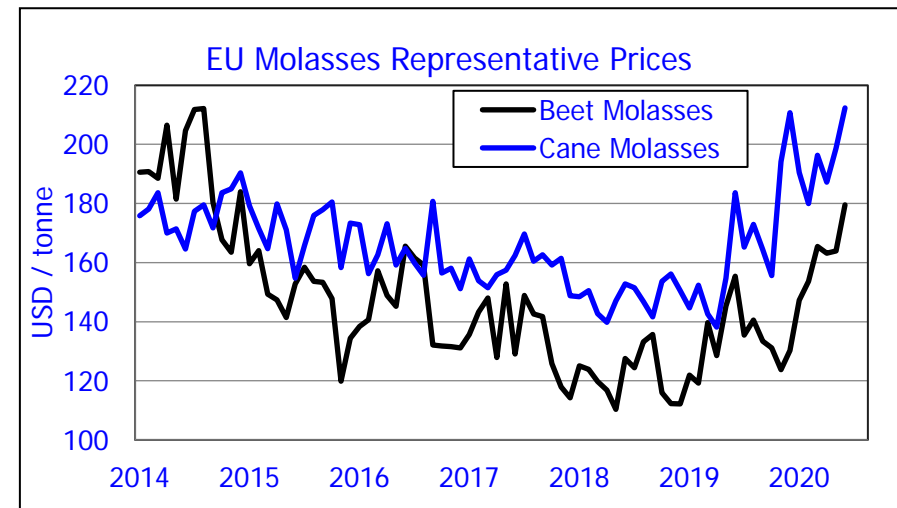
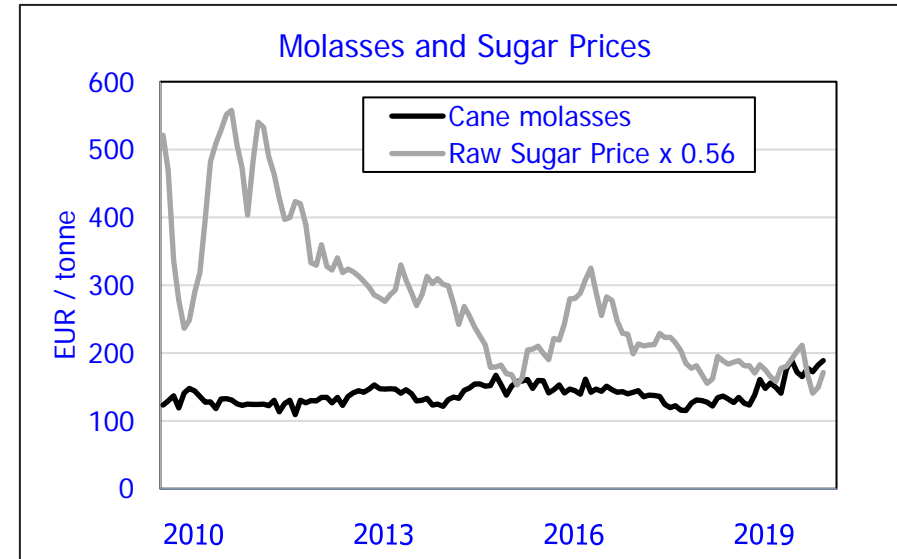
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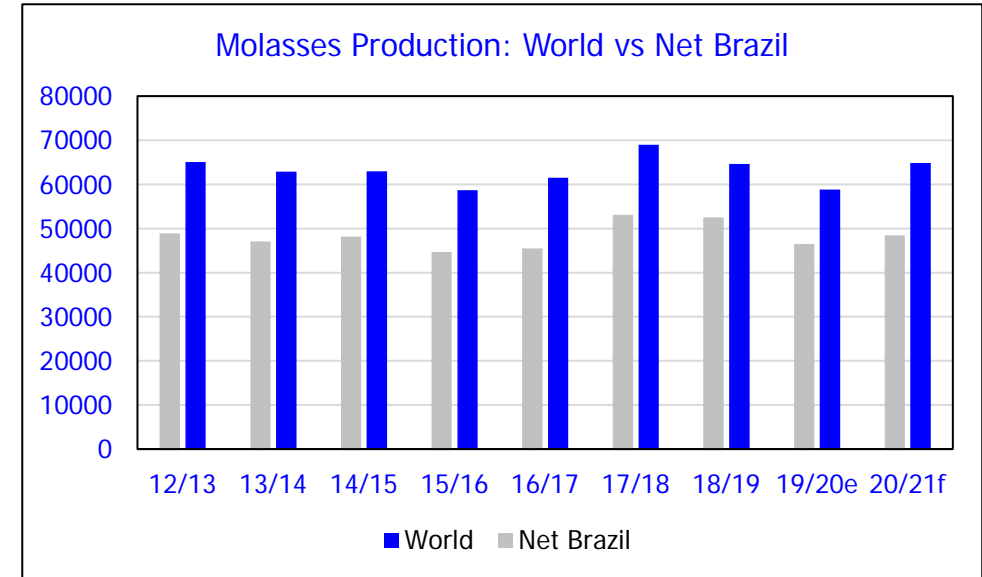
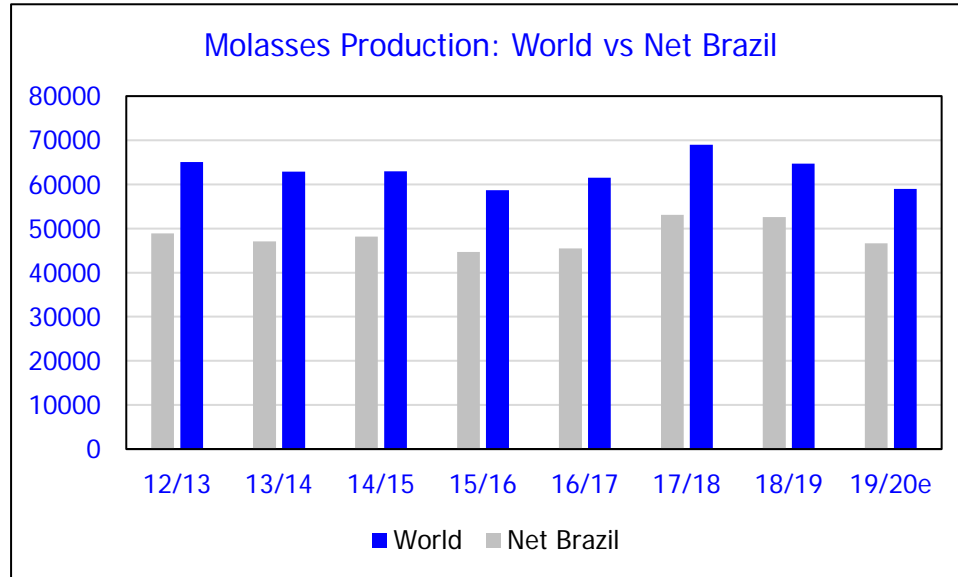


Molasses – Outlook, Prices

- Molasses prices continue to rise in Q2 2020
- Cane molasses prices reached a decade high of USD212/tonne in June
- Beet molasses reached more-than-5-year high of USD180/tonne in the same time
- Molasses prices trading above sugar parity level
- Diversification to ethanol and other fermentation products has had a positive impact on prices



Molasses - Production



May outlook:

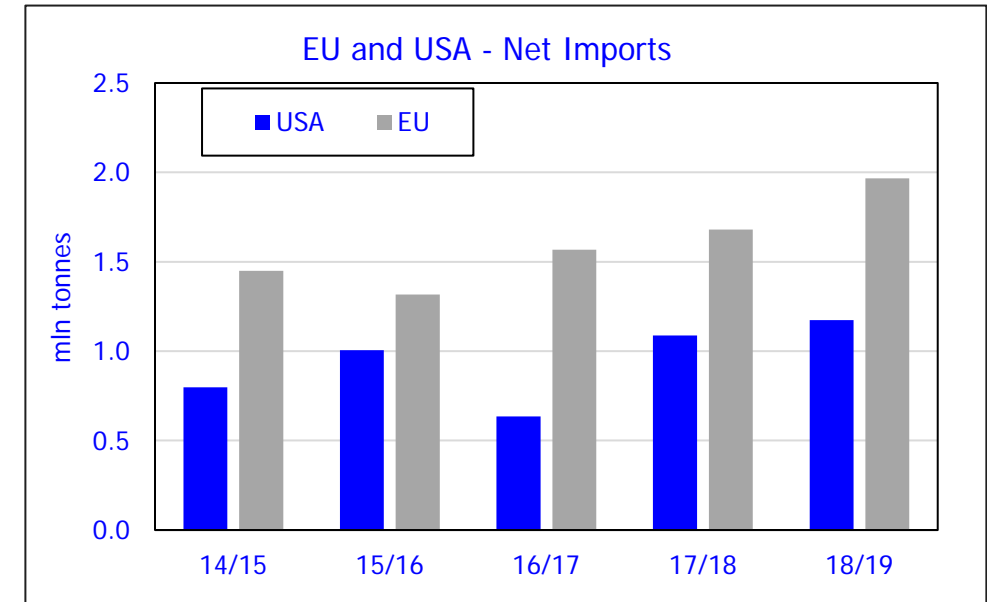
- Production in 2019/20 expected at 58.9 mln tonnes, down from 60.5 mln tonnes in February estimates
- The final production figure for 2018/19 remains at 64.6 mln tonnes

August outlook:

- Production in 2019/20 expected at 58.8 mln tonnes, a 9% reduction to 2018/19
- Production in 2020/21 is expected to increase to 64.9 mln tonnes - 10% growth from 2019/20, driven by higher figures in Brazil and India

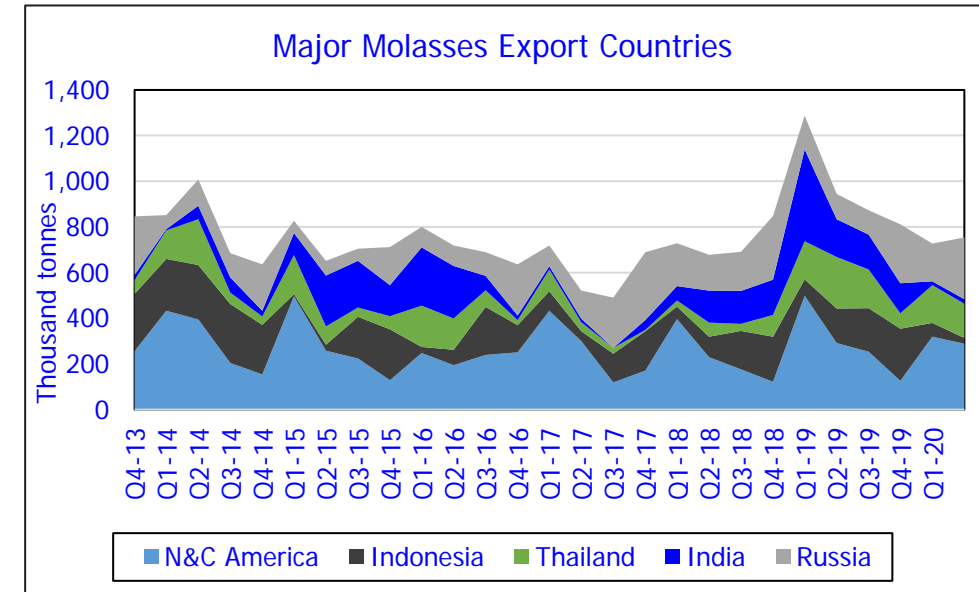
Molasses - Demand

- Reduced demand in main importing countries - EU and the USA in 2019/20, because of Covid-19 impact:
 - reduced ethanol demand
 - affected meat demand in EU and the USA
 - affected more than 180 meat and food processing plants in the USA and high number of meat/food manufacturers across EU (Germany, the UK, Spain, Ireland)
- Lowered demand in the feed industry, because of African Swine Fever (ASF) at the pig farms in Asia (including Vietnam, Cambodia, Laos, Mongolia, Hong-Kong, Myanmar and China) and EU (Belgium, Poland, Latvia, Moldova and Germany)



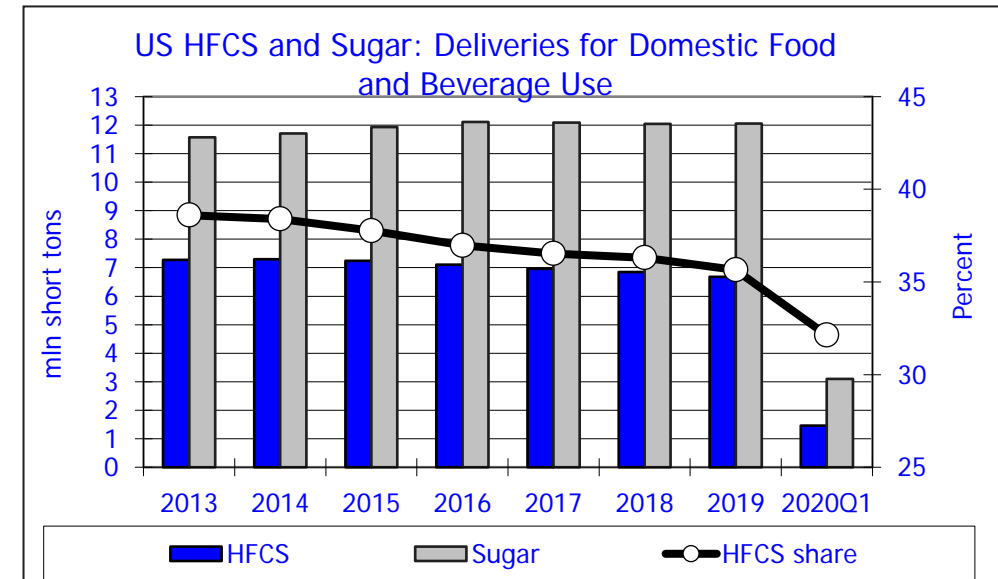
Molasses - Export availability

- Main exporters in 2019/20 - India, Indonesia, Thailand, Russia and Guatemala
- Expect export availability to decline by 700,000 tonnes to around 4 mln tonnes in 2019/20 due to Mexico, Guatemala, Cuba, India and Thailand lower sugar production
- While Russian exports increased with main destinations Turkey and EU
- Covid-19 impact on the split between exports and domestic usage in exporting countries is yet to be fully quantified



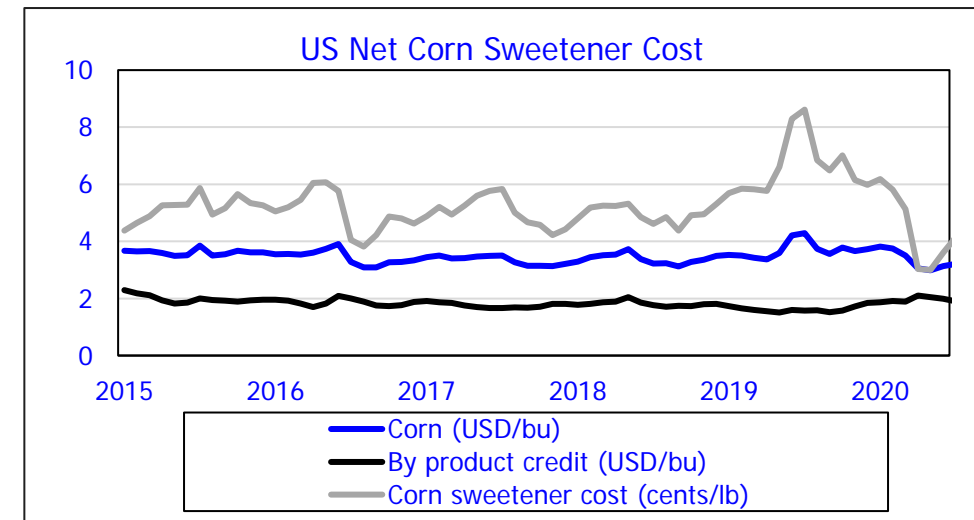
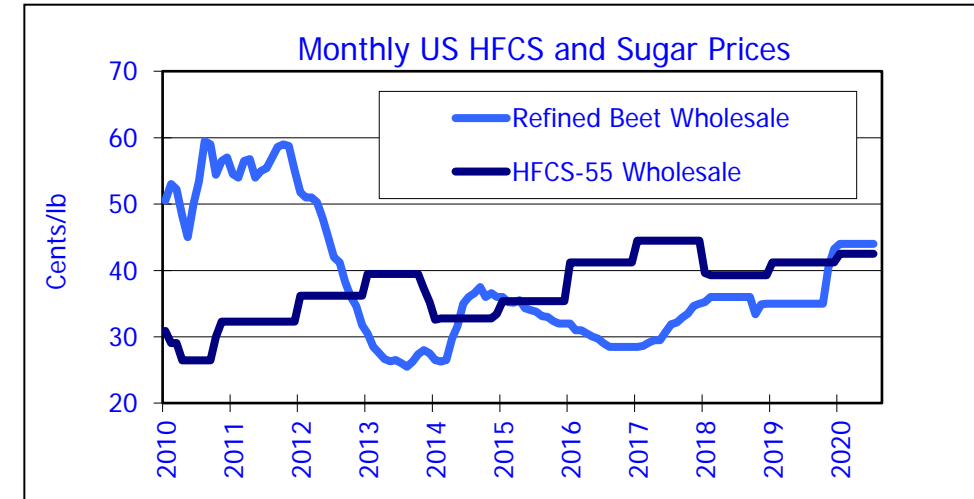
HFCS – Covid-19 Impact

- US HFCS consumption falls by 2.45% in 2019
- Soft drinks consumption lowered due to Covid-19 restrictions
- In Q1 2020 US HFCS consumption dropped by 9% from Q1 2019 to 1.466 mln short tons
- In Q1 2020 sugar consumption in the US continued to increase by 6% from Q1 2019 to 3.097 mln short tons
- Favourable corn prices in Q2 2020 and non-alcoholic beverages consumption return after lifted pandemic restrictions has a marginal potential for US HFCS consumption recover



HFCS – Covid-19 Impact

- Convergence in prices between HFCS (42.53 cents/lb) and refined beet sugar price (44 cents/lb) in H1 2020 give corn millers the opportunity to market HFCS on a price basis
- Covid-19 impacted on beverage industry, reduced use of fuel due to the lockdown measures in Q2 2020 had a strong impact on corn demand and corn prices
- US corn prices dropped to USD3.06/bu in Q2 2020, from USD3.69/bu in Q1 2020
- Input corn costs into HFCS fell to 3.21 cents/lb in Q2 2020, from 5.71 cents/lb in Q1 2020



Conclusion

- Covid-19 crisis has had a limited impact on molasses; uncertainty remains for H2 2020
- Global molasses production revised to 58.8 mln tonnes in 2019/20 from 58.9 in May
- While molasses production in 2020/21 is expected to increase by 10% to 64.9 mln tonnes
- In the short term cane molasses prices rise above raw sugar values
- Increased corn crop in the US and low corn demand – impact on corn prices
- Low corn costs input into HFCS and lifted pandemic restriction could give an impetus to US HFCS consumption growth
- Mexico is the other alternative market for the US HFCS product
- Recovered food and beverages demand together with favourable corn prices has potentially a marginally improved perspective for US HFCS production and consumption in 2020



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