



Weekly Sugar Editorial: Are we heading to an “Era of Surpluses”

As a result of short covering NY#11 edged 23 points higher at \$14.15 c/lb which is also 34 points in a week time. These upside seems much of a short lived pattern as it is not fundamentally supported, as per our analysis we are still in a bearish environment and any fundamental changes will drastically affect the prices as the funds hold a huge net short position. With white premium flickering above \$100 we may see refineries along with Thais keen in delivering against Aug'17 as favourable demand is seen in regions such as Eastern Africa.

As we are now entering into a period with EU being sugar quota free, record production in India, stiffer policies in China, production rise in other regions such as Pakistan, Ukraine etc., and the growing refining capacity of the middle east, we are foreseeing a longer cycle of surpluses in white trade flows between Q4-17/Q3-18.

We still see NY#11 well supported at 13.45 which coincidentally is the 20 year average.

Fundamentals

Brazil exported 3.089 million mt of raw and refined sugar in June which is 26.6 per cent higher than in May and 15 per cent higher on year as per the MDIC (Ministry of Industry) data. The export includes around 2.64 million mt of raws and 453k mt of refined sugar.

The weather in CS region is expected to be dry and ideal for harvesting for next 10 days. Even though the temperature is expected to drop but the risk of frost is not there as per Rural Clima Meteorologists. In the

cash market Brazil's VHP is still traded at 10 points discount on flat for prompt delivery, whereas a discount of 15 points for August and September shipment, the raws are not seeking that demand as it supposed to be. The Indian government raised the import tariff from 40 to 50 per cent hence making the imported raw sugar 8.1 per cent higher than the domestic prices,

As per the recent Bloomberg survey India is expected to produce 25 million mt of sugar in 2017/18, the market consensus ranges from 24.5-26 million mt. The survey also highlighted the sugar inventories on October 1 would be 3.5 million mt, compared to 7.7 million mt in the same period last year, thus hinting the tightness in supply during the period. They are also expecting more imports in 2016/17, while expect imports in 2017/18 are also possible but depends on government policy.

This survey is in line with the monsoon in India which in June was 4 per cent above average as per IMD, while the Ministry of Agriculture has revealed that the cane plantation at 4.75 million ha as of 30th June compared to 4.48 million ha last year.

As per ISO (International Sugar Organisation) it is projecting a record high crop in Thailand and could come close to a record 12 million mt of cane in 2017/18.

China as of June produced 9.288 million mt of sugar, up from 8.702 million mt last year according to China Sugar Association. Sugar produced from cane stood at 8.241 million mt and 1.047 million mt of beet sugar compared to 7.852 million mt and 849k mt. Overall the Chinese mills have sold 65 per cent of their production as of June end.



Figure 1: Technical indicate V7 is well supported at 13.50 level.

Macro

Saudi Aramco which is planning to be the biggest IPO indicated that they will invest more than \$300 billion over next decade to maintain its spare oil-production capacity and explore for more natural cash. Its CEO also said that the oil supplies is 'increasingly worrying' with about \$ 1 trillion in investment lost during the current industry downturn. The state run company is also the world's largest oil exporter, the government plans to sell about 5 per cent of the company in 2018 which could be a record IPO.

Hedge funds net long position on WTI rose 12 percent to 149,951 futures and options as of July 3.



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Market Data

NY Sugar No. 11			
Symbol	Settle	Low/High(wk)	Open Interest
Oct'17	14.15	13.28/14.30	440,314
Mar'18	14.83	13.99/14.97	171,231
May'18	14.86	13.54/14.74	56,363
Jul'18	14.93	14.17/15.07	34,353
Oct'18	15.14	14.44/15.28	38,874
Mar'19	15.60	14.51/15.47	15,119

Sugar No. 11 Spreads		
Symbol	Settle	Low/High(wk)
Oct'17/Mar'18	-0.68	-0.74/-0.64
Mar'18/May'18	-0.03	-0.06/-0.01

London No.5			
Symbol	Settle	Low/High(wk)	Open Interest
Aug'17	418.10	395.00/421.20	22,636
Oct'17	391.70	377.20/304.70	41,044

Soft Commodities		
	Last	Low/High
Coffee	128.90	126.35/131.20
Soybean	1019'4	1001'0/1020'0
Corn	389'6	387'6/392'2
Wheat	550'0	540'2/553'4

FOREX		
	Ask	Time UAE
EUR/USD	1.13981	20:26:03
BRL/USD	3.2643	20:27:00
MYR/USD	4.2950	20:27:30
CNY/USD	6.8025	20:28:01

Metals		
	Last	Low/High(wk)
COMEX Gold	1211.8	1204.0/1215.0
COMEX Silver	15.575	15.145/15.670
COMEX Cooper	2.6470	2.6310/2.6605
COMEX Platinum	902.4	894.1/910.2

Energy	Last	Low/High(wk)
WTI Oil	44.23	43.78/47.32
Brent Oil	46.71	46.28/49.90

Highlights for this week: -

- Mexico sugar production totals 5.955 mmt until 1st July, down from 6.116mmt a year ago.
- Australia sugar production totals 344k mt until 2nd July, almost 2 months ahead of last season.
- Ukraine- Sep/Jun sugar exports total 738k mt , a 10 fold increase YOY.
- China ends 2016/17 cop in June with production at 9.29mmt which is up from 8.69mmt in the previous season.
- CFTC: Funds and small spec cover part of their net short position reducing it from 115,446 to 108,082.
- Kenya: sugar imports reach 131,846 mt from January to April which is 36 higher in a year.
- WTI plunges 4.1 per cent to US\$ 45.13/per barrel as Russia speaks against deeper production cut.
- Brazil: hydrous ethanol demand reaches 1,041,766 in may down 21.1 percent YOY.

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