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Sugar and Sweeteners Outlook

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Higher Imports in 2017/18 Offset Lower Projected Domestic Production, Raise Ending Stocks

The October *World Agricultural Supply and Demand Estimates* (WASDE) lowered projected domestic sugar production in 2017/18 by 66,000 short tons, raw value (STRV) from the previous month's report. Cane sugar production is lowered 26,000 STRV, as the reduction in cane sugar production in Florida, due to the effects of Hurricane Irma, is offset by a projected larger crop in Louisiana. Beet sugar production is lowered 40,000 STRV based on a reduced sugarbeet crop forecast and an increase in early-season production that is accounted for in 2016/17 production estimates.

Despite lower production, total sugar supplies are raised due to a 142,000-STRV increase in projected imports. Higher imports are expected from quota programs, the re-export program, and shipments from Mexico. Forecasts for domestic deliveries are unchanged. The projected stocks-to-use ratio for 2017/18 is increased slightly from 13.2 percent to 13.3 percent.

Adjustments to trade estimates for Mexico's 2016/17 balance increase beginning stocks in 2017/18 by 15,000 metric tons, actual value (MT). With no changes to domestic production, imports, or domestic deliveries, the October WASDE raises exports to the United States by 15,000 MT. Tight supplies and high domestic prices continue to be the primary factors driving the market outlook for 2017/18.

Domestic sugar production reduced in 2017/18 for both cane and beet sectors

The 2017/18 *World Agricultural Supply and Demand Estimates* (WASDE) outlook for domestic sugar production is reduced this month from September as projected cane sugar and beet sugar production are both lowered. Total sugar production in 2017/18 is projected to be 8.863 million short tons, raw value (STRV), a 66,000-STRV reduction from the September projection. Despite severe weather and hurricanes in sugarcane-producing regions in the Southeast during late August and September, cane sugar production is expected to be slightly higher than 2016/17.

Table 1 -- U.S. sugar: supply and use, by fiscal year (Oct./Sept.), October 2017

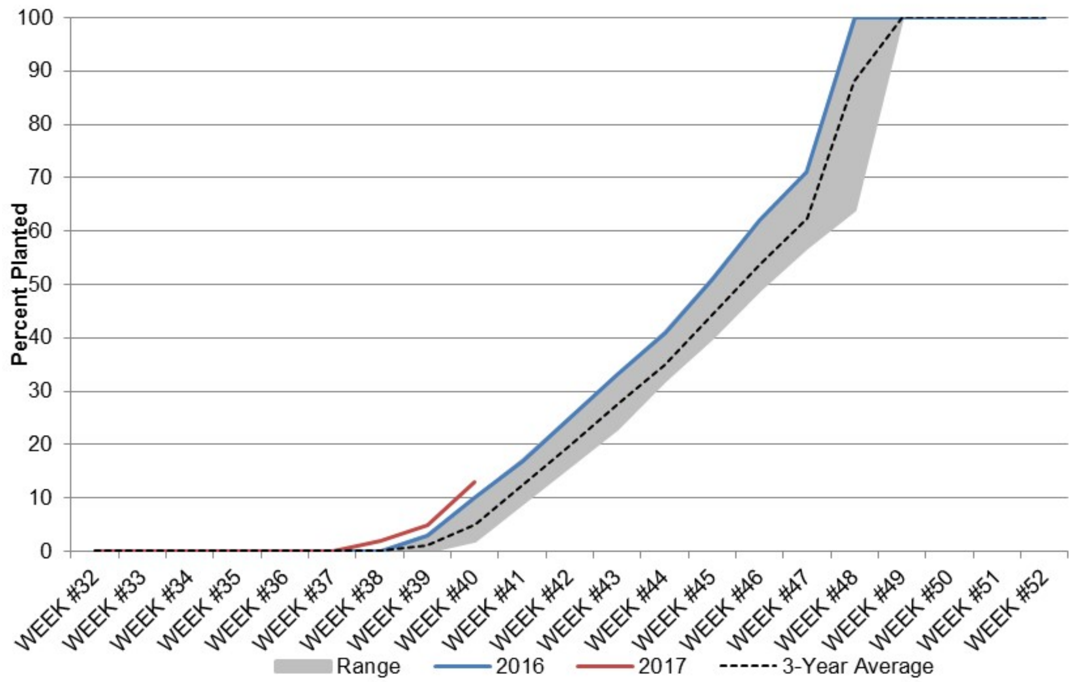
Items	2015/16	2016/17 (estimate)	2017/18 (forecast)	2015/16	2016/17 (estimate)	2017/18 (forecast)
	1,000 Short tons, raw value			1,000 Metric tons, raw value		
Beginning stocks	1,815	2,054	1,732	1,647	1,863	1,571
Total production	8,989	8,892	8,863	8,155	8,067	8,040
Beet sugar	5,119	5,022	4,977	4,644	4,556	4,515
Cane sugar	3,870	3,870	3,886	3,511	3,511	3,525
Florida	2,173	2,055	2,036	1,971	1,864	1,847
Louisiana	1,428	1,632	1,690	1,296	1,480	1,533
Texas	116	140	160	106	127	145
Hawaii	152	43	0	138	39	0
Total imports	3,341	3,241	3,830	3,031	2,940	3,475
Tariff-rate quota imports	1,620	1,611	1,781	1,469	1,462	1,616
Other program imports	396	413	250	359	375	227
Non-program imports	1,325	1,216	1,799	1,202	1,103	1,632
Mexico	1,309	1,206	1,789	1,187	1,094	1,623
Total supply	14,145	14,187	14,425	12,832	12,870	13,086
Total exports	74	100	50	67	91	45
Miscellaneous	-33	0	0	-30	0	0
Deliveries for domestic use	12,051	12,355	12,678	10,932	11,208	11,501
Transfer to sugar-containing products for exports under re-export program	148	120	120	134	109	109
Transfer to polyhydric alcohol, feed, other alcohol	22	35	35	20	32	32
Commodity Credit Corporation (CCC) sale for ethanol, other	0	0	0	0	0	0
Deliveries for domestic food and beverage use	11,881	12,200	12,523	10,778	11,068	11,361
Total use	12,091	12,455	12,728	10,969	11,299	11,547
Ending stocks	2,054	1,732	1,697	1,863	1,571	1,540
Private	2,054	1,732	1,697	1,863	1,571	1,540
Commodity Credit Corporation (CCC)	0	0	0	0	0	1
Stocks-to-use ratio	16.99	13.90	13.33	16.99	13.90	13.33

Source: U.S. Dept. of Agriculture, Economic Research Service, Sugar and Sweetener Outlook.

Florida cane sugar production is projected to be 2.036 million STRV, a 90,000-STRV decrease from the previous month. A report from the Florida Department of Agriculture and Consumer Services indicates that much of the State's sugarcane crop experienced hurricane-strength winds during Hurricane Irma in early September. The impact of the storm on the sugarcane crop is not expected to be substantial, thus far, based on reports from both the October National Agricultural Statistics Service's (NASS) *Crop Production* report and forecasts by processors in the Farm Service Agency's (FSA) *Sweetener Market Data* (SMD). NASS forecasts for harvested area actually increased slightly from 412,000 acres in the September report to 414,000 acres in the October report, indicating that there will be minimal field abandonment as a result of the storms. Yields are reduced in the October report by 0.4 short ton per acre to 42.5, but this still indicates relatively strong sugarcane production. Lodged sugarcane, or sugarcane that is knocked down into the ground, could reduce quality of the sugarcane and sucrose content that is recovered, which is the primary basis for reduced sugar production in Florida. Overall, sugarcane in Florida may be able to recover from the adverse conditions, both naturally and through farm management actions. The impacts of the hurricane on Florida's crop will not be fully realized until the harvest season, which begins later in the fall.

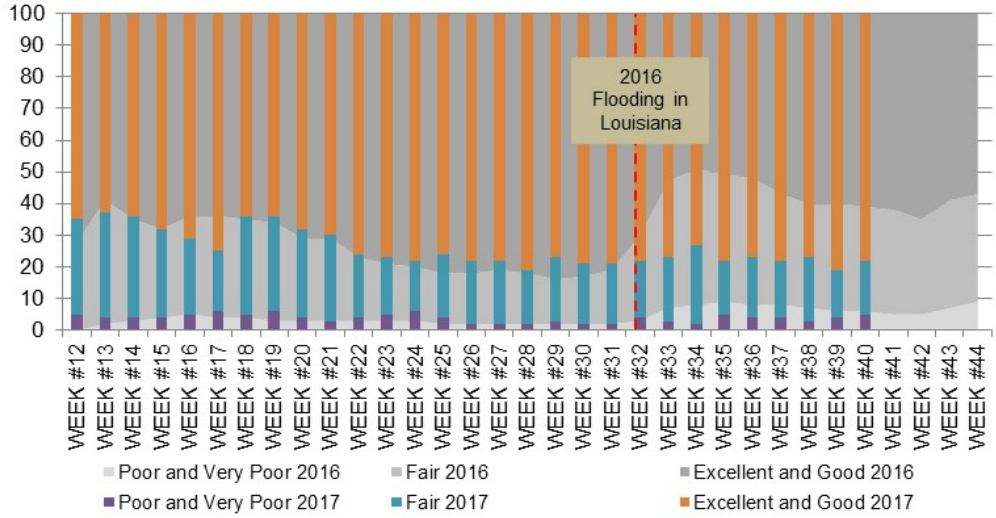
Good growing conditions in Louisiana are expected to boost sugar production in the State, partially offsetting some of the reduction for Florida. Louisiana cane sugar production in 2017/18 is projected to be 1.690 million STRV, a 64,000-STRV increase from the previous month. The October *Crop Production* report raised forecast sugarcane production in the State, with larger harvested area and high yields forecast. While the harvest in Louisiana has just begun, through October 8 the pace of the harvest is ahead of the previous year. Also, NASS rates the crop in better condition than at this time the previous year. The increase in projected sugar production would represent a 3.5-percent increase from the current 2016/17 estimate of 1.632 million STRV—which was raised 20,000 STRV this month due to preliminary early-season production reports for September 2017.

Figure 1
Sugarcane harvest progress, Louisiana 2016, 2017, and 3-year average



Source: National Agricultural Statistics Service, USDA.

Figure 2
Louisiana sugarcane crop conditions, 2016/17 and 2017/18

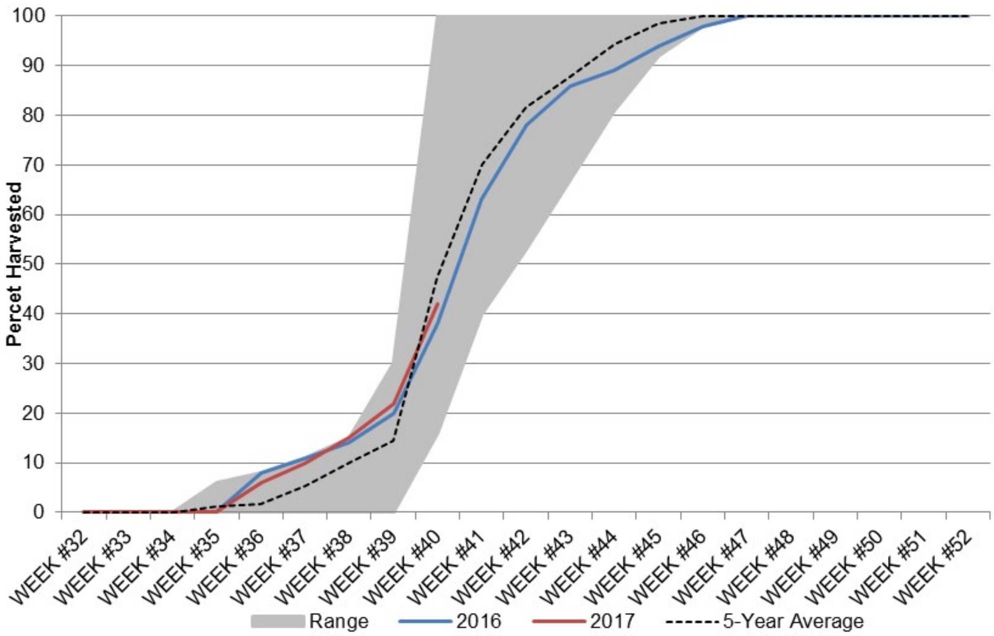


Source: U.S. Dept. of Agriculture, National Agricultural Statistcs Service.

A slightly smaller crop and additional early-season production reduces the outlook for beet sugar production in 2017/18. Beet sugar production for 2017/18 is projected to be 40,000 STRV lower than the previous month, totaling 4.977 million STRV. The October *Crop Production* report reduced the 2017/18 sugarbeet crop by 1.3 percent. Reductions were reported across all growing regions, ranging from a 6.0-percent lower in Michigan to a 0.4 percent reduction for the Upper Midwest, which includes the Red River Valley. In addition to the reduction in beet sugar production due to a smaller sugarbeet crop, preliminary reports of early-season production prompt a shift of 24,000 STRV initially expected for 2017/18 into the 2016/17 fiscal year, raising 2016/17 beet sugar production estimates to 5.022 million STRV.

The pace of the 2017 sugarbeet harvest appears to be comparable with the previous year. Through October 8, 42 percent of the crop had been harvested in all States, compared with 38 percent in 2016. In the eastern-producing States of Minnesota, North Dakota, and Michigan, the pace of harvest was on par or ahead of last year, indicating that early-season sugar production in these States should be comparable, as well. The harvest in Idaho, the largest western-producing State, is also in line with 2016.

Figure 3
US total sugarbeet harvest progress, 2016, 2017, and 5-year average



Source: National Agricultural Statistics Service, USDA.

Fewer imports expected for 2016/17, but outlook for 2017/18 raised

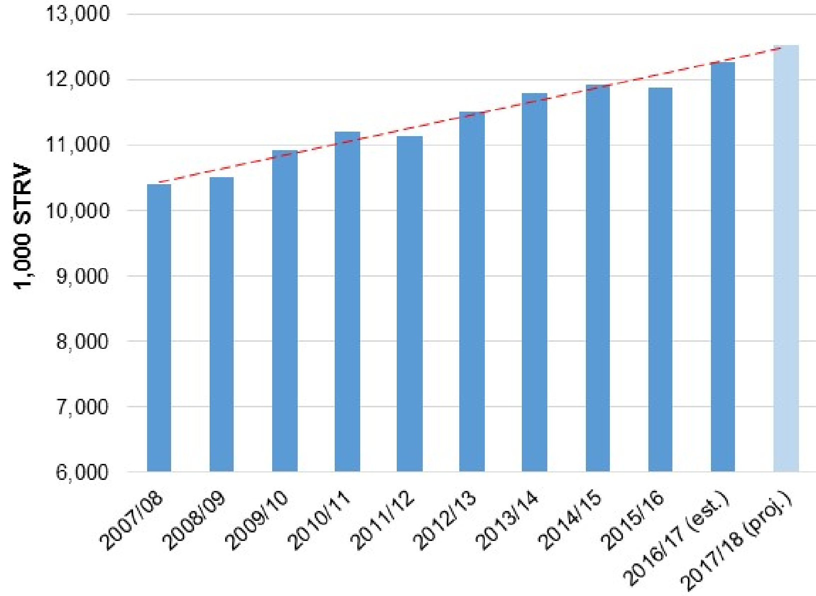
The lower domestic production outlook for 2017/18 is more than offset by an increased outlook for sugar imports. Imports for 2017/18 are projected to be 3.83 million STRV, a 142,000-STRV increase from the previous month. Imports under quota programs represent the largest change, increasing 74,000 STRV to 1.781 million STRV. USDA's July 2017 increase of the WTO raw sugar TRQ—as well as the extension to allow those imports to enter through the end of October—is expected to shift entries into October and the 2017/18 fiscal year. In addition, a shift in expected entries under free-trade agreements (FTA) from the July-September quarter to the October-December quarter results in fewer imports entering the United States in 2016/17, but increasing imports in 2017/18.

Imports from Mexico in 2016/17 are reduced 10,000 STRV to 1.206 million STRV. The reduction is based on preliminary entry data from U.S. Customs for the full 2016/17 fiscal year. For 2017/18, however, imports from Mexico are raised 18,000 STRV this month to 1.789 million STRV. The amount is still less than the U.S. Needs calculated by the U.S. Department of Commerce (USDOC) from the September WASDE, as defined by the suspension agreements signed between the U.S. Department of Commerce and the Government of Mexico. While still constrained, the increase in available domestic supplies to supply the U.S. market is the main reason for the increase in projected exports.

Domestic delivery forecasts unchanged as beet sugar deliveries remain strong

The October WASDE did not change forecasts for domestic deliveries from the previous month. Deliveries for food and beverage use in 2016/17 are estimated at 12.200 million STRV. Food and beverage deliveries are projected to rise to 12.523 million STRV in 2017/18.

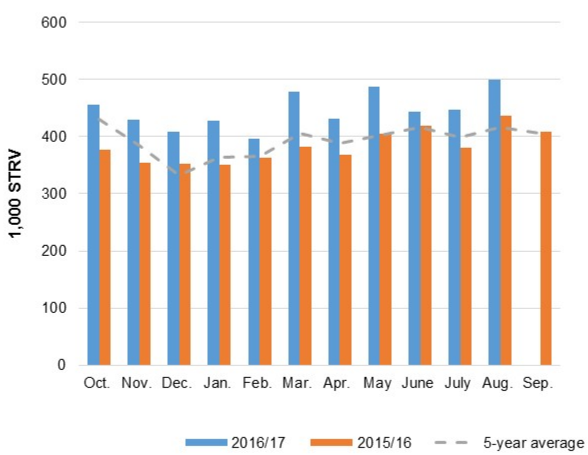
Figure 4
U.S. sugar deliveries for food and beverage use, fiscal year, 2007/08 to 2017/18



Source: U.S. Department of Agriculture, Economic Research Service.

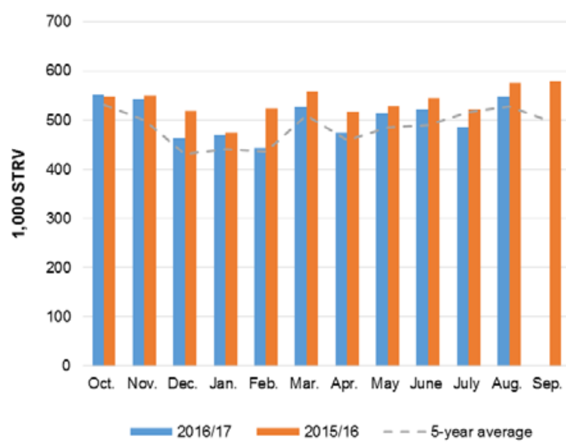
For food and beverage deliveries in 2016/17, October-August deliveries were 3.2 percent above the previous year. The year-over-year growth in deliveries is due to strong deliveries in the beet sugar sector. Large inventories heading into 2016/17 and price discounts for beet sugar relative to cane sugar helped boost sales after a slow marketing season in 2015/16. Through August, year-to-date fiscal year deliveries for beet sugar are 17.2 percent larger than the previous year. Reported deliveries of 500,000 STRV in August would be the largest monthly total reported by beet processors. This is the third month in 2016/17 that has exceeded the previous monthly record of 463,000 STRV, recorded in October 2014. Cane sugar deliveries through August are 5.5 percent below the same period in 2015/16, with monthly totals in August comparable with the 5-year average.

Figure 5
Beet sugar deliveries, monthly, 2015/16 and 2016/17



Source: U.S. Department of Agriculture, Farm Service Agency.

Figure 6
Cane sugar deliveries, monthly, 2015/16 and 2016/17



Source: U.S. Department of Agriculture, Farm Service Agency.

Exports in 2016/17 are estimated to be 100,000 STRV—a 25,000-STRV reduction based on the pace of shipments reported through August. Exports in 2017/18, however, are raised 25,000 STRV this month, and projected to be 50,000 STRV. U.S. sugar exports forecasts are lower than recent historical levels due to changes in Mexico's IMMEX regulations that disqualify U.S. sugar that benefits from the U.S. re-export program, which had accounted for a majority of U.S. sugar exports prior to the change in policy. The changes in the 2016/17 and 2017/18 forecasts reflect an adjustment in shipping patterns from previous forecasts, as the sugar export market transitions to a new market situation.

Ending stocks for 2016/17 are estimated at 1.732 million STRV, a 28,000-STRV reduction from September's report, due to the reduction in estimated supplies exceeding the reduction in exports. The stocks-to-use ratio is also reduced to 13.9 percent for 2016/17, compared with 14.1 percent previously. Ending stocks for 2017/18 are projected to be 1.697 million STRV, a 23,000-STRV increase from the previous month's forecast, with the stocks-to-use ratio projected at 13.3 percent.

Slight increase in 2017/18 beginning stocks allows for higher Mexican exports to the United States

The 2016/17 Mexico sugar market outlook in October showed slightly higher estimated supplies and higher estimated use due to adjustments in trade. Estimated exports for 2016/17 are raised 10,000 metric tons, actual value (MT), to 1.215 million MT. While exports to the United States under the terms of the suspension agreement are reduced 9,000 MT, exports to other destinations are raised 18,000 MT based on pace-to-date data from Mexican authorities. The increase in supplies is due to a 25,000-MT increase in imports, now estimated at 125,000 MT. Imports for human consumption are raised 10,000 MT, while imports under the IMMEX program account for the remaining 15,000 MT of the increase from September's report. The net result is a 15,000-MT increase in estimated ending stocks for 2016/17, which carry into the 2017/18 outlook.

Table 2 -- Mexico sugar supply and use, 2015/16 - 2016/17 and projected 2017/18, October 2017

Items	2015/16	2016/17 (estimate)	2017/18 (forecast)
	1,000 metric tons, actual weight		
Beginning stocks	811	1,037	1,046
Production	6,117	5,957	6,100
Imports	83	125	75
Imports for consumption	17	50	25
Imports for sugar-containing product exports, IMMEX 1/	66	75	50
Total supply	7,011	7,119	7,221
Disappearance			
Human consumption	4,387	4,468	4,534
For sugar-containing product exports (IMMEX)	390	390	330
Other deliveries and end-of-year statistical adjustment	-10	0	0
Total	4,767	4,858	4,864
Exports	1,207	1,215	1,541
Exports to the United States & Puerto Rico	1,120	1,032	1,531
Exports to other countries	86	183	10
Total use	5,974	6,073	6,405
Ending stocks	1,037	1,046	816
	1,000 metric tons, raw value		
Beginning stocks	859	1,099	1,109
Production	6,484	6,315	6,466
Imports	88	133	80
Imports for consumption	18	53	27
Imports for sugar-containing product exports (IMMEX)	70	80	53
Total supply	7,431	7,546	7,654
Disappearance			
Human consumption	4,650	4,736	4,806
For sugar-containing product exports (IMMEX)	413	413	350
Other deliveries and end-of-year statistical adjustment	-10	0	0
Total	5,053	5,149	5,156
Exports	1,279	1,288	1,634
Exports to the United States & Puerto Rico	1,187	1,094	1,623
Exports to other countries	92	194	11
Total use	6,332	6,438	6,789
Ending stocks	1,099	1,109	865
Stocks-to-human consumption (percent)	23.6	23.4	18.0
Stocks-to-use (percent)	17.4	17.2	12.7
High fructose corn syrup (HFCS) consumption (dry weight)	1,482	1,484	1,484

1/ IMMEX = Industria Manufacturera, Maquiladora y de Servicios de Exportación.
Source: USDA, *World Agricultural Supply and Demand Estimates* and Economic Research Service, Sugar and Sweeteners Outlook; Conadesuca.

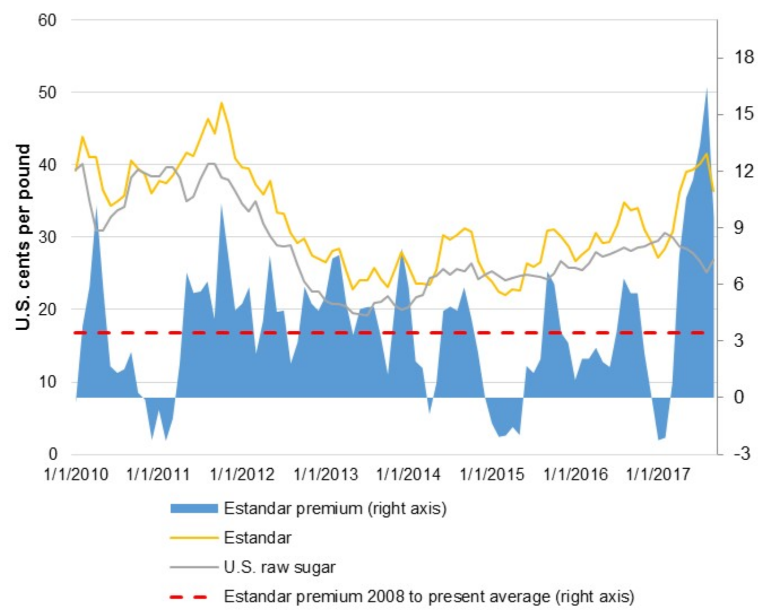
Constrained supplies continue for the 2017/18 sugar market outlook in Mexico. Changes from the September outlook all stem from the 15,000-MT increase in beginning stocks. Projected production for 2017/18 remains unchanged at 6.100 million MT, as do projected imports at 75,000 MT. Total supplies are projected at 7.221 million MT.

Projected domestic deliveries for 2017/18 are 4.864 million MT—4.534 million MT for human consumption and 330,000 MT delivered to the IMMEX program—unchanged from the previous month. Projected exports are raised 15,000 MT to 1.541 million MT, with all of the increase earmarked for the United States. Shipments to the United States are projected to be 1.531 million MT, with shipments to other destinations projected at 10,000 MT.

Projected sugar shipments to the United States for 2017/18 are less than the amount of U.S. Needs as specified in the terms of the suspension agreements signed between the U.S. Department of Commerce and the Government of Mexico. Exports are projected to be constrained by the ability of the Mexican market to satisfy domestic demand before much of the harvest campaign begins in December. Ending sugar stocks are projected to be 816,000 MT for 2017/18, which represents 18.0 percent of deliveries for human consumption. This stock level is assumed to be a lower limit for the amount of supplies needed to carry into the subsequent year.

Tight supplies are believed to be a significant factor in higher prices currently reported in Mexico. Average wholesale prices for estandar sugar in Mexico City moderated in September—falling from 41.6 cents per pound in August to 36.4 cents per pound. The price spread between Mexican sugar and U.S. raw sugar prices remains large by historical standards. These relative prices will remain an important factor for trade flows between the United States and Mexico.

Figure 7
Mexico City estandar and U.S. raw sugar prices, monthly, January 2010 to September 2017



Source: U.S. Department of Agriculture, Economic Research Service.

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