



Sugar and Sweeteners Outlook

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Reduced Cane Production and Fewer Imports Eclipse the Reduction in Deliveries for 2017/18

U.S. sugar markets are projected to be slightly tighter in 2017/18 and 2018/19 based on the July *World Agricultural Supply and Demand Estimates* (WASDE) in comparison to the previous month's report. The stocks-to-use ratio for 2017/18 is estimated to be 14.9 percent, a slight reduction compared with the previous month's mark of 15.0 percent. Fewer supplies are projected for 2018/19 due to lower beginning stocks and the expectation of less cane sugar production. Projected use is increased based on raised exports—although still less than estimates for 2017/18. With no changes to domestic use projections, ending stocks are reduced 79,000 short tons, raw value (STRV) to 1.463 million.

Few changes are made to the Mexico sugar outlook compared with the May WASDE. Mexico's 2017/18 sugarcane harvest campaign will be concluding in the upcoming month and the majority of mills have ended their season. The pace of production appears to be on track to reach the current estimate of 5.970 million metric tons, actual value (MT). Projected imports for 2018/19 are increased, based on increased trade with the United States. Projected exports to the United States are unchanged from the May projection, as the first Export Limit for 2018/19 will be established by the U.S. Department of Commerce subsequent to the July WASDE.

The outlook for global sugar markets shows large production surpluses after good growing conditions in 2017/18 for many major production regions. Large supplies have buffered global inventories and have set the stage for relatively low global market prices. Agricultural and trade policies in large-producing countries will continue to be an important component in trade flows for 2017/18 and 2018/19.

U.S. Domestic Outlook

Cane Sugar Production for 2017/18 Reduced due to Wet Late-Season Conditions in Florida

The outlook for U.S. sugar markets is expected to be slightly tighter than for the previous month, due in part to fewer supplies expected. Total sugar supplies in the United States are projected to be 14.203 million short tons, raw value (STRV) in 2018/19, according to the June *World Agricultural Supply and Demand Estimates* (WASDE). The projection represents a 44,000-STRV decrease from the May report, due primarily to lower beginning stocks and production compared with the previous month's report.

Table 1: U.S. sugar: supply and use, by fiscal year (Oct./Sept.), June 2018

Items	2016/17	2017/18 (estimate)	2018/19 (forecast)	2016/17	2017/18 (estimate)	2018/19 (forecast)
	1,000 Short tons, raw value			1,000 Metric tons, raw value		
Beginning stocks	2,054	1,876	1,876	1,863	1,702	1,702
Total production	8,969	9,238	8,961	8,137	8,381	8,129
Beet sugar	5,103	5,221	5,036	4,629	4,736	4,569
Cane sugar	3,866	4,017	3,925	3,507	3,644	3,561
Florida	2,055	1,983	2,085	1,864	1,799	1,891
Louisiana	1,628	1,859	1,680	1,477	1,686	1,524
Texas	140	175	160	127	159	145
Hawaii	43	0	0	39	0	0
Total imports	3,244	3,387	3,365	2,943	3,073	3,053
Tariff-rate quota imports	1,611	1,788	1,355	1,462	1,622	1,229
Other program imports	419	300	350	380	272	318
Non-program imports	1,213	1,299	1,660	1,101	1,179	1,506
Mexico	1,201	1,269	1,645	1,090	1,152	1,492
Total supply	14,267	14,501	14,203	12,943	13,155	12,884
Total exports	95	170	85	86	154	77
Miscellaneous	38	0	0	35	0	0
Deliveries for domestic use	12,258	12,455	12,655	11,121	11,299	11,480
Transfer to sugar-containing products for exports under re-export program	127	120	120	115	109	109
Transfer to polyhydric alcohol, feed, other alcohol	29	35	35	27	32	32
Commodity Credit Corporation (CCC) sale for ethanol, other	0	0	0	0	0	0
Deliveries for domestic food and beverage use	12,102	12,300	12,500	10,979	11,158	11,340
Total use	12,391	12,625	12,740	11,241	11,453	11,558
Ending stocks	1,876	1,876	1,463	1,702	1,702	1,327
Private	1,876	1,876	1,463	1,702	1,702	1,327
Commodity Credit Corporation (CCC)	0	0	0	0	0	0
Stocks-to-use ratio	15.14	14.86	11.48	15.14	14.86	11.48

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

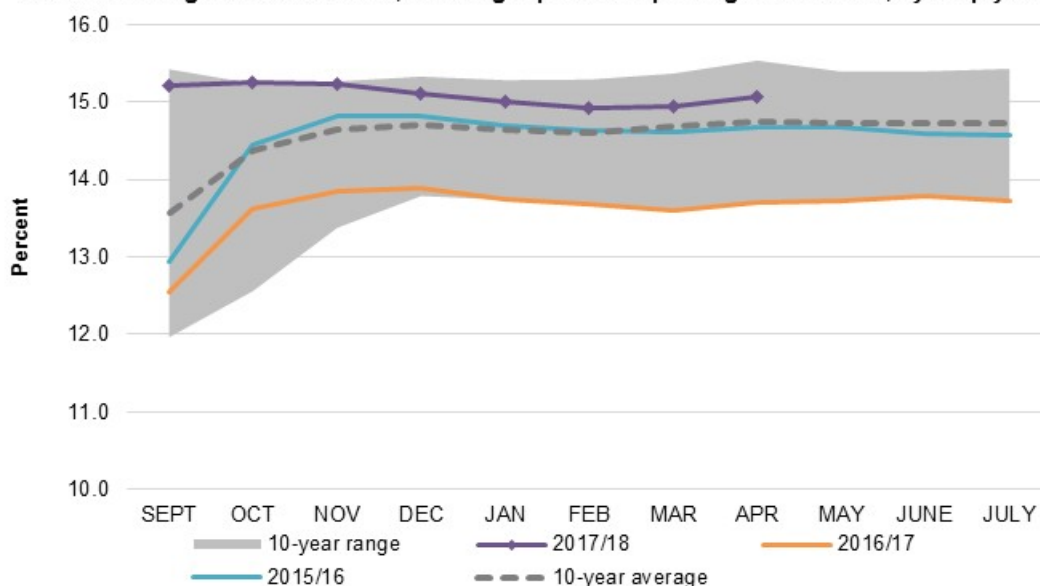
Estimated supplies for 2017/18 are reduced based on lower expectations for domestic production and imports. Production for 2017/18 is estimated to total 9.238 million STRV, a

14,000-STRV reduction based on less cane sugar production in Florida. Processors have reported wet conditions during the late stages in some areas of Florida, reducing the expected recovery rates for the crop. Florida is estimated to produce 1.983 million STRV of sugar, accounting for the entirety of the monthly decline. Louisiana and Texas production estimates are unchanged at 1.859 million STRV and 175,000 STRV, respectively.

At this early point in the projection cycle, cane sugar production is expected to return to longer term trend levels for 2018/19, which would result in a 2.3-percent decline from the previous year. Cane sugar production in 2018/19 is projected to total 3.925 million STRV, a 20,000-STRV reduction from the previous month due to lower production in Texas. Processors provided their first forecasts for 2018/19 in the June *Sweetener Market Data* (SMD) released by the Farm Service Agency (FSA). That initial forecast for Texas indicated a reduction in harvested sugarcane area. Assuming comparable yield and recovery rate expectations for 2017/18, the reduction in area would result in a 9.4-percent annual decline, totaling 160,000 STRV. Projections for Florida and Louisiana remain unchanged from the previous month. Florida is forecast to produce 2.085 million STRV, assuming normal weather conditions and a rebound from the previous year's crop that was affected by hurricanes and a relatively wet harvest season. Louisiana is projected to produce 1.680 million STRV in 2018/19, as yield and recovery rates are expected to return to trend levels after the record crop produced in 2017/18. The first official USDA forecasts for harvested area of the upcoming crop will be in the *Acreage* report published by the National Agricultural Statistics Service (NASS) on June 29.

Production in the sugarbeet sector is unchanged from the previous month. Beet sugar production for 2017/18 are estimated to total 5.221 million STRV. The current slicing campaign is reaching its final weeks in some regions of the country. A record crop in Minnesota and North Dakota has extended the slicing season for processors in the Red River Valley well in to the month of June. Storage and cooling techniques appear to have maintained reasonable quality in the frozen sugarbeets, however, as the sucrose extraction rate from sliced beets continues to maintain a relatively high level according to data reported to the SMD.

Figure 1
Cumulative sugar extraction rate, beet sugar produced per sugarbeet sliced, by crop year



Source: U.S. Dept. of Agriculture, Economic Research Service and Farm Service Agency.

Further, early-season production from the 2018/19 sugarbeet crop is forecast to be in line with recent years' high levels, as the planting season for this year's crop ended smoothly, despite a slow start in some regions due to cold temperatures and wet soil conditions through most of April. Processors have reported relatively good conditions and performance during the early stages of crop development. Assuming normal weather conditions hold for sugarbeet-growing regions during critical stages of the crop emergence and stand period through the beginning of the summer, the stage should be set for good sugarbeet yields and sugar content heading into the final stages of crop development and harvest.

Table 2: Beet sugar production projection calculation, 2017/18

	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18 May	2017/18 June
Sugarbeet production (1,000 short tons) 1/	29,783	32,034	28,896	35,224	32,789	31,285	35,371	36,881	35,325	35,325
Sugarbeet shrink 2/	5.7%	5.9%	5.9%	4.8%	6.8%	5.4%	6.5%	8.3%	6.7%	6.7%
Sugarbeet sliced (1,000 short tons)	28,097	30,137	27,184	33,532	30,545	29,595	33,066	33,834	32,958	32,958
Sugar extraction rate from slice	14.3%	15.4%	15.0%	15.3%	14.3%	14.6%	14.6%	13.7%	15.0%	15.0%
Sugar from beets slice (1,000 STRV)	4,023	4,631	4,086	5,142	4,325	4,325	4,820	4,643	4,955	4,955
Sugar from molasses (1,000 STRV) 2/	325	357	401	327	324	341	380	352	345	345
Crop-year sugar production (1,000 STRV) 3/	4,348	4,987	4,487	5,469	4,648	4,667	5,201	4,995	5,300	5,300
August-September sugar production (1,000 STRV)	396	623	294	708	315	461	688	606	715	715
August-September sugar production forecast (1,000 STRV)	623	294	708	315	461	688	606	715	598	598
Sugar from imported beets (1,000 STRV) 4/	--	--	--	--	--	--	--	--	38	38
Fiscal year sugar production (1,000 STRV)	4,575	4,659	4,900	5,076	4,794	4,893	5,119	5,103	5,221	5,221

Notes: 1/ National Agricultural Statistics Service, U.S. Dept. of Agriculture. 2/Projections based on processor forecasts published by U.S. Dept. of Agriculture, Farm Service Agency. 3/ August-July basis. 4/ Sugar from imported beets split out for projections only, included in total once full crop-year slice is recorded. They are incorporated into total production in historical data.

Source: U.S. Dept. of Agriculture, Economic Research Service and World Agricultural Outlook Board.

Beet sugar production in 2018/19 is projected to total 5.036 million STRV, which would be a 3.7-percent reduction from the current year's estimate. The amount of sugar produced per acre is

in line with recent trends in extraction and shrink rates. Additionally, with no data or forecasts produced for the 2019/20 crop yet, early-season production is forecast as the average of recent crop years.

Imports Under Re-export Program Lowered for 2017/18

U.S. sugar imports estimates are lowered for 2017/18, down 35,000 STRV from the May estimate to 3.387 million STRV. The largest change is a 50,000-STRV reduction in imports under the re-export program, now expected to be 300,000 STRV. This is partially offset by a 15,000-STRV increase in estimated high-tier tariff imports, based on preliminary data from U.S. Customs on entries.

Imports under quota programs remain unchanged at 1.788 million STRV, including a 99,000-STRV shortfall in the FY2018 WTO Raw sugar TRQ and 236,000 STRV of the increased FY2017 WTO Raw sugar TRQ that was entered during 2017/18. Imports from Mexico are also unchanged, estimated to total 1.269 million STRV, which assumes the entirety of the 2017/18 Export Limit set by the U.S. Department of Commerce is filled.

Imports in 2018/19 are projected to be 3.365 million STRV, also unchanged from the previous month, as are the components of imports. Imports from Mexico are unchanged from the May projection at 1.645 million STRV. The first U.S. Needs calculation and establishment of the Export Limit for 2018/19 will be made by the U.S. Department of Commerce (USDOC) subsequent to the release of the WASDE in July. All other program-related trade is projected on the basis of WTO commitments, established FTA quotas, and announcements from the Secretary of Agriculture made prior to the June WASDE.

Domestic Deliveries for 2017/18 Reduced as Pace Remains Sluggish Through April

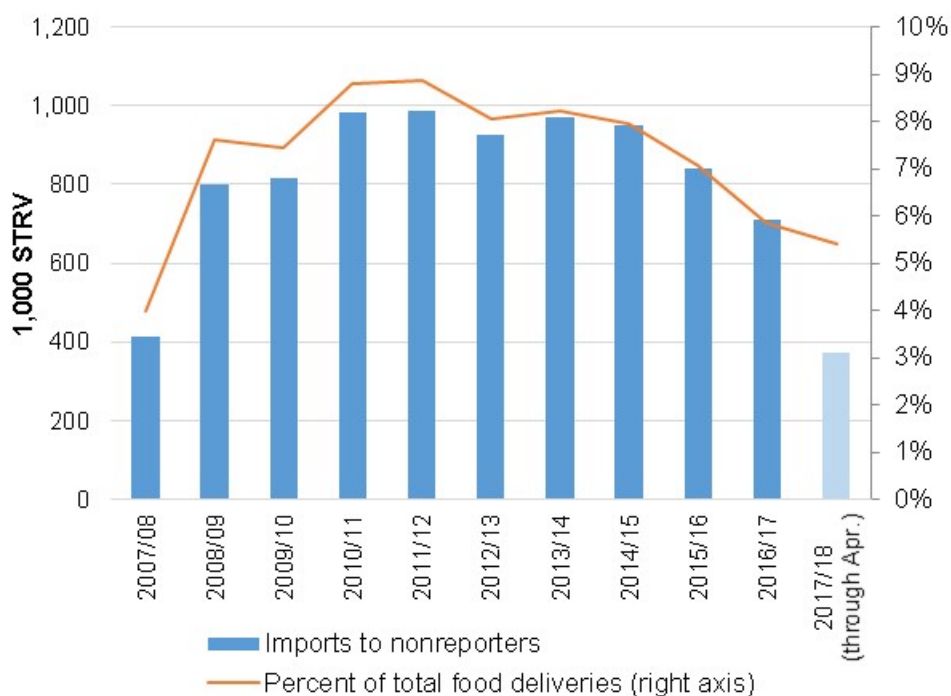
U.S. sugar use is lowered for 2017/18, based on the current pace of domestic food and beverage deliveries. Domestic deliveries for food and beverage use is reduced 25,000 STRV and estimated to total 12.300 million STRV.

Through April, year-to-date domestic deliveries for food and beverage were 6.859 million STRV—1.5 percent lower than the pace of 6.960 million STRV set the same period in 2017/18. The drop is due to a 1.3-percent decline in the pace of deliveries from cane refiners, a 0.9-percent increase in the pace of beet processors, along with and an 18.3-percent decline in the

pace of imports from non-reporters. While the current pace may suggest a steeper drop in demand, each of the three sectors of the food and beverage delivery components has important market factors that put the pace in comparison with the previous year in perspective.

Deliveries from nonreporting importers represented just 7.7 percent of total domestic deliveries for human consumption, on average between 2009/10 and 2016/17. This amount has declined in recent years, primarily as a result of the suspension agreements that govern trade between Mexico and the United States. The terms of the suspension agreement have limited the volume and handling of sugar for certain marketing channels. Additionally, the nature of the data for these imports is volatile on a monthly basis. Despite the slow pace of recorded nonreporter imports through April, the current estimate for food and beverage deliveries in 2017/18 is predicated on totals being comparable to 2016/17 levels of 710,000 STRV.

Figure 2
U.S. imports from nonreporters, fiscal year, 2007/08 to 2017/18

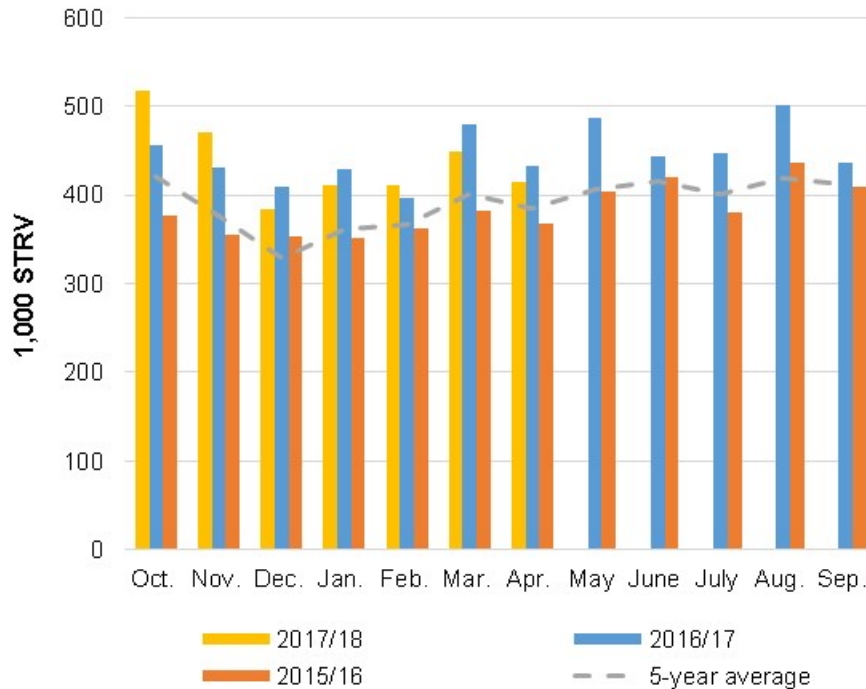


Source: U.S. Department of Agriculture, Economic Research Service.

Sugar deliveries from beet processors have exceeded the pace set by the record-setting 2016/17 marketing year, although the rate has narrowed in recent months. The growth in deliveries was initially spurred by large inventories and low prices for refined beet sugar heading into 2016/17. Strong deliveries successfully drew down the large inventories, and the pace has continued, in large part due to the good sugarbeet crops and strong beet sugar production

levels from both the 2016/17 and 2017/18 crops. Recent monthly deliveries remain strong by historical standards, but cumulative year-over-year growth has begun to moderate from last year's totals. The current outlook is predicated on deliveries from beet processors reaching levels similar to the previous year, even if they do not surpass the 2017/18 record-setting marketing year.

Figure 3
Beet sugar deliveries, monthly, 2015/16 through 2017/18

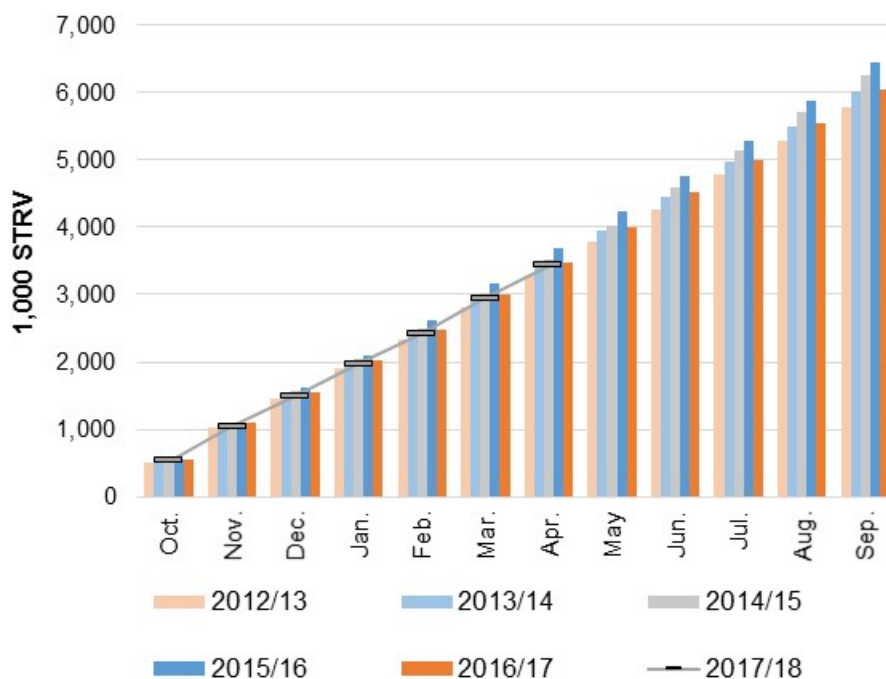


Source: U.S. Department of Agriculture, Farm Service Agency.

Deliveries by cane refiners have been behind last year's pace through April. The current delivery estimate is predicated on that pace increasing in the latter portion of the year. Reported inventories by cane refiners for April 2018 were the highest levels for April in at least 20 years, for both total sugar inventories and raw sugar inventories. This is similar to the previous year, which saw raw sugar inventories hit relatively low levels until shipments from the increased FY2017 raw sugar TRQ began entering the country by September 2017. Low raw sugar inventories resulted in less sugar refined and delivered by cane refiners in the second-half of the fiscal year in 2016/17. Some of the increased stock levels may be to shore up raw sugar supplies to ensure that refiners can manage their operating capacities smoothly—as was a challenge in the previous year's low-inventory environment. The availability of raw sugar in

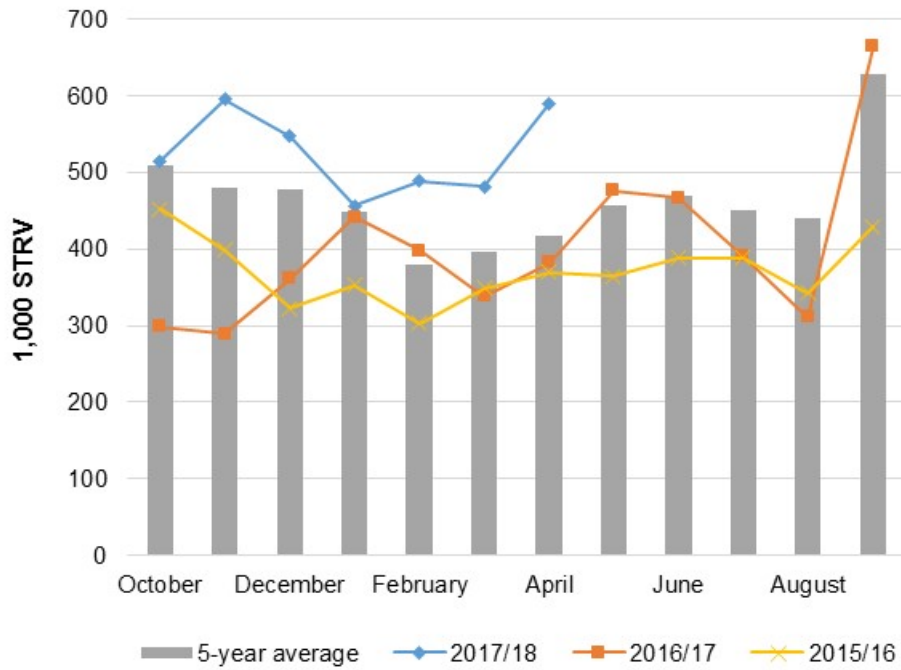
existing inventories; the current outlook for continued imports—many of which will be delivered to cane refiners, adding to existing raw sugar supplies— and relatively strong price levels for refined sugar and high refining margins, as indicated by current spot prices and U.S. raw futures contract prices; should also encourage refiners to increase melt rates and deliveries. If the pace of cane refiners' deliveries does not pick up soon, several market results are likely to occur in some combination: estimated ending stocks will increase, particularly for the cane sector; the pace of imports will slow as the need for raw sugar subsidies; and refined sugar spot price levels will likely fall to help clear building stocks later in the year and likely carry over into 2018/19.

Figure 4
U.S. deliveries from cane refiners, cumulative, 2012/13 to 2017/18



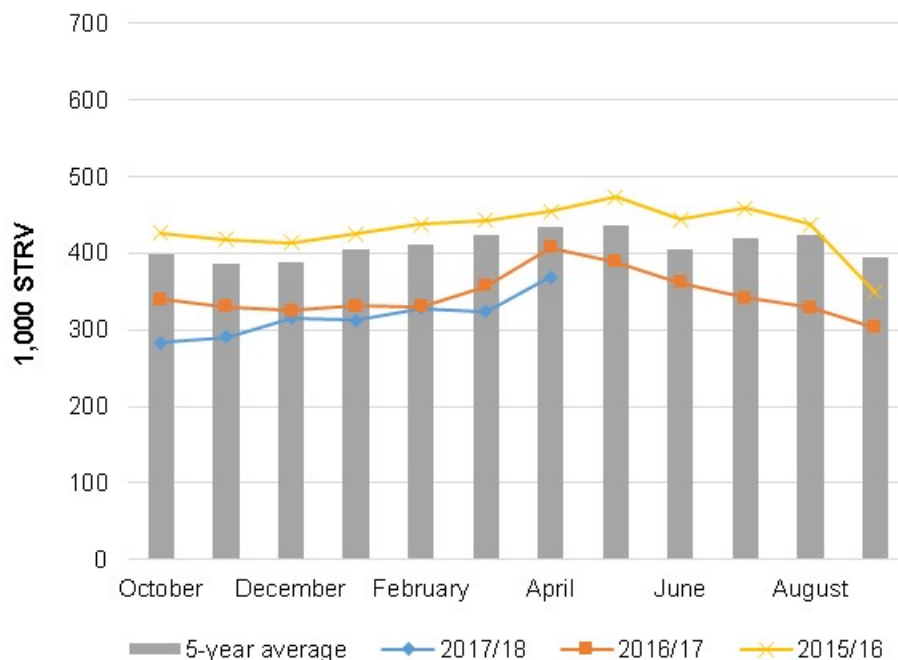
Source: U.S. Department of Agriculture, Economic Research Service.

Figure 5
Sugarcane refiners raw sugar inventories, monthly, 2010/11 to 2016/17



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

Figure 6
Sugarcane refiners' refined sugar inventories, monthly, 2010/11 to 2017/18



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

Other domestic deliveries remain unchanged for both 2017/18 and 2018/19, at 155,000 STRV for each fiscal year. Estimated exports for 2017/18 also remain unchanged at 170,000 STRV. Projected exports for 2018/19 are raised to 85,000 STRV, a 35,000-STRV increase from the previous month as projected Mexican imports are also raised, as discussed in the Mexico Outlook section.

Ending Stocks Lowered for Both 2017/18 and 2018/19

Ending stocks for 2017/18 are estimated to be 1.876 million STRV, which would result in a 14.9-percent stocks-to-use ratio. These estimates indicate a slightly tighter market than the May WASDE estimate, as the reduction in supplies exceeded the reduction in use. With no change projected for imports from Mexico, 2018/19 ending stocks are projected to be 1.463 million STRV, a 79,000-STRV reduction from the previous month. The projected stocks-to-use ratio is 11.5 percent.

Mexico Outlook

Mexico Imports in 2018/19 Raised Slightly

The only change from the previous month in the June WASDE is a 31,000 metric ton, actual value (MT) increase in projected imports for 2018/19. The increase is projected to be for imports used for domestic human consumption, which are expected to originate from the United States (and are tied to the increase in exports on the U.S. projection). Projected imports are below the current estimate for 2017/18, but according to the Foreign Agricultural Service's (FAS) Mexico City Post, the increase in shipments for 2017/18 from the United States has established marketing channels that are expected to endure.

Table 3: Mexico sugar supply and use, 2016/17 - 2017/18 and projected 2018/19, June 2018

Items	2016/17	2017/18 (estimate)	2018/19 (forecast)
	1,000 metric tons, actual weight		
Beginning stocks	1,037	1,002	1,243
Production	5,957	5,970	6,025
Imports	93	190	115
Imports for consumption	48	140	65
Imports for sugar-containing product exports, IMMEX 1/, other	45	50	50
Total supply	7,087	7,162	7,383
Disappearance			
Human consumption	4,515	4,337	4,562
For sugar-containing product exports (IMMEX)	397	390	390
Other deliveries and end-of-year statistical adjustment	-61	0	0
Total	4,851	4,727	4,952
Exports	1,234	1,192	1,418
Exports to the United States & Puerto Rico	1,028	1,086	1,408
Exports to other countries	205	106	10
Total use	6,085	5,919	6,370
Ending stocks	1,002	1,243	1,014
	1,000 metric tons, raw value		
Beginning stocks	1,099	1,062	1,318
Production	6,315	6,328	6,387
Imports	98	201	122
Imports for consumption	51	148	69
Imports for sugar-containing product exports (IMMEX)	47	53	53
Total supply	7,512	7,592	7,826
Disappearance			
Human consumption	4,786	4,597	4,835
For sugar-containing product exports (IMMEX)	420	413	413
Other deliveries and end-of-year statistical adjustment	-64	0	0
Total	5,142	5,010	5,249
Exports	1,308	1,264	1,503
Exports to the United States & Puerto Rico	1,090	1,152	1,492
Exports to other countries	218	112	11
Total use	6,450	6,274	6,752
Ending stocks	1,062	1,318	1,075
Stocks-to-human consumption (percent)	22.2	28.7	22.2
Stocks-to-use (percent)	16.5	21.0	15.9
High fructose corn syrup (HFCS) consumption (dry weight)	1,522	1,608	1,608

1/ IMMEX = Industria Manufacturera, Maquiladora y de Servicios de Exportación.

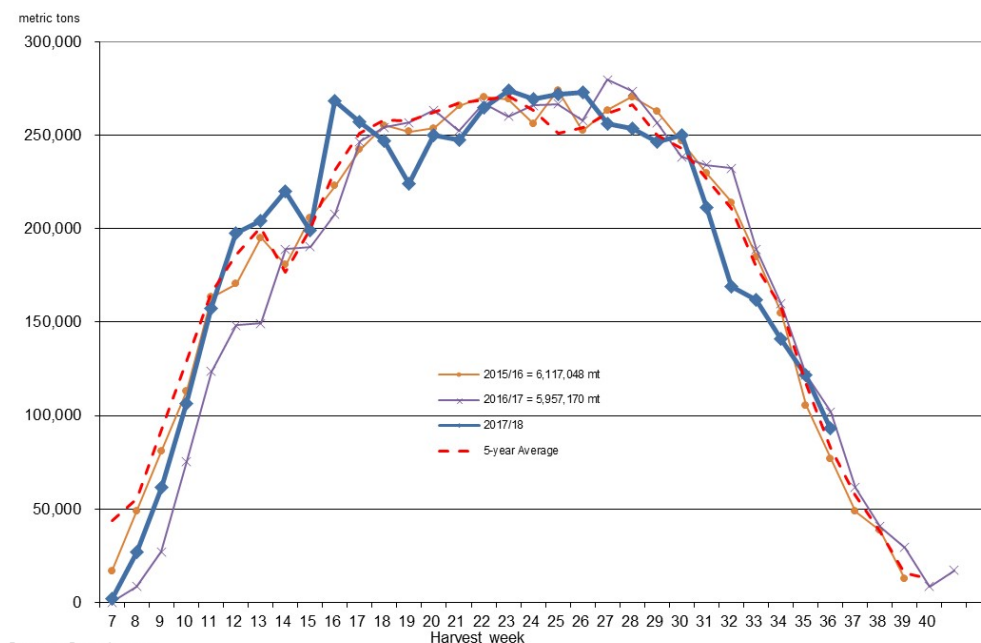
Source: USDA, *World Agricultural Supply and Demand Estimates* and Economic Research Service, *Sugar and Sweeteners Outlook*; Conadesuca.

With no other changes to the balance sheet for either 2017/18 or 2018/19, projected ending stocks for 2018/19 are raised 31,000 MT to 1.014 million MT. This would represent a 22.2 percent stocks-to-consumption ratio, which is in line with historical performance and domestic policy objectives.

The 2017/18 harvest season continues to move swiftly to its concluding weeks. Production reporting by the *Comité Nacional para el Desarrollo Sustentable de la Caña de Azúcar* (Conadesuca) through June 2 shows that Mexico has produced 5.927 million MT of sugar, with the majority of mills having concluded their processing season. With only a few weeks of sugar processing left for the remaining mills, production levels appear to be on track to reach the current estimate of 5.970 million MT for 2017/18. Additionally, reports state that Mexico's mills

have produced more than 800,000 MT of sugar below a polarity of 99.2, which is a key specification to qualify for the “Other Sugar” portion of the Export Limit. This suggests that Mexico should have ample supplies available to meet its full Export Limit set by the USDOC for 2017/18—assuming as price levels remain above the 23-cent-per-pound Reference Price, as specified in the suspension agreements.

Figure 7
Mexico sugar production, by week of harvest, 2015/16-2017/18



Ending stocks for 2017/18 are estimated to be 1.243 million MT, unchanged from the previous month, with a stocks-to-consumption ratio of 28.7 percent. While high by historical standards, these supplies are expected to be carried over into the following year due to several key economic factors. First, relatively high domestic prices in Mexico, particularly in the early part of 2017/18, have resulted in lagging domestic deliveries. While still high, prices have begun to moderate a bit as the year progresses, and deliveries are projected to pick up again in 2018/19. Second, projected exports to the United States are expected to be higher in 2018/19 due to the current U.S. sugar market projections and expected the U.S. Needs calculation, although there are constraints on the specification of sugar that can be used to fulfill the Export Limit. Both of these market alternatives would seem to be more profitable for Mexico processors than exporting these sugar supplies at current world price levels.

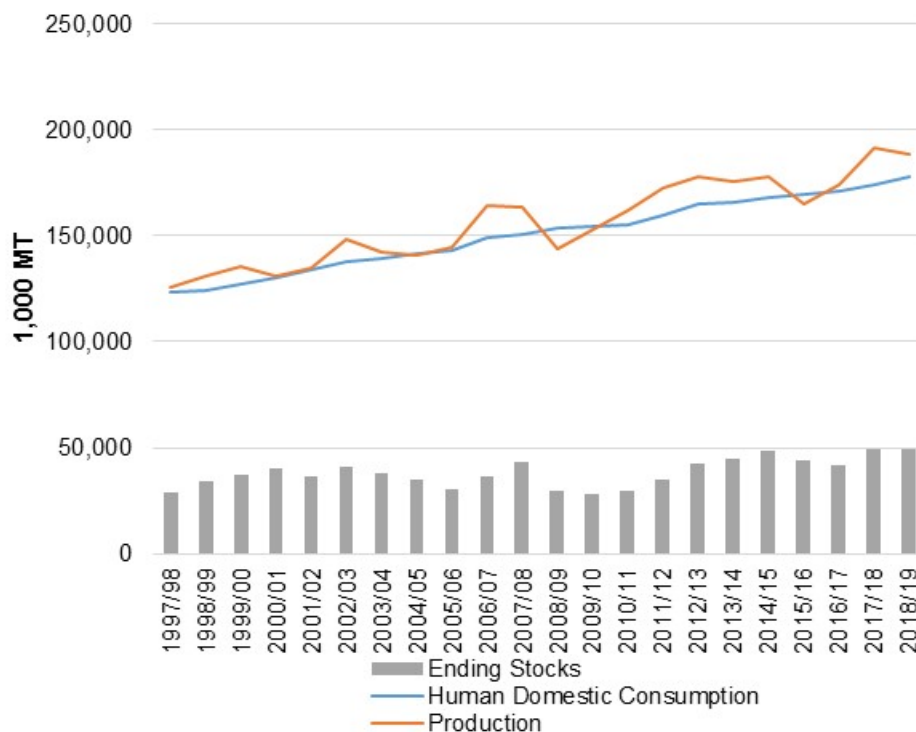
Special Article: Global Sugar Market

Large Global Supplies from 2017/18 Carry Over Into 2018/19

Raised estimates for global sugar production in 2017/18 substantially increase the estimated global production surplus, based on the latest USDA sugar market projections released by the Foreign Agricultural Service (FAS) on May 24, 2018. Production in 2018/19 is projected to decrease from the previous year, but still be sizable by historical standards. The result is markets with growing supplies that outpace projected use, growing global inventories, and higher stocks-to-use ratios. The outlook will be dependent upon growing and production conditions in Brazil, South Asia, and Southeast Asia. Potential policy choices by several major producing countries in Asia that could encourage further exports to go on the world market rather than remaining in domestic stocks will also be an important feature in the medium-term outlook. Overall, the current fundamental outlook for the global market does not imply any significant increase in prices for world futures contracts in 2017/18 and 2018/19, which have been trending downward since October 2016.

Sugar production is projected to reach a new record in the 2017/18 marketing year, far surpassing the previous high-water mark set in 2014/15. Sugar production in 2017/18 (October to September basis) is estimated to total 191.8 million metric tons, raw value (MTRV), 6.9 million MTRV larger than the projection in November 2017. This would also represent a 10.3-percent increase from 2016/17 production levels. The increase was due primarily to good crop production and sugar recovery expected in South and Southeast Asia—notably in India, Thailand, and Pakistan. This outweighed reduced production estimates in other areas—primarily in Brazil, which saw more sugarcane production used for ethanol production in the second half of 2017/18 rather than sugar. Estimated deliveries for human consumption in 2017/18 are estimated at 174.1 million MTRV, down less than 1.0 million MTRV from the previous report, or a 1.9-percent increase from the previous year. As a result, with limited opportunities to expand trade, global ending stocks in 2017/18 are estimated to be 8.7 million MTRV higher than the November report, totaling 49.5 million MTRV—also a record, exceeding the 2014/15 mark.

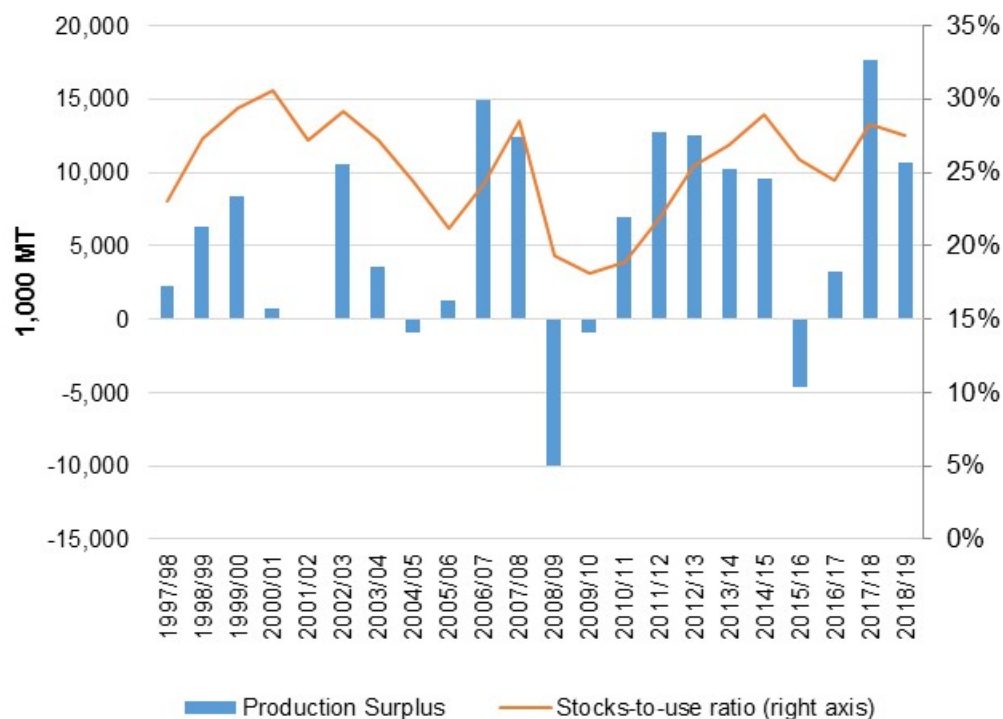
Figure 8
**World sugar production, human consumption, and production surplus,
 1997/98 to 2017/18**



Source: U.S. Department of Agriculture, Foreign Agricultural Service.

The increased supplies produced in 2017/18 result in higher production surpluses, which will carry over into 2018/19 as well. Production surpluses follow a cyclical pattern and are closely correlated with the world stocks-to-use ratio and prices. Sugar production is projected to be 188.3 million MTRV, a 1.9-percent decline from 2017/18 but still be the second-highest production level in history. Deliveries for human consumption are projected to increase at a steady 2.0 percent globally, totaling 177.6 million MTRV in 2018/19. The increased supply expectations in 2017/18 raise the forecast production surplus to its highest level in recent history, after 2015/16 and 2016/17 represented down-cycle years. The surplus is projected to decline in 2018/19 but will still be large compared with the past few decades.

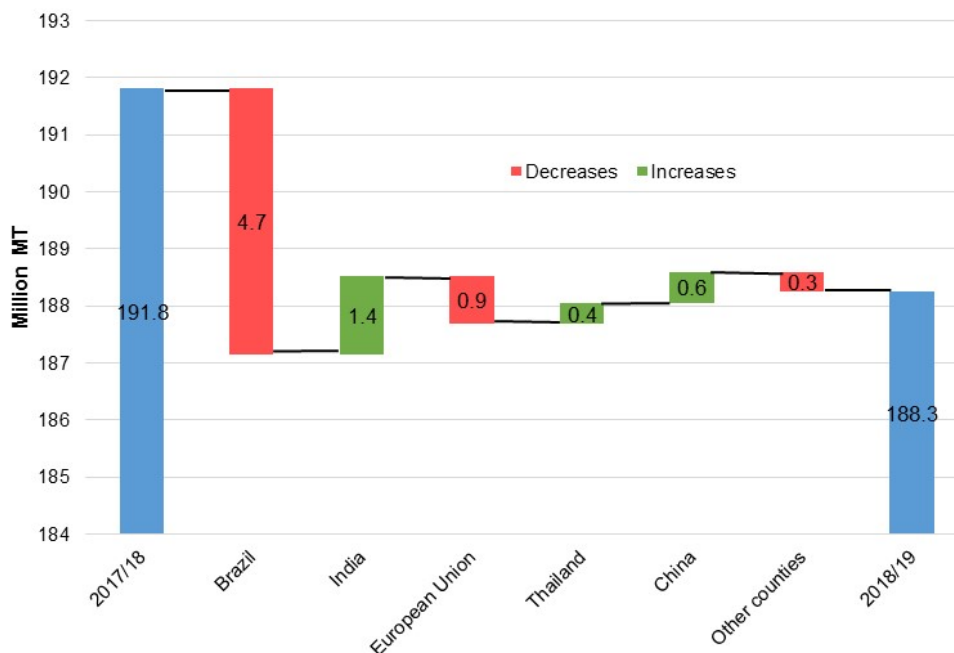
Figure 9
World sugar production surplus and stocks-to-use, 1997/98 to 2016/17



Source: U.S. Department of Agriculture, Foreign Agricultural Service.

Despite large supplies and low prices generally, several major sugar-producing countries are projected to increase production in 2018/19. India and Thailand, in particular, are projected to continue sugar increases due to local policy and market conditions that have spurred cultivation of sugarcane. As Thailand is already a major exporting country and as growing inventories in India could lead to policy-induced exports, supplies in these countries can have a significant impact on world raw sugar prices. Conversely, Brazil and the European Union are projected to reduce sugar production and are largely responsible for the net decline.

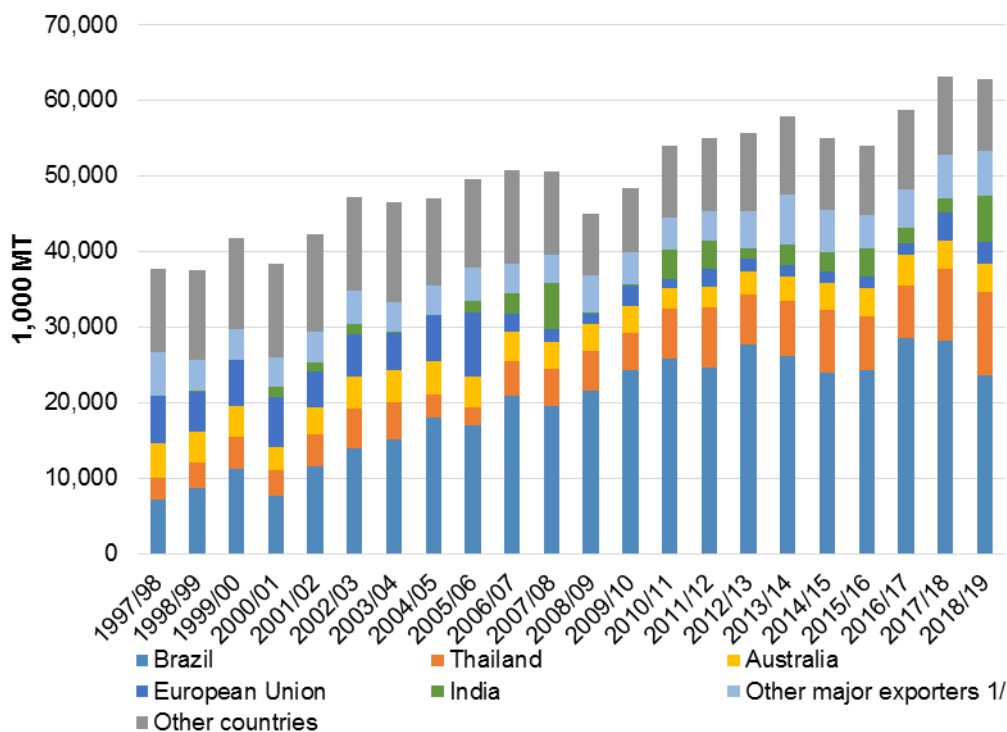
Figure 10
World sugar production changes by top producers from 2017/18 to 2018/19



Source: U.S. Department of Agriculture, Foreign Agricultural Service.

Expanding trade in the global sugar market is expected to be difficult in 2018/19, as large inventories heading into the year and the current low-price environment limit opportunities for profitable trade. Exports in 2017/18 are estimated to increase 7.4 percent from the previous year, largely due to a 35.4-percent increase in exports by Thailand. Exports are projected to level off in 2018/19, however, totaling 62.8 million MTRV, a 0.4-percent year-over-year decline. Brazil is projected to remain the world's largest exporter in both years. Lower production for 2018/19 will mean lower exports, as well. As a result, Brazil is projected to account for only 37.6 percent of global exports in 2018/19, which would be the lowest level since 2005/06. Exports are expected to grow in Asia, however, as Thailand is expected to export a record amount of sugar in 2017/18 and then surpass it again in 2018/19. India is also projected to increase its exports in order to reduce its sizable inventories.

Figure 11
World sugar exports 1997/98 to 2018/19

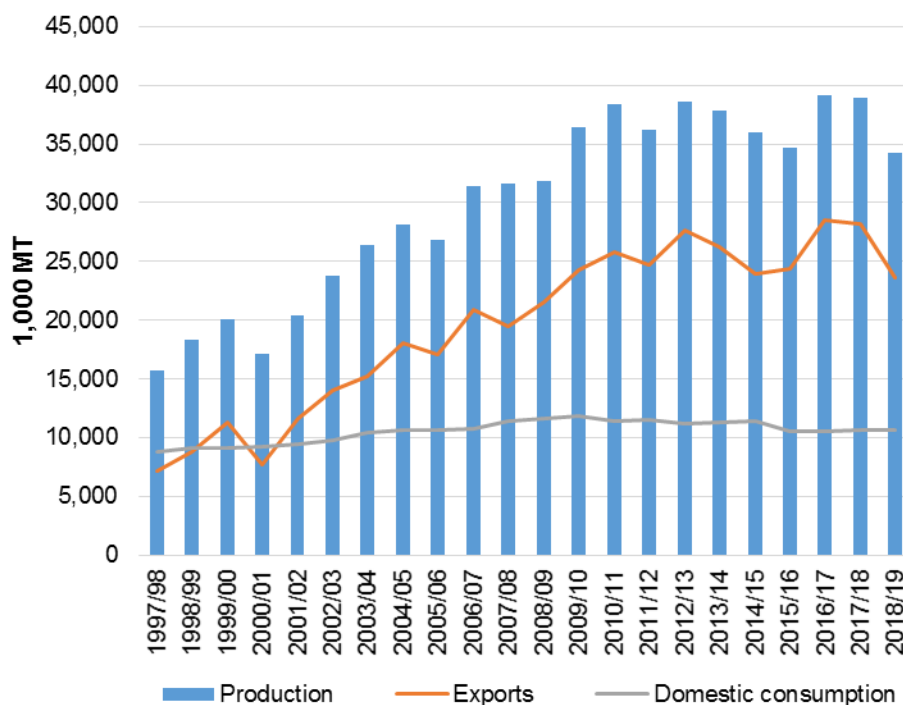


1/ Includes: Guatemala, Mexico, Ukraine, Colombia, and South Africa.
Source: U.S. Department of Agriculture, Foreign Agricultural Service.

Brazil Moves toward Greater Share of Sugarcane to Ethanol in 2018/19

With rising global supplies and lower prices, Brazil's sugarcane sector continues to change gears, shifting away from sugar production and toward more ethanol production. Sugar production is estimated to fall 0.7 percent in 2017/18 and projected to decline a further 12.1 percent to 34.200 million MTRV in 2018/19. Likewise, sugar exports—which account for the majority of Brazil's production—are projected to fall 16.3 percent in 2018/19 to 23.600 million MTRV. Brazilian growers are expected to harvest comparable levels of sugarcane to past years, but a higher proportion of cultivated sugarcane is expected to be used for fuel production rather than processed into sugar.

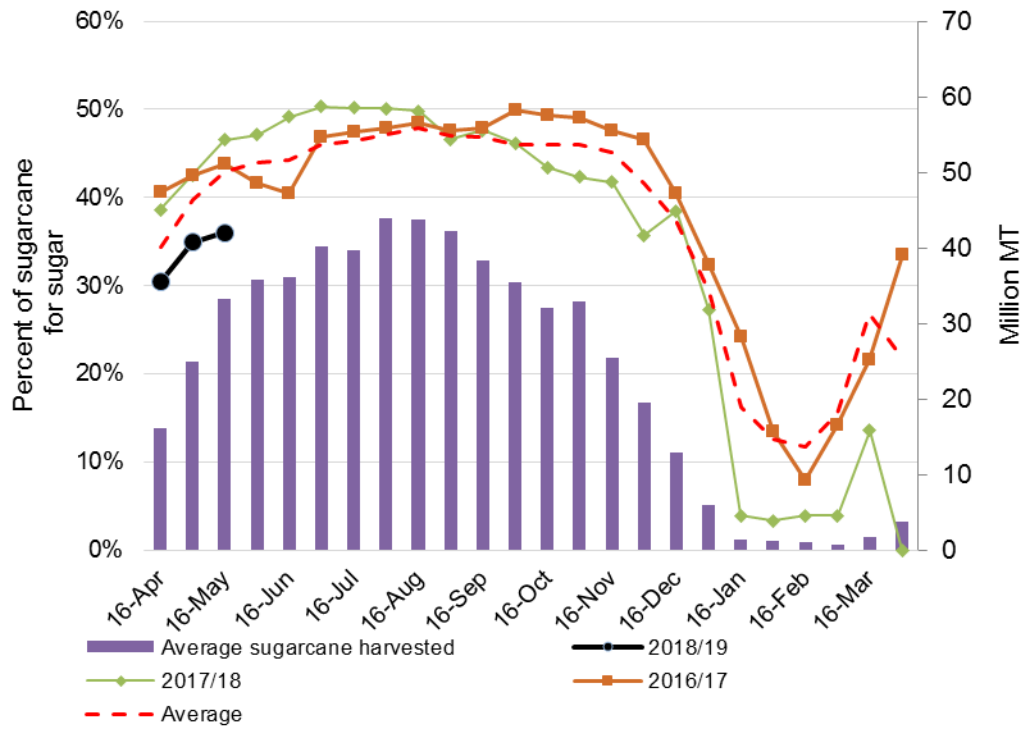
Figure 12
Brazil sugar production, exports, and domestic consumption 1997/98 to 2018/19



Source: U.S. Department of Agriculture, Foreign Agricultural Service.

Sugarcane processors in Brazil began the 2017/18 marketing year (April-to-March) producing a relatively high proportion of their sugarcane crush to sugar production. This continued the trend from the 2016/17 season, where the global sugar market was relatively tighter. By August and September 2017, however, the sugar-ethanol production mix skewed more heavily toward ethanol production, reflecting relatively weak returns in the global sugar market and improved returns in the domestic fuel market. In the early weeks of 2018/19 through mid-May, sugar continued to account for a relatively small proportion of processed sugarcane.

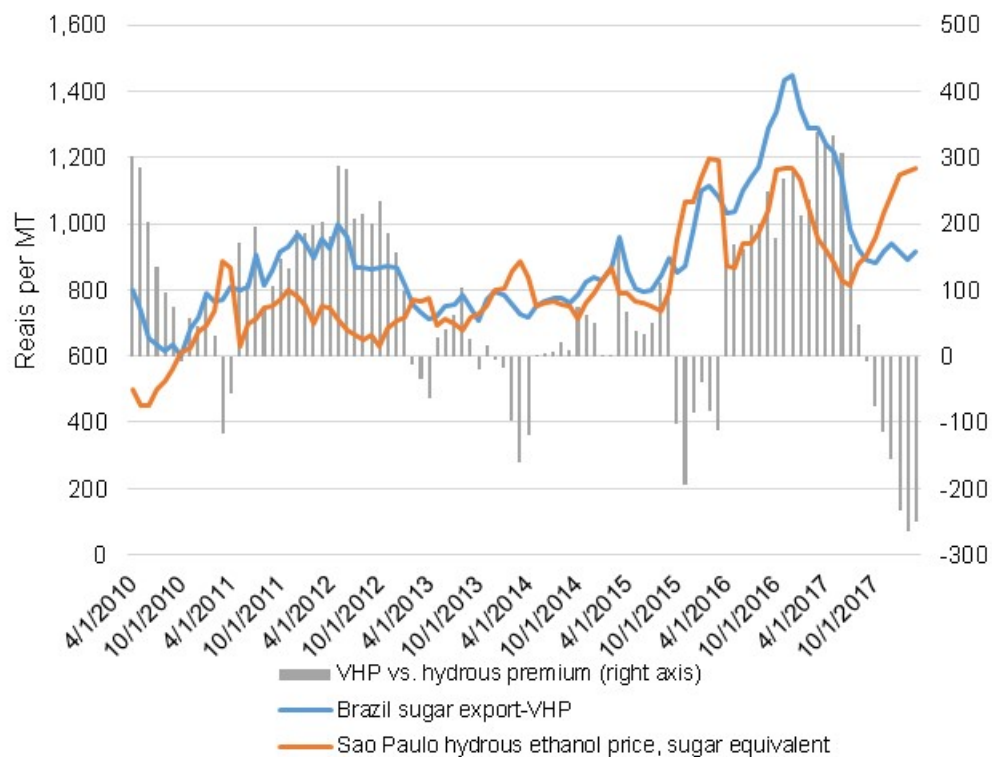
Figure 13
Brazil Center-South sugar for sugarcane proportion, bi-weekly



Source: Brazilian Sugarcane Industry Association (UNICA).

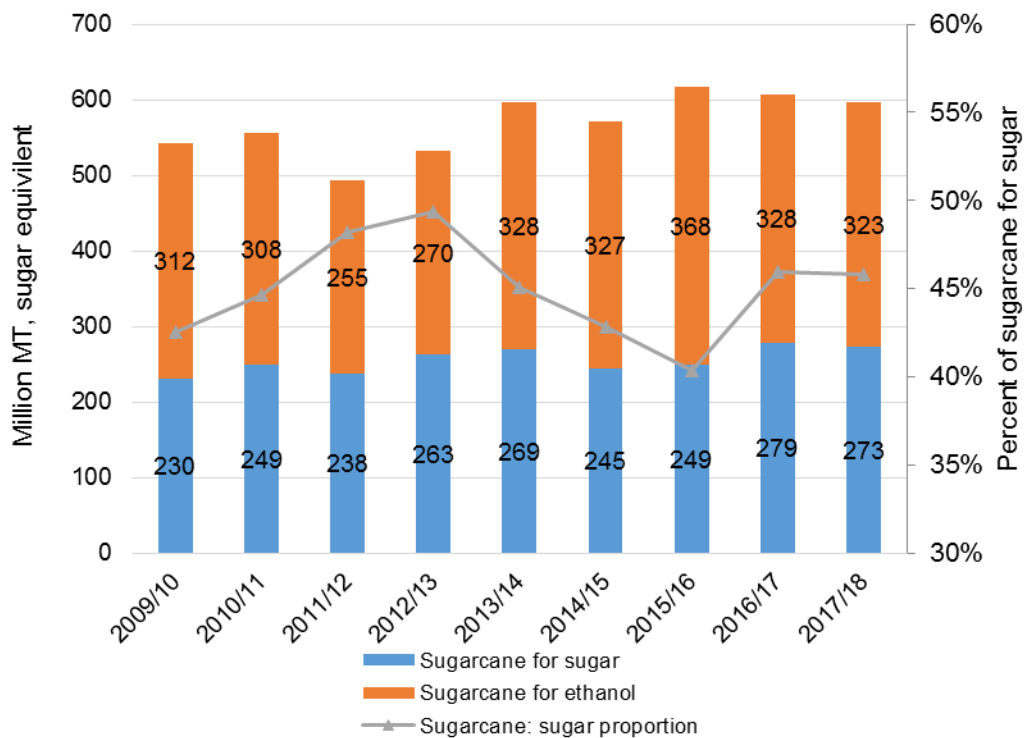
Processors did see a price advantage for sugar exports in 2016/17, as demonstrated by the price for Brazil's Very High Polarity (VHP)-grade sugar, which represents Brazil's raw sugar export market. As the world sugar futures contracts fell, along with domestic price increases in hydrous ethanol, domestic fuel markets became the more profitable alternative. Processors with the capacity to produce both ethanol and sugar have physical constraints with regard to how heavily they can lean toward the production of one product. For 2018/19, it is expected that processors will pursue a production mix heavily weighted toward ethanol, as long as the current price dynamics hold through the year.

Figure 14
Brazil sugar export and domestic ethanol prices, 2010/11 to 2017/18



Source: Brazilian Ministry of Agriculture.

Figure 15
Brazil Center-South sugarcane production and use, April-to-March marketing year

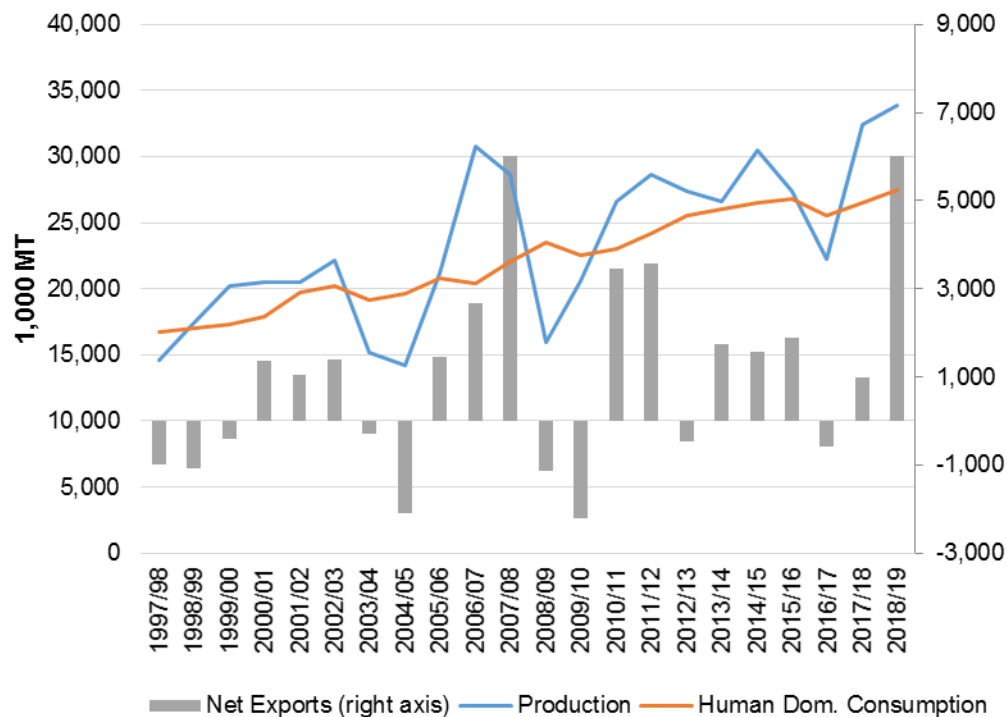


Source: Brazilian Sugarcane Industry Association (UNICA).

Large Supplies in India Result in More Exports Projected for 2018/19

Substantial increases in India's sugar production outlook for 2017/8 and 2018/19 are largely responsible for the increased global supplies expected. Production in 2017/18 is estimated at 32.445 million MTRV, compared with 22.200 million MT from the previous year. The increase in production is due both to favorable growing conditions that improved yields and domestic policies. India's sugar market is heavily influenced by domestic policies that set a Minimum Support Price (MSP) by national committees. This price, along with additional supports established by regional-level governments, is usually an important factor for farmer's planting decisions. Despite the relatively large supplies in India, planting of sugarcane is expected to be financially advantageous for farmers in 2018/19. As a result, production is projected to increase an additional 4.2 percent in 2018/19 to 33.830 million MTRV.

Figure 16
India sugar production, exports, and domestic consumption 1997/98 to 2018/19



Source: U.S. Department of Agriculture, Foreign Agricultural Service.

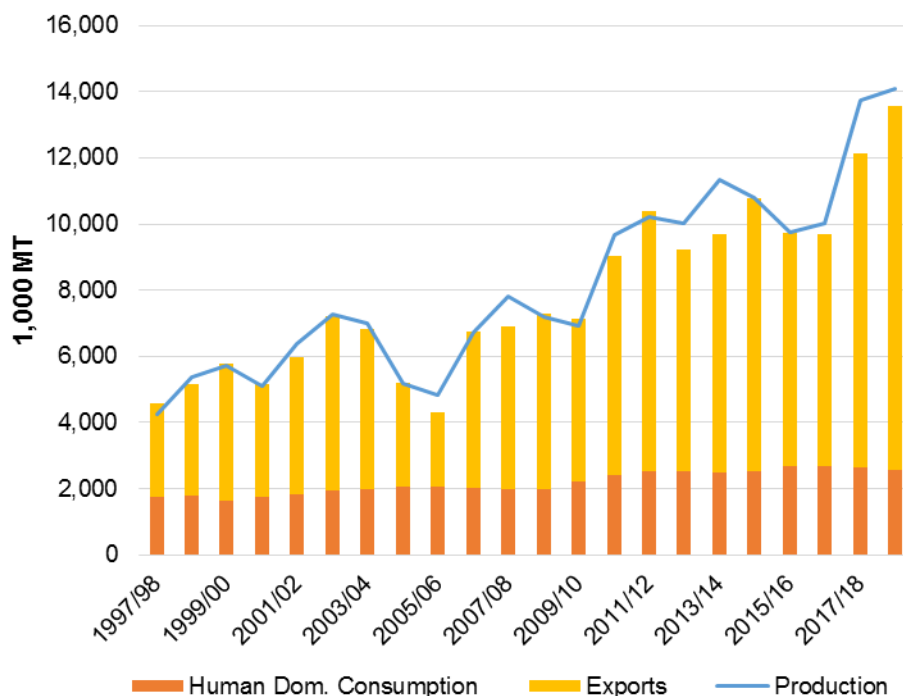
Trade in India is often closely linked to volatile production cycles. Once again, domestic policies are an important factor in both India's imports and exports of sugar. High tariffs make imports prohibitive in most years, except when market conditions require additional supplies that force policymakers to take action to encourage entries. Likewise, when India has large production surpluses, government actions are typically needed to incentivize exports, such as transportation subsidies to aid in getting supplies to ports. As a result, India is projected to be a strong net exporter in 2018/19, which could have significant impacts on the world futures market price.

Strong Production Boosts Thailand Exports

Thailand continues to be a dominant player in the global sugar market. Sugar production is forecast to rise to 14.1 million MT in 2018/19, or 2.7 percent from the 2017/18 production estimates, which were also revised upward by 127 MT due to the good weather and expanded area. A majority of this increase is due to expanded cane area. A main driver for this increase in acreage is that farmers are transitioning from producing cassava and rice to sugarcane due to

higher returns and policy inducements. Additionally, new sugar mills are appearing, and many mills have already begun lobbying their farmers to increase production so that the mills can run at capacity. Lower world prices are expected to discourage farmers from replacing their cane with newer seed, resulting in low yield growth.

Figure 17
Thailand sugar production, exports, and domestic consumption 1997/98 to 2018/19



Source: U.S. Department of Agriculture, Foreign Agricultural Service.

Exports are forecast to increase 1.5 million MT in 2018/19 to 11 million MT. This represents a 15.8-percent increase from MY 2016/17. Exports fell marginally in MY 2016/17 due to lower quantities of raw sugar exported, while there were increases in the white and refined sugar commodities; however, exports are estimated to increase in 2017/18 by over 35.4 percent. A majority of the MY 2018/19 increase is due to the improved harvest. Thai sugar has increased its competitiveness throughout Asia due to the ASEAN Economic Community (AEC) Free Trade Agreement that went into effect at the end of 2015.

Stocks are anticipated to increase in 2018/19 to 7.7 million MT. This is partially due to buyers waiting for what they perceive as the potential for prices to drop further.

Thai policy has shifted recently, with an executive order temporarily deregulating the domestic sugar industry in response to a WTO petition filed by Brazil. This order removes wholesale

price floors and also some taxes on sugar sales, but there is a new tax levied by the growers association that counteracts this measure. Additionally, there is still a price ceiling in place for retail transactions of about 34 cents per pound. All of these policies influence the domestic price, but are not expected to affect production or exports.

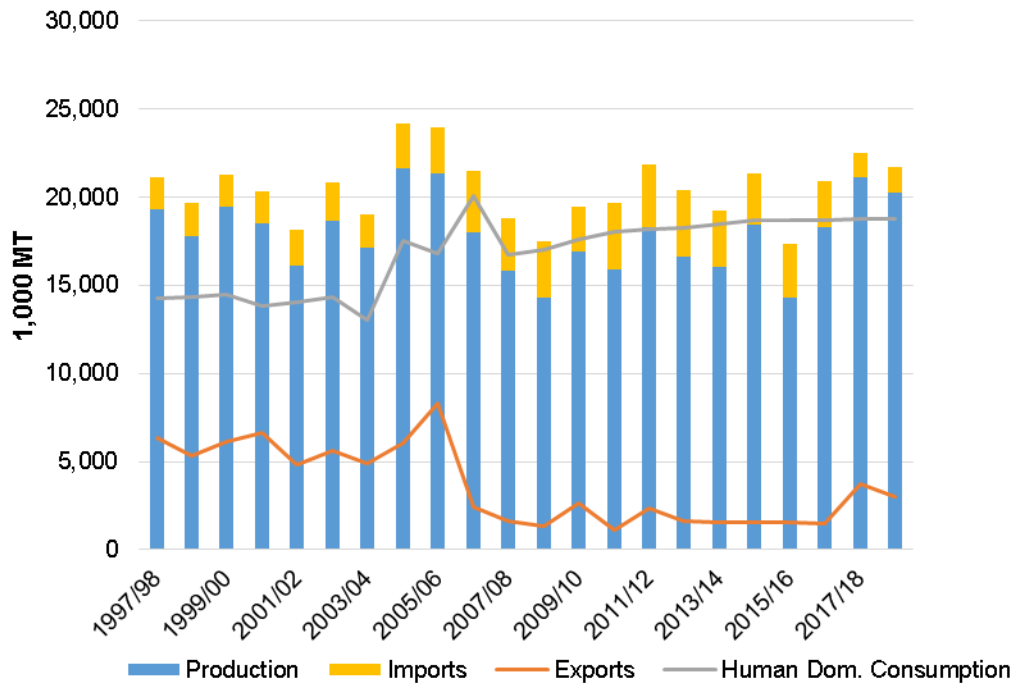
Consumption is forecast to decline by 1.9 percent, mostly due to new sugar taxes on beverages.

European Union Eliminates Production Quotas, Increases Production and Exports

The European Union harvested its first crop grown without the production quota system for Member States in 2017/18. Estimates for production in 2017/18 are raised to 21.150 million MTRV, which would be the highest production in more than 10 years and a 15.5-percent increase from the previous year. Production in 2018/19 is expected to decline 4.0 percent to 20.300 million MTRV due to less than optimal planting and growing conditions compared with last year. This would still be considerably higher than production levels prior to quota limitations on domestic sugar production for human consumption.

Domestic deliveries for human consumption remain stable with levels over the past few years. As a result, exports are estimated to more than double in 2017/18 compared with the previous year and are projected to be 3.000 million MTRV in 2018/19, maintaining a substantially higher level of trade since export support policies were changed in the previous decade. This is significant for the global market in two ways. First, it adds additional sugar availability in the market, contributing to the world production surplus. Second, because the European Union produces sugar from sugarbeets, it also adds to the amount of refined sugar available in the global marketplace. This puts downward pressure on refined sugar prices, which has implications for the margins of sugar refiners exposed to global futures market prices for raw and refined sugar.

Figure 18
European Union sugar production, exports, and domestic consumption
1997/98 to 2018/19



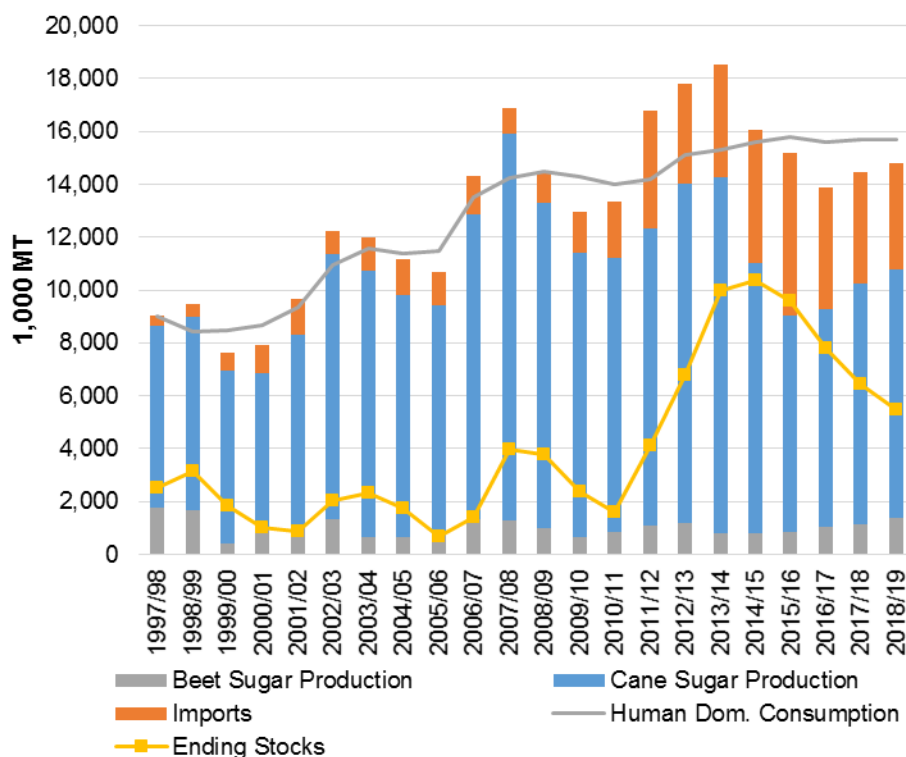
Note: Data reflect the totals for 15-Member State European Union through 2003/04 and 25-Member State European Union through 2005/06.

Source: U.S. Department of Agriculture, Foreign Agricultural Service.

China Continues To Focus on Domestic Production

Sugar production for MY 2018/19 is forecast higher for the third straight year. Production is expected to be 10.8 million MT, making the 2018/19 marketing year the highest since 2014/15. The 550,000 MT increase is due to more beet area in production, with cane area also up marginally. The area dedicated to beet production is in northern regions of the country, with cane production centered in southern China.

Figure 19
China sugar production, exports, and domestic consumption 1997/98 to 2016/17



Source: U.S. Department of Agriculture, Foreign Agricultural Service.

Projected beet sugar production for MY 2018/19 is 1.4 million MT, up 250,000 MT from 2017/18's 1.15 million MT. The growth of beet area has been driven in recent years by four main drivers. The first is that the Chinese government ended their corn temporary service program in 2016. The program had the goal of increasing domestic corn production, mostly from the northern provinces. Without this program in place, cultivators chose to switch from corn to sugarbeet production. Second, China continues to invest in mechanization of production, increasing efficiencies and growth. The northern regions where beet area has expanded are well suited for mechanized production, leading to increases in yield while also reducing labor. The reduction in labor gives these beet production areas an edge over the southern cane production, due to cane's high labor costs and constraints to further mechanization. The third reason for the expansion is the rapid adoption of new sugar beet varieties, which have higher sugar content. The final reason for this expansion is that the four new sugar beet mills were built to come online in 2019. These mills, along with others that have been built in recent years, require more supplies to run, so increased production is needed.

Although these efficiency gains have led beet profitability for the Chinese growers and mills to be greater than cane profitability in the country, the price is still driven by trade, the global price, and government policy.

Sugar cane production, primarily concentrated in the southern provinces (Guangxi, Yunnan, and Guangdong) is expected to increase by 300,000 MT in 2018/19, based on an increase in acreage, with yield growth being slow. Some of the acreage increase, specifically in Guangxi Province, can be explained by the provincial government's implementation of a \$79.00 (RMB500) floor price for mills. Guangxi province alone accounts for 60 percent of China's sugar cane acres.

Further expansion of cane area is limited, with hilly terrain and other marginal land all that remains for potential extension. This limits mechanization opportunities in the cane industry. Additionally, cane production is labor-intensive with high labor costs, making Chinese cane less competitive with potential substitutes from imported supply.

Sugar imports are forecast down 200,000 MT from last year to 4.0 million MT, making this the third consecutive year-over-year decline. With protectionist measures in place, China has driven down imports from Brazil and Thailand, while increasing imports from smaller suppliers. Smuggling continues to be a substantial problem, with industry estimates that as much as 1.5 to 2.0 million MT are smuggled in annually. Given the protectionist history, it is likely that China will continue reducing imports and increasing production.

Government-held stocks continue to decrease, with projections that MY 2018/19 ending stocks will be down 1 million MT to 5.5 million MT (5.461). This is driven by the gradual reduction in government stocks across many agricultural commodities since 2016 in an effort to rely more heavily on domestic producers.

Current Global Sugar Fundamentals Impede Price Increases

Global price levels, as indicated by the raw and refined world futures contracts, have been trending downward since early 2017. After a brief increase from 2015 and 2016 based on smaller global production surpluses, growing supplies in subsequent years have resulted in steady declines in the global sugar market. Short-term price increases may arise due to changes in weather conditions, production outlooks, domestic market developments that hamper sugar infrastructure, or domestic policies in major sugar markets. On the other hand, additional downside pressure could result in these markets if domestic and trade policies from major sugar-producing countries encourage exports to resolve domestic supply gluts or

burdensome inventories. The current outlook for the market fundamentals in 2017/18 and 2018/19 points toward prices remaining at the relatively low levels of recent years.

Figure 20
World refined and raw sugar prices, 2010 to 2018



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

Suggested Citation

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