

# LOW SUGAR PRICES- CAUSES & OUTLOOK

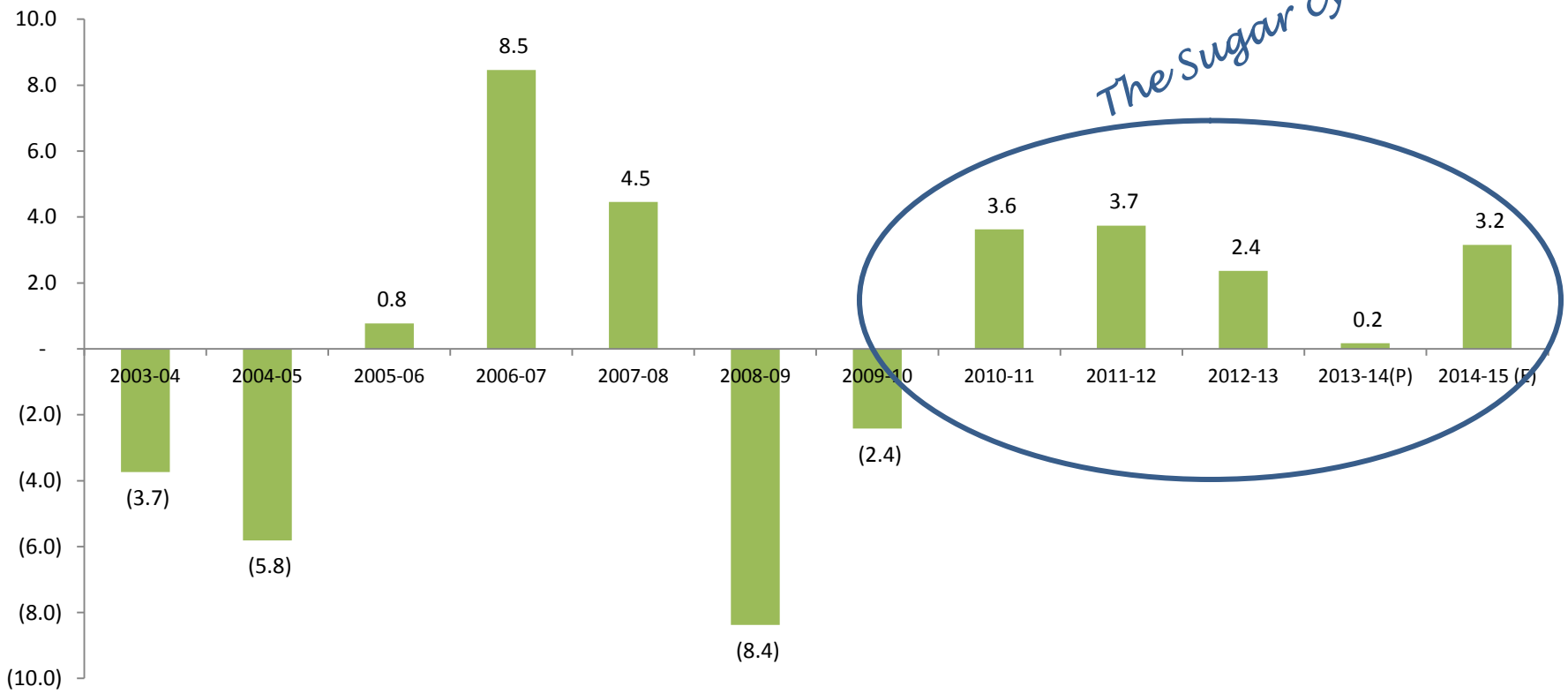
STATE LEVEL SUGAR CONFERENCE 2015



# **PRIMARY CAUSES FOR LOW SUGAR PRICES**

# The Old Sugar Cycle has Converted to a Structural Sugar Surplus

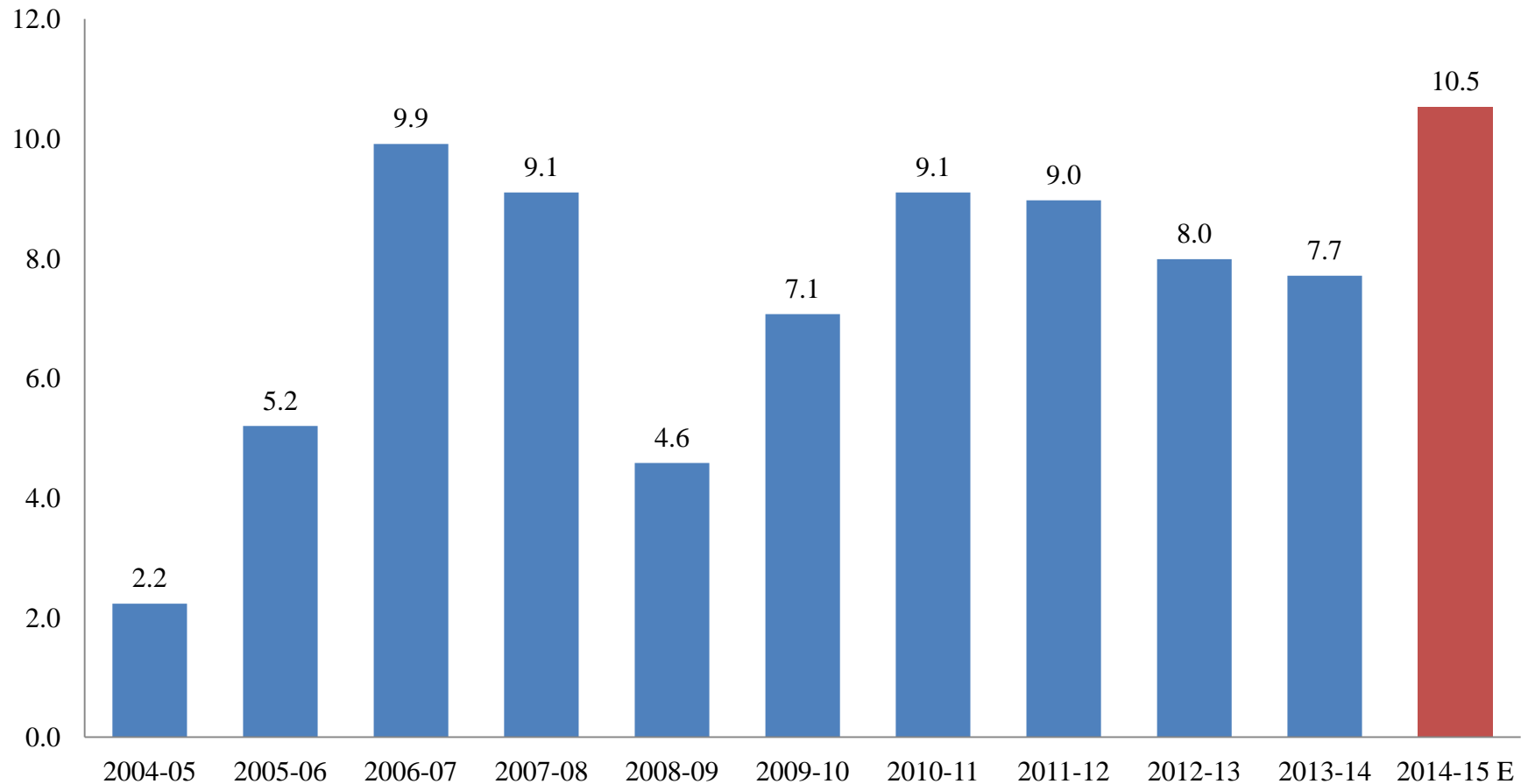
## Sugar Surplus/Deficit in India (million tons)



*The sugar cycle is dead*

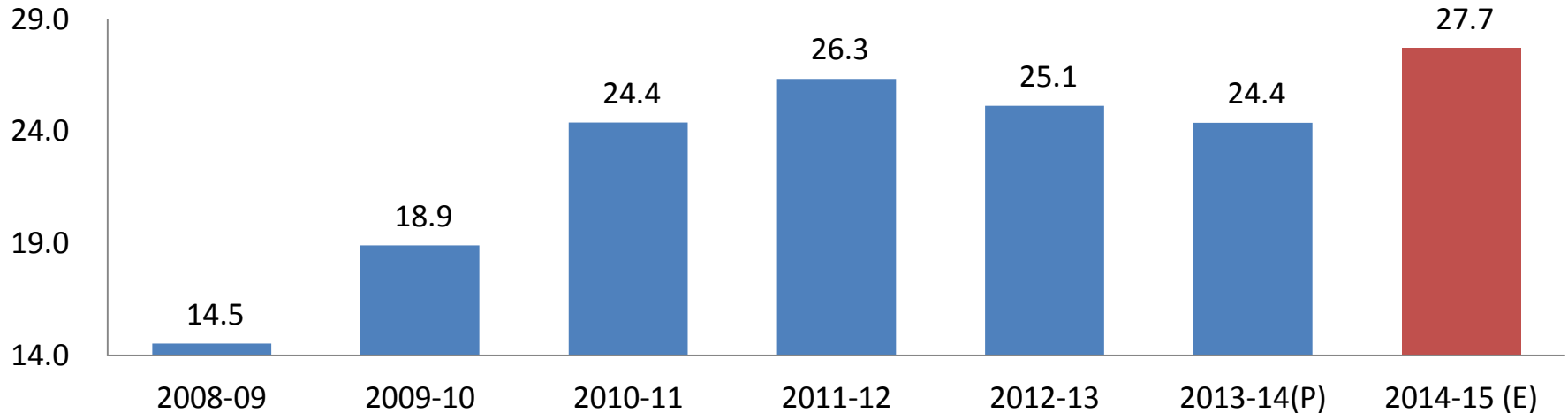
# Maharashtra Sugar Production over the years

Maharashtra Sugar Production (million tons)



# Increased Sugar Production in the Country

India Sugar Production (million tons)



Main reasons for increase in sugar production in recent years are:

1. Use of new cane varieties which have resulted in a dramatic increase in agricultural yields
2. Increasing returns from sugarcane crop vis-à-vis other competing crops in all regions

# Use of new Cane Varieties leading to increased yields

- ❖ Increase in Agricultural Yields in Maharashtra & UP due to use of high yielding cane varieties

tons/hectare	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15 E	CAGR
Maharashtra	79.0	84.8	87.0	83.4	79.6	80.9	88.8	<b>2.0%</b>
Uttar Pradesh	52.3	58.8	52.3	53.8	56.3	52.2	57.1	<b>1.5%</b>

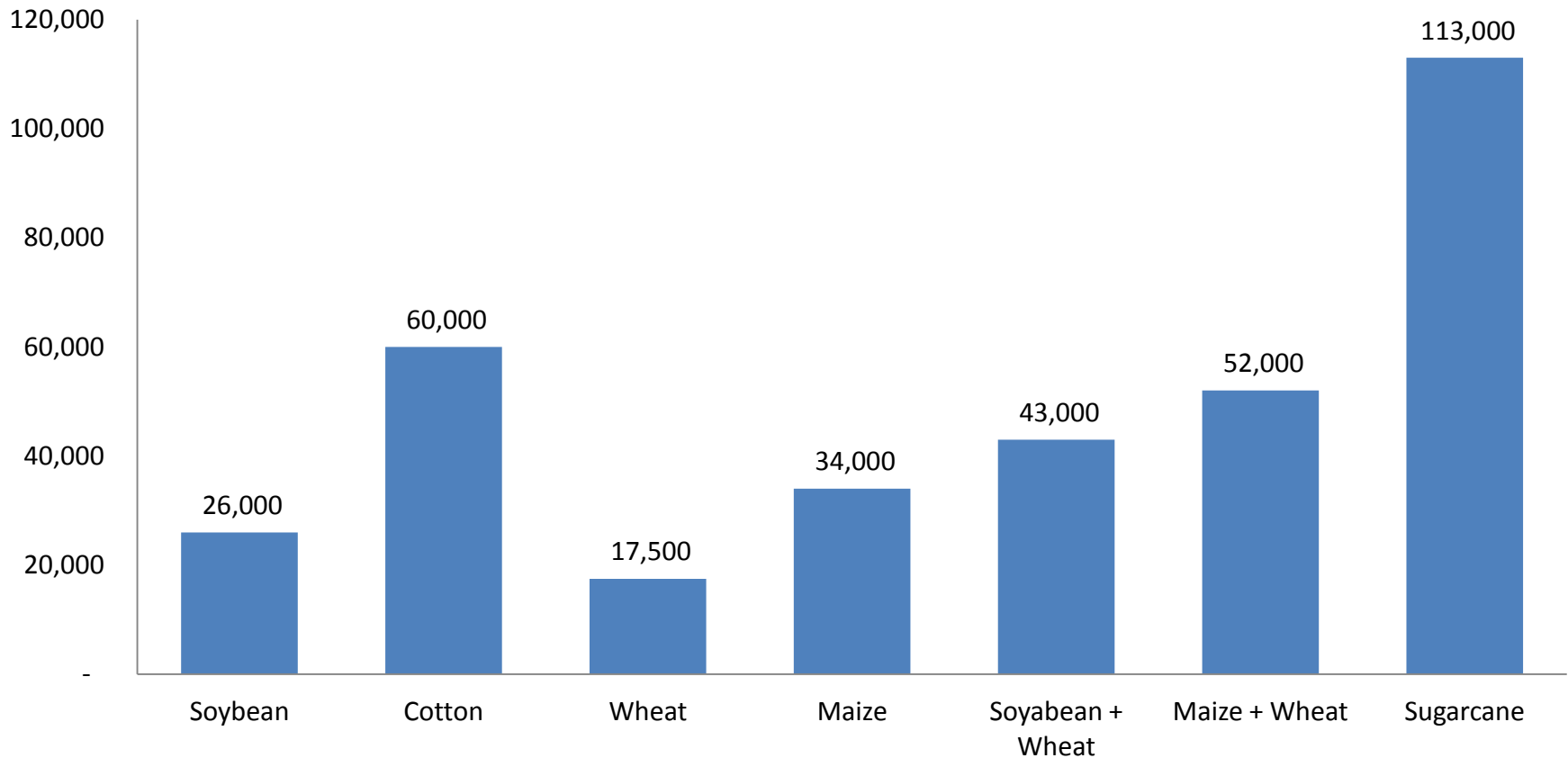
- ❖ In Maharashtra, farmers are using COM265 & CO86032 cane varieties which are late maturing varieties & have significant higher yield than earlier varieties

Area under different sugarcane varieties in Maharashtra (%)		
Sugarcane Varieties	2009-10	2013-14
CO740	0.2	0.0
CO8014	0.5	0.0
<b>COC671</b>	<b>24.2</b>	<b>6.8</b>
<b>CO86032</b>	<b>59.6</b>	<b>48.4</b>
<b>COM265</b>	<b>6.9</b>	<b>35.1</b>
CO92005	--	5.7
Others	8.7	4.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

- ❖ Yields in Uttar Pradesh have significantly increased on certain farmlands due to use of early varieties of cane (CO 0238, CO 0239, CO 0118) as opposed to the traditional cane varieties

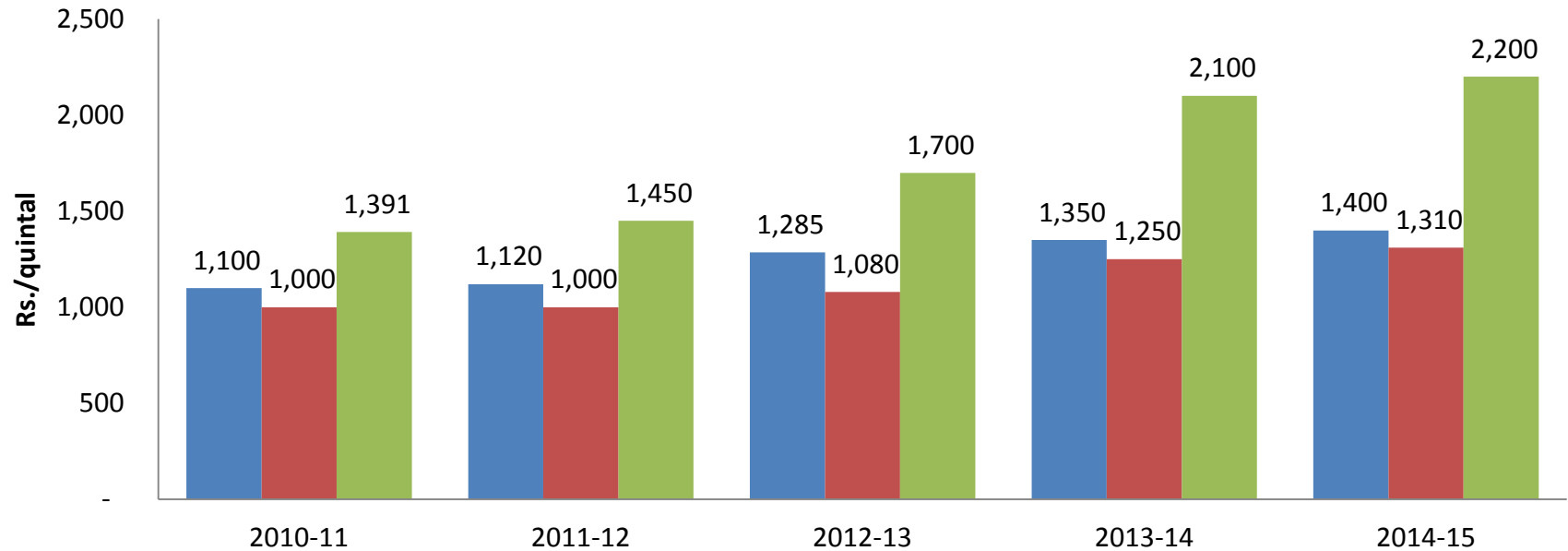
# Profit from Sugarcane vs. Competing Crops

**Returns from Sugarcane & Competing crops in Maharashtra in 2013-14 (Rs./Hectare)**



# Support prices of Sugarcane vs. Competing Crops

## Minimum Support Prices- Growth Rate



\* Note: Sugarcane prices are in Rs./ton

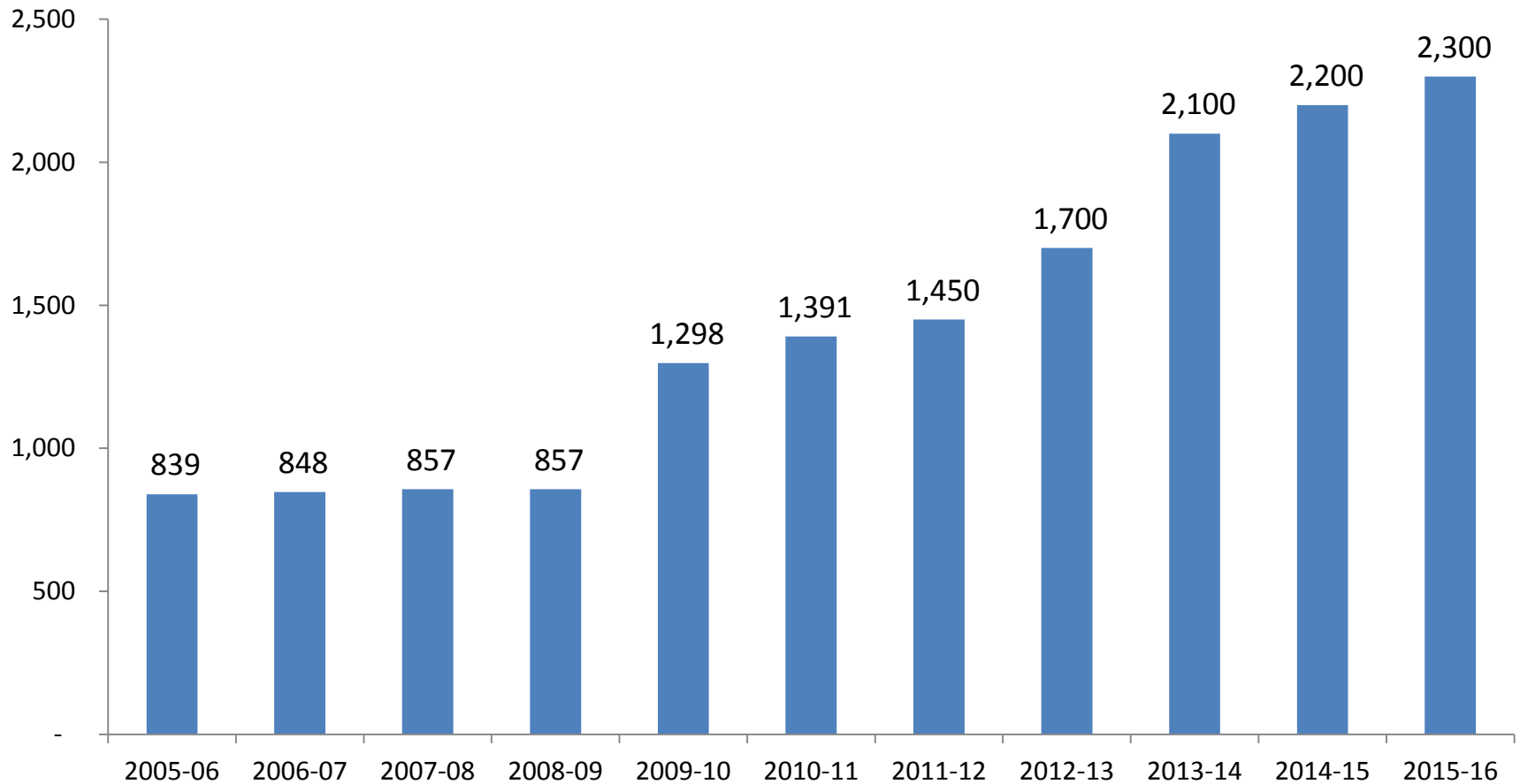
■ Wheat (6.2%) ■ Paddy (7.0%) ■ Sugarcane (12.1%)

- ❖ Minimum Support Price for sugarcane have increased at a CAGR of 12.1% over 5 years as opposed to 6.2% for wheat & 7.0% for paddy
- ❖ In 2 consecutive years i.e. 2012-13 & 2013-14, MSP for cane increased by 17.2% & 23.5% respectively

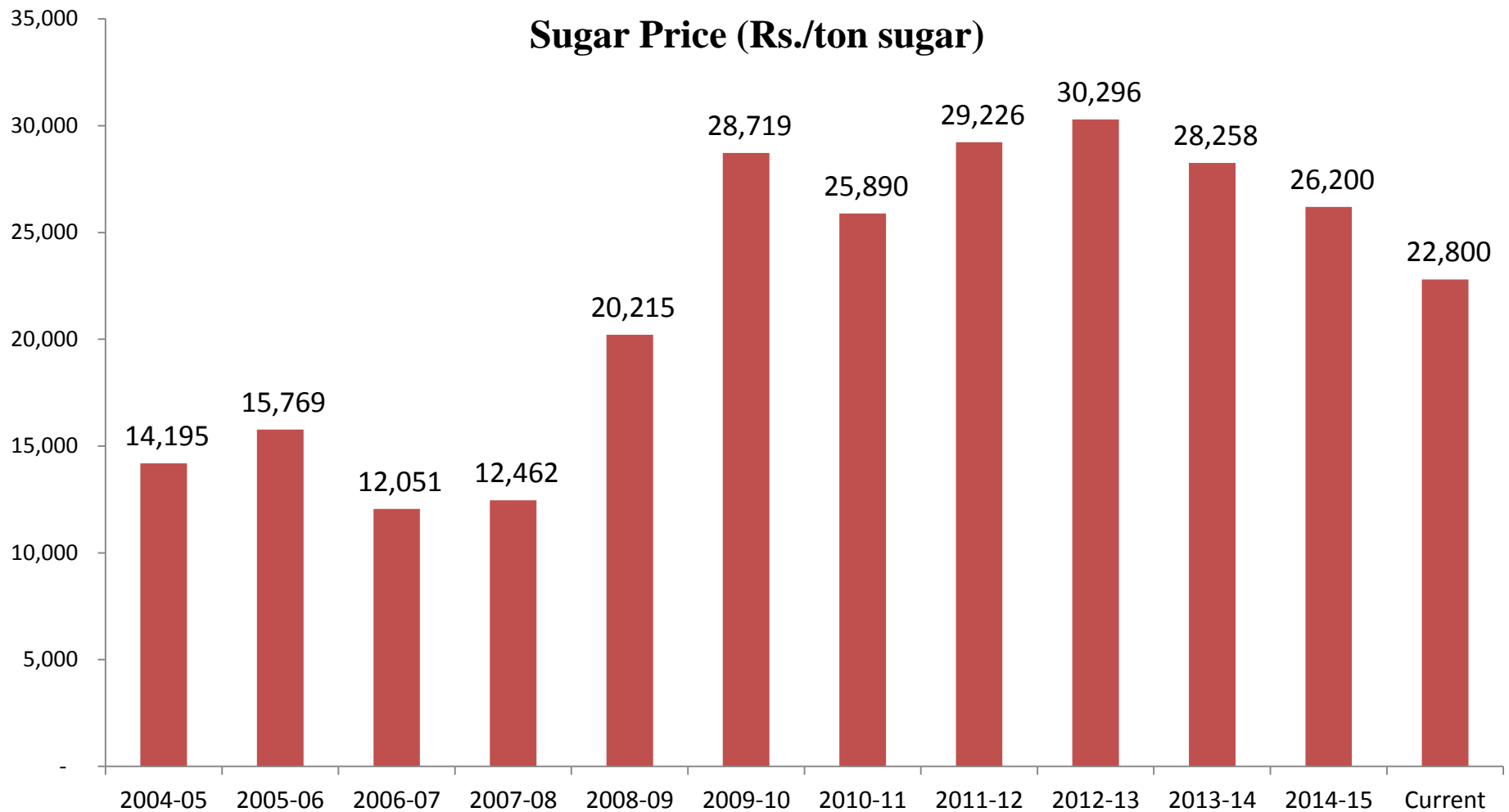


# Statutory Sugarcane Price has been Increasing Rapidly...

**Cane Price SMP/FRP (Rs./ton cane)**

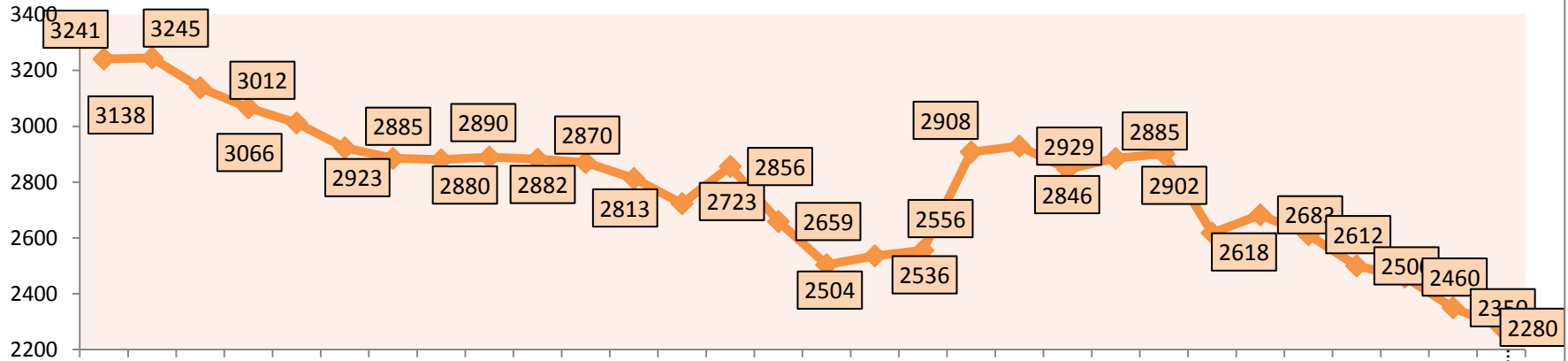


# But Sugar Prices have been Volatile & Recently Very Bearish

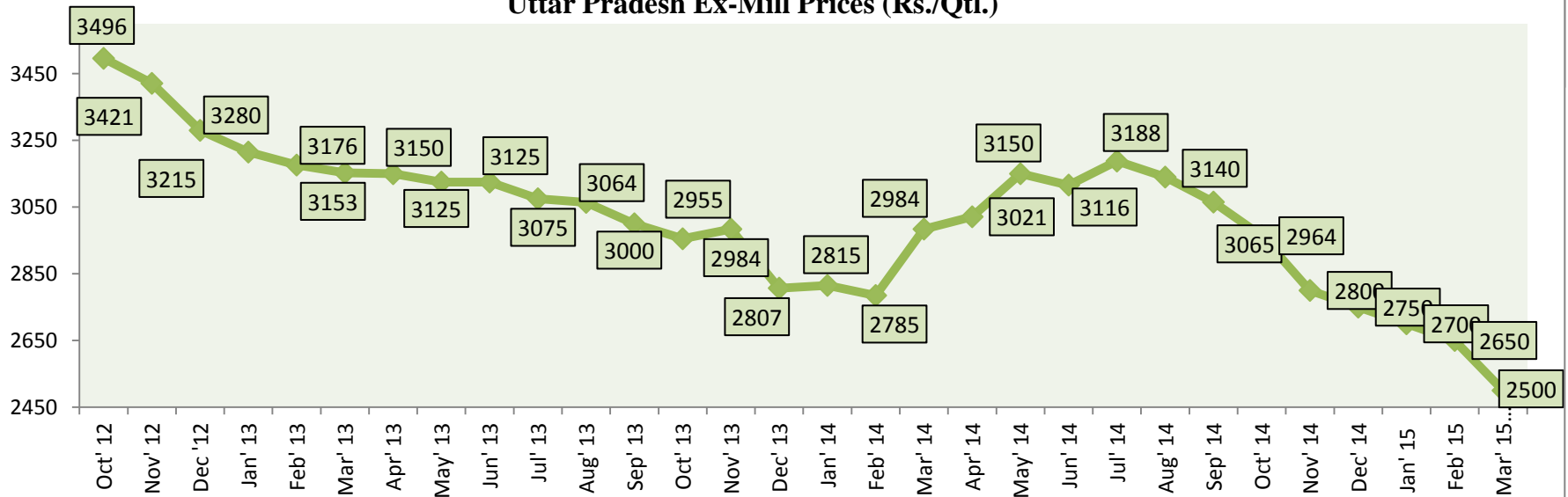


# Recent Drop in Sugar Prices

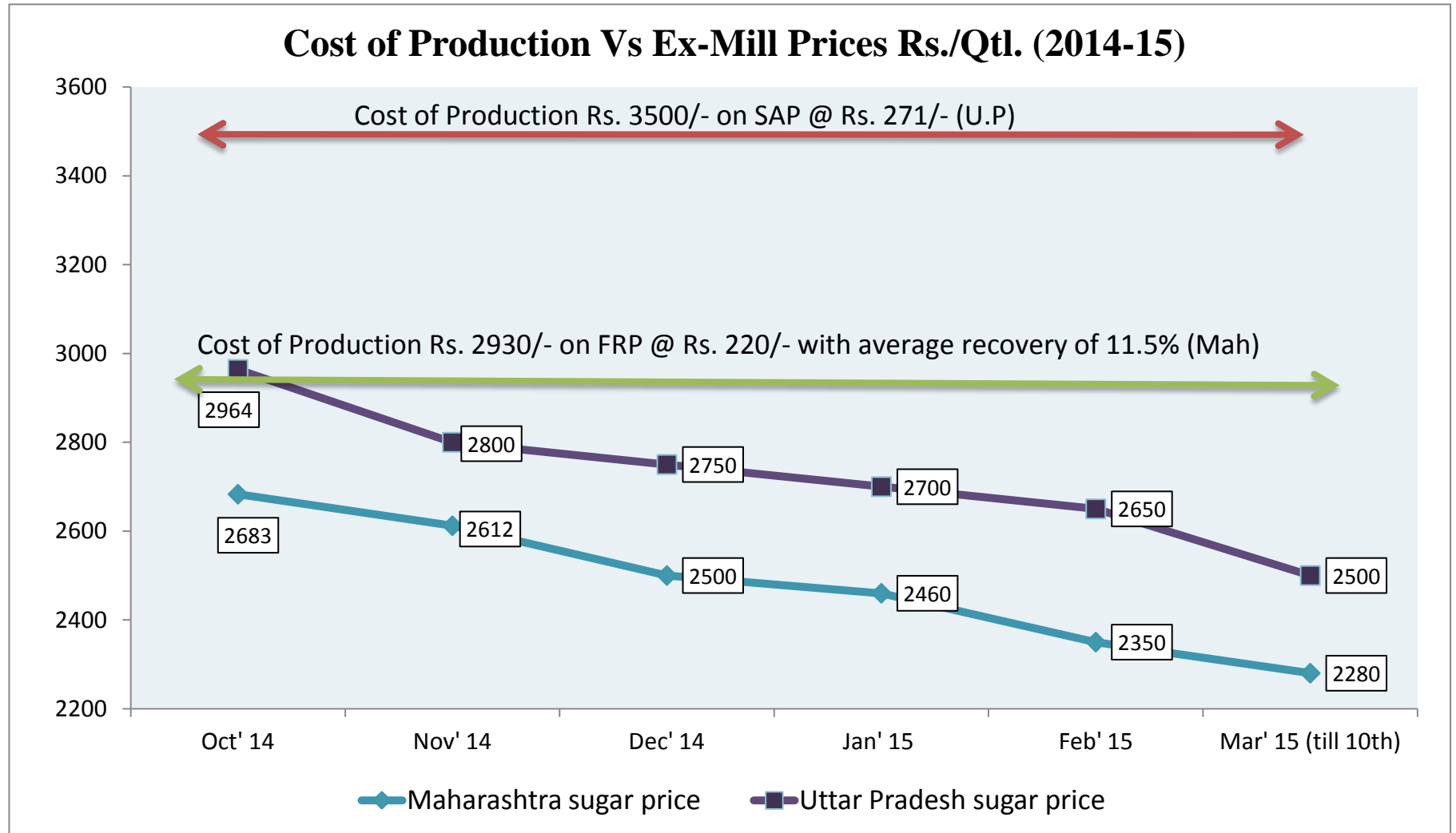
## Maharashtra Ex-Mill Prices (Rs./Qtl.)



## Uttar Pradesh Ex-Mill Prices (Rs./Qtl.)

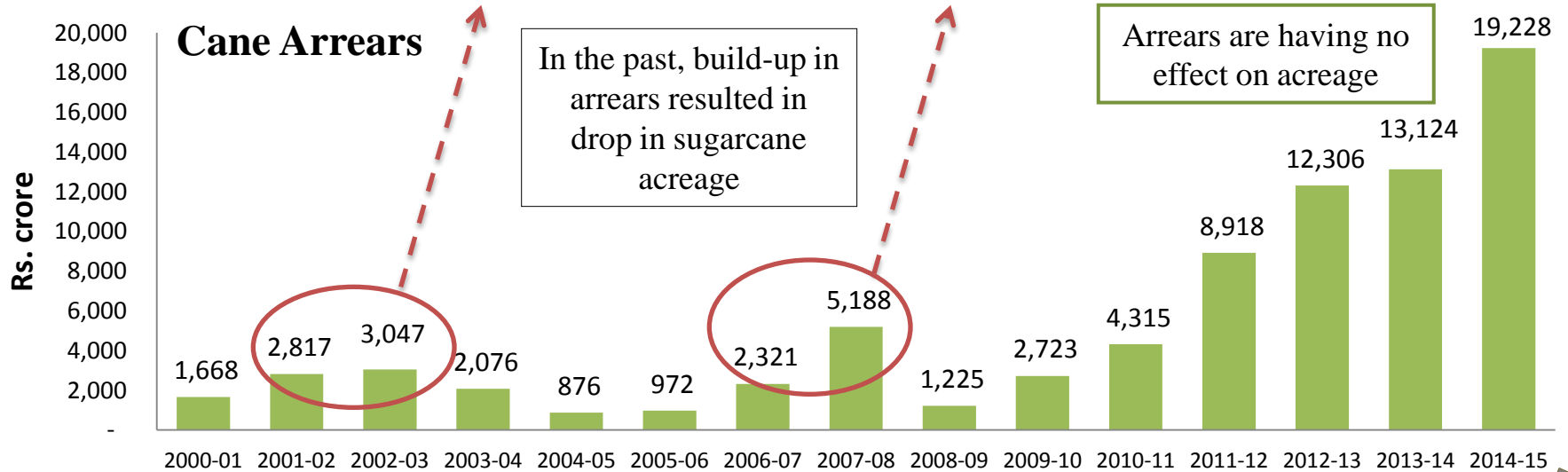
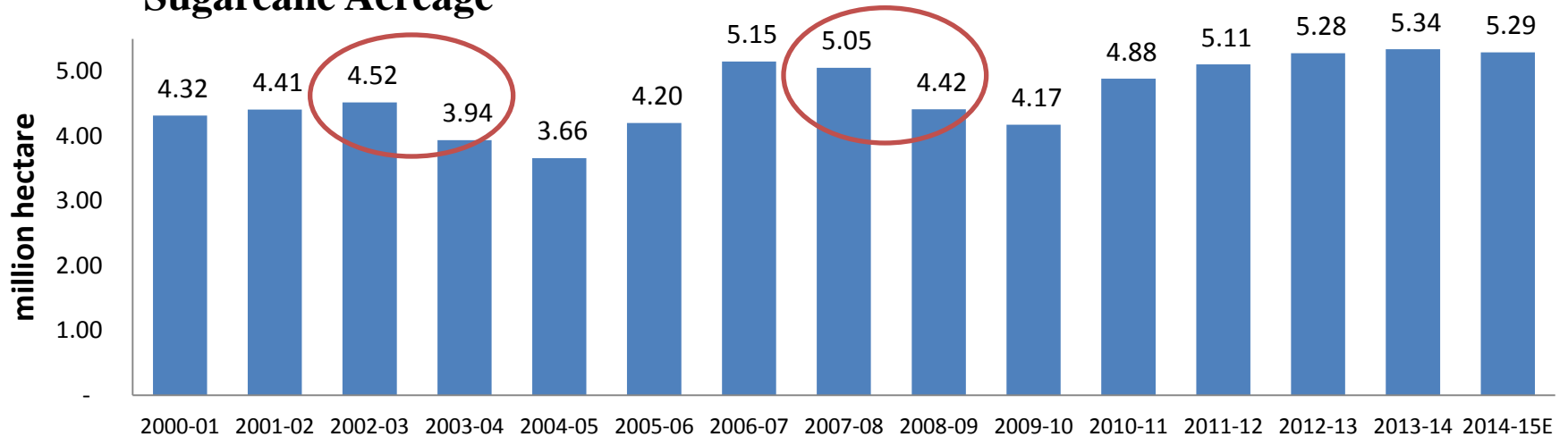


# Cost of Production vs. Ex-mill Sugar price



# Sugarcane Acreage & Cane Arrears Trend

## Sugarcane Acreage

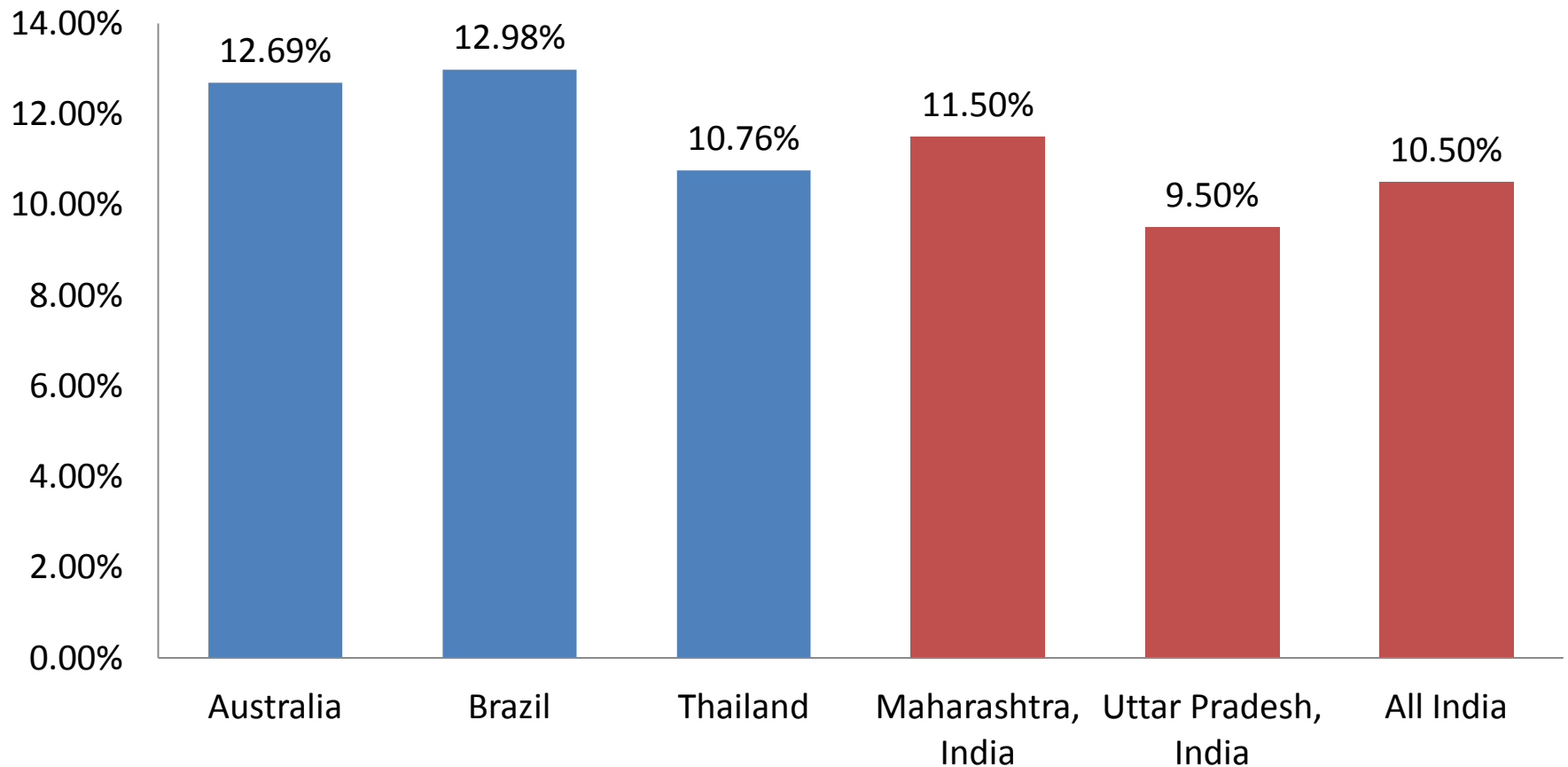


\* Note: Arrears as on 31<sup>st</sup> March of each year

# GLOBAL SCENARIO

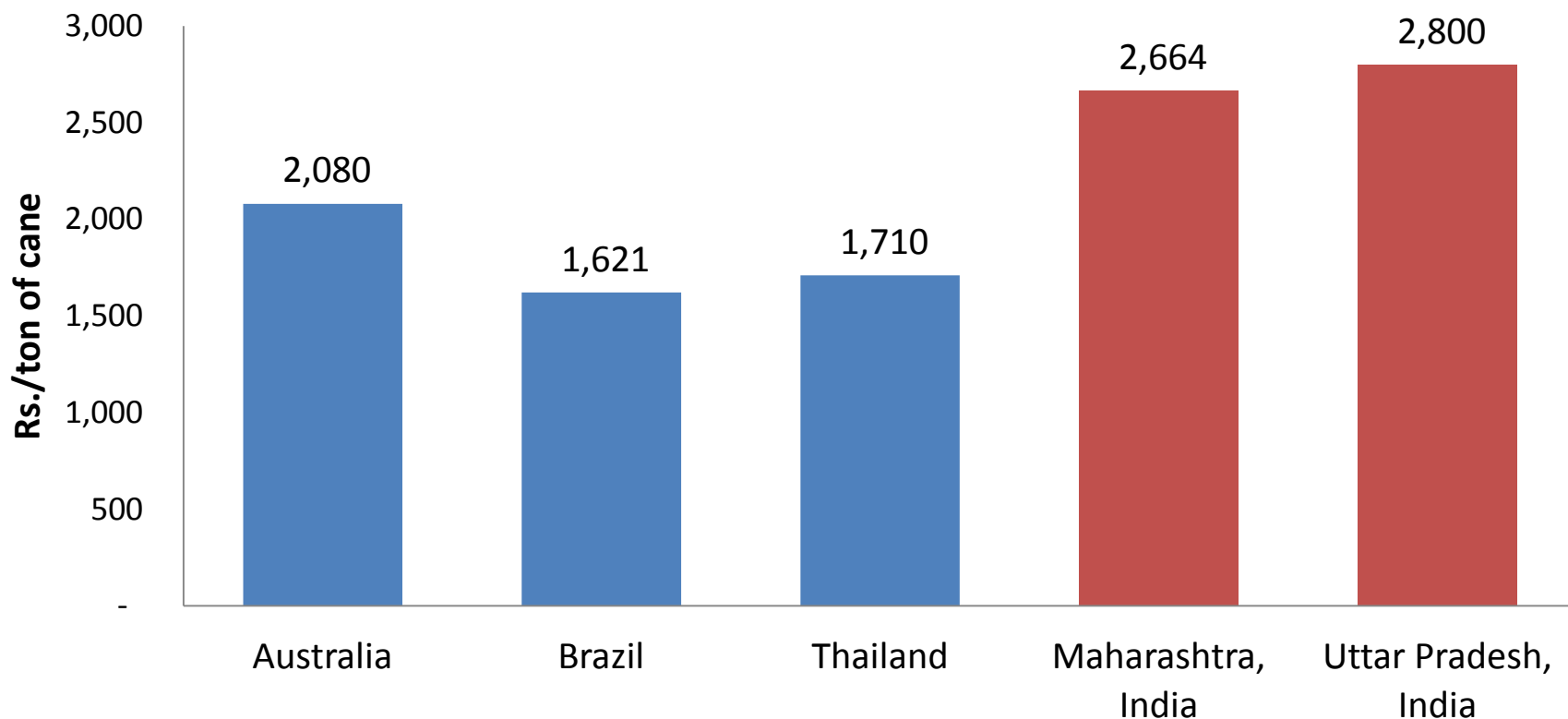
# Comparison of Sugar recovery from cane

**Sugar Recovery (%)**



# Comparison of Sugarcane Price Globally

## Sugarcane Price for 2014-15

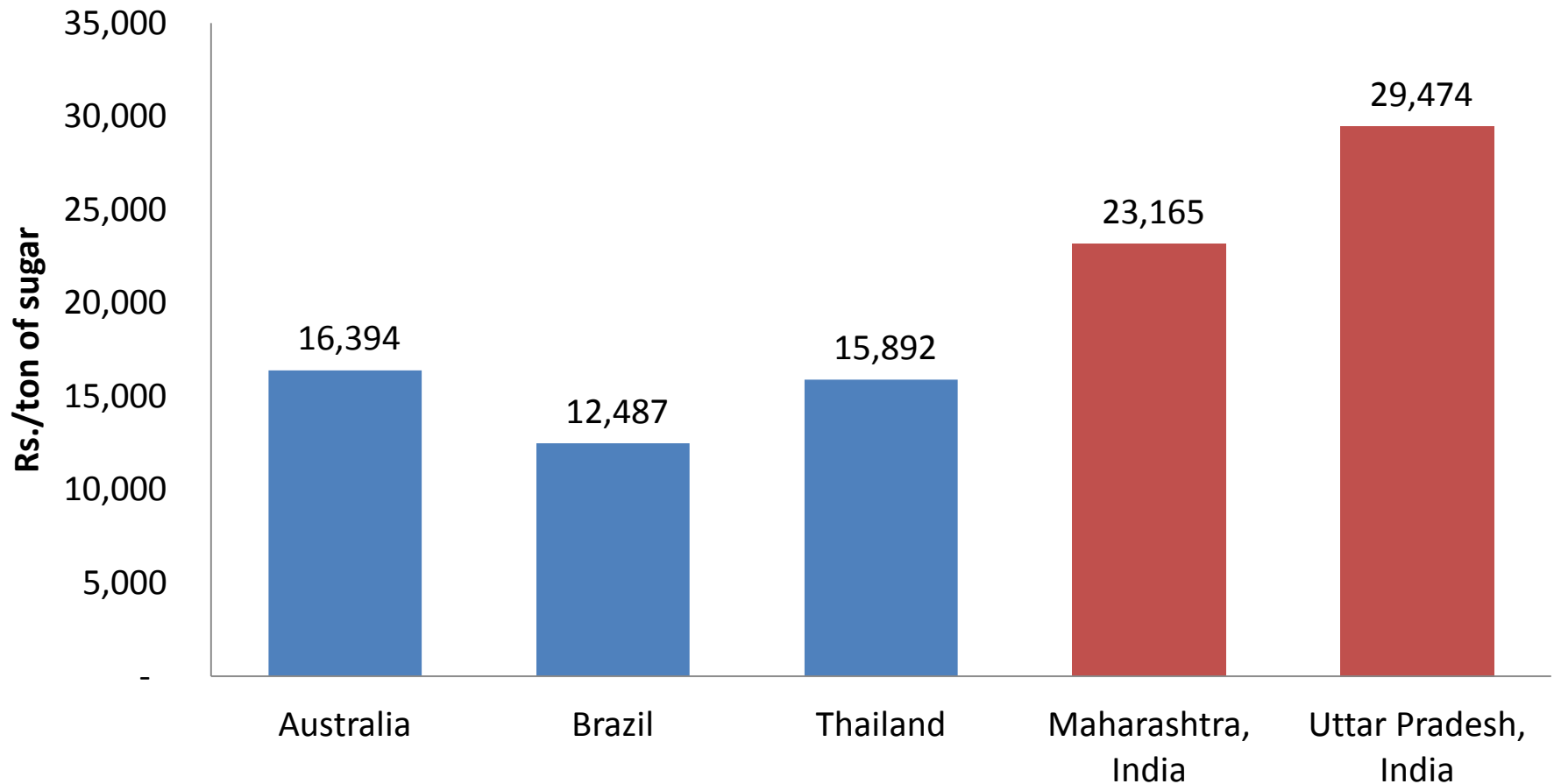


Note: Prices include cost of harvesting & transportation

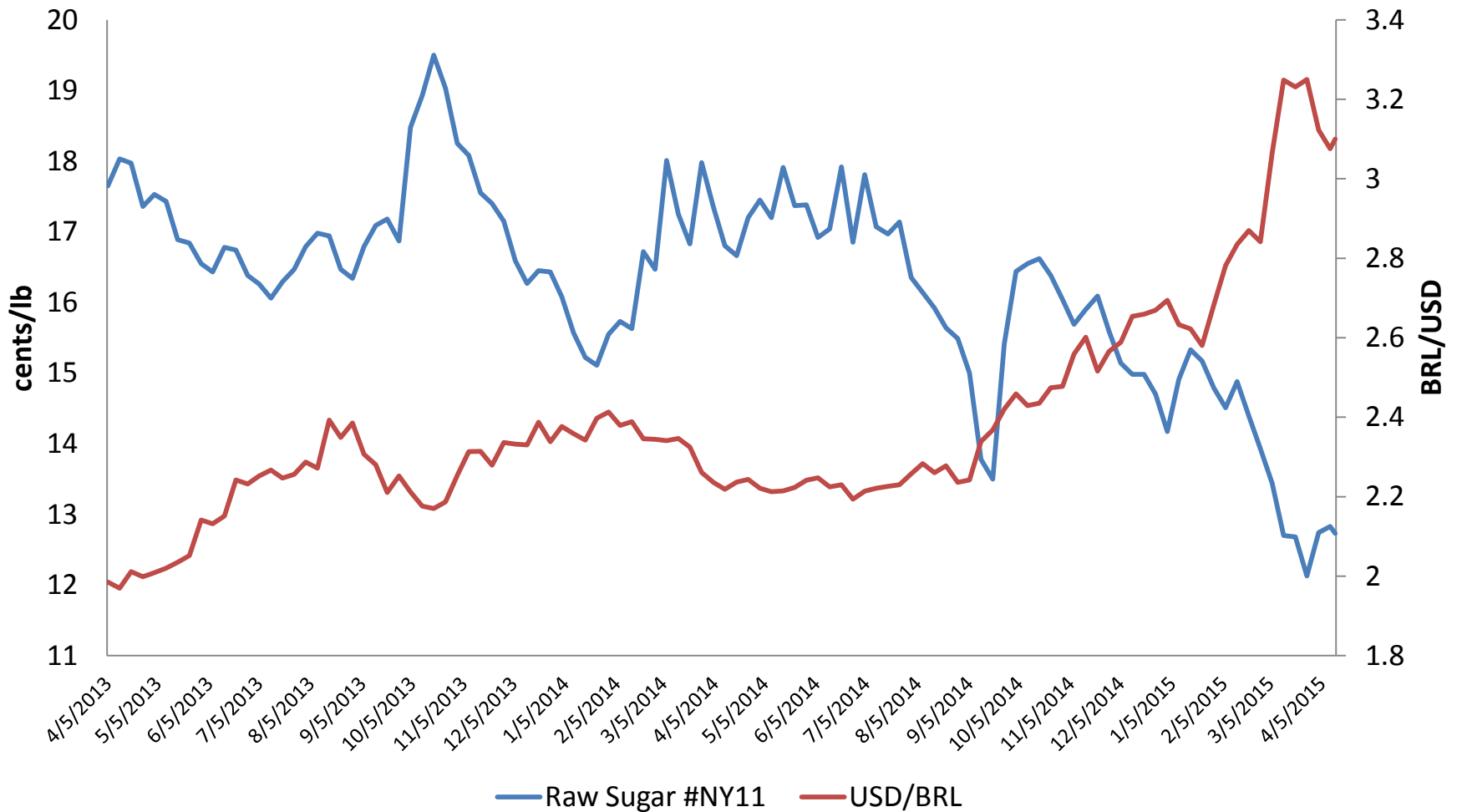


# Comparison of Sugarcane Price in terms of Sugar

**Sugarcane Price per ton of sugar**



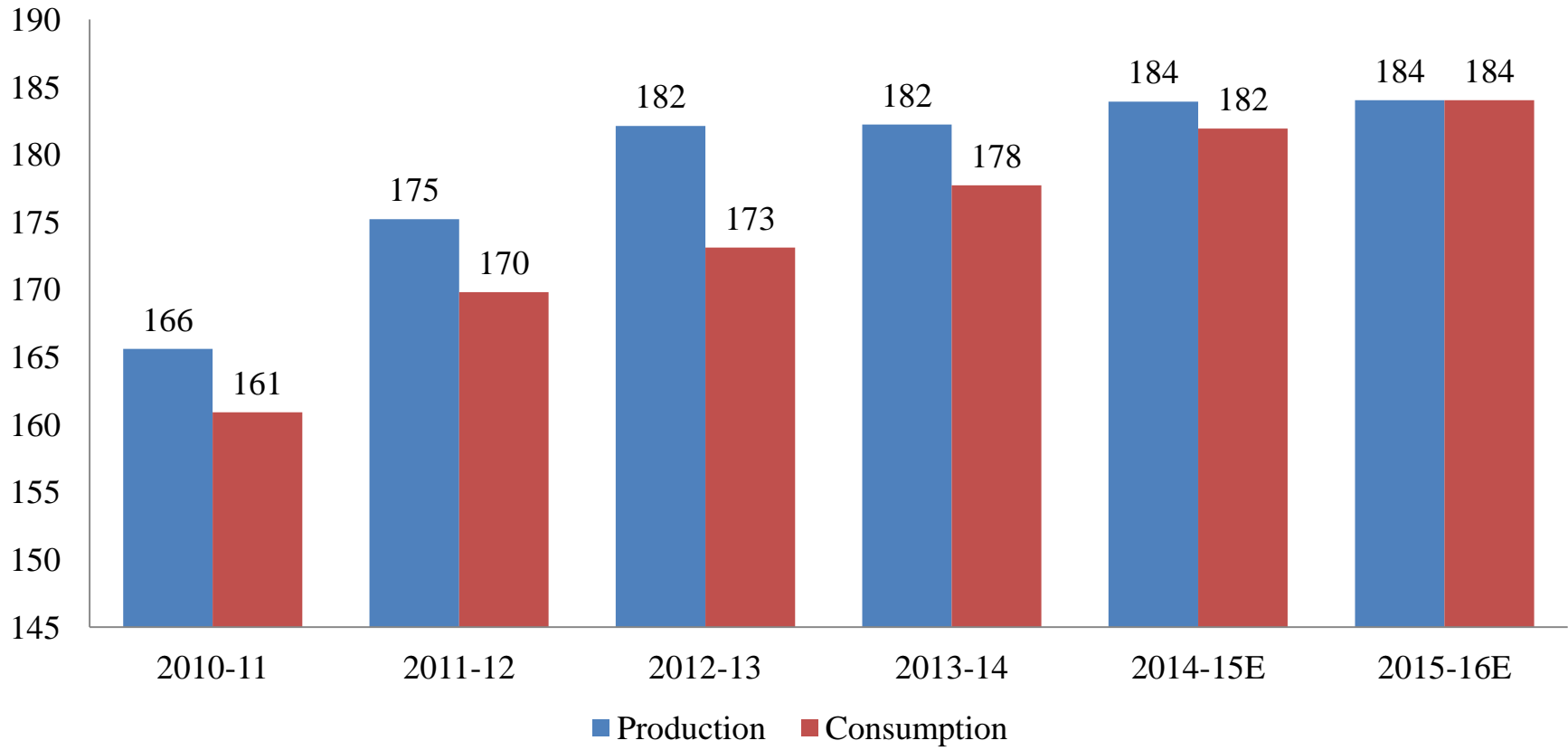
# Increased Co-relation in Global Sugar Price & Brazil Currency



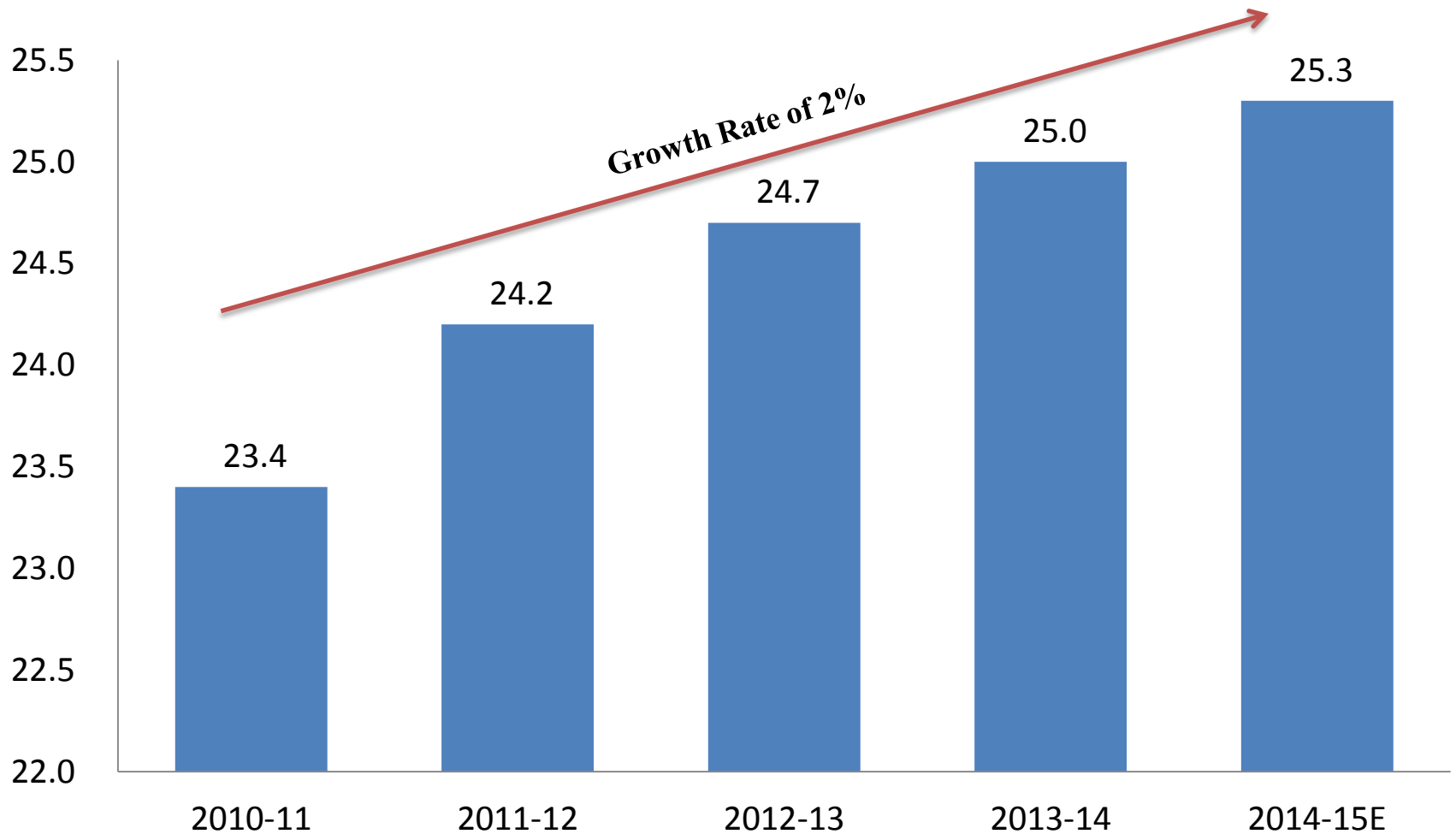
# **OUTLOOK FOR PRICE**

# Global sugar consumption expands, production decelerates

## Global Sugar Production & Consumption (mn tons)



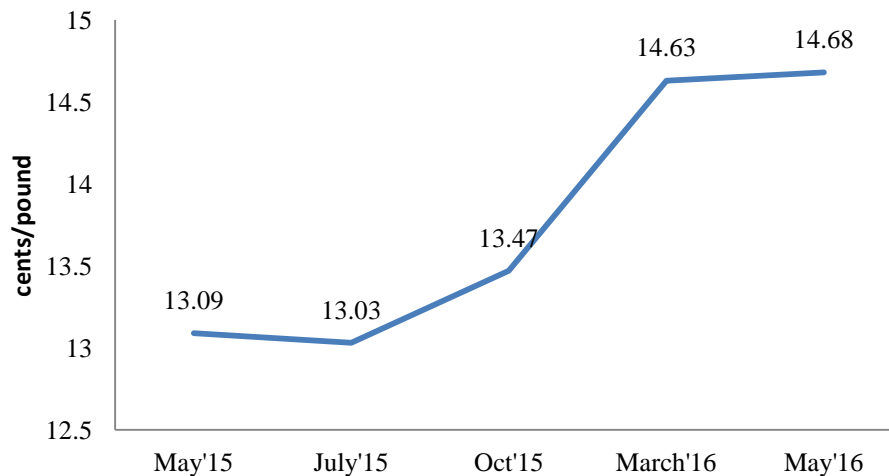
# Increase in per capita sugar consumption (kg/year)



# Global Sugar Price

- ❖ **China** sugar production expected to decline
- ❖ **Brazil** sugar production has weather risk & ethanol parity may reduce sugar production
- ❖ **Thailand** carrying huge sugar stocks
- ❖ **Importing countries** have built sufficient stock over past two years

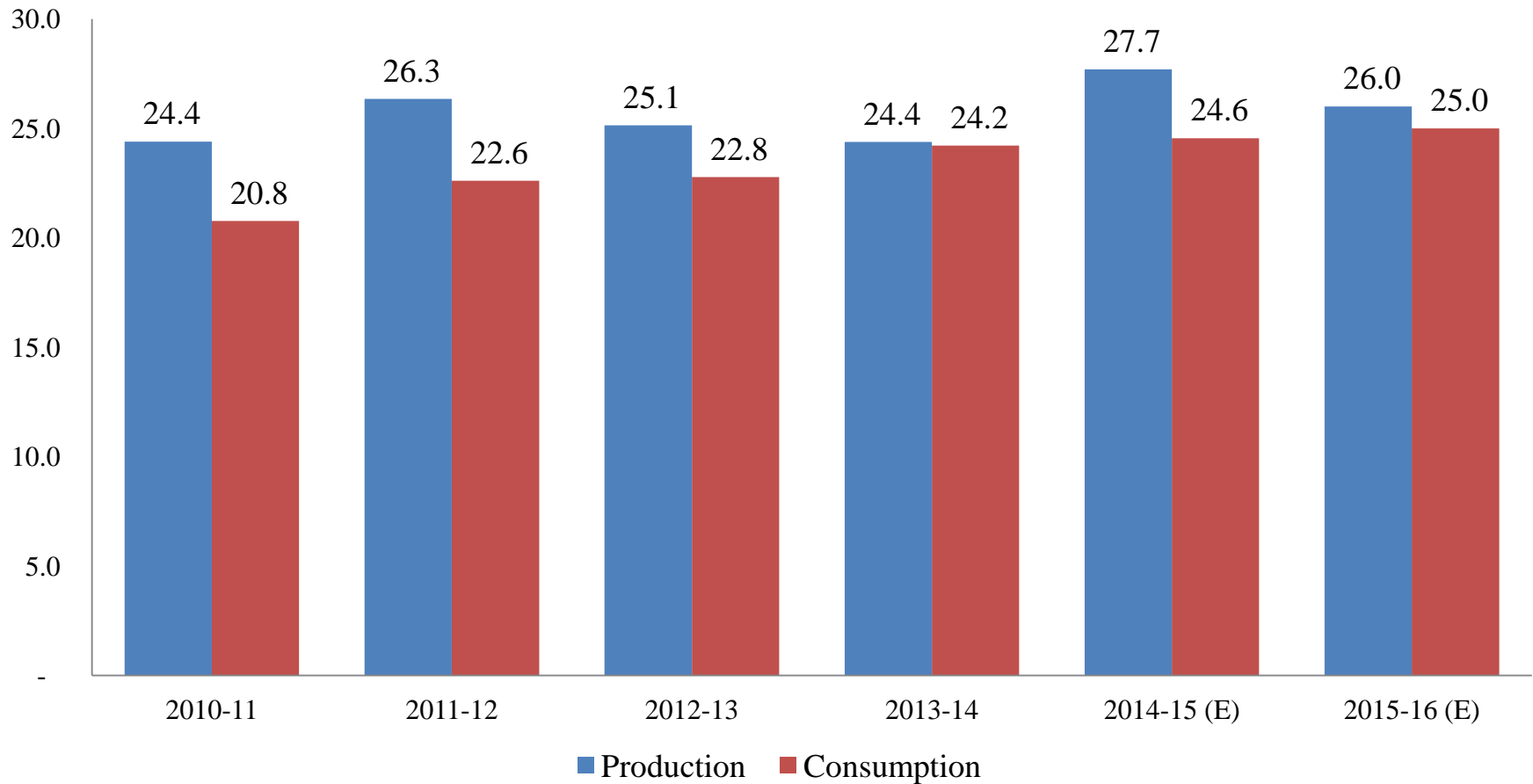
**NY 11- Future Price Forward Curve**



Note: as on 23<sup>rd</sup> April, 2015

# India Sugar Surplus to Continue

## India Sugar Production & Consumption (mn tons)



# Downside Pressure on Domestic Sugar Prices to Continue

- ❖ India likely to carry sugar stock of about 9.5-10 million tons at the start of next season
- ❖ Preliminary estimate of sugar production in the country is about 26 million tons for 2015-16 season
- ❖ With high opening stocks & production likely to be higher than consumption, there would be continued downside pressure on domestic sugar prices



# Possible Positive Factors on Price

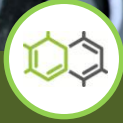
- 1) Weather problems in any major sugar producing country
- 2) Closure of sugar mills in Brazil & India due to financial stress
- 3) Strategic Stocks
  - A. Creation of Strategic stock by Indian Government
  - B. Addition to Strategic stocks by Chinese Government
- 4) Increased diversion of more quantity of Sucrose (Juice, B-molasses etc.) to ethanol in India & Brazil



sugar



power



ethanol

Thank You