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Brazil's sugar sector 'struggles' to benefit Australian canegrowers – industry expert

Dry weather in the world's largest sugar-producing country, Brazil, is likely to reduce sugar production. And, along with milling constraints, the Brazilian sugar sector's woes may benefit Australian canegrowers, says a visiting Rabobank analyst touring the east coast sugar-growing regions this week.

Based in Rabobank's offices in Sao Paulo, Brazil, Andy Duff is a commodity analyst specialising in the sugar and ethanol sectors.

Presenting to canegrowers from Atherton, Ingham, Ayr, Mackay, Bundaberg and Ballina this week, Mr Duff says that so far this year, the Brazilian cane sector has continued to "struggle".

"Margins have been squeezed by a number of factors beyond millers' control, such as the weather, rising costs, the government´s control of fuel prices – which keeps a lid on ethanol prices – and the continued pressure on world sugar prices following three years of a global surplus," Mr Duff says.

"Under the circumstances, the Brazilian cane industry has dramatically reduced investments in new milling capacity, and has concentrated on improving field productivity in order to reduce unit costs."

With an election scheduled for October 2014, and inflation continuing to be a problem, Mr Duff says a change in Brazil's fuel price policy in the short-term is very unlikely.

Meanwhile, world sugar prices continue to labour under the weight of ample global stocks accumulated over the past three years.

Mr Duff says given the short-term perspectives for sugar and ethanol prices, the global sugar sector is expecting 2014 to be another challenging year, which could well result in some milling assets changing hands in the coming 12 months.

"Rabobank believes that over the long-term, given the steady growth of global sugar consumption, the world will need Brazil to increase sugar production," he says.

"The question is how this growth in sugar production will occur. Will it be by a new wave of expansion of milling capacity and cane area – which would only be initiated by a positive change in fuel policy – or will it be by a slow and gradual substitution of current ethanol production capacity by additional sugar production capacity, without any major change in cane area?"

Looking at the world market, current global sugar prices continue to labour under the weight of ample global stocks accumulated over the last three years, Mr Duff says.

He says preliminary projections for the coming 2014/15 (Oct/Sept) international crop year suggest that a return to deficit (production being less than consumption) is by no means a ‘sure thing’.

“Although sugar prices have fallen over the past two years, so have the prices of many other commodities that are alternatives to sugar, indicating that lower sugar prices, and hence lower cane and beet prices, may not necessarily be enough to prompt a decline in output,” he says.

“Moreover, in some key markets, cane and beet prices do not track world sugar price movements.”

However, Mr Duff warns the increasing concern is that 2014 will see the return of El Niño which has already helped to create a ‘risk premium’ in the futures curve for 2015. Weather developments in Asia/Oceania, where an El Niño brings drier-than-normal conditions, and in Brazil, where an El Niño brings wetter-than-normal conditions, will be watched closely in the months to come.

Rabobank regional manager Southern Queensland Chris Adams says fortunately, local weather patterns have been mostly favourable in many parts of key cane-growing areas in Queensland.

“Generally, most of the major cane-growing regions in Queensland have been pretty fortunate, receiving well-timed rainfall just recently,” Mr Adams says.

“Most areas, except for Bundaberg, have received good rain in good time – Mackay’s cane crop is looking decent and further north, Ayr and Ingham are well placed. And, even though the recent Cyclone Ita blow just happened, we think it will be a better-than-average crop, with most of the lodged cane recovering post-storm and now standing back up again.”

Price-wise, Mr Adams says things are looking favourable for the coming Australian crush, but the strong Australian dollar’s recent jump is never a good thing for canegrowers.

“With the recent shake-up in the Australian sugar sector following the announcement by milling company Wilmar that it intends to move away from its marketing deal with Queensland Sugar Limited from 2017 and market its sugar directly came as a surprise to canegrowers, but for now, all eyes will focus on what plays out with the Brazilian harvest as this will have a significant impact on international sugar price direction in coming months,” he says.

“That’s why it’s so beneficial to have experts like Andy Duff here with us this week who can share first-hand knowledge with our clients, providing insights into what’s happening in such a major sugar market.

"I think that's where Rabobank, with its sole focus on agriculture, really can make a difference for its clients, sharing up-to-date market insights to help keep farmers 'in-the-know'."

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