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Report Name: Sugar Semi-annual

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Report Highlights:

Sugarcane production in MY2019/20 is forecast to decline by 6 percent from MY2018/19's level, which will reduce sugar production to 13.5 MMT. The sugar tax has curbed demand for sugar in non-alcoholic beverage production since MY2017/18. Additionally, uncompetitive export prices and a sluggish economic situation in countries importing canned and processed pineapple has negatively impacted overall sugar utilization. MY2018/19 and MY2019/20 sugar exports are revised downward to 9.3 MMT and 10.5 MMT, respectively.

Executive Summary

MY2019/20 sugarcane production is forecast at 124 MMT, down 6 percent from MY2018/19 due to anticipated lower average yields. As a result, sugar production is forecast to decline to 13.5 MMT, down 7 percent from 14.6 MMT in MY2018/19.

The estimate of MY2018/19 and MY2019/20 sugar consumption remains unchanged at 2.5 – 2.6 MMT. Reduced sugar demand from non-alcohol beverage manufacturers and canned pineapple processors offset increased household sugar consumption. Uncompetitive export prices, and a sluggish economic situation in countries importing canned and processed pineapple has negatively impacted overall sugar utilization.

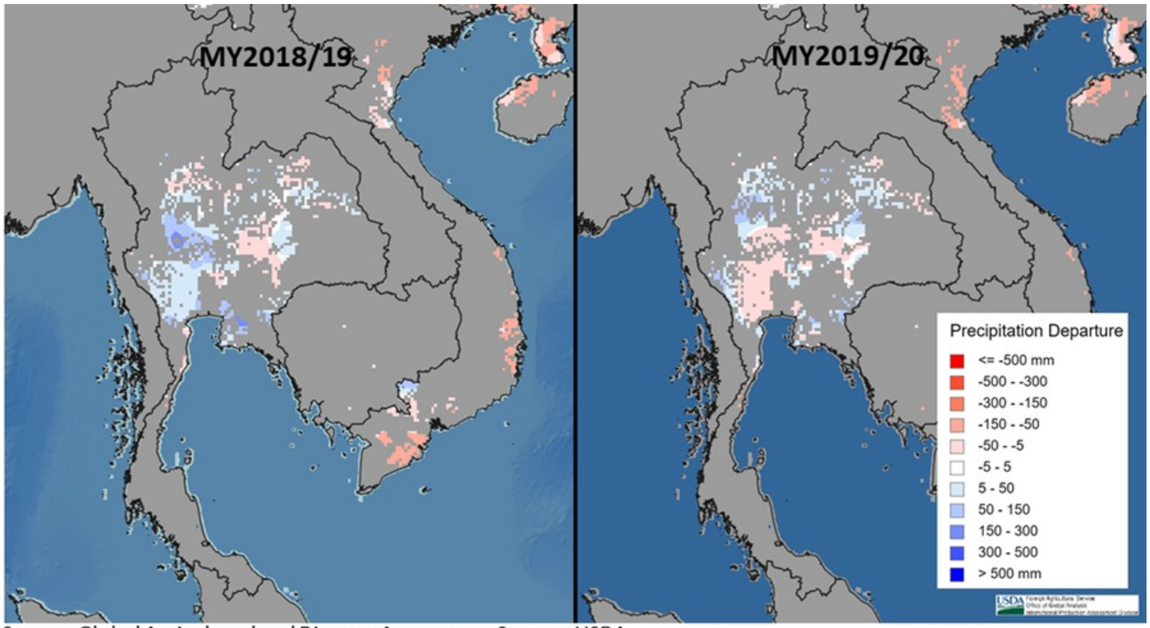
Sugar exports in MY2018/19 and MY2019/20 are also revised downward to 9.3 MMT and 10.5 MMT respectively, because many foreign buyers still carry a high inventory of sugar. In the first eight months of MY2018/19 (December 2018 – July 2019), sugar exports totaled 6.4 MMT, down 9 percent from the same period in MY2017/18, reflecting a sharp decline in exports of refined sugar.

1. Production

1.1 Sugarcane Production

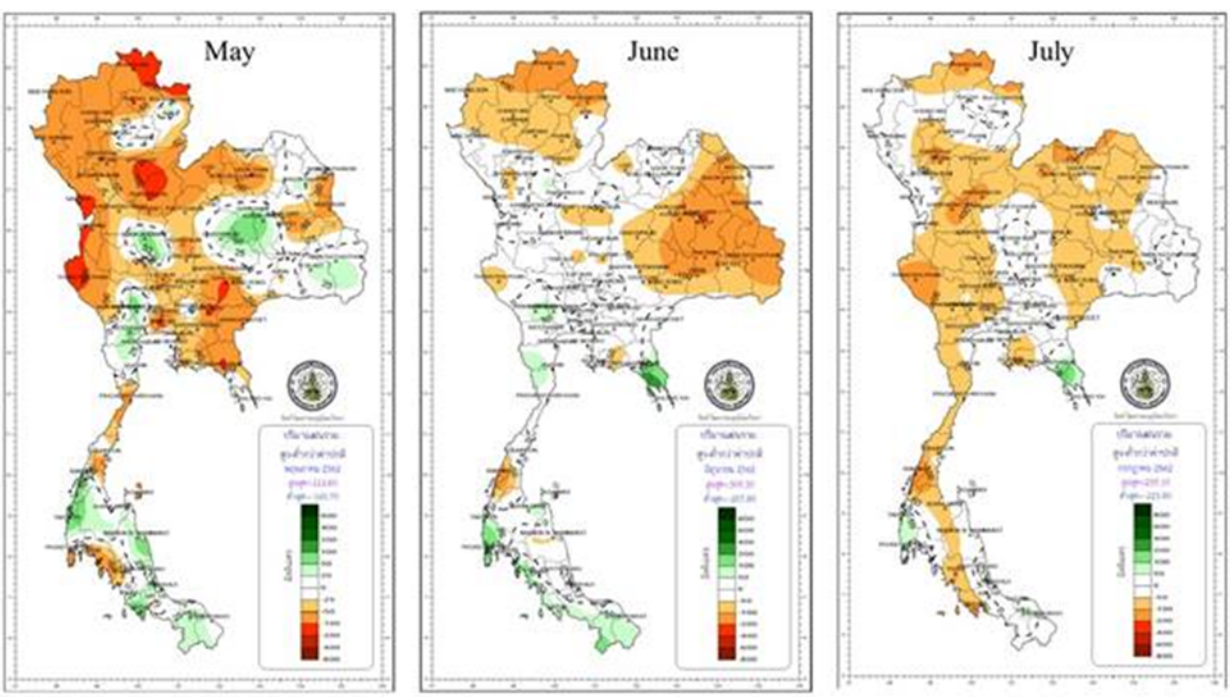
Sugarcane production in MY2019/20 is forecast at 124 MMT, down 6 percent from MY2018/19's level due to an anticipated lower average yield driven by unfavorable weather conditions during cane tillering and elongation growth stages. According to the Thai Meteorological Department (TMD), precipitation in 2019 was 40-70 percent below average especially during the intensive vegetative growth stage (Figure 1.1.1). Although the dry spell during June - July 2019 had a marginal impact on the harvested area of sugarcane, low precipitation at 20-40 percent below average during May – July 2019 is expected to adversely affect average yield in major cane growing areas in the northeastern region and the central plains (Figure 1.1.2 and Figure 1.1.3). Although the TMD expects that precipitation will be 5-10 percent above average in major cane growing areas during August – September 2019, it is too late for a recovery in average yields.

Figure 1.1.1: Precipitation Anomaly in Sugarcane Planting Area during January – March



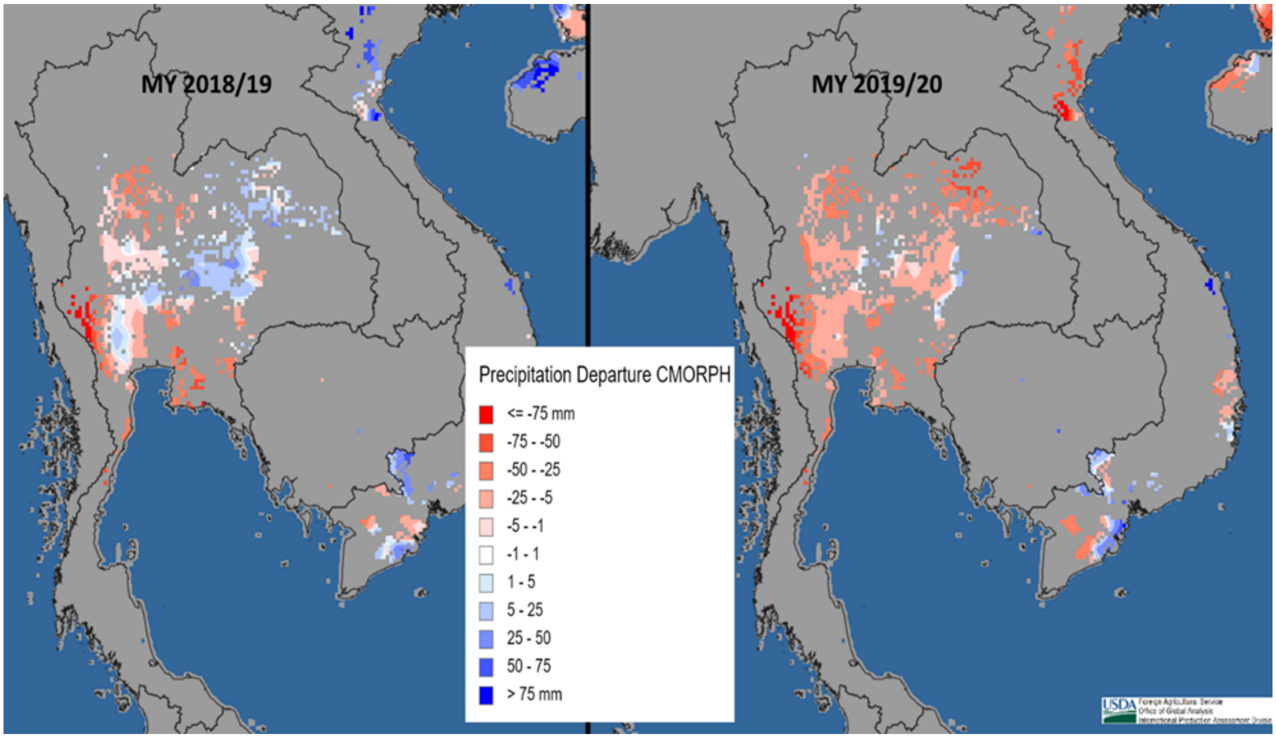
Source: Global Agricultural and Disaster Assessment System, USDA

Figure 1.1.2: Precipitation Anomaly in Thailand during May to July 2019



Source: Thai Meteorological Department

Figure 1.1.3: Precipitation Anomaly in Sugarcane Planting Area during May – July



1.2 Sugar Production

As a result of declined sugarcane production and lower extraction rates, sugar production in MY2019/20 is forecast to decline to 13.5 MMT, a 7 percent reduction from the MY2018/19 level. Sugar extraction rates are forecast to decline to around 110 kilograms per ton of cane.

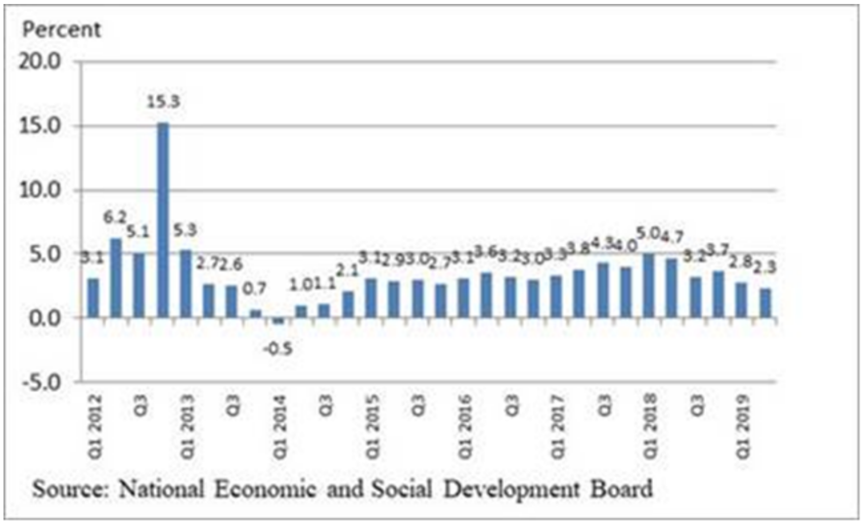
The Office of the Cane and Sugar Board, Ministry of Industry, reported that MY2018/19 sugar production totaled 14.6 MMT, which is close to 14.7 MMT in MY2017/18. Extraction rates in MY2018/19 increased 2 percent to 111.33 kilograms per ton of cane following favorable weather conditions.

2. Consumption

Sugar consumption in MY2018/19 and MY2019/20 remains unchanged at around 2.5 – 2.6 MMT, a level close to MY2017/18. A lack of growth in sugar consumption is in line with the slow growth in the Thai economy. The Bank of Thailand revised its economic growth forecast to 3.3 percent for the whole year of 2019. Accordingly, the National Economic and Social Development Board (NESDB) reported lower growth for the Thai economy than expected (only 2.6 percent in the first half of 2019 (January -

June) (Figure 2.1). In addition, economic growth for 2020 is also revised downward to 3.7 percent, instead of the previously forecasted 3.9 percent.

Figure 2.1: Thai Economic Growth



Sugar consumption in the first half of 2019 totaled 1.4 MMT, down 2.5 percent from the same period in 2018 due to reduced industrial demand for sugar, particularly from food processing manufacturers. Many beverage manufacturers have reacted to the sugar tax, implemented since MY2017/18, by reformulating toward the use of more artificial sweeteners. Demand for sugar from non-alcoholic beverage manufacturers accounts for around a half of total industrial sugar consumption. Reduction in demand for sugar for this product group continues to decline further in MY2018/19 because the government doubled the tax rates in September 2019. To avoid higher taxes, beverage manufacturers have been gradually substituting sweetener for sugar, and as a result, imports of artificial sweetener doubled as compared to the same period in 2018. Additionally, exports of canned and processed pineapple dropped by 9 percent in the first half of 2019 due to uncompetitive prices compared to other key competitors such as the Philippines and Indonesia and an economic slowdown in importing countries such as the United States and the European Union. Canned and processed pineapple account for approximately 20 percent of total canned and processed food exportation. Meanwhile, household consumption, which accounts for 55 percent of total sugar consumption, increased around 7 percent.

3. Trade

Sugar exports in MY2019/20 are revised down to 10.5 MMT due to a reduction in sugar production and an anticipated global economic slowdown in both 2019 and 2020 but remain higher than MY2018/19. Export of raw sugar exports are forecast to increase to 6.5 MMT.

In the first eight months of MY2018/19 (December 2018 – July 2019), sugar exports totaled 6.4 MMT, down 9 percent from the same period in MY2017/18 following reduced exports of white and refined sugar. Exports of white and refined sugar declined to 2.4 MMT, down 21 percent from the same period in MY2017/18 due to overall reduced import demand from neighboring countries. Thailand's sugar exports to Myanmar in MY2018/19 dropped sharply by 73 percent when China increased its import tariff and transshipment activities slowed. Meanwhile, raw sugar exports totaled 4.0 MMT, up slightly from the same period in MY2017/18. Sugar exports in MY2018/19 are estimated to reach 9.3 MMT.

Thailand already filled its allocated U.S. quota of 14,743 metric tons and additional reallocated quota of 2,169 metric tons of raw sugar (raw value) under the FY2019 (October 1, 2018 – September 30, 2019) U.S. tariff-rate quota (TRQ) as export prices under the TRQ are well above world market prices.

Imports of artificial sweeteners increased 55 percent during January – June 2019, particularly from China, as beverage manufacturers reformulated their products to address the higher sugar tax. The import of artificial sweeteners solely from China accounted for approximately 75 percent of total imports.

4. Policy

The Thai government has a commitment to amend the Cane and Sugar Act as ordered by World Trade Organization (WTO). Nevertheless, the industry anticipates that the legislation may not be finalized until after October 2019, when MY2019/20 sugarcane will be totally harvested. The current temporary deregulation of domestic sugar price controls and the sugar sales administration (known as Quota A for domestic sales, and Quota B and Quota C for export sales) for MY2017/18 – MY2018/19 is under the previous government's executive order issued on January 15, 2018. This executive order superseded the portion of the Cane and Sugar Act B.E. 2527 (1984) that sets the wholesale sugar price floor and eliminates the special 5 baht/kg (7 cent/pound (lb) tax on domestic sugar sales. However, the government still maintains a sugarcane price support program under the Cane and Sugar Act B.E. 2527 (1984). For MY2019/20, the minimum price for sugarcane is likely to be set at around 800 baht/MT (U.S. $26/MT). This minimum price is 14 percent higher than the minimum price set in MY2018/19 at 700 baht/MT. In addition, the government will likely provide sugarcane growers with the existing subsidy for production costs at 50 baht/MT (U.S. $1.6/MT) (a maximum of 5,000 metric tons per farmer) and direct payments of 53 baht per metric ton (U.S. $1.7/MT) from the state-run Cane and Sugar Fund. However, in total, this is still lower than an estimated sugarcane production cost of 1,131 baht/MT (U.S. $36/MT).

The temporary deregulation of wholesale sugar prices is reducing domestic sugar prices. In July 2019, the average ex-factory white and refined sugar prices declined to 14-17 baht per kilogram (20-25 cents/lb), down by 2 baht per kilogram (6 cents/lb) from the previous year and 3-4 baht per kilogram (4-6 cents/pound) from the previous controlled price. However, as world sugar prices have also declined, the domestic sugar wholesale price is still approximately 5 baht per kilogram (7 cents/lb) higher than the world sugar price.

Despite the deregulation of the ex-factory wholesale price of sugar, sugar is still listed on the Ministry of Commerce's List of Controlled Goods and Services. As a result, the retail ceiling price for sugar remains unchanged at 23.5 baht per kilogram (34 cents/lb). The retail ceiling exists to protect consumers from upwards price fluctuations. Additionally, a domestic sugar premium has been introduced for wholesale sugar that is currently set at 5 baht per kilogram (7 cents/lb). This domestic sugar premium will be collected from sugar mills to fund the state-run Cane and Sugar Fund (CSF), which subsidizes cane growers when market prices of sugarcane are lower than the intervention prices. In other words, the domestic sugar premium will functionally replace the special 5 baht/kilogram (7 cents/lb) tax which previously funded the CSF and was eliminated by January 15, 2018 executive order.

Appendix Tables

Table 1: Thailand's Sugarcane Production

Sugar Cane for Centrifugal	2017/2018		2018/2019		2019/2020	
Market Begin Year	Dec 2018		Dec 2018		Dec 2019	
Thailand	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	1800	1800	1750	1750	0	1740
Area Harvested	1780	1780	1730	1730	0	1720
Production	136000	136000	130000	131970	0	124100
Total Supply	136000	136000	130000	131970	0	124100
Utilization for Sugar	135000	135000	129000	130970	0	123100
Utilization for Alcohol	1000	1000	1000	1000	0	1000
Total Utilization	136000	136000	130000	131970	0	124100
(1000 HA) ,(1000 MT)						

Table 2: Thailand's Sugar Production, Supply and Demand

Sugar, Centrifugal	2017/2018		2018/2019		2019/2020	
Market Begin Year	Dec 2017		Dec 2018		Dec 2019	
Thailand	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	5618	5618	6841	6841	6981	9572
Beet Sugar Production	0	0	0	0	0	0
Cane Sugar Production	14710	14710	14190	14581	13900	13540
Total Sugar Production	14710	14710	14190	14581	13900	13540
Raw Imports	0	0	0	0	0	0
Refined Imp.(Raw Val)	0	0	0	0	0	0
Total Imports	0	0	0	0	0	0
Total Supply	20328	20328	21031	21422	20881	23112
Raw Exports	6267	6267	6500	5700	6700	6500
Refined Exp.(Raw Val)	4640	4640	5000	3600	5200	4000
Total Exports	10907	10907	11500	9300	11900	10500
Human Dom. Consumption	2580	2580	2550	2550	2580	2580
Other Disappearance	0	0	0	0	0	0
Total Use	2580	2580	2550	2550	2580	2580
Ending Stocks	6841	6841	6981	9572	6401	10032
Total Distribution	20328	20328	21031	21422	20881	23112
(1000 MT)						

Table 3: Thailand's Yield and Prices for Sugar and Molasses

	MY 2017/18	MY 2018/19	MY 2019/20 (FAS Forecast)
Yield per metric ton of cane			
Sugar (kg.)	109.03	111.33	110.00
Molasses (kg.)	40.68	44.86	44.80
Farm price (ex-factory): Baht/ton	775	680	690
Wholesale prices			
Sugar (Baht/100 kg.)	1,680	1,700	1,750
Molasses (Baht/ton)	3,150	3,800	2,850
Source: Office of Cane and Sugar Board			

Table 4: Thailand's Sugar Utilization by Industry

Unit: Metric Ton

Type of Industry	2014	2015	2016	2017	2018	January - June		
						2018	2019	% Change
BEVERAGES (Excluding Alcoholic Drink)								
Refined Sugar	402,940	426,978	426,535	443,880	337,198	175,793	188,037	6.97
White Sugar	109,009	104,294	112,990	138,344	156,048	82,681	101,993	23.36
Sub - Total	511,949	531,272	539,525	582,224	493,245	258,473	290,030	12.21
CAKE & BREAD and Alcoholic Drink								
Refined Sugar	11,728	10,806	9,432	12,976	7,954	3,531	4,402	24.67
White Sugar	22,505	22,370	26,646	27,501	23,462	12,390	9,392	-24.20
Sub - Total	34,233	33,176	36,078	40,477	31,416	15,921	13,794	-13.36
FRUIT & FOOD PRODUCTS								
Refined Sugar	119,288	128,206	139,521	156,051	128,330	66,405	42,967	-35.30
White Sugar	159,926	185,662	194,883	196,420	164,757	89,569	79,080	-11.71
Sub - Total	279,213	313,868	334,404	352,471	293,087	155,974	122,047	-21.75
DAIRY PRODUCTS								
Refined Sugar	88,019	86,390	80,504	67,083	69,032	32,492	23,626	-27.29
White Sugar	139,404	163,914	183,339	188,923	179,123	92,960	84,050	-9.58
Sub - Total	227,424	250,304	263,843	256,006	248,155	125,452	107,676	-14.17
CONFECTIONARY PRODUCTS								
Refined Sugar	6,310	5,686	3,046	5,194	5,888	3,366	1,530	-54.54
White Sugar	18,369	17,229	15,701	16,407	17,677	9,241	8,218	-11.07
Sub - Total	24,680	22,915	18,747	21,601	23,565	12,607	9,748	-22.68
PHARMACEUTICAL PRODUCTS & MISCELLANEOUS								
Refined Sugar	26,291	28,125	27,974	29,746	27,935	14,274	19,264	34.96
White Sugar	1,251	1,805	2,134	2,246	587	339	11,515	3,292.75
Sub - Total	27,543	29,930	30,108	31,992	28,522	14,614	30,779	110.62
Source: Production and Distribution Administration Center, Office of Cane and Sugar Board								

End of Report.

Attachments:

No Attachments