Required Report: Required - Public Distribution **Date:** September 19, 2022

Report Number: AS2022-0020

Report Name: Sugar Semi-annual

Country: Australia

Post: Canberra

Report Category: Sugar

Prepared By: Zeljko Biki

Approved By: Levin Flake

Report Highlights:

FAS/Canberra's sugar cane production estimate for Australia is revised up for marketing year (MY) 2022/23 to 33 million metric tons (MMT), with the major production areas receiving well above-average rains during harvest which has promoted greater sugar cane growth. However, this is negatively impacting sugar content and the rains have substantially delayed harvest, which is expected to have a further detrimental impact on the sugar content in the later period of harvest. As a result, despite the increase in the sugar cane production estimate, the sugar production estimate for MY 2022/23 has been reduced to 4.35 MMT from the previous forecast of 4.45 MMT. Raw sugar exports for MY 2022/23 are expected to remain unchanged at 3.45 MMT despite the lower raw sugar production estimate because of larger carry in stocks.

Executive Summary

FAS/Canberra's sugar cane production estimate for Australia is revised up for marketing year (MY) 2022/23 to 33 million metric tons (MMT), from 32 MMT previously, with the major production areas receiving well above-average rains during harvest which has promoted greater sugar cane growth. However, this additional burst of sugar cane growth is negatively impacting its sugar content and the rains have substantially delayed harvest which is expected to have a further negative impact on the sugar content in the later period of harvest. With this, despite the increase in sugar cane production, the sugar production estimate for MY 2022/23 has been reduced to 4.35 MMT from the previous forecast of 4.45 MMT.

Raw sugar exports for MY 2022/23 are expected to remain unchanged at 3.45 MMT despite the lower raw sugar production estimate because of larger carry in stocks. This is due to a lower-than-expected raw sugar export result for MY 2021/22 of 3 MMT from the previous estimate of 3.2 MMT, caused by a rapid decline in raw sugar imports from Australia by Indonesia. This had resulted in a small build-up of stock which is expected to be traded in MY 2022/23 on the back of continued strong world sugar prices and the price advantage of a slightly weakened Australian currency compared to the prior marketing year.

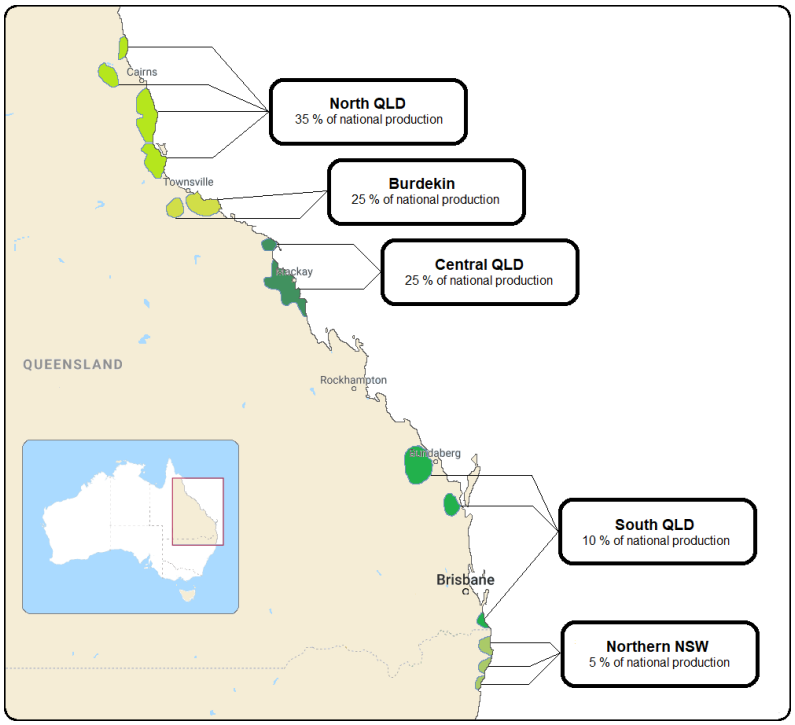
SUGAR CANE

Production

The FAS/Canberra estimate for sugar cane production in MY 2022/23 is revised upwards to 33 MMT, from 32 MMT previously. If realized, MY 2022/23 production would be almost three percent above the 10-year production average and the highest since 2018. This new estimate for MY 2022/23 is in line with the Australian Sugar Milling Council (ASMC) revised estimate of 33.1 MMT as at mid-September 2022. The ASMC estimates that as of mid-September it is around 38 percent of the way through the crushing season, well behind typical levels of around half-way or more at this point in time, due to greater than usual rain interruptions across most producing regions. These conditions have also encouraged the sugar cane crops to continue their growth beyond usual which has prompted the upward revised crop harvest.

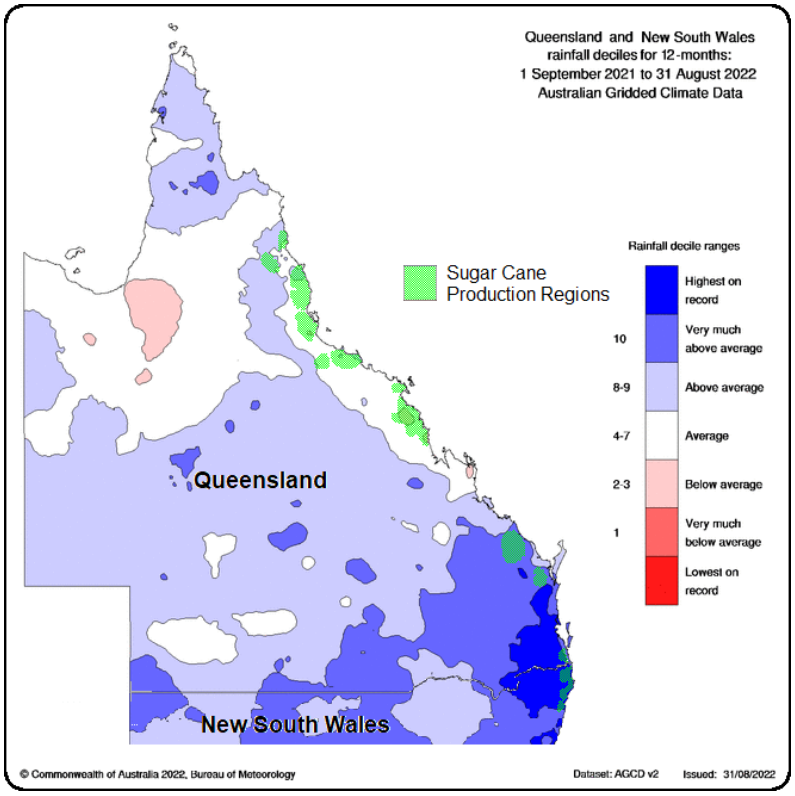
In the main sugar cane production regions of North Queensland, Burdekin and central Queensland (see Figure 1), which generates around 85 percent of overall production, they generally had average rainfall across the previous 12-month growing period from September 2021 to August 2022 (see Figure 2). The South Queensland region has had well above-average rainfall after experiencing multiple years of dryness, and further south in Northern New South Wales the region has experienced big rains in November 2021 and flooding rains in February 2022. Although there will be some negative impacts from the flooding rains in Northern New South Wales for MY 2022/23 there will be greater impacts for this region in the following year. The crop growing cycle in this region ranges from 12 to 24 months and growers were unable to replant crops due to the flooding events which is expected to result in a lower harvest there in MY 2023/24.

Figure 1 - Australian Sugarcane Production Areas



Source: *FAS/Canberra*

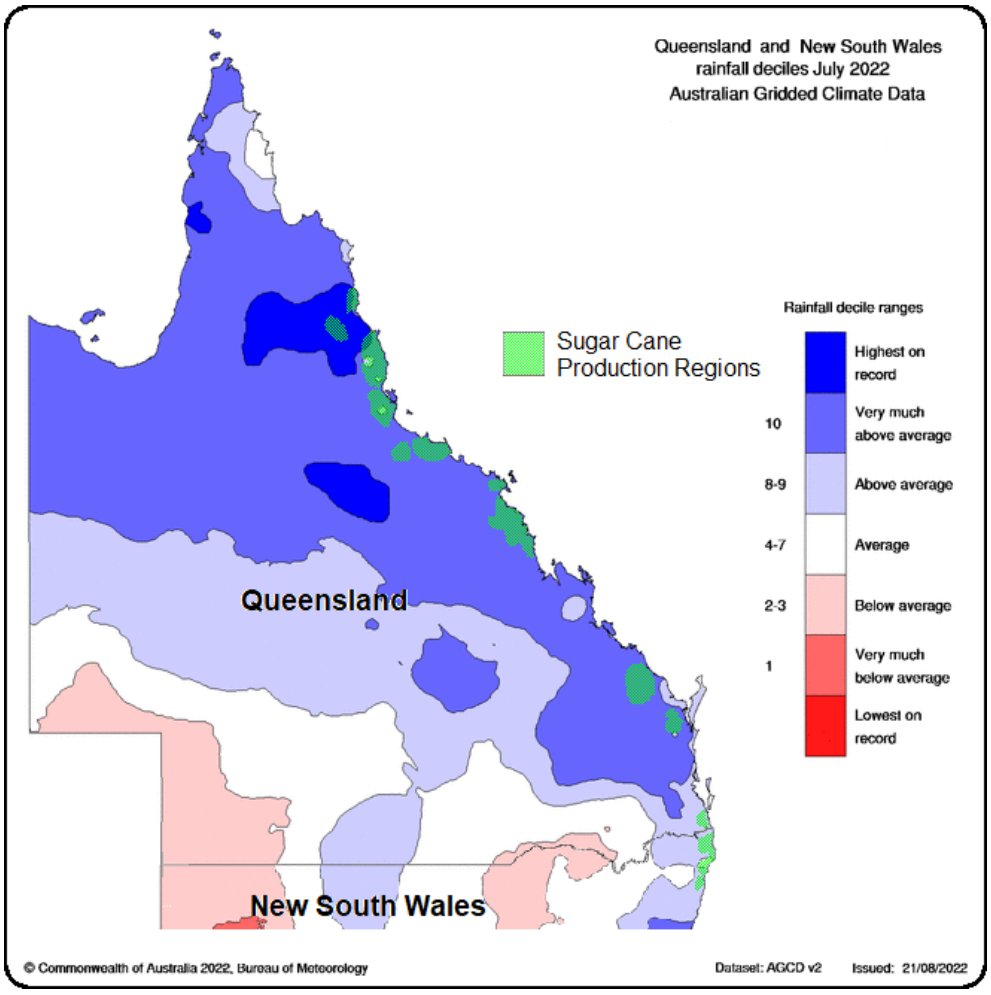
Figure 2 – Rainfall Deciles September 2021 to August 2022



Source: *Bureau of Meteorology, FAS/Canberra*

Although the main sugar cane producing regions had an average rainfall season over the last 12 months, relating to the MY 2022/23 crop, they have been significantly impacted by particularly high rainfalls in the early stages of harvest in July 2022 (see Figure 3). This has had the impact of encouraging the sugar cane crop to continue its growth beyond usual during the harvest period, which has prompted the upward revision in sugar cane production.

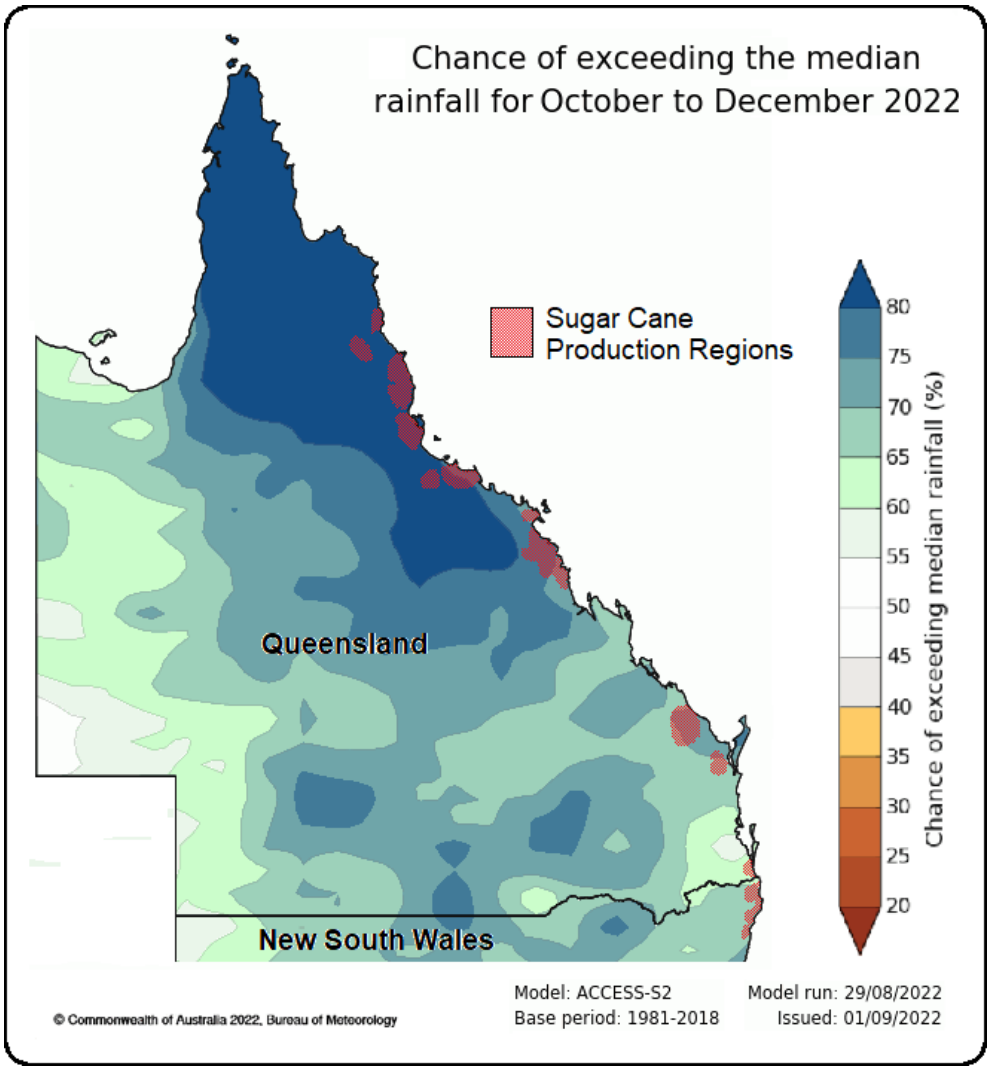
Figure 3 – Rainfall Deciles July 2022



Source: Bureau of Meteorology, FAS/Canberra

The Bureau of Meteorology forecasts a higher-than-average chance of achieving above-average rainfall across the eastern states of Australia for the October to December 2022 period (see Figure 4). If realized, it could spur on further crop growth and further upside in the sugar cane production estimate. Industry sources indicate that the harvested sugar cane is performing particularly well after the well above-average rainfalls in July 2022 and potentially further good rainfalls in the coming months could have further positive impacts on production for the following MY 2023/24 crop.

Figure 4 – Chance of Exceeding Median Rainfall in October to December 2022



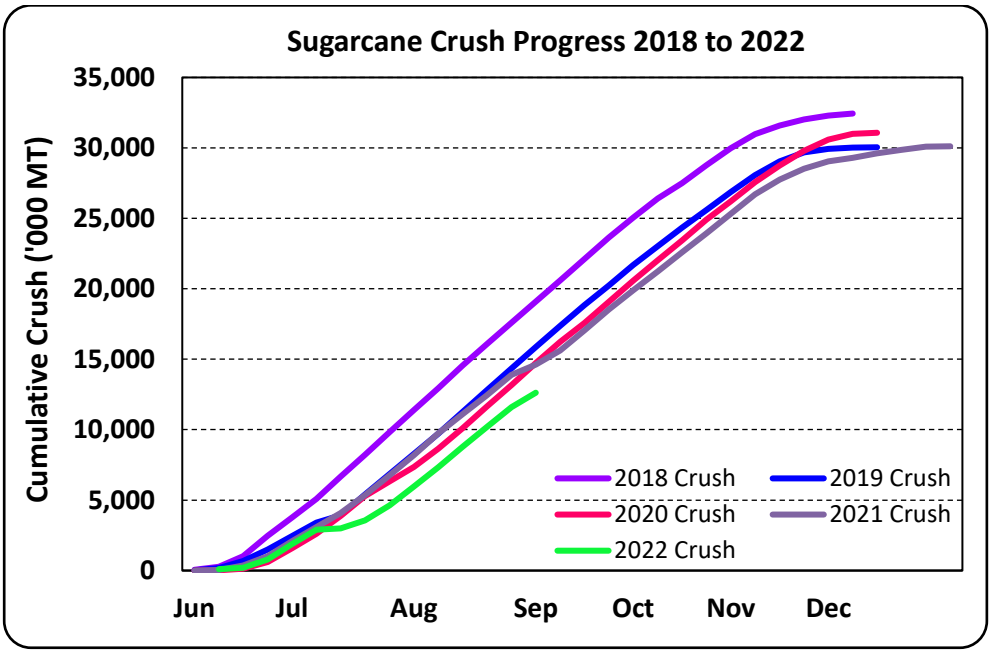
Source: Bureau of Meteorology

Sugar mills in Australia have relatively sophisticated methods of forecasting sugar cane crop yields for the scheduling of their harvest programs, which typically commences in June and ends in early December. These forecasts are updated as the harvest season progresses, taking into account actual paddock by paddock results year to date and prevailing seasonal conditions. The ASMC estimates are considered relatively accurate from this point of the harvest season, heading into warmer spring temperatures and still in the tropical dry season.

As at mid-September 2022 there was a total of 12.62 MMT of the MY 2022/23 sugar cane harvest crushed (see Figure 5). This harvest is well behind those of 2019 to 2021 which produced 30 to 31.1 MMT. It is also tracking far slower than the 2018 crush which produced 32.4 MMT the nearest to the current season estimate of 33 MMT. As previously mentioned, the big rainfalls in July 2022 caused a major disruption to harvest and there were also rainfall disruptions in August and early September which

have prevented any catch up in the rate of sugar cane harvest. Industry expects the end of harvest for this season to be far later than usual, with many announcing that they don't expect to finish until the end of December 2022 or early January 2023. Typically, the mills aim to have harvest completed by the end of November each year. The late finish will not only have an impact on the quality of the sugar cane for the current season but also allows less growing period for the following crop negatively affecting its production.

Figure 5 – Cumulative Sugar Cane Crush



Source: Australian Sugar Milling Council

SUGAR

Production

Despite the upward revision of the sugar cane production estimate for MY 2022/23, the sugar production estimate is revised down to 4.35 MMT from the previous forecast of 4.45 MMT. If realized this would be four percent below the long-term average of 4.53 MMT. This lower estimated sugar production for MY 2022/23 relates to the much higher than average rainfall during harvest to date, particularly in July 2022 as previously mentioned. But with sugar cane production for MY 2022/23, estimated at 33 MMT, being well up on the prior year level of 30.1 MMT, sugar production is also expected to be 230,000 metric tons (MT) higher than for MY 2021/22 which was 4.12 MMT.

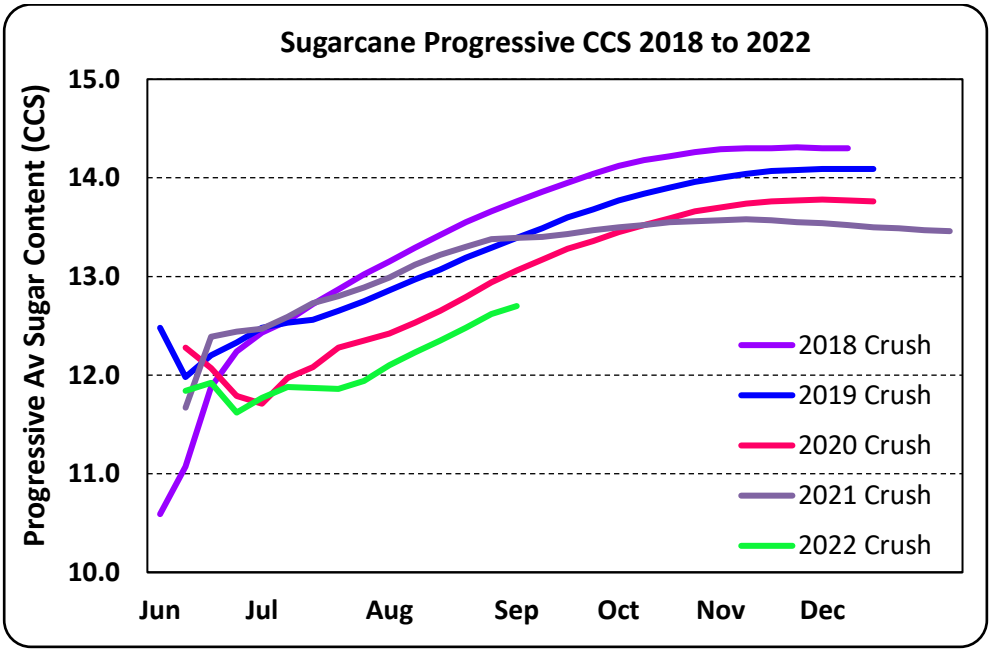
The well above-average rainfall during this harvest so far has had a two-fold effect. Firstly, the rain has spurred on greater sugar cane crop growth than usual which has prevented the crop from maturing and focusing its energy to sugar production. A further key effect is the delay to the completion of harvest by

some four to six weeks. This will result in a higher proportion of the crop being harvested past its optimal point, during which the plant cane sugar content is declining.

As at the middle of September 2022, the cumulative average sugar content of the sugar cane harvested was at 12.70 Commercial Cane Sugar (CCS), a standard measure used by millers, compared to 13.39 CCS at the same time last season. In typical harvest seasons, such as 2018 to 2020, the CCS gradually rises and peaks in mid-October before starting to decline and affect the cumulative average CCS (see Figure 6). The 2021 harvest was affected by well above-average rainfalls in late August and early September in the tropical Queensland production regions, although to a lesser extent than for the current harvest period so far. In 2021, the CCS started at a strong level but then flattened out from mid-August before tailing off from mid-October achieving a lower final average result then for the previous three years. The current harvest (2022) started out at a much lower CCS compared to 2021, and according to industry sources there is no catch up expected, and the cumulative CCS curve is likely to follow the same pattern as 2021 but remain at a lower level.

Essentially, the higher the rainfall during harvest and the longer the harvest delay, the greater impact on the plant sugar content. Coupled with warm weather (typically later in the harvest period) plant sucker growth is usually initiated, which draws on energy reserves from the plant, causing sugar content to decline further.

Figure 6 – Cumulative Sugar Content Trends



Source: *Australian Sugar Milling Council*
Note: *CCS = Commercial Cane Sugar (a measure of sugar content of sugar cane used by millers)*

Consumption
Domestic sugar consumption for MY 2022/23 is unchanged from the previously forecast of 900,000 MT.

The estimated consumption for MY 2022/23, remains around 14 percent lower than the previous ten-year average. Sugar consumption in the future is not expected to recover to past levels, but population growth over time could support overall sugar consumption. The general decline in sugar consumption is due to changing dietary habits and increasing government focus on food labelling standards, particularly relating to the sugar content of beverages and foods.

Trade
Raw sugar exports in MY 2022/23 are estimated to reach 3.45 MMT, unchanged from the official USDA estimate, but 450,000 MT (15 percent) higher than for MY 2021/22. This is in part due to increased production but also an expectation of reducing ending stocks due to continued strong world demand.

As at mid-September 2022, the Intercontinental Exchange (ICE) Sugar #11 price is at a strong historical level of a little over US 18 cents per pound and futures prices out as far as May 2024 are firm at US 17 to 18 cents per pound. This combined with the prospects for another good production year for MY 2023/24, after the current good start, is giving processors confidence to trade and run-down stocks.

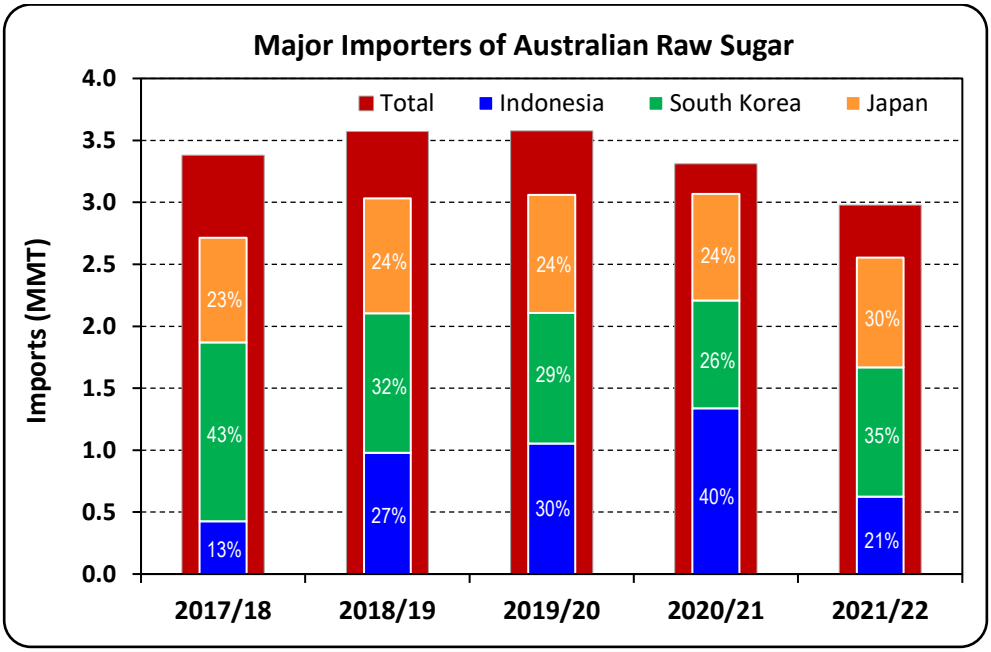
A further contributing factor to the increase in estimated sugar exports is the weakening of Australia's currency against the U.S. dollar. In early April 2022, the Australian dollar exchange rate against the U.S. dollar had traded as high as AU$1.32 to one U.S. dollar but in mid-September 2022 has weakened to around AU$1.45. This easing in the strength of the Australian dollar has improved the competitiveness of Australian sugar on the world market for the early part of MY 2022/23 compared to the previous year.

In MY 2020/21 Indonesia became the largest importer of Australian raw sugar at around 40 percent of overall exports (see Figure 7), ahead of South Korea and Japan. But Indonesia's imports of Australian sugar quickly retreated in MY 2021/22 to around 21 percent and a clear third place behind South Korea and Japan. These three nations in MY 2021/22 accounted for over 85 percent of overall imports of Australian raw sugar and the next three nations of New Zealand, Singapore and the United States account for a further 12 percent of overall exports.

The large drop in imports of Australian sugar by Indonesia in MY 2021/22 was not due to any decrease in overall imports by Indonesia. Rather, Indonesia substantially increased its imports from Thailand and to a lesser extend India. Thailand is typically by far the largest source of sugar imports for Indonesia and their exports plummeted in MY 2020/21 resulting in Indonesia increasing its imports from other nations

such as Australia and Brazil in that year. The large decline in Indonesian imports of Australian sugar in MY 2021/22 is related to a return to increased sugar export supply from Thailand.

Figure 7 – Major Importers of Australian Raw Sugar



Source: Trade Data Monitor (data as reported by importing countries)

The raw sugar export result for MY 2021/22 has been revised down to 3 MMT from the official USDA estimate of 3.2 MMT based on recently updated trade data from importing countries.

FAS/Canberra's estimate of refined sugar exports for MY 2022/23 has been upward revised to 120,000 MT from the official USDA estimate of 100,000 MT. The revised estimate is in line with the upward revised MY 2020/21 outcome from final trade data, which also increased by 20,000 MT from the previous estimate. Refined sugar is a small export market for Australia representing only around three percent of annual sugar exports. Of the refined sugar exports, over 80 percent has consistently been to Singapore over recent years. Exports to Papua New Guinea grew strongly in MY 2020/21 and has continued in 2021/22, accounting for 10 percent of Australia's overall raw sugar trade.

Australia imports a relatively small quantity of refined sugar, and the MY 2022/23 estimate has been reduced to 5,000 MT, half that of the official USDA estimate. This trade has been declining over the last five years and reached merely 6,000 MT in MY 2021/22, well below the USDA estimate of 10,000 MT. With Australia being a net exporter of raw sugar, consuming merely around 20 percent of production, and having sugar refining facilities producing the full suite of refined sugar, there is relatively little demand for Australia to import refined sugar.

Stocks

End of year stocks in Australia are typically low due to the close alignment of the sugar cane harvest season, starting in June, and the start of the marketing year in July. The end of year stocks for MY 2021/22 were slightly elevated from the recent past years due to the rapid decline of raw sugar imports by Indonesia from Australia and the lag to adapt to this change. Stocks for MY 2022/23 are estimated to decline to be in line with typical past levels.

Sugar Cane for Centrifugal	2020/2021		2021/2022		2022/2023	
Market Year Begins	Jul 2020		Jul 2021		Jul 2022	
Australia	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted (1000 HA)	0	0	0	0	0	0
Area Harvested (1000 HA)	355	355	355	345	0	350
Production (1000 MT)	31100	31100	31000	30100	0	33000
Total Supply (1000 MT)	31100	31100	31000	30100	0	33000
Utilization for Sugar (1000 MT)	31100	31100	31000	30100	0	33000
Utilizatn for Alcohol (1000 MT)	0	0	0	0	0	0
Total Utilization (1000 MT)	31100	31100	31000	30100	0	33000
(1000 HA) ,(1000 MT)						

Sugar, Centrifugal	2020/2021		2021/2022		2022/2023	
Market Year Begins	Jul 2020		Jul 2021		Jul 2022	
Australia	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks (1000 MT)	38	38	135	135	118	294
Beet Sugar Production (1000 MT)	0	0	0	0	0	0
Cane Sugar Production (1000 MT)	4335	4335	4120	4120	4450	4350
Total Sugar Production (1000 MT)	4335	4335	4120	4120	4450	4350
Raw Imports (1000 MT)	3	3	3	3	3	3
Refined Imp.(Raw Val) (1000 MT)	9	9	10	6	10	5
Total Imports (1000 MT)	12	12	13	9	13	8
Total Supply (1000 MT)	4385	4385	4268	4264	4581	4652
Raw Exports (1000 MT)	3300	3300	3200	3000	3450	3450
Refined Exp.(Raw Val) (1000 MT)	100	100	100	120	100	120
Total Exports (1000 MT)	3400	3400	3300	3120	3550	3570
Human Dom. Consumption (1000 MT)	850	850	850	850	900	900
Other Disappearance (1000 MT)	0	0	0	0	0	0
Total Use (1000 MT)	850	850	850	850	900	900
Ending Stocks (1000 MT)	135	135	118	294	131	182
Total Distribution (1000 MT)	4385	4385	4268	4264	4581	4652
(1000 MT)						

Attachments:

No Attachments