About 85% of world sugar output is made from sugarcane; the remaining 15% is from sugar beets (mostly sugar mills in Europe). As such, the situation of sugarcane is always crucial to the direction of world sugar prices.

Sugar is a commodity widely traded in the futures market. Movement of sugar price not only depends on actual demand and supply, but also results from “pseudo supply” factor in the futures market. Major futures markets include, for example, National Commodity & Derivatives Exchange (NCDEX), Multi Commodity Exchange (MCX), Euronext, and ICE Futures U.S.

Agricultural commodity prices increased significantly during 2005-2011. Speculation in the market, coupled with strong demand for sugarcane for the production of ethanol worldwide thanks to rising oil prices, resulted in sugar prices jumping threefold during that period. This was followed by a growth of sugarcane plantation areas, as well as, new factories or capacity expansions in many countries – particularly, the major producers like Brazil (21% of world sugar output in 2015), India (17%), Thailand (7%), and China (6%).

However, the global sugar industry predominantly focuses on production for domestic consumption, especially India and China who are the two largest consumers (nearly 1/3 of global consumption, collectively). Only a few countries are net exporters of sugar: Brazil with export share of 44%, followed by Thailand (15%), and Australia (7%).

In Thailand, there are currently 51 sugar mills with total capacity of 105.96 tonnes of sugarcane or equivalent to sugar output of 11.34 million tonnes. Major producers are Mitrphol and Thai Roong Ruang groups with shares of 21% and 15% of total domestic production capacity, respectively. Both are the world’s top major exporters. In 2015, Mitrphol Group and Thai Roong Ruang Group ranked the third and the fourth sugar exporters, respectively in the world market. (World Top Export, 2016)

Presently, Thai sugar production heavily relies on export - as high as 70-75% of total domestic sugar output. The major destinations are within Asian region where Thailand has advantage over cheaper transportation costs. This includes, for instance, Indonesia (20% of total domestic sugar output), Myanmar (13%), China (13%), and Japan (9%). Out of the domestic consumption, direct household consumption contributes 55%, while the remaining is used in the manufacturing sector, such as, production of beverages, foods, dairy products, etc.
Thai sugar industry possesses high competitiveness in the world market. The strengths of its market structure are evidenced in the following aspects:

- **Low costs**: Thailand’s sugarcane production cost (excluding transportation) is approximated to be 13.6 cents/lb (or around THB1,049/tonne), second only to Brazil’s at 11.2 cents/lb.

- **Distance to export destination**: Thailand has advantages over competitors (especially Brazil) in terms of proximity to Asian markets, particularly Indonesia and China whose demands for imported sugar are increasing. Additionally, Thailand’s annual sugar production season (November-April) is different from Brazil’s (April-October), which helps lessen competition in the export market.

- **Intervention by the state**: Thai sugar industry is regulated by the government which allows sugar mills to maintain their profitability even during the time of depressed sugar prices in the world market. The support measures include: 1) restriction on the number of licenses for sugar mills and sugar traders/exporters; 2) control over sugar output appropriation system for domestic consumption and for exports or the distribution quotas; 3) the fixed domestic retail prices (currently set at THB21/kg or approximately 31 cents/lb), which has been higher than the world price in the past several years, giving Thai businesses the advantages over competitors based elsewhere; and 4) establishment of benefit sharing system between sugarcane planters and sugar mills (70:30 split) based on actual income from both domestic and export markets. It helps stability factor cost.

In addition, sugar operators also earn additional income from investment in related businesses - most of which use by-products and excess materials from the sugar industry as inputs such as ethanol, biomass electricity generation, paper pulp, fertilizer, particle board, etc.

### Situation

Following the substantial expansion of world sugar industry, speculations in the futures market have subsided. As a result, the global sugar prices have been dropping continuously from the peak of 32.1 cents/lb in January 2011 to the lowest mark of 10.7 cents/lb in August 2015.

In any case, the El Nino phenomenon has caused extensive damages to the harvest of sugarcane and production of sugar in Asian regions. Consequently, sugar prices started to show signs of rebound, thanks to reduction in the world sugar supply, towards the end of 2015. World sugar price, on average, stood at 14.6 cents/lb in 4Q15, as compared to an average of 12.6 cents/lb during the first nine months of 2015.
In 2015, the performance of Thai sugar industry was also partially helped by the increase in quantity of sugar—particularly in the export market—and was, thus, able to maintain some profitability.

- **Domestic demand expanded slightly** to 2.48 million tonnes, an increase of 0.77% YoY of which household demand shrank by 4% YoY while industrial demand rose 8-10% YoY, especially in the sector of food and dairy products.

- **Exports increased substantially in quantity terms**, rising 18.33% YoY (mostly in the form of raw sugar exports). Major export markets are: 1) Indonesia with severe drought affecting domestic output and leading to the need of imports; 2) China with the closing down of domestic sugar mills; and 3) neighboring countries like Myanmar and Cambodia with growths in the production of beverages and food for export to Southern China. Nonetheless, the drop in sugar prices from the previous year led to a contraction of export value by 2.52% YoY.

Besides, Thai sugar operators also earn incomes from related businesses, especially ethanol and electricity generation from biomass. In 2015, Thailand’s demand for renewable energy increased by approximately 10% YoY.

### Outlook

Operating results of sugar industry in the next 1-3 years is expected to improve gradually. This would mainly be due to the rebound in sugar price, as a result of the following factors:

- **Recovery of world demand**—especially India (world’s no. 1 sugar consuming country) whose economy has been growing consistently, and also the ASEAN countries where demand has increased along with the economic development.

- **Rise in imports**: World demand for import of sugar has increased as the major consumers like China and the EU would increase import of sugar by 10% per year after the closure of their domestic sugar mills. Moreover, concerns over the expected reduction in world sugar output have also induced many countries to raise sugar import. Sugar producers and exporters would, thus, now have more bargaining power in the world market.

- **Slowdown in supply**: It is expected that the world sugar supply would gradually decrease as the trend of declining world sugar prices during the past several years has discouraged the expansion of sugarcane plantation areas amidst turbulent weather changes. Krungsri Research estimates that world sugar output could decrease by an average rate of 3-5% per year

- **Continuing ethanol production in Brazil**: The production capacity that has been kept at the same level has helped maintain demand for sugarcane which in turn results in a high level of sugarcane price (a cost of sugar production). This has also lessened worries over the increase of Brazil’s sugar production and exports.

According to the situation of demand and supply mentioned above, world sugar stockpiles in the next 2-3 years are likely to decrease further and would allow for some upside move of prices. However, when combined with the effects of downward pressures from existing high sugar stock, the prolonged depressed oil prices, and the current sluggish speculative demand in the commodity markets, world sugar prices are expected to not to increase markedly, possibly to an average of 14.5-16 cents/lb.
As for the situation of Thai sugarcane and sugar outputs, it is projected that the severe drought would cause damages to the quantity of sugarcane for the production of sugar in the next 1-2 years. The Sugarcane Planters Association forecasted that Thailand’s sugarcane output for the 2015/2016 season may decrease by 10% YoY which is equivalent to 9 million tonnes of sugar output as compared to the usual sugar output of 10 million tonnes per year in the past. However, in the long term, it is expected that the outputs of sugarcane and sugar should increase at an accelerating rate as a result of investment in new sugar mills. New production capacity is expected to increase by more than 0.3 million tonnes of sugarcane per day or equivalent to 120 million tonnes of sugarcane per year or up 3.5 million tonnes per year within 1-5 years from now.
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**Definition**

*Industry Outlook* assesses market conditions and trend of the industry which will determine businesses’ profitability. It considers potential growth, price changes, cost management, competitiveness, and other conditions affecting the market.

- **Positive**  
The industry is expected to benefit from several positive factors and deliver strong performance, which could include continually high profitability, in the next few years.

- **Rather Positive**  
The industry is expected to earn abnormal profits, though there may be some concerns, such as, slower growth rate of income or sensitivity to changes in economic conditions.

- **Fair**  
The industry is expected to operate normally with average level of profits and risks.

- **Rather Negative**  
The industry is expected to experience some issues adversely affecting the returns. Profitability is lower than the typical level. Some time may be needed for the industry to recover.

- **Negative**  
The industry is expected to suffer from persistent or severe problems and is at risk of losses. This could include a situation where the market contracts substantially or there are major production issues.

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