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Australia

Sugar Annual

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Report Highlights:
Post forecasts Australian sugar production to decline to 4.8 million MT in 2017/18 after a tropical cyclone hit northern Queensland in late March 2017. This represents a fall of 6 percent compared to the previous year. Production had been expected to increase, as the area of production for sugar cane is forecast at 410,000 hectares in 2017/18 in response to higher world prices. Exports of sugar are forecast at 3.7 million MT in 2017/18 due to lower production. Post notes the full impact of the cyclone is still unknown. In addition, an ongoing dispute between cane growers and the major miller could affect the timing of the harvest and sugar processing.

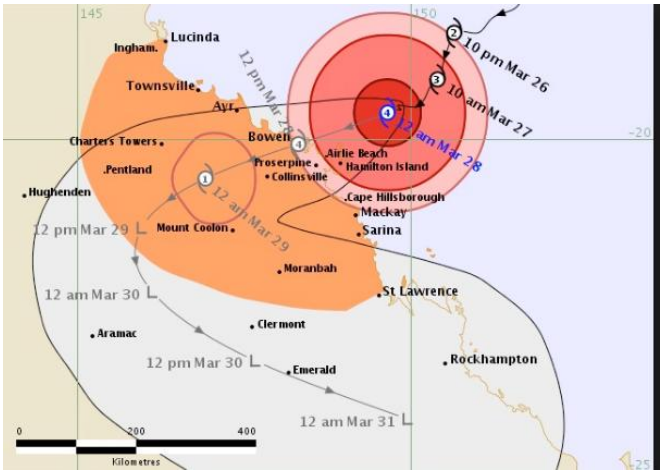
EXECUTIVE SUMMARY

Post forecasts the Australian sugar cane crush in 2017/18 to decline to 32 million MT despite an expanded area of harvest of 410,000 hectares. The main factor in this revised forecast is the impact of tropical cyclone Debbie on the north Queensland coast, where a significant part of Australia's sugar cane crop is grown (chart 1). As a result of the cyclone, Post forecasts lower sugar production of 4.8 million MT in 2017/18, down 6 percent on the previous year. Australian sugar exports are forecast by Post to decline to 3.7 million MT in 2017/18, due to lower sugar production. Post notes that the full impact of the cyclone is still unknown.

SEASONAL CONDITIONS

The seasonal outlook is important as the Australian sugar industry is vulnerable to severe weather events such as cyclones, drought and flooding. In recent years, moderate seasonal conditions in Queensland contributed to an expansion in sugar cane area and production. Over the three months to June 2017, the Australian Bureau of Meteorology has forecast lower than average rainfall, while temperatures are expected to be warmer than average (see charts 2 and 3). Overall, these trends are likely to be positive for sugar cane growth, but these forecasts do not take account of the recent tropical cyclone.

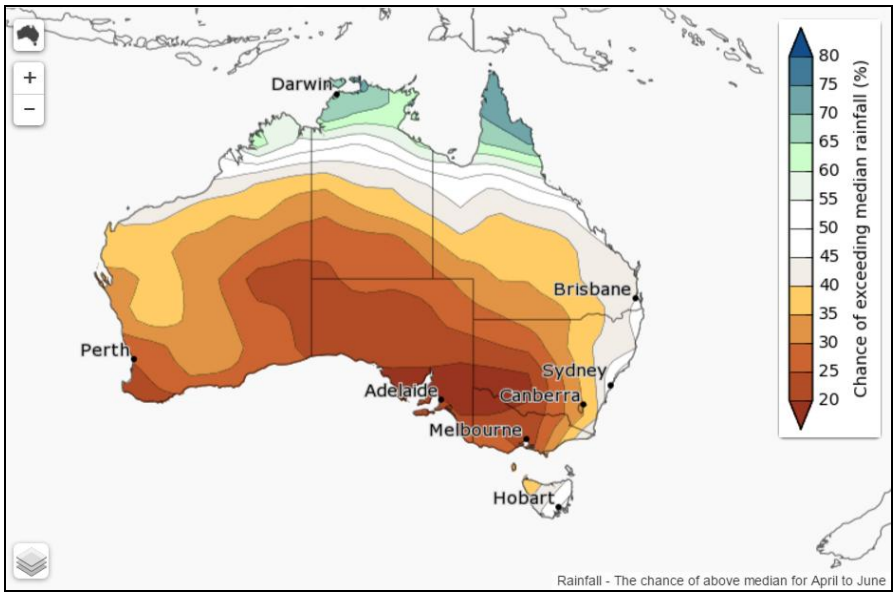
Chart 1: Tropical Cyclone Debbie and the North Queensland coast, March 2017



Source: Australian Bureau of Meteorology (2017).

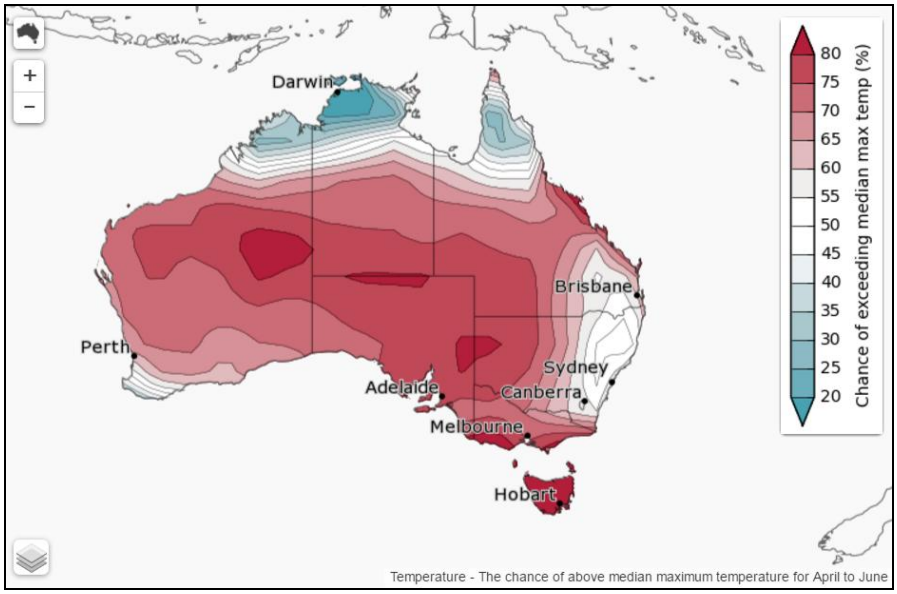
In late March 2017, Cyclone Debbie hit the north Queensland coast (chart 1). Many locations in Queensland received the highest amounts of March rainfall ever recorded, sometimes breaking records that had stood for over 50 years. Flooding impacted the Rockhampton region in central Queensland, and the Plane Creek Sugar Mill in Mackay, received 1.3 meters of rain, or four times the area's long-term March average. Most of the impact of the cyclone was absorbed by the Burdekin, Proserpine and Mackay sugar growing regions. The full impact of the cyclone is still being assessed.

Chart 2: Chance of exceeding the median rainfall in the three months to June 2017



Source: Bureau of Meteorology (2017).

Chart 3: Chance of exceeding the median temperature in the three months to June 2017



Source: Bureau of Meteorology (2017).

Commodities:

Sugar Cane for Centrifugal

Sugar, Centrifugal

PRODUCTION

Post forecasts Australian sugar production to decline to 4.8 million MT in 2017/18 due to the recent impact of tropical cyclone Debbie on north Queensland growing areas. This downgrade is despite an expanded harvest area of 410,000 hectares, compared to the estimate of 400,000 hectares for the previous year. Cane farmers increased production areas in response to higher world sugar prices, which have risen over 40 percent since 2015, and the expanded harvest area is significantly above the ten year average of 380,000 hectares.

The Burdekin, Proserpine and Mackay sugar growing regions in north Queensland were most affected by the tropical cyclone. These three regions stretch over 300 kilometers and normally account for a significant part of the Queensland crop. Early indications are that 35 percent of all sugarcane in the Proserpine region may have been damaged, with 20 percent damage across the Mackay region. In these areas, some sugar cane was bent, uprooted or snapped while flooded cane could decay in the three months before harvest begins. However, sugar mills and terminals along the eastern coast appear to have escaped serious damage from the cyclone.

Post notes that sugar cane harvesting is slowed by twisted and fallen sugar cane, as well as by high mud and debris levels. However, if sugar cane is not broken by strong winds or is flooded for only short periods, a high proportion of the affected crop could be recovered. Further, undamaged sugar cane could benefit from increased soil moisture as a result of this weather event. These varying factors make it difficult to assess the full impact of the cyclone.

In recent years, Australian sugar cane production has been affected by Yellow Canopy Syndrome (YCS), which causes the leaves of the cane plant to turn yellow and also reduces the sugar content in cane. The disease is not expected to be a significant constraint on production in the 2017/18 season, and yields are expected to be stable. Some sugar cane farmers have introduced break crops to re-introduce nitrogen into the soil to improve yields over the longer term. In addition, the rice industry has sought to encourage cane farmers to plant rice as a supplementary crop in irrigated fields, although this development is still at an early stage.

CONSUMPTION

Post expects domestic sugar consumption to be unchanged in 2017/18 at 1.2 million MT. There are no recent official statistics on consumption of sugar and private surveys are inconsistent. At the retail level, sugar competes with a range of other natural and artificial sweeteners, and its market share is determined by price competition, as well as consumer preferences for either sugar or artificial sweeteners. The introduction of a sugar tax to reduce average per capita sugar consumption in Australia has been repeatedly ruled out by the Australian government.

MARKETING AND DISTRIBUTION

In recent years, there has been an ongoing dispute between the cane growing industry and the sugar milling industry over marketing and distribution of sugar. In 2017, the dominant milling company Wilmar and the cane growers, which supply its mills, were reportedly unable to reach agreement over contract prices for the 2017/18 season. In March 2017, the Australian government subsequently established a code of conduct for the sugar milling industry to ensure that competitive negotiations would occur on contract prices for sugar. Post understands that contract price negotiations for the 2017/18 season will soon be finalized.

TRADE

Post forecasts that sugar exports will decline to 3.7 million MT in 2017/18, or 8 percent below the previous year due to lower production. Australia is usually the third largest sugar exporter in the world, and its major markets are China, Indonesia, Japan, Korea, Malaysia, Taiwan, the United States and New Zealand. Australia has the capacity to store over 2 million MT of sugar in a network of bulk port terminals, which allows it to supply customers throughout the year. Up-to-date official statistics on sugar exports by country are unavailable due to confidentiality provisions.

PRODUCTION, SUPPLY AND DEMAND DATA STATISTICS

Table 1: Production, Supply and Demand: Sugar Cane for Centrifugal Sugar ('000 HA and '000 MT)

Sugar Cane for Centrifugal	2015/2016		2016/2017		2017/2018	
Market Begin Year	Jul 2015		Jul 2016		Jul 2017	
Australia	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	0	0	0	0		0
Area Harvested	390	390	400	400		410
Production	33,000	33,000	34,000	34,000		32,000
Total Supply	33,000	33,000	34,000	34,000		32,000
Utilization for Sugar	33,000	33,000	34,000	34,000		32,000
Utilization for Alcohol	0	0	0	0		0
Total Utilization	33,000	33,000	34,000	34,000		32,000

Note: 'New Post' data reflect author's assessments and are not official data.

Table 2: Production, Supply and Demand: Centrifugal Sugar

Sugar, Centrifugal	2015/2016		2016/2017		2017/2018	
Market Begin Year	Jul 2015		Jul 2016		Jul 2017	
Australia	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	140	140	230	230		220
Beet Sugar Production	0	0	0	0		0
Cane Sugar Production	4,900	4,900	5,100	5,100		4,800
Total Sugar Production	4,900	4,900	5,100	5,100		4,800
Raw Imports	30	30	30	30		30
Refined Imports (Raw Value)	60	60	60	60		60
Total Imports	90	90	90	90		90
Total Supply	5,130	5,130	5,420	5,420		5,110
Raw Exports	3,500	3,500	3,800	3,800		3,500
Refined Exports (Raw Value)	200	200	200	200		200
Total Exports	3,700	3,700	4,000	4,000		3,700
Human Domestic Consumption	1,200	1,200	1,200	1,200		1,200
Other Disappearance	0	0	0	0		0
Total Use	1,200	1,200	1,200	1,200		1,200
Ending Stocks	230	230	220	220		210
Total Distribution	5,130	5,130	5,420	5,420		5,110

Note: 'New Post' assessments are not official data.