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COMMODITIES, FOOD & AGRI

Sugar surplus to keep prices under pressure

Sugar prices have come under significant pressure this year, with the market set to see a large global surplus in 2025/26. We believe prices will have to remain under pressure to try to resolve the expected surplus



The sugar market is set to move into a large surplus in 2025/26

Supply/demand balance to move deeper into surplus

Sugar prices have come under significant pressure this year, with raw No.11 sugar off more than 20% so far in 2025 and trading to its lowest level since October 2020. Speculators have become increasingly bearish towards the market as expectations for a large surplus through the 2025/26 marketing year grow, driven by strong output from key producers.

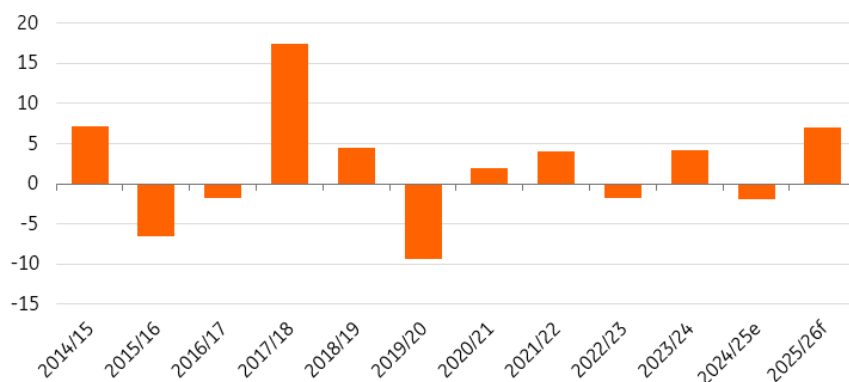
Stronger output should see the market shift from a deficit of almost 2m tonnes in 2024/25 to a surplus of around 7m tonnes in 2025/26, which would be the largest sugar surplus since 2017/18.

The large surplus suggests that sugar prices will remain under pressure. Current prices are trading below ethanol parity in Brazil, and we believe that sugar prices will need to continue doing so to ensure mills in Centre-South Brazil – the key sugar-producing region – divert more sugarcane to ethanol production rather than sugar for their 2026/27 harvest, which starts in

April. This would help reduce the scale of the expected surplus through 2026.

However, we could see some strength in sugar prices in the first quarter of 2026, which is the off-crop period for CS Brazil and when the market generally sees tightness in the raw sugar market. However, this tightness should ease from the second quarter onwards. We currently forecast that raw sugar No.11 will average US\$15.40/lb next year, with the third quarter the weakest, which is the peak of the CS Brazil harvest.

The global sugar market is expected to move back into large surplus (m tonnes)



Source: Czarnikow, USDA, ING Research

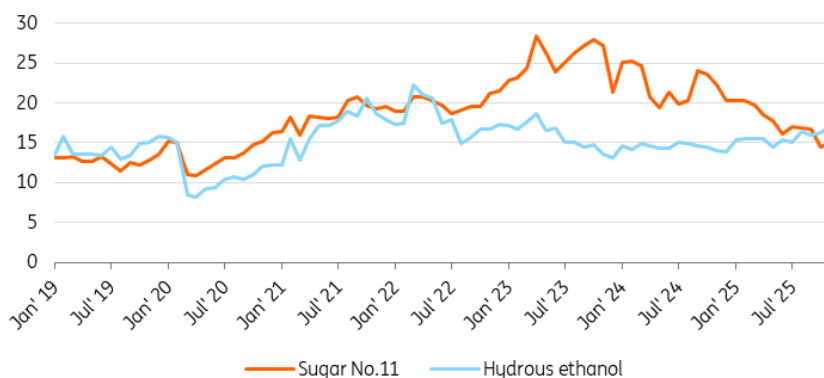
Lower sugar prices should drive stronger ethanol mix in Brazil

CS Brazil has passed the peak of its 2025/26 harvest, with the country now entering its rainy season. The industry has crushed 576m tonnes of sugar cane in the season until mid-November, down 1.3% year-on-year. However, a stronger sugar mix has meant that cumulative sugar output has grown 2.1% YoY to almost 39.2m tonnes. Expectations are that total output for the 2025/26 marketing year will reach a little over 40m tonnes. We will need to keep an eye on ethanol parity; with sugar prices trading below domestic ethanol prices, we should see mills favouring ethanol production over sugar. Recent production data has shown that mills have started moving more towards ethanol, although this shift is fairly common at the beginning and towards the end of the harvest. However, there may be some reluctance from mills to switch, particularly if they have sold/hedged their sugar output.

For the 2026/27 CS Brazil harvest, which gets underway in April 2026, another strong year of output is expected. The industry is set to crush more than 600m tonnes of cane, which should see another year of sugar production exceeding 40m tonnes. However, there is growing uncertainty over sugar output for the next harvest. Firstly, much will depend on the weather over the rainy season. Secondly, if sugar prices continue to trade below ethanol parity, mills will likely reduce their sugar mix and instead produce more ethanol. The industry will have also

hedged less of next season's sugar output, which will provide them with more flexibility to switch between sugar and ethanol production.

Brazilian mills should be favouring ethanol over sugar production (USc/lb)



Source: Czarnikow, ING Research

Indian sugar exports a bearish threat to the global market

India is set to be a key driver behind the large global sugar surplus in 2025/26. After a good monsoon through the summer, which was 8% above normal, India is set to see a strong recovery in sugar output. In 2024/25, Indian sugar production is estimated to have totalled 26.1m tonnes, down 17.1% YoY. This is after taking into account a 3.5m tonne diversion of sugar to ethanol production.

For the 2025/26 season, which commenced in October, sugar output could be as much as 25% higher YoY to total 32.8m tonnes. This increase is driven by improved yields and larger acreage in Maharashtra and Karnataka. In addition, diversion of sugar to ethanol production will be subdued somewhere between 3.5-4m tonnes, given ethanol prices are not attractive. However, there have been reports that the government is looking to support ethanol prices – if this materialises, it could change this dynamic, leading to more sugar to ethanol diversion and ultimately to lower-than-expected sugar output from India over the 2025/26 season.

The size of Indian sugar output will dictate the volume of sugar exports the government will allow over the 2025/26 season. The government has already approved the export of 1.5m tonnes of sugar this season. If production holds up, there is certainly room for the government to allow further exports, when you consider that India is expected to consume around 28.5m tonnes of sugar through the season.

However, looking at current price dynamics, low world prices make little sense for Indian mills to export sugar, at least for now. We potentially see Indian exports hitting the world market

only later in the season, when large domestic stocks start to put downward pressure on domestic prices.

Thai sugar output set to grow

The Thai sugar crop is set to see its second consecutive year-on-year increase, with production in 2025/26 set to total a little more than 11m tonnes, up around 12% YoY. The sugarcane area in Thailand has increased, with cane offering better returns than cassava for farmers.

Meanwhile, good rainfall throughout the year should also be supportive for yields. Thai raw sugar availability through the first quarter is important for the global market, given that this is the period we usually see tightness in the raw market due to the CS Brazil offcrop.

Lower EU sugar prices will weigh on the bloc's output

EU sugar prices remain under pressure, according to monthly average prices from the European Commission. Data shows that prices in September 2025 fell by a little more than 30% YoY.

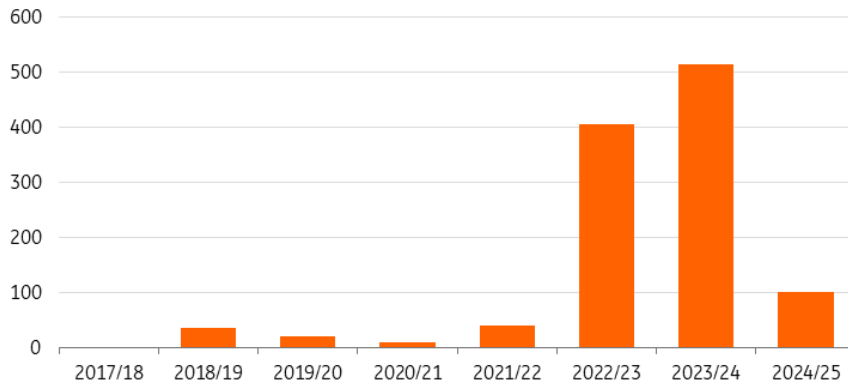
These lower prices have been driven by stronger domestic output, with larger planted area in the 2024/25 season – the largest area since the 2019/20 season. However, lower prices mean that farmers will have reduced plantings for the 2025/26 season, which should see production fall 7% YoY to 15.4m tonnes. The outlook for the 2026/27 season is for a further decline in beet plantings.

Meanwhile, the EU has also dealt with stronger imports since Russia's invasion of Ukraine, after the EU gave Ukraine duty-free access. These imports peaked in the 2023/24 season at 514k tonnes vs a pre-war quota of 20k tonnes. Volumes in 2024/25 have fallen significantly, down towards 100k tonnes, with the EU imposing safeguard measures to limit flows, while Ukraine itself has set an export quota for sugar to the EU. Looking ahead, the EU will limit Ukrainian sugar imports to 100k tonnes.

Sticking with trade, given the low world prices we are currently seeing and the comfortably supplied white sugar market, EU sugar exports are likely to come in lower this season, which should help keep the domestic market well supplied through the 2025/26 season.

EU sugar stocks are forecast to end the 2025/26 season at 2.1m tonnes, marginally up from 2.05m tonnes at the start of the season. Comfortable stocks mean upside in EU sugar prices are likely capped, while the downside is also limited with falling domestic output and less pressure from Ukrainian sugar flows.

EU sugar imports from Ukraine fall due to restrictions (k tonnes)



Source: European Commission, ING Research

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