Carlsquare/Vontobel weekly trading note: The sugar high could be about to crash

The sugar market is entering a potentially tighter multi-year period, with production risks concentrated in India and Brazil. The rising price of oil has led to increased demand for ethanol in Brazil, which is also used for sugar production. Although oil prices are currently high, they could fall given favourable developments regarding the Middle East conflict. In India, there is still a chance of rain before the harvest begins, which could trigger a significant fall in sugar prices. Overall, rising interest rates, led by those in the US, are putting pressure on stock markets.

Sugar prices have overreacted to a weather shock affecting multiple countries before the most important supply information became available. Brazil is still in its main harvest period, and lower crude oil prices could redirect cane from ethanol to sugar production. Furthermore, the USDA's balance sheet remains much more favourable than private deficit forecasts suggest. Meanwhile, India's monsoon season has improved significantly from its early-season low, and a larger-than-expected Indian harvest could coincide with Brazil's ongoing supply to the export market. A shift in the sugar/ethanol mix or a series of less bearish crop updates could cause sugar prices to fall significantly.

On Monday, 14 September, the yield on the US 10-year Treasury bond surpassed 5 per cent for the first time since October 2023. The market anticipates a 92 per cent probability of a 25-basis-point increase in the Fed's benchmark interest rate later today (Wednesday 16 September).

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