



Sugar

Commodities Research Division

World Market Sugar Outlook November 2017



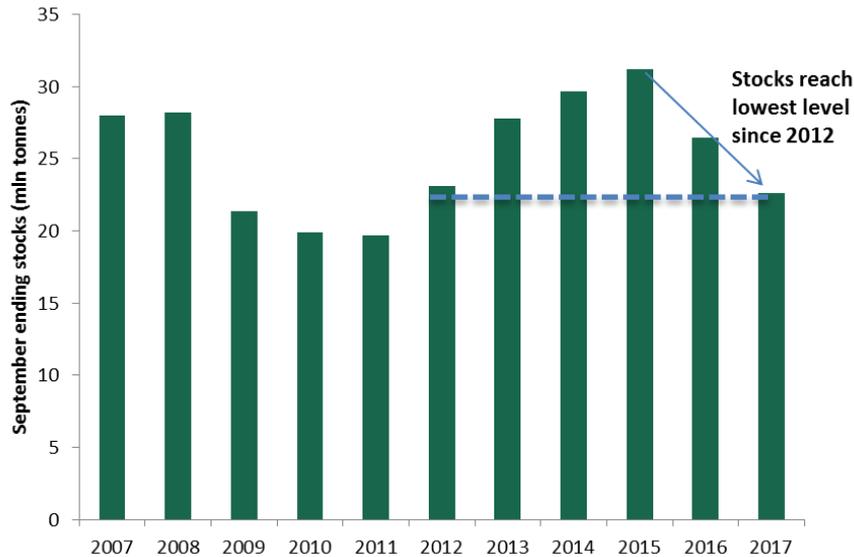
2016/17: The year that wasn't...

Stocks fall

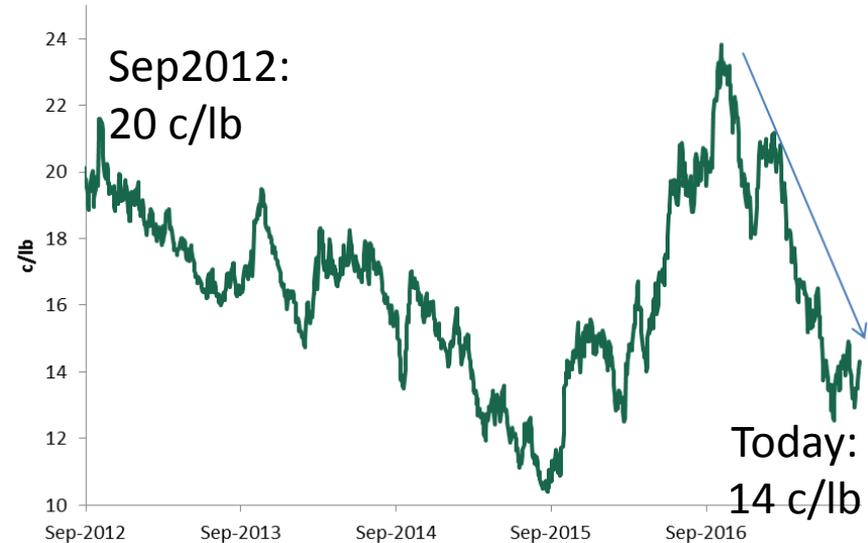
so have prices

..but

Major origin stocks

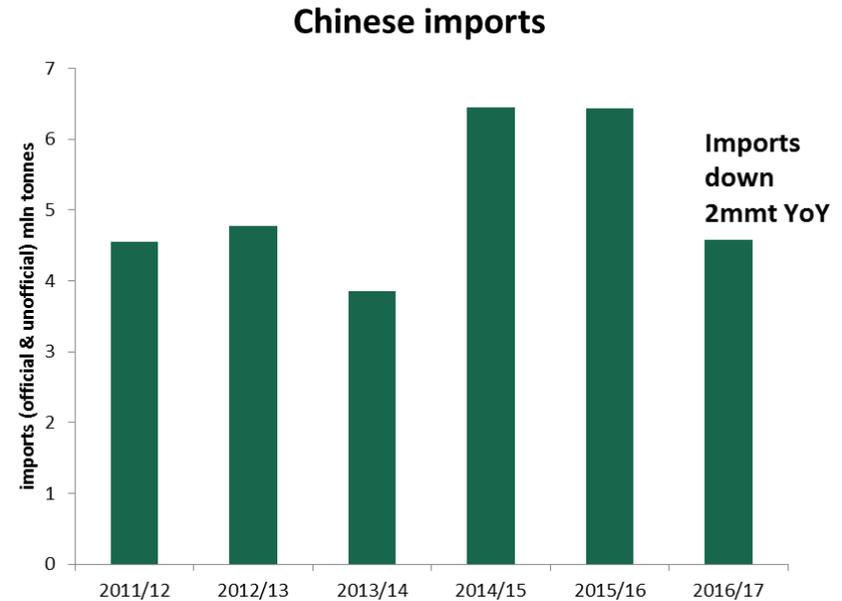
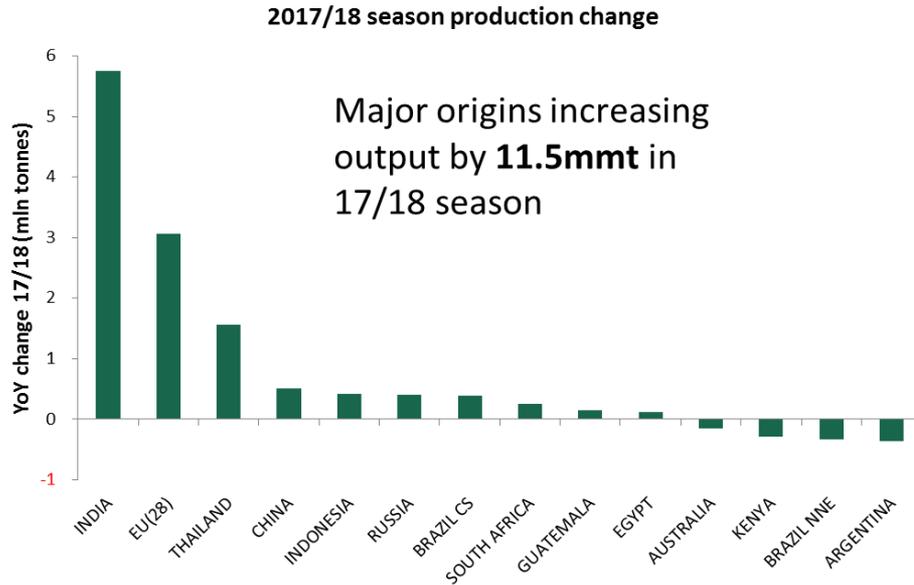


NY11 Sugar price



- Stocks at major origins fell to their lowest level in five years
- Prices have also fallen towards the 5 year lows

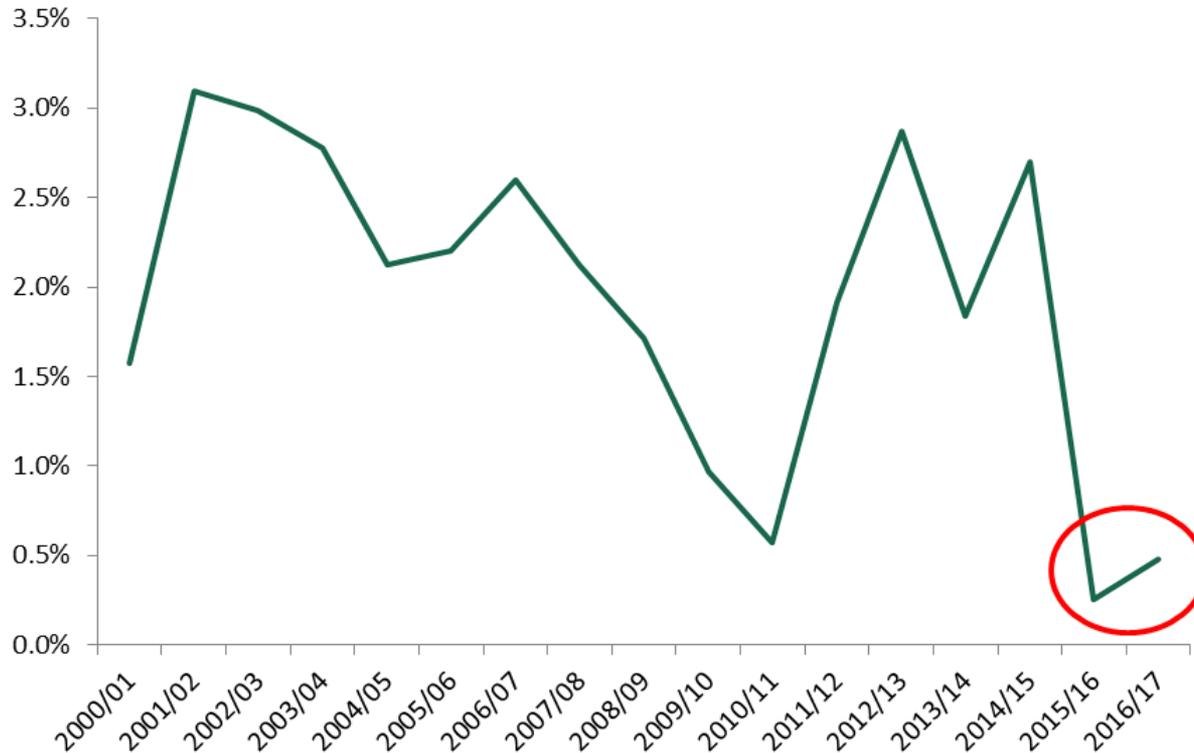
Why the disconnect between price and stock?



- Big crops for 17/18 has pressured producers to clear out stocks
- Demand from usual big players such as China and India was absent

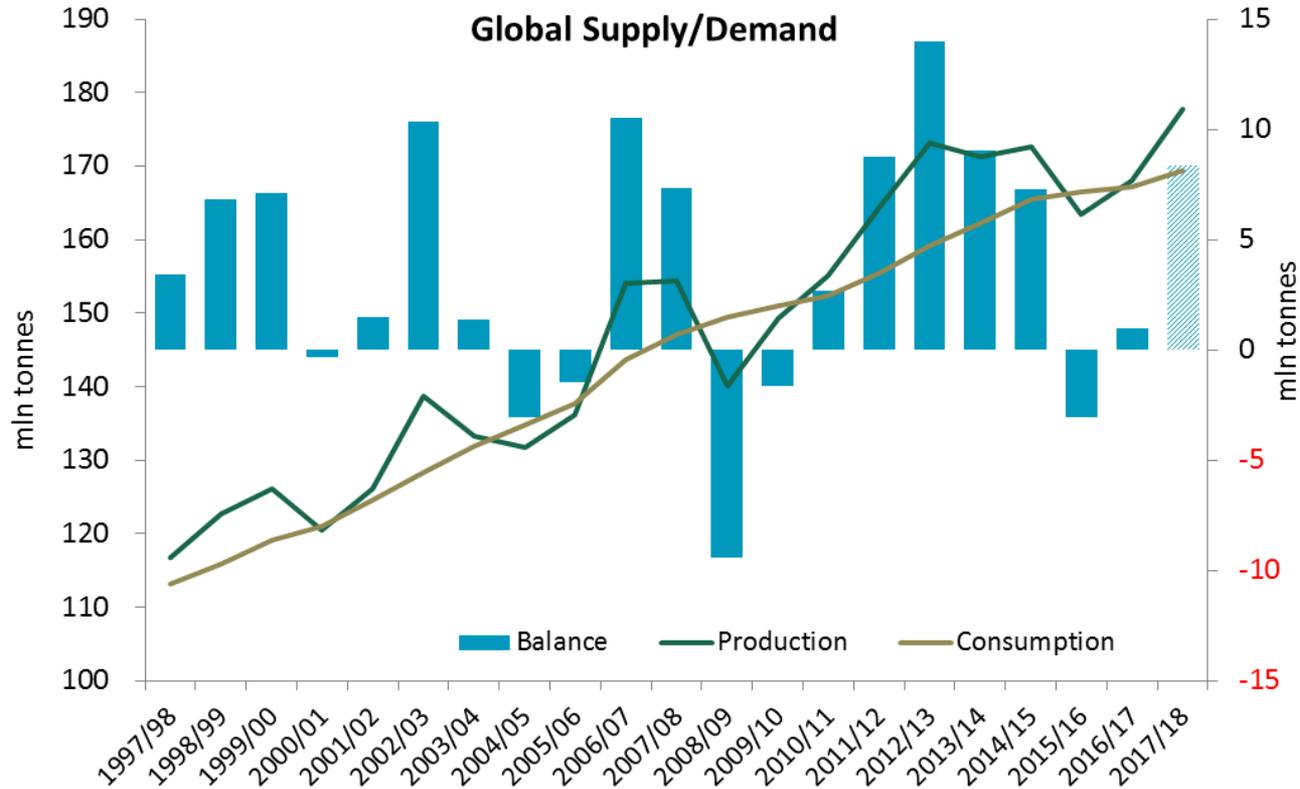
Doubts on consumption growth

Global Consumption Growth (2000-2017)



- Challenging era for consumption growth has painted pessimism about ability to eat through 17/18 surplus

Today: in a rangebound low



- Surpluses ahead....
-for prices & fundamentals to resolve

Solving the surplus ahead

3 ways to resolve the global surplus:

- 1 Low prices to trigger new demand
- 2 Carry & stock buildup
- 3 Switching away from sugar

- Switching = Cane juice to Ethanol; Farmers to other crops; Mills to switch off/reduce

Brazil CS – key to resolve Global surplus

Influencing Brazilian sugar output – The 3 Ps:

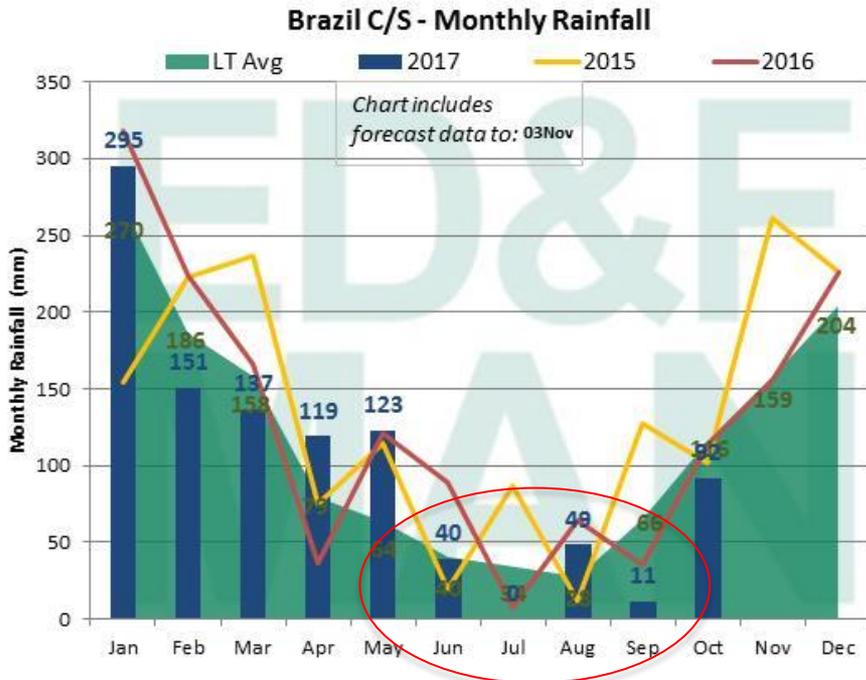
Precipitation

Price(parities)

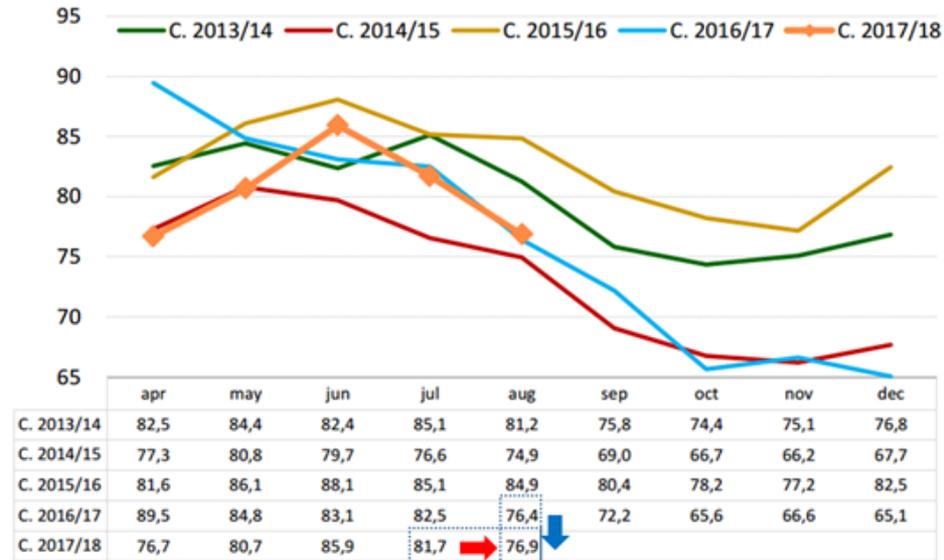
Policy

- Jun-Aug dryness was a risk to 18/19 cane availability
- Positive ethanol parity supports diversion of cane to ethanol next season
- This year's Govt policy moves help

Brazil CS – rains return after prolonged dryness

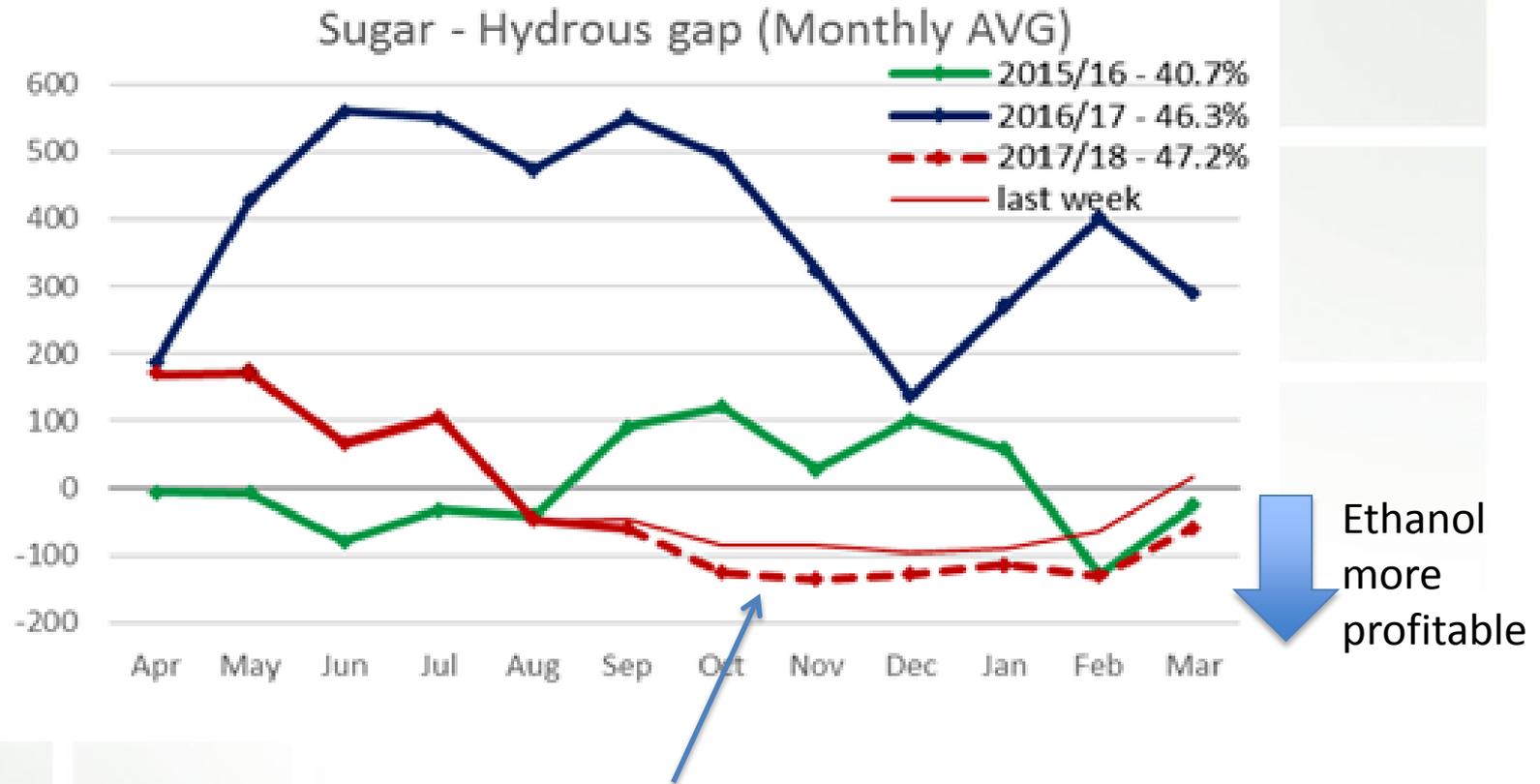


Historical Ag. yield (t/ha) – CS region



- 2-3 months of dryness hit ag.yields for 17/18
- Lower renovation rates also a concern for 18/19 yields and beyond

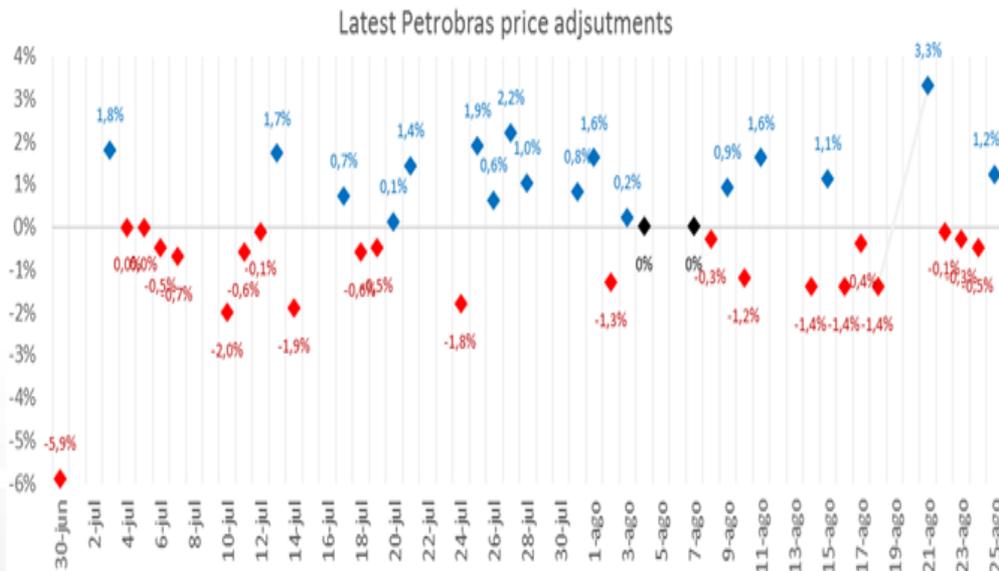
Brazil CS – switching cane juice to ethanol



- Ethanol paying better than sugar for rest of year
- Price uncertainty from Petrobras gasoline changes could reduce appetite for producers to switch to ethanol

Brazil CS – policy an unknown factor

Daily changes to Petrobras gasoline price

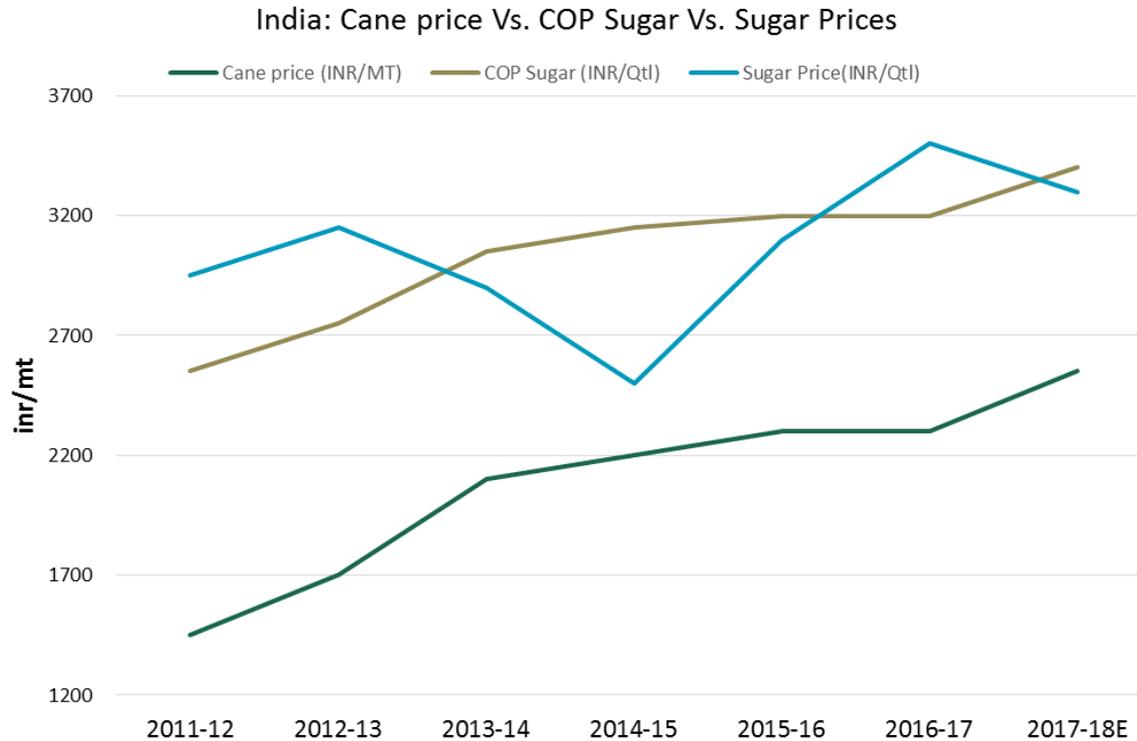


Changes to gasoline tax



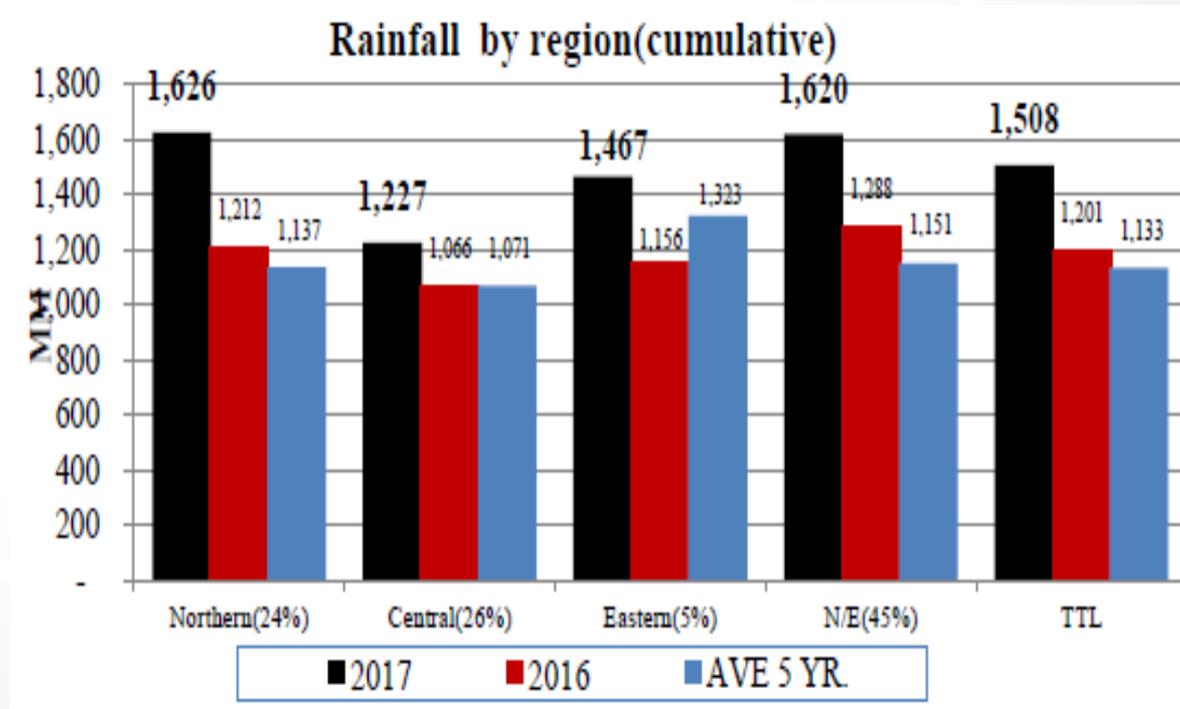
- Govt and Petrobras policy will be a decisive factor to watch during 2018
- 2018/19: Low prices could encourage producers to maximise crush and lower avg cost

India – balanced year ahead of big surplus 18/19



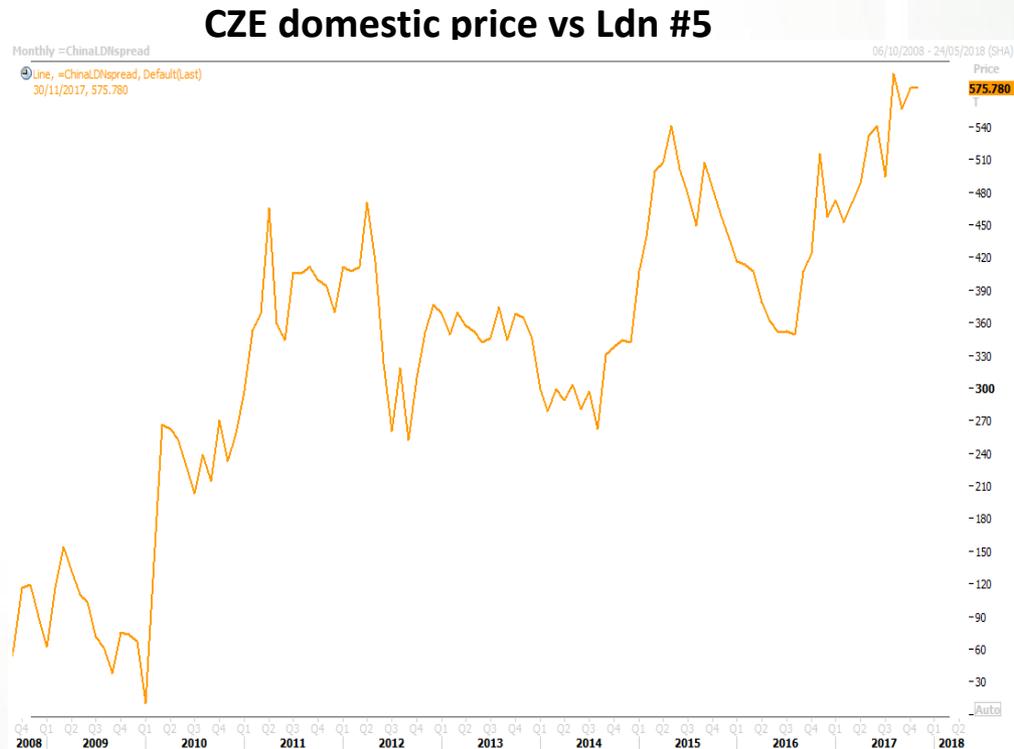
- 17/18 output: to rebound to 26mmt on higher area and yields
- 18/19: could be a monster crop; higher cane price and prompt payments are encouraging farmers to grow cane

Thailand – in line for a record crop



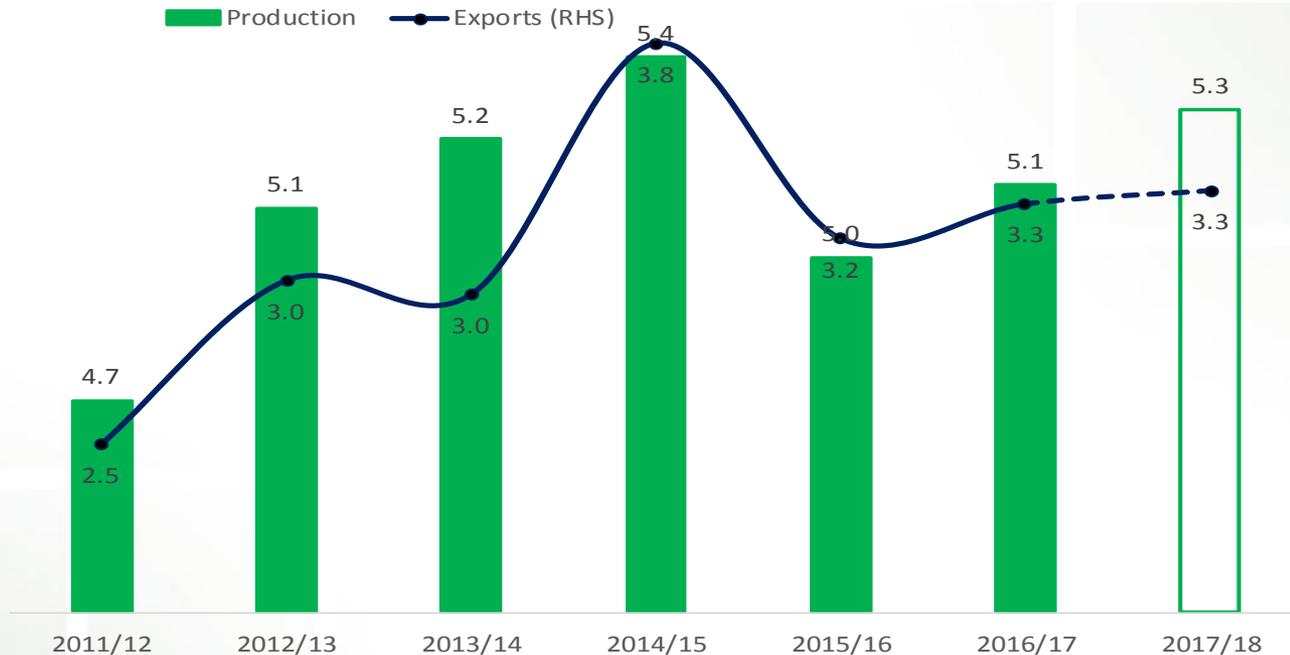
- 17/18 output to record 11.4mmt (prev. high 13/14 crop 11.2mmt)
- Majority of increase will be raws, which stays in region

China – Govt to limit imports: quota and cross-border



- Risk of Govt clampdown on imports, *despite* record high premiums (+\$575/mt) versus world marketImport

Centrals – production may fall short of record



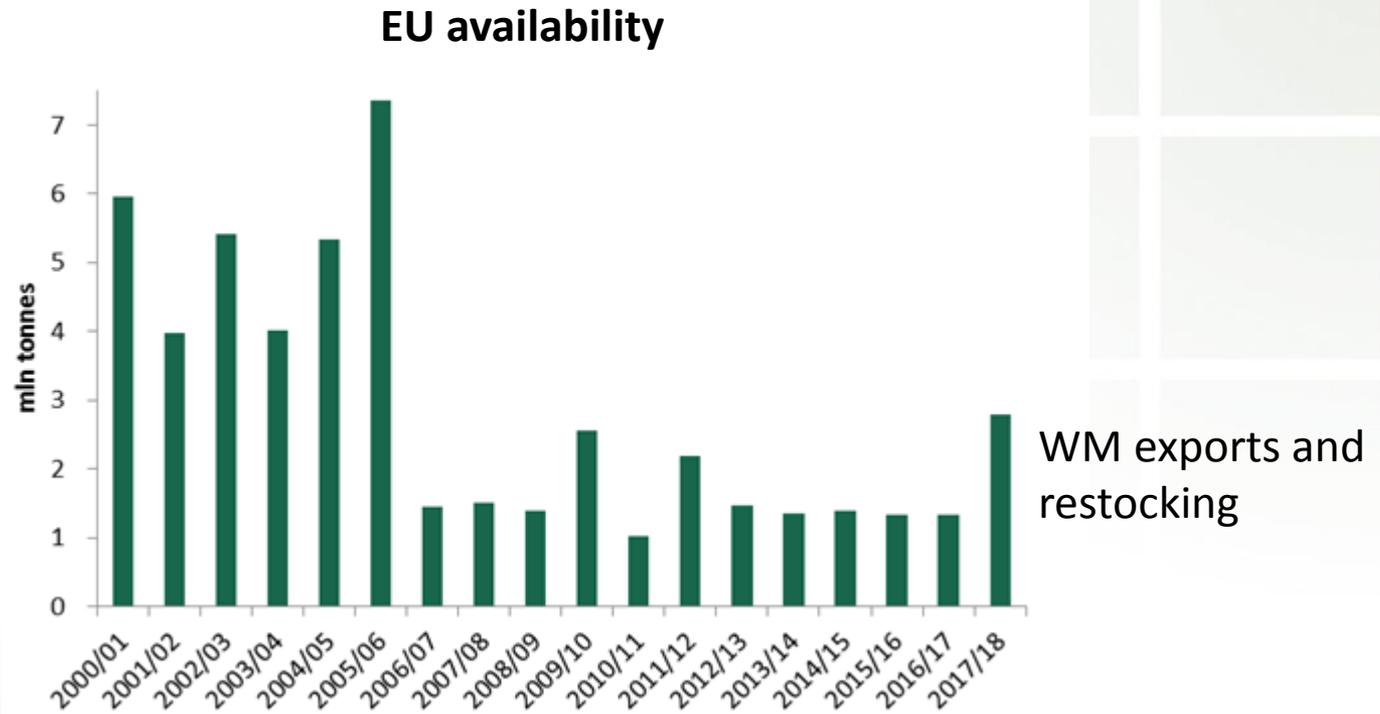
- Recent rains adding to upside for crop
- Whites will struggle to compete against EU exports to Africa

Whites surplus: CIS surplus will flow to WM



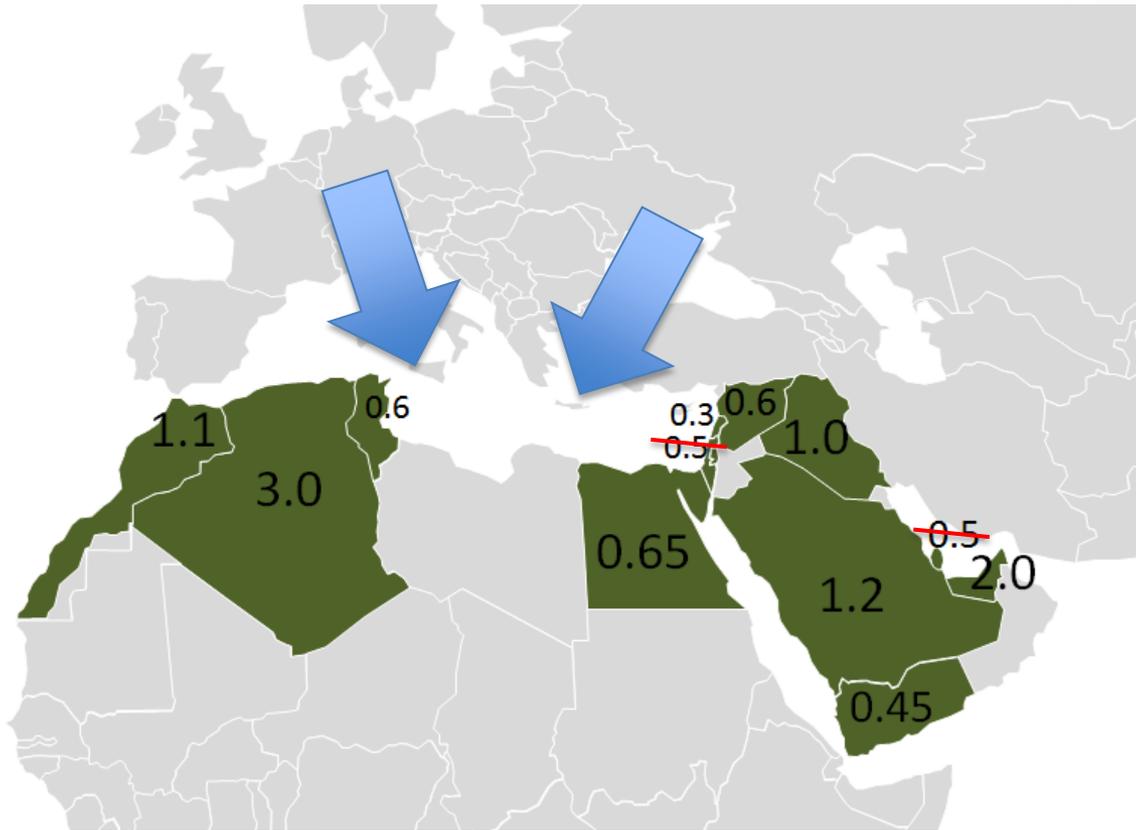
- Higher production in Russia and Ukraine increases availability for the WM
- Whites will offset raws imports to neighbouring *Stan* countries

EU: exports and restocking....



- Large crop 17/18 will leave surplus of around 3mmt
- Low stocks, higher domestic prices and logistic challenges could limit export flows onto WM

Whites surplus: Refiners under pressure

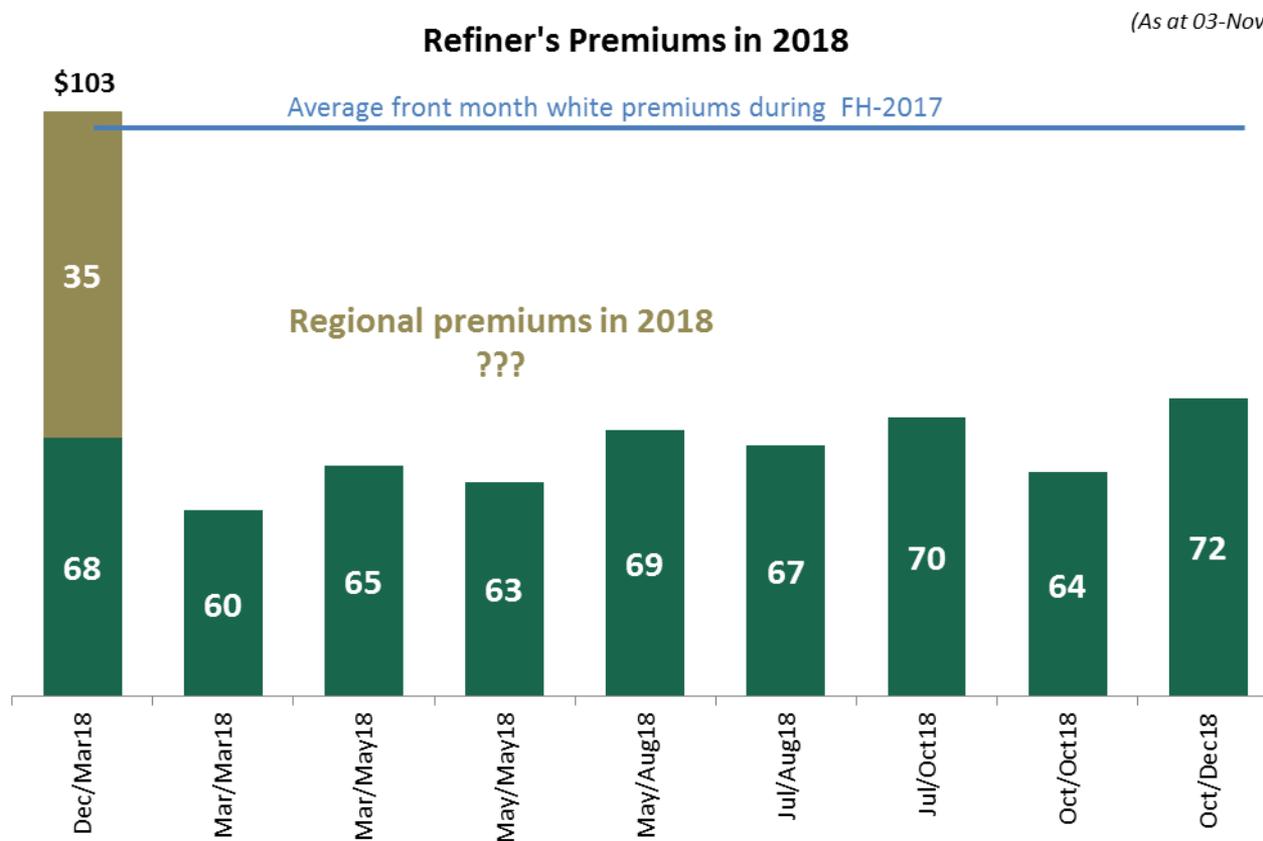


Today's capacity utilisation = 85% (approx 8.5mmt/year)

Exports account for over 30% of MENA refinery output

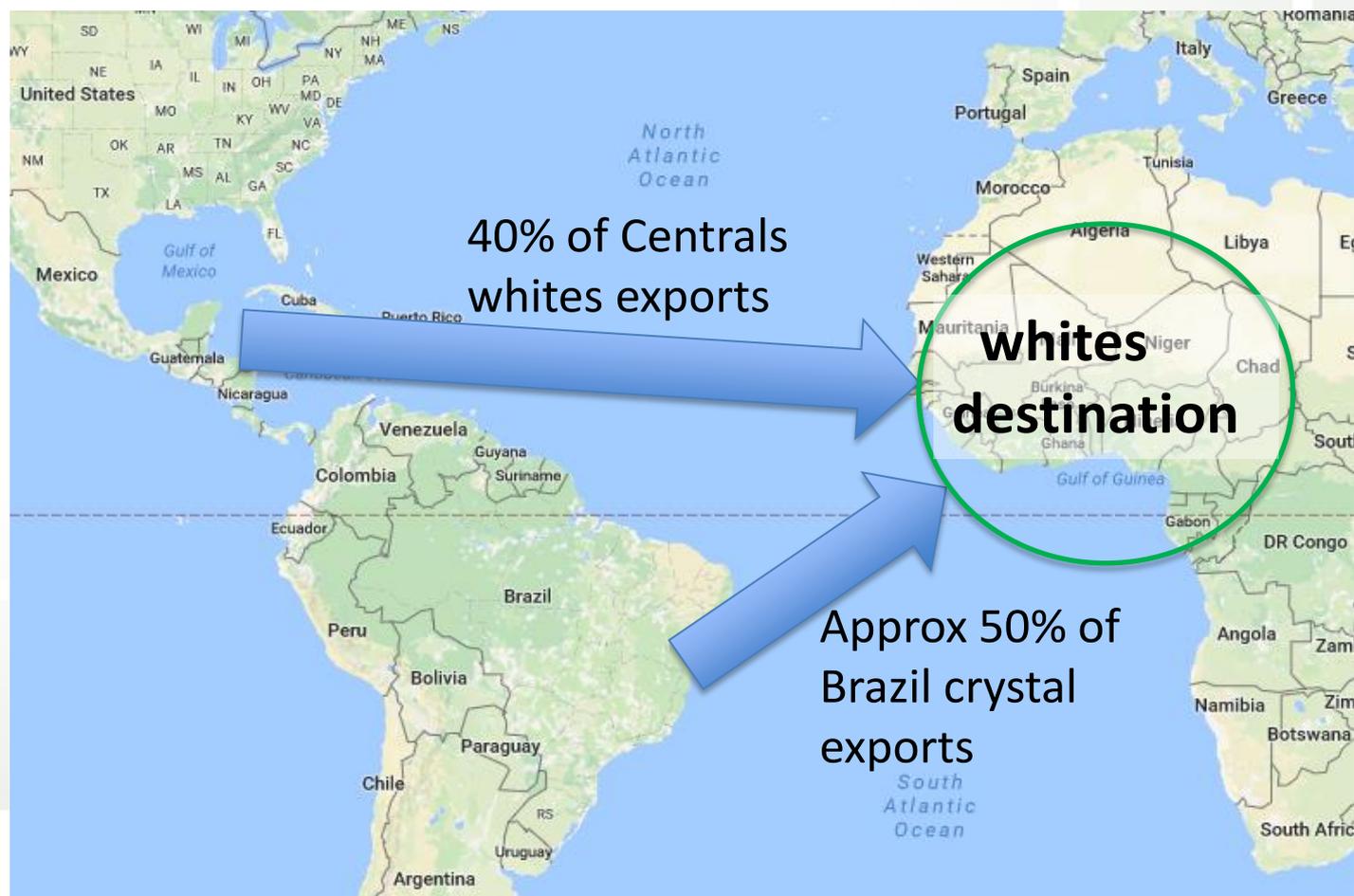
- EU and CIS exports will challenge MENA refiners in their backyard
- Some refiners will fail, switch off/reduce throughput, or deliver excess to London tape

Whites surplus: low WP..offset by local premiums



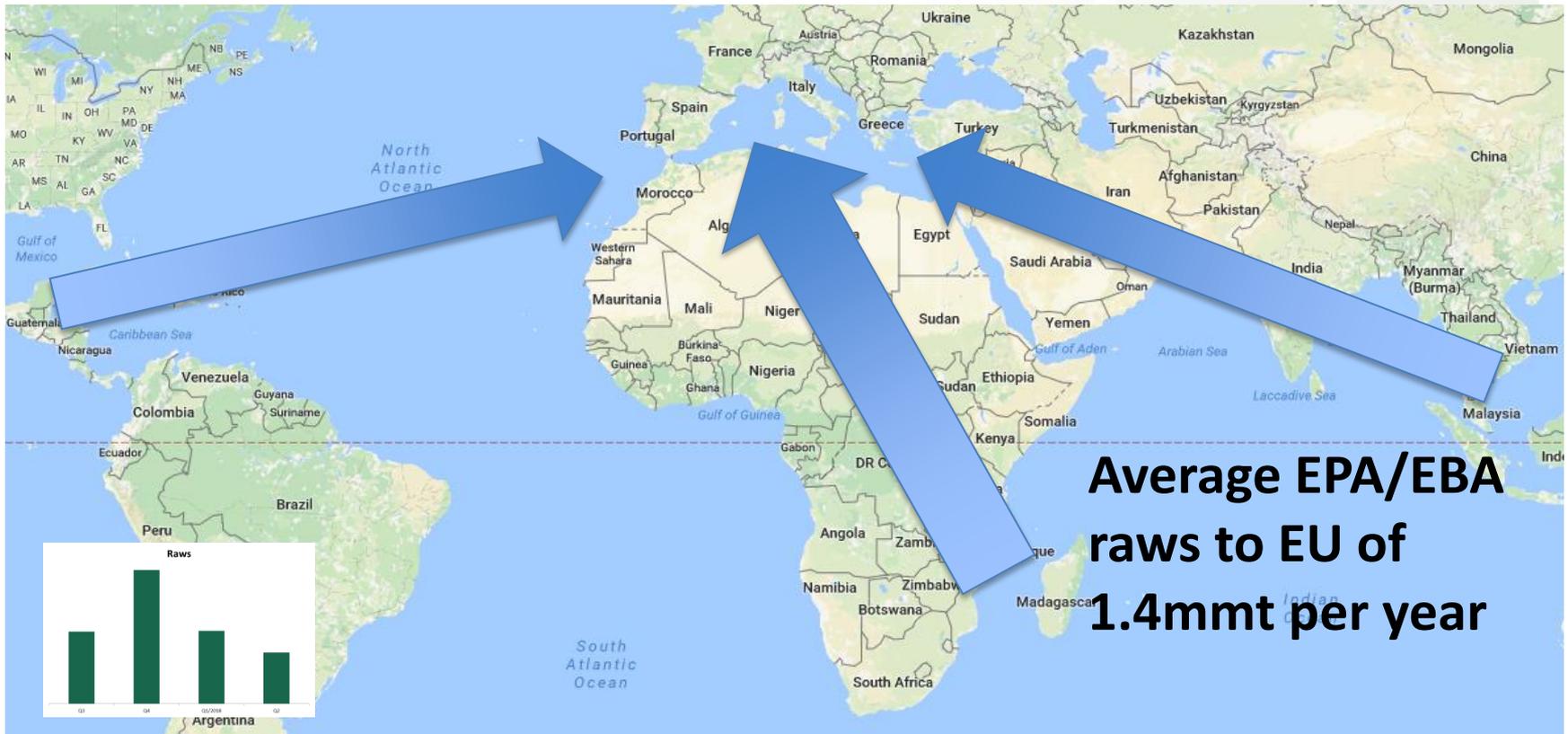
- A lower WP is one mechanism to reduce whites supply
- But, strong regional premiums are helping refiners

Whites surplus – Price signal for Brazil & Centrals



- Price signal will also have to reach Brazil & Centrals via lower white premiums and a bigger carry in London

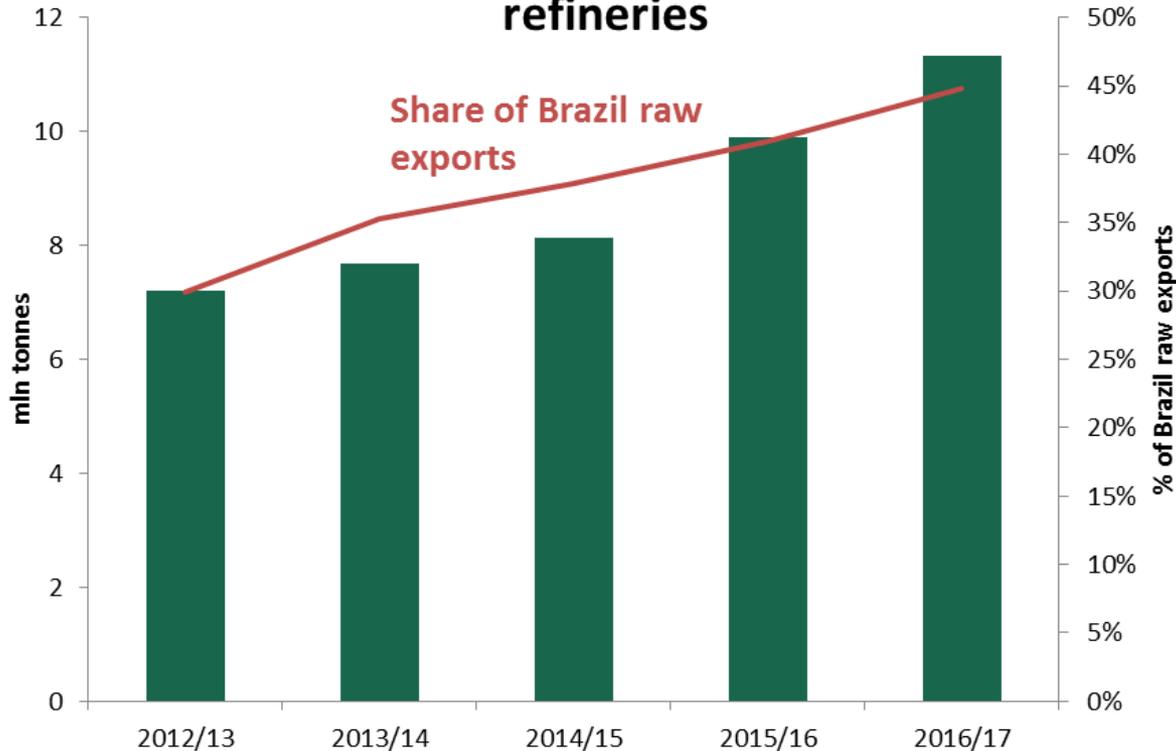
2017/18: there's also a surplus of Raws to resolve



- Switching whites to VHPs will add to raws surplus
- Lower EU import demand will mean EPA/EBA origins have to look to WM

2017/18: less refinery whites = more Brazil raws

Brazil: raw exports to MENA & India refineries



MENA & India refiners buy nearly half of all Brazil raws exports

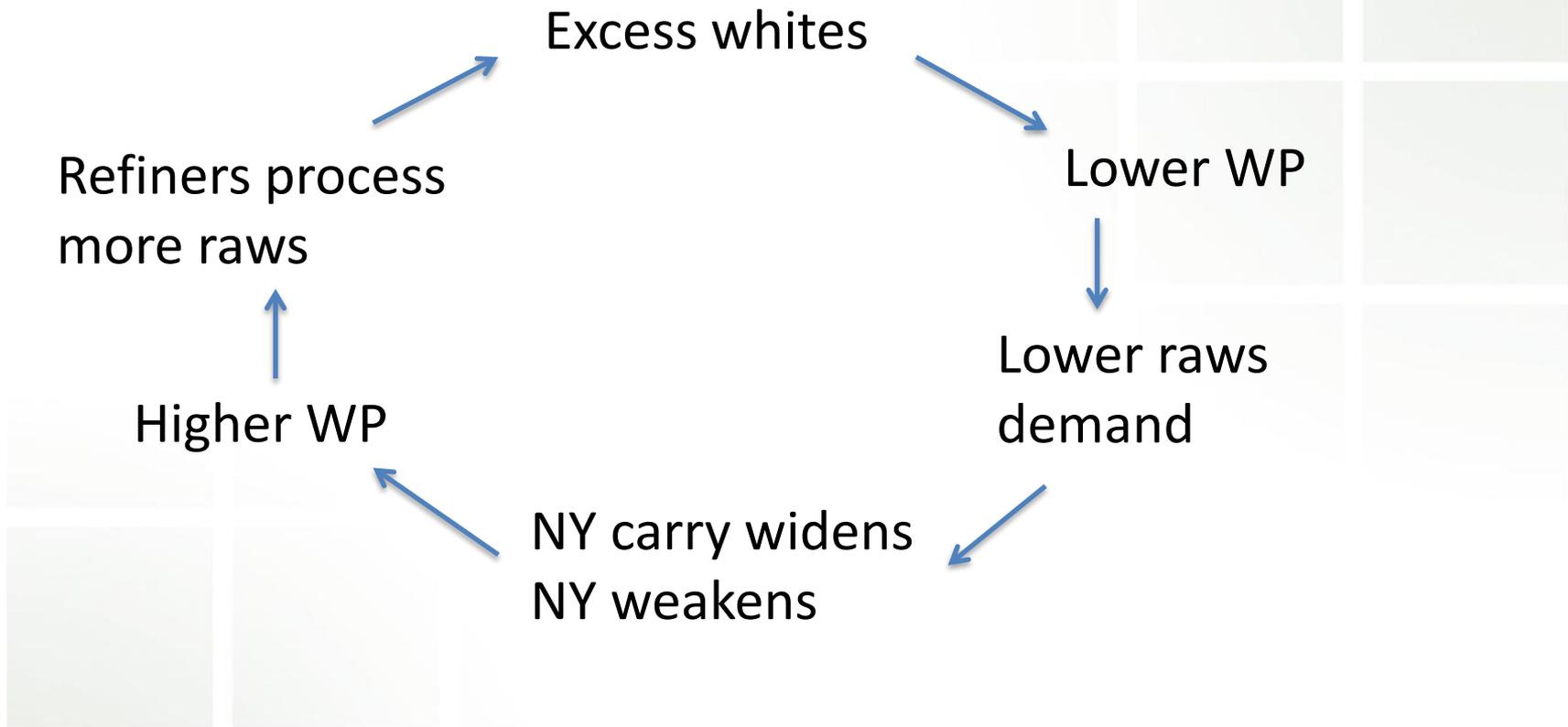
- Low WP could hit refiner's demand for Brazilian raws later in 2018, weighing on raws surplus and values

Resolving the surplus: the carry



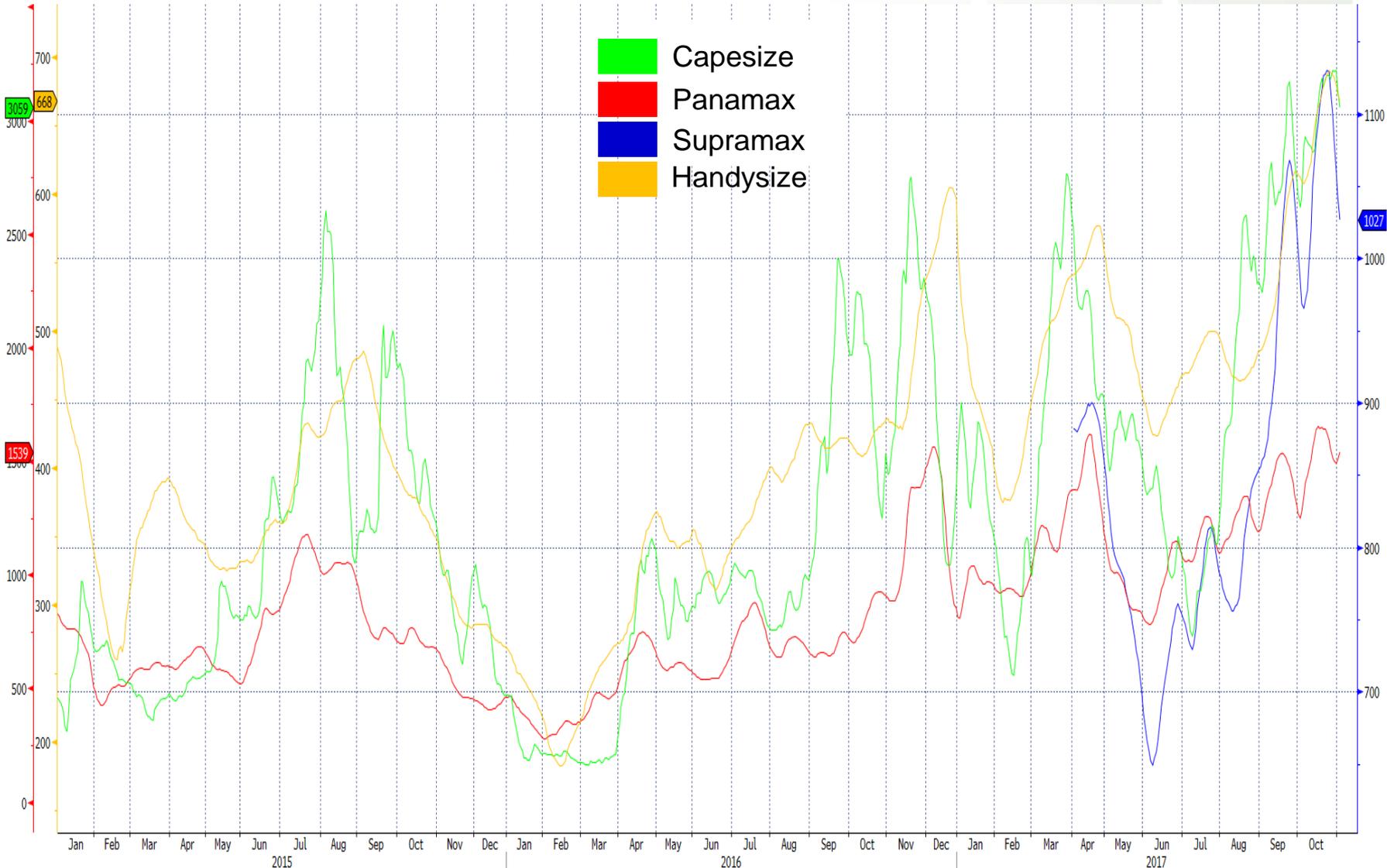
- One outcome of surpluses is to carry of excess sugar
- Downward pressure on NY & Ldn spreads until the surplus outlook changes
- Hard-up industry: lower margins & cash flow constraints could limit ability to carry sugar this year

The WP - a vicious circle



- Oscillating returns for refiners and cane sugar producers
- Leading to price volatility during the period

Freight rate rally to 2 year highs

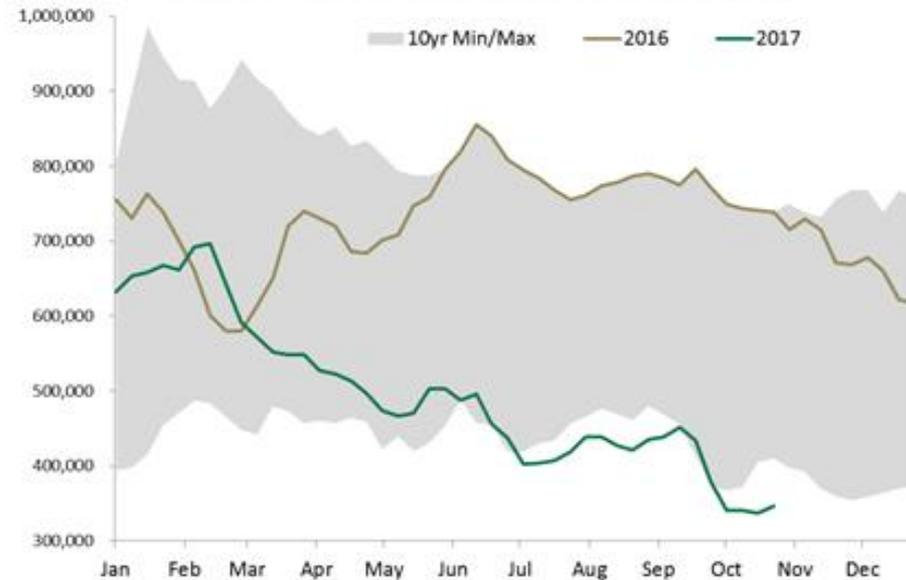


Producer pricing and speculative short

Commercial & Spec shorts (2015-2017)



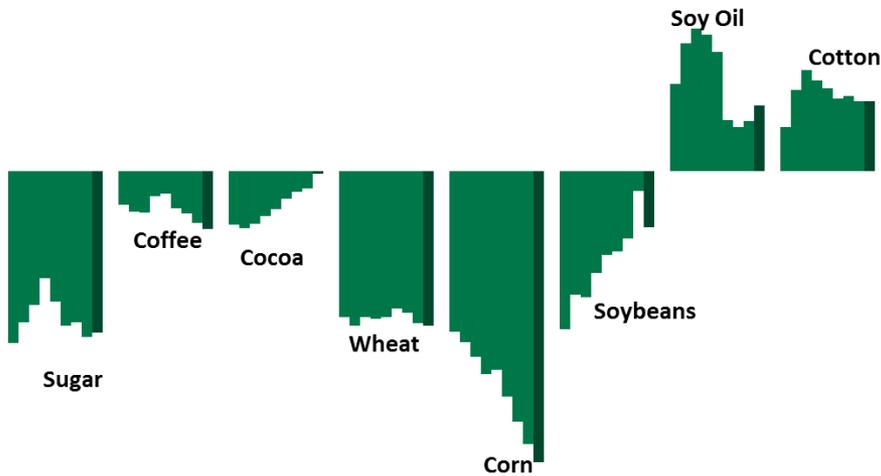
Commercial shorts (YoY comparison)



- Specs a big part of open interest and supply & demand of futures contracts
- Funds currently net-short: short covering is a potential bullish risk
- Producers under-priced today – can limit price upside

Macro risks: moving prices beyond fundamentals

Spec net position - Past 2 months



- Speculative community often move positions in unison across Ag sector
- Geopolitical risks to influence wider commodity complex via USD, for sugar the BRL is also key

Conclusions – outlook for 2017/18

- Surplus will have to resolve itself through combination of:
 - low prices encouraging increased demand
 - carry and restocking
 - switching to ethanol & alternative crops, or just switching off altogether
- Large raws surplus should keep NY under pressure, whites prices will trade on the timing of EU exports and persistence of refiners to maintain market share
- Brazil CS harvest is pivotal – lower mix, watch for weather risks to cane
- Known unknowns....weather events; freight rates; oil price; macro shift; policy changes; Govt buffer stocks; refinery/mill closures; China import policy

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Thank you