

The European Association of Sugar Traders



Sugar Market Observatory meeting

15 November 2018



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18/19 CENTRE-SOUTH BRAZIL: 10 MT LOWER YEAR-ON-YEAR

A crop hit by harsh weather

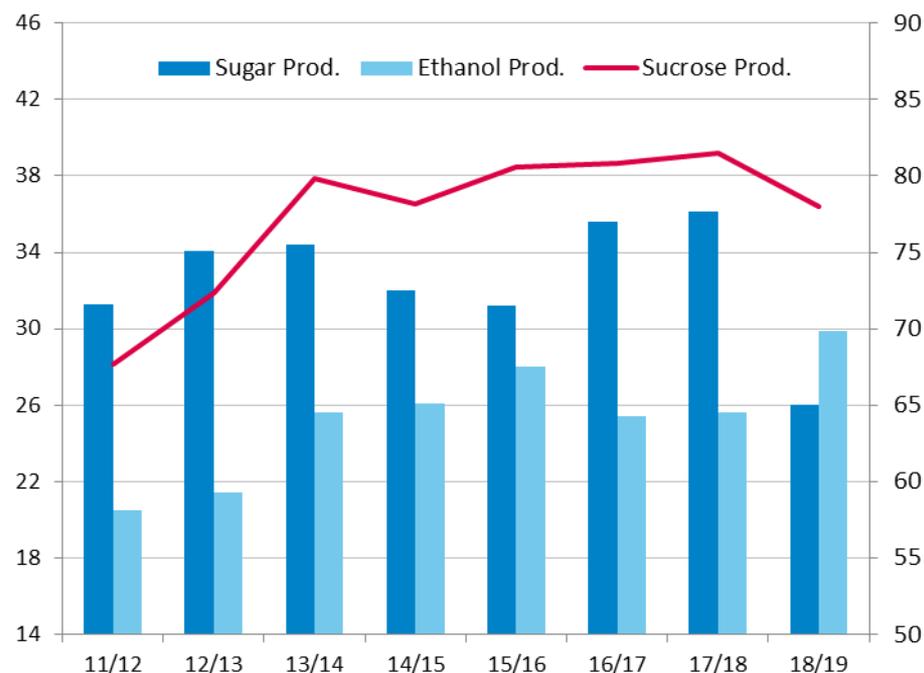
- CS cane growing season has been characterized by 2 consecutive drier-than-normal winters, leading to a 15% rainfall deficit in the overall cane growing development period.
- This hydric stress has reduced the potential yield by 5%, although it has not impacted the cane during its main growth.
- Low rainfall pattern during the harvest has nevertheless increased ATR and maintained sucrose production 4% below last year.

Collapsing sugar mix

- The main feature of 18/19 was the extremely dynamic ethanol consumption boosted by the high gasoline-ethanol price spread. These record spread levels have been induced by three factors: high crude oil prices, Petrobras's gasoline price policy, and low sugar prices.
- Hence since the start of the crop, ethanol consumption is 20% higher year-on-year, while parity has always stayed in favour of ethanol.
- This situation has led producers to minimize the sugar mix as much as possible, to reach 11% below last year. CS sugar production should reach about 26 Mt, the lowest for the past 10 years.

CS Brazilian production

[Apr/March, Left: Mt & Mm³ - Right: Mt sucrose]



INDIA: 2 LARGE CROPS IN A ROW

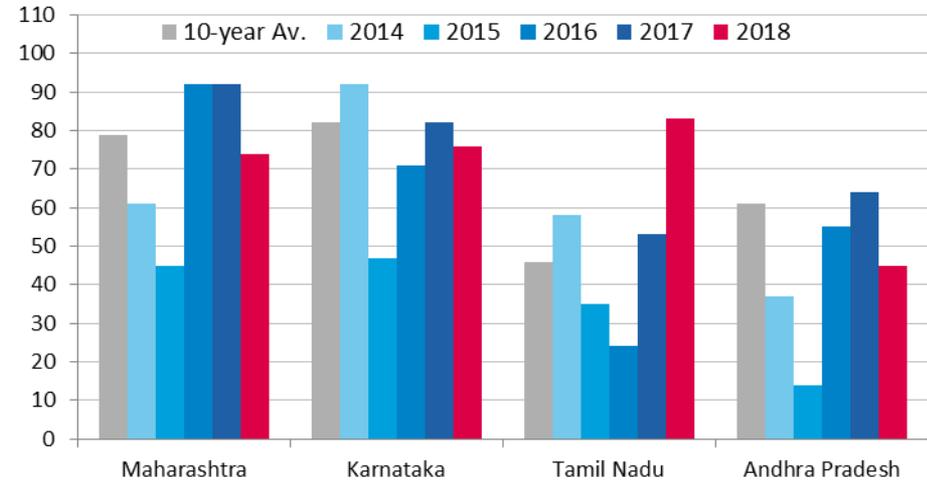
A short monsoon tail

- 2018 monsoon has proven favorable for main cane areas up to September but turned drier than average since then especially in the Maharashtra area.
- The high current reservoir levels will still support the standing crop during the dry season, and help plantings for the 19/20 season except in the drought hit Maratwada.
- 18/19 sugar production will benefit from some cane area increases, and despite lower yields year-on-year, it is assessed at 32 Mt.

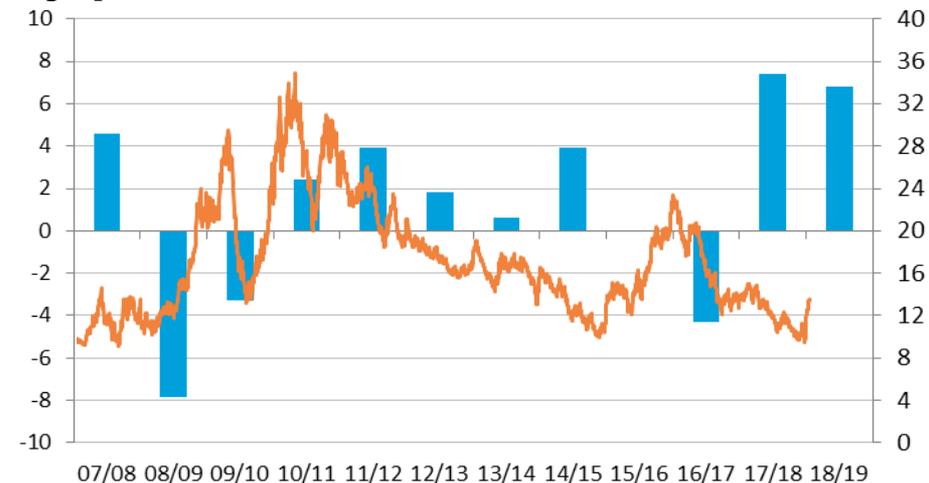
Unbearable stock-to-use ratio

- Two consecutive high sugar outputs will lead India to carry massive stocks by end 18/19.
- For cash-flow reasons and cane payments, mills will have to find new outlets outside of the domestic market.
- The authorities are acting at multiple levers to sustain the domestic market, creating incentives for exports and ethanol production to help the industry's cash-flow and the mills to proceed with cane payments in a crucial election year.
- Indian exports will start flowing in size from December onward as crystal, refined and raw sugars.

Indian water reservoirs level
[% of storage capacity]



Indian production-consumption balance [Oct/Sep, Mt sugar]



THAILAND: THE 17/18 RECORD NOT TO BE REPEATED

Monsoon less abundant than last year

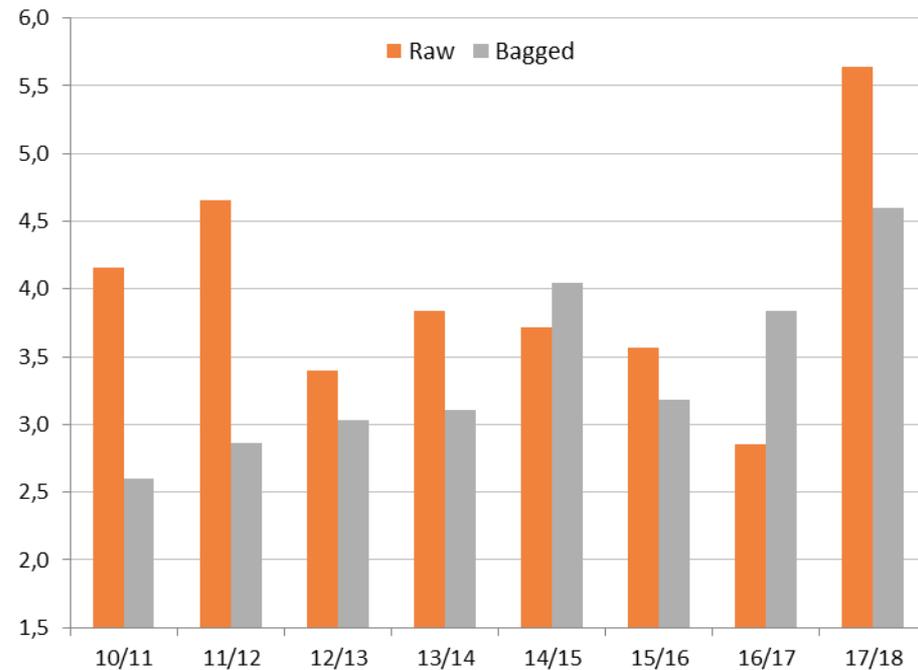
- 2018 monsoon has not been as beneficial for cane as last year. It arrived earlier but the rains were less intense and more scattered. The monsoon end was also weak.
- The cane yield is not expected to repeat last year's record but should still reach a high level, and lead cane production to be in the 120-125 Mt range.
- White sugar production should be favoured by mills, and remelt activity will be helped by large bagasse availability.

17/18 exports finding homes regionally

- 2017/18 raw sugar exports are expected at a record level, in line with the crop. They should flow exclusively to the region, mostly to the detriment of Brazil CS exports.
- White sugar exportable surplus shall also mainly remain in the Far East, benefiting from the large demand linked to China-related flows.
- Despite the large 17/18 crop, ending-stocks for both raw and white sugar should remain manageable and be either remelted or exported during the first months of the 18/19 crop.

Thai sugar exports

[Dec/Nov, Mt sugar tel quel]



THE EU: A BUMPY CLIMATIC ROAD TO A CROP FAILURE

Detrimental weather

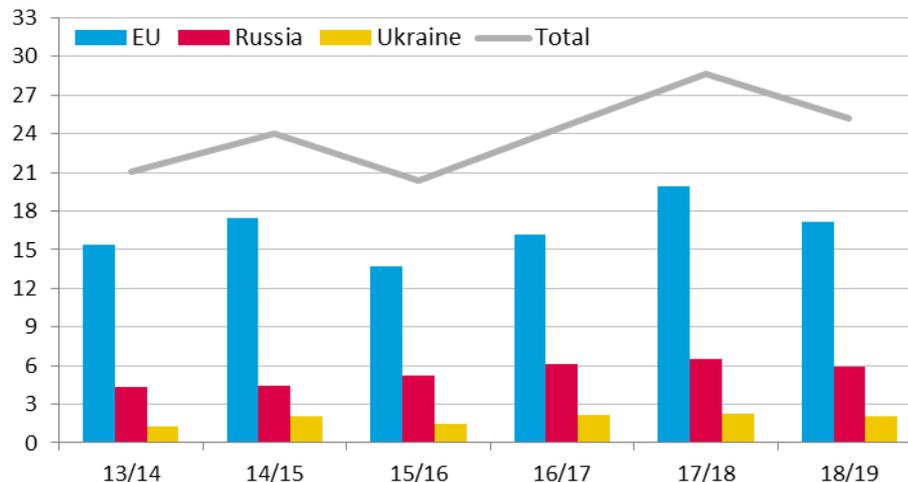
- The overall European beet belt has suffered from an extreme weather sequence in 2018: late sowing due to cold temperatures, favourable rainy & hot spring weather, and summer drought.
- The last 3 months' hydric stress environment will induce significant reduction of beet yields, only partially compensated by higher sucrose content. This season crop will also be characterised by a high heterogeneity in yield performances.
- All in, the European beet belt should mark a 10% crop reduction year-on-year, losing more than 3 Mt.

EU Exports level almost back to quota era?

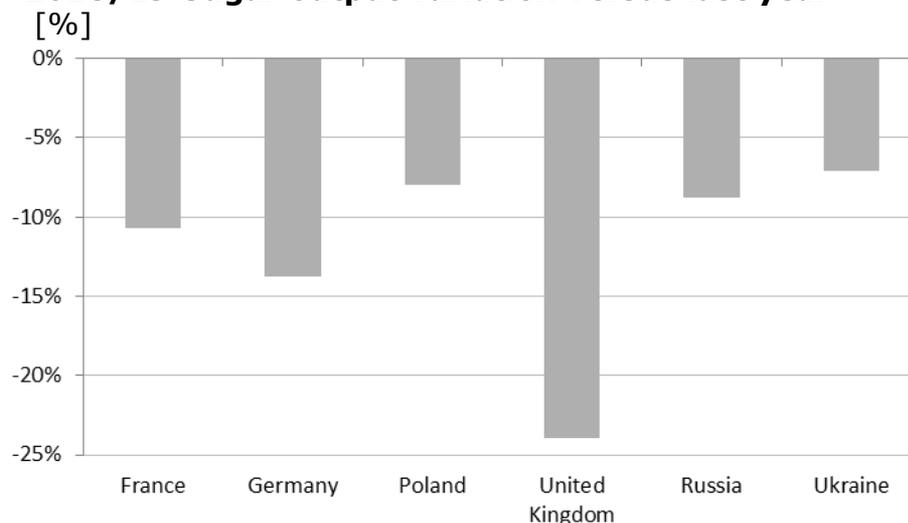
- With reduced production, 18/19 EU exports should be halved compared to 17/18, making its contribution to the white market comparable to the quota era.
- Further, 5 to 10% of the beet area is expected to switch to more remunerative wheat alternative in 19/20. As a consequence, beet millers may also reduce their 18/19 exports to maximize carry-out.

EU & Black Sea sugar production

[Crop year basis, Mt sugar tel quel]



2018/19 Sugar output variation versus last year



WORLD CROP YEAR REVIEW: 17/18 PARADIGM OBSOLETE

Weather events back and low flat price

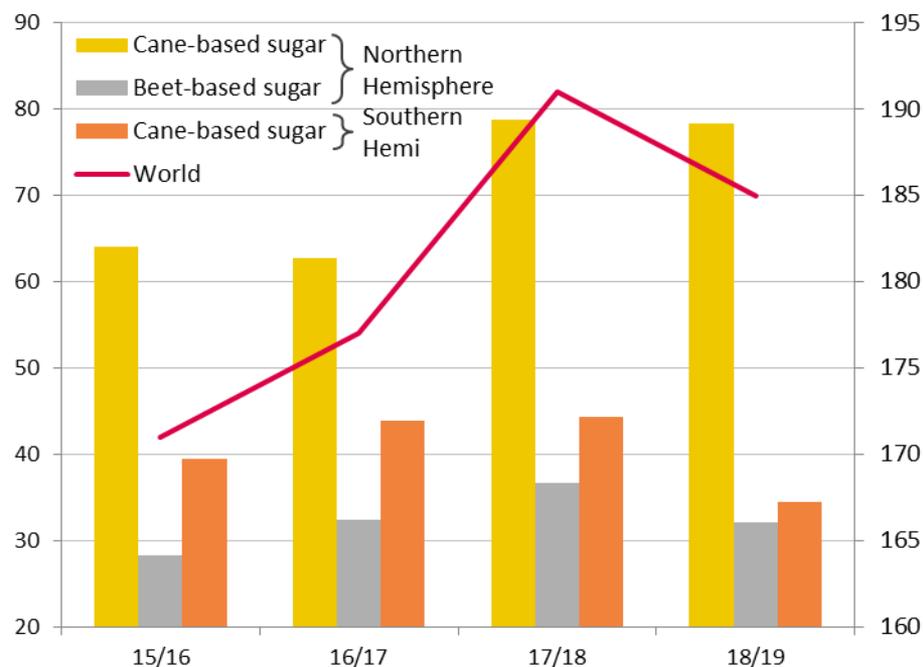
- After worldwide beneficial weather conditions in 17/18, improving production in almost every country, and high 2016 sugar prices, pushing for better crop care and maximization of sugar mix in CS, the 18/19 environment has proven radically different.
- European beet belt has been struck by adverse weather conditions, as Brazil CS and Pakistan, driving to significant decrease of sugar production in these areas. Asian monsoon tail has proven also weak affecting crops of India and Thailand.
- Further, CS has again demonstrated its large flexibility in the mix adjustment to less sugar production in a context of low sugar prices and higher crude oil prices, making ethanol more profitable all through the campaign.

19/20: the tipping point?

- 19/20 will start with several unfavourable features: resilient high crude oil prices, high wheat prices and neonicotinoid ban in the EU, lower crop in Pakistan, cane aging in CS, India & Thailand back to more reasonable levels.

Sugar production per feedstock and hemisphere

[Oct/Sep, left: Mt sugar – Right: Mt Total World production]



GLOBAL S&D: 18/19 TURNING TIGHTER

World S&D back to a more balanced perspective

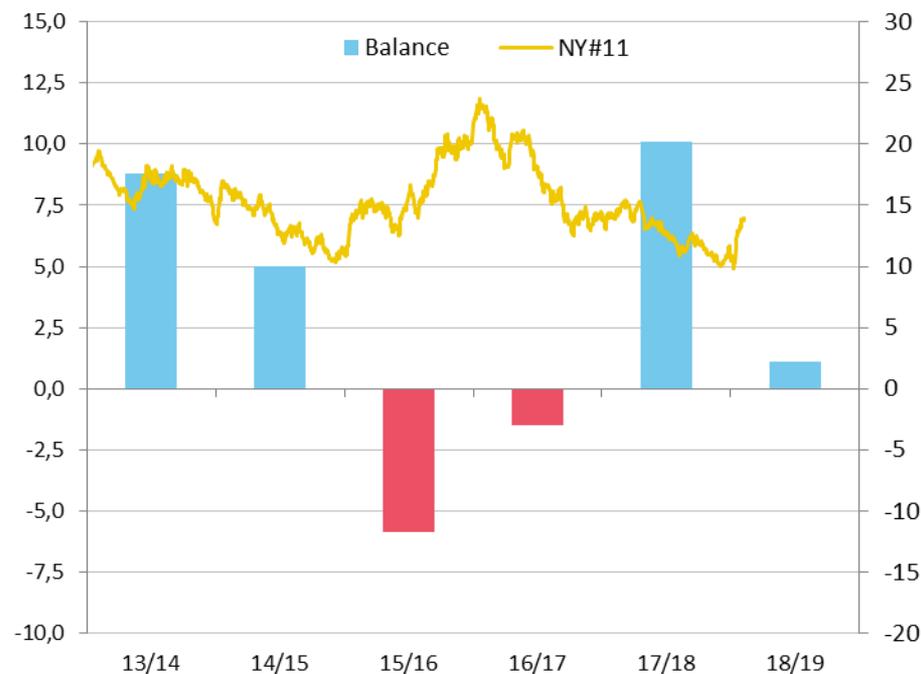
- Since the start of the CS crush in April 2018, sugar availability has decreased under detrimental weather in many regions and poor market economics. This will bring the 18/19 production-consumption balance back to a more modest surplus after 17/18.
- Most countries in the world have significantly decreased their output, with the exception of India. With a massive 12 Mt increase in a 2-year span, India alone will be keeping 25% of world stocks by end 18/19 should no exports occur, from 5% two years ago.

Trade flows: an Indian equation, once again

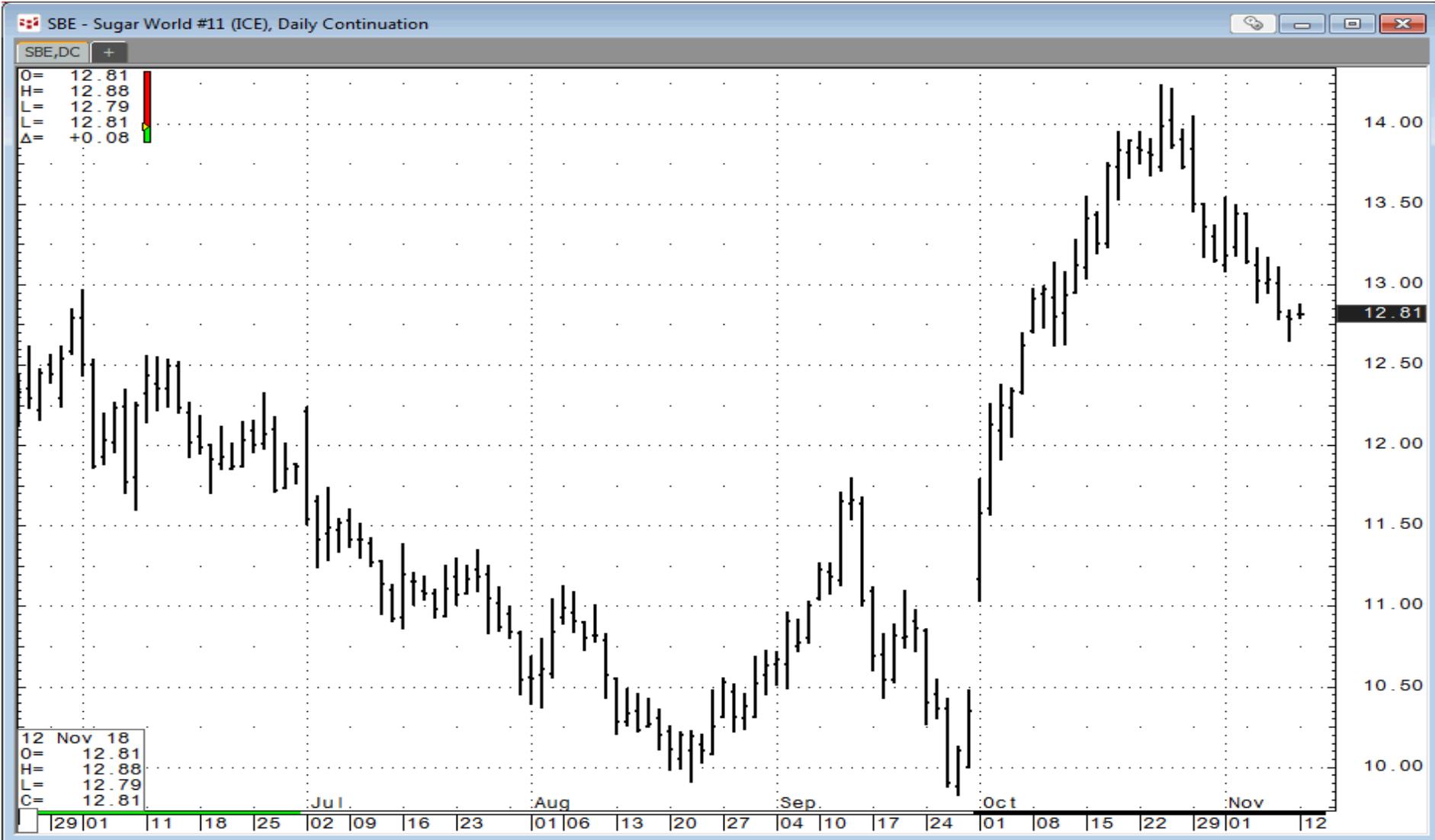
- India's ability to export will depend on sophisticated regulations, domestic prices arbitrage, and quality/logistic constraints. This will determine both raw and white physical markets' directions for the coming months.
- However, Indian exports are today required as much to lighten Indian S&D as to balance the world market. This interdependence could turn particularly critical during the inter-safra period when flat price rise has no immediate effect on supply through the CS mix adjustment.

Global production-consumption balance & NY#11

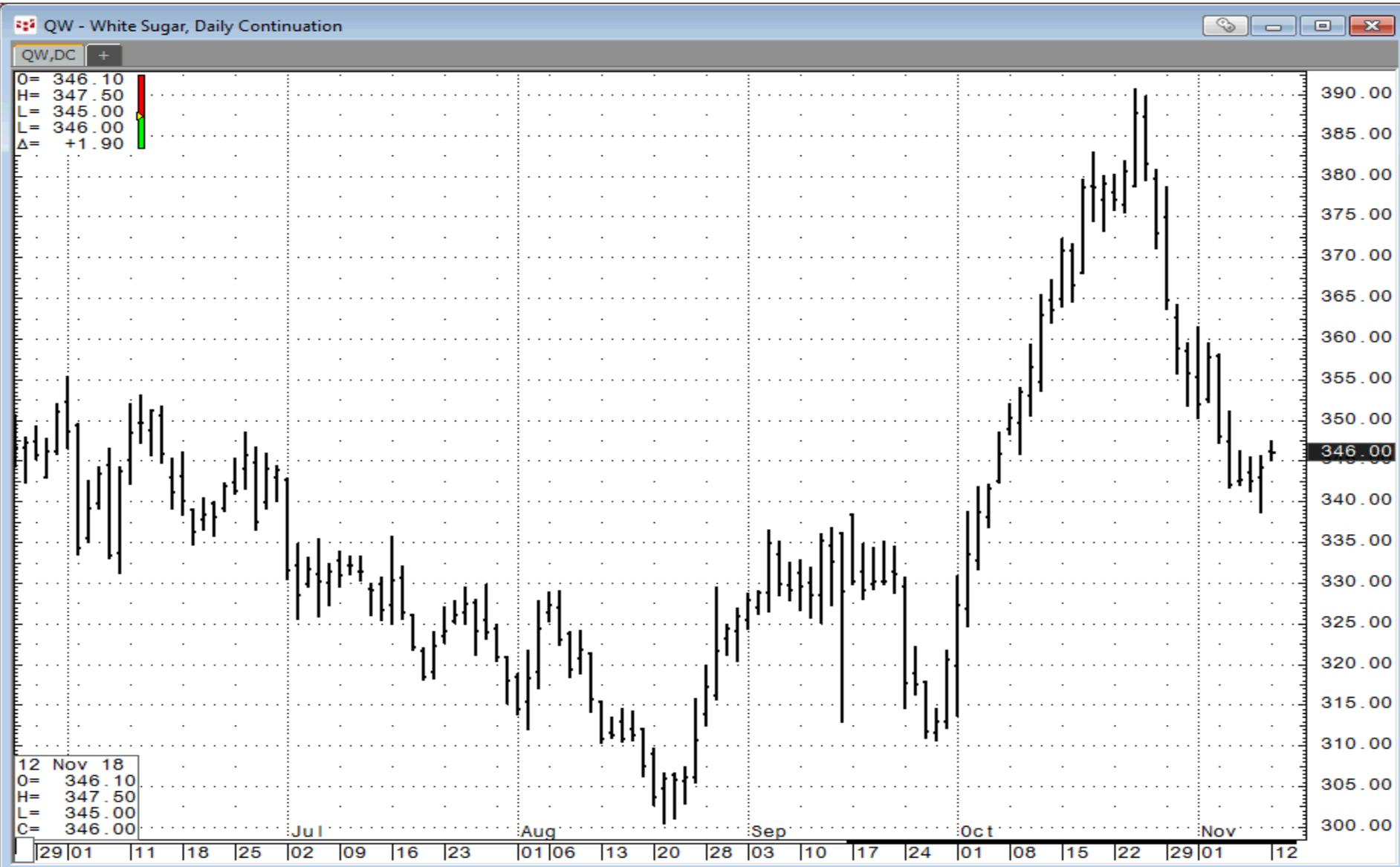
[Oct/Sep, Left: c\$/lb – Right: Mt raw value]



NEW YORK N°11 FUTURE MARKET (CONTINUATION)



LONDON N°5 FUTURE MARKET (CONTINUATION)



WHITE PREMIUM (CONTINUATION)



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