



European Association of Sugar Traders

# World market and prospects for EU sugar exports

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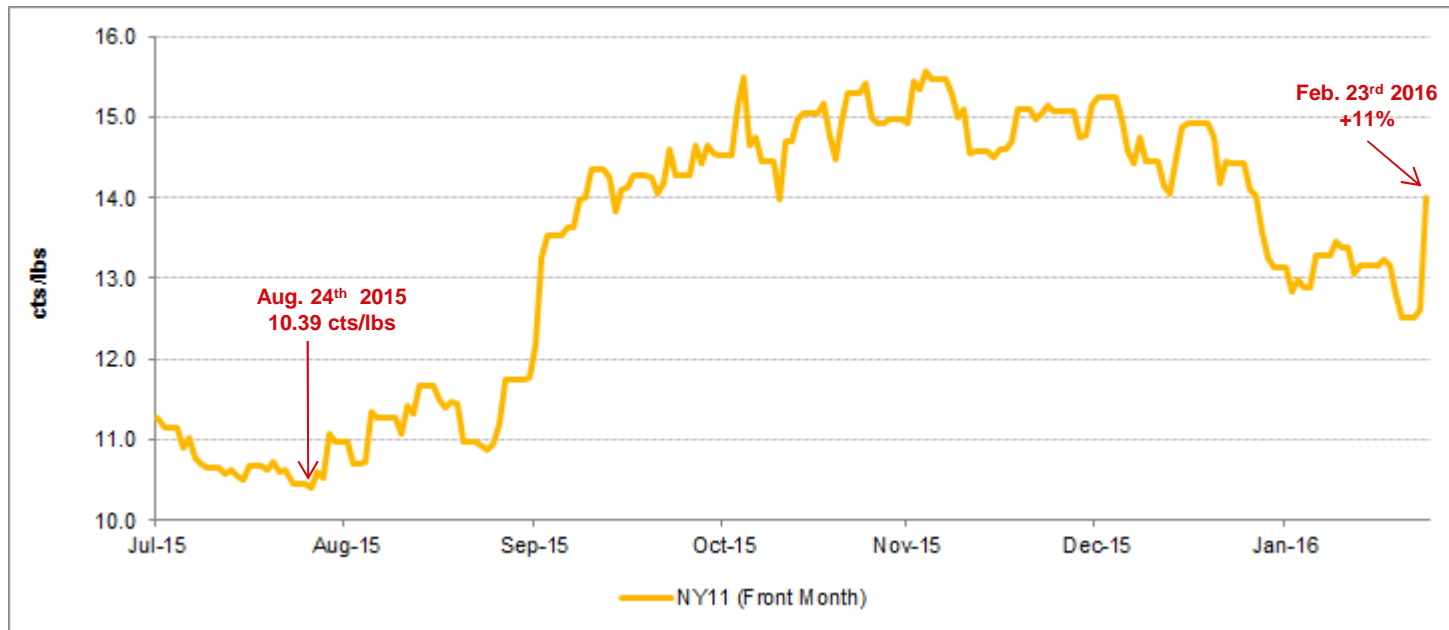
*ASSUC – Civil Dialogue Group*  
*March 2<sup>nd</sup> 2016*



Tereos

# NY#11 prices: mix of macro & fundamental drivers

NY#11 prices: no clear trend but volatile since Dec

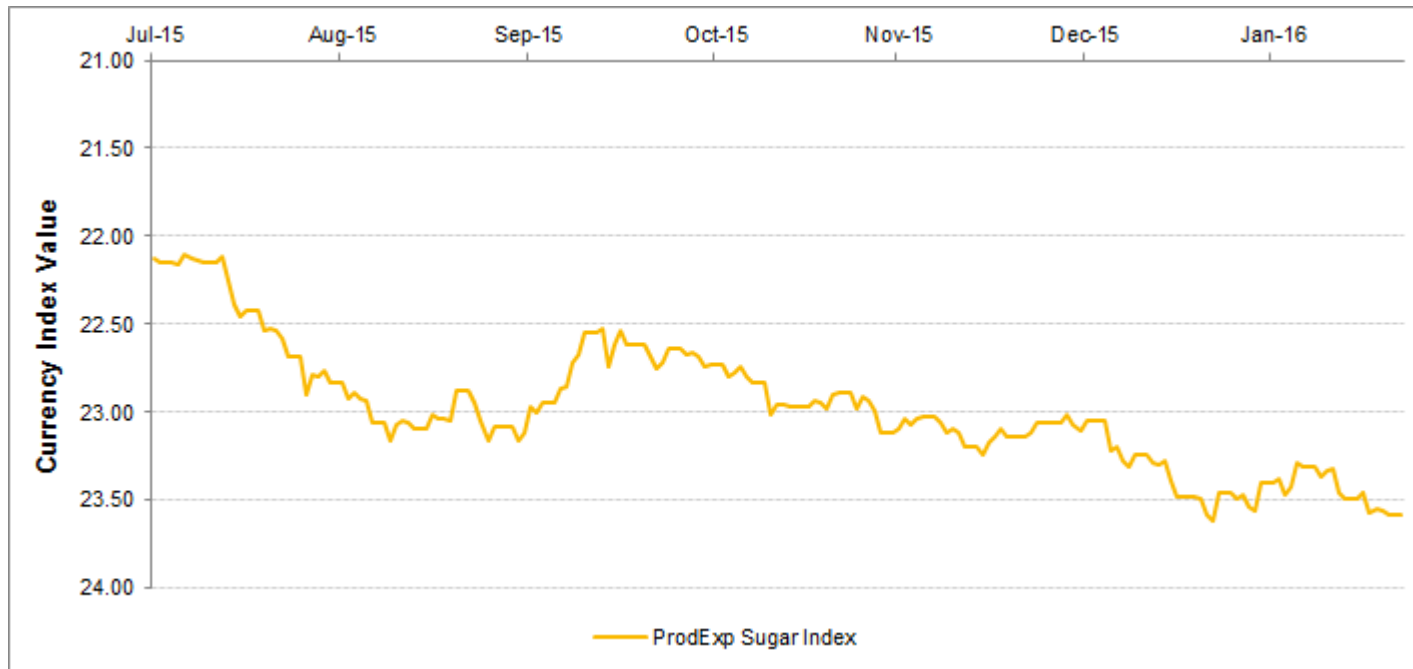


Source: Bloomberg, Tereos

- Market saw a significant recovery in Autumn due to strong ethanol market in Brazil and as a developing prospect of a world sugar deficit (first in 5 years) appeared in the market
- After trading range-bound over Q4 2015, raw prices eroded in Jan. and Feb. 2016 on general opinion that market remained oversupplied for time being
- On Feb. 23 2016, a technical rally sent nearby prices up +11% in one trading session (highest daily increase in 22 years)

# Weakness of sugar related currencies

A lower BRL has been pressuring sugar prices



Source: Bloomberg, Tereos

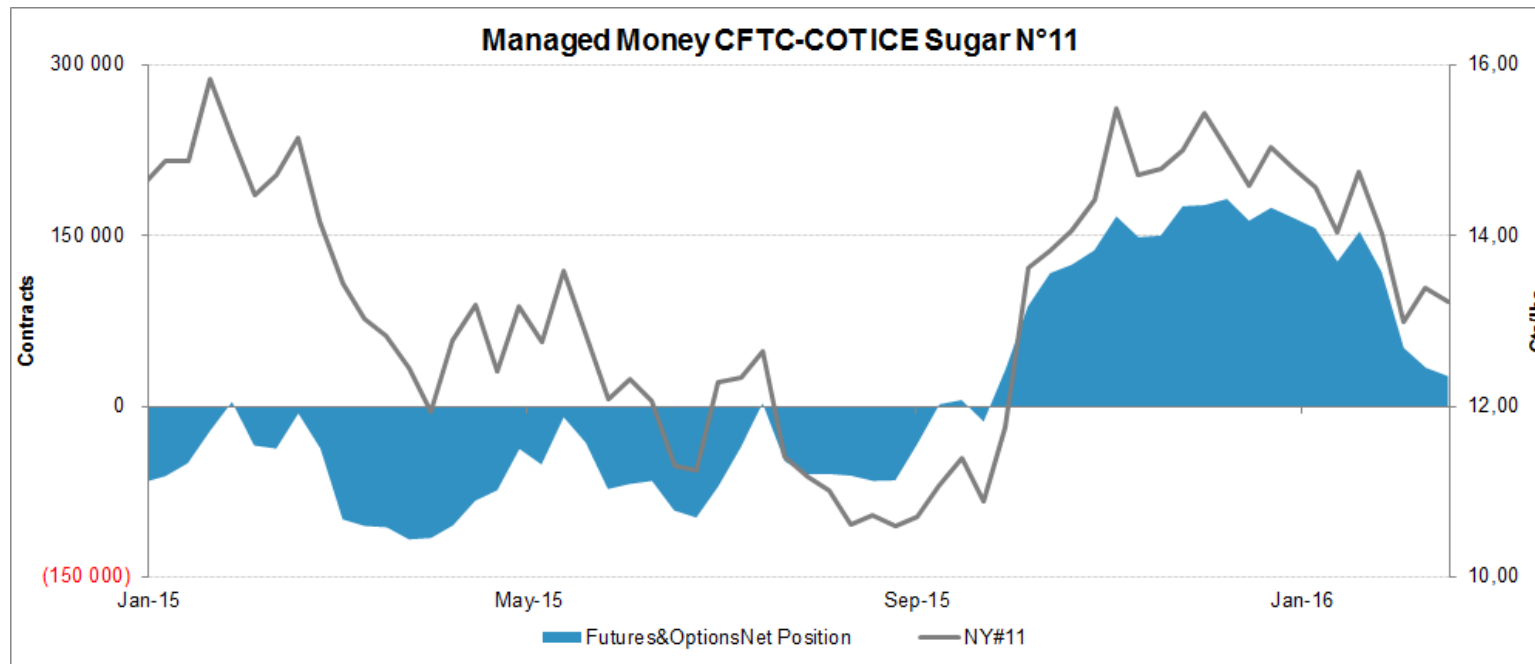
Note: the higher the index, the higher the value of the USD against the foreign currencies

Index is composed of Real (52%), Rupee (23%), Baht (15%), Australian Dollar (6%), Quetzal (4%)

- Index displaying a basket of currencies from major sugar producing/exporting countries
- Sugar-country currencies have weakened over the last twelve months against the USD
- The drop of BRL in particular pressured world sugar prices

# Hedge funds bet on a bull scenario in Q4 and get out of their long in Jan 16

## Funds Position on NY#11: Bullish Cycle from Oct. 2015 to Jan. 2016



Source: CFTC COT Report, Disaggregated Report, Managed Money Category

- Funds initiated a long position on Sep 29th 2015 and have held as much as 9.1MMT of sugar in Nov 15
- However, as the tightness did not materialize, the size of the position has been trimmed over the last month and the funds net long is now estimated to be around 0.85MMT

# El-Nino is adding a risk premium in the market

## 12-Month Cumulated Rainfall: Deviation vs. Normal

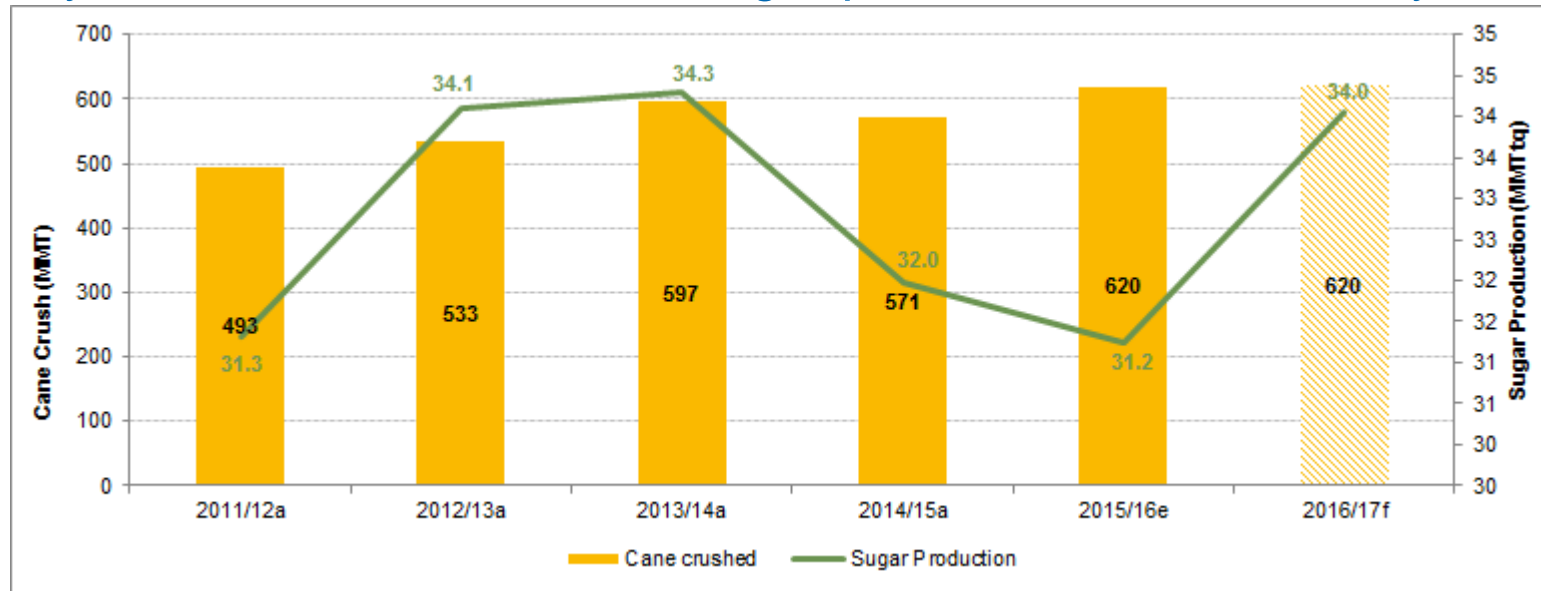
Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	Jan-16	
(2%)	3%	8%	9%	11%	22%	CS BRAZIL
(3%)	(1%)	3%	4%	5%	13%	ARGENTINA
(19%)	(19%)	(17%)	(18%)	(29%)	(28%)	MOZAMBIQUE
(18%)	(19%)	(23%)	(29%)	(33%)	(36%)	SOUTH-AFRICA
(17%)	(18%)	(22%)	(24%)	(26%)	(25%)	INDONESIA
(29%)	(29%)	(25%)	(21%)	(20%)	(24%)	AUSTRALIA
(24%)	(25%)	(19%)	(19%)	(18%)	(16%)	THAILAND
(9%)	(7%)	(2%)	1%	5%	12%	CHINA
(27%)	(20%)	(20%)	(21%)	(22%)	(22%)	INDIA MH
(5%)	(16%)	(22%)	(22%)	(23%)	(26%)	INDIA UP
(4%)	(7%)	(21%)	13%	22%	22%	INDIA SOUTH
38%	25%	25%	25%	25%	26%	PAKISTAN
39%	33%	29%	26%	28%	29%	MEXICO
(1%)	(3%)	(5%)	(12%)	(19%)	(19%)	COLOMBIA
6%	2%	(8%)	(9%)	(11%)	(15%)	GUAT
(15%)	(13%)	(10%)	(6%)	(2%)	3%	CUBA
(15%)	(23%)	(30%)	(32%)	(30%)	(26%)	NNE BRAZIL
0%	(1%)	(8%)	(9%)	(6%)	(6%)	ETHIOPIA
(11%)	(12%)	(8%)	(7%)	(2%)	0%	KENYA
(4%)	1%	6%	6%	17%	30%	TANZANIA

Source: Tereos

- Heavy rains in CS Brazil hindered crushing activities in Nov & Dec but improved outlook for next crop
- On-going dryness in India due to poor monsoon is a concern for this crop and following one
- El Nino effects can be seen on Indonesia, Australian and Thai crops

# Brazil CS sugar production to recover

Steady cane crush for 16/17 but sugar production to increase by 3 mln T

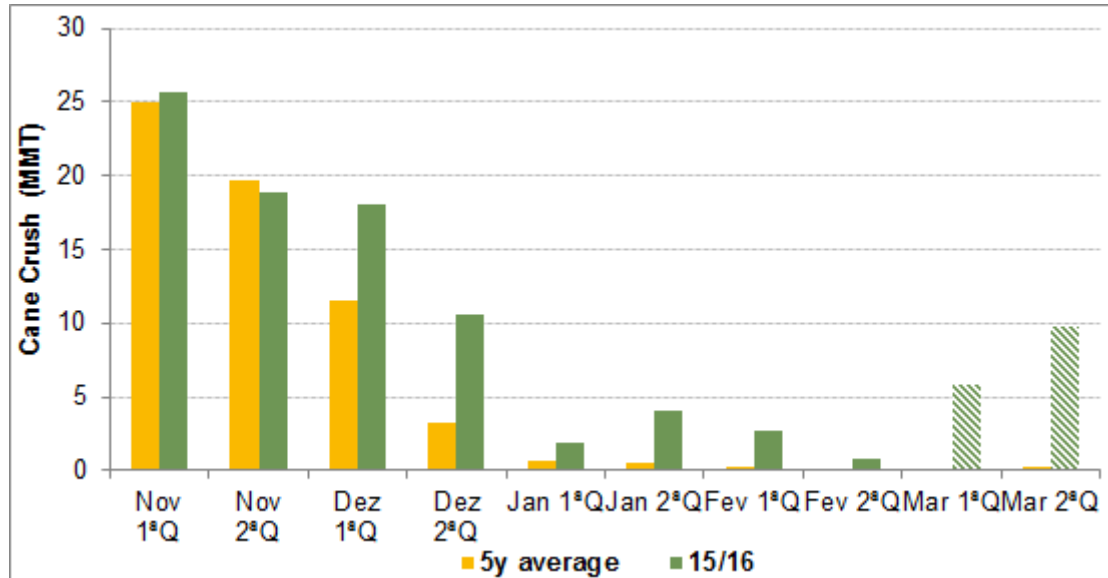


Source: UNICA, Tereos

- Bottleneck in CS Brazil moved from cane supply to cane crushing capacity. Significant quantities of cane were left in the fields in 15/16
- Crush of 620 MMT/y likely a maximum even with extended campaign
- Sugar production to recover significantly in 16/17 because:
  - Higher sugar content in the cane
  - Better return for sugar than ethanol (based on current market prices)

# Extended tail of 15/16 crop and early start of 16/17 expected for CS Brazil

Cane crush per fortnight in CS Brazil

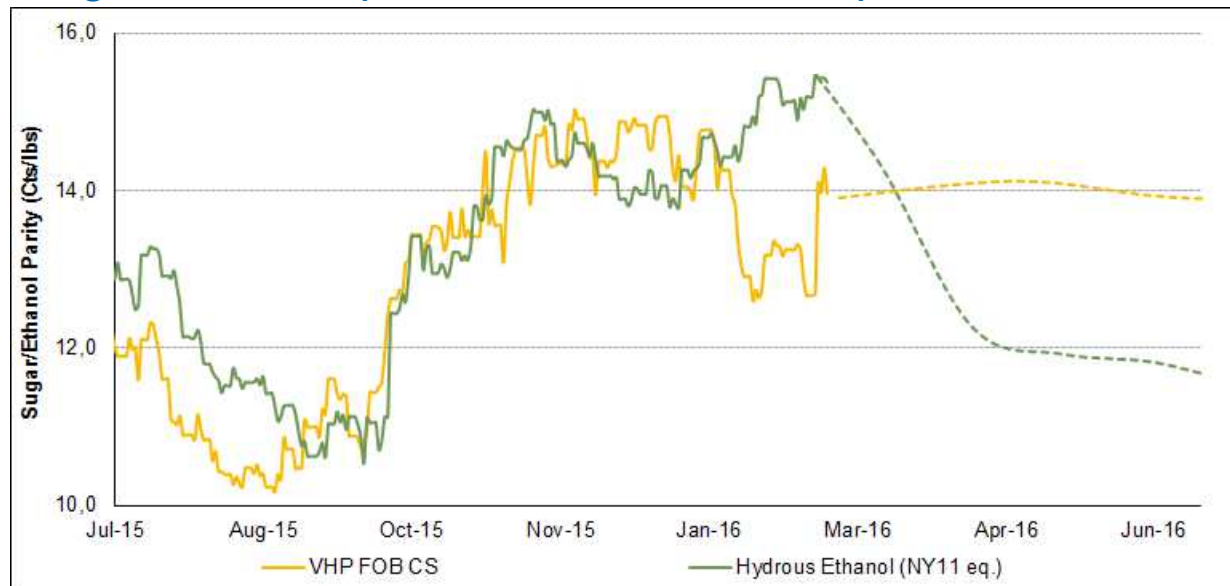


Source: UNICA, Tereos

- Because of significant surplus of cane and relatively good sugar/ethanol prices (in BRL), most mills extended their campaign
- Despite above average rainfalls, mills crushed more cane than average in Dec and Jan
- 16/17 crop is expected to start early: cane crush in March likely to be at a record level
- Weather in March to be a more important driver than usual

# Tight ethanol balance sheet in Brazil supporting sugar prices

## Sugar / ethanol parities in CS Brazil – spot and forward



Source: Bloomberg, Tereos

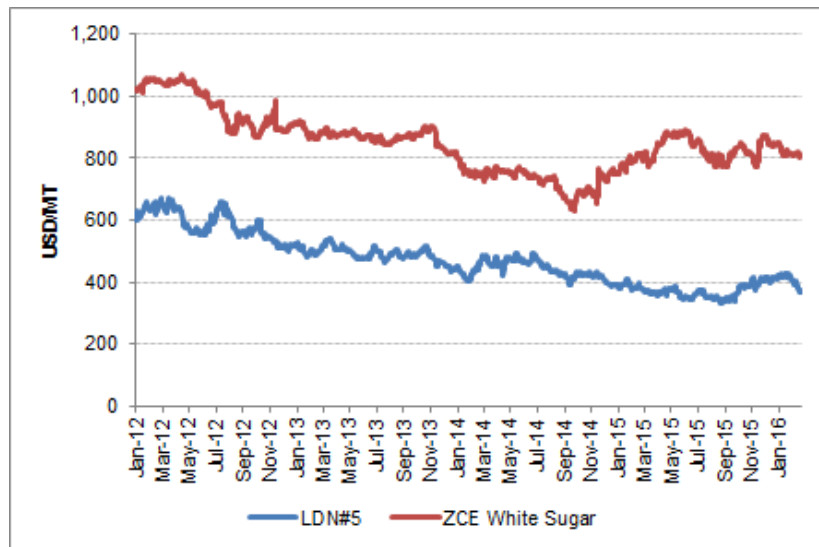
- Strong domestic demand for hydrous ethanol has been driving production mix toward ethanol in 15/16
- However, at the beginning of the new crop, the forward parity is back in favor of sugar
- 16/17 production mix likely to increase in favor of sugar (to 43% from 40% in 15/16)

*Note: historical parity based on weekly ESALQ; forward parity based on BMF*



# China white sugar Import Surge – major market driver for white sugar market

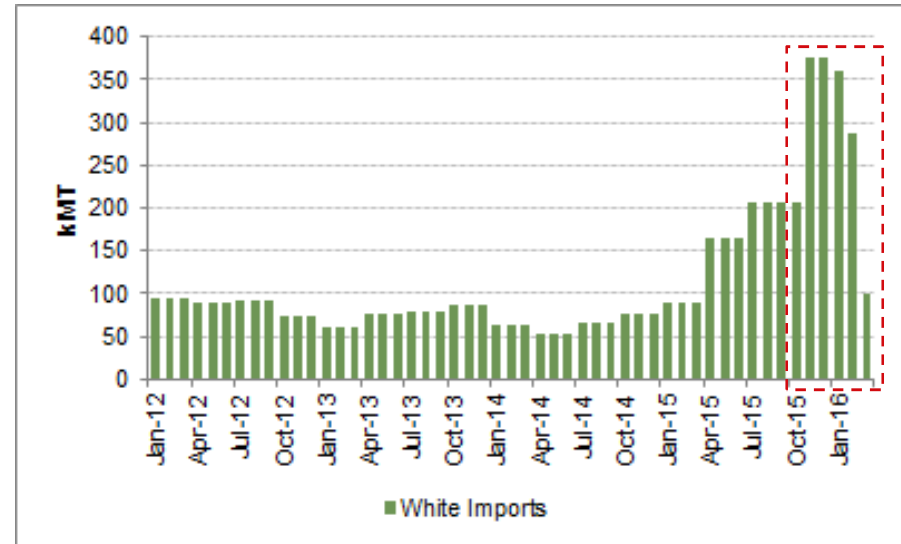
## Chinese prices vs. world market



Source: Bloomberg, Tereos

- China sugar domestic prices structurally higher than world prices due to market regulation
- Market prices not driving the white imports flows to China – the key driver is the set up of new smuggling routes (like Myanmar)

## Monthly Chinese with sugar imports

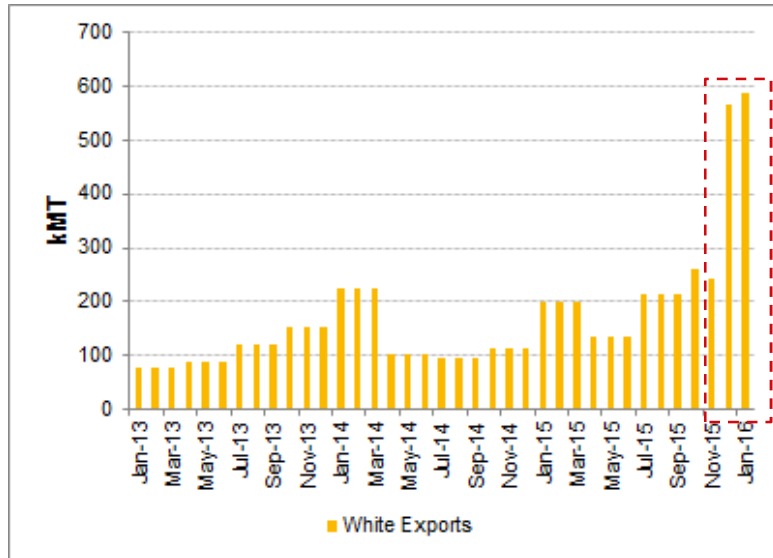


Source: Tereos

- Monthly imports increased in 2015 to jump at the end of Q4 to reach more than 350 kT/mo
  - White sugar imports on China represented up to 20% of world white trade flows in Q1
- ⇒ Key driver of recent white premium spikes

# White sugar market reacted to Chinese imports surge

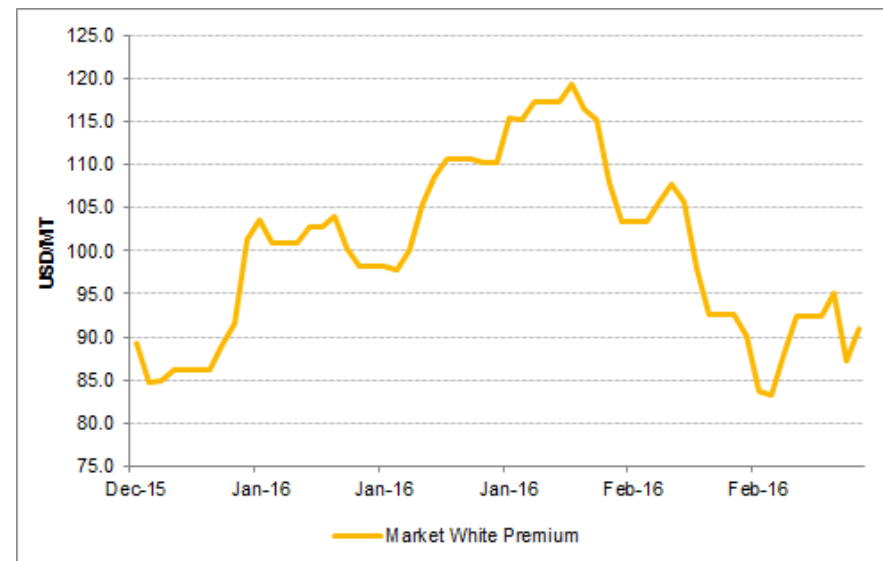
Indian white sugar exports boomed because of Chinese demand



Source: Tereos

- Indian exports at the end of Q4 well above expectations
- Surge of exports driven mostly by Chinese demand rather than by Indian sellers offering newly competitive prices

Leading to increase of the spread between LDN#5 and NY#11 markets

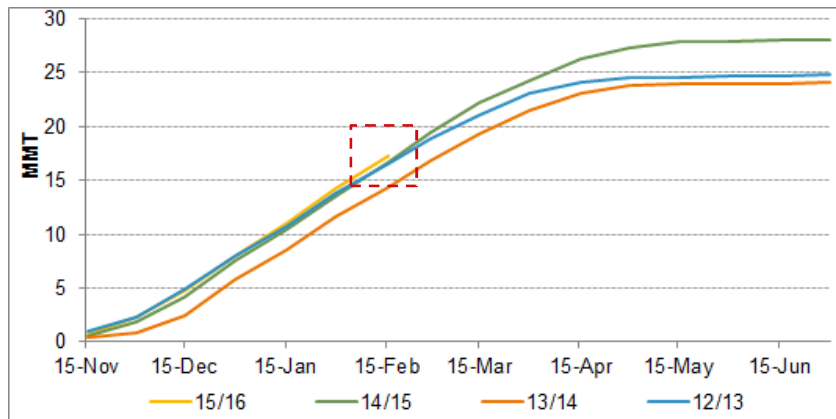


Source: Bloomberg, Tereos

- These Chinese imports surprised the market by its extend and sent the white premium 30 USD/MT higher
- Market corrected since then as sugar refiners were incentivized to maximize output

# Production in India ahead of normal but further exports unlikely because of disappointing production outlook

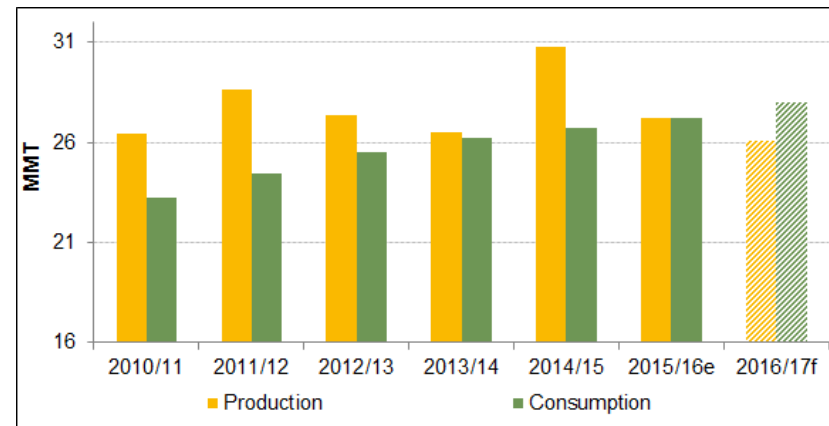
## Sugar Production ahead vs. normal



Source: Tereos

- Thanks to the early head-start in SH Nov the pace is ahead of previous years
- Decrease of crush pace in next coming weeks critical to better assess real size of 15/16 crop

## Production decreasing y/y



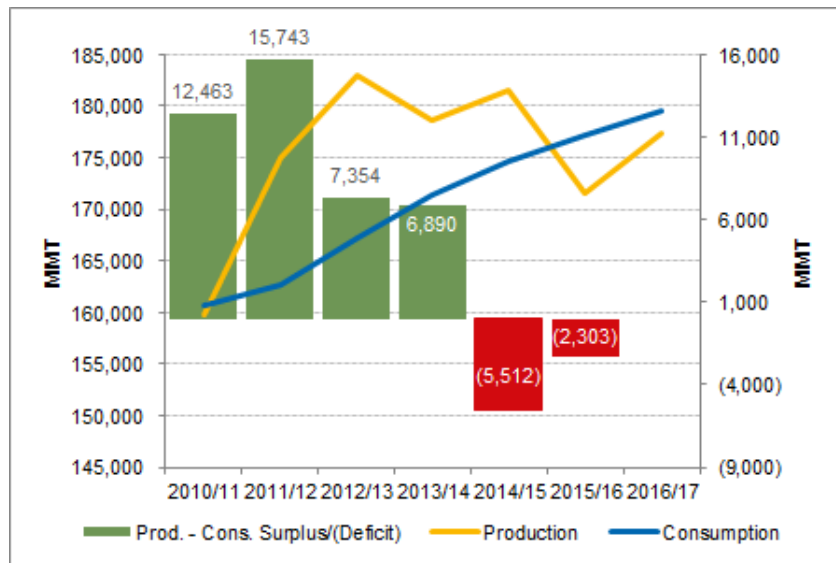
Source: Tereos

Note: quantities in raw value

- Lower 15/16 production than last year (by around 11%)
- A further decrease of the prod is expected in 16/17 with a deficit of 2.0MMT (first time since 2009)
- Outlook of deficit likely to limit further exports

# We Expect a Deficit of Production vs. Consumption for the Year 2015/16

## World Prod. – Cons. (Oct/Sep)



Source: Tereos

## Positive Production Outlook for 16/17

(MMT IV)	2011/12a	2012/13a	2013/14a	2014/15a	2015/16e	2016/17f
CS Brazil	32,3	35,5	35,6	33,0	32,2	34,8
NNE Brazil	4,7	4,2	3,4	3,6	3,4	3,7
Thailand	10,6	10,4	11,8	11,7	11,1	11,5
India	28,6	27,3	26,5	30,8	27,2	26,1
EU	18,8	17,3	16,9	19,3	14,8	16,9
China	12,5	14,2	14,5	11,5	10,3	10,5
Guatemala	2,5	2,8	2,8	3,0	2,9	3,0
Mexico	5,5	7,6	6,5	6,1	6,0	6,0
Russia	5,0	5,2	4,8	5,0	5,3	5,4

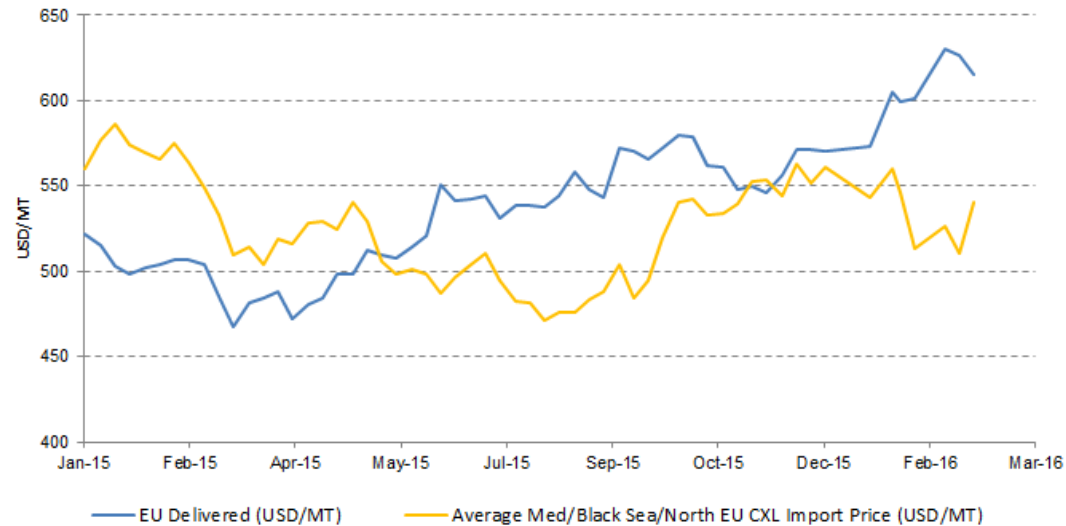
Source: Tereos

Note: quantities in raw value, national crop years

- 2015/16 like 1<sup>st</sup> production/consumption deficit and after five consecutive years of “good” crops
  - Projected deficit situation however tempered thanks to ample stocks build-up at origin (Brazil, India) and destination (China) over the last 5 years
- ⇒ Prod / cons deficit not really reflected in the trade flows balance
- A recovery of production currently expected in 16/17 based on average however deficit to remain for 2<sup>nd</sup> year in a row but to be smaller than 15/16

# EU Import Parity: CXL Sugars Pricing In

The EU import margin likely to be currently open for CXL program



Source:  
Delivered EU: Kingsman; Average Med/Western Europe delivered client  
CXL import price based on CS Brazil FOB price: Bloomberg, Tereos; white sugar price ex-refinery

- CXL sugar needed to balance EU quota market so EU market prices have to reflect a positive import parities
- Some quantities of CXL sugar from NNE were likely sold in February

# Key Takeaways

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## Short-Term Driver

- Early start of the new crop in Brazil CS is the main variable: because of cane availability in the fields, favourable weather would allow mills to start their crushing as soon as the 2<sup>nd</sup> week of March
- India pace of production for current crop to be monitored closely: we expect the mills to close earlier than last year as cane crop likely smaller

## Mid-Term Drivers

- China import behaviour will be the major swing factor for the whites market: the official flow remains limited but what about smuggling?
- The Brazil sugar production for 16/17 will also be a function of ethanol competitiveness and how tight the Brazilian ethanol market remains
- India likely to slow down on exports. 16/17 crop unlikely to be better. Monsoon to be watched closely as cane currently not in a great shape and reservoir level below average

ASSUC



