

World Market Overview & Outlook International Sweeteners Colloquium

James Liddiard – Agrilion Commodity
Advisers

24th February, 2020



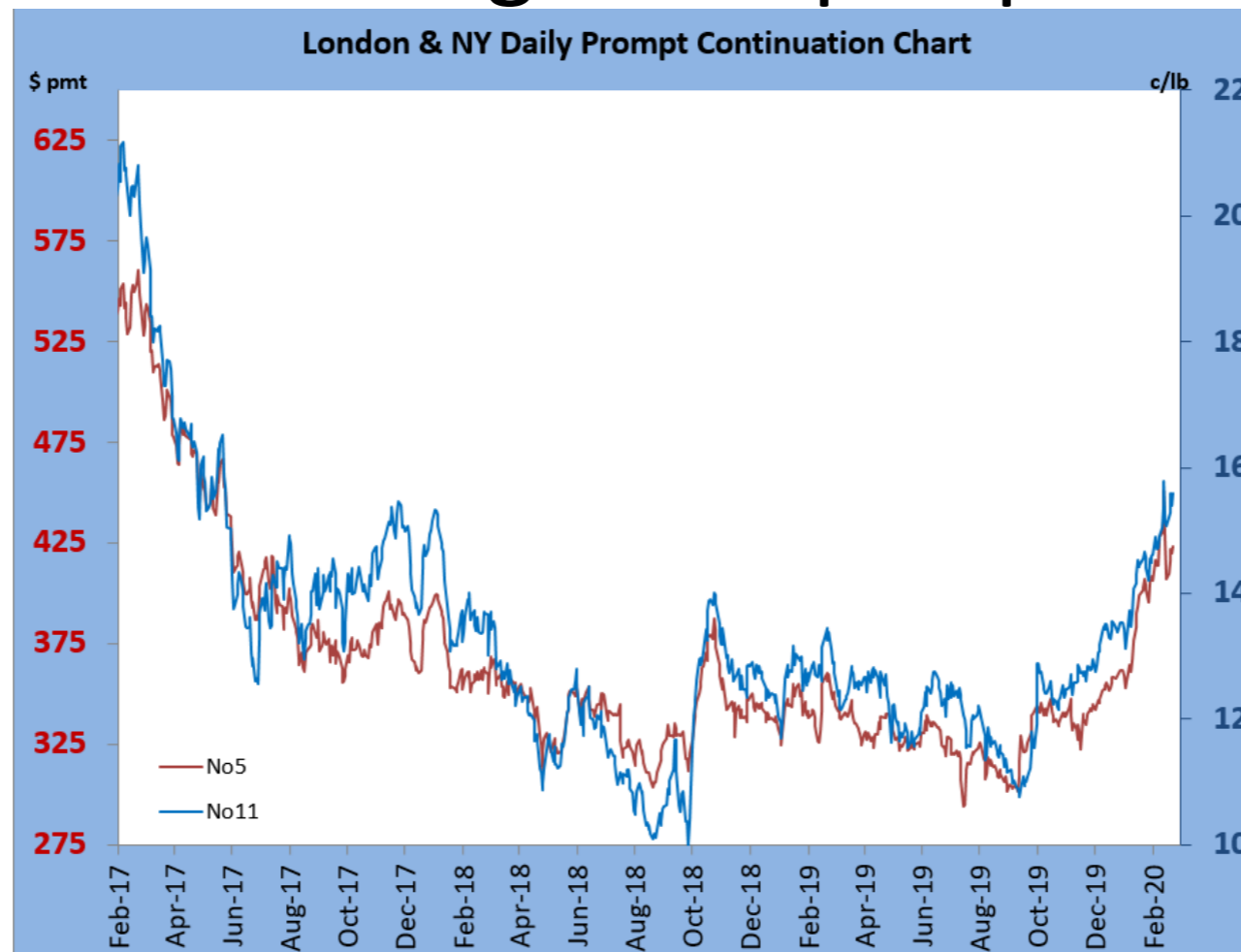
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World market outlook

- What has just happened & where are we now?
- The sugar story
 - Production cuts....delayed harvests....more production cuts
 - USA & Mexico
 - India
 - Thailand
 - Production responses?
 - CS Brazil
- Who's doing what? COT reports & money flows
- Conclusions

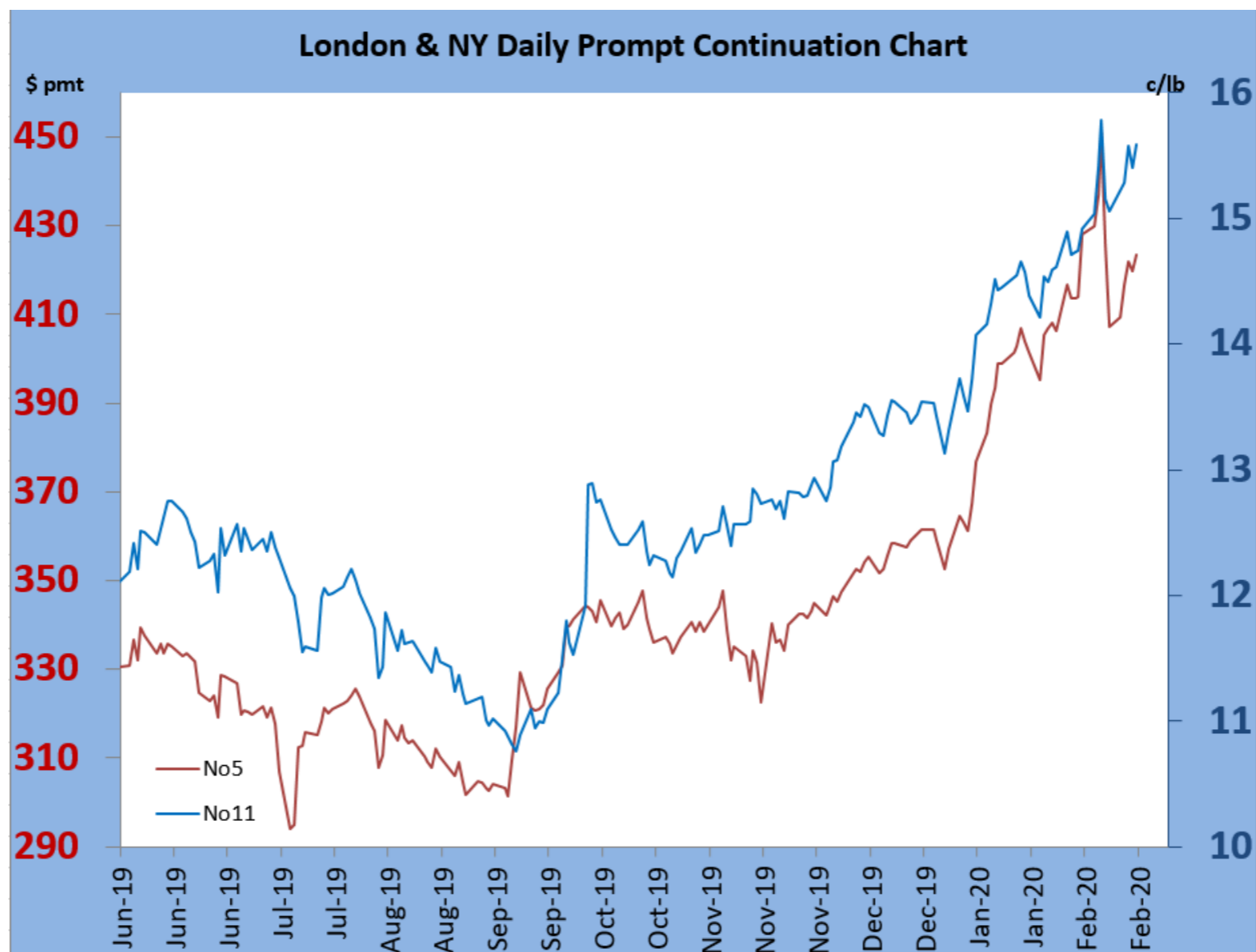


Some background perspective...



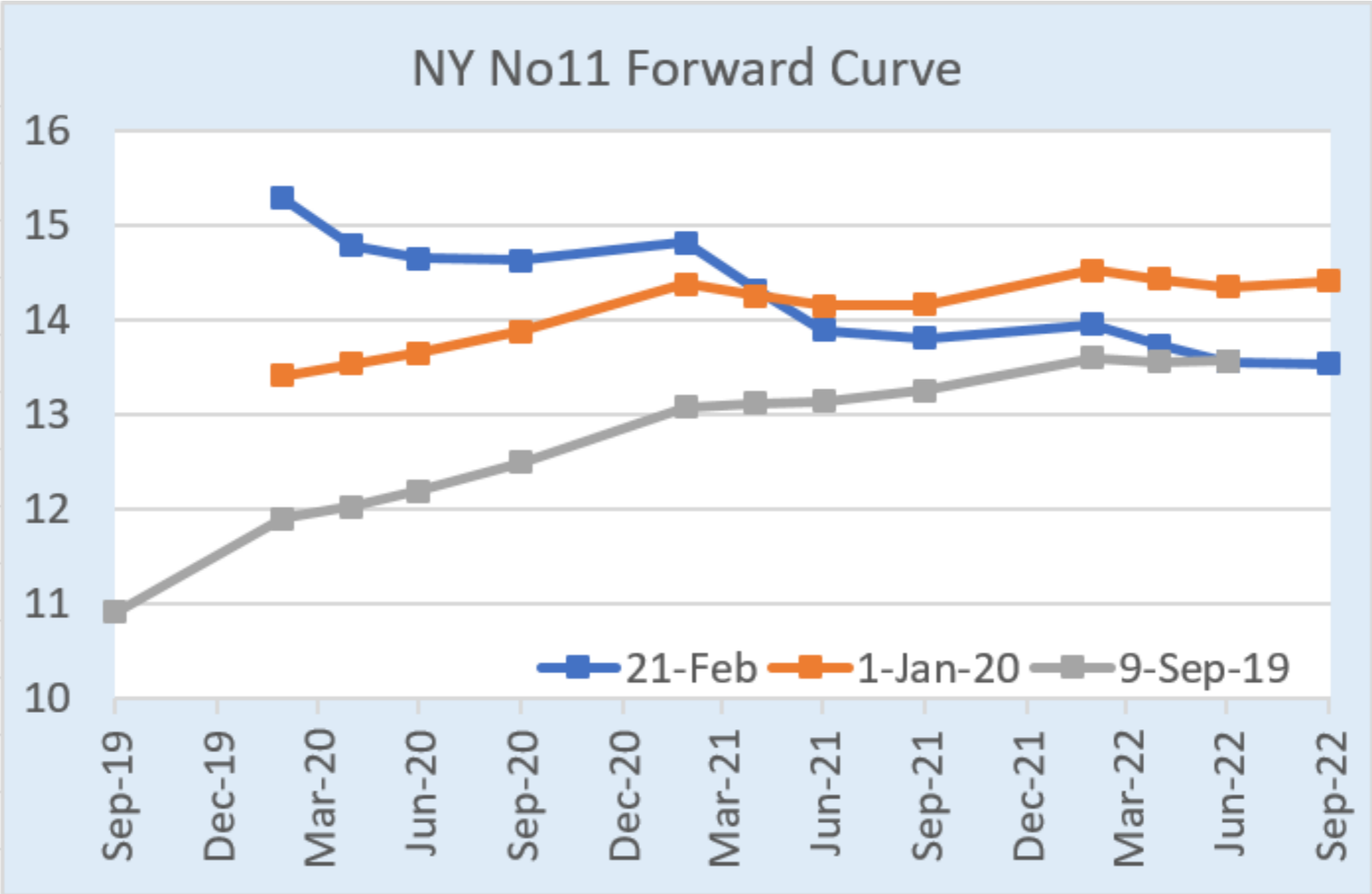
- 2019 – difficult year for traders, producers, end-users and broker
 - Anticipated recovery at the start of the year failed.
 - Early Sept - London trading down at \$300 (off \$291.50 low) & NY to 10.68
 - Non-index specs holding record net short positions both markets
- Lowest annual trading range in 13 yrs –
 - 299 pts in NY & \$70.50 in London (cf 245 pt \$51.70 in 1997)

September lows triggered major turnaround



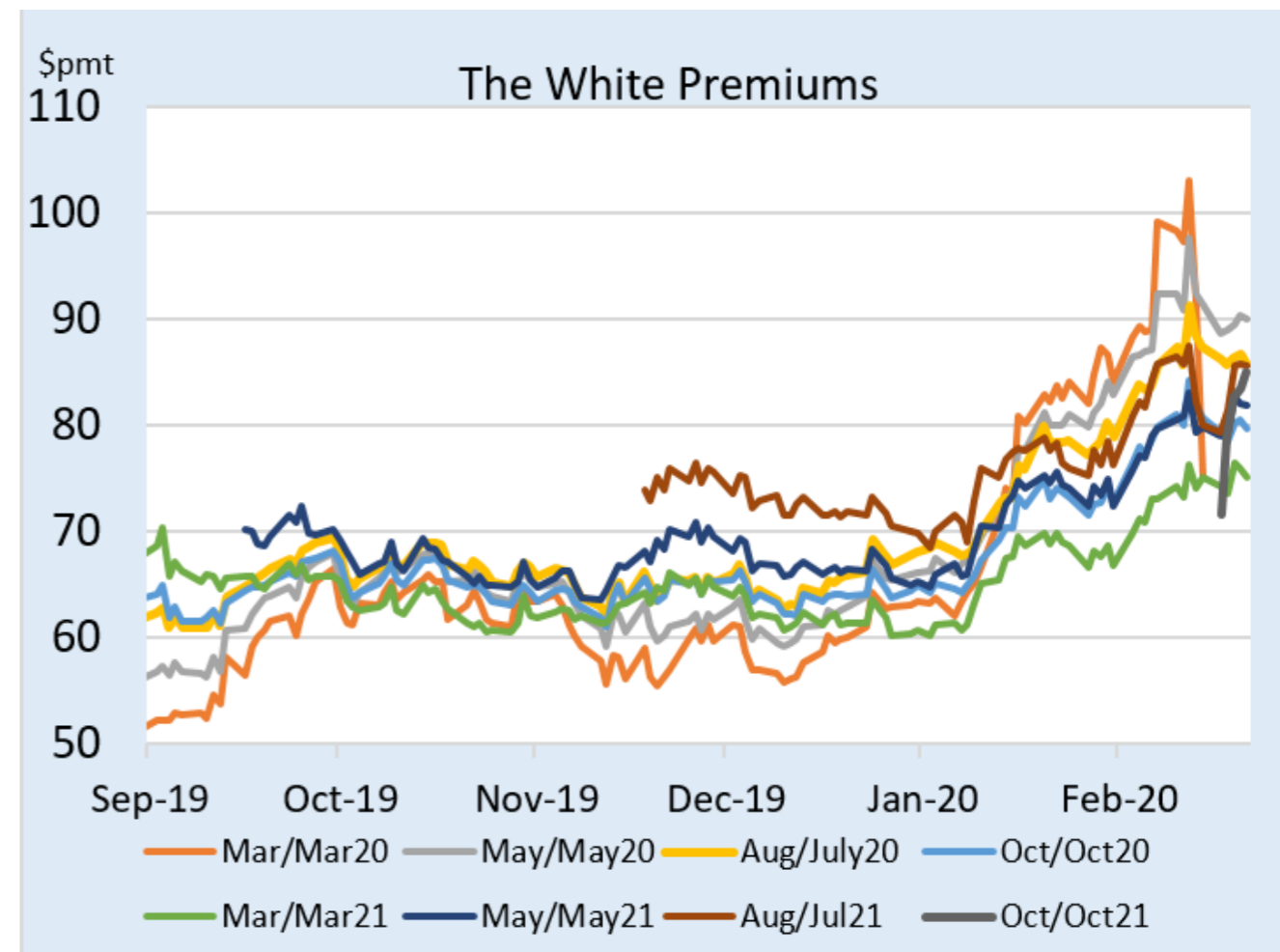
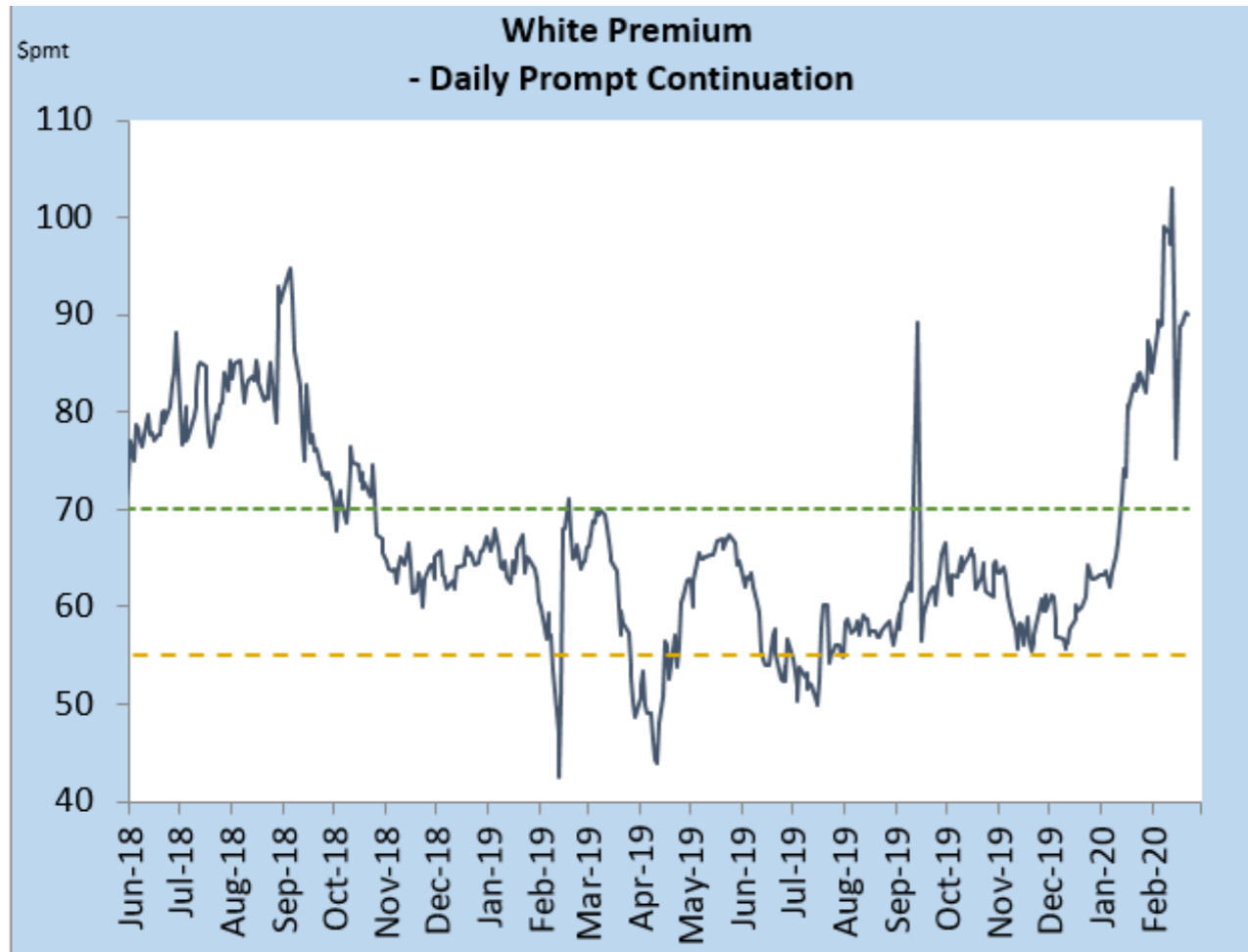
- NY rallied up to 15.90; London hit \$454.50 in mid Feb
- On a prompt cont. basis – sugar ‘best’ performing commodity 2020
- Ldn up 17.9%; No11 up 16.2%....NY Cocoa up 15% cf corn down 2.8% & WTI Crude down 12.6% (As of Friday 21st Feb)

Led by the front month



- Back of the board has actually weakened in 2020

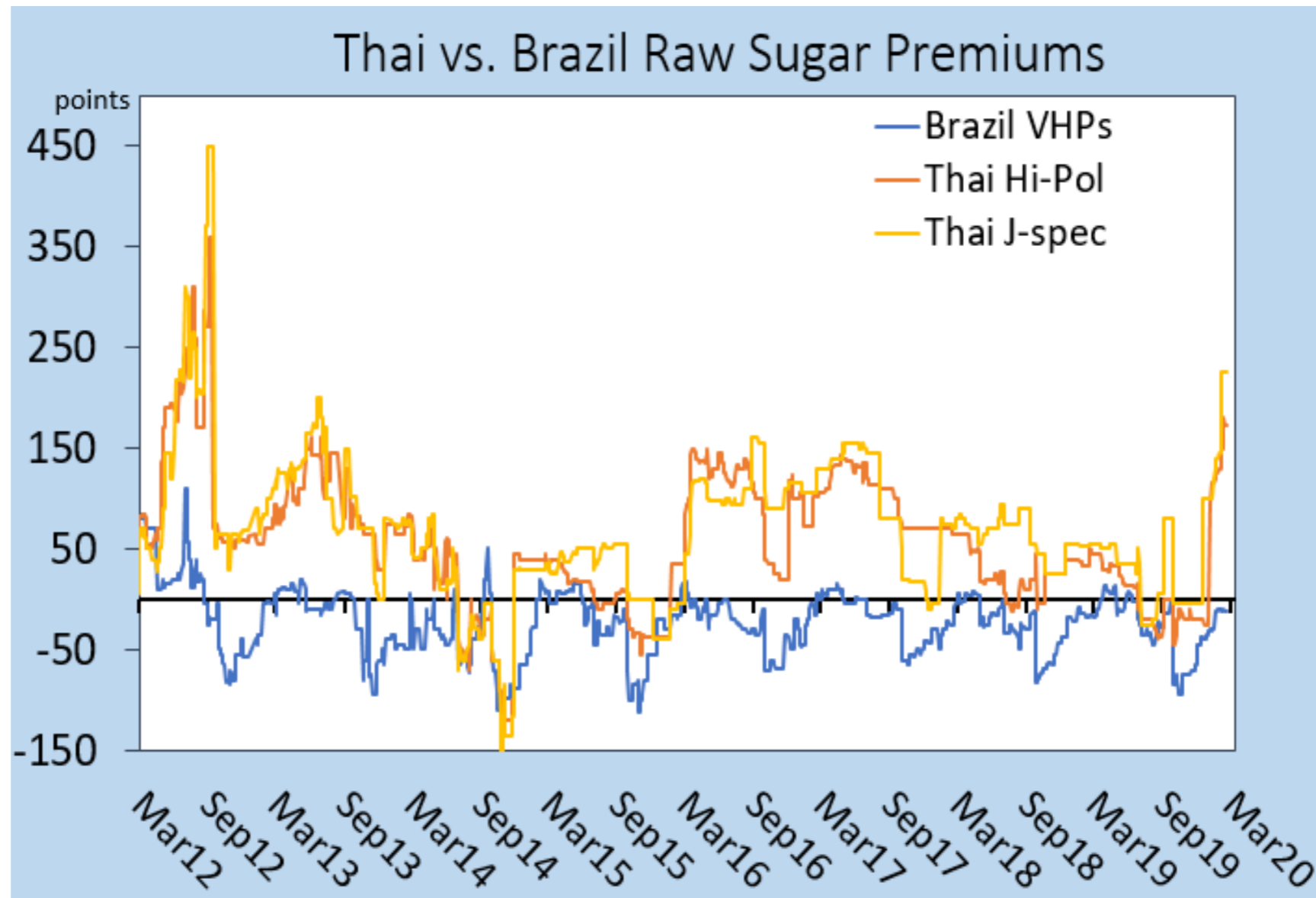
White premiums broken out of long-term range



- Strong WP typically seen as the harbinger of a bull market
- Already seeing a production response
 - Dubai refinery 100% capacity & delivered 323K mt against the [record] March expiry
 - But watch the No5 spec position



Skyrocketing cash values – esp Thailand



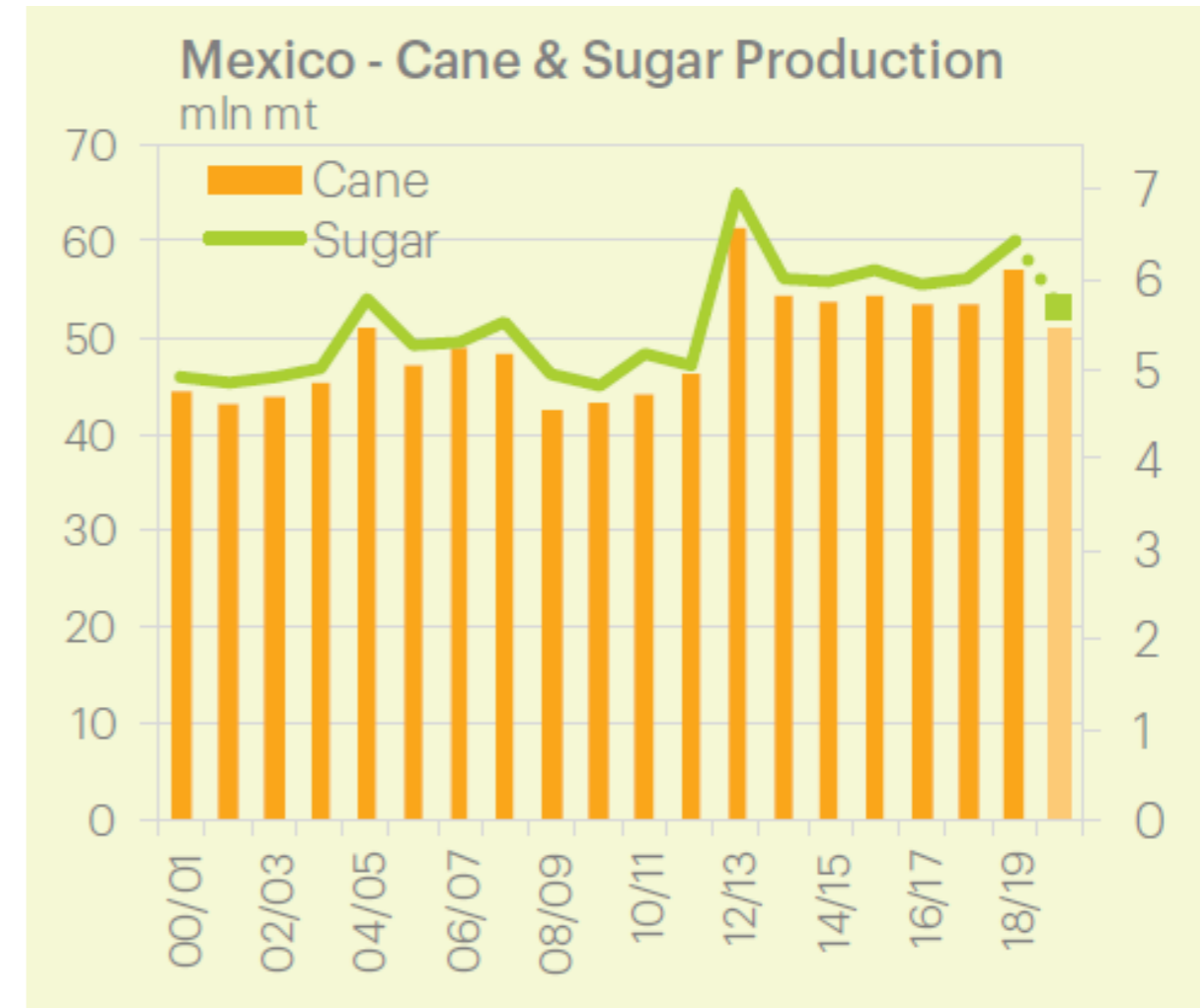
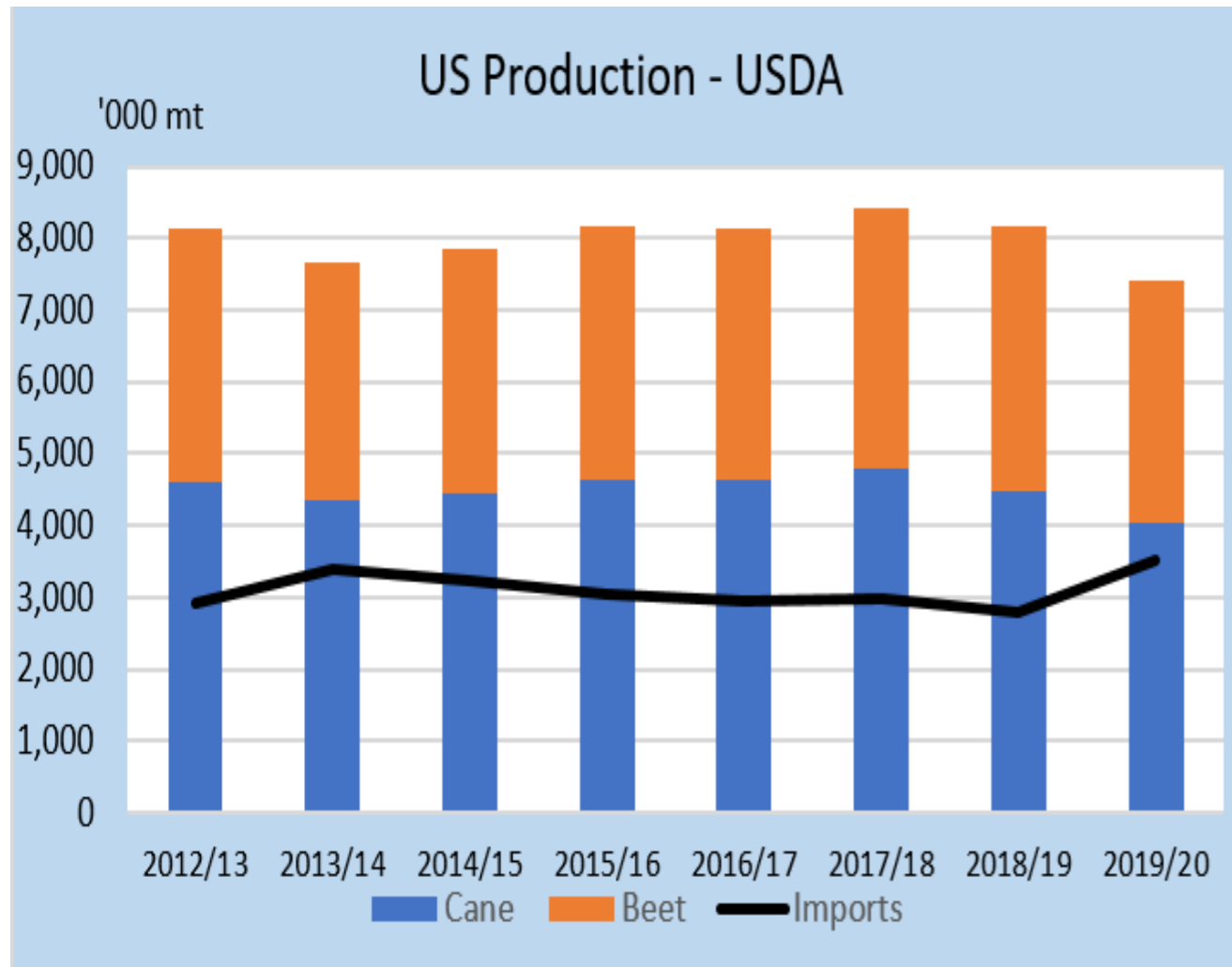
- Thai raws trading at premiums not seen since 2012

The sugar story

- The market had long been anticipating a move from global surplus to deficit and waiting for a “good” sugar story....
- So what happened?



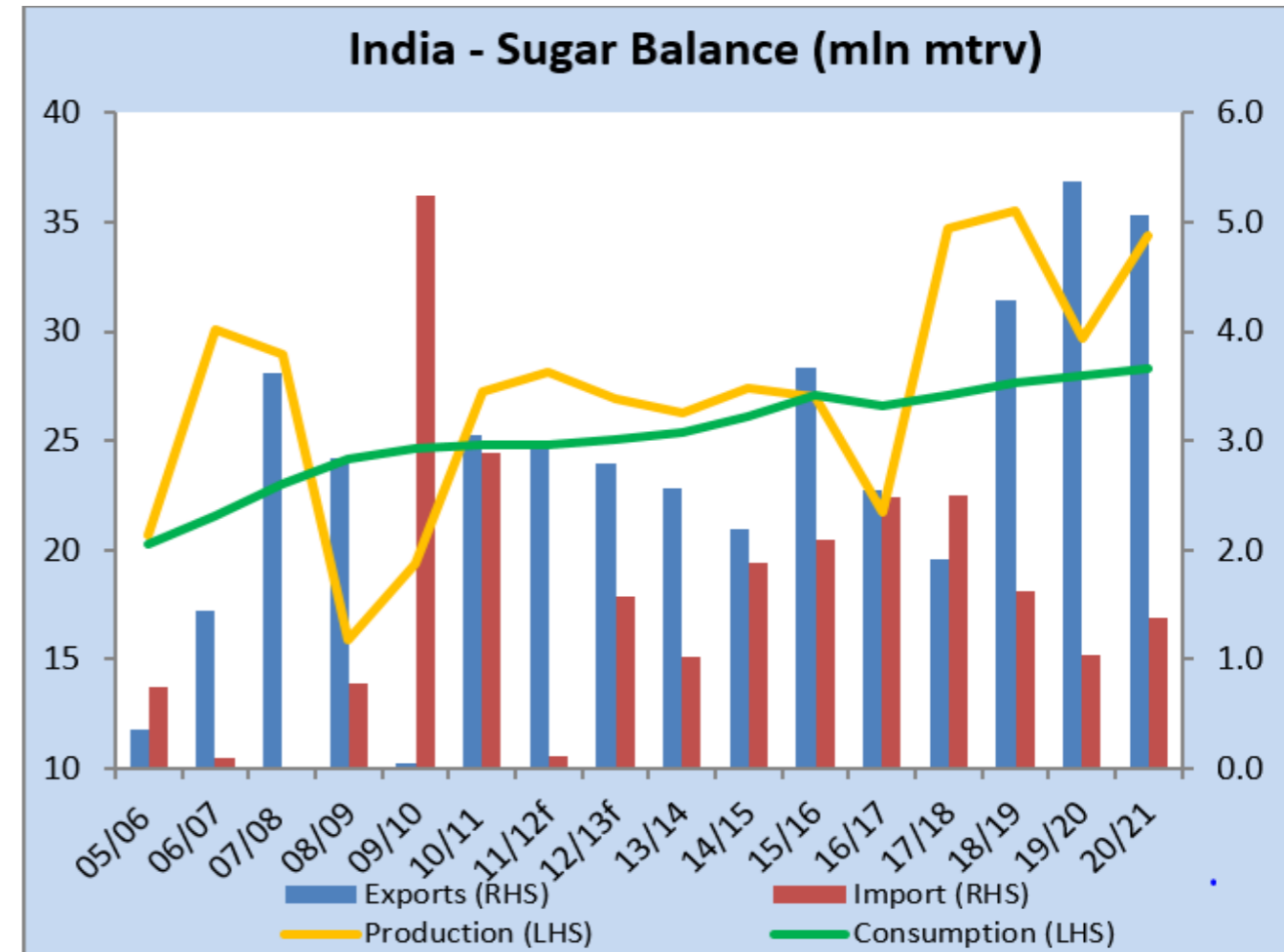
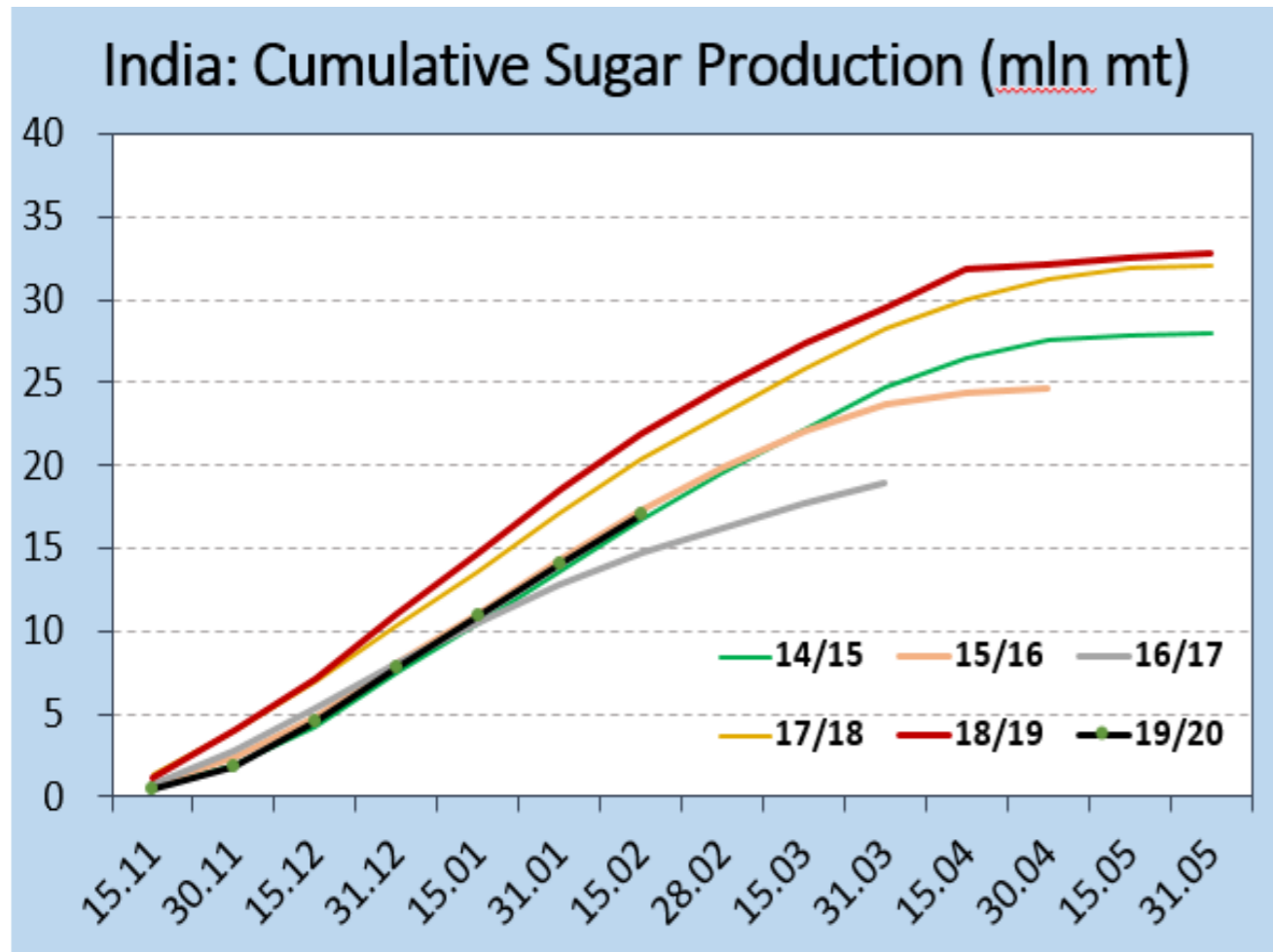
1. USA & Mexico – more than just a regional trade flow issue?



- **USA** production down 760k mt to 7.4 mmt. Double whammy of frosts & floods got the funds excited
- Current USDA forecasts anticipate extra 735 mt imports – with Mexico shipping an extra 750k mt
- **Mexican** production also being downgraded after a slow start – now 5.67 mmt; cf 5.77 mmt in Oct & 6.425 mmt in '18/19; many analysts lower (GP 5.5 mln mt)
- World “losing” Mexican imports which went to the world market last year; plus other sugars?

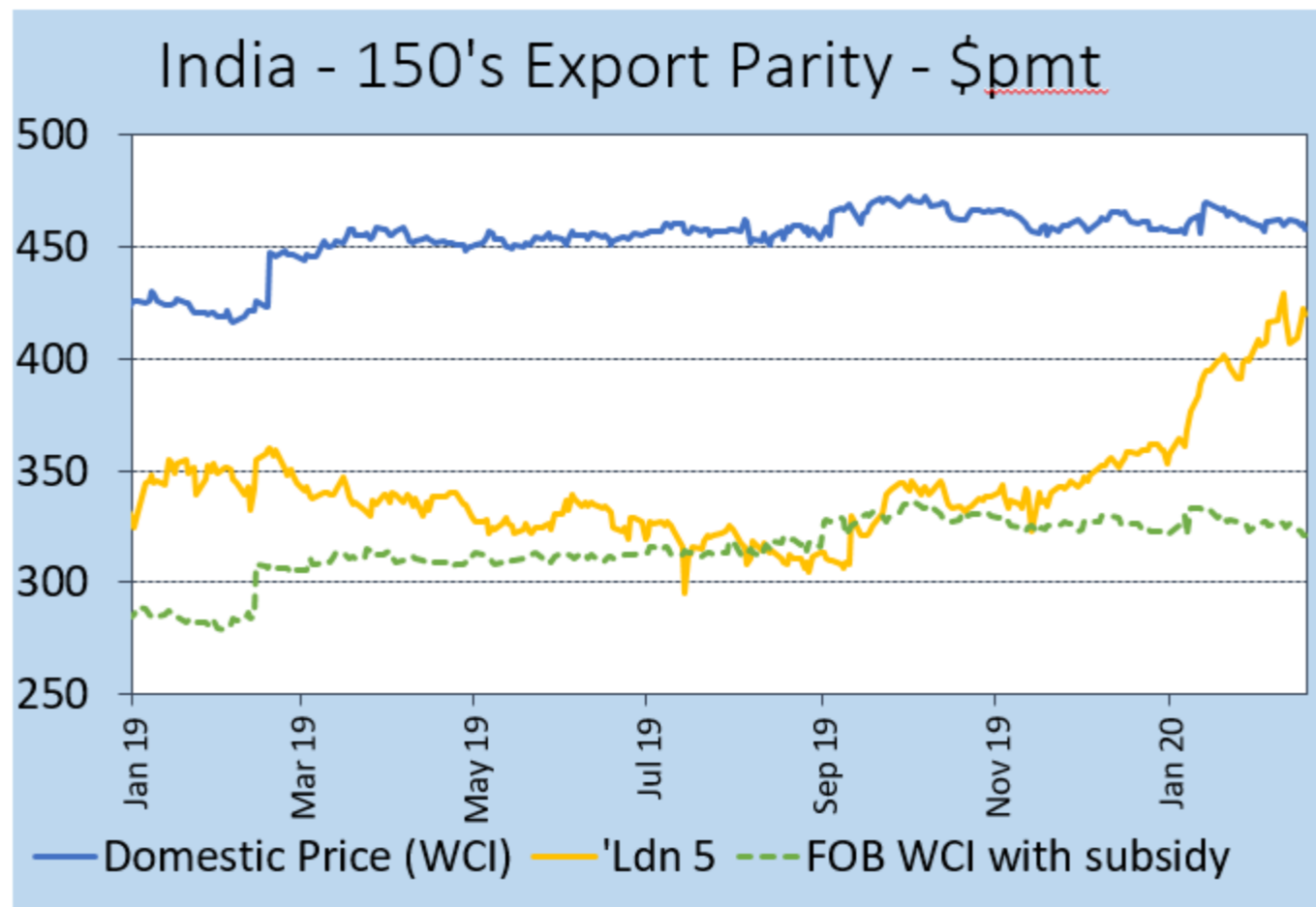


2. India – how small... & now how big?



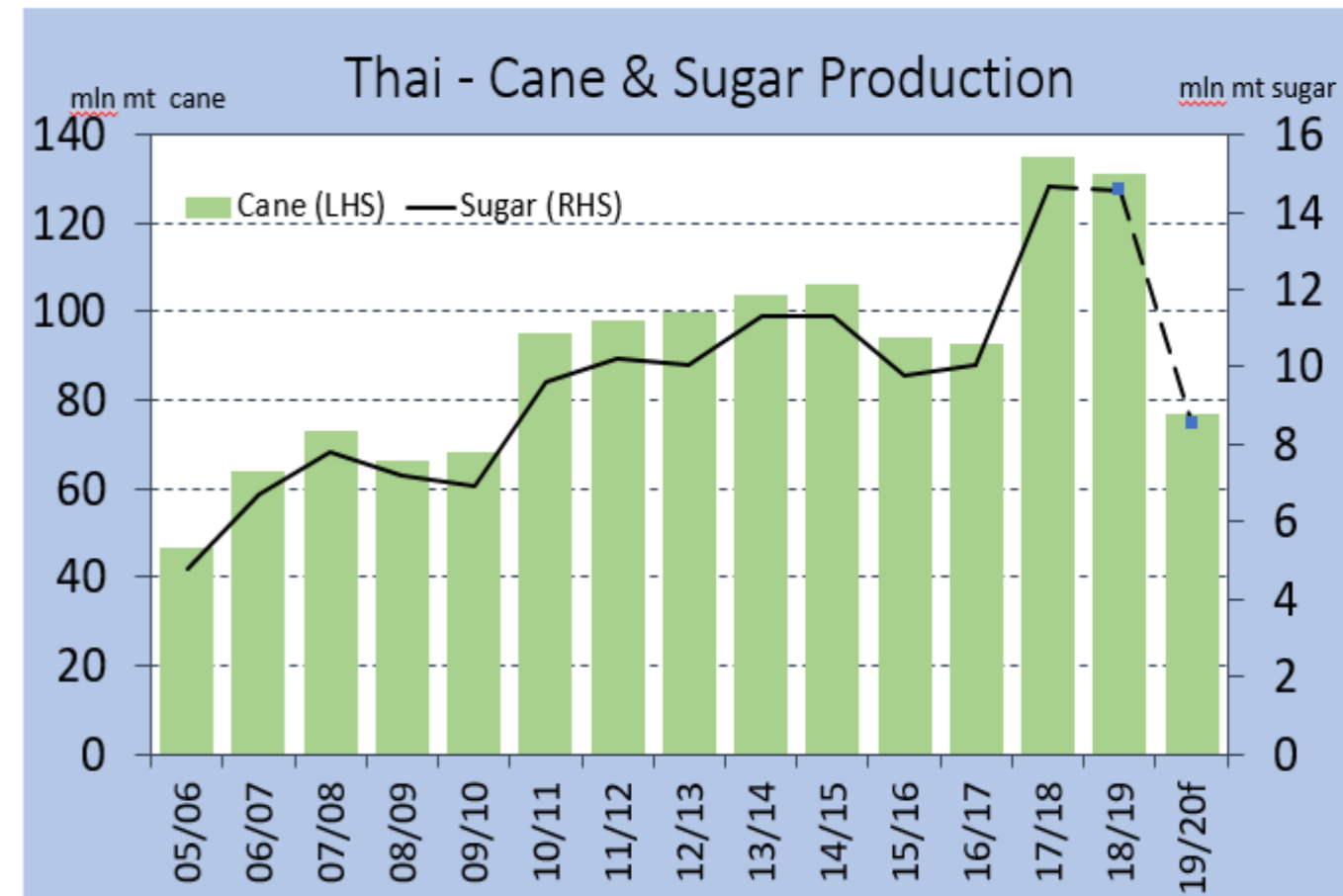
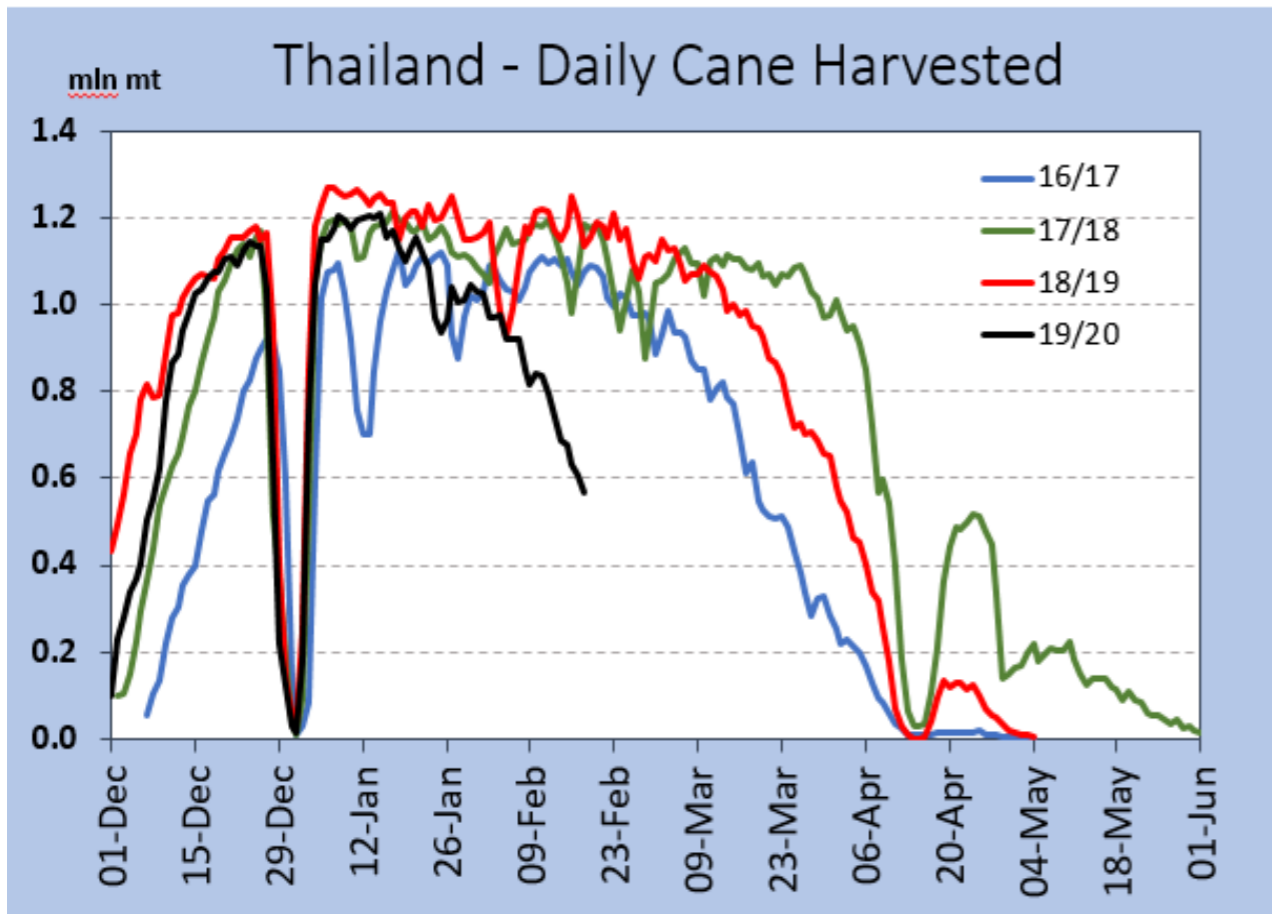
- Late & slow start to the crop increased concerns
- As prices rose, general forecasts came closer to ISMA's 26 mln mt – big headline losses cf 2019's record 33.1 mmt
- Consensus now 27-28 m mt for 2019/20....but potential big rebound for '20/21: > 32+mmt?

But the key question should be about exports...



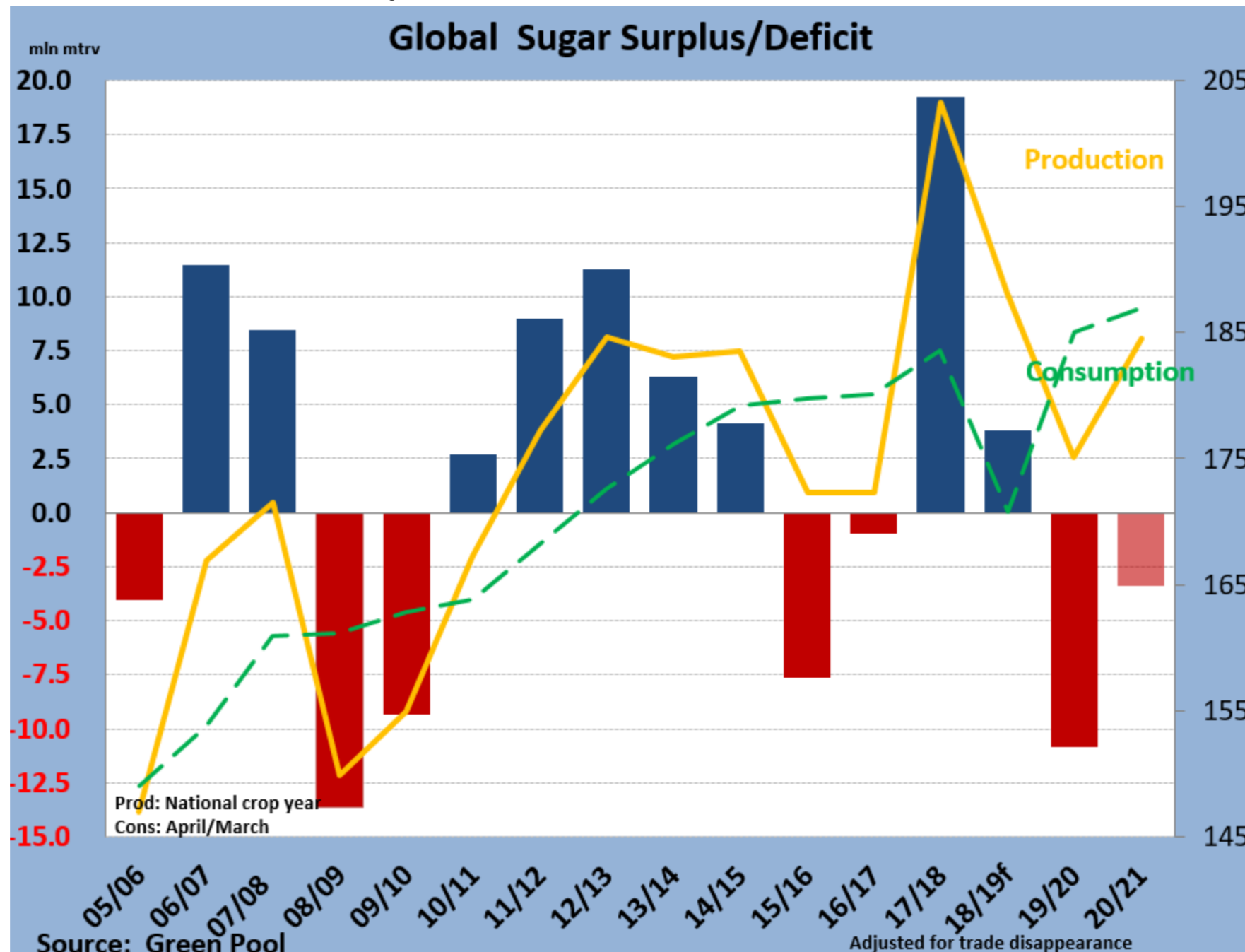
- The 'soft' ceiling argument from Indian exports proved very soft!
- Few expect the full 6 mln mt MEAQ to be exported – consensus 4- 4.5 mln mt
- Could increase if gov reallocates quota – extra 350-500k mt onto the world market?
- What does the future bring? WTO ruling?

3. Thailand – the mystery of the disappearing crop...



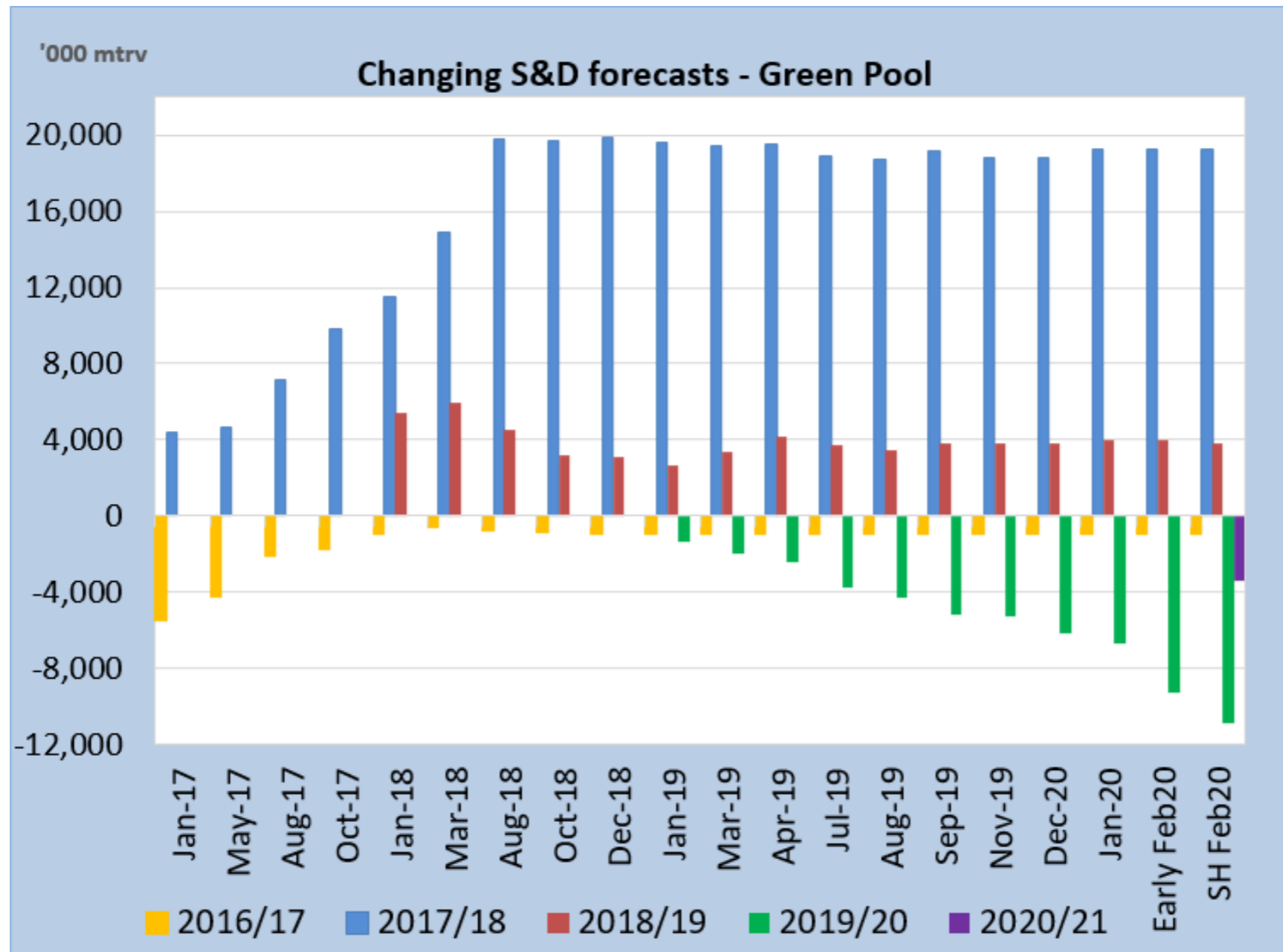
- Race to the bottom...start of year, forecasts for 105-115 mmt cane; 11.5-12.5 mmt sugar
- Well below last year's 131 cane & 14.57 mmt sugar....and started slowly
- End Jan – Feb total implosion in production – Green Pool forecast now 77 mln mt cane; 8.57 mln mt sugar. Obvious world market implications!

Direct Implications on balance sheet...



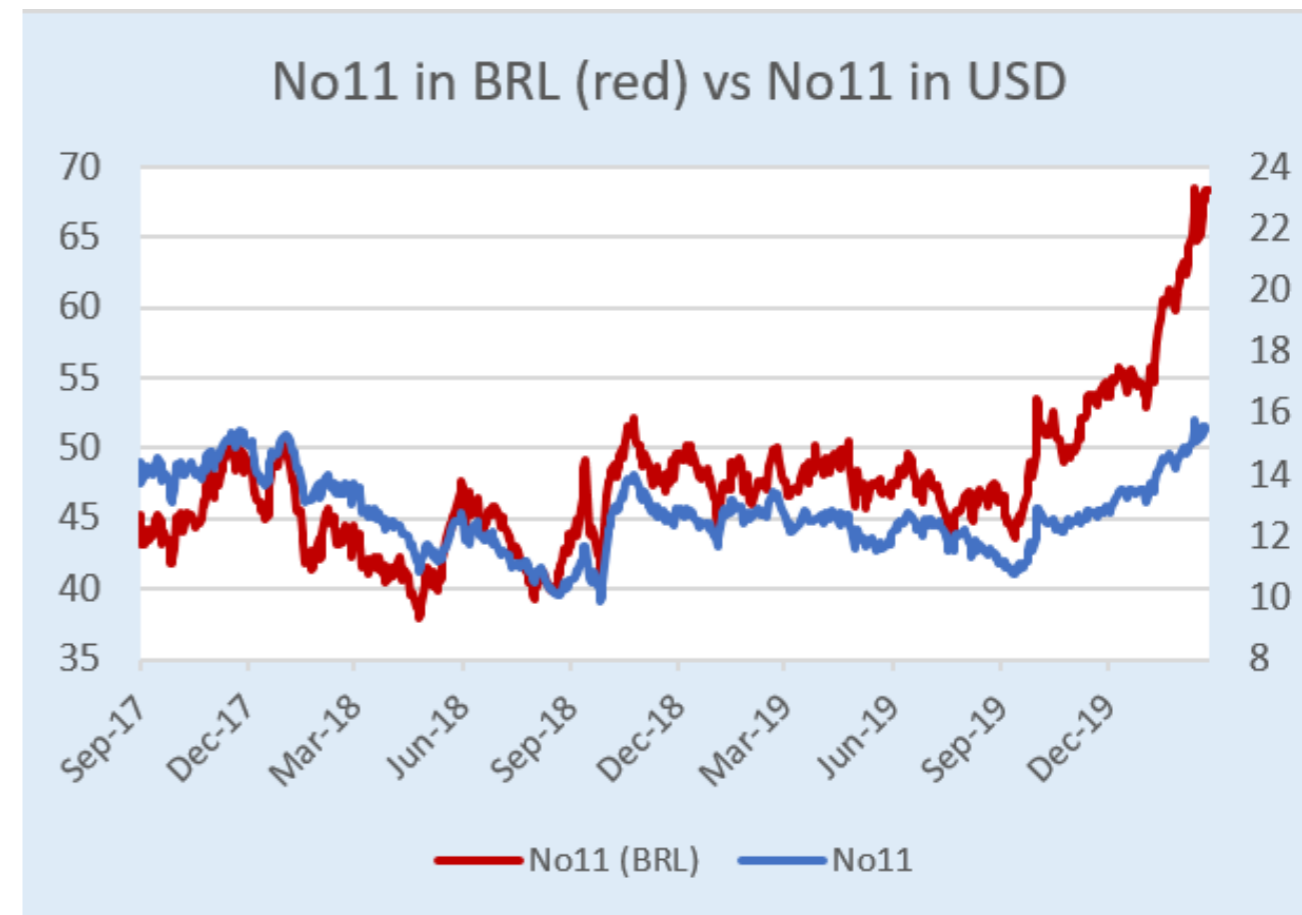
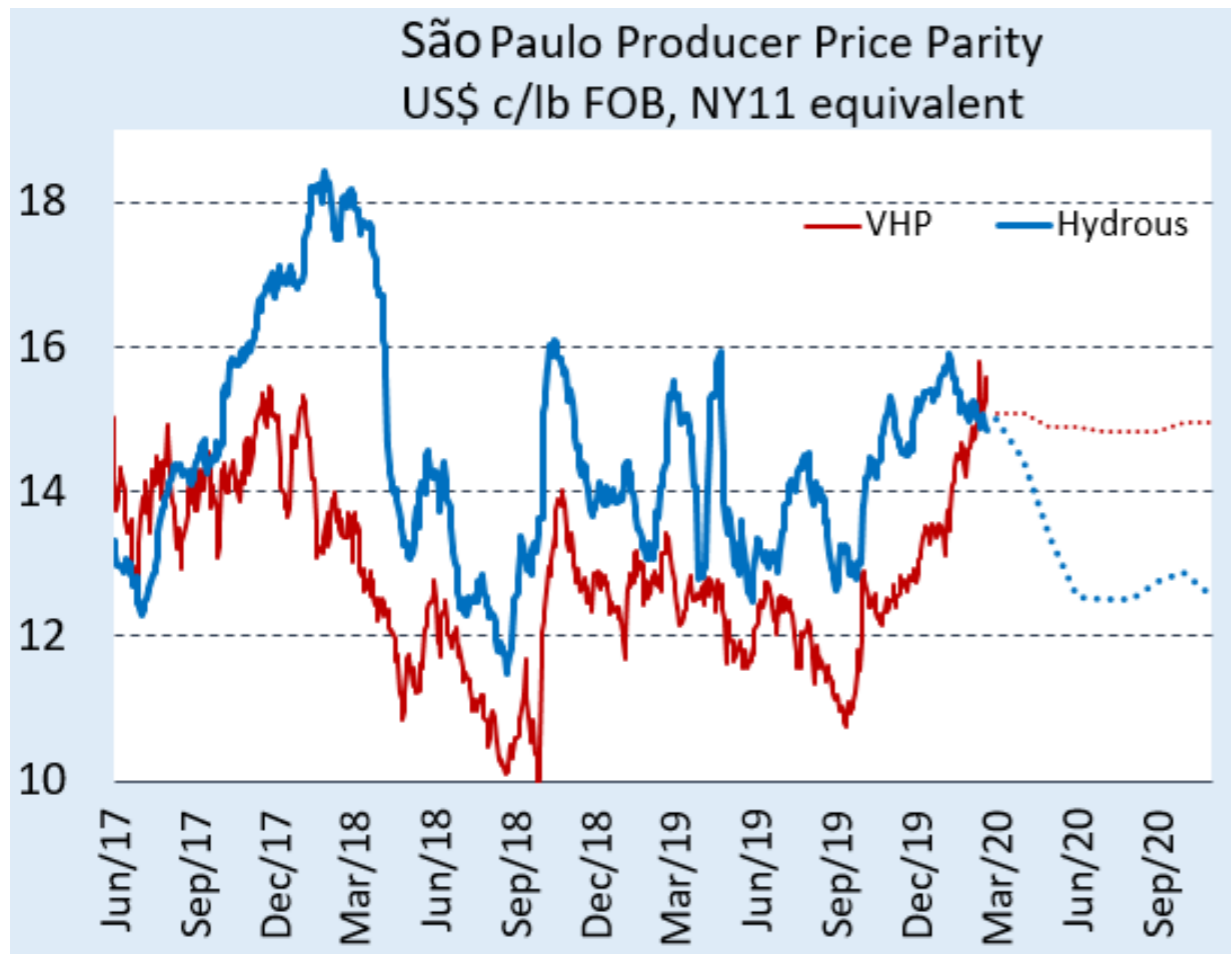
- Long anticipated deficit is finally being realised...and growing
- GP forecast 10.86 mln mt for 19/20 & 3.4 mln mt for '20/21

But it is the change, and the speed of change, which matters...



- NB Forecasts are just forecasts...
- If a market is doing its job, producers and consumers should both react

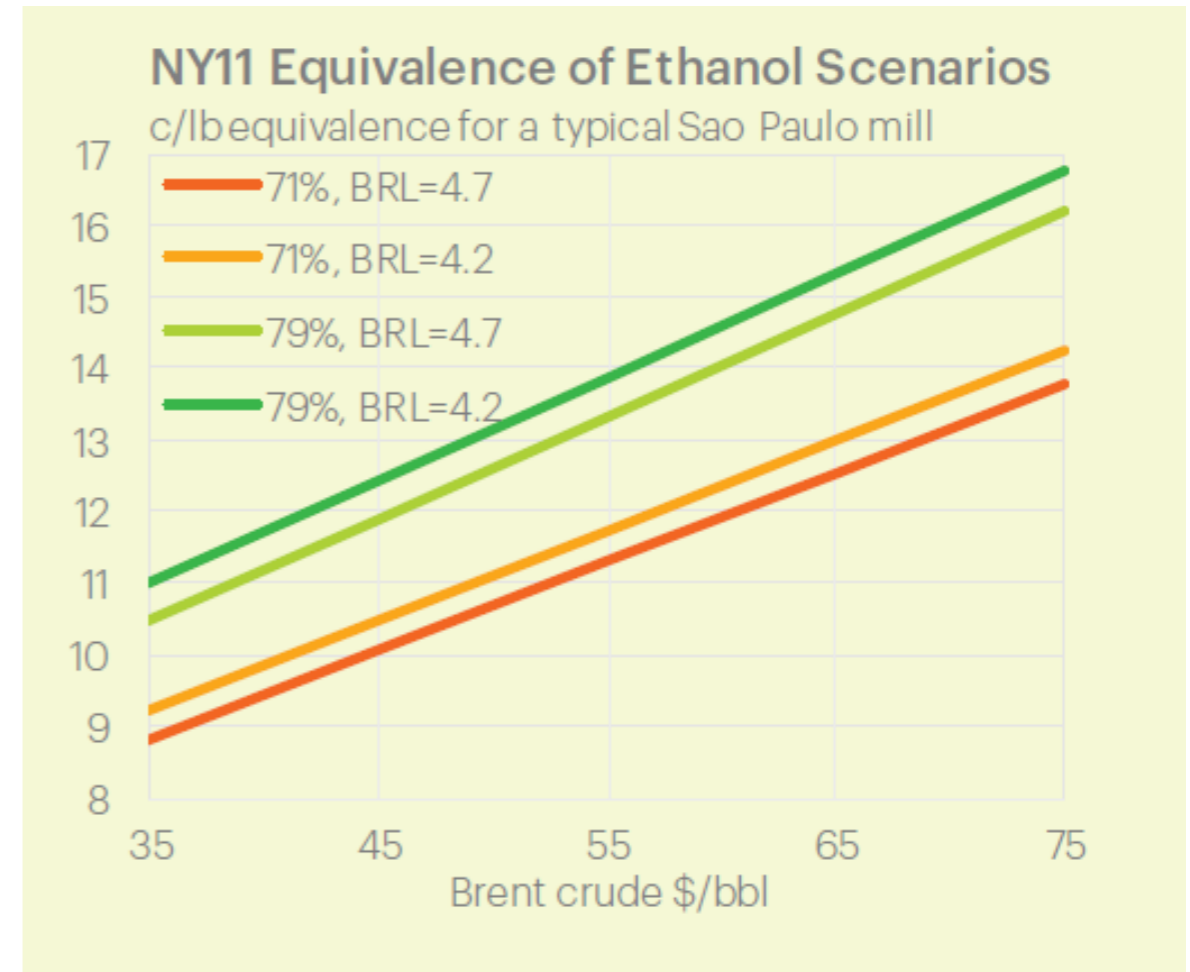
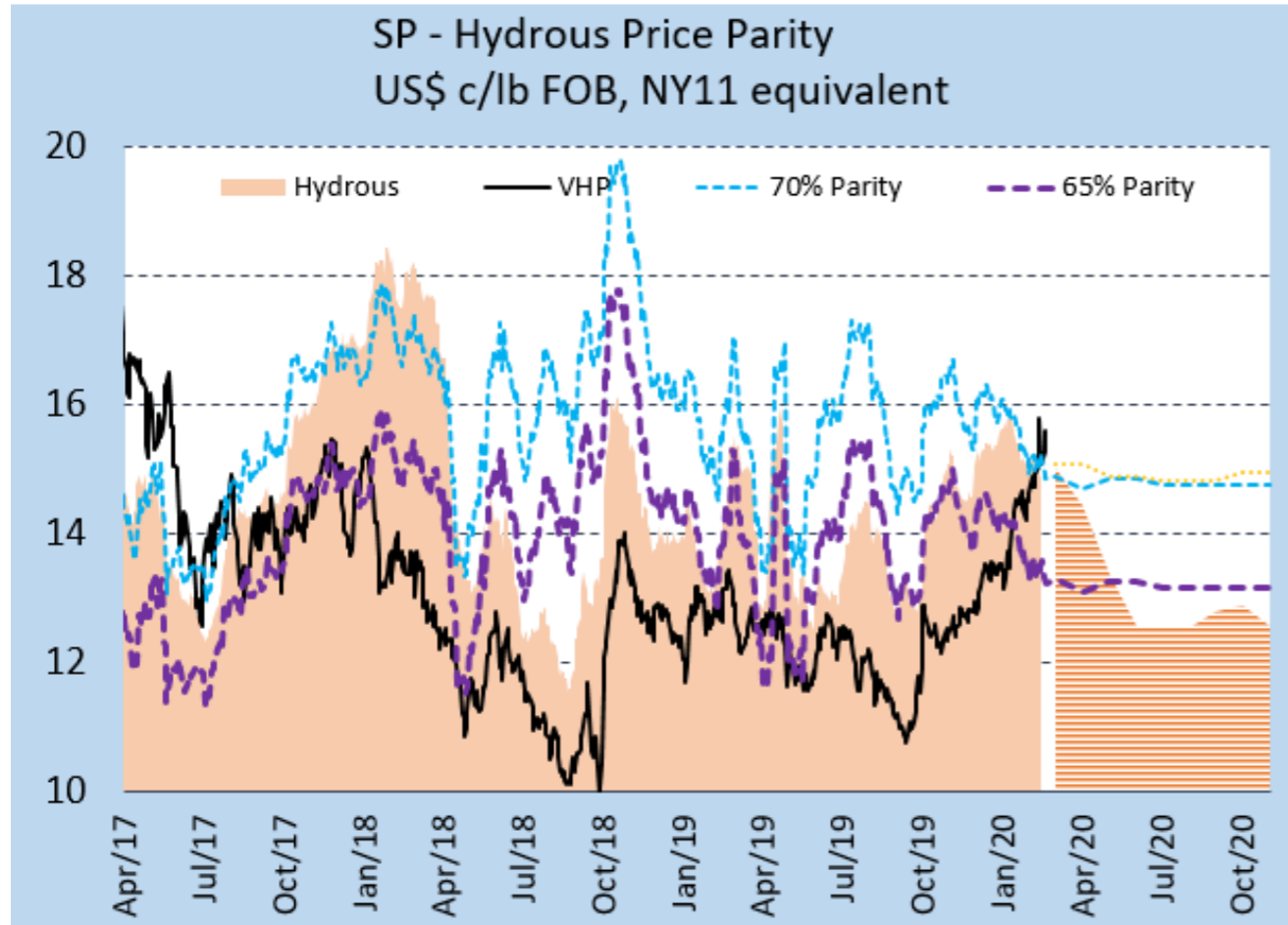
CS Brazil....are the producers responding?



- Brazilian producers have been aggressively hedging sugar prices....and further forward
- For the first time since 2017, hydrous is trading at a premium to sugar
- Sugar's attractiveness being helped by the low Real
- Two key questions
 - 1) How big will the cane crop be? +/- 590-600 mln mt
 - 2) How much will be allocated to sugar? – 37-41% or more?
 - “... nobody has the slightest idea what the mills are thinking!” Archer Consulting



Sugar/ethanol price parity is v dynamic



Commercial & logistical obligations & constraints – sugar & ethanol

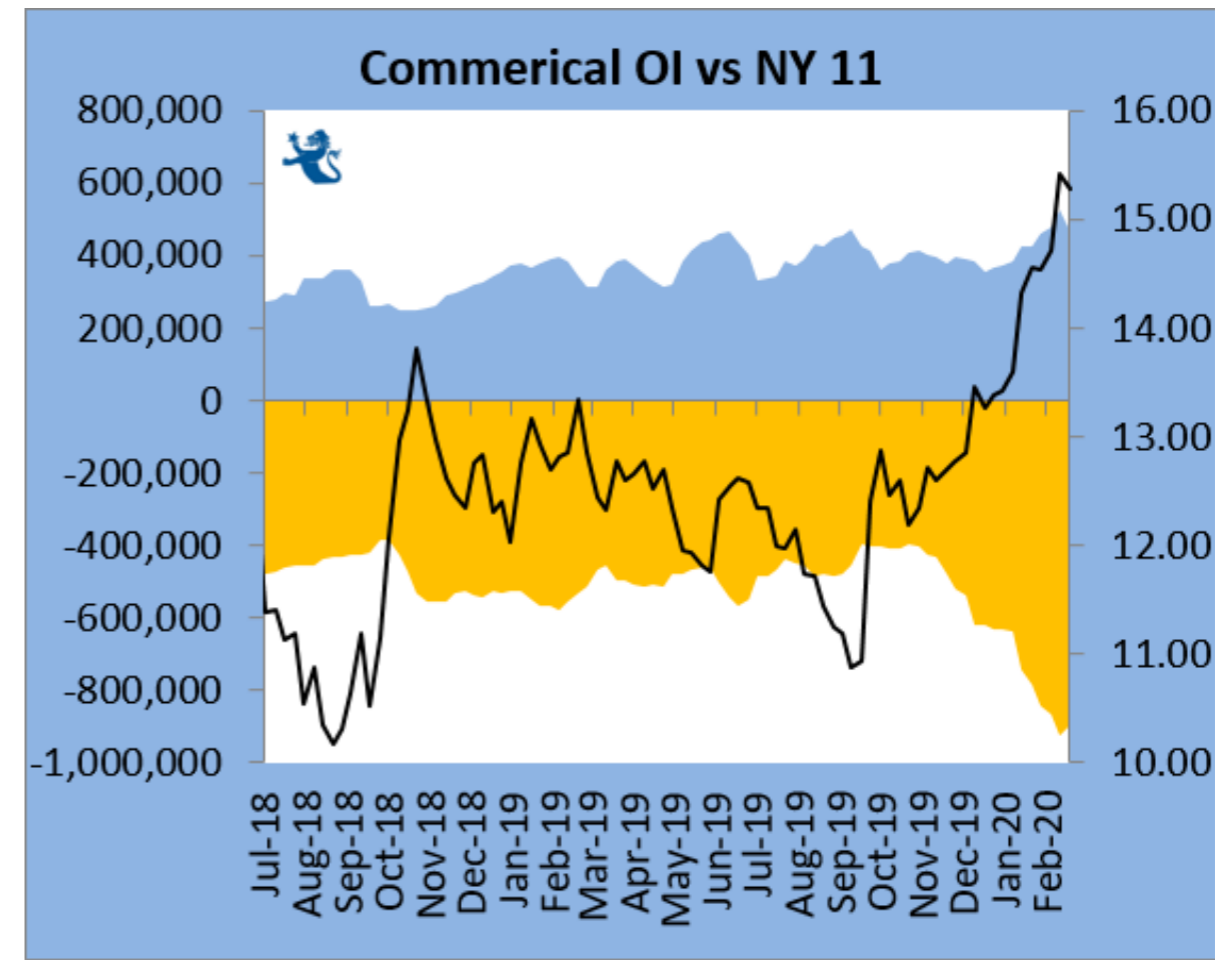
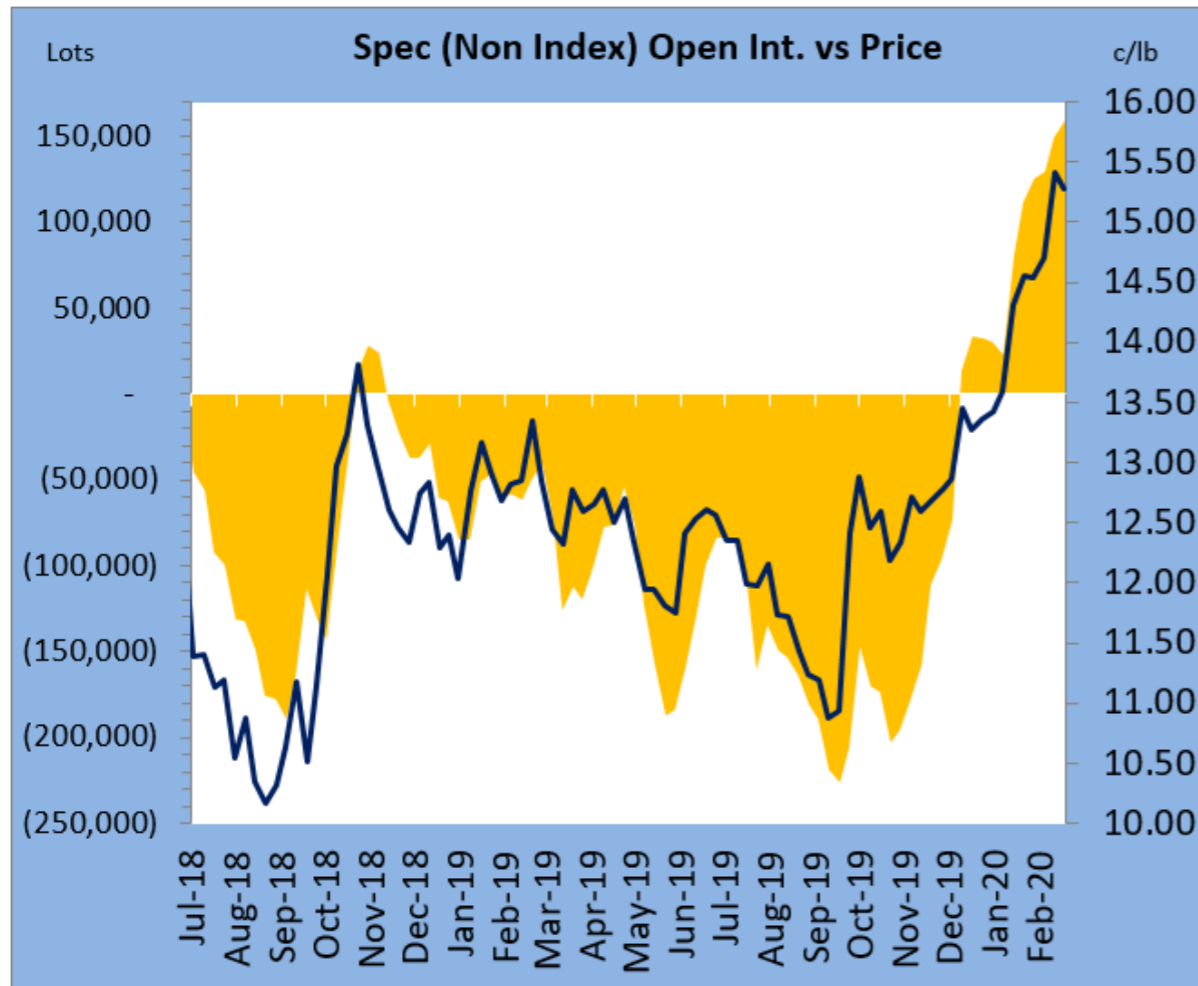
Fuel & ethanol supply & demand – FFV drivers reaction to market prices - GP est 1% rise/fall in gasoline parity = 0.5 bn litre ethanol use

Gasoline & crude price connection. V different calculations with Brent at \$50 than at \$60

Bottom line....producers can buy back hedges. What does the market need to do to incentives a 32 or 34 mln mt sugar production?



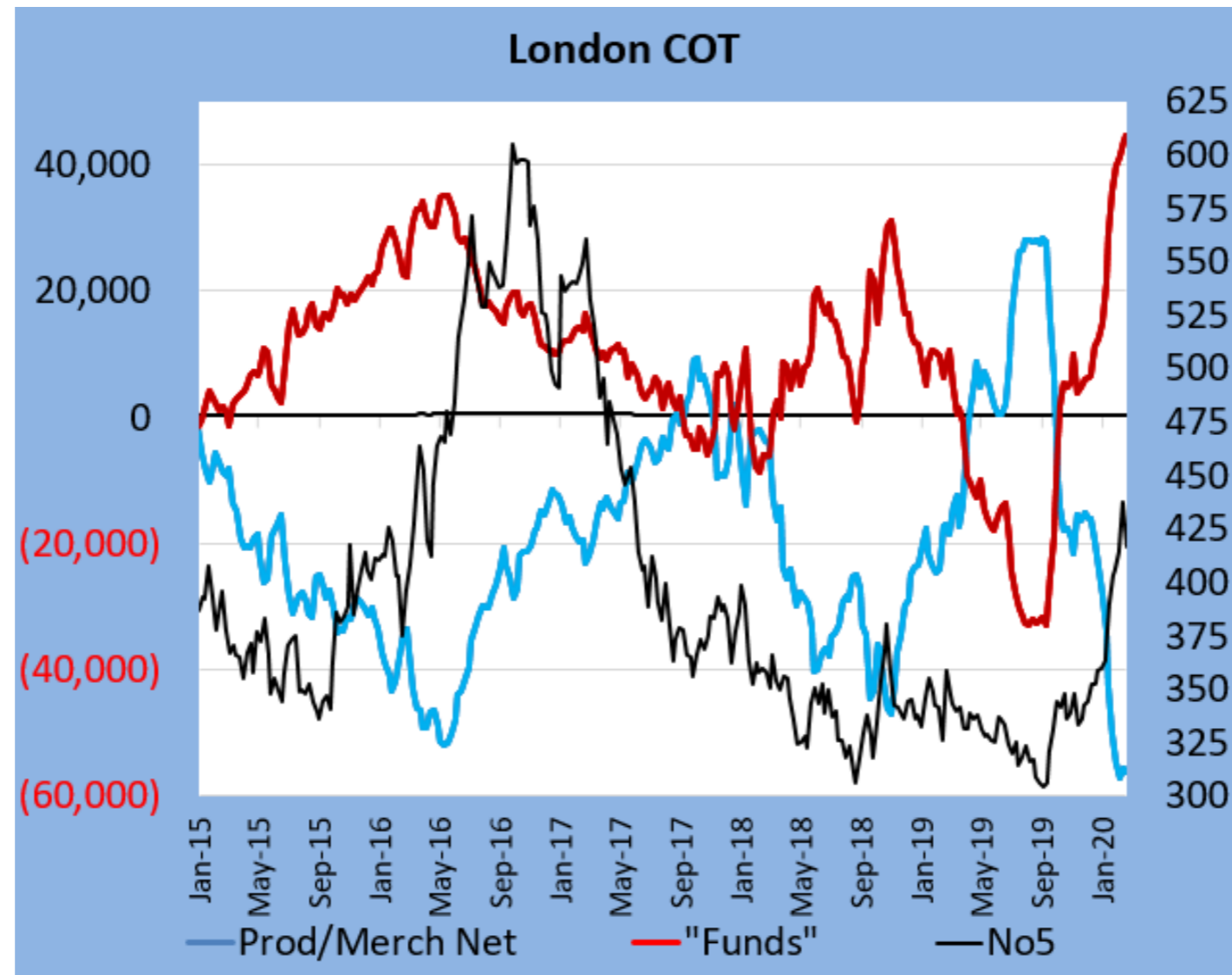
Fundamentals aside....what about the money flow



- Non-index spec buying may have started and then driven the rally. What's their appetite for further position building?
- But don't ignore the Commercial longs – main buyers in recent weeks
- And certainly don't ignore Commercial gross shorts – higher levels = higher margin pressure
- Futures OI at record levels....



Similar story but magnified in London



- Both the Commercial gross shorts and Funds gross & net longs at record levels
- London's lower liquidity can things 'interesting'
- Given the influence of and competition with other markets, 'macro' matters.
- Short term – money flows can overwhelm fundamentals



Conclusion

- Sugar market has shown in recent years an amazing ability to get ahead of itself and solve problems before they arise
- How producers react now will be key...but forecasts are not set in stone
- Weather remains a key variable risk
 - current cycle of solar activity (ie solar flares, etc) is the weakest it has been in over 100 years and approaching its solar minimum – typically associated with shorter growing seasons & increased weather risks.
(Marcus Weather)
- As do global & national politics, macro-economic developments and changing consumption trends!





Thank you.

Please let us know if you have any questions

James.liddiard@Agrilion.com