NAFTA
Sugar Market Update

La Quinta Waldorf Astoria Resort
Monday February 24, 2020
Backdrop:

• US and Mexican domestic stocks + production are down between 2.200 and 2.400 million tons
  – Roughly half of loss is in Mexico
• US Cane refining capacity is finite: 550,000 - 565,000 tons per month, and will be tested
• USDA has limited useful options in dealing with a refined sugar shortage
When it rains, it pours
(and then it freezes)

• October: CIT rules in favor of CSC – “2017 amendments” to SA’s to be vacated, freeze event in US West and Midwest
• November: Freeze in Louisiana, beet force majeure, 100,000 Mexican refined increase
• December: WASDE shows US production down over 900,000 tons from the October estimate, “2017 amendments” to SA’s vacated
• January: “2020 amendments” to SA’s are signed
• February: Shortfall reallocation, Mexico crop downgrade
• March: Mexico’s Export Limit fixed, Mexico determination on ability to fill Limit, beet planting intentions
• April-September: Reckoning of actual US/Mexico shortfall, USDA in the wings, early beet harvest.
US raw vs. refined:
1/1/2016 to 2/18/2020

Source: ICE/Milling & Baking News

*except 11/19 dates
Calm before the storm?

You are here

Source: USDA/FSA
Calm before the storm:

You are here
## USDA & JSG: FY’20

**1,000 STRV**

### February WASDE

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<tr>
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<th>JSG</th>
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<tr>
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<td>8088 (4375 beet, 3713 cane)</td>
</tr>
<tr>
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<td>3841 (1717 Mexico, 350 re-ex, 1674 TRQ, 100 other)</td>
<td>4021 (1591 Mex, 350 re-ex, 1674 TRQ, 406 other)</td>
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<tr>
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</tr>
<tr>
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<td>Total use</td>
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### JSG

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Source: USDA/JSG
Consumption

US down 2.9 % in Oct-Dec’19
Mexico FY’20 down fractionally
Zeroing in on consumption:
The Black Octagon:

_Sugary Drink Consumption Plunges in Chile After New Food Law_

A study finds that a landmark law requiring warning labels on unhealthy foods made a swift difference in purchases of sodas, bottled water and juices.
Mexico’s clear labeling laws:

Consumption of high caloric content products is expected to **decrease between seven and 25 percent**

Source: etiquetadosclaros.org
Supply
# US and Mexico Local Supply: -11 to 12%

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<th>FY’20</th>
<th>Difference</th>
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<tr>
<td><strong>Mexico beginning stocks:</strong></td>
<td>1630</td>
<td>1366</td>
<td>-264</td>
</tr>
<tr>
<td><strong>Mexico production:</strong></td>
<td>7508</td>
<td>6627 (6426)</td>
<td>-881 (-1082)</td>
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<tr>
<td><strong>US beginning refined stocks:</strong></td>
<td>1230</td>
<td>1098</td>
<td>-132</td>
</tr>
<tr>
<td><strong>US beet production:</strong></td>
<td>4939</td>
<td>4444</td>
<td>-495</td>
</tr>
<tr>
<td><strong>US beginning raw stocks:</strong></td>
<td>779</td>
<td>682</td>
<td>-97</td>
</tr>
<tr>
<td><strong>US cane production:</strong></td>
<td>4060</td>
<td>3713</td>
<td>-347</td>
</tr>
<tr>
<td><strong>Total:</strong></td>
<td>20146</td>
<td>17930</td>
<td>-2216 (2417)</td>
</tr>
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</table>
US Stocks
Monthly ending stocks:
September 2018-December 2019

12/31: 2019 vs. 2018
- Cane refiners: + 9.3 %
- Cane processors: - 8.2 %
- Beet processors: - 22.5 %
- Total: - 11.11 %

Source: USDA/FSA
Monthly ending stocks:
September 2018-December 2019

12/31: 2019 vs. 2018
Raw sugar: - 4.48 %
Refined sugar: - 17.76 %
Total: - 11.11 %

Source: USDA/FSA
Replacement for lost US supply:

US supply

- Mexico (30/70)
- Raws through US cane refiners

- Refined TRQ
- High tier
Production

Mexico
Mexican Sugar Production:
Estimate: 5.772 million tonnes tel quel

Source: Conadesuca
Mexican Sugar Production:

Estimate: 5.672 million tonnes tel quel

Source: Conadesuca
Mexican sugar yield: Agricultural

tonnes of cane per hectare - weekly

Source: Conadesuca
Mexican sugar yield: Industrial

kilos of sugar per tonne of cane - weekly

Source: Conadesuca
Mexican sugar Production: Week 20

- JSG estimates the FY’20 Mexican crop at 5.250 to 5.500 million tonnes tel quel

- Area harvested: down 8.58 %
- Cane crushed: down 17.72 %
- Sugar production: down 22.20 %
- Sugar with pol < 99.2 degrees: down 11.86 %
  - US demand 1.132 million tonnes – 61.7 % higher
- Refined sugar down 22.48 %

- Week 20: 36.1 % of estimate has been produced
  - FY’19: 41 % of total sugar had been produced
  - FY’18: 44.4 % of total sugar had been produced
  - If Week 20 FY’20 is 41 % complete, 5.000 million tonne crop
Replacement supply

Location
Packing
Quality
How to meet 12.265 million tons of demand: USDA

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<th>Refined</th>
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<td>Beet</td>
<td>4444</td>
<td></td>
<td>4444</td>
</tr>
<tr>
<td>Domestic raws</td>
<td>3713</td>
<td>3713</td>
<td></td>
</tr>
<tr>
<td>Raw TRQ</td>
<td>1230</td>
<td>1230</td>
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<tr>
<td>Refined TRQ</td>
<td>208</td>
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<tr>
<td>Reexport</td>
<td>350</td>
<td>350</td>
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<tr>
<td>FTA</td>
<td>236</td>
<td>75</td>
<td>161</td>
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<tr>
<td>Mexico</td>
<td>1717</td>
<td>1131</td>
<td>586</td>
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<tr>
<td>High tier</td>
<td>100</td>
<td></td>
<td>100</td>
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<tr>
<td>From stocks</td>
<td>267</td>
<td>117</td>
<td>150</td>
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<tr>
<td>Total</td>
<td>12265 (12.4%)</td>
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Loss versus replacement:

Source: American Sugar Alliance (map)
US cane refining capacity:

- Rated annual refining capacity 6.700 to 6.850 million short tons
- Highest ever utilization 6.547 million short tons (FY’09)
- FY’19 6.389 million short tons
- Cane refiners must be responsible
  - Balance utilization versus maintenance
  - A breakdown in the current environment would be counterproductive for all, but mainly the refiner
US Cane Refining Capacity Utilization:

FY'17: 6.106 strv
FY'18: 6.296 strv
FY'19: 6.390 strv

Source: USDA/FSA
Cane Refining Capacity: Feb-Sept

- **JSG estimate**: 4.520 million tons of raw sugar available for the Feb-Sept 2020
  - Annualized: 6.780 million tons
  - Mexico: 1.072 million tons “other sugars”, 553,000 tons of refined
    - Unlikely to ship over 500,000 tons of “refined”
    - Unlikely to be able to ship total
  - Raw sugar TRQ increase will be a challenge to process
High-tier refined import viability:

- #5 White sugar contract + high-tier duty + 5.00 costs

Source: ICE Futures/JSG
Alternative refined imports:

- Refined beet production lost in Mountains and Midwest, replacement on the coast and Mexican border
- High tier
  - 91,000 tons in FY’19, 210,000 in FY’10 (record)
  - Bags and totes
- Global refined TRQ
  - Bags and totes
  - First come/first served
  - Definition =/>99.5 degree polarization
  - Organic entries
  - VHP sugars can displace refined
- Lack of plant audits/approvals
Conclusions:

• Massive drop in USMCA production will thrust USDA into critical role of import management
• The US industry faces unprecedented challenges beyond those USDA can impact
• An important percentage of the replacement supply will not be delivered under SOP
• Industry will need to adapt to avoid widespread shortages despite ample overall supply
Conclusions:

• Refined prices will inevitably rise incoming months
• Raws market will depend on import mix, but sprawling margin may lead to higher pricing
• Reported FY’21 pricing – 35.00-36.00 FOB Midwest beet, 37.00 FOB refiner cane - appears attractive
NAFTA Sugar Market Update