

QSL Sugar Monthly

Current as at 12th December 2016



Sugar

Contract	Latest Settlement	Monthly Change	High	Low
Mar-2017	19.24	-2.39	21.63	18.84
May-2017	18.78	-2.18	21.12	18.42
Jul-2017	18.22	-1.89	20.27	18.01
Oct-2017	18.03	-1.48	19.66	17.83
Mar-2018	18.05	-1.15	19.36	17.83
May-2018	17.52	-1.00	18.70	17.32
BRL/USD	3.3802	0.38%	3.4823	3.3323
Ethanol Parity	17.27			

What Happened?

It's been another volatile month, where the sugar market continued to give back the gains of the past few months. With continued speculator selling pressure, the market pushed down through the 100-Day Moving Average levels at around US21 c/lb and only started to find some stability below the 200-Day Moving Average levels at just below US19 c/lb. The speculators have reduced their bought position from its peak level of around 17.5 million metric ton (mt) back to the current level of around 9 million mt – meaning they have sold around 8.5 million mt of futures contracts in the last couple of months. Pressure to sell out their bought positions has increased as more news emerged that the deficit is likely to be slightly smaller than earlier expected and most of the technical drivers in the market have turned negative.

Part of the stability found late in the month came from some positive developments involving oil producers, with OPEC and non-OPEC countries agreeing to some production cuts. The oil prices increased dramatically by around 10% and there has been a knock-on effect for sugar prices after Brazilian petroleum entity, Petrobras, increased their local gasoline prices and announced a new pricing methodology where their future local gasoline prices will be linked to US Dollar based oil prices. Most analysts have been reducing their expectations of a deficit for 2016/17 on the back of lower import requirements from India and China however some positive information has also been emerging which may offset this in the future.

Brazil's 16/17 Centre South crop is still winding up and is expected to come in around 35 million mt as forecast. The 17/18 crop is not looking as positive due to the dry weather.

Chinese local sugar prices went on a major increase on the back of a lower import quota announcement and the Thai sugar harvest has been delayed by wet weather.

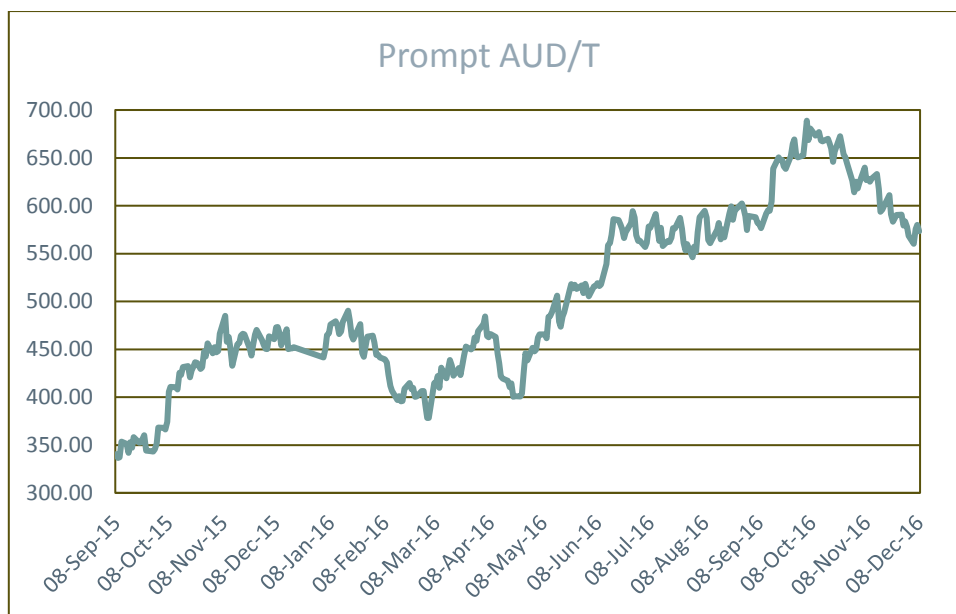
The local US sugar market has also been well supported based on uncertainty around supply continuing under the ongoing Mexico sugar agreement.

The election of Donald Trump and consequent strength of the US Dollar has had a major impact on financial markets in the last month, with the stock market and certain commodity markets related to infrastructure development receiving support.

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Going Forward

After dropping to the lowest levels in around three months, there is some positive news emerging in the market that should potentially help AUD/mt levels to find some support in the coming month. Importantly, following recent oil price increases in Brazil and changes to the domestic gasoline – ethanol pricing methodology together with moves by non-OPEC countries to also reduce production, further gasoline (and ethanol) price increases seem likely in early 2017.

Brazil's 2017/18 crop outlook is also now coming in lower than some earlier expectations. So, this lower crop outlook coupled with better returns for ethanol, will come home to roost in analyst supply-and-demand forecasts at some point.

What Could Change?

While it seems like most of the bad news has been priced into the market already, any new government announcements out of India or China related to curbing their import programs will potentially be negative for the supply-and-demand and, consequently, short-term prices. The 2017/18 European beet crop is expected to be large and any focus on this could also be negative for prices. The market's strong endorsement of Donald Trump's election will be an area to see if any signs of flagging.









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QSL Market Cost Drivers

MARKET COST DRIVERS	PROMPT (Mar17) A\$/mt	2017 Season A\$/mt
Current Market	\$631.71	\$568.08
Sugar Fundamentals - Global exc. Brazil		
Sugar Fundamentals - Brazil		
Macro Issues/ Specs		
AUD/USD		

Currency

	Settlement	Range	High	Low
AUD/USD	0.7457	192 pts	0.7505	0.7313

What Happened?

The last couple of months has seen the US Dollar index continue to increase to its highest levels in around 14 years. The AUD/USD gave way only a little during the month, based on continued strength of infrastructure commodities. The Reserve Bank of Australia (RBA) again kept rates on hold, but the lower than expected GDP growth in early December indicates that the economy still remains vulnerable despite their concern of high real estate prices.

Going Forward

The indicators are still pointing to more support of the USD and we expect to see potential for further pressure on the AUD/USD during the next couple of months. The next RBA meeting will be in February where potential for a rate cut will be once again on the table for review. The risk for any moves back up towards 0.80c now seems a little more limited.

What Could Change?

An expected interest rate rise in the USA at the next Federal Open Market Committee (FOMC) meeting on 14th December is already largely priced in, so any changes to this could lead to some strengthening of the AUD/USD.

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