



QSL Sugar Monthly Report

Current as at 13 November 2017

Sugar

Contract	Latest Settlement	Monthly Change	High	Low
Mar-2018	14.96	0.96	14.96	13.88
May-2018	14.96	0.85	14.96	14.00
Jul-2018	14.99	0.70	14.99	14.14
Oct-2018	15.22	0.58	15.23	14.47
Mar-2019	15.69	0.48	15.69	15.04
May-2019	15.64	0.37	15.64	15.09
BRL/USD	3.2837	-2.99%	3.3138	3.1460
Ethanol Parity	15.24			

Source: Bloomberg. Current as of 13.11.17

What happened?

During the past month the sugar market traded on the higher end of the recent 13-15 c/lb range and we finally saw the AUD/USD move back down to around 0.76. Consequently, AUD/metric tonne (mt) returns for 2018, 2019 and 2020 Seasons have all recovered to levels back above the long-term average, reaching highs of A\$440/mt, A\$450/mt and A\$460/mt during the month respectively.

Sugar was supported for two key reasons – Brazil’s switch to ethanol from sugar, and speculators buying back around 3 million mt of their sold positions.

With the recent run up in oil prices to around \$60 per barrel, Brazil’s latest UNICA report showed that millers are making the switch to ethanol, with the sugar mix now at below 44%. Brazil’s Sugar Week was held last week in Sao Paulo, with some observers saying that it could have been more correctly called ‘Ethanol Week’. Most analysts are marking down their Brazilian sugar production estimates accordingly.

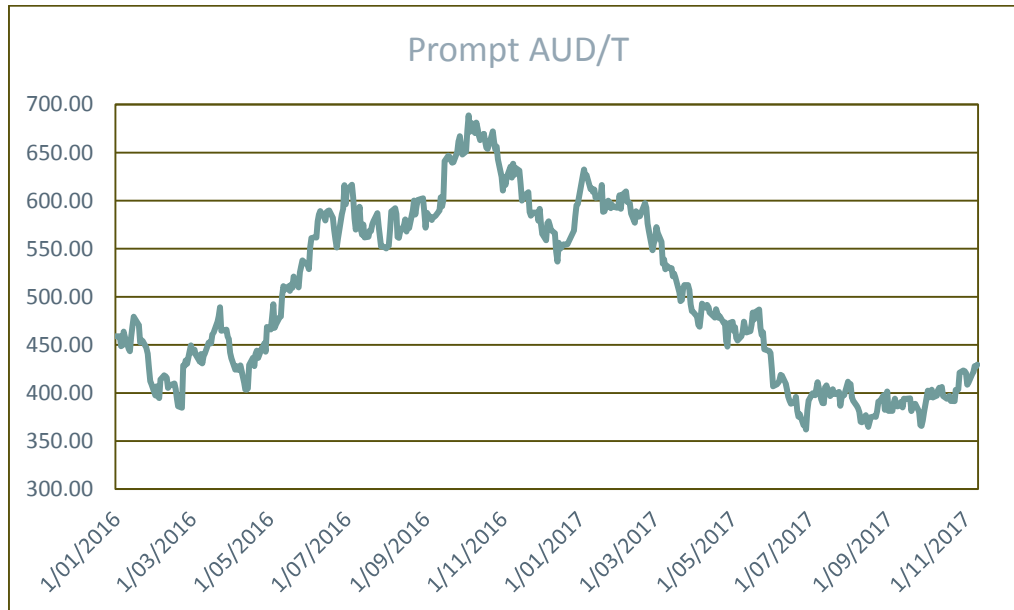
The speculators have been very active this last month, buying back around 60,000 lots (3 million mt). This large-scale volume with minimal upward price movement was a surprise, and indicated the buying support has been met by producers selling from key regions such as the European Union (EU), Brazil and Thailand. These producers still remain largely unpriced and are expected to cap any moves above 15 c/lb.

Ongoing informal trade imports of refined sugar into China have continued to keep the white sugar market and physical supply in Asia well supported. Elsewhere, 2017/18 northern hemisphere crops are now underway, with some good recoveries on 2016/17 results expected. Thailand appears to be

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up around 2 million mt of sugar while the EU is expected to be up 6 million mt of sugar. India has also had some good rains and their crop looks set to be up around 5 million mt of sugar.



Source: Bloomberg. Current as of 13.11.17.

Going forward

The relatively strong market during the intercrop period that we are experiencing in Q4 2017 is unlikely to continue for too long into 2018 once the surplus starts to kick in. It would seem likely that any further upside will potentially be limited by producer selling above 15 c/lb, and there is a good possibility that we may potentially see a test of the 13 c/lb level again at some point in the coming months once the surplus is felt.

Some analysts are now predicting a global surplus as high as 9 million mt. To balance this view, there is certainly some possibility that the ethanol switch and ongoing oil price strength can give some support, but the avalanche of sugar production already on its way will take a major weather event, a massive switch from sugar in Brazil or an unexpected recovery in demand growth of sugar to help bring some balance. Domestic prices in some of the key markets are already moving down in response to the anticipated volume to come and this is before the sheds are full in a couple of months and pricing for exports are completed in the EU, Brazil and Thailand.









What could change?

The more evenly balanced position of the speculators could potentially back up even further to support the oil price story and help support for a sugar price recovery.

QSL Market Cost Drivers

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MARKET COST DRIVERS	PROMPT (Mar 18) A\$/mt as at 13.11.17	2018 Season A\$/mt as at 13.11.17
Current Market	\$428.33	\$439.89
Sugar Fundamentals - Global exc. Brazil		
Sugar Fundamentals - Brazil		
Macro Issues/ Specs		
AUD/USD		

Currency

	Settlement	Range	High	Low
AUD/USD	0.7661	242 pts	0.7887	0.7645

Current as of 13.11.17.

What happened?

The Australian Dollar/US Dollar exchange rate finally broke down through 0.7700 and has remained below this level since. This move happened in spite of good economic data coming from the Australian economy, and oil and other commodity prices moving up during the month. It has been all about the US Dollar (USD) and the US economy. Speculators have bought back around \$5 billion of their sold USD position – effectively they had been “shorting” the USD.

President Trump has been pushing the new tax package and appears to have been making some progress in creating some geopolitical stability with key trading partners in Asia by recently meeting with Japan, China and South Korean leaders.

Going forward

RBA rates are not expected move anytime soon, but the market is pricing in around 90% probability of a USA interest rate increase for the upcoming December Federal Reserve meeting. Strong



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resistance has been uncovered around 0.7630 and may limit any further downside, so if anything, we expect trading to remain within a 0.7500-0.7750 range during the coming month.

What could change?

As seen earlier, any developments in USA politics and North Korea /Russian tensions may impact the AUD/USD.