QSL Market Update

10 July 2018

MARKET IN FOCUS

Bumper Thai crop hits premiums

By Ginette Barrett, QSL Treasury Manager

In years gone by Queensland producers of raw sugar could always rely on a premium above the ICE 11 price which was roughly in line with our ability to deliver high-quality raw sugar into our most-valued markets in Asia at a more competitive rate than our largest competitor, Brazil.

This competitiveness was primarily driven by our freight advantage. In simple terms, the stronger the freight market the more competitive Queensland raw sugar exporters could be, given our vessels spend fewer days on the water sailing to the Far East than a similar vessel sailing from Brazil. This freight advantage is often referred to as the 'Far East Premium'.

Over the past 12 months the cost of freighting bulk cargoes to our traditional markets such as Korea, Japan, Indonesia and other Asian ports has increased, so given our sailing time is shorter, our competitive advantage into these markets compared to our Brazilian counterparts has improved.

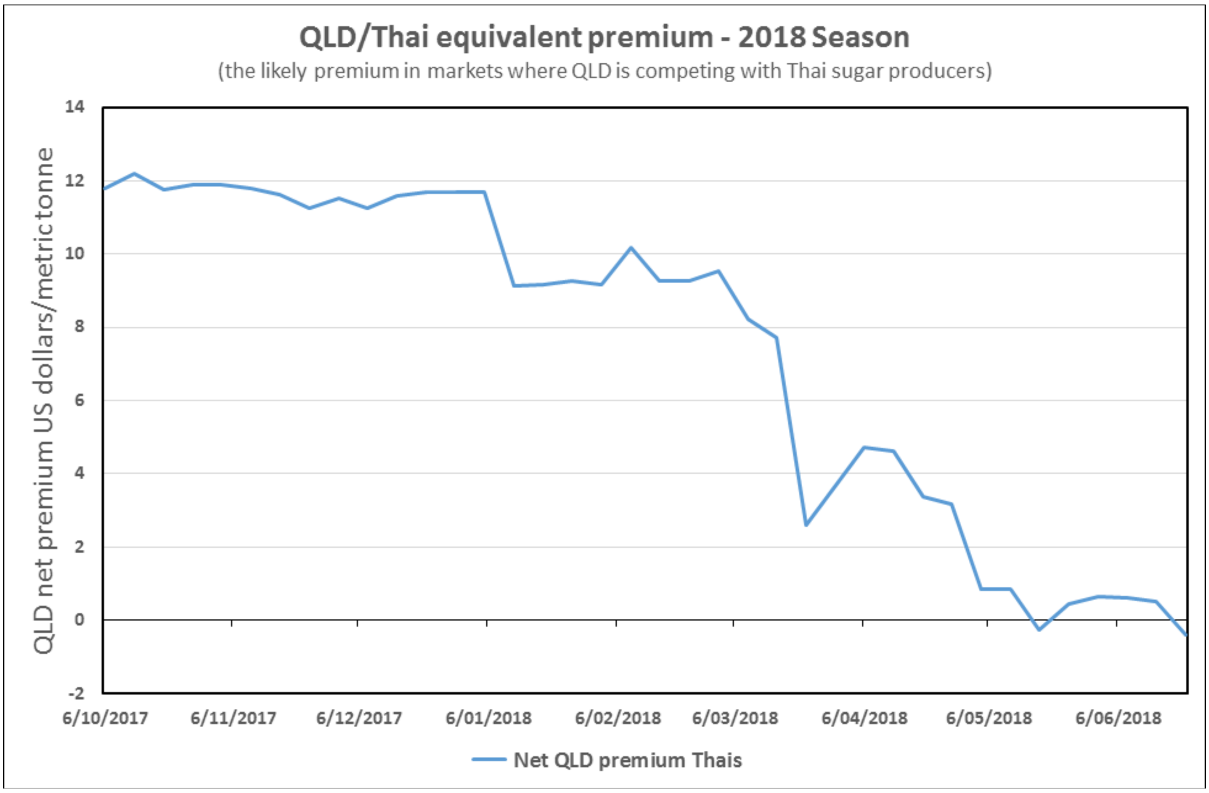
However, in conjunction with the rising freight market seen over the past couple of years, Thai sugar cane production has reached record levels. So while we continue to hold a freight advantage over Brazilian exporters, unfortunately the Thai exporters hold a similar advantage over Queensland exporters for the exact same reason, as their sailing time is less than half of ours to our traditional markets.

IMPACTS FOR QUEENSLAND EXPORTERS

Thai sugar production reached record levels this year and a similar-sized crop is forecast for next year, with the slowing global demand for raw sugar resulting in a real dog fight between Queensland and Thai exporters for Asian markets. When two large competitors clash the unfortunate result is prices tend to reflect this oversupply. In actual terms, Thai sugar is currently being traded at a discount to the ICE 11 and with Queensland's freight disadvantage evident, the traditional Far East premium enjoyed by Queensland exporters for many years is suffering.

On the upside, the Thai production numbers are very fluid. In less than the six months between January and June this year the Thai cane crop estimates increased by about the same size as the entire Australian cane crop, and while next year's forecast is similar, the variability of production due to weather and substitute crops like tapioca and rice can dramatically change this landscape quickly. Additionally, Thai sugar is less favored by refiners due to variances in quality and the unreliability of their supply chain, so given the choice, most refiners still prefer Australian raw sugar and pay a premium for this.

Further afield, the implementation of the Indonesia-Australia Comprehensive Economic Partnership Agreement and improvements bought about by the Trans-Pacific Partnership for our Japanese exports have made both of these markets more accessible and competitive for Queensland exporters.



Current as of 10 July 2018

IMPACTS ON THE SHARED POOL

While the current global surplus has had a strong and very noticeable negative impact on the ICE 11 price, the impact of freight markets and premium reductions is primarily reflected in QSL growers' Shared Pool element.

Freight rates from Queensland to our Asian markets have increased by approximately US$4.50 per metric tonne (mt) in the last year, while competitor freight rates from Thailand to our markets have remained relatively stable.

The premiums for Thai sugar are also down due to the larger Thai crop, dropping approximately 25 points (US$5.60/mt) compared to the same timeframes last season.

The ICE 11's recent trading at lower levels has also reduced the Polarisation Premium revenue in the QSL Shared Pool by approximately US$1.60/mt (Each US$1 movement in the ICE 11 results in a change to polarisation revenue of about US3 cents/mt).

These factors, combined with a US exchange rate of 0.73, equates to an estimated impact of A$15.70 per mt IPS. The effect of this reduction in revenue has been offset by a lower AUD/USD exchange and a reduction in some other costs, but overall, net premiums in the 2018 ICE 11 Shared Pool have fallen by approximately A$14/mt IPS since they were last updated in May.

It is important to note that the QSL Shared Pool values are only indicative until the end of each season, and so will continue to fluctuate until finalised in the July after the harvest each year. Until this time they are an estimate only that also varies between milling regions to reflect the applicable local contractual arrangements. For this reason, QSL recommends that growers regularly check the current indicative QSL Shared Pool applicable to them. You can find this by clicking on your milling area in the **QSL Pool Prices** section of the QSL homepage (www.qsl.com.au), illustrated below:

The Shared Pool estimate includes a breakdown of the current indicative pool value under the following key categories:

- Net market premiums
- Storage and handling costs
- Finance costs
- Marketing and shared services costs
- Regional costs
- Loyalty Bonus

For more information about the QSL Shared Pool, please refer to your QSL Grower Handbook (available online at www.qsl.com.au) or contact your local QSL representative.