



## Optimism after tough sugar year

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Most in the sugar market would view 2019 as a largely forgettable event – a necessary evil of continued lower prices as the global balance sheet attempted to correct itself from two years of bumper surpluses.

Brazil played its role admirably, maximising its ethanol production to record levels and removing 10 million tonnes of sugar from the system. Meanwhile India continued to play the badly disguised villain, with a government seemingly nonplussed by World Trade Organisation lobbying and happy to continue to provide their cane industry with subsidies sufficient to keep them growing the largest sugar crop in the world, even at prices below cost of production for most.

Prices spent virtually the entire year trapped between 11 and 13 US cents/pound, with the average at 12.29 c/lb. Unsurprisingly, volatility was subdued. The main theme of the past 12 months was speculator activity, as a series of new net short records topping out at 226,000 lots net short were posted in September and October. In the absence of any real fundamental changes, market participants were forced to focus on this activity and the underlying macro and technical picture driving it.

Last year proved to be another one of depreciation for the Aussie Dollar, albeit at a slightly slower pace than the past couple of years. Falling from a first-quarter high of 73 cents to third-quarter lows of 67 cents, it appears to have found a base level of support now. Macro themes dominated the landscape as the trade dispute between the



US and China dragged on, affecting both global trade activity and risk sentiment, while the ongoing Brexit saga remained unresolved. The local economy remained stagnant, resulting in a series of RBA rate cuts that left us at 0.75%.

## **LOOKING AHEAD**

Despite the doldrums of the majority of last year, recent price activity points toward some optimism for 2020. The almost entire liquidation of that record spec net sold position has lifted prices back above 13c/lb and allowed us to get some decent forward pricing done for the 2020 and 2021 Seasons.

Market fundamentals have a slight bullish bias. Analysts all predict a small but not insignificant deficit for next year, citing a smaller Thai crop, zero Mexican exports (diverted to US in lieu of their beet crop failure) and a continued maximum ethanol mix next year in Brazil. However, price rally expectations remain tempered, with India still producing and exporting at record levels as well as a sizeable carryover of stocks built up over the past couple of seasons' surpluses.

The big unanswered question of course remains is what will the market speculators do next? A move to a net long position is not impossible but seems unlikely in the current macro environment. Likewise, with more supportive fundamentals in place it also seems they are unlikely to revisit those record net short levels again. What appears more likely is that they will maintain a smaller presence in the market this year which will allow fundamentals to play a bigger role in guiding price activity. With ethanol parity still providing significant overhead resistance, QSL expects a 12c/lb to 15c/lb market for 2020 as the global balance sheet continues to work back towards a more neutral position.

With the Australian Dollar looking steadier at present it would be easy to suggest that the worst is behind it. However headwinds remain and a trip lower towards 66/65 US cent levels is not entirely out of the realms of possibility if the Chinese and US continue to drag out negotiations. And if the local economy remains tepid we are only two more cuts away from where the RBA have flagged we will enter the unknown territory of Quantitative Easing in Australia. That said, risk appetite is beginning to return to the market as evidenced by the reincarnation of volatility (which was clinically dead as little as a month ago), and we are merely a Xi Jinping/Trump squiggle away from seeing AUD back at 70 cents. As such, we look for the Aussie Dollar to trade a 66/71 cent range over the next calendar year.

### **For more information:**

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