QSL MARKET UPDATE

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19 May 2020

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Weekly Market Overview

Indicative ICE 11 Prices

Season	AUD/MT*	Weekly Change
2020	369.61	1.87%
2021	387.03	1.14%
2022	392.53	0.24%
2023	389.39	-0.36%

**These figures are indicative of available ICE 11 prices as at the week ending 18 May 2020 and reflect the weighted average AUD/mt price. The prices have been adjusted to include Over-the-Counter margin fees charged by banking institutions and so may differ from daily prices quoted by the ICE 11 Exchange and/or other Marketers of Growers' Economic Interest in Sugar. Values also do not account for any adjustments resulting from local Grower-Miller pricing arrangements.*

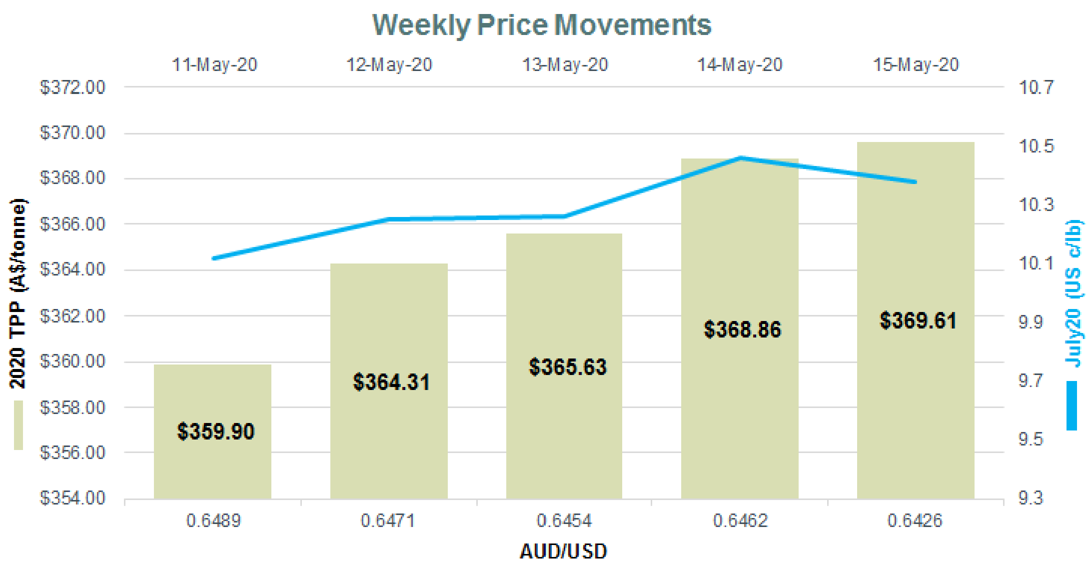
Sugar

- The ICE 11 raw sugar price traded in a 70-point range last week, still captured in the 10 US/lb zone. However, current levels are not reflective of wider production fundamentals, and so the price could break its recent 9-11 USc/lb range at any time.
- The big story in the market is the unfolding economic and health crisis in Brazil, with the currency falling to an all-time low last week of 5.97 against the US Dollar. While this favourable exchange rate continues to encourage Brazilian millers to maximise

sugar production over ethanol production, the spread of coronavirus is throwing their actual ability to do so into question.

- Brazil now suffers the third-highest rate of coronavirus infections in the world and the Bolsonaro government is in disarray, with the resignation of their second Health Minister in a month and ongoing conflict with regional governments regarding their response to the increasing crisis.
- While there's already a lot of sugar headed to Brazil's export terminals, concerns are growing that virus outbreaks at mills could lead to a shutdown of Brazil's major export port at Santos, where shipping already faces a month-long delay for loading. With massive beans and corn crops also fighting for port space, the prospect of further delays or impediments to Brazilian sugar exports could prompt a sugar price rally – so watch this space.
- As expected, the proportion of Brazilian cane used for sugar production rather than ethanol continues to increase, reaching 45.76% in the latest UNICA numbers (see Jargon Buster), fuelled by an ethanol parity of 7.73 USc/lb.

- In India, the harvest is winding up and sugar is making its way to port. However, last year's largest sugar producer is now expecting its worst recession since the late 1970s, with a 5% contraction in GDP. All eyes are on the Indian government's stimulus measures and whether they choose to subsidise struggling farmers through sugar export incentives, or tighten their spending.



Currency

- The Australian Dollar traded between 64 and 66 US cents last week, driven primarily by increasing US/China trade tensions and China’s new trade restrictions against Australian beef and barley producers. While China represents a relatively small portion of the Queensland sugar market, simmering tensions with our largest trading partner will put the Aussie Dollar under pressure.
- US equity markets have recovered quickly, even though the coronavirus remains a growing challenge within that country. It’s an unusual position that does not seem sustainable.
- A correction for the Aussie Dollar also looks likely in the short term before our economic recovery kicks in. Despite the recession ahead, we remain ahead of the global economic pack, with estimates for the AUD to potentially climb back towards 70 cents by the year end.

Jargon Buster

What is the UNICA?

UNICA is the Brazilian Sugarcane Industry Association. Its regular reports on Brazilian sugar cane production are considered a key information source by market analysts.