QSL MARKET UPDATE

Current as of 22 June 2020.

Sugar

- Sugar prices spent most of the past month pushing higher as the global economic environment improved post-coronavirus and risk appetite returned.
- Price action has largely been dictated by investor activity, with speculators shifting from a net-short to a net-long position, seemingly comfortable to invest in sugar as the oil price and Brazilian currency strengthen.
- Fundamentals remain very much on the side lines at present, with the record Brazilian sugar production largely priced in and the market requiring those physical sugars to meet global demand following small Northern hemisphere crops.
- A gradual return of ethanol demand in Brazil has seen improvements in ethanol prices, which will support the lower end of the broader 11 to 13-cent ICE 11 trading range going forward.
- **Risks Ahead:** With COVID-19 rising in Brazil, any supply disruptions will be seen as an upside risk. Meanwhile recovering monsoons in Thailand and India will be closely monitored for any bearish impact later in the calendar year.

Currency

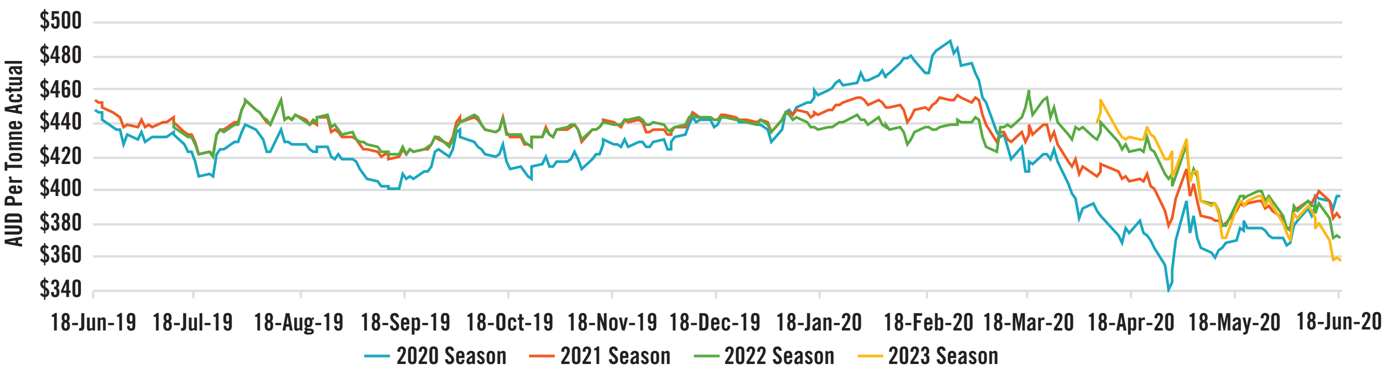
- Like sugar, currency action has also been dominated by the macro environment. Insatiable investor risk appetite as well as a high correlation to US equities, which have been running hot since late March, have seen the Aussie up as high as 0.7063 during the month.
- Tensions between the US and China have subsided, with US domestic issues dominating White House attention. Meanwhile, the Chinese continue to voice their displeasure at Canberra for calling for an investigation into the origins of the virus, their latest target being Australian education exports.
- Concerns around a second wave of coronavirus infections have been rising as infection rates increase across Southern US states and lockdowns return to parts of Beijing, while emerging nations such as Brazil and India are still struggling to control the initial outbreak.
- **Risks Ahead:** Immediate headwinds for the Aussie Dollar are clear, with the virus still present and Chinese tensions simmering. Following a rapid recovery from its mid-March low of 55 cents a pullback to the mid-60 cent range as the Aussie begins to decouple from US equities remains a possibility. Looking further ahead, Australia's relatively smaller economic impact from the virus compared with other nations stands our currency in good stead to retest the 70 cent mark and push on past that.

KEY INDICATORS

	18/06/2020	Monthly change
ICE11 Prompt (JUL20)	12.11 USc/lb	1.31 USc/lb
Brazilian Real/$US exchange rate	5.22 BRL	-0.49 BRL
Brent Crude Oil	$US40.71/barrel	$US5.66
Ethanol/Raw Sugar Parity	10.28 USc/lb	2.25 USc/lb
Net Spec Position	31,000 (net long)	68,000

	18/06/2020	Monthly change
$AUS/$US exchange rate	$US0.6878	$US0.0453
$US Index	97.013	-2.652
Chinese Yen/$US exchange rate	7.07 CNY	-0.03 CNY
S+P 500 Index	3,113.49	159.58
RBA Overnight Cash Rate	0.25%	-

RAW SUGAR PRICES



This is a whole-of-season ICE 11 price chart, based on the Target Price Contract's current 3:2:1 pricing ratio for the 2020 Season and 1:2:2:1 pricing ratio for the 2021, 2022 and 2023 Seasons.

QSL GROWER PRICING UPDATE

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Grower Pricing

- Despite improvements in sugar prices, prices for Australian sugar producers have been confined to the lower end of recent ranges due to the strong rally in our dollar.
- A near-term correction in the currency may provide a pricing window, provided ICE11 prices continue their upward trajectory. However, upside will be limited under current macro conditions.
- Rolling for the JUL20 portion of the 2020 Target Price Contract was completed on 22 June, with a roll cost of 58 cents.

KEY DATES

30 June: Last day to qualify for the 2019-Season Loyalty Bonus.

RECENT GROWER FILLS – QSL TARGET PRICE CONTRACT

SEASON	PRICE	DATE
2020	$342.91	29/04/20
2021	$405.67	20/04/20
2022	$430.00	22/04/20

HIGHEST PRICES ACHIEVED – QSL TARGET PRICE CONTRACT

SEASON	PRICE	DATE
2020	$490.00	23/02/20
2021	$460.00	03/03/20
2022	$470.00	17/03/20

Please see the Raw Sugar Prices chart opposite for the Target Price Contract's full trading range.

Expiry Explained

- As each of the four ICE 11 contracts comes to an end, the Intercontinental Exchange (ICE) gives buyers and sellers until the end of the preceding month to close out their positions. This deadline is known as the contract expiry.
- As a physical sugar seller, QSL progressively accumulates short (sell) futures positions as we undertake our pricing decisions, while our customers/buyers hedge their risk by accumulating long (buy) futures positions. Before expiry each party, via their brokers, will exchange their futures contracts to close out their accumulated positions. This is called an **Against Actuals** transaction and in our case, QSL will receive longs (to close out our shorts) while we give up shorts to our customer (to close out their longs).
- The ICE connects buyers and sellers through futures contracts. If you choose not to close out your position, it means that you are obligated to deliver or receive the physical sugar that underwrites the futures contract. The term **"deliver (or receive) to/from the tape"** is the jargon commonly used to describe sugar that doesn't have a set destination and will be exchanged between counterparties that hold open positions at expiry. Primarily the play space of major global tradehouses, the tape deals in sugars that must be collected from "A port in the country of origin or in the case of landlocked countries, at a berth or anchorage in the customary port of export", as per ICE contract specifications.

- Sugar market participants pay close attention to the volume of sugar delivered to the tape because it gives us a good indication of current supply and demand conditions and the likely direction of near-term price action. The general rule of thumb is a large delivery = plentiful supply = downward pressure on prices, and vice versa.