



21 October 2020

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Weekly Market Overview

Indicative ICE 11 Prices

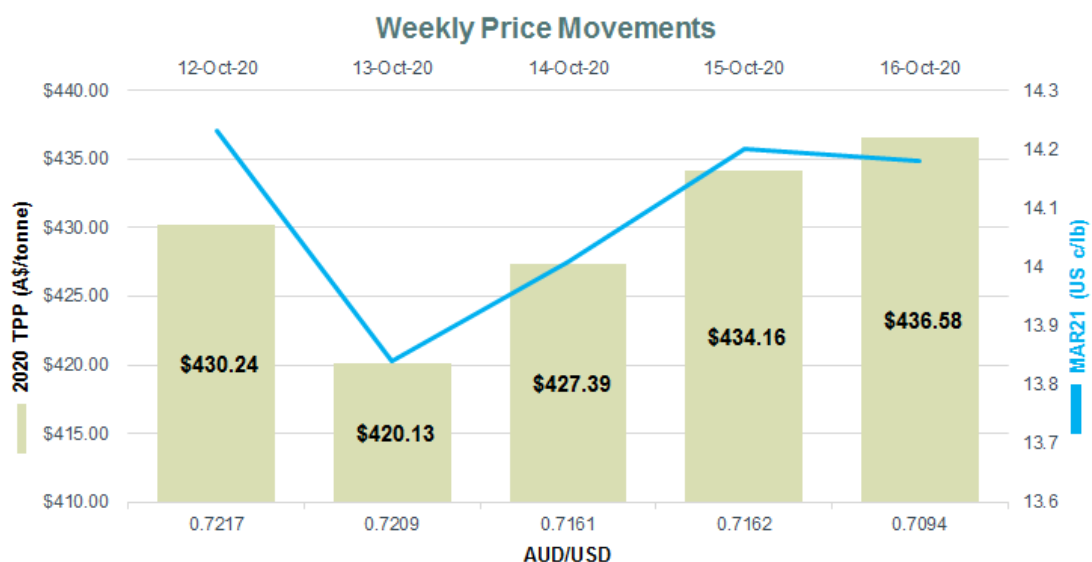
Season	AUD/MT*	Weekly Change
2020	444.97	3.42%
2021	408.49	1.91%
2022	389.84	4.28%
2023	379.85	5.38%

**These figures are indicative of available ICE 11 prices as at the week ending 17 October 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 raw sugar price has continued to strengthen since the OCT20 ICE 11 contract expiry last month. The new prompt contract, March 2021, notched up five consecutive days of solid gains during the past week before a slight pull-back last night to finish at 14.54 USc/lb, the equivalent of \$A452.93/tonne actual.

- The current price rally has been primarily driven by speculators buying into the sugar market on the back of accommodative monetary policy settings and a weaker US Dollar, with the speculator position currently sitting at a 240,000-lot net-long position. Under current market conditions there's strong potential for speculators to increase this position, pushing towards the record net-long position of 300,000 lots.
- While the stronger prices have presented some attractive 2020-Season pricing opportunities for Australian sugar producers, most commercial suppliers are still sitting on the sidelines and waiting to see what the expected Indian export sugar subsidy announcement will deliver. While it is generally expected to be along similar lines to last year's subsidy, the current lack of detail is supportive of the current bullish sentiment. Until the subsidy is announced, 15 USc/lb seems within the realms of possibility, with good hedging levels available for the 2020 Season in particular. Unfortunately, India will need to make an announcement eventually or their domestic sugar price – also set by the government – will collapse. Once this Indian export subsidy announcement is made, we should see a return of commercial hedgers, which may prompt speculators to liquidate their positions and a pull-back on prices (depending on where stop-losses are set), but we're currently not expecting this to take 2020-Season prices below the 13 USc/lb level.
- The bigger economic picture continues to look highly changeable, with the continuing increase in COVID-19 infections in Europe starting to weigh on market sentiment, impacting US equity markets and making commodities like sugar more attractive for investors.



Currency

- The Australian Dollar (AUD) closed its latest session at 70.48 cents against the US Dollar (USD), as the implications of the Reserve Bank of Australia's (RBA's) most recent meeting start to put the brakes on our currency. The RBA has signalled a relatively significant quantitative easing program ahead and a rate cut, with the market already factoring in a 15-basis-point cut for their next meeting. As we start to exit the various COVID-19 lockdowns in place around the country, the RBA appears keen to maintain accommodative policy settings in a bid to aid economic recovery. However, they are playing a bit of catch-up in this regard, with most major economies already at 0% for their interest rates.
- Australian cotton producers have become the latest casualties in the ongoing trade tensions with China, with reports this week that our largest trading partner has told its spinning mills to stop buying Australian cotton. The market took this latest development as another body blow for our relationship with China and a headwind for the Australian Dollar going forward.
- The outcome of the US election is still shaping to have a significant impact on the macroeconomic outlook, with the risk of a contested result boding negatively for global markets. Given the heightened risk to oil and ethanol prices on the back of increased COVID-19 cases, we expect US

equities will continue to be erratic as we head towards the US polling day on 3 November. Unless there's a clear winner, the market volatility will continue to spike and play into price action over the next month.

- Once markets have a result in the US election, longer-term AUD strength and US Dollar weakness should see the Aussie dollar push closer to the mid-70s level against the USD next year. If Democrat candidate Joe Biden manages to win the Presidency, we expect this trend will be accelerated post-election, particularly if the Democrats' fiscal relief package gets through, weakening the US Dollar further against all G10 currencies.

Jargon Buster

What is quantitative easing?

Quantitative easing is a monetary policy which aims to expand economic activity by using a central bank to buy government bonds or other financial assets in order to inject money into the economy.

**QSL is Australia's largest and most
experienced raw sugar marketer**
