



SUCDEN QUARTERLY

Downsizing



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MAIN SUGAR PRODUCERS OVERVIEW



CS BRAZIL 17/18: HIGH SUGAR MIX DESPITE REVERTING PARITIES

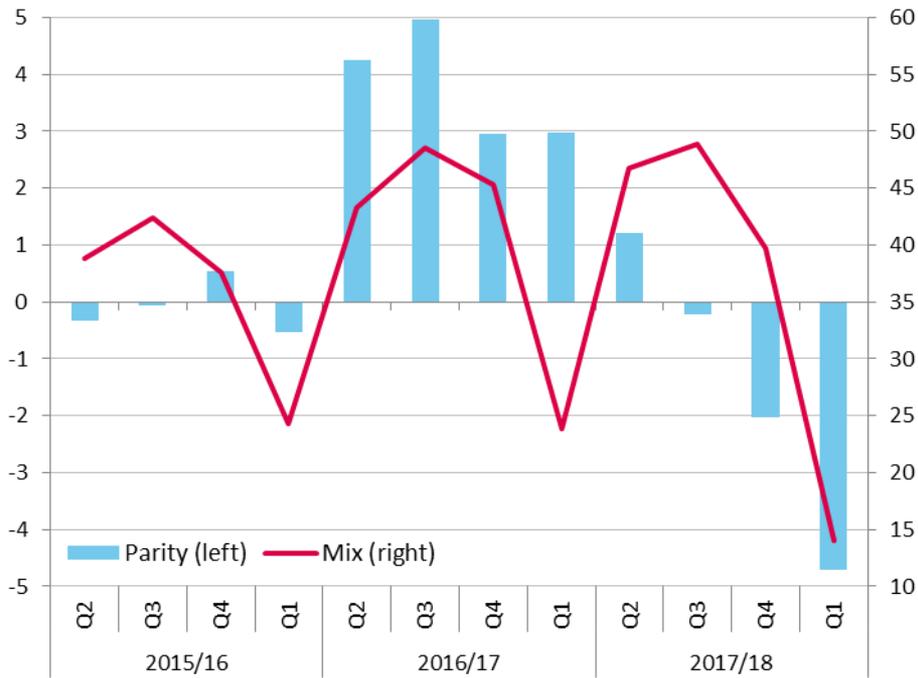
A record sugar production

- 17/18 Brazil CS sugar production set to reach a new record close to 36 Mt.
- The harvest was characterized by dry weather conditions favouring a high pace of crush and leading to the highest ATR level observed since 11/12.
- Cane yield showed an average performance despite aging cane trend and the particularly dry winter pattern.

Parities reverting from August 2017 onward

- Sugar mix to reach 46.5% on 17/18, similar to 16/17 at 46.3%.
- Mix continued to favour sugar despite the collapse of sugar prices at the start of the harvest and NY#11 hitting a yearly low as early as end June.
- Ethanol proved to pay better than sugar on a spot basis from August onward while about 200 Mt cane was still to be crushed.
- Despite reverting parities, well-priced millers did not maximize ethanol production until late in the crop.

Sugar - Ethanol Parity & Sugar Mix [c\$/lb & %]



BRAZIL: ETHANOL DEMAND BOOSTED BY HIGH GASOLINE PRICES

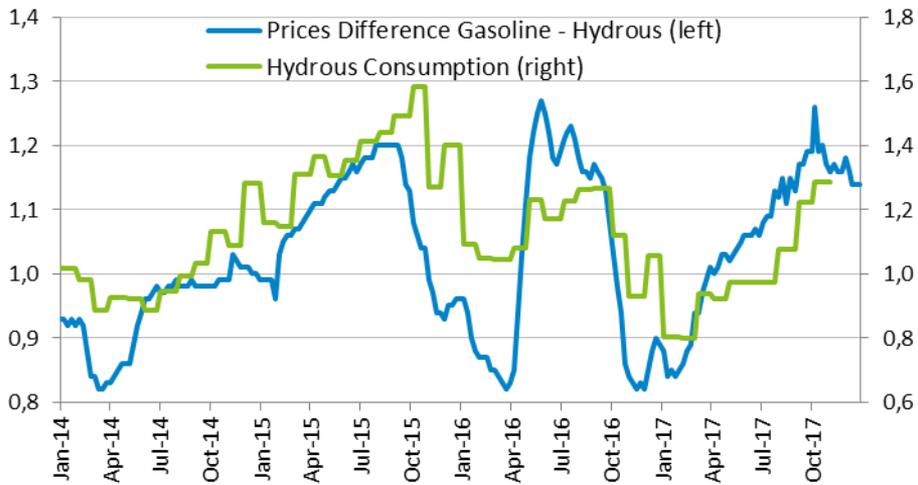
A trend toward higher ethanol consumption

- Strong ethanol consumption boosted over the past months by a favourable pump ratio and increasing price spread between gasoline and ethanol at the pump (> 1 BRL/L).
- CS ethanol demand growing +13% between Q4 2016 and Q4 2017.

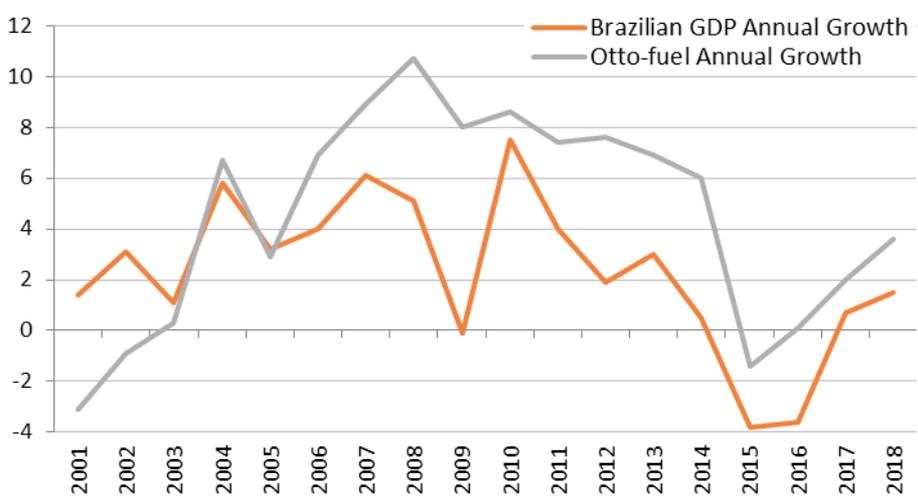
Next year market to grow again

- Ethanol demand expected to grow again in 18/19 basis current pump ratio in an overall otto-cycle growth of about 3-4% year-on-year boosted by economic recovery in Brazil.
- New Petrobras policy leading to tight correlation between crude oil and ethanol prices, supporting ethanol prices and reducing usual price weakness at the start of the crop.
- The 20% customs duty on ethanol imports in Brazil remains crucial to sustain domestic prices and to limit imports of US ethanol.

Gasoline-hydrous price Spread in Sao Paulo & Hydrous Consumption in Brazil CS [BRL/L & Mm³]



Yearly Growth of Brazilian GDP & Otto-fuel [%]



BRAZIL CS 18/19: HOW LOW WILL THE MIX BE?

Cane expected lower

- Cane performance estimated slightly lower due to aging cane and delay in growth accumulated during the particularly dry 2017 winter.
- However no major weather event detected so far with good rains across the territory in a context of a roughly stable cane area.
- Cane crop assessed at 580-585 Mt in 18/19.

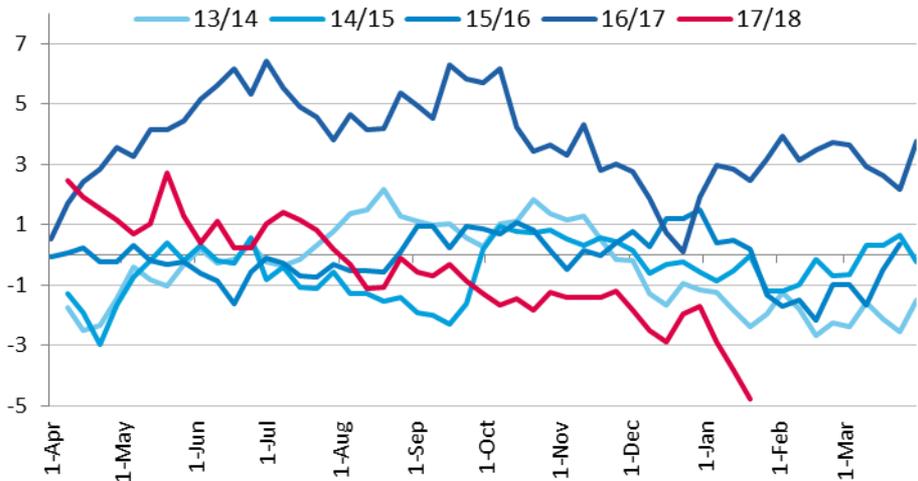
Unseen parity level in favour of ethanol

- Parities favouring ethanol for about 500 pts late January.
- Even with usual ethanol price weakness at the start of the crop, ethanol remains more remunerative than sugar.
- Positive parities for ethanol all year long and low level of mills pricing pointing toward a mix in the vicinity of 42%.

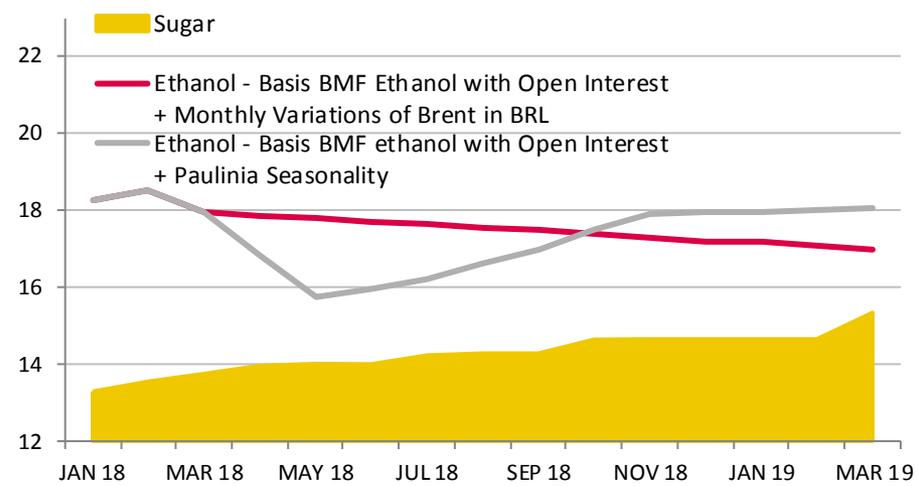
Sugar production downsizing

- 18/19 sugar production assessed around 31.5 Mt, a reduction of 4.5 Mt year-on-year.
- In the event of stronger-than-expected ethanol consumption, sugar to retreat further. However price peaks irreversibly call for a higher sugar mix.

Historical Sugar vs Ethanol Spread [c\$/lb]



Forward Sugar-Ethanol Parity in CS Brazil [c\$/lb]



INDIA: 17/18 GOING BIG

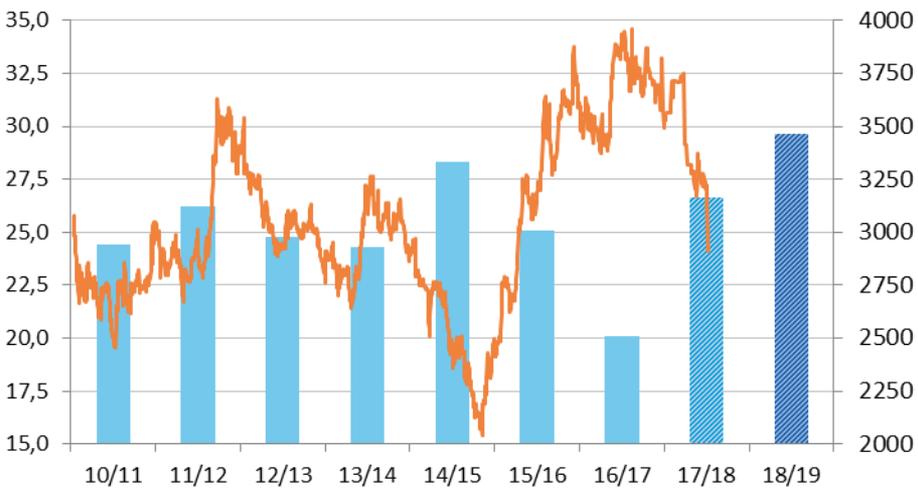
17/18 good prospects

- Crush developing well ahead of last year with about 3 Mt production sugar advance as of mid-January. Cane yields and sugar extraction showing good results.
- India combines favourable weather, high levels of water reservoirs and high sugar mill cane prices vs gur miller cane prices.
- India sugar production could reach 28 Mt.

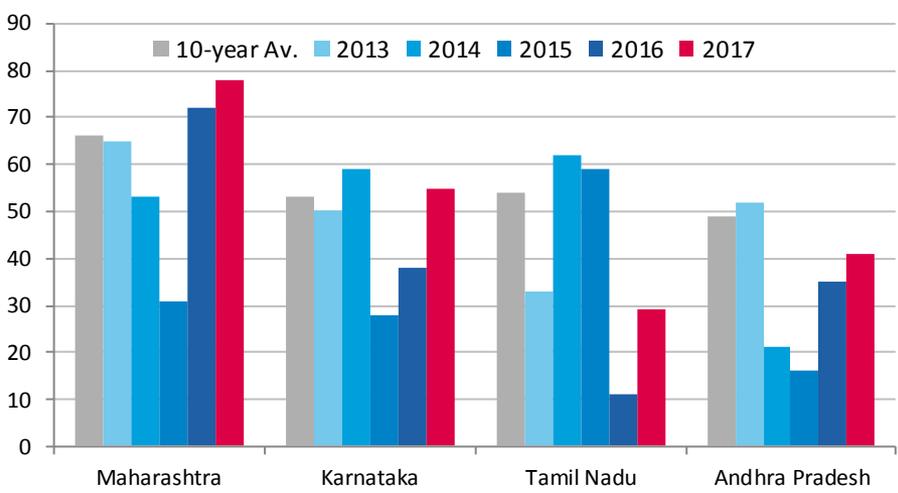
18/19: top of the cycle?

- Indian cycle expected to continue its positive trend in 18/19 with cane crop benefiting from good weather and remunerative cane prices.
- Western India has almost finished its plantings for 18/19 with expectations of cane area increase. Northern India not to witness significant decrease of acreage at current domestic sugar prices.
- Monsoon 2018 to be crucial as always but with current high water reservoir levels, impact of disappointing rainfalls should be limited.
- 18/19 crop perspective to range between 29 and 30 Mt basis normal monsoon. Cane arrears building to determine whether India will reach the top of its cycle in 19/20.

Indian Sugar Production vs NCDEX Prices [Mt & INR/Quintal]



Indian Reservoir Level [% storage capacity]



INDIA: FLIPPING TO THE EXPORT SIDE?

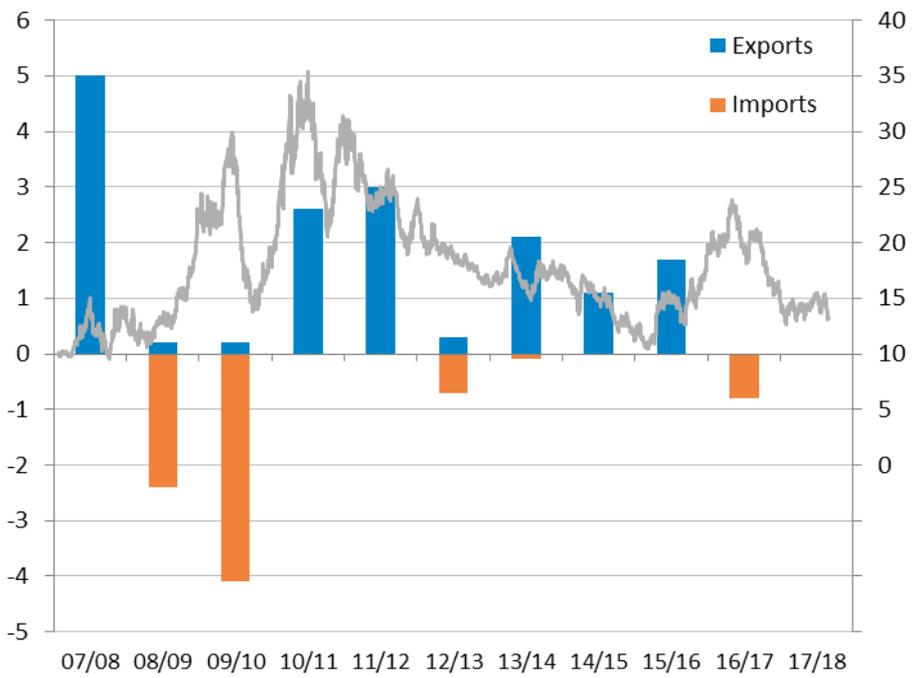
Domestic prices down

- Sugar prices in India have collapsed since September 2017 on anticipation of crop recovery and despite low stock levels in the country.
- Consumption slowed down in 17/18 – partly explained by demonetization - but is expected to bounce back in 18/19 basis economic and population growth.
- Prices were below 30,000 INR/t end-January, the lowest level for the past 2 years.
- Even without the 20% export duty, Indian sugar is not competitive on the world market place and parities are assessed at about 480 USD/Mt.

India back exporting: when?

- With 17/18 and 18/19 large crop expectations, India will again build significant domestic stocks.
- Price easing could create some cash burden to mills and ultimately the usual cane arrear development pattern.
- Authorities could replicate the MIEQ scheme implemented in 2016 to support local prices and export part of the surplus.
- Timing of exports to be dictated by local prices and cane arrears. Safe reservoirs level could allow a decision prior the monsoon.

Indian Net Trade vs NY#11 [Mt & c\$/lb]



THAILAND: CROP RECOVERY CONFIRMED

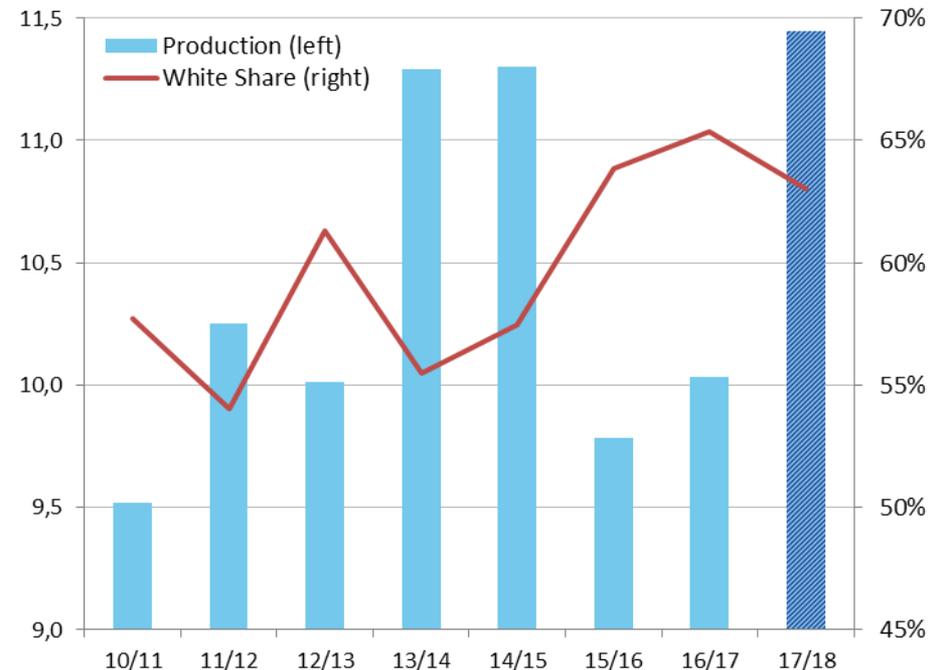
Initial sugar extraction at high level

- Mid-January, harvest was reported in good condition with crush significantly ahead of last year.
- Sugar extraction also posting the highest level for the past 5 years.
- Sugar production expected at higher level than 13/14 and 14/15 campaigns.

Raws or whites?

- With the higher bagasse availability, Thai mills have the potential to increase their white production substantially.
- Whites still seen as economically profitable for most Thai millers in the current market environment with white premium at 60 USD/t and physical premium at about 20 USD/t.
- At current cash prices, Thai raw sugar should flow well in the region benefiting from the higher freight rates from the Western Hemisphere and the various Free Trade Agreement in the region, once static capacity stress and raw sugar peak stocks gone.

Sugar Production & White Production Share [Mt & %]



CHINA: AIL IN THE SPOTLIGHT

Positive crop trend

- China benefiting from accommodating climatic conditions and better cane prices to boost sugar production.
- 17/18 production assessed today at 10.4 Mt, from 9.3 Mt last year, with Guangxy crossing the 6 Mt mark.
- Chinese deficit to decrease accordingly in a context of additional consumption mostly captured by HFCS.

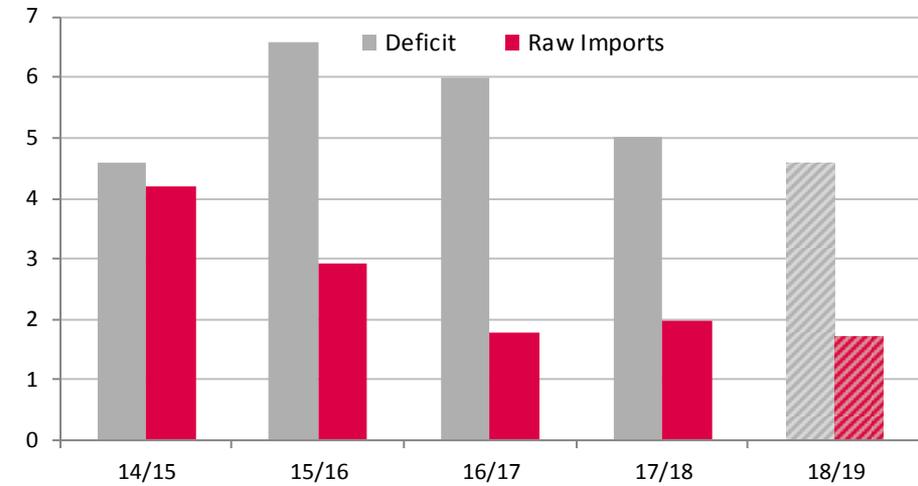
The AIL market flag

- AIL 2018 still a big question mark as regards its quantity and the mode of release: monthly, annually, or somewhere in between.
- Both quantity and timeline of AILs are crucial for the raw sugar market since it could sizeably reduce export availabilities of all origins benefiting from the 50% duty.
- Announcement regarding AIL characteristics expected late February.
- Whites flows to China and the Far East region have decreased over the past 2 years and the trend is expected to carry on in 2018 given a smaller deficit and more border control.

Chinese Sugar Production vs ZCE Prices [Mt & RMB/t]



Chinese Deficit and Raw Sugar Imports [Mt]



EU & BLACK SEA: BEET SUGAR BACK ON TRACK

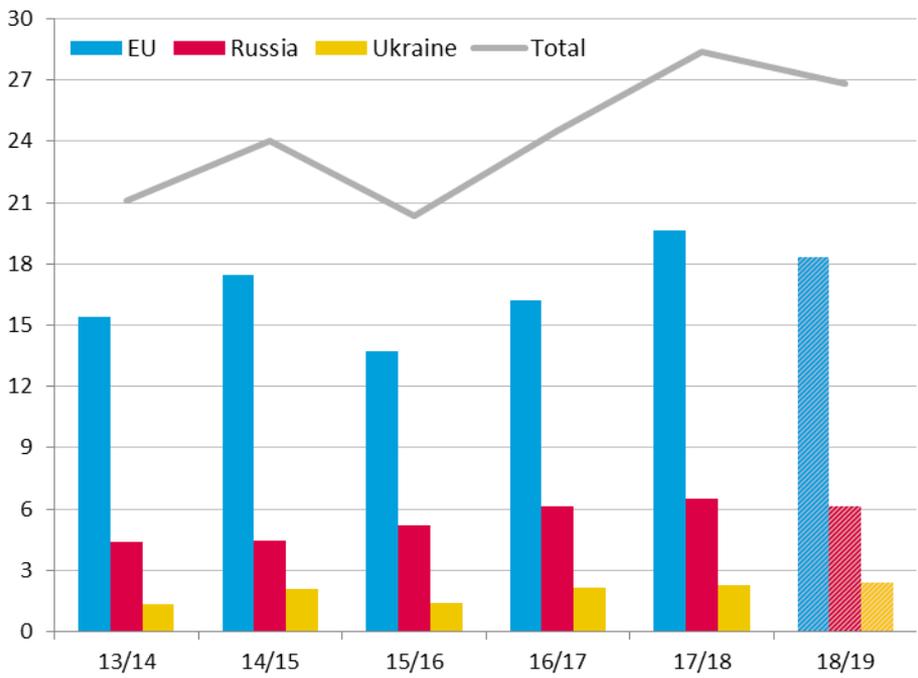
European beet belt production booming

- Russia ending its harvest and to reach a record level at 6.5 Mt.
- Ukraine 17/18 turned to a similar crop performance than last year at about 2.1 Mt.
- The EU has benefited from both a large increase of area thanks to the end of quotas, and high crop performance with accommodating weather for a crop of around 21 Mt.

Beet whites export availability increasing

- Between the EU, Russia and Ukraine, beet white sugar export availability expected to increase by about 3.5 Mt from 2015/16, representing an additional supply of about 15% of the world white sugar market.
- Part of this additional beet sugar supply to directly replace raw sugar at destination – especially in the Black Sea and Mediterranean areas.
- EU sugars flowing all over the world, gaining significant market shares in West Africa and in Indian Ocean.
- Next year 18/19 beet areas in the region to show limited decrease due to low grains prices unable to trigger a crop switch.

EU, Russia and Ukraine Sugar Production [Mt]





SUGAR MARKET FEATURES



WHITE MARKET: CROWDED MARKET PLACE

Larger proportion of flat price sellers

- Pakistan expected to export 2 Mt in 17/18 in the current market configuration. Below 13 c\$/lb, export flow to start shrinking.
- Russian and Ukraine producers also sensitive to flat price beyond their captive markets.
- EU to export a significant part of its surplus but could also carry more if sugar price is not sufficiently remunerative.

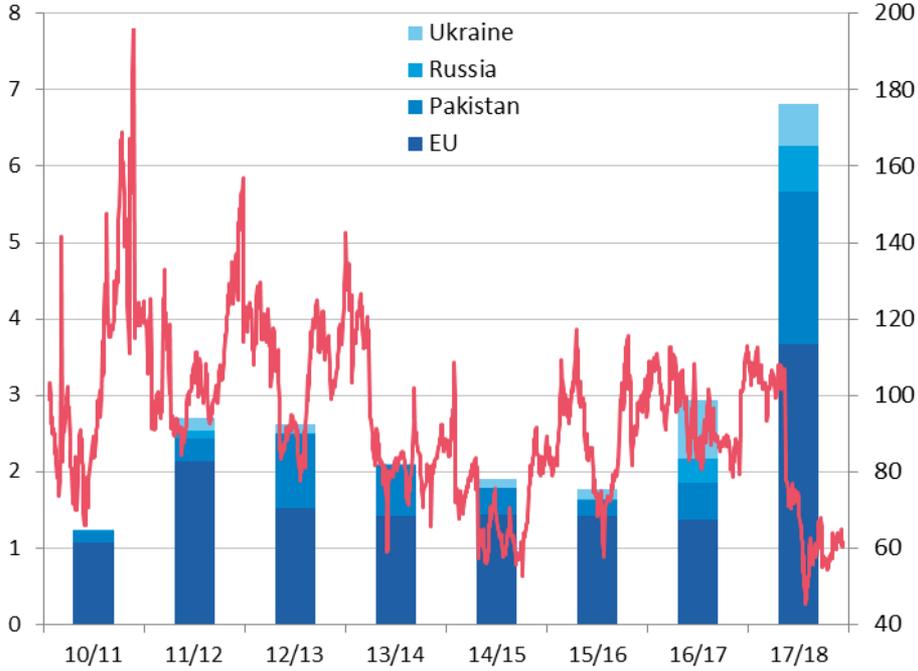
Most white premium sellers still there

- Cane sugar refiners such as Thailand or Guatemala not seen yet reducing their supply at current white premium, but Brazil CS traditional crystal exports could take a hit in 18/19.
- Destination refiners still benefiting from raw sugar discounts and sustained cash premiums to complete the white premium revenue so that their refining activity is resilient so far.

Market still incentivizing whites supply

- Higher export availabilities of beet producers and Pakistan leading to a significant increase of white supply year-on-year.
- Demand for whites boosted in areas such as Black Sea or Mediterranean, but main whites market in Far East could stagnate or decline further.

Main flat price sellers exports vs white premium [Mt & \$/t]



RAW SUGAR DEMAND: EXEMPTED & FAR-EAST ORIGINS FAVOURED

Centrals & Philippines toward China

- China AIL exempted scheme to attract significant tonnages from origins benefiting 50% customs duty.
- Typical origins usually having difficulties to be marketed out of their regional/captive areas, such as Central America or Philippines, to flow to China through the exempted channel.
- Occasional exporters such as South Africa, or former EU suppliers, such as the ACPs, also to take advantage of this year's exceptional scheme.

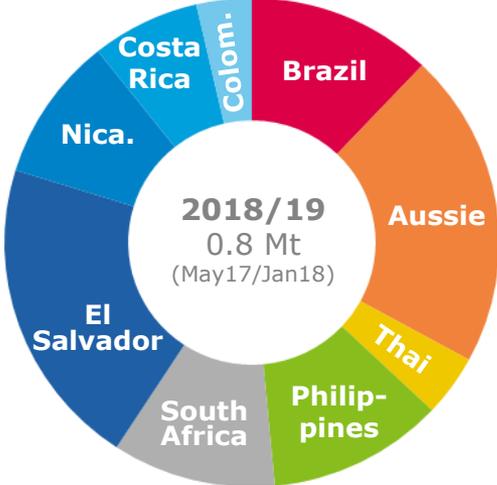
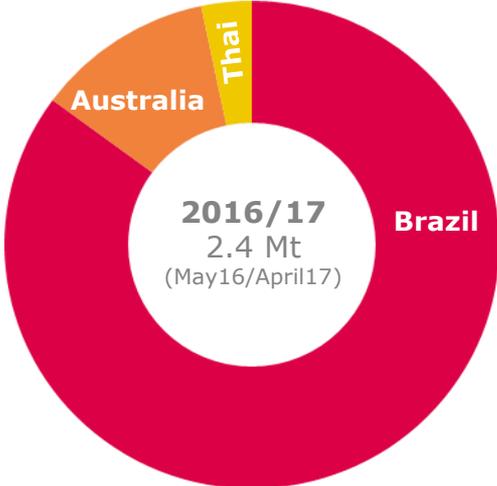
Thailand and Australia to stay regional

- Thailand and Australia benefiting from both high Western Hemisphere freight rates and regional FTAs.
- Demand towards these two exporters expected to increase in 2018.

CS sugar demand lower year-on-year

- CS sugar demand weakened by Chinese origination allocated to duty-exempted countries, Indonesia demand sourced in Far East, weak white premium and limited Black Sea imports.
- Although compensated by lower NNE Brazil exports availabilities, CS demand expected lower year-on-year in 2018.

Origination of Quota & AIL Imports since AIL Exemption Scheme implemented in May 2017 [%]



ORDER FLOW: FUNDS PLAYING THE RANGE

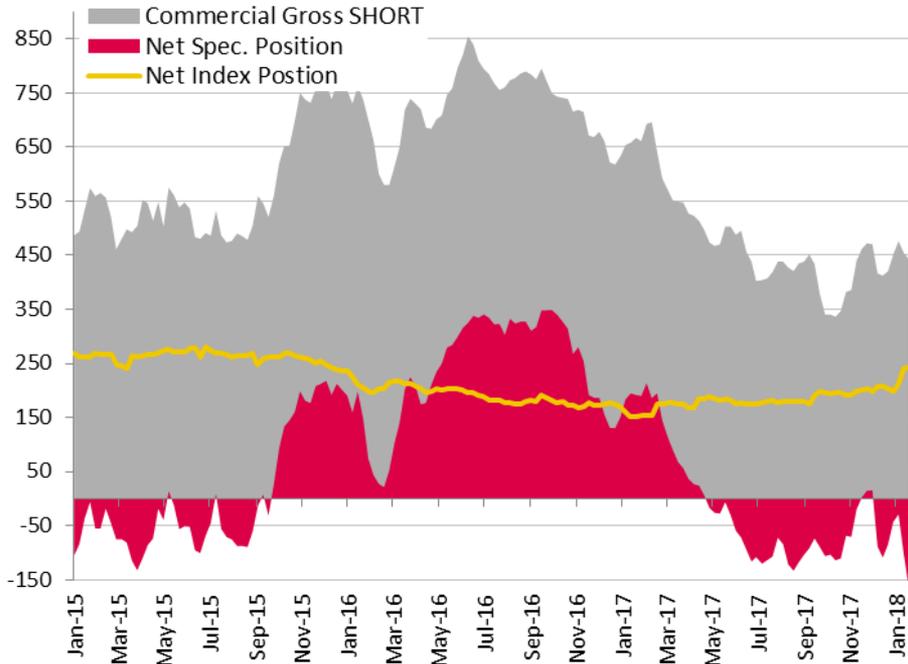
Funds keeping the short

- Net fund position contained between 15,000 lots long and unchartered 166,000 lots short since May 2017.
- Funds expected to remain on the short side without well-identified weather event ahead or break-out of crude oil prices.
- Early 2018 large Index rebalance lead their long position back to the level of early 2016 after 2 years of steady position.

Commercials gross short lower year-on-year

- Commercials gross short still lagging behind last year's level with 200,000 lots lower – while commercial long posting at a similar level.
- Producers pricing delay reflects a sizeable hedging flow to come, capping potential market spikes.

Weekly COT position [1,000 lots]



BEYOND SUGAR: GRAINS WELL-SUPPLIED, CRUDE OIL VOLATILE

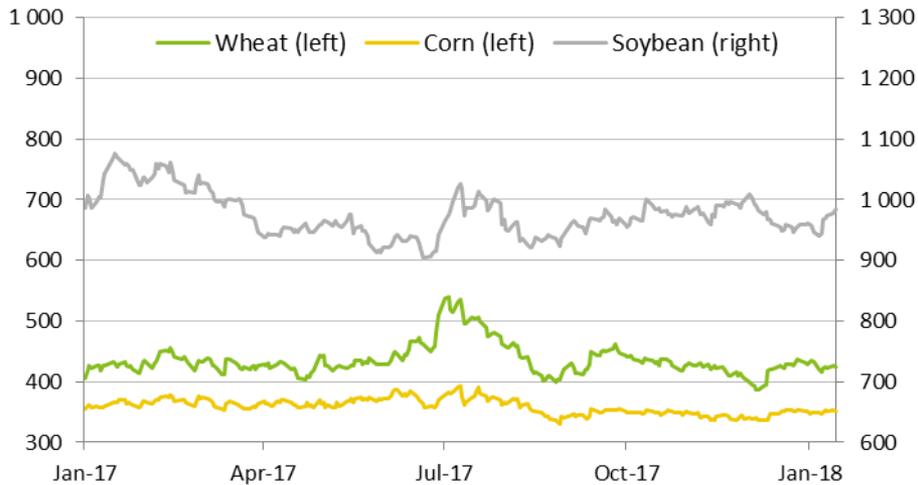
Grain stocks increasing

- World grains balance still well supplied, leading 17/18 ending stocks of major exporters to increase by 4% as per IGC.
- Grains weather prospects remain mostly positive across the biggest producers.
- Wheat prices significant rebound unlikely in the coming months, not creating favourable switch conditions for sugar beet farmers in Europe and Black Sea region.

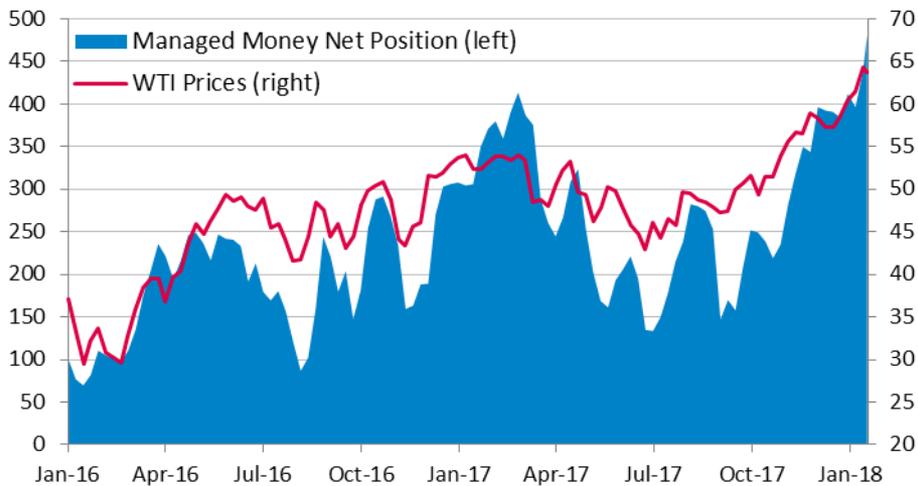
Crude oil focusing on geopolitics

- Crude oil prices rising since May 2017, supported by a record fund long position.
- Crude fundamentals expected in slight surplus in 2018, with the increasing capacity of US shale oil producers, most of them being competitive at current prices.
- IEA forecasts ending OECD stocks to grow to +2% by the end of 2018 vs a -2% decrease by the end of 2017.
- Despite the perspective of balanced fundamentals, funds to continue focusing on geopolitics conferring support and volatility to prices.

CBOT Wheat, Corn, and Soybean Prices [c\$/bu]



Managed Money Net Position vs Crude Oil Prices [1,000 lots & \$/barrel]



BEYOND SUGAR: WEAK DOLLAR & WORLD ECONOMY REVIVAL

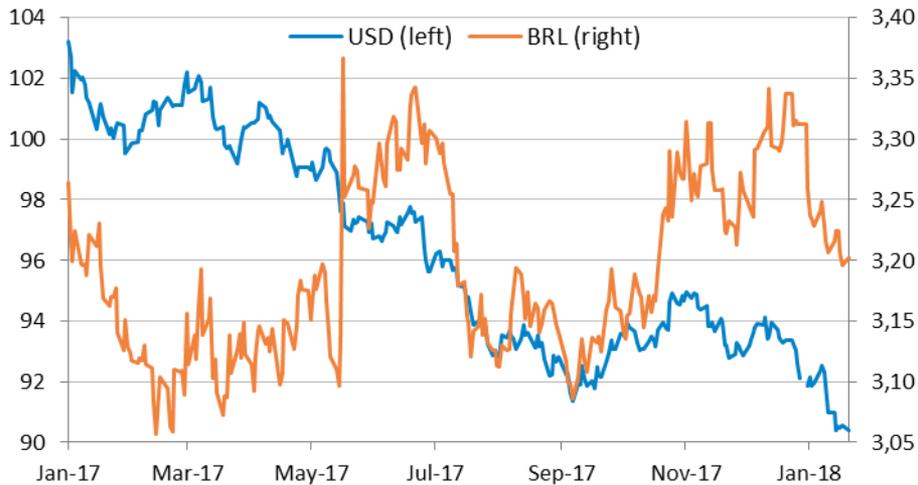
BRL in a narrow range since early 2017

- US Dollar index hit since the start 2017 and about to reach its lowest level since December 2014.
- Euro boosted by largest ever fund long positions as of mid-January with most EU economic indicators improving.
- BRL confined to a 3.10-3.30 range for most of 2017. Upcoming presidential vote poll released ahead of elections in October could eventually bring additional volatility to the BRL.

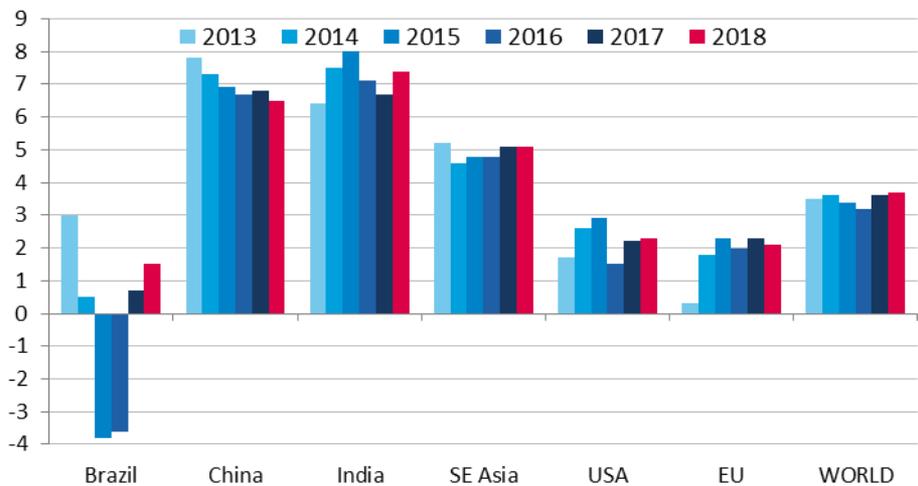
World economy doing better

- IMF forecasts world economic growth for 2018 and 2019 at 3.9 % for both years, up 0.2% from October's forecasts.
- Mostly better GDP forecasts coming from Europe, Asia, United States, and some large emerging markets, notably Brazil and Russia, both of whose economies shrank in 2016.
- United States Federal Reserve postponing significant rate increases providing support to the world economy.
- European Central Bank decreasing its large-scale asset purchases, confirming stronger growth prospects for the Euro area.

US Dollar Index and BRL change rate [BRL/USD]



Real annual GDP Growth [%]





GLOBAL S&D & OUTLOOK



SUGAR CROPS: WORLD PRODUCTION INCREASING

17/18 crop year almost weather event-free

- 17/18 crop year characterized by favourable weather worldwide except for a few spots: Cuba, Australia, Argentina and North Brazil.
- European beet belt, India, Thailand and CS Brazil benefited from good weather during both their vegetative growth and harvesting periods.
- Part of the good 17/18 crop year performance also due to the high 2016 prices leading to good crop care and some increase of acreage, the latter phenomena being exacerbated in the EU with the quota-end.

18/19 toward lower performance, except India

- 18/19 is expected lower due to several factors: low sugar price, spotted decrease in acreage and back to an average crop performance.
- Brazil should be the most impacted but mostly through better revenue from ethanol.
- Pakistan and Russia could be the first ones decreasing their acreage of cane/beet on the basis of low sugar prices.
- The EU is assessed with constant areas but with lower crop performance.
- China and India productions still expected to increase basis their current high local cane prices.

Main crop forecasts [Mt]

National crop year:	14/15	15/16	16/17	17/18	18/19
CS Brazil	32,0	31,2	35,6	36,0	31,5
India	28,3	25,2	20,1	28,0	29,5
EU	17,7	13,9	15,8	19,4	18,3
Thailand	10,8	9,7	10,0	11,5	11,0
China	10,5	8,7	9,3	10,4	10,8
US	7,4	7,9	7,9	8,0	8,0
Pakistan	5,2	5,1	7,0	7,5	7,0
Russia	4,4	5,2	6,1	6,5	6,0
Mexico	6,0	6,1	6,0	6,0	6,0
Central America	5,4	5,0	5,2	5,4	5,3
Australia	4,6	4,7	4,8	4,4	4,5
NE Brazil	3,6	2,6	3,1	2,6	3,0
Total	135,9	125,4	130,9	145,7	140,9

Scale: Below av. Average Above av.

PROD/CONSO: 2 YEARS OF SURPLUS AHEAD

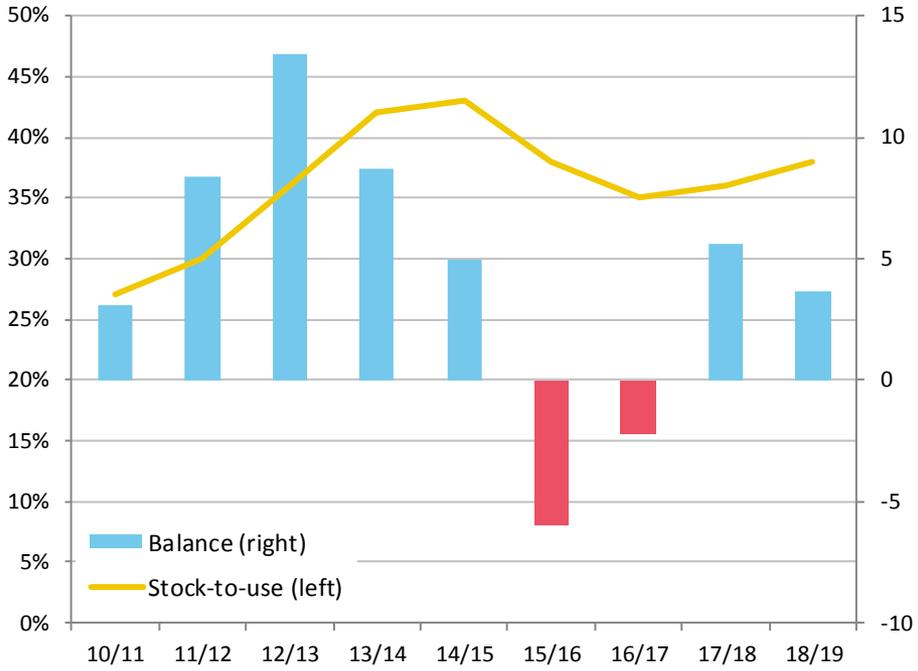
17/18 world balance back to surplus

- 17/18 Oct/Sept world sugar production to post a new record, beating previous 13/14 high.
- Consumption in 17/18 marked by a lower growth rate, especially in India.
- World Oct/Sept balance switching to a sizeable surplus after 2 consecutive years of deficit.

18/19 surplus decreasing

- Production to retreat year-on-year with the lower crop expectation and less attractive price environment, affecting first CS Brazil production through more ethanol.
- Consumption to slightly rebound due to lower prices and world economic recovery.
- Surplus to decrease substantially in 18/19, but stocks-to-use ratio still increasing back to 15/16 levels.
- Part of this additional sugar production could become available for the world sugar market especially if India again becomes a net exporter - or could reduce sugar imports, in China for instance. In both cases, white sugar trade to be the most impacted.

Global Production/Consumption balance & Stock-to-Use Ratio [Mt & %]



OUTLOOK: WAITING FOR A SUPPLY EVENT

In the range for the past 6 months

- The market has been characterized by a 300 pts range over the past 6 months. In the meantime the whites premium has also been trading mostly between 45 and 65 USD/t.
- Funds have kept playing the market on the short side and in the current fundamentals situation, they are expected to continue doing so, while benefiting from the carry structure.
- Producers appear still to be insufficiently priced and shall still create caps in the event of price spikes.
- Rising crude oil prices provided support to sugar through the Petrobras adjustment policy, but it seems now to be lacking follow-through. However, this could inflict some weakness to sugar if crude oil ultimately corrects.

Reverting the trend: weather event required

- Perspective for sugar remains heavy for now with large production prospects, leading to growing stocks and a subsequent increase in export availability, or a decrease in imports. This will ultimately lower the range.
- Sugar mix in Brazil will certainly call for all market players' attention. If creating sufficient price strength leading to hedging opportunities for millers, one could see further physical imbalance given the low appetite for mills to de-hedge.
- Out of the surplus expectation, we could anticipate new exporters such as India, adding a further flat price seller.
- Eventually, current low sugar price environment might discourage some farmers to grow sugar crops. However, this will take some time and is limited by low prices of the broader agricultural complex, making beet and cane alternatives few.
- For a real trend reversal and to attract significant speculative repositioning, a weather event is required in key countries. CS Brazil rainy season in line with average so far could not draw any supportive headlines, making potentially the Asian monsoon the next critical weather rendez-vous.

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