



SUCDEN SUGAR MARKET REPORT

THERE WILL BE BLOOD



EXECUTIVE SUMMARY

- The 20/21 Oct/Sept production-consumption shows a balanced perspective. The mediocre performance of Thailand, the EU and Russia prevented a surplus environment return. This scenario integrates a CS Brazilian production maximized and it will not be responsive to any higher price signal through an upper mix. Such situation makes the market vulnerable to weather events or to a price decrease that would make ethanol more remunerative than sugar for the coming season.
- The ending CS production will set a new record high. However, shipments have also been at a record level. Alternative suppliers– such as Thailand or Mexico – left some vacuums at destination due to their poor crops. Demand has been strong too, especially from China and Indonesia. Ahead, offtake should continue to be persistent with the CIS region turning to raw sugar imports and the refiners keeping their re-export tolling activity at a sustained pace.
- The crucial CS inter-safra period is particularly challenging with tight raw trade flows. One of the most sensitive issues is the requirement of sizeable Indian exports to keep them balanced up to April and bridge the new CS harvest. Such an exigence implies large uncertainties as regards to the actual price level of the Indian sugar and the timing of its availability. It places the market at risk of shortage, dependent on the Indian export policy and its timing.
- The white market shows a well-supplied Western Hemisphere: large Brazilian availabilities and soon coming Central American refined, shall maintain a surplus environment. The Eastern Hemisphere will be more sensitive to the Indian crystal availability. A delayed start of the Indian 20/21 exports campaign could give some support to regional refiners' premium. Alternatively, an exports policy quickly agreed will make refiners' sugars residuals.

AT A GLANCE

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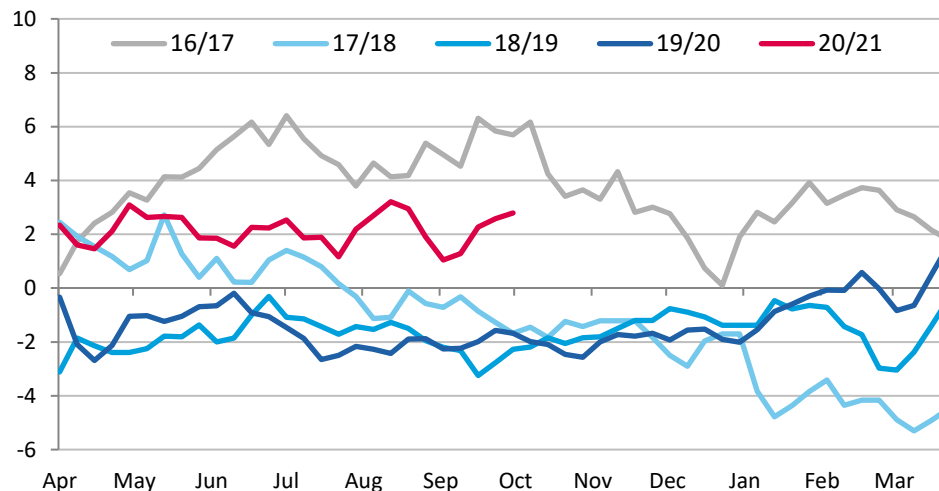
SUGAR CROP OVERVIEW



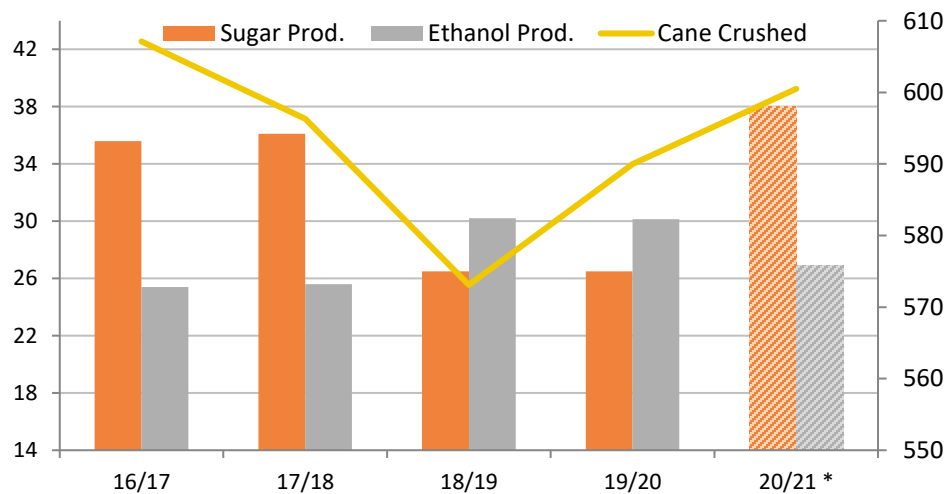
BRAZIL CS: HOW BIG?

- CS Brazil cane showed remarkable agricultural yields up to now despite the dry winter. Such a persistence of high yields shall lead to a crop at 600 Mt.
- ATR stood out as the major feature of this crop-year. Boosted by dry conditions since April, it rocketed to unseen levels by September and should reach a new record of more than 3% higher than last year.
- Sugar has paid between 150 to 300 pts above the ethanol throughout the season. It was consistently favored by mills as compared to ethanol and crystallization capacities were maximized.
- CS sugar production is set to break a new record around 38 Mt resulting from a combination of high cane yields, ATR and sugar mix.
- 21/22 cane prospect was partially affected by the dry winter, though it could recover during the summer if the rainfalls pick-up soon enough and if no major perturbation from la Nina. Next weeks rainfalls pattern will definitely be scrutinized by the market.

Brazilian Sugar/Ethanol parity per crop year
[c\$/lb, positive parity = sugar more remunerative]



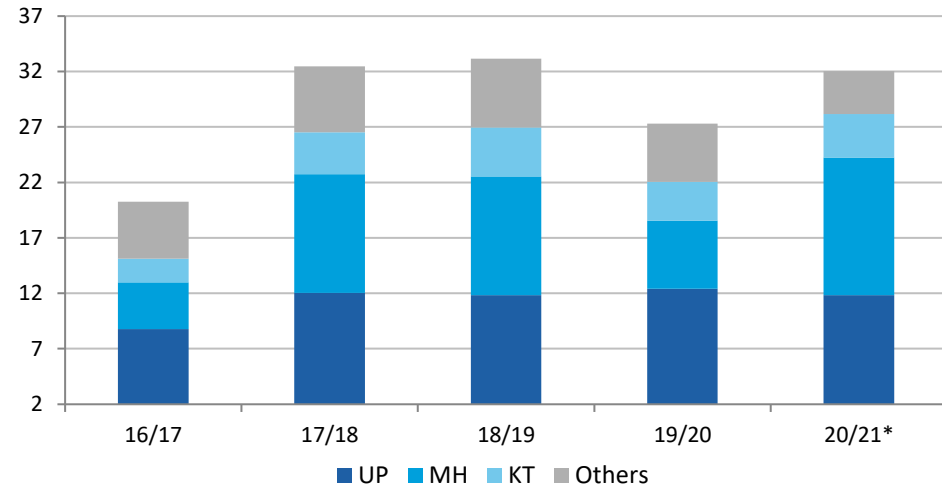
CS Brazil cane crushed, sugar and ethanol production
[Left: Mt produced – Right: Mt crushed]



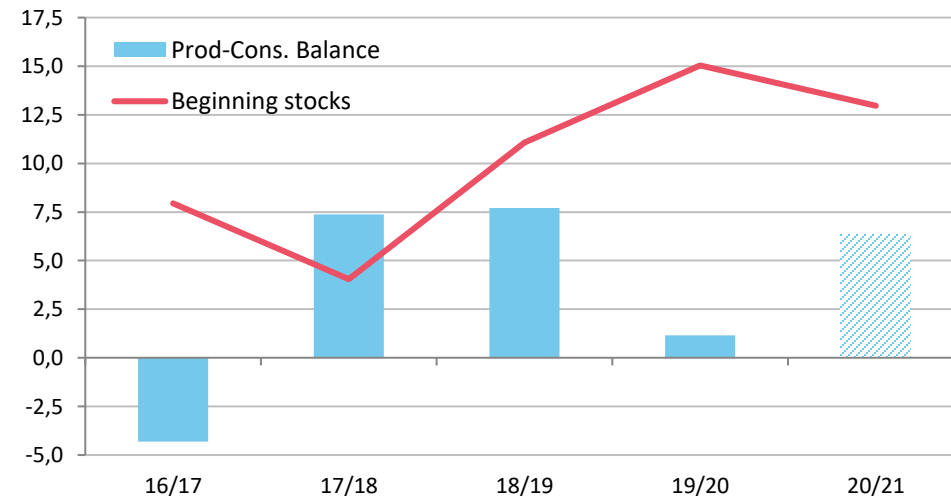
INDIA: THE SEASONAL SAGA

- India 20/21 crop-year will start on a different tone as compared 19/20. It will feature a lower carry-in, between the poor 19/20 crop and the large 6 Mt exports, but will benefit from a major crop recovery to 32 Mt (sugar only).
- Hence, the coming surplus in 20/21 will be similar to the previous year and India will need to export to alleviate the stocks burden by the end of 20/21.
- The current world market price is not high enough for Indian mills to export at no loss vs their domestic market price, especially if the Minimum Support price is hiked at 33 000 INR/MT.
- A subsidy scheme like last year is required to bridge the difference between the domestic market and the world market, which brings its lot of politics, lobbies and budget constraints.
- Three crucial variables will fashion the market over the next weeks: the subsidy amount, the tonnage subsidized and the timeline for the agreement on the export scheme.
- The critical point – and why the market is particularly eager to hear on these elements – is that the world needs early Indian sugar supply as much as India needs to export.

Indian sugar production in the main States
[Oct/Sep, Mt]



Sugar balance and beginning stocks in India
[Oct/Sep, Mt]

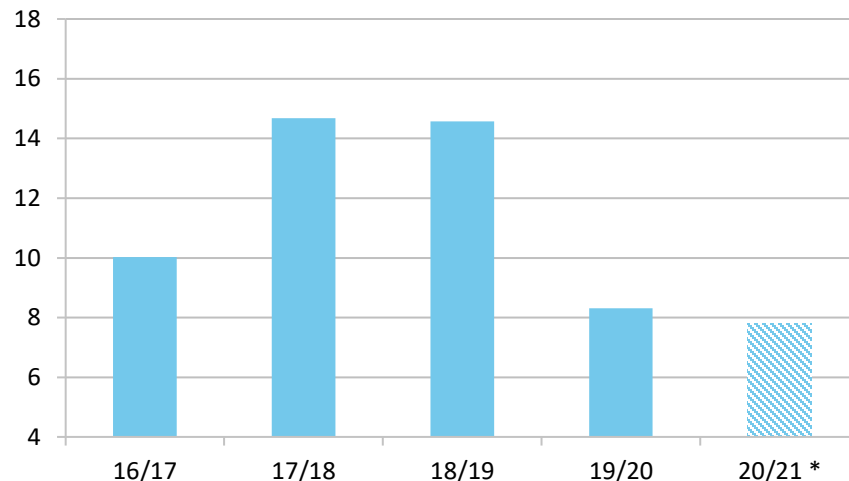


THAILAND: KEEPING LOW PROFILE

- 20/21 crop will be low again in Thailand with a reduction of the cane area compensated by a recovery in agricultural yields. The dry weather in 2019/20 and low cane prices led some growers to opt for other crops such as cassava.
- The Far East raw market will see once again a large penetration of the Western Hemisphere with Thai and Australian exports covering only a part of the regional demand.
- With its preferential access, India is expected to increase significantly its market-share in Indonesia once their 20/21 export policy is agreed.
- On the white market, the decrease in Thai exports matched with a drastic reduction of the regional demand due to the end of the smuggling flows into China. Such reduction has led to limited Western Hemisphere tonnage shipped to Far East.
- 21/22 may witness a revival of the crop with both a better agricultural performance and a higher cane area due to high cane price showing a better alternative than other crops.

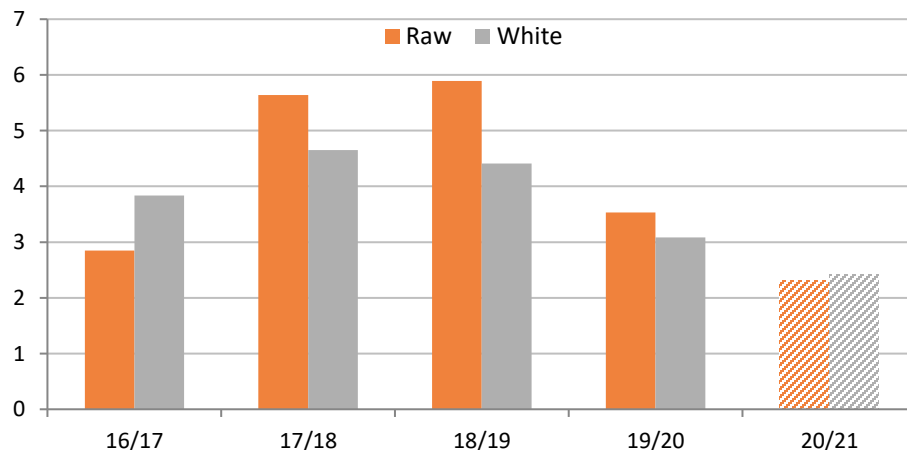
Thai sugar production

[Dec/Nov, Mt]



Thai raw & white sugar exports

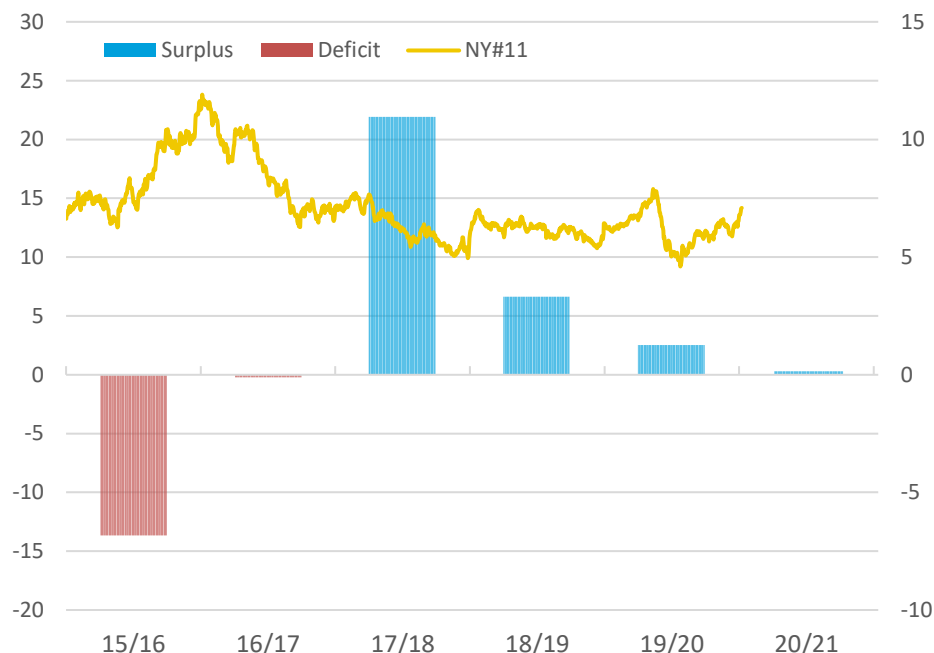
[Dec/Nov, Mt, Tel Quel]



WORLD S&D: BALANCED WITH CS SUGAR MAXIMIZED

- The Thai, Russian and EU crop failures will limit Northern Hemisphere 20/21 production, despite the recovery of Indian, US and Mexican crops.
- Combined with an expected recovery of the sugar consumption after the Covid-19 first wave impact, the world production-consumption is balanced.
- This tight situation features a major component: the market is back to a usual pattern where additional supply in response of a price hike will have to be through an increase of area of either beet and cane: a costlier and slower process than turning-up the CS sugar mix, which is already at its highest. Oppositely, any further weather event, crop failure or price decrease below the ethanol parities could lead the world in deficit.
- The current second wave of Covid-19 could affect again the energy complex prices through the lockdowns and a lower fuel demand. However, the impact on the sugar S&D shall be reduced as compared to the first wave: CS sugar mix is already maximized and consumption may be more resilient.
- Trade flows wise, the crucial CS inter-safra period will also capture the market attention. The high pace of CS raw shipment has reduced the forward availabilities, while the demand ahead is seen vigorous. A configuration that makes Indian sugar key to balance the trade flows.

Global production-consumption balance & NY#11
[Oct/Sep, Left: c\$/lb – Right: Mt raw value]





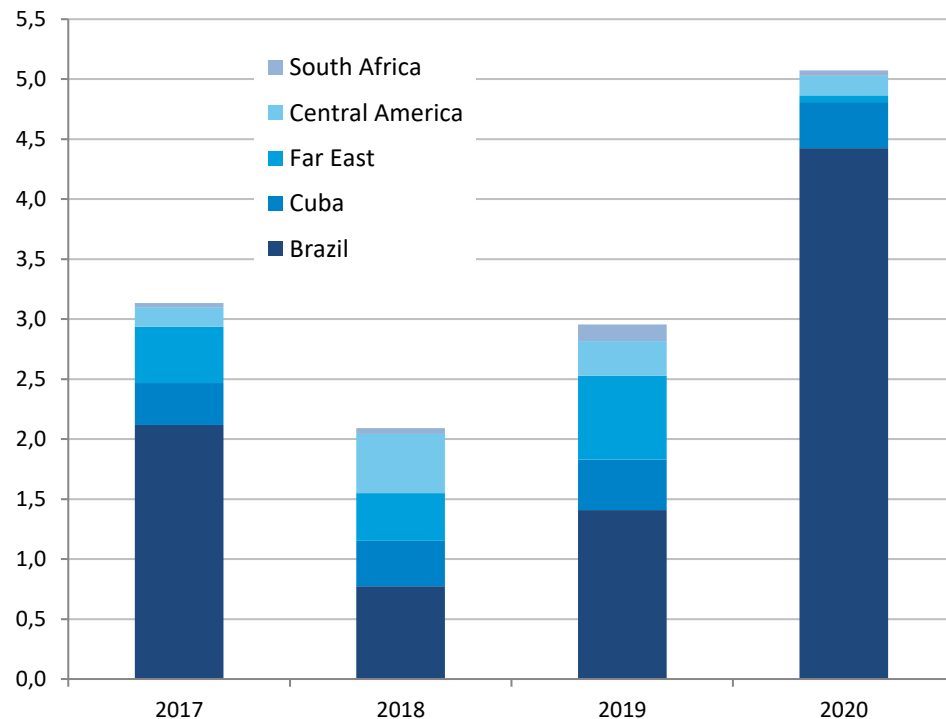
SUGAR MARKET FEATURES



CHINA: BACK ON THE RAW STAGE... AND RESTOCKING?

- Over the past two years, China turned away from a white importer – through the so-called “cross-border” flows – to a raw importer.
- Such change of import feedstocks, coincided this year with a change of policy. The former “Automatic Import License” (AIL) system was replaced by a new “Import Reporting Management” (IRM) system, with the end of the safeguards measures.
- Although it is still unclear how the policy and the control over imports will change under this new acronym, refiners have been confident to import significantly higher sugar tonnages in 2020. This propelled China back as world importer #2, after Indonesia.
- The deficit in China is assessed relatively constant for next year with both a higher production and a higher consumption. Hence such continuous and massive flows may lead to higher stocks. Still, the import arbitrage remains open so far, and refiners shall continue to import as much as they can under the new IRM scheme.
- Such a flow and higher stocks could also be part of a more strategical ambition of China to get some additional food reserves in the current context of growing international tensions.

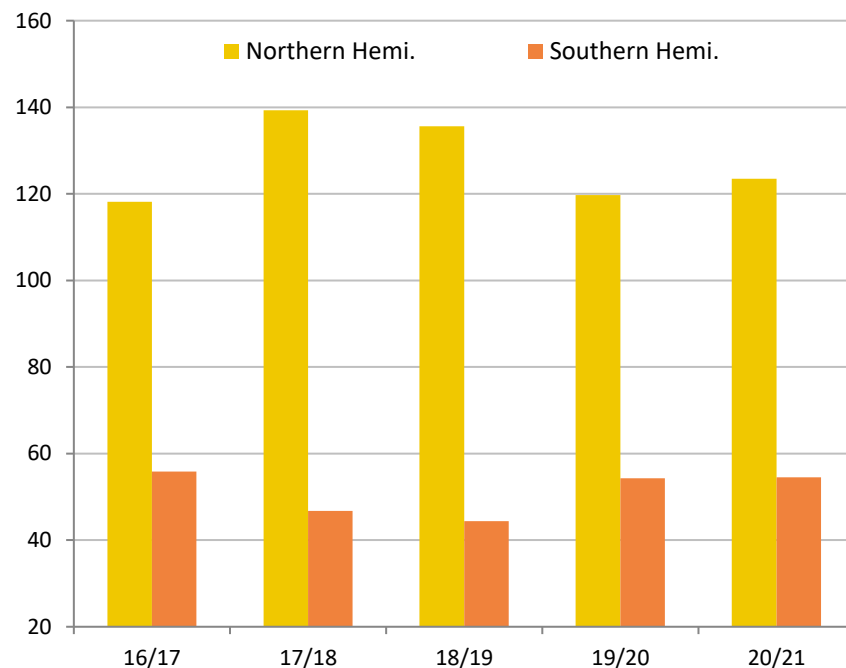
China raw sugar imports per Origin
[Jan/Dec, Mt]



NOTHERN HEMI: PARTIAL RECOVERY ONLY

- After an overall crop failure in 19/20, except in Russia, the Northern Hemisphere production is expected to show a mixed pattern in 20/21.
- On the one hand, India, Mexico and the USA should display a strong recovery in their crop. India will start nevertheless with a low carry-in that may slow exports at an early stage of the crop-year. The NAFTA region should get self-sufficient again, but low stocks in Mexico shall prevent exports out of the preferential area in 20/21.
- On the other hand, Thailand and the EU continue to disappoint. The EU crop has indeed suffered from poor weather and from the impact of the yellow virus in France, restricting the EU from being back on the world export scene.
- Russia will also show the lowest crop for years – combining a low area and poor yield performance – after the 19/20 all-time record and exported about 1,5 Mt mostly to the region.
- The Russian crop failure will bring most of the CIS countries – and potentially Russia itself – back to the Brazilian raw sugar imports to feed their deficit. This new offtake will arise as early as Q4-20.

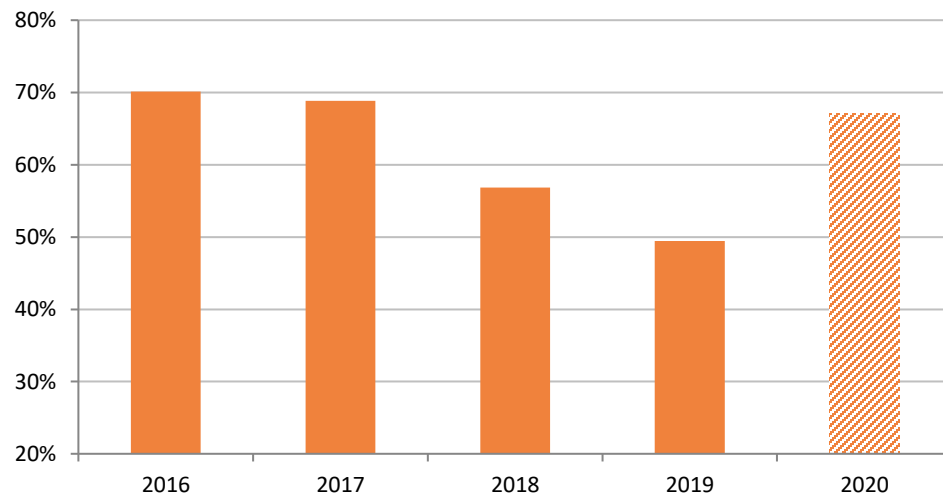
World sugar production & breakdown per hemisphere [Mt]



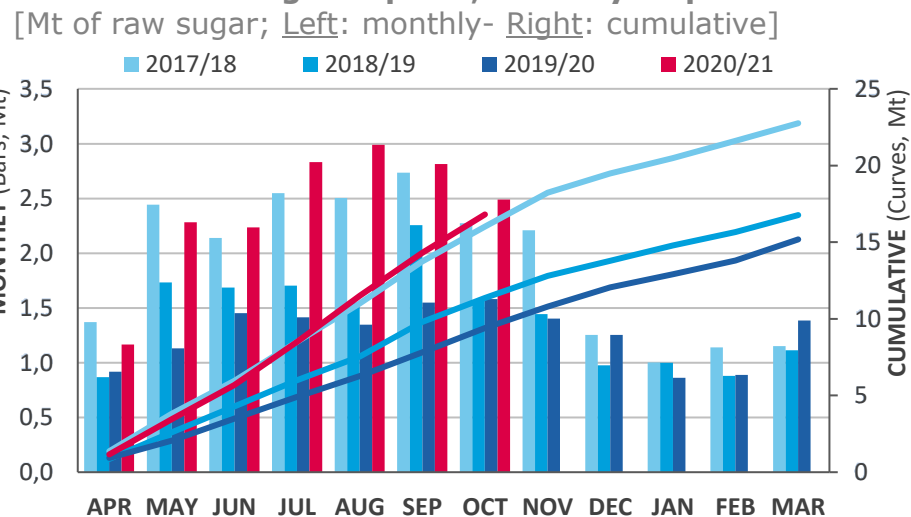
CS SHIPMENTS: RECORD PACE SO FAR, TIGHTNESS AHEAD

- Since the start of the crop-year, CS raw shipment have been at a record pace. They stand above previous record of 17/18 and equals already the overall quantity exported during the 19/20 crop-year.
- These large flows arise from several elements. Firstly, alternative suppliers have witnessed smaller availabilities such as Thailand, Mexico or South Africa prompting destinations to originate from CS.
- Secondly, the demand on the period was also strong: Indonesia re-stocking, China turning back to raws (...) and a high white premium allowing refiners to run at full capacity.
- Consequently, despite a record CS crop, forward availability is reduced while the demand is still expected to be sustained. CIS countries are expected to turn back to Brazil. Refiners tolling activity shall also continue to be strong with current white premium.
- Alternative suppliers will keep a limited footprint on the world stage: Thailand has again a small crop, Mexico should restore its stocks, Central America is captive of the Eastern Hemisphere, leaving tight trade flows and Indian supply in the driving seat.

CS raw sugar exports, world market share as a %
[%]



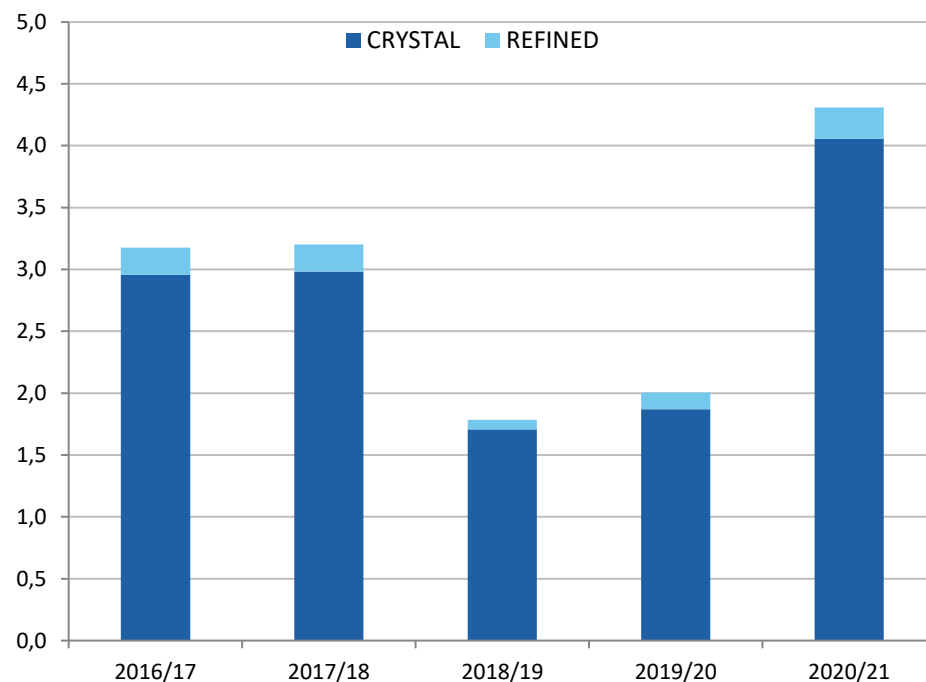
CS Brazil raw sugar exports, monthly shipments



WHITES: CS BACK IN FORCE, REFINERS ON WATCH

- The white market showed two different patterns since the start of the year. The first act was marked by the drastic reduction of the Thai supply. It led the refiners' re-export capacity to be required to answer the demand in both hemispheres.
- The second act witnessed the large increase of the Brazilian supply, feeding entirely the Western Hemisphere demand.
- The final act of 2020 will feature a persistent Brazilian supply increased by the Central American sugar that shall hit the market from November onward. This shall extend the surplus in the Western Hemisphere.
- The Eastern hemisphere will be dependent on the Indian policy. Would an export scheme be quickly implemented, large supplies of crystal sugars from India should flow in captive areas such as Sri Lanka, Somalia and Afghanistan. Refiners' markets should remain limited and convert their sugars as residuals.
- Would the Indian scheme come later, refiners could be required to feed the gap left by the Indian crystal. They could then command premiums thanks to the short transit to these destinations as compared to Brazilian crystal sugars.

White supply from CS Brazil, per quality
[Apr/Mar, Mt, Tel Quel]



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