S&D SUCDEN

SUCDEN QUARTERLY

DUNKIRK

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CONTENTS

CS BRAZIL: LACK OF RAINFALL FAVOURED 17/18 CRUSH AND ATR

A harvesting season impacted by lack of rain

- The June/September period was the driest of the past 30 years: the 4 major CS cane districts received only 45% of average rain during that period.
- As a consequence only 5 days of crush were lost vs 10 days in a normal pattern.

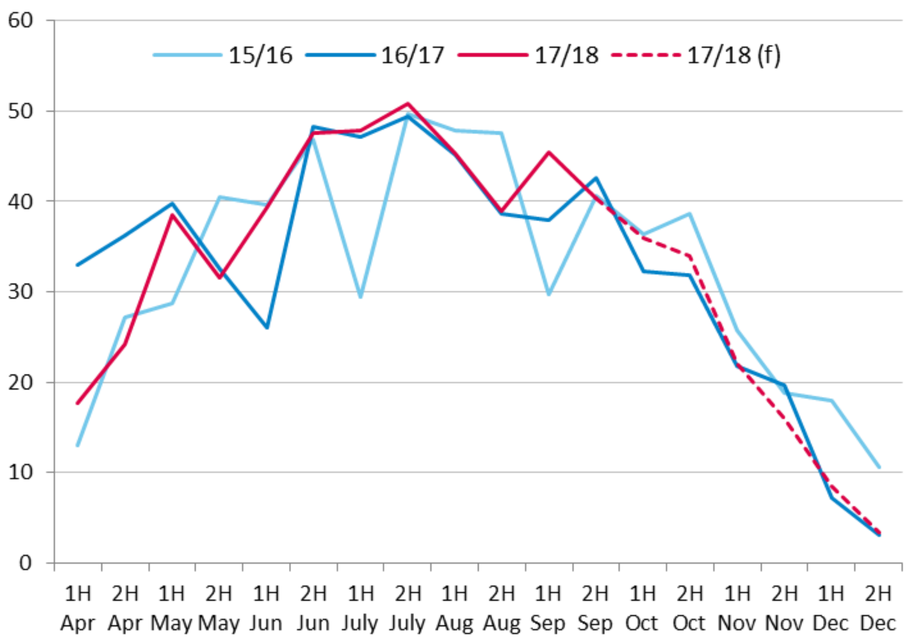
Impact on cane crushed

- Cane crushed reached 355 Mt during the June-September period, vs 335 Mt last year.
- Overall cane crushed in 17/18 shall reach about 600 Mt.

Impact on ATR

- ATR for the 17/18 campaign is assessed at about 136 kg/t, above the 5-year average at 133.8 kg/t, with a near record at 159.3 kg/t during second-half September.
- Beyond dry weather boosting cane sucrose content, the ATR took advantage of the quick crush pace during June/September when it is seasonally high.

CS Cane crushed by fortnight's [Mt]

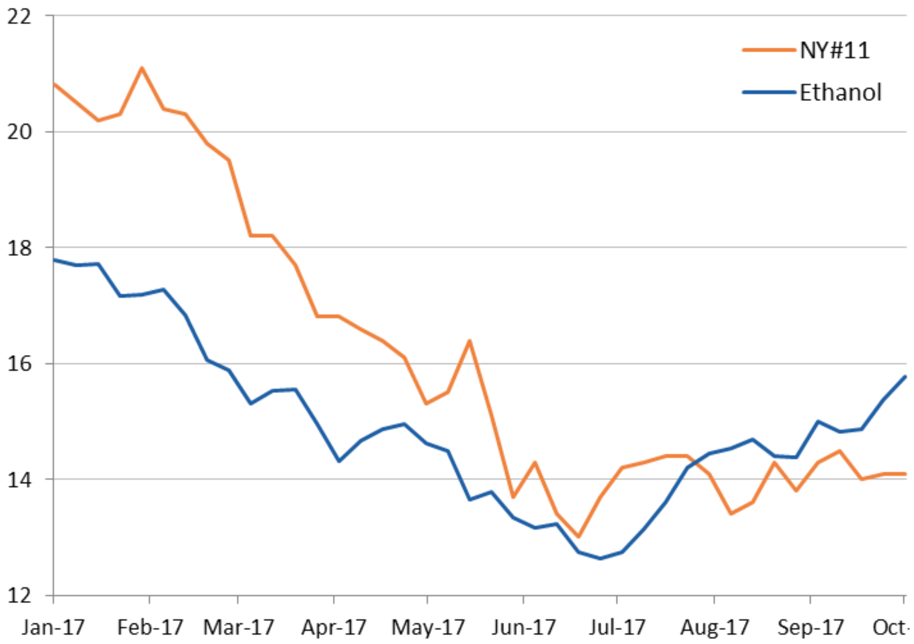


CS BRAZIL: SUGAR MIX DOWN FOR THE LAST PART OF THE CRUSH

Reverting parity

- Sugar mix has been high up to mid-August boosted by positive parities sugar vs ethanol and mills hedged at high levels.
- Dry weather leading to high ATR and quick pace of crush has also favoured a high sugar mix through minimal industrial flexibility between ethanol and sugar.
- With parities now in favour of ethanol for about 150 pts and on average at 80 pts since mid-August, expectations are for a decrease of the sugar mix beyond the usual reduction pattern by the end of the crop.

Sugar vs Ethanol [c$/lb, *NY#11 basis*]



Sugar production still at a record level

- Sugar production is expected to rise to 35.9 Mt.
- This will be a record sugar production despite collapsing sugar prices.

ETHANOL: BALANCED SnD BUT ENERGY COMPLEX MORE RELEVANT

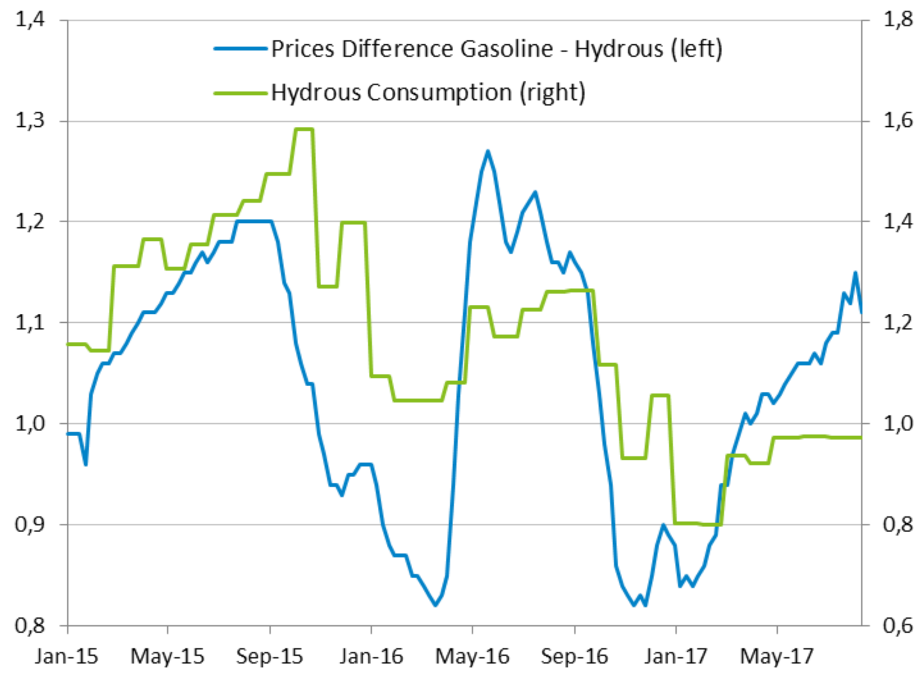
A similar production/consumption pattern to last year

- 17/18 production is seen slightly higher year-on-year at about 26 Mm³, boosted by better parities from mid-August onward.
- Ethanol market has been impacted by PIS/Cofin changes as well as import tariffs at 20% that should lead to additional transfers from CS to the NNE.
- CS ethanol consumption is seen similar to last year based on a 68% pump ratio in average in Sao Paulo state from October onward.

A balanced ethanol market

- Ethanol SnD is seen balanced in CS with more than 25 days of stocks by the end of the campaign.
- Beyond strict ethanol SnD, prices are more and more dictated by crude oil, RBOB and BRL FX through the permanent price adjustment policy of Petrobras.

Gasoline-Hydrous prices spread in Sao Paulo [BRL, *left*] compared to hydrous consumption in CS [Mm³, *right*]



CS BRAZIL: LOWER CANE AVAILABILITY AND SUGAR MIX IN 18/19

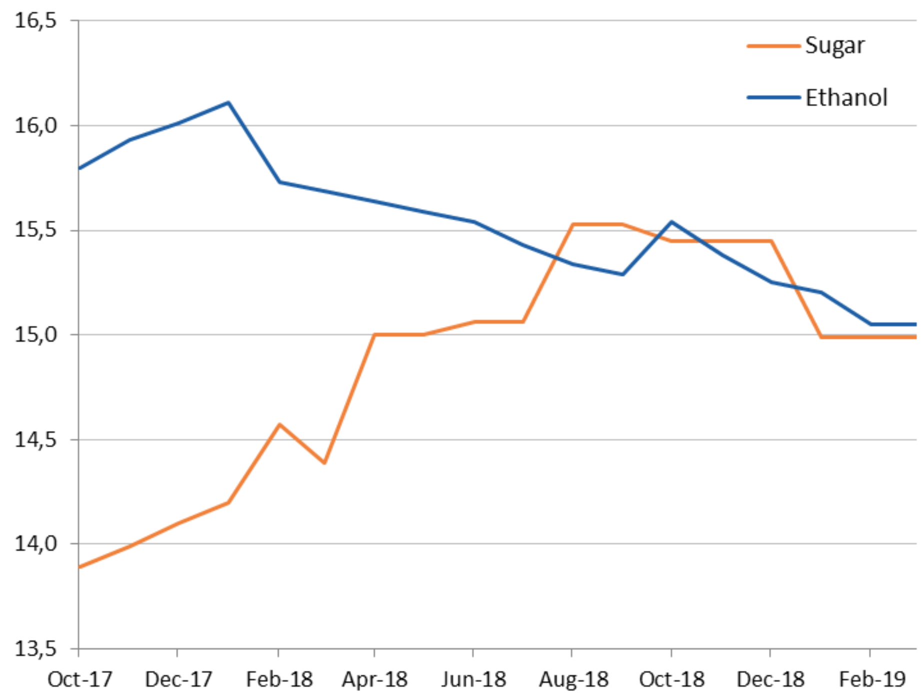
Cane getting older and dismal weather so far

- Average cane age will continue to increase in 18/19, due to lack of renovation.
- Rainfall deficit during June/September – especially in the Northern part of CS - has not been favorable to next year's cane performance.
- Harvested area could increase in 18/19 with a lower area under renovation expected year-on-year, given lower sugar prices and less available cash.
- Between lower cane yield and renovation, cane availability is pegged at 585 Mt for next year assuming a normal weather pattern from now on.

Mix: more ethanol, from the start

- Parity-wise, ethanol and sugar are roughly breakeven for the 18/19 crop. Mills are also less priced year-on-year and more flexible with regards to sugar/ethanol output.
- Mix shall therefore turn in favor of ethanol at the start of the crop – unlike 17/18. It will be highly volatile depending on sugar prices - as always - but also influenced by the energy complex through the daily Petrobras adjustments.

Forward sugar-ethanol parity in CS Brazil [c$/lb]



THE EU: ONCE AGAIN SHAPING WHITES TRADE

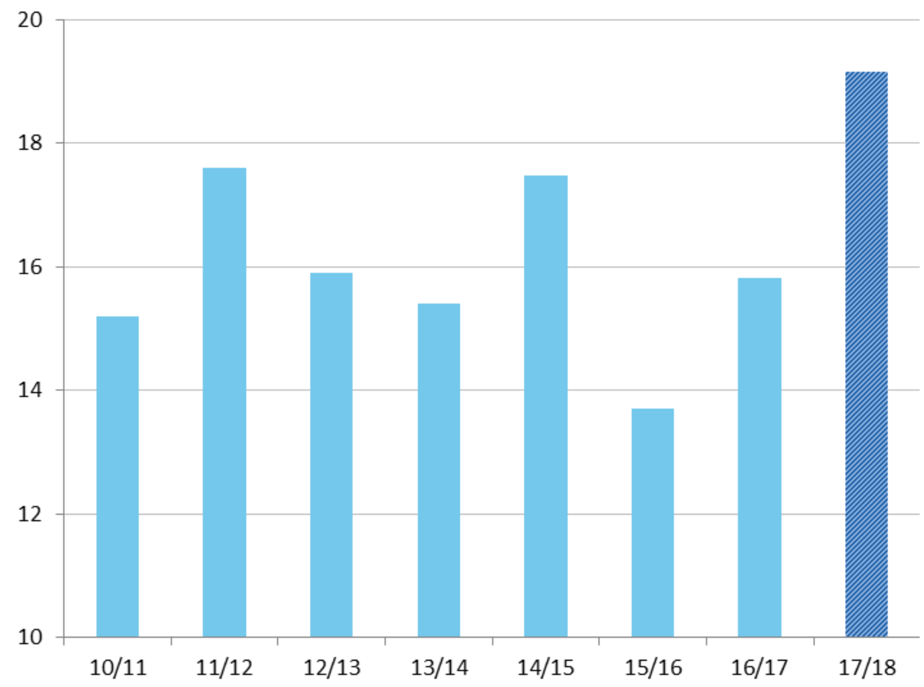
Higher areas combined with favourable weather for a booming crop

- 17/18 EU beet area has increased by about 15% with the suppression of quotas.
- Weather has been positive for beet growth and beet yields should be significantly above the 5-year average.

Exportable surplus increasing

- EU refined exportable surplus seen above 3 Mt in 17/18.
- As a flat price seller, the EU exports could be reduced at a lower price level.
- EU will flow mainly to the Mediterranean, Middle East and Western Africa areas either displacing cane millers whites (45 or 150 icumsa), standalone refineries whites, or directly raws.
- Low prices of wheat – the main crop alternative for EU farmers – will maintain beet as an attractive crop for 18/19.

EU Sugar Production [Mt]



BLACK SEA: UKRAINE EXPORTS DOWN, RUSSIA EXPORTS UP

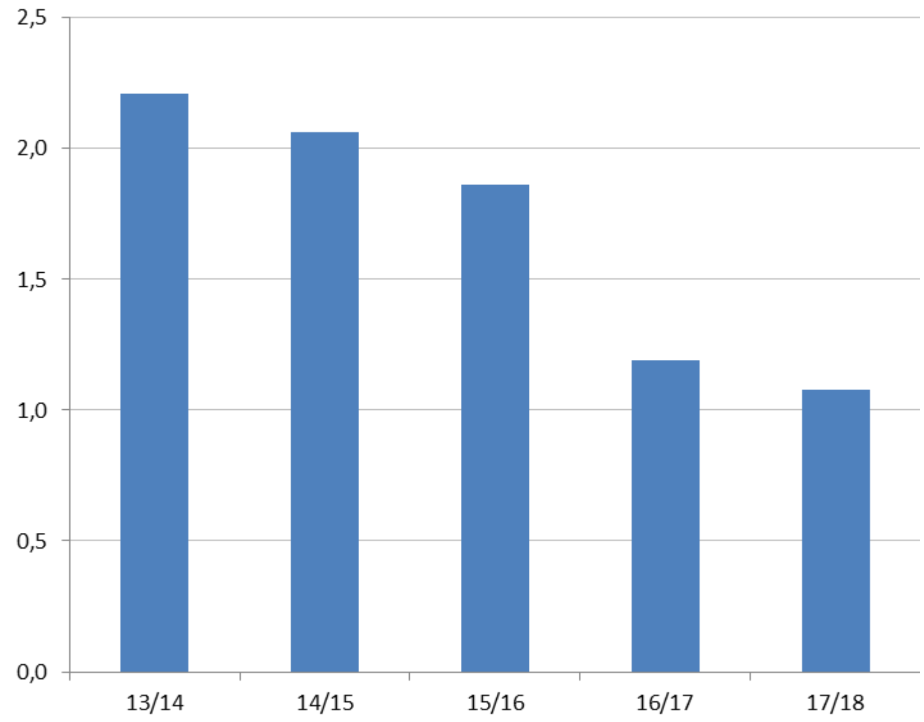
Production in the region slightly up on the year

- Ukrainian and Russian production should respectively reach about 2 Mt and 6.3 Mt in 17/18, combining increasing beet areas, lower agriculture yields and higher sucrose content.
- Crop has been on time in Russia but delayed in Ukraine because of poor weather during the vegetative season.
- Production in both countries is expected to remain sustained in 18/19 in the current sugar/grain price environment.

Exports targeting different markets

- Russian sugar will be mainly exported to neighbouring countries displacing raws imports.
- Ukraine sugar will be exported to the Mediterranean, Middle East and Far East markets as last year.

CIS Raw Sugar Imports [Mt]



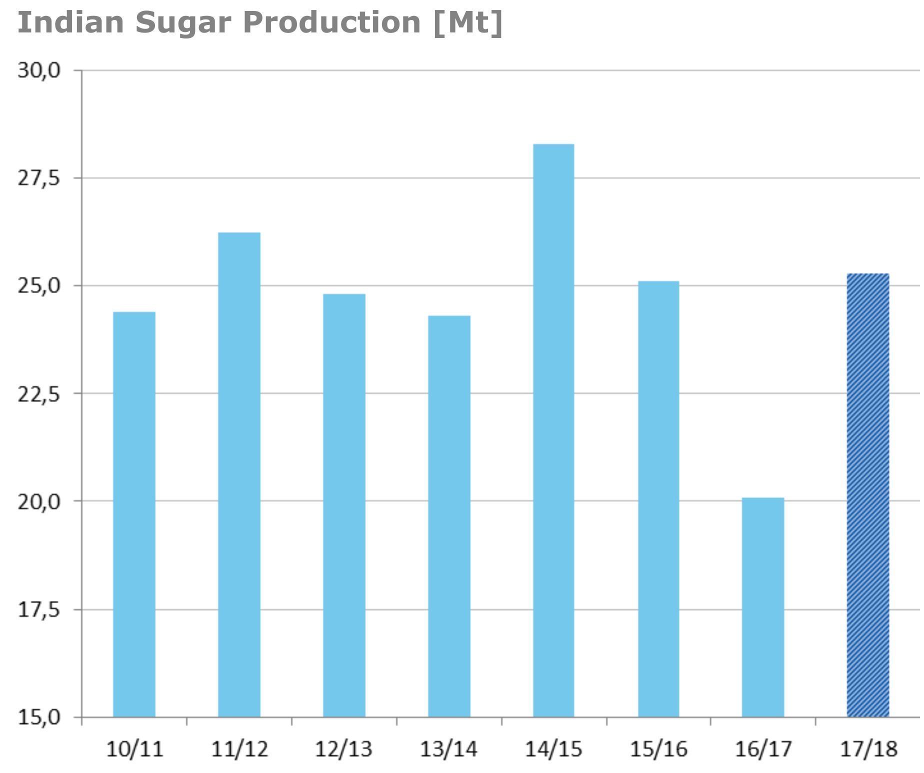
INDIA: CROP TO RECOVER THIS YEAR AND NEXT

A beneficial monsoon

- 17/18 monsoon has been appropriate for standing crops and has refilled reservoirs in main cane areas.
- Production shall reach 25.3 Mt in 17/18 boosted by a large cane area increase in Maharashtra.
- Uttar Pradesh production should continue to grow in 17/18, thanks to a slight increase of cane area and a larger proportion of high yield varieties.
- On the consumption side, mills dispatch has been weaker this year due to a combination of higher sugar prices, demonetization, and disappearance of the Public Distribution System.

Recovery to continue in 18/19

- 18/19 plantings have already started in the Western cane belt. They benefit from ample rainfall and sufficient reservoir levels.
- Indian high price environment should support minimal expansion and good crop care.
- Expectations should be for a larger crop in 18/19 barring any significant weather event.



INDIA: TURNING NEUTRAL ON TRADE FLOWS?

16/17 imports at 800 kt

- Considering the first duty free quota of 500 kt back in June and the TRQ of 300 kt at 25% customs duty granted in September, Indian imports were limited to 800 kt during 17/18.
- This shall bring ending stocks to 2-months' consumption by end-September. Given the early crush in UP, inventories should be sufficient until full crush speed is reached in December. Authorities will however maintain a close price check during that period.
- As of now, local prices are trading flat with new crop at sight and an early crushing pattern in the North.

17/18 production/consumption balanced

- India 17/18 SnD should not leave room for imports.
- The next period to watch will be the 2018 monsoon that – if good – could turn India to a surplus mode again.

Indian Domestic Prices [NCDEX, INR/Quintal]

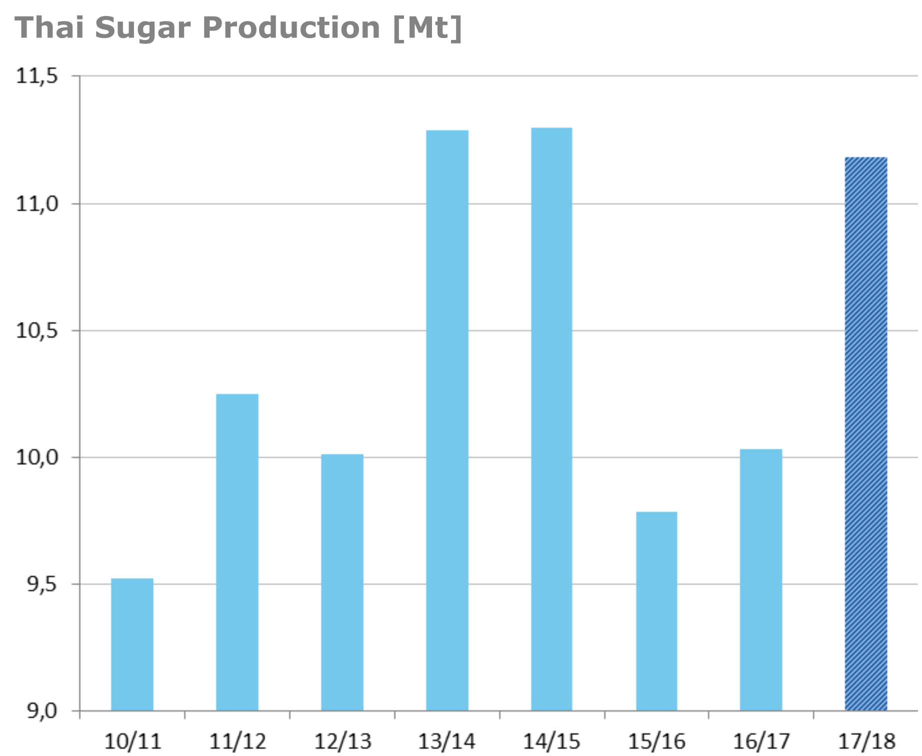
THAILAND: BACK TO THE HIGHS

2017/18 good outlook

- After two consecutive years of dryness, the Thai cane crop should improve thanks to better weather conditions.
- Cane production should be above 105 Mt, an increase of about 15% compared to last year.

More sugar availability in the East

- This additional exportable surplus will be dedicated to both raw and white sugar exports.
- The remelt is not seen affected to a large extent by the low white premium that is partly compensated for by physical values.
- Additional Thai raw sugar availability will mainly substitute Western Hemisphere exports to Indonesia.
- Additional Thai white sugar will substitute standalone refiner exports to the Far East region.



CHINA: WALK ON THE WHITE SIDE

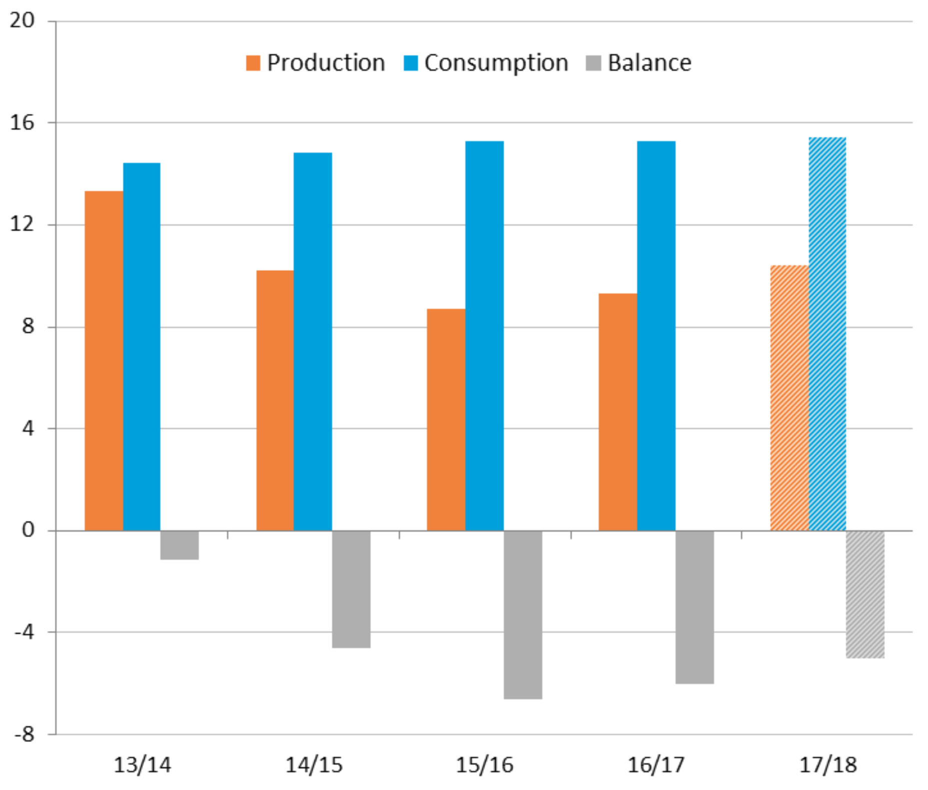
How to fill the deficit?

- China 17/18 crop should increase to 10.4 Mt thanks to higher cane prices and suitable weather.
- The deficit will therefore narrow for the second consecutive year to about 5 Mt.
- Imports of raw and white sugar combined with release of Strategic Reserves will help to fill the deficit.

Raws import limited, whites keep going

- AIL raws quantity will remain limited in 2018.
- Preferential tariffs granted to small and medium size sugar exporters will be maintained during Q4 2017 and the first half of 2018.
- Hence, next year again, China should show limited raws demand. However, there will again be large white sugar flows, leading China to be the world biggest whites end-market.

Chinese Production/Consumption Balance [Mt, Oct/Sept]



CENTRAL AMERICA: BACK TO RECORD IN 2017/18?

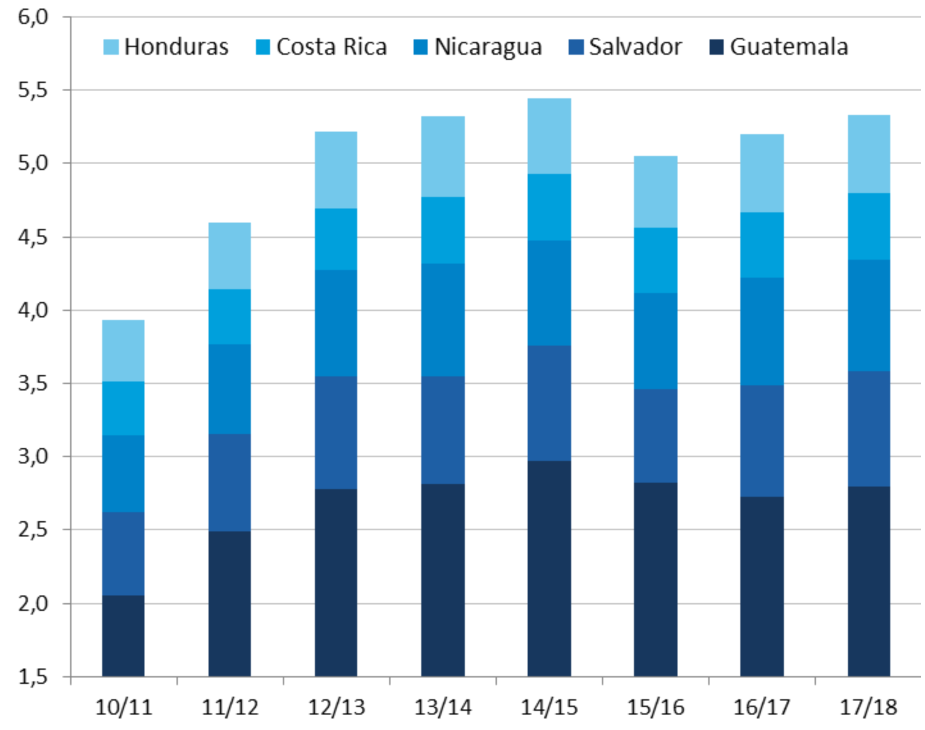
Beneficial weather

- Current rainy season in Central America has been timely for cane growth after mitigated weather conditions in 16/17.
- The region's sugar output should be similar to the record level of 14/15, when 5.4 Mt were produced.

New traction from China

- The new Chinese import duty scheme has created substantial fresh demand for Central American countries - except Guatemala – who benefit from a lower duty level.
- During the 16/17 campaign, about 150 kt have been shipped to China and this flow is expected to increase in 17/18.
- However, the Central American import window in China shall be limited by the availability of AIL licences and focused on the first months of 2018.

Central America Sugar Production [Mt]



NE BRAZIL: STILL SUFFERING FROM DETRIMENTAL WEATHER

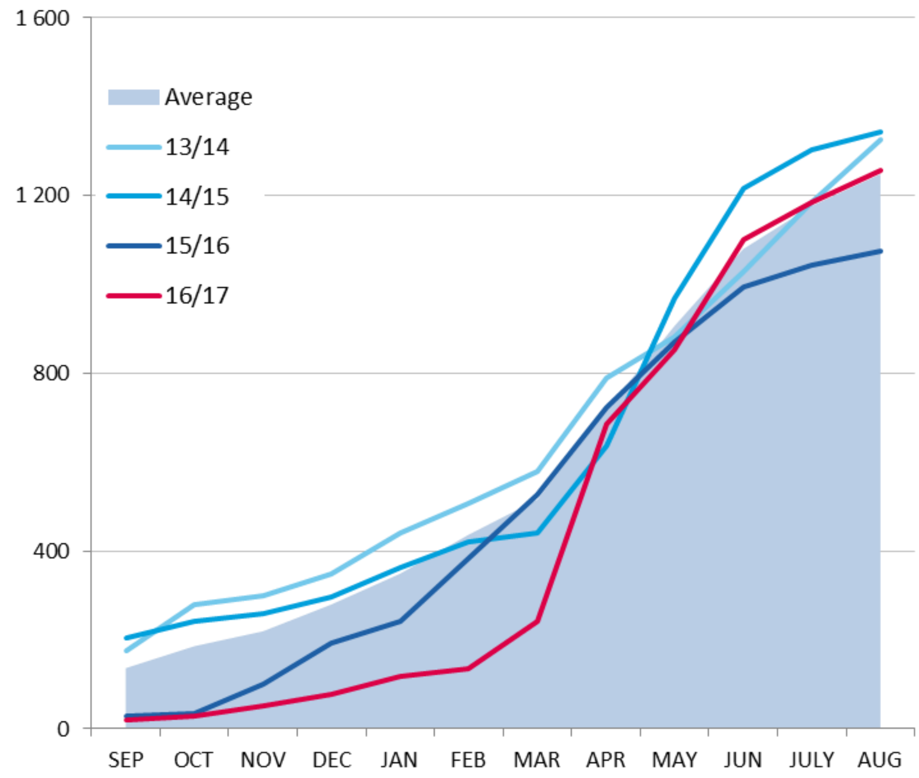
Detrimental weather 3 years in a row

- Sugar cane yields have again suffered from detrimental weather and the total cane crush is estimated at 44 Mt.
- ATR is estimated at 132 kg/t, lower than last year due to wetter weather prior to the crush.
- Parities should push more cane toward ethanol and the mix is seen at 52.5%.
- Overall production should reach 2.8 Mt, down from last year's crop and still representing a poor performance for the region.

Availabilities for the world market remaining low

- Both raw and white sugar exports will suffer from this lower crop.
- Whites exports will be additionally impacted by the low white premium.

Monthly Cumulative Rainfalls in Alagoas [mm]



GLOBAL SnD, MACRO AND OUTLOOK

GOOD CROPS IN BOTH NORTHERN AND SOUTHERN HEMISPHERES

Favourable climatic conditions around the world

- 2017 has seen favourable weather in most sugar producing countries.
- In the Northern Hemisphere, the rainy season was plentiful in South Asia and the Far East, and rainfall and temperatures were also beneficial for beet crops.
- In the Southern Hemisphere, harvests were helped by below-average rainfall in CS Brazil and Australia, leading to a quick crushing pace and high ATR.
- Only a few regions such as NE Brazil, Cuba and Argentina have suffered detrimental weather conditions.
- Further, most of the cane and beet harvested in 17/18 was planted at a time when prices were high, leading to area expansion and generous crop care.

Where are the weather risks ahead?

- CS Brazil rainfall deficit has definitely led cane to a fragile vegetative status also combining a higher age profile and potentially lower crop care due to lower sugar prices.
- Weather conditions in Russia, Ukraine and the EU should still allow for smooth harvesting and crop expectations to be reached.

Key Crop Forecasts [Mt, National Crop Year]

	14/15	15/16	16/17	17/18
CS Brazil	32,0	31,2	35,6	35,9
India	28,3	25,2	20,1	25,3
EU	17,7	13,9	15,8	19,4
Thailand	10,8	9,7	10,0	11,2
China	10,5	8,7	9,3	10,4
US	7,4	7,9	7,9	8,0
Russia	4,4	5,2	6,1	6,3
Mexico	6,0	6,1	6,0	6,0
Central America	5,4	5,0	5,2	5,4
Australia	4,6	4,7	4,8	4,8
NE Brazil	3,6	2,6	3,1	2,8
Total	**130,7**	**120,3**	**123,9**	**135,5**

Scale: **Below av.** **Average** **Above av.**

SURPLUS IS BACK BUT MIX STARTS STEALING SUCROSE AWAY

Limited deficit in 16/17 and moderate surplus in 17/18

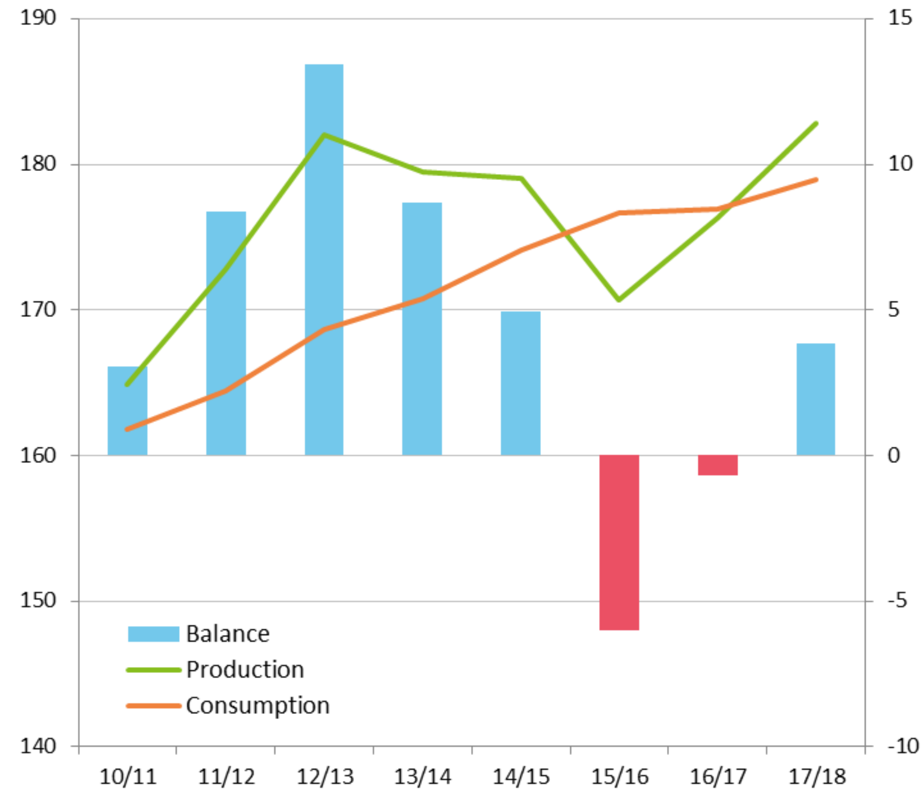
- 16/17 Oct/Sept deficit has shrunk with the good performance of the current CS crop.
- 17/18 Oct/Sept is expected to be back to surplus with larger Northern Hemisphere crops year-on-year: India, EU, China, Thailand...
- Lower cane performance and mix of the next CS crop is already offsetting some of the 17/18 Northern Hemisphere crop recovery.

A first look at 18/19

Although a year away, some elements can today be assessed in terms of beet/cane areas:

- In the EU, the decision for famers to grow wheat or beet will be taken in October and today beet still gives a better price.
- In Western India, plantings for 18/19 have already started and proven good, in a high price environment. Farmers in China are also enjoying high cane prices.
- Could Pakistan production be the first 'low flat price' casualty? Their exposure to the world market is growing so that cash issues could appear and the 17/18 crop could be a peak.

Global Production/Consumption Oct/ Sept [Mt]

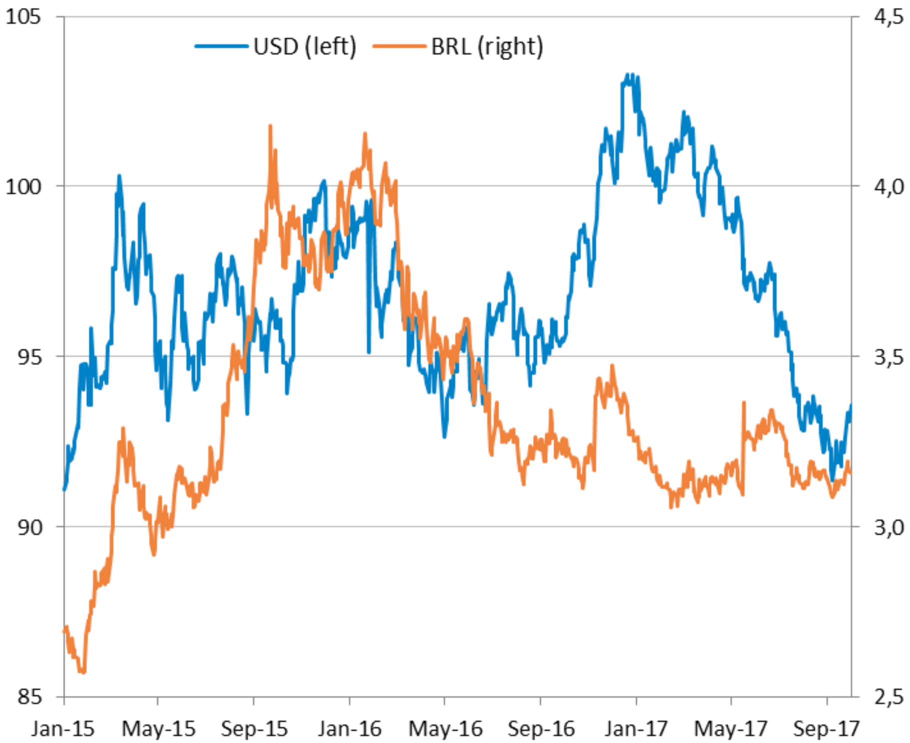


MACRO : WEAK DOLLAR & GRAIN OUTLOOK STILL HEAVY

Currencies

- The Dollar index has been on a downward trend since the start of the year, but has recently stabilized with the expected end of the FED stimulative monetary policy.
- USD/BRL in a steady range since the beginning of the year.

Dollar index and BRL



Crude Oil

- World and US crude oil perspectives remain heavy for most analysts in the industry, with higher stock and production forecasts in 2018.
- However geopolitical tensions will continue to generate risks: free rider countries in the OPEC agreement, Turkey threats recently over the Kurdish independence vote (...).

Grains

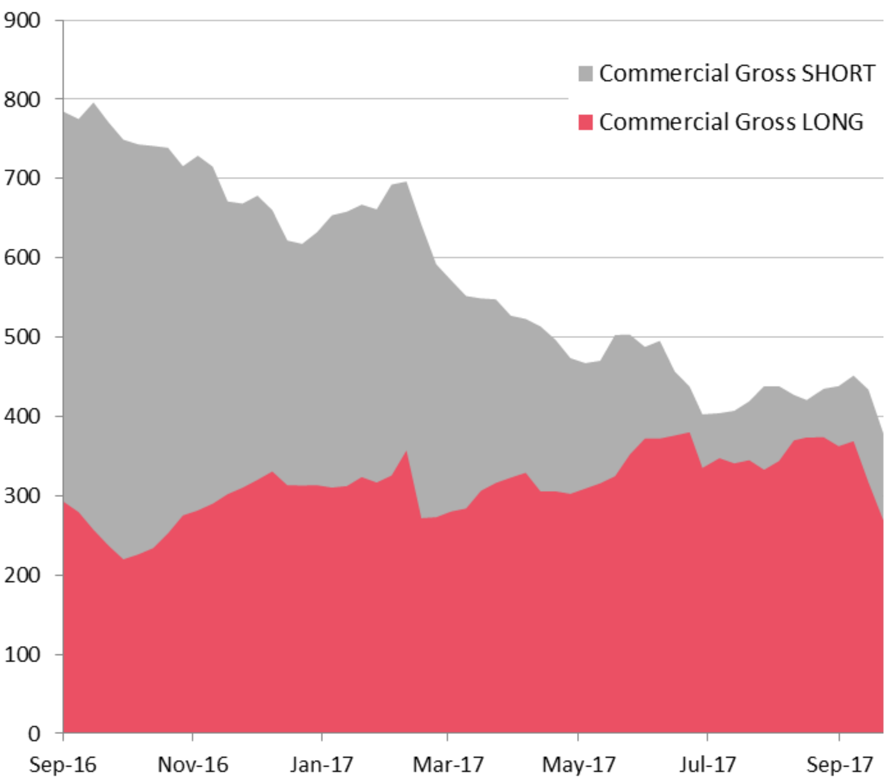
- Better-then-expected wheat harvests and good weather conditions overall for corn and soybean will continue to put pressure on the grains complex.

ORDER FLOW: FUNDS VS COMMERCIALS VULNERABILITY

Fund record short facing significant delay in producer pricing

- Since October 2016 and their record net long position of 350k lots, funds have sold 450k lots.
- Commercials have reduced their net short position from 530k lots to only 100k lots during the same time, a record low level and 225k lots lower than the early October 5-year average.
- Commercials low net short level is mostly explained by a reduction of their gross short to 380k lots – vs 780k lots early October last year. Gross longs have been more constant through the year at between 250 and 350k lots. This pattern reflects a delay in producer pricing – holding off on sales - vs commercial buyers' regular hedging throughout the price decrease.
- If funds appear vulnerable with their significant net short position, commercial order flow is definitely unbalanced. Large producer selling has yet to appear but commercial buyers are well priced. Funds could take advantage of the commercial strong SEOs resistance / weak BEOs support to further test the market to the downside.
- Time and fundamental perspectives will dictate who will move first between fund short covering and producers having to price their shipments.

Weekly Commercials Gross Positions [1,000 lots]



OUTLOOK: CAN THE RANGE BE BROKEN?

From the highs to the range

- The market has been characterized over the last year by 3 directional factors:

  - an overall suitable weather pattern for sugar crops – with only few patchy detrimental weather events;

  - crops currently harvested have been planted and grown in a high price environment leading presumably to good crop care and residual expansion;

  - the end of quotas in the EU that has triggered a significant increase in beet area leading to new world availabilities, with the disappearance of the WTO export ceiling.

- This combination triggered a large price decrease, despite low world stocks, until prices became caught in a range reflecting the "sugar mix" factor in CS and its immediate effect of price on production and availabilities. The white premium has also corrected to represent the new availability of "beet whites".

How to break the range?

- Fundamentally the production/consumption balance remains heavy in 17/18 Oct/Sept with most producers – and exporters - having large outputs. Brazil is the sizeable exception with the sugar mix "wild card" potentially alleviating the world surplus and trade flows. Hence, the sucrose is there, but the market will have to pay for it. However, this will only maintain the range with a median value being defined by the energy complex through the Petrobras adjustments.
- Still, producers have been delaying their pricings and will have to come to the market. Funds could take advantage of this imbalance between commercial order flow (strong selling cap / weak buying floor) to increase their short pressure and push prices further down.
- For a meaningful and sustainable rally, the market would have to reflect a fear of "shortage" again, that only a significant weather event could trigger. With the Northern hemisphere vegetative period over, market attention will focus on the Brazil CS rainy season. After a dry winter, below average rains from November onward could push funds to short cover rapidly.