



**SUCDEN  
MARKET  
OUTLOOK**





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# **KEY COUNTRIES**



# CS BRAZIL: STRONG SUGAR OUTPUT DESPITE CANE CHALLENGES

## Sugar output to remain strong as new sugar capacity offset dwindling cane supply

Sucden CS Brazil crop forecasts for 2017/18 and 2018/19 [tel quel, Apr/Mar]

		2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
<b>Cane crushed</b>	mt	<b>534</b>	<b>599</b>	<b>573</b>	<b>618</b>	<b>607</b>	<b>580</b>	<b>600</b>
ATR	kg/t	135,6	133,3	136,5	130,5	133,0	134,6	134,0
Sugar ratio	%	49,5%	45,2%	43,0%	40,7%	46,3%	48,0%	47,5%
<b>Sugar production</b>	mt	<b>34,1</b>	<b>34,4</b>	<b>32,0</b>	<b>31,2</b>	<b>35,6</b>	<b>35,7</b>	<b>36,5</b>
Ethanol production	mm3	21,4	25,6	26,1	28,1	25,4	23,8	24,7

## Rationale for 2017/18

- Less cane because of older cane, less bis cane, more renovation and not-ideal weather
- But investments in sugar capacity should allow higher mix and near-record sugar output
- Above forecast at 35.7 Mt assumes MAX sugar environment...which is no longer the case in current market environment (see next slide for more details)

## Rationale for 2018/19

- Very early time
- Cane might recover thanks to positive impact of increased plantings (weather permitting)
- Higher cane availability to drive sugar output to new record at 36.5 Mt

# CS BRAZIL: HOW WILL MIX ADJUST TO LOWER PRICES?

## Ethanol parity

- Last week, ethanol parity at USc15,0/lb (spot) and USc14,5/lb (forward - July 17)
- Sugar advantage reduced to 50-100pts (from 300-400pts before)

## Mix reaction

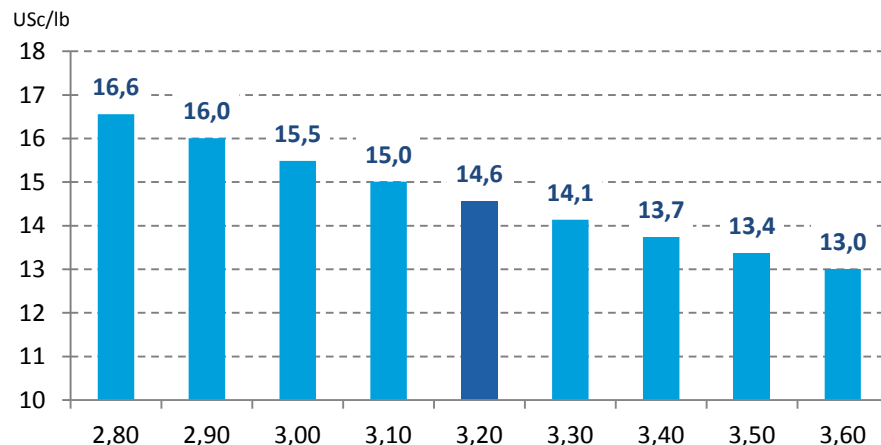
- At such levels, this is no longer MAX sugar
- Mix decreasing in Goias and Mato Grosso do Sul at first. Sugar output to decrease 200-500 kt
- A bigger adjustment may occur in case sugar prices decrease further towards ethanol parity

## Mid-term: bullish ethanol?

- Today, ethanol prices retain mostly bullish risks:
- Tight end-of-season stocks
- Domestic gasoline prices sensitive to crude oil prices. Bullish crude oil?
- Bullish BRL?
- Brazil considering an import tax on ethanol

## Ethanol parity at USc14.6/lb at current BMF

Forward July-2017 ethanol parity (basis current futures)



## Mix -1% down = 750 kt sugar less

Sugar production sensitivity to Cane x Mix

ATR:	Sugar mix										
	40%	41%	42%	43%	44%	45%	46%	47%	48%	49%	50%
134,6											
570	29,2	30,0	30,7	31,4	32,2	32,9	33,6	34,4	35,1	35,8	36,6
575	29,5	30,2	31,0	31,7	32,4	33,2	33,9	34,7	35,4	36,1	36,9
580	29,8	30,5	31,2	32,0	32,7	33,5	34,2	35,0	35,7	36,4	37,2
585	30,0	30,8	31,5	32,3	33,0	33,8	34,5	35,3	36,0	36,8	37,5
590	30,3	31,0	31,8	32,5	33,3	34,1	34,8	35,6	36,3	37,1	37,8
595	30,5	31,3	32,1	32,8	33,6	34,3	35,1	35,9	36,6	37,4	38,2
600	30,8	31,5	32,3	33,1	33,9	34,6	35,4	36,2	36,9	37,7	38,5
605	31,0	31,8	32,6	33,4	34,1	34,9	35,7	36,5	37,2	38,0	38,8
610	31,3	32,1	32,9	33,6	34,4	35,2	36,0	36,8	37,6	38,3	39,1
615	31,5	32,3	33,1	33,9	34,7	35,5	36,3	37,1	37,9	38,6	39,4

# INDIA: HOW MUCH IMPORTS ARE NEEDED?

## Domestic deficit

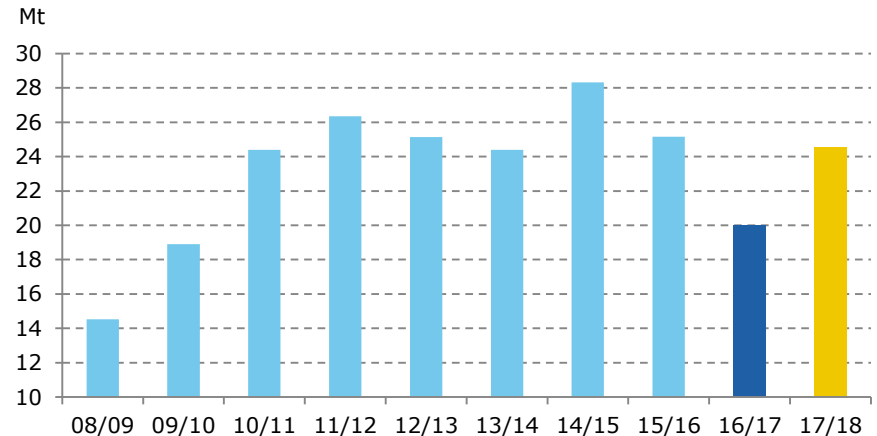
- With a crop at only 20 Mt, India has a deficit of almost 5 Mt in 2016/17
- Despite high carry-in stocks, this deficit is big enough to lead the government to allow a first batch of 500 kt of imports
- The import scheme was designed for raw sugar to be refined in India. However, geographical constraints mean that coastal refineries will use only a minority share of the quota. They will therefore remain focus on re-export flows

## More imports to come?

- India probably needs more imports to balance its domestic market and keep stocks at at least 2-month consumption
- Dry weather and monsoon forecasts - potentially affected by El Nino - could be the trigger for additional batches of imports
- India may need some more imports in 2017/18 even if the crop rebound at around 24.5 Mt.

## 2016/17 crop at 20 Mt only

India sugar production [tel quel, Oct/Sep]



## India likely needs more imports

Projected 2016/17 India SnD [Oct/Sep, tel quel]

Opening stocks	7,7
Production	20,0
Consumption	24,8
Stocks on 30 Sep [no imports]	2,9
<b>- in days of consumption</b>	<b>43</b>
Production Oct/Nov	2,4
Consumption Oct/Nov	4,2
Stocks on 30 Nov [no imports]	1,1
<b>Imports</b>	<b>1,3</b>
Stocks on 30 Sept [with imports]	4,2
<b>- in days of consumption</b>	<b>62</b>
Stocks on 30 Nov [with imports]	2,4

# THAILAND: BAD THINGS DON'T ALWAYS COME IN THREE

## Previous two seasons thwarted by bad weather

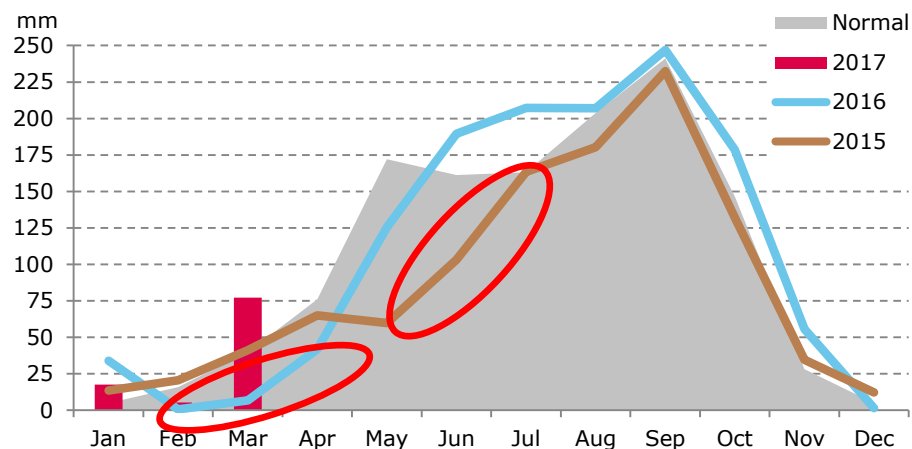
- In 2015/16, a disappointing rainy season cut cane to 94 Mt and Sugar to 9.8 Mt
- In 2016/17, hot, dry weather before the rainy season also cut cane to 93 Mt and Sugar to 10 Mt

## 2017/18 outlook and flags

- Pre-seasonal rains were mostly normal
- Long-term weather forecasts for the rainy season are normal or even above-normal
- On a conservative basis, 2017/18 sugar output to reach 11.1 Mt based on 105 Mt cane

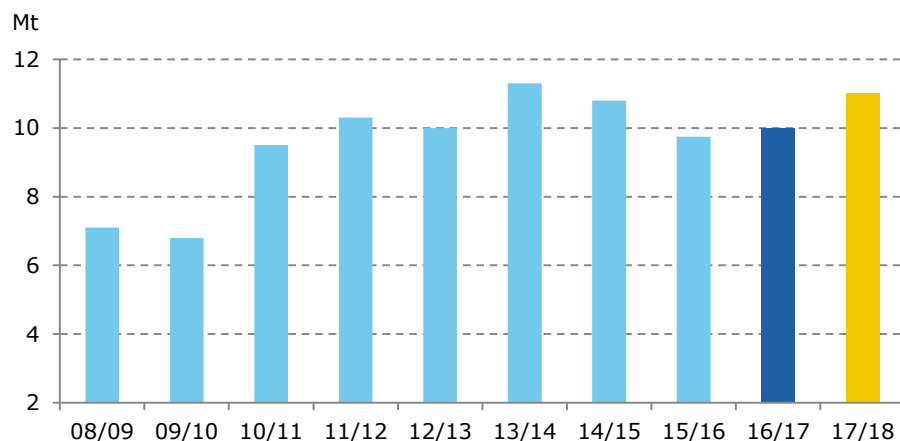
## Will Thailand enjoy normal weather this year?

Monthly rainfall in Thailand



## Expected rebound for 2017/18 crop

Thailand sugar production [tel quel, Dec/Nov]



# CHINA: HOW TO FILL THE DEFICIT

## Rising crops

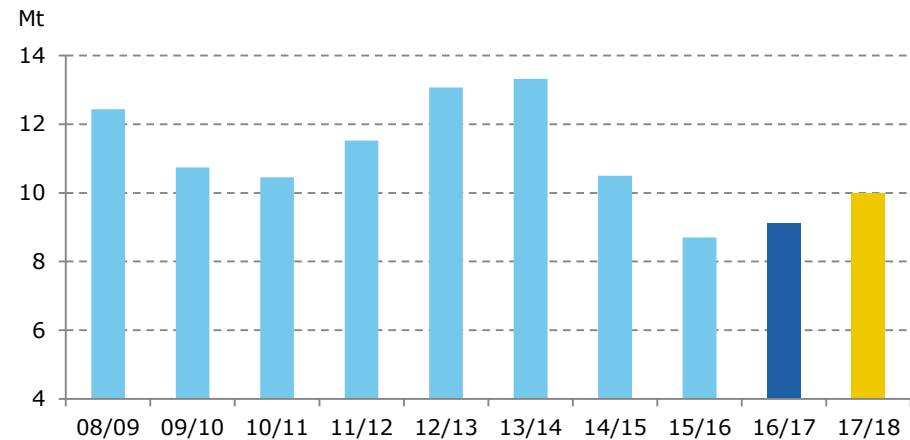
- 2016/17 crop below expectations at 9.1 Mt due to disappointment in Guangxi
- 2017/18 crop could increase to 10 Mt thanks to growth in Guangxi (cane price attractive again) and in the northern beet area (improved sugar prices)

## How to fill the deficit?

- The 2016/17 deficit of around 6 Mt could be filled by 1.5 Mt of Stocks release and roughly 5 Mt of imports split between white sugar and raw sugar
- News are expected soon as to a potential increase of the import duty and on AIL distribution
- Latest rumours seem to favour bearish outcome for imports of raw sugar

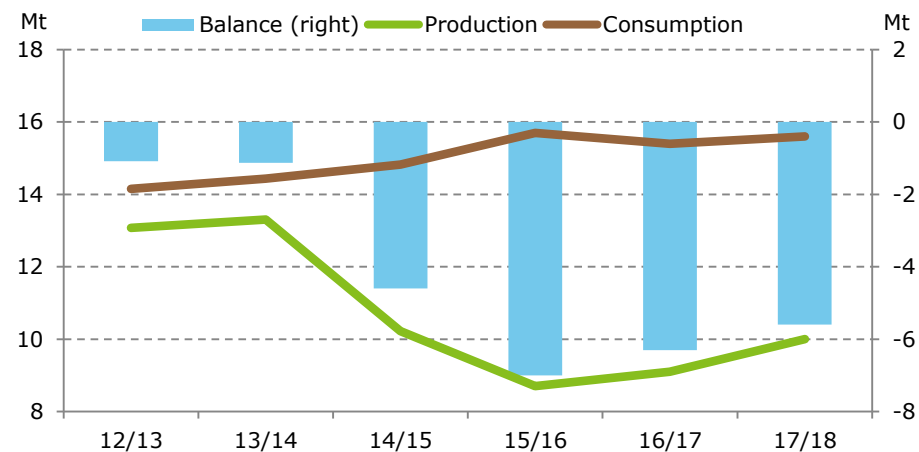
## Sugar production slow recovery

China sugar production [tel quel, Oct/Sep]



## Deficit narrowing but still sizeable

China Supply/Demand balance [Oct/Sep, tel quel]





# CENTRAL AMERICA: BACK TO RECORD IN 2017/18?

## 2016/17

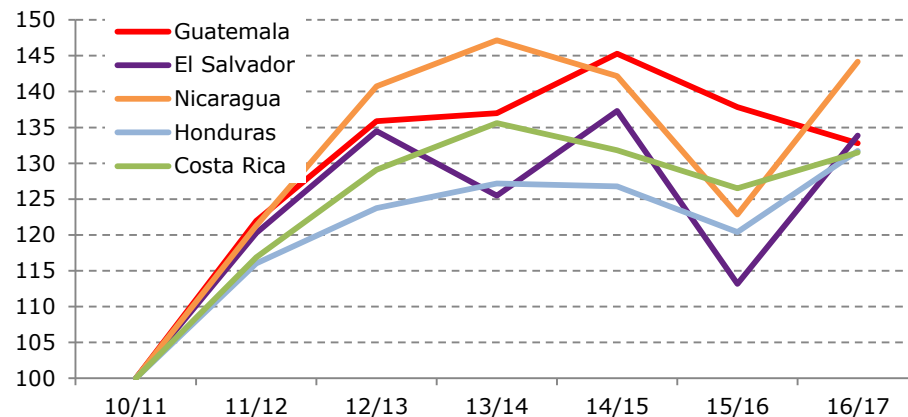
- In Guatemala, agricultural yields disappointed and led the country to a 2<sup>nd</sup> consecutive decline at just above 2,700 kt
- Elsewhere, sugar production rebounded as expected thanks to more favourable weather conditions

## 2017/18

- Initial forecasts for the rainy season - from May to October - point to mostly favourable conditions (normal rain and heat) at least during the 1st-half
- If confirmed, Centrals output could increase and come back near the record level of 2014/15 at around 5.4 Mt

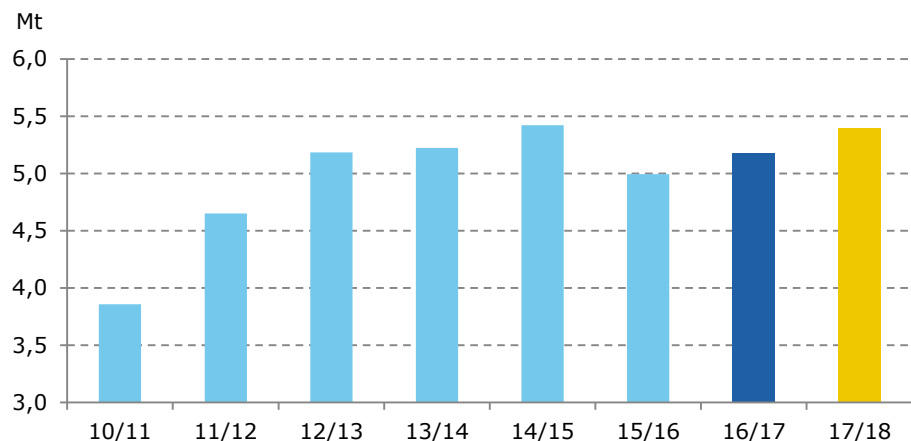
## Guatemala disappointment in 2016/17

Centrals countries output (base 100 in 2010/11)



## Centrals near record after 2-year break?

Centrals sugar production [tel quel, Nov/Oct]



# NE BRAZIL: A LOSING BATTLE ALREADY?

## Long period of dry weather

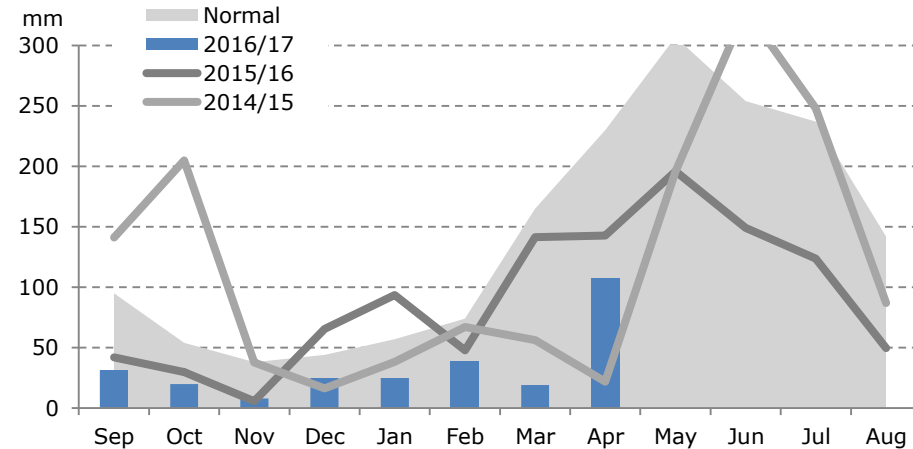
- Rains have been much below normal since August 2016.
- This has caused irreversible damages before the rainy season even started
- Worst situation focus on Alagoas

## 2017/18 outlook

- Cane crushed to shrink to dismal level around 42 Mt.
- Sugar output to be supported by a high sugar mix but a decline from 2016/17 is to be expected at around 2,850 kt

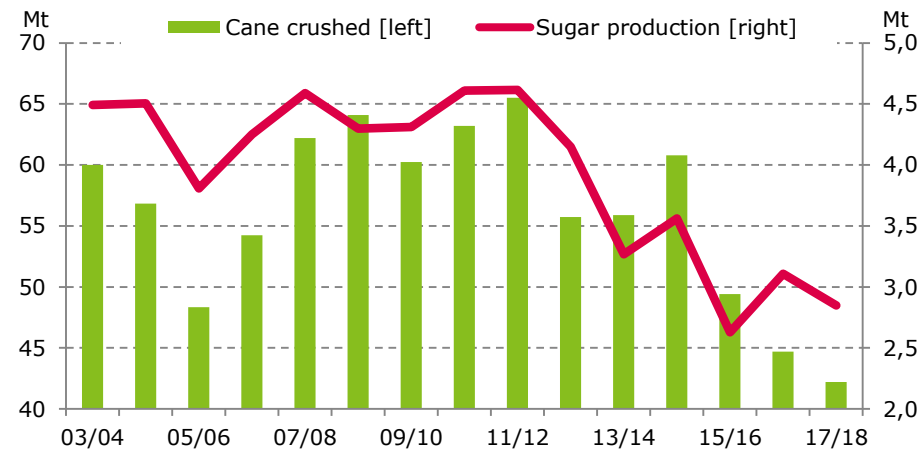
## Very dry weather since September 2016

Monthly rainfall in Alagoas (sugar cane areas)



## Shrinking cane, low sugar output

NE Brazil cane and sugar [tel quel, Sep/Aug]



# THE EU: COUNTDOWN TO QUOTA-FREE MARKET HAS STARTED

## 2017/18 crop

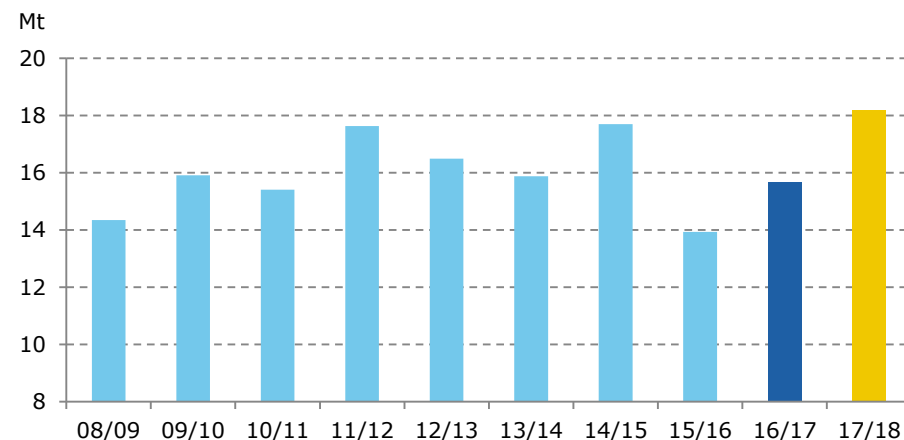
- Sugar production to jump to around 18.2 Mt thanks to +14% increase in planted area ahead of the liberalisation of the market and timely plantings
- Upside flag from diminishing ethanol production
- Downside flag from dry weather (and late freezing temperatures) that could drive agricultural yields below average if persisting

## 2017/18 trade

- Imports likely to decrease
- ...but exports could increase to 2.5-3.0 Mt and start at a strong pace already in October 2017

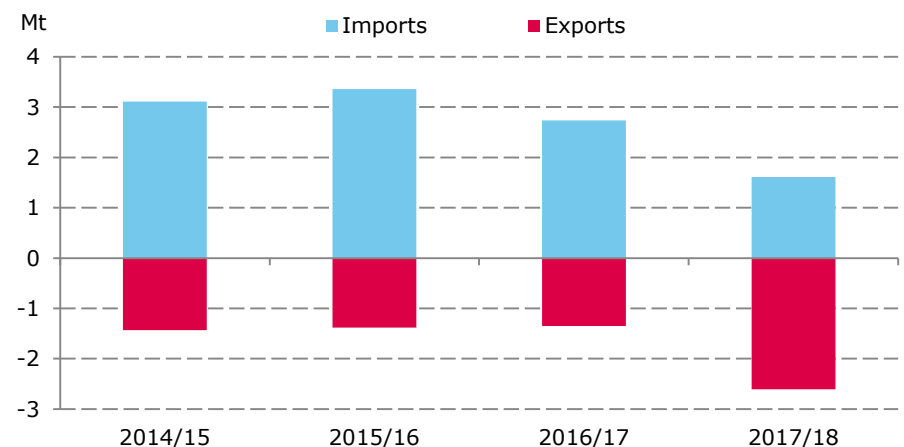
## Sugar production to jump in 2017/18

EU sugar production [tel quel, Oct/Sep]



## ...and EU exports as well

EU imports/exports [Oct/Sep, tel quel]



# NAFTA: DEAL OR NO DEAL?

## US beet vs US cane

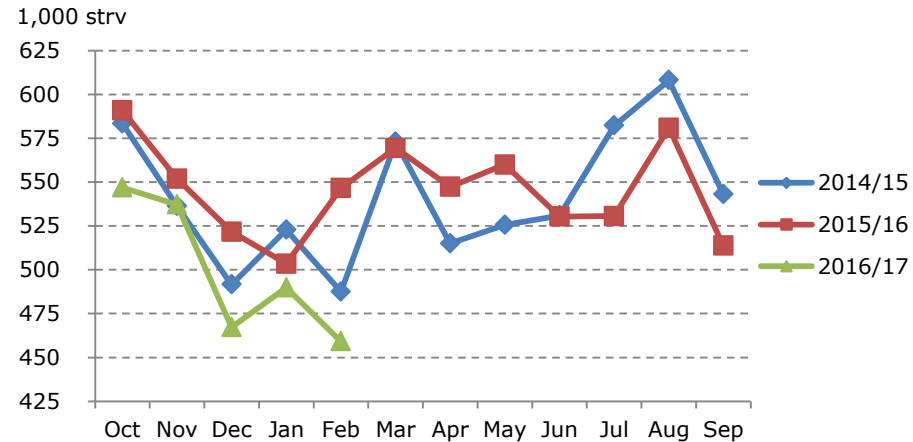
- Excessive refined beet sugar inventory from last year continues to de-stock at the expense of cane refiner runs time

## USA vs Mexico

- Negotiations for new Suspension Agreements continue
- If a deal is not reached in May, termination and implementation of AD/CVD duties is a likely outcome
- Implementation of duties would likely trigger a Mexican AD/CVD suit against US HFCS, creating a domestic home in Mexico for otherwise exportable sugar

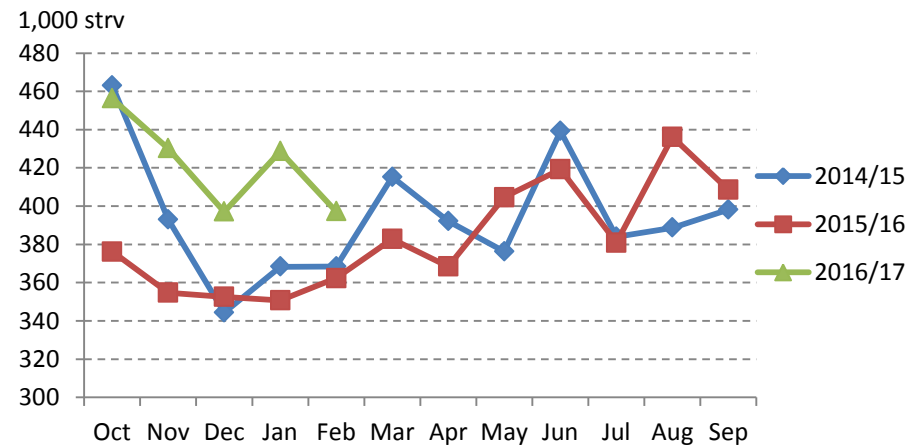
## Slow activity for US refineries...

Monthly US Cane Refiner Melts



## ...as US beet sugar sales are strong

Monthly US beet sugar deliveries





**GLOBAL  
RECAP AND  
OUTLOOK**



# KEY CROPS RECAP: POTENTIAL RECORD EXPOSED TO WEATHER

## World output on course for record

- Early 2017/18 crop forecasts point to a significant increase in production
- Biggest increases located in India, the EU, Thailand and China

## Weather risks

- Weather so far was not ideal in some countries (Australia, the EU, NE Brazil, Russia) and already led to some crop downgrade
- Crop forecasts based on normal weather are exposed to risks of detrimental weather: harvest season in CS Brazil? growing season in the EU and Russia? Rainy season in NE Brazil, Central America, China, Thailand? Monsoon in India?

## El Nino risks

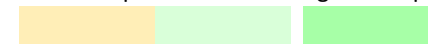
- The probability of El Nino, possibly reaching intermediate level, increases weather risks

## Most 2017/18 crops in the green

Key crop forecasts [tel quel, local year]

	Production	14/15	15/16	16/17	17/18	18/19
CS Brazil	Apr-Dec	32,0	31,2	35,6	35,5	36,5
Australia	Jun-Dec	4,6	4,7	4,8	4,6	
Russia	Sep-Jan	4,4	5,2	6,1	5,7	
EU	Oct-Jan	17,7	13,9	15,8	18,2	
US	Oct-Mar	7,4	7,7	7,8	7,9	
NE Brazil	Sep-Apr	3,6	2,6	3,1	2,9	
India	Oct-Apr	28,3	25,2	20,0	24,5	
China	Oct-Apr	10,5	8,7	9,1	10,0	
Central America	Nov-Apr	5,4	5,0	5,2	5,4	
Mexico	Oct-May	6,0	6,1	6,0	6,4	
Thailand	Dec-May	10,8	9,7	10,0	11,1	
<b>Total</b>		<b>130,7</b>	<b>120,1</b>	<b>123,4</b>	<b>132,1</b>	

Crop scale: bad crop "normal" good crop



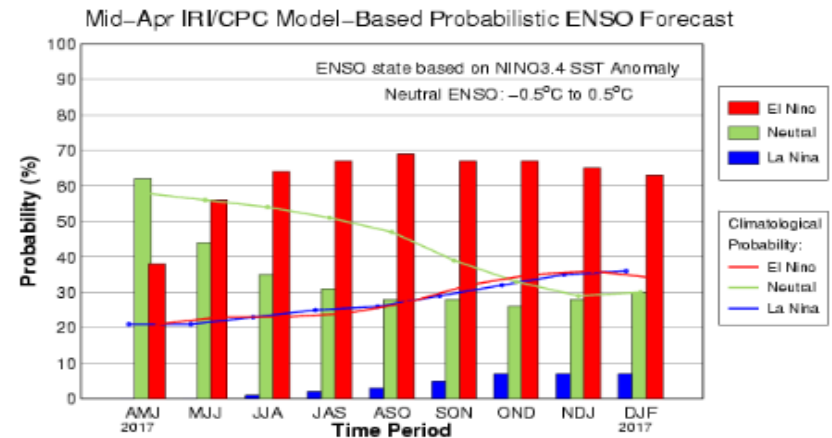
# EL NINO: WHAT IMPACT ON GLOBAL WEATHER?

## El Nino likely

- Odds of El Nino are above 50% by June and near 70% by August
- Consensus sees intensity remaining at weak level but an intermediate level cannot be excluded
- Timing and intensity of this El Nino episode are critical factors for long-term global weather forecasts:
- An early episode of of intermediate level would have a more significant impact in India, southeast Asia and the Americas

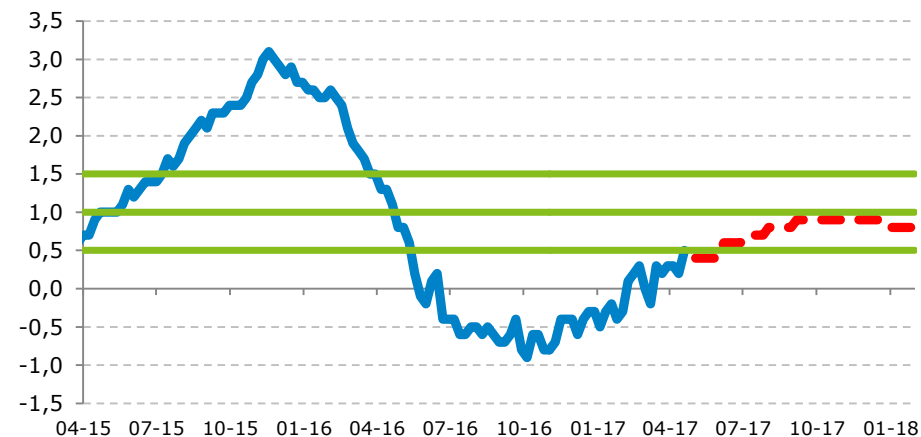
## More than 50% chances of El Nino by June

IRI/CPC model-based probabilistic forecast



## Approaching intermediate level in September

Weekly SST anomalies in Nino3.4 region



# GLOBAL BALANCE: SURPLUS IN SIGHT

## Production vs Consumption

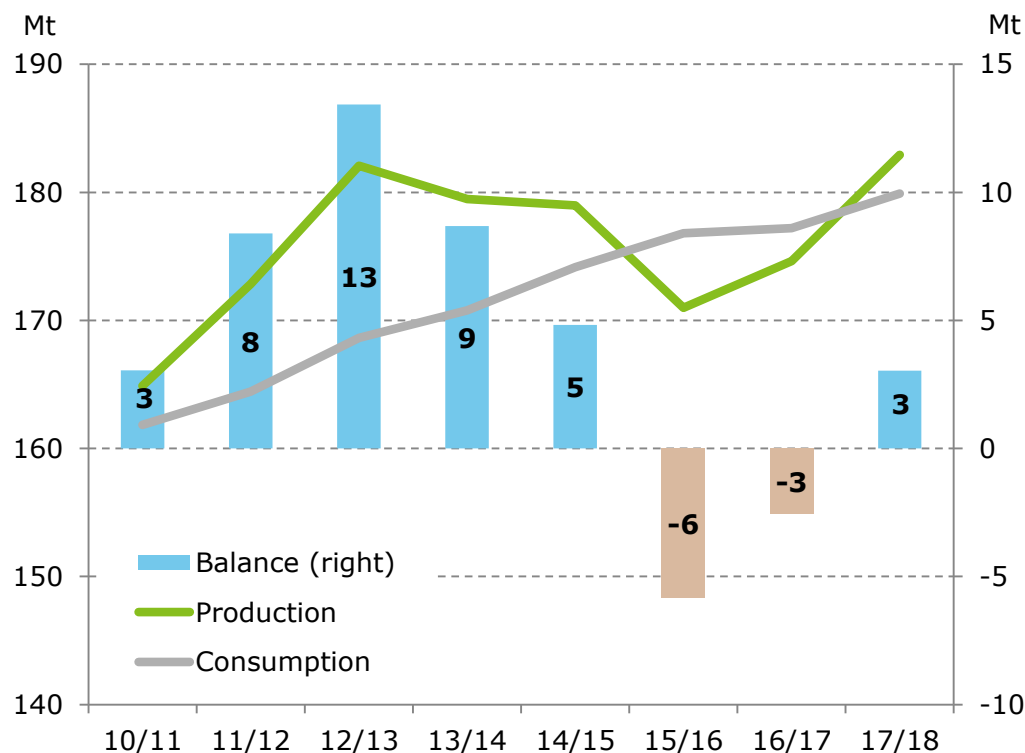
- Global production to jump by over 8 Mt and post a new record around 183 Mt
- Meanwhile, Consumption to grow by only 2.5 Mt or +1.5% (slowdown in China and India)
- World balance to switch from 3 Mt deficit in 2016/17 to 3 Mt surplus in 2017/18 (Oct/Sep basis)

## Relativity of surplus

- This surplus is substantial but could nonetheless decrease in case of weather-driven supply events or downside adjustment to the sugar mix in CS Brazil (Mix -1% corresponds to -750 kt sugar output)
- Global stocks have been decreasing for two years, there is limited room for further decrease

## 2017/18 back to surplus

Global Production/Consumption [raw value, Oct/Sep]





# MACRO: WHAT ENVIRONMENT FOR COMMODITY INVESTMENTS?

## BRL

- BRL benefited from pause in USD rally, strong global growth momentum supporting risky assets and local economy nearer bottoming out
- Recently, some weakness came from the local political situation as doubts are rising over the social security reform
- A stronger BRL would be bullish the ethanol parity: +1% BRL → +14pts ethanol parity

## Crude oil

- Fundamentals are expected to tighten during 2H 2017 thanks to OPEC cuts more than offsetting US shale growth and healthy global demand. Some forecast crude oil at \$60/b in Q3 2017 (Brent)

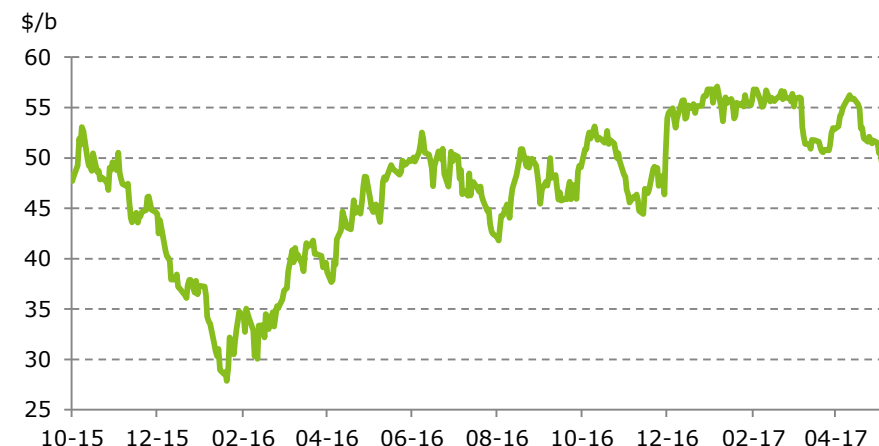
## A stronger BRL would raise ethanol parity

USD/BRL exchange rate



## Bullish risks for crude oil during Q3?

Crude oil prices (brent)



# FUNDS: DO THEY WANT TO SELL MORE?

## Funds

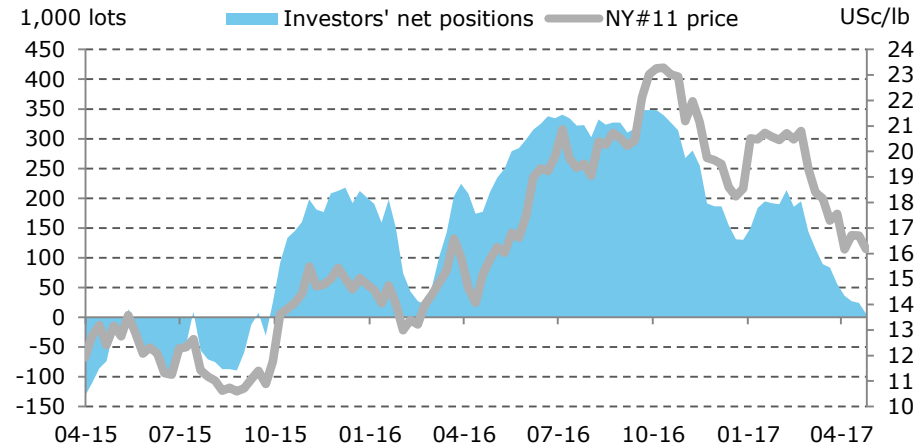
- Funds net longs has decreased with almost no interruption from 214,000 lots early February to 6,000 lots end-April
- This is the lowest level since September 2015
- Gross short positions jumped from 65,000 lots early-February to 212,000 lots end-April, still far from the 310,000 lots reached in October 2016

## Index funds

- Index positions decreased at the beginning of the year on rebalancing and broad commodity selling.
- They are however recovering since mid-February

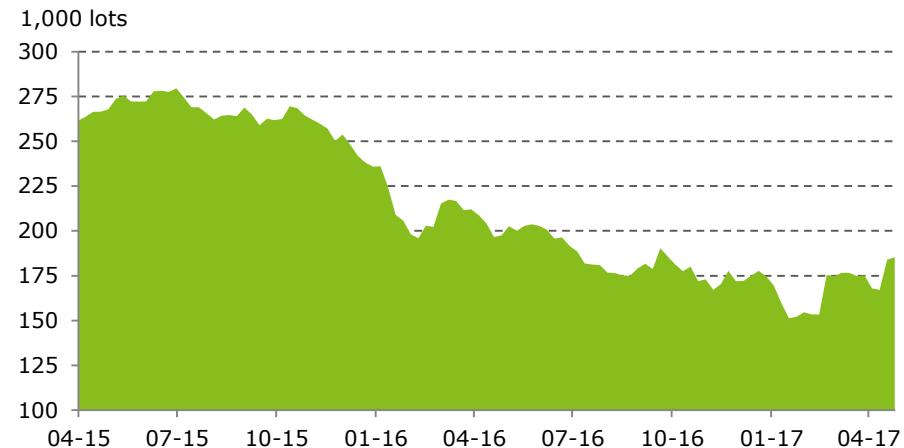
## Funds long lowest since February 2016

Weekly Funds net position vs NY#11



## Index long rebounding since February low

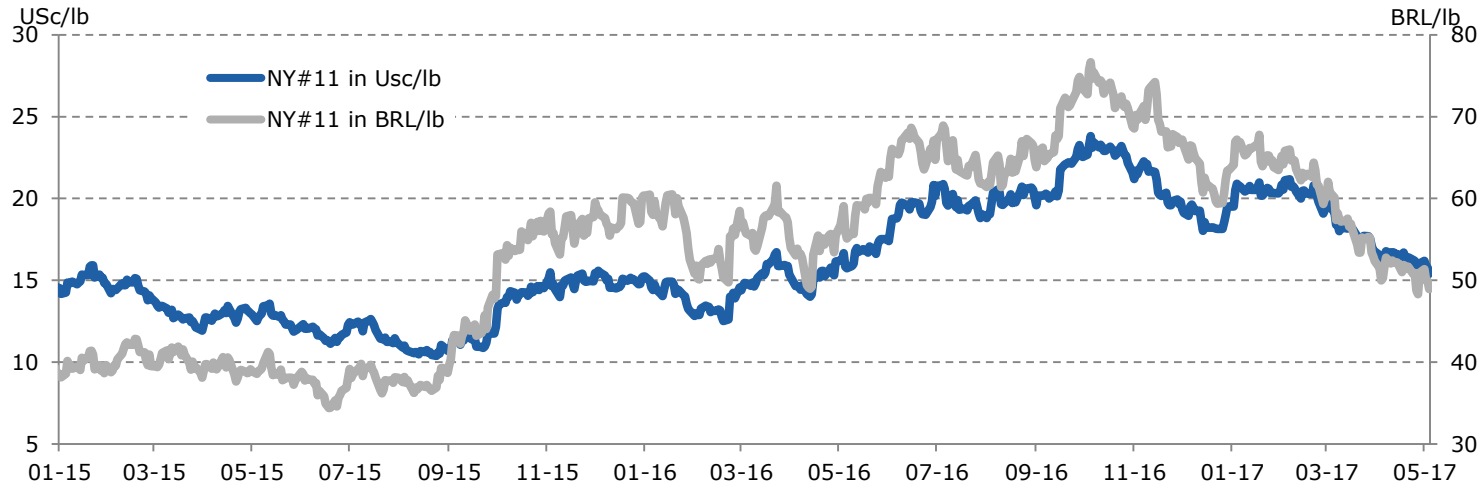
Weekly Index funds net position



# TAKEAWAYS

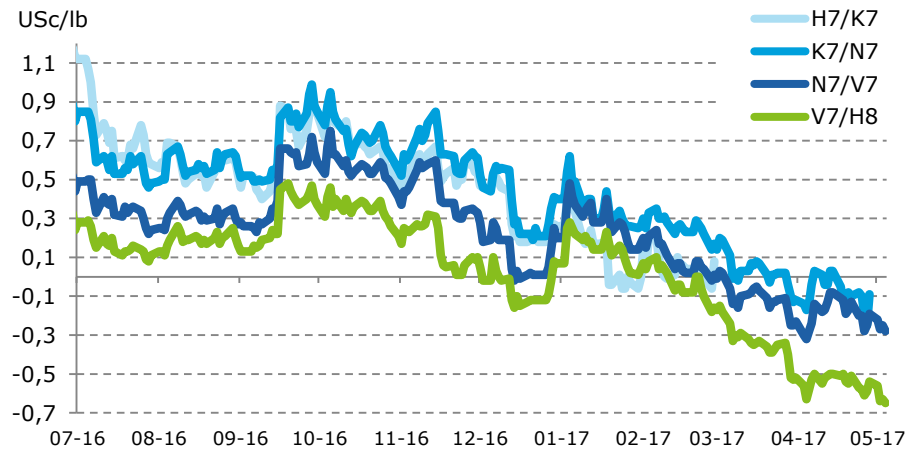
## Sugar prices lost -25% since mid-February (USc20.48 on 15 February)

Sugar prices in USc/lb and BRL/lb



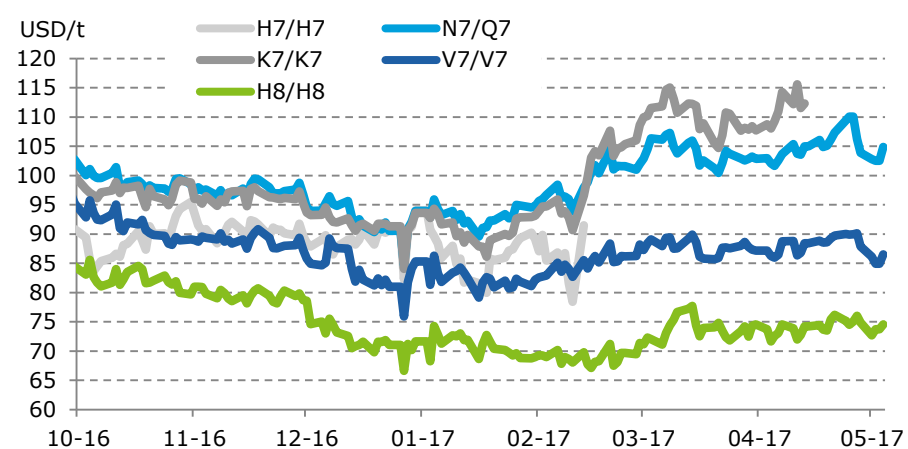
## NY#11 calendar spreads going into more carry

NY#11 sugar calendar spreads



## Deferred white premium lower

White premium for various contracts



# TAKEAWAYS

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## Drivers of the renewed market weakness

- Surplus not very big but gradually confirmed while stocks remain "satisfactory"
- Weather accomodative so far, some crops already downgraded (NE Brazil, Australia, Russia)
- Mostly normal start in CS Brazil
- Imports to India: publicity over doubts if more will come
- Imports to China: policy rumours point to less raw imports
- Thailand on course for 1 Mt rebound
- EU exports approaching and white supply heavy from Q4
- No strong reaction from refiners so far
- Funds selling heavily, including fresh gross shorts

# TAKEAWAYS

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## Where/When are the potential supportive news?

- **Short term – Current market**
  - Weather disruption? Monsoon news? El Nino?
  - India to need more imports
  - CS Brazil logistics against the background of giant grain crops (and late exports)
  - China? Possibility of more white imports??
- **In case of further market weakness**
  - CS Brazil sugar mix to adjust down (and some diversion to ethanol in Thailand)
  - Incremental refiners demand and possible duty-based Indian imports
- **Mid term**
  - Weather disruption? Monsoon news? El Nino?
  - Ethanol potential bullishness
  - Risks of rainy end-of-season in CS Brazil in case of El Nino
  - 2018/19 CS Brazil assuming 36.5 Mt sugar to prove too optimistic?

# TAKEAWAYS: BUSY AGENDA NEAR TERM

May Jun Jul Aug Sep Oct Nov Dec

**CS Brazil**  
Info on Ag yields and Mix

**CS Brazil**  
Logistics

**CS Brazil**  
Ethanol tax?  
Crude oil? BRL?

**CS Brazil**  
Rainy end of season?

**CS Brazil**  
18/19 outlook  
36.5 Mt?

**CS Brazil**  
Rainy season starts

**India**  
Domestic prices  
New imports?  
Monsoon approaching

**India**  
Monsoon near end  
plantings on-going

**India**  
17/18 starts

**China**  
Import duty?  
AIL licenses?

**China**  
Rain near end  
17/18 outlook

**Thailand**  
Rain near end,  
17/18 outlook

**Weather**  
Disruptions?  
El Nino?

**EU**  
News on  
growing season

**EU**  
Start of quota-free exports

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