S&D SUCDEN

SUCDEN SUGAR MARKET REPORT

BOILING POINT

OCTOBER 2022

EXECUTIVE SUMMARY

- Two consecutive years of deficit, low stocks at both origins and destinations and high domestic prices, led to record demand. This situation also materialized into historical highs reached by the white premium.

- Next 8 months' trade flows will continue to show tensions and tightness, until Center South (CS) Brazil reaches full crushing capacity in 23/24. While usual origins, such as Brazil, Thailand or Central America, are well committed to destinations during that period, the fulfillment of a significant part of the demand ahead will depend on Indian exports.

- The Indian supply will be determined by the export policy that will end the current ban. Facing historical low stocks and another probably large crop, the Authorities will have to juggle between maintaining reasonable domestic prices and the necessity of an export window for the industry, while having in mind the margin of error coming with crop forecast.

- Such scenario prompted both the market structure and cash values levels unseen for a decade. Beyond the politics hurdle, the price itself will have to be sufficiently remunerative for the Indian exports to happen – especially for the raws. The current bearish bets of the funds, in a context of gloomy macro environment and a world recession perspective, may restrict further the Indian connection.

- Past these doubts regarding the sufficient supply prior to next CS season, the overall S&D situation may ease with the top 3 suppliers – CS, India and Thailand – back simultaneously to high production levels, a situation not seen since 17/18.

AT A GLANCE

01 SUGAR CROP OVERVIEW

- Brazil CS: a modest increase
- India: the saga keeps going
- Northern Hemisphere: a mix performance
- World S&D: in transition

02 SUGAR MARKET FEATURES

- India exports are key to pass CS intercrop
- Record raw sugar demand
- Whites: Western Hemisphere in deficit
- Will the tight sugar paradigm reverse in Q3 2023?

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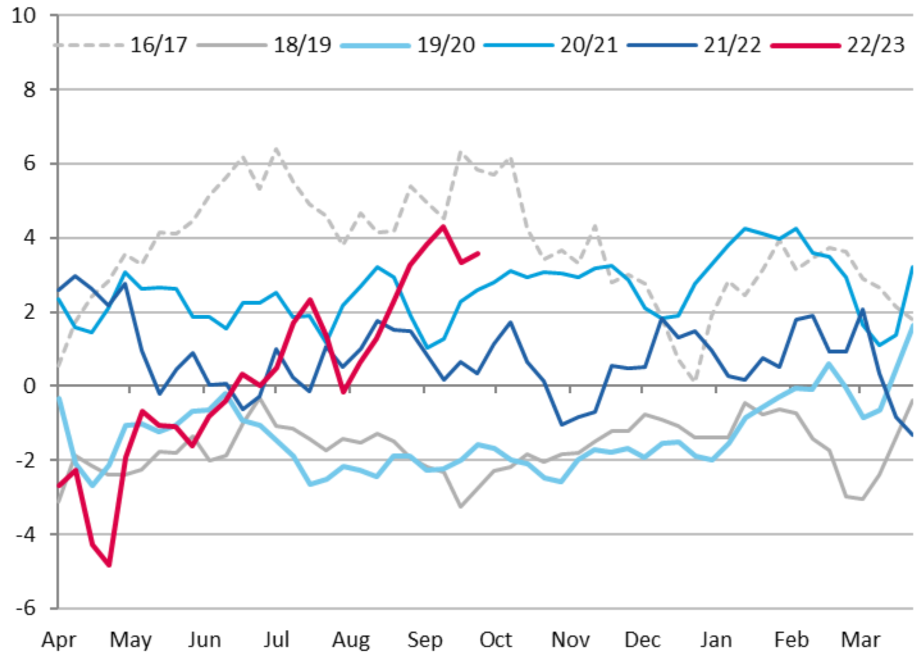
SUGAR CROP OVERVIEW

BRAZIL CS: A MODEST INCREASE

- 22/23 CS cane yields should keep lower than average. The cane harvested during the first part of the season was still affected by last year's weather conditions.
- The crop should end between 545 and 550 Mt cane, still down from a typical year. Yet, the final cane output depends on upcoming weather: rain may prevent mills from harvesting all the cane.
- ATR rebounded during the crop and should reach around 141 kg/t cane by the end of the crop which could be lower in case of prolonged wet weather.
- The sugar mix benefitted from parities in favor of sugar, with ethanol prices hit by the fiscal cuts and lowering world gasoline prices. Thus, mix should reach around 45%.
- CS sugar production should reach 33 Mt in 22/23, a mere increase of 1 Mt compared to last crop.
- In 23/24, cane should finally recover from 2021 harsh weather. It is expected to be close to average.
- Would sugar continue to pay better than ethanol and with an average weather scenario, the CS sugar production may recover sizably: in the vicinity of 36Mt.

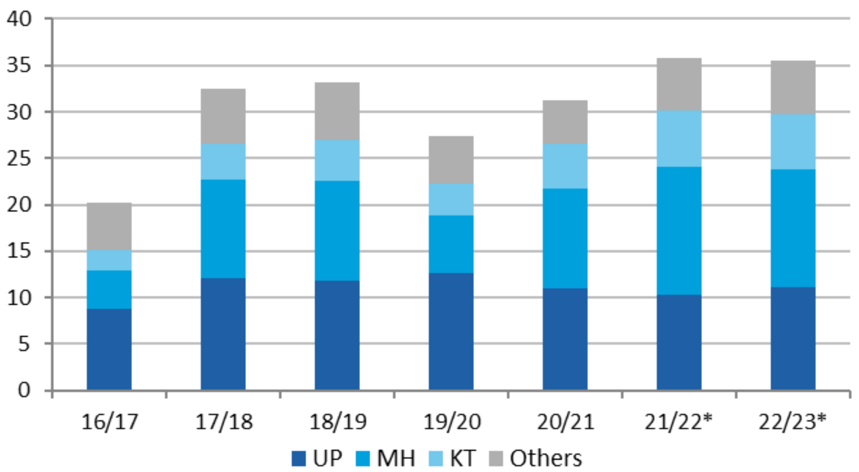
Forward Sugar/Ethanol parity spread
[cts/lb; sugar over hydrous ethanol]



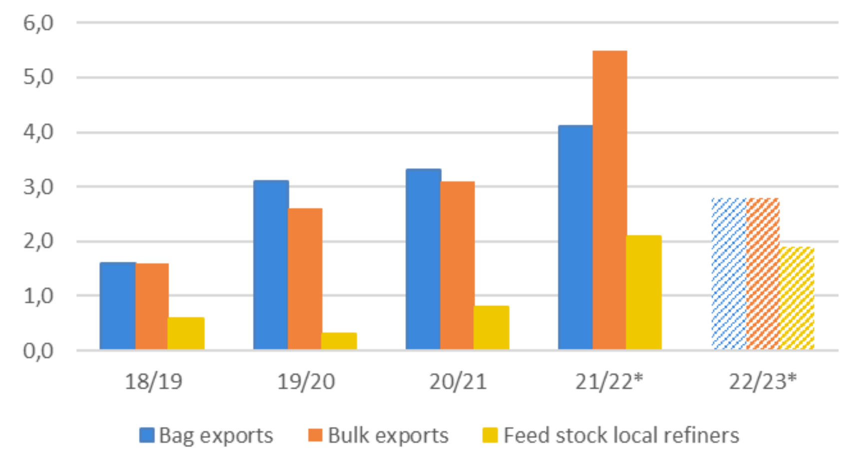
INDIA: THE SAGA KEEPS GOING

- India emerged as a major exporter in 21/22. It equals almost 50% of CS Brazil exports. This performance was reached through a record crop and a major decrease in sugar stocks. They will reach a record low by the end of September 2022: around 5 Mt. This justifies the export ban implemented as early as May. It will also allow the mills to re-stock sugar when export prices are not remunerative enough.
- The 22/23 crop should be again massive, close to last year's record. Monsoon was generous in Maharashtra. It was weaker in Uttar-Pradesh but lack of rains were compensated by irrigation.
- India faces a dilemma between tight stocks, high sugar prices in a context of inflation and a surplus to come with next crop. Such surplus will be lower than last year, as stocks have been reduced to a minimum.
- The Indian supply will then once again face political unpredictability. The Government will have to navigate between the aim to keep domestic prices under control and support the industry with exports quota, in a context of uncertain crop forecasts. This should command a safe and progressive approach with a first tranche of exports estimated at 5 Mt, and a second one later when the crop forecast is confirmed, i.e. not before March.

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



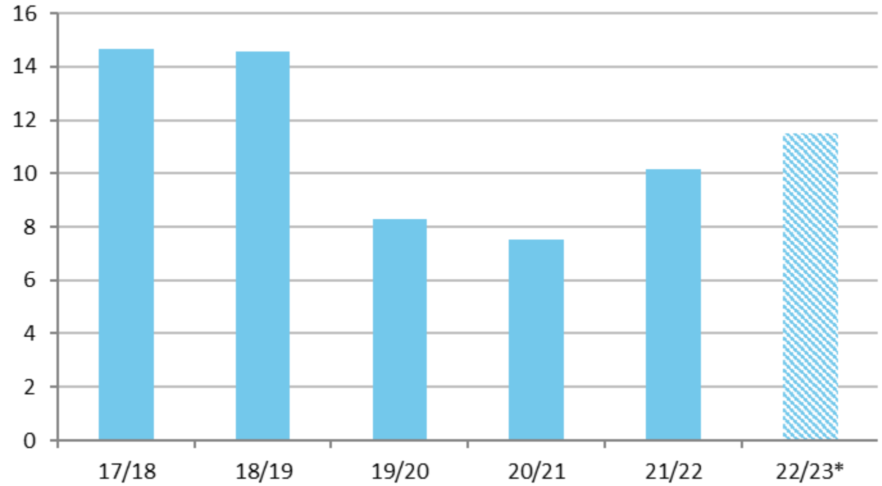
Indian exports per type
[Oct/Sep, Mt]



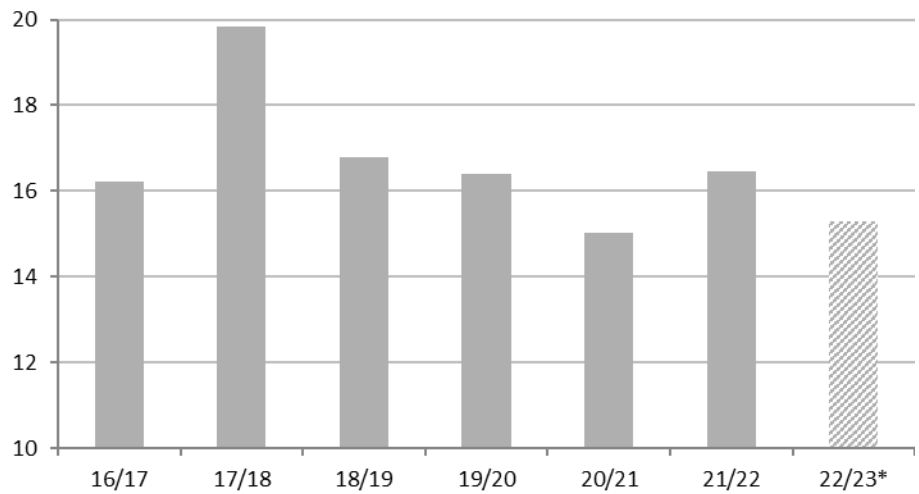
NORTHERN HEMISPHERE: A MIXED PERFORMANCE

- Thailand saw ample rainfall and should again post a better performance in 22/23. Production may reach 11,5 Mt. Thus, Thailand should increase its contribution to raw and white sugar markets.
- However, after large 21/22 exports and current stocks at minimum, Thai exports should reach full capacity only by February 2022.
- Sugar industry in European Union and the UK was hit by several hurdles over the recent months: high beet prices, following grains to preserve the cultivated area, higher gas prices weighting on processing costs, combined with an historical drought.
- In such a context, the crop performance is estimated between 15 and 15,5 Mt for 22/23. Larger imports are expected to balance the consumption and most of the import schemes are opening due to rising domestic price.
- Russian production should reach 6 Mt, higher that the 2 previous crops. It is expected to be just above the local requirements and combined with the low stocks, exports shall remain minimal.
- Central Asia will remain mostly supplied by raw sugar imports from Brazil this crop year again.

Thai sugar production
[Dec/Nov, Mt]



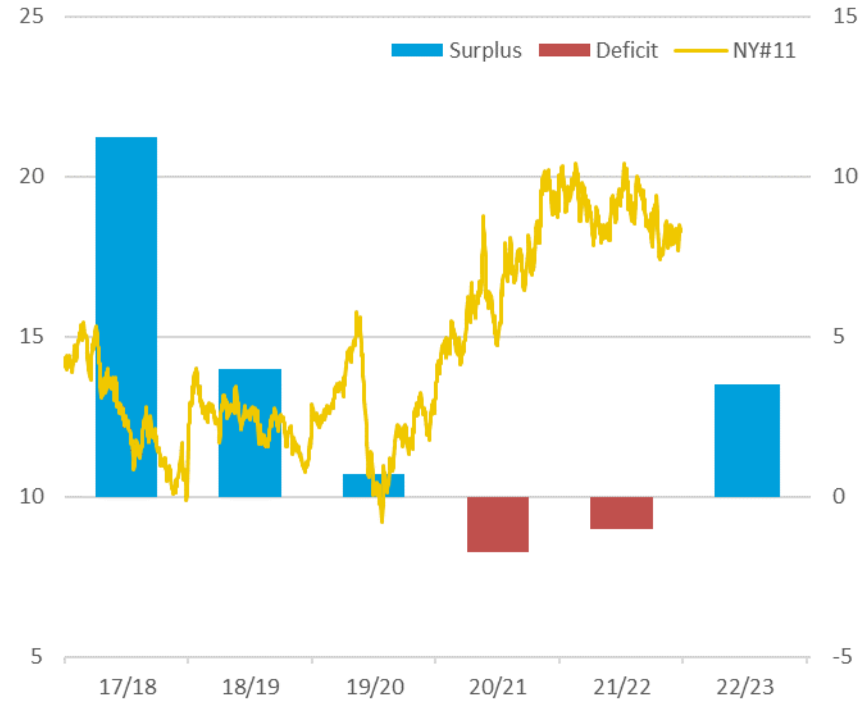
EU sugar production
[Oct/Sep, Mt]



WORLD S&D: IN TRANSITION

- After the rise of the Northern Hemisphere production in 21/22, mostly in India, Thailand, Pakistan and the EU, 22/23 production should post modest gains. Thailand should keep increasing but India and Pakistan may rather stabilize, while the EU will see a production decline.
- In the Southern Hemisphere, after 2 disappointing crops, 21/22 and 22/23, CS Brazil should get back to a large sugar production in 23/24, with an average cane yield and low ethanol prices.
- Hence, after two years of deficit, 22/23 Oct/Sept may eventually post a surplus, helped by a production boosted in both hemispheres.
- The "big 3", CS Brazil, India and Thailand, should perform well and simultaneously. This perspective mostly relies on an average rainy season in CS Brazil, as current NY#11 prices point toward a maximal sugar mix.
- However, the surplus will realize only after the next CS crop runs at full blast i.e. by May or June 2023. Before that, the previous paradigm still holds: low CS availability, low stocks and high demand. The capacity to bridge to next CS crop relies on Indian politics and attractivity of the world prices for the Indian millers.

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



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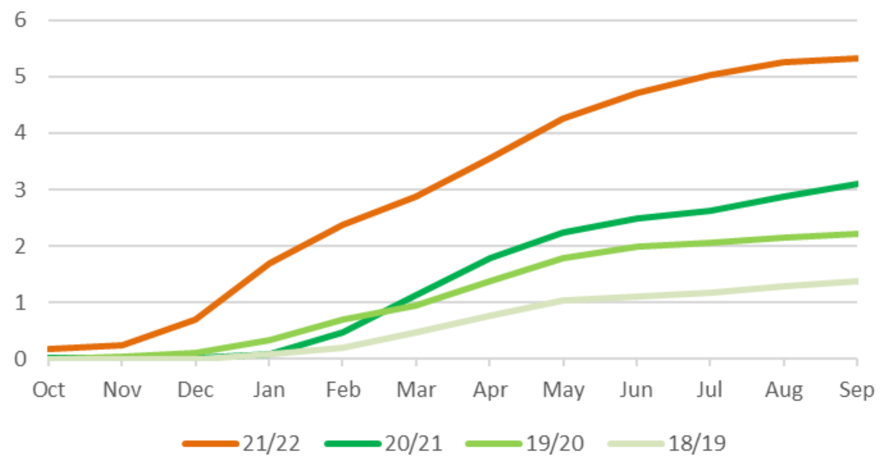
SUGAR MARKET FEATURES

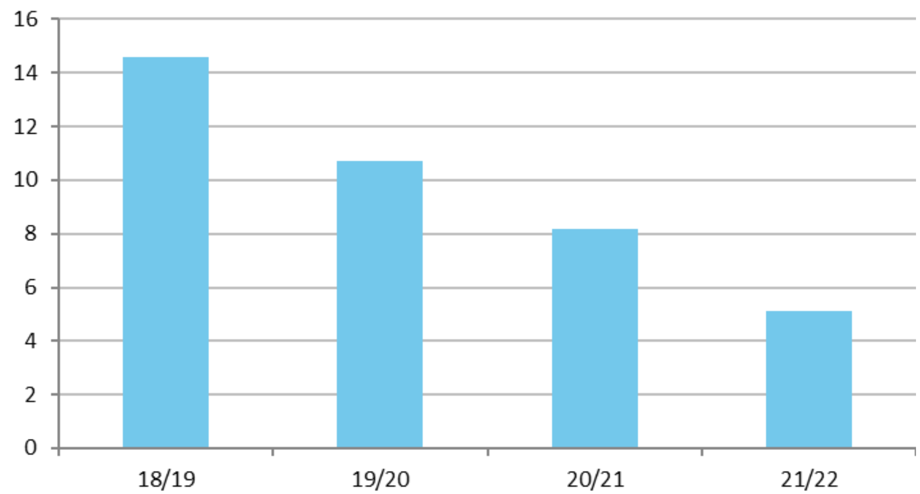
INDIA EXPORTS ARE KEY TO PASS CS INTERCROP

- Brazil CS should increase moderately its 22/23 production – 1 Mt only - and keeps low stocks. This will cap raws and whites exports until May 2023, in a context of record demand.
- Thailand expects a good crop but has currently low sugar stocks. Raw export capacity will only ramp up by February 2023.
- Central America contributes moderately to trade flows, but it already connects well to regional and Asian demand and does not feature as a residual.
- These 3 contributors are already well known and well committed to destination. India – that represented as much as 3,5 Mt raws export from October 21 to April 22 - is uncertain. Yet, it is fully required to balance the trade flows.
- The outcome of this challenging perspective – commanding an inverted structure and high cash values - will mostly be determined by the export quota set by Indian authorities. Not only its size matters to fulfill the world demand, but the conditions of attribution will also be crucial. If quotas come late or are scattered across the country, sugar exports would be delayed and more oriented towards whites. This would lead to an insufficient supply for regional refiners.
- Beyond politics, price matters too: below 17,5 cts/lb, mostly white sugar exports are remunerative at current domestic prices.

Cumulated Indian raw sugar exports
[Oct/Sep, Mt]



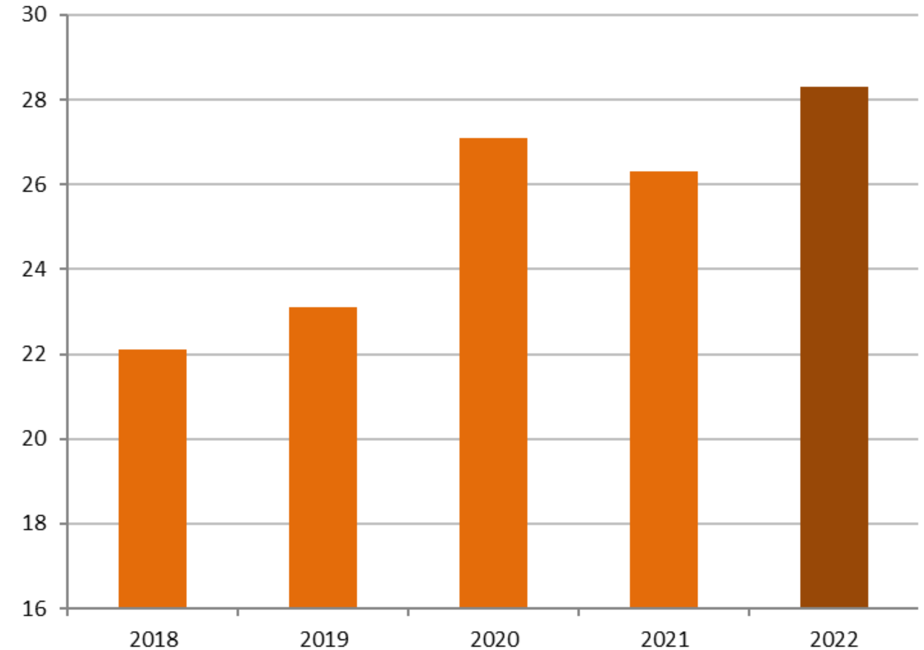
Indian sugar ending stocks
[Oct/Sep, Mt]



RECORD RAW SUGAR DEMAND

- Raw shipments are about 10% higher year-on-year. It beats the 2020 record when the flat price collapsed. Such demand is the result of several contributing elements.
- Low stocks at destinations, inherited by the inverted structure of the market during past months, leave buyers with no buffer and make them connect to the market constantly.
- High domestic prices also favor large sugar flows. Countries like the US, the EU (…), are showing record prices triggering larger imports, such as the CXL flow to the EU or full-duty imports in the US.
- The white premium – recently posting record values – supported the refiners demand in the Middle East and in Asia, giving them the opportunity to run at full capacity.
- New set-up refining capacity – in Saudi Arabia for instance – and newcomers in the re-export activity such as Indonesia, helped this flow to get larger.
- Ultimately, China imports remained massive. They represent about 15% of the world raws demand year-to-date. Despite negative import parities and inverted structure, China remains pivotal among the raw sugar demand, maintaining record line-ups in CS Brazil for the past months.

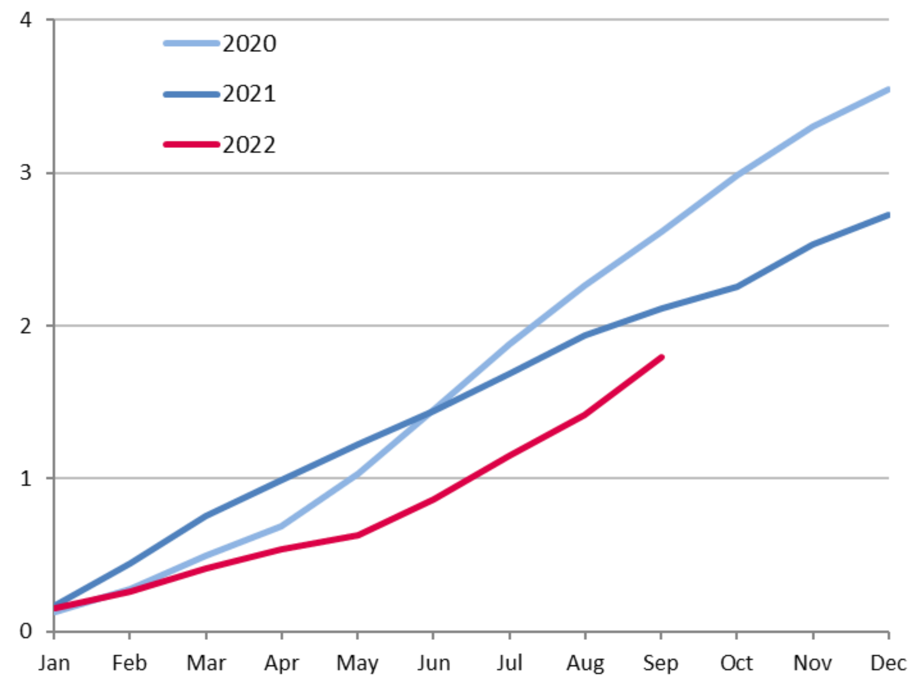
World raw sugar shipments yearly comparison
[Jan to Sep, Mt]



WHITES: WESTERN HEMISPHERE IN DEFICIT

- The record white premium is linked to a historically tight situation in both the Eastern and the Western Hemisphere. It results from the Indian exports ban and a limited CS production, respectively. High bulk freight rates and energy costs also supported this trend.
- The Eastern hemisphere tightness is expected to ease once the Indian exports quota is granted. Remunerative against domestic prices, both refined and crystal exports will be the first to price-in. This will lead large parts of South Asia, Middle East and Eastern Africa to connect again to the Indian crystal sugar.
- In the West, the situation remains tight until next CS crop. Low stocks in Brazil and moderate increase of the production will cap exports, in a context of steady demand and high prices at destination.
- The Americas show a historical tightness: sugar from Guatemala, Colombia or Argentina is not available anymore. The situation may ease with the start of the new crop in Central America, but the whole region will remain tense, with Western Africa contributing to the solid demand for these origins, due to the lack of CS sugar.
- Ultimately some Eastern flows will be required to balance the West. Likewise for the raws, it remains dependent on Indian politics.

Cumulated white sugar shipments from CS Brazil
[Jan to Sep, Mt]



WILL THE TIGHT SUGAR PARADIGM REVERSE IN Q3 2023?

- A large part of the tight sugar fundamentals was caused by the impact of 2021 drought in CS and repeated frosts. The 21/22 rainy season saw precipitations quite in line with average and no frost occurred. Thus, cane to be harvested in 23/24 has known decent conditions for now, and if an average rainy season ahead, cane yields should get back to their usual level. With current low ethanol prices, next crop may bring around 3Mt additional sugar for exports.
- India 22/23 crop benefitted from favorable weather, and 23/24 Western India plantings are already completed for a good part, thanks to record high reservoirs levels. Beyond the current tight stocks, the 22/23 surplus should be significant and could lead to exports up to 8Mt – about 3,5 Mt lower than 21/22. Thailand should deploy about 2Mt additional export in 2023.
- Barring any drought in CS Brazil over the next months, the sugar market should gradually leave a tight scenario to slip toward a more balanced S&D from July 2023 on.
- Worth noting that every element contributing to a bigger supply mid 2023 – such as Q4-22 rains in India or in CS, late decision on Indian exports – will be detrimental for the immediate supply and will tighten further Q1-23.

Maharashtra cumulative reservoirs level
[% of max capacity]