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SUCDEN SUGAR MARKET REPORT

FAST AND FURIOUS

FEBRUARY 2020

EXECUTIVE SUMMARY

- The world sugar SnD went through decisive changes over the past 3 months. At a time CS Brazil harvest just ended with a minimal sugar mix, most of the Northern Hemisphere production forecasts turned down.

- Thailand, USA, Pakistan, Mexico, China and Australia saw their production figures declining after harsh weather conditions. Only Russia surprised with a record crop.

- The 19/20 Oct/Sept world sugar deficit is now deeper. A return to a balanced situation seems out-of-reach even if Brazil CS increases further its sugar mix up to September 2020.

- Consequences of such crop failures on the near-by trade flows are multiples: Central American and Indian raw sugar started to flow to the Far East, Brazil has regained market shares in front of Mexico, Indian white sugar found better demand in South Asia… It leaves also open a critical question in the market today: which origins will supply the aggravated deficits of Indonesia and the USA?

- The range of production forecasts in Thailand, Mexico, Pakistan (…) – and the usual uncertainty attached to it – have supported the cash values. Futures also tipped into an inverse on tight trade flows and a potential near-term shortage perspective, at the crucial period of Ramadan demand combined with CS Brazil intercrop.

- Despite a negative macro sentiment – affected by the coronavirus outbreak and pulling energy prices down, funds dramatically reversed their positions over the past weeks and still have a sizeable buying power. They could see an opportunity to further increase their long position in this tight nearby perspective, especially with the current inverse.

AT A GLANCE

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- Brazil CS: back to sugar
- India: what supply to the world market?
- Thailand: major impact on the trade flows at sight
- World production sharply down and deficit ahead

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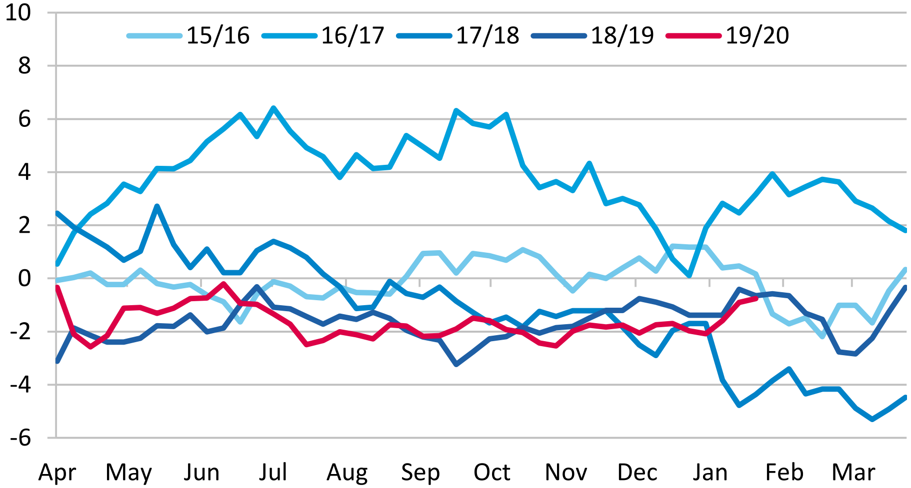
SUGAR CROP OVERVIEW

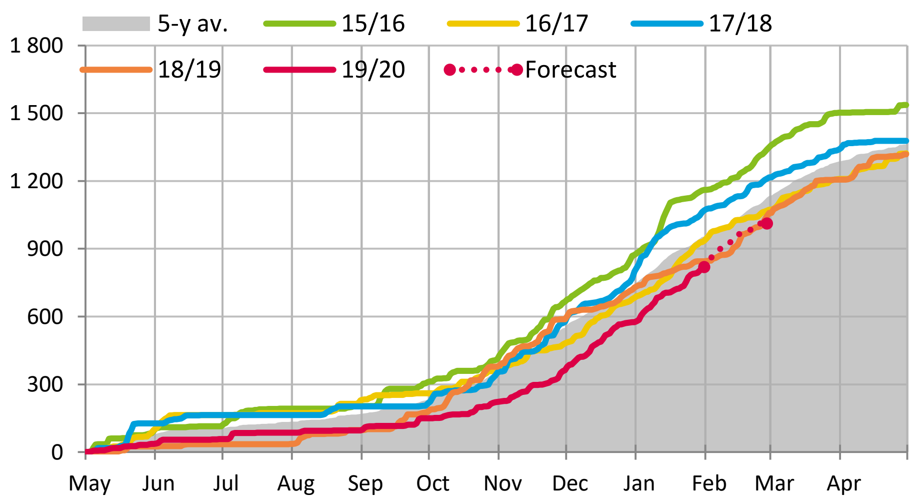
BRAZIL CS: BACK TO SUGAR

- 19/20 highlighted the capacity of the CS industry to produce even more ethanol than the previous campaign. The sugar production shall reach 26,7 Mt, a meagre 200 kt increase year-on-year as compared to the estimated 1,6 Mm3 additional ethanol.
- 20/21 shows for now a favorable weather pattern, with regular rainfall distribution, despite a drier than usual winter. Since then, December and January rainfalls were abundant. Cane crop should get to the 600 Mt mark.
- With no particular weather concern so far, all the attention will be on the mix. The rise of sugar price strongly increases the interest for the mills to turn the mix in favor of sugar.
- Despite attractive spot ethanol parities, seasonal ethanol price decline should lead current sugar prices to pay better at the crush peak. Recent pressure on oil prices will also be detrimental to ethanol prices. Mills SEOs on July and October NY#11 futures should intensify accordingly.
- Still, ethanol has shown over the past months a record consumption regardless of the higher pump-ratio. At this early stage of the crop cycle, the industry may want to keep some of the sugar/ethanol flexibility. Sugar production is currently assessed at 30 Mt and will increase further along sugar prices rise or oil correction.

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



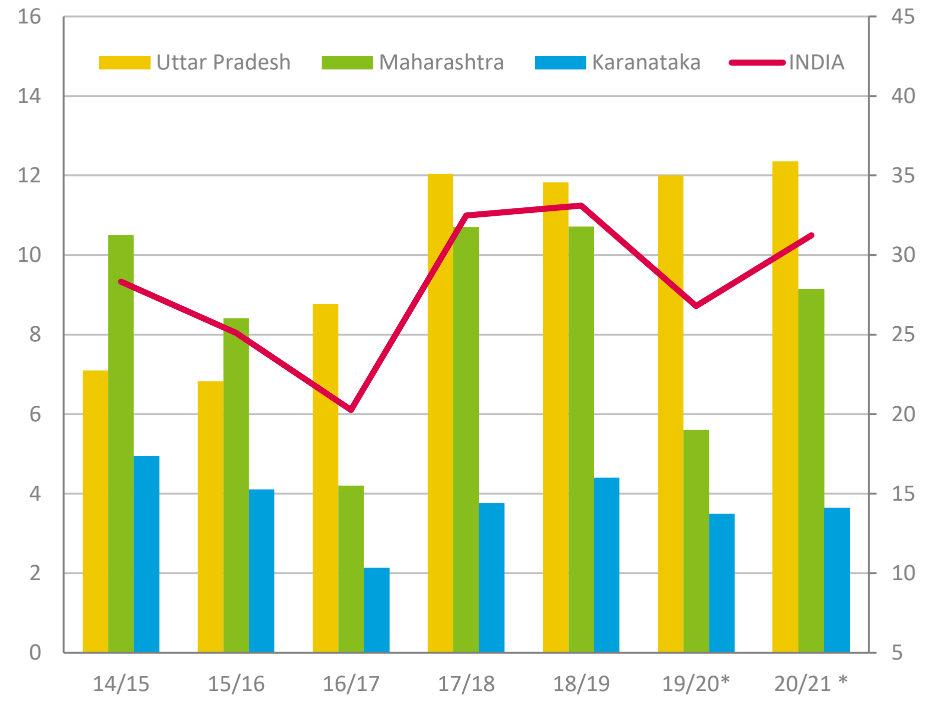
CS Brazil cumulative rainfall (weighted index)
[May/April, mm]



INDIA: WHAT SUPPLY TO THE WORLD MARKET?

- 19/20 harvest in Maharashtra and Karnataka has reached about half of their production forecast of about 9 Mt combined, a reduction of 6 Mt as compared to 18/19. In UP harvest is about 40% done for a final forecast of 12 Mt, a 200 kt increase year-on-year.
- India is expected to produce 26,8 Mt of sugar – roughly 1 Mt surplus - but benefits from large stocks from the 2 record previous crops.
- Of the 6 Mt MAEQ allocated, so far about half was contracted to India's 3 main markets: bagged crystal sugar for the regional demand, bulk raws for neighboring countries refineries and feedstock for the Indian coastal refineries.
- Because of some groups unwilling to export their MAEQ allocation and a significant stocks decrease in the Western States in 19/20, only 4,5 to 5 Mt of the total MAEQ shall be performed gradually over the next months.
- So far, Indian exports met only regional markets unlike last year when some went to the Western hemisphere. On the one hand, the bag flow benefits from the absence of Pakistan exports that opened-up new markets. On the other hand, higher Thai and Brazilian physical values boosted raw exports to the Middle and the Far East.

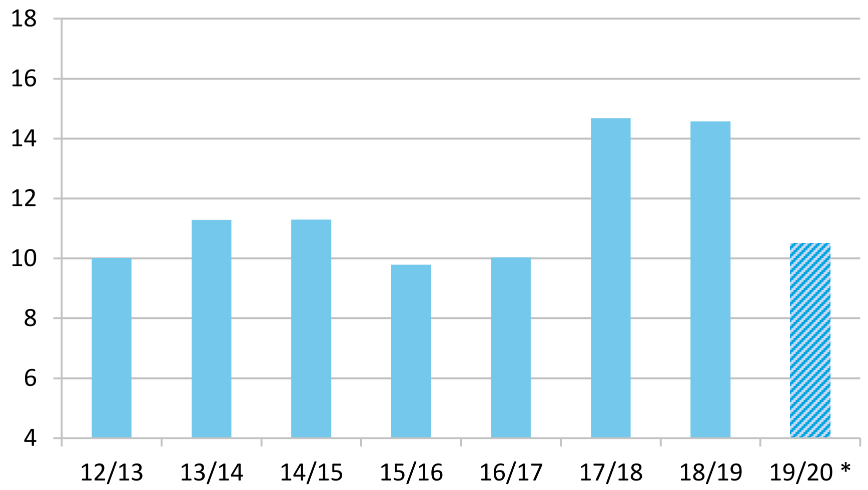
Indian sugar production in the main States
[Oct/Sep, Left: States-wise Mt - Right: All India Mt]



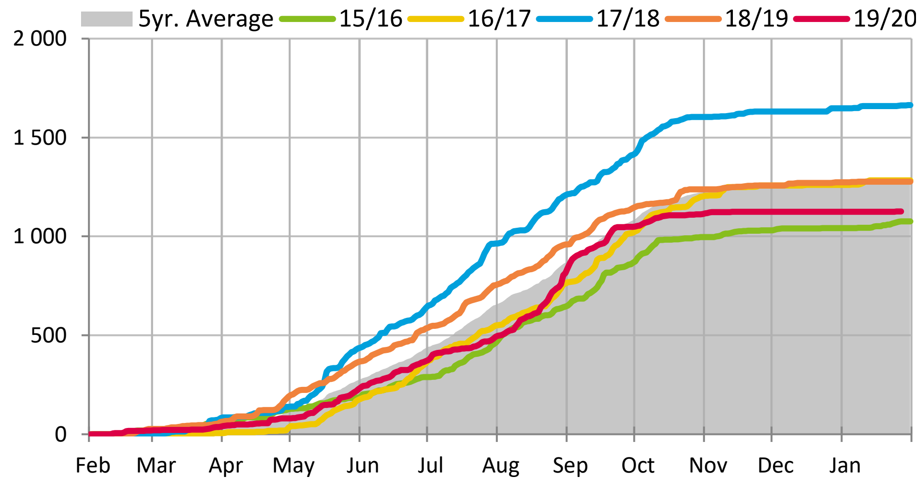
THAILAND: MAJOR IMPACT ON THE TRADE FLOWS AT SIGHT

- 19/20 cane suffered from both a deficit monsoon and uneven rainfalls distribution. Low 18/19 cane price prompted also a decrease of the planted area, a higher ratoon proportion and reduced crop care.
- Crop is now assessed at 90-95 Mt. Cane shortage situation materialized by the soaring cane premiums paid to the farmers.
- Despite about 60% of the crop harvested, there are still large uncertainty as regards to the final crop number. Thai cash values have risen dramatically “pricing” the risk of a further crop failure.
- Both raws and whites exports will be sizably reduced despite the high 18/19 carry-out stocks. Raws availabilities are assessed 30% lower and whites 15% lower year-on-year. This will remove nearly 3,5 Mt from the world sugar supply.
- 20/21 crop was previously assessed suffering of the same concerns than 19/20: unattractive cane prices and Q4 dry weather that prevented good plantings operations. Now, with current rise of the cane price, growers could take advantage to increase the cane area by the start of the 2020 monsoon.

Thai sugar production
[Dec/Nov, Mt]



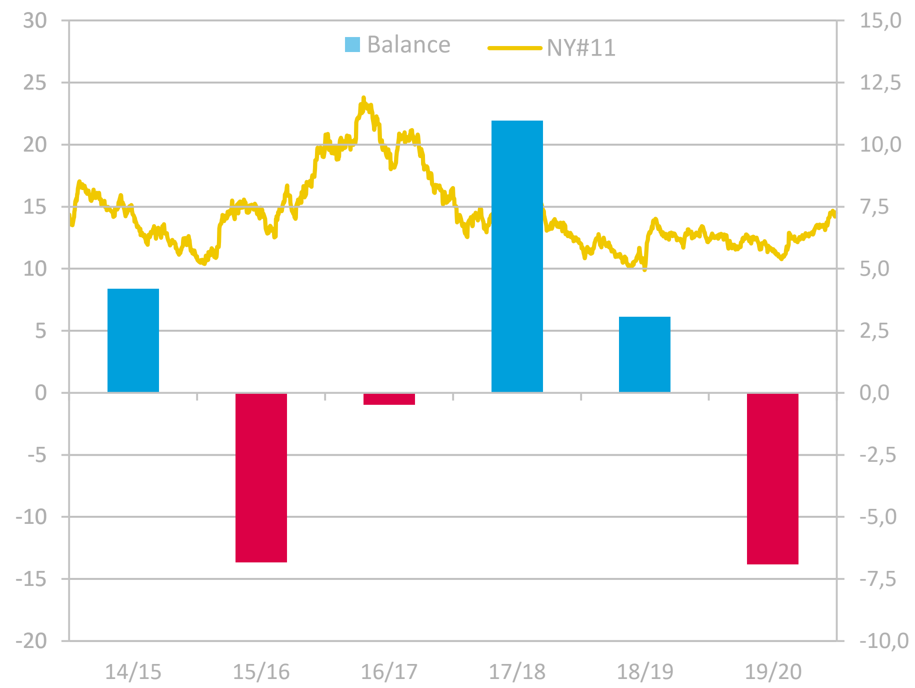
Thai cumulative rainfall (weighted index)
[Feb/Jan, mm]



WORLD PRODUCTION SHARPLY DOWN AND DEFICIT AHEAD

- 19/20 shows a renewed retreat of the Northern Hemisphere sugar production. Excepted Russia, most main producers will have a sizeable reduction of their sugar output.
- India, Thailand, the USA, Mexico, China, Ukraine feature as the long list of weather and low sugar price casualties. The EU kept an unchanged low production level.
- Northern Hemisphere production should drop by about 14 Mt since the 17/18 record level. In the Southern Hemisphere, Brazil CS kept a minimum sugar mix and Australia suffered a harsh weather that cut the production by 400 kt.
- Such drastic world production reduction has deepened the 19/20 Oct/Sept deficit for which the Brazil CS April/Sept contribution will remain volatile and highly correlated to the flat price.
- 20/21 should show a recovery in India boosted by good weather conditions. However, the rest of the world remains unclear at that stage and a small deficit is to remain in current market conditions.
- Trade flows are severely impacted by about 24 Mt world output reduction over the two past crop years. On a near-term basis, FH-20 trade flows are particularly tight at a sensitive time when CS cannot adjust its sugar supply according to prices and in front of the critical Ramadan demand.

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



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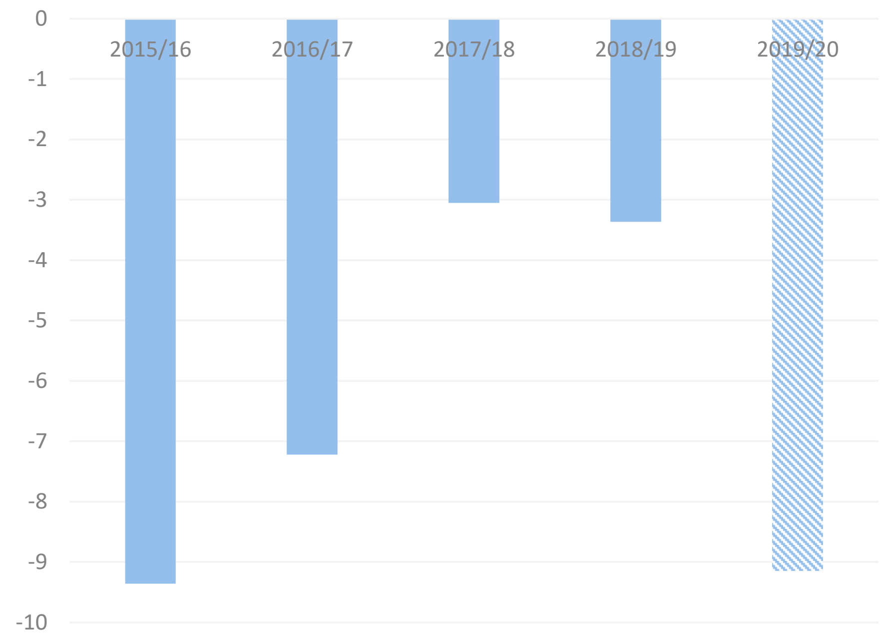
SUGAR MARKET FEATURES

FAR EAST: A CHALLENGING SUPPLY ENVIRONMENT

- Indonesian imports were particularly low in 2019. That drove the local stocks down and the needs of the largest raw sugar importer should rise sizably in 2020. In front of this perspective, both Thailand and Australia shows large crop reduction of respectively about 30% and 10%.
- The combination of poor FE supplier crops and high Indonesian demand creates a delicate situation and increases the trade flows deficit in the region.
- Such situation has led the raw sugar cash premium of these origins to soar opening-up some regional destinations to other origins such as Central America or Brazil CS.
- Centrals should supply a good part of the South Korea and Taiwan demand. Such flows should alleviate Centrals traditional surplus on FH20.
- Would Thai production disappoint further, Indonesia could have to buy from non-FTA origins, which will add support to regional cash values, providing the minimum color keeps preventing Indian sugar imports.
- The reduction of the Thai white sugar production should also minimize flows to the Western-Hemishere. Most of the Thai white sugar exports should remain in the regional markets.

Far East production-consumption balance
[Oct/Sep, Mt raw value]



NAFTA: WHAT NEXT STEPS?

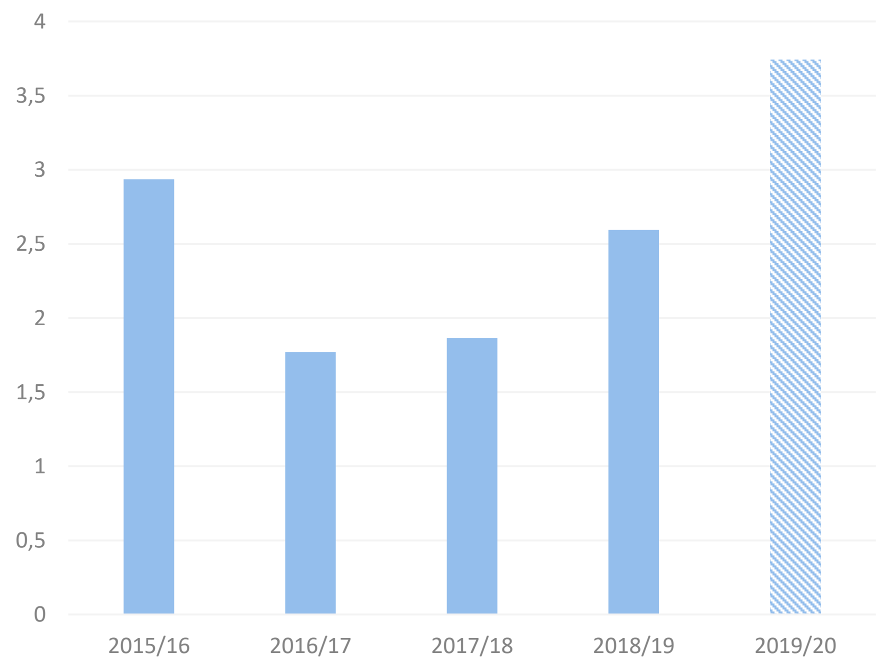
- The US beet crop failure early November was a major weather event hitting suddenly the market. This was later-on aggravated by the low output in Louisiana. US 19/20 world requirement will be increased by nearly a 1 Mt year-on-year.
- In the meantime, Mexico suffered dry weather and 19/20 production points toward a 1 Mt crop reduction year-on-year.
- Such critical situation has 2 major consequences: Mexico non-US exports will be nil in 19/20 as compared to more than 1 Mt in 2018/19; the US will have to import beyond the NAFTA and the current TRQs allocations.
- Brazil will be the main beneficiary of Mexico's absence of the world market scene and will recover the market shares lost in 2019.
- The additional supply required by the US will be announced only from April 1st 2020. It could adorn multiple ways: an increase of the TRQ, a white sugar import quota or an increased flow of the "High Tier" whites imports. With a limited refining capacity in the US, an increase of the TRQ may not supply on time the market needs.
- The many scenarios contemplated in terms of quantity and scheme leave TRQ countries and potential white suppliers on a stand-by mode supporting the cash values.

NAFTA production-consumption balance
[Oct/Sep, Mt raw value]

CHINA: RAW IMPORTS UP, MACRO UNCERTAINTY LIES

- In 2019, China has operated its mutation from a mostly white sugar importer to – again – a raw sugar importer. The so-called "cross border flows" reduced by 60% year-on-year. On the opposite, raws imports increased by 40% in 2019.
- China main production's areas, Guangxi and Yunnan were hit by detrimental weather in 19/20. The production should retreat to 10,3 Mt, a decrease of 400 kt.
- The bigger deficit and the trend toward more raws imports lead to an anticipation of both higher TRQ and AIL quantities by about 1 Mt. Whites flows shall be steady or reduced due to the improbable Pakistan 300 kt quota in 2020.
- China raws imports are expected during the critical Q2-20 at a time customs duties should decrease to 50% Ad Valorem.
- The coronavirus outbreak perspective and the many unknowns as regards to its multiple human and economic consequences makes however the near future of China hard to predict.
- The outbreak could also affect more widely the world sugar market especially through a decrease of the energy prices and a slow-down of the world economic growth.

China raw sugar imports
[Oct/Sep, Mt raw value]



WHITE MARKET: HAS THE PARADIGM CHANGED?

- The steady EU production in 19/20 and the perspective of a stable area in 20/21 shall keep the EU exports around the 1 Mt mark.
- Yet in 2019, the Western white deficit was compensated by a low Far East demand combined with High Thai and Indian supplies that prompted East Hemi sugar surplus to the West.
- In 2020, the East Hemi demand is seen constant but the lower Thai white production should lead to a balanced situation.
- Indian whites demand is benefiting the absence of Pakistan exports and shall gain new market shares in South Asia. An additional access to Indonesia would also increase their market reach.
- Record Russian crop and related exports should mostly decrease raw sugar demand in the black Sea, although some whites will be exported to the Mediterranean markets.
- 2020 balanced East Hemi situation shall limit the residual flows to the West and leads to a tight Western Hemi perspective.
- Western Q1-20 requirements will have to rely mostly on Guatemala and Brazil supplies, at a time Guatemala may want to take advantage of a potential NAFTA white quota later in the year and Brazil CS has not yet started its new crush.

Main white sugar origin exports
[Oct/Sept basis, Mt]