



SUCDEN SUGAR MARKET REPORT

CONTAGION



EXECUTIVE SUMMARY

- The sugar fundamentals were impacted twice by the global sanitary crisis. CS Brazil sugar/ethanol parities spiked given the collapse of the energy prices and the BRL, and ultimately with the falling demand of fuels in Brazil. It prompted the mills to produce more sugar and they are expected to continue doing so in the current market environment. The sugar consumption is also expected to be affected by the lockdown imposed to most of the world population. It should post for the first time a decline year-on-year.
- Over the last few months, the sugar fundamentals shifted from a deficit, due to the Northern Hemisphere 19/20 crop failures, to a slight surplus, i.e. a more neutral environment. The energy prices and the BRL will keep their usual strong influence up to September on the final realization of the CS production and on the sugar prices. Both may benefit from the phasing-out of the global sanitary crisis.
- On the short term, there are uncertainties as to when the larger CS sugar production will be able to connect fully with the world demand. The CS terminals elevating capacities are key in this context. The challenge is even stronger today when other exporters are few and the seasonal demand is high, two elements exacerbated by the poor Northern Hemisphere crops. In addition, the sharp and sudden fall of the sugar prices, as well as the cheap freight, prompted a large wave of spot demand. The resulting congestion in CS Brazil is making the shorter-term trade flows tight. Further away, the logistical and the trade flows situation should ease when demand reduces basis its usual seasonality and the other suppliers return to the market.
- The whites market display a specific pattern. The collapse of the Thai crop has a more lasting impact than for the raws, given the less hegemonic Brazil on the white trade flows. CS Brazil is also facing logistic bottlenecks for its bag exports. For the coming months, the current Northern Hemisphere intercrop - with less Indian crystals, Guatemala or EU refined sugar available - requires the full destination refiner's capacity to balance the trade flows, a situation not seen for years.

AT A GLANCE

01 SUGAR CROP OVERVIEW

- CS Brazil: Record production at sight
- India: Exports to decline during the intercrop
- Thailand: Far East markets in deficit again
- World S&D: shaken by the global sanitary crisis

02 SUGAR MARKET FEATURES

- CS brazil: The logistical bottleneck
- Consumption: how impacted by the sanitary crisis?
- Whites: Full refining capacity required
- Funds: A pivotal position



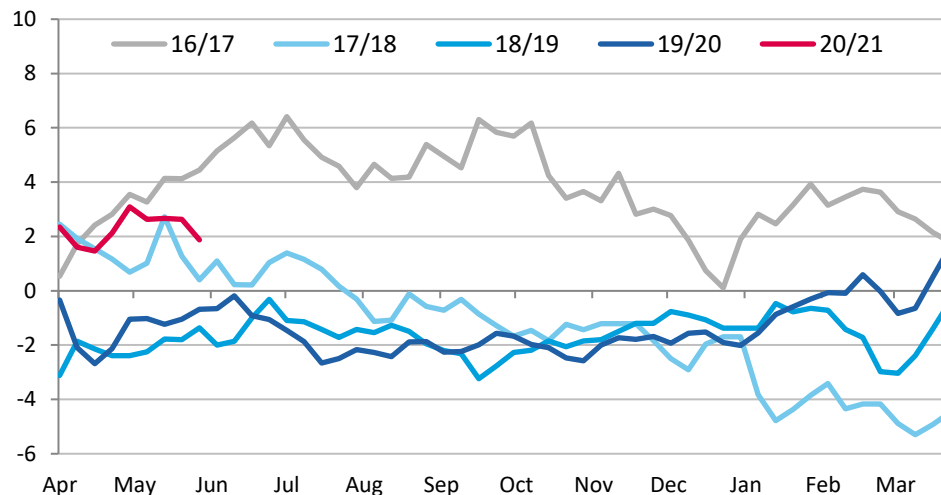
SUGAR CROP OVERVIEW



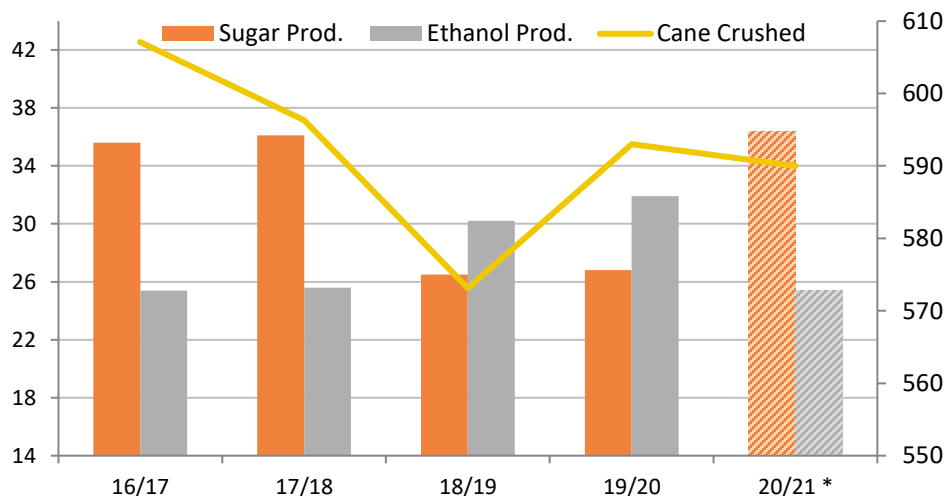
BRAZIL CS: RECORD PRODUCTION AT SIGHT

- CS Brazil cane benefited from a favorable weather up to March. Since then, rainfalls have been lower than average. It decreased the cane yields potential and the crop is now estimated at 590 Mt.
- ATR took advantage of this dry pattern since the start of the harvest and rose quickly, boosting the sucrose availability along with a rapid crush pace.
- Mix was the big feature of this starting 20/21 crop. Ethanol has been strongly impacted by the global sanitary crisis: first through the collapse of the crude oil prices, then through the depreciation of the BRL to record low levels, and ultimately, through the lockdown in Brazil that considerably reduced the demand for fuels.
- This led the sugar parities to soar and sugar to generate a much better revenue than ethanol. In addition, the lockdown decreased the liquidity of ethanol sales, a phenomena that pushed mills to produce more sugar to get the required cash to run their activities.
- In such extreme environment, the mix forecast has been increasing over the past months and the 20/21 sugar production is estimated to reach 36,3 Mt.

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



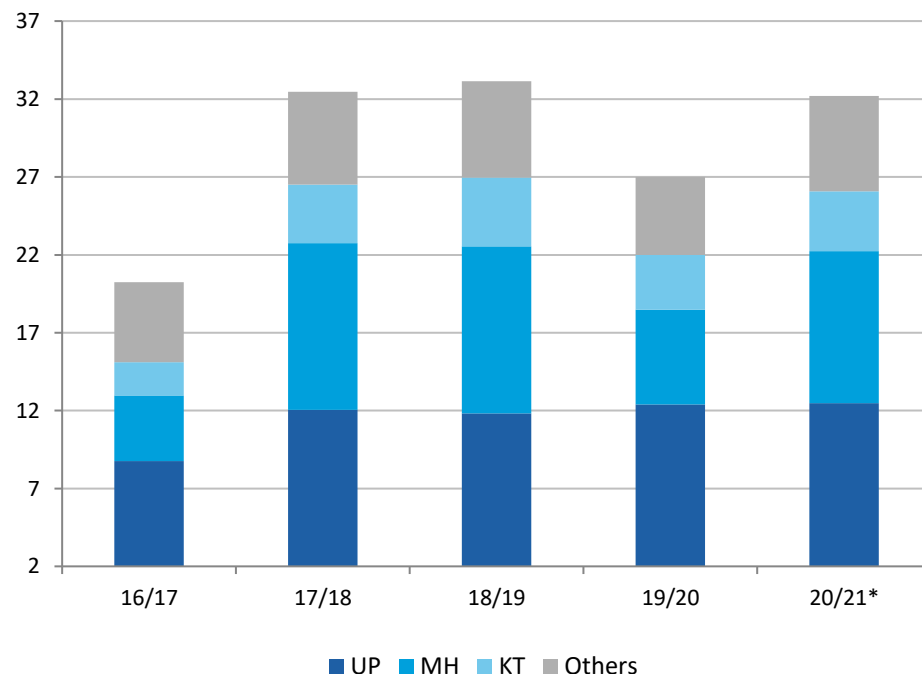
CS Brazil cane crushed, sugar and ethanol production
[Left: Mt produced – Right: Mt crushed]



INDIA: EXPORTS TO DECLINE DURING THE INTERCROP

- India sugar production shall reach 27,1 Mt in 19/20, a sharp decrease of about 6 Mt year-on-year.
- Despite this decrease, 19/20 exports have been consistently flowing due to the large residual stocks in the country and could reach 4,5 Mt for the season.
- Exports are expected to slow down from now until the new crop given the current flat price level, large tonnages already exported and low stocks in Maharashtra. India should keep a minimal exports to its very captive markets, in line with the usual seasonality.
- Looking at 20/21, the Indian production should return to a higher level. Water reservoirs levels have been high in Maharashtra and Karnataka prompting good plantings and a larger cane area. Furthermore, cane prices remained attractive and cane arrears stayed under control.
- Monsoon failure apart, the production should be back to 32 Mt in 20/21. This will leave India again with a large surplus despite a more modest carry-in stocks.
- India is expected to export actively from December 2020 onwards.

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

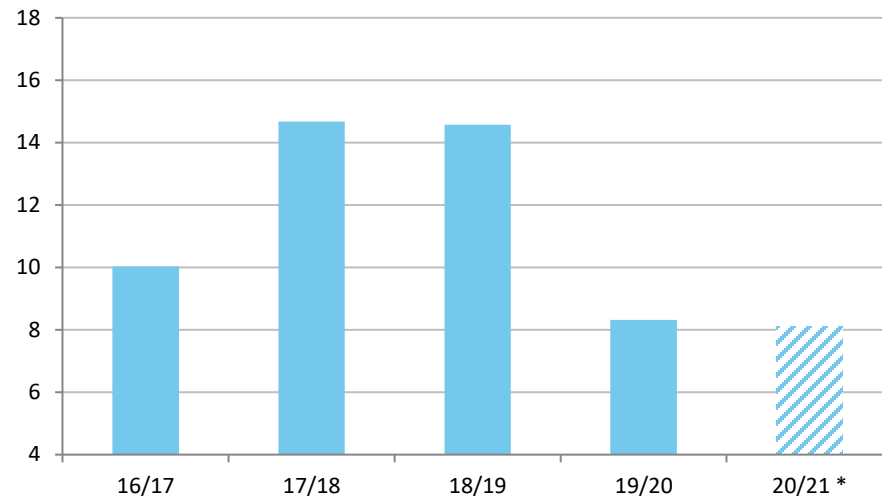


THAILAND: FAR EAST MARKETS IN DEFICIT AGAIN

- 19/20 Thai crop showed a massive decrease due to detrimental weather. After two consecutive years of a record production, it decreased by 6,3 Mt to 8,3 Mt.
- Such collapse had a tremendous impact on the regional markets. Thailand raws availability became insufficient to cover captive markets such as Indonesia. It prompted a hike of cash premiums. The rest of the 19/20 crop-year will see limited exports of Thai raws. Large CS Brazil flows are expected to the Far East to compensate.
- The Thai crop collapse was even more impactful on the white market, given the larger footprint of Thailand on the whites trade flows. While last year, Thai sugar was exported to the Western Hemisphere, this year, the Far East shall be in deficit. Such shift triggered not only an increase of the Thai refined cash values but also a hike of the white premium.
- The Thai crop doesn't look better for 20/21. Cane area is expected to reduce again on the backdrop of water scarcity preventing good planting operations and cane prices remain low.
- So far, early monsoon 2020 rains were disappointing.

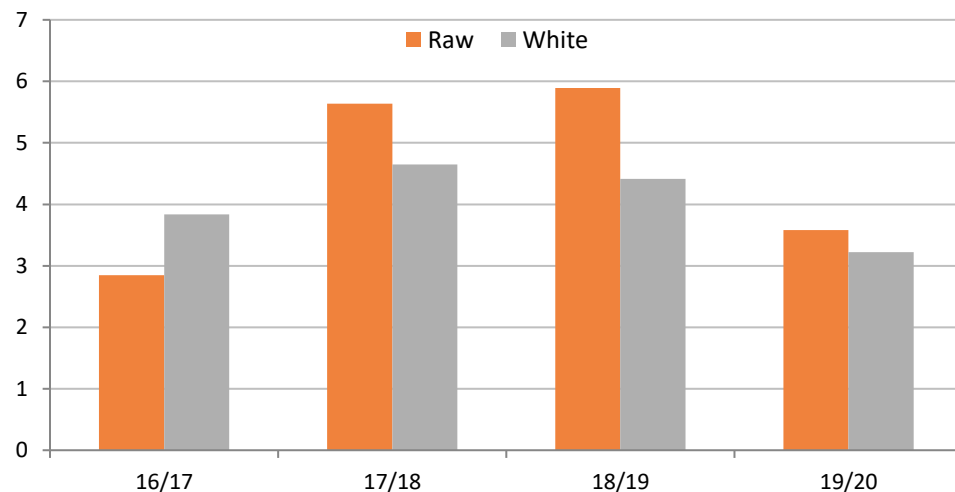
Thai sugar production

[Dec/Nov, Mt]



Thai raw & white sugar exports

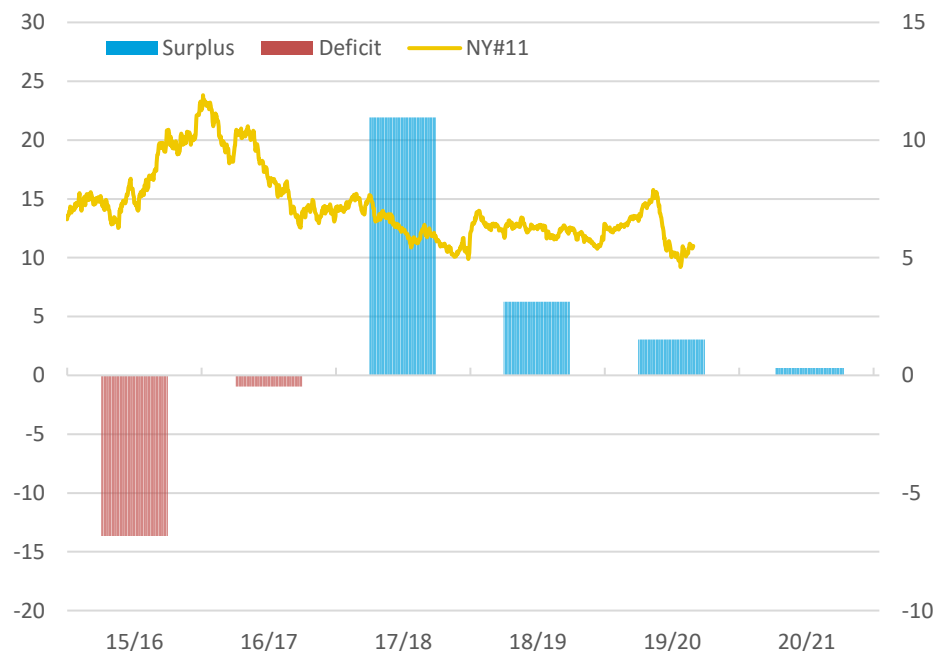
[Dec/Nov, Mt, Tel Quel]



WORLD S&D: SHAKEN BY THE GLOBAL SANITARY CRISIS

- The 19/20 Oct-Sept world production-consumption balance was expected to turn into a deficit after 2 years of surplus. The failure of the Northern Hemisphere crops, such as India, Thailand, the US, Mexico (...) indeed reduced sizably the world production. However, the global sanitary crisis changed such prospect.
- First, it prompted an increase of the 20/21 CS sugar production. The forecast for the CS Brazil production increased by 5 Mt essentially because of the mix.
- The second impact of the sanitary crisis is the anticipated reduction of the global sugar consumption. It shall result from the combined effect of the lockdown and a reduction of the purchase power. Although still uncertain, this reduction in global consumption is estimated at about 4 to 4,5 Mt.
- The world 19/20 S&D has now turned into a slight surplus. The reversion was quick and set a more neutral fundamental environment.
- Next 20/21 Oct/Sept campaign is assessed balanced with the sugar consumption recovery offset by the increases in the Northern Hemisphere crops as in India and in the NAFTA area.

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





SUGAR MARKET FEATURES

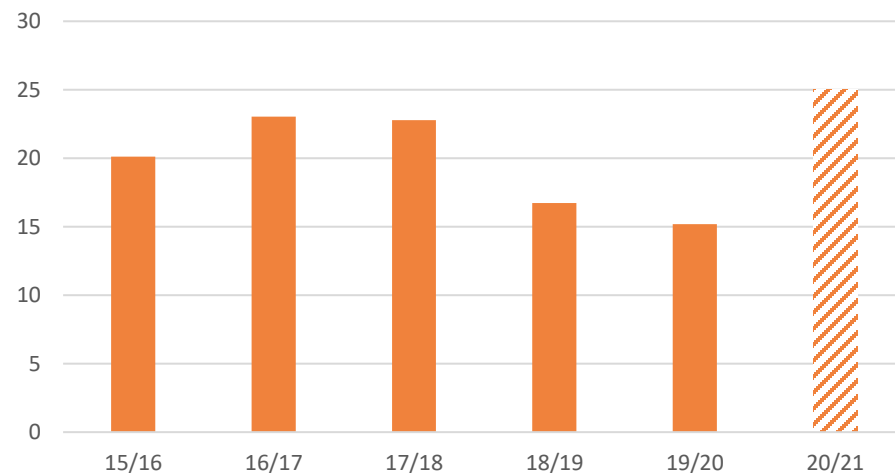


CS BRAZIL: THE LOGISTICAL BOTTLENECK

- Despite the global sanitary crisis harming the sugar demand over the long run, the recent nomination pace to CS Brazil is at a record level.
- With lower Northern Hemisphere 19/20 crops, the demand is indeed robust. Simultaneously, exports from the other suppliers than CS declined. India, for instance, is now turning a net importer of raw sugar. Thai, Centrals and Brazil NE availabilities are also reduced over the next months, so that most of the world demand is concentrated on CS Brazil.
- The quick and sharp flat price decrease and the cheap freight also prompted a large flow of demand in a context of low stocks at destination, high white premium and Chinese seasonal demand.
- The logistics in Brazil became saturated and an unseen congestion developed. While demand is expected to remain strong over Q3, the main relief could come from a larger sugar ratio vs grain at the Brazilian bulk terminals or the use of other terminals.
- For the whites, the congestion at the breakbulk terminal is not expected to ease prior Q4, provided there is no disruption of loading activity by the sanitary crisis in Brazil.

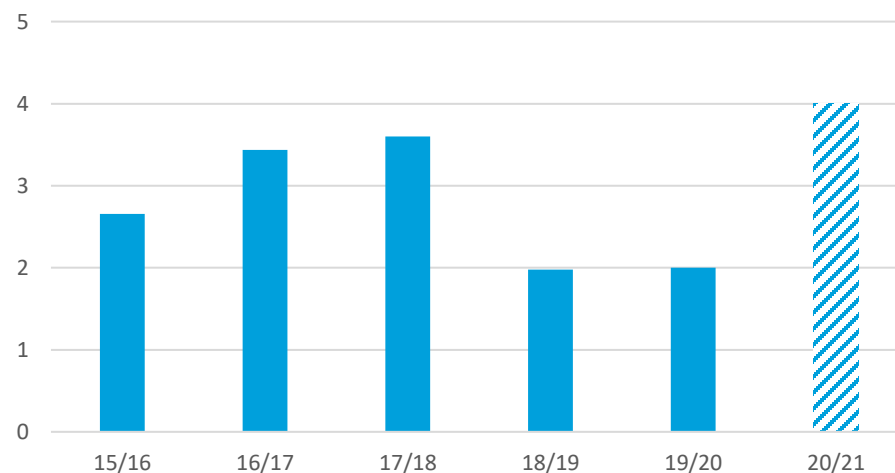
CS Brazil raw sugar exports

[Apr/Mar, Mmt, Tel Quel]



CS Brazil bagged sugar exports

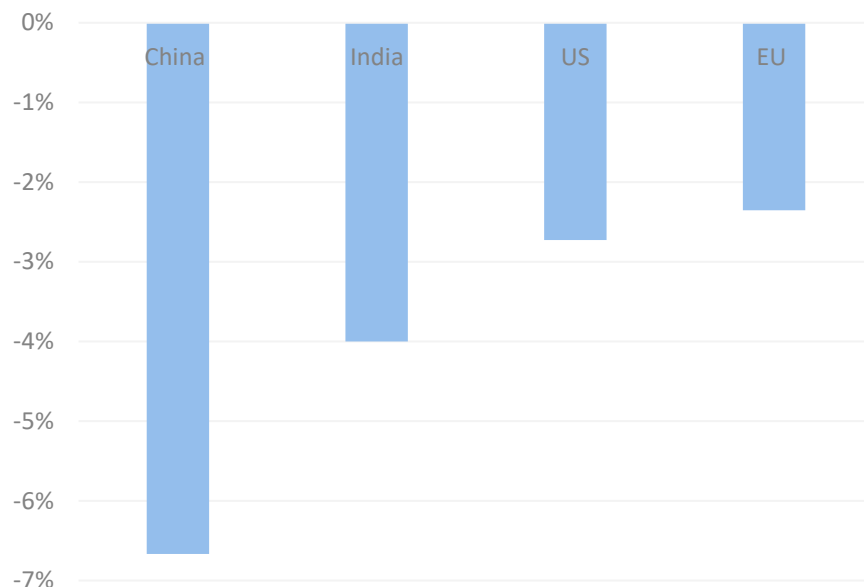
[Apr/Mar, Mmt, Tel Quel]



CONSUMPTION: HOW IMPACTED BY THE SANITARY CRISIS?

- The consumption of sugar is affected by the global sanitary crisis through 2 main drivers. First, the lockdown that forced people to stay home and changed their consumption and shopping habits, and also closed some of the food processing industries using sugar as a feedstock. The second impact is the reduction of purchasing power induced by this low economic activity period.
- The pattern of the lockdown impact was very different between countries and sectors. Countries where consumption of sugar is linked with social gathering and outside activities have been the most impacted. Among all sectors, the soft-drinks industry was the most affected.
- The lack of revenue engendered may also cause a bigger consumption cut in countries having modest social welfare and low per capita income, as India. An element of mitigation about this economical impact is that sugar remains a “cheap calorie” as compared to other food products, but sugary processed food sales may be impacted.
- The reduction of the 19/20 world consumption is expected to be about 2,5%. Such impact shall be felt mostly from Q4 onward on the trade flows. The current demand is boosted by low prices.

Reduction of the sugar consumption in main consuming countries for 19/20
[Oct/Sept, %]

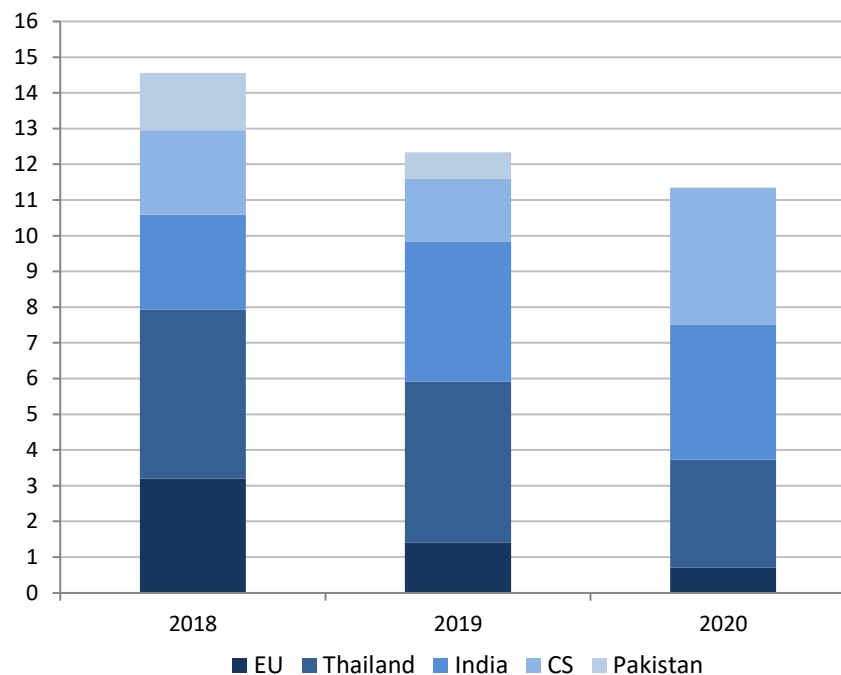


WHITES: FULL REFINING CAPACITY REQUIRED

- The white sugar market is disrupted by the sizeable crop reduction of the main white players such as Thailand, the EU, India and Pakistan.
- In 2019, Thailand exported 1,2 Mt outside the Far East market. This year, such tonnage will have to be supplied by other origins. Furthermore, about 0,5 Mt of usual Thai captive markets will have to be sourced from other origins. This generates a major shift of the flows between the two hemispheres.
- CS Brazil white sugar output will increase but will not fully compensate. The logistic restrictions will also limit exports during the crucial Northern Hemisphere intercrop when Indian domestic sugar is less available and at a time when most of the Guatemalan refined has been shipped already.
- In this context, the full capacity of destination refiners is required to balance the white trade flows. This will exacerbate the current strong demand for raw sugar.
- Q3 proves to be particularly tense with only one origin having residuals sugars: Brazil CS. The balance should be exclusively coming from destination refiners, that are well located vs the demand areas and usually benefiting from good cash premiums.

White sugar supply – Main countries

[Calendar, Mmt, Tel Quel]

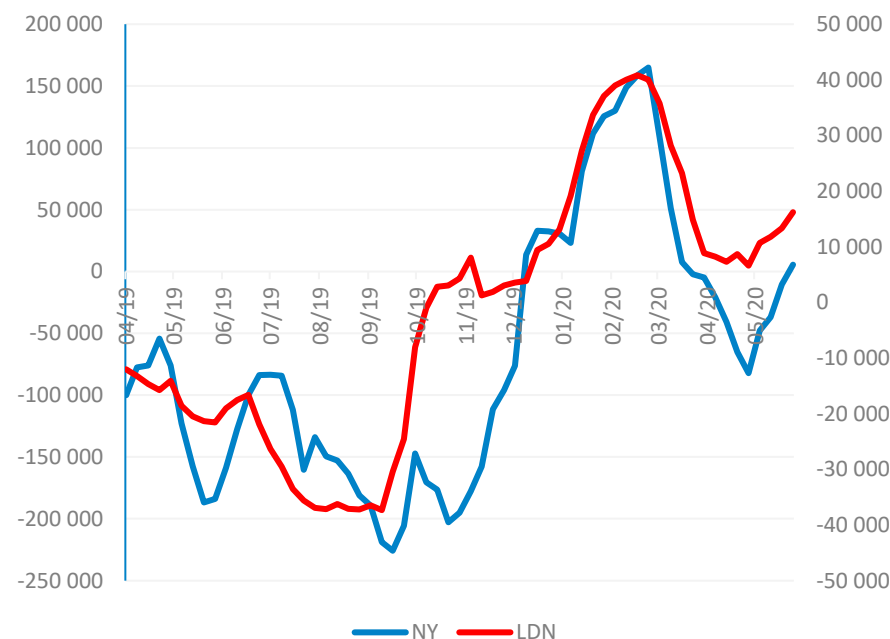


FUNDS: A PIVOTAL POSITION

- From late February to late April 2020, funds sold about 250 k lots on NY#11 and 35 k lots on LDN#5.
- This period corresponds to the globalization of the sanitary crisis and funds reacted to crude oil and BRL collapses. They also followed the fundamentals changes generated by such violent moves.
- The #11 market is now at a pivotal point with a neutral positioning of the funds. With the phasing-out of the Covid-19 crisis, funds next move may be focusing mainly on the macro, and a potential recovery for crude oil and BRL. CS producers could add more sales, especially on the October quotation, when the logistics bottleneck is solved.
- LDN#5 order flows shows a specific pattern. A good part of traditional white origins such as the EU, Thailand or Guatemala were already priced and shipped. Most of the refined sugar in Q3 is coming from the destination refineries that are already well priced. New selling are not numerous and would come only at a remunerative white premium.

LDN#5 and NY#11 net funds position

[lots, Left: NY#11 - Right: LDN#5]





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