S&D SUCDEN

SUCDEN SUGAR MARKET REPORT

NEXT

MARCH 2021

EXECUTIVE SUMMARY

- The 19/20 Oct/Sept production-consumption finished showing a slight surplus, resulting from several Northern Hemisphere crop failures that were ultimately offset by a gigantic Brazil CS crop. The main feature of this roughly balanced picture was the booming demand for CS Brazil raw sugar from Q2-2020 onward that turned the trade flows extremely tight. A story ending just now with the March/May NY#11 spread expiring in a strong inverse.

- Looking ahead, the 20/21 Oct/Sept balance shows similarities. A decrease in the CS Brazil, due to lower ATR and cane output, will be this time offset by a mild recovery of Northern Hemisphere crops. The production-consumption will turn into a small deficit. This is accounting for a sugar mix already maximized in CS Brazil, hence would the market require, it would be unable to provide more sugar.

- With the absence of Thailand as a prominent supplier, 2020 main features are set to repeat. Sugar has to be maximized in Brazil, requiring sugar prices to stay above ethanol parity. This will bring a renewed scrutiny to the buoyant energy market and to the tight Brazilian ethanol S&D. CS logistics are to be challenged again, as it is already the case with the delayed soybean loading. Ultimately, India is needed to balance its regional markets. Only China and Indonesia, who built stocks after their record import programs last year, will slow down and provide an easing to the trade flows.

- The white market is currently at crossroads. Recent London expirations were dominated by the West who were competing with discounted crystal sugar from CS Brazil. Currently, most of the refined sugar availability is in the East. Even though this market is competing with large quantities of Indian crystals, Eastern refined sugars benefit from an access to specific local markets and competitive freight rates.

AT A GLANCE

01 SUGAR CROP OVERVIEW

- Brazil CS: less sugar, even less ethanol
- India: Maximizing bulk exports
- Thailand: reaching the bottom
- World S&D: 2 tight years in a row

02 SUGAR MARKET FEATURES

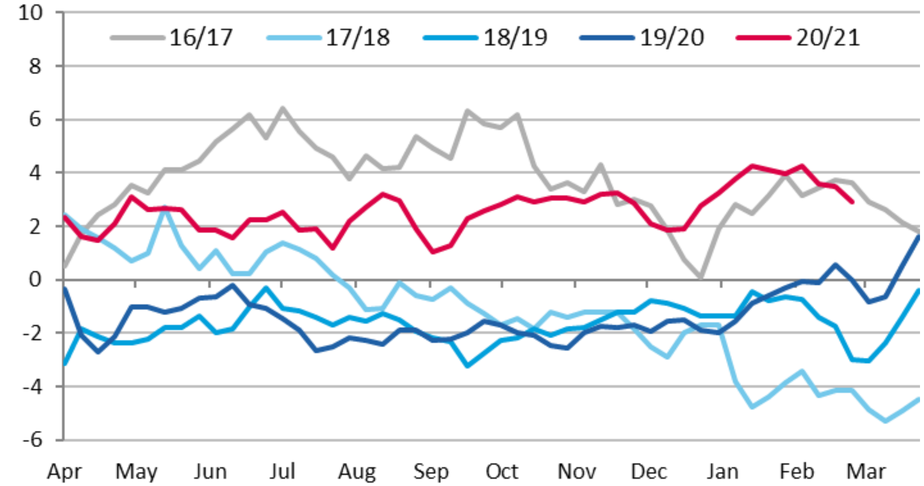
- CS logistics: to be challenged again
- Global demand: sustained but lower than 2020
- Whites: refiners in the driving seat
- Funds: walk on the long side

SUGAR CROP OVERVIEW

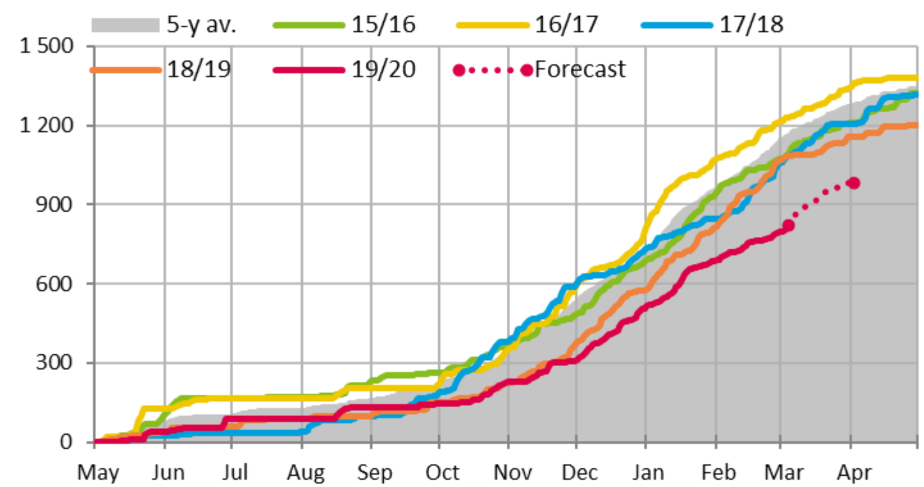
BRAZIL CS: LESS SUGAR, EVEN LESS ETHANOL

- Weather for the 21/22 cane crop (April/March CS Brazil cycle) has not been favorable so far. Following a particularly dry winter, rainfalls remained lower than average during the crucial summertime.
- This dry pattern induced a delayed vegetative growth. Yields are expected at a lower level after the good performance of 20/21 and should result in a 575-580 MT crop.
- ATR is expected to be back to a more regular level after a 20/21 record-high. That was achieved thanks to the dry pattern during the crushing season.
- Between lower yields and ATR, the reduction of the sucrose availability is about 10% y-o-y.
- With current parities in favor of sugar, producers are expected to favor sugar over ethanol again. Sugar futures have allowed mills to lock the current high margins against a volatile and uncertain energy market.
- Maximization of the crystallization capacities should lead the sugar output to decrease less than the ethanol output, for a 36-36,5 Mt range.
- The reduction of ethanol production creates a tight ethanol perspective for 21/22. A lower consumption through a high pump ratio should ultimately balance the S&D.

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



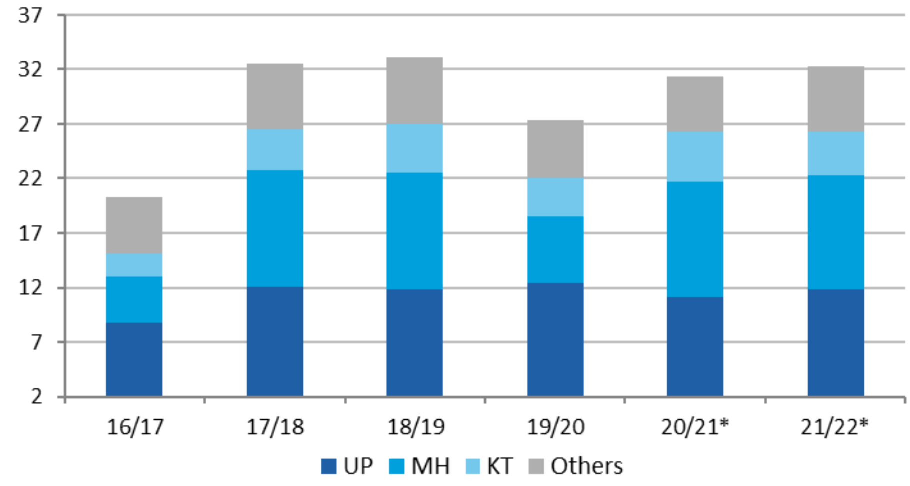
CS Brazil cumulated rainfall
[May/Apr; mm rain]



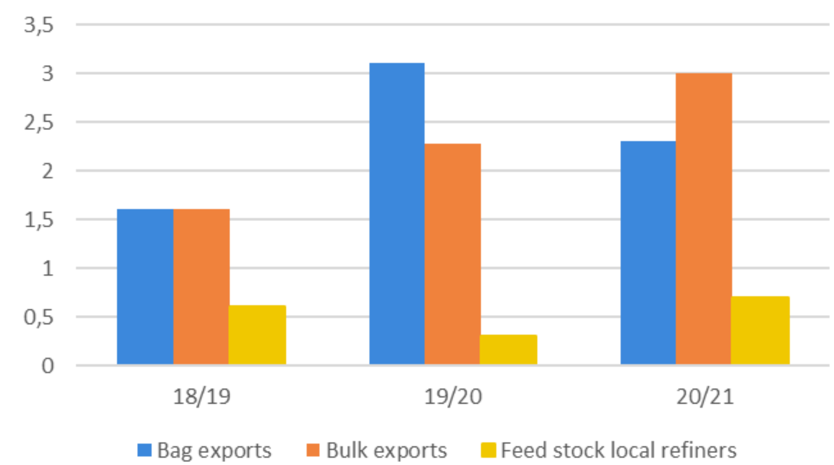
INDIA: MAXIMIZING BULK EXPORTS

- After the long-awaited export policy package, Indian domestic prices shifted lower while international prices kept going higher. These combined movements led export business to offer a better revenue than domestic sales (subsidy included).
- Buyers of white sugar did not offer immediate large liquidity to Indian mills due to the shortage of containers and the limited size of the Indian captive crystal markets.
- The major part of the trades have been so far for raw sugar exports. Being a more liquid market enabled mills to take advantage of the high sugar prices and the inverted structure. The recent sharp increase of the freight rates also provided a better positioning for the Indian bulk sugar.
- Indian raw sugar exports should increase sizably from March onwards. The first destinations should be Indonesia for which India benefits from a reduced customs duty, followed by the Indians coastal and Middle East refineries.
- White sugar shall continue to be exported but it will remain restricted to their typical captive markets such as South Asia and Eastern Africa.
- Of the 6 Mt expected Indian exports for 20/21, at least 3,5 Mt will be as raw sugar for refiners and the majority replacing Brazilian exports.

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



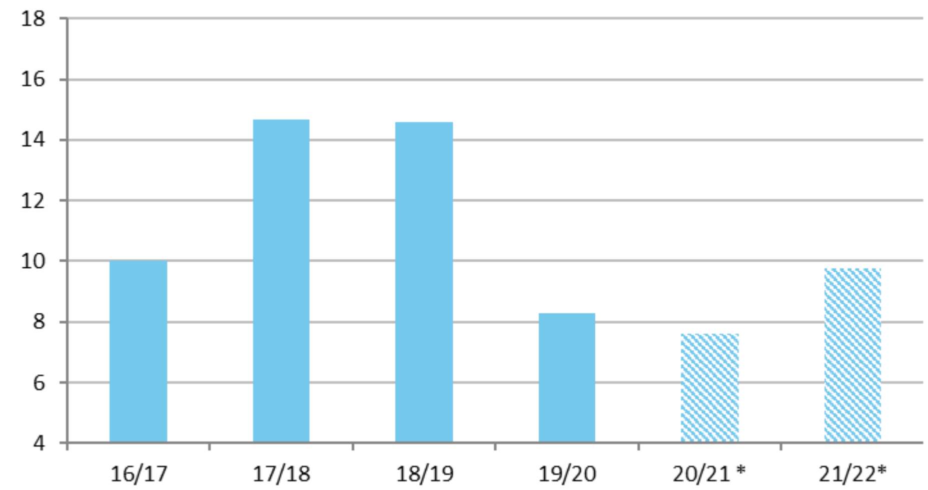
Indian exports per type
[Oct/Sep, Mt]



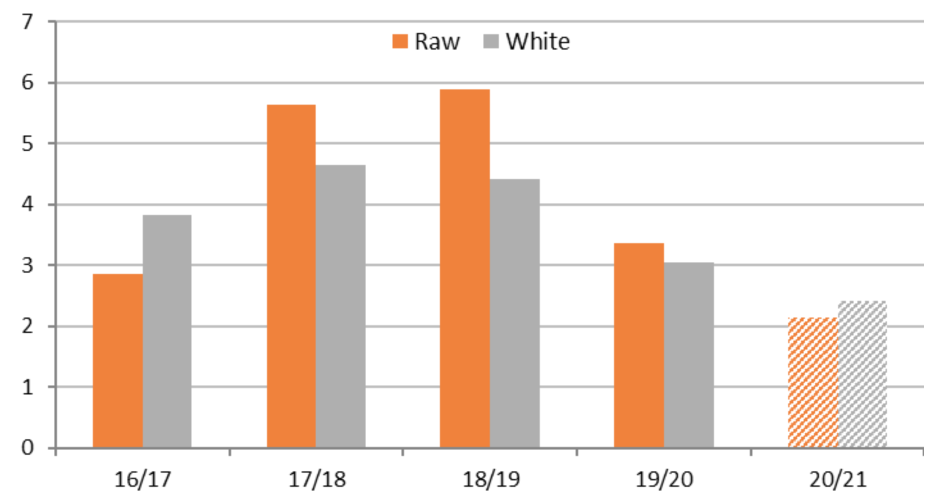
THAILAND: REACHING THE BOTTOM

- The 20/21 Thai crop is expected lower than the already poor performance of 19/20. Both lower acreage and detrimental weather contributed to this second crop failure. Crop is estimated at about 65 MT, a decrease of more than 10% y-o-y.
- Despite a lower cane crop, the white production is expected to be only marginally decreased y-o-y, given most of the mills are maximizing their remelt capacities. As a result, raws availability is declining sizably in Thailand in 20/21.
- However, at current cash values level, Thai raw sugar is pricing only for a few destinations. The traditional main market of Indonesia has predominantly turned toward more competitive origins such as Brazil and India.
- Vietnam should remain a consistent offtaker for Thai raws, even with the temporary anti-dumping measures. Whites cross-border flow could also benefit from the duties hike for Thai sugar in Vietnam.
- 21/22 shall witness a revival of the crop with both an expected better agricultural performance and an increased cane area due to high cane price. As of today, crop is expected to be back to 90 Mt.

Thai sugar production
[Dec/Nov, Mt]



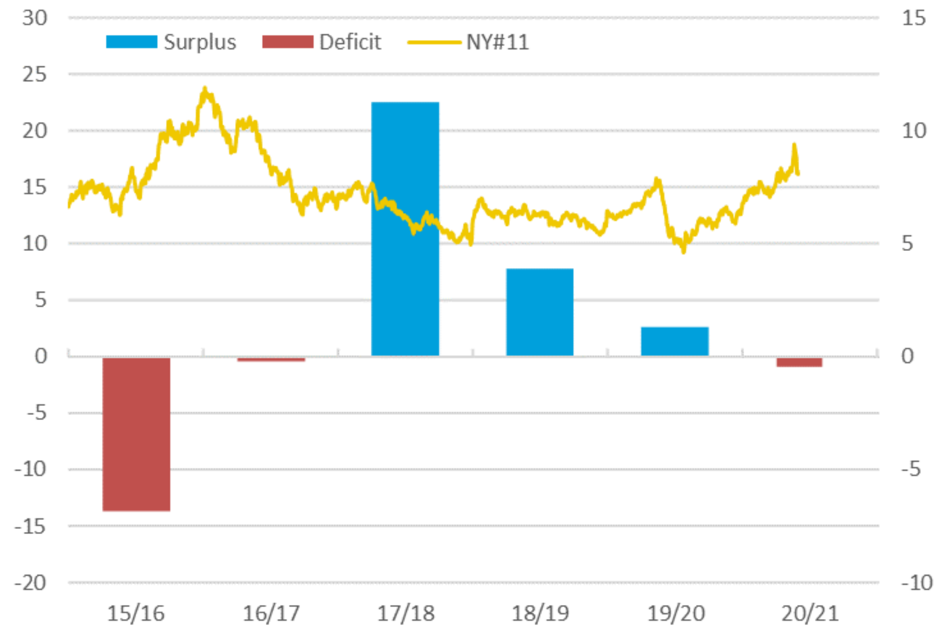
Thai raw & white sugar exports
[Dec/Nov, Mt, Tel Quel]



WORLD S&D: 2 TIGHT YEARS IN A ROW

- In 19/20 basis Oct/Sept, the failure of Northern Hemisphere crops – such as India, Thailand, Mexico and the US - were more than compensated by the CS Brazil record crop. This situation led ultimately to a small surplus.
- In 20/21, some of the Northern crops will recover: India primarily, but also Mexico, the US and Pakistan. EU and Thailand showed a further decrease while Russia was hit by a poor crop performance after last year all-time record.
- The Northern hemisphere crop will hence recover only partially while CS Brazil production 20/21 Oct/Sept basis is expected to decline given the lower sucrose available. This shall lead the global S&D to a small deficit.
- Behind this roughly balanced scenario over the past 2 years, lies a CS Brazil mix already maximized. CS will not offer additional sugar in case of a flat price rise and cannot rescue the market in case of a crop accident elsewhere.
- These 2 consecutive years of tight global S&D will leave the trade flows with a similar pattern. It should especially require the full use of the logistics capacity in Brazil and India is needed to balance its regional markets.
- A mild surplus is expected to return only by 21/22 with a further Northern Hemi crop recovery.

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

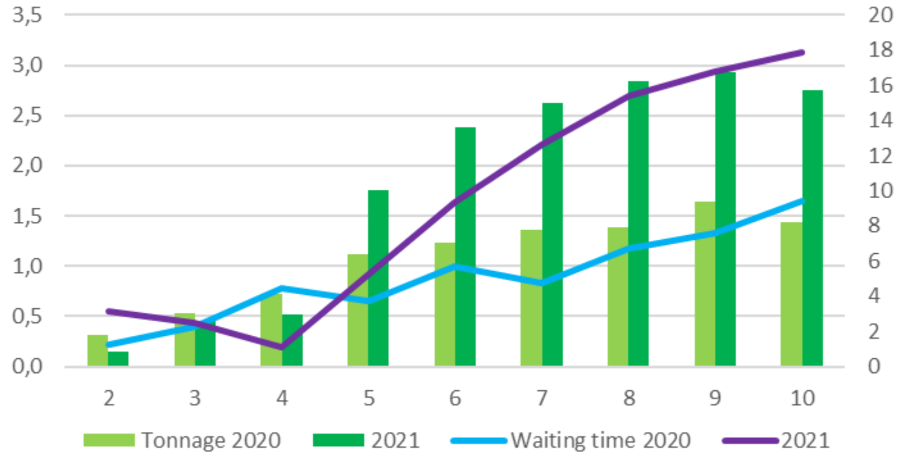


SUGAR MARKET FEATURES

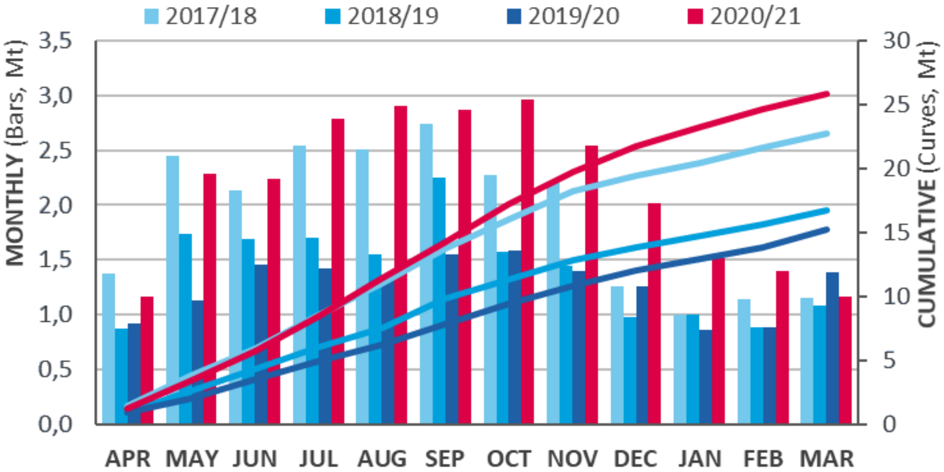
CS LOGISTICS: TO BE CHALLENGED AGAIN

- 2020 featured significant congestion for Brazilian logistics. From Q2 onward, waiting time for vessels to load reached several weeks. This was driven by a strong raw demand from China, but also from Middle East and South-East Asia.
- In 2021, the demand is also expected to be strong for the CS raw sugar. White premium still encourages refiners to maximize their running pace. China is seen importing large quantities of raws again. With the highly inverted market, many buyers consumed their stocks over Q1 but are expected to be back to the market on Q2.
- The situation shows a further complication this year with congestion already happening for the soybeans loading in Santos and Paranagua ports. Since February, vessels waiting time has grown steadily to reach 20 days as of today. It highlights the insufficient logistics capacity for current soybeans/grains demand which may ultimately compete with sugar.
- As a result, CS logistics shall be challenged this year again from Q2 onwards when the Chinese demand returns and alternative suppliers, like Brazil NE, will have fulfilled their exports program. Only India is expected to relieve the CS logistics after having sold more raw sugar thanks to the recent market spike.

Soybeans tonnage loaded & line-up waiting time at CS sugar terminals per week# of the year
[Left: SBS tonnage in Mt – Right: Waiting time in days]



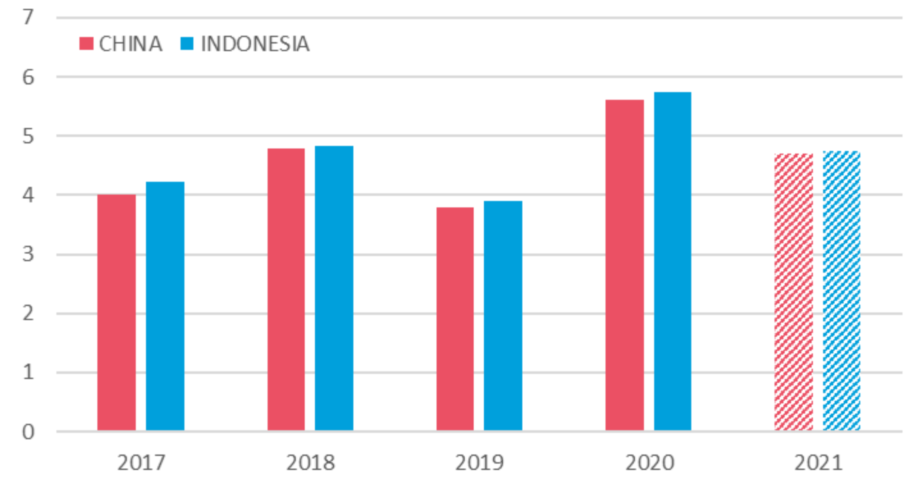
CS Brazil raw sugar exports, monthly shipments
[Mt of raw sugar; Left: monthly- Right: cumulative]



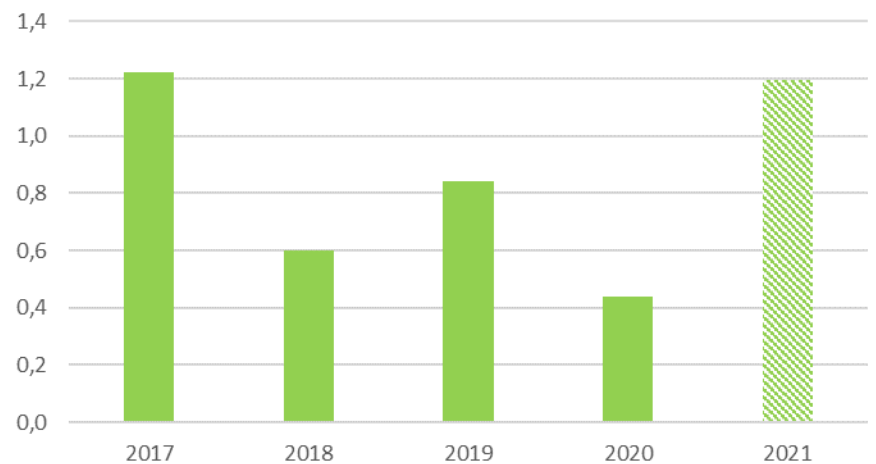
GLOBAL DEMAND: SUSTAINED BUT LOWER THAN 2020

- 2020 showed an exceptional demand. China was boosted by the new "IRM" scheme. Indonesia refiners benefited from a large import license program following the local price spike early 2020. The refiners took advantage of the high white premium to run full capacity. 2021 is to show the same characteristics, but to a lower extent.
- Chinese refiners built stocks through record imports of 2020. These stocks were bought at a low prices and a positive margin compared to the local market. Today, NY#11 is higher, and the margin vs domestic prices is meagre, so refiners may use their stocks prior to new imports.
- Indonesia is also expected to decrease its shipment pace y-o-y from now on. A good part of 2021 licences quantum has already been granted and shipped, or soon-to-be shipped, notably from India.
- Middle East refiners shall continue to ship at a good pace in the current white premium environment, sourcing from both CS Brazil and India. However, Indian refiners shall switch to local feedstock which is now more competitive than CS Brazil.
- The Black Sea relied on Brazil raws during past months. It is expected to import until the beginning of Russian beet crop.

China & Indonesia raw sugar demand
[Calendar, Mmt]



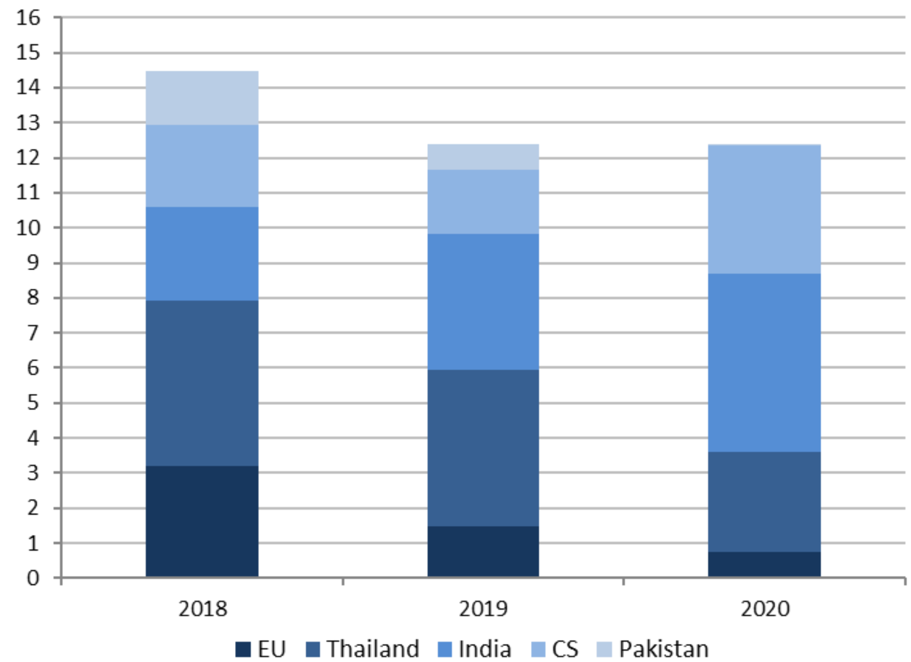
CIS raw sugar imports
[Calendar, Mmt of raw sugar]



WHITES: REFINERS IN THE DRIVING SEAT

- The white premium provides different readings: the inverted NY structure does impact negatively the revenue of the refiners. Conversely, cheap and well-located Indian supply may help them to offset part of this cost.
- Despite significant quantities of crystal sugar available in CS and India, the current white premium level incentivizes refiners to run close to their full pace to meet the demand of the specific refined markets.
- The last 3 London expiries featured a high proportion of sugar delivered in the Western Hemisphere. Guatemala, Brazil NE or CS were among largest contributors.
- From the May expiry onward, western hemisphere sugar deliveries shall reduce and most of the sugar available for delivery shall switch to the Eastern refineries.
- These origins are offering advantageous freight rates to the importing areas and such sugars are generally commanding a premium.
- Beyond the white premium level, the volume tendered to the exchange from the Eastern refineries will be determined by Pakistan and Ethiopia specific demand.

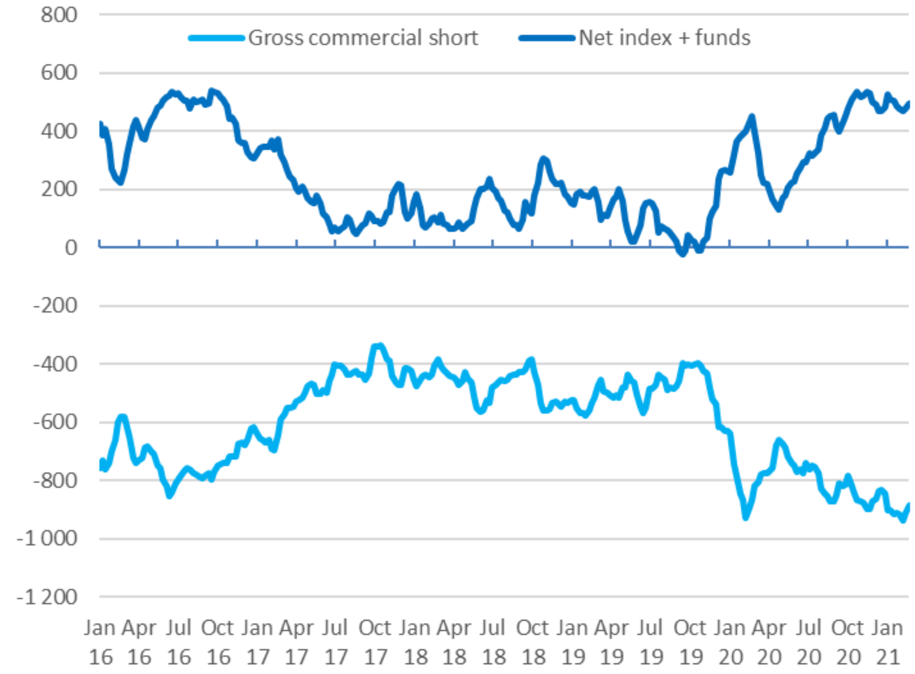
Bagged sugar supply – Main countries
[Calendar, Mmt, Tel Quel]



FUNDS: WALK ON THE LONG SIDE

- Since May 2020 and the progressive phasing-out of the global sanitary crisis, Funds have built a net long position which stabilized above 200 k lots over the past months. The combined net position of funds and Index of 500 k lots is currently standing near the previous record level of October 2016.
- The long positioning of funds in commodities is shared between softs, grains and energy assets, as symptoms of optimism for the global economy, low interest rates and inflation hedge.
- On the opposite side, the gross commercial short at about 900 k lots also reached record levels and is representative of the well-priced producers, especially in Brazil CS, that benefitted from record prices when expressed in BRL.
- The recent funds appetite brought the market to a vulnerable position, with commercial well priced and funds close to their historical records, leading to high volatility.
- If funds buy more, on a sugar fundamental or a macro view, little resistance will be induced by the producers. Oppositely, a sudden sell-off of the funds might meet meagre purchases from gross long commercials.

Gross commercial short vs funds & index net position
[K lots]



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