SUCDEN SUGAR MARKET REPORT

FURY

MARCH 2022

EXECUTIVE SUMMARY

- World's production/consumption posted a deficit for two years in a row, over 20/21 and 21/22. The deficit includes a maximized sugar mix for the CS Brazil coming season which could further deepen if sugar becomes less remunerative than ethanol for millers.

- Lower stocks as a result of deficit has led to higher domestic prices and a sizable demand over the recent months. Combined with the reduced cane crop in Brazil CS in 21/22, and the delay in cane development for the harvest to come, the CS intercrop trade flows tightened, despite large Thai and Indian exports.

- During 22/23 CS Brazil harvest, a seasonal trade flows surplus is to develop. It will potentially tighten in Q1-23, depending on Indian exports.

- The white market has benefitted from a high demand over the past months. The lower availability of CS Brazil crystals in 21/22 pushed the Western Hemisphere to a deficit. On the other hand, the Eastern Hemisphere remained in surplus given the competitive Indian crystal sugar at export and cheap raw feedstocks for coastal refiners.

- Today, the main driver of the sugar market is the unprecedent geo-political tensions due the Russian invasion of Ukraine. Through its severe impacts on energy prices, cost of production, and potential diversion of land from beet to grains, an escalation of the conflict will support further the sugar price.

AT A GLANCE

01 SUGAR CROP OVERVIEW

- Brazil CS: cane recovery and maxi sugar mix profile
- India: crop getting bigger
- Northern Hemisphere: a mix bagged
- World S&D: two years of deficit in a row

02 SUGAR MARKET FEATURES

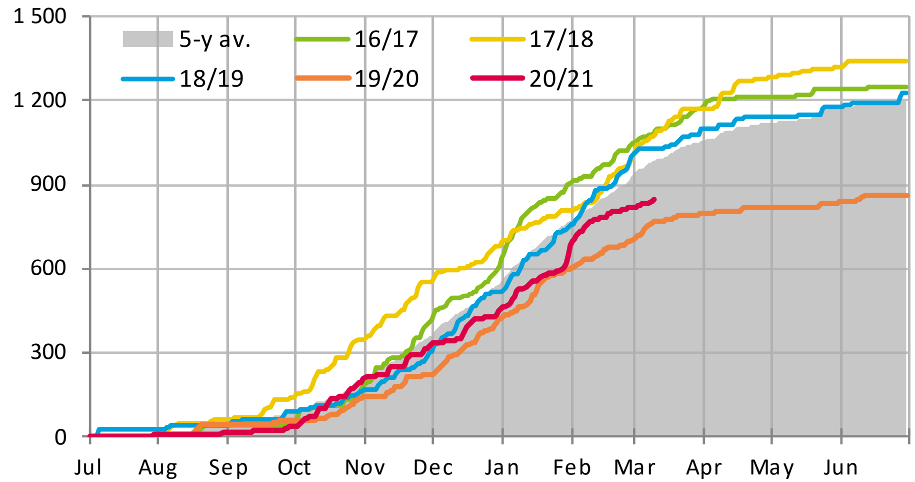
- Strong Q1 demand boosts all origin shipments
- A Brazil CS seasonal surplus from Q3 onward
- Whites: high shipment pace, Indian coastals full capacity
- Unprecedented geo-political tension to increase volatility

SUGAR CROP OVERVIEW

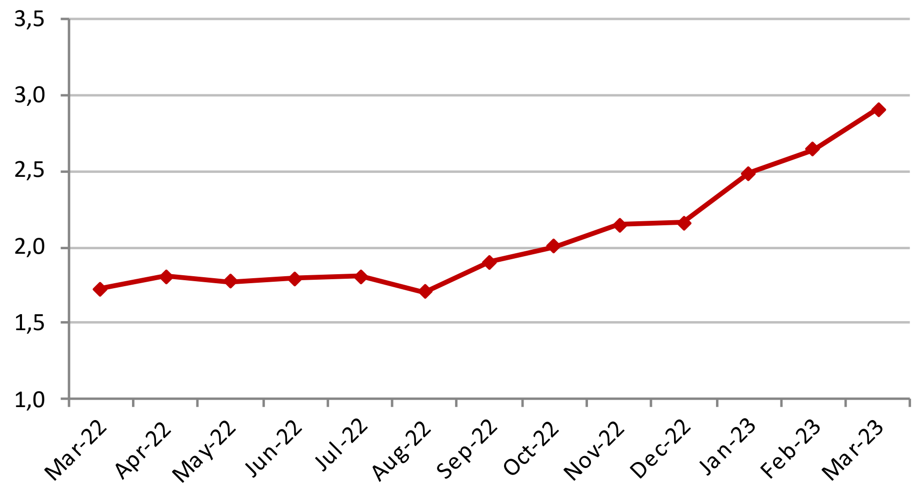
BRAZIL CS: CANE RECOVERY AND MAXI SUGAR MIX PROFILE

- The rainy season started in October, roughly in line with long-term average, but its time and geographical distribution was irregular. The rainfalls have been favoring the Northern areas while in the Southern parts, they have been lower and intermittent.
- Combined with harsh winter conditions that impacted the cane during its initial stages and with the current irregular rains pattern, a cane crop of 560-570 Mt range is expected. The mills should start the crushing season later to maximize cane growth.
- In the current parities environment, sugar continues to pay better than ethanol and allows the CS mills to hedge their sucrose at today's profitable sugar prices, while ethanol remains exposed to uncertain energy prices, policy and taxation.
- The Petrobras gasoline price shows still a significant lag against the buoyant world energy market, despite the latest adjustment of 18%.
- As of today, the sugar mix should be maximized again, with a sugar production around 34-34,5 Mt in 22/23. However, if the gasoline price at the pump in Brazil ultimately fully follows the world gasoline price rise, the sugar mix could decrease unless higher NY#11 levels.

CS Brazil cumulated rainfall
[July/Jun; mm rain]



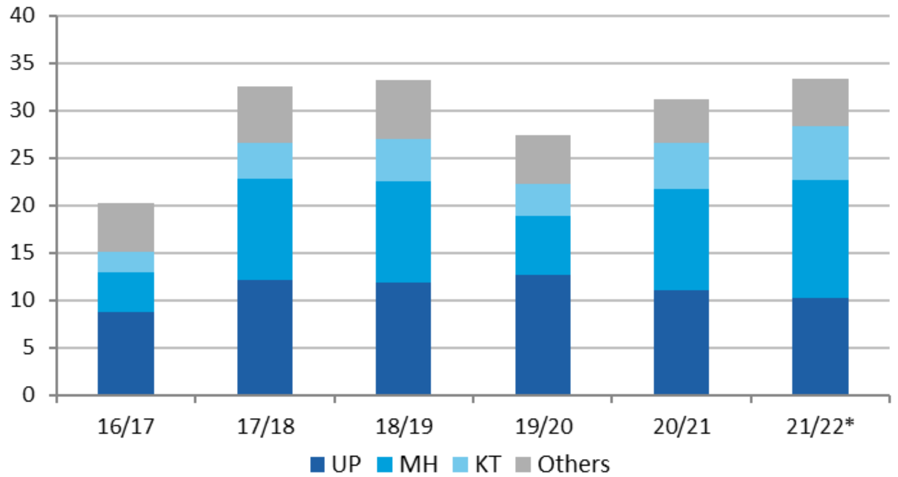
Forward Sugar/Ethanol parity spread
[cts/lb; sugar over hydrous ethanol]



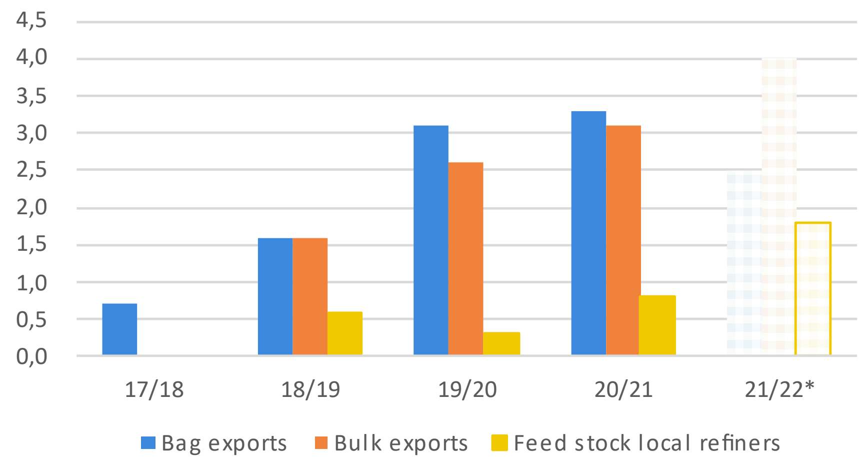
INDIA: CROP GETTING BIGGER

- Maharashtra and Karnataka show great crop performances, up 3Mt year-on-year. These States benefit from higher yields and a moderate increase of the ethanol diversion. In contrast, UP production is seen down by about 1 Mt due to bigger ethanol production.
- The 21/22 Indian production is pegged at 33,5Mt for an exportable surplus of 6,5Mt.
- The exports flows have been outstanding. More than 5 Mt have been exported since October, an increase of 3,5 Mt year-on-year. In addition, more than 6 Mt have been sold to date.
- The raws FOB market has been the one offering the largest liquidity for Indian mills: it represents about 60% of the exports.
- Domestic prices remained high in UP but have been under pressure since the start of the crush in the West, although keeping higher than the MSP at 31 000 INR/Mt.
- More recently, domestic prices have started to move up with the winding down of the crush, but the higher NY#11 prices keep them competitive.
- From now on, all sugar exported will entail destocking. Indian raw sugar exports shall decrease over the next months to focus on crystal sugar flows and coastal refiner's feedstocks.

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



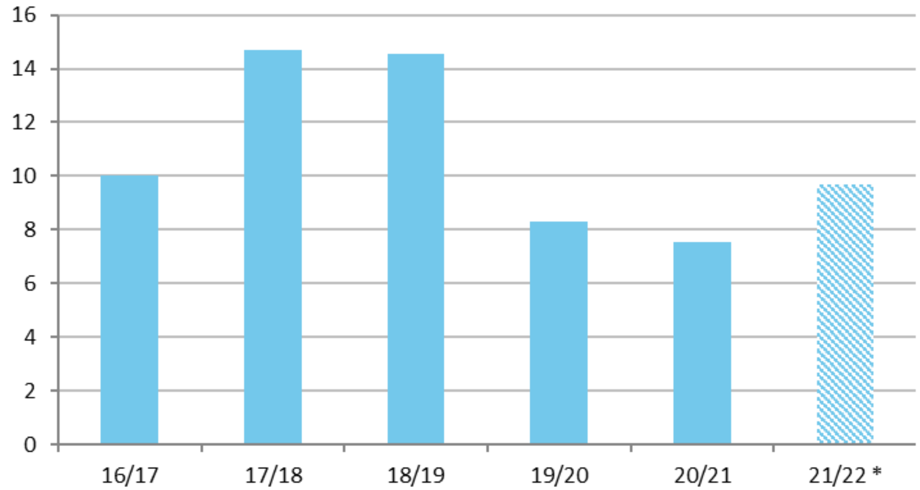
Indian exports per type
[Oct/Sep, Mt]



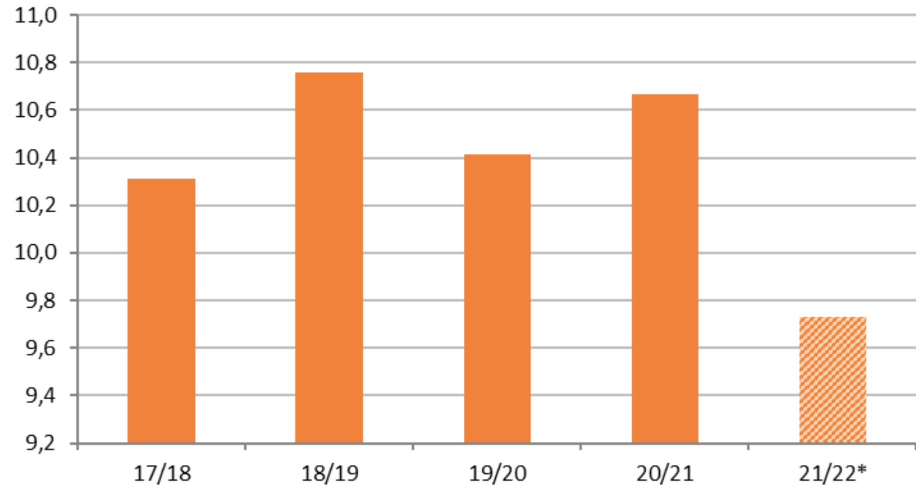
NORTHERN HEMISPHERE: A MIX BAGGED

- Thai 21/22 production should reach about 10 Mt, a large increase of 35% year-on-year. Such recovery should continue in 22/23 with more than 100Mt cane produced, thanks to the current high cane price. Thai raw sugar is getting back a significant market share of sugar exports.
- China beet crop was sizably reduced this year due to a low planted area, as grain was more profitable for farmers. The harvest in the cane area is also lagging year-on-year and shows a lower extraction rate. The Chinese production is seen at 9,7Mt, a 5-year low.
- The European Union & UK finally achieved a decent performance in 21/22 despite the cold summer. Sugar production should reach about 17Mt. Exports shall be limited to captive markets, for around 900kt, while overall imports are assessed at about 2 Mt.
- Russia production should reach 5,6 Mt, a level not sufficient to match its domestic consumption. Furthermore, stocks are low after 2 disappointing crops in a row. Hence, Russia set up a 300kt import quota, but the current geopolitical situation and sanctions may prevent the full quota from being used.

Thai sugar production
[Dec/Nov, Mt]



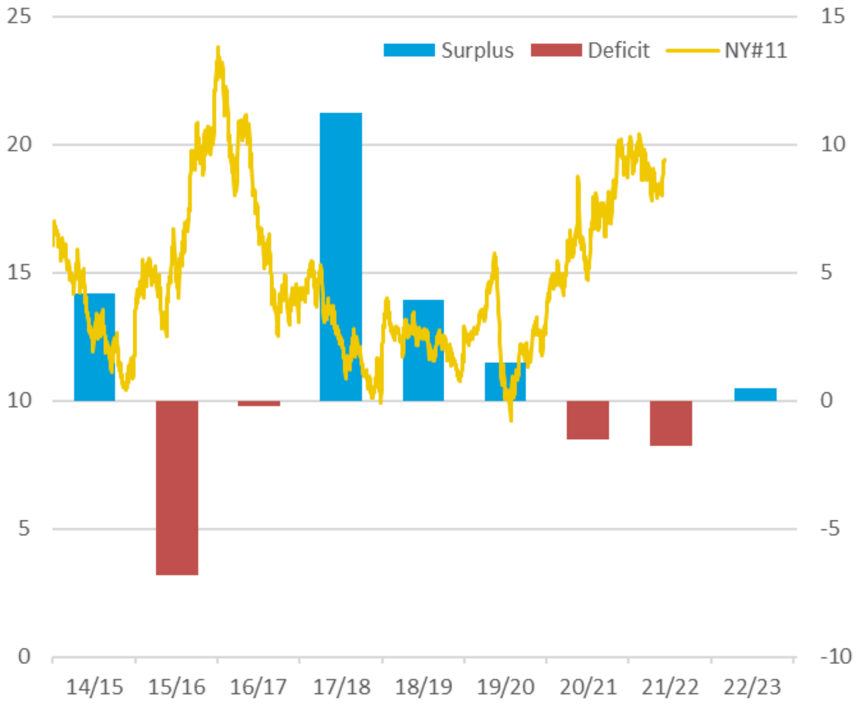
Chinese sugar production
[Oct/Sep, Mt]



WORLD S&D: TWO YEARS OF DEFICIT IN A ROW

- The world sugar production/consumption features 2 deficits in a row. Although relatively small, they led to lower stocks at both origin and destination.
- Domestic prices increased in many countries, and import parities opened. Raw shipment on Q1 2022 hit a record, about 30% higher than the 5 previous years average.
- The 21/22 Oct/Sept balance relies on maximization of sugar mix in Brazil CS for the coming harvest: deficit would sizably deepen if ethanol prices turn more remunerative than sugar. It creates a support to sugar prices especially with the buoyant energy market.
- Next year 22/23 Oct/Sept is seen with a slight surplus, excluding possible weather events. Northern Hemisphere production should recover – in Thailand for instance – but beet is threatened by the rocketing wheat prices. It also captures a progressive recovery of the cane situation in Brazil CS 23/24, and once again, ethanol less profitable than sugar.
- Even though the perspective is for a return of a surplus, the uncertainty linked with energy prices or weather should confer a risk premium to sugar.
- The invasion in Ukraine and the current geopolitical situation bring another layer of uncertainty to the market.

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



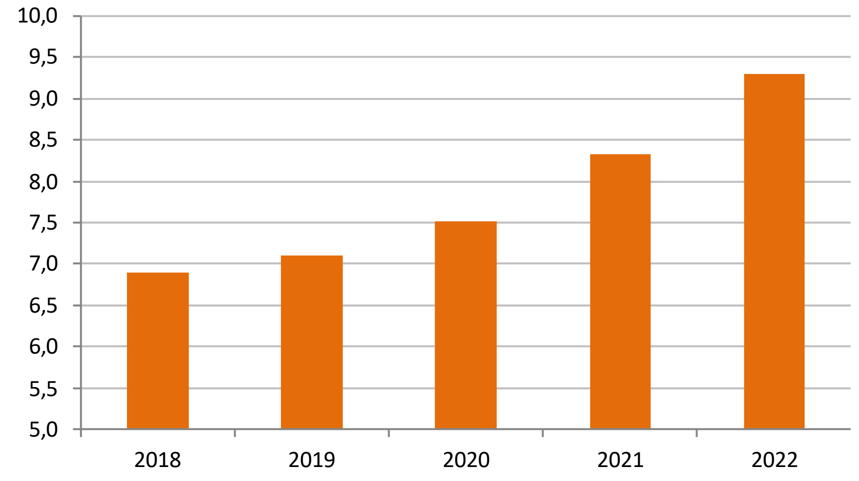
S&D SUCDEN

SUGAR MARKET FEATURES

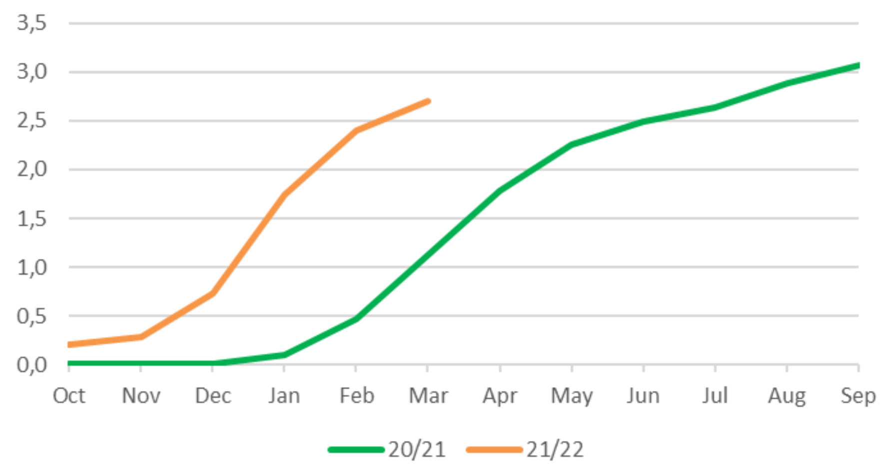
STRONG Q1 DEMAND BOOSTS ALL ORIGIN SHIPMENTS

- Demand over Q1 has been strong. It combined a massive and early Indonesian demand, large Bangladesh flows boosted by a time-limited duty reduction, sizable flows to the Middle East refiners and a Chinese demand helped by the carry in freights rates.
- Thailand raw sugar exports focused on most remunerating destinations, such as Indonesia or South Korea, although the latter is now also operated from Central America.
- India raw exports have particularly increased year-on-year, to Far East and Middle East. A major part of the Indian surplus has now been exported. Indian raw bulk exports should slow-down over the next months, along with the crush, to connect only to the white crystal market and to coastal refiners.
- The CS 21/22 production ended more than 6Mt sugar down year-on-year. This decrease leads to low stocks in Brazil ahead of the new harvest. Furthermore, cane growth is still delayed, and should push millers to start late.
- Raw trade flows have tightened by the end of this CS crop and will now depend on the start of the next harvest. CS terminals are particularly utilized for this time of the year, when soybean loading activity is at its peak. Carry structure on bulk freight from CS and Central America is strongly incentivizing front loading.

Yearly world Raw sugar shipments – Q1
[Mt, Q1 shipments]



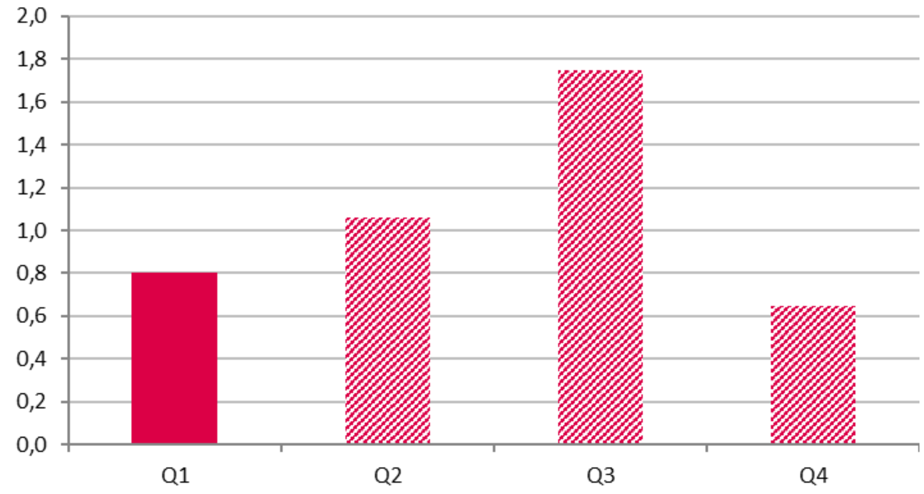
Cumulated Indian raw sugar exports
[Oct/Sep, Mt]



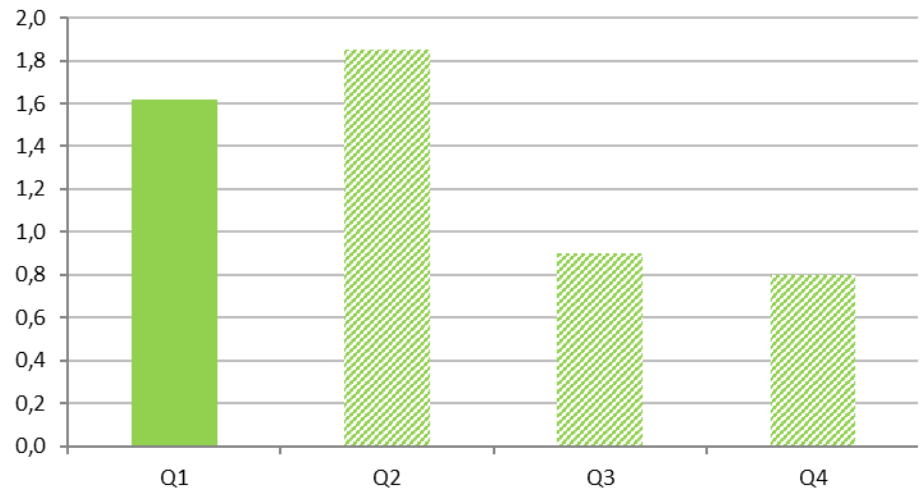
A BRAZIL CS SEASONAL SURPLUS FROM Q3 ONWARD

- With sugar more attractive than ethanol, CS raw sugar availability should increase from mid Q2 onwards. By Q3, CS should have reached its full export capacity.
- While demand from countries like China should peak during Q3, other players, like Indonesia, should have realized a big part of their imports program prior and will decrease their purchases. Hence, the demand is seen flat over the year, before a decrease in Q4 with Chinese imports slow-down.
- Indian coastal refiners are not profitable with raw sugar imported from Brazil as of today and shall run only on local feedstocks.
- Alternative suppliers like Thailand or India should reduce their exports in Q3, as they should have performed majority of exports. Yet this decrease in supply will not compensate the rising Brazil CS availability.
- Australia's extensive Q3 and Q4 shipment program should also compensate for the lower Thai sugar availability.
- From Q3 onward, a seasonal surplus of Brazilian sugar should start to develop and increase significantly during Q4. Q1 return to tightness will depend on the Indian exports program.

2022 Chinese raw imports, by quarter
[Mt]



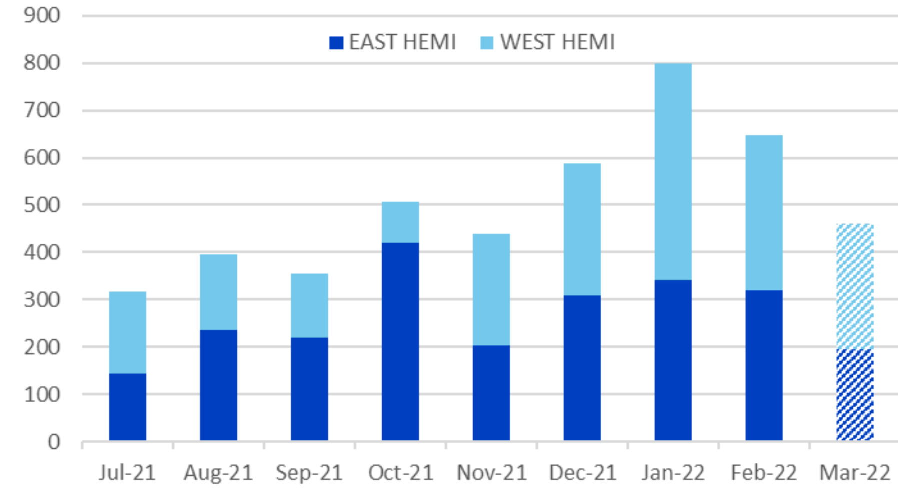
2022 Indonesian raw imports, by quarter
[Mt]



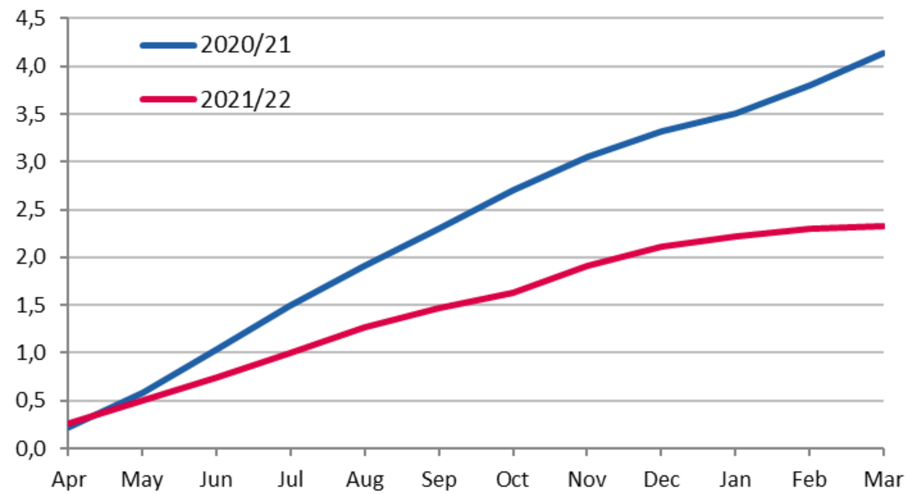
WHITES: HIGH SHIPMENT PACE, INDIAN COASTALS FULL CAPACITY

- The white market benefitted from a favorable environment over the past months. Despite big shipments to West and East Africa, prices at destinations remained attractive until recently.
- In the Western hemisphere, the CS availability has been highly reduced this year due to the bad crop. The situation should keep tight until next crop's crystal sugar production.
- Guatemala refined should stay in their region after an extensive shipment program.
- In the Eastern Hemisphere, Indian crystal sugar remains competitive and should keep regional demand captive – such as Somalia or Sri Lanka.
- Indian coastal refiners are taking advantage of the local feedstocks as CS raw sugar is still not competitive. At current NY#11 prices, they should continue to run at full capacity during Q2 - and possibly Q3 - covering the regional refined market - mostly Sudan.
- A portion of the Indian refined exports is expected to flow to the Mediterranean and West Africa and is required to balance the Western Hemisphere.
- More recently, a combination of higher LDN prices, freight rates and weaker currencies against the USD should significantly slow down the white sugar demand.

Breakbulk exports for Western & Eastern hemi [kt]



Cumulated white sugar shipments from CS Brazil [Apr to Mar, Mt]



UNPRECEDENTED GEO-POLITICAL TENSION TO INCREASE VOLATILITY

- The Russian invasion of Ukraine has severe implications for sugar prices. It became the most scrutinized price driver today.
- All energy markets have risen and sugar, kind of an energy commodity, should follow unless Petrobras moderates the gasoline import parity pricing policy. Since Jan 1st, the lag between sugar and crude oil prices is about 40%.
- The sugar price should be impacted by a rise of other agricultural commodities such as wheat. Here again, support channels are numerous: higher land diversion from beet to wheat in Europe, lower production of corn ethanol in Brazil or higher exports of Brazil ethanol.
- Because of higher energy and fertilizer prices, the cost of production of sugar should rise significantly.
- Another threat impacting the sugar S&D is the capacity to sow beet in Ukraine for the 22/23 crop.
- Regarding consumption, the crisis can be two-fold: higher prices may reduce the demand but can also induce stocking policies, as a response to a more uncertain and less trade-prone world.
- Any further escalation of the conflict will continue to support the energy and the commodity markets, as well as the sugar price.

Sugar and other commodities evolution
[% change, since Jan 1st 2022]