S&D SUCDEN

SUCDEN SUGAR MARKET REPORT

IN TIME

OCTOBER 2021

EXECUTIVE SUMMARY

- After a disastrous 21/22 Brazil CS crop, the attention is already shifting to the next season. Although the cane growth was already affected by this year's harsh weather conditions, recovery is expected but that relies on average weather pattern over next months.

- The Northern Hemisphere production will mildly increase in 21/22. Thailand shows the biggest increase in sugar production, as well as exports capacity, while production gains for the rest of the Hemisphere are limited.

- The world production-consumption is seen at a deficit, for the second year in a row. This will tighten stocks and, to this extent, many domestic prices are on the rise.

- Raw trade flows will first focus on a tight CS intercrop. Large Thailand and Indian exports are required to offset the Brazilian crop shortfall. From May onward, a seasonal surplus will develop, and it will tighten only by next 22/23 intercrop, depending on next year final CS sugar output.

- The white sugar market is finally out of a long period of excess in supply. For the coming months, Western Hemisphere balance is threatened by the low availability in CS Brazil. The East shall rely on Indian coastal refiners, who take advantage of their access to more competitive local feedstocks.

- High energy complex impacts the sugar prices through the Brazilian fuel dynamic and, in the long term, through increasing costs of production. Beyond this positive macro influence, additional weather threats – such as insufficient rainfall in CS – may be needed to keep the buying dynamic of the funds.

AT A GLANCE

01 SUGAR CROP OVERVIEW

- Brazil CS: modest recovery ahead
- India: no subsidy required
- Thailand improving, Europe mildly higher
- World S&D: second year of deficit in a row

02 SUGAR MARKET FEATURES

- CS intercrop: Indian and Thai exports fully required
- Beyond 21/22: CS weather & Indian parities remain key
- Whites: reset
- Macro: between high energy prices and inflation fears

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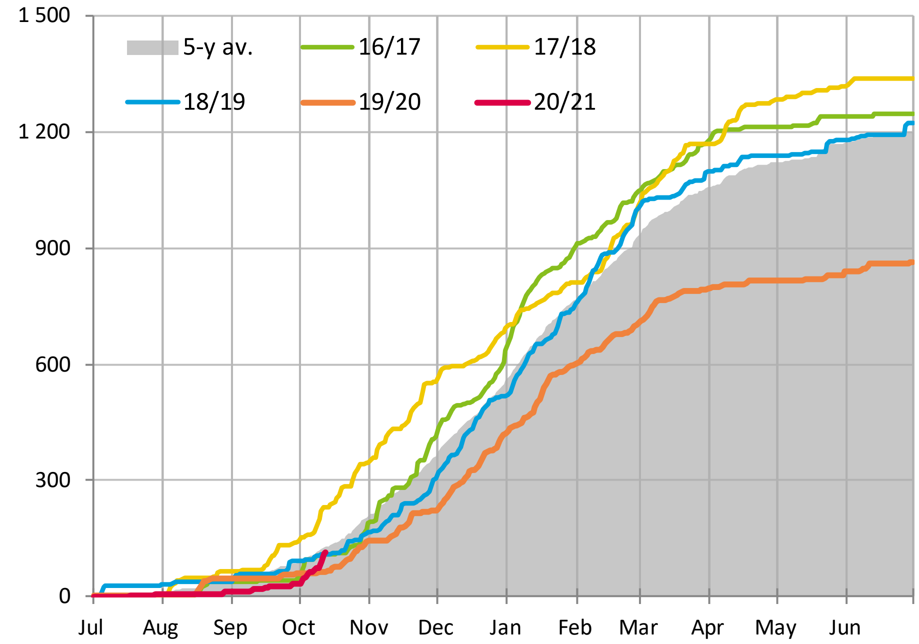
SUGAR CROP OVERVIEW

BRAZIL CS: MODEST RECOVERY AHEAD

- 21/22 weather conditions have been particularly harsh for the cane, with a severe drought and widespread frost events.
- Cane yield decreased since the start of the crop, to about 15% below last year. ATR performed well until at least the end of September, but October rains could lead to a sharp drop. Final 21/22 CS sugar production should end up around 31,5-32Mt.
- Next year cane performance has been affected by the lack of rain over the past months – so have been the plantings. Fields were also hit by frost and an increased intensity of cane fires. The 22/23 planted cane area could once more be slightly reduced due to better revenues provided by alternative crops.
- Hence 22/23 crop is not off for a good start. Still, most of the cane performance is relying on future rainfall. Although there are fears of a repeated dry spring linked to the forecast La Nina, October rainfall is now seen positive for cane growth.
- Current conditions points towards a moderate recovery of 22/23 cane crop, about 5% higher y-o-y. With the sugar still paying better than ethanol, and providing a constant anhydrous ethanol blending mandate, the sugar production should be at least 1,5 Mt higher than 21/22.

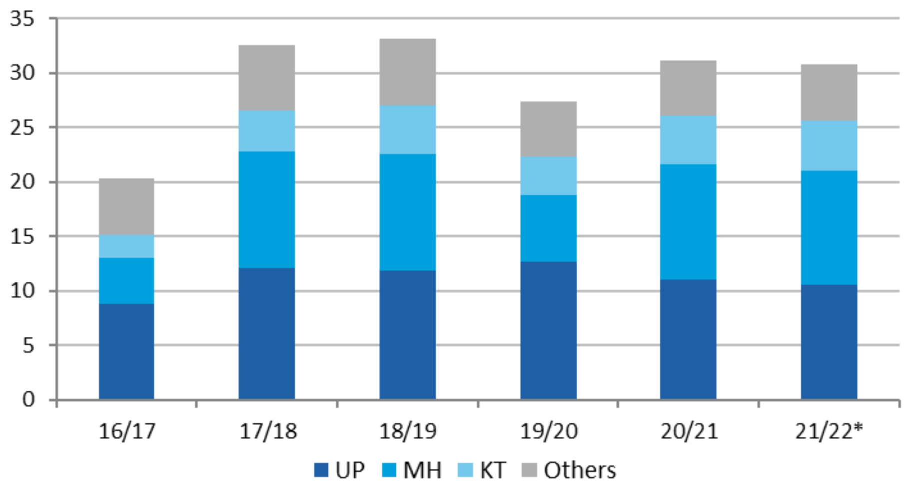
CS Brazil cumulated rainfall
[July/Jun; mm rain]



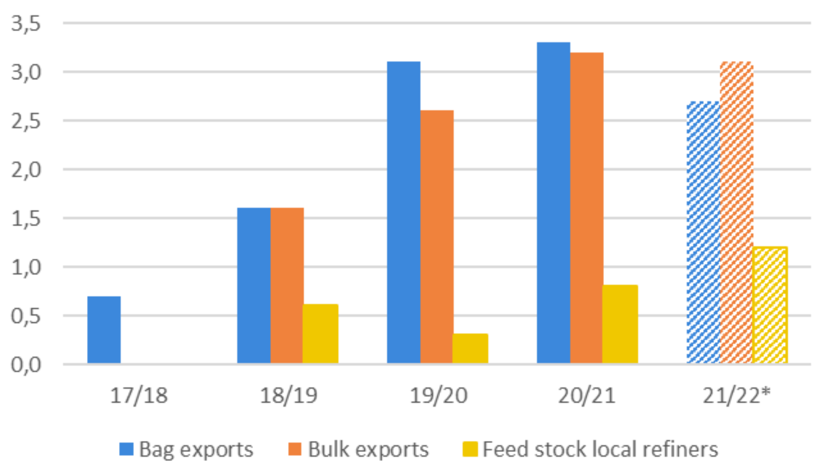
INDIA: NO SUBSIDY REQUIRED

- The Indian monsoon was beneficial once again for the cane crop in most of Indian cane areas. Next year's crop should post again a good performance, with a sucrose production around 34,5 Mt.
- Still, with ethanol capacity increasing, as much as blending ambitions, ethanol should capture most of the sucrose extra production, leading to a 21/22 sugar production, like 20/21, at 31 Mt.
- Reservoirs were filled again during the summer 2021, also allowing good plantings in Southern States for 22/23 harvest.
- India will keep a 5Mt-surplus next year and should remain a large exporter even without subsidy. A large amount of Indian sugar has already been traded for the 21/22 crop.
- Since September, domestic market prices have been supported by low stocks in the exporting state of Maharashtra, a delay in the start of the harvest and a recent increase of cane price in UP. Thus, export prices have been slightly above buyers' appetite and few trades have been reported recently.
- Indian raw sugar export prices are expected to converge with world market when harvest starts, given the sizable Indian surplus and the limited white sugar demand.

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



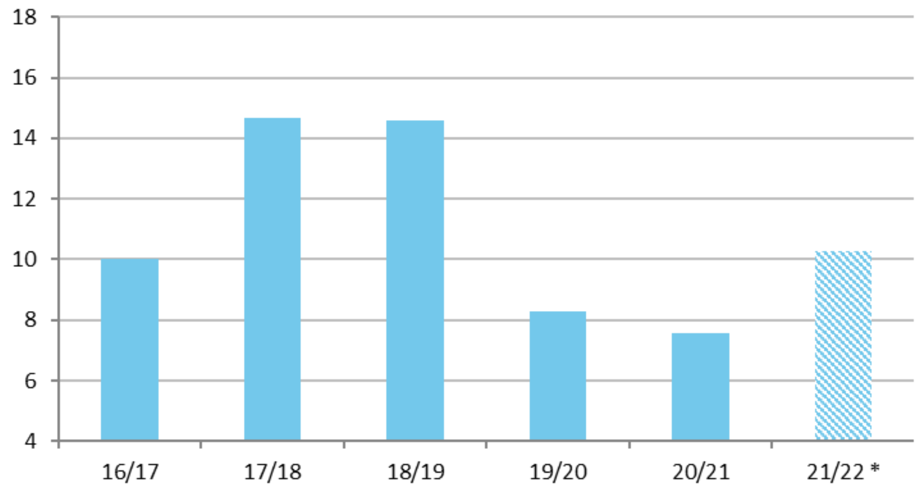
Indian exports per type
[Oct/Sep, Mt]



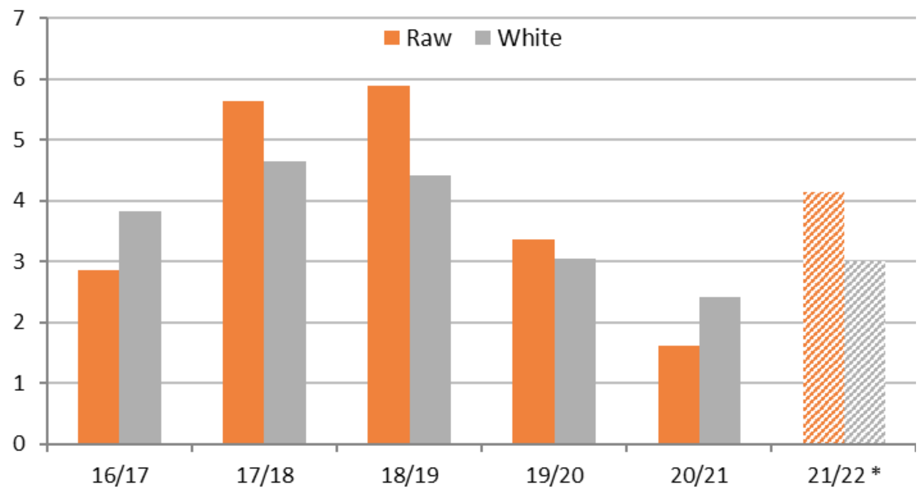
THAILAND IMPROVING, EUROPE MILDLY HIGHER

- Thailand production should ramp-up to over 10 Mt. Monsoon rainfalls have been positive for the cane and high cane prices should favor a switch from alternative crops and good cane husbandry by the farmers. Thailand will increase sizably its exports to the world markets for both raw and white sugar.
- Thai raw sugar benefits from current high freight rates and became competitive in its region, in Indonesia, South Korea, Malaysia or even China. A renewed and strong demand is expected from January onward, when Thai crop starts. Major Thailand competitor will be India, whose value remains highly correlated with the NY11 price level.
- The European Union production is set to achieve a better crop performance than past year, mostly through higher beet yields, since the area remained roughly unchanged. Still, EU exports shall remain minimal, captive of its European and Mediterranean markets, because of low stocks seen at the start of 21/22 and production costs raised by the current natural gas price.
- Russia 21/22 production is also assessed modestly better than 20/21, but here again, low stocks shall limit exports to the regional markets and lead to a tight domestic S&D.

Thai sugar production
[Dec/Nov, Mt]



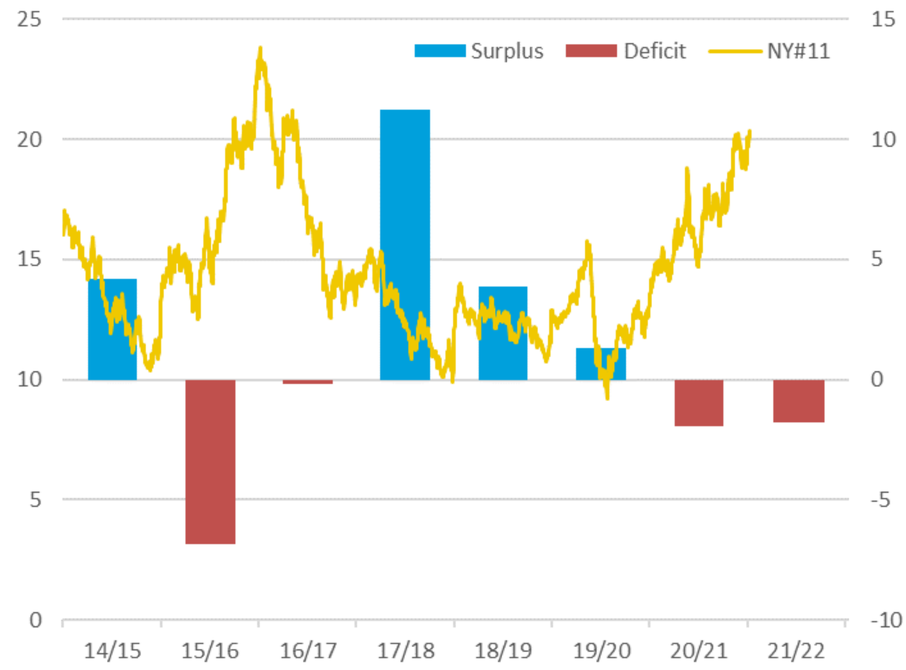
Thai sugar exports
[Dec/Nov, Mt]



WORLD S&D: SECOND YEAR OF DEFICIT IN A ROW

- 21/22 Northern Hemisphere production is expected to post a modest recovery: improving in Thailand, mildly better in the EU and Russia, stable in India, and down in China.
- In many countries of the Northern Hemisphere, domestic prices rose and reached record levels, as in Russia. Such perspective tends to make the sugar captive to domestic needs – aiming to replenish local stocks – and uncompetitive for the world market.
- CS Brazil keeps a maximized sugar mix profile where no additional sugar production is to be triggered at a higher price. The recent poor weather has already affected next crop, but the rain pattern of coming months will determine the cane performance and tell how significant will be the recovery.
- The world production/consumption is to post 2 years of deficit. The impact of such trend is already tangible with low stocks in many areas.
- The trade flows will now focus on the intercrop transition. It will be shaped by low CS availabilities requiring large Thai and Indian exports.
- Beyond the intercrop, a seasonal surplus should settle again during next CS harvest, and potentially deteriorate, only by next 22/23 intercrop.

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

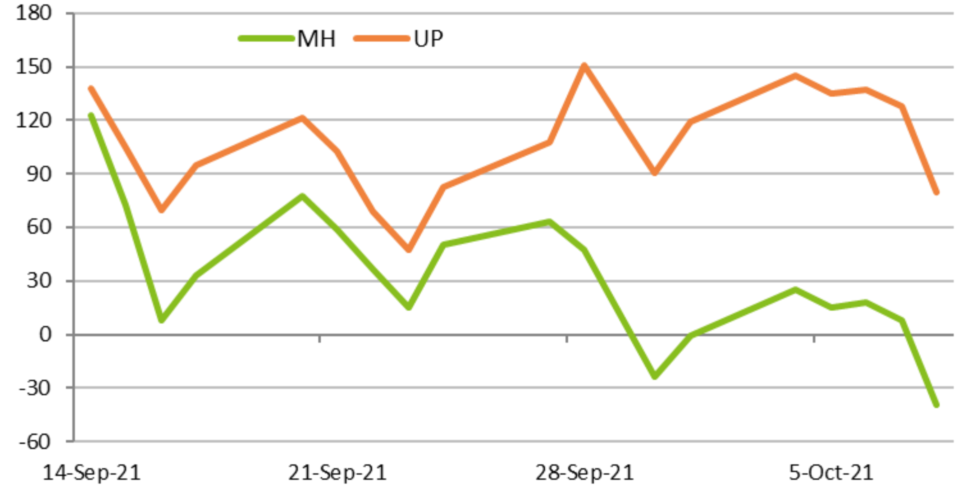


SUGAR MARKET FEATURES

CS INTERCROP: INDIAN AND THAI EXPORTS FULLY REQUIRED

- The end of the Brazil CS intercrop period matches the world seasonal raw sugar low availability. Given the poor performance of Brazilian crop, CS raw sugar availability shall be about 25% lower y-o-y from November onward, until the start of next season.
- The demand for the next 6 months is marked by China's low offtake due to closed import parities and by Indian coastal refiners not importing, since they should source locally their raw feedstock. Middle East refiners are also having poor demand prospects for their re-export activity.
- Still, this dynamic of moderate demand is only partially offsetting the projected reduction of CS availability. Both hemispheres will require substantial flows from Thailand and India to balance trade flows by Q1 2022.
- Thai raw sugar availability should be sustained by the start of 21/22 crop, with an improvement in crop forecast, as well as in competitivity at destination. Indian raw sugar is required beyond what has already been booked. This will provide support to the world price given the current MSP, at 31 K INR/Mt, may be considered as floor from the Indian mills' perspective.
- Central American raw sugar has lost its homes in Far East due to high freight rate. Thus, it will be the last origin to connect to the world market in 21/22.

Indian raw sugar FOB cash premium over NY11
[pts]

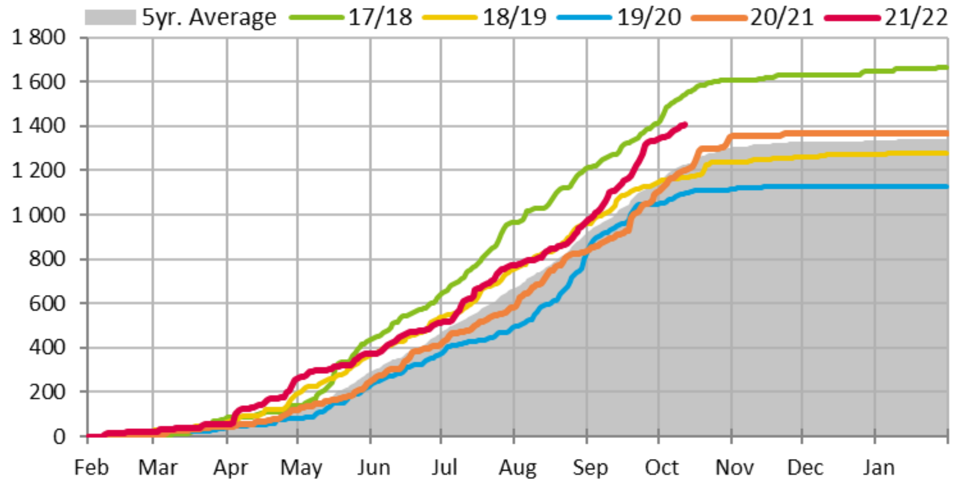


Freight rates spread: CS-Indonesia vs. Thai-Indonesia
[since Jan 2021, USD/t]

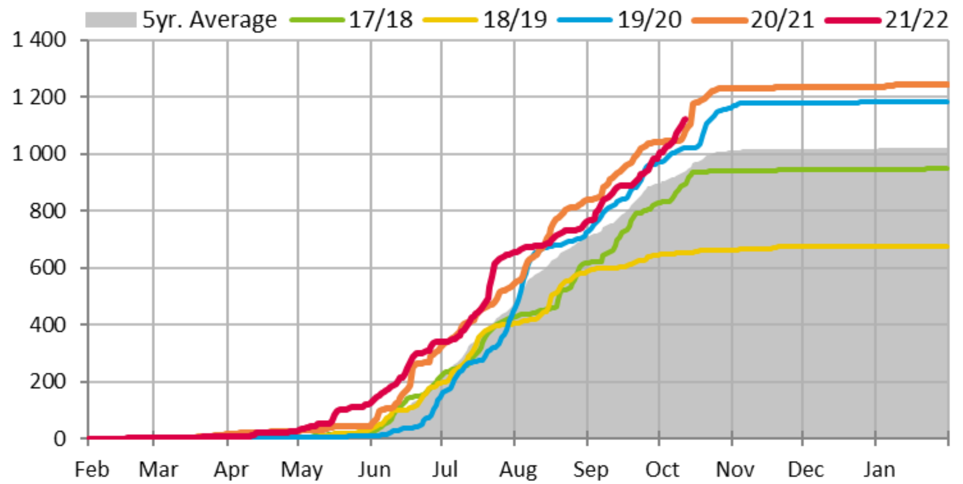
BEYOND 21/22: CS WEATHER & INDIAN PARITIES REMAIN KEY

- In Asia, weather and cane prices are pointing towards sustained production levels, beyond 21/22.
- Thailand benefited from a favorable monsoon, with a late withdrawal, which shall favor plantings for 22/23 in a context of high cane prices. An upward trend for Thai exports should persist.
- In India, reservoirs are full, and cane is still the best paying crop for farmers. But ethanol is to capture most of the sugar production increase. Also, local stocks decreased and may continue to support domestic prices: the world market will still have to "buy" Indian raw sugar.
- In Europe, although beet prices are on the rise, grains are more remunerative, and beet areas should remain stable. Furthermore, high energy price will push production costs up and prevent from an increase of production given current price context.
- China import parities are closed, and 2022 flows will rely on them. Ultimately, parities will have to open as imports are required to balance the Chinese S&D, yet at a smaller level given refiners' high stocks by the end of 2021.
- The world S&D will quit its current tight scenario only in case of a 22/23 Brazilian sugar production significantly higher than this crop: it will require a normal rainfall pattern.

Thai cumulated rainfall
[Feb/Jan; mm rain]



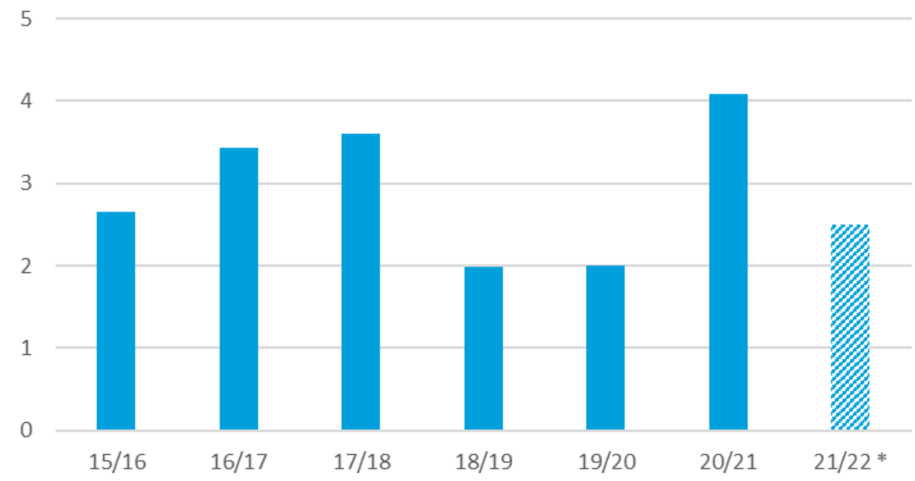
Maharashtra cumulated rainfall
[Feb/Jan; mm rain]



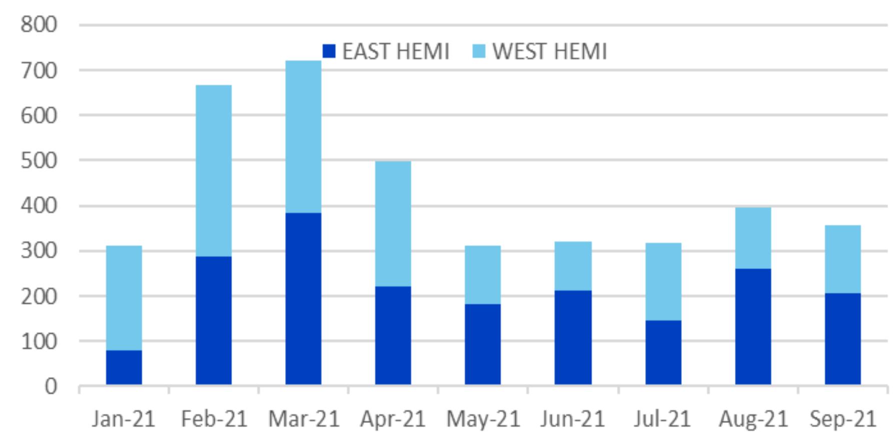
WHITES: RESET

- After a start of the year that was marked by over-supply requiring front-loading from destination buyers, with depressed CNF cash values, the white market has progressively eliminated its excess. Stocks have finally been reduced at destination.
- With the poor performance of the CS crop, Western hemisphere is turning tight over the CS intercrop. Limited containers availability will also stress the need of breakbulk shipments for this period.
- With the high bulk freight rates, Middle East refiners are not economically able to refine given current white premium environment – apart from their captive regional demand. Their contributions to the breakbulk market should be limited.
- Indian coastal refiner economics are different from other autonomous refineries given their access to cheaper local feedstock. With these improved costings, they are expected to seize opportunities more easily and to keep refining at a sustained pace. Their contributions will help to balance the Eastern Hemisphere, but current breakbulk freights rates prevent them from connecting with Western Hemisphere.
- In the mid term, lower LDN5 prices and/or an easing of breakbulk freight rates will tighten further the whites S&D and support to the white complex.

CS Brazil bagged sugar export
[Apr/Mar, Mt, Tel Quel]



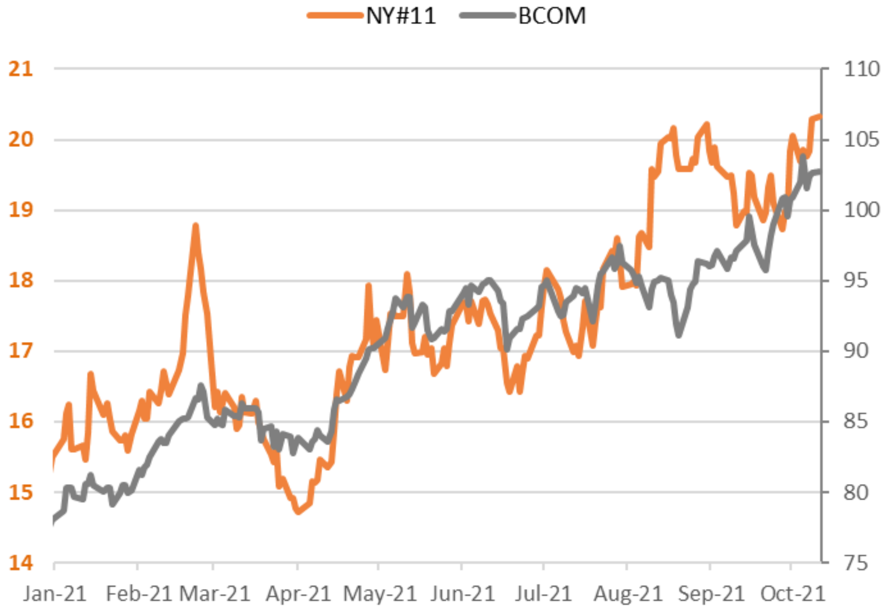
Breakbulk sugar export per hemisphere
[Monthly, kt]



MACRO: BETWEEN HIGH ENERGY PRICES AND INFLATION FEARS

- Energy complex is buoyant and should keep a positive influence on the sugar price dynamic.
- In the short term, Brazil gasoline and ethanol prices will be the first drive belt between energy and sugar prices, although affecting only marginally the final 21/22 sugar production figure.
- In the mid term, it will also increase processing costs, fertilizers, logistics (…) and will contribute to an increase of sugar cost of production. This is particularly the case for the beet processing industry, relying on fossil energy.
- On the other hand, inflation fear and subsequent perspective of a world economic slow-down could bring a more risk-off environment and temper investors appetite. Still, even in this perspective, commodities could represent a potential hedge in an inflation-prone context.
- Funds net long position has been relatively stable for a while, at a high level, initially mostly boosted by weather fears in Brazil in the middle of 2021.
- Beyond the relative supportive macro environment, lower-than-average rains in CS Brazil may be required to maintain funds buying appetite.

NY#11 and Bloomberg commodities index
[cts/lb; index points]



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