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SUCDEN SUGAR MARKET REPORT

REALITY

MARCH 2024

EXECUTIVE SUMMARY

- 23/24 CS Brazil crop will be remembered as a year of record-breaking achievements. With production increasing by almost 9 Mt, it prevented a sugar shortage worldwide, allowing India to exit the exporter arena without major disruption.

- While the conditions for poor crops in the Northern Hemisphere appear to be repeating in 24/25, the situation in Brazil CS presents a stark contrast with the previous crop year. Compared to last year, when December/January/February rains were approximately 25% above average, this year they are about 30% lower during the same period. This significant difference in rainfall might lead to a major shift of the cane yield for Brazil.

- Therefore, in a world that depends on Brazil for over 75% of its raw sugar supply, the sugar giant looks likely to miss the mark this year.

- The supply risk is expected to materialize primarily during Brazil CS intercrop period, characterized by limited availabilities exacerbated by logistics constraints, all against a backdrop of sizable demand. With alternative origins reduced, destinations have no other choice but to turn to Brazil CS. However, frustration of demand may only be avoided if there is an early crush of the harvest, a prospect that seems to be fading away due to the delay in vegetative growth.

- The tightness is expected to persist during the 24/25 crop, leading to an inadequate supply by the next intersafra. This situation represents an unusual discomfort for such a long-term perspective.

- The funds stayed away from the market due to an unfavorable macroeconomic context for commodities. Consequently, their buying power remains intact, compared to Brazilian millers that are already well hedged.

AT A GLANCE

01 SUGAR CROP OVERVIEW

- Brazil CS 24/25: reduced crop forecast
- India: disconnected from the world market
- Thailand: maintaining a low production profile
- World S&D: sizable deficit in 24/25

02 SUGAR MARKET FEATURES

- Tight 23/24 intercrop
- 24/25 raw trade flows at risk
- Whites: refiners are needed
- Gloomy momentum for commodities

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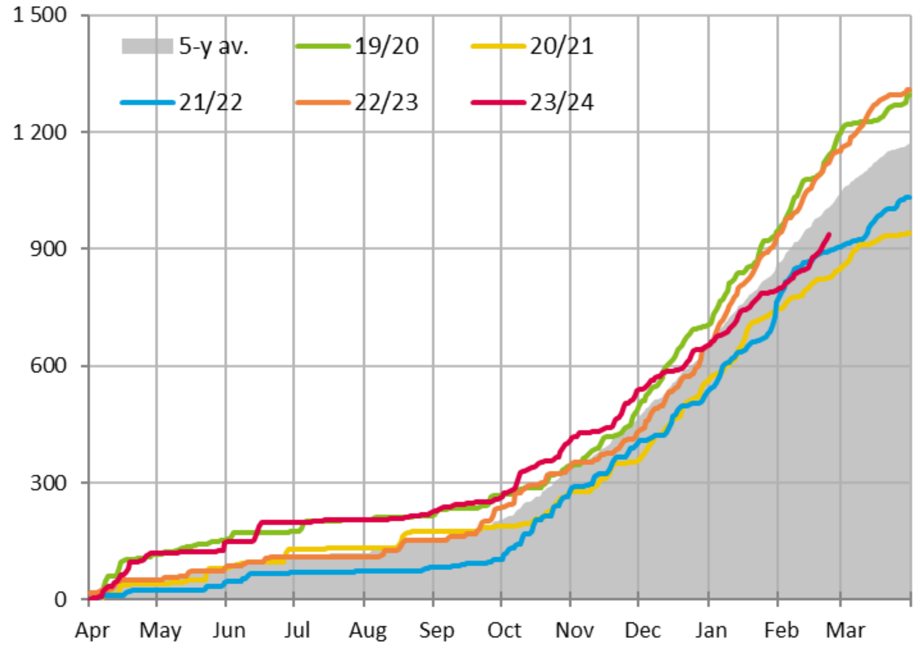
SUGAR CROP OVERVIEW

BRAZIL CS 24/25: REDUCED CROP FORECAST

- 23/24 proved to be a standout for the Brazil CS crop. Ideal rainfall pattern during the crucial December-April period coupled with low cane age and meticulous crop practices helped the TCH to post an all-time high at 87,5 Mt/ha. On top of this, the mildly dry winter supported the ATR. Then, November and December poor rains allowed to crush almost all the cane available.
- 24/25 should be different: from December to February, rains were about 70% of the average, leading to a delay in vegetative growth. Furthermore, the late ending of the 23/24 crop will result in a shorter vegetative cycle for the upcoming season. Thus, the TCH is estimated at 76,5 Mt/ha, still around the long-term average as it benefits from the low cane age and effective agricultural practices.
- With current sugar/ethanol parities, mix shall be once again maximized, but also pushed further by new investments and enhanced crystallization capacities, aiming for an unprecedented 52%. However, completing intercrop maintenance and crystallization capacity increase projects on time remains a challenge.
- The 24/25 Brazil CS crop is anticipated to be approximately 40.8 million metric tons, reflecting a year-on-year decrease of 1.8 million metric tons while still maintaining a historically high level.

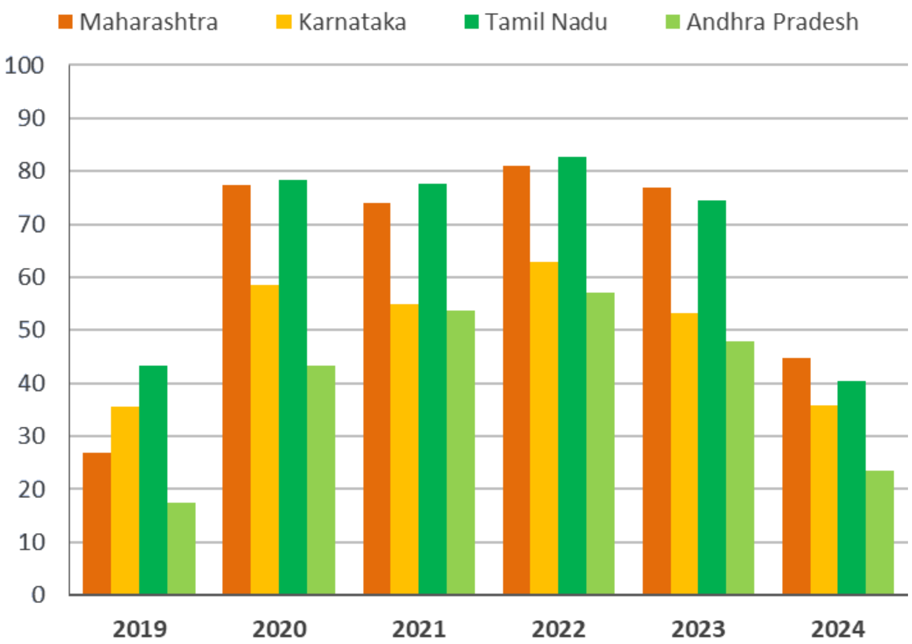
Brazil CS average rainfall on the cane area
[mm]



INDIA: DISCONNECTED FROM THE WORLD MARKET

- The poor 2023 monsoon is expected to lead to a 23/24 Indian crop of approximately 32 Mt, representing a decrease of nearly 1 Mt y-o-y. However, this figure masks a significant reduction in sucrose production of about 3 Mt. Ethanol production is anticipated to decline by 2.3 Mt, diverting a sugar equivalent of 1.7 Mt in 23/24.
- The depletion of reservoir levels has significantly impacted cane plantings in Southern India, particularly in the Marathwada area. Consequently, even with expectations of normal rainfall during 2024, production is forecasted to further decline, to 28 Mt in 24/25, with no diversion to ethanol.
- After reaching a record low at the end of last year, stocks are anticipated to rebound in 23/24 season to approximately 7 Mt. It ensures a more comfortable level of supply considering the bleak outlook for the 24/25 crop. By the end of 24/25 season, stocks could potentially reach 6 Mt, a level deemed acceptable by Indian authorities, particularly if 2024 monsoon outcome turns positive.
- India is likely to remain detached from any involvement in the world market over the current and upcoming seasons. However, there is a potential for the country to revive its ethanol program in the coming seasons.

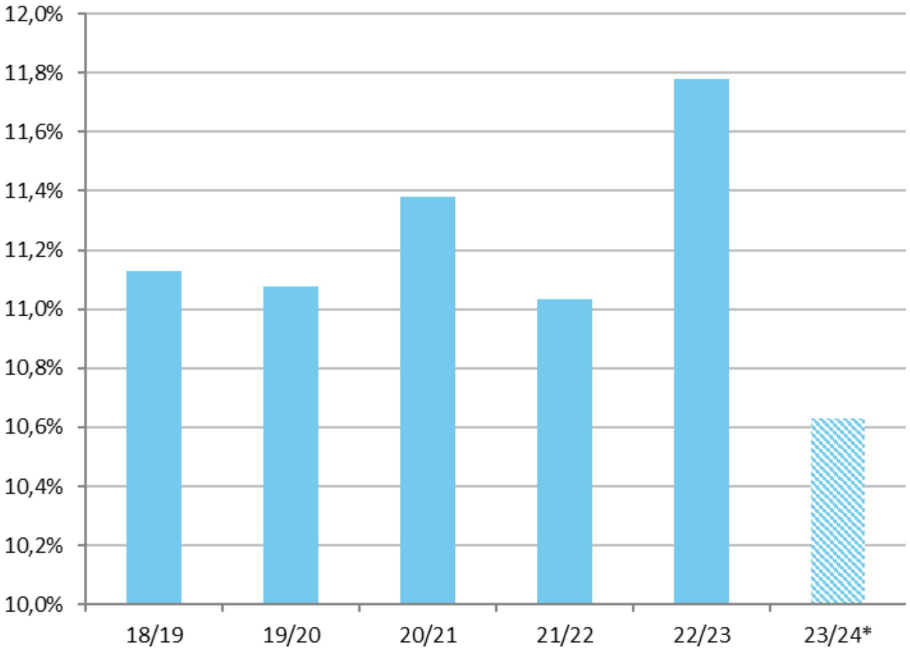
Southern India water reservoir levels
[% of full capacity, per state]



THAILAND: MAINTAINING A LOW PRODUCTION PROFILE

- The Thailand 23/24 cane crop is expected to reach approximately 80 Mt, supported by a relatively favorable performance of the North-East region. In contrast, Central and Northern regions were much more impacted by the low rainfall during 2023.
- Extraction rates remain disappointing throughout the 23/24 harvest, expected to end at approximately 10.6%. Consequently, sugar production is projected to reach around 8.5 Mt, marking a decrease of roughly 2.5 Mt y-o-y.
- The projected decrease in production is expected to primarily impact raws exports, which are anticipated to be halved year-on-year, as mills remain committed to maximizing their remelt targets through a diversification of fuel sources, not relying solely on bagasse.
- The reduction in raw exports will prompt the Far East region to deepen its connection with Brazil CS origin. This trend is already evident in the first months of this year, with Brazil accounting for over 50% of Indonesia's supply, compared to zero last year.
- The 24/25 Thailand crop should see recovery through an increase in cane area thanks to higher cane prices. However, with cassava still offering a good alternative for farmers, the area increase shall be limited to 10%.

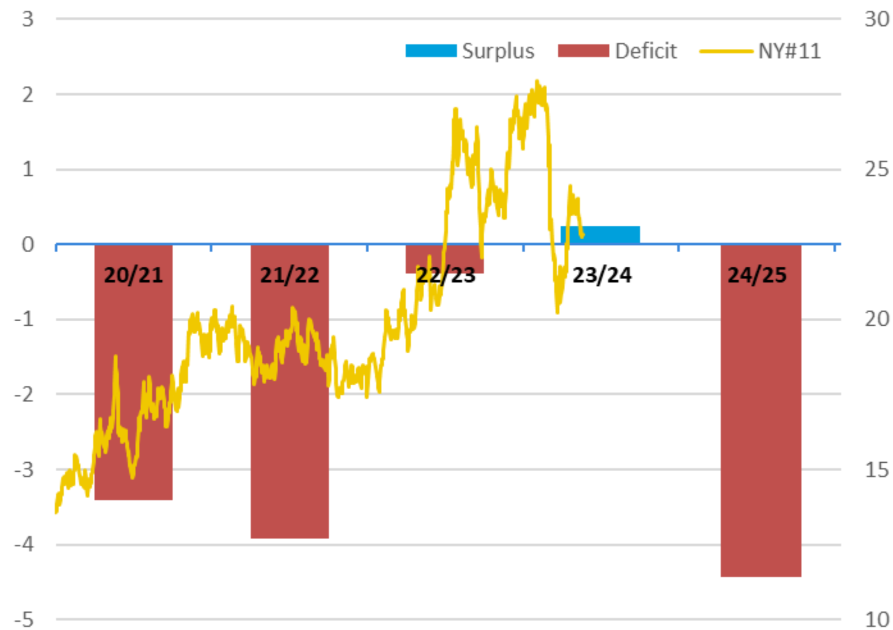
Sugar recovery in Thailand
[%]



WORLD S&D: SIZABLE DEFICIT IN 24/25

- Since the peak of 21/22, the production in the Northern Hemisphere has disappointed. This decline can be attributed primarily to adverse weather conditions affecting key producers such as India, Thailand, Mexico, and Central America.
- Additionally, there has been a relatively subdued response from beet and cane growers to higher prices. For example, in the EU, despite remunerative beet prices, the beet cultivation area is projected to expand by only 3% in 24/25.
- As a result, Northern Hemisphere production is anticipated to decrease by approximately 8 million metric tons between the peak of 21/22 and the 24/25 season. While this reduction has been counterbalanced by the rise in Brazil CS production, the global production-consumption balance has persisted in either a balanced state or in deficit due to continuous consumption growth during this period.
- This will create renewed pressure on global stocks. With few exceptions, refiners are unable to depend on existing stockpiles and must instead make monthly purchases to maintain their regular activity.
- In this constrained environment, the disappointing rainfall in Brazil CS, upon which the world is increasingly reliant, brings a higher level of risk into the 24/25 trade flows.

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

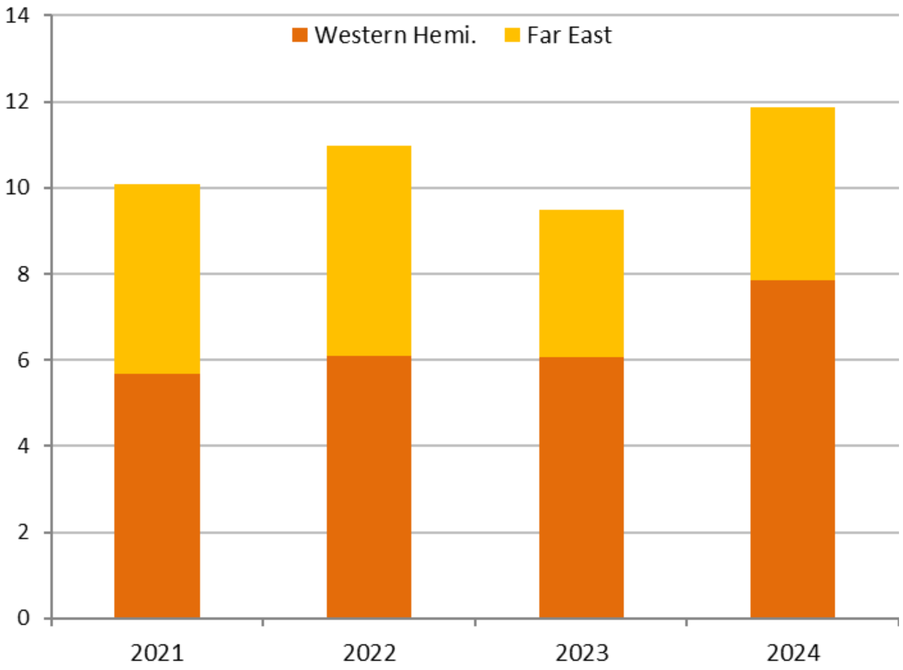


SUGAR MARKET FEATURES

TIGHT 23/24 INTERCROP

- 23/24 Brazil CS raws shipments are expected to be 5 Mt higher y-o-y by the end of February 2024. As a result, Brazil CS is left with about 2 Mt available for export in March, with last year’s minimum March-ending stocks maintained.
- Examining other origins, all are expected to be constrained during this period: India will not export, Thailand is projected to export roughly half the amount of raws y-o-y, Central America's raws shipments will be impacted by a lower crop and increased demand for bagged sugar in the region, and Australia's tail crop has been affected by the cyclone Jasper. All in, non-CS-origin supply will reduce by 30% y-o-y during the intersafra.
- Facing this, global demand shall be robust, due to the low stock levels worldwide, with the exception of China and India, that have significant inventories given large Q4 shipments. Middle East refiners' requirements are expected to be sizable, driven by a continuously remunerative white premium, as well as the demand from Indonesian refiners, following a year of lower shipments.
- A substantial portion of the intersafra demand will depend on Brazil CS's capacity to begin crushing early. However, the current unfavorable rainfall conditions and the challenging short maintenance period may prevent many mills from starting early, especially for the ones without cana-bisada.

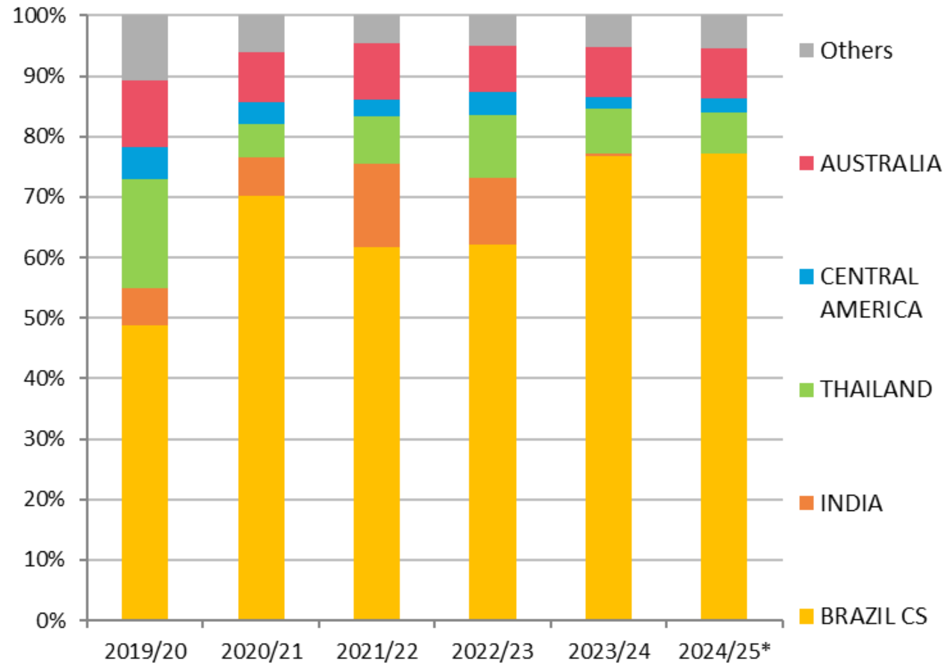
Jan-April raw demand by hemisphere
[Jan to Apr, Million Mt]



24/25 RAW TRADE FLOWS AT RISK

- Beyond the intercrop period, considering the production outlook in Brazil CS and the current deficit in rainfall, the global perspective on raw trade flows will remain constrained aligning with the deficit observed in the production-consumption balance.
- While Brazil CS may decrease its 24/25 raws exports by about 1 Mt, many other origins are also expected to decline, given the poor crops, such as Thailand or Central America.
- On the demand side, China, with a crop estimated slightly below 10 Mt, is expected to continue importing to bridge its deficit of about 5 Mt, of which approximately 3.5 Mt is estimated to be raws. NAFTA is likely to continue to connect significantly to the world market, especially with a poor Mexican crop currently assessed at 4.7 Mt. This flow may occur through various channels, including High Tier or Tariff Rate Quota (TRQ) imports, or ultimately through direct imports by Mexico. Conversely, Central Asia is likely to be supplied by Russia until Q1 2025, standing as one of the few regions with low demand.
- With such a perspective, balanced raw trade flows are not expected to return before May 2025, maintaining a record-high dependence on CS Brazil supply and contingent on a positive crop outcome.

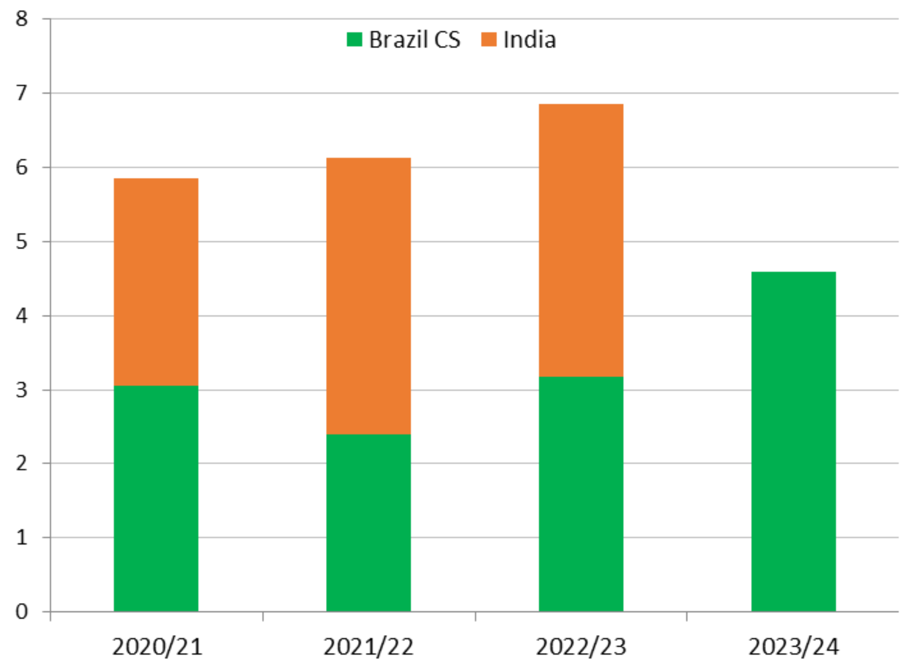
Share of raw sugar shipments per origin
[Apr/Mar, % of global raw shipments]



WHITES: REFINERS ARE NEEDED

- White trade flows continue to be significantly affected by India's absence as an exporter of domestic production. This absence creates a void in the Eastern Hemisphere, especially when considering that, in the previous crop-year, 22/23, India still accounted for 3.5 Mt of exports.
- Brazil CS's increasing crop in 23/24, and to a lesser extent in 24/25, partially compensates for India's withdrawal. With approximately 4.6 Mt exports in 23/24 and an expected 4.1 Mt in 24/25, Brazilian bagged sugars have expanded into new markets beyond their typical ones in Western Africa, capturing former Indian market shares in Eastern Africa or Asia.
- Despite a lower crop in 23/24, Thai white sugar exports should be less impacted than raw sugar exports, decreasing by 15% only due to the maximization of the remelt process. The region is likely to remain quite independent from the rest of the world, with decent flows to China, including the EPZs. Similarly, in Central America, bagged sugar exports are primarily intended for regional markets.
- Hence, refiners are required to balance the white trade flows, prompting a remunerative white premium. However, not all the world's refining capacity is necessary, particularly with the current low demand from Sudan due to the civil war.

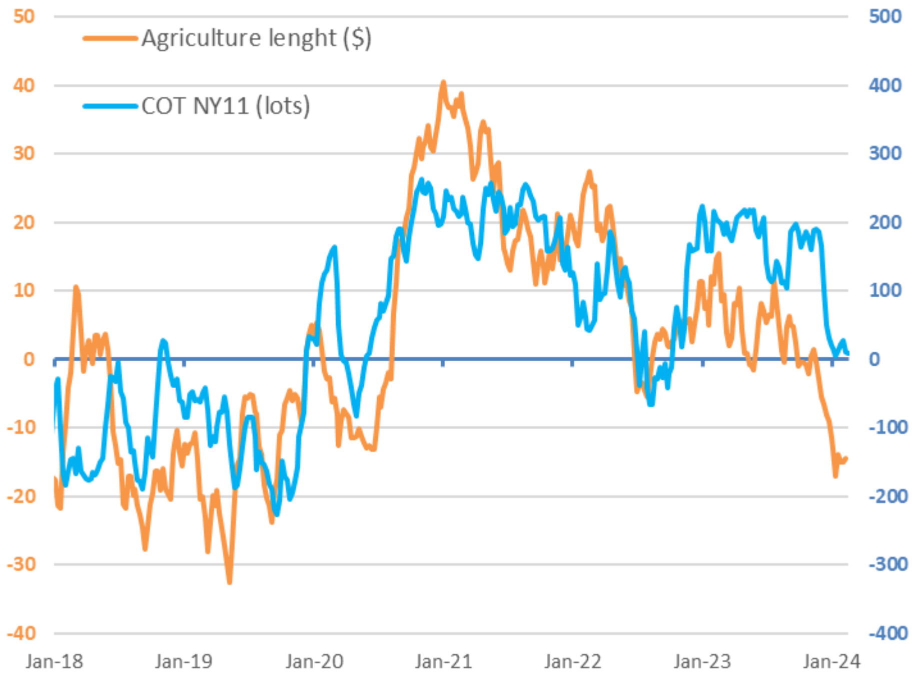
White exports (Crystal+Refined) from Brazil CS & India
[Oct/Sep, Million Mt]



GLOOMY MOMENTUM FOR COMMODITIES

- Apart from cocoa, commodities generally have not performed well over the past few months.
- Many factors contributed to this trend, including the Federal Reserve's interest rate policies, a high US dollar index, a lower inflation outlook, and a slowing economy in China.
- As a result, the overall position of funds in the agriculture markets is at its lowest since 2019, with a short position approaching 15 billion USD. The funds' short move across the agriculture sector accelerated towards the end of 2023, particularly in December.
- Sugar followed this trend, with funds' positions decreasing from 180 k lots in late November to almost flat by mid-January. Since then, they have maintained a very limited position, standing at 10,8 k lots on 20/02/2024.
- In between, CTAs continued to short the market using a trend follower approach, thus being sizably short at current NY#11 levels.
- The compelling weather-event in Brazil, within a context of record reliance on this origin, has not been embraced by the funds.
- Still, given their low involvement, the funds community retains a large buying power, compared to Brazilian mills that are already well hedged.

Agricultural commodities length value vs. NY11 COT
[left: total length in billion USD – right: COT in thousand lots]



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