



Sucden Quarterly Market Report

Up

December 2015



Agenda



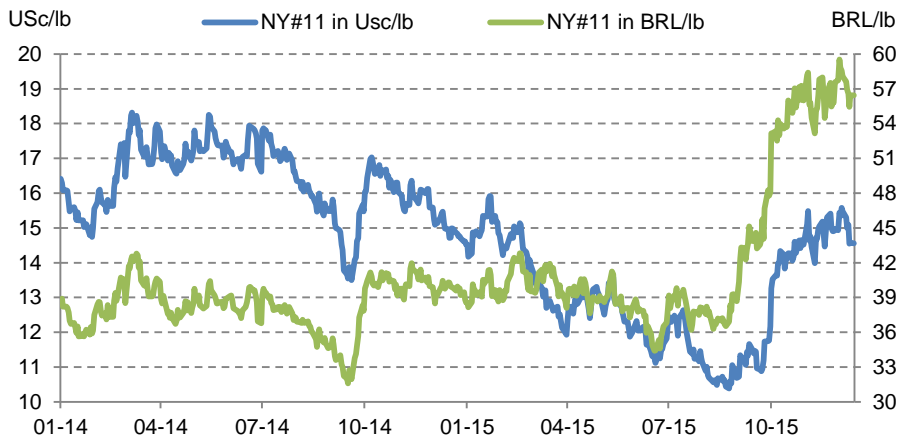
The sugar market in the past 3 months	3-4
CS Brazil – 2015/16 & 2016/17	11-18
Brazil ethanol	19-21
Other Key Countries	22-30
The world of sugar	31-33
The mid-term outlook	34-38

The Sugar Market in the past 3 months

- Sugar closed at its lowest level since June 2008 on 24 August at USc10,39. Since then, it has delivered an impressive rally, gaining 50% in little more than 3 months and closing at its highest level since January 2015 at USc15,58/lb on 3 December. During the same period of time, the BRL weakened dramatically, nearing an all-time high of nearly 4,20 against the USD at the end of September, before recovering somewhat. As the currency is still weaker than in August, the rally in BRL is even more impressive than in USD at +60%. Another striking feature of the sugar market is the strength in the spreads with, for example, March/May at an inverse of more than +40pts and October/March at a carry of not more than -40pts.
- Meanwhile, other commodities have not performed as well (to say the least). The CRB lost -5%, driven lower by the renewed weakness in crude oil prices -Brent declining from \$50 to \$40- and corn was more or less flat. Actually, the rally in sugar prices has been triggered by sugar-specific fundamentals -namely the first projected deficit after 5 years of surplus- which in turn encouraged the funds first to cover their net short positions and then to build a long position that reached a multi-year high level. This report examines in more detail the factors that could bring more fuel to the rally and/or those which could potentially calm it down.

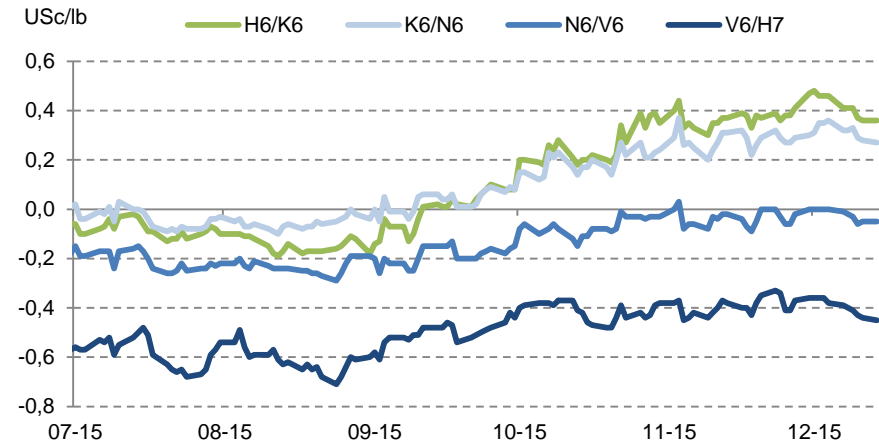
Sugar - impressive rally in both USD and BRL

NY#11 sugar prices in USD and BRL



And firm calendar spreads

NY#11 sugar calendar spreads for 2016/17



CS Brazil

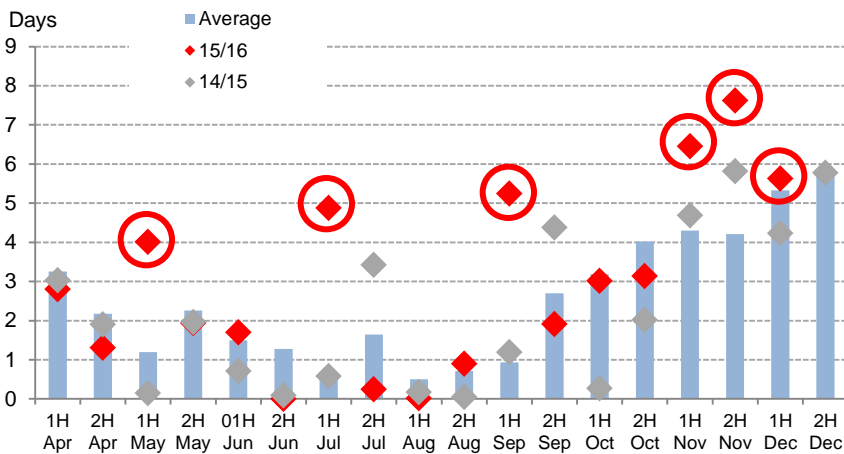
End of 2015/16 and Early forecast for 2016/17

CS Brazil: 2015/16 end of season plagued by rain

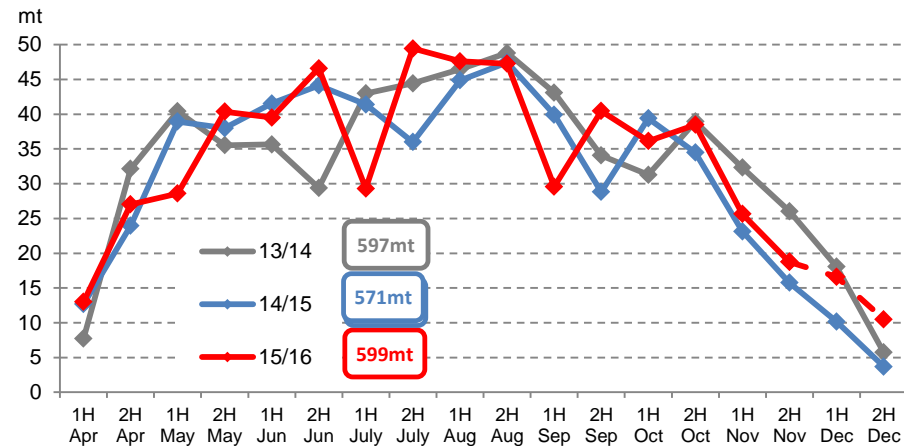
Amidst good agricultural yields and plentiful supply of cane, producers have delayed the end of the season late into December in order to crush as much cane as possible. They were crushing at an impressive performance which looked due to hit 610-615mt until rain started to disrupt operations in November. Because too many days have been lost since then, cane crushed might fail to hit 600mt, but should still post a new record above the 597mt crushed in 2013/14mt.

- Intense rainfalls started in early November and have persisted so far. November 2015 received 240mm on average across CS Brazil; 65% above normal.
- Crushing operations disrupted by rain: 12 days more than normal lost to rain between 01April and 15December, of which 7 days since 01 November.
- In order to crush as much cane as possible, mills delaying as much as possible the end of the season; around 50% of mills still crushing on 15 December. Thanks to these delays, 599mt of cane could be crushed, slightly above the record of 2013/14.

Crushing disrupted by rains, particularly since November
Number of crushing days lost to rain by fortnight



Cane crushed slightly above 13/14 thanks to late end
Fortnightly cane crushed



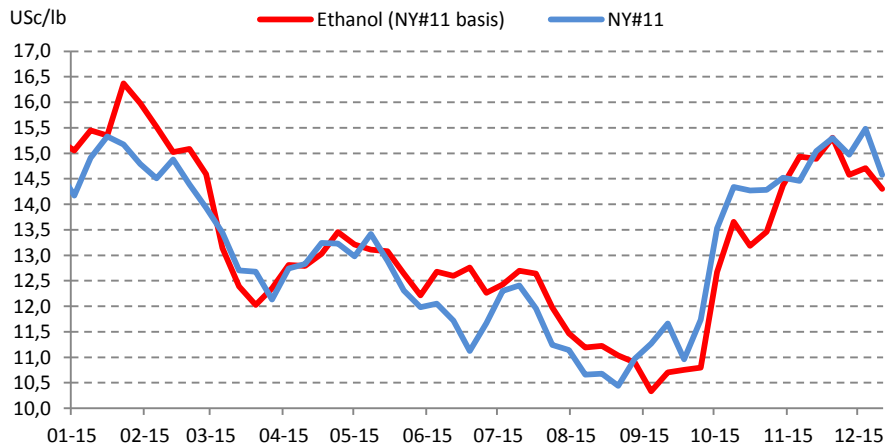
CS Brazil: 2015/16 sugar mix also hit by rain

Ethanol was more profitable than sugar during the first 5 months of the season which drove the sugar mix to low levels. Sugar became more profitable in September but the pick-up in the sugar mix was capped by rain before more intense rain still pushed it further down. Overall, the sugar mix should average 40,6%, the lowest in 7 years.

- Sugar became more attractive than ethanol in September and October. That was thanks to sugar prices rebounding strongly from their lows (from US\$10,39/lb on 24 August to US\$14,65/lb on 28 October) combined with the weaker BRL (from 3,60 end-August to 4,18 end-September).
- The sugar advantage over ethanol averaged 80pts during September-October, which should have been enough to trigger a substantial pick-up of the sugar mix. However, rain in early September and later capped the increase of the sugar mix before the intense rains that started in November drove the mix further down.
- Overall, the sugar mix should end up around 40,6%

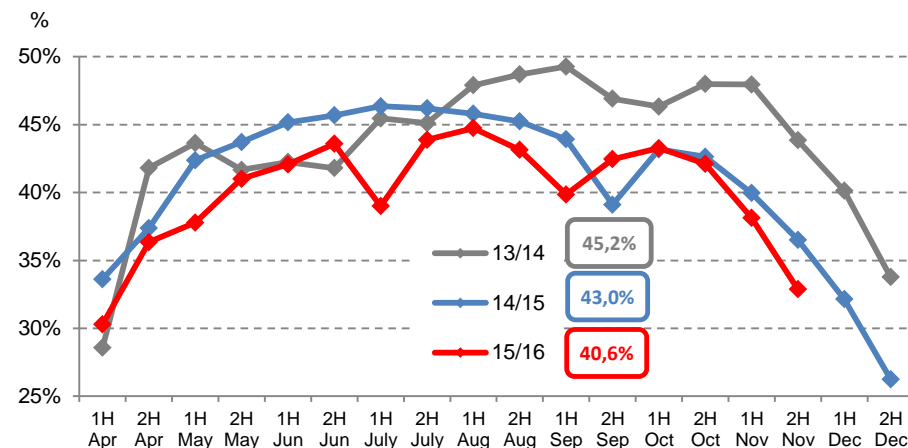
Sugar more attractive than ethanol in September & October

Sugar prices vs Spot ethanol parity



...But sugar mix pick-up prevented by rains

Fortnightly sugar mix



CS Brazil: 2015/16 to leave mixed impressions

The record in terms of cane crushed that should be set during 2015/16 will be a disappointment: up to 615mt could have been crushed if November/December had not been hit by intense rain, and a significant amount of cana bisada will be left in the field. ATR will be low on the back of flowering and rainy conditions and the sugar mix was prevented from picking up in September and October also due to rain. Sugar output at 30,5mt is the lowest in 6 years.

- **Cane crushed:** should beat the 2013/14 record of 597mt; mixed feelings however as 1/ will have required a late end and big crush in November-December in rainy conditions 2/ a big amount of cana bisada will be left in the fields (40-45mt)
- **ATR:** disappointing because of a flowering episode (of intermediate strength) and rainy conditions, particularly at the end of the season. Lowest level since 2009/10.
- **Sugar mix:** lowest in 7 years because ethanol was more profitable during the first 5 months and then rain prevented any significant pick-up. Lowest level since 2008/09.

2015/16 main features: record crush, much cana bisada, low ATR and sugar mix

CS Brazil historical crops and Sucden forecasts for 2015/16

		2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
Cane crushed	mt	505	542	557	493	533	597	571	599
ATR	kg/t	140,1	129,6	140,5	137,5	135,6	133,3	136,6	131,7
Sugar ratio	%	39,7%	42,8%	44,9%	48,4%	49,5%	45,2%	43,0%	40,6%
Sugar production	mt	26,8	28,6	33,5	31,3	34,1	34,3	32,0	30,5
Ethanol production	mm3	25,1	23,7	25,4	20,5	21,4	25,6	26,1	27,5

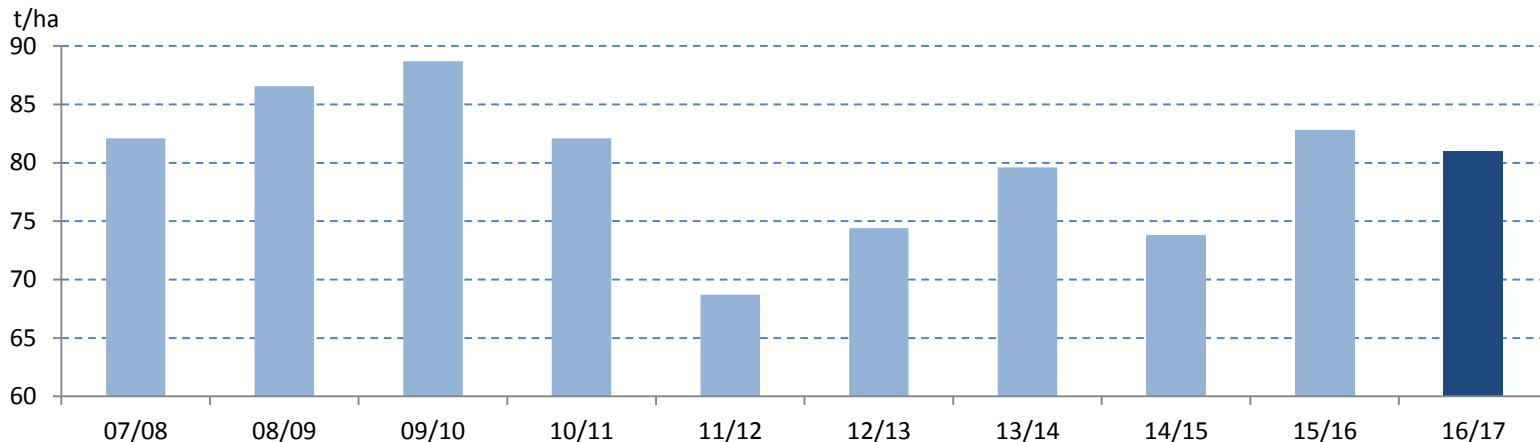
CS Brazil: 2016/17 to see plentiful cane again...

In 2015/16, around 640mt of sugar cane was available thanks to strong agricultural yields that greatly benefited from the rainy conditions of 2015 (catch-up effect of 2014 dryness). For 2016/17, area and agricultural yields may both be slightly down but sugar cane should remain in plentiful supply at around 630mt. The rainy season still has more than 3 months to go but the good rains in November and December provided a good start.

- Renovation should increase only moderately in 2016. Increased proceeds from higher sugar/ethanol prices started late in 2015 and will be first and foremost dedicated to reducing debt. Moreover, the strong agricultural yields of 2015 have somewhat eased concerns about any “urgency” to renovate cane fields. Overall, the harvestable area could decrease slightly to around 7,8 million hectares.
- Thanks to the good rain of 2015, sugar cane fields currently shows a good vegetative aspect. Given that the rainy season extends until March and that the cane will be older next year, a cautious optimism on agricultural yields may prove a correct assumption: 81t/ha, lower than the near-83t/ha of 2015/16 but with some upside.

2016/17 Agricultural yields to remain at a good level thanks to 2015 rains

CS Brazil agricultural yields and Sucden forecast for 2016/17



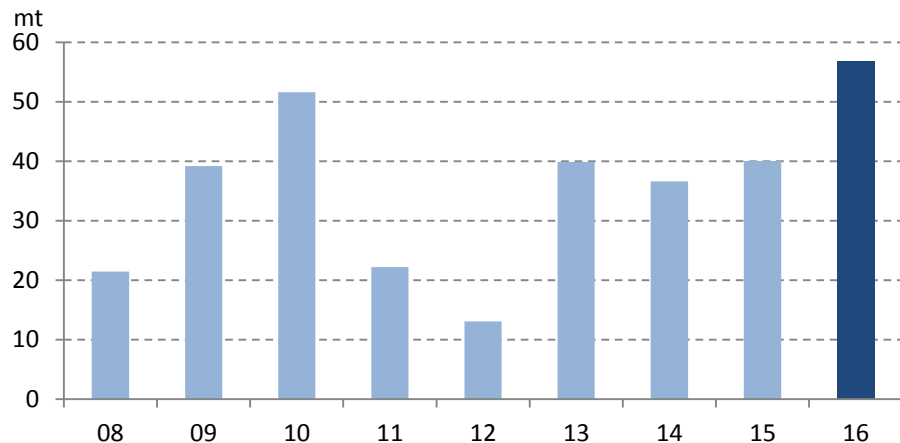
CS Brazil: ...and to start early to allow max cane crushed

With plentiful cane available next year, producers are already planning to start the 2016/17 season early. All going well (normal weather), this should allow Brazil to set a new record in terms of cane crushed at 615mt.

- Most producers are already planning to start the 2016/17 early, either late March or early April, around 2 weeks earlier than last year. This should lead to a record amount of cane crushed in April which could reach 57mt. Note that weather risks are significant in April if the rainy season extends for a few more weeks.
- Assuming normal weather during 2016/17 (around 45 days lost to rain from April to December), 615mt could be crushed –a new record

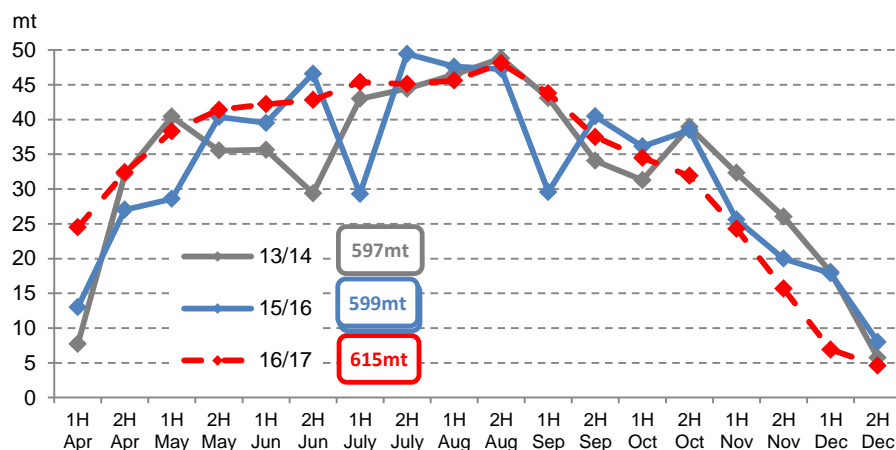
2016/17 to start early in April...

Cane crushed in April: historical data and Sucden forecast for 2016



...allowing cane crushed to hit a new record

Fortnightly cane crushed



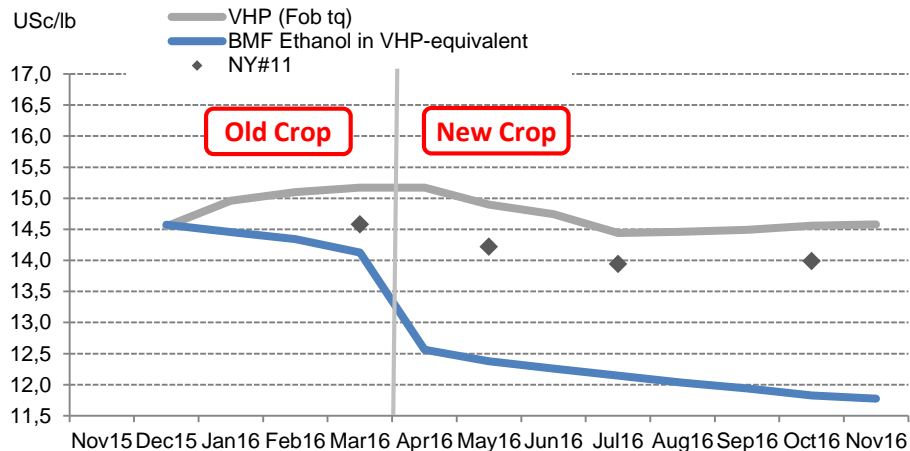
CS Brazil: 2016/17 sugar mix exposed to regulatory risks

In current market conditions, new-crop sugar appears a more attractive prospect than ethanol. However, strong expectations for a significant increase in gasoline prices -and therefore ethanol prices- are capping the potential increase of the sugar mix in producers' minds. Until it is known if regulatory expectations materialize or not, we assume a sugar mix at 44% (up from 40,6% in 2015/16).

- Sugar prices are in inverse but ethanol prices are in an even stronger inverse (for new crop) and the BRL is in strong carry...all of these resulting in a significant advantage for new-crop sugar
- Based on today's markets, the 2016/17 sugar mix should increase significantly
- Regulatory risks are however acting as a cap to the potential increase of the sugar mix for the time being. Indeed, there are strong expectations that gasoline prices will increase significantly due to regulatory changes (increase of CIDE tax by the government and increase of ex-refinery prices by Petrobras) which could result in strong upside potential for ethanol prices

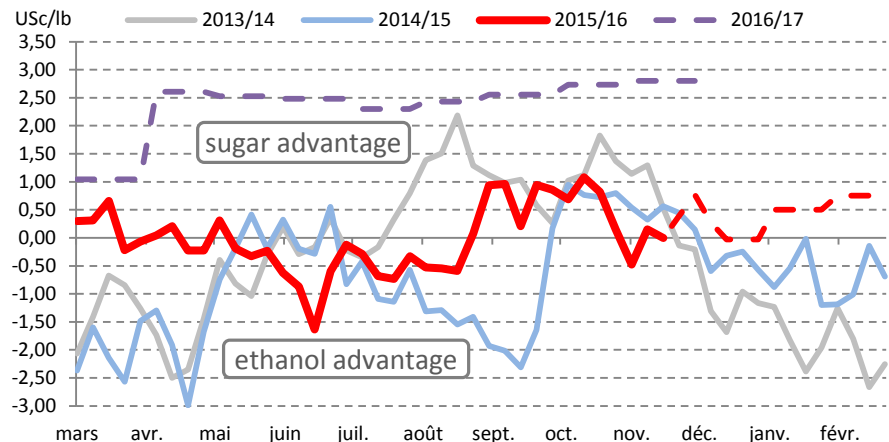
New-crop sugar currently more attractive than ethanol

Sugar vs Ethanol parity: forward vision



...would justify near-max sugar mix if not for regulatory risks

Sugar vs Ethanol parity: 3-season comparison



CS Brazil: 2016/17 sugar output likely up strongly

Base-case assumptions point to a record crush of around 615mt and a sugar mix up significantly at around 44% which would result in a sugar output of 34,8mt, over 4mt more than in 2015/16. While the start of the new crop is still more than 3 months away, any forecasts are (obviously) subject to various risks. A major one is the regulatory risk - whether or not gasoline prices will be increased - which will play a critical role in determining the level of the sugar mix.

- **Weather risks:** the rainy season will determine the amount of cane available and then weather conditions during the harvest will allow -or not- a good advance of the harvest
- **Markets risks:** BRL exchange rate has a direct impact on the sugar/ethanol competition; a weaker BRL would favour sugar more
- **Regulatory risks:** whether gasoline prices are increased significantly or not will play a critical role in determining the 2016/17 sugar mix

2016/17 strong outlook for sugar output

CS Brazil historical crops and Sucden forecasts for 2016/17

		2012/13	2013/14	2014/15	2015/16	2016/17
Cane crushed	mt	533	597	571	599	615
ATR	kg/t	135,6	133,3	136,6	131,7	135,0
Sugar ratio	%	49,5%	45,2%	43,0%	40,6%	44,0%
Sugar production	mt	34,1	34,3	32,0	30,5	34,8
Ethanol production	mm3	21,4	25,6	26,1	27,5	27,3

But big variability linked to Cane crushed and Mix

Sugar output sensitivity to Cane crushed and Sugar mix

	ATR:	sugar mix										
		135,0	40%	41%	42%	43%	44%	45%	46%	47%	48%	49%
cane crushed	590	30,4	31,1	31,9	32,6	33,4	34,2	34,9	35,7	36,4	37,2	37,9
	595	30,6	31,4	32,1	32,9	33,7	34,4	35,2	36,0	36,7	37,5	38,3
	600	30,9	31,6	32,4	33,2	34,0	34,7	35,5	36,3	37,0	37,8	38,6
	605	31,1	31,9	32,7	33,5	34,2	35,0	35,8	36,6	37,4	38,1	38,9
	610	31,4	32,2	33,0	33,7	34,5	35,3	36,1	36,9	37,7	38,4	39,2
	615	31,6	32,4	33,2	34,0	34,8	35,6	36,4	37,2	38,0	38,8	39,6
	620	31,9	32,7	33,5	34,3	35,1	35,9	36,7	37,5	38,3	39,1	39,9
	625	32,2	33,0	33,8	34,6	35,4	36,2	37,0	37,8	38,6	39,4	40,2
	630	32,4	33,2	34,0	34,8	35,7	36,5	37,3	38,1	38,9	39,7	40,5

Brazil Ethanol

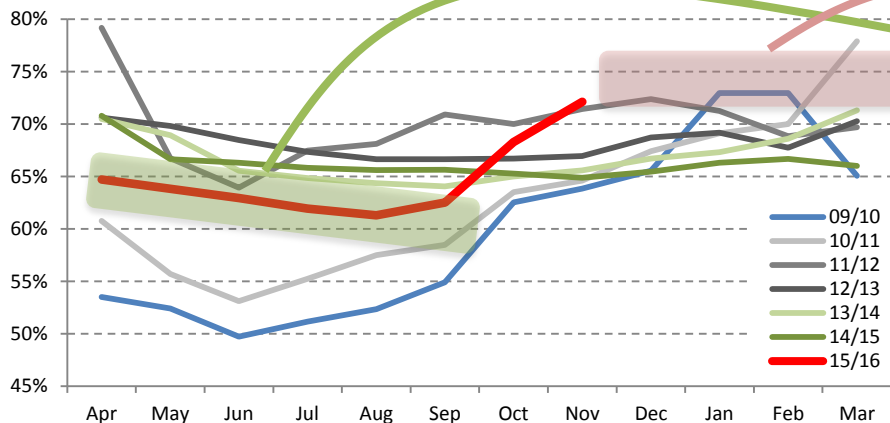
Record pace of consumption to ease on high pump prices

Ethanol prices were very low during the first half of the season and attracted a record pace of consumption. They soared in October and later and are now at levels that should calm down consumption. The rally in ethanol prices is probably mostly over, barring any potential regulatory changes.

- Until September, ethanol prices were low and very competitive at the pump (pump ratio in Sao Paulo down to 61%). This attracted strong demand, 10% above the level of the record 2009/10 season.
- From October, ethanol prices rose sharply (foreseen tight supply because of the record level of consumption, rumours of CIDE tax increase, disruptive rain, gasoline price increase by Petrobras triggering a comparatively higher increase in gasoline prices). Ethanol lost its competitiveness at the pump (pump ratio already at 73% in Sao Paulo)
- Ethanol consumption remained strong until 15 November but started to decrease thereafter. There is probably not much further upside to current ethanol prices (BMF futures)

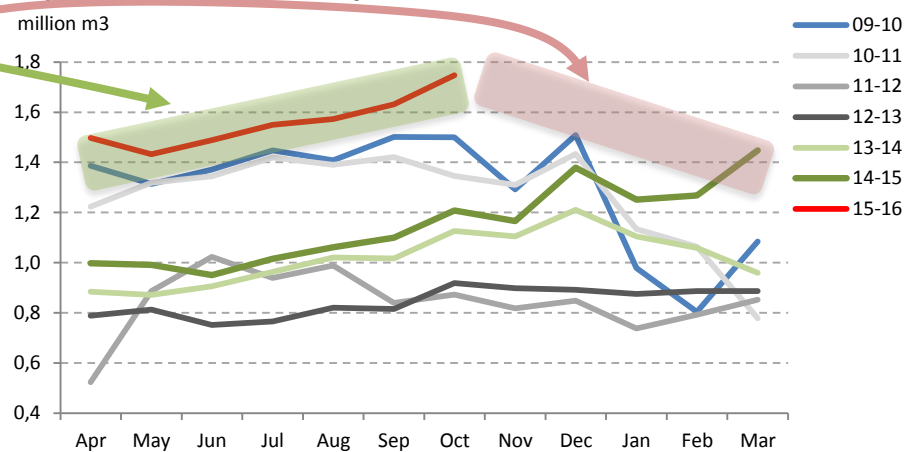
A low pump ratio during the first half of the year

Pump price ratio (ethanol/gasoline) in Sao Paulo state



And a record consumption...so far

Hydrous Ethanol consumption in Brazil



2016/17 price outlook: regulatory risks as game changer

In current market conditions, forward sugar prices for 2016/17 are 100pts above the ethanol parity (pump ratio at 70%) or even 250pts above (today's BMF price corresponding to a pump ratio of 64,2%). However, if the CIDE tax is increased by the government and/or Petrobras increases again its selling price, ethanol prices could increase and become even more profitable than sugar.

Regulatory risks could increase the ethanol parity to near USc16,0/lb

Examining various regulatory scenarios

			scenarios for new crop (2016/17)			
			0	1	2	3
			no change	CIDE +0,20	CIDE +0,40	CIDE +0,40 Price +8%
<u>Pump prices</u>						
Gasoline	r\$/l	3,50	3,50	3,73	3,96	4,15
Ethanol	r\$/l	2,54	2,45	2,61	2,77	2,90
Pump ratio	%	73%	70%	70%	70%	70%
BMF futures price	r\$/m3	1680	1630	1765	1902	2017
Ethanol ex-mill price	r\$/l	1,70	1,690	1,825	1,962	2,077
USD/BRL		3,87	4,13	4,13	4,13	4,13
Ethanol parity		14,3	12,8	13,7	14,6	15,4

← Range of potential ethanol parity in 16/17 →

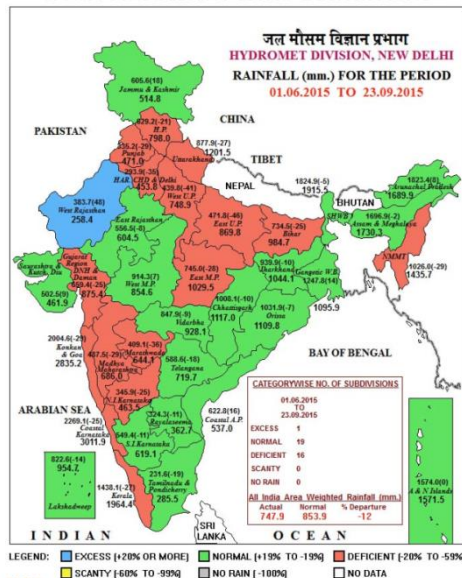
Other Key Countries

India: 2015/16 crop seen sharply down; 2016/17 worse

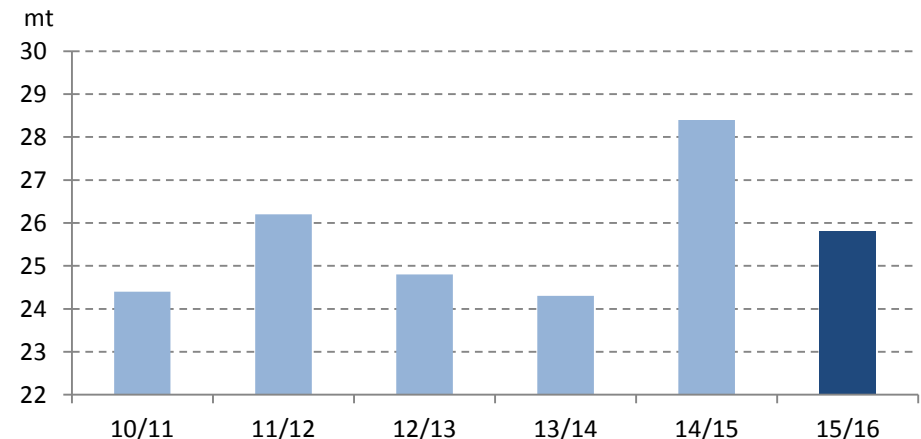
The Indian monsoon was below-normal. This should affect agricultural yields mostly in Maharashtra and Northern Karnataka, while the area planted with sugar cane is stable. The crop forecast has been reviewed down because of those low rains to around 25,8mt, 2,6mt below last year. The poor monsoon also affected plantings in the western cane belt, which could be the driver of a lower crop in 2016/17.

- Given the lower 2015/16 crop, the surplus over consumption will be more limited at 1,2mt; but the country will still have large inventories carried in from the 2014/15 bumper crop of 28,4mt.
- The early start of the crop likely reflects concerns over cane availability as well as fears of a water shortage at the end of the harvest/dry season.
- For 2016/17, low “Adsali” plantings in Maharashtra and northern Karnataka due to the poor monsoon could be only partially offset by an increase in area in Uttar Pradesh and northern India. 2016/17 could be the first deficit year after 6 years of surplus.

2015 monsoon disappointing in sugar cane regions Cumulated rainfalls since start of monsoon on 1st June 2015



Sugar production down on disappointing monsoon Sugar production in India (Oct/Sept, tel quel)



India: exports driven by the subsidy scheme

The Indian government announced a scheme to encourage exports in order to get rid of big stocks and help producers to pay their cane purchases to their suppliers. This scheme should trigger around 2mt of exports, mostly as white sugar, but the final amount will also depend on how Indian domestic prices react compared to world prices and also on how producers will feel comfortable -or not- with the size of the 2015/16 and 2016/17 crops.

- Indian crystal sugar is competitive on world markets and already exported at a sustained pace. Probably around 1,5mt of crystal sugar will be exported during the season.
- Raw sugar might also be exported via domestic coastal refineries -which will then export refined sugar made from Indian raw sugar- or via direct bulk raw sugar exports; but the export parity is currently above US\$16,5/lb –a moving target which also changes with domestic prices.
- If/when 2mt get exported, local prices are likely to increase -also bearing in mind the lower crop perspectives for this season and next- which might push the authorities to eventually limit sugar exports so as to prevent a sharp rally in domestic prices.

Domestic prices gained 38% since mid-July

India domestic sugar prices (NCDEX futures)



While the Indian rupee weakened by only 6%

USD/INR exchange rate



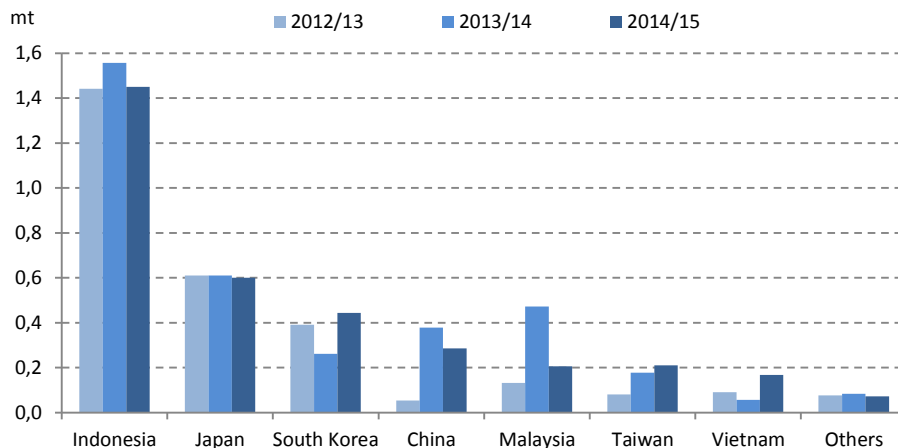
Thailand: a stable crop and a dwindling surplus

The 2015/16 crop is seeing only minor changes compared to 2014/15: a disappointing rainy season will have affected agricultural yields slightly, which will be offset by a small increase in area driven by the conversion of rice fields. The amount of sugar cane should be similar to last year while sugar could be slightly up to 11,3mt thanks to diminished conversion into ethanol.

- After a poor start, the rainy season finished in decent conditions. Overall, agricultural yields are expected to be below potential, particularly in the Central region. However, the increase in area, driven by the conversion of rice fields, should offset most of the loss and cane crushed should end up at roughly the same level as last year. Sugar output should be stable around 11,3mt.
- Start of crop was normal/early with 18 mills out of 51 having started crushing end-November. Early December, 2,4mt of cane was crushed and 139kt of sugar produced, slightly lower than last year.
- Sugar exports totaled 7,6mt in 2014/15, 500kt more than during the previous season, of which 3,6mt of raw sugar in bulk.

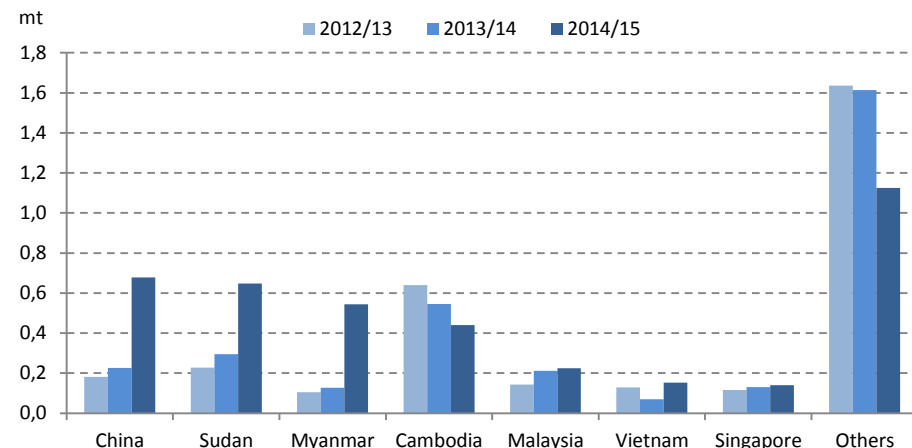
Indonesia the biggest importer of Thai raw sugar

Thai raw sugar exports by destination



China and Sudan increased demand for white sugar

Thai white sugar exports by destination



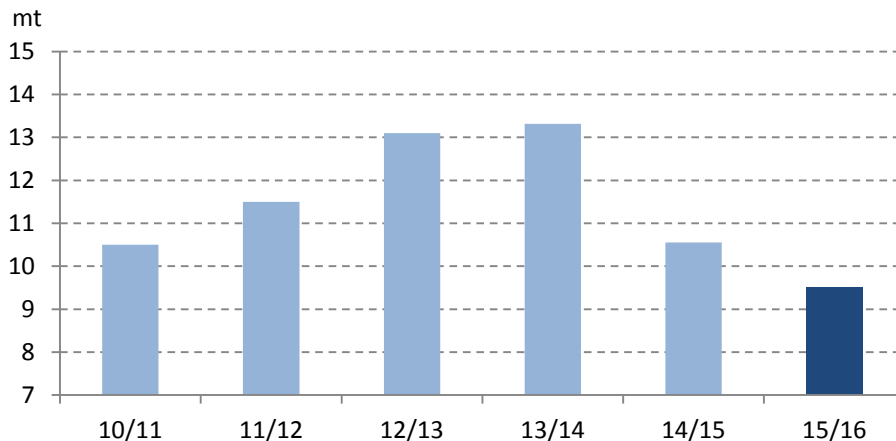
China: will the growing deficit drive bigger imports?

The Chinese crop is seen down at 9,5mt and might be further impacted if El Nino-driven wet weather persists. Based on a deficit of 6mt -a record level- 2015/16 imports should be sustained. However, the high level of strategic reserves held by the Government will cap imports if the decision to release part of them is taken.

- 2015/16 sugar output is expected down at 9,5mt, the lowest level in 10 years. Therefore, the deficit over consumption should reach a record level of around 6mt.
- Current rains have slightly delayed the start of the harvest. By end November, 543kt of sugar was produced, mostly beet sugar. Beet sugar output was up but cane sugar was down. The ongoing super El Nino is increasing the risks of persisting wet weather
- During 2014/15, China increased its imports to fulfill its growing production/consumption deficit while keeping its stocks at a high level. With the deficit rising further in 2015/16, imports are likely to be sustained but will be subject to the government decision to release -or not- part of the strategic stocks.

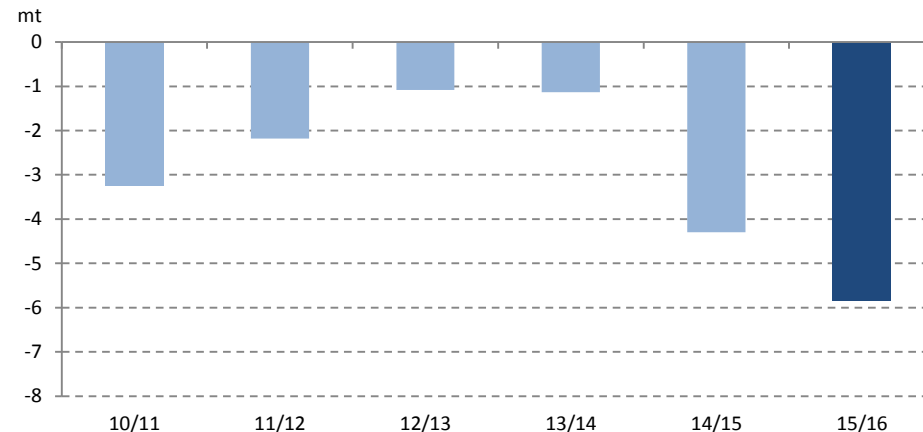
A dismal crop level, the lowest in 10 years

China sugar production (Oct/Sep, tel quel)



..Increasing the country's deficit to a record level

China production/consumption balance



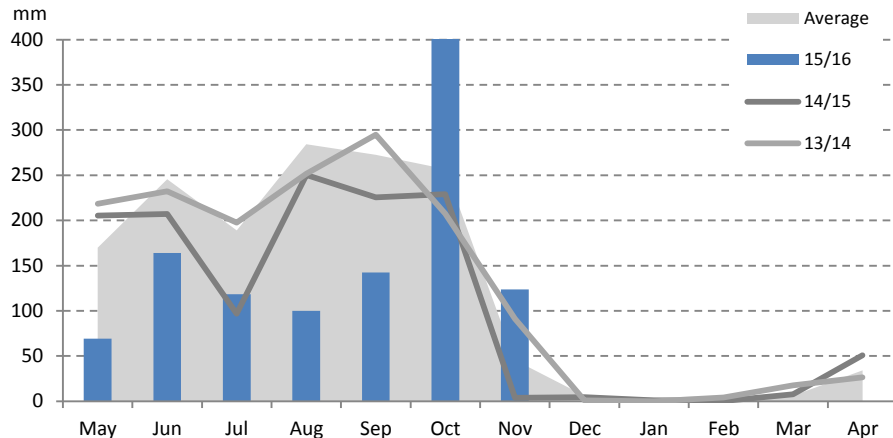
Central America: late rain welcome but slowing down start

A severe dryness linked to El Nino hit Guatemala and Central America from May to September. This should lead to a decline in sugar output in the region by 300kt to 5,1mt. Intense rains in October and November were welcome but did slow down the start of the crop. The super El Nino creates a risk of continuing wet conditions in January-February.

- Guatemala received only 600mm during the first 5 months of the rainy season (from May to September) - corresponding to severe dryness
- ...and 550mm in October and November alone – these rains were welcome for the cane fields but slowed down the start of the 2015/16 crop. There are increased risks that January-February could remain rainy because of the on-going super El Nino. In which case, cane crushed and sugar recovery could be hampered.
- Overall, sugar output in Central America could be down -300kt y-o-y to 5,1mt

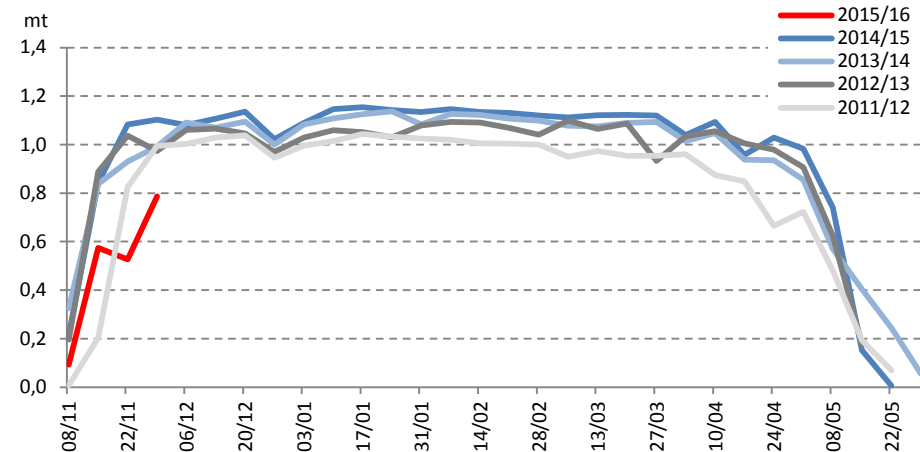
October/November ended 5-month long severe dryness

Monthly rainfall in Guatemala (Litoral area)



But late rain slowed down the start of the 2015/16 season

Weekly cane crushed



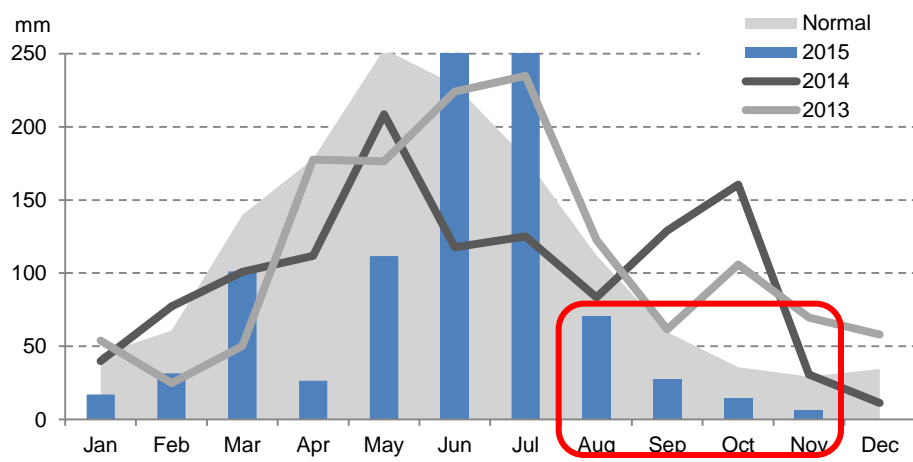
NE Brazil: 2015/16 crop hit by El Nino

After an erratic rainy season, the dryness of the past 4 months hit sugar cane fields. As a result, 2015/16 should see cane crushed down to 53mt and sugar output at 3,2mt only, the lowest of the past 15 years. So far, the crop started normally -helped by the dry weather- but an early end is looming.

- Cumulated rain from August to November: 120mm; not more than 50% of normal. Dryness likely driven by El Nino.
- Cane fields hit hard after an erratic rainy season. Cane crushed to be limited to 53mt; sharply down from 61mt last year.
- Sugar output to reach 3,2mt, the lowest level since 2001/02.

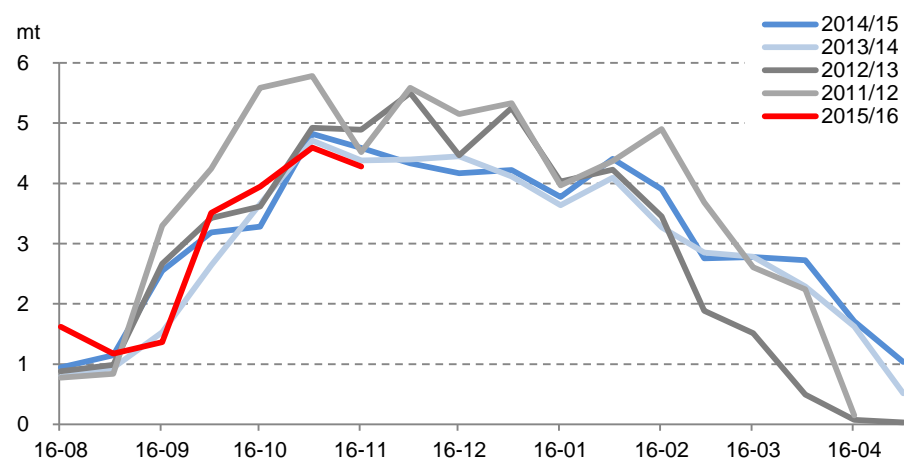
Severe dryness for the past 4 months

Monthly rainfall in NE Brazil



Normal start of the crop...but sudden death looming

Fortnightly cane crushed



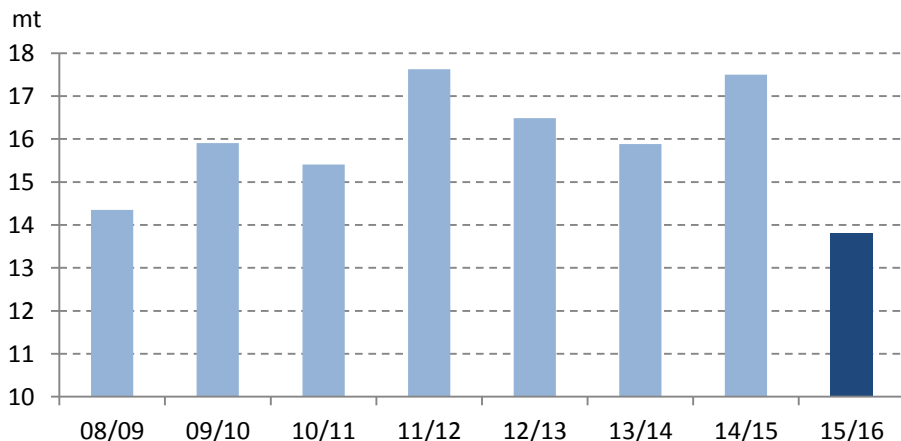
EU-Russia: EU set for exceptional measures?

Sugar output in the EU is down to a level not seen since many years on a combination of lower area (due to producers' willingness to decrease stocks and lower sugar beet prices) and lower agricultural yields (due to unfavourable weather). A lack of imports should ultimately lead to exceptional measures. Sugar output in Russia is strong and imports will remain at a low level.

- **EU:** sugar output seen down -20% (half on lower area and half on lower yields). Latest estimates in France peg sugar beet production down -14%. Imports were smaller in 2014/15 when EU prices were very low. Domestic prices have recovered since then but are still not high enough for all EU import schemes to take place...which should ultimately lead the EU to decide on exceptional measures in order to avoid low in-quota stocks by the end of the season.
- **Russia:** The production season is advancing normally and a strong output at 4,9mt is in sight. That should keep Russian imports at a low level.

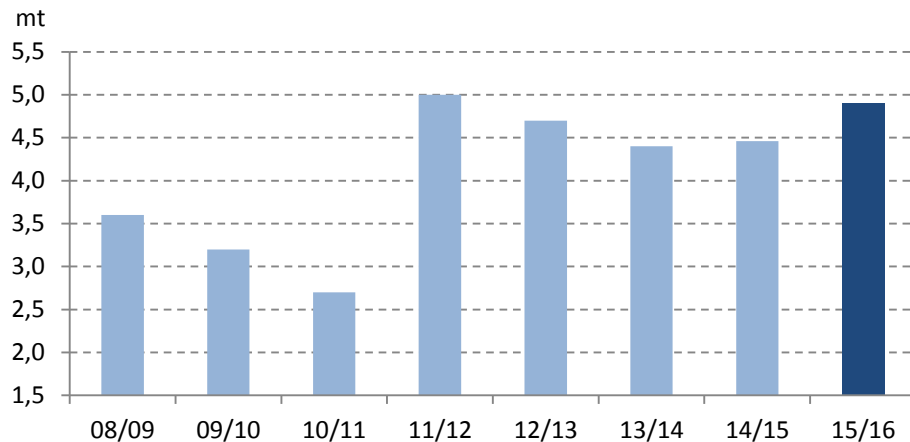
EU sugar production at a multi-year low

EU sugar production (Oct/Sep, tel quel)



Russia sugar production up to a strong level

Russia sugar production (Sep/Aug, tel quel)



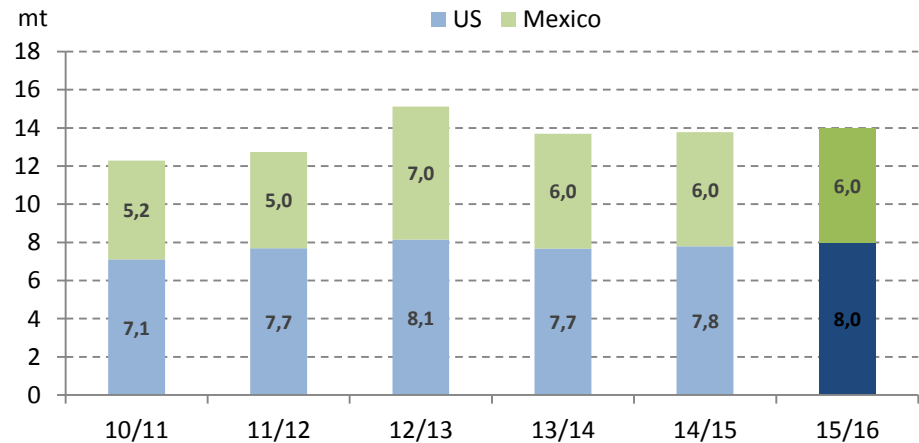
NAFTA: ample supply of readily-available refined sugar

Cane refiner margins have been squeezed to start the year as beet producers seek homes and a lack of available spot export from Mexico has created a tightness of raw sugar availability. Beet producers will continue to pressure the market through the winter as they seek homes as opposed to being forced to bag off and store supply. Mexico access to the US market will be limited which could lead to stocks of refined sugar potentially exportable on world markets.

- A demand for cane-only supply has led to decent run times for the cane refiners to start the year, but this will likely wane as direct Mexican refined supply becomes available and beet producers fully pressure omnibus clients.
- Both US Department of Commerce and USITC determinations in the Mexico Anti-Dumping/Countervailing case were upheld, meaning the Suspension Agreements will continue unless overturned in the future via appeal to a higher legal authority.
- If winter storage conditions are good, the US beet crop could very well reach record production of more than 4,6mt. This, combined with ample beginning stocks and relatively unchanged cane crops means Mexico access to the US market should only be around 1,15mt. Reduced US access in turn means that Mexico could build world market exportable stocks by the spring of 2016, but such exports would likely only occur if made compulsory.

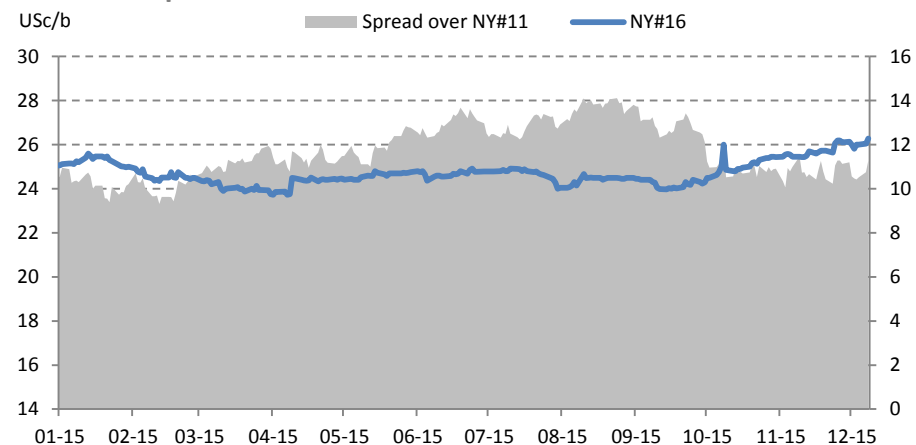
Good US crop to limit Mexico exports to the US

US and Mexico sugar output (Oct/Sept. US raw value. Mexico tel auel)



US domestic prices allow for full marketing of Mexican raw

NY#16 and spread over NY#11



The World of Sugar

Global production: 2015/16 crops showing sizeable cuts

For 11 selected key producing countries -which totaled 131mt in 2014/15- sugar production could decline by almost 9mt in 2015/16 to 123mt. The biggest decreases would be seen in the EU (-3,8mt), India (-2,6mt), CS Brazil (-1,5mt) and China (-1,0mt), whereas production should stay at good levels in countries such as Thailand, Russia, Australia, the US or Mexico.

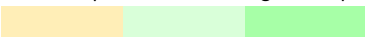
Worth noting that sizeable changes should take place in 2016/17: CS Brazil and the EU to rebound strongly whereas India could decrease more.

Sizeable cuts in some key 2015/16 crops

Sugar production in key countries (local year, tel quel)

Production	10/11	11/12	12/13	13/14	14/15	15/16	16/17
CS Brazil Apr-Dec	33,5	31,3	34,1	34,3	32,0	30,5 (*)	34,8
Australia Jun-Dec	3,7	3,7	4,3	4,4	4,7	4,6	
Russia Sep-Jan	2,7	5,0	4,7	4,4	4,5	4,9	
EU Oct-Jan	15,4	17,6	16,5	15,9	17,7	13,9	
US Oct-Mar	7,1	7,7	8,1	7,7	7,8	8,0	
NE Brazil Sep-Apr	4,6	4,6	4,1	3,4	3,6	3,2	
India Oct-Apr	24,4	26,2	24,8	24,3	28,4	25,8	
China Oct-Apr	10,5	11,5	13,1	13,3	10,5	9,5	
Mexico Oct-May	5,2	5,0	7,0	6,0	6,0	6,0	
Central America Nov-Apr	3,9	4,7	5,2	5,2	5,4	5,1	
Thailand Dec-May	9,5	10,3	10,0	11,3	10,8	11,3	
Total	120,5	127,6	131,9	130,2	131,3	122,8	

Crop scale: bad crop "normal" good crop



(*) cane plentiful but sugar mix lower

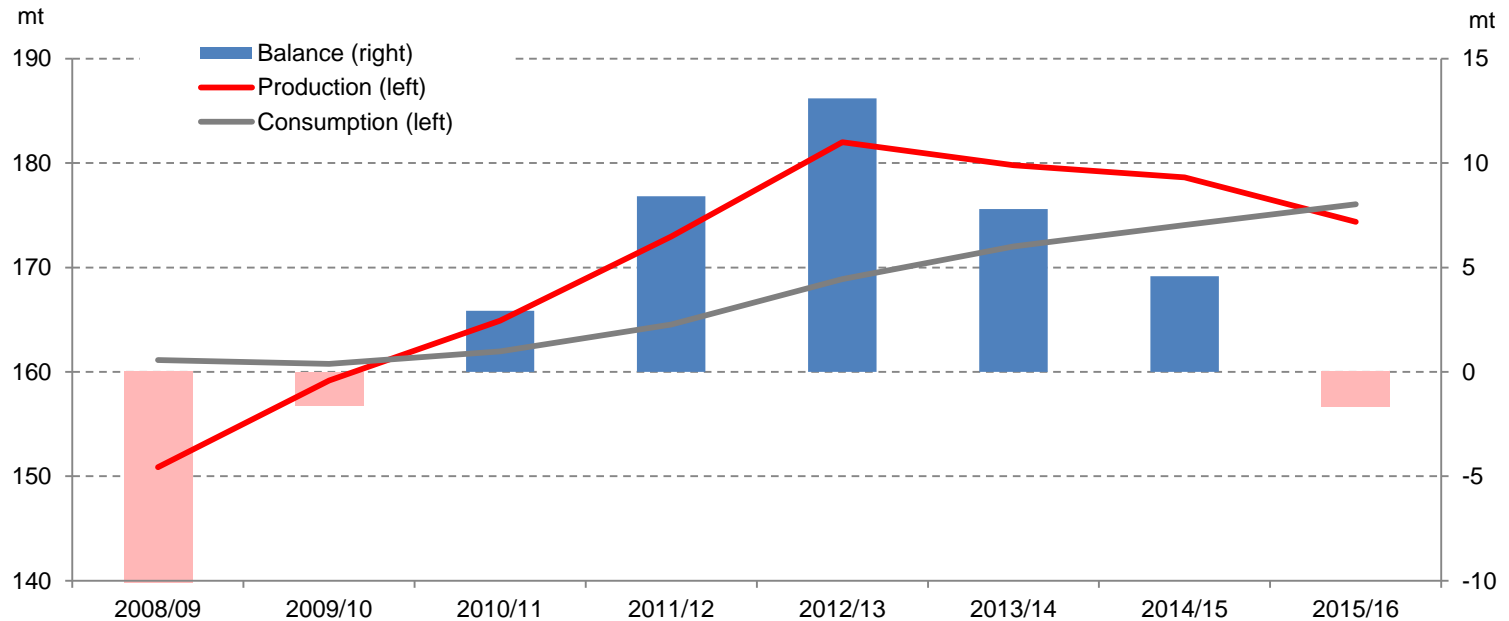
Global production/consumption balance: 1st deficit in 6 years

World production looks set to decline quite significantly by 4mt to 174mt, bringing the cumulated decline to -7,6mt in 3 years. Meanwhile, world consumption is continuing its steady increase by around 2mt to 176mt.

Therefore, the world sugar market could deliver a slight deficit of -2mt; the first one after 5 years of surplus which totaled 37mt from 2010/11 to 2014/15.

World balance to shift to a (slight) deficit for the 1st time in 6 years

World Production/Consumption balance (Oct/Sep, raw value)



The Mid-Term Outlook

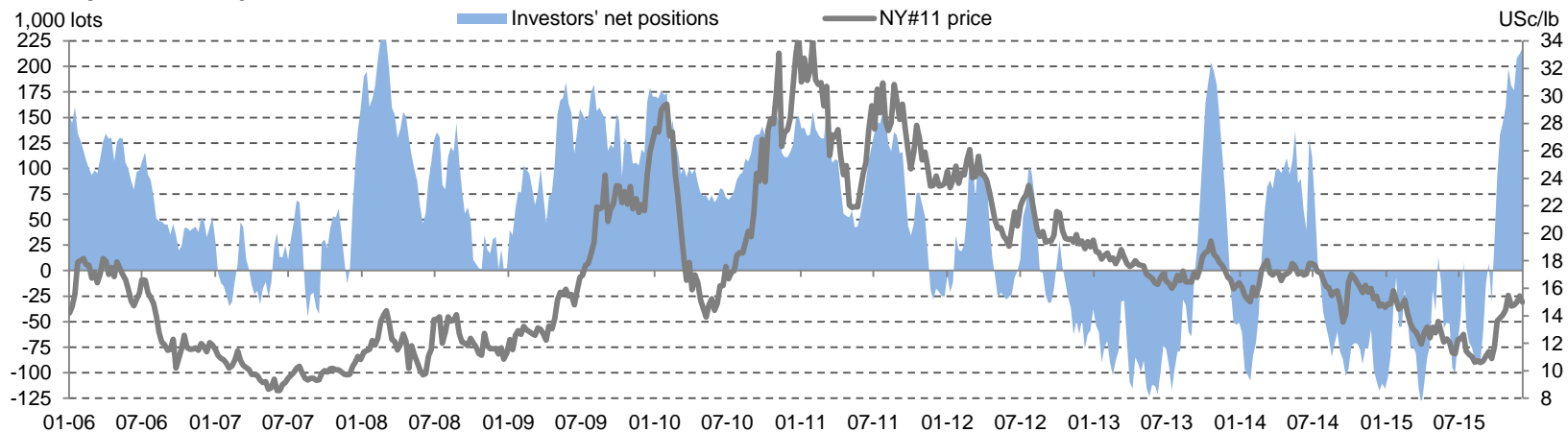
CFTC report: Funds net long historically high

Funds' net long position rose sharply since September and reached an historically high level. Their position does not look that vulnerable however as fresh longs were added at an average price of USc14,0/lb and the market is in an inverse structure. In comparison, Commercial shorts look more exposed in an environment where producers are already relatively well priced.

- From the low of 22 September (NY#11 close at USc10,88/lb) to the last report of 08 December (NY#11 close at USc15,00/lb):
 - Funds' net long increased by 249,000 lots (141,000 lots short covered + 107,000 lots new long)
 - Index funds' decreased by 15,000 lots
 - Commercials' net short increased by 234,000 lots (247,000 lots new short - 13,000 lots new long)
- Although Funds' net long is near historical high, they don't look too vulnerable. Fresh longs were built at an average price of USc14,0/lb and the inverse structure is comforting their positions. In contrast, Commercials look more exposed while producers are relatively well priced.
- Index annual re-weighting to lead to around 40,000 lots to be sold by Index funds in January

Funds net long positions at their highest level in 7,5 years

Weekly Funds net positions



Macro environment: BRL outlook remaining bearish

The BRL recovered from its low of near 4,20 in September and has been relatively stable since then at around 3,80. However, the outlook remains decidedly bearish on the increasing turmoil in Brazilian politics, the greater unlikelihood of passing hawkish reforms, and a shrinking economy from both supply and demand sides. Moreover, the strong USD environment should persist.

- BRL stabilization since October primarily due to a general improvement in risk sentiment (partially reassuring news from China and more easing from European Central Bank) itself driving BRL option volatility lower and attracting carry trades. The news about the potential impeachment of the president was also supportive.
- BRL outlook remaining decidedly bearish as the increasing turmoil in Brazilian politics makes the passing of hawkish reforms more difficult at a time when the US Fed is likely to hike rates and maintain the strong USD environment.
- 2015 GDP to drop by around -3,5%. Domestic demand collapsing on rising unemployment, high inflation, high interest rates, tighter credit, Petrobras cutting investments. Supply side also contracting, particularly the industrial sector.

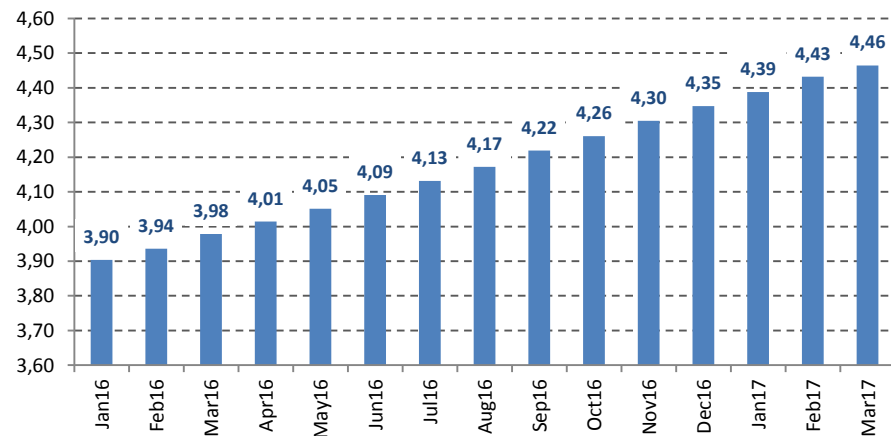
The BRL stabilized since October. What's next?

USD/BRL exchange rate



But the BRL remains in strong carry

BRL forward curve



El Nino: super El Nino can still impact global crops

The ongoing super El Nino is likely responsible for the poor monsoon in India and Thailand, dryness in Central America and NE Brazil, rainy harvest conditions in southern China and a rainy end to the season in CS Brazil. Going forward, several crops are still exposed to further downside from El Nino-driven detrimental weather conditions. However, 2H 2016 could switch to La Nina which would be overall positive for world sugar crops

- CS Brazil: long-term forecasts mostly normal as cane regions are on the edge/North of the El Nino-induced rainy areas
- NE Brazil: on-going dryness could continue during the harvest and the early part of the next rainy season
- Southern China: ongoing rainy conditions hampering the harvest could persist. Could be the case as well in Central America.
- Indonesia: normally dry during El Nino which should be a concern for the starting rainy season. However, other factors triggered good early rains and this is expected to continue. Australia rainy season would tend to be disappointing.
- La Nina in 2016? Strong El Nino tend to be followed by La Nina. If confirmed early mid-year, could lead to good rain in Thailand, India and Central America - Positive for sugar crop

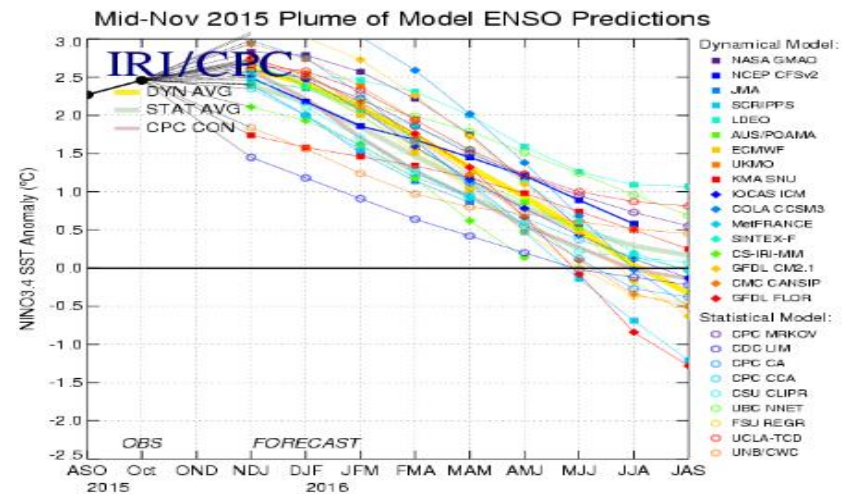
2015 El Nino stronger than 1997

Weekly sea surface temperature anomalies in Nino3,4 region



And to persist until June 2016

SST in Nino3,4 region forecasts (source: IRI/CPC)



Outlook

- In CS Brazil, the 2015/16 crop is finishing and will probably end with mixed impressions. Cane was plentiful and the amount of cane crushed will be at or near record levels but the ATR was low and the very rainy conditions of the end tail did prevent the sugar mix from picking up just when economics would have justified it. Sugar output will be down -1,5mt compared to the previous season. The focus will now shift to 2016/17. Cane will be -again- plentiful and cane crushed could hit 615mt thanks to an early start in April. The extent to which the sugar mix will increase will be critical for global sugar markets. Either gasoline prices will be increased and ethanol will follow suit therefore capping the switch to sugar, or nothing will happen and sugar will remain as attractive as it is today. Bearing in mind that uncertainty, the sugar mix could increase to 44% which would lead to a sugar output of 34,8mt, up +4,3mt from this year.
- In other key countries, there is a mixed bag of bullish and bearish factors. The Indian export scheme should lead to significant exports to the tune of 2mt...unless domestic prices react on the upside and producers start to get more uneasy about the size of the next crop in 2016/17. In China, the deficit is set to reach a record level but the monitoring of import flows by the authorities - and the potential release of strategic stocks- brings some uncertainty about the size and the timing of Chinese imports. Central America, NE Brazil and EU are heading for either disappointing or outright poor crops while Thailand, Australia, Russia and NAFTA remain at either satisfactory or strong levels.
- The projected deficit for 2015/16 (based on Oct/Sep period which includes part of the 2016/17 crop of CS Brazil) remains small in comparison of the big cumulated surplus of the past 5 years and could even almost disappear in the event that the sugar mix in CS Brazil increases above 44% -in particular if gasoline prices are not increased. In fact, there seem to be two contrasting periods in the months ahead. Relative tightness could be concentrated in the period until March -before the start of the new crop in CS Brazil- when it could worsen/ease depending on how weather, potential Indian exports and demand reductions will evolve. And the period starting in April where sugar availability should be restored, depending on the pick-up in the sugar mix.
- Funds could also bring more volatility. Their net long is currently at a multi-year high level but it is not that clear what the next move could be. Of note, the annual Index re-weighting will imply the sale of a sizeable amount of lots in early January.

THANK YOU!

The statistics charts and any other information given in this market review are collected from sources believed to be reliable. However the SUCRES & DENREES Group is not liable for ensuring the accuracy, completeness or timelessness of the information which is provided as general information and for your reference only and should not be relied upon or used as the sole basis for making significant decisions without consulting primary or more accurate, more comprehensive sources of information. Any reliance upon the information will be at your own risk. The analyses and opinions expressed by the SUCRES & DENREES Group and formed out of the Information constitute its own current views and opinions but do not necessarily state or reflect those of others. Thus, the SUCRES & DENREES Group accepts no liability whatsoever with regard to these views and opinions, which are personal to the SUCRES & DENREES Group. Consequently, SUCRES & DENREES Group does not accept any liability for any loss or damage which may arise directly or indirectly from your use of or reliance upon the Information or upon the views and opinions of the SUCRES&DENREES Group.