



Sucden Quarterly Market Report

Strange Case of Dr Jekyll & Mr Hyde

March 2016



Agenda



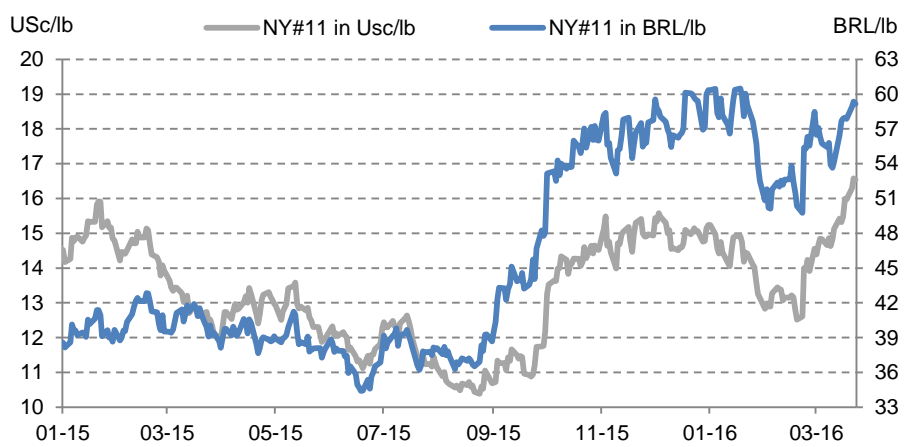
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The past 3 months in the sugar market

- Sugar started the year above USc15.0/lb, decreased to USc12.5/lb mid-February and then recovered to around USc16.5/lb, the highest since October 2014. These moves should be seen in the context of wider macro influences. The CRB followed the same pattern as did crude oil and the S&P500 for instance. This was linked to a period of heightened concern regarding the global economy and the role of China which eased somewhat after a few weeks allowing global markets to rebound. Funds' positions changed accordingly as they sold most of their existing big longs and then bought again after mid-February. Of note, the sharp appreciation of the BRL after dramatic political developments in Brazil may have contributed somewhat to supporting sugar prices since the beginning of March.
- Sugar fundamentals seem to have taken a back seat in January-February and influenced the flat price mostly via the structure of the market. The March/May spread was at a substantial inverse until mid-January but eventually weakened -and probably contributed to drive the flat price down- when it appeared that an earlier anticipated tightness in trade flows had failed to materialize. Now that the March No11 has expired, and macro concerns may have calmed down for a while, sugar-specific fundamentals could have a prevailing influence again. This report examines the main topics that will shape the market in the coming weeks.

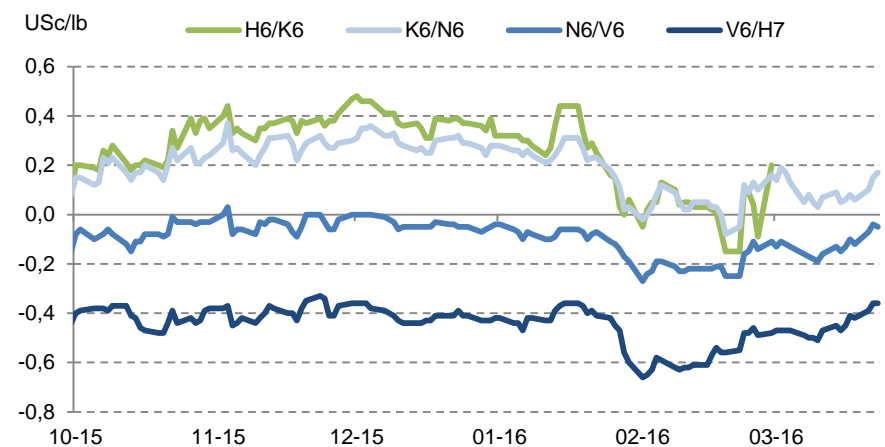
Sugar back to high levels after February weakness

NY#11 sugar prices in USD and BRL



And calendar spreads moving synchronously

NY#11 sugar calendar spreads for 2016/17



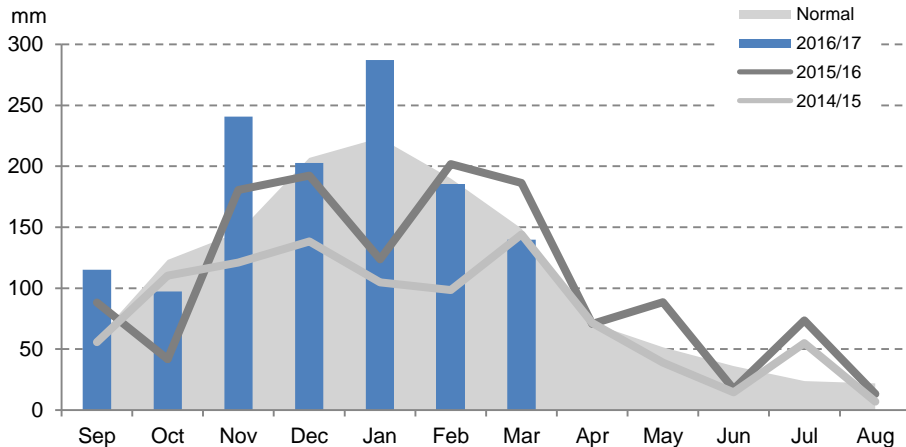
CS Brazil

Rain and Cane

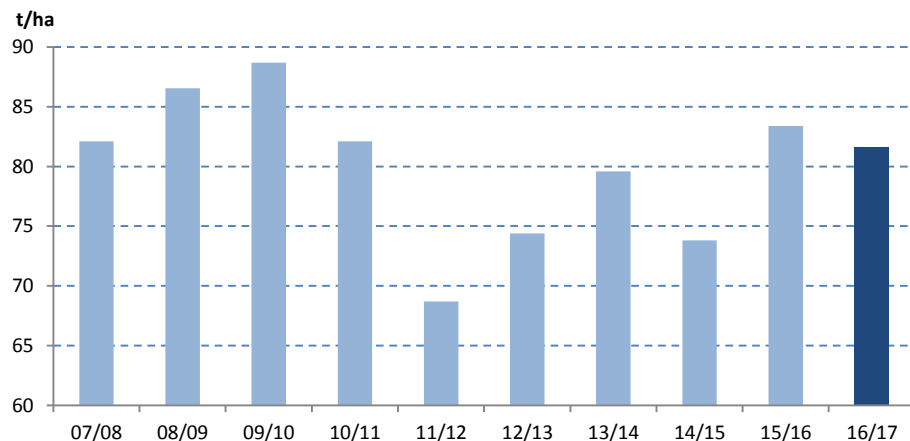
The rainy season, running until the end of March, will have been very good with rainfall either in line with or above normal for each of the past 5 months. Whether this will allow agricultural yields to exceed the strong level of 2015/16 is debatable as the cane will be older. Still, even based on a conservative approach, cane availability should be plentiful at around 640 Mt.

- Good level of rain since the beginning of the rainy season and even before. Absence of water stress. Other positive factors for agricultural yields: large amount of cana bisada (43 Mt) and field care to improve thanks to higher prices.
- Older cane will, however, remain a negative factor which could drive the agricultural yield below last year's level to around 81.5t/ha.
- Cane availability to be plentiful again at around 640 Mt (650 Mt in 2015/16)

A good rainy season... Monthly rainfall in CS Brazil



...to keep agricultural yields at a strong level Agricultural yields in CS Brazil (season's average)



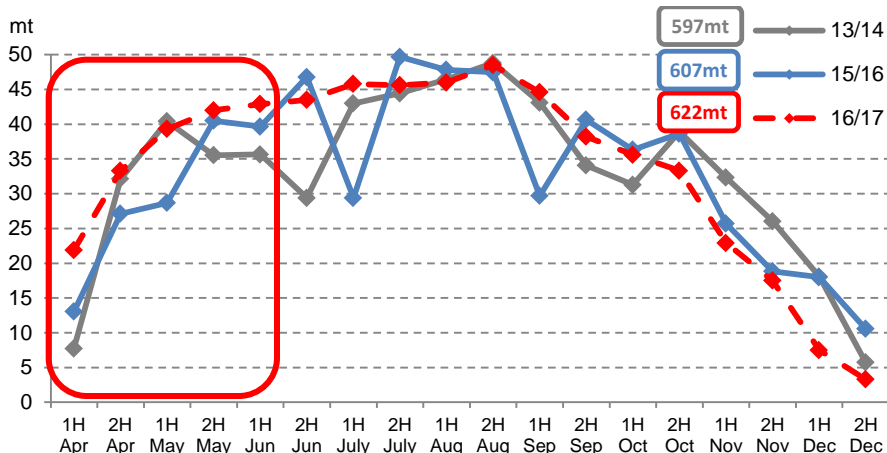
Looking forward to a striking record for cane crushed

Thanks to an early start and a slightly increased crushing capacity (debottlenecking of existing mills), cane crush could surpass 620 Mt in 2016/17, a new record after the 607 Mt of 2015/16. As always, crushing performances will be subject to weather conditions. Long-term forecasts pointing to above-normal rain in April and May represent a downside risk.

- Unless late March rains disrupt initial plans, almost 100 mills will have started crushing by the end of March. Therefore, as much as 69 Mt could be crushed in total in March and April, above the previous record of 61 Mt reached in 2010/11.
- Weather permitting, this should allow cane crushed to reach a new record at 622 Mt.
- If April and May are rainy -as currently indicated by long-term forecasts- the end of the season could be delayed to try and maintain the amount of cane crushed. Late rain would however affect ATR and the sugar mix.

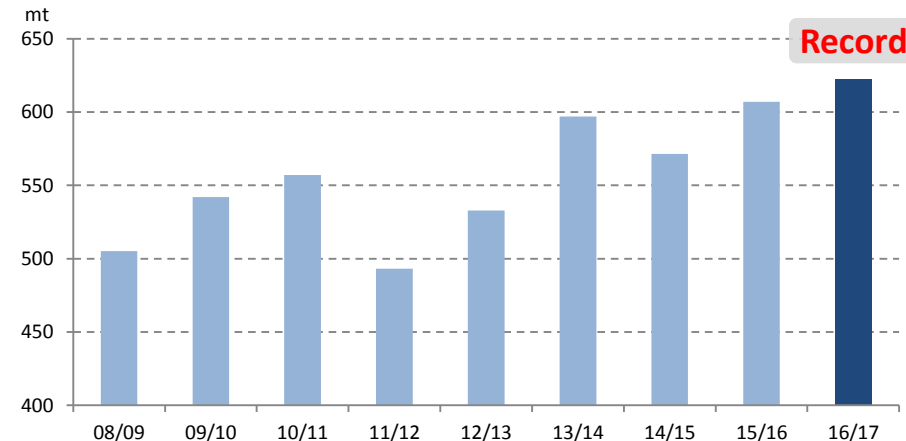
Early start of season...

Fortnightly cane crushed



...to allow a new record for cane crushed

Cane crushed per season



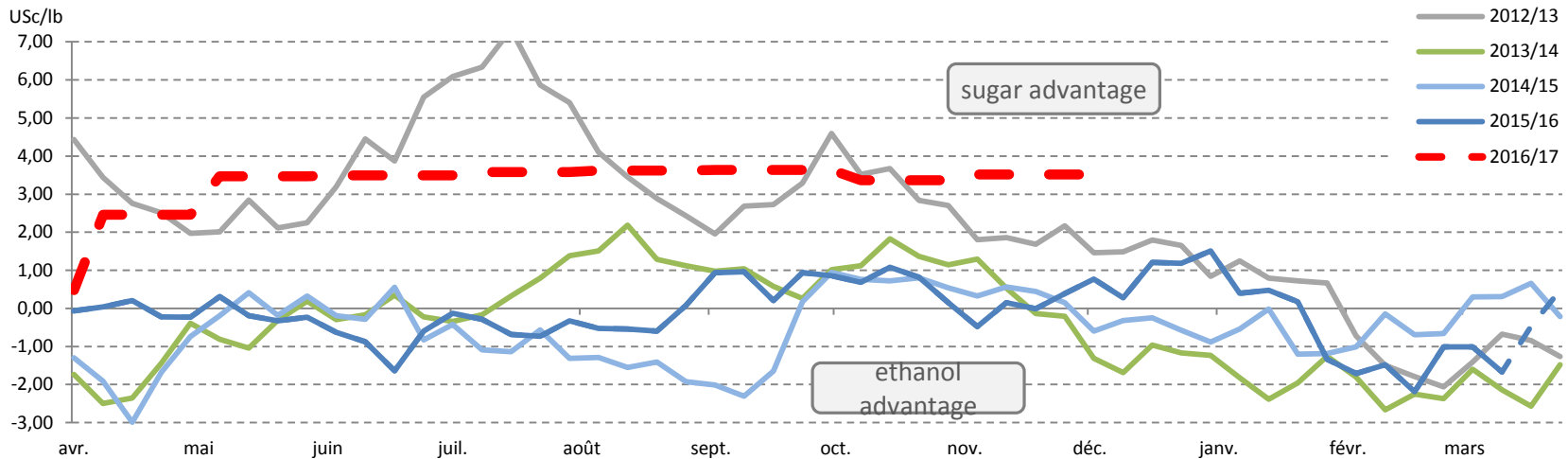
Sugar mix up...but to what extent?

On a forward basis, sugar is trading over 300pts above the ethanol parity which is a positive for the sugar mix. However, the cash-flow advantage of ethanol and lingering perception of a bullish outlook for ethanol demand/price could limit the switch. Sucden believes in a substantial increase of the mix to 43,0% based on the seasonality of ethanol prices which are unlikely to increase during the 1st-half of the crop.

- Based on the current forward curves of sugar, ethanol and the BRL, sugar is 240pts above the ethanol parity in April; gradually increasing to 360pts at the end of the producing season. However, some mills cannot price forward and will need the quick cash that ethanol sales allow. The lingering perception of a bullish outlook for ethanol prices could also limit the switch to sugar.
- Sucden believes in a substantial increase of the sugar mix to 43.0%. Ethanol prices are unlikely to increase much during the 1st-half of the season when production is in full swing.
- As always, the level of the sugar mix will adjust quickly to changing market conditions for NY#11, ethanol...and the exchange rate

Sugar is over 300pts above the ethanol parity on a forward basis

Sugar vs Ethanol parity: forward vision



Sugar output up significantly; new record in sight

Cane crushed, ATR and sugar mix are all likely to be up compared to 2015/16 which should secure a sizeable increase in sugar output year-on-year. At 34.2 Mt, representing an additional production of 3.3 Mt, the 2016/17 season would come near the record set 3 years ago in 2013/14. As always, downside risks exist (weather, ethanol markets) but the potential for an even higher production should not be ruled out either.

- **Cane crushed:** subject to weather conditions. Slowdown from potential rain in April and May could be compensated for by a later end to the season. Otherwise, dry weather would result in more cane crushed.
- **ATR:** subject to weather conditions and potential flowering events. If April and May are rainy, 134.0kg/t will probably prove too optimistic.
- **Sugar mix:** subject to weather and market conditions. A weaker BRL could possibly provide the catalyst for a higher level than 43.0%

A sizeable growth in sugar output; record in sight

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	607	622
ATR	kg/t	135,6	133,3	136,6	131,3	134,0
Sugar ratio	%	49,5%	45,2%	43,0%	40,6%	43,0%
Sugar production	mt	34,1	34,3	32,0	30,8	34,2
<u>Ethanol production</u>	mm3	21,4	25,6	26,1	27,8	27,9

But big variability linked to Cane crushed and Mix

Sugar output sensitivity to Cane crushed and Sugar mix

		ATR: 134,0					sugar mix					
		40%	41%	42%	43%	44%	45%	46%	47%	48%	49%	50%
cane crushed	600	30,6	31,4	32,2	32,9	33,7	34,5	35,2	36,0	36,8	37,5	38,3
	605	30,9	31,7	32,4	33,2	34,0	34,8	35,5	36,3	37,1	37,9	38,6
	610	31,2	31,9	32,7	33,5	34,3	35,0	35,8	36,6	37,4	38,2	38,9
	615	31,4	32,2	33,0	33,8	34,6	35,3	36,1	36,9	37,7	38,5	39,3
	620	31,7	32,5	33,2	34,0	34,8	35,6	36,4	37,2	38,0	38,8	39,6
	625	31,9	32,7	33,5	34,3	35,1	35,9	36,7	37,5	38,3	39,1	39,9
	630	32,2	33,0	33,8	34,6	35,4	36,2	37,0	37,8	38,6	39,4	40,2
	635	32,4	33,2	34,1	34,9	35,7	36,5	37,3	38,1	38,9	39,7	40,5
	640	32,7	33,5	34,3	35,1	36,0	36,8	37,6	38,4	39,2	40,0	40,9

Accounting observation

Brazil's Ministry of Agriculture recently requested that crop record methodology be changed: the 2016/17 season should start on 01 April 2016 and any production taking place before should be accounted for as part of the 2015/16 season even if, from a producer's perspective, it represents an early start of the 2016/17 season. This new rule does not change anything to actual sugar production/supply but will alter headline numbers: up for 2015/16 and down for 2016/17

2016/17 to increase sharply compared to 2015/16

Seasonal performances based on previous rule (season)

		2015/16	2016/17
Cane crushed	mt	607	622
ATR	kg/t	131,3	134,0
Sugar ratio	%	40,6%	43,0%
Sugar production	mt	30,8	34,2
Ethanol production	mm3	27,8	27,9

But headlines thwarted by new accounting rules

Seasonal performances based on new rules (01 April)

		2015/16	2016/17
Cane crushed	mt	611	616
ATR	kg/t	131,1	134,4
Sugar ratio	%	40,5%	43,1%
Sugar production	mt	31,0	34,0
Ethanol production	mm3	28,0	27,6

Brazil Ethanol

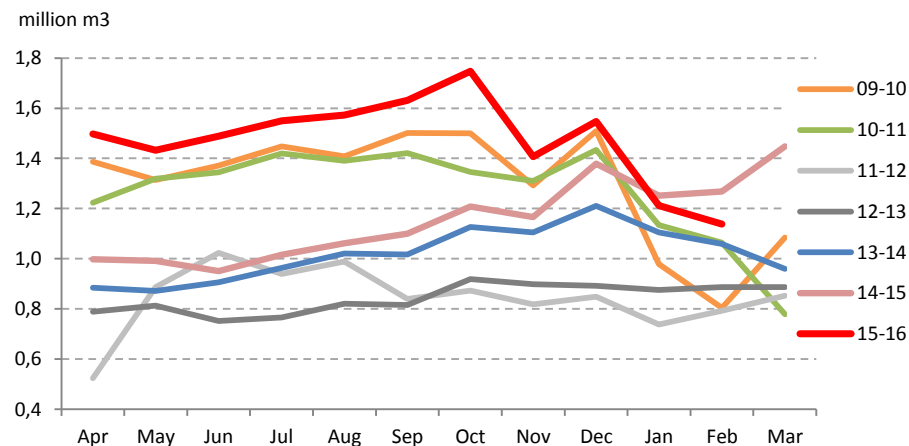
2015/16: record consumption shows signs of softening

Ethanol consumption jumped during the 1st-half of 2015/16 thanks to regulatory changes and competitive prices. A record pace of demand tightened stocks and sent prices much higher during the 2nd-half of the season. Consumer reaction to higher prices has been slow which has fueled the price rally further. The adjustment process is however underway and demand should normalize in March.

- Thanks to regulatory changes and competitive prices at the pump, hydrous ethanol consumption will set a new record in 2015/16. For CS Brazil, cumulative demand from April 2015 to February 2016 reached 14,8 Mm³, 29% above last year at the same time. By the end of the season, the total should reach almost 16,0 Mm³, 25% above last year.
- The record pace of demand has tightened stocks which are expected to end up below 20 days of consumption at the end of March at around 1.2 Mm³. This has driven ethanol prices much higher and the pump ratio has increased significantly since October, up to near 80% in February.
- Demand reaction to higher prices has been slow but is definitely underway. The share of hydrous ethanol in total consumption has already decreased from 26% in October to 18,8% in February and may be still lower in March.

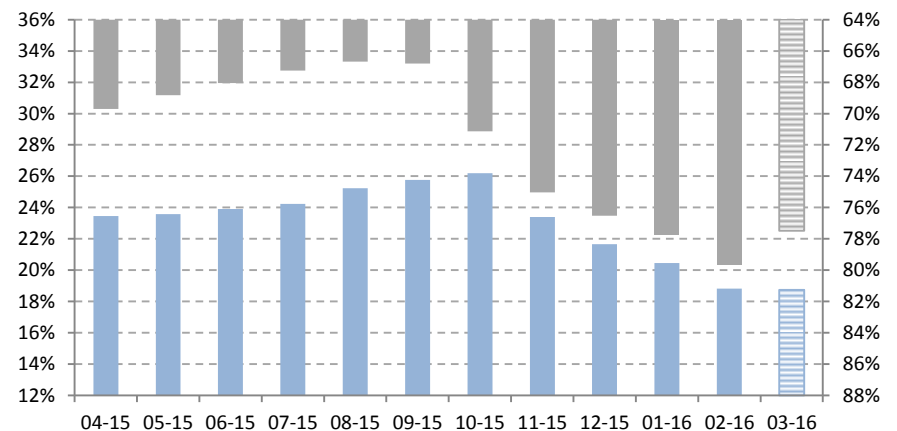
2015/16 ethanol consumption at a record high

Monthly consumption of hydrous ethanol in Brazil



But ethanol market share decreasing since October 2015

Hydrous ethanol share (blue, left) vs Pump ratio (grey, right-inverted)



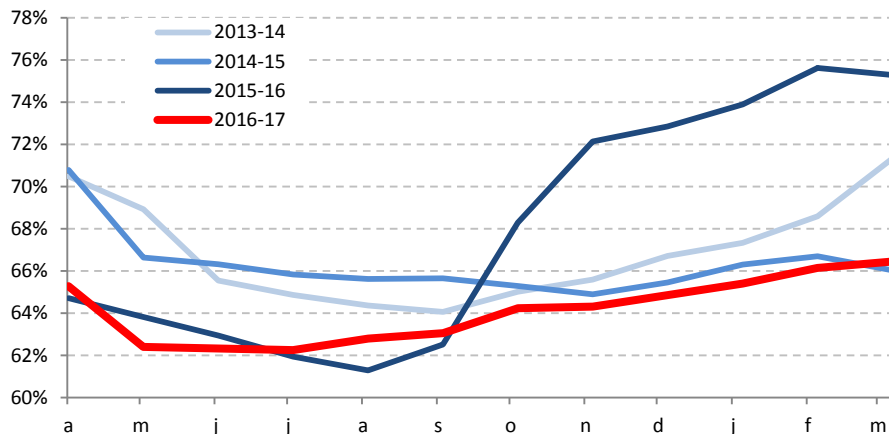
2016/17: tight outlook but seasonal delays for price reaction

Based on the current inverse in ethanol futures and more regulatory changes (states' ICMS), ethanol consumption is expected to set a new record in 2016/17. The scene looks set for very tight stocks in March 2017. However, thanks to production in full swing, stocks should remain comfortable until October...which will limit bullish pressure on ethanol prices until then.

- Ethanol futures prices, currently in a strong inverse, point to a return to competitive prices at the pump during 2016/17 which will also be favoured by more recent regulatory changes (ICMS changes in a number of states). This should drive a further increase in consumption, possibly up to almost 17 Mm³, roughly 6% above the record 2015/16.
- Export parities are closed for the time being (barely open for California but Carbon Intensity allocation pending) and US origin is cheaper which means that exports should remain at a relatively low level.
- The scene is set for 2016/17 to end up with very tight stocks in March 2017. However, stocks should remain at comfortable levels as long as production is in full swing during the 1st-half of the season. Seasonality means that bullish pressure on prices should remain limited until September/October.

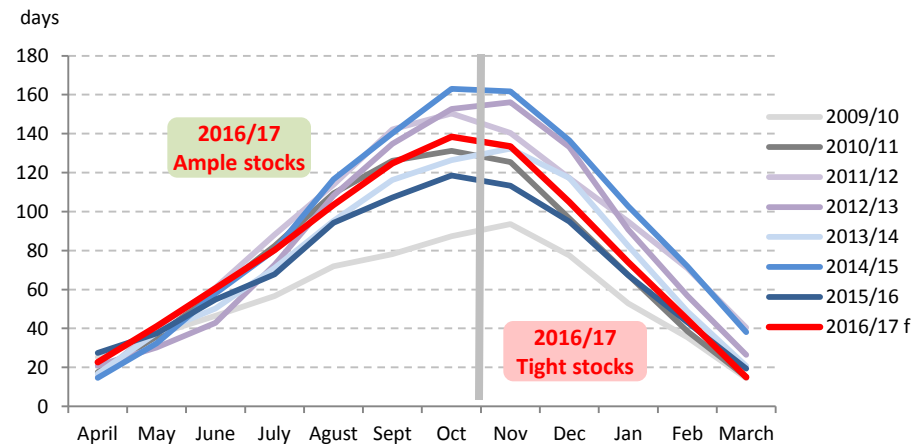
Ethanol futures pricing low pump ratio in 2016/17

Monthly ethanol/gasoline pump ratio in Sao Paulo state



Ethanol stocks to remain comfortable during 1st-half season

Monthly ethanol stocks in CS Brazil (in days of consumption)



Other Key Countries

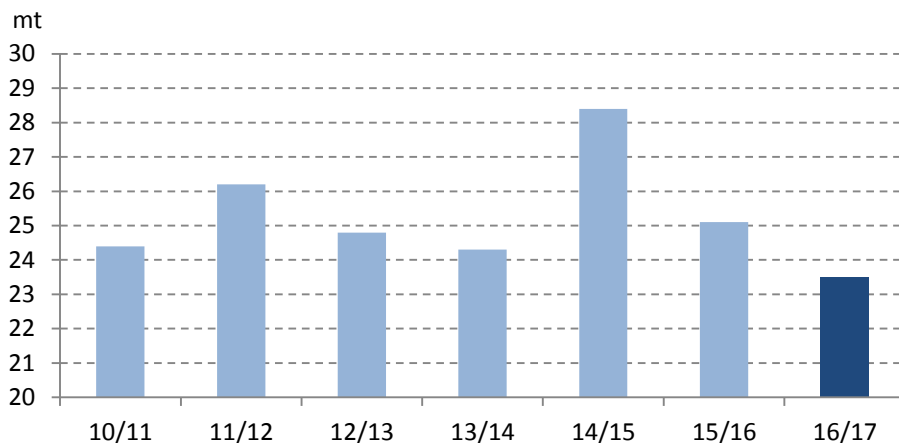
India: 2015/16 down; 2016/17 worse

The 2015/16 crop will end at around 25.1 Mt, compared to 28.2 Mt last year. For 2016/17, the western cane belt will be hit by a sharp decrease in area of as much as 25% due to dry conditions at the time of the summer “Adsali” plantings. Other cane areas could partly compensate these losses, particularly Uttar Pradesh and Tamil Nadu, but the Indian crop is expected at no more than 23.5 Mt, a further decrease of 1,6 Mt year-on-year.

- 2015/16: Agricultural yields in Maharashtra and northern Karnataka were affected by the poor monsoon and their harvest should reach 12.7 Mt, compared to 15.4 Mt in 2014/15. These two states account for the bulk of the Indian crop decrease whereas the crop was roughly stable in the rest of the country.
- At 25.1 Mt, the 2015/16 crop is roughly balanced with consumption.
- For 2016/17, slightly higher plantings in Uttar Pradesh will not compensate the decrease of the cane area in Maharashtra and northern Karnataka. With a forecast production of 23.5 Mt, India would be back to a deficit of around 1.5 Mt for the first time since 2009/10.

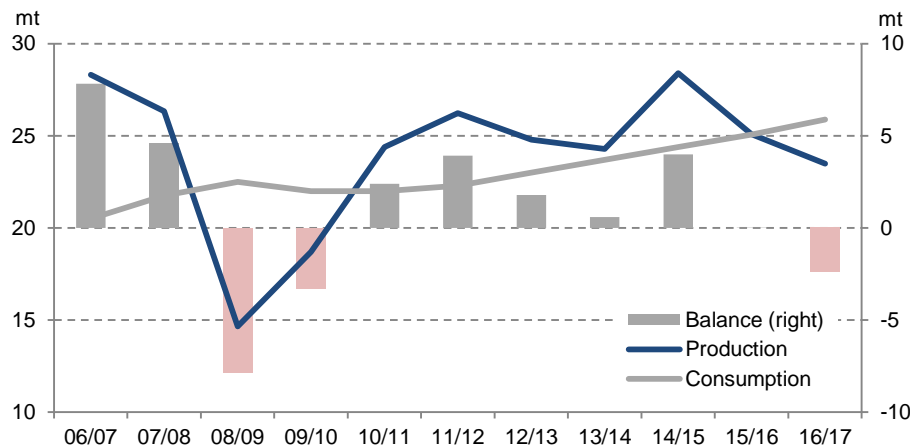
A further crop decrease on the horizon for 2016/17

Sugar production in India (Oct/Sep, tel quel)



Leading to the country's first deficit since 2009/10

India's production, consumption, balance (Oct/Sep, tel quel)



India: from exporter to importer status?

Exports of domestic crystal sugar were large in Q4 2015 and until March, encouraged by the subsidy scheme and by still large inventories despite the lower 2015/16 crop. The flow should dry up soon given the outlook of a weak output in 2016/17. Whether India will switch to net imports in 2016/17 will be first and foremost a question of import parities...but the country is unlikely to export.

- From October 2015 to February 2016, around 1,100 kt of domestic crystal sugar and 80 kt of bagged raw sugar were exported. The main destination was Myanmar in the context of increasing border trade with China.
- Exports of domestic crystal sugar should slow down from April/May onwards because of the tighter outlook of the India's S&D and weather risks over the next monsoon which should disconnect world and Indian prices. India will nevertheless remain a large re-exporter of refined sugar based on imported raw sugar.
- Whether India will import in 2016/17 will depend on import parities, which are closed for the time being. Initial imports should go to the non-producing states of eastern India (Bengal). Remaining large stocks may appear to make imports unnecessary from a S&D standpoint yet domestic price dynamic could trigger some.

Domestic prices trending upwards

India domestic sugar prices (NCDEX futures)



While the Indian rupee rebounded

USD/INR exchange rate



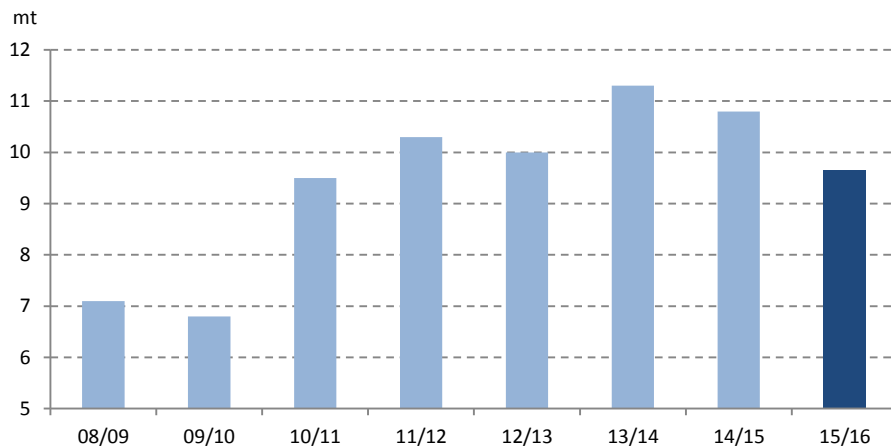
Thailand: Indonesia takes it all

The 2015/16 crop is disappointing on the back of a smaller cane supply and lower sucrose content. Sugar output is pegged at 9,7 Mt; the decrease from last year being “limited” at 1.1 Mt because of less conversion to ethanol. The demand side is also changing. Indeed, the ASEAN FTA gave Thailand a duty advantage which is driving exports to Indonesia sharply up; and Thai stocks down.

- Cumulated cane crushed reached 92 Mt as of 22 March, only slightly below the same time last year. However, anecdotal evidence points to a smaller harvest, particularly in the Central and Northern regions, and the season’s total is expected at around 94 Mt.
- Cumulated sugar production reached 9.5 Mt, showing a bigger lag than for cane crushed compared to last year because of a disappointing sucrose content. 2015/16 sugar output is expected at 9.7 Mt, 1.1 Mt below the previous season (after impact of ethanol conversion).
- The ASEAN trade agreement implemented mid-2015 gave Thailand a duty advantage for exports to Indonesia. This has triggered a sharp increase in exports to this country and is contributing to drive Thai stocks down...and Thai values up.

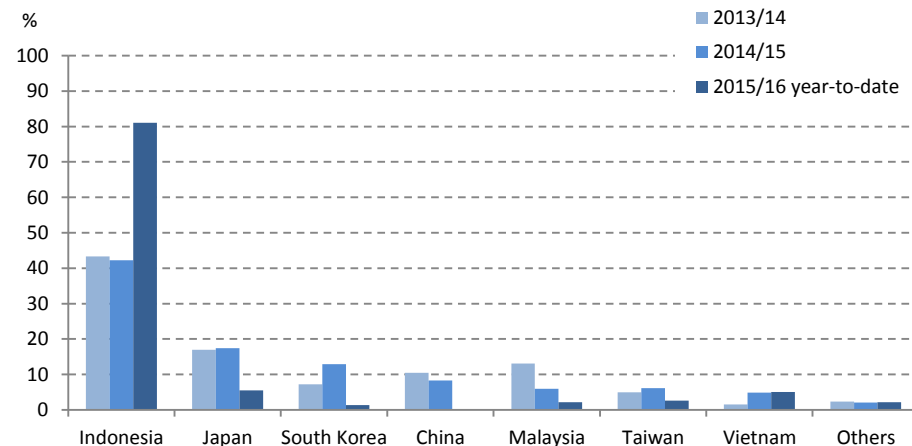
2015/16 crop disappointing

Thailand sugar production (Dec/Jan, tel quel)



Indonesia already the major destination for raw sugar

Thai raw sugar exports by destination



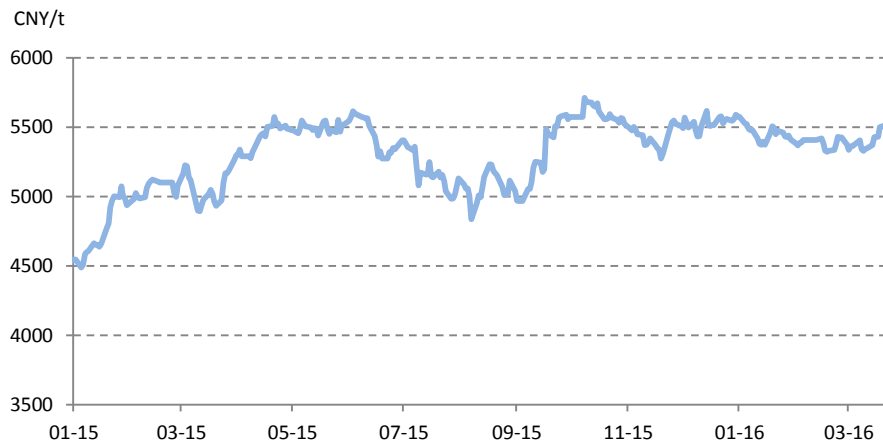
China: regional flows displace international trade

The Chinese crop will end up at its lowest level in 10 years at 9.0 Mt and the production deficit over consumption should reach a record level of 6.5 Mt. However, this does not necessarily imply bigger imports of raw sugar in 2016 because of strong cross-border imports of white sugar, frontload of raw sugar imports in Q4 2015 and the possibility of a stock release by the government later this year.

- Lower cane supply and disappointing sucrose content mean 2015/16 sugar output should end up at only 9,0 Mt, the lowest level in 10 years. Therefore, the deficit over consumption is set to reach a record level at around 6.5 Mt.
- Meanwhile, regional Southeast Asia cross-border trade of white sugar has picked up considerably over the past few months. Around 2 Mt of white sugar already has arrived in the region since October 2015, 1.7 Mt more than the same time last year.
- 2016 imports of raw sugar should also be constrained by the frontloading of imports during Q4 2015 and, possibly, by the release of some strategic stocks later this year. As a matter of fact, imports during Q1 2016 were already much smaller than in the past 2 years.

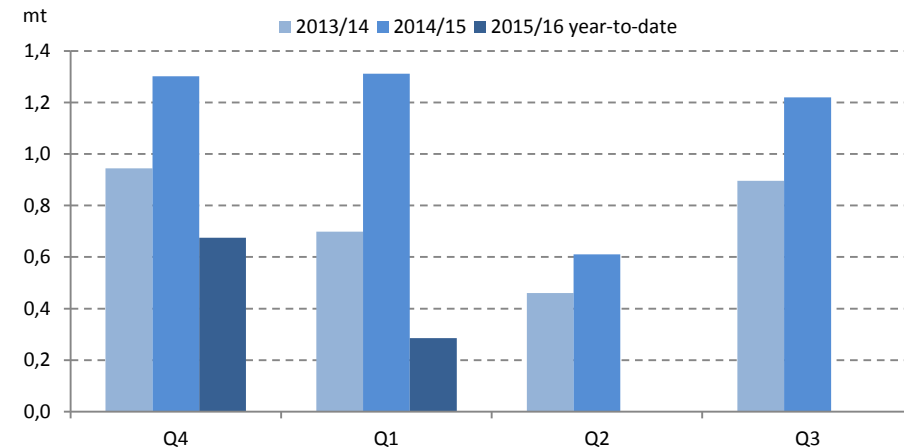
Domestic prices not impressed by small crop and big deficit

China domestic sugar prices (ZCE futures)



And sluggish imports of raw sugar

China imports of raw sugar per quarter



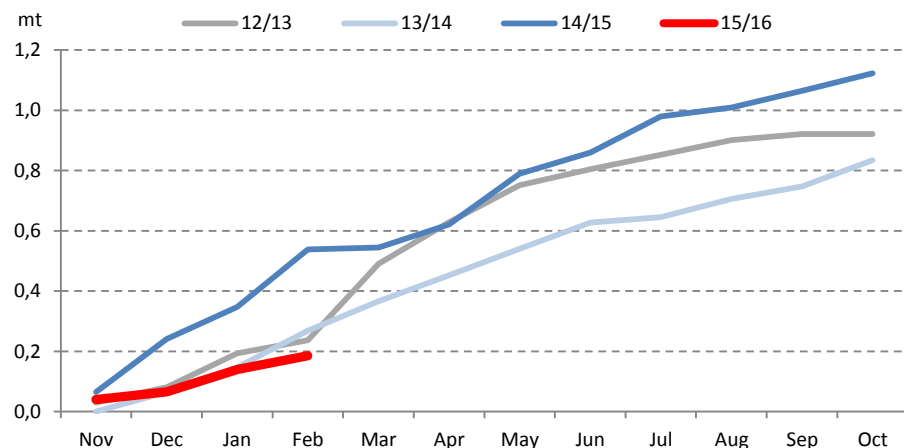
Central America: March delivery taking off availabilities

Although sugar production should be down by around 500 kt year-on-year, export availabilities were building up in Central America on the back of slow shipments -themselves due to lack of competitiveness (despite low freight costs) and subdued demand/regionalisation of Asian trade. However, the March delivery, which was not particularly big as for the total volume, included a large amount of Central sugars which now have to be shipped in the coming weeks.

- Sugar production will be down by around 500 kt year-on-year in Central America. In Guatemala, cane is available but the delay in crushing triggered by late rains in November has not been caught up so far and the sugar content is disappointing. In other countries, cane was hit by earlier drought and lack of irrigation capacity.
- Meanwhile, sugar shipments were slow due to lack of competitiveness and slow demand, particularly from China. As a result, export availabilities were building up despite the disappointing production.
- However, the March delivery reached almost 600 kt, of which 490 kt of Centrals which will now have to be shipped by mid-May leaving little more available supply in the area.

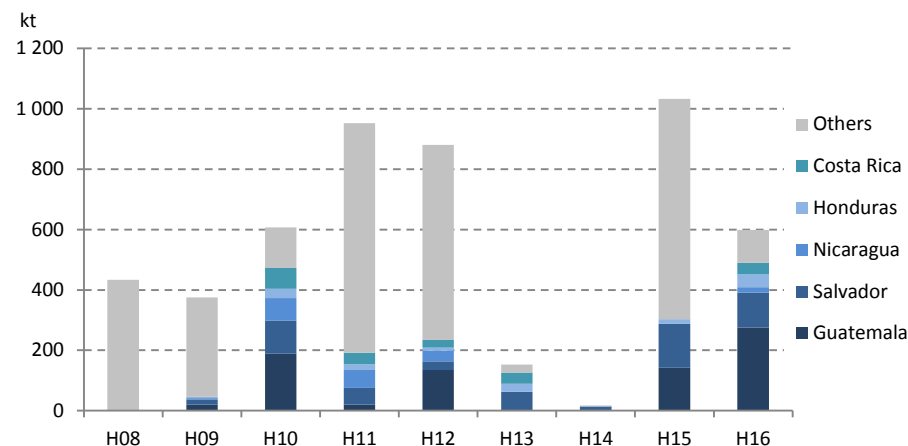
Slow exports of Centrals sugar

Monthly raw sugar exports from Guatemala



...until big March delivery

March contract delivery for Centrals and Other origins since 2008



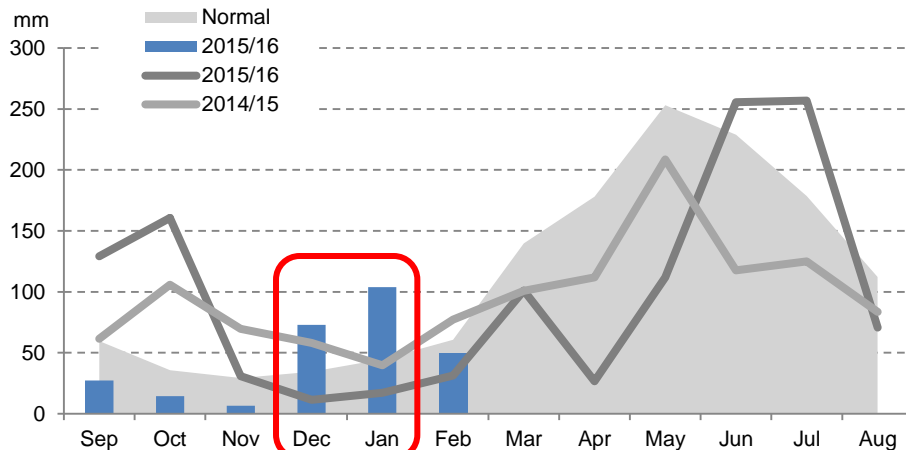
NE Brazil: no more export availability after EU sales

The crop is heading to a dismal performance at below 2,7Mt: not only did the erratic rainy season cut the supply of cane to below 50Mt, but also unseasonal rain in December-January hit the ATR. The sugar mix is also weaker than expected due to high ethanol prices. This being said, demand from NE Brazil was sluggish with few destinations until the EU quota was finally sold.

- The erratic rainy season (1st-half dry / 2nd-half rainy) cut the amount of cane to around 49Mt (19% below 61Mt in 2014/15). Unseasonal rain in December-January (total of 180mm vs normal of 80mm) hit the ATR.
- Overall, sugar production is forecast at 2.62 Mt; 900 kt below 2014/15 and the lowest since at least 2000/01.
- Shipments were slow until February (680 kt cumulated vs 970 kt last year) but most of the balance was finally sold to the EU under the CXL quota and will be shipped in the coming weeks.

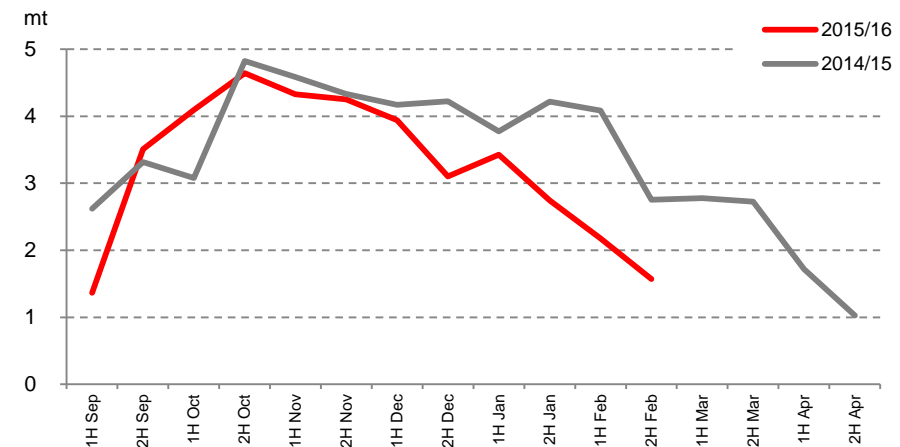
Unseasonal rain in December-January was unwelcome

Monthly rainfall in NE Brazil



Crushing declining early as cane supply is below 50 Mt

Fortnightly cane crushed



EU-Russia: EU exceptional measures less likely after CXL sales

Sugar output in the EU was down to a level not seen for many years. The in-quota balance sheet should tighten but the recent sales of CXL quota from NE Brazil has made exceptional measures less likely.

In contrast, good prospects in Russia means that the country could import even less than in 2015/16 during 2016/17.

European Union

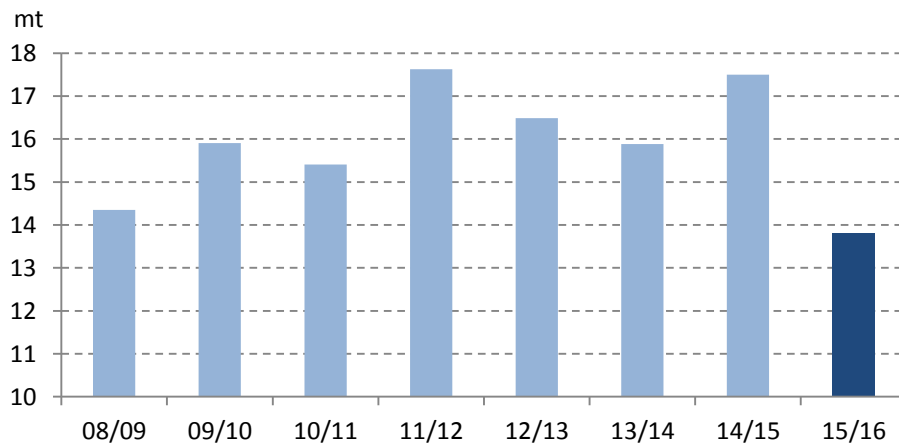
- The EU balance sheet was on course for tightness on the back of a dismal crop, lower preferential imports and the 2nd tranche of out-of-quota exports...until the CXL quota from NE Brazil was sold.
- This made exceptional measures less likely, all the less likely given that EU domestic prices seem under control so far.

Russia

- Sugar output reached almost 5.2 Mt in 2015/16, a new record.
- The 2016/17 crop is seen even higher, at 5.3 Mt, as forthcoming plantings are expected to be higher. If confirmed, this should lead Russia to import even less than in 2015/16.

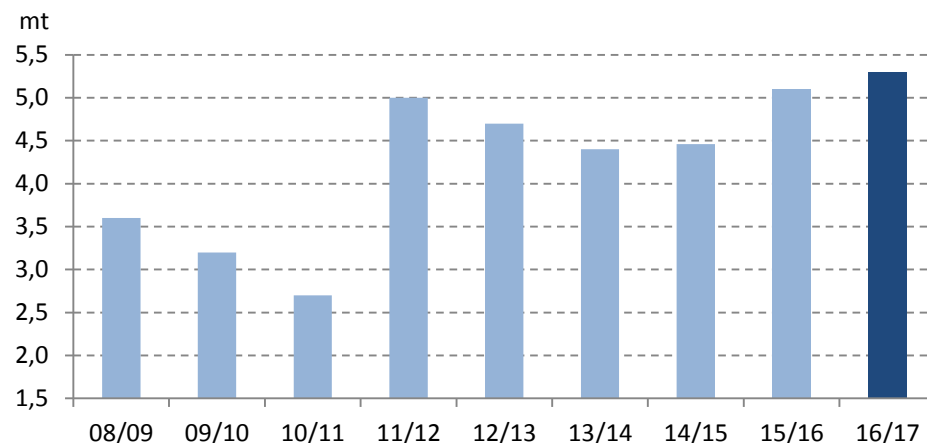
EU sugar production at a multi-year low

EU sugar production (Oct/Sep, tel quel)



Russia sugar production set for record

Russia sugar production (Sep/Aug, tel quel)



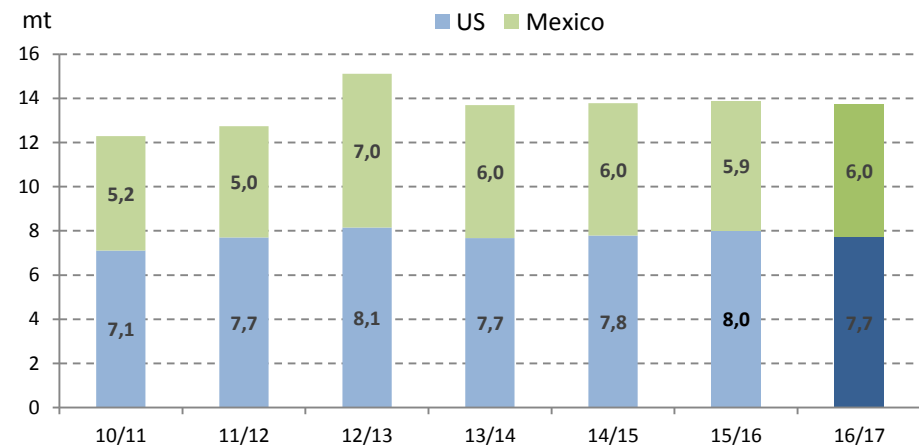
NAFTA: a continuing US Cane refiner margin squeeze?

Cane refiner margins have continued to suffer under the pressure of a large US beet crop seeking homes at discounted prices. Although the vast majority of exports are already sold, US sugar beet sellers have moved their prices below that at which Mexican exporters could sell while adhering to the Suspension Agreements. Client demand for US domestic non GMO product has set an undertone in the market and pushed cane refiner utilization further than actually needed from an overall supply perspective.

- The 2nd largest US beet crop on record has been the main driver in reducing Mexican access to the US year on year by 233k strv, in theory reducing overall raw sugar supply by half that amount.
- Despite industry-wide pressure to increase raw sugar supply prior to the final Mexican access number being established, the USDA chose to only reallocate a small amount of the TRQ shortfall, leading to a minimal increase. The USDA still retains the right to increase the TRQ further, if needed, after April 1st. Whether the USDA deems themselves responsible for protecting the domestic refiner industry, or they wish to send a signal to Mexico to export more raw sugar, will be a main driver in that decision.
- Without a TRQ increase raw sugar stocks ending September 2016 will very likely reflect their lowest numbers since 2011 when the market was trading at high tier levels against the #11. Refined supply should, however, be more than adequate.

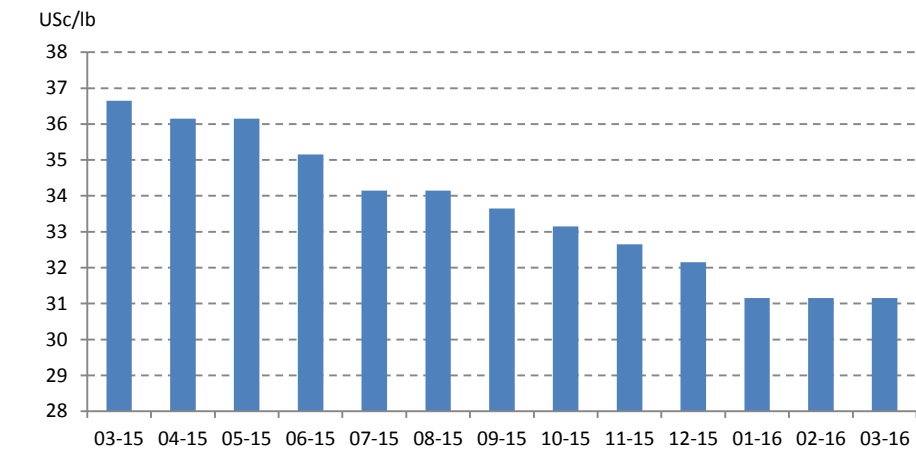
Good crops in the NAFTA region

US and Mexico sugar output (Oct/Sep, US raw value, Mexico tel quel)



Crushing of the cane margin

Fob cane refiners equivalent for Chicago area



The World of Sugar

Global production: 16/17 to rebound after 15/16 weakness

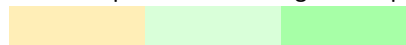
2015/16 key crops were down sharply on a combination of detrimental weather and lower sugar prices. 2016/17 should however see a sizeable rebound, approaching the level seen 2 years ago. Biggest growth in output would be seen in CS Brazil, the EU, China, Thailand and Central America whereas the most noticeable cut would be seen in India. Except for CS Brazil where the 2016/17 season is starting, it is still an early stage for the other crops which are subject to good plantings and/or favourable weather.

Smaller crops in 2015/16...but foreseen rebound in 2016/17

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	30,8 (*)	34,2
Australia	Jun-Dec	3,7	3,7	4,3	4,4	4,6	4,8	4,8
Russia	Sep-Jan	2,7	5,0	4,7	4,4	4,5	5,2	5,3
EU	Oct-Jan	15,4	17,6	16,5	15,9	17,7	13,9	17,0
US	Oct-Mar	7,1	7,7	8,1	7,7	7,8	8,0	7,7
NE Brazil	Sep-Apr	4,6	4,6	4,1	3,4	3,6	2,6	3,4
India	Oct-Apr	24,4	26,2	24,8	24,3	28,4	25,1	23,5
China	Oct-Apr	10,5	11,5	13,1	13,3	10,6	9,0	10,5
Central America	Nov-Apr	3,9	4,7	5,2	5,2	5,5	4,9	5,5
Mexico	Oct-May	5,2	5,0	7,0	6,0	6,0	5,9	6,0
Thailand	Dec-May	9,5	10,3	10,0	11,3	10,8	9,7	10,8
Total		120,4	127,6	131,9	130,2	131,3	119,9	128,7

Crop scale: bad crop "normal" good crop



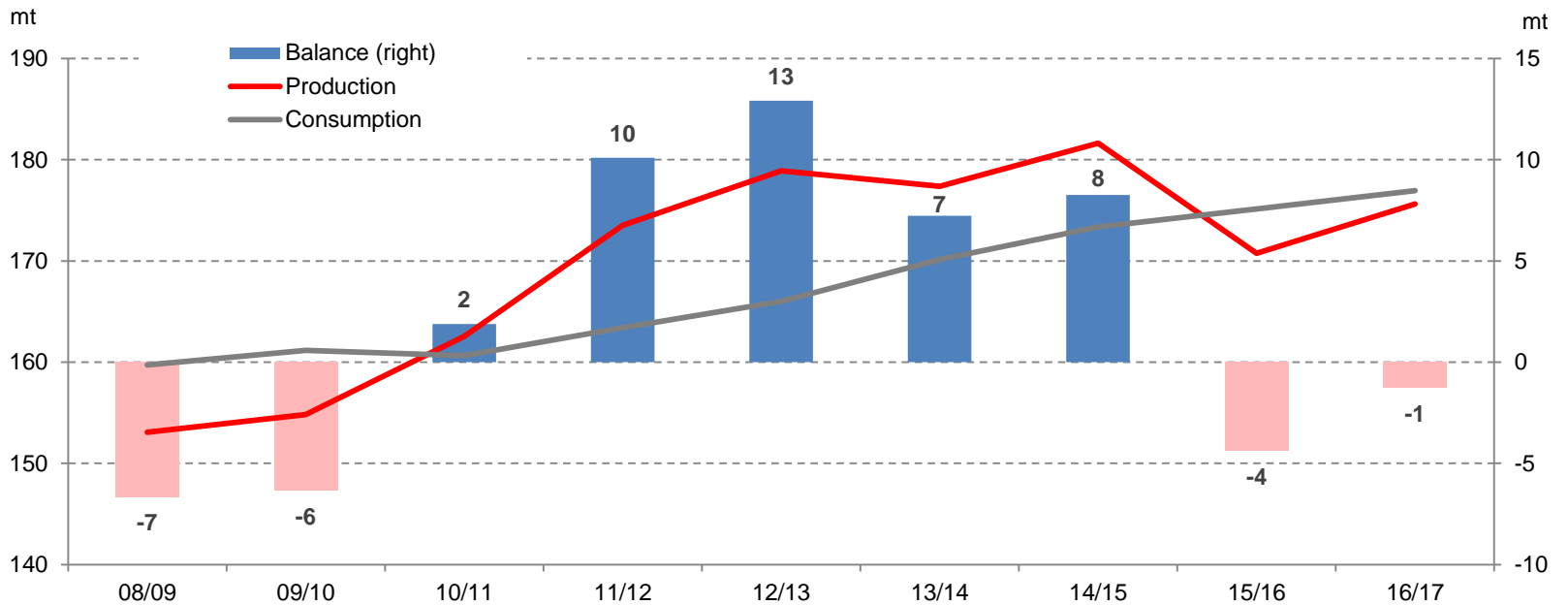
(*) cane plentiful but sugar mix lower

Global production/consumption balance: deficit take a pause

Thanks to smaller crops and ever-growing consumption, the 2015/16 season is about to end on a -somehow limited- deficit of around 4 Mt. It seems however that this deficit is not necessarily destined to widen during the forthcoming season. In fact, the foreseen rebound in global output -which is subject in particular to favourable weather conditions going forward- could limit the 2016/17 deficit to around 1 Mt.

Deficit period to take a break in 2016/17?

World Production/Consumption balance (Apr/Mar, raw value)



Mid-Term Outlook

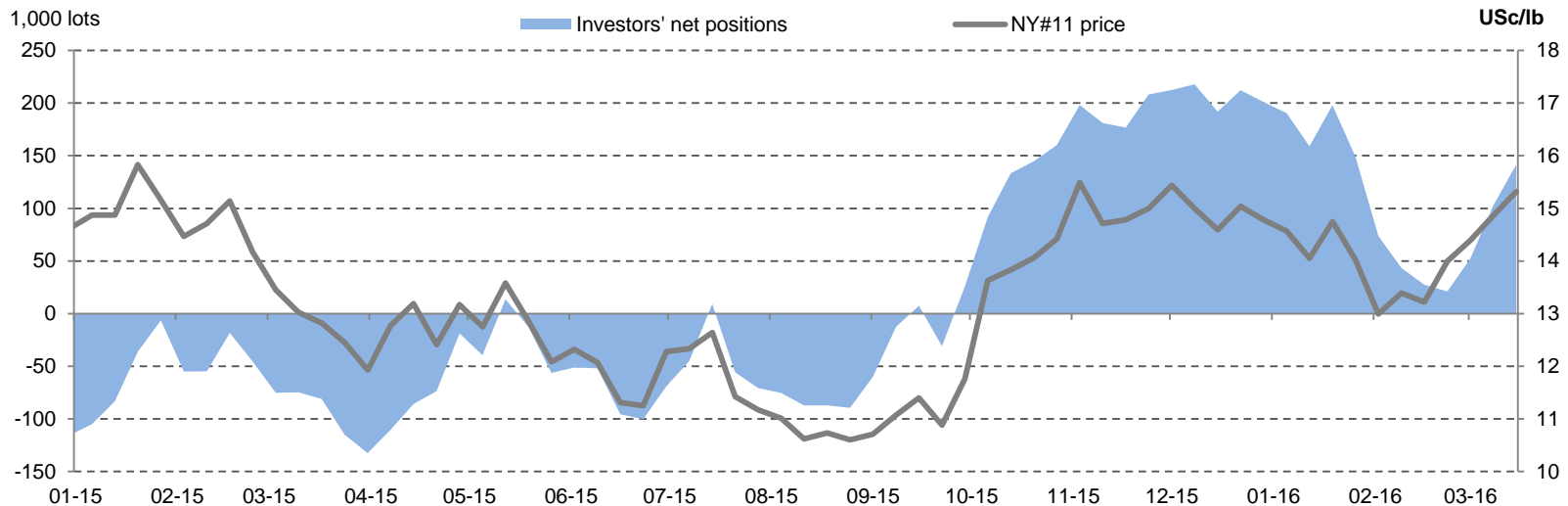
CFTC report: Funds persist on the long side

Funds' net long reached its highest level since February 2008 in early December 2015, when NY#11 traded above US\$15/lb, at almost 218,000 lots. They then covered some of their position, while remaining on the long side, and then bought again in March to reach a relatively high level again at around 141,000 lots mid-March. Given the most recent price increase, net long is now probably around 200,000 lots and funds appear today to have more selling than buying power.

- On 08 December 2015, NY#11 closed at US\$15.00/lb and funds' net long reached almost 218,000 lots:
 - Gross longs at 313,000 lots
 - Gross shorts at 95,000 lots
- On 15 March 2016, NY#11 closed at US\$15.32/lb and funds' net long reached 142,000 lots:
 - Gross longs at 241,000 lots
 - Gross shorts at 99,000 lots

Funds backed off and then invested again in March

Weekly Funds net positions



Macro environment: BRL outlook bearish from below 3.60

The BRL recently recovered to around 3,60 thanks to dramatic developments in Brazilian politics. Further news on these developments can be expected to continue to have a major influence. Despite underlying uncertainties on whether the impeachment or annulment processes will make any progress, it seems that the outlook for the BRL is mostly bearish from below 3.60 because of the risks of a severe institutional crisis and the poor performances of the domestic economy.

- **Brazilian politics:** particularly difficult to anticipate whether either the impeachment or annulment processes will make any progress. But one can argue that the risks of a severe institutional crisis are significant.
- **Brazilian economy:** doing poorly on all fronts.
- **International environment:** The rebound in oil prices and then a surprisingly dovish Fed are driving a period of positive sentiment that has allowed global markets to rebound since mid-February. Risks have not disappeared however: Brexit and geopolitics and China’s slowing economy, weakening CNY and plans to tackle excess capacity/bad debt. Potentially more quantitative easing from the European Central Bank could also support markets later but the positive effect could be mitigated by increasing scepticism over the effectiveness of such policy.

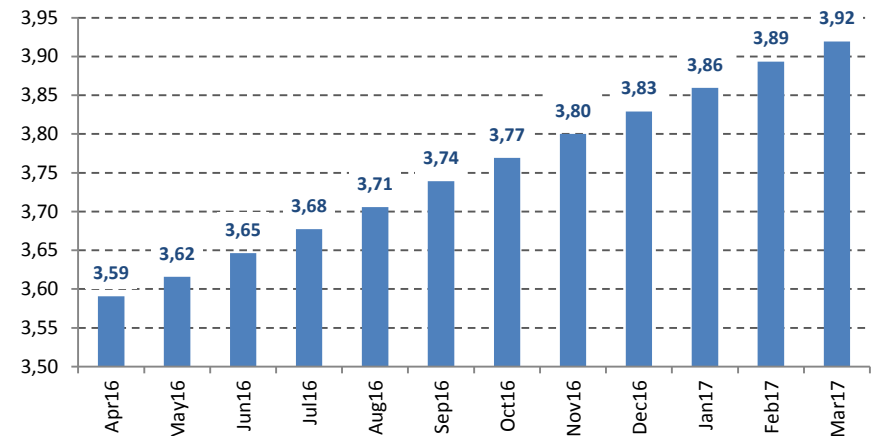
BRL rebound driven by political developments

USD/BRL exchange rate



But the BRL remains in carry

BRL forward curve



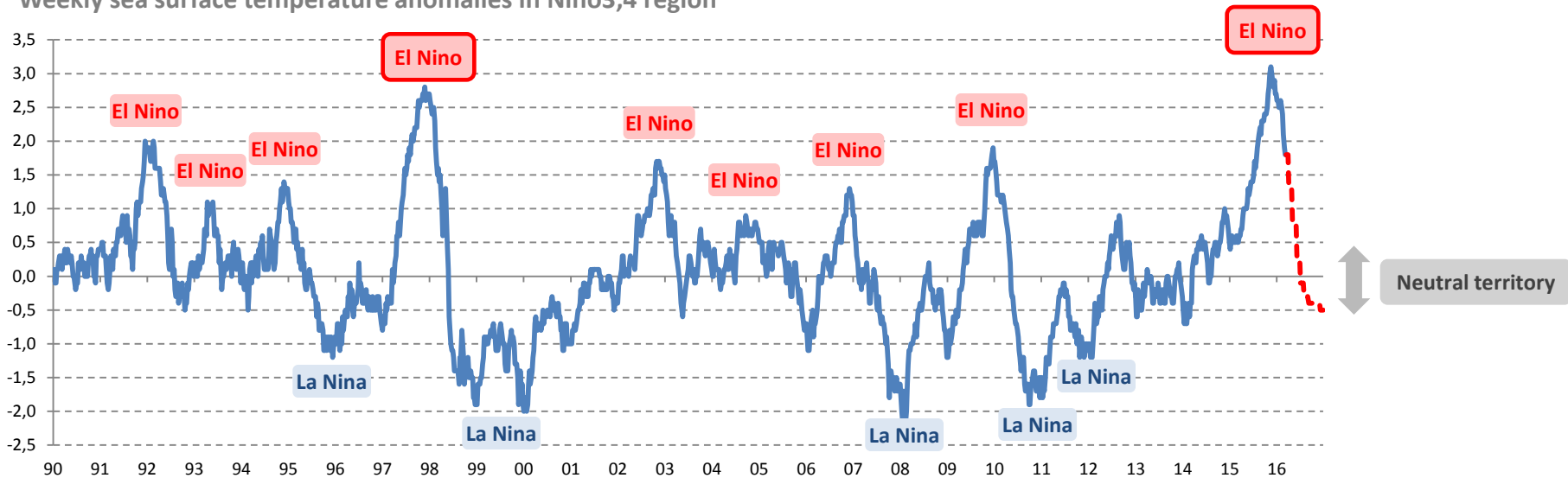
El Nino: normalization under way

The super El Nino of end-2015 early-2016 has entered its normalization phase and should come back to neutral territory in June 2016. Odds of a shift to La Nina have, however, decreased and 2016 may remain in neutral territory until the end of the year. Worth noting that a shift to La Nina around mid-year, as was earlier expected, would be mostly positive for global crops.

- The super El Nino event has started its decrease. It is however later and slower than earlier anticipated.
- The odds of shifting to La Nina has decreased: only 26% in July, 43% in September and 52% in December.
- Typical impacts of a La Nina event starting around mid-year would be positive for global crops: good rainy season in NE Brazil, Central America, India, Thailand, southern China and Australia (and absence of long-term correlation between La Nina and rainy weather during harvest in CS Brazil)

Super La Nino started to normalize but no strong odds of shifting to La Nina

Weekly sea surface temperature anomalies in Nino3,4 region



Outlook

- The sugar market has entered an interesting phase where bullish and bearish factors will have to cohabit.
- Export availabilities in a number of key countries have definitely decreased: Thailand on a lower crop and strong demand from Indonesia, NE Brazil on a dismal crop and sales of the CXL quota to the EU and, finally, Central America on disappointing crops and the March delivery.
- The role of India and China going forward is more uncertain. India should export around 1,6mt of domestic sugar, roughly the same amount as previously envisioned, but this amount could vary with domestic/international prices given the opportunistic basis of these sales. Indian export flows are however set to dry up in the next few weeks and the country could even possibly turn into a net importer in 2016/17. As for China, it appears that imports of raw sugar should be constrained given strong white imports and frontloading of raw sugar imports during Q4 2015 but news of any crackdown on cross-border flows could still provide a more bullish feel for raw sugar.
- In CS Brazil, an excellent rainy season means cane supply is plentiful. In addition, forward prices show that sugar pays more than ethanol which should lead to a substantial pick-up in the sugar mix. There is, however, some debate, as may be expected at the very early stage of a promising new crop: 1/ long-term weather forecasts show a wet bias in April-May which could possibly delay the start of the season and decrease the total amount of cane crushed. 2/ demand for fuel-ethanol is decreasing only gradually which raises a question about where ethanol consumption will settle in 2016/17 and how bullish the outlook for ethanol prices really is. Overall, Sucden takes the view that cane crushed is on course for a striking record of 622mt and that the sugar mix will increase substantially to 43.0% given that ethanol prices should be constrained during the 1st-half of the crop as long as production is in full swing. These should lead to a sugar production of 34.2 Mt, up 3.3 Mt compared to 2015/16.
- So even if Brazil retains its fair share of uncertainty, it nevertheless seems that it provides for a bearish factor with the potential to mitigate the bullish factors coming from other countries. In fact, it seems that the production/consumption deficit that had appeared for the first time in 6 years in 2015/16 might take a break in 2016/17.
- As always, macro factors will also play a role. After having decreased their net long position in mid-February, funds are buying again and are already back to a significant net long level. The BRL has just experienced a strong recovery thanks to dramatic developments in the political life of the country. Despite underlying uncertainties regarding further news on this front, it seems the risks on the BRL are mostly on the bearish side.

THANK YOU!

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