



Sucden Quarterly Market Report

October Sky

September 2016



Agenda



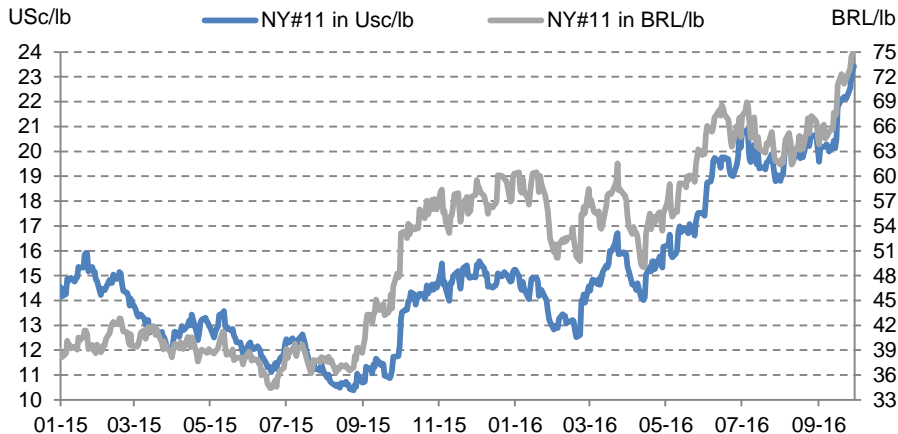
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The sugar market in the past 3 months

- Since January 2015, sugar prices have increased sharply on two separate occasions. First in September-November 2015 when they gained 35% from USc11/lb to USc15/lb, and then in April-July 2016, rising by 40% from USc15/lb to USc20.9/lb on 05 July. Sugar prices then remained rangebound, oscillating in a narrow range between USc18.8/lb and USc20.7/lb (for daily closes) until mid-September when they suddenly broke upwards out of the range to around USc23,0/lb.
- Meanwhile, calendar spreads showed a contrasted behaviour. The October/March, which was close to flat at the end of June, weakened significantly down to a carry of -70pts, before recovering somewhat. On the contrary, 2017 spreads remained firm. March/May and May/July traded at an inverse of roughly +50pts until mid-September before strengthening up to +70-100pts, a level seldom seen since the last period of high sugar prices in 2012.
- In a sense, the contrast in the spreads illustrates the conflicting influences that kept prices rangebound until mid-September: ample supply in the short term vs tighter perspectives later. The macro environment also contributed to this relative stability. Investors have remained in a positive mood (as shown, for example, by a firm BRL) but did not increase much their already high position. Can the strong up move of mid-September be explained by the fact that the tighter Q1 period is indeed approaching?

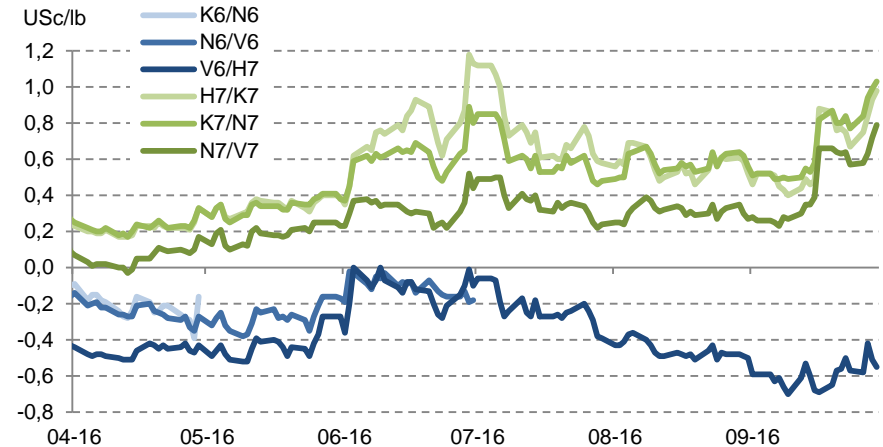
Sugar prices up to their highest level since 2012

NY#11 sugar prices in USD and BRL



Strong inverse for 2017 calendar spreads

NY#11 sugar calendar spreads



CS Brazil

2016/17 crop fast and furious so far...

The 2016/17 crop has fared strongly so far despite all the negative vibes regarding older cane, dry weather, frost or even limited flexibility of the sugar mix. End-August, cane crushed was 24 Mt ahead, sugar production 3.3 Mt above, ATR 1.0kg/t higher and sugar mix 3.9% stronger compared to 2015/16. Sugar production was also 2,4 Mt above 2013/14, the season which produced a record sugar output of 34.4 Mt.

- 2016/17 vs 2015/16 (cumulated on 31 August)
 - Cane crushed: 394 Mt vs 370 Mt
 - Sugar production: 22.4 Mt vs 19.1 Mt
 - ATR: 130.9kg/t vs 129.9 kg/t
 - Sugar mix: 45.6% vs 41.8%

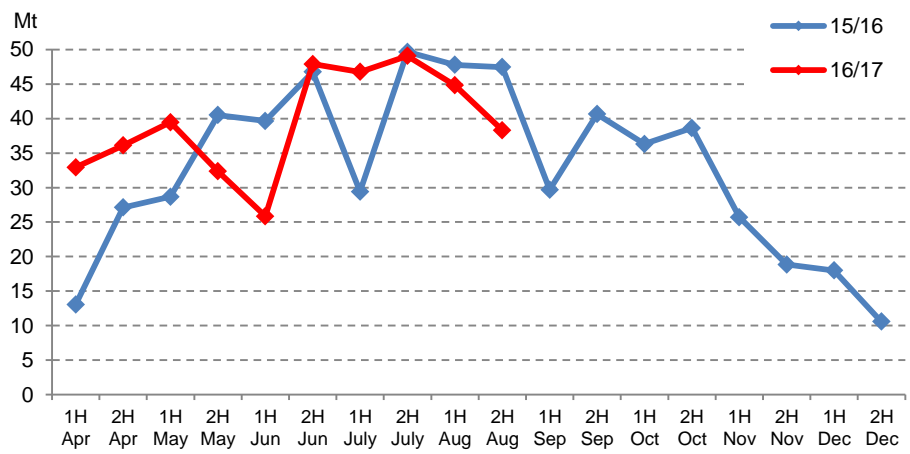
Note: 2015/16 is the record season for cane crushed at 618 Mt

- 2016/17 vs 2013/14 (cumulated on 15 August)
 - Cane crushed: 394 Mt vs 364 Mt
 - Sugar production: 22.4 Mt vs 20.0 Mt
 - ATR: 130.9kg/t vs 129.8 kg/t
 - Sugar mix: 45.6% vs 44.5%

Note: 2013/14 is the record season for sugar production at 34.3 Mt

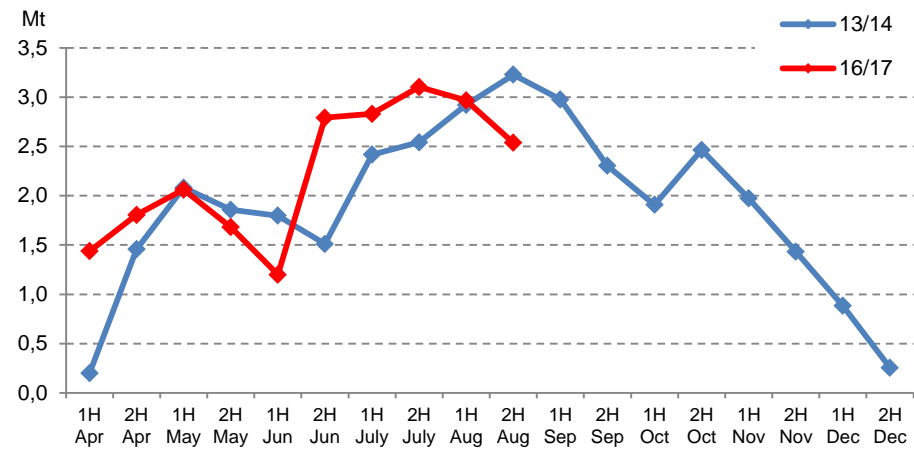
Cane crushed: 2016/17 ahead of record 2015/16

Fortnightly cane crushed



Sugar production: 2016/17 ahead of record 2013/14

Fortnightly sugar production



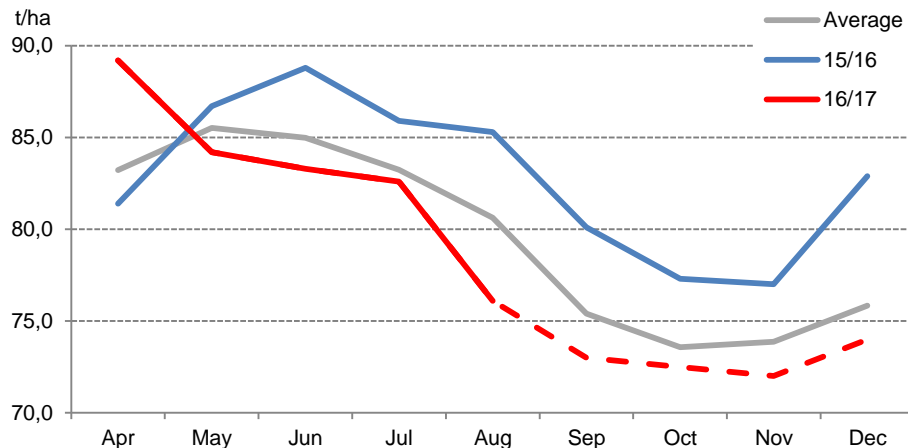
...but the season is far from over

There are 3 more months to go before the end of the season. Sugar cane supply will be lacking at some point and the season will end early. In fact, cane crushed is expected at 614 Mt, slightly below last year despite the strong advance until now. Indeed, agricultural yields seem to be falling at fast pace which raises more concerns about how much sugar cane really is available. Finally, as always, there is a weather risk in the event of rainy conditions during Q4.

- Sucden forecasts the 2016/17 Agricultural yield at 79.2t/ha, corresponding to 623 Mt available cane of which 614 Mt crushed and 9 Mt left for next year. In a recent report, UNICA warned that agricultural yields are declining at a fast pace. If confirmed, there is a downside risk to cane availability.
- The end of the season will be early as little crush is required in December in order to reach 614 Mt.
- In the event of rainy weather and lost days during Q4, the season could be extended later into December, keeping cane crushed unchanged. Rainy weather still represents a downside risk as it would impact ATR and the sugar mix.

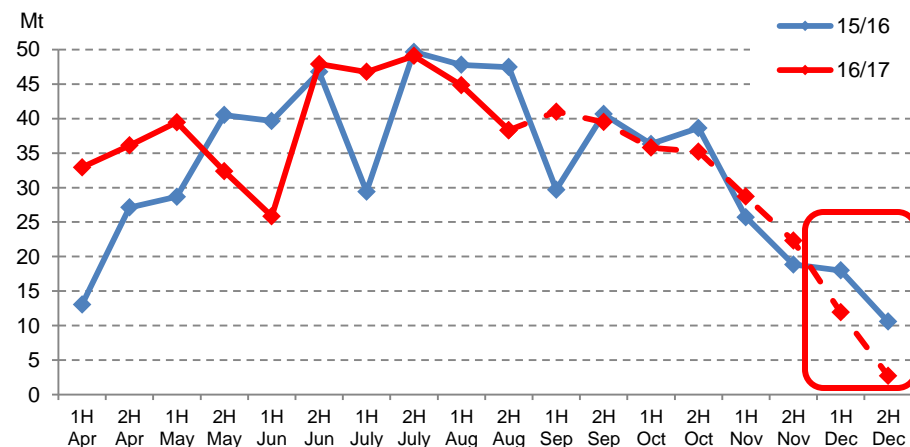
Agricultural yields declining quickly after a good start

Monthly agricultural yields (+ Sucden forecasts)



Lack of cane driving an early end of season

Fortnightly sugar production (+Sucden forecasts)



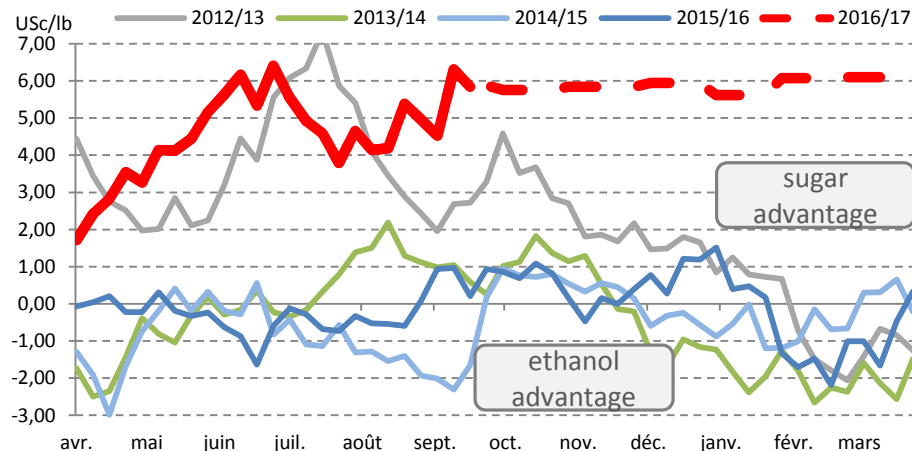
2016/17 on course to hit record sugar

Ethanol prices got firmer since the start of the season and the BRL stronger, but the ethanol parity peaked at ~USc16,0/lb. With sugar prices 400-600pts above, the sugar mix should remain strong until late in the season (barring too wet weather) and reach 45.1% on average. Notwithstanding downside risks on cane availability and on ATR/sugar mix depending on weather conditions, sugar production could reach 35.4 Mt, a record level and 4.2 Mt above 2015/16.

- Higher ethanol prices and a stronger BRL both drove the ethanol parity higher: from USc12.4/lb in April at the beginning of the season to USc16.3/lb at the end of September.
- However, sugar prices remained 400 to 600pts above the ethanol parity and allowed the sugar mix to increase. Based on forward prices, the advantage of sugar should remain very strong until the end of the season which should keep the sugar mix high until late (barring rainy weather). The sugar mix could therefore average 45.1% in 2016/17.
- Notwithstanding downside risks already mentioned, it seems likely that sugar production will exceed 35 Mt for the first time and set a new record. Sucden currently forecast 35.4 Mt.

Sugar remaining much more attractive than ethanol

Sugar vs Ethanol parity (including forward vision)



Sugar production set to exceed 35 Mt for the first time ever

CS Brazil crops & Sucden forecasts for 2016/17

		2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Cane crushed	mt	492	533	598	573	618	614
ATR	kg/t	137,6	135,5	133,4	136,7	130,9	133,9
Sugar ratio	%	48,5%	49,5%	45,2%	42,9%	40,5%	45,1%
Sugar production	mt	31,3	34,1	34,4	32,0	31,2	35,4
Ethanol production	mm3	20,5	21,4	25,6	26,2	28,2	26,5

First tentative view on 2017/18 crop

In 2017/18, cane availability should be lower due to older cane/lower agricultural yields and a decrease in area as renovation picks up. The sugar mix should increase further (provided sugar prices remain above the ethanol parity) thanks to new investments in sugar capacity. At this early stage, Sucden forecasts 582 Mt cane crushed and 34.6 Mt sugar output. A rainy Q4 would be negative 2016/17 but positive 2017/18. A good rainy season in Q1 is also needed.

- **Cane crushed:** Renovation should increase as cane is getting older and thanks to higher sugar prices allowing to pay for the high costs of plantings. This is positive for the mid-term but will decrease the harvested area for 2017/18. Agricultural yields should also be lower than this year because the cane will be older and the weather not as ideal (frost events and June-July dryness). Of note –but far from confirmed– long-term weather forecasts point to disappointing rains in January and February. Overall, available cane should not exceed 585 Mt, most of which would be crushed.
- **Sugar mix:** provided that sugar prices remain much above the ethanol parity, the sugar mix should increase further thanks to new investments in sugar capacity (and maybe less cash constraints for the few mills that did not max out sugar in 2016/17)

2017/18 sugar output unlikely to match 2016/17

CS Brazil crops & Sucden forecasts for 2016/17 and 2017/18

		2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
Cane crushed	mt	533	598	573	618	614	582
ATR	kg/t	135,5	133,4	136,7	130,9	133,9	135,0
Sugar ratio	%	49,5%	45,2%	42,9%	40,5%	45,1%	46,2%
Sugar production	mt	34,1	34,4	32,0	31,2	35,4	34,6
Ethanol production	mm3	21,4	25,6	26,2	28,2	26,5	24,7

But big variability at this early stage

Sugar output sensitivity to Cane crushed and Sugar mix

	ATR:	sugar mix											
		40%	41%	42%	43%	44%	45%	46%	47%	48%	49%	50%	
cane crushed	135,0												
	570	29,3	30,1	30,8	31,5	32,3	33,0	33,7	34,5	35,2	35,9	36,7	
	575	29,6	30,3	31,1	31,8	32,5	33,3	34,0	34,8	35,5	36,2	37,0	
	580	29,8	30,6	31,3	32,1	32,8	33,6	34,3	35,1	35,8	36,6	37,3	
	585	30,1	30,9	31,6	32,4	33,1	33,9	34,6	35,4	36,1	36,9	37,6	
	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	

Brazil Ethanol

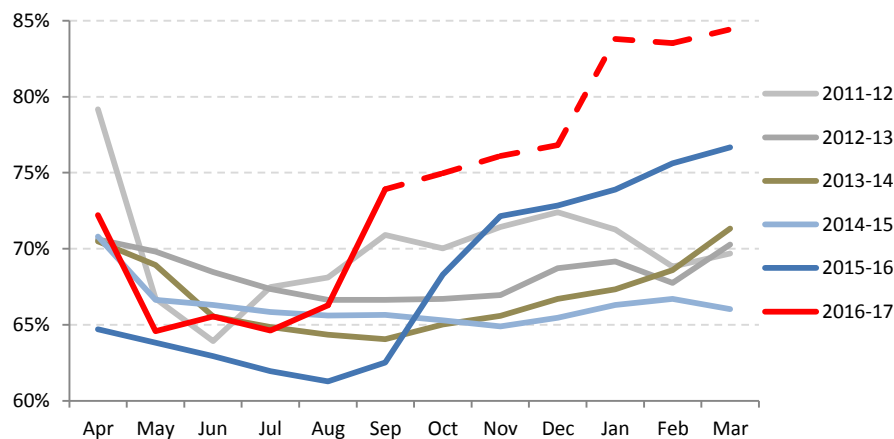
Main potential trigger for bullishness: late start of 2017/18

2016/17 will be a contrasted season. During the 1st-half, prices were attractive and demand relatively strong. During the 2nd-half, ethanol will be less and less competitive, particularly when the tax exemption ends in January, and demand will soften. The outlook for prices would normally be moderately bullish at most from the current high levels. However, the likely late start of 2017/18, due to less cane available, could exacerbate bullishness at the end of the intersafra.

- Ethanol prices were attractive at the pump until August and demand relatively strong. Hydrous consumption reached 6.0 Mm3 from April to August, lower than the 6.9 Mm3 of last year when ethanol was even more competitive but higher than many previous years.
- However, ethanol prices have increased by 18% since July, futures prices are in a strong carry and the tax exemption benefiting ethanol will likely end at the end of December as scheduled. Ethanol prices will soon become uncompetitive and demand will therefore soften. Hydrous demand for fuel could reach 13.0 Mm3 in 2016/17, some 2.8 Mm3 below 2015/16.
- Against this, there would normally be not more than moderate bullish pressures on ethanol prices -on top of their already high level- during the intersafra. However, the 2017/18 season should start late which could actually tighten considerably March and April.

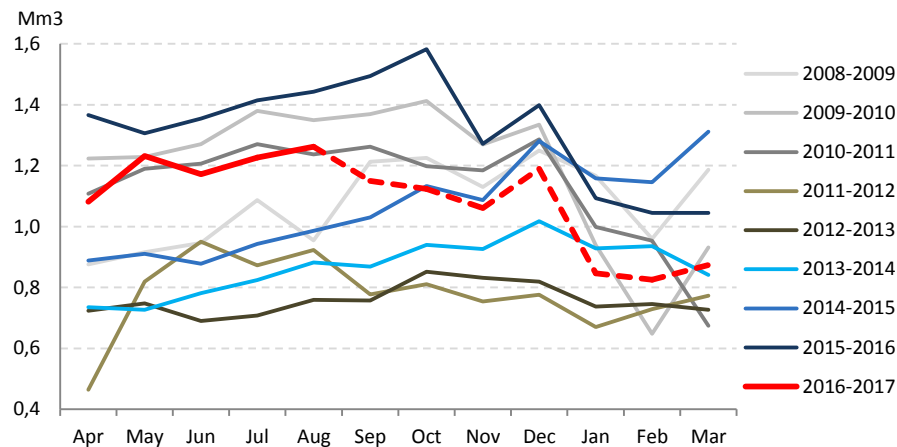
Ethanol prices attractive until August only

Ethanol/gasoline pump ratio in Sao Paulo state



And healthy consumption so far set to soften

Monthly hydrous ethanol consumption for fuel in CS Brazil



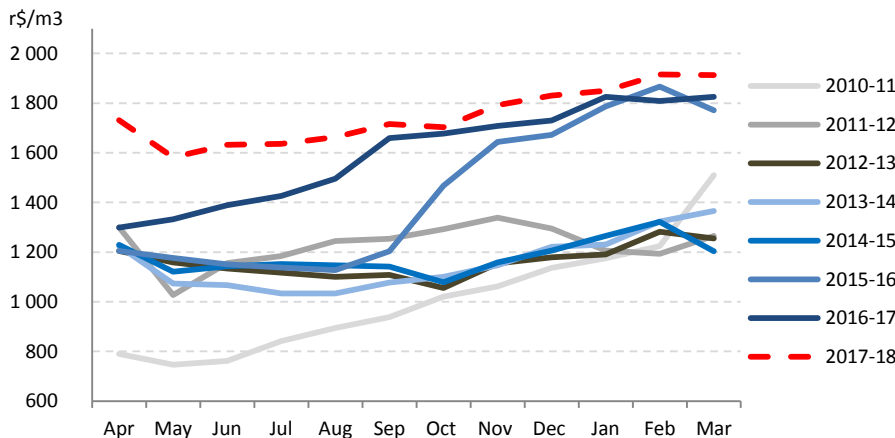
2017/18 early view: ethanol parity around USc14/lb

Ethanol production could be 1.7 Mm3 lower in 2017/18, transfer to NE Brazil slightly down and exports slightly up (strong competition from US origin). Ethanol prices will need to rise in order to constrain demand for local fuel consumption. At r\$1,640/m3, the required BMF futures price for July 2017 would be 15% higher than 2016 and the highest on record. Based on the current BRL forward rate (and no tax exemption), the corresponding ethanol parity would be around USc14/lb.

- In 2017/18, ethanol production could be 1.7 Mm3 lower than in 2016/17. On the demand side, transfer to NE Brazil could be slightly lower and exports stable or slightly up at most. Indeed, US ethanol should continue to represent strong competition for export markets thanks to a bumper corn crop and high processing margins.
- Against this, ethanol prices will need to increase to constrain local consumption for fuel and balance supply and demand. The BMF futures price for July 2017 would need to reach r\$1,640/m3, 15% above July 2016.
- Based on the current forward exchange rate, this would correspond to an ethanol parity of around USc14,0/lb; this level being dragged down by the end of the Pis/Cofin tax exemption. Note: as always, the ethanol parity depends on the exchange rate.

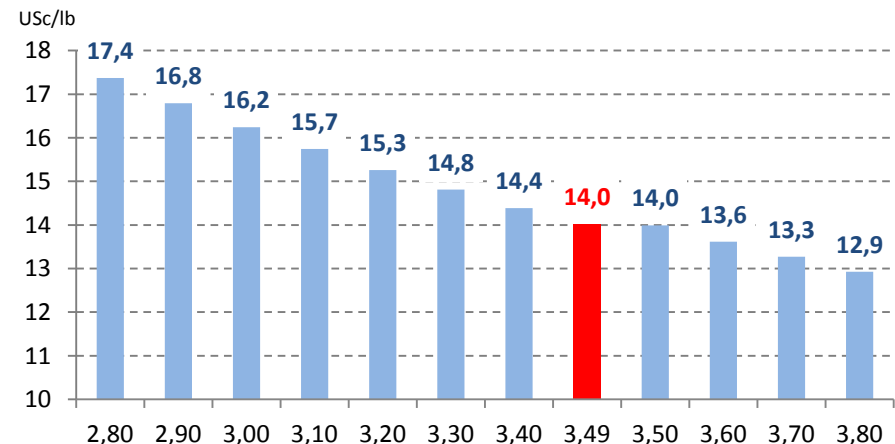
Ethanol prices needed higher to balance supply/demand

BMF futures prices forecasts for balanced SnD in 2017/18



Corresponding to ethanol parity around USc14/lb

Ethanol parity for July 2017 for various BRL levels



Other Key Countries

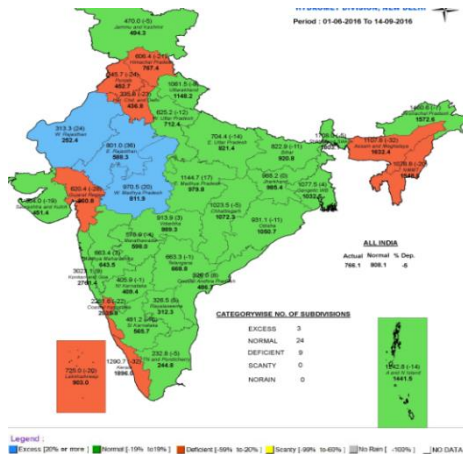
India: 2016 monsoon satisfactory

After an initial delay of the monsoon, rains were good in July. This was particularly important in Maharashtra and northern Karnataka where water was required to promote good cane growth, replenish reservoirs depleted by the poor 2015 monsoon, and allow plantings for the 2017/18 crop. Thanks to these targets being hit, the 2016/17 crop could reach 23.2 Mt, around 2 Mt less than last year. Lower rainfall in August/September was a reminder that weather risks still exist.

- In Maharashtra and northern Karnataka, the harvested area will be lower because of the poor 2015 monsoon that prevented strong plantings of 18-month “Adsali” cane. Thanks to the good July rain and the ongoing replenishment of reservoirs, agricultural yields should however be up from last year despite the higher share of ratoon cane. Sugar output could reach 6.2 Mt and 3.2 Mt respectively.
- In Uttar Pradesh, the harvested area and agricultural yield should both be up. The state could produce 7.7 Mt.
- Overall, India’s sugar output could reach 23.2 Mt, a sizeable decrease of almost 2 Mt compared to 2015/16. The good rain so far, and the replenishment of the reservoirs, also represent a favourable environment for 2017/18 plantings in Maharashtra and northern Karnataka. It is worth noting though that the recent lack of rain will need to be monitored as it could affect 2016/17 yields if lasting.

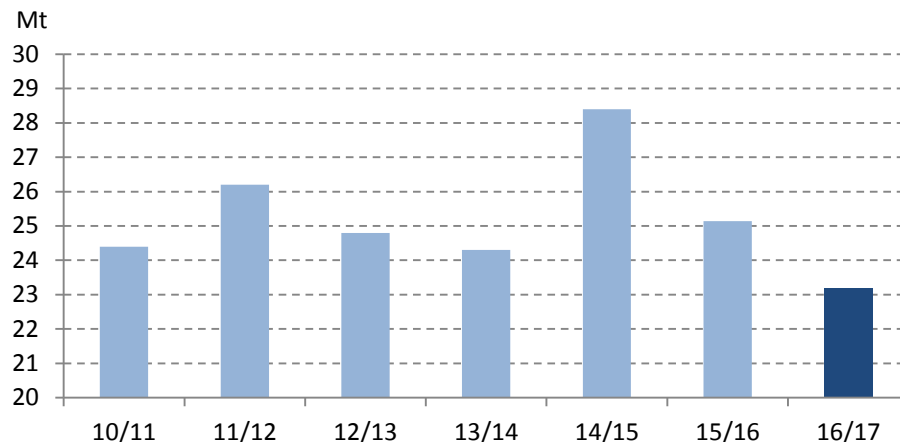
A good monsoon in 2016

Cumulated rainfalls since 01 June



A further crop decrease on the horizon for 2016/17

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



India: Indian imports as one of the main bull flags

Indian stocks should be tight at the end of 2016/17 given the lower crop and the steady consumption increase. Given that sugar is a politically sensitive commodity, the Government will do its utmost to prevent short supplies and/or skyrocketing prices, particularly with the unknown of the 2017 monsoon threatening the improved outlook of the 2017/18 crop. This could lead to imports even though import parities are currently closed (and would remain closed with 0% duty).

- Indian stocks should decline by 2.7 Mt in 2016/17, a decrease corresponding to the production/consumption deficit of the campaign. Stocks are ample and could in theory cover this deficit. However, stock level is a politically sensitive issue in a country consuming 2.15 Mt/month and where the comfort zone would be at least 3 Mt in November 2017 just before the start of the new crop.
- The tightening outlook could drive already high prices to higher levels and eventually force authorities to take measures to prevent prices from spiking. Some measures have already been taken: stock control for traders and, more recently, inventory limits for mills.
- Further measures would first focus on the regulatory front such as a release mechanism. However, any further price increase could push the Government to act on the import front: a reduction of custom duties and possibly a duty-free quota system within the industry. In this respect, it is worth noting that import parities are currently closed even if custom duties were to be reduced to 0%.

India's domestic prices are already high

India's domestic prices (NCDEX futures)



But the rupee is roughly stable

Indian rupee exchange rate



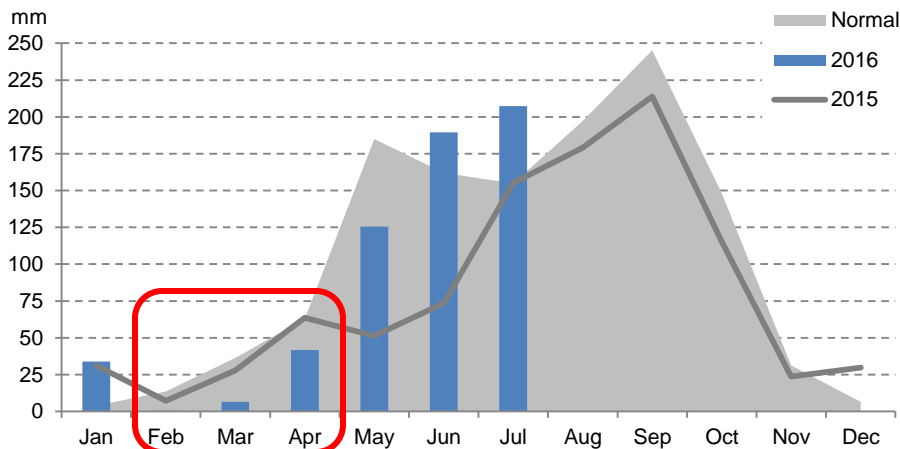
Thailand: did good rains come too late?

The rainy season was mostly normal and should have driven a decent rebound from last year's disappointment (94 Mt cane crushed and 9.8 Mt sugar produced). However, the earlier very dry and hot weather hurt fields and led to some area losses. Therefore, 2016/17 might well be below 2015/16 at 92 Mt cane crushed and 9.6 Mt sugar produced...even though this might be considered a conservative forecast.

- The end of the dry season was very dry, and hot. Some fields were hurt and had to be replanted with other crops such as tapioca which is negative for the harvested area of 2016/17. Later, the rainy season was a good one with rains mostly in line with normal but some damage was already done.
- Overall, 92 Mt of cane should be harvested leading to a sugar output of 9.6 Mt. It is below the 2015/16 crop, which was already disappointing at 94 Mt cane crushed and 9.8 Mt sugar produced.
- Worth noting that the good rainy season might eventually provide some upside to the cane crush forecast.

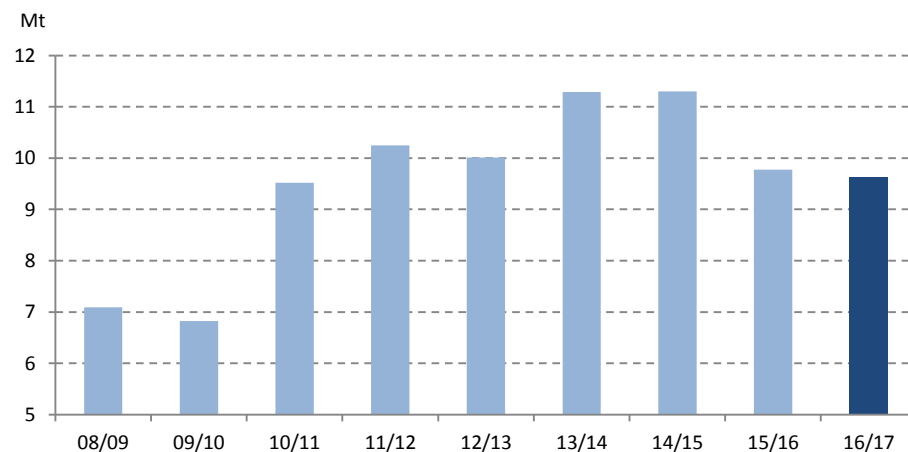
A good rainy season...but damage already existed

Monthly rainfall in sugar cane areas of Thailand



...and thwart the outlook for 2016/17

Thai production [Dec/Jan, tel quel]



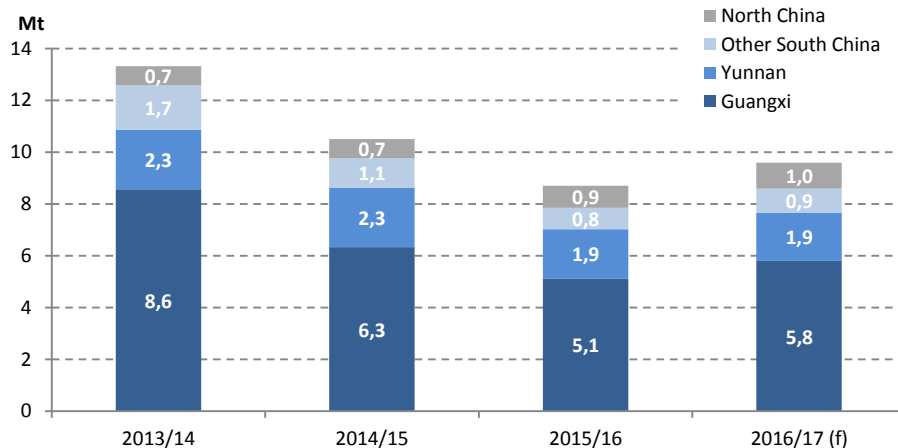
China: production to rebound after 2 years of decline

China's sugar output is forecast at 9.6 Mt for 2016/17. It should recover from the low of last year (8.7 Mt) yet remain well below the average of the past 5 years (11.4 Mt). Indeed, area has just started to rise after cane prices finally increased; and the agricultural yield rebound is muted by below-par farm care (despite good rainfall). A release of 1.5 Mt of strategic stocks could occur, possibly in several instalments, while raw sugar imports are seen stable.

- In Guangxi, the main producing state, sugar output should increase from 5.1 Mt to 5.8 Mt thanks to the area rising by around 4% (driven by higher cane prices) and an increase in agricultural yields. Summer weather was good but agricultural yields continue to be penalized by a lack of farm care.
- While the bulk of the increase in sugar output will come from Guangxi and the other cane producing states of south China (except Yunnan), beet producing states of north China will also increase.
- Based on a sugar output of 9.6 Mt, the country's deficit would narrow slightly to 6.0 Mt, still a significant level. Imports of raw sugar are seen stable while a stock release of potentially 1.5 Mt would lead to a decline in white sugar imports.

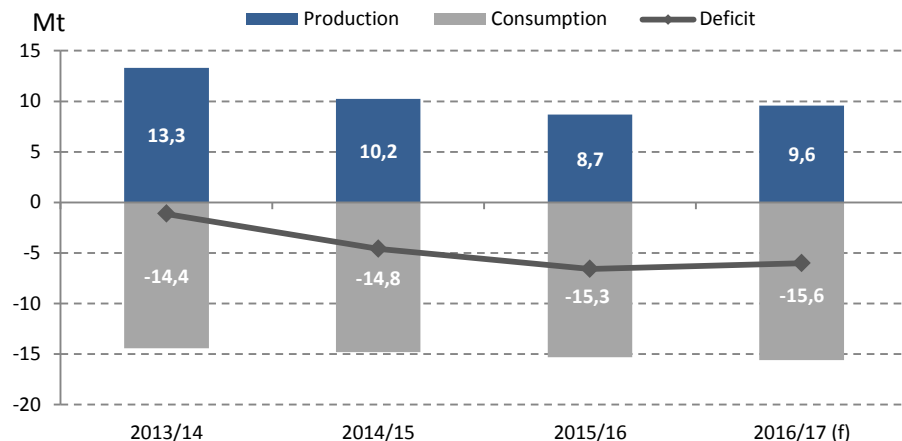
Sugar output to increase, particularly in Guangxi

China's sugar production [Oct/Sep, tel quel]



And allowing the deficit to narrow slightly

China's production and consumption [Oct/Sep, tel quel]



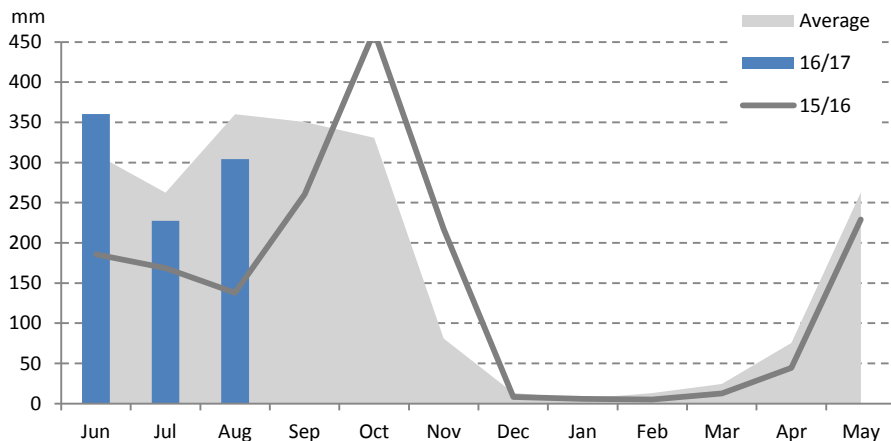
Central America: a good rainy season encouraging crop outlook

The 1st-half of the rainy season was mostly normal which is therefore comforting for earlier crop forecasts. Guatemala received enough rain (below normal but more than last year) and benefited from sunny weather. Elsewhere, even if July was too dry in Nicaragua and Honduras, the anticipated rebound from last year’s poor level does not look threatened. In total, Centrals could produce 5.3 Mt, up 300 kt from 2015/16 but still below the record of 2014/15.

- **Guatemala:** a pause in investments and competition from bananas mean the cultivated area is stable at best. However, sugar output should increase slightly thanks to a higher agricultural yield...itself coming from enough rain (below normal but more than last year, which is fine thanks to the strong irrigation capability) and sunny weather.
- **Other Centrals:** were hit hard last year by lack of rain and limited irrigation capabilities. Conversely, the mostly normal rainy season (so far) should allow sugar output to rebound, particularly in El Salvador which was the most affected last year. July was too dry in Nicaragua and Honduras but this should not threaten the foreseen rebound given that June and August saw a good level of rain.

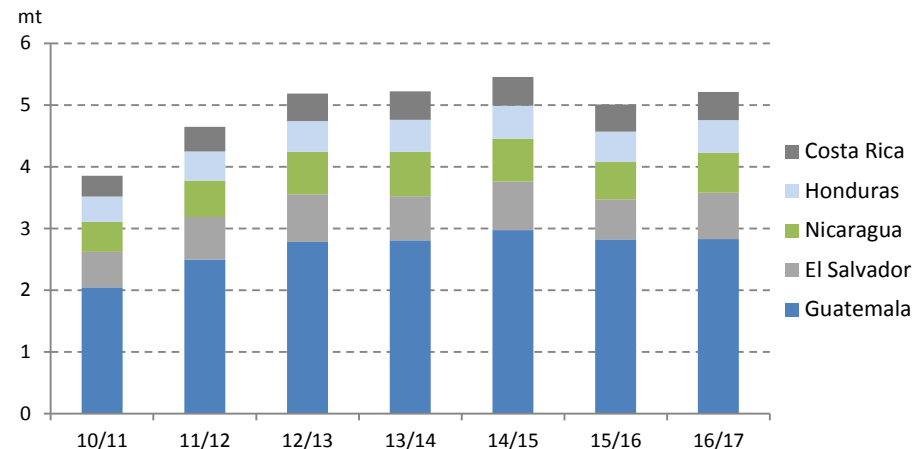
Good conditions with enough rain and much sun

Monthly rainfalls in Guatemala



Central crops to rebound by 200 kt from previous season

Central crops and Sucden forecasts for 2016/17 [Nov/Oct, tel quel]



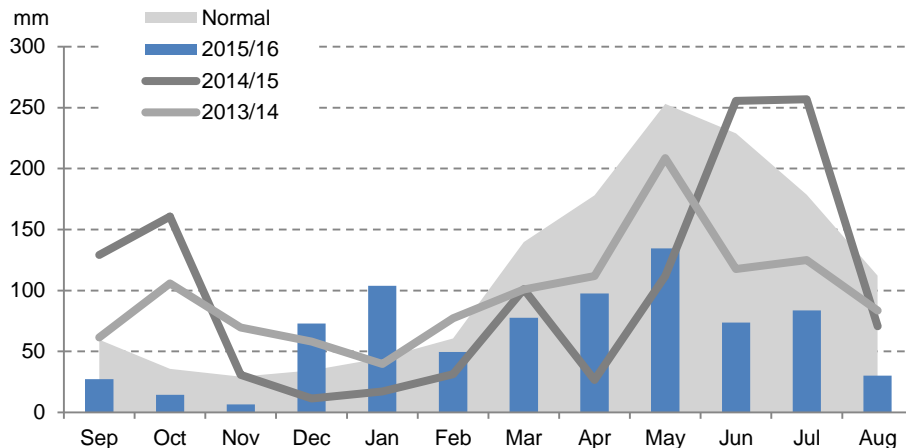
NE Brazil: poor rainy season wrecking hopes of decent rebound

The 1st-half of the rainy season was disappointing but rains being well spread over time allowed the sugar cane to escape severe stress. The 2nd-half was worse though, particularly August which saw little rain. As a consequence, cane crushed will be nearly as low as last year's dismal level. Sugar output could still reach 3.0Mt, some 400 kt above last year thanks to a better ATR and a higher sugar mix.

- During the 1st-half of the rainy season (March-May), rain totalled 510mm, not more than 55% of the normal. These rains were however well spread allowing cane to escape severe stress. During the 2nd-half of the rainy season (June-August), total rain reached a mere 190mm, or 35% of the normal, and impact on cane was, in the end, higher than expected.
- Overall, cane crushed might be near last year's level, at around 51 Mt. However, a better ATR (last year was impacted by late rain) and a higher sugar mix (thanks to higher sugar prices) could drive sugar output to 3.0 Mt, 400kt above 2015/16.

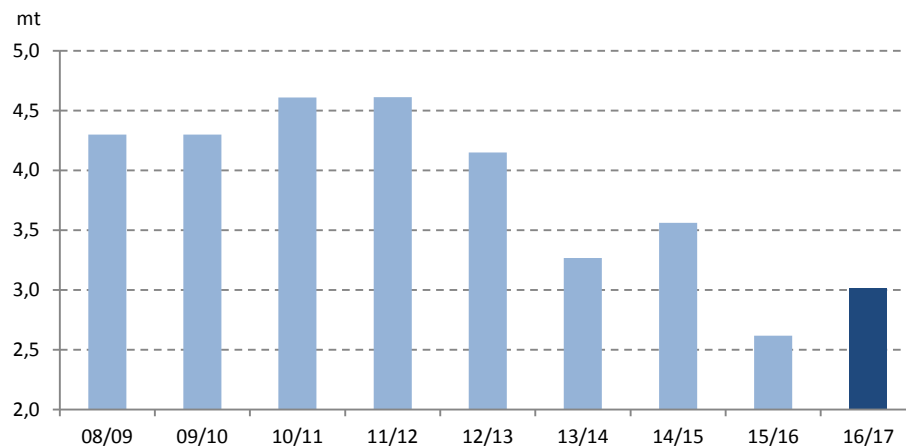
1st-half of rainy season was bad; 2nd-half was worse

Monthly rainfall in NE Brazil



..and will keep sugar output at a low level

NE Brazil crop and Sucden forecast for 2016/17 [Sep/Aug, tel quel]



EU: a disappointing rebound – CIS: good news from the fields

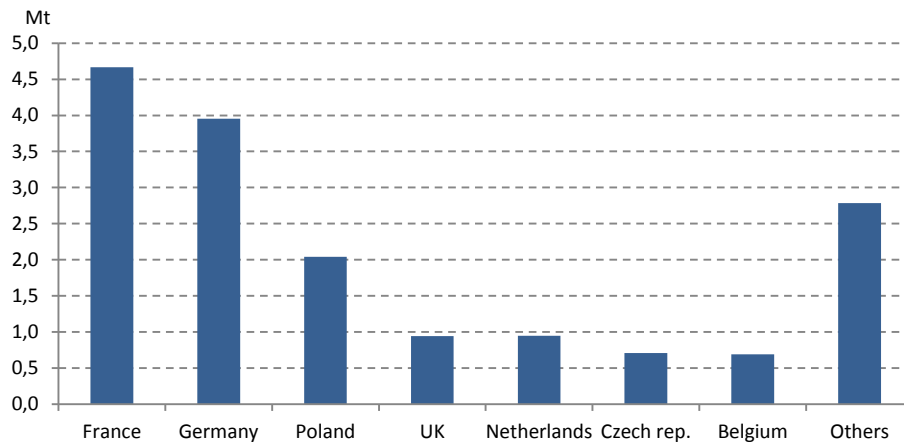
In the EU, the 2016/17 sugar output should be up by 2 Mt y-o-y to 15.6 Mt; a sizeable rebound but yet a disappointing one as western Europe was hit by detrimental weather conditions during the summer. Russia is on course for a striking record at 5.6 Mt, up 400kt compared to last year, thanks to bigger area and good weather. Ukraine could also increase its production by 400kt.

European Union

- Western Europe (France, Belgium and the Netherlands) was hit by unfavourable summer weather and should post below-average agricultural yields. On the contrary, eastern Europe (Germany, Poland and Czech republic) enjoyed beneficial weather and will post above-average agricultural yields.
- EU sugar production should reach 15.6 Mt, a sizeable increase of +2 Mt compared to last year but still far below 2 years ago.

EU sugar production: a disappointing rebound

EU sugar production [Oct/Sep, tel quel]

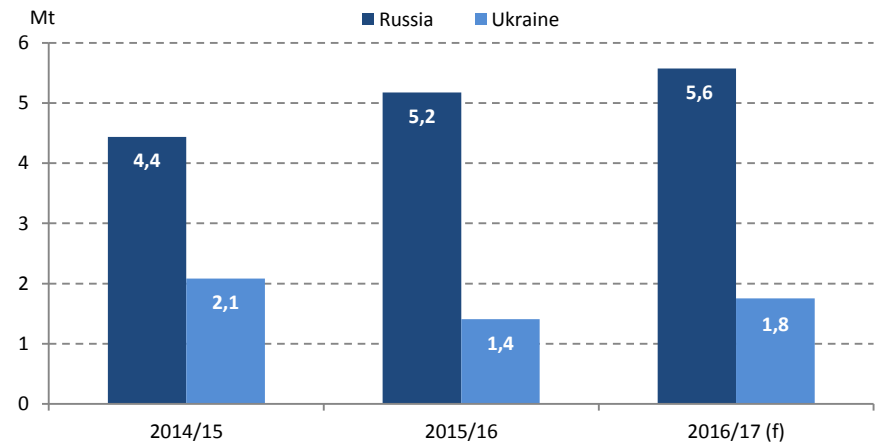


Russia & Ukraine

- Russia's 2016/17 output should exceed the record crop of last year by a fair margin: up 400 kt at 5.6 Mt thanks to an area increase by +8% and a higher agricultural yields. Only the sucrose content could be lower than last year.
- In Ukraine, the area soared by a whopping +22%. The agricultural yield and sucrose content should also be slightly higher leading to a sugar production of 1.8 Mt, also up 400 kt.

Russia's record and Ukraine's strong rebound

Russia and Ukraine sugar production [Oct/Sep, tel quel]



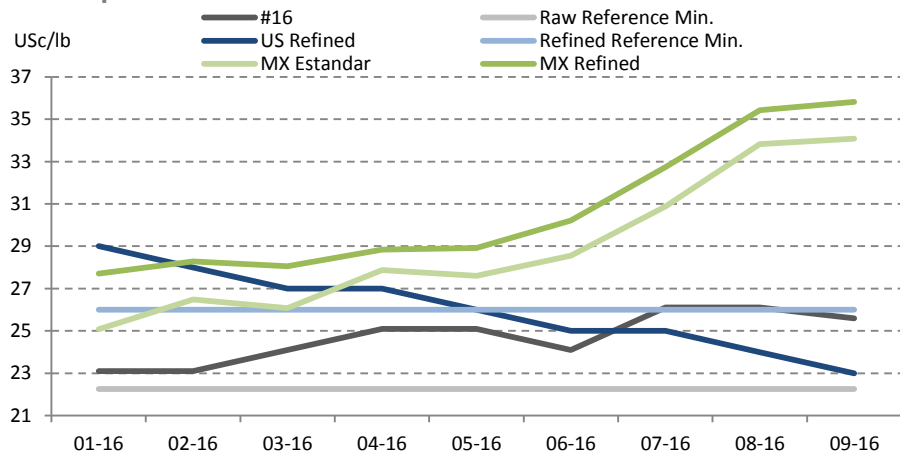
NAFTA: will there be a compromise?

Negotiations between the US DoC/Petitioner group and Mexico over changes to the current Suspension Agreements have been ongoing since July with very little progress thus far. Conjecture suggests that without a new deal in which Mexico essentially supplies 100% of raw sugar, certain US entities will seek formal termination of the Agreements. As only a governmental agency has the right to do so, success of such an approach is debatable and market uncertainty still prevails.

- Even if no changes were made to the Agreements, the US white premium would likely rebound as existing economics favour imports from Mexico more as raw sugar. This would be a prolonged solution to the current environment. If negotiations were successful, from a US perspective, and Mexico became essentially a US raw sugar supplier, the same effect would of course occur.
- For 2016/17, Mexico will likely carry surplus sugar net of its US export access, meaning that world market exports are likely for next year. The parameters of any new Agreement and the US white premium should influence whether it will be more raw or more refined. If the Agreements were terminated, more exporters would seek world market homes.
- Given the current differential between the US and Mexican internal markets, any potential Mexican exporter must also be cognizant of potential new dumping accusations being raised on any new sales for 2016/17.

Mexico to export more raw sugar...but risks dumping accusations

NAFTA prices on a Mexico ex-mill basis



Mexico also exports on world markets

Mexico 2016/17 SnD [Oct/Sep, Mt tel quel]

Beginning Stocks	1,0
Production	6,2
Imports	~0
Consumption	4,8
US Exports	0,9
World Exports	0,5
Ending Stocks	1,0

The World of Sugar

Global production: 16/17 set to rebound

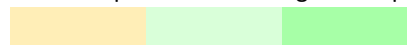
After 2015/16 saw a production loss of 11 Mt, key crops are expected to post a rebound of around 6.5 Mt in 2016/17. The bulk of the growth will be located in CS Brazil, the EU, China, Russia and Central America. Possibly also in NE Brazil but harsh weather means more downside may be on the horizon there. The main decline would be in India. Most of the weather risks that concerned the market 3 months ago did not materialize but, as always, weather can still bring some changes.

2016/17 crops to rebound from their 2015/16 low

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

	Production	10/11	11/12	12/13	13/14	14/15	15/16	16/17	17/18
CS Brazil	Apr-Dec	33,3	31,3	34,1	34,4	32,0	31,2 (*)	35,4	34,6
Australia	Jun-Dec	3,7	3,7	4,3	4,4	4,6	4,7	4,8	
Russia	Sep-Jan	2,7	5,0	4,8	4,4	4,4	5,2	5,6	
EU	Oct-Jan	15,4	17,6	16,5	15,9	17,7	13,6	15,5	
US	Oct-Mar	6,7	7,3	7,7	7,2	7,4	7,7	7,9	
NE Brazil	Sep-Apr	4,6	4,6	4,1	3,3	3,6	2,6	3,0	
India	Oct-Apr	24,4	26,2	25,1	24,4	28,3	25,0	23,2	
China	Oct-Apr	10,5	11,5	13,1	13,3	10,5	8,7	9,6	
Central America	Nov-Apr	3,9	4,7	5,2	5,2	5,4	5,0	5,3	
Mexico	Oct-May	5,2	5,0	7,0	6,0	6,0	6,1	6,2	
Thailand	Dec-May	9,5	10,3	10,0	11,3	10,8	9,7	9,7	
Total		119,9	127,2	131,8	129,8	130,7	119,5	126,2	

Crop scale: bad crop "normal" good crop



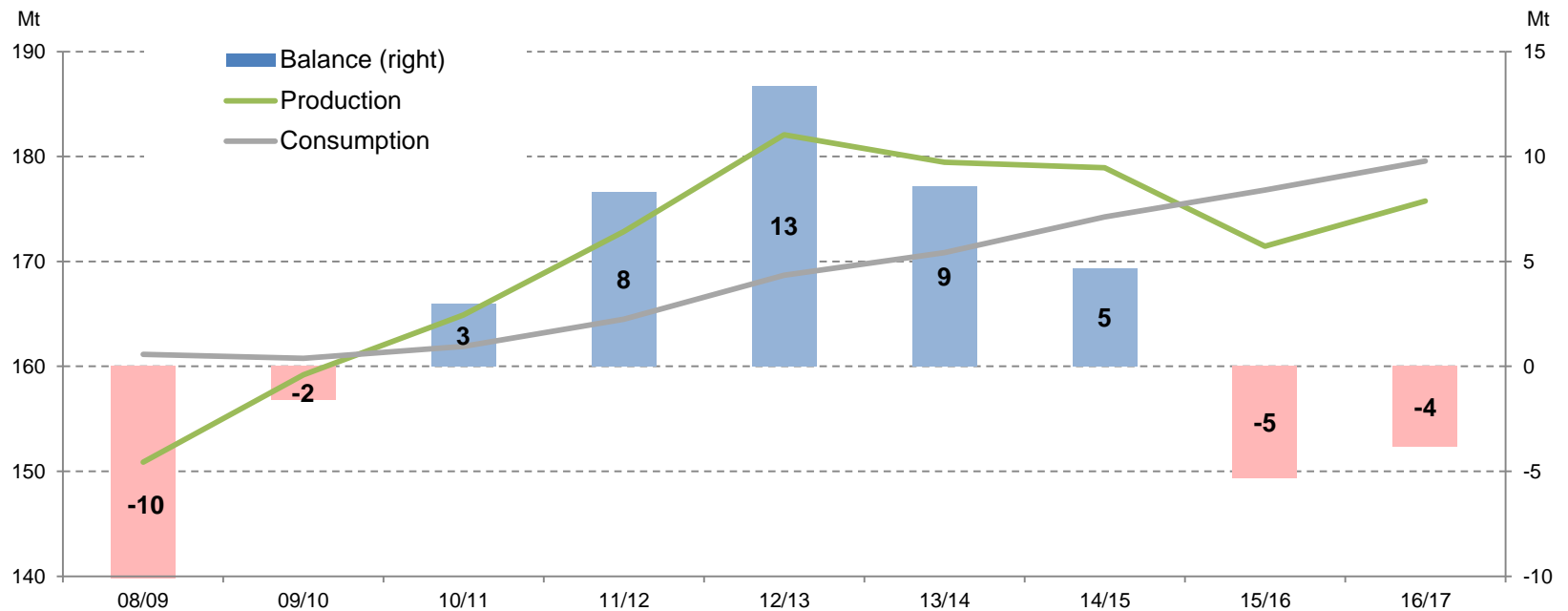
(*) cane plentiful but sugar mix lower

Global production/consumption: persisting deficit

Global consumption is expected to increase steadily by 2.8 Mt or 1.5%. Meanwhile, world sugar production could rise by around 4.3 Mt on a October/September basis. This will not be enough to offset both the deficit of 2015/16 (-5 Mt) and the annual consumption growth (+2.8 Mt). Therefore a substantial deficit should persist at around -4 Mt.

Sugar markets remaining in deficit despite the decent production rebound

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



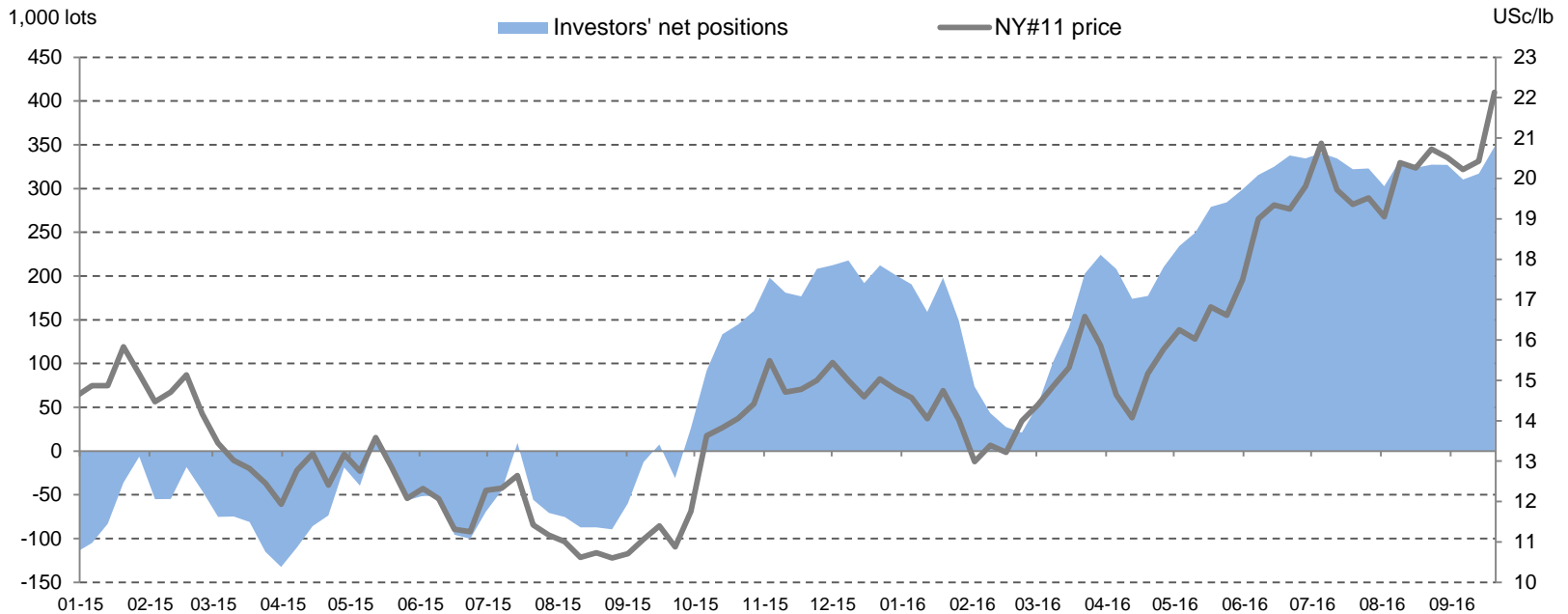
Mid-Term Outlook

CFTC report: can the Funds buy more?

The net long position of the Funds increased with almost no interruption from April to early July until a new record at +340,000 lots. They then remained essentially steady before posting a new record at almost +348,000 lots end-September. On the one hand, this raises the question of whether Funds could raise their stake much higher. On the other hand, it means the risk of a sell-off, possibly linked to a macro event, is hanging over the sugar market.

Funds' (steady) enthusiasm for sugar

Weekly Funds net positions



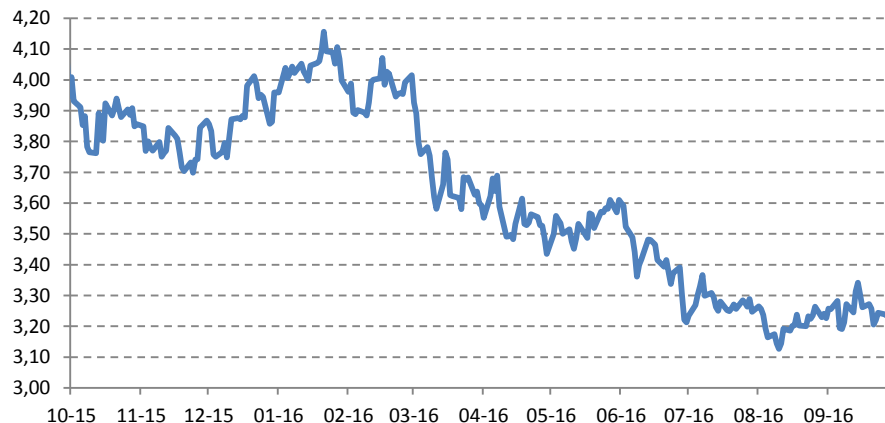
Macro: when might 8-month long positive mood end?

Global markets have remained in a positive mood since mid-February thanks to shrinking expectations of a US Fed rate hike and persisting calm over China's issues. Combined with local political/economical news, this drove the BRL much stronger to below 3.20 against the USD. Late August, resurfacing expectations of a rate hike, a stronger USD and some bad news from China put this positive mood at risk. Nothing major so far however and the BRL is still hovering around 3.25.

- **8-month long positive mood:** global markets have remained in a positive mood since mid-February, driven by shrinking expectations of a rate hike by the US Fed, persisting calm over China's issues and continuing expectations of more liquidity/low rates to be provided by the Central Banks of the EU and Japan. This positive mood allowed commodity prices to remain firm with crude oil, in the first place, steadily increasing up to above \$50...and EM currencies as well with the BRL below 3.20.
- **When could this end?:** late August, this positive mood started to look slightly more fragile. The main change was resurfacing expectations that the US Fed could hike rates sooner-than-expected. This drove the USD higher and commodities lower with crude oil back to \$45. At the same time, some bad news came from China regarding the slowdown of the economy and weakness in private investments. However, markets have managed to withstand relatively well so far.

BRL holding relatively well around 3.25

USD/BRL exchange rate



Crude oil in a \$45-\$50 range

Crude oil prices (Brent)



Global weather: risks always exist even outside La Nina

A La Nina episode, if any, would be short-lived and weak and therefore should not drive global weather in the months to come. Even without La Nina, weather risks still exist, as always. The main ones to monitor during Q4 are wetness in Australia, rains for the end of the season in CS Brazil, late rains for the beginning of the season in Central America and NE Brazil, and wetness in the EU and Russia. Of note, LT weather forecasts point to disappointing rains in Q1 in CS Brazil.

- According to IRI/CPC, the probability for La Nina is between 55% in October and 54% in December. Models project SST anomalies for NINO3.4 on average at $-0,6^{\circ}\text{C}$ which would anyway correspond to a weak level unlikely to have a strong impact on global weather patterns.
- La Nina or not, weather risks still exist as always. The main ones, among others are the possibility of wetness in Australia, rains at the end of the season in CS Brazil, late rains in Central America or NE Brazil and poor/wet weather in the EU/Russia for the start of harvest/crushing. Later, there is the risk of a disappointing rainy season in CS Brazil as pointed out by some LT weather forecasts.

Unconvincing La Nina does not make weather risks disappear

Weekly sea surface temperature anomalies in Nino3,4 region



Outlook

- In CS Brazil, the 2016/17 crop advanced at a strong pace and is on course for sugar output to post a new record at 35.4 Mt. Despite this strong performance until now, Brazil risks are on the radar and have a bullish feel: some weather forecasts point to a rainy October that could hurt ATR and the sugar mix, and collapsing agricultural yields have raised concerns about how much cane really is available this year. In addition, although it is still an early stage, it seems less cane will be available in 2017/18, which will lead to a lower sugar output even though the sugar mix could increase further. Moreover, with less cane to crush, the 2017/18 season will probably start late.
- In India, the monsoon was, in the end, good which was critical for the crop outlook. 2016/17 sugar output is now seen at 23.2 Mt. This is a 2.7 Mt deficit compared to domestic consumption that could, in theory, be covered by existing stocks. However, sugar stocks and prices are politically sensitive issues. The Government will make sure that prices will not rise further and that there is no shortage on the market. This means the possibility of Indian imports – whose parities are closed at the moment even if custom duties were reduced to 0% - is one of the main bullish flags at the moment.
- Elsewhere, crop outlooks are mixed. Overall, 2016/17 global production should rebound from its 2015/16 low by around +6.5 Mt. This would not be enough though to offset both the deficit of 2015/16 (-5 Mt) and the annual consumption growth (+2.8 Mt). Therefore a deficit of around 4 Mt should persist in 2016/17.
- The ample supply environment prevailing so far is therefore set to tighten during Q1. This is what could justify the weaker October/March spread in front of the strong March/May and May/July spreads. As always, weather conditions going forward can influence sugar production (on the upside as well as on the downside) and can therefore bring some volatility. Also, while Funds posted a new record long recently and seem to be willing to persist on the long side, it cannot be ruled out that a macro event might, at some point, trigger a sell-off.

THANK YOU!

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