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Sucden Quarterly Market Report

Little Big Man

March 2017

Agenda

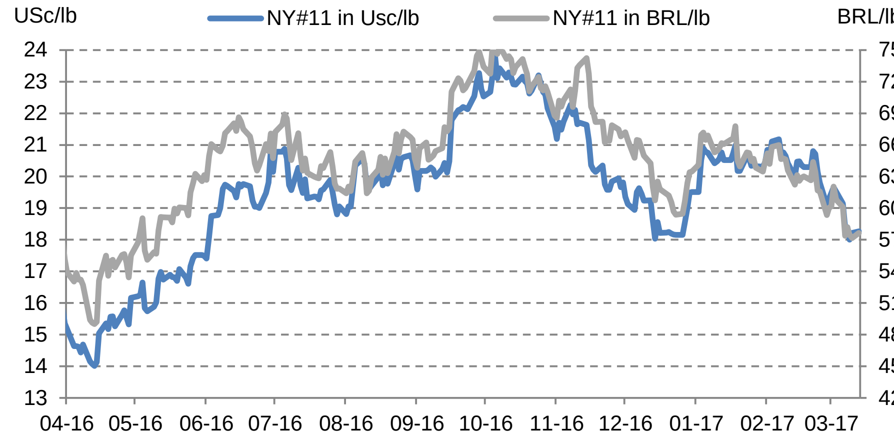
The sugar market in the past 3 months

- **Market behavior in the past 3 months:** sugar prices touched a 6-month low mid-December 2016 at USc18.03/lb (which happened to be the level of the ethanol parity in CS Brazil at that time) and then rebounded strongly and quickly up to almost USc21/lb 2 weeks later. They then hovered between USc20-21/lb for most of January and February. A few days before the March expiry, renewed weakness sent prices down towards USc18/lb. Meanwhile, calendar spreads, that started the year at firm levels, gradually eroded. The March/May expired at a small inverse and 1.2 Mt were delivered.

- **Sugar-specific drivers:** This price weakness can't be explained by the macro which remained supportive (at least at the beginning) with crude oil around $55 and BRL stronger. While a normal rainy season supported CS Brazil forecasts, it probably came from 2 main factors: the lack of action taken by the Indian government in order to trigger imports and the understanding, post March delivery, that there were higher-than-previously-expected availabilities from CS Brazil. These 2 factors probably triggered Fund selling starting mid-February.

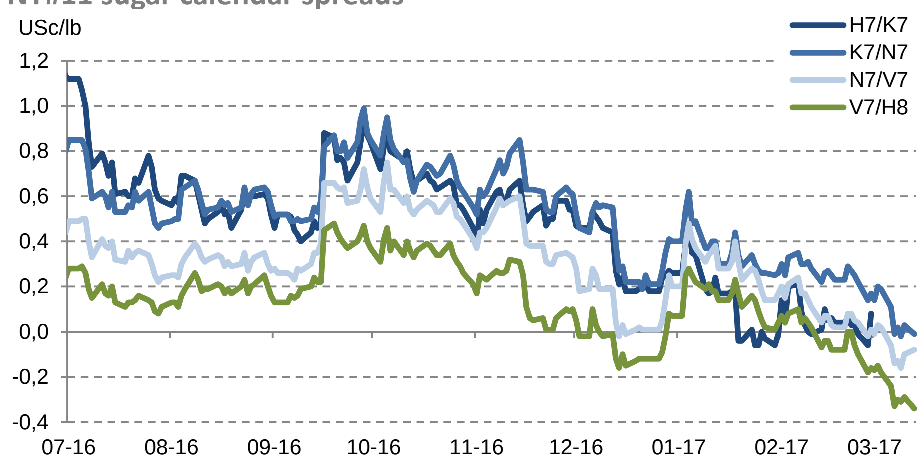
Recent flat price weakness

NY#11 sugar prices in USD and BRL



Gradual erosion of the NY#11 calendar spreads

NY#11 sugar calendar spreads



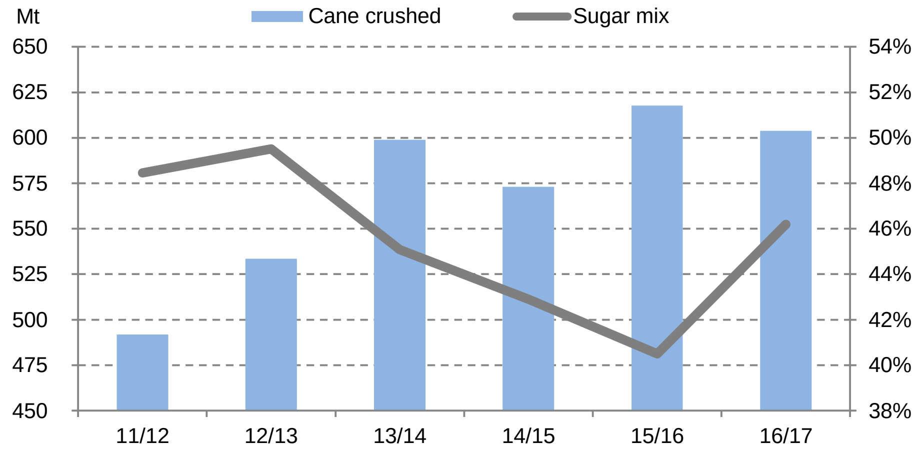
CS Brazil

What did we learn from the [record] 2016/17 crop?

- **Crushing capacity:** despite the financial difficulties of the past few years and the almost total absence of greenfield projects, crushing capacity continued to increase and reached 3.2 Mt/day.
- **Sugar capacity:** at 206,000 t/day, it did not increase much since the last time they were maxed out in 2013/14.
- **Weather:** it's not all about the rainy season. Weather during the harvest period did have a significant impact on 2016/17 agricultural yields.
- **Flexibility**: When agricultural yields started to collapse in August, many producers realized they would have less sugar cane than initially expected. They were, however, able to maintain maximization of sugar capacity - and sugar output - by increasing their sugar mix.

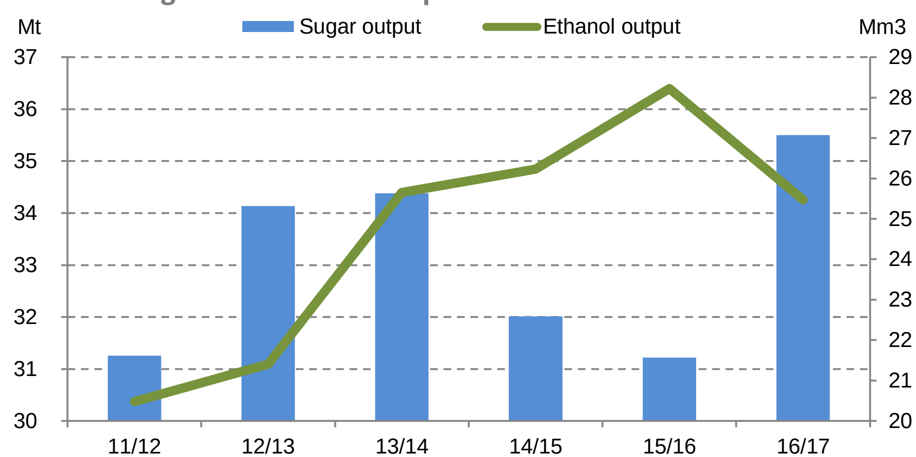
2016/17: less cane…but much higher sugar mix

CS Brazil cane crushed and sugar mix



2016/17: Record sugar output…at the expense of ethanol

CS Brazil sugar and ethanol output

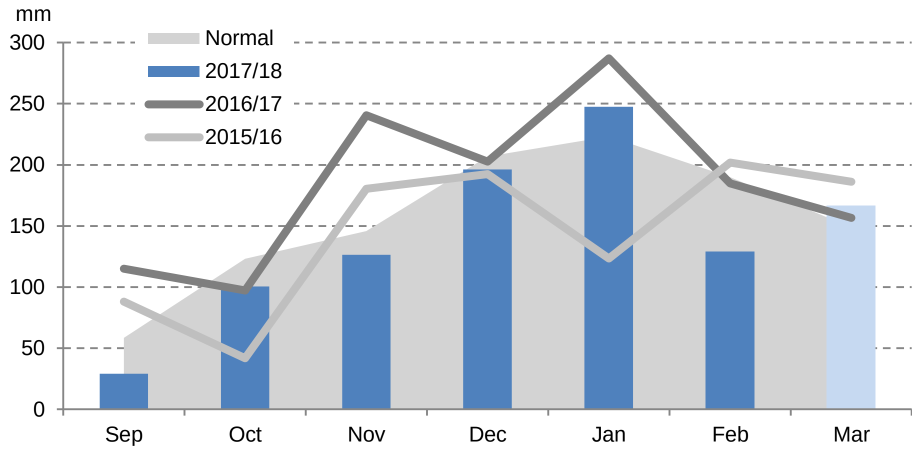


Why cane crushed may decrease further in 2017/18

- **Rainy season:** conditions were challenging until September (frost episodes in particular) but the rainy season was mostly normal from October to January and allowed cane to develop favorably. After a disappointing February, good rains will need to be confirmed in March.
- **Older cane:** after 2 years of low rates of renovation, the average age of cane will be the highest since the dismal 2011/12 season. This certainly warrants caution on agricultural yields which, on balance, are more likely to be below 2016/17 levels.
- **(Slight) decline in harvested area:** a recovery in the rate of renovation - that implies foregoing one year of production when planted with 18-month cane - and less leftover cane compared to last year imply that the harvested area could decrease by 1%.
- **Cane crushed lower:** therefore cane crushed could be substantially down at 581 Mt.

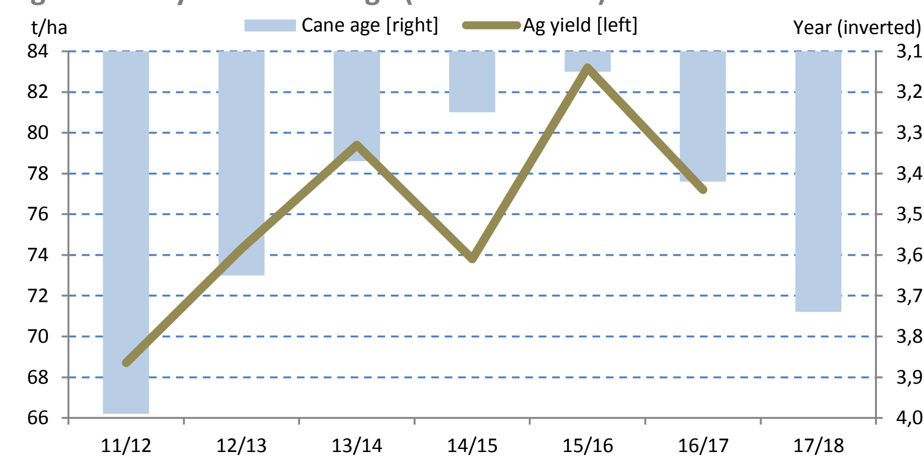
A good rainy season…until January

CS Brazil monthly rainfall



Aging cane likely to weigh on agricultural yields

Agricultural yield vs cane age (inverted scale)

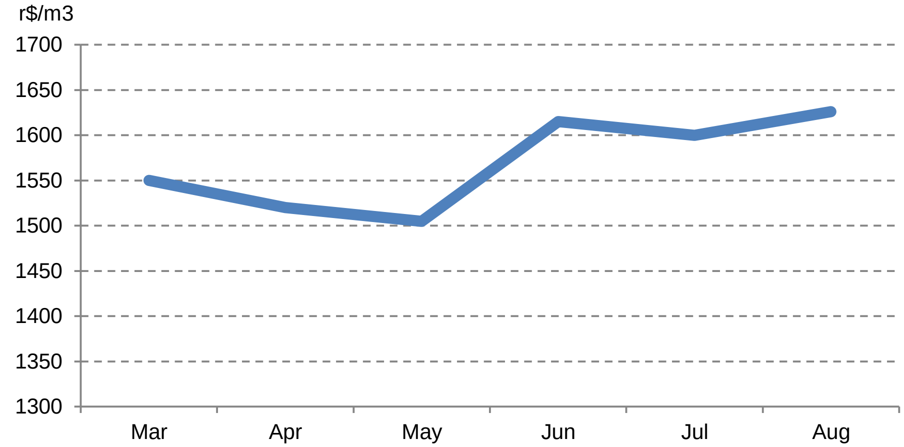


Why the sugar mix is likely to be maxed out

- **New-crop ethanol prices already highly priced:** futures prices of ethanol are already very high in July at r$1,626/m3 for the BMF contract. They correspond to a pump ratio of 73% against gasoline in the state of Sao Paulo, an unknown level for July at the peak of the producing season.
- **Huge sugar advantage:** despite high ethanol prices, sugar prices benefit from a strong 3-400pts advantage over the ethanol parity. Therefore, the sugar mix is highly likely to be maxed out.
- **Sugar investments:** the strong sugar advantage that already existed in 2016/17 spurred investments in sugar capacity. The additional sugar capacity can be estimated at 1.1 Mt. This should allow the sugar mix to increase further to 47.5%.

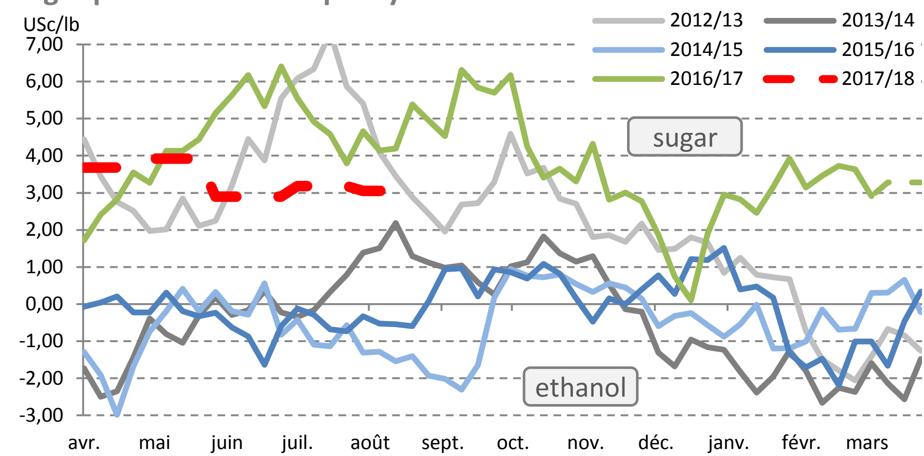
Ethanol futures price very high

BMF ethanol futures price curve



Strong sugar advantage

Sugar prices vs ethanol parity



2017/18 forecast and sensitivity analysis

- **2017/18 sugar output slightly down yoy:** based on cane crushed 581 Mt and sugar mix 47.5%, and assuming ATR at 134.0 kg/t, sugar output would reach 35.2 Mt, a decent performance but slightly below the record of 2016/17.
- **Flexibility:** if cane crushed decreases because agricultural yields disappoint, producers should be able to increase their sugar mix accordingly - as happened during 2016/17 - and therefore maintain sugar output above 35 Mt.
- **Main uncertainty on the upside:** as always there is lingering uncertainty as to agricultural yields, the amount of leftover cane, the rate of renovation, how early the season will start and the extent to which sugar capacity will increase. Compared to our forecasts, there seem to be some upside flags for cane crushed and sugar mix which could possibly bring sugar output to around 36 Mt.

Sugar output slightly below last year's record

Sucden CS Brazil crop forecast

		2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
Cane crushed	mt	**533**	**598**	**573**	**618**	**604**	**581**
ATR	kg/t	135,5	133,4	136,7	130,9	133,7	134,0
Sugar ratio	%	**49,5%**	**45,2%**	**42,9%**	**40,5%**	**46,2%**	**47,5%**
Sugar production	mt	**34,1**	**34,4**	**32,0**	**31,2**	**35,5**	**35,2**
Ethanol production	mm3	21,4	25,6	26,2	28,2	25,5	24,1

Sugar output: floor at 35 Mt, upside to 36 Mt or above

Sugar output sensitivity to Cane crushed x Sugar mix

ATR: 134

cane crushed \ Sugar mix	**46%**	**46,5%**	**47%**	**47,5%**	**48%**	**48,5%**	**49%**	**49,5%**
570	33,5	33,8	34,2	34,6	34,9	**35,3**	35,7	36,0
575	33,8	34,1	34,5	34,9	**35,2**	35,6	36,0	36,3
580	34,1	34,4	34,8	**35,2**	35,5	35,9	36,3	36,7
585	34,4	34,7	35,1	35,5	35,9	36,2	36,6	37,0
590	34,7	35,0	35,4	35,8	36,2	36,5	36,9	37,3
595	34,9	35,3	35,7	36,1	36,5	36,8	37,2	37,6
600	35,2	35,6	36,0	36,4	36,8	37,2	37,5	37,9
605	35,5	35,9	36,3	36,7	37,1	37,5	37,9	38,2
610	35,8	36,2	36,6	37,0	37,4	37,8	38,2	38,6
615	36,1	36,5	36,9	37,3	37,7	38,1	38,5	38,9
620	36,4	36,8	37,2	37,6	38,0	38,4	38,8	39,2

Brazil Ethanol

2016/17: why have ethanol prices faltered?

- **Price weakness:** spot ethanol prices have decreased sharply since early December, losing -20%. This is in stark contrast to last year when they increased until mid-March (and eventually decreased in late March on the exceptionally early start of the new crop).

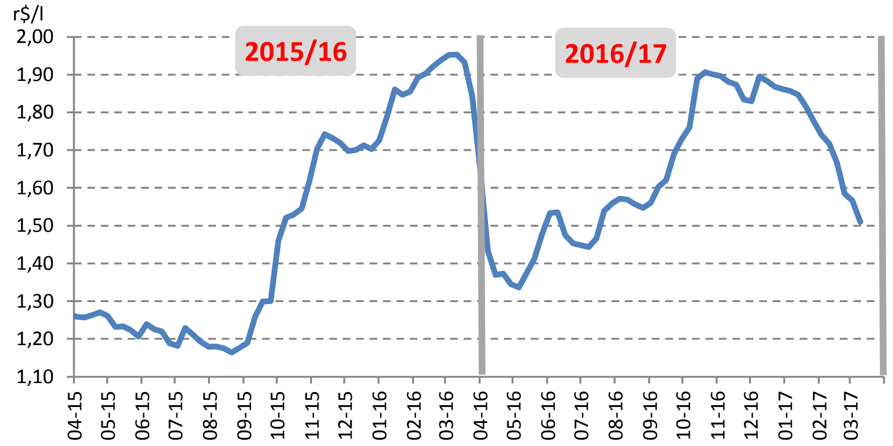
- **Consumption adjustment:** consumption was driven much lower (-2.2 Mm3) by:
  - A lower consumption of fuel (-0.1% Apr-Jan).
  - A higher pump ratio (Sao Paulo state: 76.5% in Jan 2017 vs 73.9% in Jan 2016) driven, in particular, by the end of the tax exemption on 1st January.
  - A change in consumer behavior - less ethanol consumed relative to the pump ratio.

- **Imports surge:** Dec-Feb imports to CS Brazil reached 127 km3, the highest level since 2011/12; and strong imports to NE Brazil reduced the needs for transfer from CS Brazil.

- **Moderately tight stocks:** the above factors contribute to maintaining stocks at a moderately tight level at the end of March; around 20 days of consumption.

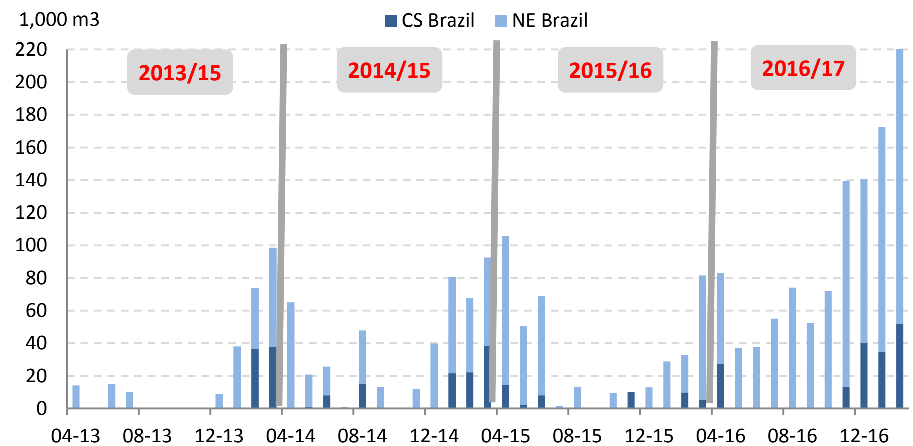
Ethanol prices faltered during the intersafra

Weekly spot hydrous ethanol prices (Cepea-Esalq)



Strong ethanol imports since November 2016

Monthly ethanol imports

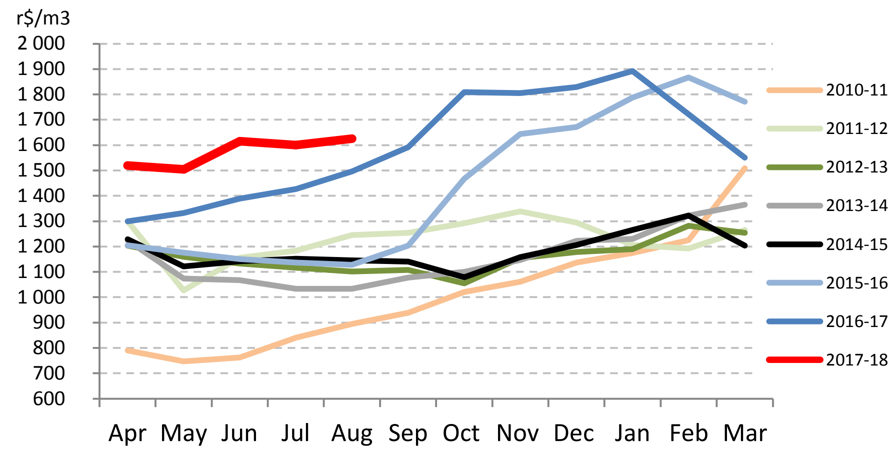


2017/18: high prices seeking to solve tightness

- **Lower supply:** based on the CS Brazil crop forecast previously discussed, ethanol production could fall by 1.4 Mm3 in 2017/18.
- **Higher prices and lower demand:** BMF ethanol futures are currently at r$1,626/m3 for the July-2017 contract, a record for this time of year. It corresponds to a pump ratio in the state of Sao Paulo of around 73%, a level already seen during intersafra periods but unknown during harvest time. At this level, domestic demand would decrease further by around 0.8 Mm3.
- **Lower exports / Higher imports:** in addition, exports could decrease further because of cheaper competition from the US. Imports are likely to grow while transfer to NE Brazil would be roughly stable thanks to continuing strong imports from the US to NE Brazil.
- **2017/18 outlook remaining tight at current prices:** despite the potential adjustments to domestic consumption and net trade, the outlook for 2017/18 remains tight with projected end-of-season stocks below sustainable levels.

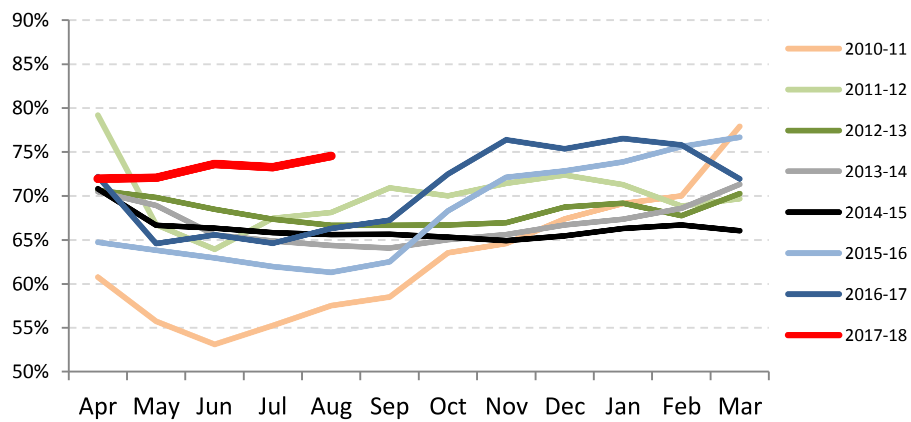
Record BMF futures prices for 1st-half of 2017/18

BMF hydrous ethanol futures prices



…and uncompetitive ethanol prices at the pump

Ethanol/Gasoline pump ratio in the state of Sao Paulo



2017/18: price upside unlikely to challenge sugar mix

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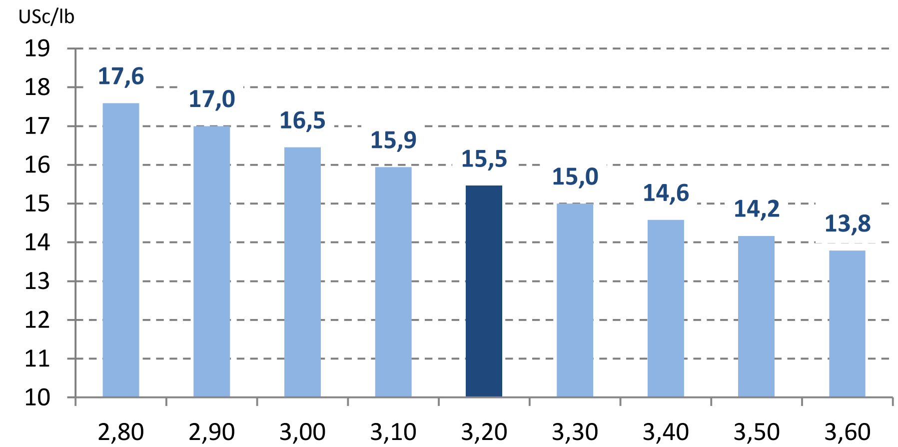
- **Basis current market:** based on the current BMF futures price (r$1,626/m3 for July-2017) and forward BRL (3.23 against USD), the ethanol parity is projected at US15.3/lb. If the BRL were to strengthen to 3.00, the parity would be up to 16.5/lb.

- **Basis equilibrium price:** ethanol prices need to increase by around 4% in order to balance the 2017/18 supply/demand. Against this, the projected ethanol parity would reach USc15.7/lb for BRL at 3.23…up to Usc16.9/lb in case the BRL were to strengthen to 3.00.

- **Sugar prices vs ethanol parity:** Given that NY#11 July-2017 is currently USc18.2/lb, sugar prices are 290pts above the ethanol parity in current market configuration. Projecting that ethanol prices need to increase to balance supply and demand, and assuming that the BRL strengthens to 3.00, sugar prices would still be 130pts above the ethanol parity. Overall, it seems rather likely that sugar capacity will be maxed out in 2017/18.

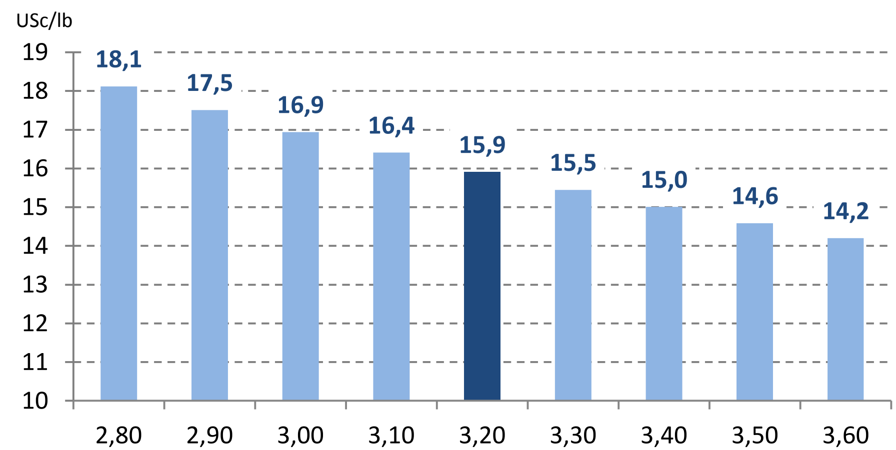
Ethanol parity at USc15.6/lb with current BMF

Forward July-2017 ethanol parity basis current futures prices



Ethanol parity at USc15.9/lb with equilibrium price

Forward July-2017 ethanol parity basis equilibrium price



Other Key Countries

India: 2016/17 crop below the 20 Mt mark

2016/17 crop: drastic reduction confirmed

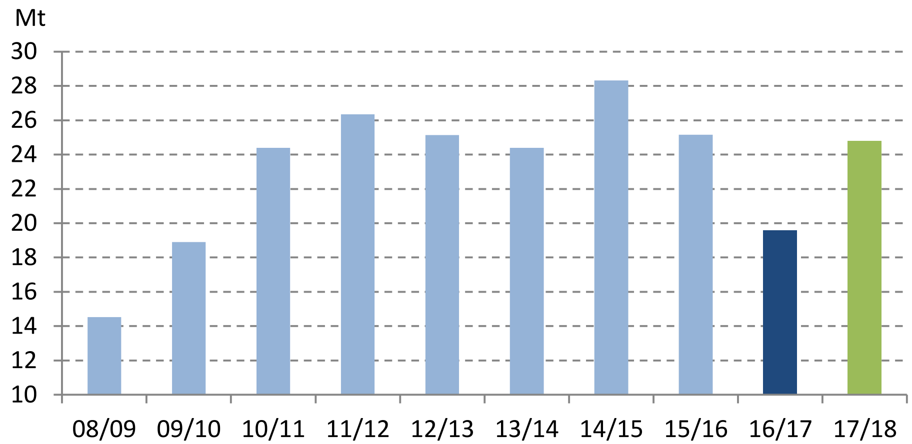
- End-February, cumulative production stood at 16.4 Mt vs 20 Mt last year. Around 3 Mt more should be produced by the end of the crop, including 2 Mt in Uttar Pradesh and the other northern states.
- The season is almost finished in Maharashtra and Karnataka and should end up at 4.2 and 2.1 Mt respectively. Uttar Pradesh is forecast to finish end-April at 8.1 Mt.
- All-India production is seen around 19.6 Mt, down from 25.1 Mt in 2015/16

2017/18 crop: rebound under way, but not that high

- Plantings in the western belt are disappointing, particularly for the Adsali season as rains and replenishment of the reservoirs came too late. Moreover, in northern Karnataka, reservoir levels are still worrisomely low and irrigation potential has not fully recovered.
- Uttar Pradesh should continue to grow thanks to good economics compared to other crops and continuous improvement of varieties.
- All-India production is seen at around 24.8 Mt.

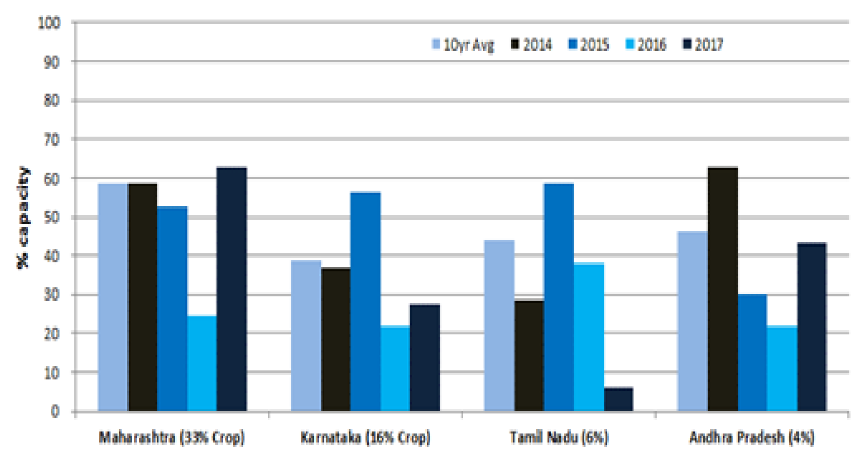
2016/17 output at 7-year low

India sugar production [Oct/Sep, tel quel]



Low reservoir levels in Karnataka and Tamil Nadu

Status of live water storage (in% of capacity)



India: market scrutiny over import policy and size

Political state of play

- Basis a crop at 19.6 Mt, stocks could be as low as 2.4 Mt end-September which, combined with the 2017 monsoon risks, make government action rather likely.
- Local consumption remains uncertain, particularly after demonetization and the low dispatch in Q4. We still assess 2016/17 consumption at 24.9 Mt.
- After internal measures and the election in Uttar Pradesh, the government may elaborate an import program of 1.7 Mt to restore a suitable level of stocks of 2 months' consumption by end-September.
- Local price dynamics will dictate the timing and size of the measures to be taken.

What scheme for imports?

- Based on NY#11 levels early-March, import parities were positive in western and eastern India at 0% duty.
- Several, limited batches of imports under OGL at 0% duty seem a realistic scenario to supply the market progressively, and reassure consumers whilst avoiding a counter-productive bull effect on world sugar prices.
- In the current environment, the impact of India's imports should be mainly a decrease of its re-export flows from the coastal refineries rather than direct whites imports. Additional refining capacity could also be found in Tamil Nadu during Q2 and Q3.

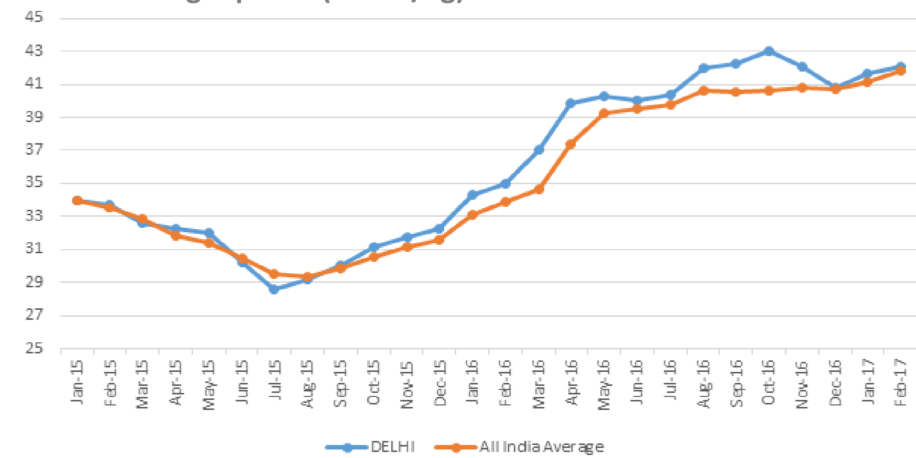
1.7 Mt imports required to keep stocks at suitable level

India 2016/17 Supply/Demand/Stocks (in Mt)

Opening stocks	7,7
Production	19,6
Consumption	24,9
Stocks on 30 Sep [no imports]	2,4
- in days of consumption	**35**
Production Oct/Nov	2,4
Consumption Oct/Nov	4,2
Stocks on 30 Nov [no imports]	0,6
Imports	**1,7**
Stocks on 30 Sept [with imports]	4,1
- in days of consumption	**60**
Stocks on 30 Nov [with imports]	2,3

Further price increase to be the trigger for imports

Delhi retail sugar prices (in INR/kg)

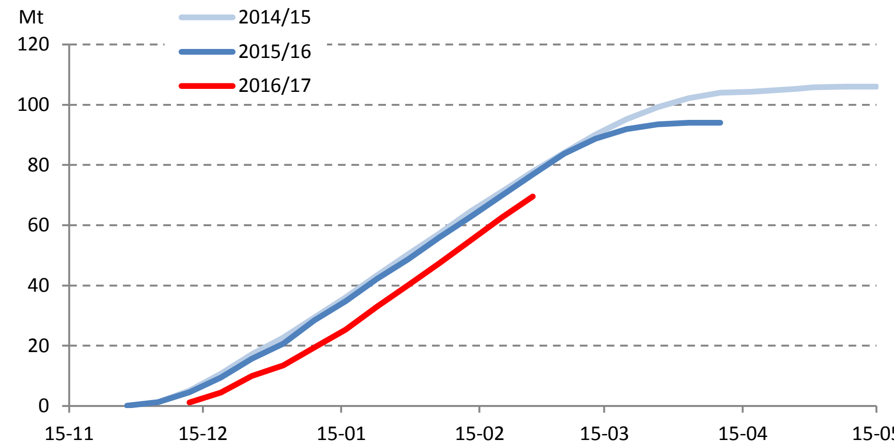


Thailand: stable sugar production and steady exports

- **Late start and disappointing cane:** the 2016/17 season started mid-December - later than usual - and has trailed previous years since then. 69.5 Mt were crushed end-February, 7.3 Mt less than last year. Some mills are already closing which means the pace of crushing is set to drop, particularly in the Northeastern and Central regions. Total cane crushed could disappoint slightly at 91 Mt.
- **Stable sugar output thanks to good recovery:** meanwhile, the sugar content is well supported, which should help to maintain sugar output stable yoy at around 9.7 Mt.
- **Steady flows:** this means that export availability will also be roughly stable compared to last year at 6.8 Mt. From November to March, 2.2 Mt were exported (less than last year) half as raw and half as whites. The main destination for Thai raw sugar is Indonesia thanks to the import duty advantage.

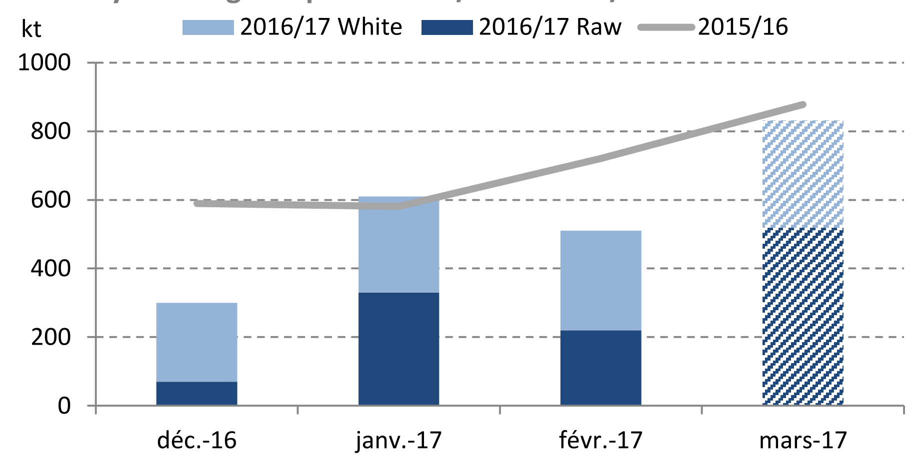
Late start…and no catch up

Weekly cumulated cane crushed



Decent sugar exports

Monthly Thai sugar exports: 2016/17 vs 2015/16



China: a narrowing yet sizeable deficit

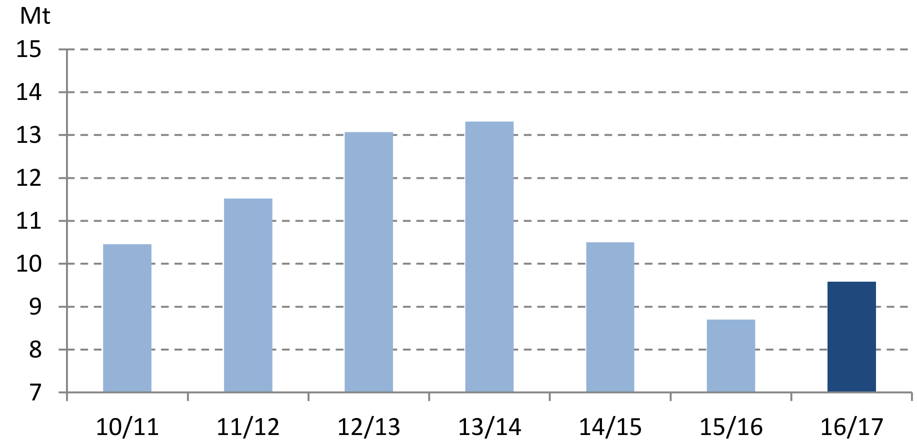
- **2016/17 season approaching its end:** favorable weather conditions allowed the crop to advance at a steady pace. Half the mills in Guangxi will have stopped by mid-March and the season could be virtually finished by the end of the month. Overall, China's sugar output should reach 9.6 Mt. This is almost 1 Mt more than last year, albeit far from the level of 13,3 Mt achieved 3 years ago.

- **Deficit below 6 Mt:** thanks to the production recovery and to a slight decrease in consumption on the back of stronger competition from HFCS, the country's deficit should be below 6 Mt, down from the 7 Mt last year.

- **How to fill the deficit?:** this deficit should be met by imports of over 5 Mt, roughly split between raw and white sugar and by 1.5 Mt of stock releases, of which 820 kt have already been released. This scenario is subject to the outcome of the investigation process and the extent to which import duties will be increased. In the event of a strong duty increase, imports of raw sugar would likely decrease while stock releases and imports of whites would be bigger.

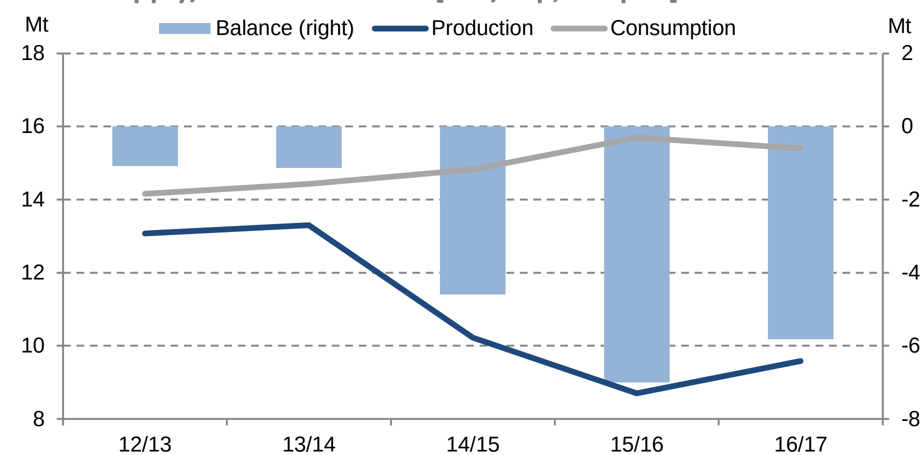
China's output increasing by almost 1 Mt

China sugar production [Oct/Sep, tel quel]



Big deficit getting smaller

China supply/Demand balance [Oct/Sep, tel quel]

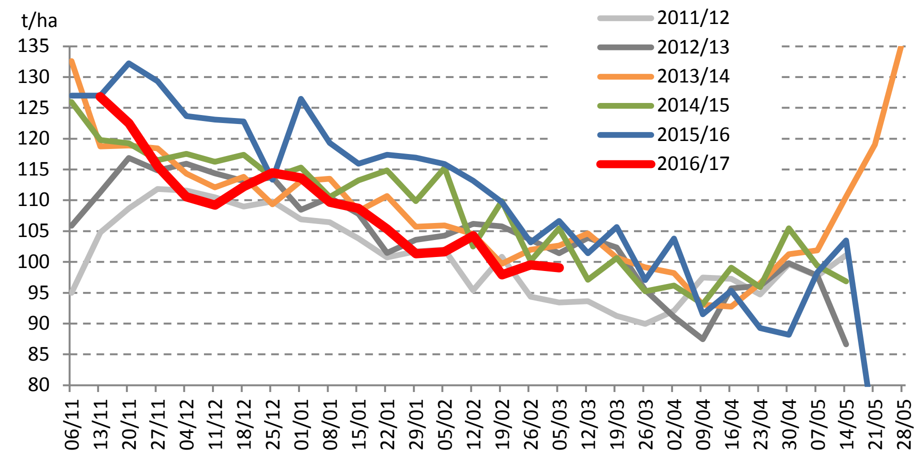


Centrals: sugar output up despite Guatemala

- **Crop news:** crops in Central America are roughly 70% advanced. In Guatemala, the main producing country, agricultural yields are disappointing while the sucrose content is in line with average. In El Salvador and Nicaragua, both are performing strongly.
- **2016/17 sugar output:** while there could be less sugar produced in Guatemala, other countries are poised to rebound strongly from last year's disappointing level. Overall, sugar output could be up 250 kt to 5.2 Mt.
- **Exports:** exports since the beginning of the season have been rather slow, more or less in line with last year.

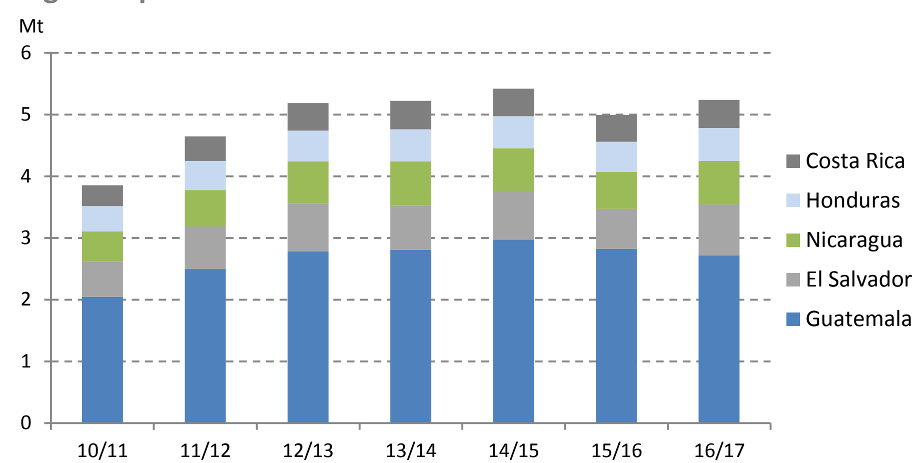
Guatemala agricultural yields at 6-year low

Guatemala: weekly agricultural yields



Centrals crop up despite disappointment in Guatemala

Sugar output in Central America

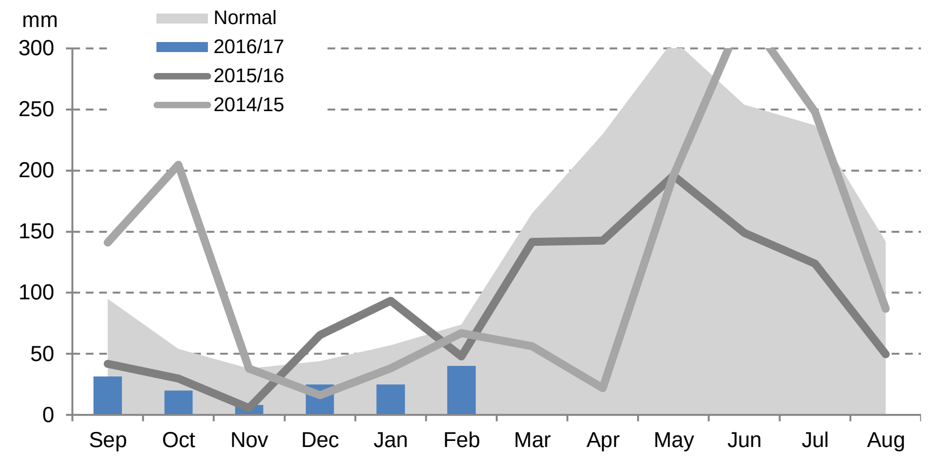


NE Brazil: dry weather hit 2016/17…and 2017/18 too

- **Weather:** after below-normal but adequate rains from January to July 2016, the weather turned very dry for the last month of the rainy season in August and during the following 6 months. Alagoas, for example, received 150mm from September 2016 to February 2017, not more than 40% of the normal.
- **2016/17 coming to an end:** the persisting dry weather hurt agricultural yields and cane crushed should end up below 45 Mt, the lowest in at least 15 years. However, thanks to a strong ATR and a marked rebound in the sugar mix, sugar output should still exceed 3.0 Mt, more than 400 kt above last year.
- **2017/18 outlook:** the very dry weather also spurs concerns for the 2017/18 crop. Even though the rainy season has barely started, it seems already that the next crop has little chance to be bigger than the (disappointing) 2016/17 level.

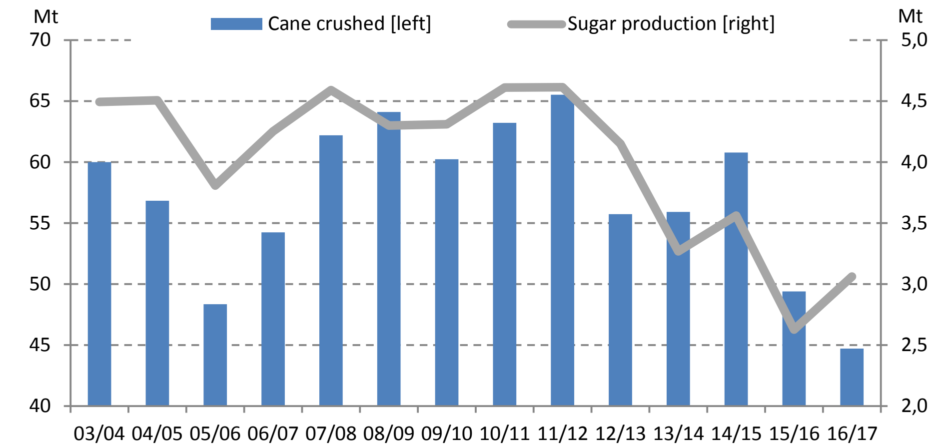
Very dry weather since August 2016

Monthly rainfall in Alagoas



2016/17: sugar up 400 kt despite dismal cane crushed

Cane crushed and sugar output in NE Brazil [Sep/Aug, tel quel]

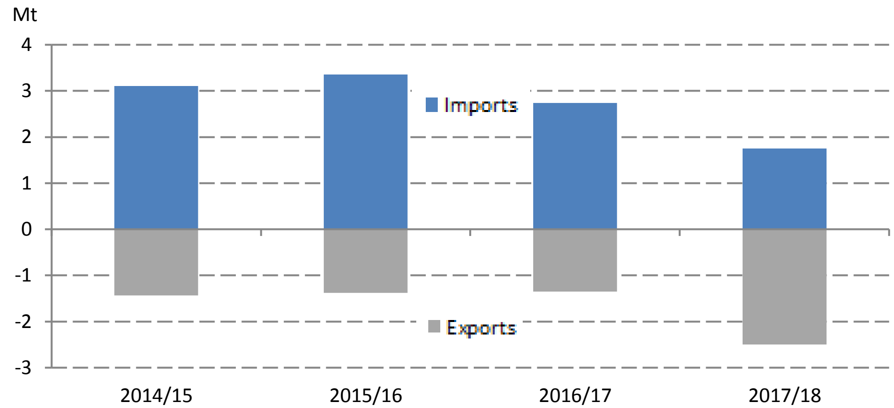


The EU: countdown to quota-free market has begun

- **2017/18 crop:** the planted area could increase by 15% next year which, assuming normal weather, would lead to over 19 Mt of production. Sugar availability would be further increased thanks to a declining ethanol production.
- **2017/18 flows:** EU producers will likely focus first on replenishing depleted stocks and on displacing imports which should be limited to duty-free schemes at around 1.75 Mt. That would lead to export availability of around 2.5 Mt.

Exports to jump in 2017/18

EU imports/exports

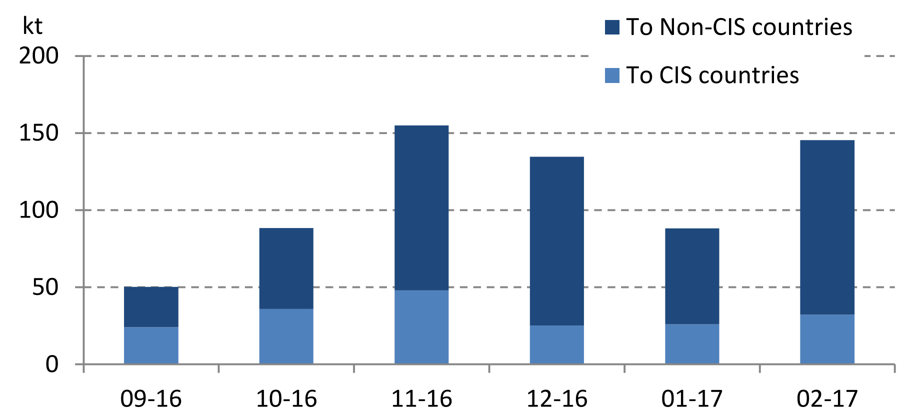


Russia-Ukraine: an established new white exporter

- **2016/17 surplus:** sugar production jumped in 2016/17 in both Russia and Ukraine to 6.15 Mt and near 2.0 Mt respectively and led to a surplus over domestic consumption of more than 1 Mt. This surplus displaced regional imports of raw sugar and was also exported to world markets.
- **2017/18 crops:** planted area may decrease slightly in Russia while continuing to increase in Ukraine. Subject to weather, total production could be similar to 2016/17.

Significant exports to world markets

Monthly Russia/Ukraine white sugar exports

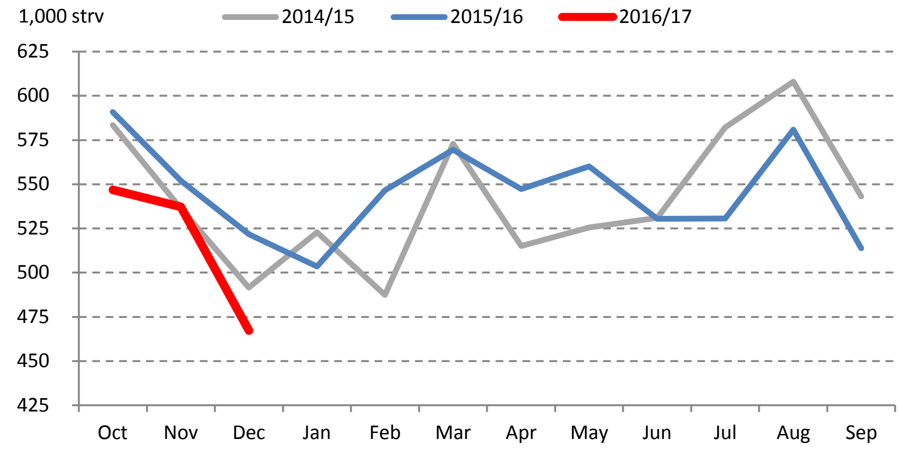


NAFTA: market still in limbo

- **Unknown politics:** the recent confirmation of a new Secretary of Commerce means Suspension agreements talks may resume soon after having been on hold since early January. The outcome is however difficult to predict: if a solution to make Mexico a predominantly raw sugar supplier is not found, a request for termination of the agreements is likely. Whether the request will be honored is unknown as the larger issue of NAFTA renegotiation as a whole may prove that smaller issues are not given immediate attention.
- **Tough situation for US refiners:** meanwhile, US cane refiners continue to suffer with low run times and margins. Should they maintain the same pace from December 2016 (a likely scenario), 2016/17 volumes will decrease by 600k strv yoy.
- **Decent NAFTA crops: while,** if realized, the 2016/17 US beet crop would be the 2nd largest, lagging year-on-year beet yields have finally led the USDA to reduce the crop forecast to 8.975m strv. In Mexico, the crop is in line with last year which means that the USDA projection of almost 6.4 Mt will be difficult to attain. Exports to world markets of around 300-350 kt are, however, still expected in order to balance the Mexican market.

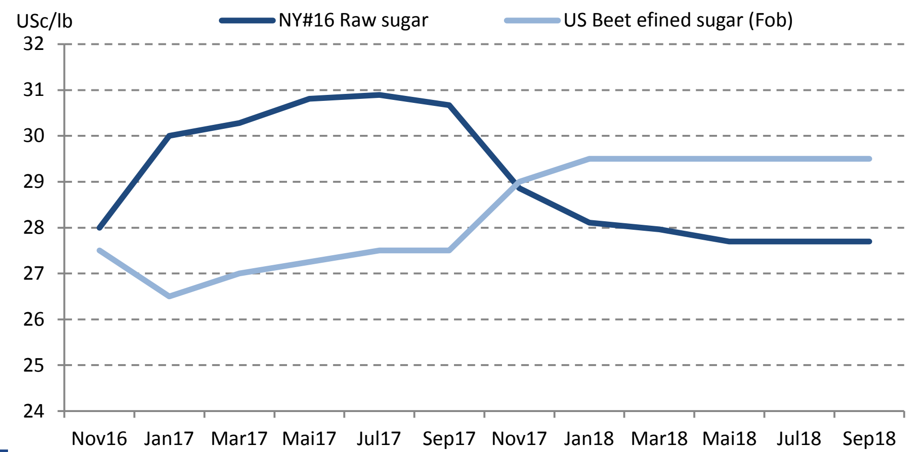
2016/17 US refiner activity starting at low level

Monthly US cane refiners melts



Negative US refining margins

NY#16 delivered raw sugar vs US beet Fob offers



Mid-Term Outlook

Global crops: heading to record level

- **Key crops output poised for record:** early forecasts for 2017/18 crops point for record or near-record levels in many countries. The total increase is close to 10 Mt and mainly located in India, the EU, Thailand and China. Brazil could be slightly below 2016/17.
- **Weather risks:** forecasts at this early stage assume “normal weather” and therefore encompass risks: late rains in Brazil? Dryness in Australia? Planting conditions in the EU and Russia? Much-needed rains in NE Brazil? Monsoon in India?
- **Main flags:** the possibility of El Nino brings more risk to the downside as it would increase the risks of a slow and disappointing monsoon in India and of below-normal rain in China, Indonesia and Australia. Barring weather disruptions, the main flag on CS Brazil could, on the contrary, be on the upside if producers manage to push up the maximization of their sugar capacity.

Most 2017/18 crops in the green

Key crop forecasts

	Production	14/15	15/16	16/17	17/18
CS Brazil	Apr-Dec	32,0	31,2	35,5	35,2
Australia	Jun-Dec	4,6	4,7	4,8	4,8
Russia	Sep-Jan	4,4	5,2	6,2	6,0
EU	Oct-Jan	17,7	13,9	15,6	18,4
US	Oct-Mar	7,4	7,7	7,8	7,9
NE Brazil	Sep-Apr	3,6	2,6	3,1	3,1
India	Oct-Apr	28,3	25,2	19,6	24,8
China	Oct-Apr	10,5	8,7	9,6	10,4
Central America	Nov-Apr	5,4	5,0	5,2	5,4
Mexico	Oct-May	6,0	6,1	6,2	6,1
Thailand	Dec-May	10,8	9,7	9,8	11,0
Total		130,7	120,1	123,2	132,9

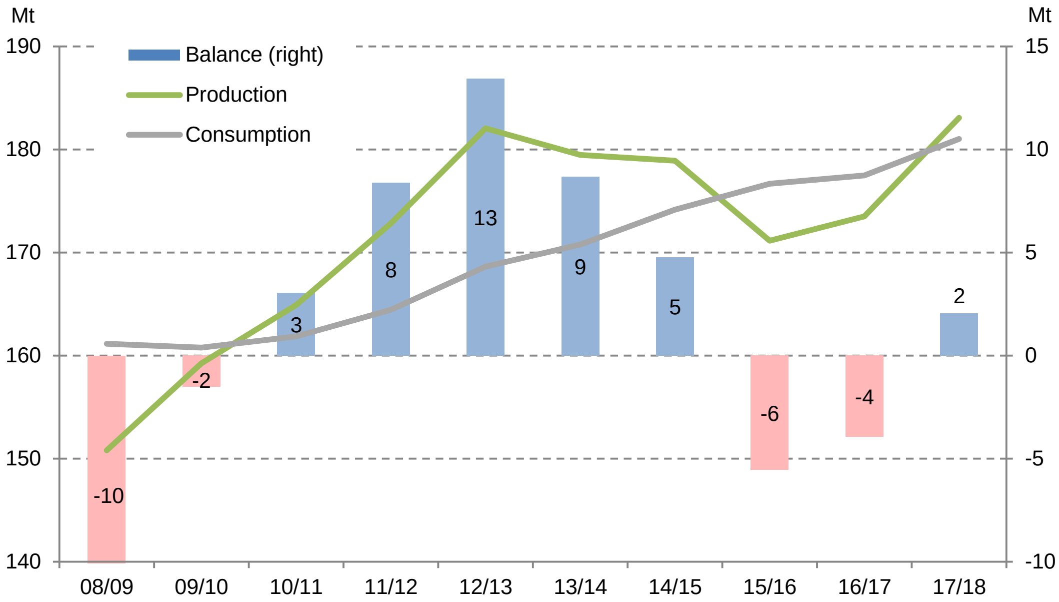
Crop scale: bad crop "normal" good crop

Global balance: a small surplus in sight?

- **Production vs consumption:** While production should increase strongly by almost 10 Mt, consumption should continue its steady growth by over 3 Mt, mostly located in Asia and, to a lesser extent, in Africa.
- **Switch to surplus:** therefore, the global production/consumption balance could switch to a small surplus of around 2 Mt.
- **Surplus relativity:** this surplus is small in absolute terms as well as when compared to the cumulated deficit of the two previous years. Moreover, given the downside risks derived from weather uncertainties in particular, it cannot be ruled out that it could disappear at some point.

All going well, 2017/18 might shift to a small surplus

Global production/consumption balance [Oct/Sep, raw value]



Macro: what environment for Commodities?

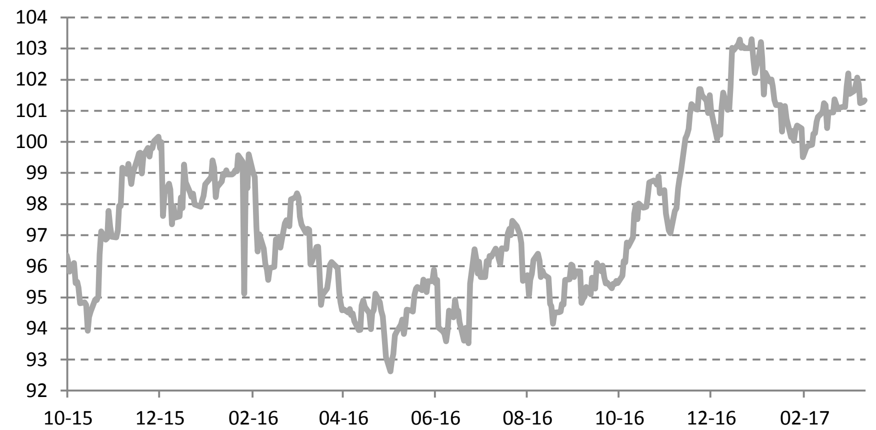
- **Global economy:** Global growth momentum and inflation picking up seem to provide a favorable environment for Commodity investments. The main risks are 1/ the timing of the next leg of the USD rally 2/ political/trade uncertainties in Europe and the US.

- **Crude oil:** Crude oil prices took a hit recently on the back of a surprise stock build in the US and suggestions that the OPEC might not extend its supply cut deal. It seems however that the rebalancing of the oil market is under way, which should provide some support to prices.

- **BRL:** If the USD rally makes a pause, and local political noises stay put, then the BRL should be well supported. On the contrary, if the trajectory of US rates is revised upwards, and/or if concerns over politics or the social security reform grow, then the BRL would weaken.

USD impressive rally of end-2016 has calmed down

USD index



Crude oil prices: support above $50?

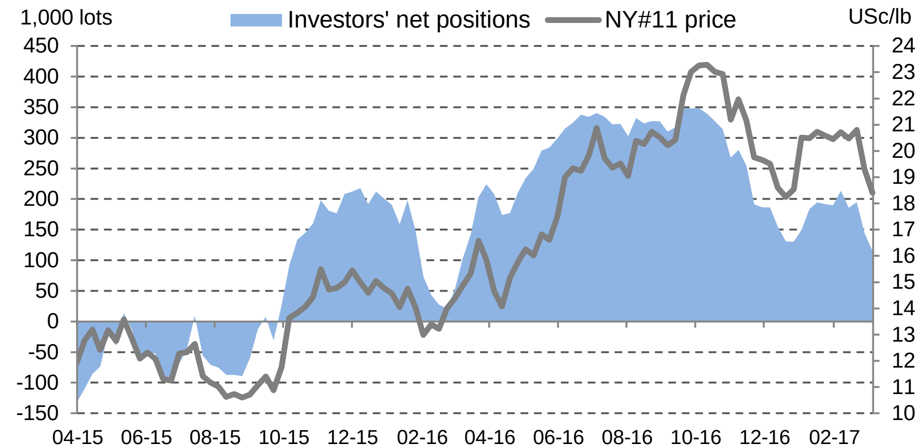
Crude oil prices (Brent)

Funds: caution prevailed

- **Funds' net position:** after shrinking to 130,000 lots at the end of last year - a level last seen in March 2016 - the fund position rebounded to 195,000 lots mid-January. It then hovered hesitantly between 185,000 lots and 214,000 lots before declining to 115,000 lots early March, the lowest level in one year.
- **Index funds:** the index position dwindled during the entire year in 2016. It decreased further at the beginning of 2017 on rebalancing constraints and got to its lowest position since January 2011 at 151,000 lots mid-January. It remained near this low level for the following 4 weeks before jumping to 176,000 lots.
- **What's next?:** Investor caution may have been driven by the USD rally and by the possibility of a surplus in 2017/18 getting more publicity. Their next move will depend on the macro environment and potential changes in the fundamentals.

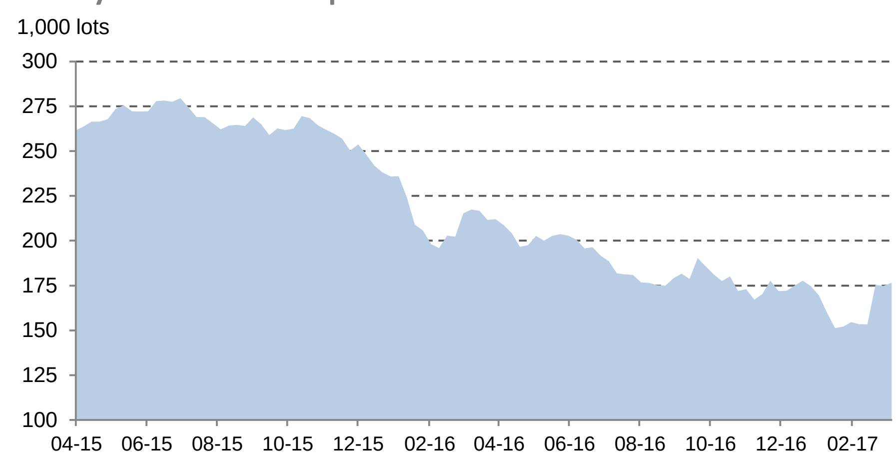
Funds hesitant since their rebound mid-January

Weekly Funds net positions



Index simmering after one-year long consistent decrease?

Weekly Index funds net positions

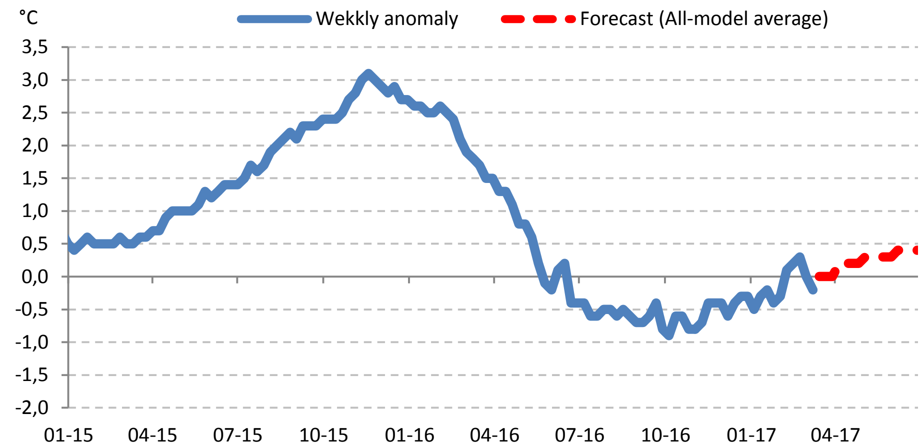


Global weather: El Nino around the corner?

- **End of La Nina:** sea surface anomalies started to increase in October, entered neutral-conditions level (above -0.5°C) in November and have since then remained in neutral territory (below +0.5°C). Most models predict the persistence of neutral conditions until June (big forecast uncertainties thereafter).
- **El Nino around the corner?:** that said, the increase in temperature anomalies has been sustained until end-February and the probability for an El Nino episode has risen.
- **Global weather:** this is an important point that is likely to be discussed in the coming weeks as El Nino would increase risks of a disappointing monsoon in India and, more broadly, of disappointing rains in Asia and Australia (except Thailand).

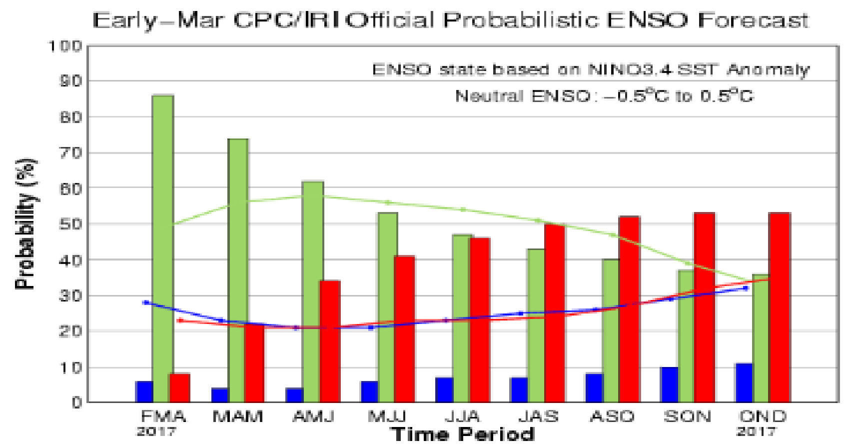
Back to neutral conditions...

Weekly sea surface temperature anomalies in Nino3.4 region



...that most models see persisting until June

IRI/CPC model-based probabilistic forecast



Outlook

- In CS Brazil, supply of sugar cane is constrained by lack of renovation and older sugar cane fields. However, the sugar mix should increase substantially as sugar's price advantage over ethanol during most of last season led to substantial investments in new sugar capacity. Overall, sugar output could reach 35.2 Mt, near the record level set in 2016/17 at 35.5 Mt.

- In India, the 2016/17 season is approaching its end and sugar output should be markedly down at 19.6 Mt. This means that around 1.7 Mt of imports are likely to be needed although government action will come after implementation of internal measures and the results of the election in Uttar Pradesh. Local price dynamics will probably dictate the timing and size of the measures to be taken but a realistic scenario would be a series of limited batches of OGL at 0% duty that would allow to supply the market progressively, reassure local consumers and avoid a counter-productive bull effect on world sugar prices.

- Elsewhere, the outlook for the key crops is mainly positive albeit still subject to weather risks. In total, sugar production could increase by 10 Mt yoy - this increase being located mostly in India, the EU, Thailand and China - and reach a new record at 183 Mt (Oct/Sep, raw value). This should allow the global production/consumption balance to shift to a surplus of 1 to 2 Mt in 2017/18 (Oct/Sep, raw value).

- The potential switch from deficit to surplus primarily means more uncertainty on the outlook and more volatility. The foreseen surplus is small in absolute terms as well as relative to the two previous deficits and is exposed to downside risks. Also, news flows may be more on the bullish side in the coming weeks: likely action from the Indian government to allow imports, "usual" weather risks and a possible El Nino episode that would have a widespread impact on various crops. On the opposite, China could also make the headlines in case they increase their import duty strongly.

- The macro environment could also bring uncertainty and volatility: strong global growth momentum, inflation picking up and expected rebalancing of the oil market on the one hand; risk of a new wave of USD strength, US trade policy, European politics on the other hand.

THANK YOU!

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