



ISMA Annual Sugar Conference

5th October 2021

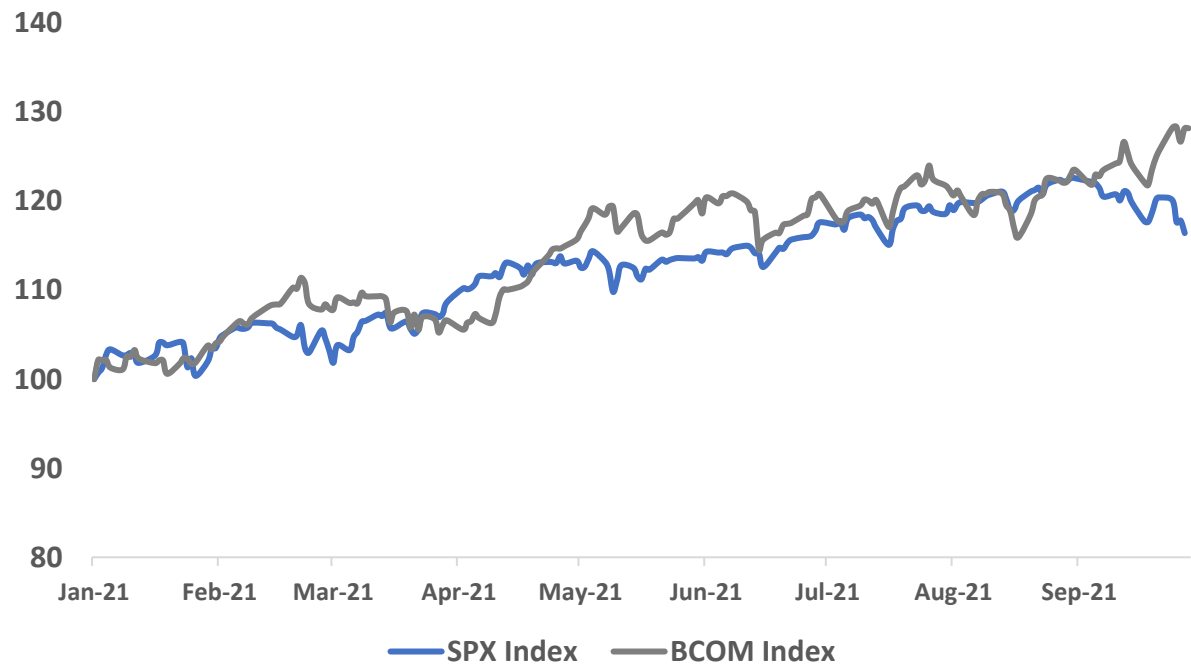
From a Disaster Crop in CS Brazil to Muted Crop Recoveries Elsewhere – Sugar prices to stay well bid

The 2021 Price Action - Commodities was one of the Best Performing Asset Classes

Commodities in general and sugar in particular have benefitted from the global economic recovery post-Covid, elevated weather-risk premium and constructive fundamental story. In the current inflationary environment, general interest in commodities is set to remain strong in 2021-22.

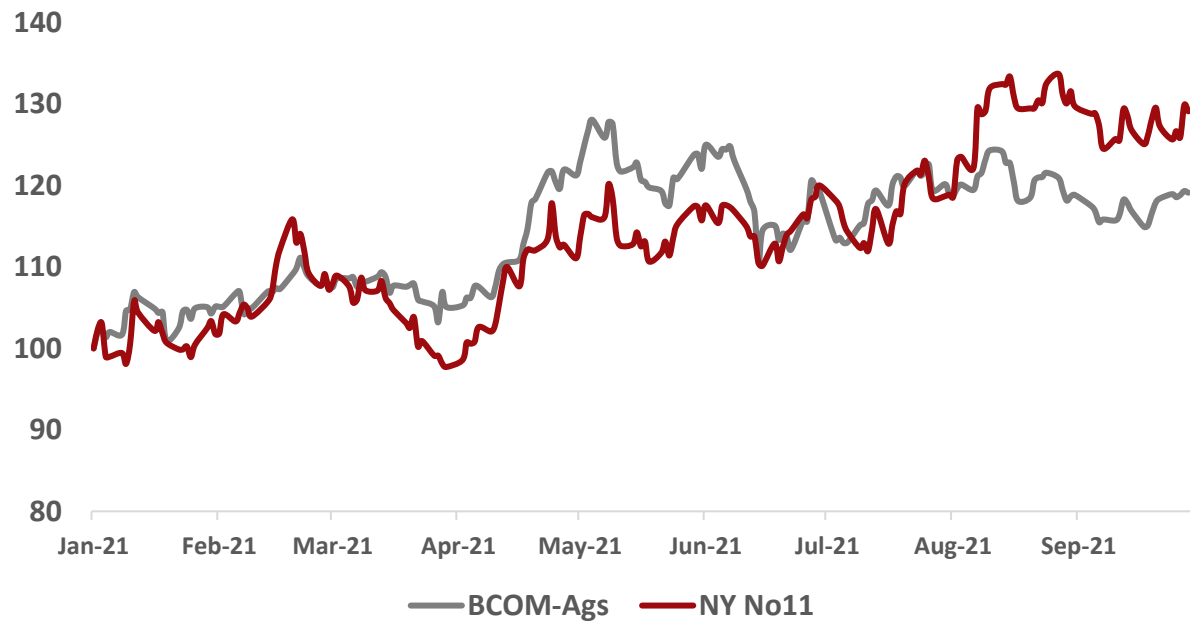
BCOM Outperformed US Equities in 2021

(Index 4th Jan 2021 = 100)



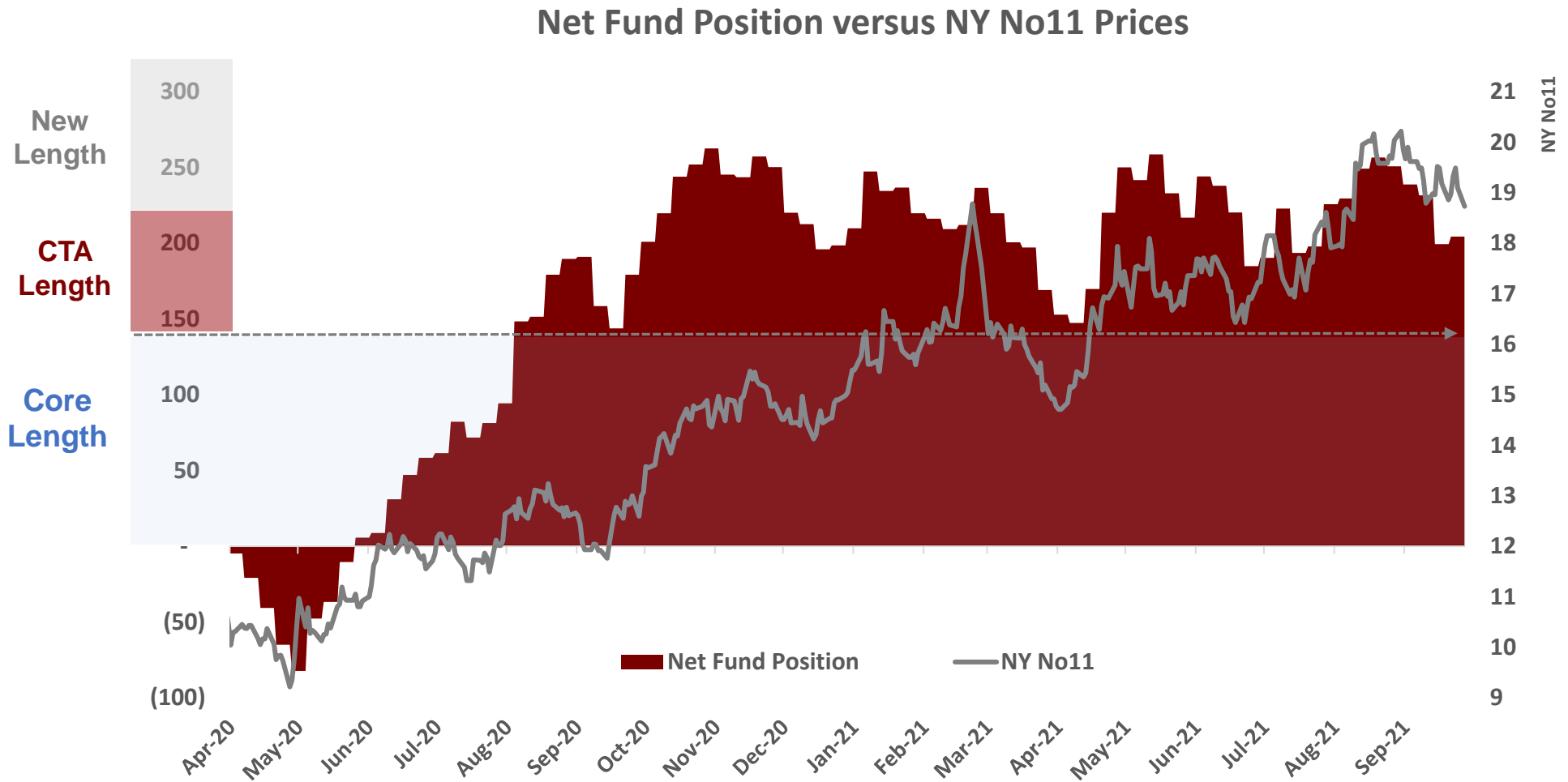
Sugar Outperformed the BCOM Ags in 2021

(Index 4th Jan 2021 = 100)



Spec Positioning in Sugar – “Sticky” core net long position to be Maintained

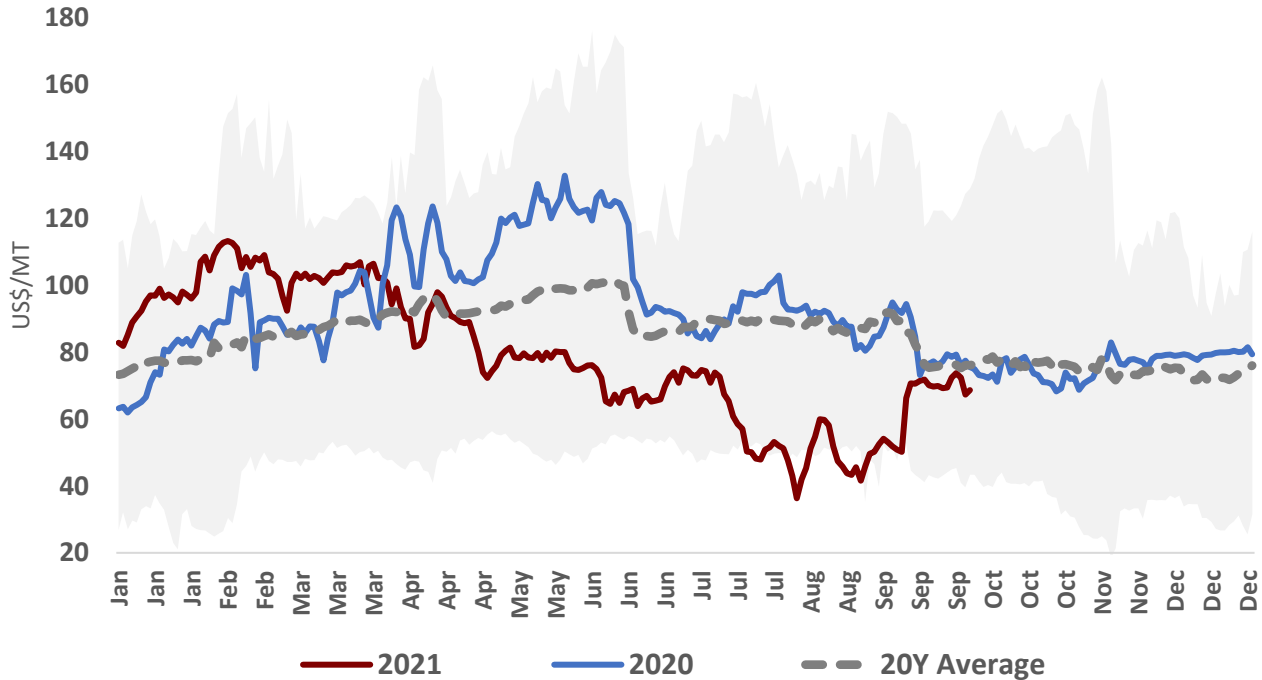
The strong sugar fundamental story translated into a core net spec long position of approximately +150K which is comfortably in the money. It would require a very large price correction to shake-up this “sticky length”.



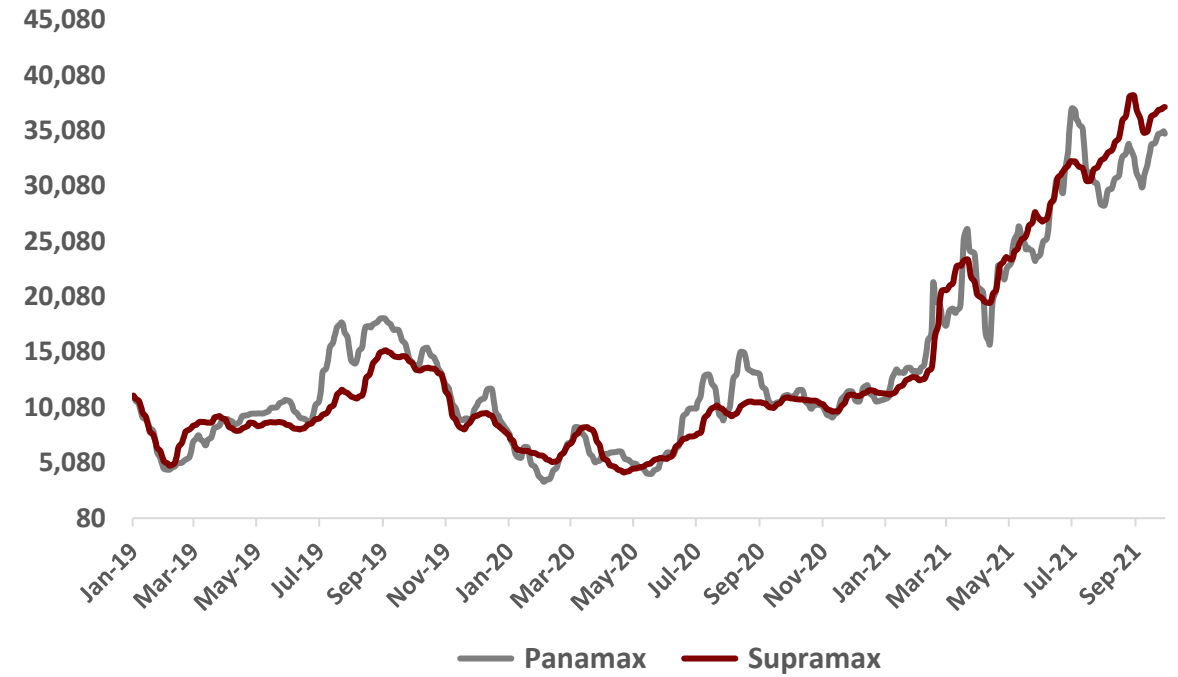
Distortions in the White Sugar Market

The combination of high freight rates and the usual time-lag for domestic prices in some key destinations to react to a rapid structural change in international prices has resulted in a short-lived and unusual weak white premium. This have now converged to the long-term average.

Evolution of the Spot White



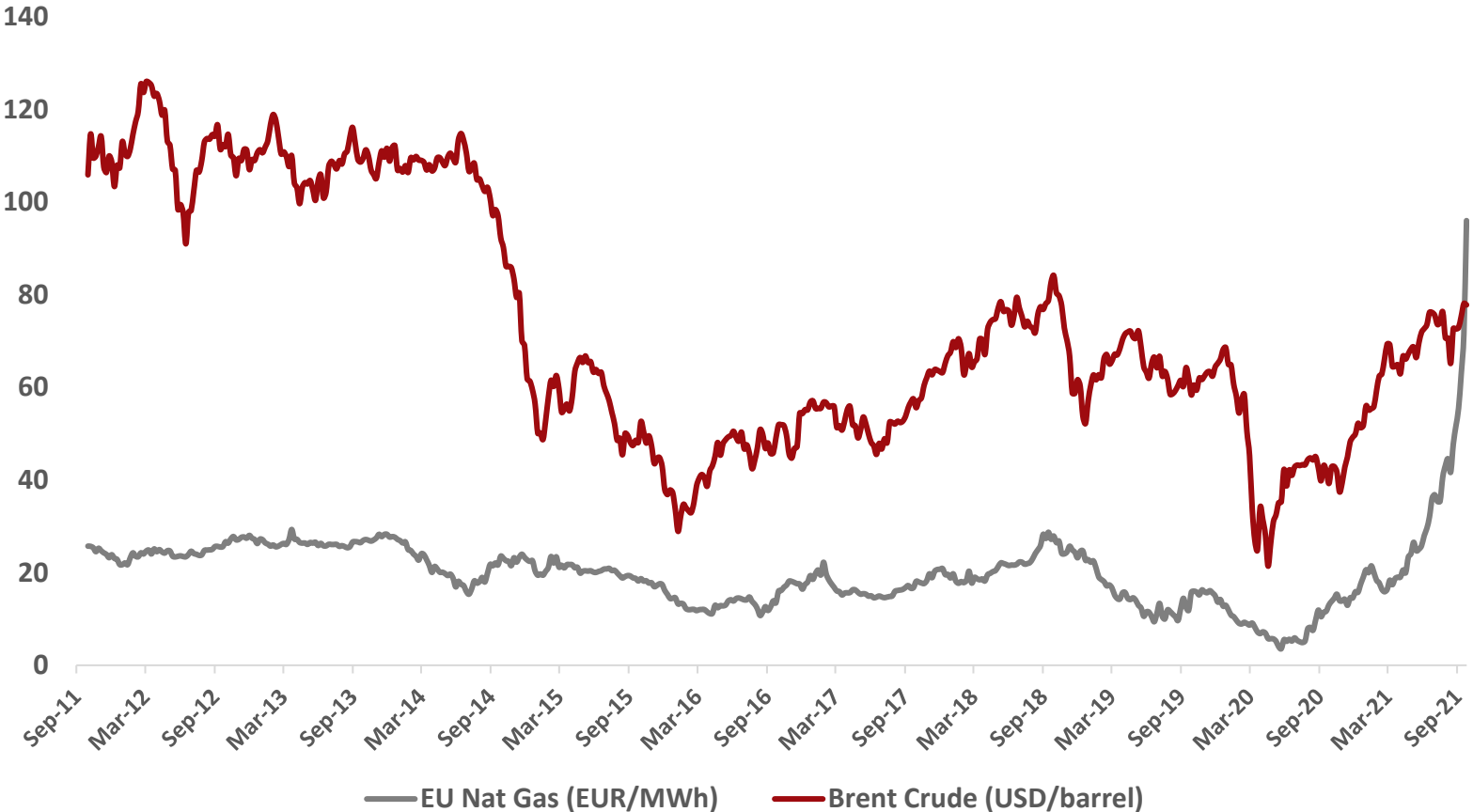
Freight Rates Skyrocketing



High Global Energy Prices

Structural changes seen on the supply side of the energy market trumpet Covid-related demand concerns. High energy prices may have implications for planting decision in 2022, especially in Europe.

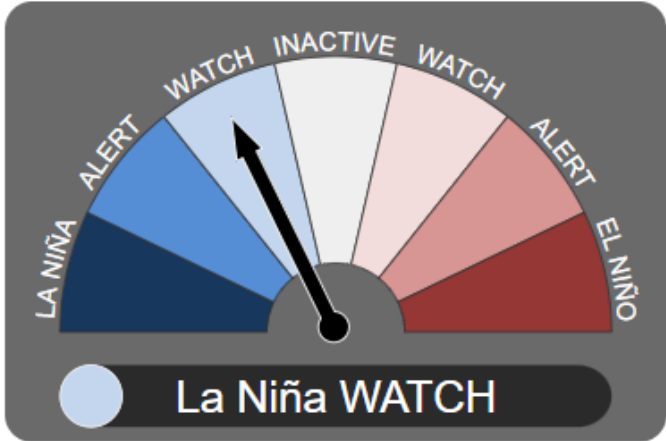
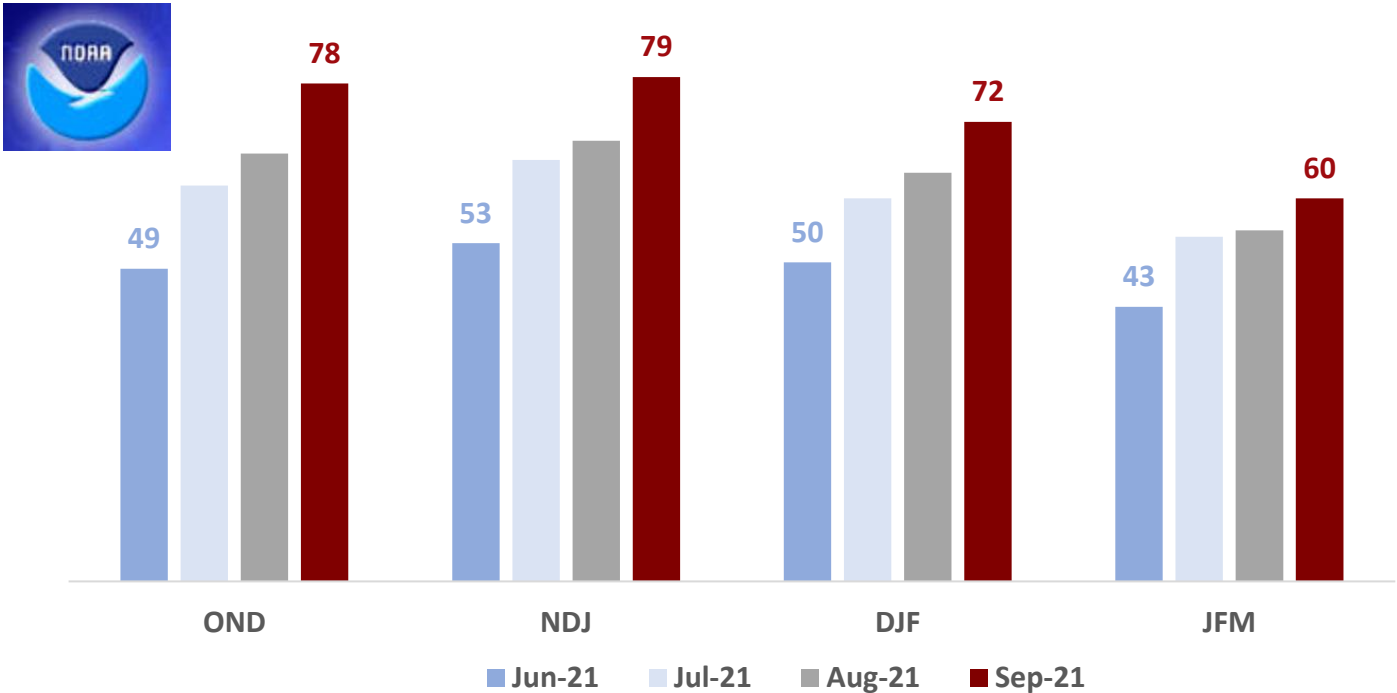
Brent Crude and European Gas Prices



Global Weather - Weather Risks Abound as La Niña Looms

Since June 2021, the chances of La Niña forming during Nov/Dec/Jan increased from around 50% to almost 80%, according to the latest data from the US'Climate Prediction Center. The Australian Bureau of Meteorology activated its "La Niña Watch".

Evolution of Probabilistic La Niña Forecasts by CPC/NOAA (%)

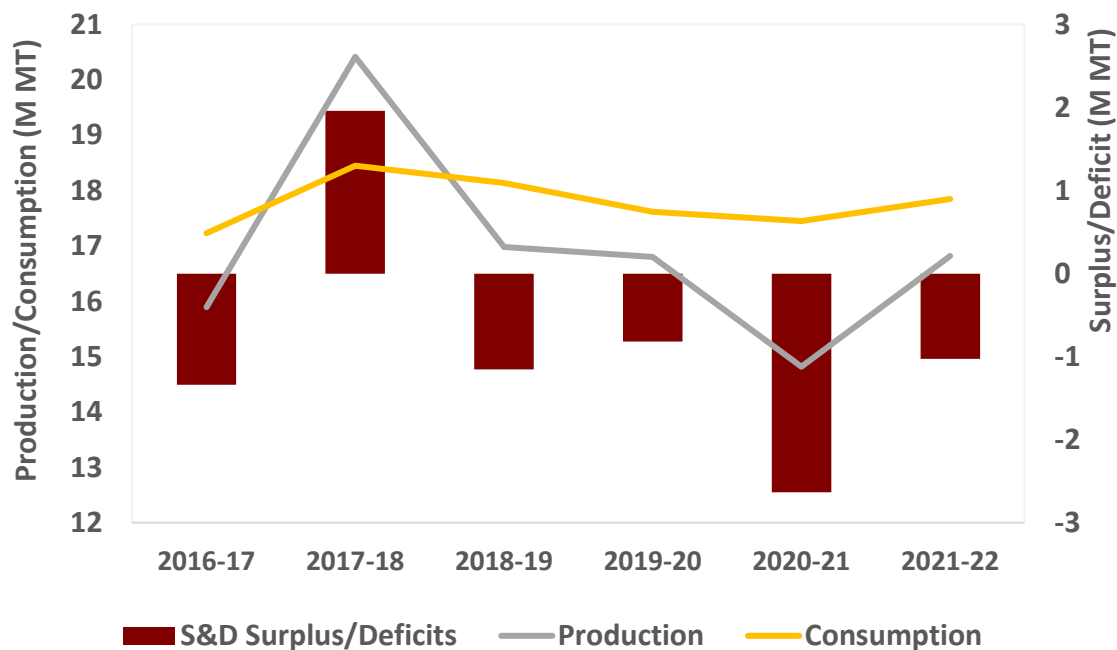


- ✓ Greater chances of continued below normal rainfall in CS Brazil => risk of further crop losses in 2022-23
- ✓ Greater chances of above normal rainfall in Asia => delayed start of the India harvest campaign, harvest disruptions and sucrose dilution

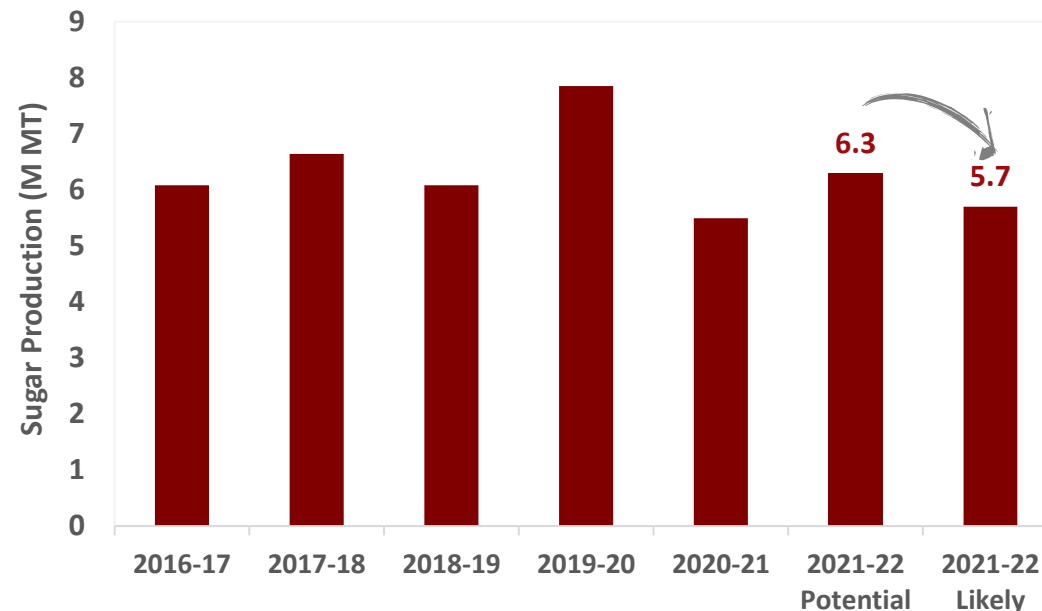
EU28 and FSU – Tight SnD Situation to Keep a Lid on Exports Once Again in 2021-22

The multi-year low EU28 carry-in will likely keep a lid on exports at sub 1M MT. In the FSU area, suboptimum weather conditions in Russia reduced its crop potential.

EU28 Tight SnD Situation to Once Again Limit Exports



Russia - Suboptimum Weather Reduced Crop Potential



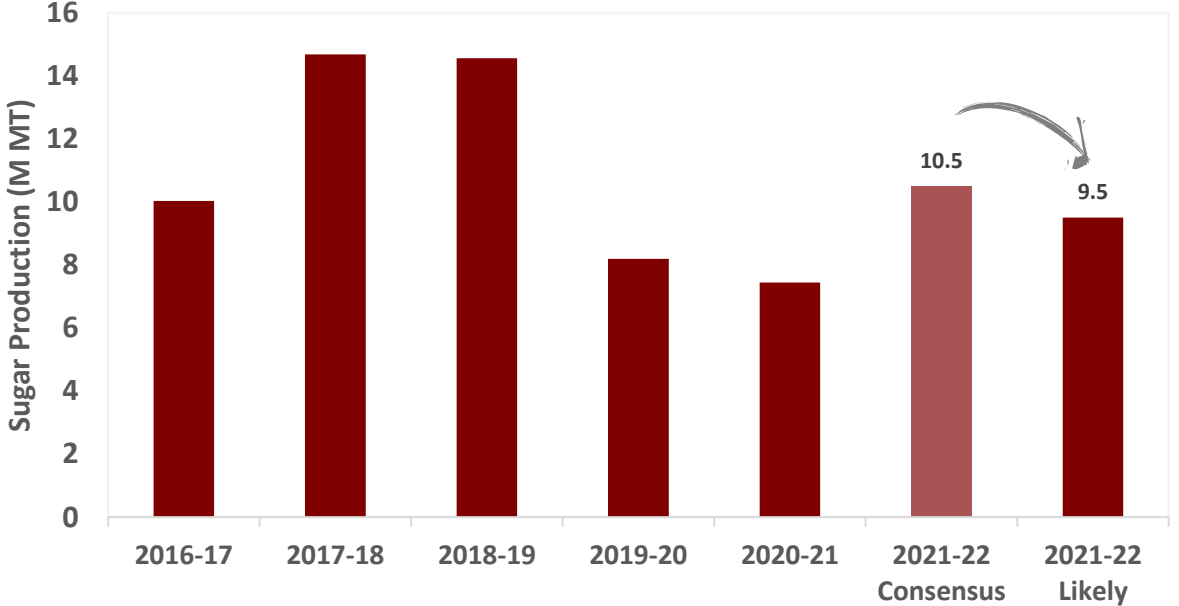
- ✓ In the medium-term, elevated natgas prices materially increases the EU28 cost of production and will likely keep beet acreage on a downward trend

Thailand 2021/22 – Crop Recovery Ahead, but it is Likely to dissapoint the most optimistic

We are more likely see new crop production closer to 9.5M MT than at the 10.5M MT mark, as the market consensus suggests. Despite the improved weather conditions so far in 2021, acreage expansion during the first round of plantings in late 2020 was compromised by last year's drought.



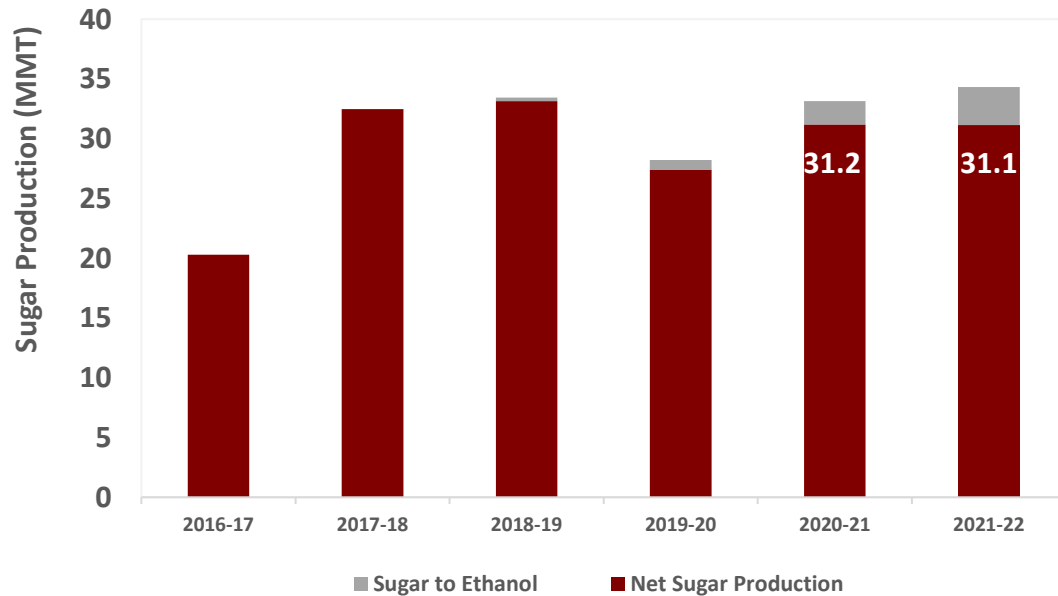
Thailand - Sugar Production to Dissapoint the Most Optimistic



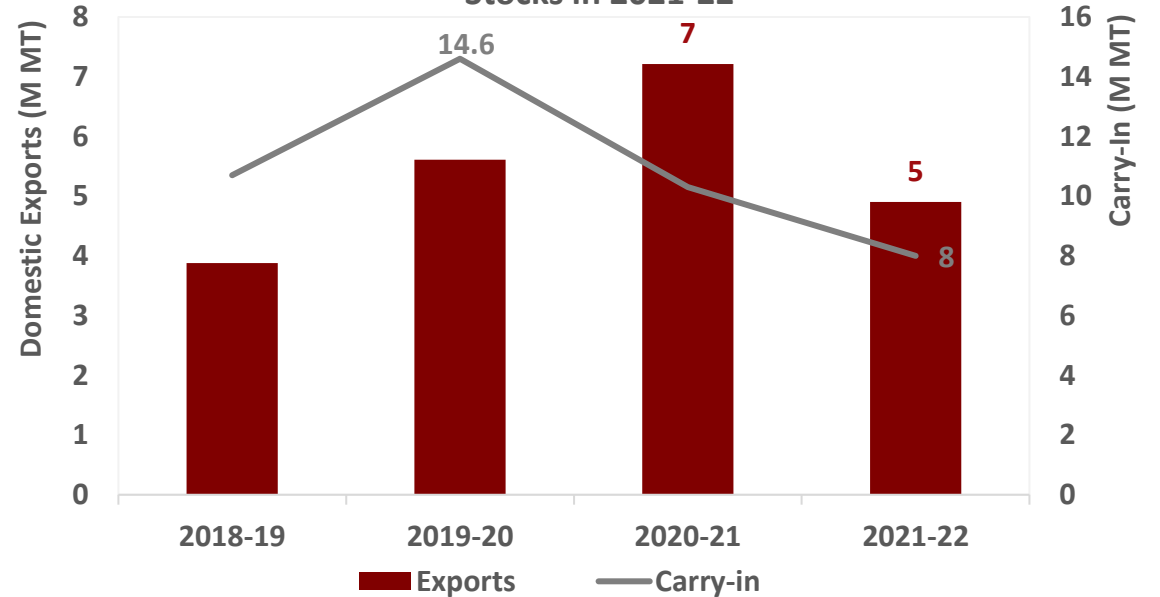
India 2021/22 – No Longer the Threat to World Market Sugar Prices it used to be, On the Contrary

The strong subsidized domestic sugar export program in recent years was key to rationalize the India sugar stocks. The record domestic export program of 2020-21 at over 7M MT is a testimony of the strong global sugar import demand in 2021.

India - Acreage Gains are Mostly Directed to Ethanol



India - Reduced Role of Exports in Rationalising Sugar Stocks in 2021-22

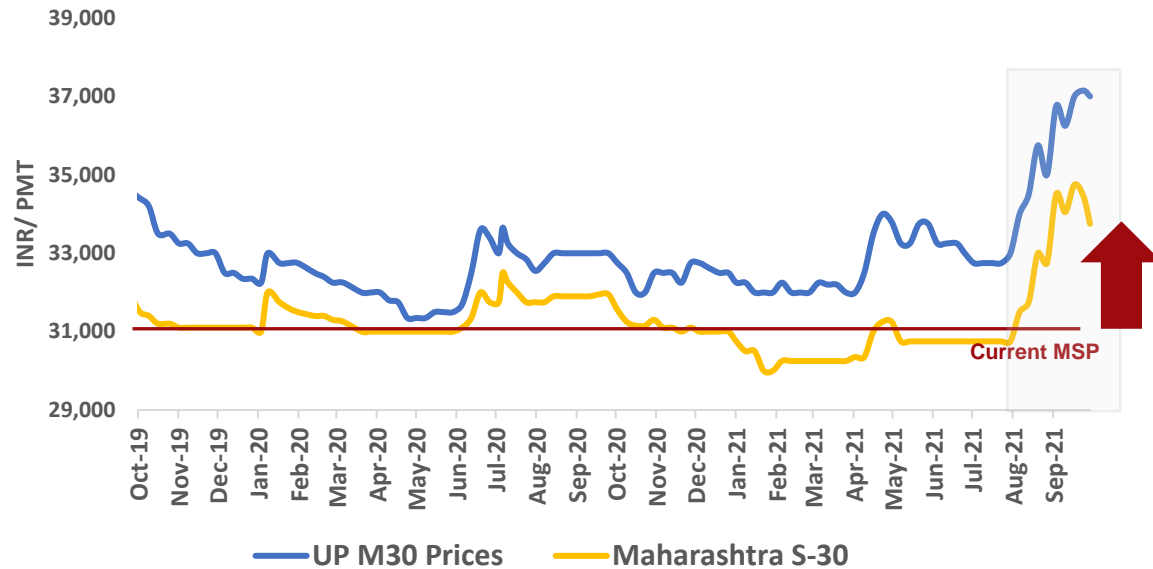


- ✓ Looking ahead, the sugar production gains are being mostly absorbed by the domestic ethanol program. We currently assume that the sugar to ethanol diversion in 2021-22 will be 3.2M MT, up from close to 2M MT in 2020-21
- ✓ In 2022-23, the sugar diversion to ethanol could break the 4M MT mark

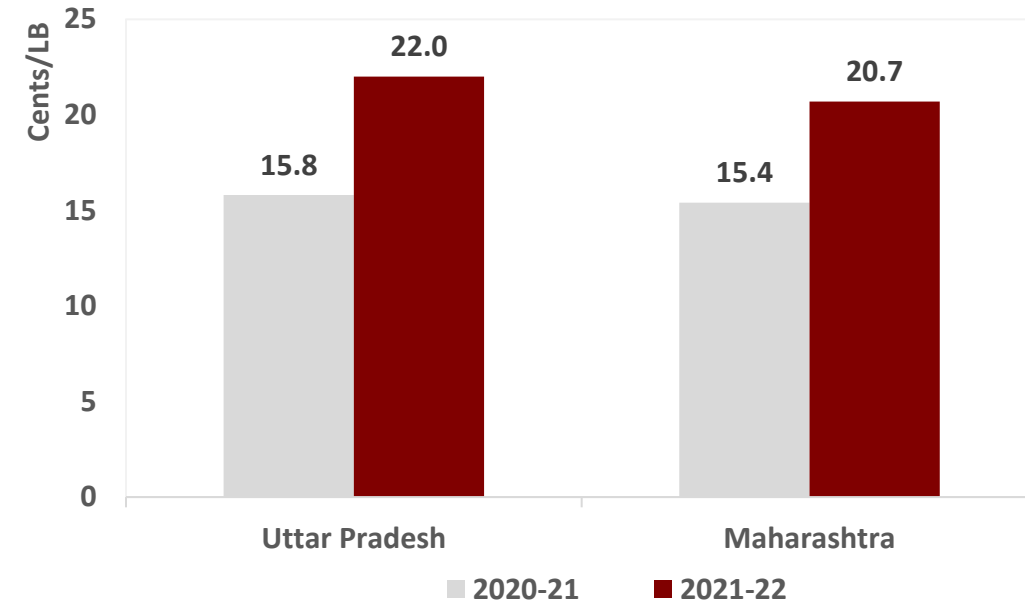
India Sugar Policies – World Market Prices Set to Stay Elevated to Connect India Exports

The weaker India fiscal position post-Covid makes export subsidies a more challenging proposition. Also, in an environment of tight global sugar supplies, reflected in the high international sugar prices, why should the India taxpayer bear the cost of an export subsidy?

India Domestic Sugar Prices



India - Breakeven Sugar Export Parity

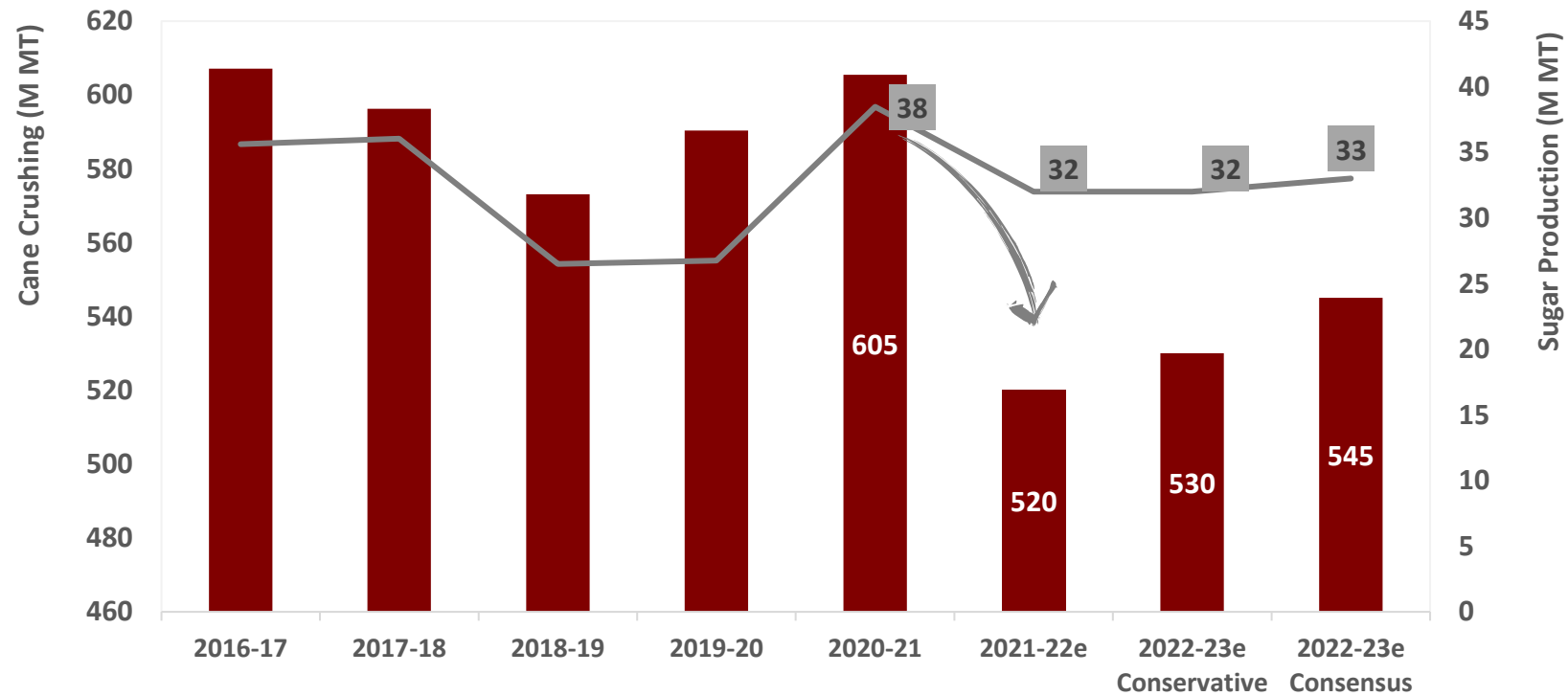


- ✓ Note that NY No11 prices have been trading well above the India 2020-21 breakeven export parity, as the market needed India to maximize domestic exports
- ✓ We expect such a pattern to repeat itself once again in 2021-22

Lasting Impact of the 2021-22 CS Brazil Crop Woes

The decline of -85M MT in sugarcane crushing in 2021-22, to approximately 520M MT, will not be so easily recovered in 2022-23. With fairly limited upside potential to total crushing next year, pulling more sugar supplies from CS Brazil will once again need to be done via the sugar mix.

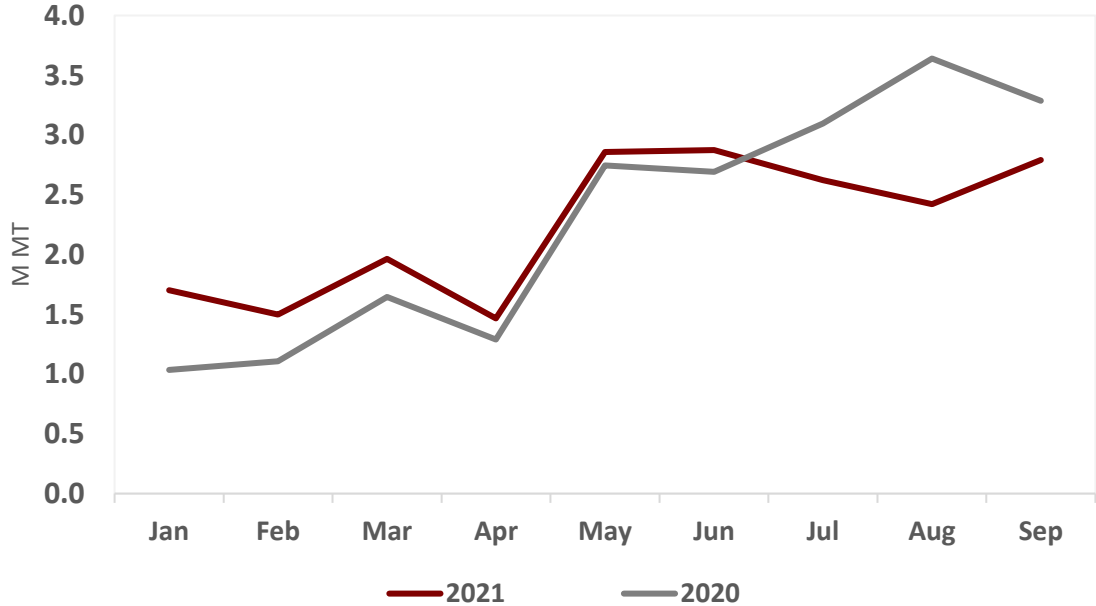
CS Brazil Crush and Sugar Production Outlook



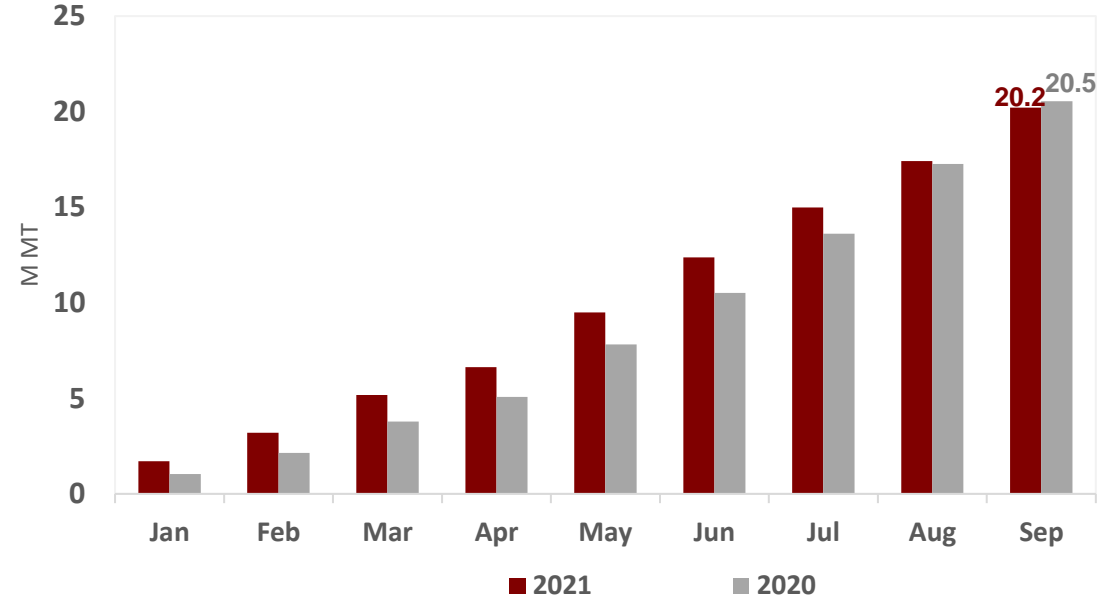
Weak Demand, What Weak Demand?

The world sugar market is yet to feel the impact of the CS Brazil crop loss of 2021-22. Total CS Brazil exports during Jan-Sep 2021 were a mere 300K MT less than in the same period of 2020.

CS Brazil Monthly Sugar Exports Jan-Sep



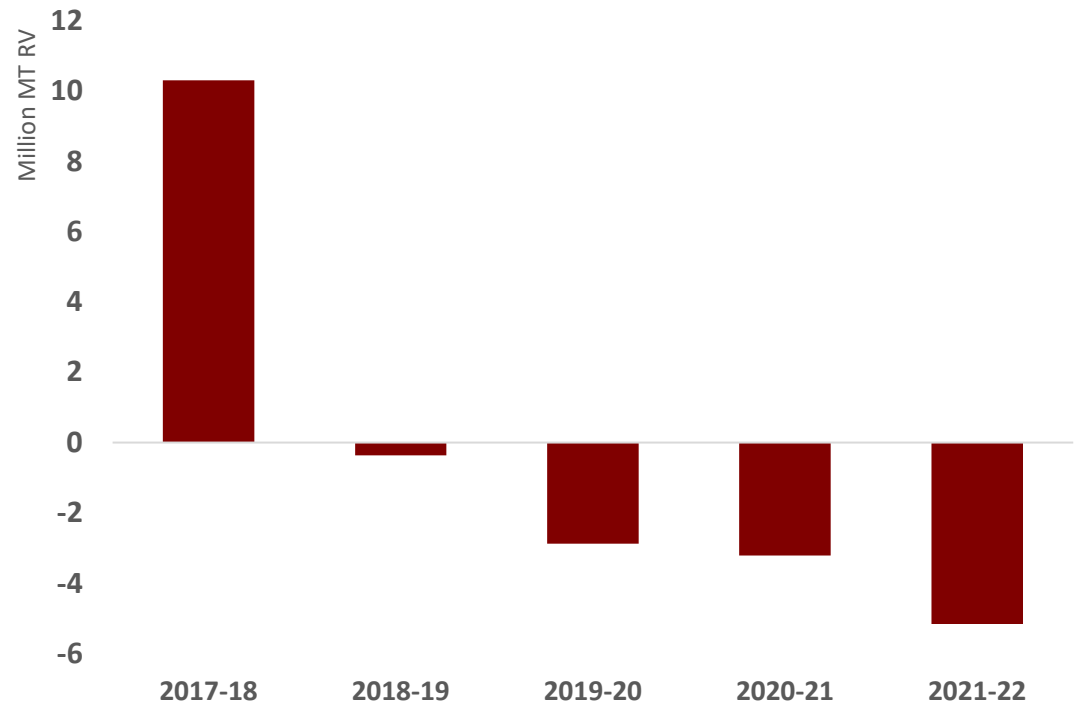
CS Brazil Cumulative Sugar Exports Jan-Sep



Conclusions - Structural Deficit Situation to Persist For Longer, Keeping Sugar Prices Well Bid

In the very-short term, the sugar market is missing a spark and is likely to remain in a range-bound regime. However, during 2021 we saw NY No11 sugar prices range move from US\$ 15-17c/lb all the way into the current US\$ 19-21 c/lb range under the pressure of weather events and macro repricing. We might see the same process continuing into the 2022 calendar year.

Global Sugar Production & Consumption Balance
(Oct-Sep Basis, RV)



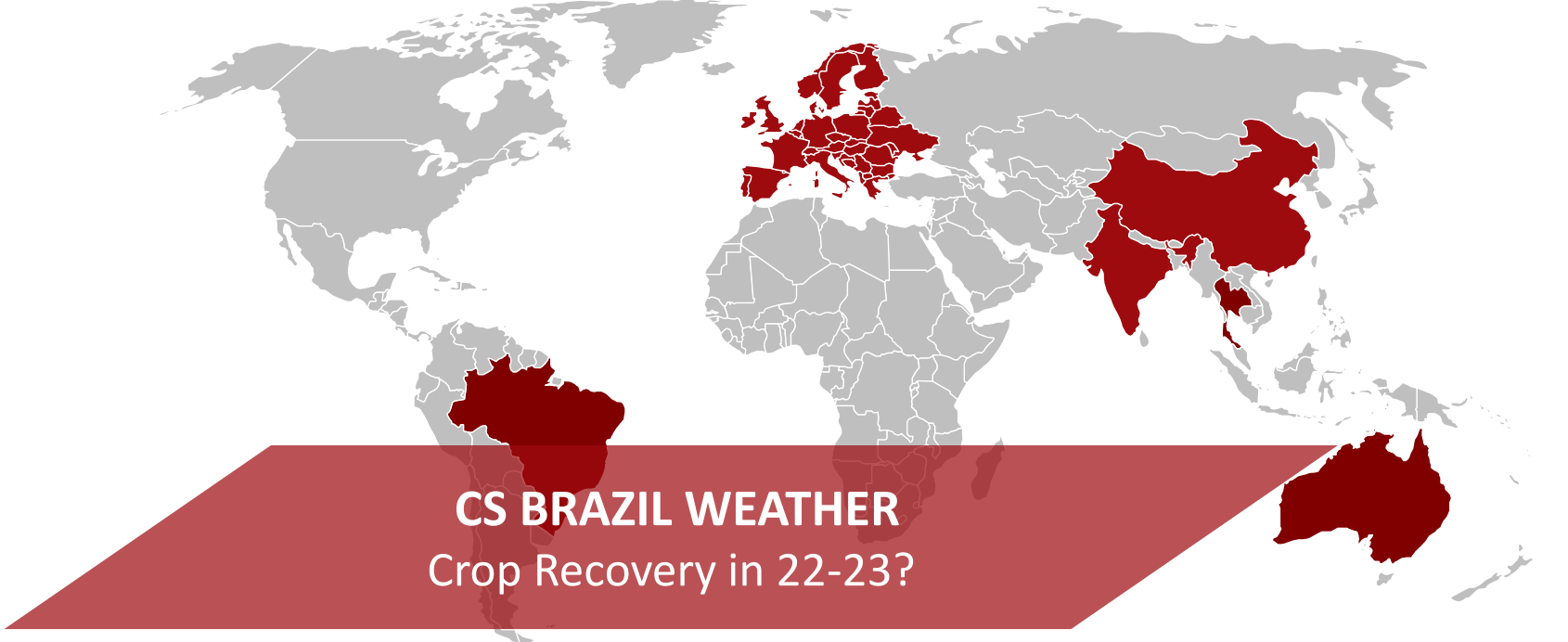
Source: Alvean

- ✓ The disaster CS Brazil sugarcane crop of 2021-22 will have long lasting impact on Brazil sucrose availability in the medium to longer term
- ✓ Weather risk premium is set to stay high, as there is little signs of sustained normalization of weather pattern globally (80% chances of La Niña)
- ✓ As global stocks continue to deplete, domestic sugar prices in key markets have moved higher, improving import economics and providing support to the white premium
- ✓ Sustained Fund Interest in Commodities/Sugar - efficient hedge against inflation
- ✓ We expect NY No11 prices to trade at a premium to the India breakeven export parity (like in 20-21), if India sugar exports are to be maximized

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SUGAR
MARKET
DRIVERS



CS BRAZIL WEATHER
Crop Recovery in 22-23?

INDIA SUGAR POLICIES
Pace of Exports

PRICING INBALANCE
Exporters are well hedged but importers...

ENERGY
Structurally
bullish?