QSL Weekly Update

Week ending 24 March 2017

Daily Price

Friday, 24th Mar 2017

17.60 US c/lb prompt

0.7627 AUD/USD spot

$A506.86 MT OTC

$A488.78 MT IPS OTC

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Indicative Pool Prices

The table below provides an overview of the QSL Pool Prices Matrices available at www.qsl.com.au.

All prices quoted are **indicative only** and do not include an allocation from the QSL Shared Pool. Growers should always consult their mill for information about their individual cane payments.

2016 as at Friday 17th March 2017

Harvest	$514 IPS GROSS
Actively Managed	$560 IPS GROSS
Guaranteed Floor	$466 IPS GROSS
US Quota	$775 IPS GROSS

Multi-season Pools

2-Season Forward 2016	$479 IPS GROSS
3-Season Forward 2016	$497 IPS GROSS
2-Season Forward 2017	$494 IPS GROSS

QSL Weekly

QSL Market Update

By QSL General Manager Trading and Risk – Dougall Lodge Current as at 24.03.17

The table below provides an overview of QSL's indicative prices published at www.qsl.com.au on 24.03.17.

Indicative Prices

ICE 11 US c/lb	17.64	24-Mar-17
Season	0.7627	
	AUD/mt	

Season	2016	2017	2018	2019	2020
Whole Season		**514.07**	**506.20**	**495.27**	**482.01**
July		**506.84**			
Oct		**510.69**			
Mar		**521.07**			
May	**506.86**	**514.75**			

Please note : The figures quoted are weighted in a 1:2:2:1 ratio over the four relevant futures contracts and have been adjusted to include Over-the-Counter (OTC) margin fees charged by banking institutions and may differ from the actual prices quoted on the ICE #11 exchange. Values also do not account for any adjustments resulting from local grower-miller pricing arrangements.

It's been a volatile week for the raw sugar market despite no significant changes in the fundamental picture. This past week we've seen the prompt May 17 futures contract fall to its lowest level in 10 months and almost 10 per cent lower since the Mar 17 futrues contract expiry a few weeks ago.

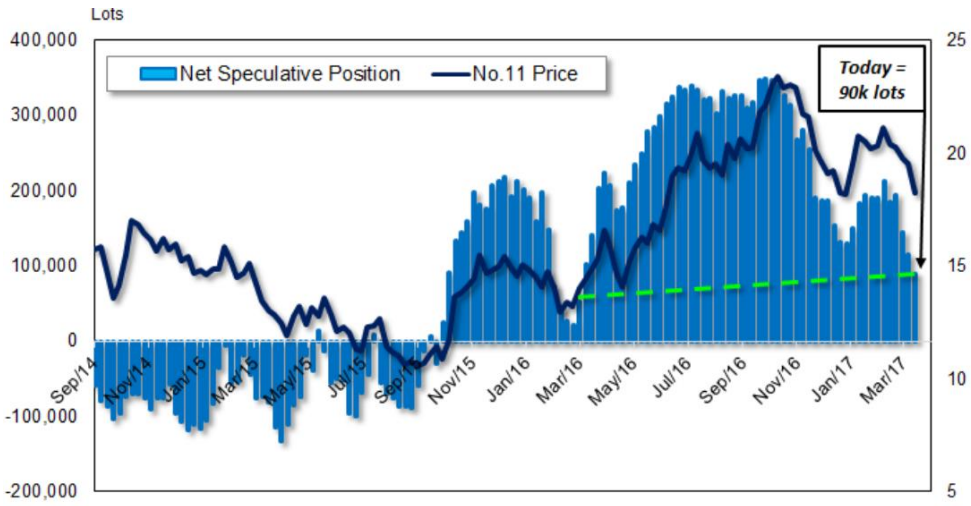

Figure 1 shows the change in net speculative position v ICE 11 price c/lb. Soucre Czarnikow as at 20.03.17

<u>So what is driving the fall?</u>

To put it simply, the latest market activity has been driven by speculators moving out commodities and selling off sugar futures. As shown in Figure 1 , currently the spec net long position is estimated to be around 50,000 lots – meaning around 15 million metric ton of sugar futures have been sold by the specs since they were at the record net bought levels of around 350,000 lots back in late 2016. Essentially, the buying that helped push the higher prices has almost come full circle.

<u>So why the sell off ?</u>

We think it's a matter of "buy the rumour and sell the fact" with a few key drivers in this space:

1. India

There is still no firm news regarding whether India will import stocks to cover lower-than-expected domestic production. Meanwhile, the specs are concerned the expected short-term white sugar deficit (and corresponding buying by end users) may not materialise. Simply speaking, the specs have now moved to a more negative outlook for the short term.

2. China

Like India, there's been a domestic shortfall in production in China, but it's unclear when or even if China will import raw sugar to cover this.

3. The futures curve is showing prompt prices to be lower than forward futures contracts.

Negative sentiment is being highlighted by the futures curve, which now shows the nearby prices are trading at a discount to the more distant positions . This reflects the possibility of a surplus of sugar in the nearby delivery period. We think this shows the market believes nothing will be happening in the short term on India and China.

Will we see a price recovery ?

It's important to note that despite a softening in prices, in historical terms prices around the $500/tonne mark are still very constructive when compared to the longer term average. QSL's view is that there may still be some upside in the short-to-medium term from the current levels but we do remain concerned about the spec selling pressure. Here are some of the key things our team is watching :

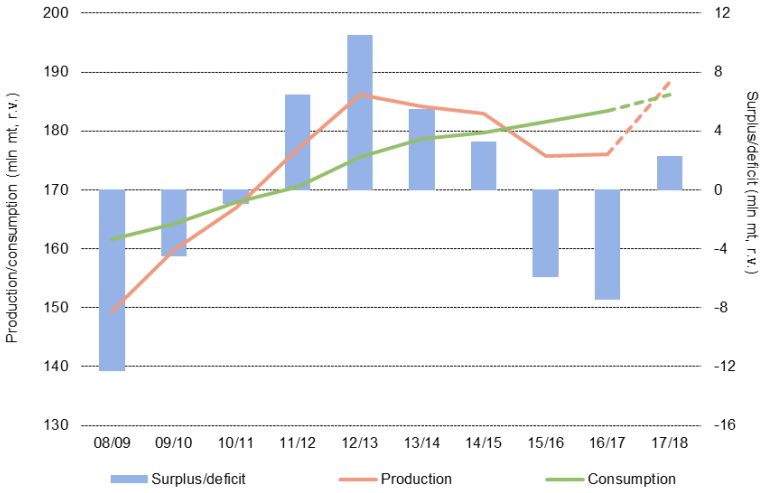

Figure 2 Global surplus v deficit outlook. Source: LMC, March 2017

1. Global Fundamentals

As shown in Figure 2 , while the fundamental outlook looks bearish longer term with a return to a surplus in 2017/18 in the short term we are still theoretically in a deficit and once this is felt it will lead to some further buying activity. The timing of India and Chinese demand is critical.

2.Technicals

Depending on the technical indicators being looked at, some are indicating that the market is now oversold and may have now found some technical support at the 17.05 c/lb level. The support in Thursday's market was attributed to this. However, other indicators are saying there is no firm floor until we get back towards 16 c/lb. It depends what each of the specs are looking at.

3. Brazil ethanol parity

Ethanol/sugar levels are now very close and will prompt production of ethanol rather than sugar. There is also expectation of a gasoline tax increase, which will increase the floor further. Every one per cent change in this mix is around 800,000mt of reduced sugar production, so it is quite significant to supply availability.

4. India and China demand

India will need to buy sugar at some point in the next few months, but most likely by July/ August. China will also need to come to the market in coming months to make up for their domestic production shortfall unless they do not replenish stocks.

4. The Aussie Dollar versus the US Dollar

The AUD/USD exchange rate should be a recipient of some downside pressure in a stronger USD environment and any USA monetary policy tightening – especially if other commodities start to move down. Remember, every cent drop in the AUD adds around $7 to the Aussie sugar price.

5. The May 17 expiry

The May 17 futures contract expiry has not come into play yet and we are expecting another interesting arm wrestle between the trade sellers and the buyers as we move into April.

So in the short term, it's back to the specs. The big question is whether the specs will buy back their newly established sold positions and book this profit. In the medium term, the timing of actual buying from India and China will be the drivers of any recovery.

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Wet weather watch

QSL continues to monitor the low pressure system off the Far North Queensland coast and understands there may be some Growers in the northern regions who have concerns about the impact any possible cyclone or severe storm may have on their 2017 crop.

Although it's not currently clear what we can expect in terms of storm intensity or location, any Growers with questions or concerns about meeting their committed sugar obligations with QSL are encouraged to contact their Miller or QSL's FNQ Grower Relationship Manager Daniel Messina.

Register now for Women in Sugar Australia Conference

QSL is again a proud sponsor of the annual Women in Sugar Australia Conference to be held in the Burdekin on May 9 and 10, 2017. You can register for the event here.