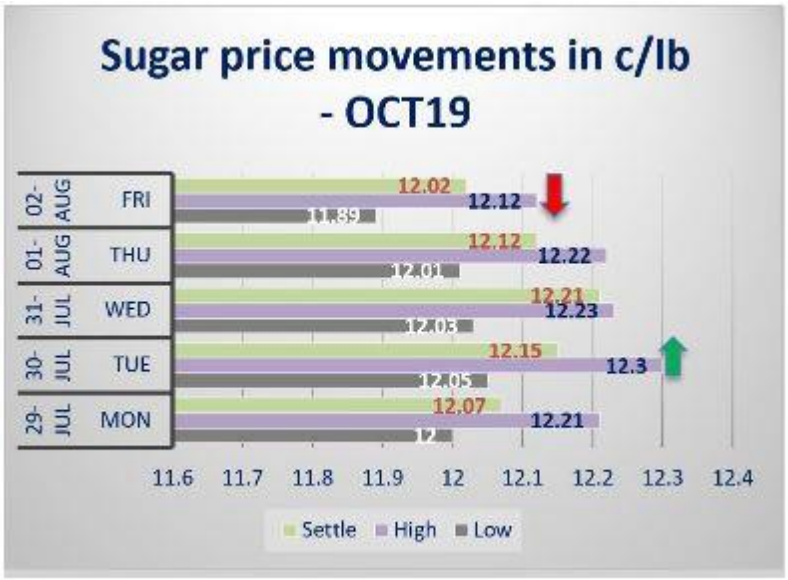
Weekly Market Overview

By QSL Trading Manager Matt Page

SUGAR

Following an explosive technical reversal the week prior, raw sugar futures spent the entire week consolidating the move and trading sideways in the low 12 c/lb range. Upward momentum ultimately stalled on Tuesday with prices uncovering significant lateral resistance at the 12.30 c/lb level, before trading lower over the remainder of the week on low volumes.



In other news:

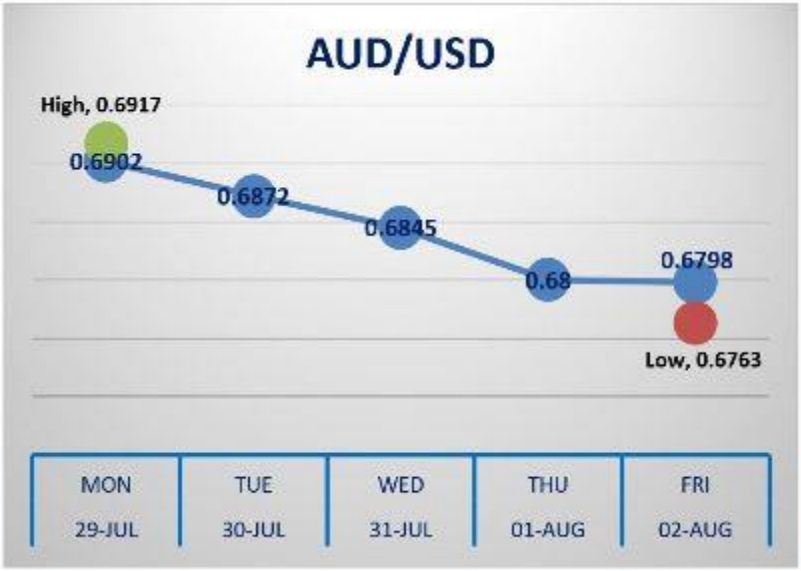
- **INDIA:** A continuation of monsoonal rains has most analysts believing total rainfall will be back around average by the end of the wet season. Market chatter has centred around the Indian government's proposal to increase the number of tonnes eligible for export subsidies from 5 million to 8 million for next season. This may provide sufficient incentive for mills to finally deal with overhanging stocks.
- **MACRO:** Given the relatively low volume of fresh fundamental news, more attention was paid to outside influences this week. The Federal Reserve Rate was reduced for the first time since the GFC, while Trump

imposing 10% tariffs on the remaining volume of Chinese imports saw crude oil take a nose dive. Chinese retaliation through devaluation of the Yuan on Monday is only likely to further dampen risk sentiment.

- **COMMITMENTS OF TRADERS:** As expected, the spec net-short position was reduced week-on-week, albeit slightly more than anticipated, down from 161,000 to 134,000 lots. Whether there are more short positions still trapped out of the money and a continuation of stop loss buying emerges is yet to be determined.

CURRENCY

The AUD continues to trade in one direction, heading further into the abyss. It slipped below 68 cents by the end of the week, pushing ever closer to January's 'flash crash' low of 0.6741. Despite the Federal Reserve cutting rates by 25 basis points for the first time since the GFC, the less-dovish commentary that accompanied it did not satisfy the market and the USD continued to rampage higher.



- The escalation in the trade war between the US and China should have an immediate negative effect on AUD. However, medium-term it looks set to prove more constructive, with a low Aussie dollar giving exporters, in particular iron ore producers, the opportunity to pocket profits. This, combined with lower interest rates, should start feeding back into the domestic economy in a positive way as we move towards 2020.

The week ahead:

- **Domestically:**
  - The RBA is expected to hold the cash rate steady this month as they wait and see what the data shows before moving again.
  - Trade balances should continue to probe to new highs buoyed by happy Australian exporters.
- **Abroad:**
  - Markets will continue to watch Trump's tweets, particularly in response to China's devaluation of the Yuan, as well as his attempts to bully Powell and the Federal Reserve to lower rates.
  - Chinese trade and CPI/PPI numbers could have a further negative impact on AUD as tariffs begin to bite.

For more sugar market information, please read the latest QSL Market Snapshot, available here.

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