30 September 2020

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Weekly Market Overview

Sugar

- The current prompt ICE 11 contract, OCT20, has experienced considerable volatility over recent sessions, as we approach its end-of-month expiry date. With just one trading session remaining, the market is shaping up for a record 2 million tonnes of primarily Brazilian sugar set to be delivered to the tape tonight. While such a large volume is generally seen as a bearish indicator, the strength in the Oct/March spread indicates that there appears to be plenty of willing receivers for this tonnage, and so the result could be a positive for the sugar price and southern hemisphere producers, with this sizable tonnage no longer being carried into Q1 2021.
- The incoming prompt contract – March 2021 – was the most heavily traded ICE 11 contract this week as speculators became more active and the price found some key support around the 13 USc/lb level. Current indications are the market could trade between 12.50 and 13.70 USc/lb during the next few sessions, with 14 USc/lb appearing aspirational at this point.
- Brazil's currency has weakened significantly over the past week and the Real is now back to 5.63 against the US Dollar. With most of their current crop already priced, Brazilian sugar producers led increased pricing activity for the 2021 and 2022 Seasons during the past week as

they sought to make the most of their improved exchange rate with the US.

- The global sugar market continues to tread water as it waits for an announcement from the Indian government regarding its new export subsidy for Indian sugar producers. This is expected to replicate the previous subsidy, which was worth around $1.27 billion for 6 million tonnes of exports. Some analysts are anticipating the next subsidy announcement will be delayed, and if so, this could give the market some space to trade higher in the interim.

2020-SEASON HISTORICAL ICE 11 CHART

This is a whole-of-season ICE 11 price chart for the 2020 Season, based on the current 5:1 pricing ratio applicable to QSL Target Price Contract growers. Source: Bloomberg

Currency

- The impacts of Victoria's second-wave COVID-19 lockdown are finally starting to take some of the gloss off the Australian Dollar (AUD), which weakened against the US Dollar (USD) during the past week, dropping to a low of 70.06 US cents. Technical indicators suggest the Aussie Dollar was oversold at this level, and it has subsequently turned a corner over the past couple of sessions to close higher this morning at 71.35 US cents.

- The wider macroeconomic environment remains erratic. Brent crude oil prices have fallen to $US40/barrel and the US Dollar has slipped against most currencies on the back of stalled negotiations regarding the next phase of the US COVID-19 stimulus package. Equities have seesawed, as analysts weigh the potential impacts of a growing second wave of COVID-19 infections in Europe and New York against positive news on the progress of vaccine trials.
- Thankfully for the Australian economy, the iron ore price seems to have escaped significant impact from our current trade tensions with China, halting a recent price slide at $124/tonne, only slightly down from its record high of $128/tonne.
- The current outlook for the AUD over coming weeks is generally thought to be around 70-73 US cents but it remains exposed to increasing market volatility over the next couple of months as we head closer to the US presidential election in November.

Jargon Buster

What is the 'expiry'?

In sugar pricing terms, the expiry is the final date of trading available for an ICE 11 contract. This occurs on the last trading day of the month immediately prior to the contract. For example, the October 2020 ICE 11 contract's expiry date is 30 September 2020. After this date, pricing can no longer be conducted against that particular ICE 11 contract and those holding a position at expiry must make arrangements to deliver or receive physical sugar within the following 12 weeks. ICE 11 contracts traditionally see increased trading activity in the lead up to their expiry as speculators who don't want to sell or receive physical sugar move to cash in or roll their existing positions against that contract before it expires.

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Daily ICE 11 sugar prices

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