QSL MARKET UPDATE

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9 December 2020

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Weekly Market Overview

Indicative ICE 11 Prices

Season	AUD/MT*	Weekly Change
2020	423.44	-2.98%
2021	395.86	-1.50%
2022	383.01	-2.18%
2023	367.29	-2.48%

**These figures are indicative of available ICE 11 prices as at the week ending 7 December 2020 and reflect the weighted average AUD/mt price. The prices have been adjusted to include Over-the-Counter margin fees charged by banking institutions and so may differ from daily prices quoted by the ICE 11 Exchange and/or other Marketers of Growers' Economic Interest in Sugar. Values also do not account for any adjustments resulting from local Grower-Miller pricing arrangements.*

Sugar

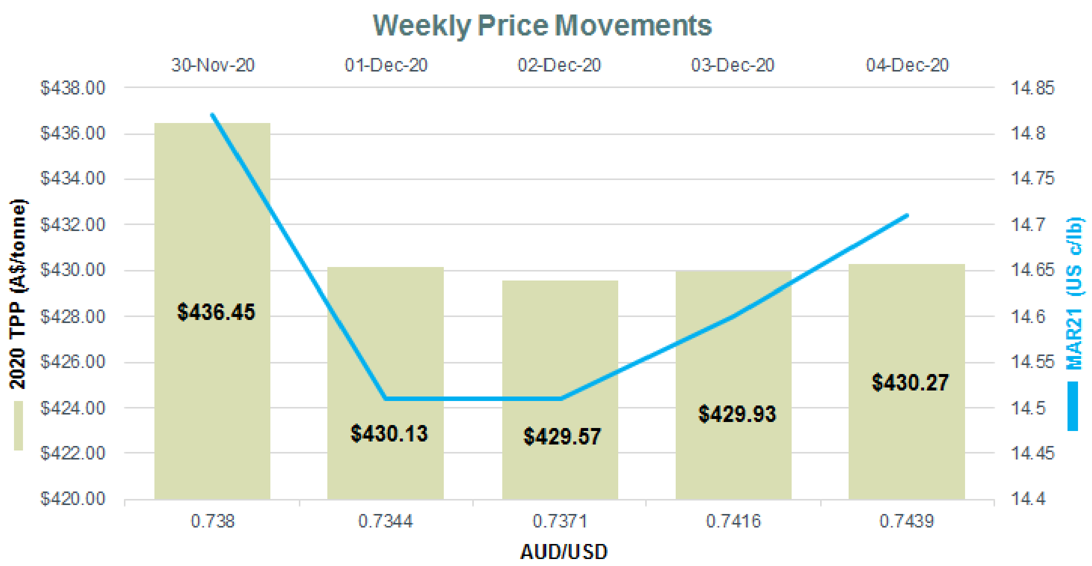
- The bullish momentum enjoyed during the last few months has stalled over the last fortnight, as sugar struggles to trade over the 50-day moving average. After hitting highs of 15.66 US cents per pound against the prompt contract, technical weakness has driven it back towards the mid-14.50 USc/lb range, taking the gloss off recent raw sugar price rallies.

- ICE 11 trading has slowed right down as we head into the festive season, with open interest and trading volumes shrinking. The March 2021 contract position ground lower from 15.15 USc/lb to close out the past fortnight at 14.44 USc/lb, while the May 2021 contract fell to 13.84 USc/lb.
- Funds and Speculator liquidation was slightly bigger than the market was expecting. The Commitment of Traders report as of 1 December reported non-index funds reduced their position by approximately 30,000 contracts, reporting a net-long position of 220,000 lots to close out the week.
- The gap between March and May 2021 prices has continued to narrow, dropping 30 points over the fortnight, with uncertainties around India and Indonesian import licences, as well as speculator liquidation potentially spooking some trade houses out of first quarter physical ownership.
- The positive macro and fundamental outlooks are fighting a losing battle with the technical indicators driving the market at present. Both oil and the Brazilian Real, which is now down to 5.10 against the US Dollar, should be playing a more supportive role for sugar prices, but with a lack of commercial activity we are left with systems trading technical signals.
- From a fundamental perspective, the Indian Export Policy remains a priority for the market. Excellent weather for the harvest has started some talk around raising estimates for sugar production. Increasing pressure on millers to shift sugar will eventually cause the domestic price to collapse with no export subsidy. Also, the longer exports are delayed, the narrower the window gets in which exports can be processed before the June monsoons, which means they probably will not exceed 5 million tonnes this year.

- Good rain was promised for Centre South Brazil but was generally disappointing. The south received decent falls while Sao Paulo and the North East was poor. The forecast remains for a substandard rainy season and gauges will be keenly watched over the crucial December and January period.

- The main fundamental driver for the physical market right now is Indonesia. Indonesian refineries are waiting for licences to be issued for them to be able to import sugar, which would then compound the pressure for the Indian government to announce a subsidy if they want a piece of the Indonesian pie. Once these are issued, we may see some upward pressure on ICE 11 values as the importers scramble to execute their hedges.

- Our expectation for the remainder of December is a fairly quiet trading period, as long as there is no news from India or Indonesia. Market interest should pick up again in the new year as focus turns to new season supply for Quarters 3 and 4. Moving forward, we forecast the March 2021 ICE 11 contract to trade over a broader 14.50-16.00 USc/lb range, with 17 USc/lb a stretch target should the Indian subsidy announcement remain elusive.



Currency

- The Aussie Dollar (AUD) has seen a continued grind higher over the past fortnight, breaking back above the early September high of 0.7414 against the US Dollar (USD) and posting a high of 0.7453 on Monday.
- Despite grim COVID-19 infection rates in the US and Europe, risk sentiment remains buoyant around vaccine progress with the UK even beginning a mass roll-out of the Pfizer vaccine this week. This has driven equities, commodities and risk assets to focus on the better times coming in Q1 2021 and motivate further gains.
- As we inch ever closer to an official declaration of the US presidential changeover, markets are getting increasingly excited about the next tranche of US fiscal stimulus. While there are still some significant sticking points, this morning has seen key US government officials sign-off on an in-principle agreement to a $US916 billion package which will likely give markets some festive cheer when we open for the US session later today.
- Meanwhile in Europe, post-Brexit trade negotiations have descended into chaos, with both sides citing significant differences on what constitutes "a level playing field", governance and fisheries. A high stakes game of brinkmanship will eventually have to come to an end and markets will be hopeful there can be a meeting of minds when UK Prime Minister Johnson and the European Commission President Von der Leyen meet tonight. While not directly impacting the AUD, we did see some spill-over risk-off on Monday night and further choppiness cannot be ruled out.
- Domestically, dataflow has been positive with most major releases better than expectations. That said, market reaction to these will be minimal while the Reserve Bank (RBA) remain committed to their stance of low rates for the next three years.
- Chinese tension still lingers as a political headwind for the AUD. However, with iron prices pushing close to $150/tonne and that trade

flow largely untouched, markets remain pretty unperturbed by Beijing's stone throwing at this stage.

- We remain steadfast in our opinion of a continued slow grind higher for the AUD, with 75 US cents now a realistic target by the end of the calendar year. Beyond that, the RBA are likely to start to get uncomfortable with the Aussie pushing into high 70s and we would anticipate concerns will be raised in a bid to keep it from going to levels, which will hamper the economic recovery.

Jargon Buster

What is fund/speculator liquidation?
This is when an investment fund or speculator closes out their existing positions on the market to realise a profit or a loss.

QSL is Australia's largest and most experienced raw sugar marketer

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Where can I find the daily ICE #11 sugar price?

QSL publishes the daily ICE #11 raw sugar price direct to your mobile phone by text message (SMS) by request, on your QSL App and on the QSL Facebook page. You can also receive the QSL Daily Price email or find it on the home page of the QSL website. Call your local QSL Grower Services team for more information about any of these.