QSL Weekly Update

Week ending 4 November 2016

Daily Price

Friday, 4th Nov 2016

21.48 US c/lb prompt

0.7684 AUD/USD spot

$614.26 MT OTC

$592.35 MT IPS OTC

By Carla Keith and Cathy Kelly,
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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 14th October

Harvest	$554 IPS GROSS
Actively Managed	$582 IPS GROSS
Guaranteed Floor	$471 IPS GROSS
US Quota	$766 IPS GROSS

Multi-season Pools

2-Season Forward 2016	$478 IPS GROSS
3-Season Forward 2016	$502 IPS GROSS
2-Season Forward 2017	$509 IPS GROSS

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QSL Market Snapshot

Current as at 4 November, 2016

The ICE 11 futures market has taken us on a bumpy ride this week, with the 2017-Season swap price falling from around A$620 per metric ton (mt) down to around A$570 per mt.

So why the sudden drop?

As we've seen for much of this season, speculators in the market have played a big role in price volatility and we expect this week's Commitment of Traders report to support this, confirming that the specs have trimmed their position a little from the record high levels we've seen for much of 2016.

So what does that mean?

With the lower prices, buyers have been attracted back to the market, with both Bangladesh and China locking in some cargoes at the lower prices. It is expected that any further price downside will be met with further buying activity.

Looking forward, there are a couple of critical events which will set the course for the next move for the speculators in the market. In our view these are:

1. If the Mar 17 contract moves below US21c/lb and towards US20c/lb we could see more buyers, both commercial and fund-based, coming to the market.

2. Who will win next week's USA presidential election? A Donald Trump victory could lead to substantial “risk off” sentiment in global markets, similar to the Brexit scenario. We will have to wait and see what specific impacts this will have to both sugar and currency markets if this eventuates.

3. The final production figures from Brazil look slightly lower – this will be critical to determining how much sugar is available to meet their off-season requirements before May 17, which is when the deficit is expected to hit. Similarly the upcoming Thai crop is looking lower than expected and the expected later start will help buoy the global shortfall.

4. Other key producers (the Thais and Brazilians) are mostly fully priced already, so there is no selling pressure to stop any upward move, and on the contrary they may have to buy back their positions if there is less sugar around.

QSL updates the daily indicative prices for each of the four futures contracts for 2016, 2017, 2018 and 2019 seasons here. The graph on the next page tracks ICE #11 movement for the 2016 Season and is sourced from Bloomberg.

You can register to recieve our daily price SMS here.

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Indicative Prices as at 4 November, 2016

Indicative Prices

Season	Futures Contract	US c/lb	AUD/USD	AUD per tonne By Month	AUD per tonne By Season
2016	Mar-2017 May-2017	21.25	0.7656	614.21 600.48	**611.91**
2017	Jul-2017 Oct-2017 Mar-2018 May-2018	19.59	0.7609	583.88 571.87 565.12 546.52	**567.59**
2018	Jul-2018 Oct-2018 Mar-2019 May-2019	17.81	0.7546	530.25 523.46 520.25 504.54	**520.33**
2019	Jul-2019 Oct-2019 Mar-2020 May-2020	16.45	0.7482	492.35 488.21 484.04 470.71	**484.71**

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.

2016 Season

Indicative prices and the price you receive – just a matter of timing

By Bryce Wenham – QSL Finance Manager, Supplier Relations

QSL recently started issuing a Daily Price Update to growers who have subscribed to receive our email communications. Since we've started publishing this information more broadly we've received a number of queries regarding why our published values sometimes vary from those published by various milling companies. Some growers are also left confused when they place an order with their milling company and then don't see that same price in our Updates or on our website, or directly translated into their returns.

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This week we explain why, when it comes to indicative prices, timing is everything.

INDICATIVE PRICING

The indicative prices featured on the QSL website are quoted in Australian dollars per metric ton, and are comprised of two components:

- The ICE 11 futures price; and
- The Australian dollar exchange rate

The ICE 11 futures market trading hours in New York are currently from 3:30am (5:30pm Queensland time) until 1:30pm (3:30am Queensland time), and thus it does not trade during Australian business hours. In contrast, the Australian dollar trades almost 24 hours a day. To provide the Australian dollar sugar prices on our website we look at the closing price from the most recent trading session on the ICE 11 and convert this into Australian dollars, using the opening market exchange rate for the day. So the price you see quoted on a Monday morning will be based on the closing price from the previous Friday New York ICE 11 trading session converted to Australian dollars using the prevailing Australian/US dollar exchange rate from that morning.

TIMING IS EVERYTHING

QSL forward pricing orders are primarily executed as Over the Counter (OTC) Commodity price swaps with banks. These are essentially customized contracts that are traded between private parties, with the bank applying a margin in order to fill a price. This allows QSL to price sugar directly in Australian dollars using a single transaction, taking into account simultaneously both the level of the Australian dollar and the ICE 11 futures price. Generally banks prefer not to execute pricing OTC swaps unless the ICE 11 futures market is actually trading, which, as noted above, is generally outside of Australian business hours. However, QSL can still access OTC pricing outside of ICE 11 hours with several of our panel of banks. Pricing margins will be adjusted slightly to account for the extra risk the bank is assuming, however it allows QSL to fill grower orders that have been placed at or below market as they come in, minimising the risk that the market falls on open and they don't get filled at all.

It's always important to remember that banks are seldom charitable organisations and will generally only execute the swap when they can make a margin. So for an order to price at A$600/mt, the market may need to trade to A$603 or more before the bank's margin is met and the order is filled.

With this in mind, the level you place your order at relative to where the market is at the time you place it has a lot of say in how it is filled. Let's look at two different growers for example:

For this example the current market for 2017 is $607.

Grower A places his order to sell 10 tonnes of 2017 at $600.
Grower B places his order to sell 10 tonnes of 2017 at $610.

Given QSL can access OTC pricing outside market hours and Grower A's order is already "in the money" (below current market), we would go ahead and fill that order at market with a bank. Accounting for the bank's margins, Grower A can expect to get filled at around $603/$604 (above their actual order level).

Given Grower B's order is "out the money" (above current market), QSL would pass the order over to the bank to watch and execute. In this instance the bank would fill the order once the level is reached at $610.

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Because Grower A placed their order below market it could be perceived that their order is "better" because it was filled $3/$4 above their level while Grower B was only filled at their level. But as you can see, it is all down to the timing and level relative to current prices.

QSL will take orders to market at the first available opportunity. The timing of this will depend on when QSL receives the order. Currently grower's orders are placed via milling companies. QSL requires milling companies to get orders to QSL by 3pm so that we can get all the orders for the day prior to the ICE 11 opening. If we get them earlier than this, as stated earlier, there are sometimes opportunities for QSL to fill orders in the OTC outside the ICE 11 operating hours. Therefore it is worthwhile getting your orders to your milling company as soon as possible.

If the Australian dollar has risen strongly during the day, the indicative prices quoted on our website may become out of date. Growers should always check how the Australian dollar may have moved during the day before placing their order.

LOCAL FEES AND CHARGES

Your final sugar price can also be affected by additional charges, such as mill administration fees, other local costs or the outcomes of your miller's domestic sales of raw sugar. Please contact your local miller for details of these. QSL itself does not directly charge fees for its services, with all QSL operating costs included in the QSL Shared Pool.

Securing pricing on the ICE 11 market is a fantastic tool for Queensland growers, providing them with the potential for a level of pricing certainty generally not found in most other agricultural markets. However, it is important that growers using this system remember that the prices quoted are predominantly gross, actual price figures and therefore have to be adjusted to an IPS price and receive an allocation from the Shared Pool before final returns can be calculated. We shall cover the difference between a price per IPS tonnes and tonnes actual in upcoming articles.

Nominations for QSL Grower Directors close today

QSL is introducing Grower Directors to its Board.

Nominations for the election of QSL Grower Directors close **today**. To nominate for election as a Grower Director of QSL:

- you must be a sugar cane grower who supplies sugar cane under contract to a mill in Queensland; and
- you must not be an employee or officer of a Mill (at the time of appointment)

To access the nomination form and supporting documentation, please click here. Signed nomination forms must be lodged with QSL by **5pm** (QLD time) today (**Friday 4 November 2016).**

Should the number of eligible nominees exceed the number of vacancies, QSL Grower Representative Members will vote to elect the successful QSL Grower Director candidates.

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