26 May 2020

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Weekly Market Overview

Indicative ICE 11 Prices

Season	AUD/MT*	Weekly Change
2020	377.23	2.06%
2021	393.43	1.65%
2022	399.46	1.77%
2023	396.58	1.85%

**These figures are indicative of available ICE 11 prices as at the week ending 25 May 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

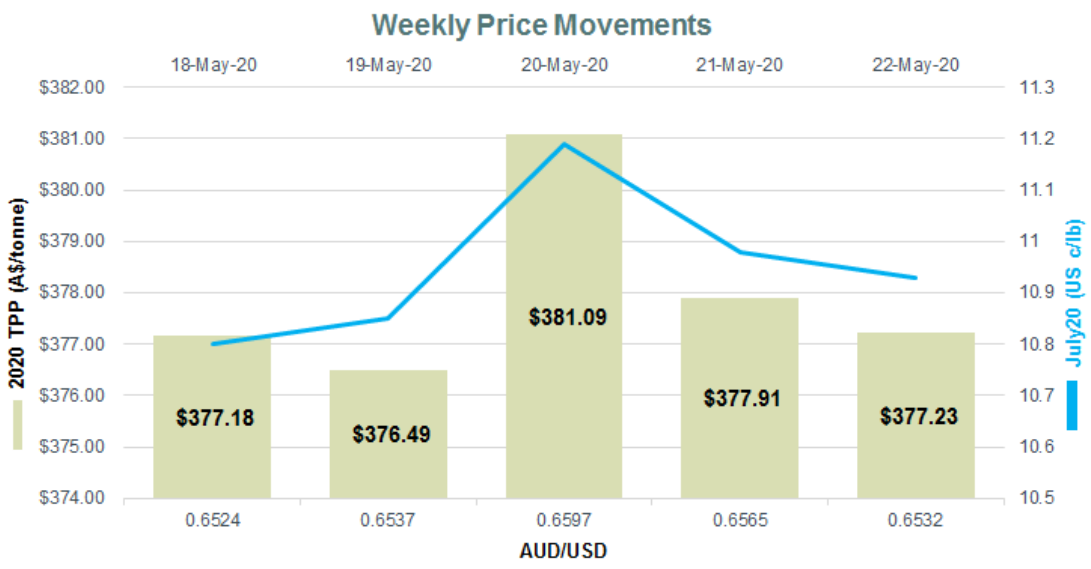
- It's been a relatively quiet start to the week in financial markets, with both the UK and USA closed for public holidays. ICE 11 prices have been moving fairly aggressively on an intra-day basis with overall trading volumes shrinking and leading to a decrease in market liquidity. This is primarily due to decreased activity from speculators and larger investment funds, who have generally been looking to get out of their short positions and move their investments elsewhere. The net short

position continues to decrease week on week, and has now slipped to 11,000 lots.

- A shortage of physical product, driven by shipping delays out of Brazil and the existing Thai crop shortfall, has seen some aggressive buying of the prompt spread (July & October 2020 contracts). Hopes are high this demand will drive prices to high 11/low 12 USc/lb levels over the next month as we move into the expiry of the JUL20 contract. However, given its short-term physical supply nature, the rally will primarily affect the front end of the curve, meaning opportunities for advances in forward season prices look less likely.

- All eyes remain on Brazil, which now has the second-highest number of coronavirus infections in the world. Investor confidence continues to look primed for another nose dive, with a grim economic outlook and increasing concerns regarding the impact of the virus, both on the economy and sugar production. While the Real has steadied at around 5.44 against the US Dollar and the anticipated fall to 6.00 may not happen, a return to levels around 5.80 looks likely.

- Oil prices are starting to recover from their recent negative levels, with crude oil reaching $US35 a barrel. In what is encouraging news for ethanol production, oil prices look set to continue to grind higher and push back to $US50 a barrel by the end of the year as countries exit their lockdowns and demand resumes.



Currency

- The Australian Dollar remains firm in a holding pattern above 65 US cents as global economies slowly begin to emerge from their respective coronavirus shut-downs.
- The US equities recovery continues but is starting to level off, along with risk appetite, as the short-term boost provided by recent government incentives starts to wear thin and the market looks for the first shoots of genuine economic recovery.
- Closer to home, our deteriorating relationship with China looks likely to provide some headwinds for our currency in the short term, with concerns that the current trade restrictions on Australian barley and beef could potentially be extended to other agriculture products. Any indication of iron ore and coal exports being affected would have a serious impact on the AUD.
- China's growing trade war with the US is dominating the wider economic landscape. As the rhetoric between the two ramps up, a return to the negotiation table on the trade deal signed in January looks inevitable.

- A falling Chinese Yuan (CNY) provides added support for Chinese exports as their economy starts to ramp up again post-COVID-19 and as such, the People's Bank of China will likely look to foster a steady depreciation in the CNY as a buffer for their economy. This will almost certainly see the AUD lower given its proxy trade relationship.
- Looking ahead, we remain optimistic that the AUD could slip back towards 60 US cents on any rough waters ahead, before a longer term recovery towards 70 cents next year.

Jargon Buster

What are Futures?

Futures are financial contracts obligating a buyer to purchase an asset or a seller to sell an asset at a predetermined future date and price. A futures contract allows an investor to speculate on the direction of price movement in a security, commodity, or a financial instrument.

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