

WEEKLY SUGAR EDITORIAL: HANGING ON

This week has been uneventful and we can say “boring” compared to the rush we have seen this year. With low volumes and ‘slim’ ranges that we are not used to it seems that market looks confusing, with OI dropping, technical picture weakening and good pace of crush in Brazil on the other hand we can also see the demand building up.

More trade houses revising their S&D outlook, more sugar expected in India, Thailand and Australia, while Brazil still coming up with surprises despite few corners still making funny bull stories.

These few days are still very tenuous, unless we actually see more buying (which seems unlikely), the signal-based funds will only get stronger and stronger sell signals. The macro-based funds will still probably hold their longs, but the systematic ones are the ones that can really move quickly to the negative side. There is a chance of trade short-covering on the back of renewed fears over the cane crop in Brazil (some now reducing from 630's to low 600's) but we think most people are willing to wait for more data before jumping to conclusions. We are looking for a dip here in July/August.

Fundamentals

This week we saw a revised estimate of C/S production by Datagro which was lower than most other estimates, they are projecting cane crushing at 597.25MMT a drop from previous estimate of 625 MMT, a 4.4 per cent reduction.

Another analyst ‘Platts Kingman’ reduced its deficit forecast for 2015/16 to 4.86MMT due to the reduction

in consumption in Iran i.e. to 2.637MMT down by 451,000MT in 2015/16 and at 2.68MMT in 2016/17 i.e. down by 443,000. However, we are seeing Iran importing more, this week ‘Dow Jones’ ran a story that Iran and Egypt bought 60,000MT and 150,000MT on Thursday through their state trading companies. Platts also cut down their deficit forecast for 2016/17 by 380,000MT to 6.28MMT.

Next week Datagro will be coming up with their revised S&D numbers and as per the indications that we have received through sources the deficit numbers should be revised upwards mainly due to Brazil. Datagro previous estimate of deficit for 2015/16 is at 6.21MMT and 7.10MMT in 2016/17.

China imported around 369,189MT of raw sugar in June, up 54 per cent from last June according to customs data. Overall, however the full year’s import in July are likely below last year’s 4.85MMT and could even drop to 4MMT because of pressure from smuggling and large stock.

In India, sugar stocks totalled 15.42MMT on May 31 a drop by 13.6 per cent compared to the volume stored on the same period last year. Millers are looking into the possibility of import, one mill in Maharashtra state even has bought 25,000MT of raw sugar due to the probability of low availability of stock. With a forecast of lower production in 2016/17 the government is even studying a reduction on taxes of imported sugar.

In Brazil there has been concerns about the frost damaging the crops, however as per the information we gathered this time the frost damage impact has been minimum and no frost is expected for the coming

week with temperature set to rise. Good monsoon in India has enabled 91 water reservoirs to reach a level of 45.49 billion cubic meters representing 29 per cent of the storage capacity. Rain in Thailand has picked during late May & June but was clearly patchy and below normal. However, the major portion of the rainy season slopes higher from June to mid Sept, which leaves some room for recovery.

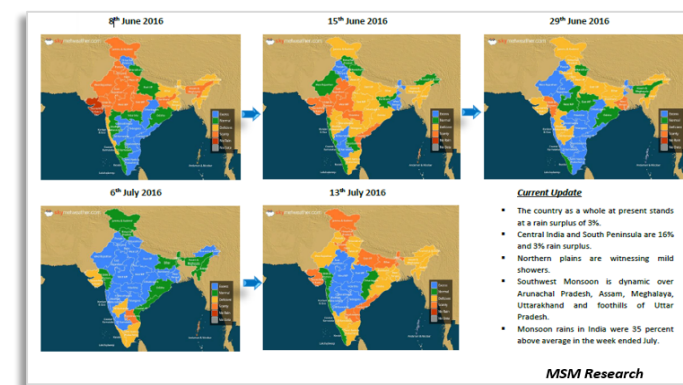


Chart: Indian Monsoon for last 5-weeks

Macro

JP Morgan this week came up with a new research showing ‘Global economy is slow, but steadier than ever’. As per this study it indicates that even though we are still living in a very turbulent time, with China’s great slowdown, European woes, and Brexit still the global economy is less volatile than any period in modern era. The finding also indicates that some big economies like the U.S and Japan are marginally more volatile now compared with other emerging economies. The research also stated that the developed and emerging markets now move less in lockstep than in past. As well the US Fed reserve and BOJ all found themselves



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shifting policy in response to risk coming from abroad. i.e. from being a purely inflation targeters, they now global risk managers.

U.S labor department issued their report indicating that the jobless claims in U.S dipped by 1,000 to 253,000 against the estimated 265,000 for the week ended July 16, the lowest reading since April. This has been an important announcement before the FOBC meeting that is going to be held next week, with ECB and BOE still holding their interest rate after 'Brexit' it would be extremely difficult for FED revise the rates in this meeting.

With better economic data coming in the USD index gained significantly against the G10 currencies during this week and is approaching its 4-month peak.

Oil which had regained some ground was back on track for weekly losses on Friday as investors reassessed U.S data on oil stocks and excesses in oil products in Europe and Asia, while many expect global oversupply of oil to ease in near future; huge amount of crude remains in vessels at sea and storage tanks on land as the rebalancing takes longer than some had anticipated.

Market Data

NY Sugar No. 11			
Symbol	Settle	Low/High	Open Interest
Oct'16	19.31	19.17 /19.86	458,606
Mar'17	19.58	19.47 /20.06	221,004
May'17	18.97	18.84/19.33	59,766
Jul'17	18.44	18.27/18.67	48,684
Oct'17	18.12	17.90/18.26	29,585
Mar'18	17.99	17.78/18.04	13,909

May'18	17.57	17.35/17.60	4,448
Jul'18	17.31	17.06/17.28	4703
Oct'18	17.18	16.93/17.06	4,295

Sugar No. 11 Spreads		
Symbol	Settle	Low/High
Oct'16/Mar'17	-0.27	-0.29/-0.17
Mar'17/May'17	0.61	0.60/0.77
May'17/Jul'17	0.53	0.52/0.63
July'17/Oct'17	0.32	0.32/0.42

London No.5			
Symbol	Settle	Low/High	Open Interest
Aug'16	533.60	520.20/533.60	1334
Oct'16	531.10	530.00/544.00	47,454
Dec'16	530.20	528.80/542.10	16,267
Mar'17	528.90	527.00/539.10	16,440

Soft Commodities	Last	Low/High
Cocoa	3098	3096/3166
Soybean	1084'4	1057'0/1097'4
Corn	357'0	343'0/361'0
Wheat	429'6	426'4/439'6

21-July-2016			
FOREX	Ask	Low/High	TimeUAE
EUR/USD	1.10764	1.10700/1.11500	19:00:10
BRL/USD	3.2671	3.2383/3.2682	19:01:10
MYR/USD	3.9450	3.9400/3.9651	19:02:22
CNY/USD	6.6860	6.6800/6.6865	19:03:10

Metals	Last	Low/High
COMEX Gold	1324.9	1322.6/1337.2

COMEX Silver	20.140	20.110/20.395
COMEX Cooper	2.2475	2.2305/2.2715
COMEX Platinum	1087.0	1086.0/1107.5

Energy	Last	Low/High
WTI Oil	45.97	45.05/46.31
Brent Oil	47.78	46.65/48.05
Gasoil	415.75	406.00/419.50
Ethanol	1.565	1.561/1.565

Highlights for this week: -

- Wet weather slows crushing in Australia a delay of 20 days is expected.
- ECB kept its interest rate unchanged with REFI rate still at record zero.
- Brazil sugar shipment nomination increases to 1.108MMT.
- European union: sugar production is expected to rise by 9.6 per cent to 16.3MMT in 2016/17.
- Mexico cane crush for 2015/16 ends on July 4 with 6.117MMT sugar produced, a 2.2 per cent gain from last year.
- USA and Mexico sugar import agreement may be renegotiated.
- White sugar delivery against ICE London August contract totaled only 500 contracts or 25,000MT with RCMA as a sole receiver.

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