NAFTA Sugar Market Update

INTERNATIONAL SWEETENER COLLOQUIUM
FEBRUARY 23-26, 2020

La Quinta Waldorf Astoria Resort
Monday February 24, 2020

JSG COMMODITIES

Backdrop:

- US and Mexican domestic stocks + production are down between 2.200 and 2.400 million tons
  - Roughly half of loss is in Mexico
- US Cane refining capacity is finite: 550,000 - 565,000 tons per month, and will be tested
- USDA has limited useful options in dealing with a refined sugar shortage

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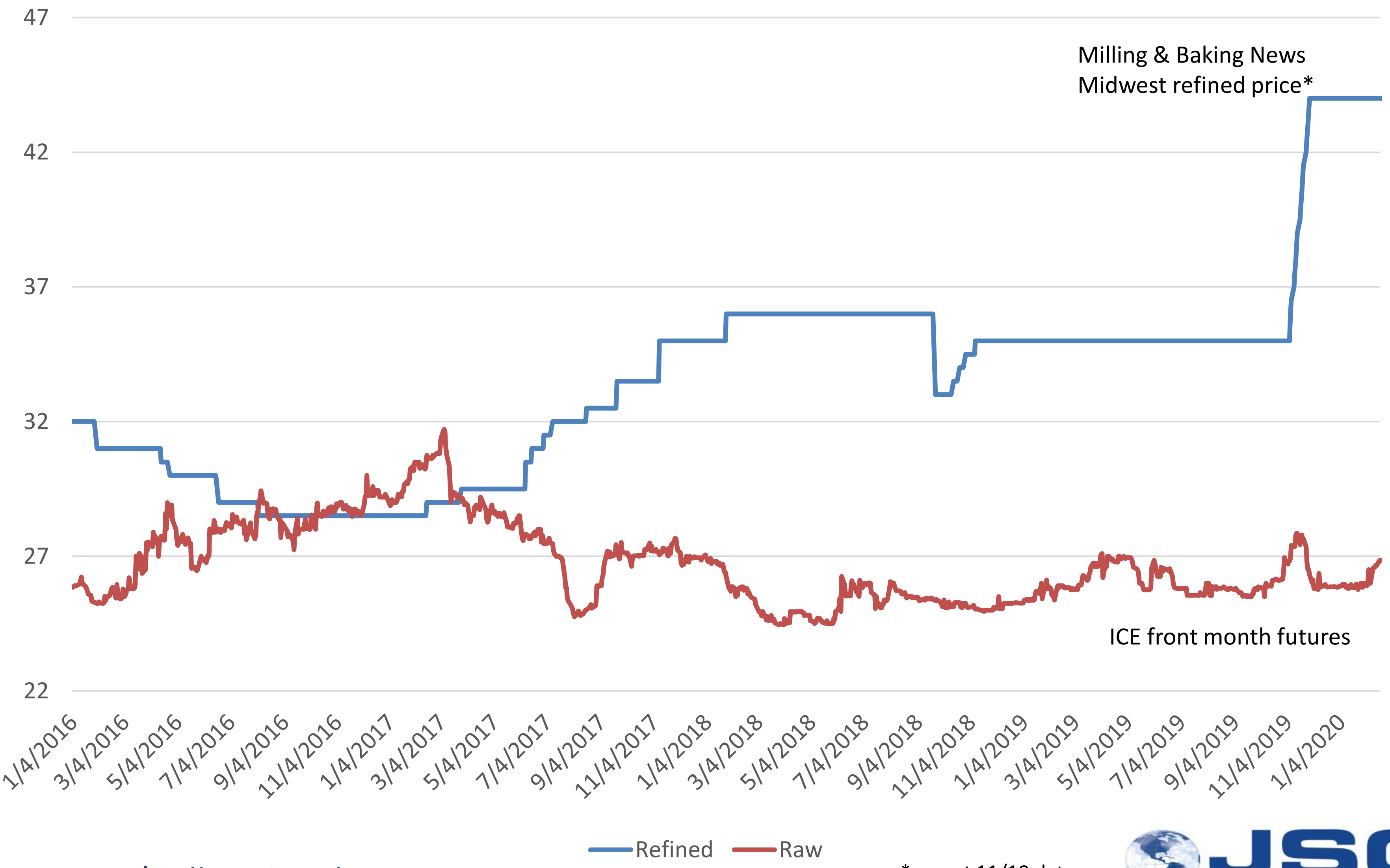
When it rains, it pours
(and then it freezes)

- **October:** CIT rules in favor of CSC – "2017 amendments" to SA's to be vacated, freeze event in US West and Midwest
- **November:** Freeze in Louisiana, beet force majeure, 100,000 Mexican refined increase
- **December:** WASDE shows US production down over 900,000 tons from the October estimate, "2017 amendments" to SA's vacated
- **January:** "2020 amendments" to SA's are signed
- **February:** Shortfall reallocation, Mexico crop downgrade
- **March:** Mexico's Export Limit fixed, Mexico determination on ability to fill Limit, beet planting intentions
- **April-September:** Reckoning of actual US/Mexico shortfall, USDA in the wings, early beet harvest.

US raw vs. refined:

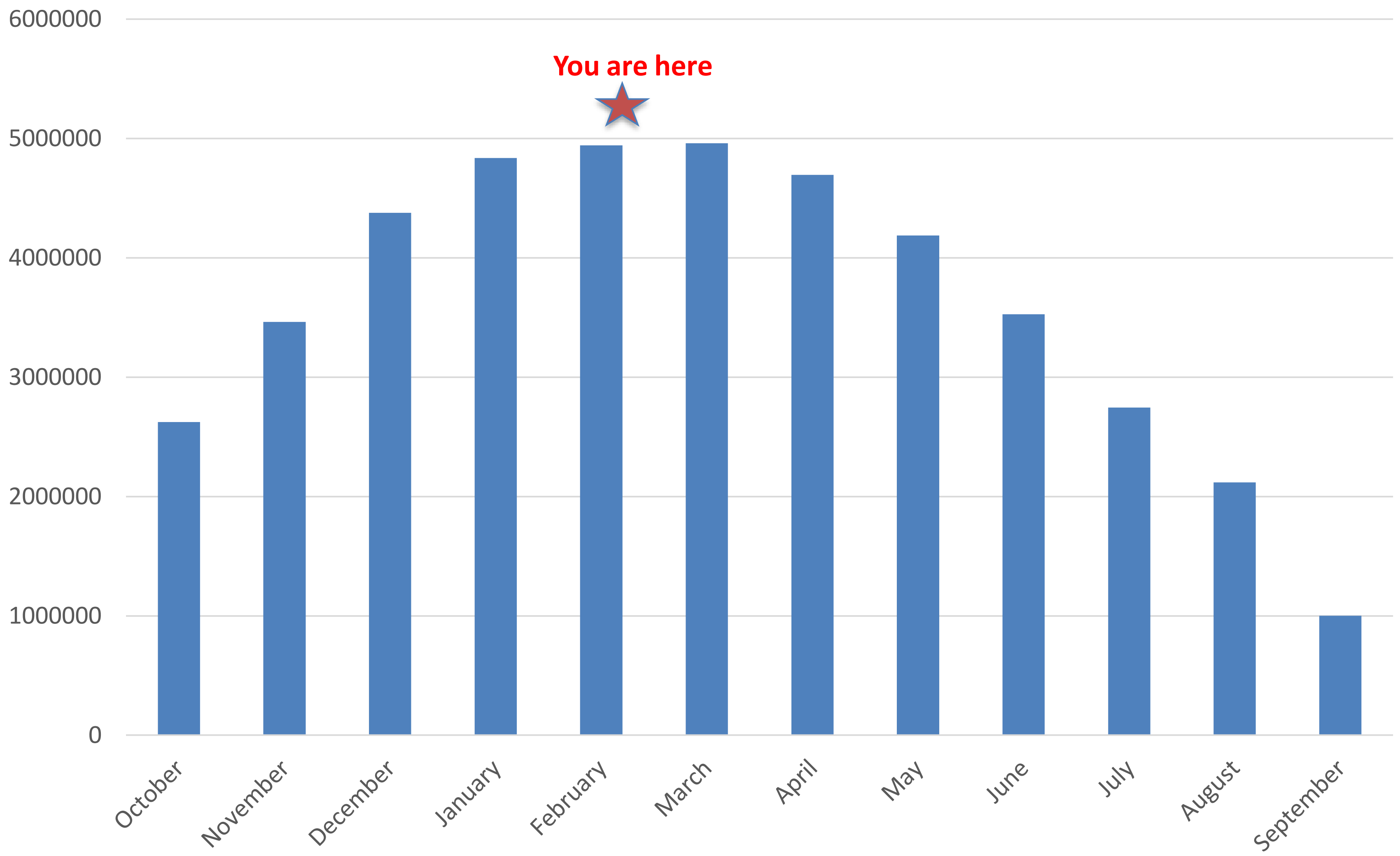
1/1/2016 to 2/18/2020



*except 11/19 dates

Source: ICE/Milling & Baking News

Calm before the storm?



Source: USDA/FSA

Calm before the storm:

You are here

USDA & JSG: FY'20

1,000 STRV

February WASDE

Beginning Stocks	1783
Production	8158 (4444 beet, 3713 cane)
Imports	3841 (1717 Mexico, 350 re-ex, 1674 TRQ, 100 other)
Total supply	13781
Exports	35
Deliveries	12230
Food	12125 (+ 0.16 %)
Other	105
Total use	12265
Ending stocks	1516
Stocks/use	12.4 %

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Beginning Stocks	1783
Production	8088 (4375 beet, 3713 cane)
Imports	4021 (1591 Mex, 350 re-ex, 1674 TRQ, **406 other**)
Total supply	13892
Exports	35
Deliveries	12205
Food	12100
Other	105
Total use	12240
Ending stocks	1652
Stocks/use	13.5 %

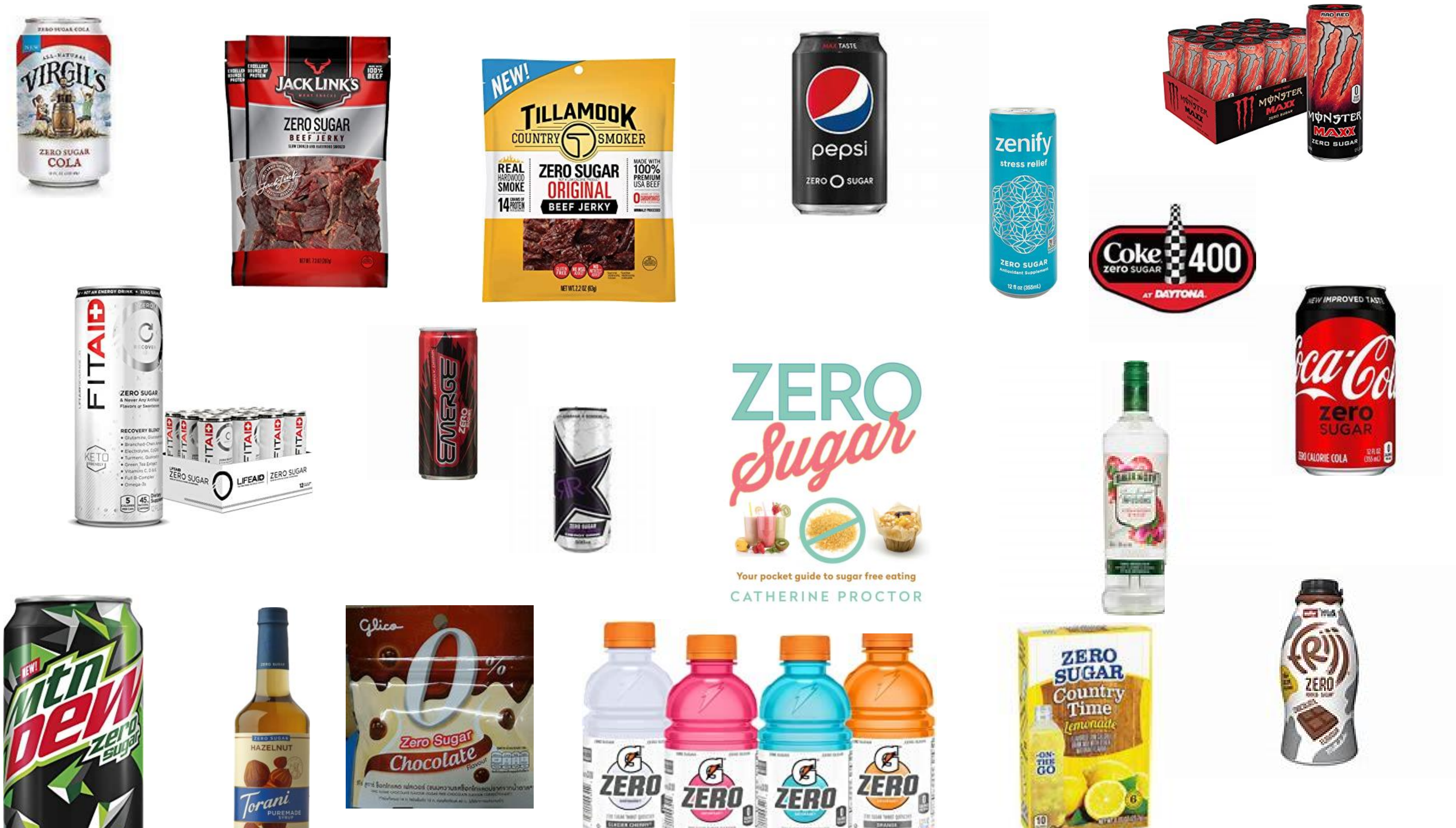
Source: USDA/JSG

Consumption

US down 2.9 % in Oct-Dec'19

Mexico FY'20 down fractionally

Zeroing in on consumption:



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The Black Octagon:

The New York Times

Sugary Drink Consumption Plunges in Chile After New Food Law

A study finds that a landmark law requiring warning labels on unhealthy foods made a swift difference in purchases of sodas, bottled water and juices.

Supermarket chocolates on a shelf in Santiago, Chile, bearing labels that warn of high sugar, calorie and saturated fat content. Martin Bernetti/Agence France-Presse — Getty Images

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Mexico's clear labeling laws:

Consumption of high caloric content products is expected to **decrease between seven and 25 percent**

Source: etiquetadosclaros.org

Supply

US and Mexico Local Supply: -11 to 12 %

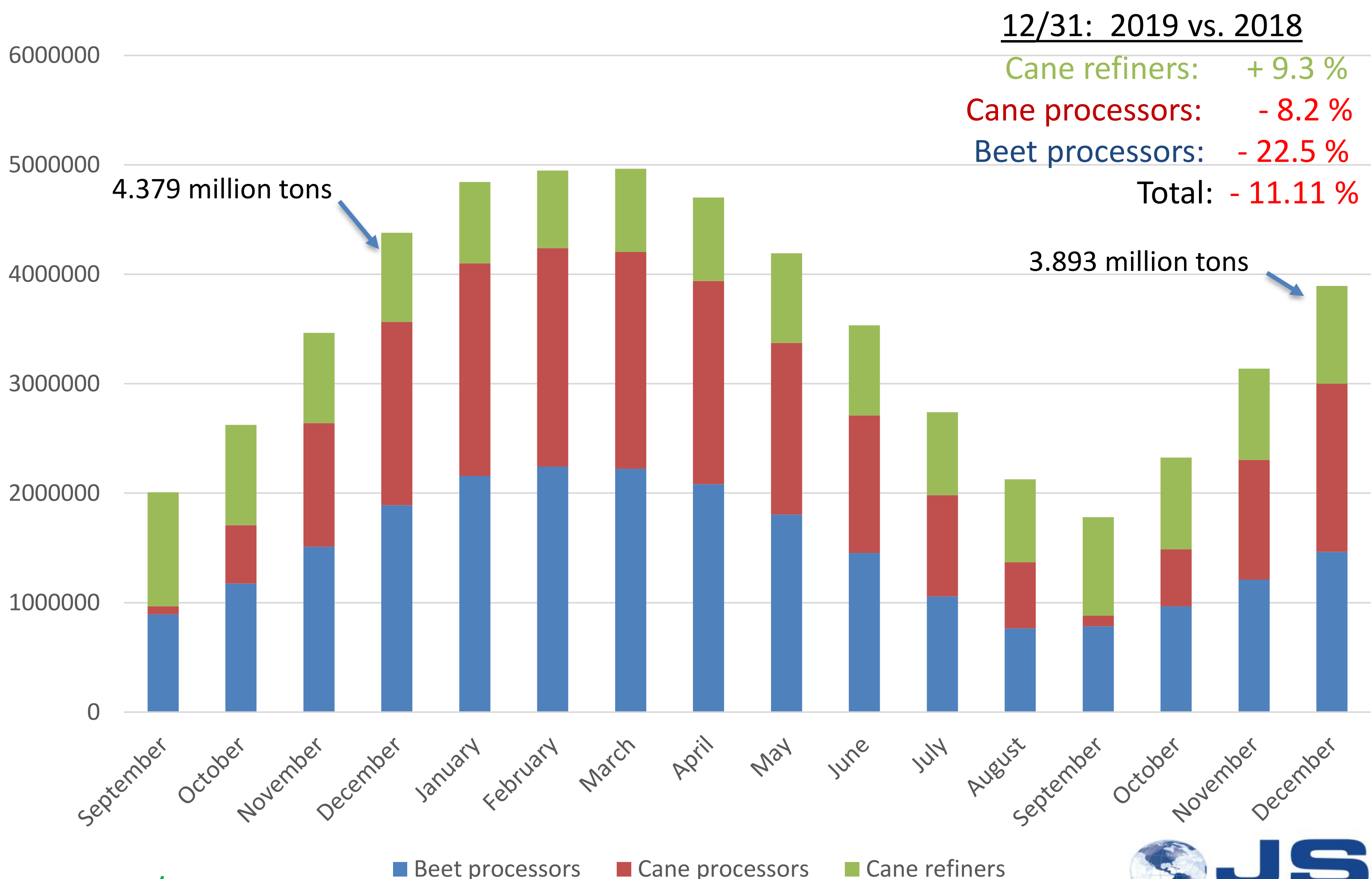
1,000 strv

	FY'19	FY'20	Difference
Mexico beginning stocks:	1630	1366	-264
Mexico production:	7508	6627 (6426)	-881 (-1082)
US beginning refined stocks:	1230	1098	-132
US beet production:	4939	4444	-495
US beginning raw stocks:	779	682	-97
US cane production:	4060	3713	-347
Total:	20146	17930	-2216 (2417)

US Stocks

Monthly ending stocks:

September 2018-December 2019



Source: USDA/FSA

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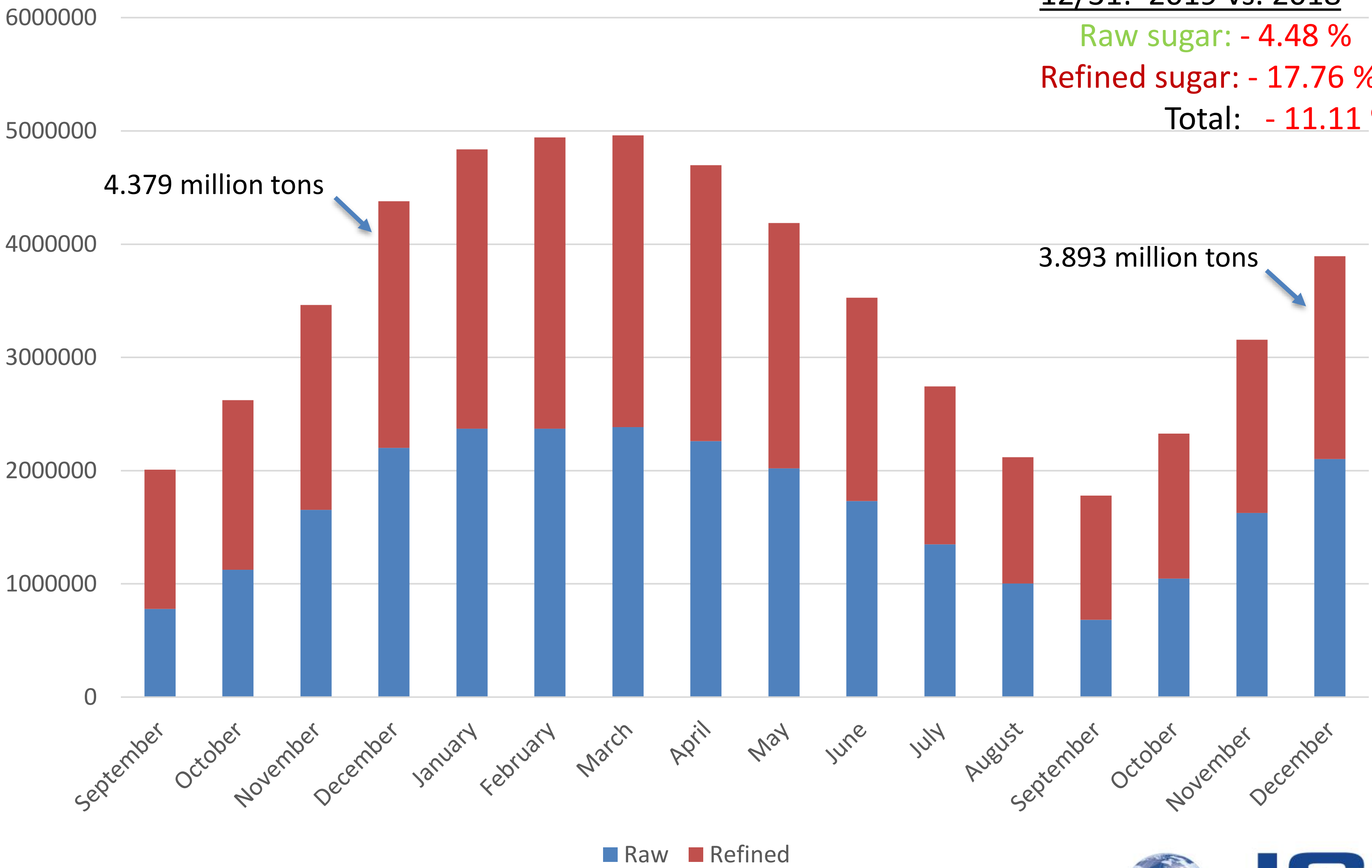
Monthly ending stocks:

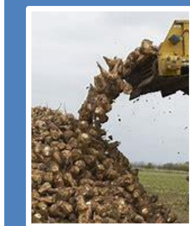
September 2018-December 2019

12/31: 2019 vs. 2018
Raw sugar: - 4.48 %
Refined sugar: - 17.76 %
Total: - 11.11 %



Source: USDA/FSA

Replacement for lost US supply:



US supply

Mexico

(30/70)

Raws through US cane refiners

Refined TRQ

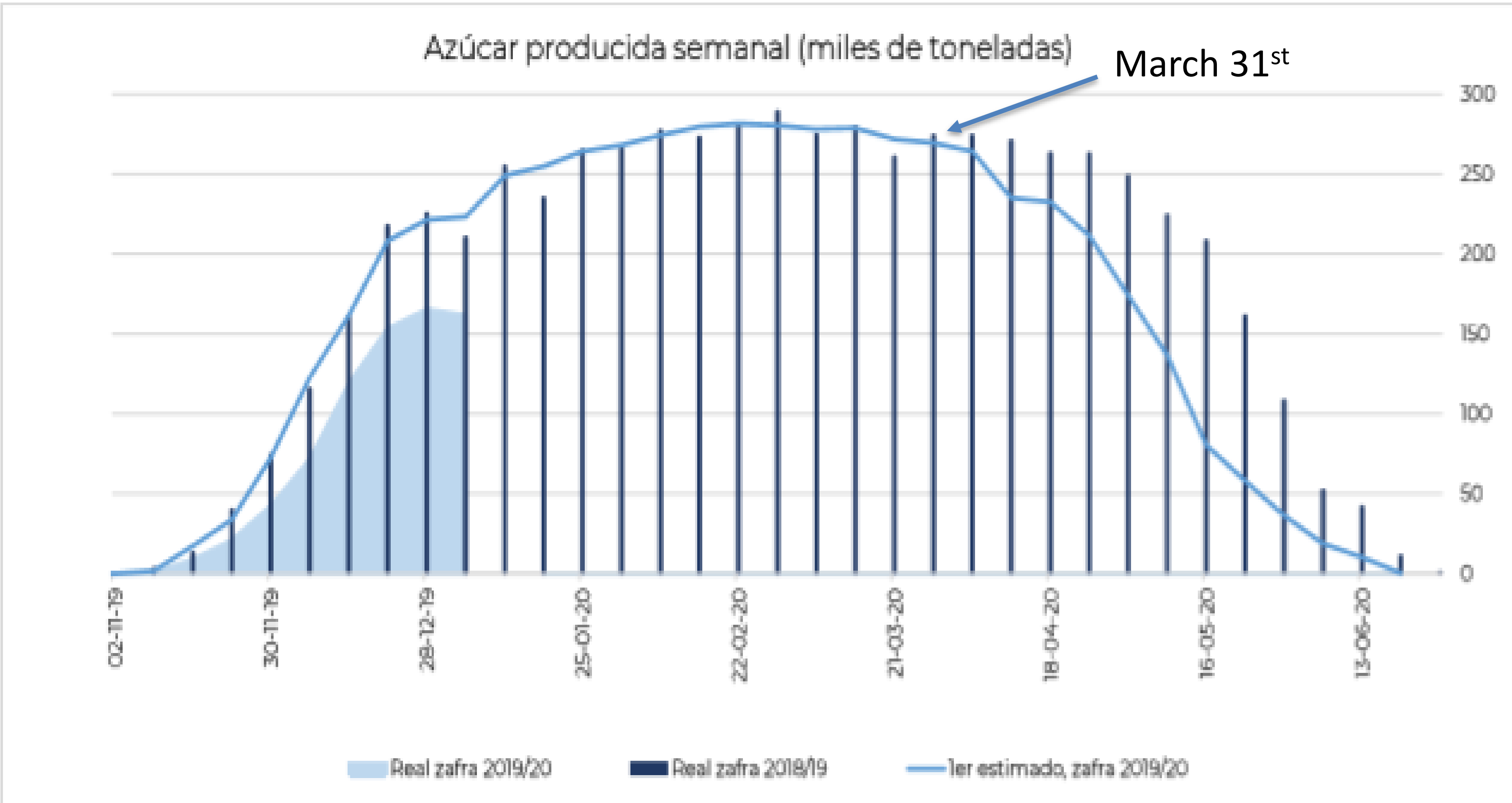
High tier

Production

Mexico

Mexican Sugar Production:

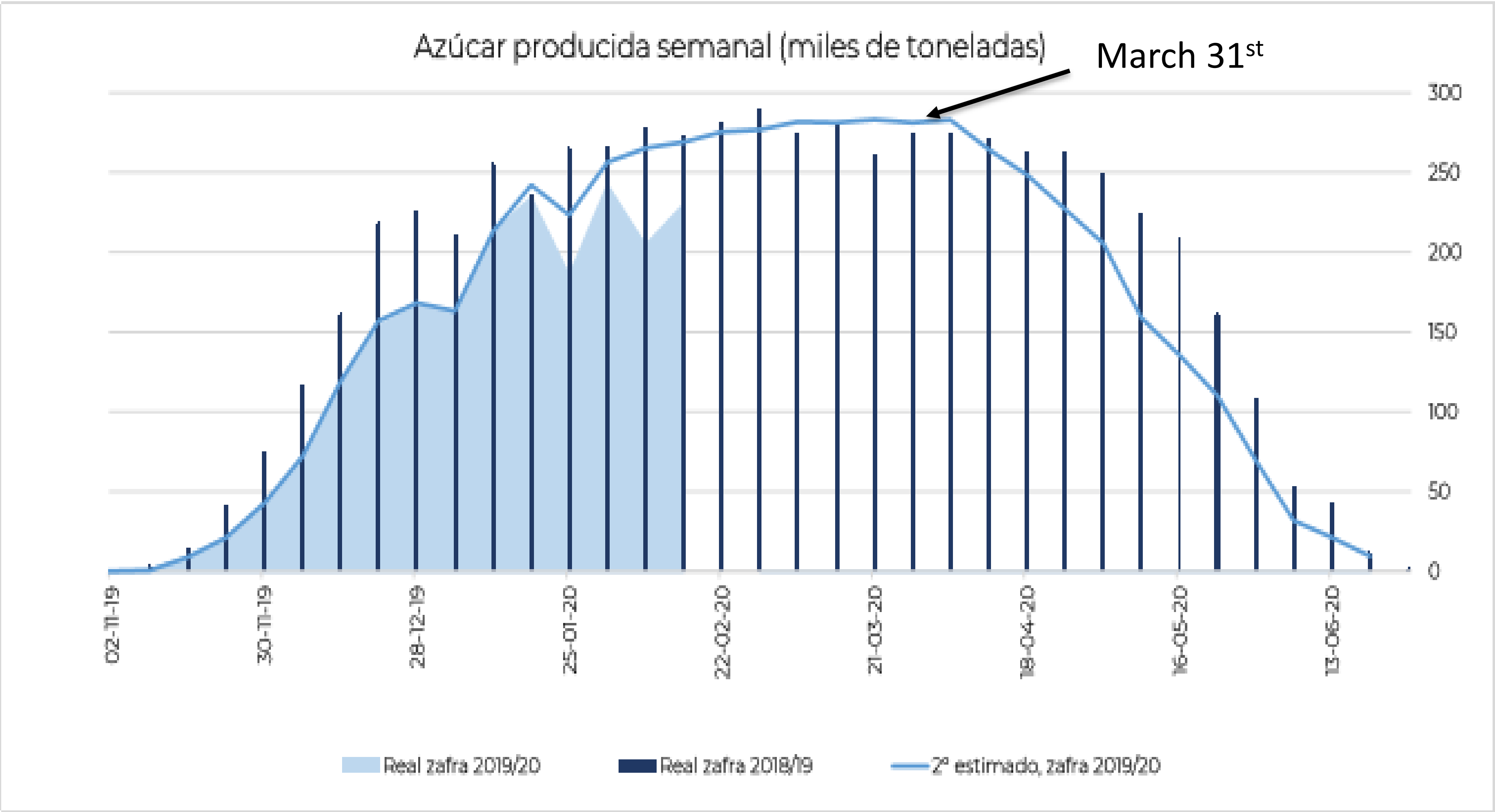
Estimate: 5.772 million tonnes tel quel



Source: Conadesuca

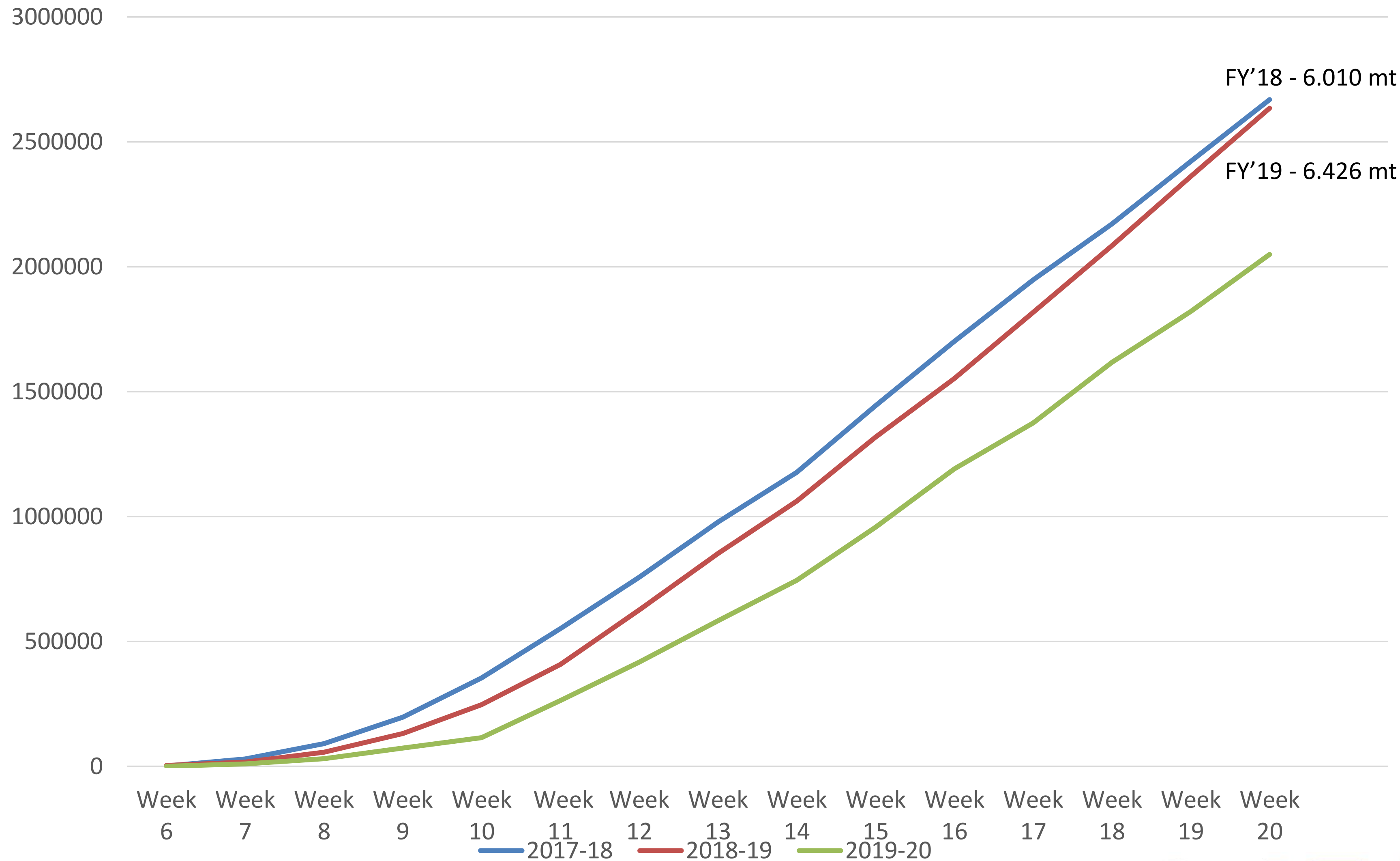
Mexican Sugar Production:

Estimate: 5.672 million tonnes tel quel



Source: Conadesuca

Mexican sugar production:



Source: Conadesuca

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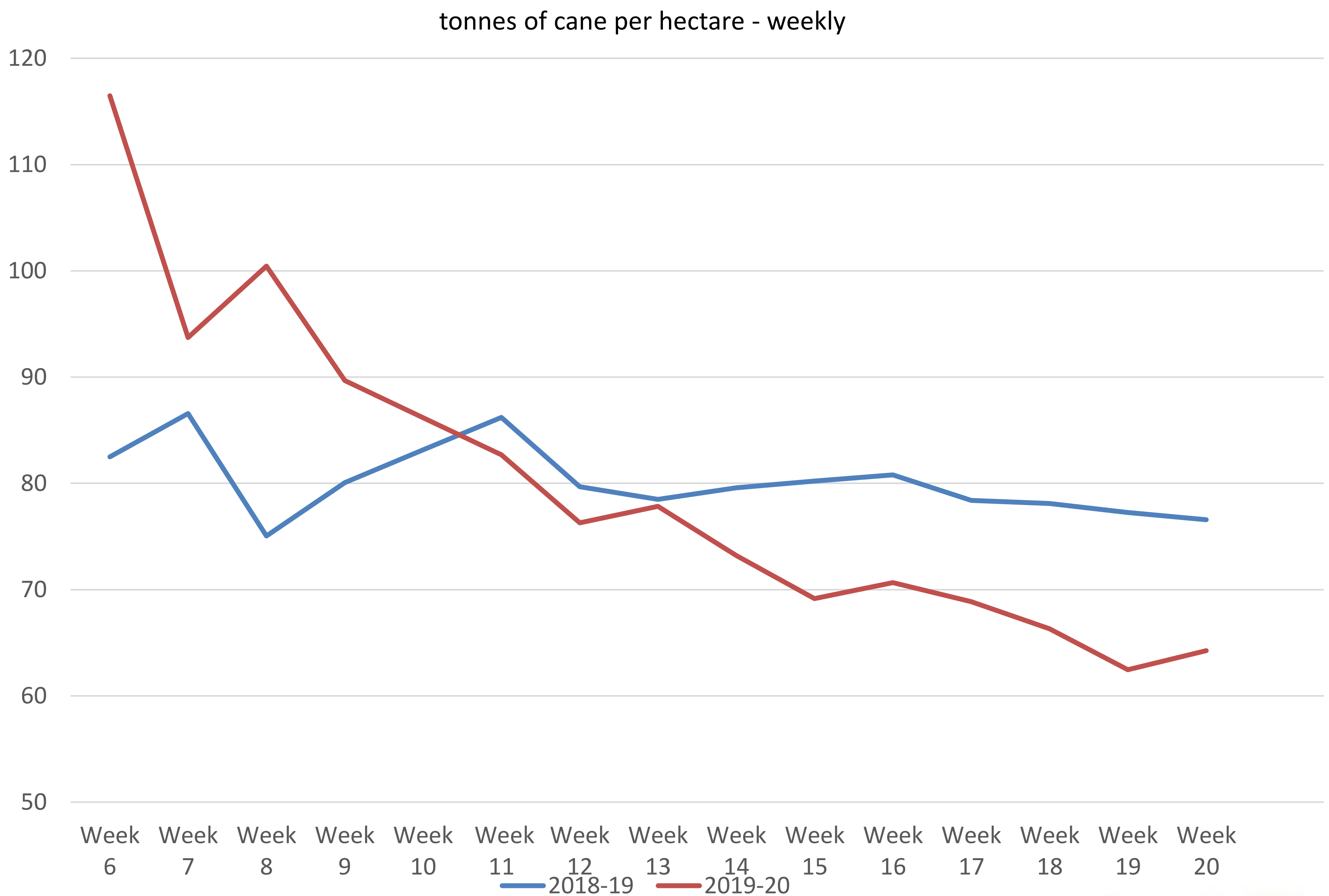
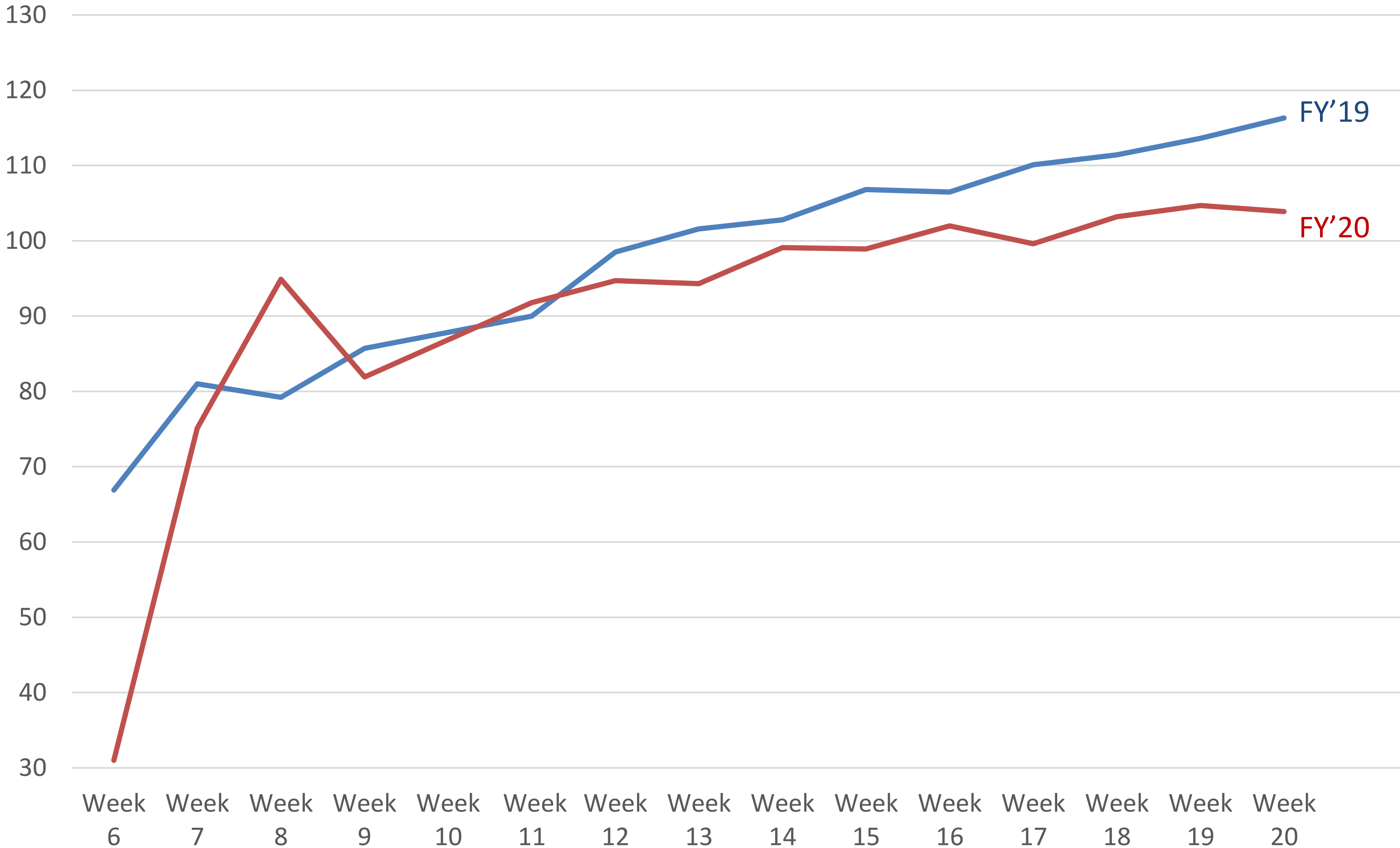
Mexican sugar yield: Agricultural



Source: Conadesuca

Mexican sugar yield: Industrial

kilos of sugar per tonne of cane- weekly



Source: Conadesuca

Mexican sugar Production: Week 20

- **JSG estimates the FY'20 Mexican crop at 5.250 to 5.500 million tonnes tel quel**

- Area harvested: down 8.58 %
- Cane crushed: down 17.72 %
- Sugar production: down 22.20 %
- Sugar with pol < 99.2 degrees: down 11.86 %
  - US demand 1.132 million tonnes – 61.7 % higher
- Refined sugar down 22.48 %

- Week 20: 36.1 % of estimate has been produced
  - FY'19: 41 % of total sugar had been produced
  - FY'18: 44.4 % of total sugar had been produced
  - If Week 20 FY'20 is 41 % complete, 5.000 million tonne crop

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Replacement supply

Location

Packing

Quality

How to meet 12.265 million tons of demand: USDA

	Total	Raw	Refined
Beet	4444		4444
Domestic raws	3713	3713	
Raw TRQ	1230	1230	
Refined TRQ	208		208
Reexport	350	350	
FTA	236	75	161
Mexico	1717	1131	586
High tier	100		100
From stocks	267	117	150
Total	12265 (12.4 %)	6616	5649

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How to meet 12.265 million tons of demand: JSG

	Total	Raw	Refined
Beet	4375		4375
Domestic raws	3713	3713	
Raw TRQ	1325	1325	
Refined TRQ	208		208
Reexport	350	350	
FTA	236	75	161
Mexico	1591	1044	547
High tier	200		200
From stocks	267	117	150
Total	12265 (12.4 %)	6624	5641

Loss versus replacement:

Source: American Sugar Alliance (map)

US cane refining capacity:

- Rated annual refining capacity 6.700 to 6.850 million short tons
- Highest ever utilization 6.547 million short tons (FY’09)
- FY’19 6.389 million short tons
- Cane refiners must be responsible
  - Balance utilization versus maintenance
  - A breakdown in the current environment would be counterproductive for all, but mainly the refiner

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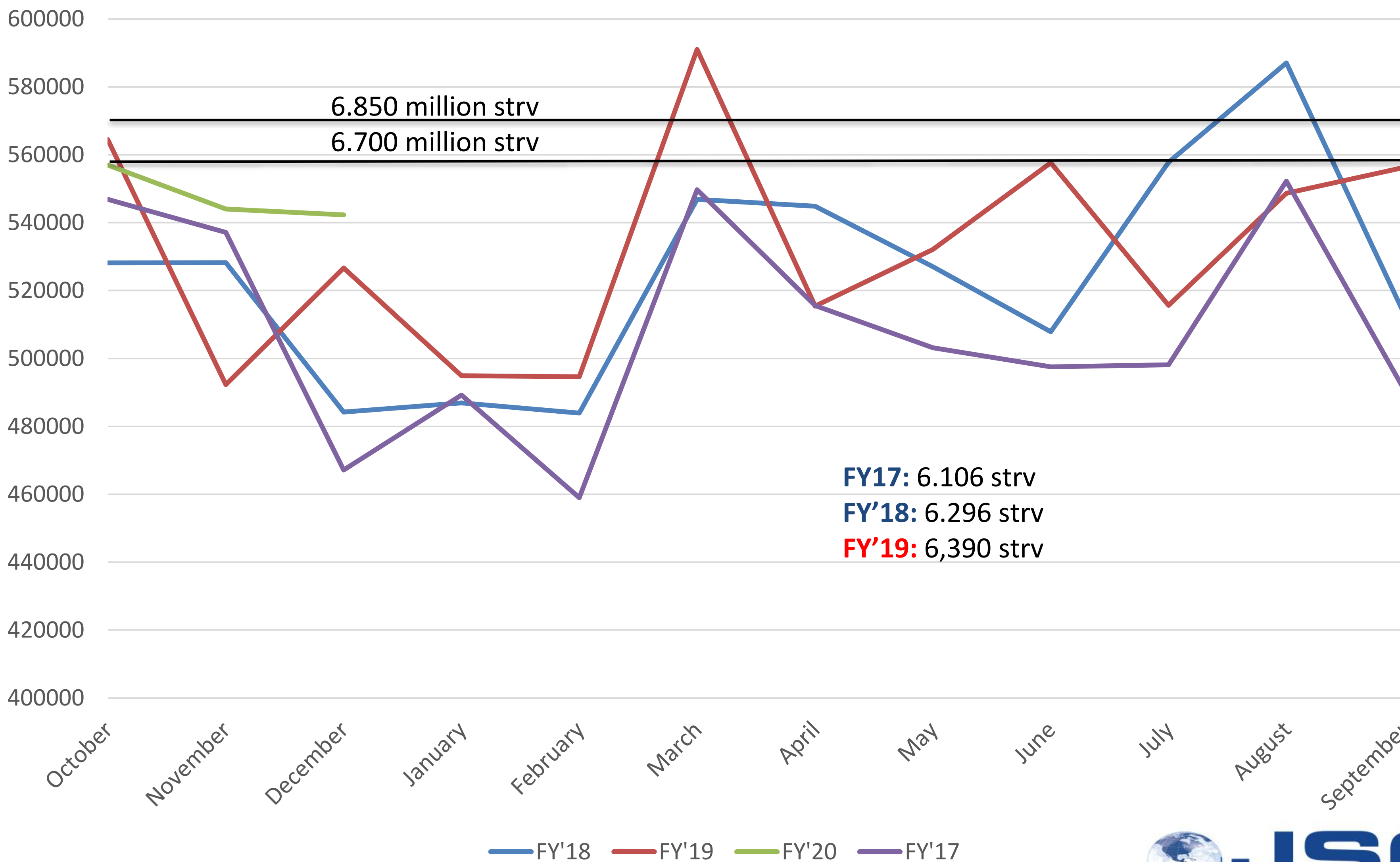
US Cane Refining Capacity Utilization:

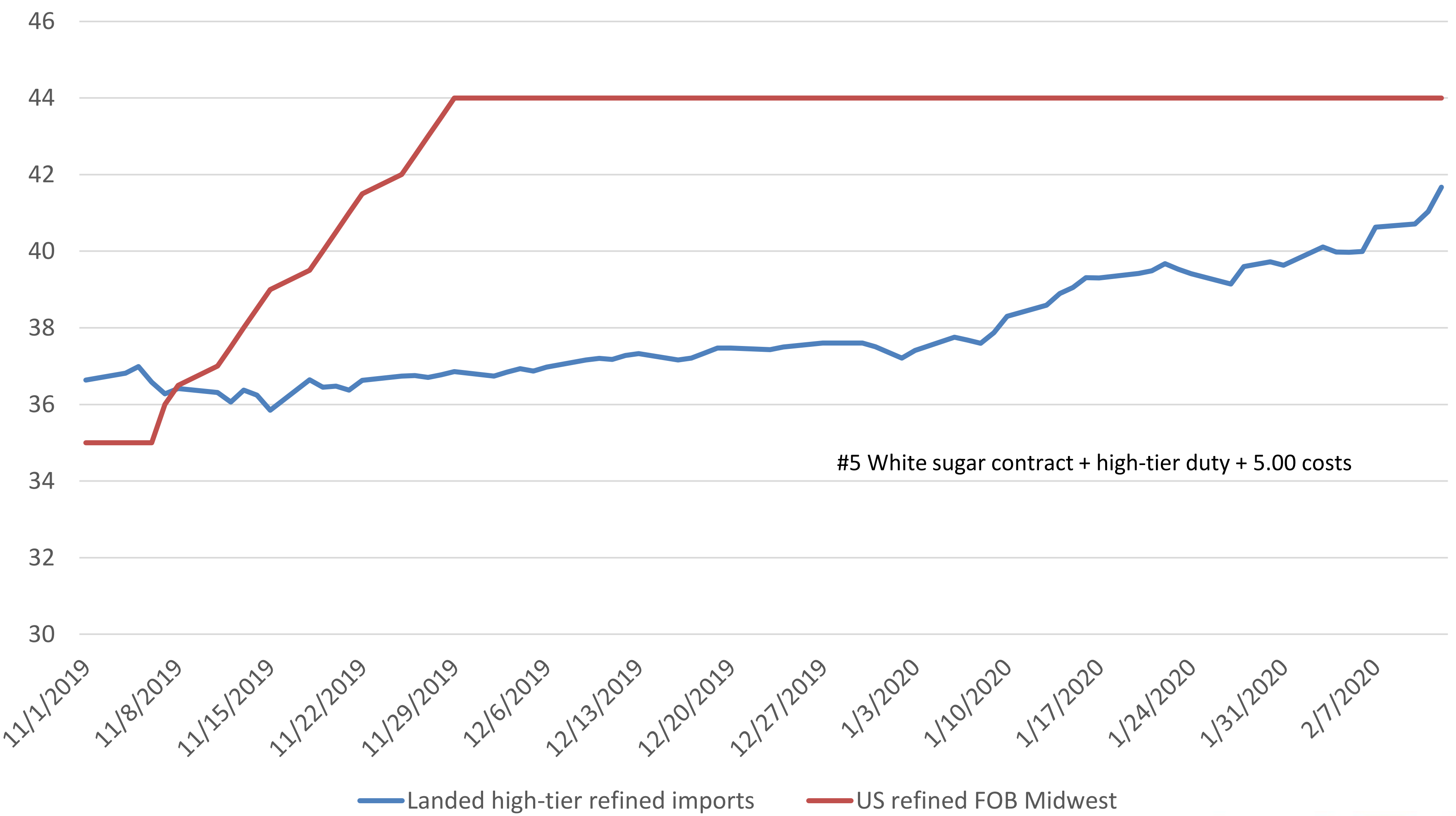


Source: USDA/FSA

Cane Refining Capacity: Feb-Sept

- **JSG estimate:** 4.520 million tons of raw sugar available for the Feb-Sept 2020
  - Annualized: 6.780 million tons
  - Mexico: 1.072 million tons “other sugars”, 553,000 tons of refined
    - Unlikely to ship over 500,000 tons of “refined”
    - Unlikely to be able to ship total
  - Raw sugar TRQ increase will be a challenge to process

High-tier refined import viability:



Source: ICE Futures/JSG

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Alternative refined imports:

- Refined beet production lost in Mountains and Midwest, replacement on the coast and Mexican border
- High tier
  - 91,000 tons in FY'19, 210,000 in FY'10 (record)
  - Bags and totes
- Global refined TRQ
  - Bags and totes
  - First come/first served
  - Definition =/>99.5 degree polarization
  - Organic entries
  - VHP sugars can displace refined
- Lack of plant audits/approvals

Conclusions:

- Massive drop in USMCA production will thrust USDA into critical role of import management
- The US industry faces unprecedented challenges beyond those USDA can impact
- An important percentage of the replacement supply will not be delivered under SOP
- Industry will need to adapt to avoid widespread shortages despite ample overall supply

Conclusions:

- Refined prices will inevitably rise incoming months
- Raws market will depend on import mix, but sprawling margin may lead to higher pricing
- Reported FY'21 pricing – 35.00-36.00 FOB Midwest beet, 37.00 FOB refiner cane - appears attractive

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