With the Declaration period now behind us, Cathy and I have had a chance to reflect on some of the common questions growers were asking us in the lead up to the final Declaration Date at the end of February. It is clear there is still some uncertainty about what is forward pricing and how this differs to in-season pricing. Therefore, this article will highlight some of the key differences between forward pricing and in-season pricing. Growers are encouraged to read more about the different pricing options available to them through QSL by visiting our website - www.qsl.com.au.

**What is Forward Pricing?**

Forward pricing is where growers and millers make their own decisions on the end price they are aiming to receive for their sugar. QSL offers mills, who in turn offer their growers, the opportunity to price raw sugar ahead of the season in which that sugar is being produced at a price that they nominate. These pricing mechanisms are referred to as Fixed Priced Forward Contracts and allow mills (and growers) to price their expected raw sugar production for up to three years in advance of the QSL Pricing Declaration Date (Feb 28) for the relevant season. To clarify, a grower can nominate in 2014 an A$ target price for tonnes of sugar they expect to produce in 2017. The mill passes on this order to QSL, who then manage the orders. Each mill administers their Forward Pricing options differently so you need to talk to your mill about the Forward Pricing options available to you.

By nominating an A$ target price, growers have the opportunity to make their own decision on the gross price element (the part derived from the ICE 11) of the pool return. Growers will also get an allocation of the QSL Shared Pool added or subtracted to the gross price, and in some cases mills also charge a fee for administering this pool on behalf of growers.

An alternative to Fixed Priced Forward Contracts is QSL’s 2-Season and 3-Season Forward Pool. These pools are priced over a longer time-frame under the discretion of QSL and all growers within those pools receive the same price. Growers nominating into these pools are allowing QSL to make the pricing decision for them. Growers don’t nominate an A$ target price and can’t change orders throughout the season. Rather these Forward Season Pools give QSL the discretion to price sugar over a longer window of time, up to three years ahead of the relevant season.

**What is In-season pricing?**

By now, growers would be fairly familiar with the number of in-season pricing pools QSL offers. These are pools which are priced over a 12 month period within the harvesting season by QSL’s pricing team. To recap these are:

- QSL Harvest Pool
- QSL Guaranteed Floor Pool
- QSL Discretionary Pool
- QSL Actively Managed Pool
- QSL Growth Pool

These pools have been developed to provide growers with choices, which match their appetite for risk. Each pool has its own risk management profile which is further explained in the Product Description Statements available from our website - www.qsl.com.au. By nominating into a QSL-managed pool, you are allowing QSL to make the pricing decision for you. QSL Pool Managers use the futures market and a range of derivative instruments to price these pools, which are priced over the current season.

As an alternative to QSL’s in-season pricing pools, some mills offer their growers the opportunity to make their own pricing decisions during the season by participating in In-Season Fixed Priced Contracts, which allow growers to nominate an $A target price within the season it will be produced. For example, a grower can nominate an $A target price in February 2014 for the sugar they expect to produce in 2014. These mechanisms require the grower to decide how many tonnes they want to make their own pricing decisions on by the 28 February. The pricing may be conducted after that date.

**2013 Pool Performance**

Growers are able to track the performance of all of the QSL-managed pools across this season via the Pool Price Matrices published on our website www.qsl.com.au.

Prices are indicative only and don’t include a firm value from the QSL Shared Pool.

<table>
<thead>
<tr>
<th>Current as of 28.02.14</th>
<th>2013 Gross</th>
<th>% Priced</th>
</tr>
</thead>
<tbody>
<tr>
<td>QSL Harvest Pool</td>
<td>$393</td>
<td>92%</td>
</tr>
<tr>
<td>QSL Discretionary Pool</td>
<td>$398</td>
<td>99%</td>
</tr>
<tr>
<td>QSL Actively Managed Pool</td>
<td>$410</td>
<td>99%</td>
</tr>
<tr>
<td>QSL Growth Pool</td>
<td>$425</td>
<td>93%</td>
</tr>
<tr>
<td>QSL Guaranteed Floor Pool</td>
<td>$393</td>
<td>100%</td>
</tr>
<tr>
<td>QSL US Quota Pool</td>
<td>$486 gross</td>
<td>76%</td>
</tr>
<tr>
<td>QSL 2013 Season Forward Pool</td>
<td>$432</td>
<td>99%</td>
</tr>
<tr>
<td>QSL 2014 Season Forward Pool</td>
<td>$424</td>
<td>72%</td>
</tr>
</tbody>
</table>
QSL Supports Women in Sugar Australia conference – Bundaberg

This week QSL Director, Sarah Scales, was a guest presenter at the annual Women in Sugar Australia (WISA) conference held in Bundaberg. Sarah spoke about her time heading up the Australian Wheat Board’s single desk marketing system before joining QSL and the similarities between the Australian grains industry and the Queensland sugar industry. She touched on the fact both industries had experienced significant change over the past few decades, particularly since both had been deregulated, and spoke about the value that the sugar industry has been able to retain through QSL. Sarah told the audience that QSL must earn and maintain the support of the industry, by delivering services which benefit and add value, in order to create stability and allow the industry to focus on growing the size of the sugar pie. QSL is a major sponsor of the annual WISA event.

Grower Innovation Virtual Expo (GIVE) in Innisfail

Next week I will be attending the GIVE days in Innisfail on the 18th and 19th March and hosting a stall at the Innisfail Field Days on the 20th. I look forward to meeting GIVE day attendees and to catching up with growers and industry representatives at the Field Days.
Market Update

Stephen Stone
Treasurer
Current as of 10th March 2014

Sugar

Raw sugar prices surged higher over the past fortnight, with all contract months trading above the US18c/lb. level despite a weak MAR14 expiry on Feb 28th, where very little physical sugar was delivered.

The MAY14 futures contract has traded as high as US18.5 c/lb. before a bout of profit taking saw it close last Friday at the US18 c/lb. level. Indicative prices for the 2014 season over the counter swaps have traded above the A$460 per tonne level, particularly pleasing for the local industry facing sub A$400 prices only a few weeks prior.

The market strength largely reflects a reaction to a period of dry weather in Brazil. These concerns have driven prices in a number of soft commodity markets aggressively higher, fuelled further by the tension between Russia and the Ukraine.

With a current raw sugar surplus still in play, as evidenced by a continuation of weak physical or cash premiums, market analysts suggest the move in sugar prices is now overdone. The weather in Brazil is clearly a risk for the 2015 crop, yet prices have moved in the front month futures contracts simply because that is where the speculative community hold their positions due to market liquidity. Accordingly, producer selling is now expected to weigh on the attractive pricing levels, with futures markets likely to correct in the short-term.

Sugar market developments have clearly reminded all participants of the dangers of ignoring weather risks. We believe this will re-focus attention to the likelihood of a tighter global sugar balance into 2015, and prices consistently stronger into the second half of 2014 and into 2015.

Currency

Tempering the positive sugar market mood, the Australian dollar has so far proven quiet resilient in the current calendar year. Market levels above US$0.90 have clawed back some of the gains made by the sugar futures from the perspective of Australian growers.

More positive economic data in Australia and our largest trading partner, China, have improved current market sentiment. The Australian dollar traded as high as US$0.915 ahead of employment data on Friday in the US. Whilst opening the week well off the highs, the currency is unlikely to resume the downtrend it commenced in 2013 in the short-term.

Buoyant conditions in the property market and stronger employment data last week suggest the RBA has no room for further interest rate cuts, and may look to raise rates before many had expected. The Central Bank has been more upbeat in its recent commentary, whilst not abandoning its view on a currency that remains too high.
Ahead, we sense more frustration for Australian exporters, with further currency weakness now less likely until the second half of 2014 when we are likely to see more evidence of a recovering US economy.

*While all care is taken in the preparation of this report the reliability or accuracy of the information provided in the document is not guaranteed. QSL does not accept any responsibility to any person for the decisions and actions taken by that person with respect to any of the information contained in this report.*