QSL Update week ending 30.05.14

By Carla Keith and Cathy Kelly, QSL Industry Relationship Managers
Ph. Carla 0409 372 305 or Cathy: 0409 285 074
Email: Carla.Keith@qsl.com.au
Cathy.Kelly@qsl.com.au

May Advance Payments

It has come to our attention that there has been some confusion around this month's advance payment figure, with some growers experiencing a lower monthly payment than they may have been expecting. Those growers with a majority of their sugar in the Harvest Pool would have especially felt some of this volatility. Hopefully, the following can go some way in helping you better understand why this may have been the case.

It's important to note that from December, your advance payments directly reflect your pricing decisions. That is why you may find your payments may be higher or lower than your neighbour's. For those growers who have participated in forward pricing or QSL committed sugar pools, your cash flow during the intra-season period would likely have been less volatile than a grower who has a majority of their sugar in the QSL Harvest Pool. So why has the QSL Harvest Pool price jumped around so much this year? A couple of reasons:

- The ICE 11 market has been volatile since December and that means in a weaker price environment, more of this sugar is getting priced at a potentially lower price
- QSL has seen value in waiting to sell some of the remaining Harvest Pool sugar against the later July contract which has provided greater potential for higher returns.

The value of the QSL Shared Pool has also reduced slightly this month, due to unexpected delays in the shipping program for sugar that has been sold and is in our sheds.

QSL understands the pressure many growers are under to meet financial commitments and we work closely with your elected Grower Representatives and various grower organisations to ensure we have some flexibility in our system to increase the percentage rate of advances, when asked to do so. We have done this on a number occasions this season. We will continue looking at ways we can improve the Advances Program and build in greater flexibility around how and when growers are paid. Based on recent feedback, we have brought forward the next advance payment by a week. Please talk to your milling company about your expected rate of advance payment. I encourage any growers with questions about our Advances Program to contact us directly.

Standard and Poor's Announcement

This week, credit rating agency Standard and Poor's downgraded QSL's credit rating to 'BBB- long-term' and 'A-3 short-term'. While it was disappointing that we lost our unprecedented 'A long-term' credit rating, this was not unexpected following Wilmar's decision to remove itself form the collaborative industry marketing arrangements. The new rating reflects the fact that QSL will be handling a reduced tonnage of 1.5 Mt from 2017 onwards.

We use the Standard and Poor's rating to obtain cost-effective funding through a commercial paper (short-term debt instrument) to fund our Advances Program. While this downgrade will marginally increase financing costs, QSL will still be able to access competitive financing for millers and growers at rates which are much lower than retail costs.

QSL has the strong support of its banking partners who are very confident of QSL's financial position and risk profile and continue to offer access to a $500 million standby credit facility. This is independent of Standard and Poor's rating. We are also exploring a range of other financing options going forward.

QSL has a strong value proposition across all four pillars of financing, pricing, selling and logistics, for those who remain within the industry collaborative system.

<u>2013 Season Pool Performance</u>

Please note that all prices quoted below are indicative only and don't include a firm value from the QSL Shared Pool. Growers should always consult their mill for information about their individual cane payments.

2013 QSL Pools Current as of 16 May 2014	2013 Gross	% Priced
QSL Harvest Pool	$391	96%
QSL Discretionary Pool	$398	100%
QSL Actively Managed Pool	$410	100%
QSL Growth Pool	$424	100%
QSL Guaranteed Floor Pool	$393	100%
QSL US Quota Pool	$390 Net	96%
QSL 2013 Season Forward Pool	$433	99%

2014 QSL Pools Current as of 16 May 2014	2014 Gross	% Priced
QSL Harvest Pool	$429	25%
QSL Discretionary Pool	$437	35%
QSL Actively Managed Pool	$437	32%
QSL Growth Pool	$437	36%
QSL Guaranteed Floor Pool	$432	100%
QSL US Quota Pool	$496 NET	54%
QSL 2014 Season Forward Pool	$424	76%
QSL 2-Season Forward Pool 2015 (sugar delivered in 2015 season and priced over 2014 and 2015 seasons)	$448	6%
QSL 3-Season Forward Pool 2015 (sugar delivered in 2015 season and priced over 2013, 2014 and 2015 seasons)	$454	57%
QSL 3-Season Forward Pool 2016 (sugar delivered in 2016 and priced over 2014, 2015 and 2016)	$455	11%

Market Update

By QSL Treasurer Stephen Stone
Current as of 27 May 2014

Sugar

Sugar prices continued to trade in sideways fashion over the past two weeks. The JUL14 contract traded within a well-worn range, reaching a high of 18.30 c/lb, before sliding back to close-out last week at 17.30 c/lb.

The current period of low volatility is not from lack of interest from commercial and speculative players. There are a number of key market themes in play. The themes may drive limited week-to-week price activity, yet tend to offset when looking for an explosive market move.

The sugar surplus is what we all predicted. The lack of physical buyers seems however, to be bleaker and longer lasting than most had expected. The futures curve remains in steep carry, with an attractive 80 points on offer between the front two contracts. We suggest carrying inventory is not as simple as it seems. Exporters, such as Australia, need to clear storage for new crops. Many importing countries are unable to finance sugar stocks. This dynamic may prove a positive next season. Inventory levels may be overstated. As we head toward a tighter sugar balance, there is a strong chance the inventory levels will simply melt away.

Elsewhere, crop news has mainly been positive. Indian, Chinese and Thai crops are at the higher end of expectations. Ethanol prices have slipped as Brazil's crush continues, however will still support any weakness in sugar futures.

Weather remains a key driver. The crush in Brazil is showing the negative effects of earlier dry weather. Rain now may only worsen the situation. The increasing probability of an El Nino weather event will see a premium remain in sugar prices.

So, where does the market head from here? At QSL we expect more range trading in the short-term, with prices supported at the 16.50 c/lb level. Physical premiums are set to remain weak for now, with stronger markets unlikely until further evidence of tightening supply or the El Nino is confirmed.

Currency

The currency remains trapped within a 92-95 cent range, to the US dollar. The recent Federal budget was not received well by financial markets. This was largely due to the manner in which it appears to have unsettled the corporate sector and voting public. Speculators saw this as a reason to sell, pushing the currency lower to test support at the 92 cents level.

The short-term sentiment was weakened further when global ratings agency, Standard and Poor's, suggested we may lose our coveted AAA rating unless we reign-in the size of our deficit. This must have frustrated the Government, currently under attack for attempting to do exactly that, reign in public spending.

The storm clouds continue to build around the Australian dollar. Sentiment has soured somewhat, yet is unlikely to cause sustained weakness in the short-term. At QSL we continue to see a lower currency into year end and beyond, reflecting our lower interest rates and falling commodity prices. In the short-term, levels above 90 cents are likely, much to the frustration of our export sector.