Sugar Marketing - is it all about the ICE11?
By QSL CEO Greg Beashel

I have been spending a lot of time lately explaining some of the facts around the current debate about sugar marketing. Recently, I addressed the Rural Press Club and one of the questions I received focused on why there is so much fuss over marketing arrangements when growers can control 95 per cent of their pricing via the ICE11. Wilmar have also pointed to this in their latest media release where they state: “The choices currently available to growers allow them to determine more than 95% of the gross price of their sugar exposure independently of the miller”. The final sugar price is determined by more than just the ICE11 price and these factors can influence the final sugar price significantly. These other marketing costs and revenues, as well as the influence marketing decisions have on tonnages priced against each of the ICE11 pricing positions, have a large impact on final sugar prices.

Marketing costs and revenues attribute to final returns

If we solely look at the non-ICE11 components of the sugar price, there are some significant revenue and cost items here, as shown in the chart below (taken from our 2012/13 annual report).

Most of these costs and revenues will be significantly influenced by the marketer and the decisions that are made around the marketing program. If we add up these costs and revenues that are in addition to the ICE 11 price, whilst they do typically largely cancel each other out, there are some very significant sums involved. Our competitiveness as an industry operating in an export-oriented commodity market is significantly influenced by how well these non-ICE11 costs and revenues are managed.

These non-ICE11 revenues and costs are significant and need to be closely managed by the marketer. There is even more to consider though when thinking about the influence on the final sugar price of the ICE11.
Note:
- The Net physical premium is net of freight costs.
- The other costs relate to additional transportation that needed to be undertaken due to silt build-up at Bundaberg Port from the January 2013 floods.
- Indirect selling is the QSL quality scheme.
Marketing program and storage capacity influence ICE11 pricing positions

Marketing decisions and available storage capacity determine the tonnage allocated to each ICE11 pricing position. In other words, the marketer needs to make sure sales are being made against the ICE11 positions that when combined with other costs and revenues give the highest sugar overall price.

As I write this article today, the difference in prices between the different ICE11 positions for the 2014 season are very significant – USD37/tonne in the case of Oct/March and USD41/tonne in the case of Oct/May. It is obvious from these figures that if too much sugar is sold against the October position, a very significant opportunity cost could be incurred. This opportunity cost will not be reported in any financial accounts but is a very real cost of not managing the sales program well or optimising storage capacities.

In summary, I see the debate about sugar marketing arrangements being much larger than just five percent of the sugar price. Sugar marketing decisions have a much larger influence over the sugar price through management of the non-ICE11 costs and revenues and the tonnages priced against each of the ICE11 positions. This marketing debate is also about what future we want for our industry and whether growers should be given a choice over how grower economic interest sugar is marketed, especially as growers’ cane payments are linked to sugar prices.

**Re-roofing project nearing completion at Lucinda Bulk Sugar Terminal**

Work to replace the roofs of two sugar sheds at the Lucinda Bulk Sugar Terminal is nearing completion, with the project on track to wrap up ahead of schedule.

The re-roofing project began at Lucinda in April this year and is part of a pro-active program to remove aging roofing material from the raw sugar sheds. Re-roofing of Shed 1 has finished and contractors are scheduled to finish Shed 2 by early September, weather permitting. Overall 19,700 square metres of steel sheeting will been replaced at the Lucinda site.
**Market Update**

Matthew Page, Treasury Analyst  
Current as of 28 July 2014

**Sugar**

The past fortnight could be best described as dull in the raw sugar market. Following the collapse of the previous fortnight, prices have consolidated and all contracts have traded within very narrow ranges to close the period about where it started.

The October14 contract traded in a 52 point range (17.43 – 16.91) and settled at 17.14, five points lower than the beginning of the period. The second position March contract traded over a similar range and closed the period exactly where it began it at 18.77 c/lb.

UNICA numbers continue to show production in CS Brazil tracking ahead of last year with more cane going to sugar, but this has had little effect on prices with the majority of the
market now accepting a short tail to the crush as inevitable and expect total sugar production to be about 2 million tonnes down on 2013.

Despite production worries in Brazil, the short-term bearish sentiment is certainly dominating the current market structure as the spreads continue to shift the physical surplus down the board. The Commitment-of-Traders Report released on Friday shows the specs in an overall net-short position of 12,500 contracts; this in stark contrast to a month ago when they sat at 120,000 net long.

With the physical surplus still in tow, we anticipate that the move higher in sugar prices will still occur but not likely until early next year once the decline in Brazilian production feeds into the supply chain. For now, we expect to see prices range bound.

Currency

The Australian dollar continues to remain relatively stable with trading mostly range bound between 93.5 and 94.5 US cents. Risk appetite has been somewhat muted over the fortnight with geopolitical tension high following the tragic downing of MH17 in Eastern Ukraine and ongoing conflict in Israel.

Data out of the US continues to paint a picture of steady recovery however, the Australian dollar remains well backed with our own positive data and attractive yields providing ongoing support at current levels.

Although still at uncomfortable levels for Australian exporters, we expect to see the Australian dollar come off later this year. The quantitative easing program in the US will likely wind-up before the end of 2014 and the commentary is signalling hikes in US rates in the not too distant future.

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.