Market Update

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Market Commentary

Sugar

The slide continued this fortnight, with the prompt month making a succession of lifetime lows during the period and eventually settling on Friday at the bottom of the range, 64 points lower at 15 c/lb. The market also saw further weakening in the Oct/Mar spread (-36 points to a spread of -223) with the issue of surplus Thai raws seemingly still unresolved as we move into the expiry period.

UNICA figures released in the first week did prompt a brief two-day rally, with UNICA finally amending its full-year estimates to something more in line with the rest of the market; 545.9 million tonnes of cane crushed to produce 31.35 million tonnes of raw sugar (down from 580 million tonnes and 32.5 million tonnes respectively). This, however, provided only brief respite in what was an otherwise very bearish fortnight. Whether the damage done to the cane will adversely affect next year's crop remains to be seen, but if the dry weather continues and the November/March rains are poor again then we will undoubtedly see significant market movement.

Further bullish news comes in the form of the ethanol parity price which now stands at the 18 cent level, a full 300 points over October futures and about 220 points over Brazilian vhp fobs. This will likely be reflected in a lower sugar mix number in this week's UNICA numbers.

Regardless of the amount of bullish news that continues to emanate from Brazil, the market remains obsessed with the October expiry and the associated Thai surplus. With this in mind we anticipate some further volatility with prices trending at the lower end of the range as we approach the October expiry, but maintain our view of stronger prices later in the season.

Currency

Currency markets have seen a little more life over the past fortnight than the previous month or so, with the Australian dollar ranging over 100 points during the period. Despite this, we still ended the period 72 points higher at 0.9375, continuing the frustration for Australian exporters.

The majority of data out of the US has been positive, providing the USD index impetus to move above 83.00 for the first time since July last year and the Greenback to strengthen against most major currencies. On the face of it we would expect to see the Aussie depreciating, however our own strong data and a strengthened risk appetite following a ceasefire in the Ukraine has provided the currency with a robust support base.

We still anticipate that the Australian dollar will come off slightly later this year but it is likely any significant move lower will be delayed until early 2015 as the US recovery takes its time to gather momentum. Commentary from the Fed suggests Yellen is happy with the current balanced rate of recovery but maintains that they are ready to intervene if necessary. Market chatter continues to escalate regarding US rate hikes as we move into 2015 with medium to longer-term forecasts remaining bullish for the USD.