QSL Update week ending 26.9.14

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There is more to sugar marketing that just the ICE 11

In previous weekly updates, QSL CEO Greg Beashel outlined the many considerations beyond the ICE 11 price which need to be considered when undertaking sugar marketing. This week we complete this series by taking a look at the importance of premiums and how QSL works to maximise the value of these for its members.

Some may try to downplay the importance of premiums by dismissing them as insubstantial in relation to the returns derived from the ICE 11. But during times of low ICE 11 prices, such as those currently being experienced, extracting as much value as possible through premiums is essential. This is because premiums represent a larger contribution to the overall pool results and can ultimately mean the difference between growers covering costs or making a profit. For example, in 2013 QSL's premiums generated more than $90 million in revenue which flowed back to our members through the Shared Pool.

Beyond the returns themselves, premium negotiations can also provide additional latitude for QSL to optimise shipping and sales, allowing us to maximise pricing opportunities against the ICE 11 over a longer period of time.

So just what's involved with premiums and how do we use them to extract additional value for our members?

The physical premium element of an invoice is determined on a contract-by-contract basis by direct negotiation with the customer as well as current market forces. The premium reflects:

- Freight costs;
- The regional premium (also known as the Far East Premium);
- Shipping flexibility; and
- The quality attributes (other than polarisation) of any alternative raw sugar available within a shipping period.

<u>Freight costs and the regional premium</u>

Raw sugar refiners look to purchase on the basis of the most competitive cost + freight (CFR) or cost + insurance + freight (CIF) delivered price for sugar. This value is largely determined by the location of the next-best alternative raw sugar for the customer and the cost of freight. QSL is able to achieve attractive freight rates by coordinating our freight and logistics activities. Our proximity to Asia makes us particularly well-placed to sell into this market. Asian sugar consumption often exceeds local supply, making it an attractive market to many producers, but those outside the region pay a higher freight cost to deliver their product to potential Asian customers. By understanding our competitors' freight costs, QSL can leverage this difference between our competitors' freight costs and our own to secure a physical premium above our cost of freight.

As a result, suppliers of raw sugar from Thailand and Queensland should be able to earn at least their respective Brazilian freight differentials, as if a buyer does not buy Queensland or Thai raw sugar, they will need to buy Brazilian raw sugar which has much higher freight costs.

Shipping flexibility

The FOB premium reflects other factors in addition to the freight rate differentials, including vessel loading times. Traders may pay a premium to get a vessel loaded quickly or will require a discount if significant delays can be expected. QSL's record of over 96 percent of our shipments delivered in full and on time is unsurpassed in the global market and makes our value proposition hard to beat. As a result, Brazilian raw sugar often trades at a discount to the ICE 11 price in order to be attractive to Asian customers.

Differences in raw sugar quality

Physical premiums are a reflection of varying quality grades of raw sugar traded around the world. The deliverable quality as per the Intercontinental Exchange is 96 degrees polarisation. QSL typically sells 98.8 polarisation sugar which enables the extraction of a polarisation premium in acknowledgement of this superior quality. Other quality premiums traditionally secured by QSL acknowledge desired levels of filtrability, colour, starch and dextran.

As outlined above, premiums reflect a multitude of factors, all of which much be negotiated on a sale-by-sale basis. QSL remains focused on achieving the highest possible physical premiums for its members through a combination of long-term contracts as well as spot sales. Our strong relationships with high-quality customers, developed over decades of experience in the raw sugar global marketplace, are invaluable as we work to secure the best possible returns for our members.

2014 Annual General Meeting

QSL's Annual General Meeting (AGM) will be held at 2pm on Monday 20 October at the Christie Conference Centre, 320 Adelaide Street, Brisbane. All QSL members are invited to attend. QSL's 2013/2014 Annual Report is available from our website - www.qsl.com.au. Hard copies will also be available at your local bargaining agent's office.

2014 QSL Pool Performance

All prices quoted below are indicative only and do not include an allocation from the QSL Shared Pool. Growers should always consult their mill for information about their individual cane payments.

QSL Pool - as at 12 September 2014	Gross $A per mt IPS
QSL Harvest Pool	$402
QSL Discretionary Pool	$419
QSL Actively Managed Pool	$425
QSL Guaranteed Floor Pool	$425
QSL Growth Pool	$425
QSL Forward Season Pool (2014)	$418
QSL US Quota Pool	$586

Market Update

Matthew Page, QSL Treasury Analyst
Current as of 22 September 2014

Market Commentary

Sugar

A thoroughly dismal fortnight in sugar, with the downward momentum gathering speed and the prompt month falling to levels not seen since July 2010. Apart from a brief reprieve on Wednesday last week, every settlement in the OCT14 contract has been in the red and has seen the position give up 150 points over the period (15.00–13.50) and make multiple new lifetime lows.

Spreads blew out as OCT14 initially headed south at a much faster rate than the other contracts, particularly during the official index roll period, the OCT/MAR going as low as -264 points. This slowed once the roll period came to an end and now the spread has pared back a little as the rest of the board begins to come under the same pressure the prompt month has faced, making their own series of life-of-contract lows.

UNICA figures released in the first week show the Brazil crush advancing well, with dry weather aiding harvest conditions. At the moment the market remains focused on the short-term implications of this; simply adding to the glut of sugar yet to find homes, while largely ignoring the longer-term picture around the total season forecast of 32 million tons of sugar.

We are now just over a week away from the October expiry and as expected, so far, it has not been pretty. Aside from being heavily oversold, the technical picture is very poor and apart from market chatter of some Chinese off-take of some Thai raws on Wednesday, the short-term fundamentals also remain distinctly bearish. The next week could be long and volatile and many market participants will be happy to see the back of OCT14 when it rolls off the board.

Currency

On the flipside, the fortnight has been very positive for Australian exporters from a currency perspective, with the Aussie dollar finally bowing to strength in the US dollar and moving lower from the stubborn levels it has maintained for the past five months.

US data continues to go from strength to strength, providing the USD index impetus to move above 84.00 cents and the Greenback to strengthen against most major currencies. Commentary following last Thursday's FOMC meeting remains unchanged but the market has turned its focus to the rate forecast 'dot plot', further fuelling bullish momentum.

Despite initial resistance earlier this month, the Aussie has finally fallen in line amid a backdrop of crumbling iron ore prices, now at five-year lows. The exchange rate has fallen by over 4.5 cents since the 0.9402 high a fortnight ago and the momentum has all been downhill but for a brief pause following a quite unbelievable local employment release last Tuesday.

We anticipate that the A$ will likely consolidate around this level now following its significant correction and any further moves lower will likely wait until clearer direction over the timing of Fed rate rises materialises.