QSL Update week ending 5.9.14

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Is there more to sugar marketing than pricing the ICE 11?
By Greg Beashel, QSL CEO

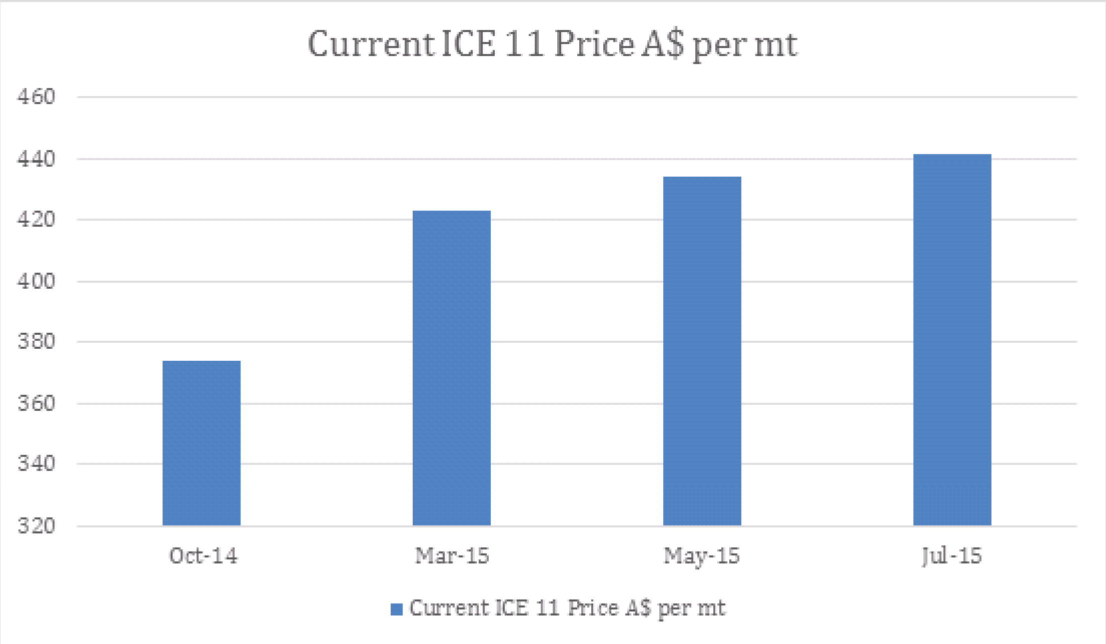
There is a lot more that needs to be considered when looking at sugar marketing than simply the ICE11 component of the sugar price. The proposition that growers have some control over how grower economic interest sugar is priced on the ICE11 and therefore do not need to be concerned about marketing arrangements is incorrect as it ignores:

- That the ICE11 price depends on which futures position that sales and pricing are being contracted against. It is the job of the marketer to optimise this and sell and hedge in the shipment periods that deliver the best return.

- That there are a number of significant factors other than the ICE11 price that can influence sugar prices that are directly related to how the marketing program is structured and managed.

The following discussion explains these points further.

Why can't I just do my pricing against the highest ICE11 contract?
The chart below shows the current prices of the remaining futures contracts that will be used to hedge the 2014 season crop.



The price differences between the positions are significant and one key aspect of maximising price is to consider futures market prices for each futures position. Marketing is not just a matter of finding the highest-priced futures contract to use for price hedging and making sales against that position. There are many other considerations when determining which ICE11 position to make sales against for sugar prices to be optimized, such as:

- Physical constraints including storage availability. About half of Australia's export raw sugar needs to be sold in season to allow room for the rest of the crop to be stored.
- The different supply, demand and freight dynamics at play in each shipment period that influence the premium above the futures market
- Carrying costs, such as financing – if sugar is sold later it needs to be stored and financed for longer
- Fitting in with when customers want sugar
- Allowing flexibility in the sales program to manage crop changes and market movements.

What are the other revenues and costs other than the ICE11?
There are some very significant costs and revenues to be managed other than the ICE11 sugar price. Two of the key non-ICE11 revenues and costs are premiums and freight. I would like to spend some time in future articles explaining why these items are important and need to be closely managed.

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 29 August 2014	Gross $A per mt IPS
QSL Harvest Pool	$408
QSL Discretionary Pool	$421
QSL Actively Managed Pool	$427
QSL Guaranteed Floor Pool	$425
QSL Growth Pool	$426
QSL Forward Season Pool (2014)	$419
QSL US Quota Pool	$578

Market Update
By Stephen Stone, QSL Treasurer
Current as of 1 September 2014

Sugar

Prices in the world sugar market continue to weaken. The time taken for demand to slowly shift the current sugar surplus appears to have been pushed further down the calendar yet again. High levels of sugar inventory continue to exacerbate the problem.

The OCT14 contract recently traded to contract lows of 15.40c/lb. Analysts suggest more weakness is likely as we approach the October expiry, with plenty of last season's Thai sugar and unsold Central Americans looking for homes. Whether prices fall far enough to invigorate consumer demand or futures spreads simply encourage more storage of current supplies remains to be seen.

Disappointingly, the chance of a weak finish to the Brazilian crush and lingering chances of an El Nino weather event have been unable to inspire any support to weaker prices. Even some resolution to the US-Mexican sugar dispute appears unlikely to feed into world supply changes until next season.

So, as always I pose the question, where to from here? Indications for a tighter sugar market balance remain in play, however now seem unlikely to feed into higher sugar prices until well into the 2015 calendar year.

Currency

The Australian dollar continues to trade in relatively quiet and well-worn ranges. Support from foreign bond buyers and large exporters provide support as we approach the US 92 cent level, whilst large equity portfolio managers have been seen consistently selling as we approach US 95 cents. Not surprisingly, the Reserve Bank has also been far more vocal in the comments regarding currency strength on any market moves above US 94 cents recently.

Against a generally-stronger US dollar, the Australian dollar continues to outperform. This clearly frustrates the export community in an environment where domestic economic data has been anything but consistent.

Ahead, we see more of the same on the currency front. Relief from an extended period of strength remains on the radar, however unlikely to materialise in a sustained way until the 2015 calendar year.