QSL Market Update

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Market Commentary

Sugar

The past fortnight has seen the raw sugar market range-bound. Despite a couple of brief dips below early last week, the prompt price has traded in a relatively stable 16 to 17 cent range. MAR15 closed the period 58 points lower at 16.04 c/lb while MAY15 also moved over a similar range leaving the MAR/MAY spread pretty much unchanged.

The market lows occurred on Monday following the news out of Brazil that Dilma Rouseff had won the presidential race. With the result being perceived as the less business-friendly outcome, both the Real and raw sugar weakened markedly, however Dilma managed to calm the bearish sentiment with a series of public speeches stating that she had learnt her lessons in her first term and would support business strongly. This saw markets back to their pre-election levels by Wednesday although general US dollar strength saw some further weakness in the Real on Friday translating to a disappointing end to the week in sugar.

UNICA crushing figures for the first half of October surprised slightly on the upside with 39.3 million tonnes processed over the period compared to 28.8 million tonnes for second half of September, although this is mainly due to the wetter weather slowing progress in late September. Year to date figures actually show the crush slightly ahead of 2013-14, however analysts point out that most mills will be finished within the next couple of weeks as oppose to crushing all the way into December like last year and this should filter through to lower numbers in the next report.

Speculation around what policy the Brazilian government may undertake in relation to the ethanol industry remains centred on an increase in the domestic gasoline price, however this is likely to be marginal with oil prices currently at their lowest levels since 2012. As such, sugar appears to have found, at least in the short term, a fairly stable trading range, with prices seemingly comfortable between 15 and 17 cents and little to support a movement beyond these bounds.

Currency

The Aussie Dollar was reasonably stable during week one trading comfortably between 87.5 and 88.2 cents, but began grinding higher early last week ahead of the Fed FOMC meeting, peaking at 89 cents. However, the Fed announcement of an immediate end to quantitative easing and a somewhat more hawkish commentary around rate rises saw the local unit immediately pared back by 100 points as the USD rallied across all majors.

The rest of the week saw the Aussie chop sideways before a combination of weak Chinese and Japanese data and strong US data saw the AUD pull back to our current 0.8740 level.

The data and commentary out of the US certainly appears to be gathering momentum at an increasing rate but until a more definitive timeframe around any Fed rate rises becomes apparent we expect to see the currency in a fairly stable holding pattern between 86 and 89 cents.