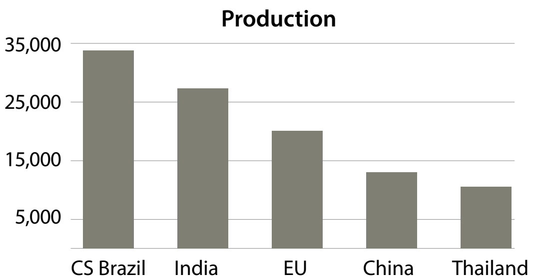
WORLD SUGAR MARKET

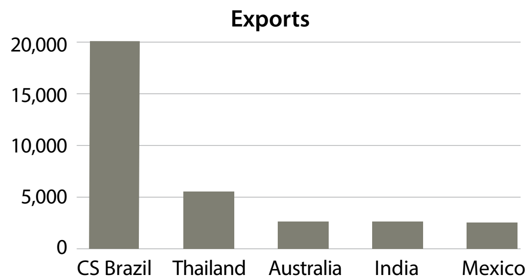
Sugar is a globally traded commodity. World sugar production is around 180 million tonnes annually and is either produced from cane or beet. Total world exports (the traded market) are around 50 million tonnes as most sugar is consumed in the country of origin.

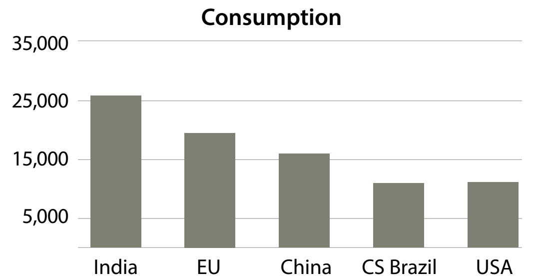
The market is comprised of two key segments – white (or refined) sugar and raw sugar. Approximately 30% of the traded market is white sugar.

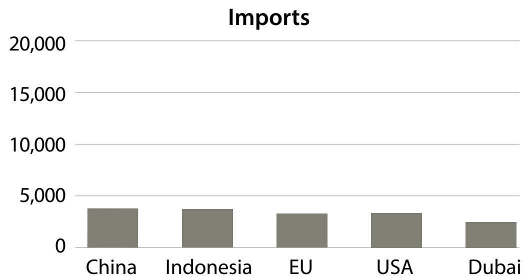
The traded market makes up only approximately 30% of total global production, so it is often referred to as being "residual" in nature. As the traded market is the residual market after domestic consumption is satisfied, the effect of global supply fluctuations is amplified when viewed in the context of the quantities of sugar available in the traded market. This feature of the sugar market helps explain the significant sugar price volatility which we sometimes observe.

The global sugar market is quite heavily concentrated in that there are only a few major producers and exporters. Exports are dominated by Brazil and Thailand. The two largest importers are China and Indonesia, both part of a regional import market in Asia which is in deficit (more sugar is consumed than produced) and where consumption continues to grow strongly. Australia has a geographic advantage into Asia which enables it to obtain a premium price relative to, for example, Brazil, the world's largest exporter.



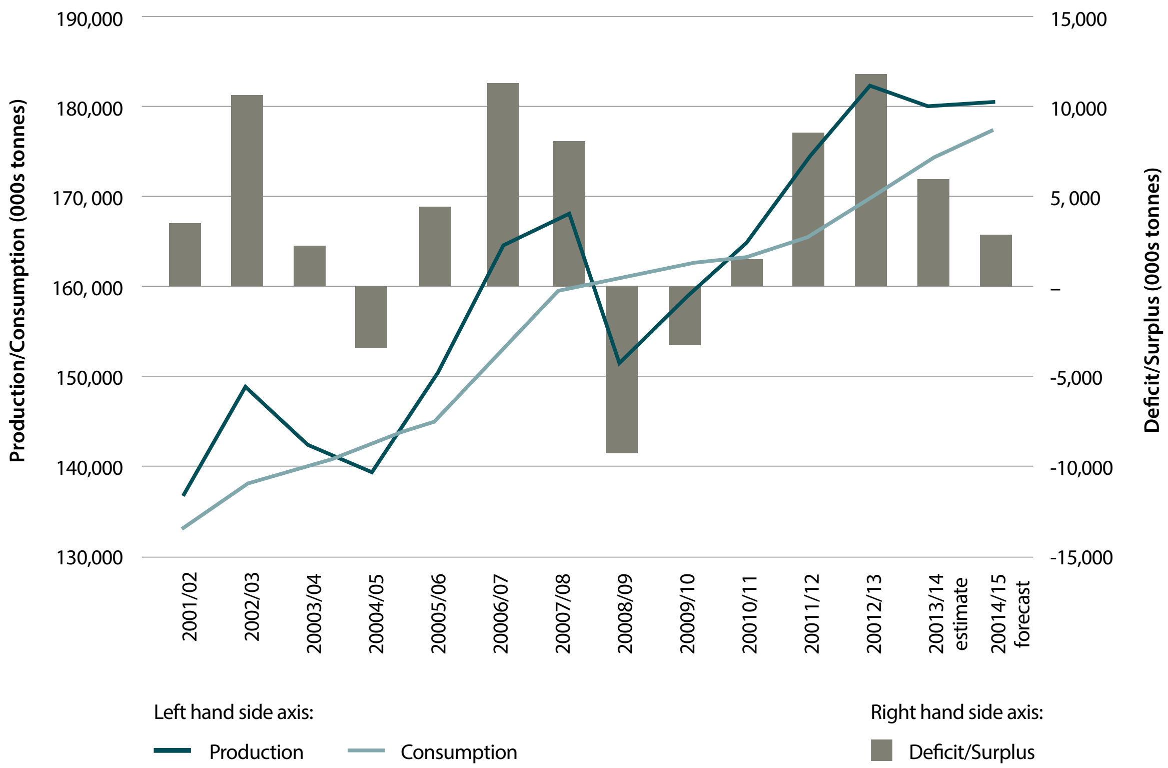






Please note a simple calculation of production minus consumption minus exports plus imports will not yield a net zero balance. This is due to changing stock levels between years, sugar losses experienced in storage and transport within the supply chain and undisclosed trade in sugar.

Source: Wilmar Sugar Trading data for the 2013/14 year, as at January 2015 (thousand tonnes).



Source: Wilmar Sugar Trading, 2015.

The world sugar price is affected by actual global sugar production versus consumption from year to year, but also the statistical forecasts for future years. In particular, analysis as to whether the global sugar market is expected to be in surplus or deficit has a distinct bearing on market sentiment and price levels.

Global consumption is rising by between 1% and 2% per annum due to population growth and per capita consumption growth. Per capita consumption of sugar is closely related to annual incomes, particularly in developing countries where incomes are steadily rising.

Global production is much more volatile than global consumption and is heavily affected by weather and price. Long periods of supply deficit (when consumption exceeds production) cause world stocks to decline and prices to strengthen. When this situation prevails it causes a production response, albeit delayed because of the time required to plant cane and bring it into production. It leads to higher global sugar production and, ultimately, to the world market moving into a surplus situation with a resulting price decline. Of course, once cane is planted there is a lag of several years before cane production will be reduced as a reaction to lower prices.

The sugar market discussion has so far explained the physical sugar market.

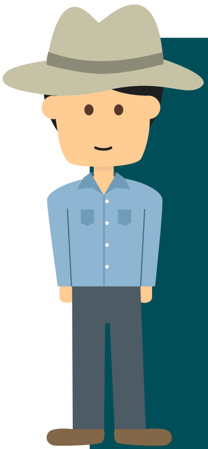
There is another market called the futures market where sugar producers, refiners, food and beverage manufacturers, and speculators can buy and sell the commodity on a financial exchange, for the purposes of hedging or speculating on sugar price.

The Intercontinental Exchange No.11 contract (ICE#11) is a futures contract allowing for the physical delivery of raw cane sugar, and is the benchmark and basis for the price risk management and physical trading of raw sugar around the world. However, the ICE#11 can also be used by parties who might not necessarily intend to physically trade sugar, i.e. speculators.

The existence of the raw sugar futures market provides a transparent way to assess how all the players in the world market judge the value of raw sugar today, as well as up to three years forward. The raw sugar futures market therefore provides a "price discovery" mechanism for all those who wish to participate in the market. The raw sugar futures market is particularly useful for Australian cane farmers as it provides a method for them to lock in the ICE#11 component of the sugar price on which their cane price is determined, for up to three seasons in advance.

For more information on how the ICE#11 contributes to net sugar price, please see Price Management Fact Sheet number 3, available via www.wilmarsugarmills.com

Our two growers, Tony and Mick have begun to take a closer interest in the many sugar market reports so they can understand the trends in price.



MICK AND TONY*

MICK continually monitors trade statistics, and has recently read an article that considers the outlook for next year's world sugar prices. The article speculates that while global consumption is rising, production is rising faster and so exports of sugar are forecast to increase significantly. Mick knows that because the traded sugar market is residual, increased production levels will potentially have a significant impact on the quantity of sugar available in the traded market. This is likely to have an impact on sugar prices.

Mick considers that if production increases, he could expect world sugar prices to decline next year.

He is also conscious that the prices currently available do provide an acceptable margin above his cost of cane production.

Bearing both those and other factors in mind, he decides to accelerate his price hedging.

TONY is aware shocks to supply can have unexpected consequences on the sugar markets, and has been reading some speculation that suggests there will be a drought next year in the Centre/South of Brazil, the predominant sugar production region in Brazil. Tony knows that
Brazil is the world's largest exporter of sugar, and a reduction in its exports would have an impact on world sugar prices.

Furthermore, current prices barely provide an acceptable profit for Tony's cane farming operation, so he is reluctant to lock-in prices just at the moment.

As a result of production considerations and this information, he decides to hold off on pricing for next year, expecting the price to increase.

*Hypothetical case studies, not based on any individual farm or cane grower.

Being able to understand the various pooling and pricing alternatives to manage raw sugar price risk is very important for Queensland cane growers. Further information on pooling and pricing alternatives will be provided in later editions of the Price Management Factsheet series available on the Wilmar Sugar Mills website.

We will provide more information on the futures market in our next Fact Sheet.

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