

*The world sugar market
and COVID-19,
Status & Perspectives*

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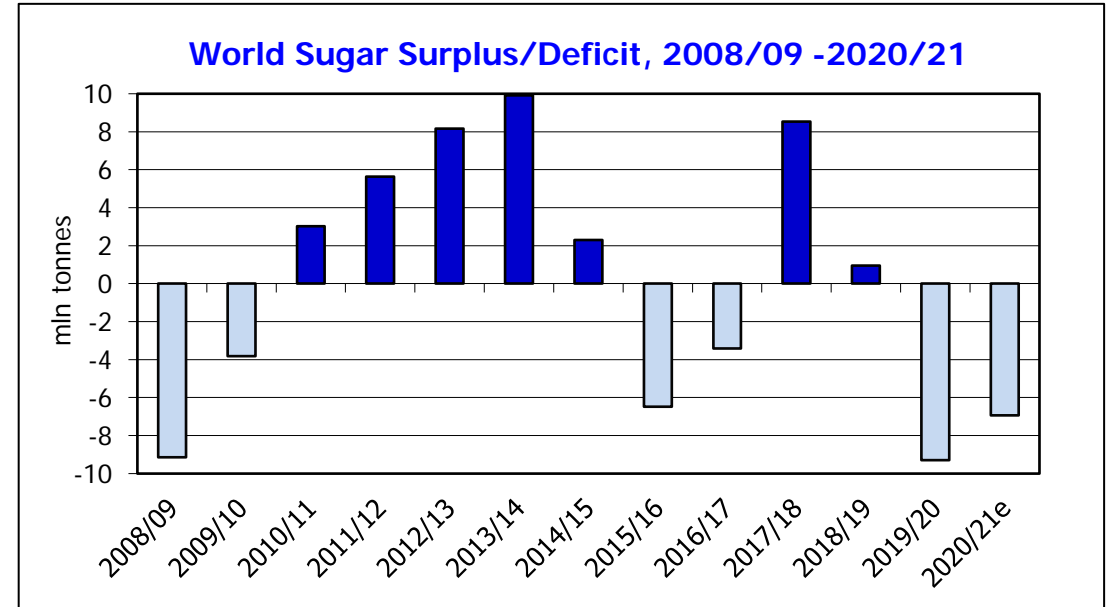
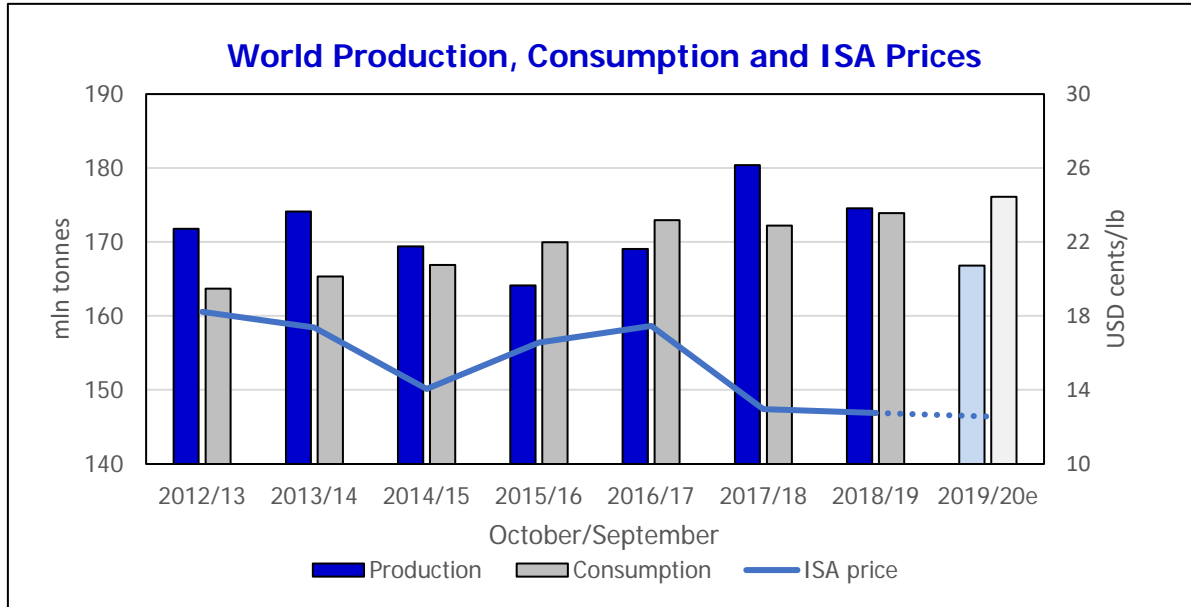
ISO Summer Series

Agenda

- 1 Sugar Market Status*
- 2 Covid-19 Impact*
- 3 ISO Outlook Perspective*
- 4 Conclusion / Q&A*



Production and Consumption



Sugar Production



- Sugarcane harvesting employs many people
 - Sugarcane logistics employs many people
 - Sugarcane mills employ many people
 - Sugarbeet cultivation is less labour-reliant
-
- Industry requires reliable and resilient infrastructure
 - Mills and factories require regular maintenance and external support

Sugar Consumption - Lockdown



Not eating out

- Beverages
- Desserts
- Pastries and Coffee



Eating in

- Baking
- Biscuits
- Boredom !



Sugar Consumption - Lockdown

\$ in millions

Quarter 1

- Latin America
- Asia, Middle E
- Europe
- North America
- Mondelēz Int

Reported Net Revenues	
Q1 2020	% Chg vs PY
\$ 726	(9.3) %

The company's unit case volume growth through the end of February was 3%, excluding China. For the quarter, however, unit case volume declined 1%, as solid growth in North America was more than offset by a decline in Asia Pacific due to the impact from the coronavirus. Category cluster performance was as follows:

- Sparkling soft drinks declined 2% in the quarter led by a decline in Asia Pacific, primarily due to China. For the quarter, trademark Coca-Cola grew 1%, led by strong performance for Coca-Cola® Zero Sugar.
- Juice, dairy and plant-based beverages were down 6%, as solid performance in the North American portfolio and Chi® in West Africa was more than offset by a decline in Minute Maid Pulpy® in China.

Gross profit decreased \$142 million and margin declined 320 basis points to 36.5 percent, due to mark-to-market losses from derivatives. Adjusted Gross Profit¹ increased \$151 million at constant currency while Adjusted Growth Profit margin decreased 20 basis points to 39.6 percent primarily due to higher raw material costs in part due to unfavorable currency movements, and disruption caused by COVID-19.

Operating income decreased \$180 million and margin was 12.8 percent, down 300 basis points primarily driven by higher raw material costs in part due to unfavorable currency movements, and disruption caused by COVID-19.

	Total Group							
Sales 3M-2020 (CHF m)	20 812							
Sales 3M-2019 (CHF m)	22 183	3 350	1 079	3 124	3 055	2 920	1 050	3 223
RIG	4.7%	3.8%	1.9%	2.0%	2.8%	7.9%	-2.3%	13.3%
Pricing	-0.4%	0.1%	-3.3%	0.1%	0.1%	-0.8%	-1.9%	0.6%
Organic growth	4.3%	3.9%	-1.4%	2.1%	2.9%	7.1%	-4.2%	13.9%

decline, reflecting reduced gifting and impulse buying.

Sales channels: All markets saw a significant shift from out-of-home to in-home consumption. Out-of-home channels posted negative growth, with significant sales declines for Nestlé Professional, water and Nespresso boutiques. E-commerce sales grew by 29.4%, exceeding 10% of total Group sales for the first time.

Sugar Consumption - Lockdown

ISO methodology to estimating lockdown impact on sugar consumption

- 1 Source lockdown dates – ranging from 4 to 106 days
- 2 Source national consumption figures
- 3 Estimate percentage of consumption foregone due to restrictions – this is regional as consumption profiles and product mixes vary
- 4 Calculate national statistics and aggregate
- 5 Current impact total stands at 2.3 mln tonnes (up from 2.1 mln tonnes up to May).
- 6 Obvious challenges – post-lockdown behaviour, countries with partial lockdown (incl China), variances in consumption due to pipeline stocks

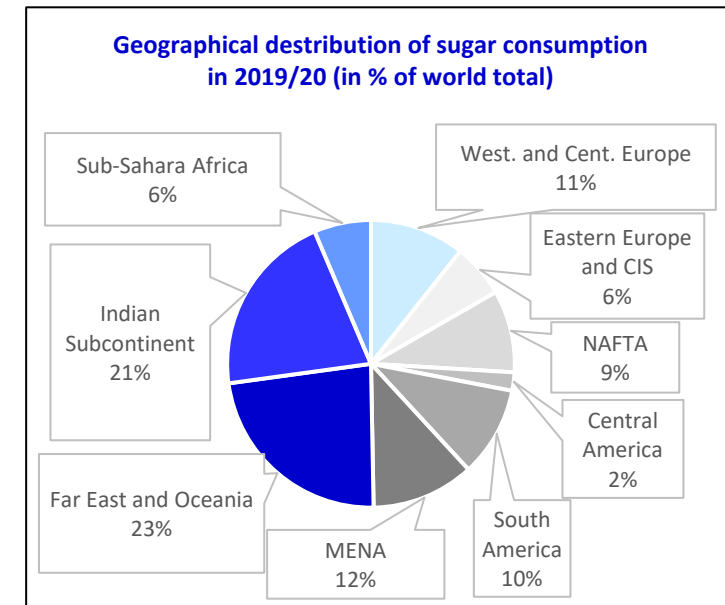
Points of Interest

Sugar Production trends

- Chinese sugar production was impacted by lockdown
- Brazil harvest is running at record pace – labour impact, ethanol impact?
- Indian cane planting programme to commence during monsoon; locust damage?

Sugar Consumption trends

- Regional variation will be large
- Direct Vs Processed Product
- Affordability and accessibility
- Applications other than food



Sugar Consumption – Long Term

While the human health dimension is no doubt hugely important, the concerns we're flagging and the work we're aiming to do will be critical to getting through to the other side without additional and unnecessary human tragedy. Keep in mind that we have 135 million people in acute food insecurity, this means that these people are extremely vulnerable and that one more shock can push them closer to famine.

*In this interview, Dominique Burgeon, Director of
FAO's Emergency and Resilience Division*

The choice:

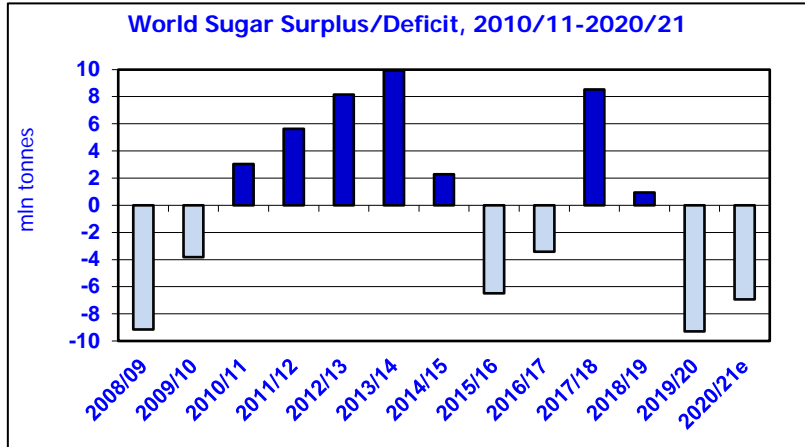
- Elderly deaths
- Poverty trap

Altered paradigm:

- Link to changes in GDP is tenuous
- New consumption patterns unlikely
- JIT to JIC

Finding the middle road

Sugar Balance



Current scenario:

- 9.3 mln tonne deficit in 2019/20
- Noting that 2.1 mln tonnes of consumption has been lost – but not included in chart
- 6.9 mln tonne deficit in 2020/21

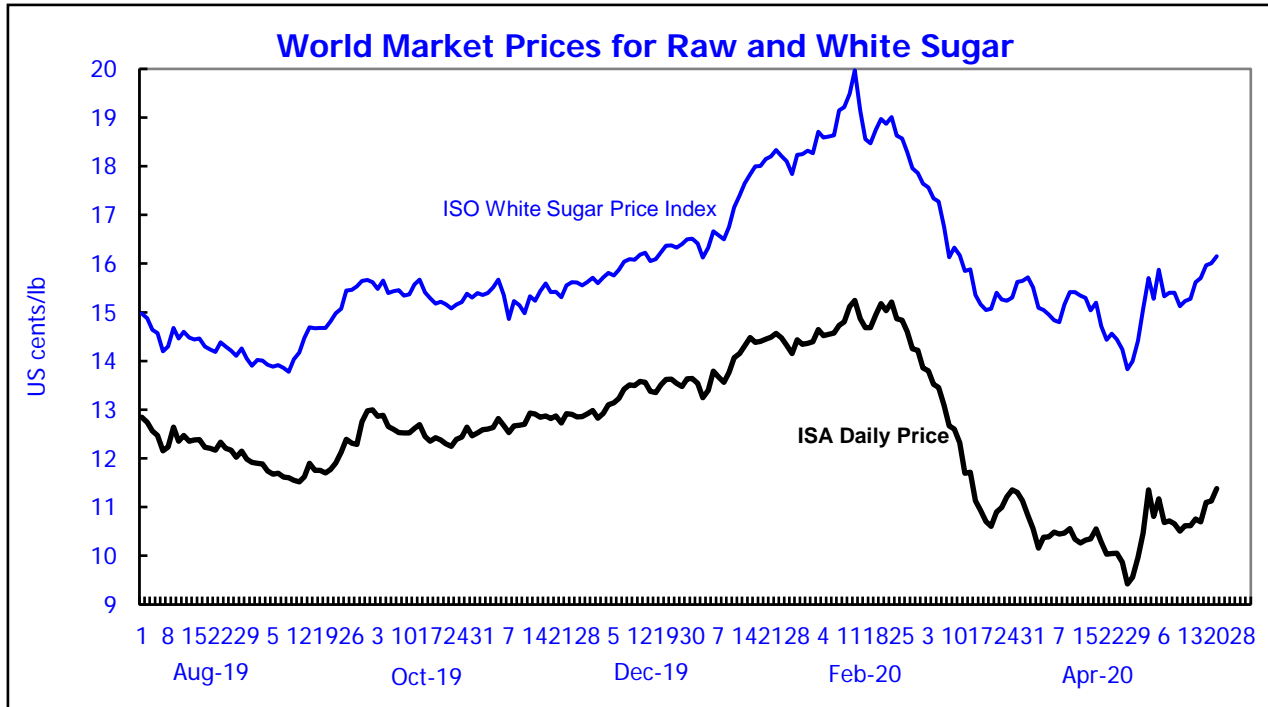
Possible outcomes:

- Consumption in 2019/20 falls by 2.1 mln tonnes to 174 mln tonnes, stocks rise by the same amount
- Stock to use ratio rises by 1.78 to 49.6 due to compounding
- Could make further allowances for wealth effect on consumption patterns in Far East, South Asia and sub-Saharan Africa

But

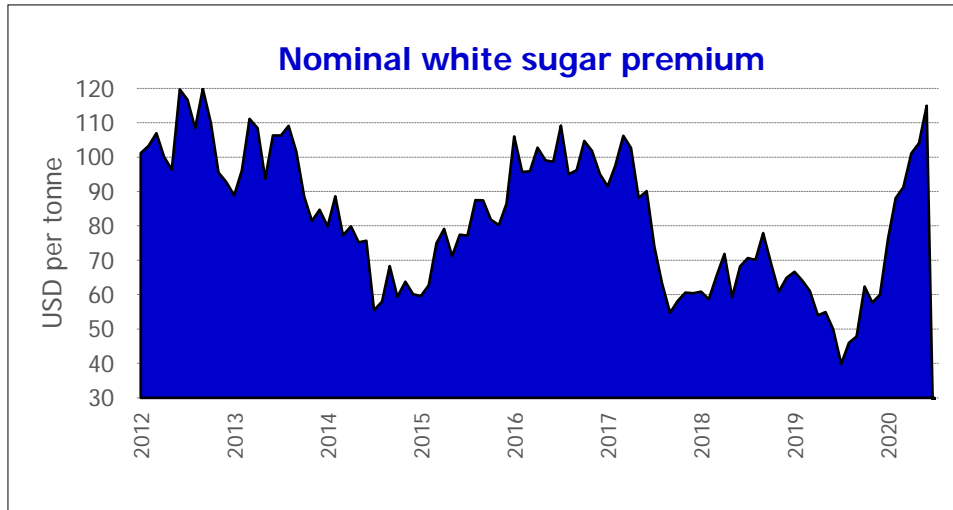
- CS Brazil production is a bigger influence
- Attitude to stock has changed
- Consumption returns to trend after Covid-19

Covid-19 Impact - Prices



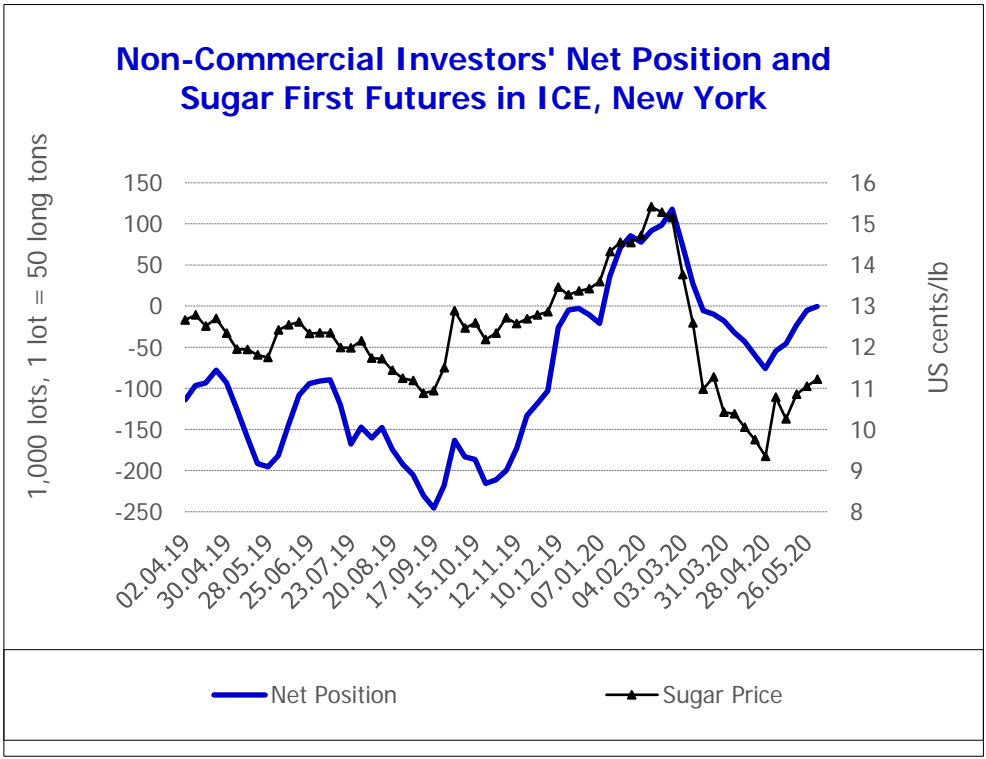
- Raws down 38.2% between Feb 12th and Apr 27th, whites down 30.7% over same period, range changed from 14 to 11c (down 21.5%)
- Corn price range fell from \$3.8 to \$3.2 (down 15%)
- Oil halved (\$60 to \$30) but has recovered to above \$40/barrel
- Regional premia for sugar are up
 - Raw sugar almost entirely supplied by Brazil
 - White sugar market has a range of origins as well as refiners

Covid-19 Impact - Prices



- Destination refineries, including those in Dubai, India and Algeria, see strong white sugar premium
- Against low raw sugar and freight prices
- Temporary feature as Brazil raws reach refineries
- Food security concerns / Higher domestic prices have triggered expanded government buying programmes
- Buyers include Egypt, Saudi Arabia and Indonesia

Covid-19 – Speculative Positions



Fund Activity in the Sugar Market

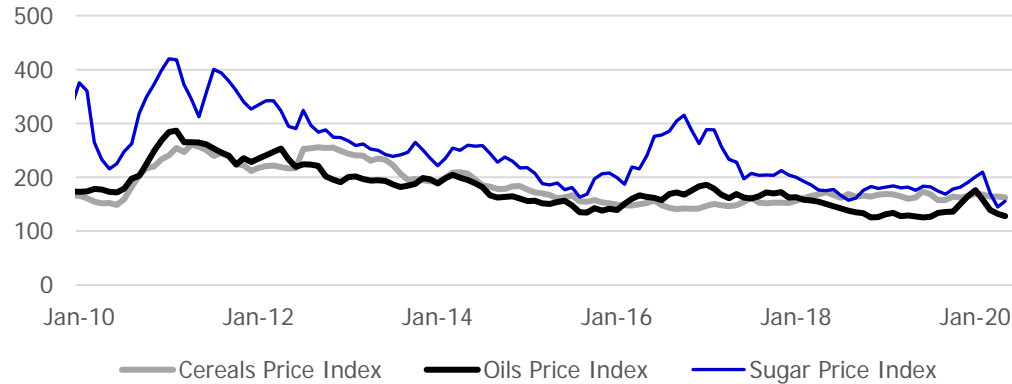


May 2020

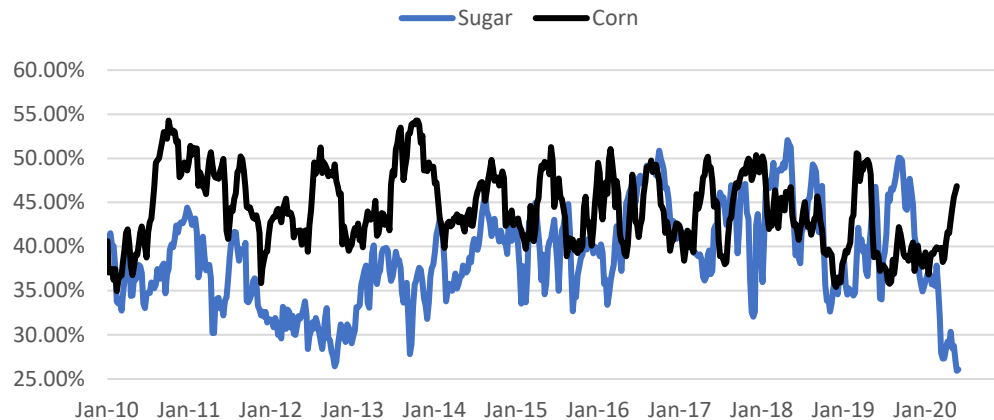
MECAS (20)06

Global Markets and Speculation

FAO price index



Large Speculator Share of OI (max long / short)



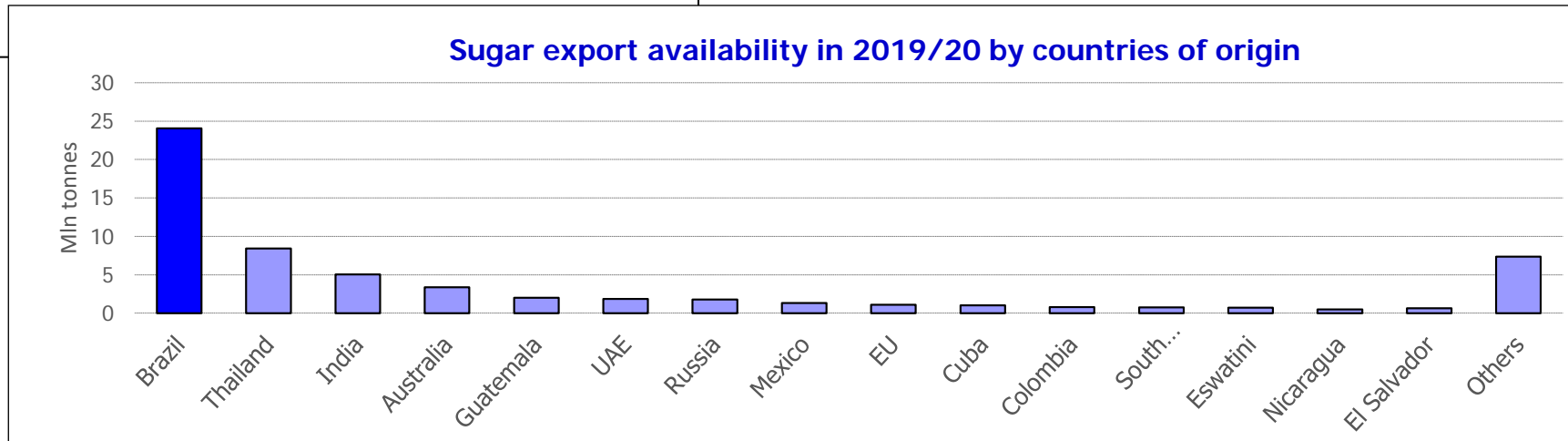
- FAO commodity index shows modest weakening in prices, while the sugar index (based on ISA price) rose in May
- In sugar, the participation of large speculators is at a 10 year low
- But for corn, speculators hold a large short
- Most other commodities are near the low of the historic range – low involvement
- What's the logic ?

Covid-19 Impact - Exports



World Market Exports

- The magic of the balance
- The preference for regional trade
- Brazil dominance is almost total
- Matching products and packaging



Points of Interest

Export Challengers

- Matching quality requirements
- Mill to Port logistics
 - Rail or road
 - Bulk or bagged
- Loading facilities
 - Raws elevation
 - Bagged elevation
 - Container stuffing
 - Directly loaded / Port warehouse

Importer Demands

- Lead times
- Quality variations
- Hold-ups in clearing / offloading / sailing
- Raw sugar blending
- Onward logistics

Covid-19 Impact - Exports

Sugar shipping rush in Brazil amid COVID surge causes huge vessel logjam

Container freight rates remain resilient

Volumes have fallen across most trade lanes. Tight capacity management has helped keep load factors high, putting upward pressure on rates

Sugar export expected to normalise in coming days:

ISMA

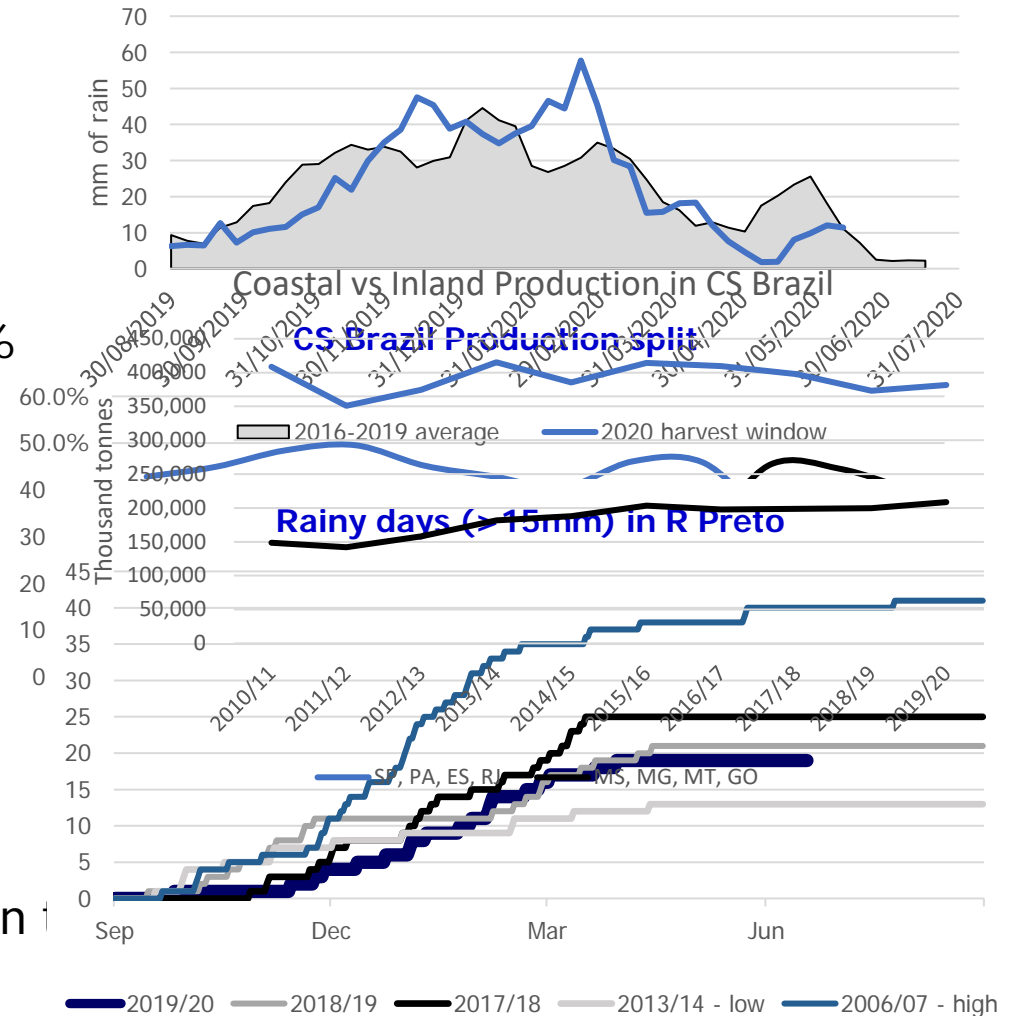
- Bulk freight is increasing
- Container freight is more uncertain, but on a multi-year growth trend

Outlook

Short term depends almost entirely on CS Brazil

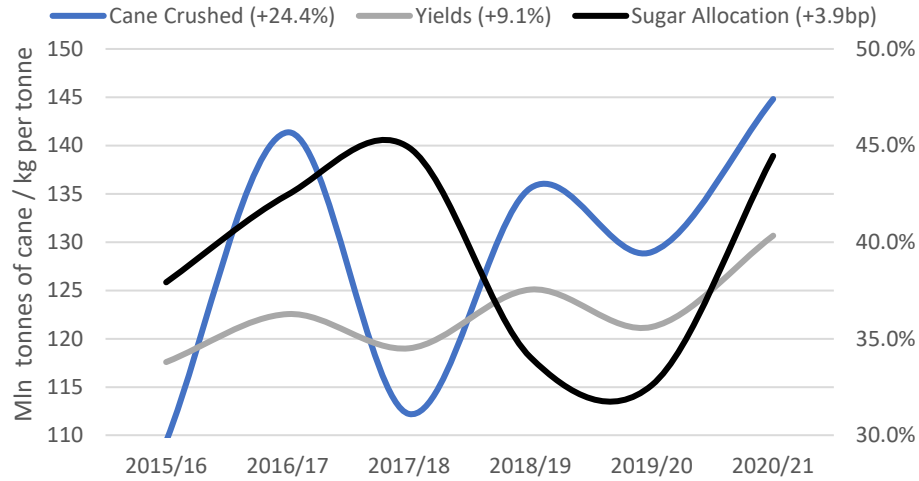
- Huge swing to sugar anticipated
 - ISO expects increase from 34.3% to 40%
 - Datagro expects nearly 50%
 - 1% = 765,000 tonnes of sugar
- Weather is important for yields
- State-wise split in production is key to flexibility
- The key question is whether the people get back in

Four week rolling average rainfall figures

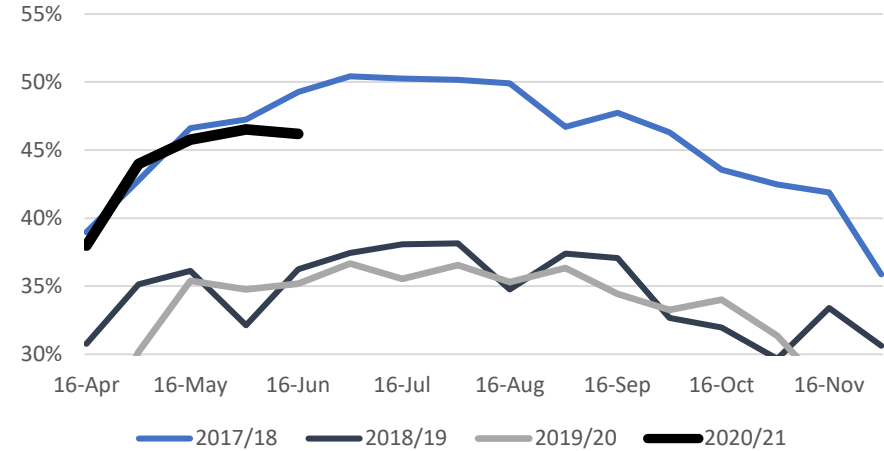


CS Brazil crop insights

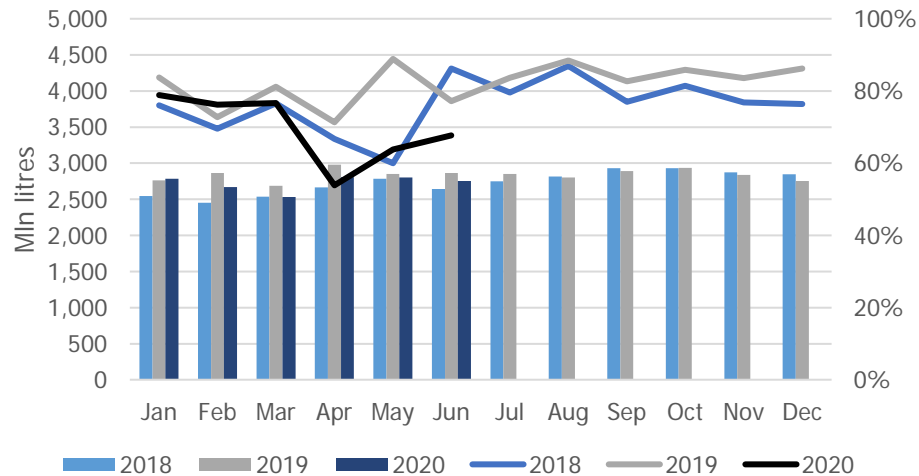
CS Brazil (Jun 1)– Sugar up 50% on 10-year avg



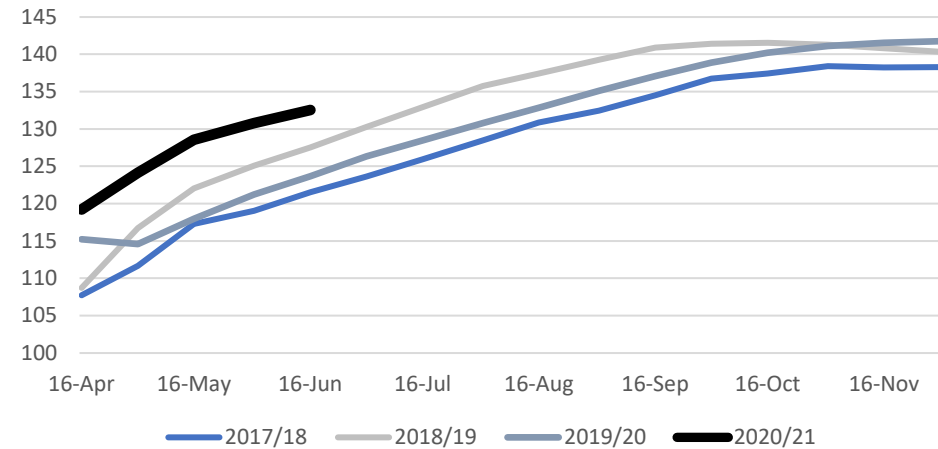
Fortnightly CS Brazil Sugar Allocation



Fuel usage and ethanol share in CS Brazil



CS Brazil Sucrose Yield (kg/tonne of cane)



Conclusion

- Global deficit in 2019/20 to narrow
- Consumption
 - down by more than 2.1 mln tonnes this year, results in negative growth
 - Impact on developing countries remains a major concern
 - Expected to return to trendline after pandemic ends
- Production to be revised higher
 - CS Brazil allocation to sugar is higher than anticipated
 - Mill throughput, prior to September, is running at record pace
- For 2020/21 balance
 - End date of pandemic uncertain
 - Little cane left in CS Brazil
 - Potential for harvest disruptions in India and Thailand
 - Global trade issues should ease with broadening range of origins
- Higher prices and weaker BRL in Q1 resolved the trade balance
- Lower prices recently kept ethanol competitive
- Current price is not commensurate with tight stocks, but pandemic and oil price will cap



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Thank you

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