Week ending 5 February 2015

By Carla Keith and Cathy Kelly, QSL Industry Relationship Managers

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Today’s Market 05.02.16

<table>
<thead>
<tr>
<th>Prompt MAR16 ICE #11</th>
<th>AUD Tonnes Actual</th>
<th>AUD Tonnes IPS</th>
<th>Spot Foreign Exchange $A</th>
</tr>
</thead>
<tbody>
<tr>
<td>12.89c/lb</td>
<td>$394*</td>
<td>$380*</td>
<td>72.00 US cents</td>
</tr>
</tbody>
</table>

*Figures are rounded and have been adjusted to include Over-the-Counter (OTC) margins charged by banking institutions.

Indicative QSL Pool Prices (AUD tonnes)

Below is an overview of the QSL Pool Prices Matrices available on our website – www.qsl.com.au.

<table>
<thead>
<tr>
<th>QSL Pool as at 29 January 2016</th>
<th>Gross $A per mt IPS</th>
</tr>
</thead>
<tbody>
<tr>
<td>QSL Harvest Pool</td>
<td>$380</td>
</tr>
<tr>
<td>QSL Actively Managed Pool</td>
<td>$412</td>
</tr>
<tr>
<td>QSL Guaranteed Floor Pool</td>
<td>$408</td>
</tr>
<tr>
<td>QSL 2-Season Forward Pool</td>
<td>$432</td>
</tr>
<tr>
<td>QSL 3-Season Forward Pool</td>
<td>$441</td>
</tr>
<tr>
<td>QSL US Quota</td>
<td>$711</td>
</tr>
</tbody>
</table>

Prices shown above are dated 29 January 2016 and were shown as part of QSL’s Pricing Roadshow information sessions this week. All prices quoted 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 Guaranteed Floor Pool: Recap

The QSL Guaranteed Floor Pool (GFP) is an in-season Committed Sugar Pool, meaning participants have an obligation to supply all the sugar nominated into the pool. The GFP provides participants with a known minimum value at the end of the Pricing Declaration period (29 Feb 2016). This pool also provides scope for limited participation (50 per cent) in upwards market movements across the full season.

This year QSL has made some changes to how we pay Advances for the GFP, to provide participants with 90 per...
cent of the Pool’s value by 31 December 2016. This means that participants in this pool may not receive another Advances payment from the GFP until around April or May 2017 – when it’s likely all other pools reach 90 per cent of their estimated value.

Note – Growers will still receive Advances from the Harvest Pool and other Committed Sugar Pools (including individual pricing), during the out-of-harvest period (January to June), if the pool prices reflect positive values.

**When is the floor price set?**

One of the key features of the GFP is that participants will know the absolute minimum price they will achieve for sugar nominated into this pool before the season starts. QSL can do this by working with our bank to ‘lock in’ a floor price on 1 March 2016, after we know exactly how many tonnes of sugar have been nominated into the pool.

**How do I know what the Floor Price will be?**

QSL has started publishing *indicative* floor prices on our website, which you can see here: (http://www.qsl.com.au/pricing/pricing-products/2016-season/2016-guaranteed-floor-pool-indicative-pricing).

It’s important to note that QSL will only ‘lock in’ the floor price on 1 March if it’s within **$10 of the last published indicative price**. So for example, if on 29 February we published the floor as being $400 IPS and on 1 March we can achieve $390, we would proceed with locking this floor price. However, if the 1 March price was less than $390, participants will then have the option to exit the pool and divert this sugar into another committed sugar pool or harvest pool (depending on miller agreements). In the case of a number of growers opting out of the pool, QSL also has the discretion to cancel the pool.

**How do I interpret this indicative price?**

As shown in Figure 1, indicative values are listed in tonnes actual (AUD/mt) and tonnes IPS and include four elements you need to consider:

- **Current market price**
  - The current market value of sugar if you outright forward price today
- **Strike price**
  - The market level at which you begin to participate in price rises
- **Absolute floor**
  - The minimum price the pool will achieve, including the cost of insurance paid to secure the floor
- **Participation rate**
  - The amount of participation in price rises above the Strike price
  - 50% participation means for every dollar ($1) the market trades above the Strike price, the pool participates 50 cents of the price rise
Prices as at 2-Feb-2016

<table>
<thead>
<tr>
<th></th>
<th>Current market price</th>
<th>Strike price</th>
<th>Absolute floor</th>
<th>Participation rate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>A$419 AUD/mt</td>
<td>A$412 AUD/mt</td>
<td>A$402 AUD/mt</td>
<td>50%</td>
</tr>
<tr>
<td></td>
<td>A$404 AUD/mt IPS</td>
<td>A$397 AUD/mt IPS</td>
<td>A$388 AUD/mt IPS</td>
<td></td>
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</tbody>
</table>

Growers wanting to nominate into the GFP should discuss their individual arrangements with their mill.


Isis Roadshows
Growers in the Isis milling district are reminded that QSL’s annual pooling and pricing information roadshows will be held at the following venues next week:

- **Childers Canegrowers Hall**, Churchill Street, Childers, at 2.30pm Wednesday 10 February 2016.
- **Drinan Hall**, Wallaville-Goondoon Road, Drinan, at 8.30am Thursday 11 February 2016.
- **Saint George Hall**, Bundaberg/Gin Gin Road, South Kolan, from 12 noon Thursday 11 February 2016.

Please note that the session originally planned for the Alloway Country Club on 10 February has now been cancelled.

Market Update

By Matthew Page, QSL Treasury Analyst
Current as of 1 February 2016

Market Commentary

Sugar

It’s been a very weak fortnight for raw sugar futures as flat prices dipped alarmingly amid a spate of macro weakness. Prompt contract March16 has posted consecutive losses for the past six sessions resulting in a 172-
point loss. Friday closed at 13.14c/lb after getting as low as 13.07c/lb, while the May16 contract finished the week at 13.08c/lb.

Spread activity has notably picked up with the front spread moving aggressively from a 25-point inverse to a small carry before settling the week at -6 points. That is a huge move from the near -50 point differential we saw just two weeks ago and indicates a physical market struggling to find homes over March.

Given activity over the past couple of weeks the latest Commitment of Traders report offered little surprise, as Non-Index Funds reported a decrease of around 49,000 net longs on Friday night. With the report only running on a Tuesday-to-Tuesday basis it is likely that the balance of last week’s activity will have likely prompted a similar liquidation of positions, leaving the specs around approximately 100,000 net long.

A cold snap in China has led to talk of flowering but it is likely the damage will be limited, meanwhile the smuggling of white sugar from Thailand (estimated at 1 million tonnes a year) across the border is likely to keep the Chinese domestic price in check.

Looking ahead, key sugar delegates will be meeting in Dubai this week and we usually see a move in the market in one direction or the other depending on the overall tone of the event. Expect recent activity to act as a preface to sentiment here, but with fundamentals still mildly bullish we could see some positive reaction.

Currency

After being under a cloud of macro weakness in early 2016, the local currency has enjoyed somewhat of a renaissance over the past couple of weeks. A mixture of disappointing US data, improving global sentiment and accommodative Asian policy has provided the impetus for the Australian dollar to lift from 0.6850 to above 0.7130 on Friday morning.

The Federal Open Market Committee meeting last week provided little new insight, with ‘dot plots’ still forecasting the much anticipated four rate rises by the end of the year whilst citing the timing and magnitude of these will remain dependent on economic date. This week’s RBA meeting will likely be similarly uninspiring. It will, however, be interesting to see any comments around the currency’s effect on the economy given the recent move.

Medium term AUD risk remains on the downside, however the market will require some fresh impetus to break back below 70 cents in the short term. Local trade, building approvals and retail data should provide some direction on-shore, while the ever-watched US employment data will hopefully provide some kick on Thursday.