Sugar market update:

NAFTA sugar markets

JSG COMMODITIES

Agenda

- Supply and demand
  - Mexico
  - US
- Shifting dynamics
  - Supply
  - Demand
- Current conundrum
  - Unintended consequences and knock-on effects
    - USDA
    - US producers
    - Cane refiners
    - Mexico

S&D

Mexico

Mexican S&D 2015-16:

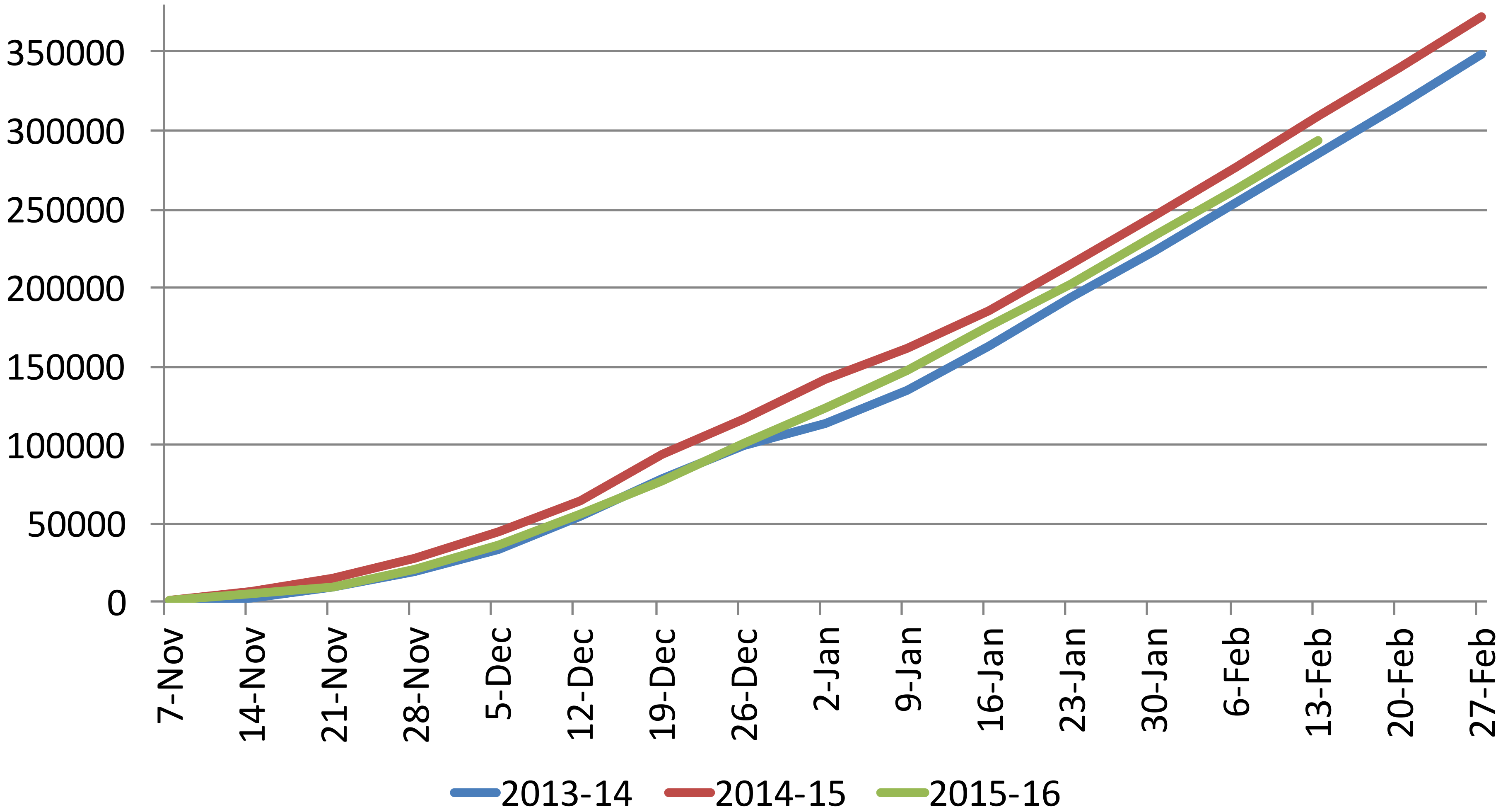
1,000 mttq

Beginning stocks	811
Production	6056
Imports	90
Total Supply	6957
Exports	1212 (1416 strv)
Domestic use	4681
Total use	5893
Ending stocks	1064

- Production similar to last season
- If no world exports, ending stocks would be 1.064 million mttq, allowing for more consistent Q4 exports to US

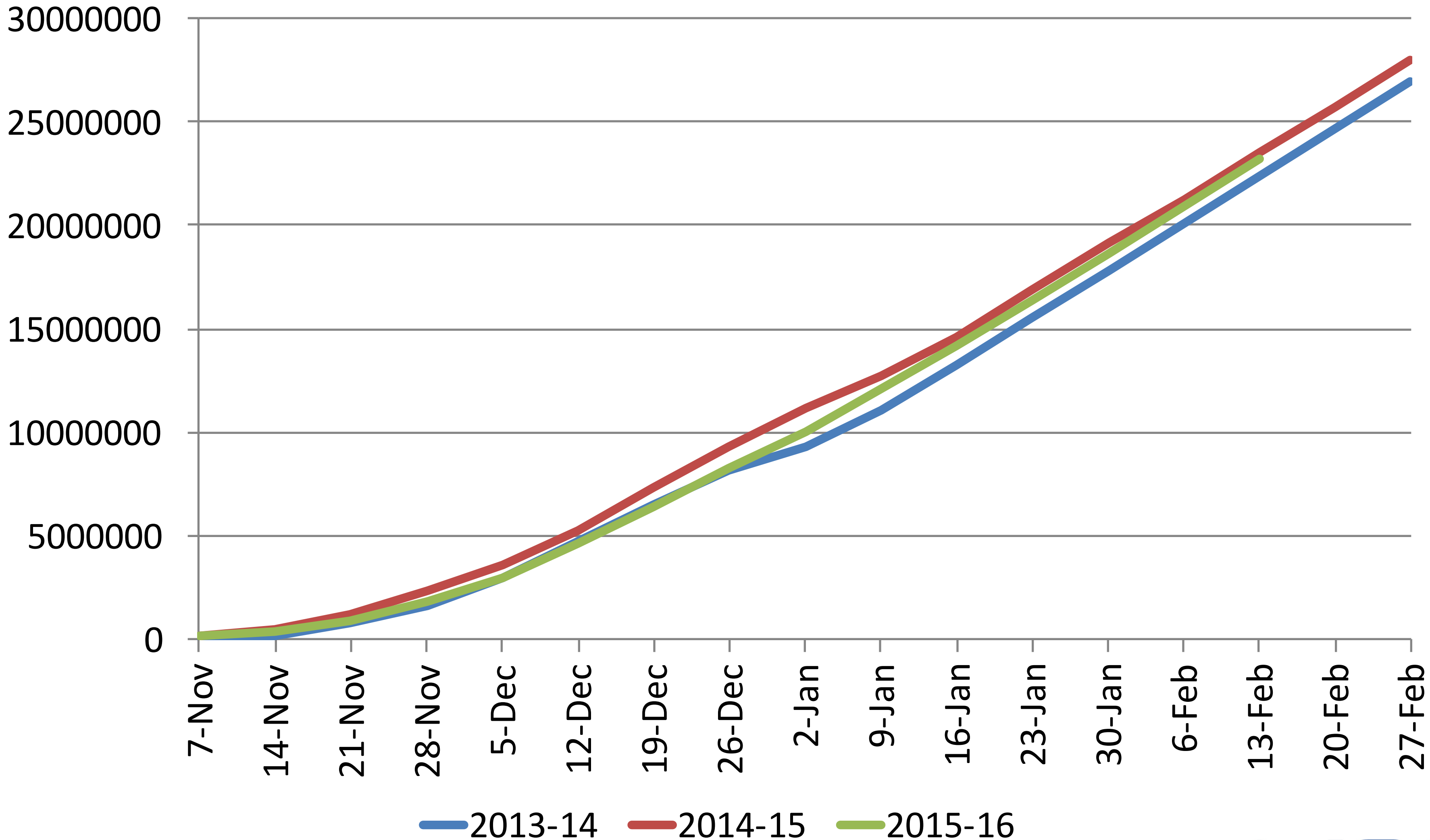
Source: USDA Feb WASDE/JSG

Mexico: Area harvested



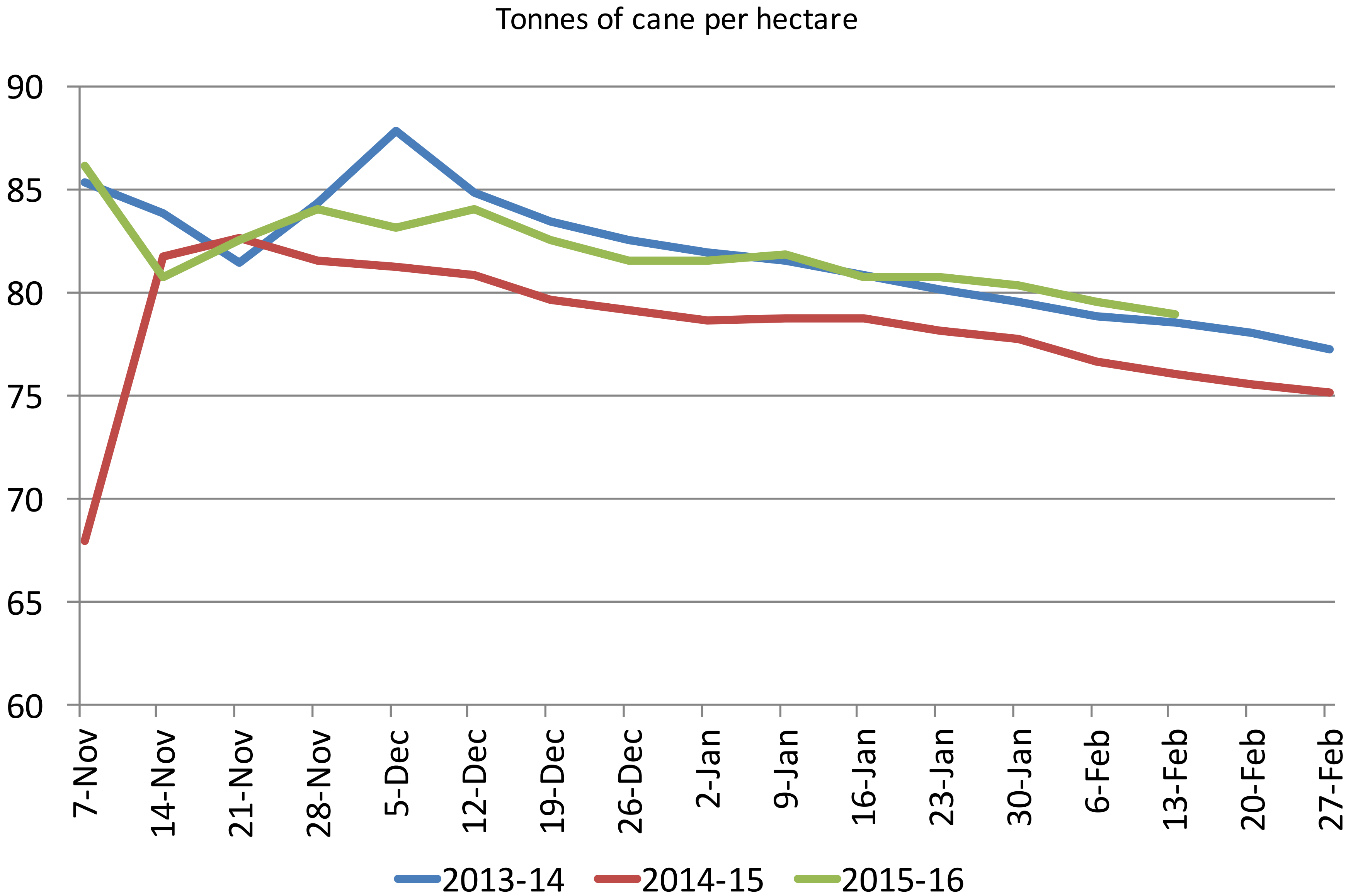
Source: CONADESUCA

Mexico: Cane crush



Source: CONADESUCA

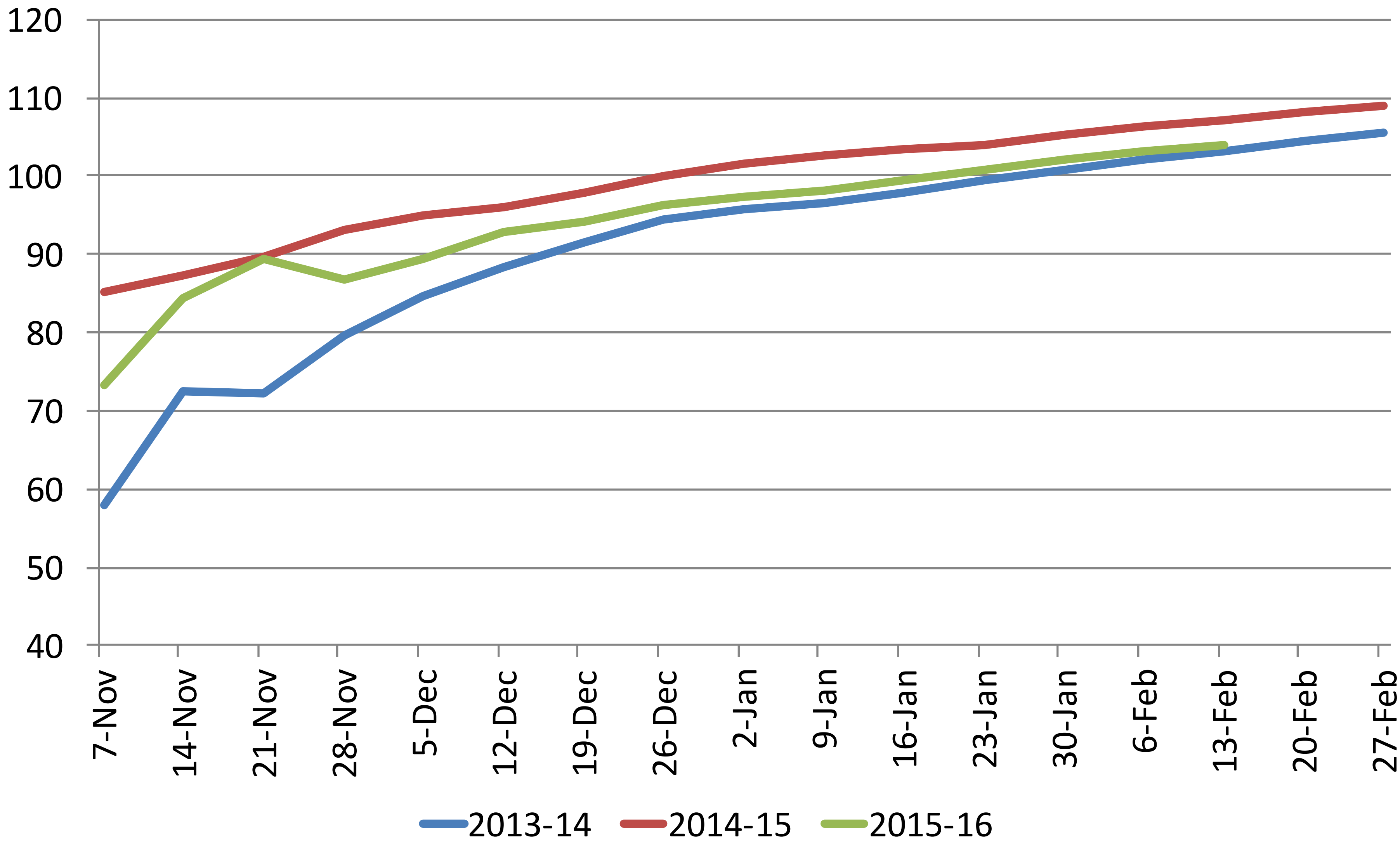
Mexico: Agricultural yields



Source: CONADESUCA

Mexico: Industrial yields

kilos of sugar per tonne of cane



Source: CONADESUCA

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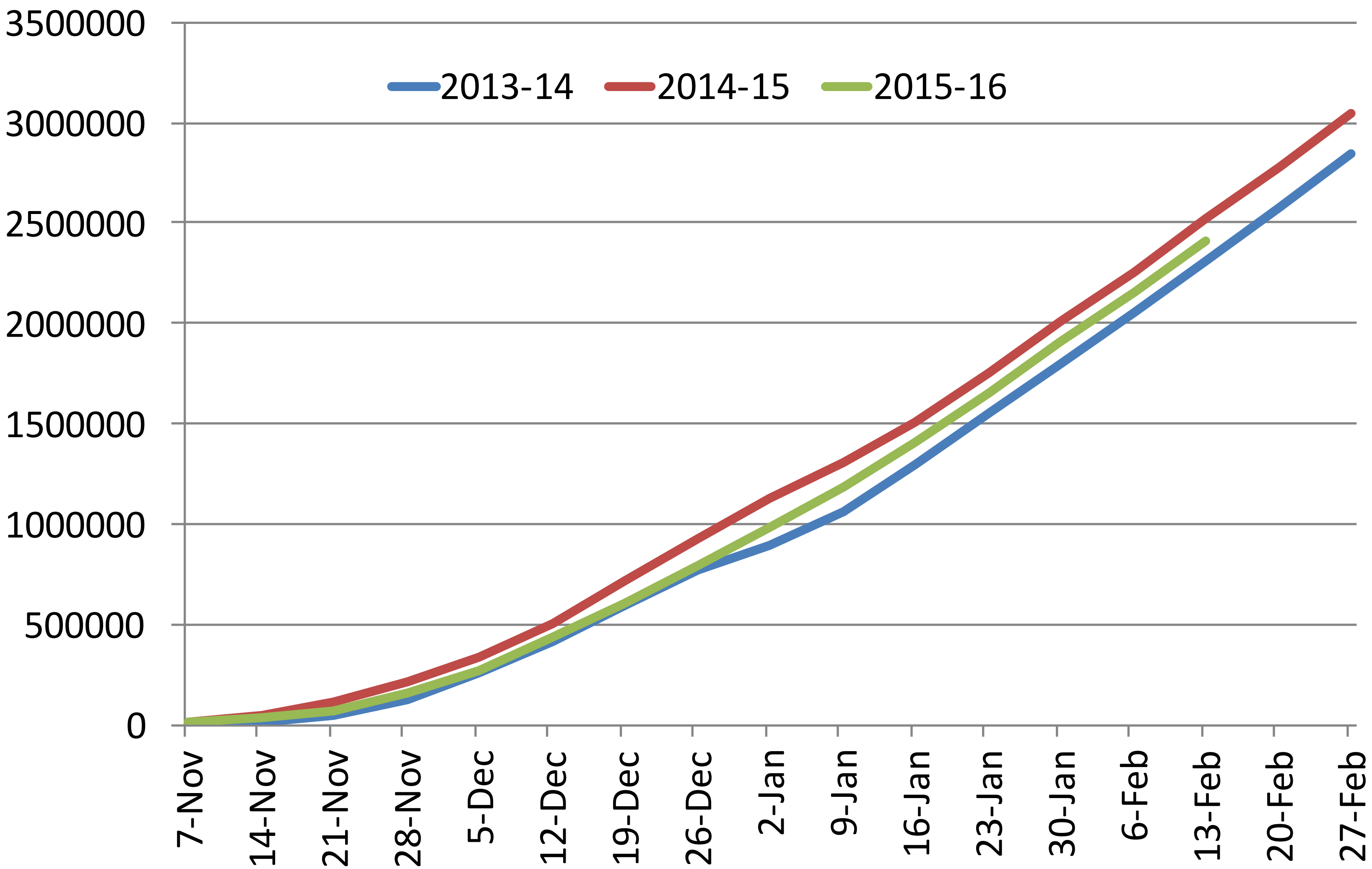
Mexico: Sugar production



Source: CONADESUCA

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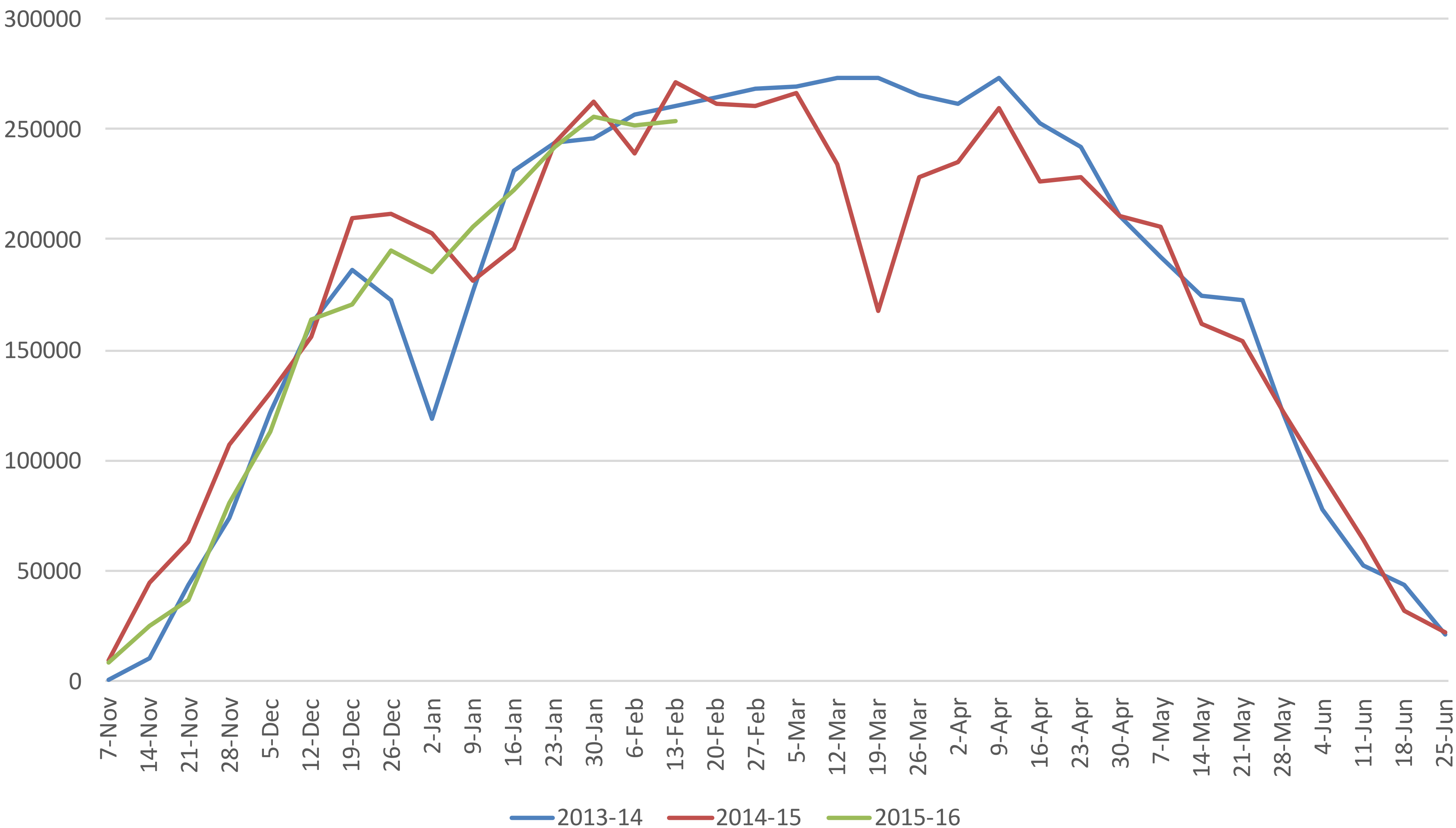
Mexico sugar production: weekly



Source: CONADESUCA

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US

USDA vs. JSG S&D: FY'16

1,000 STRV

Feb USDA (adjusted)

Beginning Stocks	1768
Production	8849 (5010 beet, 3839 cane)
Imports	3245 (1416 Mexico, 300 re-ex, 1514 TRQ)
Total supply	13862
Exports	123
Deliveries	12090
Food	11955 (+.02 %)
Other	135
Total use	12213
Ending stocks	1649
Stocks/use	13.5 %

JSG (adjusted)

Beginning Stocks	1920
Production	8939 (5100 beet, 3839 cane)
Imports	2951 (1217 Mexico, 225 re-ex, 1514 TRQ)
Total supply	13830
Exports	125
Deliveries	12060
Food	11935 (+1.0 %)
Other	125
Total use	12185
Ending stocks	1645
Stocks/use	13.50 %

Source: USDA Dec WASDE/JSG

Alternative S&D: FY'16

1,000 STRV

Feb USDA (adjusted)

Beginning Stocks	1768
Production	8849 (5010 beet, 3839 cane)
Imports	3245 (1416 Mexico, 300 re-ex, 1514 TRQ)
Total supply	13862
Exports	123
Deliveries	12090
Food	11955 (+.02 %)
Other	135
Total use	12213
Ending stocks	1649
Stocks/use	13.5 %

332kTRQ increase prior 3/1/16

Beginning Stocks	1768
Production	8849 (5010 beet, 3839 cane)
Imports	3245 (**1084 Mexico, 300 re-ex, 1846 TRQ**)
Total supply	13862
Exports	123
Deliveries	12090
Food	11955 (+.02 %)
Other	135
Total use	12213
Ending stocks	1649
Stocks/use	13.5 %

Source: USDA Dec WASDE/JSG

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Mexican S&D 2015-16:

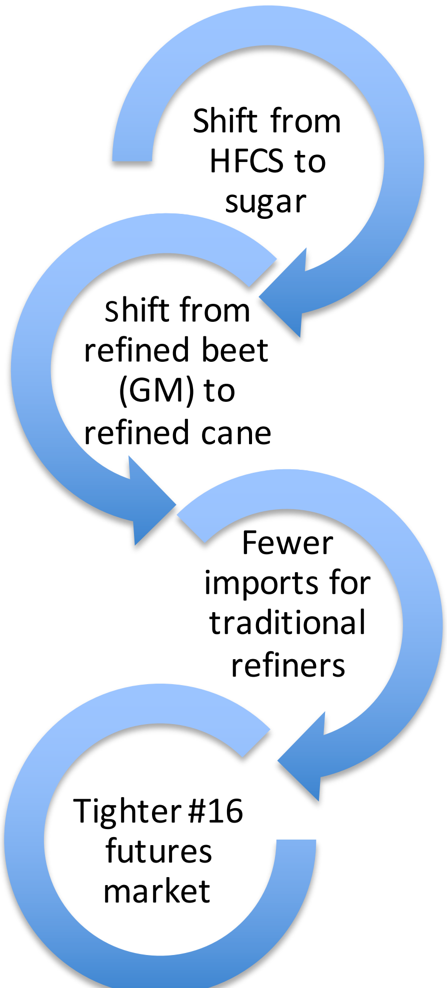
1,000 mttq

Beginning stocks	811
Production	6056
Imports	90
Total Supply	6957
Exports	928 (1084 strv)
Domestic use	4681
Total use	5609
Ending stocks	1348

- Production similar to last season
- If no world exports, ending stocks would be 1.348 million mttq – a 60 % increase allowing for more consistent Q4 exports to US.
- Pressure on domestic prices

Source: USDA Feb WASDE/JSG

Shifting dynamic is US market:



Mars, Hershey, General Mills, Panera, among others

Numerous – perception is running out ahead of reality, but growing

Mexican imports for direct consumption ~725,000 MT in FY'15

Non-GM Preference

How real?

And how important

a factor?

NON GMO Project

The Non-GMO Project is a non-profit organization committed to preserving and building the non-GMO food supply, educating consumers, and providing verified non-GMO choices.

Sampling of brands with at least some products verified non-GM:

THEOBROMA chocolat
Gerber
Organic White SUGAR IN THE RAW
Zulka
KIND HEALTHY SNACKS
WHOLE FOODS MARKET
Ingredion
Domino SUGAR
POM WONDERFUL
Jolly Time Pop Corn
Post Grape-nuts
BLUE DIAMOND ALMONDS
Boar's Head
LOG CABIN
C&H
Nathan's
BARRY CALLEBAUT
Tropicana Pure Premium
Barilla
Orville Redenbacher's
CELESTIAL SEASONINGS
Kashi
ZUCARMEX

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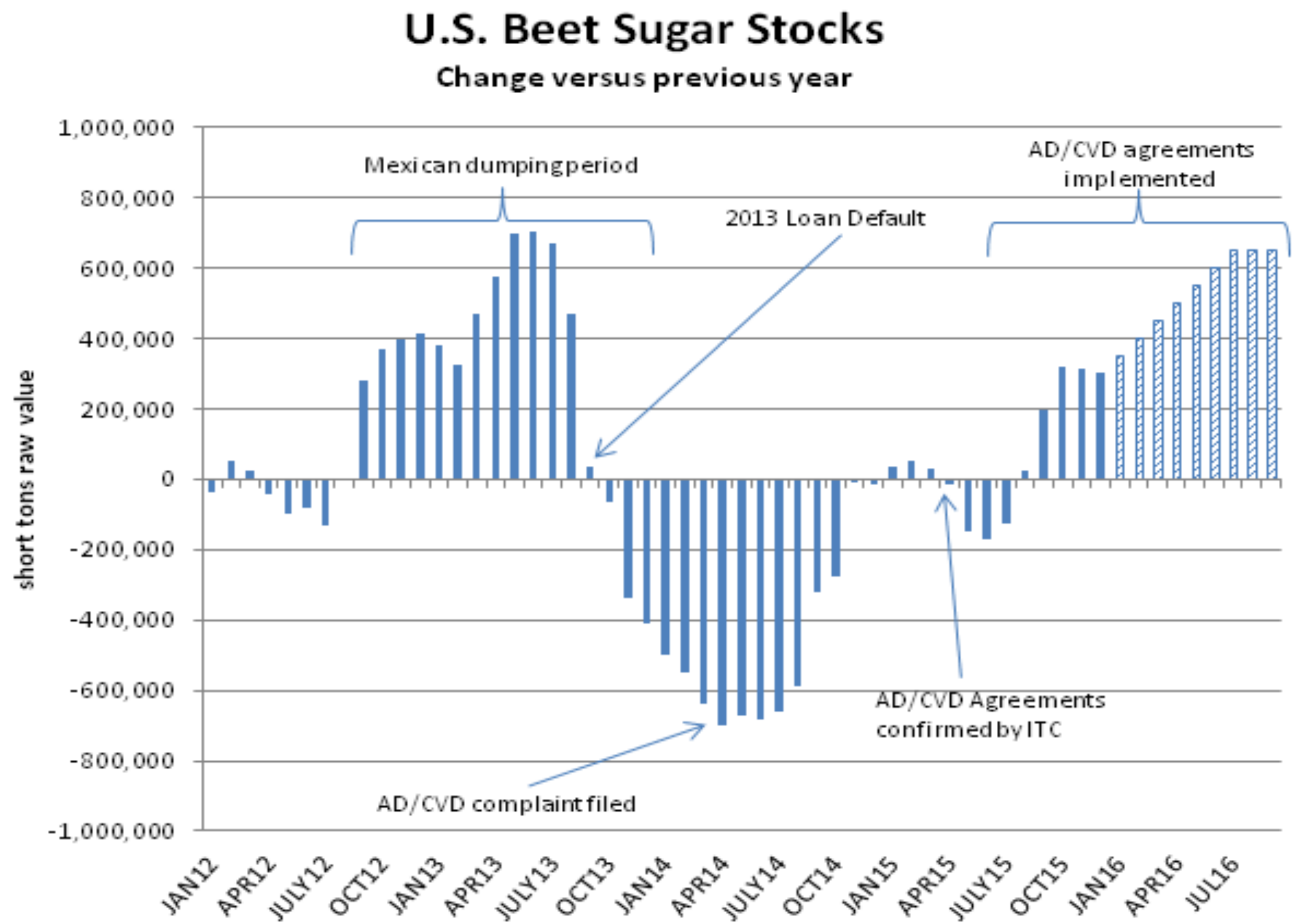
Non-GM movement:

- Hershey's is "looking to formulate new products and transition existing products to deliver on no artificial flavors, no synthetic colors, no high fructose corn-syrup, and to be gluten-free." Statement 2/15
- Cheerios: "We switched from what we were using to non-GMO corn and non-GMO pure sugar cane," said General Mills spokesman Mike Siemienas. Statement 1/14

Non-GM preference:

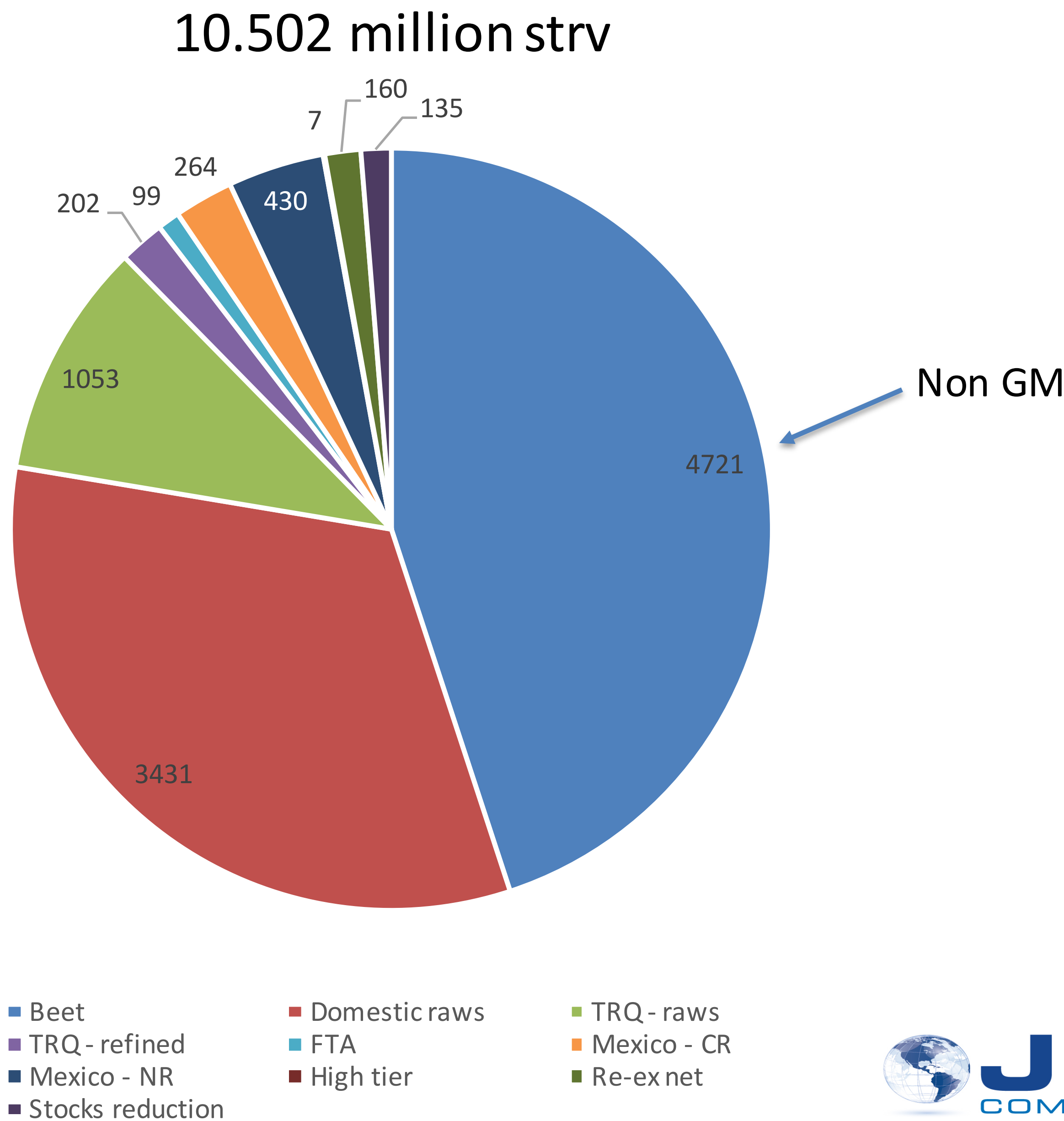
- Real and growing factor
- Perception currently as relevant as reality with regard to raw sugar pricing
- Labeling, either patchwork via the states or through a national mandate, will escalate the issue in the coming months



Courtesy of: Imperial Sugar Company

Changed supply

You are what you eat: FY'08



Source: USDA

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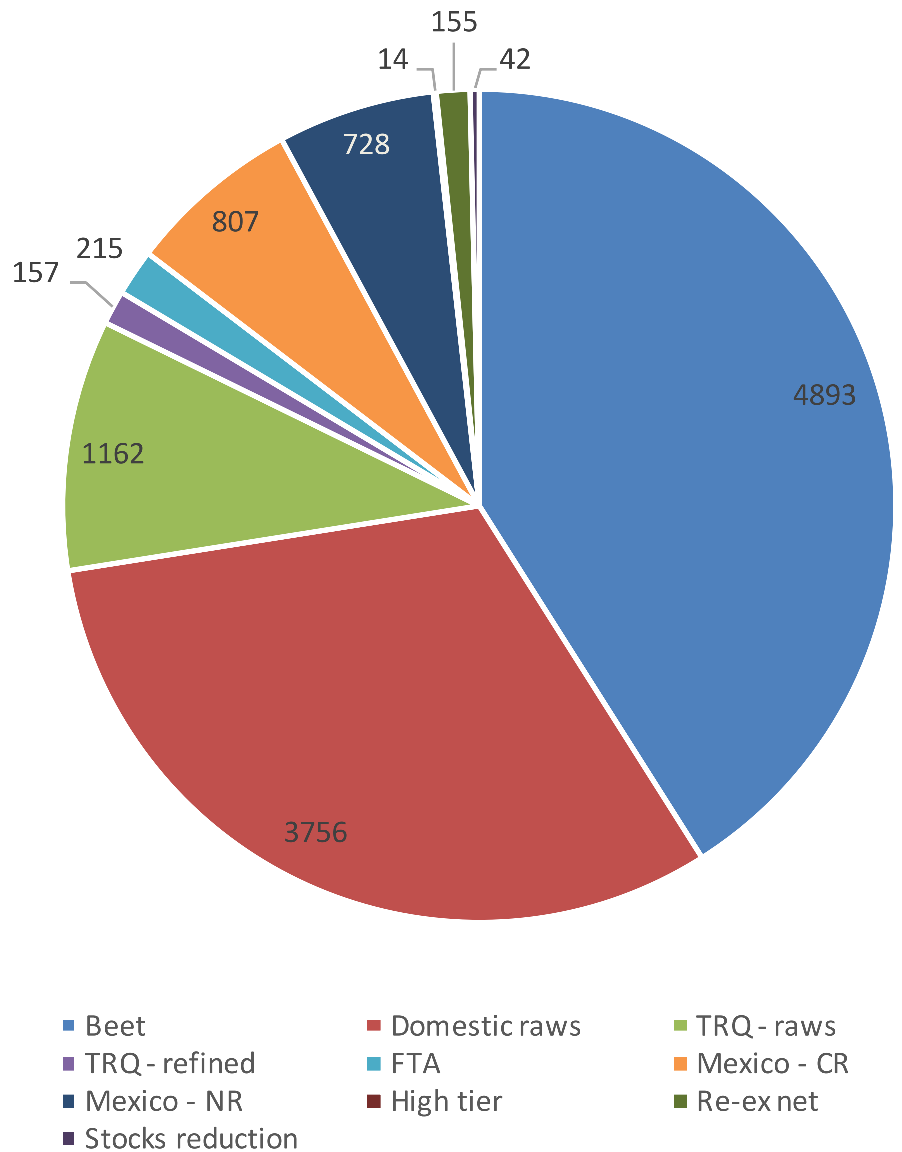
You are what you eat: FY'15

11.929 million strv

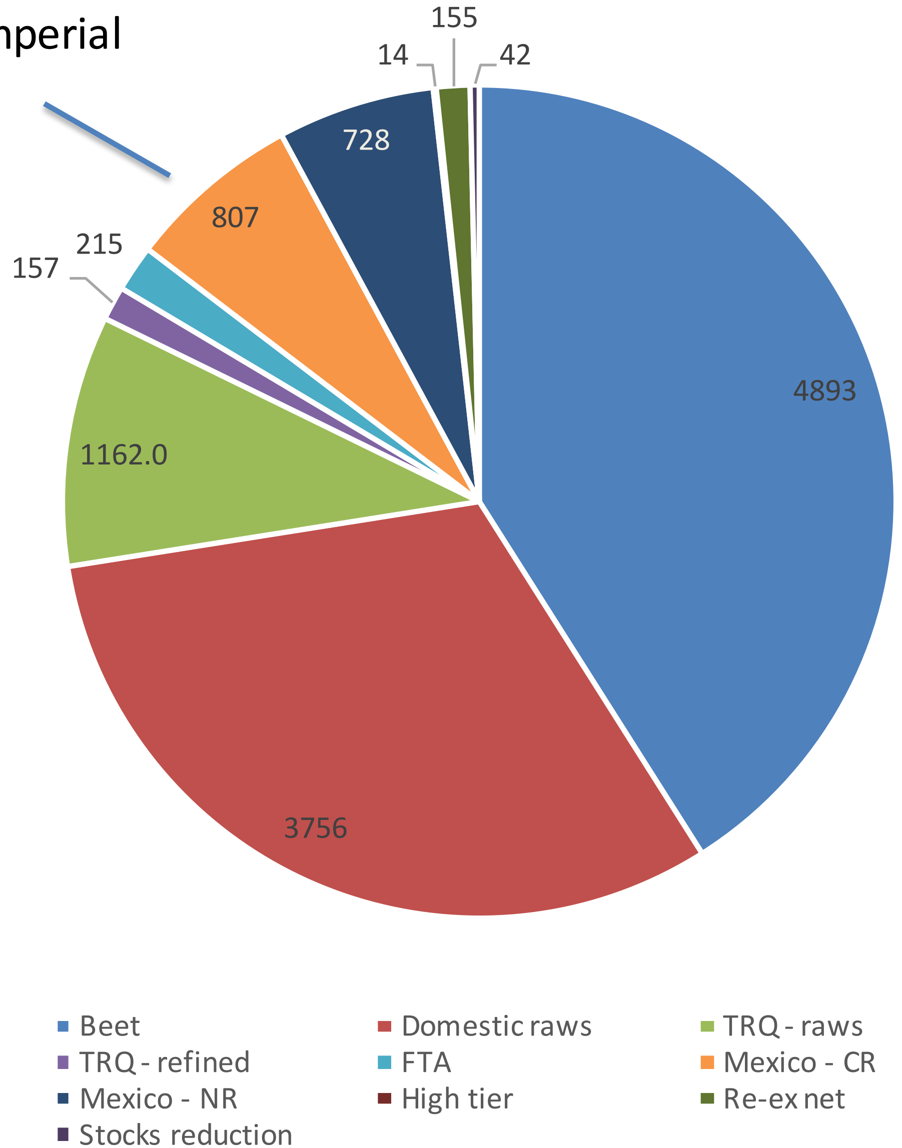


Source: USDA

You are what you eat: FY'15

11.929 million strv

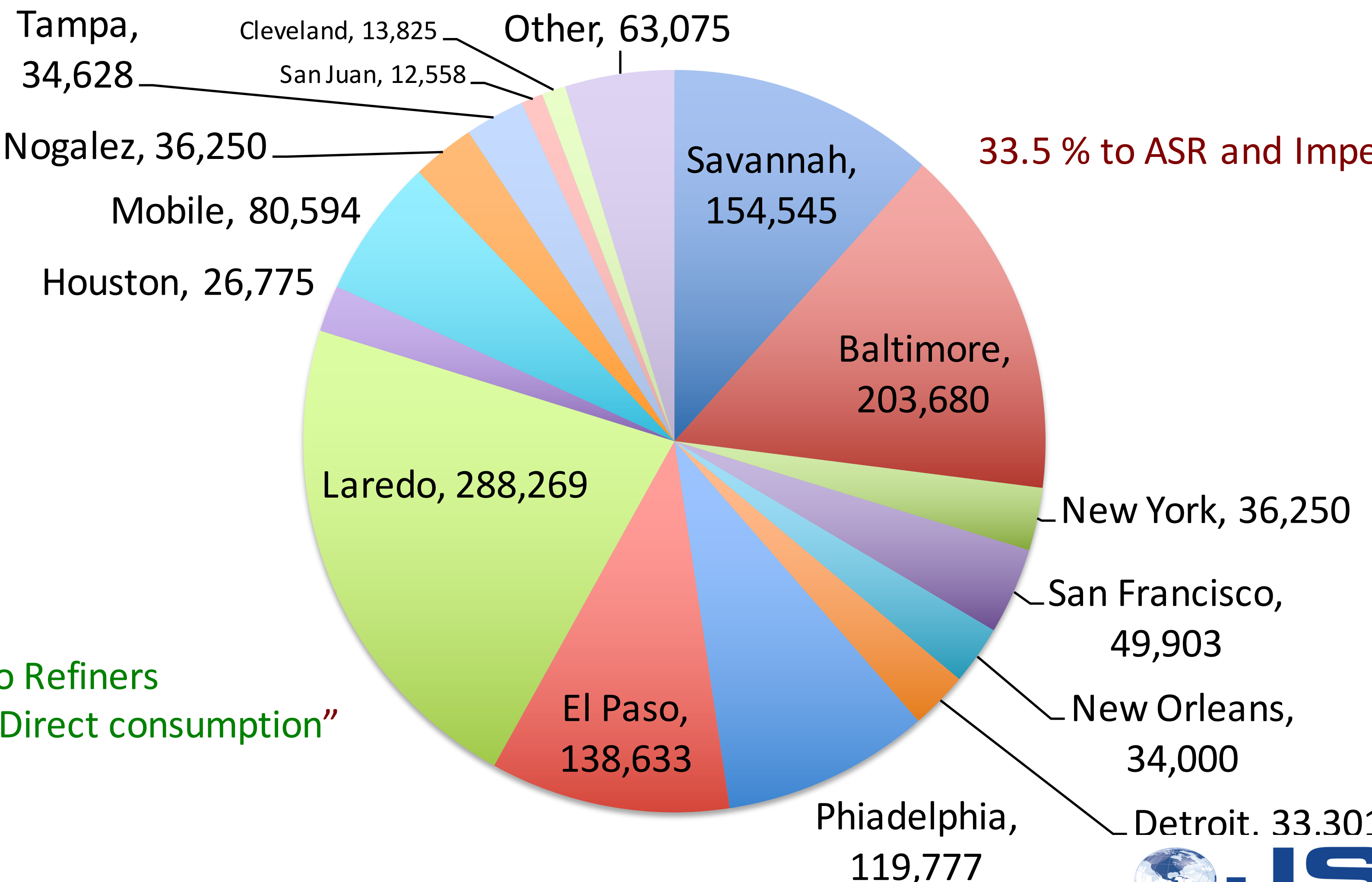
33.5 % to ASR or Imperial
47.6 % to Refiners



Source: USDA

Imports from Mexico:

FY'15 1.326 million tonnes



33.5 % to ASR and Imperial

47.6 % to Refiners
52.4 % "Direct consumption"

Source: USDA/FAS

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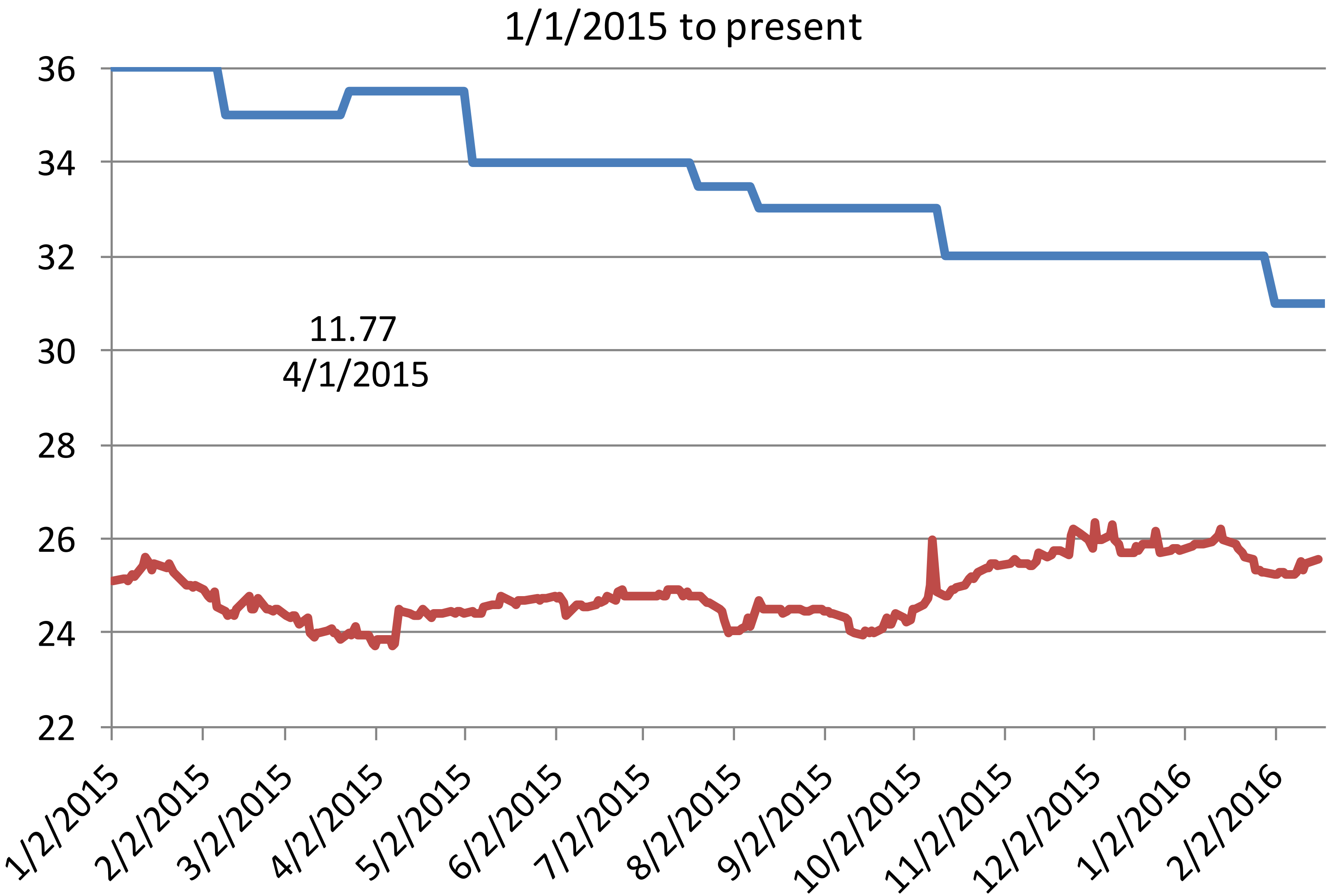
US Raws vs. Refined:



Source: ICE/Milling & Baking News

Raw Sugar Tolling:

• Raws	26.00
• 7% refining loss	1.82
• 6.00 margin	6.00
• Cost	33.82
• M&B bid side	31.00

- Refined cane premium: 2.82

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Misalignment

- Those manufacturers that wish to sell non-GM products cannot use traditional beet supplies
- At the same time that the cane refining sector is getting more attention, level of imports <u>not for direct consumption</u> is contracting
- Supply may be sufficient, but traditional relationships will have to evolve
- Imbalances will distort prices as the market adjusts

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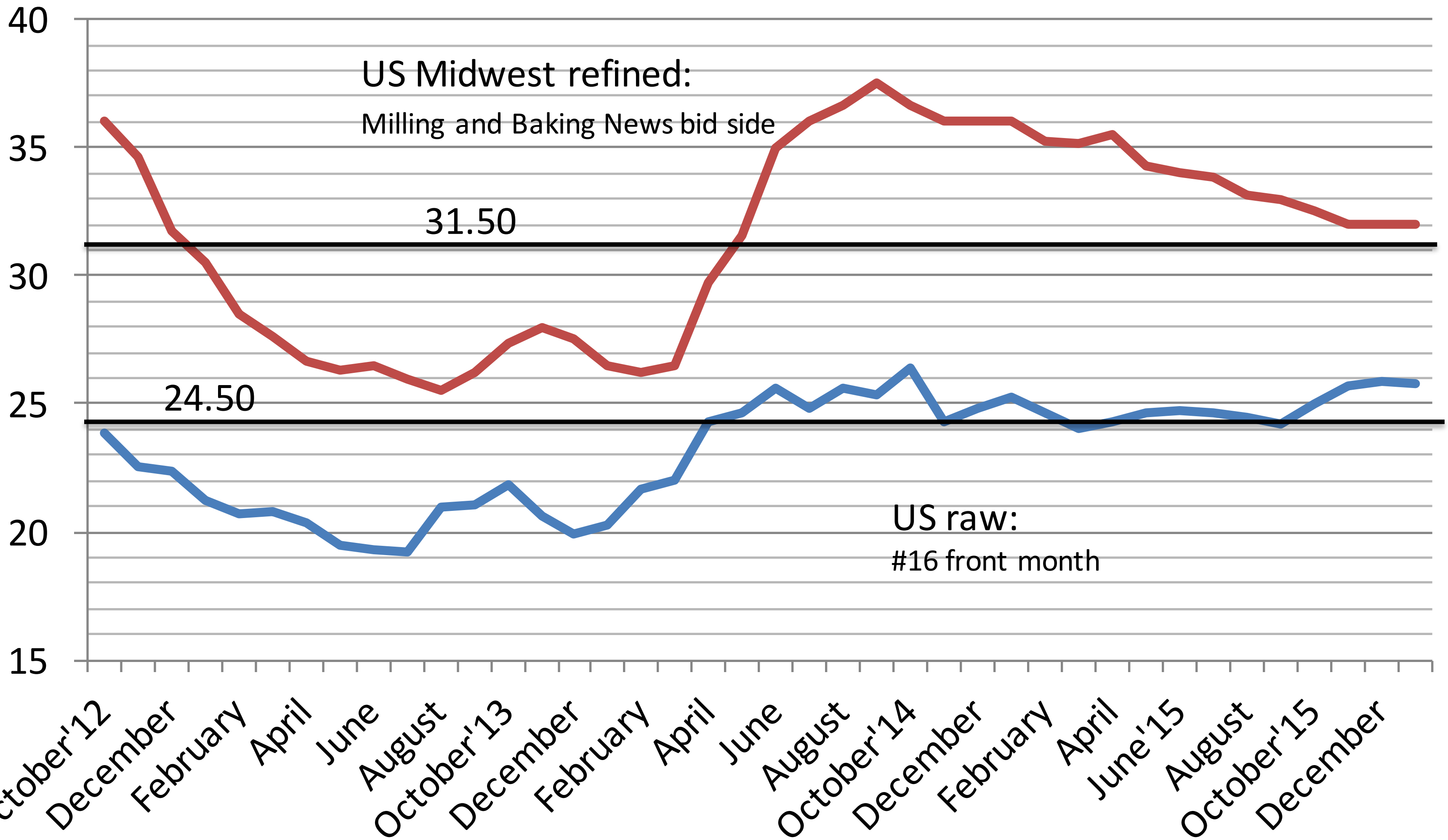
Price outlook

US Sugar Prices vs. Mexico minimum prices

CIF equivalent – Oct'12 through Jan'16



Source: ICE Futures US/USDA

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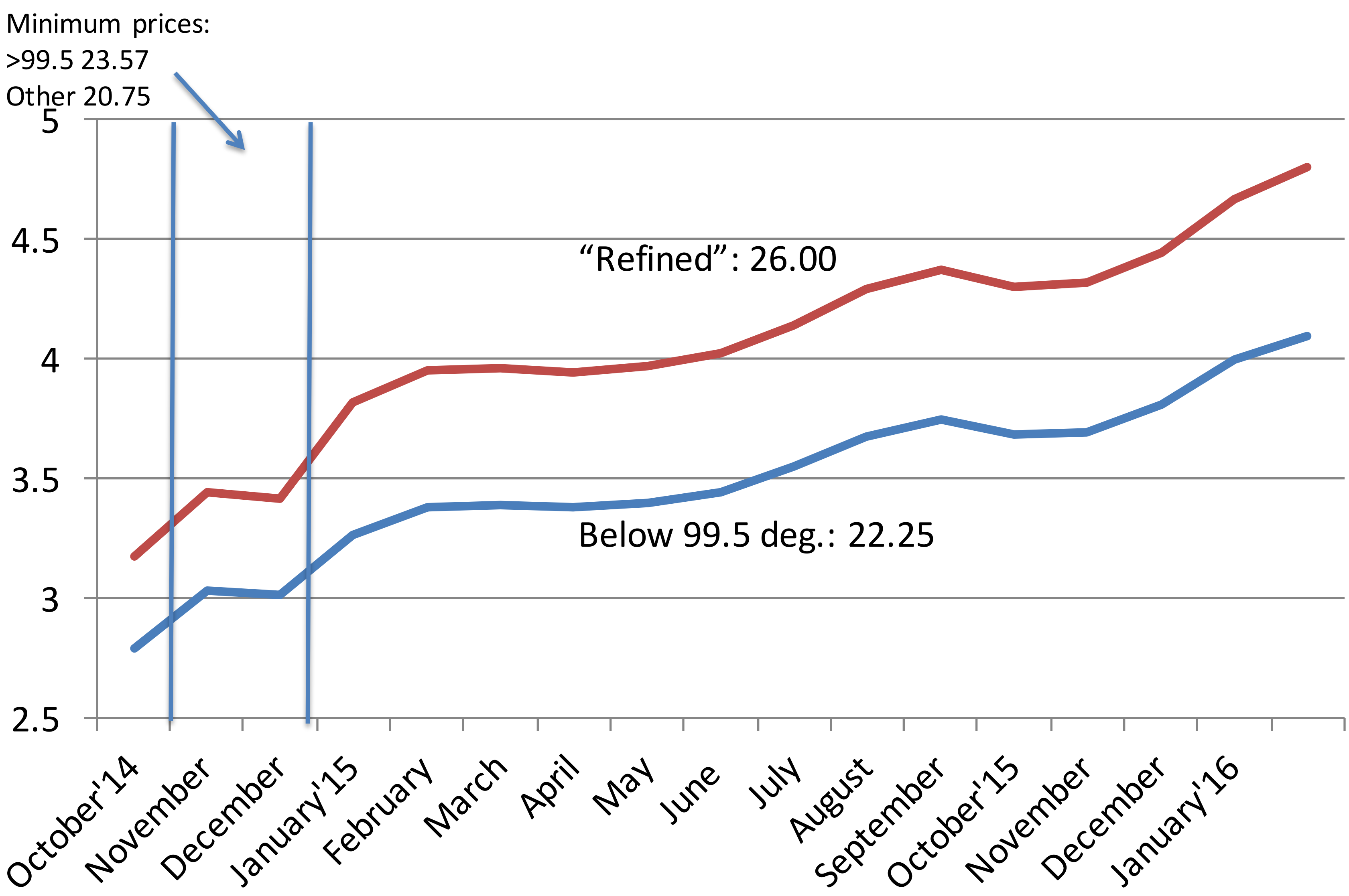
Return on minimum prices in pesos:



Source: ERS/USDA

Price outlook:

- Raw sugar pricing will work back towards 26.00-26.25 in the absence of a TRQ increase
  - Size and timing of TRQ action critical
  - Replacing Mexican, or in addition to.
- Refined prices will track between 31.50 and 30.50 as Mexican direct consumption imports compete with record beet crop
- Refined cane may move to a premium to refined beet

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Conundrum

Turmoil and transition:

- USDA mandate is to provide sufficient supply at reasonable price at no cost to the taxpayer.
- Now asked to:
  - Provide non-GM inputs to accommodate end users
  - Provide sufficient raw sugar to allow cane refiners to maintain market share
- Beet industry has the right to market/forfeit up to 5.523 million tons
- Mexico must ship 47 % of its export limit below 99.5 degrees, but can be for “direct consumption”

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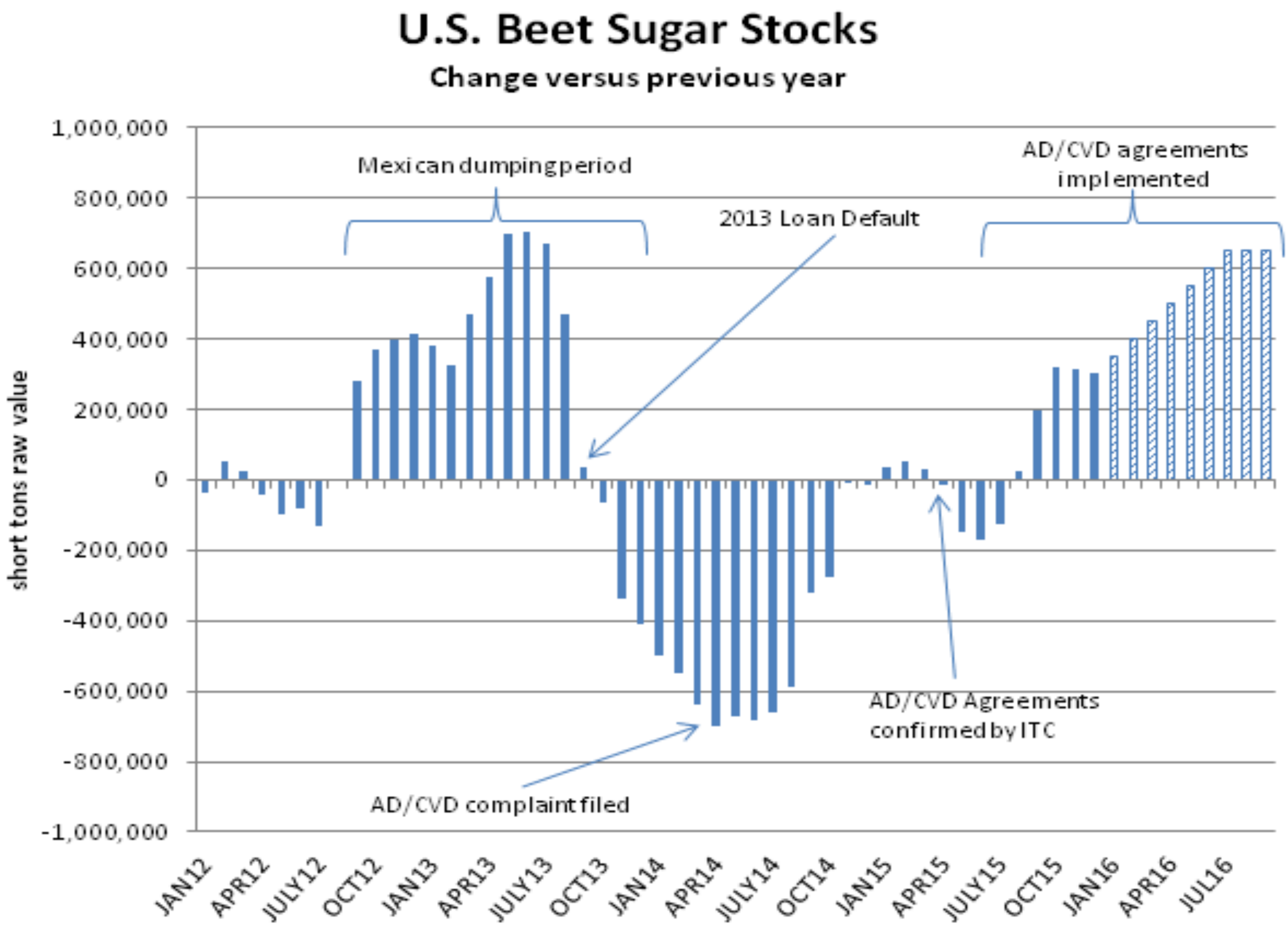
Status quo:

- Direct consumption imports increase, making one or two cane refineries redundant
  - Less than 50 % of Florida production and raw TRQ need processing by Atlantic range and Cali refiners
- Beet production and domestic cane production increase
- Industrial users realign relationships, adapt to new landscape

Status quo cont.

- If non-GM trend continues to expand for another year or two, likely beet default – particularly if USDA tends to industrial users needs
- Agreements with Mexico under constant attack and review
- Farm Bill - FY'18
  - Sugar industry and current sugar title have "irreconcilably differences"
- US sugar program needs to be rebuilt from the ground up, leaving US and Mexican industries at real risk



Courtesy of: Imperial Sugar Company

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