

GLOBAL ETHANOL WEEKLY

WEEK ENDING DECEMBER 8TH, 2017

CRUDE

- **Crude** ended the week lower with Brent closing @ 63,40 USD/barrel vs. 63,49 USD/barrel last week and WTI @ 57,36 USD/barrel vs. 58,36 last week.
- US rig count was up with 751 rigs producing vs. 749 last week. US stocks lower @ 448,1 mill barrels vs. 453,7 last week. US production up to 9707 k bpd vs. 9682 last week. Capacity utilization higher at 92,2% vs. 91,1 last week (pre-hurricane rates were 95%). Brent continues backwardated all the way to 2020. WTI has a contango until Mar 18 and then is backwardated until 2020.
- Although crude stocks were down, US production is responding to high prices as we had expected, and it has reached a 46 year high. This together with higher than expected gasoline stocks is what brought the market down during the first half of the week. Then Chinese crude oil imports came out as the second highest in history and market recovered some of the losses during the second half of the week, but it was not enough to close the week in positive. The market looks fairly balanced with the OPEC and Russia cuts and this is limiting the downside in our opinion. US production is increasing slowly but steady with three weeks in a row having new rigs starting up. The big question now is if there is potential for additional production at this level of prices above this week's record. With the low prices of the last 3 years capex has been minimized for new drillings as well as for existing rigs so there is limited potential in production increases in our view. Demand is supportive as there is a consensus in the market for a demand growth next year being our number +1,5% of demand growth for 2018. All in all, we think the S&D is balanced and actual prices in a range of 55-60 basis WTI reflect that balance. Short term we think there is more risk to the upside as there is some geopolitical instability with Saudi Arabia and Nigeria.
- ***Competitiveness of gasoline vs. ethanol has not changed with US Ethanol more competitive than gasoline (RBOB/Chi spread continue at record levels and thus incentivizing exports to voluntary market); European ethanol is still more expensive than gasoline, but also with an unusual low spread with gasoline. And Brazilian Ethanol is at 70% parity vs. gasoline at the limit where ethanol can start to lose market share.***

EUROPE - ETHANOL

- No changes to our Crush Margin estimate of 192 Eur/cbm for the avg. of 2017. No changes to our Crush Margin estimate of 119 Eur/cbm for the avg. of 2018.
- Spot Ethanol was a bit lower in the week closing @ 470 Eur/cbm vs. 472 last week. Spot Crush was lower as well closing @ 112 Eur/cbm vs. 114 last week. Jan-Nov 2017 Crush ytd. closed at 198 Eur/cbm (Jan-Oct Crush was 205 Eur/cbm). Q4 was lower @ 116 Eur/cbm vs. 118 last week and vs. our estimate of 118. Full year avg. was lower @ 191 Eur/cbm vs. 192 last week and vs. 192 of our estimate. 2018 was lower @ 129 Eur/cbm vs. 132 last week and vs. our estimate of 119 Eur/cbm. Q1 fell to 123 Eur/cbm vs. 129 last week, Q2 closed lower @ 135 Eur/cbm vs. 138 last week, Q3 closed down @ 134 Eur/cbm vs. 137 last week and Q4 closed almost unchanged @ 124 Eur/cbm vs. 126 last week. Sugar premium over Ethanol plummeted for a second week in a row closing at 47 Eur/cbm vs. 64 last week for the avg. of 2018 (this premium is FOB basis so depending on the location of each plant, this premium might be lower).
- 2018 values although lower this week seem to be holding after the rally of the previous week. We still think that rally was supported by French producers buying paper vs. fix price sales and the low liquidity could make that process to take some time and thus the support. Vivergo announcing this week that their stoppage is more than a long maintenance does not change our view for 2018 as we think this is more a lobbying strategy taking advantage the market is trading below cost of production. We still think if margins improve they will restart. Although this is supportive prices -more on the sentiment side than fundamentally- the week in sugar was very negative with the market losing all the gains from the last 9 weeks and FOB sugar premium vs. ethanol falling below 50 Eur/cbm which in our opinion is more a break even for both products than a premium for producing sugar. And this is not supportive ethanol prices. On the other hand, spot margins are below cost of production for grain producers and only Q2 and Q3 2018 margins are trading at or slightly above cost of production. Arb from US is open from March onwards without the antidumping so this tax better be extended or further pressure will come from US producers. We continue to think further production cuts are needed, specially in Q1, and expect a weak market after support from French buyers disappears.
- ***Q2 & Q3 trading at levels of 135 Eur/cbm is more a sell than a buy as we think upside is limited at these levels. Q1 and Q4 is in breakeven territory. If anything, selling Q1 rather than buying as we think there is downside potential. Nothing to recommend with Q4 at the moment.***

EUROPE – ETHANOL S&D 2017

EU Ethanol S & D													
x 1000 cbm	ene-17	feb-17	mar-17	abr-17	may-17	jun-17	jul-17	ago-17	sep-17	oct-17	nov-17	dic-17	Total
Carry in	295	304	263	198	166	144	116	109	119	170	248	330	295
Actual Ethanol Production	423	366	411	466	500	489	505	511	489	494	495	482	5.632
Annualized	4.982	4.775	4.844	5.674	5.882	5.951	5.951	6.020	5.951	5.813	6.020	5.674	5.628
Installed Capacity	6.920	6.920	6.920	6.920	6.920	6.920	6.920	6.920	6.920	6.920	6.920	6.920	6.920
% Installed Capacity Operating	72%	69%	70%	82%	85%	86%	86%	87%	86%	84%	87%	82%	81%
Imports	8	15	8	12	8	15	10	10	10	19	10	10	135
Total Supply	431	381	419	478	508	504	515	521	499	513	505	492	5.767
Demand													
Gasoline demand G95	6.953	6.953	7.817	8.105	8.489	8.681	8.649	8.457	8.100	7.850	7.640	7.448	95.145
Demand T2	422	422	485	510	530	532	523	511	448	434	423	412	5.652
Annualized Demand	4.969	5.501	5.707	6.209	6.240	6.473	6.152	6.018	5.454	5.115	5.144	4.853	5.653
% Blending rate (v/v)	6,1%	6,1%	6,2%	6,3%	6,2%	6,1%	6,0%	6,0%	5,5%	5,5%	5,5%	5,5%	5,9%
Exports	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Demand	422	422	485	510	530	532	523	511	448	434	423	412	5.652
Carry out	304	263	198	166	144	116	109	119	170	248	330	410	410
Days inventory month End	22	17	13	10	8	7	6	7	11	18	23	31	26
Rdam Crush (Eur/cbm)	221	265	226	176	229	221	221	209	178	121	114	113	191
Rdam Crush est. (Eur/cbm)	221	265	226	176	229	221	221	209	178	121	114	120	192
Variation	0	0	0	0	0	0	0	0	0	0	0	-7	

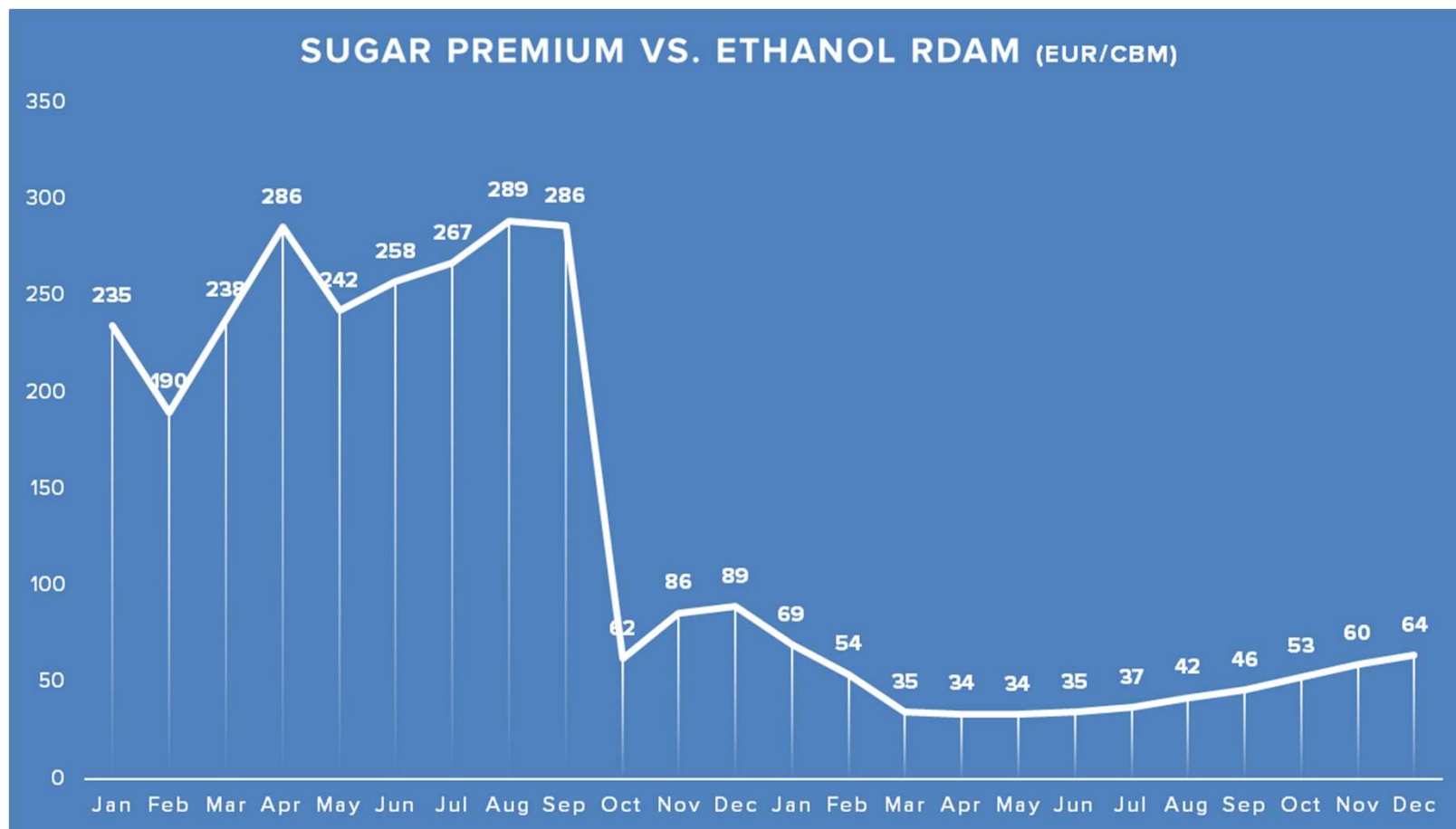
➤ No changes to our Crush Margin estimate of 192 Eur/cbm for the avg. of 2017.

EUROPE – ETHANOL S&D 2018

EU Ethanol S & D													
x 1000 cbm	ene-18	feb-18	mar-18	abr-18	may-18	jun-18	jul-18	ago-18	sep-18	oct-18	nov-18	dic-18	Total
Carry in	410	464	467	445	421	410	392	406	432	482	533	546	410
Actual Ethanol Production	482	430	470	483	517	512	535	535	495	482	432	447	5.820
Annualized	5.674	5.605	5.536	5.882	6.089	6.228	6.297	6.297	6.020	5.674	5.259	5.259	5.818
Installed Capacity	6.920	6.920	6.920	6.920	6.920	6.920	6.920	6.920	6.920	6.920	6.920	6.920	6.920
% Installed Capacity Operating	82%	81%	80%	85%	88%	90%	91%	91%	87%	82%	76%	76%	84%
Imports	5	5	5	15	15	15	15	15	15	15	15	15	150
Total Supply	487	435	475	498	532	527	550	550	510	497	447	462	5.970
Demand													
Gasoline demand G95	6.988	6.988	7.856	8.146	8.532	8.725	8.693	8.500	8.141	7.889	7.678	7.485	95.620
vs. 2017	0,50%	0,50%	0,50%	0,50%	0,50%	0,50%	0,50%	0,50%	0,50%	0,50%	0,50%	0,50%	
Demand T2	433	433	497	523	543	545	536	524	460	446	434	423	5.795
Annualized Demand	5.092	5.638	5.846	6.358	6.392	6.632	6.306	6.169	5.600	5.252	5.282	4.983	5.796
% Blending rate (v/v)	6,2%	6,2%	6,3%	6,4%	6,4%	6,2%	6,2%	6,2%	5,7%	5,7%	5,7%	5,7%	6,1%
2017	6,1%	6,1%	6,2%	6,3%	6,2%	6,1%	6,0%	6,0%	5,5%	5,5%	5,5%	5,5%	
Exports	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Demand	433	433	497	523	543	545	536	524	460	446	434	423	5.795
Carry out	464	467	445	421	410	392	406	432	482	533	546	584	584
Days inventory month End	33	30	28	24	23	22	24	26	31	37	38	43	37
Rdam Crush (Eur/cbm)	120	122	128	131	136	137	137	134	131	128	123	121	129
Rdam Crush est. (Eur/cbm)	110	110	110	118	125	130	127	125	122	114	120	120	119
Variation	10	12	18	13	11	7	10	9	9	14	3	1	

➤ No changes to our Crush Margin estimate of 119 Eur/cbm for the avg. of 2018.

EUROPE – SUGAR/ETHANOL ARBITRAGE



- Sugar premium over Ethanol plummeted for a second week in a row closing at 47 Eur/cbm vs. 64 last week for the avg. of 2018 (this premium is FOB basis so depending on the location of each plant, this premium might be lower).
- Jan-Sep as per EU prices. Oct17-Dec18 as per international prices

US - ETHANOL

- We have updated our 2018 S&D projection with actual November figures and adjusted slightly our avg. Crush Margin estimate for 2017 to 49 cpg from 51. No changes to our avg. Crush Margin estimate of 47 cpg for 2018.
- Ending stocks for Nov were 945 MG vs. 924 the previous week and a bit higher vs. the 938 MG of our estimate. Production jumped closing @ 17,0 BGPY vs. 16,3 last week. Nov closed at 16,4 BGPY vs. 16,1 of our estimate. This week was at record production rates. Gasoline demand closed Nov lower than our projection at 140,7 BGPY vs. 143,3 respectively. Capacity utilization for Nov was @ 105% vs. 103% we had projected.
- Spot Ethanol was almost unchanged in the week closing @ 1,334 USD/gal vs. 1,33 last week. Spot crush closed higher @ 40 cpg vs. 37 last week. Jan-Nov 2017 Crush ytd. is 50 cpg (Jan-Oct Crush was 51 cpg). Q4 Crush closed unchanged @ 43 cpg vs. our estimate of 42. Full year crush closed unchanged @ 49 cpg vs. 49 of our estimate. 2018 crush avg. closed lower @ 40 cpg vs. 41 last week and vs. 47 of our estimate. Q1 closed unchanged @ 39 cpg; Q2 lower @ 42 cpg vs. 43 last week; Q3 closed down @ 41 cpg vs. 42 last week and Q4 closed lower as well @ 37 cpg vs. 38 last week. There is a full contango from Jan to Sep.
- Production record according to the EIA data released, higher stocks and poor demand is the summary of the week. Also export numbers for Oct came out and for a second month in a row the number is below 100 MG with a significant reduction in Brazilian exports as a consequence of the new import quota and tax. Trying to find something positive is that one can see in the export figures volume going to middle east just for the competitiveness of the ethanol as an octane booster meaning these prices incentivize demand in voluntary markets. But coming back to reality the outlook is bearish with production rates increasing week by week since the Sep maintenance period. No one seems to think of running at lower rates and that only means that cash destruction will kick out of the market the less efficient producers as margins are below cost of production on a spot basis and 2018 futures. Only a demand shock can change this bearish picture, like the use of E15 in California, China opening US imports again, or something of this magnitude is what we need to see in order to avoid closures and probably bankruptcies. With increasing competition for efficiency, we think the market will remain weak in the area of 40 cpg with risk to the downside until we start to see plant stoppages.
- ***Lowering production rates and limiting supply continues to be the best hedge for producers. Q4 trading @ 37 cpg is a good buy. No additional recommendation at current values. We see the floor around 35 cpg and there is where we would recommend buying.***

US - ETHANOL

EPA's ruling for RVOs for 2018

- 1G Corn Ethanol is unchanged vs. 2017 at 15 bill gal.
- This number combined with the Gasoline demand they are estimating for 2018 makes a 10,67% blending level which is breaking the blend wall but below 2017.
- The reduction of the target for Advanced Biofuels will negatively impact Brazilian exports

	<u>Renewable Volume Obligations (bill gallons)</u>								
	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Cellulosic (mill gal)	6,60	8,65	6,00	33,00	123,00	230,00	311,00	288,00	n/a
Biodiesel	0,80	1,00	1,28	1,63	1,73	1,90	2,00	2,10	2,10
Advanced	1,35	2,00	2,75	2,67	2,88	3,61	4,28	4,29	n/a
Total	13,95	15,20	16,55	16,28	16,93	18,11	19,28	19,29	n/a
<i>Implied Corn Ethanol</i>	12,60	13,20	13,80	13,61	14,05	14,50	15,00	15,00	n/a

All values are ethanol equivalent on an energy content basis, except for BBD which is biodiesel equivalent

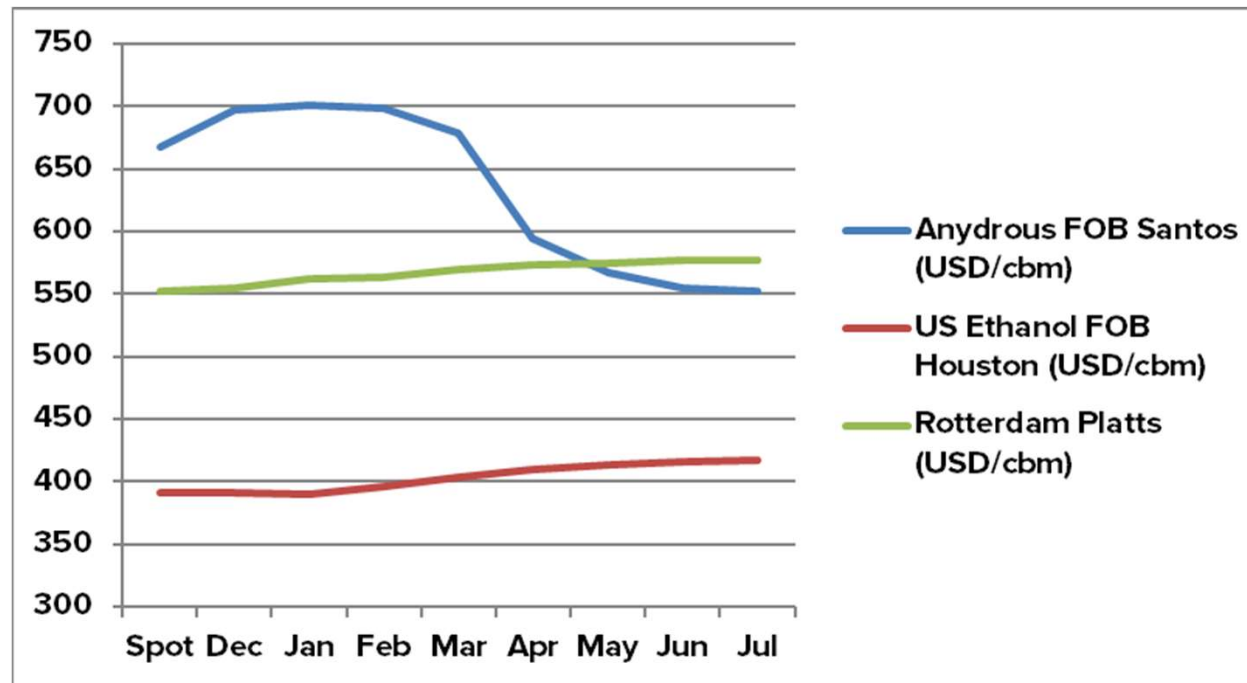
US – ETHANOL S&D

US Ethanol S&D													
	2017												
x 1 mill gallons	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
Carry In	820	947	962	993	966	959	906	878	887	905	896	945	820
Total Ethanol Production	1.444	1.209	1.351	1.257	1.325	1.265	1.317	1.361	1.287	1.338	1.350	1.391	15.895
Conventional Ethanol Production	1.442	1.207	1.349	1.254	1.323	1.263	1.315	1.358	1.285	1.336	1.348	1.389	15.870
Cellulosic Ethanol Production	2	2	2	2	2	2	2	2	2	2	2	2	25
Annualized Ethanol Production	17.001	15.756	15.913	15.288	15.599	15.391	15.510	16.020	15.660	15.753	16.431	16.378	
<i>kbpd</i>	<i>1.109</i>	<i>1.028</i>	<i>1.038</i>	<i>997</i>	<i>1.018</i>	<i>1.004</i>	<i>1.012</i>	<i>1.045</i>	<i>1.022</i>	<i>1.028</i>	<i>1.072</i>	<i>1.068</i>	<i>1.037</i>
Conventional Installed Capacity	15.574	15.575	15.576	15.574	15.574	15.574	15.574	15.574	15.574	15.574	15.574	15.574	15.574
% Installed Capacity Operating	109%	101%	102%	98%	100%	99%	99%	103%	100%	101%	105%	105%	102%
Cellulosic Installed Capacity	50	50	50	50	50	50	50	50	50	50	50	50	50
% Installed Capacity Operating	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%
Imports	0	0	0	0	1	0	0	11	0	2	3	0	17
Total Supply	2.264	2.156	2.314	2.249	2.292	2.224	2.223	2.250	2.174	2.244	2.249	2.336	15.911
Ethanol Demand	jan	feb	mar	apr	may	jun	jul	aug	sep	oct	nov	dec	
Motor Fuel Demand	11.071	10.570	12.177	11.836	12.352	12.007	12.708	12.488	11.914	12.209	11.562	12.309	143.203
2017 Annualized Motor Fuel Demand	130.350	137.788	143.374	144.000	145.440	146.080	149.625	147.036	144.957	143.756	140.674	144.930	143.167
<i>kbpd</i>	<i>8.503</i>	<i>8.988</i>	<i>9.353</i>	<i>9.393</i>	<i>9.487</i>	<i>9.529</i>	<i>9.760</i>	<i>9.591</i>	<i>9.456</i>	<i>9.377</i>	<i>9.176</i>	<i>9.454</i>	
2016 Annualized Motor Fuel Demand	132.912	141.130	144.090	141.234	144.660	148.140	147.130	147.090	145.510	139.430	141.700	143.645	143.056
Percentage Increase/Decrease	-1,9%	-2,4%	-0,5%	2,0%	0,5%	-1,4%	1,7%	0,0%	-0,4%	3,1%	-0,7%	0,9%	0,1%
Ethanol Motor Fuel Inclusion Rate	10,79%	9,96%	9,80%	10,07%	9,83%	10,20%	9,67%	10,09%	9,93%	10,31%	10,50%	10,50%	10,14%
Ethanol for Gasoline Blending	1.195	1.053	1.193	1.192	1.214	1.225	1.228	1.259	1.183	1.258	1.214	1.292	14.508
Export	122	141	128	91	119	93	117	103	87	90	90	90	1.270
Total Ethanol Demand	1.317	1.193	1.321	1.283	1.333	1.318	1.345	1.363	1.269	1.348	1.304	1.382	15.778
Total Ethanol Demand Annualized	15.505	15.021	15.554	15.611	15.695	16.036	15.840	16.044	15.444	15.874	15.870	16.277	
Carry Out	947	962	993	966	959	906	878	887	905	896	945	954	954
Days Inventory - Month End	22,3	23,4	23,3	22,6	22,3	20,6	20,2	20,2	21,4	20,6	21,7	21,4	21,7
Chicago Crush (cpg)	46	50	49	60	44	49	48	57	60	46	42	40	49
Chicago Crush est. (cpg)	46	50	49	60	44	49	48	57	60	46	42	39	49
<i>Variation</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>1</i>	

- We have updated our 2018 S&D projection with actual November figures and adjusted slightly our avg. Crush Margin estimate for 2017 to 49 cpg from 51. No changes to our avg. Crush Margin estimate of 47 cpg for 2018.

ETHANOL ARBITRAGES

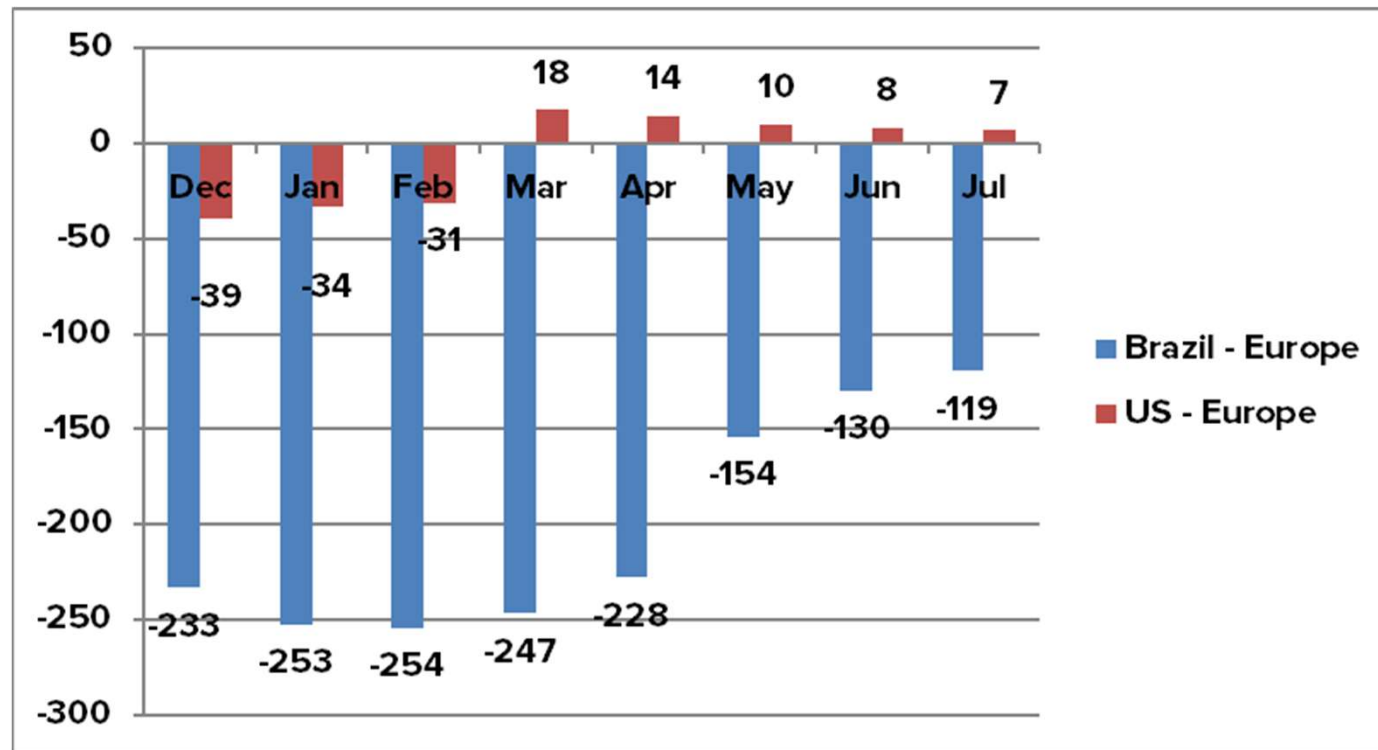
FOB Prices



- US Ethanol remains the cheapest by far
- Even with Brazil FOB prices lower than EU, arb is closed

ETHANOL ARBITRAGES

EU Arbitrage (USD/cbm)



- US to Europe in the money from March onwards without the antidumping duty.
- Feb 2018 is the end of the Anti Dumping duty for US material.

CORN

- Chicago Corn was almost unchanged in the week closing @ 3,40 USD/bu vs. 3,45 last week. Matiff was almost unchanged closing @ 154 Eur/ton vs. 153,75 last week. Dutch Paper Market was unchanged @ 169 Eur/ton. Corn levy in EU at 5,16 Eur/ton.
- The bulk of the fall in Chicago was on Monday with the market losing all the gains of the previous week just in one day closing at 3,39 from an opening at 3,45. The rest of the week was very flatish but trending lower making a low of 3,37 on Thursday and only Friday there was a recovery to finally close at 3,40. As a reminder, the low of the year back in Aug is 3,28 only 9 cpg away of last week's low. The record rate in Ethanol production showed a high usage of corn but this was not enough to hold prices basically because of weak US exports due to competition between US and Brazil for export markets, with the US losing market share. A weakening Real and stronger Dollar didn't help this week. On the supportive side are weather concerns with a possible La Niña formation and dry weather already in Australia and South America. The spec community still has a near to record net short. Nothing to highlight on the European front with the market almost flat during the week in Matiff and no movement at all in the Dutch paper market. We expect prices to remain within the 3,45 area basis Chicago and 155 area basis Matiff.
- ***We continue to recommend taking advantage of these low Chi prices which give Ethanol producers and corn consumers in general very attractive hedging opportunities. No changes in our view of Corn below 4 basis Chicago for the avg. of the year.***

CORN

- Statistics- USDA data US 16/17 crop: Yield @ 174,6 bpa; Production @ 15,15 bill bu; Stocks @ 2,295 bill bu; USDA data US 17/18 crop: Yield @ 175,4 bpa (vs. 171,8 last report); Production @ 14,58 bill bu vs. 14,28 last report; Stocks @ 2,49 bill bu vs. 2,34 of previous report. USDA data World 16/17: Stocks @ 227 mill ton. USDA data World 17/18: Stocks @ 203,8 mill ton vs. 201,0 of previous report. EU 16/17 crop @ 61,1 Mton and 17/18 crop @ 62,2 Mton. FranceAgrimer production at 12,8 Mton; 16/17 stocks @ 1,95 mill ton and 17/18 production @ 12,7 mill ton and stocks @ 2,7 mill ton. CONAB pegged Brazil 16/17 production @ 97,7 mill ton (vs. 97,2 of last revision and vs. 98,5 of USDA).
- Matif was almost unchanged closing @ 154 Eur/ton vs. 153,75 last week. Dutch Paper Market was unchanged @ 169 Eur/ton. Corn levy in EU at 5,16 Eur/ton.
- Q1 Black Sea FOB closed lower @ 178 USD/ton vs 181 last week (+100 c/bu over CBOT vs. 101 last week)
- Q2 Black Sea FOB closed higher @ 183 USD/ton vs. 186 last week (+91 c/bu over CBOT vs. 106 last week)
- Q3 Black Sea FOB closed lower @ 186 USD/ton vs. 190 last week (+83 c/bu over CBOT vs. 108 last week)
- ***Basis Black Sea corn vs. Chicago continues to be expensive when compared with historical values.***

- US RTG was strong this week with the US Corn Belt closing @ 119% vs. 104 last week and FOB Gulf @ 122% vs. 118 last week. FOB Rdam RTG was higher as well closing @ 108% vs. 104 last week.
- In line with our expectations even the additional supply from ethanol plants producing at record levels in the US was more than offset by higher seasonal demand locally and for exports. Strong demand from Asia has brought prices up at both sides of the Atlantic. This was also seen in increasing freight prices which were around 7 USD/ton higher to Asian destinations from US Gulf. Also, the lack of production from the Vivergo plant in the UK has been covered by additional US shipments supporting price in the US more than in Europe.
- The grains and soy complexes were down except for soybean meal thanks to higher China demand. The big loser was wheat with the huge Russian crop estimates fully offsetting Australian weather problems.
- We have elevated our projected trading range in RTG terms, moving to 110 – 120% from the previous 100-110% Return to Grain (RTG).

BRAZIL

- No changes to our Sugarcane estimate of 580 Mton and 47% of Sugar mix. Unica data as per 1H of Nov: 552,9 Mton of cane crushed (-1,61% yoy), 34,4 Mton of Sugar produced (+2,36% yoy), 23,7 Mcbm of total Ethanol (+0,2% yoy) and ATR of 137,58 (+2,57% yoy). Sugar mix was 47,4% vs. 46,73 last year.
- Unica data for 2H Nov is due and will hopefully be published next week which should take the cumulative crushing number very close to our 580 Mton projection and we think we will meet the 47% sugar mix as ethanol continues to be significantly more remunerative than sugar. The info should also show the bulk of the mills closing during the fortnight and only a few still operating.
- No changes to our estimates for the 17/18 crop with 575 mill ton of cane, lower sugar mix of 45% vs. 47% this crop, with 2 mill ton less sugar production. As a reference, a 5% mix variation towards ethanol means around 2,5 Mcbm of more ethanol and almost 3 Mton of less sugar.

BRAZIL

- Ethanol: Price was up again this week for nine consecutive weeks closing @ 1738 BRL/cbm vs. 1710 last week. Petrobras decreased price of gasoline by -2,2%.
- With ethanol price up by 1,6% in the week and gasoline down by 2,2% we have now ethanol parity with gasoline at 71%. Bear in mind ethanol and gasoline prices are Ex Works mills and refinery, respectively, while parity is measured at the pump, so it takes between a few days to a couple of weeks for the Ex Work prices to be fully reflected at the pump. We don't think a 71% or even 75% parity level is enough to destroy demand. The consumer is now used to Ethanol, festivities are around the corner, summer vacation and ultimately carnival: is a high demand season. ANP data revealed a +1,5% fuel demand growth ytd until 31st Oct with a jump of +15% in Hydrous ethanol. Imports have also diminished as a response to the import quotas and import tax above those quotas.
- The flat crude prices we are projecting could limit higher ethanol prices but with this high seasonal demand ***we are still projecting strong prices as we would need parity to go up to 80% levels to start seeing some demand destruction which will ultimately have an impact in prices.***

BRAZIL

- Sugar: Sugar plummeted in the week closing @ 14,05 c/lb vs. 14,98 last week. With BRL closing @ 3,29 this makes a 46,22 cBRL/lb vs. 48,83 last week. Apr to Nov 2018 is trading at an avg. of 49,36 cBRL/lb vs. 51,92 last week.
- Sugar broke the support it had in 14,92 and has fallen to a low of 13,97 in the week. Support lies now at 13,72, the previous low back in Sep. Most of the gains of Oct and Nov were lost this week as soon as the first stats from India came out. A 42% increase of production for the first two months of the crop vs. the 25% increase expected for the overall crop pressured the market. Pakistan didn't help as well with the government adding a second subsidy for sugar exports which in total amounts 200 USD/ton aiming to give a solution to high sugar stocks. This will probably incentivize local producers to produce more so is no solution for the surplus. We have been indicating the global surplus in sugar vs. the strong market we saw this past two months, but we didn't think the market would break to the downside as aggressive as it has done. Also, the fall has been against gains in crude and thus breaking the correlation both markets had during most part of this year. The low of the year was 12,53 back in June. We don't think we will see a low during the Brazilian intercrop but if India shows figures that could indicate a crop bigger than 25 Mton then we could see this happening. In the short term the focus now turns to India and crude will be just a reference as high ethanol prices in Brazil -trading at 16,75 c/lb sugar equivalent- will play no role once Brazilian mills are down for the next 4 to 5 months. We expect a weak market during the next 2 to 3 months with volatility depending on the northern hemisphere statistics, mainly India and Europe. The only positive news is the RenovaBio program making progress in Brazil, which can change the picture but first for late 2019. This could have a positive reaction in prices if the spec community is attracted by that. Read the regulatory update below.
- ***From a producer's perspective no recommendation to sell now with the market trading below cost of production for Brazilian millers. Watch closely and buying is probably a better option at levels around 12 c/lb.***

REGULATORY UPDATE

Renova Bio Brazil

- The program was approved by the House of Representatives last week and strong rumors indicate the Senate could approve the week of 12 Dec although there is no official announcement.
- If approved by the Senate there is a 6 month period to define GHG reduction targets and then 18 months for implementation, where renewable certificates called CBIOS will be issued by ethanol producers and will start to trade.
- Obligated parties are fuel distributors which will have to meet their GHG reduction targets through these renewable certificates. This CBIOS will be similar to the US RINS mechanism.
- First estimates indicate that the ethanol market could double between now and 2030.

REGULATORY UPDATE

E10 in UK and NL

Vivergo Fuels shuts down indefinitely as government fails to implement E10. No news in NL
In the UK, Vivergo Fuels has mothballed its wheat-based ethanol facility in Hull indefinitely due to the lack of government policy that would drive the biofuel sector. The government released a policy in September for E10 but no plans have been made to implement it.

“Over the past six weeks we have seen bioethanol prices fall significantly impacting Vivergo profit margins further. Whilst there have been some supply increases this year, the bioethanol market in the UK remains constrained by the Government’s inaction.

As a result of these market conditions and legislative uncertainty, we have taken the decision to take our production facility offline for the foreseeable future. While the plant is offline, we are taking the opportunity to bring forward and extend our annual plant maintenance work in order to maintain employment levels. We will closely monitor the market ahead of any plant re-starting.”

Since past September where UK Government’s Renewable Fuels Transport did not include any specific supportive measure for the introduction of E10, there is no clear signal on when Department of Transport may provide some final decision on this.

Also, no progress on Dutch E10 roll-out though NL Government reiterates their plans to introduce by the end of the next year.

METHODOLOGY AND DEFINITIONS

$$\text{Crush} = \text{EtOH} - \frac{(\text{Corn}) * (1 - \text{DDG yield} * \text{DDG RTG}\%)}{\text{Corn Conversion Yield}} - (\text{Nat Gas consumption} * \text{Nat Gas})$$

$$\text{Rotterdam Crush Margin (Eur per cbm)} = \text{Rdam EtOH} - \frac{(\text{Dutch Paper Corn}) * 0.7}{0,4} - 3 * \text{Natural Gas}$$

$$\text{Chicago Crush Margin (USD per gallon)} = \text{Chi EtOH} - \frac{(\text{Chi Corn}) * 0.7}{2,8} - 0,031767 * \text{Natural Gas}$$

List of abbreviations and definitions most commonly used in this report.

WTI- is West Texas Intermediate; SP- Sao Paulo; H1- or 1H is first half of the year, week, etc.; Q1, Q2...- is quarter one, two, etc.; Chi- Chicago; Rdam- Rotterdam;
 Jan, Feb, etc.- months of the year always expressed with the first three letters; Cbm- cubic meter or m³; k- represents thousand so 1k cbm is one thousand cubic meters; Cpg- cents (US) per gallon; MG- Million gallons; BGPY – Billion gallons per year; RVO- Renewable Volume Obligation; EPA- Environmental Protection Agency; 1G, 2G- First, Second Generation; Bu- bushel; BPA- bushels per acre; Ton- (metric) ton; Mton- million (metric) tons; RTG- Return to Grain; Ytd- year to date; Yoy- year on year; Mcbm- million cubic meters; ATR- Total Recoverable Sugars (Acucar total recuperavel); Gvmt- Government; c/lb- cents (USD) per pound; cBRL/lb- cents (BRL) per pound; CFTC- Commodity Futures Trading Commission.

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