NFU SUGAR NATIONAL NEWSLETTER

The Beet Brief

9 Feb 2018

UK beet price tracker					
£/adjusted tonne	Base price, £/t	Bonus, €/t (latest month)	ECB £/€ rate (monthly average)	Bonus, £/t (latest month)	Bonus, £/t (cumulative to date)
2017 one-year contract	**£22**	*0*	-	*0*	**0**
2017 three-year contract	**£22**	*0*	-	*0*	**0**

Prices before adjustments. Bonuses apply when EU price >€475/t, and are liable to exchange rate fluctuations.

Highlights

- EU average white sugar prices dropped in November to €410/t, maintaining a premium to the world market.
- A smaller projected surplus in 2018/19 could maintain this premium over world prices next campaign.
- EU prices have been supported by active exports, benefitting deficit sugar markets such as the UK.

EU average white sugar prices dropped again in November to €410/t, although not as sharply as they did into October. The value for October has also been revised up marginally to €422/t, remaining well below the €475/t trigger value.

Given these two values, the average EU price appears to be stabilising just above the €400/t mark for the campaign. Typically, prices would not be expected to move significantly during the campaign due to most sales being carried out under contracts rather than priced on a spot basis.

While these values are not as attractive as the c.€500/t achieved last campaign, they do show that sugar prices in the EU are remaining above world market values despite the large EU surplus this year. As covered overleaf, this is particularly beneficial to processors in deficit regions selling mostly within the internal market, such as the UK.

Outlooks for 2018/19 suggest that while the EU market may be able to maintain a premium over the world price, the world market itself is not currently expected to be especially buoyant. Unlike last year, EU sugar supply contracts signed this spring/summer are not likely to be at a substantially higher price—this time last year the world market was trading over $500/t, meaning some EU deals may have been priced at a premium to that accordingly. On the flipside, the EU is provisionally expected to have a smaller surplus in 2018/19 (see figure 1). A smaller surplus could allow for a larger premium over the world market, if the market operates as it has done this year once again, as covered overleaf.

On a world market perspective, the trade is starting to look towards 2018 beet planting decisions for a response to the lower sugar prices. However, evidence to date suggests that for various reasons the planted area in the EU is not expected to be much different from 2017, not least due to the beet prices on offer to growers. With a substantial 'sugar mountain' to get through on the world balance sheet, even a return to more average production levels across the world would likely mean a sizeable world surplus still in the market.

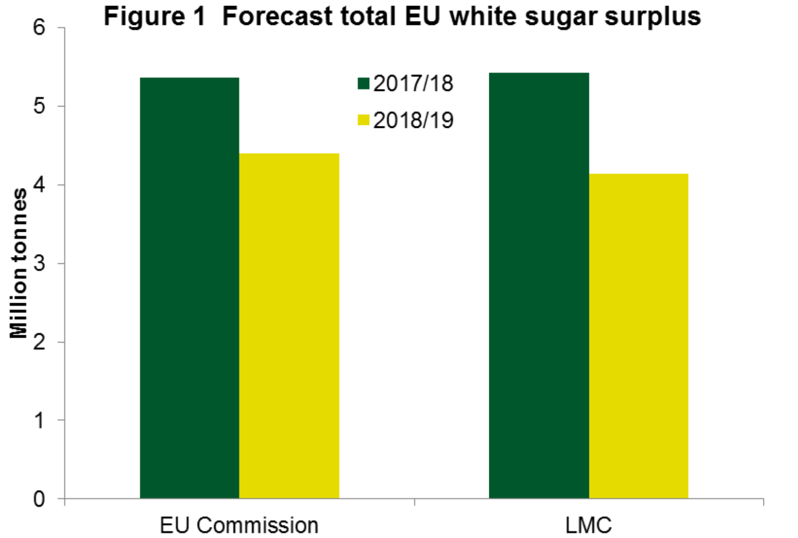


Figure 1 Forecast total EU white sugar surplus

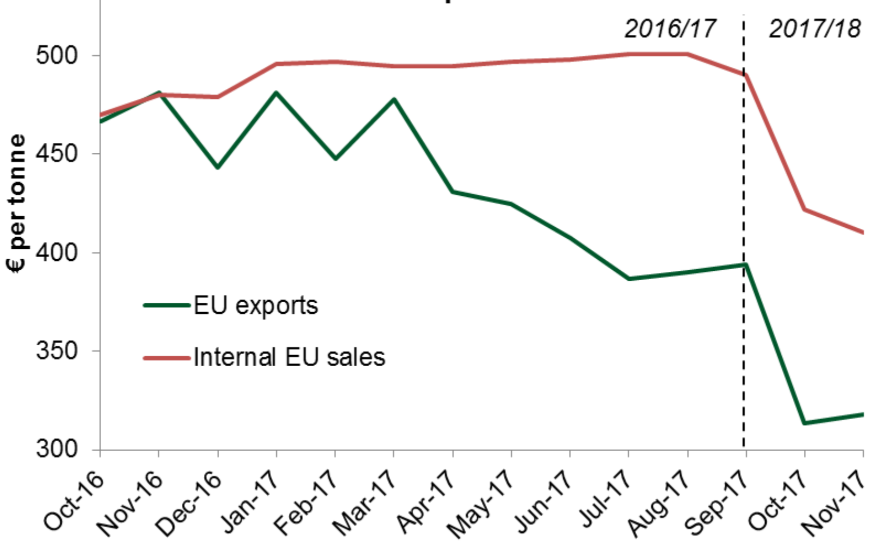
Sources: EU Commission, LMC

Despite the large surplus produced in the EU this campaign, the internal EU market has remained at a premium to the world price. EU processors exporting on to the world market have accepted substantially lower values on this sugar in order to ensure it is moved and keep the EU market buoyant, which particularly benefits those countries with more focus on the internal market, such as the UK.

The first campaign post-quota has lead to an anticipated EU surplus of 5-6Mt, of which 3Mt or more is expected to be exported. This might be expected to drive the EU price down to the world price, as this is the value that processors need to compete at to sell the surplus. However, processors have avoided this happening by actively shifting export sugar at a much lower price than domestic sales to avoid surplus stocks building up on the home market.

This has lead to a multi-tier pricing structure, as shown in figure 2, with export sugar being sold at a much lower value than sugar within the EU. Sugar for export outside the EU has sold at not much above €300/t ex-works this campaign, compared to the $422/t average value for sugar on the internal market.

Figure 2 Average internal and export white sugar prices

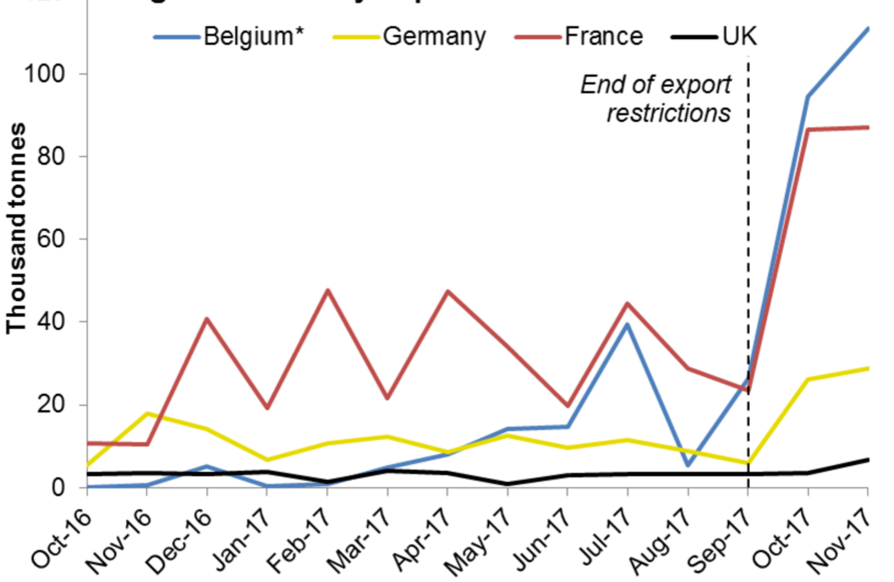


Prices in ex-works equivalent *Sources: EU Commission, Eurostat*

By actively shifting the surplus, even if this means selling it below the going world price in some cases, the amount of sugar available for sale within the EU remains more in balance with demand and prevents a large internal surplus driving down EU prices further. It also reduces the risk of carrying over large stocks into next campaign. In return for these gains, those processors in the core surplus regions in continental Europe are the most exposed to the lower world market price 'tier'.

While this campaign's crop in the UK is much larger than the previous quota size, as with others across Europe, the existing deficit in the UK market has meant that there is less need to actively export onto the world market at lower prices. Instead, there has been much more capacity for the industry to grow while still focusing on the higher value home and EU markets. The UK has not had to increase exposure to the world market anywhere near as much as some other parts of the EU, as shown in figure 3, meaning that the overall average selling price of UK-produced sugar is likely to be holding up relative to elsewhere in Europe.

Figure 3 Monthly exports to non-EU destinations



**Includes exports from Antwerp* *Source: Eurostat*

Next Issue: Friday 9 March 2018

Your NFU Sugar:
Helpline: 0370 066 1974

Written by **Arthur Marshall**
Arthur.Marshall@nfu.org.uk 02476 858 796

Michael Sly | **Simon Smith** | **James Northen** | **Donald Hume** | **Diane Armitage** | **Arthur Marshall** | **Bethan Williams**
Chairman | Vice Chairman | Head of Sugar | Beet Intake Manager | Sugar Adviser | Commercial Analyst | Grower Engagement Coordinator