NFU SUGAR NATIONAL NEWSLETTER

The Beet Brief

8 Jun 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**

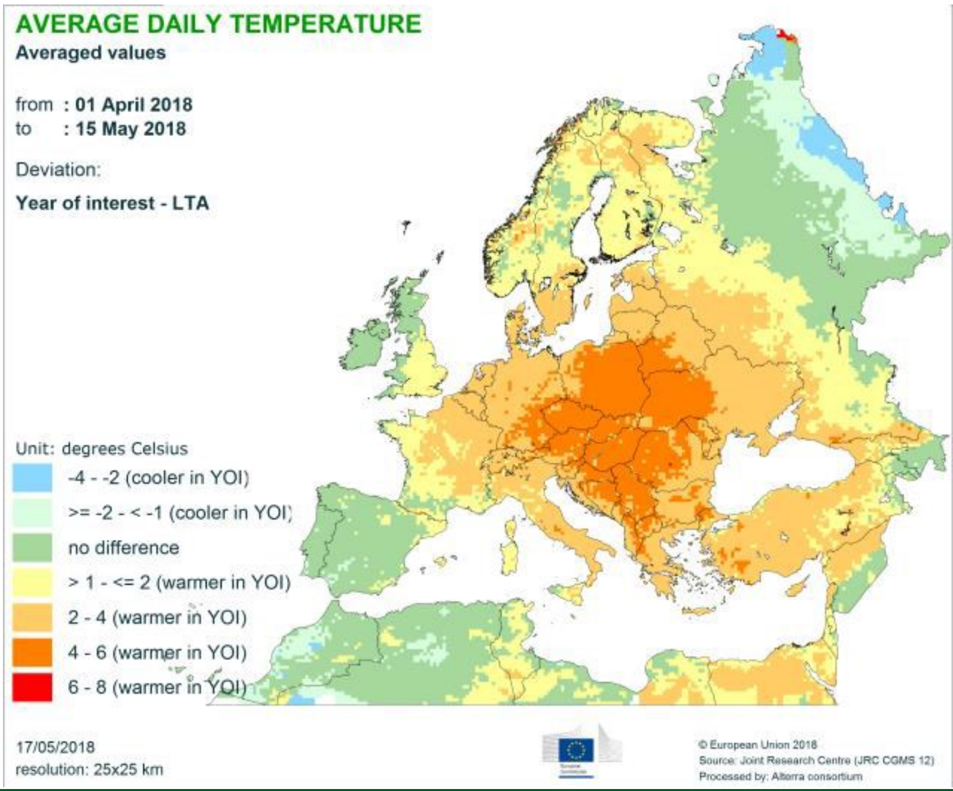
Prices before adjustments. Bonuses apply when EU price >€475/t, and are liable to exchange rate fluctuations.

Highlights

- Average white sugar prices in the EU were €376/t in March
- Crops across Europe compensating for the late planting with rapid emergence and growth in the past month
- Oct-18 world white sugar futures have breached $350/t for the first time in over two months

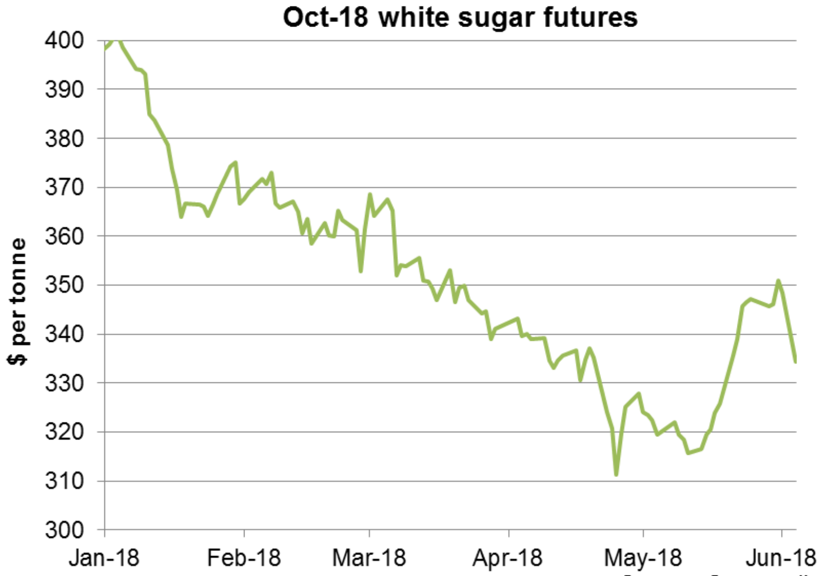
The average white sugar price in the EU was €376/t in March, rising very marginally for the second month in a row. However, spot sugar prices in the EU have dropped again since April, assessed by Platts at €321/t delivered in Western Europe at the end of May compared to €343/t the month before. Current spot prices equate to prices below €300/t ex-works in many places.

Reports regarding contract sugar prices in the EU for 2018/19, which account for most of the EU sugar market, suggest much lower price levels are being discussed than those in 2017/18. With the knowledge of where spot prices are now, buyers are reported to be reluctant to agree contract prices much above these levels, with many reports talking about prices in the low-€300s ex-works if not even lower. Following the rapid convergence of EU prices towards the world market this campaign, world prices will play a major role in determining EU sugar contract prices processors sell at—see overleaf for more.



Meanwhile, crops across Europe appear to be compensating for their late start. Aside from the very late planting, anecdotally we've heard the UK crop has had the best and most uniform emergence for many years. A similar picture exists across Europe, as we found out at the CIBE congress in mid-May, where growers in many countries reported that crops had already made up for the 1-2 week planting delays. Temperatures have been above average in much of Europe since the start of April, especially central and eastern Europe, which as reported by the EU's crop monitoring body has led to rapid crop development—leading the body to be relatively upbeat about yield potential for 2018 despite late plantings.

Though prices remain very low by historical standards, the world sugar market has spiked over the past few weeks. Oct-18 world white sugar futures breached $350/t for the first time in over two-months in late May largely on the back of news from Brazil, with buying by speculators potentially adding to the rally.



Source: Sugaronline

Recent dry weather in Brazil has reduced expectations of the crop size there as the country enters peak cane yielding months, while strikes by truckers severely restricted the flow of sugar to ports and limited the amount of Brazilian sugar that could access the market. The latter's relatively transient impact on price can be seen in the dip in the market since, though the former will be watched for its eventual impact on the crop.

The price rally triggered by these stimulated buying activities by speculators, who had record net-short positions through much of 2018 to the beginning of May. This meant they held a record number of sold contracts, creating the conditions for a rally to be amplified by their activity as they would need to buy back a corresponding volume of futures in order to take profit or loss from the trade. This level of sold contracts had built up over the past 12 months, with speculators selling futures as prices were falling (in anticipation of being able to buy back at a lower level). The latest rally triggered buying activity as these traders looked to book some of their profit and cover any risk that prices rise to a higher level than they initially sold futures at.

Despite this price spike, the underlying picture of a world sugar 'glut' remains. The latest International Sugar Organisation forecasts more than doubled their estimate of the world 2017/18 sugar surplus from 5.15Mt projected in February to 10.51Mt now, following continually growing production estimates in India and to a lesser extent Thailand, and despite a downward revision to Brazilian output. Indian production especially has been difficult to forecast, given that most cane farmers are smallholders with only very limited planted area each compared to growers elsewhere. The actual amount of cane planted and produced is not really known until it arrives at mill, which is partly why Indian sugar production can seemingly increase by over 5Mt (from 26Mt to 31.4Mt) in the space of three months.

Although prices for 2017/18 will have been mostly contracted, the latest world price rally would need to be sustained to be likely to reflect in next campaign's EU prices. The longer a rally is maintained, the more likely it will encourage buyers to price in those values. Nonetheless, while the market ended May at a higher level than at the start, these would still correspond to EU prices well below the €475/t trigger point for an uplift on the 2018/19 contract. Prices over the summer months will be very important with regards to sugar pricing for 2018/19.

Of interest given the current conversation on sugar taxes and similar measures, a recent study by the Institute of Economic Affairs has tried to quantify the cost of a 20% tax on all food and drinks with high sugar, salt or fat across different countries. UK households would spend an additional £458 annually on average in this example. The report also highlights how such a policy would hit those on the lowest incomes the most—since the same spend on food represents a much greater proportion of their income, paying an additional £458 equals a much greater effective tax rate than for someone on a higher income.

Next Issue: Friday 6 July 2018

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