NFU SUGAR NATIONAL NEWSLETTER

The Beet Brief

10 Oct 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**
2018 one-year contract	**£22.50**	*0*	-	*0*	**0**
2017 three-year contract	**£22**	*0*	-	*0*	**0**
2018 three-year contract	**£22.50**	*0*	-	*0*	**0**

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

Highlights

- The average EU white sugar price in July 2018 was €346/t
- EU sugar usage levels imply stocks carried into 2018/19 could be at the low end of forecasts
- Further details about the changes to performance rules to answer the questions you've been asking

The average white sugar price in the EU hit a new low again in July 2018, falling to €346/t. This is dropping closer to the spot price for white sugar in the EU, which has traded in the low €300s since early summer, despite the higher prices likely paid by some larger buyers who would have contracted sugar earlier in the marketing year when values were higher.

World white sugar futures for Dec-18 rose from a contract low a little over $300/t in early August, showing signs of strength climbing to c.$350/t in the first part of September. Values since dropped away again to $311 in late September as new Indian export subsidies amounting to $150/t for 5Mt of sugar were announced later in the month. These would provide no incentive for India to reduce production, supporting forecasts for it to overtake Brazil as the world's largest sugar producer this season. Into October, prices have risen back towards $350/t once again as a strengthening Brazilian Real is expected to limit Brazilian export selling.

Meanwhile in the EU for 2018/19, indications are that despite a potential drop in sugar production of c.2-2.5Mt in forecasts by the EU Commission, CIBE and LMC, there will still be a surplus in the market keeping pressure on prices. This is also related to the sizeable level of stock carryover expected across the EU (see over for more). Reports have consistently suggested buyers are contracting sugar in the low €300s, consistent with the EU market sitting at price levels that would encourage exports and discourage imports.

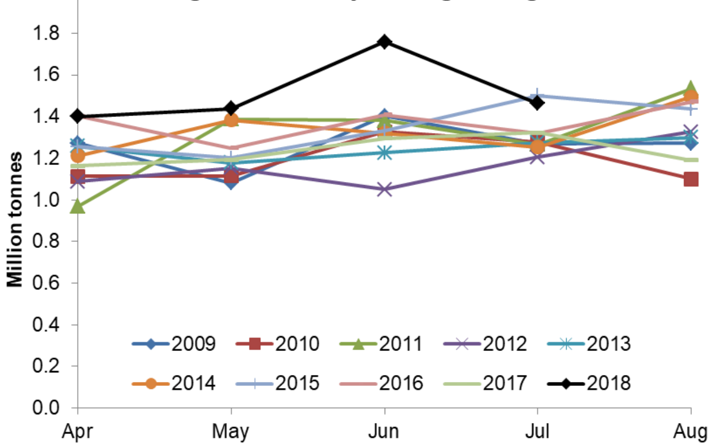
Looking further ahead, 2019/20 will be the first campaign following the EU neonics ban. This is likely to have an impact on EU production levels given the yield risks widely reported by European beet research institutes including the BBRO in the UK. Coupled with this, planted area is likely to fall in response to the lower beet prices generally available and following public announcements from Tereos and Suiker Unie that they are seeking 5% and 10-15% area cuts respectively.

Despite the long–term trend in consumption, indications this year imply monthly sugar usage in the EU has been higher than over the past decade, particularly into the summer. These usage rates suggest EU stocks carried over into 2018/19, while still historically high, could be towards the low end of forecasts. The lower the level of carryover stocks, the more the market balance will depend on yields and production this campaign.

Demand is likely to have been strong partly due to maximum production of ethanol by those processors that are able to produce both sugar and ethanol from beet. Given the very weak sugar prices, market indications suggest processors that can produce ethanol will receive better returns from that than from selling sugar on the spot market. However, even if ethanol production from sugar beet is assumed to be at maximum capacity, monthly EU consumption nonetheless would be at the highest level for the past ten years.

EU sugar usage in June this year about 400kt above average (see figure 1) may well be related to the hot summer weather, which would be expected to lead to increased consumption of products such as soft drinks and ice creams. To an extent, this might also be a reflection of an underlying demand response to the lower prices in the post-quota market. This would be surprising given that sugar consumption is not typically regarded as being sensitive to price, but could be an indication of sugar picking up some demand from isoglucose. Time will tell whether this underlying demand reaction to price is the case.

Figure 1 Monthly EU sugar usage



Calculated from EU Commission and Eurostat data

The more sugar is used in 2017/18, the less will be carried over in 2018/19. The first EU Commission forecast for 2018/19 pegs sugar exports (net of imports) at 1.3Mt (from 2Mt in 2017/18). An increase in 2017/18 consumption of the scale suggested above, while not close to wiping this surplus out, could eat into it, and makes the market more reliant on production this campaign for supply. If not enough to make a difference to 2018/19, the reduction in stock levels coupled with expected area reductions due to beet prices and loss of neonics may lay the groundwork for a tighter EU market in 2019/20.

You've been asking us a lot of questions about performance rules in 2018 and 2019, to understand how the changes will affect you. Starting from the example of a grower with 1,000t of CTE in 2017, we'll have a look at how the rules play out in different situations to help answer the questions you've been asking.

2017

Contract: 1,000t

2017

Delivered: 1,100t

What if I have less beet to sell to British Sugar in 2018?

2018

Contract: 1,000t

2018—scenario 1

Delivered: 600t

85% of contract (1,700t of 2,000t) delivered over two years—CTE may be cut to 85% (850t)

2018—scenario 2

Delivered: 800t

95% of contract (1,900t of 2,000t) delivered over two years. Performance rule met so no cut to CTE

What if I reduce my plantings in 2019?

2019

Contract: 850t

Growers 5-year average yield is 70t/ha (for example)

2019—scenario 1

Performance rules will be met if:

1,158t delivered, making 95% of contract (1,758t of 1,850t) over two years

OR if 11.56Ha planted, equalling the area to grow 850t at 70t/ha + 5%

2019

Contract: 1,000t

Growers 5-year average yield is 70t/ha (for example)

2019—scenario 2

Performance rules will be met if:

1,100t delivered, making 95% of contract (1,900t of 2,000t) over two years

OR if 13.61Ha planted, equalling the area to grow 1,000t at 70t/ha + 5%

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NFU SUGAR

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