NFU SUGAR NATIONAL NEWSLETTER

The Beet Brief

7 Dec 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**	*Final reference month of contract now completed*			**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**

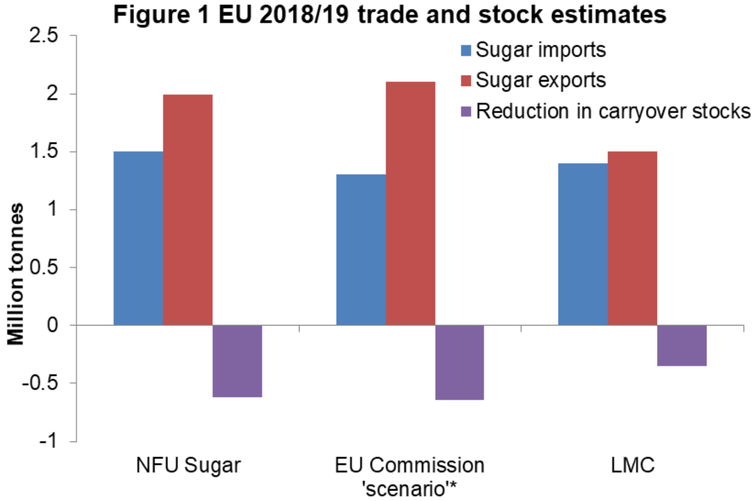
Prices before adjustments. Bonuses apply when EU price >€475/t, and are liable to exchange rate fluctuations.

Highlights

- The average EU white sugar price in September 2018 was €347/t.
- The EU market continues to look tighter in 2018/19, although it would take a lot for prices to exceed €475/t.

The average white sugar price in the EU dropped €3/t in September 2018 to €347/t. This brings the marketing year for 2017/18 beet contracts to an end with no market-related uplift triggered. Prices continued to diverge across the EU in September, with average values in southern Europe rising €17/t from the previous month while price in northwest Europe fell €10/t. As September reflects the transition to new season sugar, this could be indicative of a much wider price gap across the EU developing for 2018/19.

Figure 1 EU 2018/19 trade and stock estimates



**Presented as scenario rather than official estimate*

This is borne out somewhat in Platts' indications of current (spot) prices in the marketplace, which quoted spot prices in North Italy €10/t above French prices at the end of September, rising to €40/t by the end of October and €50/t by the end of November. This suggests core EU producers are less intensely exporting to these markets, in line with the expected tighter EU sugar supply this campaign. If fewer EU producers are competing to supply EU markets outside the core beet belt, these are more likely to import cane sugar.

Estimates of the EU supply and demand balance are continuing to tighten, with suggestions that the EU could be very close to exports and imports balancing, or else be left with very low carryover stocks into 2019/20, as shown in figure 1.

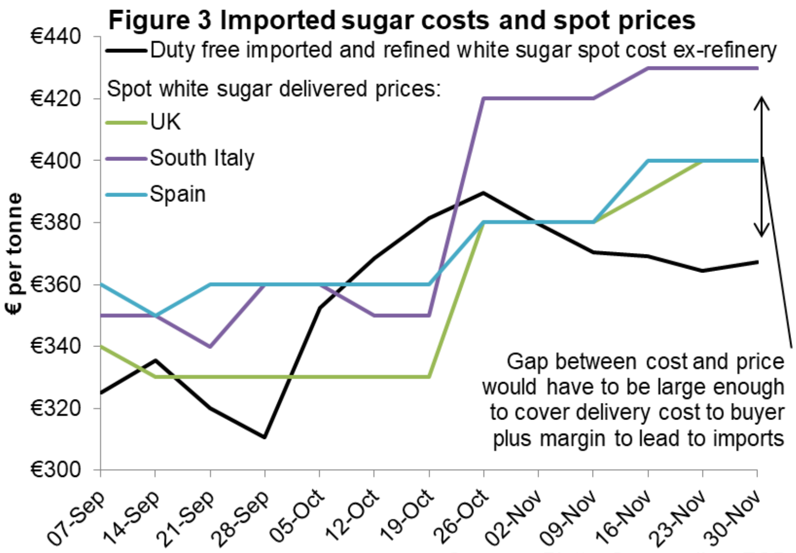
Figure 2 NFU Sugar EU balance sheet estimates ('000 tonnes)

	17/18	18/19
Opening stock	2174	2423
Production	21144	18600
Sugar imports	1286	1500
Imports in products	557	557
Food use	15687	15687
Industrial use	800	800
Ethanol use	1350	1250
Sugar exports	3353	1995
Exports in products	1548	1548
End stock	2423	1800

As noted last month, EU sugar usage appears to have risen almost 200Kt last year, defying expectations as buyers proved that demand does react to lower sugar prices by increasing sugar usage at the expense of alternative sweeteners such as isoglucose (high fructose syrup). Drawing this trend forwards also contributes to the tighter market balance we are estimating in 2018/19 (figure 2).

Despite the tighter market balance, and while imports are a little higher than last campaign so far, they remain at historically low levels. So far in the campaign, import levels have been much closer to last year's volumes than to those in 2016/17, when the EU was a deficit market under quotas, hence the expectations for only a small rise in imports in 2018/19 compared to 2017/18.

Imported and refined sugar is likely to only be taking market share for spot (uncontracted) sugar purchases mainly in those parts of the EU away from the beet belt, such as southern Italy. At the prices most major buyers are reported to have contracted at ahead of the campaign (low €300s), it would be very difficult for a refiner to compete. It is only in recent weeks that prices suggest imported sugar can be competitively supplied on the spot market into these areas, as shown in figure 3.



Sources: Platts, Sugaronline, ECB

This approach is also in line with the strategy being adopted by EU refiners as they explained to us at the recent International Sugar Organisation annual sugar seminar. With very little margin to be made in the bulk commodity white sugar end of the market, refiners are focusing on low volume, high margin specialities, and in the words of Tate & Lyle, "attempting to produce as little white sugar as possible". In practice, this means products such as golden syrup, brown sugars, organic, fairtrade, and selling whites into the retail market when possible where brands are stronger. Portuguese refiner RAR also explained their strategy of converting as many fixed costs into variable costs as possible, increasing their flexibility to switch on and off to produce only when profitable. This is in marked contrast to the solely cost-reduction focus of beet processors, whose response to the low prices has been attempting to sell commodity white sugar produced at as low a cost as possible.

With prices at a sufficient level to incentivise just a little more imports than last year, and the EU expected to just about maintain a sugar surplus, the spot market situation with prices in the EU beet belt now in the high €300s is an accurate reflection of the anticipated EU sugar balance. Further moves in the world market notwithstanding, average EU white sugar prices are therefore likely to sit in the mid-€300s for 2018/19, in between the lower price of pre-campaign contracts and higher spot price.

To move up towards the €475/t value to trigger a bonus, it would almost certainly require either a significant weather event (e.g. severe frost across northern Europe) to wipe out a further 2Mt+ of EU sugar production or else a substantial rally in the world market (e.g. if Indian production turned out to be millions of tonnes lower than expected).

The World Association of Beet and Cane Growers (WABCG), of which NFU Sugar is a member, presented their latest study demonstrating the importance of transparency in beet and cane reception across the world, showing where all countries could make improvements. Furthermore, it highlights that the value of beet intake data to growers and processors extends beyond use purely to establish payment to growers, as improving transparency and feedback allows all growers to improve their own practices.

As growers deliver raw materials of unknown quality and quantity, trust and transparency is vital in the process the world over. To demonstrate the importance of this, WABCG used the example of how a 1% error in sugar measurement in the UK could mean a $1.5m gain for the processor.

Grower associations in different countries all have some degree of oversight of beet/cane reception, but all can learn from what is done elsewhere. [The full study can be read here on the NFU Sugar website.]

Next issue expected: Friday 11 January 2019

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