NFU SUGAR NATIONAL NEWSLETTER

The Beet Brief

8 Mar 2019

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)**
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.

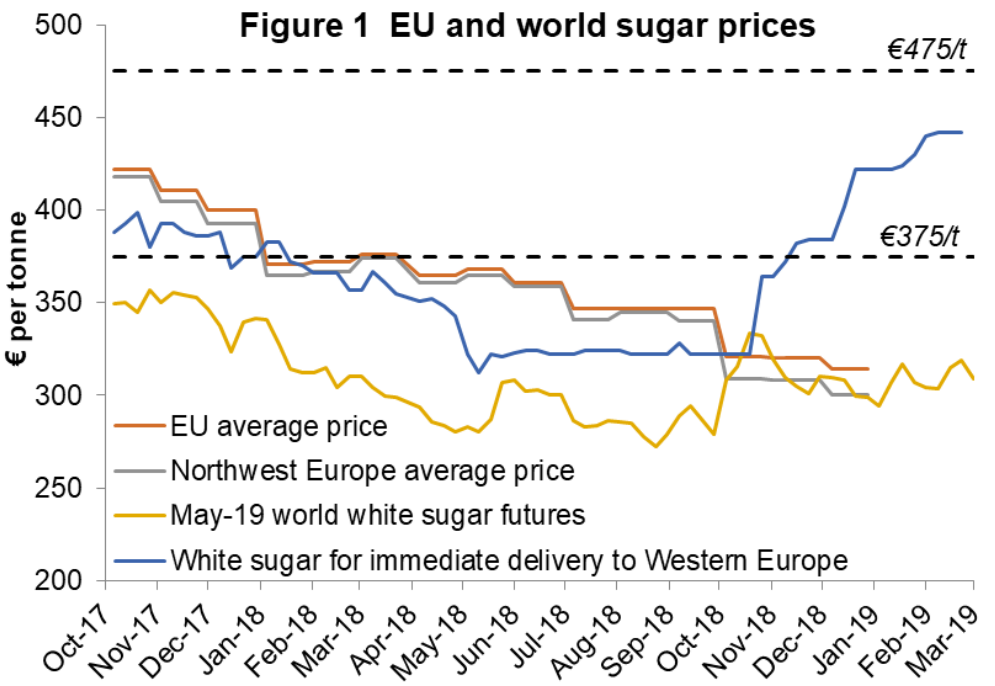
Highlights

- The average EU white sugar price in December 2018 reached a new record low of €314/t.
- ISO world sugar surplus estimate for 2018/19 reduced from 2.17Mt to 0.6Mt.
- Remainder of Südzucker's restructuring plan announced with five factories across Europe set to close.

The average EU white sugar price dropped to a new record low in December 2018 of €314/t. The average price in Northwest Europe (UK, FR, DE, BE, NL) fell further to €300/t, despite prices for immediate delivery in the same region having risen to over €400/t by that time. With the reported EU average price formed mostly of contracted sugar sales, the rising spot market price is having little impact on the value processors have managed to achieve for white sugar, having sold the majority of supplies ahead of the 2018/19 campaign at lower values.

The higher spot sugar price coupled with an anticipated tighter market balance in 2019/20 is generally expected to lead to higher reported average prices in the 2019/20 marketing year. However, one major buyer has talked to us about having secured a proportion of their sugar needs while the market was at its low point in the summer not just for 2018/19, but also for 2019/20 and 2020/21. What is not obvious is how much sugar this represents, but if this is the case among other buyers too it could limit the likelihood of seeing an uplift in the average reported EU white sugar price, even if the market price rises.

If this is widespread and does limit any uplift in the average EU white sugar price, it could mean the market related bonus on the 2019/20 one-year deal (despite having been lowered to kick in at €375/t) fails to trigger. Even if a bonus does trigger on the one-year deal next campaign, the EU average price which it is based on will have a long way to climb to reach the €475/t level to trigger a market related bonus on beet contracted on three year deals (see figure 1).



Sources: Platts, EU Commission, ICE futures

In its latest quarterly outlook, the International Sugar Organisation cut it's estimate of the world sugar balance in 2018/19 from a surplus of 2.17Mt to just 0.6Mt. Since their last forecast three months ago, supply from Brazil and the EU have both been reduced. Recent reports show analysts and sugar trade houses generally forecasting a small global surplus in 2018/19 of 2-3Mt at most, while for 2019/20 many are now expecting a deficit—but with varying sizes predicted.

Despite the optimism creeping into the world sugar market, world white sugar futures prices have thus far remained in the range they have traded for the past year. The gradually tighter supply forecasts for 2018/19 have not yet resulted in noticeable price uplifts, but it is expected world prices should catch up eventually, especially once the world switches back to a deficit (unless of course these forecasts are proved to be wrong).

Südzucker has announced the remainder of its European restructuring plan which aims to reduce sugar output capacity by 700Kt and save €100m. Following the two German factory closures reported in last month's Beet Brief, two further factory closures have been announced in France and one in Poland.

As can be seen in the map, growers delivering to most of the factories set to be closed will likely be able to deliver to other nearby Südzucker factories, meaning actual sugar output reductions are likely to be limited. Indeed, using remaining assets more efficiently is one of the key reasons for the move.

However, in the case of Cagny in France (comparable to Newark at c.9,800t beet per day and c.200Kt sugar output), the news has been bitter for growers whose nearest alternative is 150km away—in practice meaning many will give up sugar beet, resulting in a real reduction in EU sugar supply from this factory. Similarly, the factory in Strzyzow in Poland is over 230km away from Südzucker's next nearest Polish factory making actual reduction in sugar supply from there also likely—albeit at only 50Kt of sugar per year this is not a large plant in the context of c.18Mt of production in the EU (approximately a quarter of the typical annual production of Cantley or Newark).

If there are any EU sugar market impacts as a result of these closures, they will take a couple of years to materialise, since the German and French factories are set to close after the upcoming 2019/20 campaign. Only the Polish closure is with immediate effect, but given the small size of this factory it is unlikely to have a noticeable effect on prices.

Figure 2 Südzucker sugar factories

Source: Südzucker

Next issue expected: Friday 5 April 2019

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 | Greg Brighouse | Anthony Hopkins | Arthur Marshall | Bethan Williams
Chairman | Vice Chairman | Head of Sugar | Beet Intake Manager | Sugar Adviser | Commercial Analyst | Grower Engagement Coordinator