NFU SUGAR NATIONAL NEWSLETTER

The Beet Brief

8 Apr 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 January 2019 hit a new low again at €312/t
- 2019/20 EU market forecast in balance, keeping prices around current spot levels unless world markets rally
- Saint Louis Sucre paying €19.20/t for 2018/19 beet, revealing Südzucker sold at around €270/t average

The average EU white sugar price dropped to a new low of €312/t in January, although the average price in Northwest Europe rose €1/t to €301/t, where spot prices reported by Platts remain around €440-€450/t delivered.

NFU Sugar chair Michael Sly spoke recently at both the Platts Geneva sugar conference and inaugural Sugaronline Global Sugar Summit in London. This gave NFU Sugar the chance to tell a wide audience of policy-makers, traders, processors and buyers what matters to UK beet growers, what will affect yields and growing decisions, and what is needed to safeguard the industry's long-term future.

Although market participants differ on the precise details, there is a consensus among many that the EU market will be close to balance in 2019/20, with production not too dissimilar from this year's and imports either a little lower than, or roughly equal to, exports. This keeps imports at a level which can plentifully be sourced from duty-free origins. Putting aside the huge uncertainties over trade flows in the event of a hard Brexit, and so assuming the sugar market across Europe continues to operate roughly as it currently does, this is generally expected to lead to EU prices in 2019/20 around duty-free import parity, which is where EU spot prices have traded up to since the autumn. These currently work back to around €400/t ex-factory at current world prices.

The biggest determinant on EU prices is still likely to be the world market, as we all suspected post-liberalisation. What we have seen is the length of the tether linking the EU price to the world market can change (from export to import parity for example), but the larger price cycles will come from the undercurrents driving the world price.

Platts' own forecasts are for the world to return to a deficit (of 1.9Mt) in 2019/20, which they contrasted with this time last year when they were expecting a world surplus in 2018/19 of 12.6Mt. This has since been cut right down as with other forecasters' expectations, while for 2019/20 a small deficit is generally but not universally accepted (see figure 1).

Figure 1 World sugar balance forecasts

	2018/19	2019/20
ISO	+0.6Mt	*deficit*
Platts	+5.6Mt	-1.9Mt
ED&F Man	c.+5Mt	c.+1Mt
Tereos	+3.8Mt	-3.4Mt

The forecasts in figure 1 influence each of these forecasters' price expectations. Whereas Platts, anticipating a relatively small deficit, believes the world price currently reflects that supply/demand balance, Tereos, expecting a larger deficit, is seeing 'the light at the end of the tunnel' for world supply, demand and prices. Most forecasters reinforced the point that the huge amount of sugar cane in Brazil currently being used for ethanol could switch back into sugar in the event of (even a small) change in the sugar price relative to ethanol (essentially oil), meaning that unless there is a substantial sugar deficit, world prices can only make significant gains if oil prices do.

The long term challenge facing the world market is the slowing consumption growth rate. This is powered by underlying global population growth, but the consensus is that global total consumption growth has slowed from 2% per year to anywhere between 1% and 1.5%. According to Platts, the effect of this over the last five years has been that for 2019/20 we are looking at only a small world deficit rather than one of the largest world deficits of recent years had growth remained 2%. Consider that any larger-scale investment decisions coming to fruition across the world will have been made when expectations were that the faster growth rate would continue.

In the volatile European industry situation, hearing from Tereos, Nordzucker, Cristalco and Tate & Lyle has given us an insight into some of the strategies that will shape the EU market over the coming years.

- Tereos continues to appear to be among the foremost proponents of aggressive expansion and are banking on driving others out of the market before they run out of cash. This has been high risk for them, but if they are correct in their expectations that European prices are on the up and that export prices will at least come closer to breakeven again, they will be best placed to mop up market share as others cut back. However, their growers are still waiting for €6/t of their 2018/19 beet to be paid at a date to be announced in June.

- Nordzucker stressed the importance of beet prices being attractive to growers. If it is not able to pay a price that makes beet attractive, it recognised that it will not get the beet grown needed in the long term. However, there is a belief that growers can handle volatility, just as they are used to in other crops, provided there are the right options for growers to manage volatility and risk—with the ultimate aim that beet has to be financially sustainable for growers.

- Cristalco expects sugar prices to remain broadly in line with the current spot market as per the consensus above. While talking about forecasts of 15-30 factories across Europe closing in the longer term, it does not appear to expect to be the one to do so. With a large flexibility (by European standards) to produce ethanol as well as sugar, Cristalco is well placed to capitalise on the additional demand it sees for 200-300Kt sugar equivalent of ethanol coming from the recent trend from diesel to gasoline across Europe (seeing as all gasoline in Europe must be blended with ethanol).

- Tate & Lyle, in a difficult position in the last few years, cautioned against a focus on lowering cost base, instead suggesting a strategy of producing only what the (local) market wants, in order to increase market value. If beet processors, instead of aiming to use capacity as efficiently as possible, sought to avoid an EU surplus, the argument was that all parties would be better off. This would minimise the effect of world prices on the EU. This makes sense for Tate & Lyle, as being an import focused business, it is not well suited to a structural EU surplus market—but in a competitive market it is unrealistic to expect processors to intentionally raise their cost base and lose market share just so that others can benefit.

Meanwhile, beet prices (for the campaign just finished) from those companies with flexible models continue to emerge, telling us about the sales performance of those companies. The latest to announce a figure is Saint Louis Sucre, a subsidiary of Südzucker whose growers receive a price based on Südzucker's average sugar sales price, paying €19.20/t (c.£16.50/t) at 16% sugar, zero crown, including pulp—revealing that Südzucker achieved an average sugar sales price in 2018/19 around €270/t ex-factory. However, given the average ex-factory price in northwest Europe has been above €300/t, and Südzucker is the largest group operating in the region, this tells us that a substantial number of the other companies must have achieved prices of a similar magnitude above the average.

Next issue expected: Friday 10 May 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