NFU SUGAR NATIONAL NEWSLETTER

The Beet Brief

14 Jun 2019

UK beet price tracker

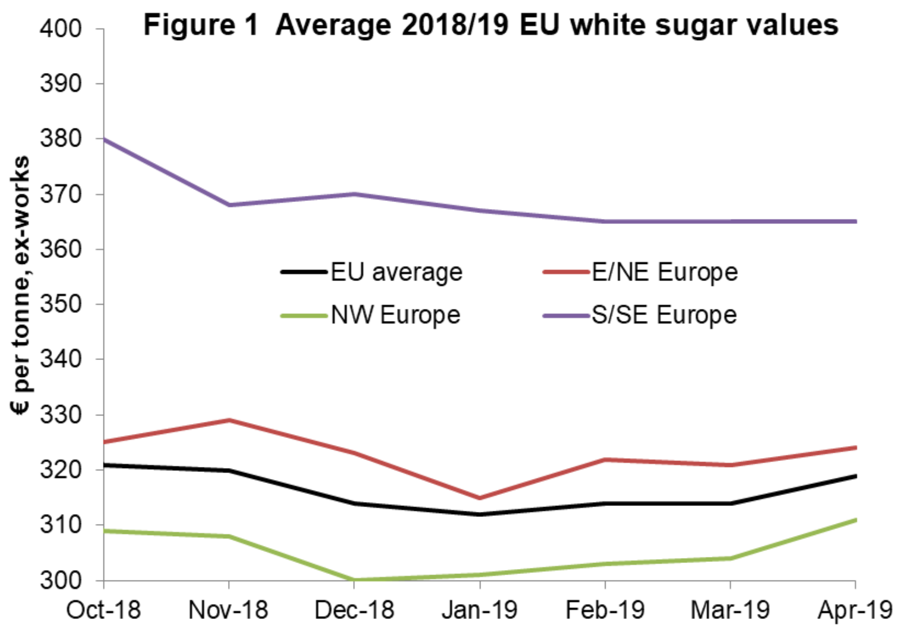
£/adjusted tonne	Base price, £/t	Bonus, €/t (latest month)	ECB £/€ rate (monthly average)	Bonus, £/t (latest month)	Bonus, £/t (cumulative to date)
2018 one-year contract	**£22.50**	0	-	0	**0**
2017 three-year contract	**£22**	0	-	0	**0**
2018 three-year contract	**£22.50**	0	-	0	**0**

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 April 2019 was €319/t
- Delayed Indian monsoon rains lowering production forecasts in currently the world's largest sugar producer
- French beet growers' attempts to purchase factories set for closure so far unsuccessful

The average EU white sugar price in April 2019 was €319/t, up from €314/t then month before. While only €7/t above the season's low point in January, this is the highest reported average value in 5 months. Average values in North-West Europe, including the UK, were reported at a 7 month high at €311/t (see figure 1). With all beet producers selling stored sugar at this point, it is likely this reflects the increases built into sugar contracts agreed at the start of the campaign.



NFU Sugar recently attended the CIBE general assembly in Vienna and WABCG congress in Brazil, both yielding useful insight into the situation in Europe and across the world.

Members updating from around the world at WABCG shared the view that the current world market conditions are difficult, with many countries reporting cut backs on plantings and/or investments as a result. Those countries with ethanol programmes, exposing their beet/cane to a market other than sugar, appeared to be in a position to fare best, whereas unsurprisingly those exposed solely to the world sugar market, without premium local markets to shelter in, such as Australia were most sensitive to the difficulties.

Of particular interest were the two largest producers in the world—after production shot up in 17/18, the Indian member reported their latest expectation of 18/19 production down 1.6Mt at 30.7Mt. This is in contrast to the Indian Sugar Millers Association, pegging 2018/19 up slightly at 33Mt but who recently cut the 2019/20 forecast to 28-29Mt as monsoon rains continue to be delayed. When Indian production estimates swing with a magnitude of 4 times the entire UK crop, it is clear that weather variations there can have a much larger effect on the world market than any local European factors. Forecasters are generally agreed that the world market will enter a deficit phase in 2019/20, which is starting to support prices (and will do so especially if replicated in 2020/21) but the scale could be larger than expected if Indian rains continue to be delayed.

Meanwhile Brazil reported financial difficulties leading to average cane age growing (reducing yields), and unusual rainfall affecting both planting and the start of harvest over the past 6 months. With 62% of cane producing ethanol rather than sugar last campaign, they expect at least as much again to produce ethanol in the campaign just begun, given the relative pricing. This reminds us all of the huge amount of sugar Brazil could produce were the price to rise sufficiently.

In most parts of Europe, as of the CIBE general assembly in late May, the picture was one of a dry winter and spring leading into a wetter May, with the UK unusual in the broadly drier pattern having lasted longer into May than elsewhere. In the countries where neonicotinoid seed treatments have been banned, there were many reports of growers being unclear whether thresholds for spraying have been reached, leading to either spraying later than ideal (impacting yields) or earlier than necessary (increasing costs and affecting beneficials). EU beet area remains pegged at around 4-5% down from 2018/19, implying a similar level of production this year if yields return to average.

Following the announced closure of two of Saint Louis Sucre's factories in France, beet growers' organisation CGB has been attempting to organise purchase of both factories by the growers supplying them, to avoid many of these growers having to give up beet growing entirely. Despite a number of meetings and a plan submitted by CGB, Südzucker has not permitted the purchase of the sites, preferring instead to retain the storage capacity and ensure production in the market is reduced.

This has brought to a head competing visions of the future for the European sugar market and for how to address the current commercial challenges.

For Südzucker, their purpose is threefold: firstly, to release cash and offset losses in the current price climate; secondly, to reduce Südzucker's exposure to export markets; and thirdly, which is why they do not want to sell the plants to growers, to signal to the market that production capacity is reducing and therefore to encourage others to cut back and the price to rise.

For the growers and CGB, beet and sugar are still seen as a strong longer term prospect, with the current low prices driven as much by world market factors as they are by local production volumes. With low production costs and high yields, they see France as well placed to supply both local and export markets across the long term, and propose a beet payment system where growers take on exposure to world market volatility alongside the potential to price and hedge independently (as with wheat), ensuring value over the long term. Their vision sees less value in making token cutbacks in Europe when the current low prices are driven by production swings of a much larger order of magnitude in countries such as India. Instead, ensuring a low and efficient cost base with fair yet flexible beet prices they believe would allow them to be best placed in the market as soon as there is an upturn.

However, it is the former vision echoed in comments by Cristal Union's managing director, Alain Commissaire, who has said they expect 15 factories across Europe to close as a result of the end of the sugar regime.

Next issue expected: Friday 5 July 2019

Your NFU Sugar:
Helpline: 0370 066 1974

Written by **Arthur Marshall**
Arthur.Marshall@nfu.org.uk 02476 858 796