NFU SUGAR NATIONAL NEWSLETTER

The Beet Brief

8 Jul 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
- EU and Mercosur have agreed in principle on a trade deal offering Brazilian sugar 180Kt duty-free access
- Saint Louis Sucre have announced a 2020/21 beet price at a guaranteed minimum value of €23.92/t

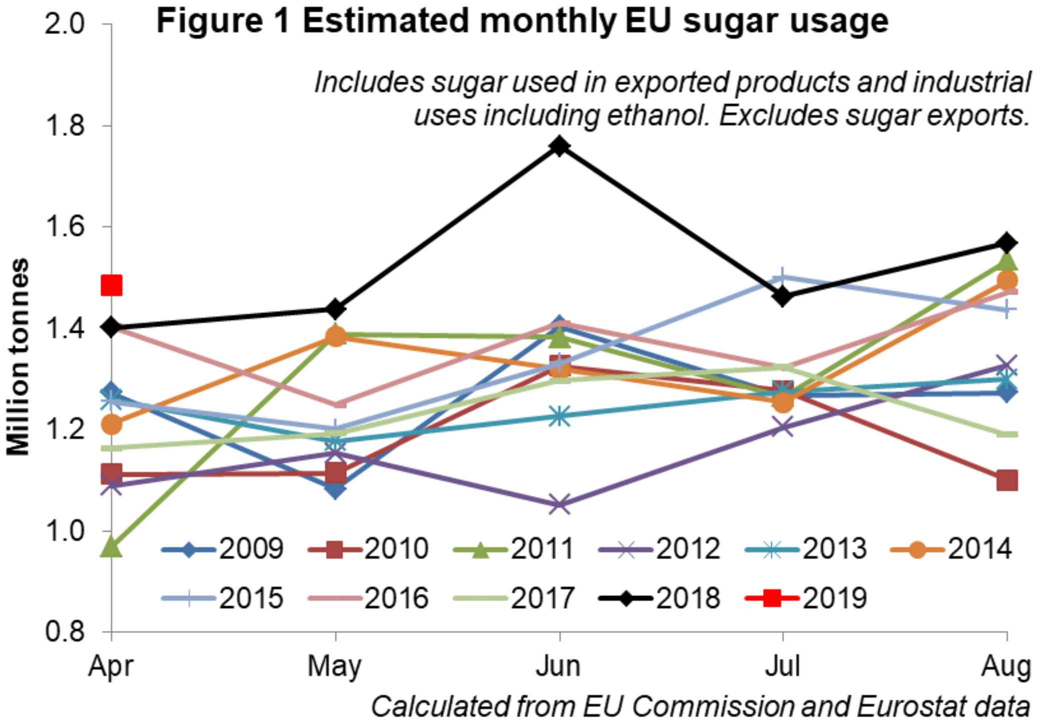
The average EU white sugar price in April 2019 was €319/t, up from €314/t the month before. Spot prices reported by Platts continue to track much higher at €470/t delivered into Western Europe, up to €480/t delivered into Italy. The price differential between spot prices in Western Europe (the core surplus region of the EU) and peripheral deficit regions such as Italy has narrowed a lot since earlier in the campaign, reducing the incentive for western European manufacturers to sell sugar in peripheral countries, signalling that spot sugar supplies among the main beet processors are likely to be very tight. Spot prices in peripheral countries are therefore being influenced more by the level at which imports can be brought in and refined in those countries than the freight cost from NW Europe.

This is reflected in import levels which have continued to climb. Import license applications in May exceeded 200Kt, making it the highest monthly import level since quotas were removed at the beginning of 2016/17. Applications were less than 100Kt in the same month in 2018. This has led to import forecasts for 2018/19 rising, although even the latest EU Commission forecast of 1.7Mt would be far below the 2.5Mt imported in the final year of quota, which was itself regarded as low at the time.

The rising import forecasts have lifted the EU Commission's forecast end stocks from the very low 1.35Mt they had been pegged at to a little over 1.5Mt. Nonetheless, this would still be a very low carryover stock level in historical terms, leading to continued supply tightness for the remainder of 2018/19 and during the summer when many sugar sales for 2019/20 will be agreed.

This balance assumes EU sugar usage continues to steadily drop, in line with the long term trend. However, short term there continue to be signs that demand is switching into sugar from isoglucose, which could mean consumption turns out to be higher than expected and therefore stocks lower. Monthly sugar usage (including both food and industrial demand) in the EU was higher in 2018 than in any of the past 10 years, and for 2019 appears to be marginally higher again - figure 1 overleaf shows total usage for the months that can be calculated from the data available.

Expectations for 2019/20, factoring this tight stock level in, suggest the EU will hover close to balance between imports and exports, assuming a relatively average yield in the EU as a whole which would put production very close to 2018/19 levels. This would imply prices at duty-free import parity, currently in the €400s delivered, in contrast to most sugar in 2018/19 which was sold at export parity. However, reported EU average prices next season will also include the substantial proportion of sugar which was sold a year ahead by processors in August 2018 for 2019/20, with many reports of these deals in the low €300s.



The EU Commission and Mercosur have reached an agreement in principle on the long-running trade negotiations between the two blocs. This will grant Brazil 180Kt of duty-free access for sugar taken from the current quota at €98/t, as well as a further 10Kt of duty-free access to Paraguay.

The deal still requires approval from the European Parliament and member states, meaning that entry into force could still take some time, depending on how long this process takes. As and when this does come into effect, the new duty-free quota is likely to be taken up in most, if not all, years, putting pressure on both EU beet and ACP/ LDC preferential sugar. While it is unlikely to force the EU price consistently down to the world price (as this is likely to be a matter of whether the EU needs to export a large surplus), it will add an additional cap to how far prices can recover whenever the EU is more in balance. With the world price at the level it currently is, for example, it would mean the EU would have to be in a substantial deficit, and therefore in need of sugar paying the €98/t duty, for prices to rise above the low €400s.

Saint Louis Sucre, the French subsidiary of Südzucker, has announced a guaranteed beet price for 2020/21 at €23.92/t (including pulp and without crown tare). This is a move away from their current contracts which are all variable and based on Südzucker's selling performance, resulting in an initial price in 2018/19 close to €17/t which had to subsequently be increased under pressure to retain the confidence of growers. This announcement marks a shift away from a contract structure that puts grower returns at the mercy of the performance of the processor's commercial sales team, which effectively passed on the cost of any poor sales decisions to growers.

As the largest sugar producer in Europe, where Südzucker leads, other companies often take note. With the new contract structure offering growers an improved minimum return, and after announcing closure of two factories, Saint Louis Sucre hope to keep hold of growers and ensure their remaining two plants can be supplied and run more efficiently.

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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