NFU SUGAR NATIONAL NEWSLETTER

The Beet Brief

9 Aug 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**

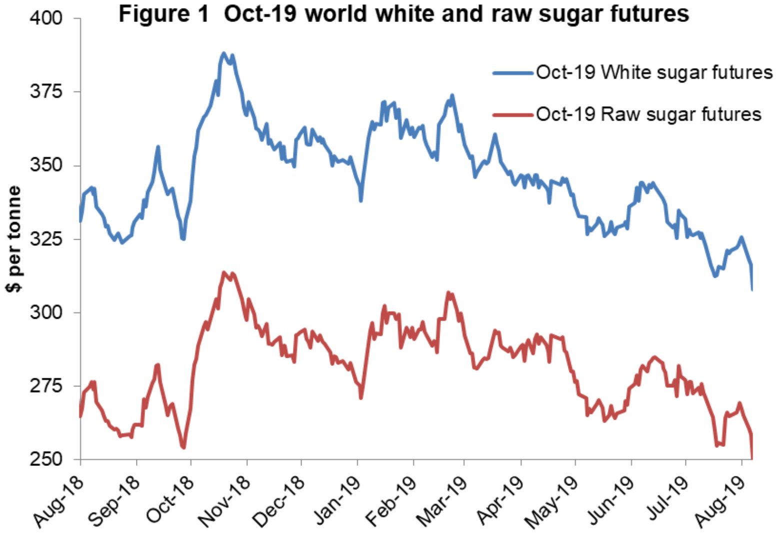
Prices before adjustments. Bonuses apply when EU price >€475/t, and are liable to exchange rate fluctuations.

Highlights

- The average EU white sugar price in May 2019 was €320/t
- Further forecasts of a world market deficit in 2019/20
- EU yields now forecast below average, leading to 2019/20 production lower than in 2018/19

The average EU white sugar price in May 2019 was €320/t, up from €319/t the month before. In the world market, both white and raw sugar futures had rebounded off the low points they hit earlier this month before falling again (see figure 1) as crude oil prices dropped 14% due to the US-China trade war. The use of sugar for ethanol, particularly in Brazil, means that sugar and oil prices are heavily connected. World prices had also been decreasing in early July due to ample short term sugar supplies from 2018/19 crops. However, recent forecasts suggest an improved market in the medium term, which would impact more strongly on prices once the near-term overhang of sugar on the spot market is resolved.

Figure 1 Oct-19 world white and raw sugar futures



Source: Sugaronline

Brazilian cane mills appear set to continue to push a greater proportion of cane into ethanol rather than sugar. Ethanol prices in Centre-South Brazil, where much of the cane industry is located, have reached a July record, with strong demand and shortages reported elsewhere in the country. At the same time, pump prices continue to strongly favour ethanol over gasoline despite this. The mix of ethanol to sugar production from cane mills in Brazil has already been at unprecedented levels, with only around a third of cane used for sugar while two-thirds has been used for ethanol in 2018/19. Ethanol prices that are stronger again (and as of the end of July 19% above the world sugar market) are likely to reduce sugar output further and encourage use of sugar stocks.

Added to this, the latest figures on the Brazilian cane crush from UNICA showed much less cane crushed and sugar produced than expected in the first fortnight of July, with sugar making up only 36% of output. UNICA also indicated that up to 400,000ha could have been affected by frost in early July, although the impact is unknown.

The strong ethanol prices in Brazil, alongside an anticipated 4.5Mt drop in Indian sugar production after a poor monsoon, have led to an average forecast world deficit of 2.95Mt in 2019/20 based on a Reuters survey of 13 major traders and forecasters (after two years of surplus), with some forecasting up to a 6.4Mt deficit (see figure 2 overleaf). The latest ISO forecast in June put the deficit at 3Mt. Early forecasts for 2020/21 suggest a larger deficit again, with ISO currently expecting a 6Mt shortfall and FO Licht anticipating 4.18Mt.

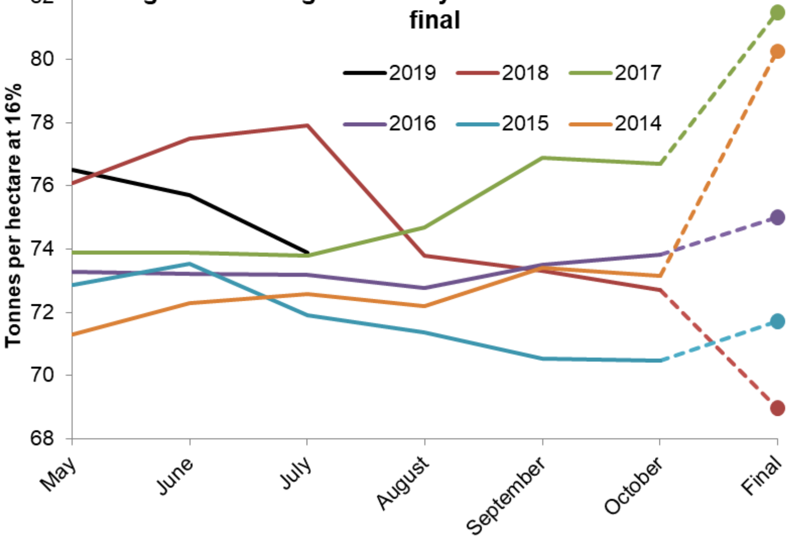
Closer to home, increasing signs of a balanced European market continue to point to EU pricing in 2019/20 at a level to match the price at which imports can be brought in, which given current world prices would mean around €400-450/t according to LMC calculations (compared to the May-19 average of €320/t). Extreme weather across much of mainland Europe, including most major beet growing regions, looks set to impact the EU's largest producers and keep production no higher than last year.

Figure 2 World 2019/20 deficit forecasts

	Mt
Reuters survey average (24 July)	-2.95
FO Licht (22 July)	-4.16
Agritel (31 July)	-4
Datagro (late July)	-6.4
Green Pool (2 Aug)	-3.67
Czarnikow (7 Aug)	-4.6

The exceptionally hot weather has caused severe, some say irreversible, damage to beet, with many crops looking like the French crop shown. Conditions have led the EU Commission's crop monitoring body, MARS, to cut forecast EU sugar beet yields to under the 5-year average, and under the level at which production would equal last year's. While their forecasts are rarely accurate at this time of year, as shown in figure 3 the direction of change is often correct – forecasts have generally dropped from month to month in years with a low yield and vice versa. It has also been seen as confirmation of a tightening EU supply in 2019/20, and therefore reacted to by the market. Since then, German and Belgian beet tests have both shown yields down again from last year.

Figure 3 Average EU beet yield MARS forecasts and final

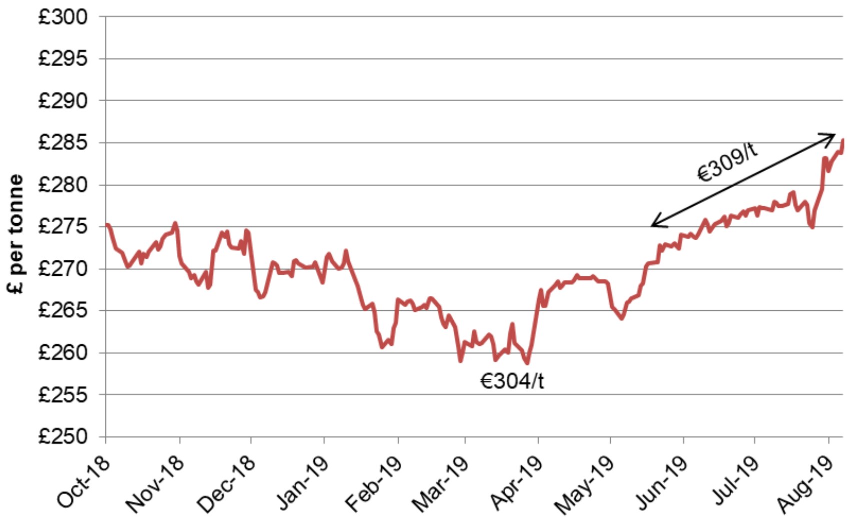


Sources: EU Commission MARS crop monitoring, Eurostat

The weakening sterling has added approximately £20/t to the UK value of the average EU white sugar price since May, outside of any underlying gain in the sugar market. As the European sugar market trades in Euros, the weaker pound means the sterling value of any particular Euro value increases (see figure 4).

Sterling has recently hit a 23 month low against the Euro, with €1 worth 92p as at the end of July. This has meant that an average EU white sugar value of €309/t, worth c.£264/t in early May, would have been worth c.£283/t in late July.

Figure 4 Average NW Europe white sugar value in £



Average ex-works price in UK, FR, DE, BE, NL up to latest price available in May 2019, with May value of €309/t used onwards Source: EU Commission, ECB

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