NFU SUGAR NATIONAL NEWSLETTER

The Beet Brief

15 Jan 2020

UK beet price tracker

£/adjusted tonne	Base price, £/t (crowned	Bonus, €/t (latest month)	ECB £/€ rate (monthly average)	Bonus, £/t (latest month)	Bonus, £/t (cumulative to date)
2019 one-year contract	**£20.42** (contracted at £19.07 / zero crown)	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 (2017 & 2018 contracts) or >€375/t (2019 contract).

Highlights

- The average EU white sugar price in November 2019 was €335/t, remaining well below the bonus trigger.
- World white sugar futures prices have hit a 14-month high on the back of oil price rises.
- EU markets are likely to be impacted by the price rise but it is unlikely to directly change the EU balance.

The average EU white sugar price in November 2019 was €335/t, only €3/t higher than in October 2019 and still well below the €375/t level to trigger a bonus on the 2019 one-year contract. The spot sugar price in the EU as reported by companies such as Platts remains far above this level, equating to ex-works prices in the €400s, demonstrating that the average invoiced price, as quoted by the EU Commission, is either heavily influenced by multi-year contracts signed at much lower sugar prices or else that sugar sales contracts in the EU are increasingly structured in a way that means the invoice price does not capture their value. However, while this means there is a lag in price rises feeding through into the reported average price, it may also mean there is a similar lag in future price falls for similar reasons—dependent ultimately on buyers' and sellers' behaviour.

Figure 1 Average EU white sugar price in euro and sterling

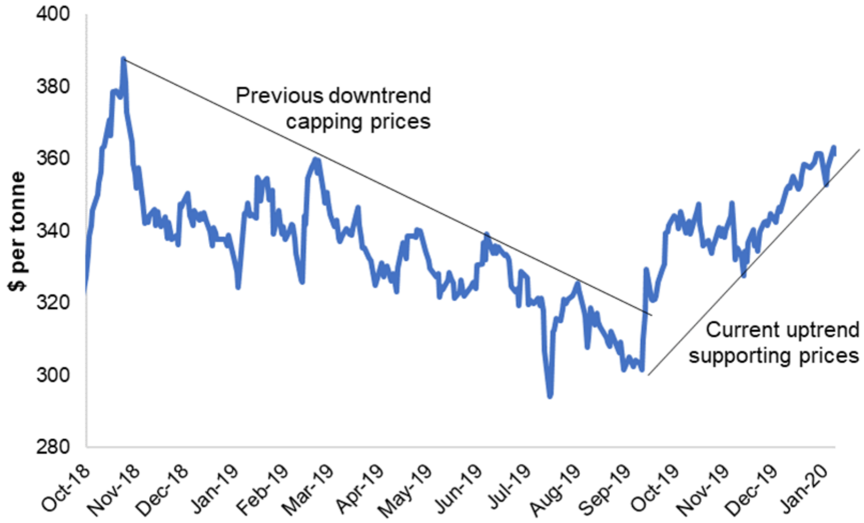
Source: EU Commission

In addition, the rise in the value of sterling over the past month has offset the small rise in the average price from 2018/19 somewhat in sterling terms, meaning that the sterling price is not substantially different from the price near the end of last campaign's (see figure 1 overleaf).

World white and raw sugar prices have moved to a 14 month high on the back of rising oil prices due to tensions in the middle east. Nearby white sugar futures have been firmly pulled out of their 2019 downtrend, which they had struggled to break decisively from over the last year despite increasing world deficit forecasts (see figure 2). The tightening supply picture towards the end of last year had helped to support prices somewhat, but the recent oil market movements have provided much stronger impetus for prices to move up.

World sugar price trends are tied to oil price trends, just as most world grain and oilseed prices are, due to biofuel production. While day-to-day price movements may not show the link, and the spread between sugar and oil can vary, price trends in all these agricultural markets are underpinned by oil price movements. In the sugar case, a rising oil price will push up sugar prices since it increases the price of bioethanol which can be made from beet and cane. This gives processors a stronger incentive to produce ethanol instead of sugar, meaning that the sugar price also needs to rise in order to maintain sugar supply. The opposite is the case when oil prices falls.

Figure 2 Nearby white sugar futures



Source: IEG Vu

Meanwhile the forecast 2019/20 world deficit has continued to rise, with the latest estimate from FO Licht now exceeding a 10Mt sugar market deficit following a largely balanced market in 2018/19 and a 9.3Mt world surplus in 2017/18, when we saw prices drop off from the much firmer levels they had been at in 2016/17.

The effect of the oil price surge on the EU sugar market is harder to pinpoint. Beyond the knock-on impact that world prices inevitably have on the EU price level (by driving the price at which sugar can be imported and exported), whether this fundamentally changes the balance of demand for sugar and ethanol production in the EU is not clear.

If the stronger oil prices also drive up ethanol values in the EU, a strengthening ethanol price could increase EU spot sugar prices if ethanol becomes attractive. However, ethanol is already likely to have been an attractive proposition (especially compared to producing sugar for export) for most of those EU sugar processors that have capacity to produce it, meaning that marginal additional capacity to produce any more in reaction to higher prices is likely to be limited. In addition, with the EU beet area anticipated to be lower again in 2020, some EU producers are reported to be considering whether storing sugar to sell into higher value core markets next year could be more cost effective than additional ethanol or export sales, despite the recent ethanol price rises. As a result, prices may well have to continue to strengthen to attract more sugar into ethanol in the EU 2019/20 and affect the EU market balance.

Next issue expected: Friday 7 February 2020

Your NFU Sugar:
Helpline: 0370 066 1974

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