NFU SUGAR NATIONAL NEWSLETTER

The Beet Brief

8 Sep 2017

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)
2017 one-year contract	£22	-	-	-	-
			Information to be provided when available		
2017 three-year contract	£22	-	-	-	-

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

Highlights

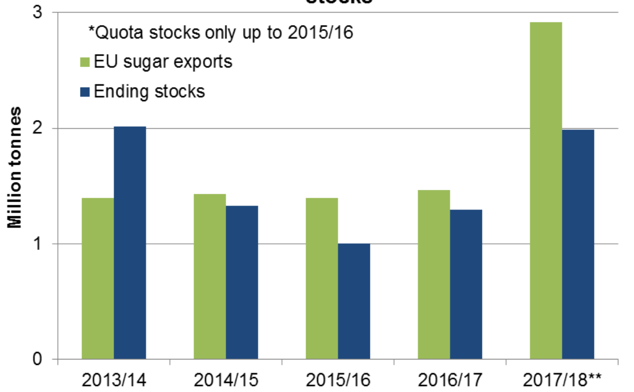
- Anticipated good EU yields affecting world white sugar prices and adding to the forecast EU sugar surplus
- The greater the EU surplus and exports, the more likely EU prices are to be influenced by the world market
- Narrowing refining margins could reduce raw cane imports into EU and offset some of the surplus

The latest monthly EU white sugar price was €498/t for June 2017. For much of 2016/17, EU average white sugar prices have hovered a little over the €475/t trigger point. Had the current sugar market bonus been in place for the 2016 crop, a small bonus value would have accumulated (c.£0.15/t on a 10% share).

However, prices for the tail end of 2016/17 are not a relevant guide for values in 2017/18. With the coming end of quotas known for a long time, a large crop across Europe and a return to a sugar surplus has long been expected. Recent crop indications suggest good yields in most of the major beet producing regions of Europe, with one factory in Poland opening as early as August for the first time. A large crop would be likely to increase the pressure to find markets for the EU surplus via either exports or ethanol.

As shown in figure 1, forecasts for EU exports are significantly higher than in previous years. Although the EU market has historically been somewhat disconnected from the world market due to quotas and export limits, the portion of the EU crop that needs to be exported in 2017/18 will likely need to sell at world prices in order to find a market. Therefore, the larger the EU crop, the more the world price will likely influence EU white sugar prices.

Figure 1 EU sugar exports and available* end-stocks



***LMC forecast Sources: EU Commission (2013/14-16/17), LMC (2017/18)*

Nonetheless, the vast majority of sugar will remain within the EU, meaning that while the world sugar price could act as somewhat of a floor to the EU market, it is still reasonable to imagine that the EU average price could be above it—to a greater or lesser extent.

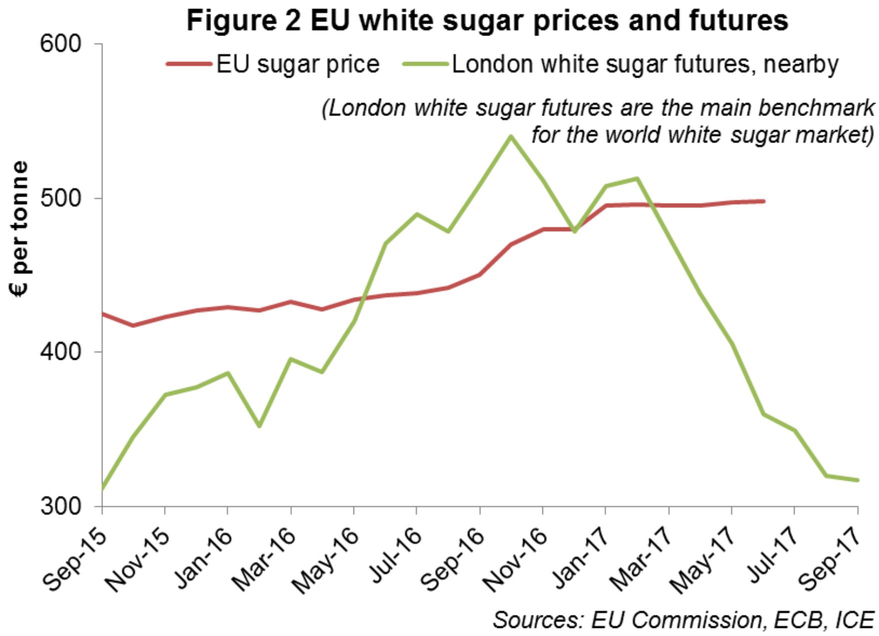
The key factor that will influence pricing is projected end-stock levels, which are affected by production, imports, exports and demand. Current forecasts from LMC suggest available EU end-stocks could hit 2Mt, which would be the highest level of available end-stocks since 13/14, as shown in figure 1. Although EU average white sugar prices entered 2013/14 at a relatively high level, they declined around €100/t during that year. Without quotas in place this time round, the comparison is clearly not exact, but a similar level of stocks could result in similar market conditions.

All that said, with the campaign not yet quite begun across Europe, there is still a level of uncertainty surrounding the size of the EU crop. The consensus is that conditions have been favourable, but if the crop turns out larger still than currently forecast, the resulting increase in stock levels could mean further impact on sugar prices.

The flipside of the price impact of the large EU crop is that imports, especially of raw cane sugar, could be lower than expected. The expectation of a large EU crop is having an impact on the world market, especially on London white sugar futures (the key world benchmark for white sugar prices). Values in euro terms are trading around a two-year low, and nearly €200/t lower than at the turn of the year, as shown in figure 2.

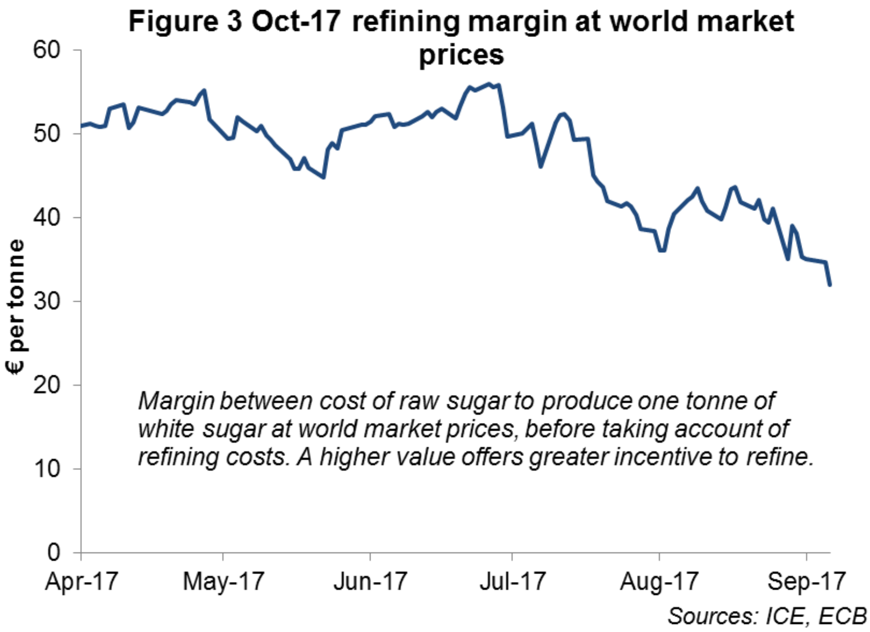
EU average white sugar prices will need to trade sufficiently above world market prices in order to make importing and refining even duty-free raw sugar into the EU attractive in 2017/18. The relationship of the two in recent years is shown in figure 2.

While world white sugar prices have generally moved in line with world raw (cane) sugar prices, the gap between white and raw sugar prices has been narrowing due to the influence of the EU on the white sugar market. This gap is effectively a refiner's margin, shown in figure 3. The white price must be high enough above the raw price in order to cover costs and justify producing white sugar from raw sugar.



Sugar imports into the EU in 2017/18 are currently forecast around 2Mt by LMC (compared to 2.5-3Mt over the past four years), roughly equal to the cane sugar available from preferential duty-free origins only. However, the narrowing refining margin could make even some of this sugar unattractive to refine, the closer EU white sugar prices are to world raw cane prices.

Looking at forward prices for Oct-17 as at 6 September, refining margins at world export market prices (figure 3) have fallen around €20/t in two months, meaning they currently cover only about half of typical EU refining costs.



The cost of freight to the EU further eats into this margin, so both this and the weak world refining margin shown in figure 3 would need to be offset in order to encourage even duty-free imports.

Total white sugar exports are forecast by LMC at close to 3Mt in 2017/18, as shown earlier in figure 1. Any reduction in projected imports would increase internal market opportunities for EU white sugar, meaning less pressure to export that quantity. Alternatively, if export markets are nonetheless forthcoming, a lower import level could reduce stock build up and carry-over into 2018/19.

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