

EU sugar market update and outlook

10th December 2018

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sugar analyst, consultant, broker and a bit more besides ...

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Portrait of the month

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EU Agriculture Commissioner is 'confident' sugar prices will recover

Not long before the average EU sugar price was reported as having fallen to an historic low of **320 €/t**, the EU Commissioner for Agriculture, Mr Phil Hogan, told a press conference at the end of November that new data were "indicating the market is coming into balance", and that "updated figures" gave him confidence that the market was adjusting to the post-quota situation; "I am confident that prices will continue to increase," he said. But in the opinion of julianprice.com Ltd., the rise in prices in 2019, excepting unforeseen circumstances, will be slow.

(click on the graphs below to enlarge)

Focus on ... subsidy disputes

Australia vs. India: The market has long been expecting that India must export up to five million tonnes of surplus sugar to the world market in order to address a structural imbalance in Indian sugar policy which fixes a minimum cane price well above market prices and all the while insists that millers must pay for every stick of cane delivered at this price. At the end of September, India's federal government confirmed a US\$1 billion subsidy scheme, in addition to a previous round of domestic industry assistance.

In response, Australia submitted a 'counter-notification' against India's subsidies to the WTO, which was discussed by the Committee on Agriculture on 26th November in Geneva. At the ISO conference in London on 29th and 30th November, the 13 member countries of the Global Sugar Alliance publicly supported Australia's challenge.

Voluntary Coupled Support: The first day of the ISO conference in London focussed on a lively debate about EU sugar. Amongst the many EU sugar topics discussed, discussion concerning voluntary coupled support (VCS) for sugar beet growers in eleven EU member states was perhaps the liveliest. It seems unarguable that VCS supports otherwise unviable sugar production; these are indeed the EU rules permitting VCS. Estimates vary as to the quantity of sugar that VCS keeps in production and which would otherwise be at risk of disappearance. Some say that VCS supports three to four million tonnes of EU sugar production per annum. Whatever the number, it also seems unarguable that the existence of VCS seriously prejudices sugar exporting countries worldwide, now including ACP countries, which rely on international market prices for their revenue and livelihoods. An international challenge to VCS seems not far away.

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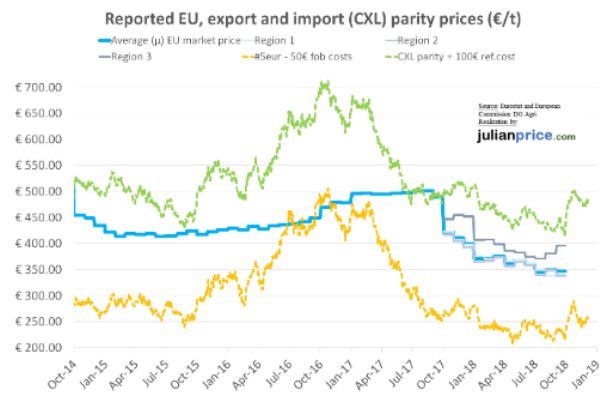
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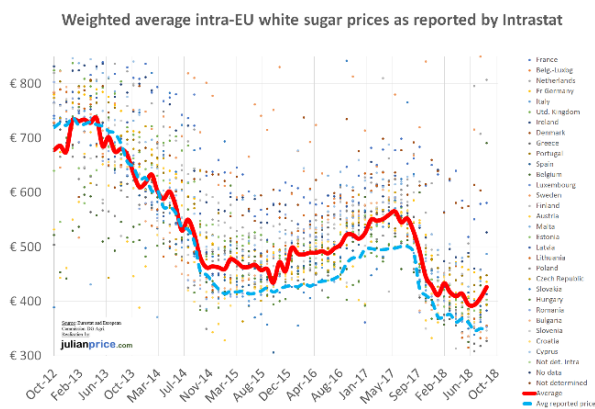
Sugar prices rise in the EU deficit areas

The latest average ex-works domestic sugar prices reported by sugar manufacturers to the European Commission based on deliveries and sales invoices showed little change during the three months to September but fell by 27 €/t to a new all-time low of **EUR 320/tonne in October 2018**. The EU28 average July price was EUR346/tonne, the August price was EUR350/tonne, the September price was EUR347/tonne and the October price was EUR320/tonne. The standard deviation calculated from the Commission’s raw data has widened somewhat from $1\sigma = \text{EUR}36/\text{tonne}$ to $1\sigma = \text{EUR}48/\text{tonne}$, implying a greater spread of the reported prices around the average.



The Commission has, since October 2017, enhanced market transparency a little by means of reporting prices in three regions of the EU28. Region 1 includes those countries in the north and east of the continent (AT, CZ, DK, FI, HU, LT, PL, SE, SK); Region 2 are those in the north and west (BE, DE, FR, UK, NL), and Region 3 are those in the south (BG, ES, GR, HR, IT, PY, RO). The Commission reports that prices in Regions 1 and 2 have been relatively stable at slightly below the overall average, whilst

prices in Region 3 increased to EUR398/tonne in September before falling back to EUR 380/tonne in October, some EUR60/tonne above the overall average.



Eurostat data records the monthly prices of intra-EU trade in sugar between each member state; these data have been pointing to relatively higher prices in the EU deficit markets for a while now, and the trend has continued into September. Meanwhile, S&P Platts reported at the end of November that delivered prices for

Northwest Europe and the Mediterranean were assessed at EUR384/tonne and EUR403/tonne, respectively, compared with EUR322/tonne and EUR340/tonne on 19 October.

During the old days of the EU sugar regime, domestic market prices used to jump by relatively large amounts in October, coinciding with the beginning of the (now largely irrelevant) EU sugar marketing year and new annual sales contracts. There was talk in the market in November that domestic prices have increased by quite a lot, with many saying that in September canny purchasers of bulk white sugar could find sellers willing to sell even below EUR300/tonne on an ex-works equivalent basis, but as from October the price for spot sugar is more than likely above EUR400/tonne.

A drop in the reported price in Region 2 was expected in October reflecting delivery against contracts signed several months ago when prices were much lower, and indeed this is borne out in

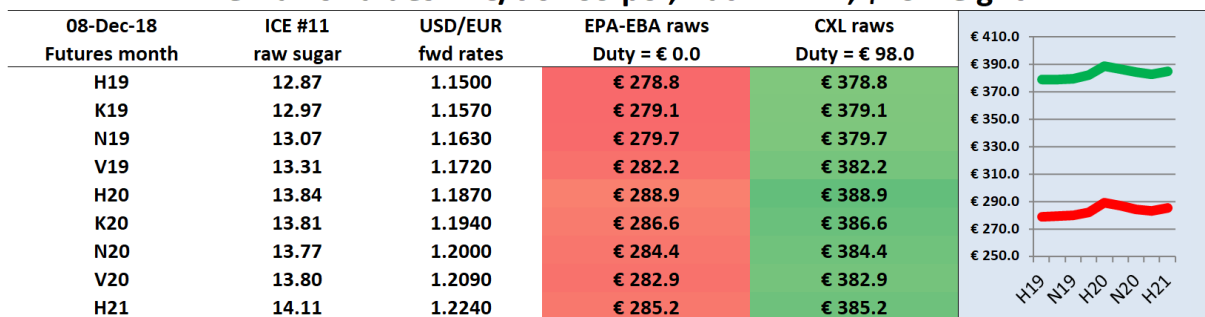
the official statistics published on 6th December with the price in Region 2 being just EUR 307/tonne. However, this price is likely to be something of an aberration.

Yet the modest exuberance amongst those long of the commodity for spot sales in October may have been overdone. Indeed, the latest reports show that EU prices are now struggling to maintain their upward momentum, perhaps as a result of world market prices which are having a hard time staying above 12.5 cents/lb.

Strong demand seen for imports into the EU

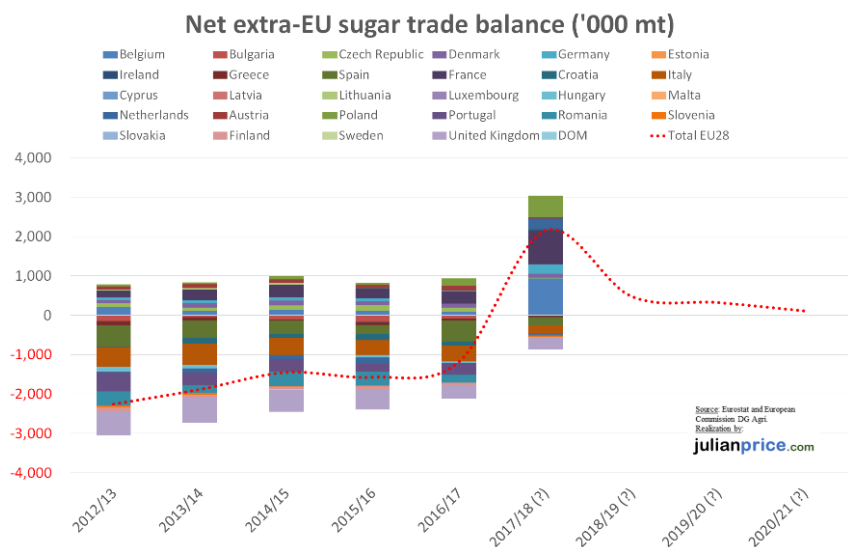
Evidence from the statistics and other sources of strong demand for **imports** in Quarter 4 of 2018 appear to justify the Agriculture Commissioner’s confidence in rising EU prices. After 2017/18 when imports from ACP countries collapsed to just 557,000 tonnes, imports during the first few weeks of the 2018/19 marketing year are well head where they were at the same period last year. The statistics indicate that ACP countries delivered five or six cargoes of bulk raw sugar to Europe in October 2018 amid strong, largely unsatiated demand for imported refined cane sugar. With duty-free raw sugar reportedly trading a couple of hundred points premium to ICE #11 futures and the futures and euro forward curves indicating steady values well into calendar 2019 (see table below), the stage seems set for higher ACP and other duty-free imports in 2018/19.

Pref raws values in €/t cif 99 pol, flat NY #11, \$25 freight



EU28 trade balance seen moving towards balance

Preliminary indications for beet sowings in the spring of 2019 are that the area will be reduced compared with 2018. For the most part (excepting bonus payments) the beet prices are fixed, and they’re not all that attractive compared with cereals prices which, although they may have peaked in the summer of 2017, still remain favourable for arable farmers. At the ISO conference in late

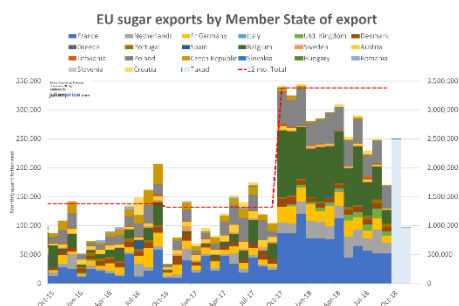


November, it was foreseen that the sugar beet area in Germany may be 7% below last year, in France down 5% and farmers in the UK are also expected to plant less beet. Although several member states have (very sensibly) granted derogations to the ban on neonicotinoids in pelleted beet seeds – the latest being Belgium – morale in the industry remains low with poor financial results throughout the industry seemingly set to continue into 2019. In 2017/18, the EU recorded a positive net trade balance of 2.1 million tonnes, but the result for 2018/19 could be as little as 500,000 tonnes. The net balance is, of course, the sum of imports (negative) and exports (positive). The European Commission currently estimates exports will be 2.1 million tonnes, but this number seems a little high; a revision to the EC balance is expected later in December.

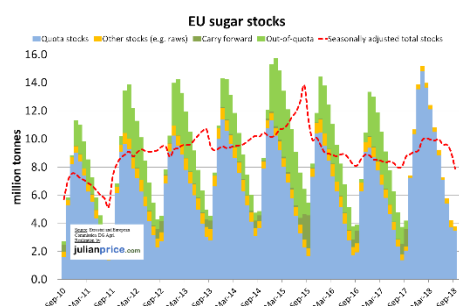
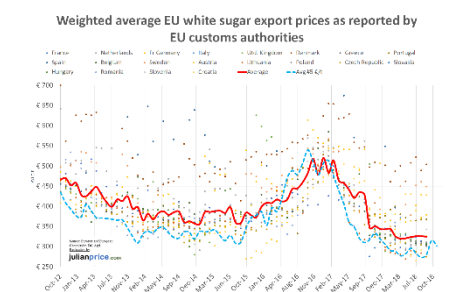
Total EU28 sugar balance ('000 tonnes)	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
	<i>actual</i>	<i>actual</i>	<i>actual</i>	<i>actual</i>	<i>actual</i>	<i>provisional</i>	<i>forecast</i>
Beginning stocks	2,397	3,231	2,573	4,029	1,928	2,174	2,423
Fresh production	17,576	16,821	19,513	14,926	16,831	21,151	18,636
Imports from non-EU	3,561	3,256	2,867	2,989	2,517	1,309	
Exports to non-EU	1,300	1,369	1,415	1,414	1,333	3,460	
Overall trade balance	-2,261	-1,887	-1,453	-1,575	-1,184	2,151	526
Domestic disappearance	19,003	19,366	19,509	18,602	17,769	18,751	18,751
Ending stocks	3,231	2,573	4,029	1,928	2,174	2,423	1,782

Exports fall in line with stocks

According to TAXUD-Surveillance data, EU **exports** were 347,000 tonnes from 1st October until 26th November, compared with 667,000 tonnes in the same period last year. The top destinations this year were said to be 21% Egypt, 15% Israel, 9% Senegal, 5% Cameroun and 4% Tunisia. Moreover, it is reported that exports were sharply down in November 2018 as producers bought back physical shorts from the trade.



The EC reported that **stocks** in late September 2018 were 3,769,000 tonnes, of which 1,346,000 tonnes were from new production and 2,423,000 tonnes from last year's production. Seasonally adjusted stocks have declined markedly, no doubt owing to the poor sugar harvest this year. Stocks of sugar held by the refiners were reported to be just under 300,000 tonnes in September, but these have probably since been replenished. The European Commission suggested at the end November that ending stocks in September 2019 may amount to 10% of consumption.



The EU is expected to produce 19.3 million t of sugar in 2030

The EU is expected to produce 19.3 million t of sugar in 2030, the European Commission said in its report on the medium term outlook for agricultural markets published on 7th December 2018 ⁽¹⁾.

The Commission's medium term outlook report was presented to the EU Agricultural Outlook Conference in Brussels, a key annual gathering of European stakeholders on the future of agriculture in Europe and the challenges which lie ahead. The conference took place on 6th and 7th December 2018 and was opened by Agriculture and Rural Development Commissioner, Phil Hogan. Participants included EU institutions, governments and international organisations, those involved in the food supply chain, market experts, academics, think tanks and civil society.

The preliminary outlook for EU sugar in the medium term was prepared by Sylvie Barel (European Commission DG AGRI). The Commission's projections are based on a macroeconomic environment where policies to remain unchanged; hence Brexit, for example, is not taken into account. The main drivers of EU sugar production in the medium term are expected to be a lower yield trend and a 6% decrease in area. With EU sugar consumption forecast to decline, and production expected to stabilise at around 19 million tonnes/annum, the EU will continue to be a net sugar exporter. The report projected that EU consumption will decline by 5%, driven by health initiatives and consumer preferences, but sugar is expected to be only partially substituted by increasing use of isoglucose in processed food. The Commission projects that total EU sweetener consumption will fall by 2%.

Independent consultant Julian Price of julianprice.com Ltd., presented a paper to the preparatory EC workshop in October which informed the Commission's medium term outlook report on EU sugar. Julian Price noted that the EU's net trade position had changed from being a net importer to a net exporter of around 2.3 million tonnes in 2017/18 (comprising imports of 1.3 million tonnes and exports of 3.6 million tonnes). However, with the lower production forecast for 2018/19 and a gradual erosion of stocks, the EU's net trade position may gradually move towards balance. A report of the preparatory Outlook conference proceedings is available online here: <http://publications.jrc.ec.europa.eu/repository/handle/JRC113987>

Elements such as Brexit and CAP reform were not considered in the report due to the ongoing nature of both, according to the Commission rapporteurs. Nevertheless, concerning Brexit, the Commission noted that sugar production in the UK rose to close to 1.4 million tonnes in 2017/2018, up from 0.9 million tonnes in the preceding marketing year, representing a share of 6.4% of total EU production. The UK exported 84,000 t of sugar to non-EU countries in 2017/2018 and 245,000 t to other Member States (22 % of EU-27 imports). Imports into the UK from non-EU countries are mainly raw sugar – on average 482,000 tonnes (26 % of overall EU imports of raw sugar) over the last five marketing years and around 475,000 tonnes in 2017/2018. White sugar comes mainly from other EU countries. The UK imported close to 560,000 tonnes in 2017/2018, of which about 550,000 tonnes were from the EU-27 (17% of total EU-27 exports), the Commission noted.

As well as presenting the medium term outlook for cereals, soya, livestock, dairy, fruit, vegetables, olive oil, wine, etc., the conference also received presentations concerning the role of blockchain in ensuring traceability, food safety and consumer information, and on the "internet of food and farm" (www.iof2020.eu) for example automatic weeding machines to assist in organic farming.

¹ EC (2018), EU agricultural outlook for markets and income, 2018-2030. European Commission, DG Agriculture and Rural Development, Brussels.

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