EU Sugar Market Update & Outlook

8th October 2019

by Julian Price

https://www.julianprice.com

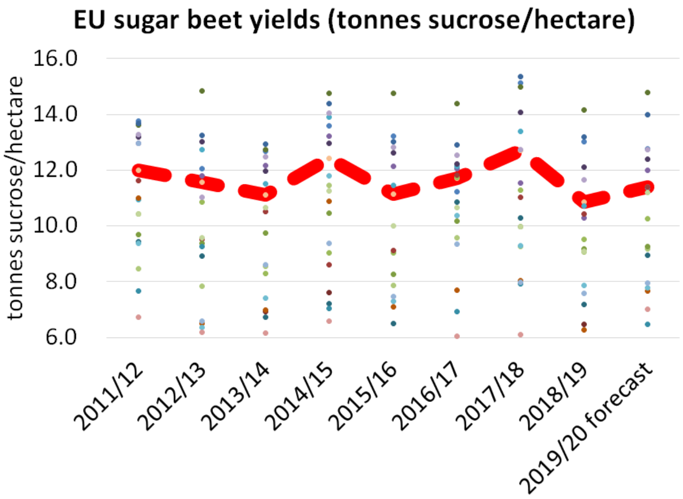
Key Total EU28 estimates

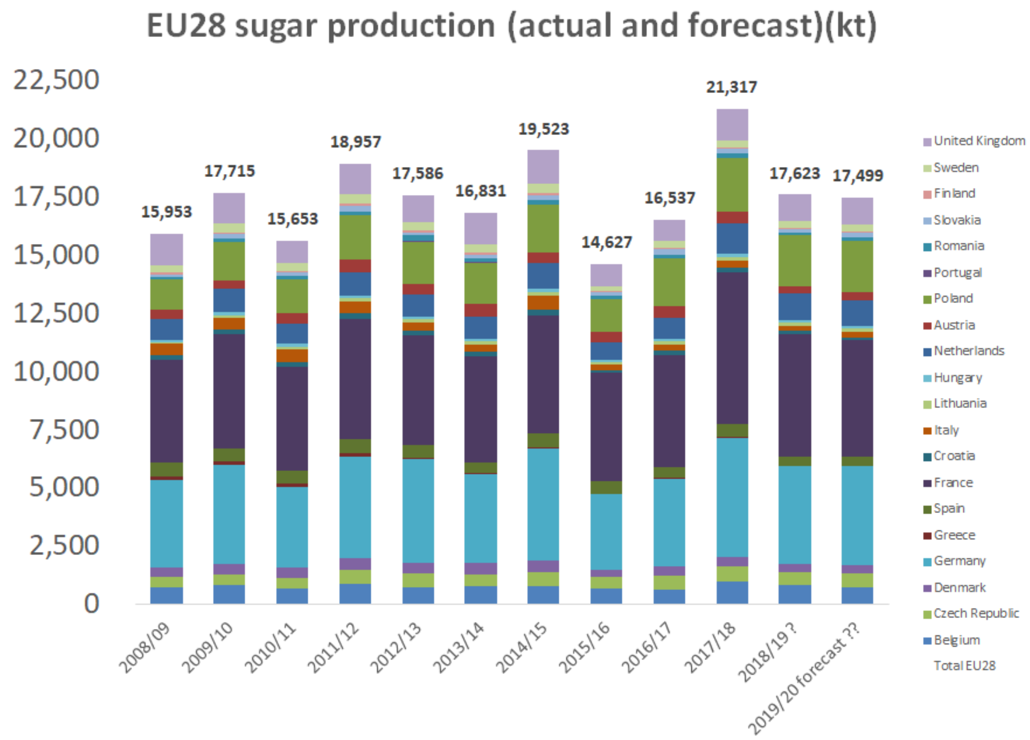
(million tonnes)(Oct/Sep marketing years)	2017/18	2018/19 ?	2019/20 forecast ??	Δ 19/20 vs 18/19
Beginning stocks (total and carry)	2.2	2.4	1.7	-0.7
Total fresh production (sugar equivalent)	21.3	17.6	17.5	-0.1
- of which sugar production (excluding ethanol)	19.6	15.8	15.7	-0.1
Imports from non-EU countries (all qualities incl IPR)	1.6	2.4		
Exports to non-EU countries (all qualities incl IPR)	3.7	1.9		
Overall trade balance	2.1	-0.5	-0.3	0.1
Domestic disappearance ("consumption")	18.9	18.8	18.3	-0.5

EU sugar production estimates based on the first EU sugar beet deliveries to factories confirm disappointing field tests

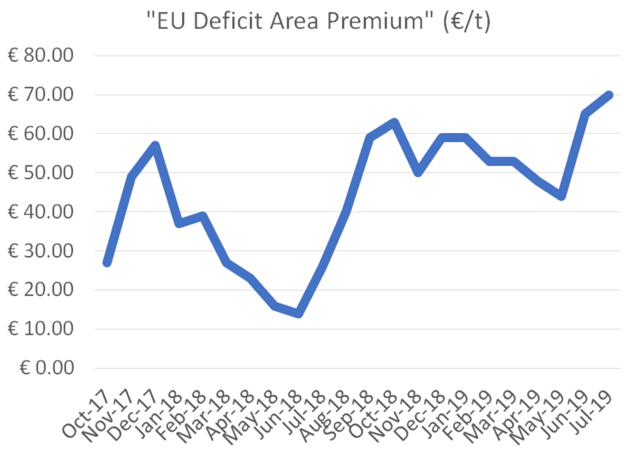
As the first beets are lifted and hauled to the sugar factories in the north and western European "beet belt", so it becomes possible to estimate sugar production with more precision than estimates based on field tests, remote sensing and /or agro-meteorological modelling. The results are not good.

At the beginning of the season, despite a reduction of 5% in area sown, relatively good spring weather appeared to support estimates of EU sugar production well in excess of 18 million tonnes (incl. DOMs, etc.) based on more "normal" yields after the severe 2018 drought. But as the summer of 2019 progressed, heat waves and drought particularly in France and Germany, irreversibly damaged the beets, although fears of substantial virus yellows and other plant diseases did not really materialize. In August 2019, the Belgian and German beet tests put paid to any idea of EU production exceeding 18 million tonnes, and at the end of September, the first "concrete" estimates from Belgium, Germany, France, the Netherlands, Poland, the UK and several others, point to a total of 17.5 million tonnes of sugar. Even given de-stocking to quite low levels, the EU will therefore remain a small net importer of sugar for a second marketing year.



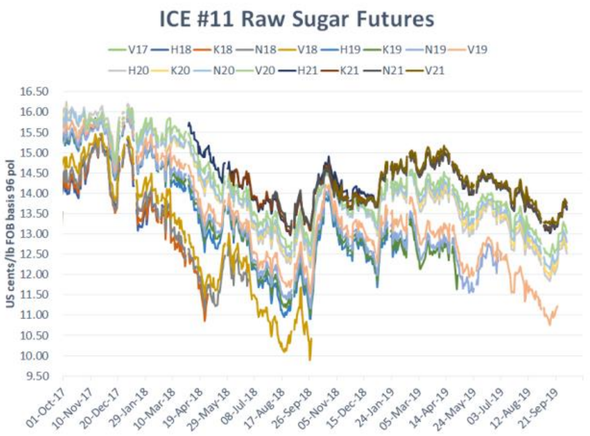


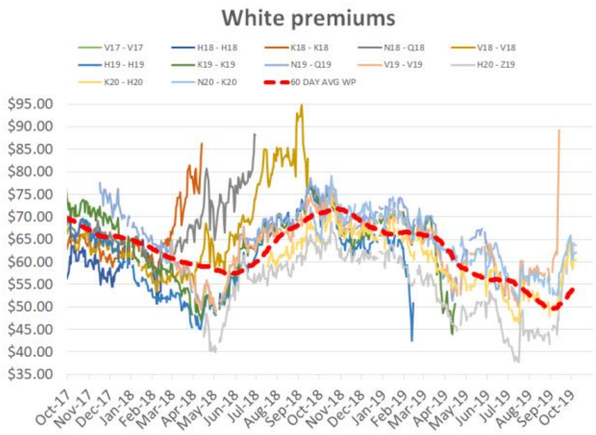
Outlook for EU domestic sugar prices remains constructive



New October/September contracts between sugar producers and sugar users in the food and drinks industry were said by the European Commission at the end of September to be being concluded a little over 400 EUR/MT, perhaps around 420 EUR/MT, some 100 EUR/MT more than the average invoice prices reported by the Commission to be prevalent in July. However, according to Intrastat data and the latest HIPC indexes, there are wide – and widening – and sometimes seemingly inexplicable regional differences. For example, the HIPC data used to build up a picture of inflation, indicates that retail sugar prices in Poland are rising substantially. However, the HIPC data points to falling retail prices in the Czech Republic and in Greece. Overall on average across the Union, the picture appears constructive, albeit from the abyss of very low prices which afflicted sugar producers and preferential sugar suppliers after quotas were abolished in October 2017. Moreover, the latest Intrastat data tends to support the European Commission's reported prices data for the so-called "deficit" areas in the south and east of the continent, where prices are rising faster than the overall average, giving rise to a "deficit area premium" which reached 70 EUR/MT in July.

After the surprising expiry of the ICE London #5 October white sugar futures contract on 13th September and the modest expiry of the ICE New York #11 October raw sugar contract 30th September, one may begin to hope that world sugar market sugar prices may at last begin to creep upwards, supported by Indian cane diversion to ethanol (said to amount to around 2.0 million tonnes sugar equivalent this year), forecasts of larger global deficits in 2019/20 and 2020/21 (the ISO forecasts a deficit of 4.8 million tonnes in 2019/20, followed by a deficit of 6.0 million tonnes the year after), and a speculative community which is beginning to unwind its short position. On 7th October, the CFTC reported that the #11 speculative position has increased by 79k lots to minus 147k lots. However, the market will doubtless face strong upward resistance as it tests each technical upside target owing to the deteriorating macro-outlook and the ever present high global sugar stocks which will still take some time to get eaten up by the forecast global deficits.





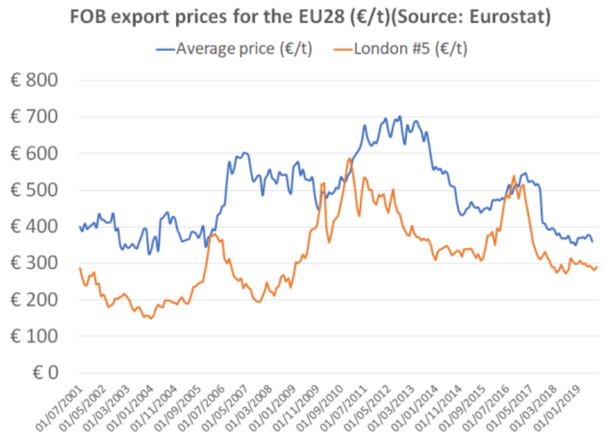
With #11 world market prices now in the mid-12's and into the 13's as we go down the board, and even above 14 ¢/lb in the lightly traded and very "pink" months in 2022, a quick back-of-an-Excel calculation (*see below*) suggests that duty-free raw sugar imports should continue to find a ready market in the EU on price alone, especially of course in the so-called "deficit areas" of the EU including – assuming we get a sensible Brexit deal – in the United Kingdom. However, the proposed autonomous MFN tariff quota at zero duty for 260,000 tonnes/annum in a "no deal" Brexit would likely depress commercial values of preferential LDC and ACP raw sugar. Nevertheless, given the likelihood of the EU28 remaining a net importer, and given the constructive outlook for the world market, prices of refined sugar on the domestic EU markets look set to remain well-supported.

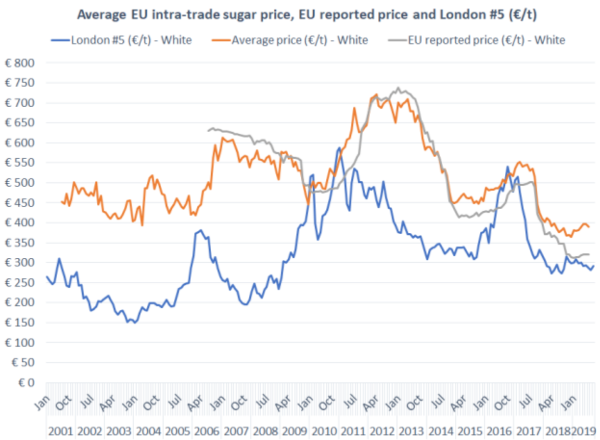
EU preferential raw sugar costs (excluding commercial margin)

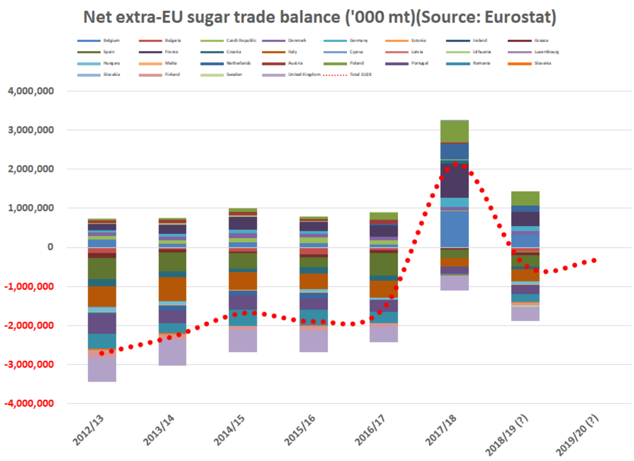
Markets as at date: 07-Oct-19

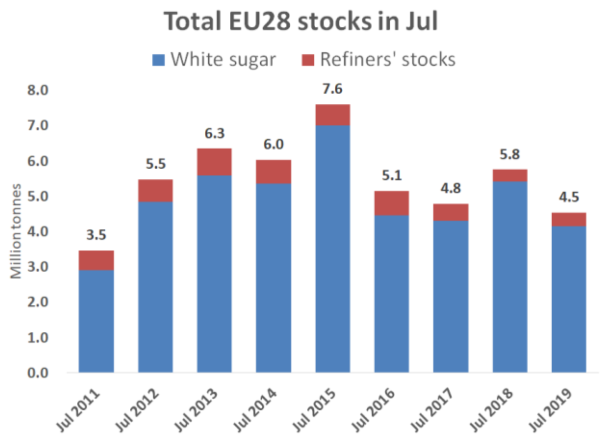
Futures expiry month	NY#11 sugar futures	Euro forward rates	NY#11 in €/t FOB	NY#11 CIF EU with freight and insurance at, say, US$35 pmt	EXW EU refinery, at zero duty and, say, 100 €/t costs
Mar-20	12.55	1.1093	€ 249	€ 281	€ 381
May-20	12.69	1.1132	€ 251	€ 283	€ 383
Jul-20	12.85	1.1170	€ 254	€ 285	€ 385
Oct-20	13.06	1.1228	€ 256	€ 288	€ 388
Mar-21	13.60	1.1322	€ 265	€ 296	€ 396
May-21	13.64	1.1361	€ 265	€ 296	€ 396
Jul-21	13.66	1.1399	€ 264	€ 295	€ 395
Oct-21	13.76	1.1457	€ 265	€ 295	€ 395
Mar-22	14.13	1.1551	€ 270	€ 300	€ 400
May-22	14.05	1.1590	€ 267	€ 297	€ 397
Jul-22	14.03	1.1628	€ 266	€ 296	€ 396

Meanwhile, against a background of declining volumes of EU exports and EU stocks, and even despite lower human consumption of sugar, the improving outlook for the ICE London #5 white sugar looks set to provide further support for EU28 domestic sugar prices both in the main sugar producing Member States and in the deficit areas.









Brexit update: ready for "no deal"?

Until this summer's election of Mr Boris Johnson as Prime Minister, one might have been forgiven for believing that "No Deal Brexit readiness" was less good than might have been ideally desirable.

But the situation has dramatically improved these past few months further to an extensive UK Government communications initiative comprising information campaigns, podcasts, advertisements and website content. For us in sugar, the sectoral pages of the gov.uk website contain Brexit readiness information relevant to the food and drink industries, including process maps for key commodities. In addition, the government has engaged in roadshows for traders, opened a call centre, and is particularly targeting key messages towards SMEs via regional organisations, chambers of commerce, etc. Moreover, the UK government is also reaching out to

EU27 businesses who may be affected by a “no deal” Brexit via UK embassies, the Borders Delivery Group, the FCO, and trade associations including CELCAA.

In all this preparation, the UK government’s dominant planning assumption remains for a “no deal” Brexit, which would mean no implementation period after 31 October 2019. However, if the currently proposed (modified) withdrawal agreement can remain a basis for agreement at the European Council on 16th and 17th October, then there would be an implementation period.

Meanwhile, the UK government’s Trade Agreement Continuity Team has already concluded “Continuity Trade Agreements” with around 40 countries, including in September between the UK and SACU + Mozambique. Negotiations with other countries and trade blocs are proceeding at pace, but negotiations with Canada are slow owing to general elections there. There will not be continuity agreements with Turkey, San Marino nor Andorra because these countries are within the EU customs union. In addition to the continuity trade agreements, Mutual Recognition Agreements have been reached with Australia, New Zealand, the United States, Israel, Switzerland and Japan. These MRAs can for example certify Rules of Origin, etc.

Concerning the all-important Rules of Origin, the general approach has been to replicate the existing EU rules, and moreover, to recognise EU content as “originating”, hence EU content can be cumulated with UK content under these Continuity Trade Agreements. But it is not possible to know at this stage how the EU will respond as regards UK content in trade with these countries.

In the WTO as opposed to FTA context, EU Regulation No 2013/16 on the “apportionment” of the EU’s WTO schedule lays the foundation of the UK’s independent WTO schedule; the UK schedule runs to 700 pages and includes 140 TRQs. Both the EU 27 and UK schedules are now subject to certification by WTO members, 30 of whom have raised objections. Article XXVIII of GATT provides the legal framework for discussions, which began in December 2018. Of those WTO members who raised objections, many have claimed the right of negotiation having demonstrated significant trade flows of the products in question. Some have an automatic negotiation right, some “substantial” rights and some “initial” rights; the legality of these negotiating claims was confirmed in March 2019. In September 2019, these negotiations began in earnest in Geneva.

The UK’s Temporary Tariff Schedule has its legal basis in the Taxation (Cross Border) Act 2018 and would apply under a “no deal” scenario. The UK has clarified that this schedule, were it to apply, would be temporary, and would be reviewed after 12 months of “no deal”. There is also provision for an exceptional review procedure after three, six and nine months of operation. An update to the temporary tariff schedule is expected to be published but will probably only cover technical changes. Detailed mechanisms to administer the temporary tariffs will be covered by a future statutory instrument to be entitled the Customs (Tariff Quotas) (EU Exit) Regulations 2019.

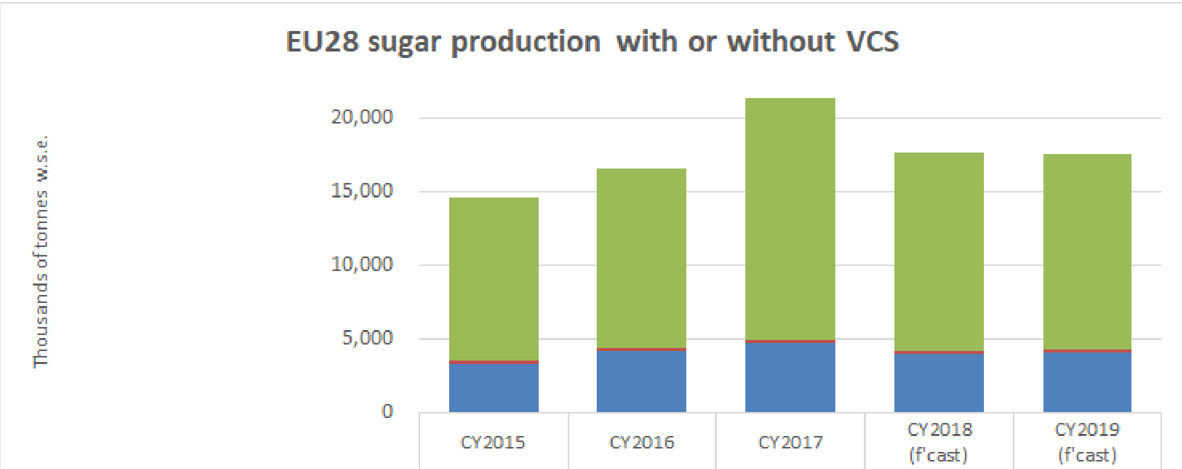
Under the UK temporary schedule, eighty-seven per cent. of all tariff lines would be duty-free, however, certain “sensitive products” of interest to developing countries will be subject to tariffs; these are: bananas, green beans, some citrus fruits, vanilla, cloves, coconut oil, palm oil, cocoa, rice, some fish and, of course, sugar. In the sugar sector, the existing EU tariffs would apply with the exception of a tariff for white sugar of EUR 150 per metric tonne, less than half of prevailing EU MFN tariff, which would apply to all non-preferential origin white sugar, including EU27 origins.

Statistical Annex

EU sugar production forecasts (based on DG AGRI estimates of 29 September 2019)

	Area 2018/19 (kha)	Area 2019/20 forecast (kha)	Beet yield 2018/19 (t/ha)	Beet yield 2019/20 forecast (t/ha)	Sucrose yield 2018/19 (t/ha)	Sucrose yield 2019/20 forecast (t/ha)	Sugar production 2018/19 (kt)	Sugar production 2019/20 forecast (kt)	*Change forecast (kt)*	***Notes***
Belgium	63.7	58.8	82.8	82.0	13.0	12.8	830	751	*-79*	
Czech Republic	60.2	56.2	57.5	61.4	9.5	10.3	573	577	*4*	
Denmark	34.2	29.3	61.5	69.2	10.3	12.0	352	352	*-0*	
Germany	391.7	375.4	63.3	74.2	10.7	11.4	4,195	4,264	*69*	
Greece	1.3	1.3	0.0	0.0	6.5	6.0	8	8	*-1*	
Spain	27.6	27.6	86.7	88.5	14.2	14.8	391	408	*18*	
France	421.9	388.4	81.6	81.2	12.1	12.4	5,286	5,000	*-286*	*(incl. DOM)*
Croatia	16.6	14.5	54.8	67.4	7.2	9.0	119	130	*11*	
Italy	34.4	30.2	64.0	58.2	6.3	7.7	216	231	*15*	
Lithuania	16.2	15.5	57.2	51.6	9.1	9.2	147	142	*-5*	
Hungary	14.0	13.5	59.3	63.8	7.9	7.8	110	105	*-5*	
Netherlands	86.2	80.7	76.4	85.0	13.2	14.0	1,138	1,130	*-8*	
Austria	31.1	28.0	68.8	70.7	10.4	11.4	325	319	*-6*	*(incl. molasses)*
Poland	238.9	240.9	50.7	55.2	9.2	9.3	2,191	2,228	*37*	
Romania	24.6	23.1	38.5	44.1	4.4	6.5	108	150	*42*	
Slovakia	21.9	22.7	59.9	59.1	7.6	8.0	166	181	*15*	
Finland	10.3	10.7	36.3	40.5	5.2	7.0	53	75	*22*	
Sweden	30.7	26.6	55.3	64.3	9.1	11.2	279	298	*18*	
United Kingdom	97.2	90.2	69.3	74.8	11.7	12.7	1,133	1,150	*17*	
Total/average EU28	**1,622.7**	**1,533.6**	**63.4**	**67.1**	**10.9**	**11.4**	**17,623**	**17,499**	***-124***	
Change forecast		***-5%***		***6%***		***5%***		***-1%***		

Sources of data: European Commission DG AGRI and JRC MARS, elaborated by julianprice.com Ltd.
Production forecast based on areas and LT avg. yields. Member State estimates for others.



	CY2015	CY2016	CY2017	CY2018 (f'cast)	CY2019 (f'cast)
Sugar production without VCS (excl. TàF)	11,067	12,119	16,377	13,505	13,226
DOM sugar production	247	248	244	182	180
Sugar production with VCS	3,314	4,170	4,696	3,936	4,093

ACP, LDC and SA sugar and molasses imports into the EU28 (Source: Eurostat)								
	DC raws		Refined sugar		Raw cane sugar for refining		Molasses	
	Quantity in tor	Average price (	Quantity in tor	Average price (	Quantity in tor	Average price (	Quantity in tor	Average price (
2001/02	**68,124**	**€ 705**	**34,341**	**€ 610**	**1,614,615**	**€ 506**	**252,054**	**€ 91**
2002/03	**70,747**	**€ 694**	**27,470**	**€ 558**	**1,420,861**	**€ 535**	**370,673**	**€ 75**
2003/04	**82,526**	**€ 670**	**31,794**	**€ 551**	**1,511,778**	**€ 525**	**374,825**	**€ 64**
2004/05	**83,331**	**€ 679**	**47,407**	**€ 570**	**1,498,566**	**€ 521**	**313,404**	**€ 85**
2005/06	**78,167**	**€ 703**	**32,467**	**€ 571**	**1,490,283**	**€ 520**	**418,679**	**€ 113**
2006/07	**136,138**	**€ 680**	**27,398**	**€ 638**	**1,852,523**	**€ 501**	**405,333**	**€ 101**
2007/08	**150,742**	**€ 660**	**49,374**	**€ 586**	**1,318,451**	**€ 498**	**259,347**	**€ 88**
2008/09	**110,984**	**€ 618**	**65,107**	**€ 531**	**1,709,833**	**€ 450**	**205,897**	**€ 127**
2009/10	**114,278**	**€ 621**	**183,555**	**€ 442**	**1,224,241**	**€ 371**	**128,042**	**€ 130**
2010/11	**124,445**	**€ 624**	**426,383**	**€ 511**	**1,257,109**	**€ 416**	**116,023**	**€ 138**
2011/12	**144,008**	**€ 751**	**330,619**	**€ 717**	**1,367,598**	**€ 507**	**98,254**	**€ 129**
2012/13	**125,852**	**€ 814**	**367,471**	**€ 727**	**1,549,053**	**€ 560**	**127,916**	**€ 142**
2013/14	**120,281**	**€ 770**	**389,880**	**€ 556**	**1,753,909**	**€ 449**	**87,173**	**€ 132**
2014/15	**132,428**	**€ 702**	**341,578**	**€ 412**	**1,643,055**	**€ 393**	**83,163**	**€ 153**
2015/16	**138,256**	**€ 668**	**321,531**	**€ 443**	**1,182,637**	**€ 370**	**102,153**	**€ 156**
2016/17	**129,685**	**€ 679**	**323,002**	**€ 516**	**857,258**	**€ 437**	**110,033**	**€ 149**
2017/18	**128,283**	**€ 632**	**126,202**	**€ 427**	**538,953**	**€ 320**	**85,740**	**€ 136**
2018/19								
Oct-18	5,900	€ 688	4,950	€ 388	103,381	€ 263	8,318	€ 138
Nov-18	8,201	€ 655	8,231	€ 411	52,000	€ 257	5,446	€ 149
Dec-18	7,207	€ 631	5,611	€ 399	49,299	€ 259		
Jan-19	11,437	€ 628	5,979	€ 380	86,488	€ 264		
Feb-19	6,758	€ 641	5,050	€ 420	35,000	€ 252		
Mar-19	10,408	€ 648	10,475	€ 375	98,591	€ 294	3,000	€ 142
Apr-19	11,232	€ 654	16,611	€ 393	12,753	€ 268	40	€ 1,292
May-19	13,966	€ 624	29,076	€ 391	155,152	€ 281	4,044	€ 160
Jun-19	10,290	€ 631	22,659	€ 392	78,896	€ 294	5,660	€ 167
Jul-19	9,090	€ 632	26,272	€ 402	39,755	€ 298		
2018/19 Total	**94,488**	**€ 641**	**134,913**	**€ 394**	**711,315**	**€ 276**	**26,508**	**€ 152**

Julian Price has 30 years' experience as an international sugar trader and broker. He was elected eight years in a row as President of the European Sugar Traders' Association "ASSUC", comprising sixty sugar trading companies in Europe. Julian is a regular speaker at international sugar trade conferences and is recognized to possess wide experience, deep knowledge and empathy as a sugar trader and innovative market analyst at the heart of the trade in cane sugar between African, Caribbean, Pacific and Least Developed Countries and the European Union. julianprice.com Ltd can undertake consultancy work for a daily fee of £500.