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EU Sugar – Update and outlook

Key EU28 sugar estimates (*)

(million tonnes)(Oct/Sep marketing years)	2018/19 ?	2019/20 ??	Delta
Beginning stocks	2.4	1.4	-1.0
Total fresh production (sugar equivalent)	17.9	17.7	-0.2
- of which sugar production (excluding ethanol)	*15.8*	*15.7*	-0.1
Imports from non-EU countries (incl. IPR)	1.9	1.9	0.0
Domestic disappearance (incl. exports of products)	16.5	16.2	-0.3
Industrial consumption (including ethanol but excl *jus vert*)	2.1	2.1	0.0
Exports to non-EU countries (incl. IPR)	2.3	1.4	-0.9
Ending stocks	1.4	1.4	0.0

(*) Imports and exports data include not only sugar traded under the normal customs treatment, but they also include sugar imported and exported under Inwards Processing Relief (IPR) and also "other" white sugar (HS 1701 9990). For the moment, the UK is included in the EU.

NB: Unless otherwise stated, all customs data is ultimately sourced from Eurostat with elaborations and projections undertaken by julianprice.com Ltd.

EU sugar beet sowing and emergence are progressing well

Amid very good weather conditions this spring, the EU sugar beet sowing campaign is progressing well, according to the JRC MARS bulletin "Crop Monitoring in Europe" on 15 April 2019.

In France, almost all of the 450,000 ha of beet were sown in two weeks. The French area is reported to be 6.3% lower than last year, whilst overall in Europe, the beet area is forecast approximately 8% lower.

Precipitation was above average in the Netherlands, Belgium, Denmark, and NE Germany, and was mainly concentrated during the first half of March. The resulting excessive wetness hampered sowing, but favourable conditions at the end of March and in April so far, have allowed for an acceleration of sowing. In Belgium and the Netherlands, more than 50% of the area was sown by 8 April, which corresponds more or less to an average season.

Sugar beet drilling in the UK started in the second half of March, ahead of the usual time due to positive temperature anomalies and rain free periods, and by 10 April, sowing had been completed on about 90% of the area.

The drilling of sugar beet is in full swing in Germany and Poland. In Poland, sowing started earlier than usual (even in the first week of March in certain places) due to above-average temperatures, and accelerated from the beginning of April, resulting in approximately 80% of sowing being completed to date.

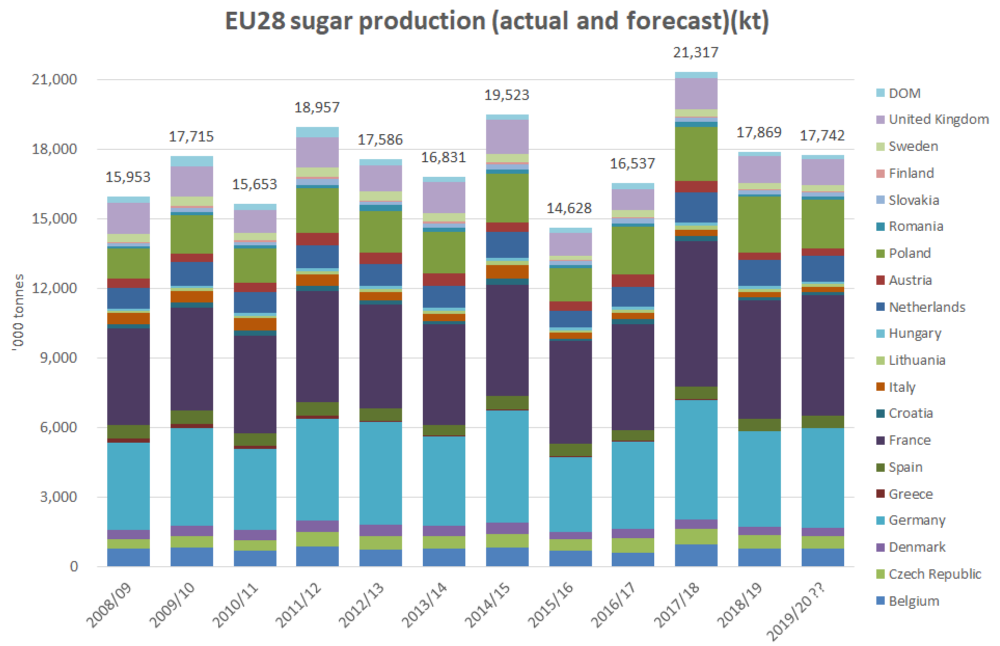
Precipitation has been below average in Hungary and Romania, and very dry top soils hampered sowing in some regions. Nevertheless, sowing has been completed, and some rain recently improved the situation in Hungary, but more rain is needed in Romania to sustain sugar beet emergence and early development.

EU sugar production estimates fall a little

Final estimates of sugar production in the EU28 for the 2018/19 marketing year (Oct/Sep) are beginning to crystallize around 17.8 to 17.9 million tonnes, compared with estimates of earlier this year of well over 18 million tonnes (including cane sugar the French Overseas Departments).

The area sown to sugar beet in 2018/19 was 1,649,000 hectares, not including *jus vert* used directly for ethanol production mainly in France. The yield of final sucrose produced per hectare was around 10.8 tonnes/ha, a reduction in sugar yield of 15% compared with 2017/18, which was largely blamed on the 2018 summer drought.

Given the preliminary estimates we have of the beet sowings which are now almost completed for the 2019/20 beet campaign, and bravely assuming a three year average yield of 11.6 tonnes/hectare, production of sugar in the EU28 would amount to 17.7 million tonnes, in other words much the same as the year before.



EU sugar imports rise and exports fall

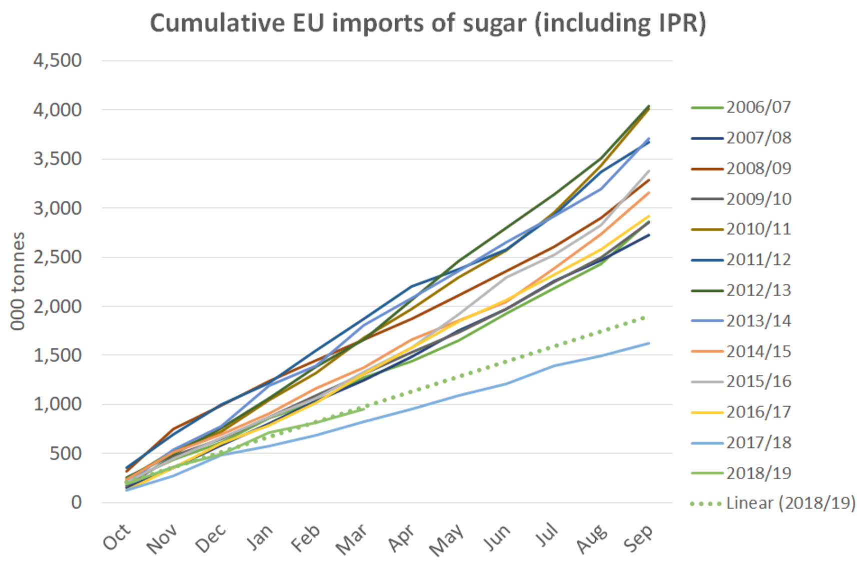
- **Total imports for 2018/19 are projected to be 1.9 million tonnes (including IPR)**
- **Total exports for 2018/19 are projected to be 2.3 million tonnes (including IPR)**

Although the pace of sugar imports from ACP and LDC countries has slowed to a trickle in recent week, perhaps as fears of a "no deal" Brexit have receded, the pace of preferential imports is nevertheless around 180,000 tonnes more than at the same time last year. The UK was the destination for 38% of the ACP/LDC sugar, followed by Portugal (20%), Italy (17%) and Bulgaria (8%). The Kingdom of Eswatini accounted for 40% of the ACP/LDC quantity so far this year.

The CXL "Croatia" quota allocated to Brazil at an import duty of 11 €/t (basis 96 degrees polarization) was entirely filled in two tranches in March and April of 58,000 tonnes and 20,000 tonnes (total 78,000 tonnes). However, at time of writing (16 April) the "normal" Australia, Brazil and Cuba CXL quotas at 98 €/t duty still remain entirely available (9,925; 334,054 and 68,969 tonnes respectively), and 264,577 tonnes of the CXL Erga Omnes quota of 289,977 tonnes remains available (the balance has been allocated so far in small tranches during the 2018/19 marketing year, probably as organic raw sugar for refining). The Indian CXL quota of 10,000 tonnes was entirely filled in the first week of October 2018. The Balkans quota is presently 33% allocated and the Ukranian quota of 20,070 tonnes has been entirely filled. The South African refined sugar quota of 50,000 tonnes remains largely unallocated (45,727 tonnes remains at the time of writing), whilst 69,075 tonnes remains to be allocated under the 100,000 tonnes raw sugar quota from South Africa. The Colombian FTA quota is 12% allocated, Peru 4%, Central America 19% and Ecuador 0%.

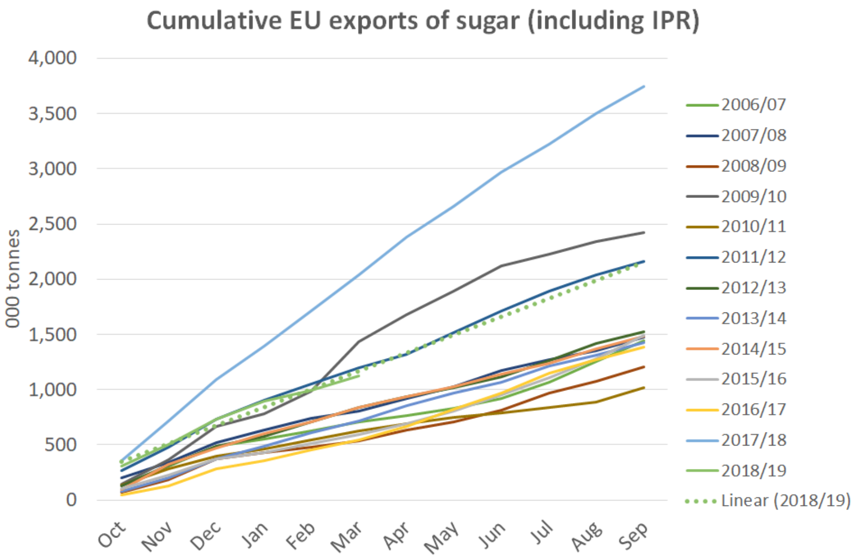
Overall, according to Comext and TAXUD Surveillance data, the total of imports of sugar into the EU28 reached 727,000 tonnes by mid-March, close to the total last year. However, including imports of IPR sugar, the total so far this year is running ahead of last year.

Projecting the running totals to September 2019 would give a total for the 2018/19 year of around 1.9 million tonnes, a little more than last year, but considerably below the 3 to 4 million tonnes which were imported before EU sugar quotas were abolished in October 2017.

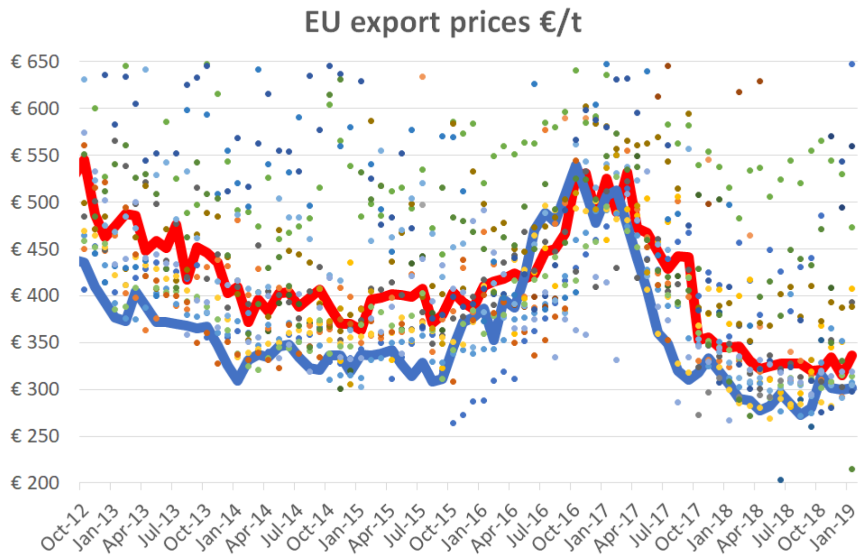


Exports of sugar from the EU28 reached 953,000 tonnes by mid-March according to Comext and TAXUD Surveillance 2 data, around 55% of the total of last year. Destinations for EU exports were 19% Egypt, 18% Israel, 4% Ghana, 4% Switzerland, 3% Lebanon. It is to be noted that Egypt will probably increase its domestic sugar production in the near term, and hence is expected to become a less important destination for EU sugar.

The projected total of EU exports is 2¼ million tonnes, similar to the total reached in 2011/12, but barely two thirds of the total of 3,742,000 tonnes of sugar exports reached in 2017/18.

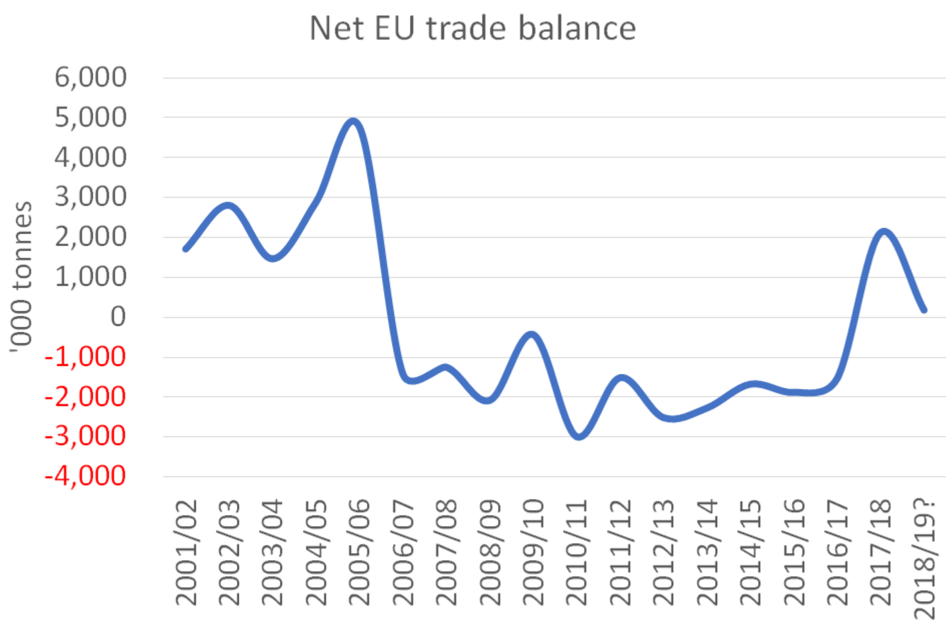


According to the latest Eurostat data, EU export prices were 337 €/t in January 2019 (the red line in the chart below), compared with a monthly average of the London #5 ICE White Sugar futures price of 302 €/t (the blue line in the chart below). However, the average of the Eurostat revenue data includes exports to premium markets in e.g. Norway and Switzerland, thus inflating the average export price for "genuinely" world market exports.



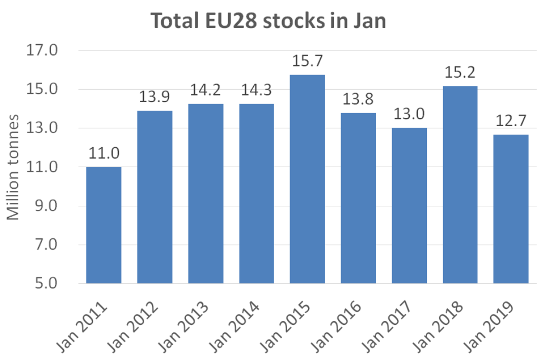
Overall, the EU is projected to be ≈100% self-sufficient in 2018/19 and to remain a significant swing factor for the global sugar market

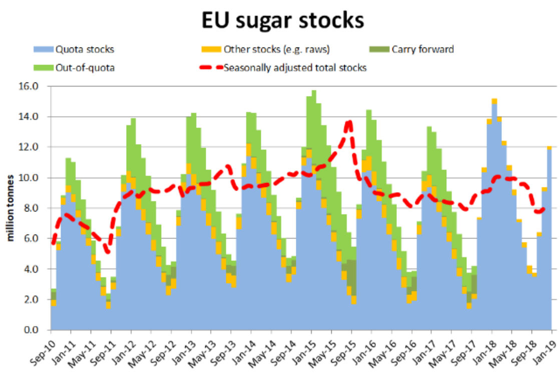
The chart below summarizes the above data and projections. Although the EU is not a huge "swing factor" for the world sugar market, there have nevertheless been trade swings of two million tonnes up and down since the dawn of the millennium. The relative stability of the EU's net trade balance seen during the five years until quota abolition in 2017 may have lulled the world market into a false sense of security. Given the uncertainties surrounding neonicotinoids, CAP reform, health concerns, etc., in the years to come, the EU will probably remain a modest yet significant swing factor for the global sugar market.



Stocks continue to fall

The European Commission on 29 March reported that stocks in January 2019 rose to 12,664,000 tonnes, the lowest level since January 2011. Stocks of sugar held by EU refiners reached close to 300,000 tonnes, the highest for five months.





Import parity to drive EU prices in the months to come?

According to S&P Platts "spot price" series, the domestic price has been around 440 €/t delivered in north-western Europe, and about 460 €/t in the Mediterranean region.

Meanwhile, the European Commission reports that the average EXW price for February 2019 was just 314 €/t (up 2 €/t from January), with a standard deviation of 34 €/t. The average price in the "surplus" Regions 1 and Region was 322 €/t and 303 €/t and in the "deficit" region, it was reported to be 365 €/t.

The disparity between the Platts and EC prices series can be explained by many factors, not the least that the Platts price is a "spot price" whilst the EC prices reflects long term contracts.

However, underlying the disparity, there is a growing feeling that the EU sugar market is moving from export parity to import parity; this has been evident for the deficit regions but now more so for the whole EU market. Moreover, there is a growing need for more transparency in the market, a need the European Commission is endeavoring to find ways to meet.