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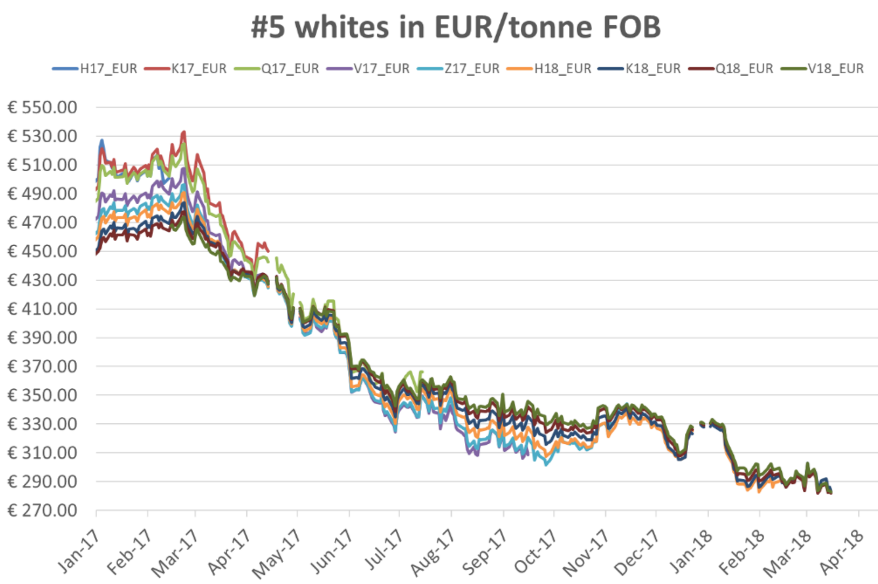
EU market update and outlook
19th March 2018

EU sugar prices

After failing once again to close above \$350 pmt, and with the KK white premium easing back to \$68 having earlier this week rallied to \$77 pmt, May #5 white sugar closed at \$348.70 on Friday 16th March.

With the EURUSD trading at just under \$1.23, the value of #5 sugar in EUR fell to around 283.50 €/t.

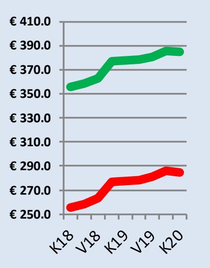


In the raw sugar markets, although speculators are reckoned to be short a record number of lots, the #11 May futures contract once again failed to test 13 cents/lb, and spent all week below 13 cents/lb.

Hence, the theoretical value of imports into the EU duty free (e.g. EPA-EBA bulk raws) calculated against May 2018 flat with an estimate \$25 pmt for freight has fallen to around 255 €/t.

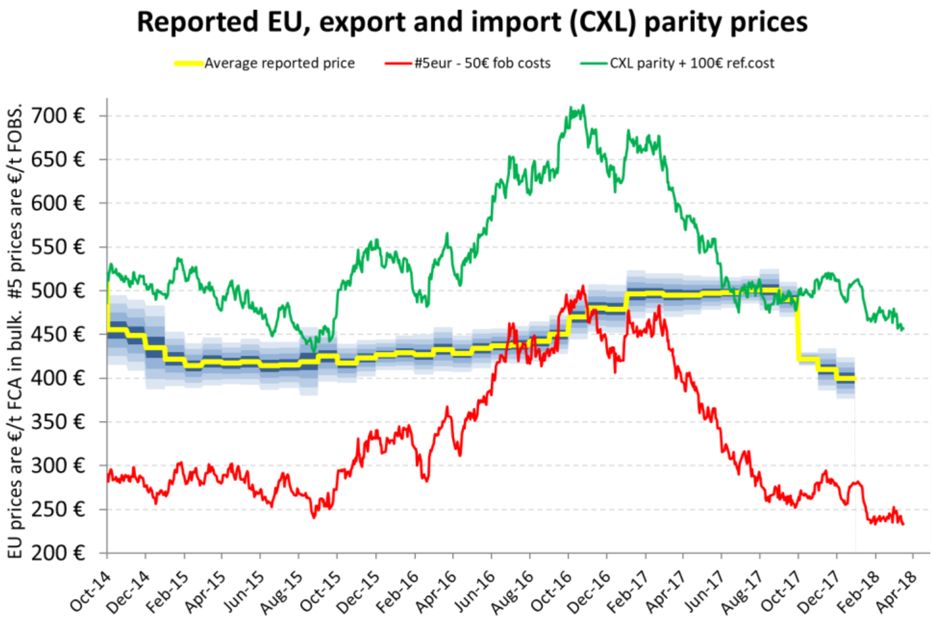
Pref raws values in €/t cif 99 pol, flat NY #11, \$25 freight

16/03/2018 00:00 Futures month	ICE #11 raw sugar	USD/EUR fwd rates	EPA-EBA raws Duty = € 0.0	CXL raws Duty = € 98.0
K18	12.65	1.2340	€ 255.8	€ 355.8
N18	12.85	1.2400	€ 258.2	€ 358.2
V18	13.23	1.2500	€ 263.1	€ 363.1
H19	14.17	1.2660	€ 276.9	€ 376.9
K19	14.31	1.2730	€ 277.9	€ 377.9
N19	14.42	1.2800	€ 278.3	€ 378.3
V19	14.68	1.2900	€ 280.8	€ 380.8
H20	15.16	1.3060	€ 285.8	€ 385.8
K20	15.18	1.3130	€ 284.6	€ 384.6



Spot forex	
EUR USD	1.2289
GBP USD	1.3937
GBP EUR	1.1341
ZAR EUR	14.7166
ZAR USD	11.9754

With theoretical EU export and import parities thus estimated, the EU playing field once again fell in value, as shown in the graph below:



The last official report of EU prices indicated that the weighted average price for December 2017 was exactly 400 €/t. Meanwhile, Kingsman/Platts is reporting average spot prices in Germany, France and Benelux at around 365 €/t. We will await the Commission's reported prices for January at the end of March, but it wouldn't be surprising to see a further reduction in prices confirmed by the official data.

Exceptional measures?

With these very low EU prices, the question has been asked of the Commission concerning exceptional measures, e.g. private storage aid. The Commission has responded that many EU sugar beet supply contracts are indexed to reported or invoiced EU and export prices. Admittedly, there isn't much visibility as to future values, but sugar beet growers and processors must now respond to market signals when making decisions as to the quantities of beet to plant or contract. The Commission confirmed it is not even thinking about taking any exceptional measures and moreover there is no "automatism" in the regulations linked to the reference price of 404.4 €/t.

The Commission acknowledged that lower sugar prices are not feeding into lower prices for processed products for consumers. The situation is, of course, very complicated, and the weight of sugar prices in some consumer products is quite low. Moreover, the dynamic of negotiations between sellers and buyers in different segments, e.g. retail for supermarkets, wholesalers, industrial users, etc., is often very different. Nevertheless, the Commission can study the situation of prices transmission throughout the value chain, and they shortly very well might update this.

Imports

According to the latest "surveillance" data, imports from the ACP and LDC countries by week 24 of the 2017/18 marketing year were 244,000 tonnes, barely half the level achieved at the same time last year (472,000 tonnes). Total ACP/LDC imports last year reached a little over 1.3 million tonnes. With prices remaining on a downward trajectory and demand consequently drying up even further, it is very difficult indeed to see total ACP/LDC imports reaching one million tonnes this year, and probably substantially less than that. The ACP/LDC Sugar Industries Group will shortly update the Commission as to their expectations of the quantities intended for the EU market.

Meanwhile, imports under TRQs from Central America or the West Balkan countries are similarly not arriving in the EU, excepting perhaps small quantities of high value (organic?) sugar.

An exception to the above dismal picture for imports is South Africa. The calendar 2017 South African quota of 150,000 tonnes was almost entirely filled; the raws quota was filled 100% and a quantity of 42,000 tonnes of refined sugar was imported from South Africa in 2017. So far in calendar 2018, imports from South Africa have amounted to 36,000 tonnes of raws and 5,000 tonnes of refined sugar. South African imports may slow down in the next few months owing to local factors, i.e. smaller quantities being imported into SACU from the world market; it may also be the case that the recent imports from South Africa were only possible owing to judicious hedging on the futures markets which may now be running out.

The total of EU imports in 2016/17 (Oct/Sep) was 2,488,000 tonnes. So far in 2017/18, around 600,000 tonnes in total has been imported, of which 42% from the ACP/LDCs, 33% from South Africa and 12% from Central America. The trend in monthly imports seems to be declining once again according to the surveillance data. In October 2017, 92kt was imported in total, in November 128kt, in December 175kt, but in January just 87 kt and February 75kt was imported.

Destinations for imports remain the usual suspects: UK and Italy, with smaller quantities destined for Spain and Portugal. So far this year, Romania has yet to import any sugar from abroad.

Exports

The rhythm of monthly EU sugar exports has slowed down, but not as much as thought a few weeks ago. The monthly totals according to the latest surveillance data were: October 341kt, November 324kt, December 343kt, January 291kt and February 262kt. The total so far has exceeded 1.6 million tonnes. Major destinations this year are Egypt, Sri Lanka, Syria, Israel, Mauritania and West Africa; the countries of West Africa have been seeing larger quantities of EU sugar recently.

The Commission estimates total EU exports will amount 3,200,000 tonnes in 2017/18. The trade has repeatedly advised the Commission that exports are expected to be higher than the Commission is currently estimating.

The high quantities exported in Oct/Dec and the subsequent slowdown in January/February were said to have been driven by the huge increase in production in 2017/18 and "taking a breather" after such a huge increase. There isn't really any let up in activity though, and the international markets are still always there at prevailing #5 prices. The quantities exported in Oct/Dec probably amount to the logistical limit given current investments. In coming months, the quantities are expected to be once again up at the maximum logistical limit of up to 350,000 tonnes/month, especially if the outlook for the 2018/19 crop is good, depending of course on the effect of weather this year on the growth of the sugar beet, because the storage space will be required for the next crop. Should exports not be sufficient, then additional storage of beet juice (ethanol?) or sugar not for human consumption will be required.

Longer term outlook for exports

The dynamics of forecasting exports in the longer term are quite interesting and require knowledge of the supply chain from the farmers' planting decisions, the weather, factory opening times, the allocation of quantities for the domestic, regional and export markets, marginal costing, storage capacity utilization, export logistics, etc., etc., and lastly game theory (recalling the various announcements each processor made to the market in the run-up to abolition of the quotas). For the 2017/18 and indeed the 2018/19 campaigns, the market risks remain with the sugar beet processors, but after then, the risk has probably yet to be passed from farmers further down the supply chain, leading inevitably to "interesting conversations" between farmers and processors given current expectations for both the domestic and international markets.

Intra-EU trade

Intra-EU trade in 2017/18 has been dominated by France and Germany who have been responsible for more than 60% of the total so far this year. Destination markets are Greece, Germany (from France), Netherlands, UK, Spain, Belgium and of course Italy. The Commission is also able to monitor the values of intra-EU trade. Here, there is a marked difference in values between Belgium and Netherlands, where the values were 330 €/t and 340 €/t respectively in recent months, compared with values perhaps up to 100 €/t higher in the other "deficit" markets. The value of intra-EU exports to the UK was around 440 €/t. Of course, the difference in values reflects the fact that the intra-EU trade to Belgium and the Netherlands is sugar for export to the international markets. It's interesting, nevertheless, to note the higher value of trade to the so-called "deficit markets", with prices quite a bit higher than the weighted average EU28 ex-works prices being reported by the Commission and anecdotally e.g. by Kingsman/Platts.

Inwards processing relief (IPR)

The volumes of sugar imported duty free under IPR in 2017/18 are sharply lower. The quantities recorded in the four months of October 2017 to January 2018 were 37,000 tonnes of raw sugar for refining and 59,000 tonnes of white sugar, of which a total of 75,000 tonnes originated in Brazil, with the remainder originating from Algeria and Argentina.

The lower imports of sugar under IPR may lead to higher domestic consumption in the EU.

Isoglucose

From October 2017 until the end of January 2018, isoglucose production amounted to 280,000 tonnes, compared with 200,000 tonnes at the equivalent time last year. The increase is a result of a new investment in isomerization capacity in Hungary.

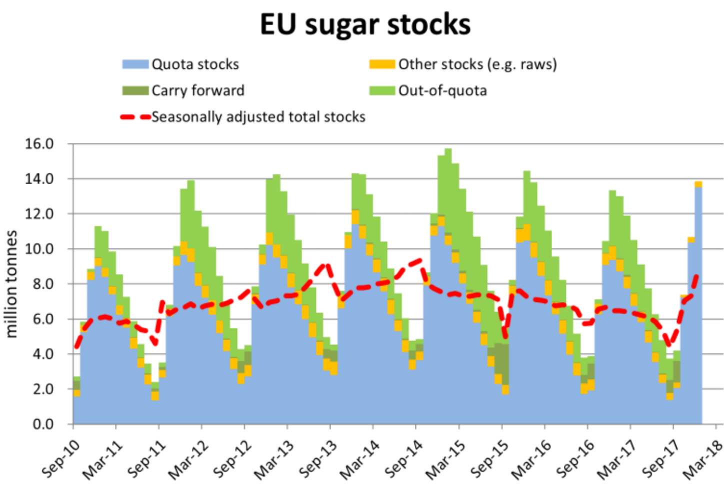
Overall EU balance sheet and stocks

Sugar production ("fresh") from the EU28 was estimated in the January "bilan" at 20,600,000 tonnes and is now expected to be some 200,000 tonnes higher. New production estimates will be published by the Commission at the end of March 2018 based on Member States' updated communications.

Sugar consumption (not including isoglucose consumption any more) is expected to be a little higher than last year's low estimate. In total, sugar consumption in the EU28 in 2017/18 is expected to amount to 17,650,000 tonnes, of which consumption for bioethanol production (excluding *jus vert*) is expected to increase to 1,350,000 tonnes and of which industrial consumption (for yeast, pharma, etc.) is expected to remain stable at around 800,000 tonnes.

Hence human consumption is tentatively estimated by the Commission to be around 15,500,000 tonnes in 2017/18. The Commission acknowledged that consumption may be falling as a result of health concerns, but there was little actual evidence of this available yet. Concerning bioethanol, the Commission's original estimate was 1,200,000 tonnes, however, representations from the ethanol trade indicated that this was too low.

Ending stocks, being the "bottom line" of all the above factors, are expected to amount to 2,158,000 tonnes. The question was asked, would the extra 200,000 tonnes of beet production end up in increased stocks or be exported? The trade responded that stocks of 2,158,000 tonnes are already higher than they need or should be. The EU market has remained "fluid" with quota stocks as low as 1,000,000 tonnes, and there seems no reason why this should not be the case going forwards. On the other hand, the Commission's estimate of total imports of 1,300,000 tonnes seems to high; an estimate of 1,000,000 tonnes would seem more realistic.



Regulatory issues

The Commission is currently working with Version 18 of the "Omnibus" regulation. But fingers crossed this might at last be the final version and it will be adopted in April or maybe May.

Concerning the First Come First Served system, the Commission invited operators to submit actual cases where the system has caused problems, if necessary by means of confidential communications by the operators concerned, supported by ASSUC communications in general terms.

Mercosur and Mexico FTA negotiations

The negotiations between the European Commission and the four countries of Mercosur and with Mexico are proceeding at "quite a good speed".

In both negotiations, sugar is of interest to the Mercosur countries and Mexico (but more interesting for Mercosur than for Mexico given Mexico's current access to the US market, President Trump notwithstanding), and all agree that sugar should be treated as a "sensitive product".

Concerning Mercosur, it seems that Mercosur have requested a TRQ of 800,000 tonnes at zero duty, whilst the EU have offered a smaller TRQ (100,000 tonnes?) with a duty. Owing to sensitivities with the DOM producers, the EU has not offered access for direct consumption (or speciality) sugar.

Negotiations are continuing on both the quantity and the duty and also concerning Rules of Origin, plant health, etc., and may be concluded quite quickly if the political will remains positive.

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