



# The Beet Brief

6 Oct 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	-	-	-	-
2017 three-year contract	£22	-	-	-	-

*Information to be provided when available*

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

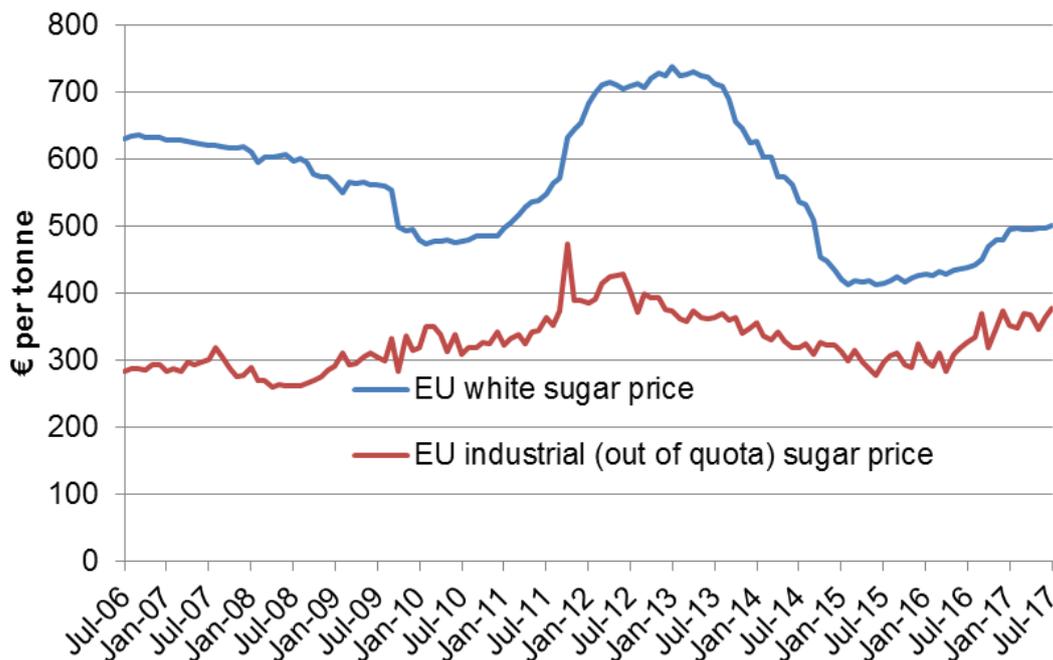
### Highlights

- The EU monthly average white sugar price reached above €500/t in July 2017, with the industrial sugar price at €378/t. These are likely to converge in 2017/18 with the end of quotas.
- Recent currency movements have reduced the value of the bonus and the likelihood of it being triggered.

The latest monthly EU white sugar price was €501/t for July 2017. This was the first time in 2016/17 the average climbed above €500/t, but remains likely to be a poor guide for prices in 2017/18 given the expected large crop. Meanwhile, the industrial (out of quota) sugar price for July 2017 rose to €378/t, as shown in figure 1.

Now that quotas no longer apply, we would expect to see prices for these different uses of sugar to converge. While the end of quotas means greater sugar potentially available for food uses, for industrial users (such as for bioethanol or pharmaceuticals) the end of quotas removes the out of quota supply that could only be sold to limited other outlets. Despite the anticipated large crop, given the wider range of markets open to all EU sugar now, the supply situation as far as industrial sugar users are concerned may look tighter than in previous years since there is no dedicated out-of-quota supply. In turn, this could mean average prices in 2017/18 are at least above the latest industrial sugar price of €378/t.

**Figure 1 EU monthly average sugar prices**



Ex-works prices for sugar produced in the EU

Source: EU Commission

**Recent currency movements have reduced the value of the market-related bonus.** The strengthening euro against the US dollar over the year has made a bonus less likely to trigger, while the strengthening sterling against the euro (over the last month) has eroded the value of how much the bonus would pay out, if it is triggered.

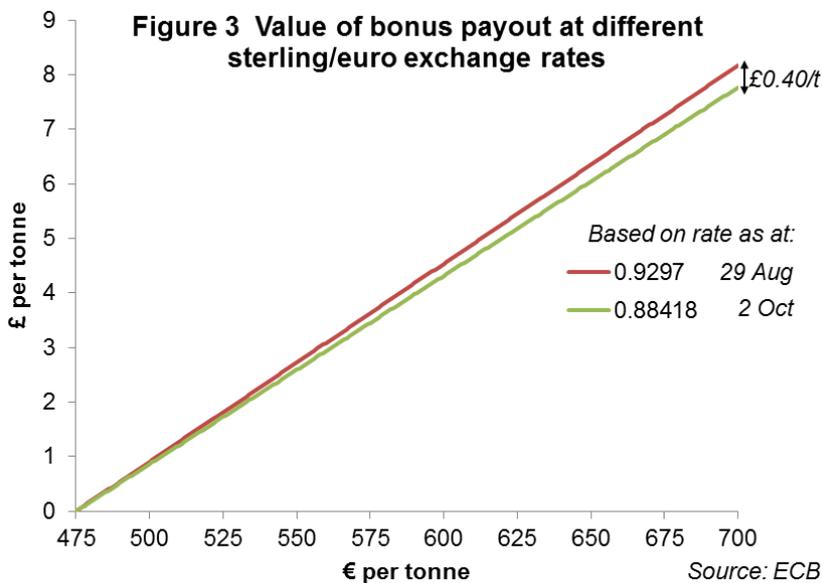
While we will need to wait a few more months before the EU Commission releases an October 2017 white sugar price, the first that will apply for the 2017/18 price structure, we can see the currency movements now that will affect it.

The euro has been strengthening against the US dollar throughout 2017 to date, which matters since the world market trades on a US dollar basis. From near-parity (c.\$1.05/€1) at the beginning of January, the exchange rate had reached \$1.20/€1 by late September (although has fallen back a little since). The stronger the euro becomes against the dollar, more expensive in dollar terms any particular EU price is. This means that a price of €475/t equals a gradually higher level on the world market, as shown in figure 2.

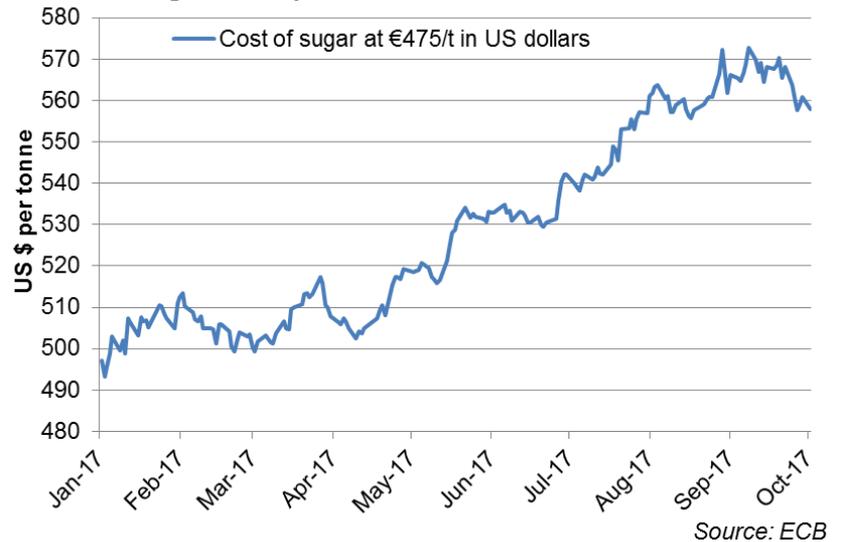
In January, an EU market price in 2017/18 of just over \$500/t appeared possible given Dec-17

world market prices also just above \$500/t. However, the likelihood of the trigger level being reached has been affected not just by falling market prices since, as covered last month, but also by the higher dollar value the EU market would need to reach to get to that level shown in figure 2.

Should a market-related bonus be triggered, the actual value for the beet price then depends on the sterling/euro exchange rate. The stronger sterling is against the euro, the less the bonus is worth at any particular sugar price level, and vice-versa.



**Figure 2 Equivalent of €475/t in US dollars**



While sterling had been weakening, which is positive for the value of the bonus, sterling has sharply strengthened against the euro since the end of August. One euro was worth £0.93 in late August, but by the start of October the rate had moved to €1=£0.88.

For the beet price, this means that the bonus paid out would be worth 0.2p less (based on the three-year contract rate) for every euro the market reaches above €475/t. Correspondingly, this means the shift in exchange rate from €1=£0.93 to €1=£0.88 reduces the maximum possible value of the beet price bonus by £0.40/t, as shown in figure 3.

**Next Issue: Friday 10 November 2017**

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