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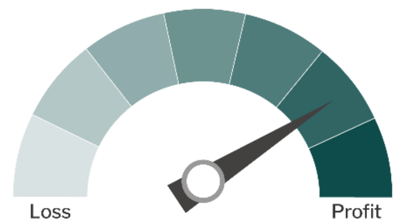
MARKET SNAPSHOT

Sugar Beets

January 24, 2024

12-Month Profitability Outlook



Executive summary

AgWest Farm Credit's 12-month outlook for sugar beets suggests profitable returns. Exceptional yields drove strong sugar beet production despite lower acreage. While storage shrinkage is a potential concern due to warmer temperatures, favorable domestic sugar prices, strong demand and lower input costs will create tailwinds for beet grower profitability.

Industry drivers

Sugar production returns to 2021 levels despite fewer acres

National sugar beet production reached 35.2 million tons, up 8.0% year-over-year. Despite 22,200 fewer planted acres due to the closure of Sidney Sugars and Midwest acreage reductions, and some acres left unharvested in the Red River Valley due to weather challenges, strong production was driven by yield improvements. More than double the nation's sugar beet acres were planted within the ideal planting window, raising the national average yield to 31.2 tons per acre, up 8.7% year-over-year. Three of the five largest sugar beet-producing states (Minn., Idaho, N.D., Mich., and Neb.), which produce more than 85% of the national beet crop, saw yield improvements of greater than 10% year-over-year.

U.S. sugar beet 2023 yield and year-over-year percent change

Beet yield improvements have supported strong U.S. sugar production.

Source: USDA NASS, Compiled by AgWest.

Northwest beet production benefited from timely plantings and better early moisture conditions leading to above-average yields. In Idaho, late August rains delayed harvest, but growers finished the year with an average yield of 40.0 tons per acre, up 1.9 ton per acre from the previous year. Production improved in Idaho, Oregon and Washington. Montana's production fell by 28.2% year-over-year due to a 29.7% beet acreage reduction from a plant closure in Sidney, Montana.

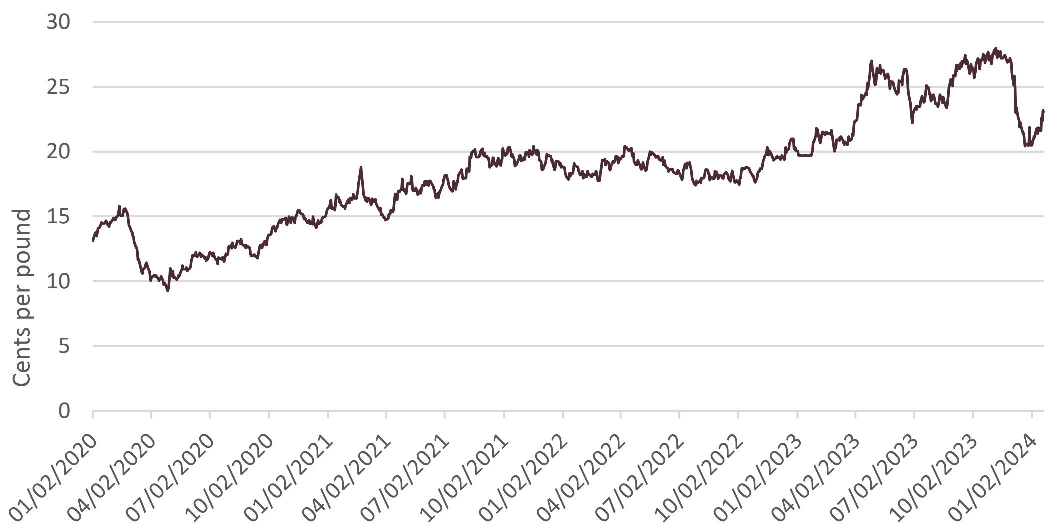
Shrink issue likely for 2023 crop

Above-average temperatures are forecasted to increase beet shrinkage. Timely beet plantings of the 2023 crop support better conditions and less shrink issues. However, most beet storage began with warm temperatures and a warm winter could cause shrink issues. The sugar beet shrink is forecasted at 6.56% for the 2023 crop.

Improvements in global supplies soften sugar future prices

Raw sugar futures in the U.S. hit a 12-year high of $0.28 per lb. in early November, driven by tight supply in the two largest sugar-producing countries (India and Brazil). On November 29, 2023, Brazil increased their sugar production estimate for March 2024 to 677 million tons, a 4% increase from their previous estimates. Sugar future prices responded immediately, declining sharply to $0.20 per lb. in just two weeks. This downward price pressure was also supported by improvements in Brazilian shipping conditions and lower oil prices. Both Brazil and India can divert cane sugar to ethanol production. Sugar ethanol prices have been more favorable as oil prices have risen. This has led cane crushers to divert cane production towards biofuels, reducing the global sugar supply. However, as ethanol prices have lowered, more sugar cane is being reverted to sugar production, reducing sugar prices. Lower global sugar prices have decreased U.S. sugar futures, which fell by $0.07 per lb. throughout the month of December. In the last week of December, growing concerns about dry conditions and a tightening India sugar crop could result in an export ban boosting early January sugar prices to $0.23 per lb. The domestic sugar price outlook is bullish as anticipated reductions in sugar beet and cane acres for 2024 will limit supplies, therefore supporting current prices.

U.S. raw sugar prices



Sugar prices decreased by 25% after a November 29 report estimating a larger Brazilian sugar cane crop.

Source: Sugar No. 11 Futures, compiled by AgWest.

Profitability

Beet growers should enjoy favorable sugar prices, demand and yield improvements. Growers will benefit from strong contract prices with discussions that sugar prices could be well over $70 per ton in Idaho. Beet growers will benefit from significant declines in fertilizer and diesel prices from year ago levels, reducing their input expenses. However, they have continued to struggle with high wages, labor shortages, equipment and repair costs, and increases in interest expenses (see Crop Inputs snapshot). Producers should have a profitable year with increases in producer payments being more than enough to offset elevated production costs.

Sugar beet refiners will also experience lower expenses. Natural gas, which is used to heat and purify the sugar, is one of the largest refining expenses. Fortunately, natural gas prices have decreased significantly, giving some relief to the refiners. Domestic transport and overseas container costs have mostly declined, but overseas bulk transport has gone up due to security and logistical issues in the Red Sea and the Panama Canal. Labor costs are another challenge for the refiners, as wages are still high and labor availability remains a challenge.

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