NFU SUGAR NATIONAL NEWSLETTER

# The Beet Brief

21 Feb 2020

**UK beet price tracker**

| £/adjusted tonne | Base price, £/t (crowned) | Bonus, €/t (latest month) | ECB £/€ rate (monthly average) | Bonus, £/t (latest month) | Bonus, £/t (cumulative to date) |
|---|---|---|---|---|---|
| 2019 one-year contract | **£20.42** (contracted at £19.07 / zero crown) | 0 | - | 0 | **0** |
| 2017 three-year contract | **£22** | 0 | - | 0 | **0** |
| 2018 three-year contract | **£22.50** | 0 | - | 0 | **0** |

*Prices before adjustments. Bonuses apply when EU price >€475/t (2017 & 2018 contracts) or >€375/t (2019 contract).*

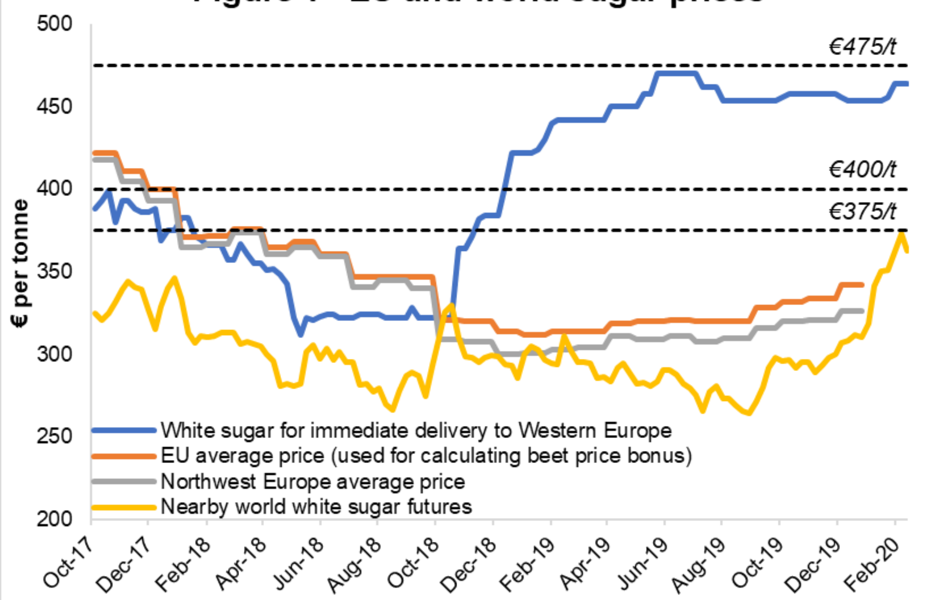
**Highlights**

- The average EU white sugar price in December 2019 was €342/t
- World white sugar prices rose sharply to a 33 month high earlier this month
- Forecasts for 2020/21 project increased sugar output in Brazil, but with the world market remaining in deficit.

This edition has been published later than expected due to delays awaiting the release of the latest EU white sugar price. As the EU's price publication schedule appears to have changed, you should now expect The Beet Brief towards the middle of each month.

**The average EU white sugar price in December 2019 was €342/t,** €8/t up from November but still below the level to trigger a bonus (see figure 1). Meanwhile, reported EU spot sugar prices have steadily climbed in the past month following the strong underlying support from the world market (see more below). The influence of longer term contracts signed ahead of 2018/19 on the average EU white sugar price remains clear to see, as despite EU spot markets having been much firmer for over a year and now world prices also rising substantially, the reported EU white sugar price has barely risen. We have heard further confirmation that a number of major EU processors sold the majority of their sugar output ahead of 2018/19 on multi-year contracts at what now seem very low prices.

**Figure 1 EU and world sugar prices**




*Sources: EU Commission, Platts, IEG Vu*

Furthermore, we have also heard suggestions that inter-factory transfers within the large continental sugar groups could be distorting the reported price. If a processor transfers sugar to a subsidiary, the price is reported at the nominal value of the transfer rather then at the price the subsidiary actually sells sugar at. Depending on the contract structures in place in different countries, there could well be incentives for certain processors to report nominal values at a level that serves their particular aims.

**World sugar prices have risen sharply in the past month**, despite a few small wobbles following the outbreak of coronavirus in China that led to falls in all commodity markets. Nearby white sugar futures hit a 33 month high, trading above $400/t for the first time since July 2017 and peaking at $451/t on 12 Feb, compared to only $300/t five months ago in early September. Meanwhile, nearby raw sugar futures broke a psychological barrier after trading over 15c/lb since 10 Feb. The current price rally is being underpinned by increasingly strong fundamentals as production estimates fall across the world, making it increasingly likely that it is not simply a short term bump within the general downward trend the market had been moving in for the past 2 years.

However, both white and raw world sugar futures have been in an unusual pricing pattern with the nearby contract (until expiry a few days ago, March-20) priced higher than the May-20 contract, and this in turn at a premium to the following delivery month. Typically, within a season, later contracts would be expected to follow the price trends of earlier ones, but at a premium to reflect the cost of carrying sugar into that month. In the current case, the price structure is incentivising sales for immediate movement over those for later delivery, and encouraging buyers to defer purchases if possible.

The market is particularly tight for supply, particularly of refined sugar, in the near term. This is due to dramatically lower production in Thailand, few exports coming out of Europe, Indian white sugar only becoming available onto the market slowly, strong US demand for white sugar imports following the poor beet crop, and little sugar coming from countries like Guatemala that would usually deliver against white futures contracts.

A few pieces of news came out recently that act as a reminder of the difference in world supply this year compared to last. The All India Sugar Trade Association on 31 January projected an 18% fall in Indian sugar output in 2019/20, from 33.2Mt to 27.4Mt, while American Crystal quoted earlier this week their lost, unharvested, beet area as 115k acres (47kha) out of 398k acres (161kha) planted.

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**Expectations for 2020/21 are already beginning to be affected by the changing price picture**. Although the higher price is expected to influence production levels, historically prices have continued to firm when the world market remains in deficit in 2020/21 (even if it is much smaller deficit).

As we have often mentioned, a large proportion of Brazilian production can be flexed between sugar and ethanol production. In 2018/19, Brazil produced a similar amount of sugar as India, the largest producers in the world that year (individually not far off twice the output of the whole EU)—yet this was with almost 2/3rds of Brazilian sugar cane used for ethanol instead of sugar.

It is generally expected that the recent rise in sugar prices will trigger a much higher proportion of sugar production in Brazil next campaign, especially given that oil and hence ethanol prices have suffered more of a dent from Coronavirus. While mills will currently be locked into a certain volume of sugar and ethanol production depending on their sales mix, so cannot necessarily switch instantaneously, over a period of months to a year the technical flexibility exists to allow a substantial amount of additional sugar to be produced if the relative prices remain attractive enough. Analysts FCStone project 37.8% of Brazilian cane going into sugar next season, up from 34.5% this season, on top of improved cane yields given the weather so far, which although sound small numbers, would represent about 3Mt additional sugar production, or over twice British Sugar's annual output.

Analysts Agritel report a recent Reuters survey of analysts and forecasters, with the global sugar market on average expected to be in a 6.72Mt supply deficit in 2019/20 (i.e. with consumption greater than production over the 12 months, global stock levels would fall by 6.72Mt). However, the deficit level is forecast on average to come much closer to balance in 2020/21 at only 1.15Mt, based on expectations that the higher price will incentivise more sugar production as suggested above. Although the deficit is forecast to shrink, a deficit remains a deficit and therefore would continue to reduce the stock level in the world sugar market, maintaining support on world prices. In Europe, meanwhile, Tereos reported this week that over 99.5% of contracts that ended in 2019/20 have been renewed for five more years, maintaining its large increase in volume since quotas ended contrary to the reductions of some if its competitors.

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**Next issue expected: Friday 13 March 2020**

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