NFU SUGAR NATIONAL NEWSLETTER

The Beet Brief

16 Mar 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 January 2020 was €360/t, up €18/t from the December average.
- World sugar futures have fallen rapidly following their rise in February in line with oil markets.
- Plans for a new Belgian cooperative factory have been delayed until 2021 but interest remains.

The average EU white sugar price in January 2020 was €360/t, €18/t above the December figure and much closer to triggering a market related bonus on the one year contract than earlier in the campaign. The strongest rises continue to be seen in the highest priced parts of the EU across southern Europe where prices reached €445/t on average. These are areas which are generally already deficit markets and therefore need to price at a level to pull in sugar from third countries if the main EU beet sugar producers have insufficient supplies to export there. Meanwhile the north western region (UK, France, Germany, Belgium and Netherlands) reached an average price of €347/t.

It is promising that EU average sugar prices have continued to climb steadily, but they continue to be a long way below reported spot prices. There will still be a large proportion of multi-year contracts in the average weighing down the overall reported price, but there have also been suggestions that the January price could have risen for two reasons. Firstly, some annual contracts are negotiated on a calendar year basis, which will have commenced in January, and secondly, some buyers on traditional October-September contracts are reported to have stocked up on as much sugar as possible at lower prices at the end of 2018/19, so may have not needed to come to market again until January 2020 for 2019/20 supplies.

Limited volumes of alternative pelleted seed available in stores

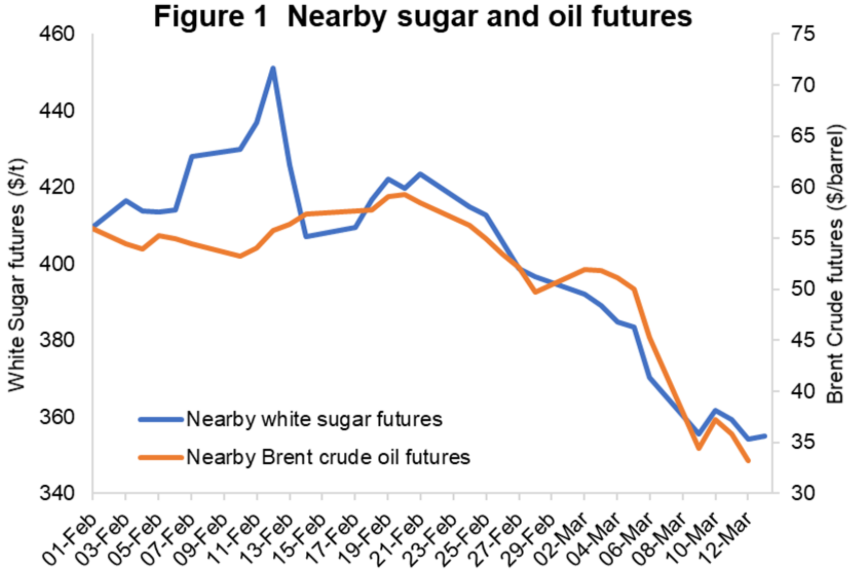
Following the marketing of Germains Enrich 100 and KWS EPD2 primed and pelleted seed on the seed list this year, and the process the NFU ran to allow various seed processing companies to express an interest in pelleting for the UK Seed Account, there is a selection of pellets produced by other providers available in seed stores this year.

As there is not yet any independent BBRO data that we can share on these alternative priming and pelleting technologies, the limited volumes of these alternative pellets are available alongside a series of pellet trials the Seed Working Group has set up to be run by the BBRO. These will provide robust and independent data on the performance of priming and pelleting technology across the market. The first results from this will be available after the 2020 trials have been harvested and assessed.

Please note that at the time of publication, some of these pellets had already been sold as British Sugar has continued to receive a steady flow of seed orders throughout February and March. Both Germains Enrich 100 and KWS EPD2 pelleted seed is also available in stores.

Since the significant upturn in world sugar futures reported last month, nearby white and raw sugar futures have come tumbling back down on the back of collapsing oil prices. It was reported in last month's Beet Brief that world sugar futures breached a 33 month high, and while the fundamentals in the sugar market remain just as tight as they were, this latest price fall demonstrates how sensitive sugar (as with many agricultural commodities) is to oil prices.

Figure 1 Nearby sugar and oil futures



Source: IEG Vu

Nearby Brent crude oil futures have fallen 40% in the last month, leading to a nearly 20% decline in world sugar futures (see figure 1). Sugar prices are closely linked to movements in the oil market given the high degree of flexibility, particularly in Brazil, for cane mills to switch production between sugar and ethanol. With the oil, and hence ethanol, price dropping substantially, sugar becomes more attractive to produce from cane than fuel, leading to sugar prices also falling in anticipating of supply switching.

Although sales are generally booked in already for 2019/20, forecasters are looking to the effect this will have on 2020/21 production. FO Licht, for example, suggested a tentative assumption that sugar output could rise from 35.5% to 41% of Brazilian cane processing, which despite sounding a small change on the face of it, would represent a further 6.1Mt of sugar on the market, equivalent to about 5 times total UK beet sugar output.

The volatility of world prices over the last couple of months is unlikely to have much immediate on reported EU average sugar prices, and hence very little immediate impact on beet prices in the UK. However, it does highlight both the risks and opportunities that could exist if a beet contract could allow active use of futures for hedging rather than simply the passive price linkage that currently exists. Whereas the current contract structure does not allow for any benefit to be taken from short term spikes in world sugar prices (or indeed any risk from short term dips), a more active hedging mechanism could allow for growers to hedge value as and when the market offers it. This latest rise and fall would have been in the magnitude of a £y/t variation in beet value since the start of the year based on the current factor used for paying the sugar price bonus (6.4 adjusted tonnes of beet per tonne of sugar).

Despite the wave of factory closures in Europe over the past year from Südzucker and Cristal Union, the Belgian CoBT cooperative project to build a brand new beet factory remains. Agritel this month reported that construction has been delayed until 2021, but with 1,600 members and €134m of capital raised so far the plan remains to build the most modern beet factory in Europe. None of the existing Belgian factories are cooperatively owned, so this would be a significant change for the industry there.

Agritel report that given the investment in the most modern and efficient equipment, the cooperative estimates that the project should enable the company to pay a beet price above production costs at a sugar price €320/t. Clearly all factories will have a different cost base, varying depending on investment levels over time, the age and energy efficiency of the equipment and local factors such as land and labour costs, but in comparison to existing processors that have struggled to maintain profitability with average sugar prices falling to the low €300s, it provides an interesting insight into the cost efficiency that is felt could be achieved, and the resulting resilience to market fluctuations.

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