NFU SUGAR NATIONAL NEWSLETTER

The Beet Brief

17 Apr 2020

UK beet price tracker

£/adjusted tonne	Base price, £/t (crowned equivalent)	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	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 February 2020 was €370/t, only €5/t off the one year contract trigger.
- European beet area is thought to have lowered in 2020 but Covid-19 could have a substantial price impact.
- The world sugar market is forecast close to balance in 2020/21 but with large uncertainty on consumption.

The average EU white sugar price in February 2020 was €370/t, €10/t above the January figure and now very close to the €375/t trigger point on the one year contract. If the average price increases at the same rate again into March, the 2019 one-year contract market bonus would trigger, albeit at a very modest monthly value.

As shown in figure 1, the monthly value of the market related bonus on the one-year contract is less than 0.2p/t for every €1/t the price exceeds €375/t. Between March and September there are 7 months of the 2019/20 marketing year in which a bonus could yet accumulate, although it is worth noting that even if the price averaged €400/t across all 7 months the total value of any market-related bonus would amount to 30p/t at current exchange rates, meaning that the 2019/20 one-year contract is highly likely to remain one of the lowest beet contract prices paid (at least since decimalisation).

Figure 1 Monthly market-related bonus value on the 2019/20 1-year contract (£/t)

€ 375	£0.000
€ 376	£0.002
€ 377	£0.003
€ 378	£0.005
€ 379	£0.007
€ 380	£0.009
€ 381	£0.010
€ 382	£0.012
€ 383	£0.014
€ 384	£0.016
€ 385	£0.017
€ 386	£0.019
€ 387	£0.021
€ 388	£0.023
€ 389	£0.024
€ 390	£0.026
€ 391	£0.028
€ 392	£0.030
€ 393	£0.031
€ 394	£0.033
€ 395	£0.035
€ 396	£0.037
€ 397	£0.038
€ 398	£0.040
€ 399	£0.042
€ 400	£0.044

Based on average March 2020 €/£ rate

Expectations for European beet area in 2020/21 haven't changed significantly with Covid-19 lockdowns or the associated drop in world market prices, but Covid1-9 could have a substantial impact on the EU price. Planting has continued across the continent and beet growers remain under contract to their processors, but the measures taken to combat Covid-19 do throw up the question of the market conditions the sugar produced in 2020/21 will have to be sold into.

Total EU+UK planted area is generally expected to decline due to cuts in the largest producers France and Germany, despite a stable or increasing beet area in many other countries. Here in the UK, for example, British Sugar are now reporting an area planted under contract of over 105,000ha for 2020, likely due to a combination of the improved contract prices on offer compared to 2019 and to the disruption to cropping patterns. A combination of similar factors is likely to have driven greater area elsewhere also. However, forecasters including LMC and FO Licht are projecting a decline in EU area driven by factory closures in France and Germany from Cristal Union and the Südzucker group, and more widely by Südzucker's decision to pull out from most export markets.

On the face of it, the slightly smaller area coupled with average yields would keep the EU+UK market in relative balance, and therefore it might have been expected that the price recovery we are starting to see in average EU prices continues once 2-year sugar contracts signed for 2018/19 and 2019/20 work their way out the system. However, the price of sugar contracts struck for 2020/21 will, as always, be influenced by the price at which sugar can be brought in from the world market at, and the rapid decline in world prices caused by Covid-19 means that this is now a much lower figure than it was two months ago. With raw sugar, in particular, dropping in cost, refiners in the EU and UK could find themselves starting to be truly competitive in the marketplace compared to beet processors' price aspirations for the first time in the last few years.

Given the nature of sugar contracting in Europe, where most beet processors tend to make fixed price sales at the point they come to contract, the reported EU price will be heavily determined by how weak the world price remains in the coming months. While our market sources have suggested Brazilian processors, for example, hedged a sizeable portion of their forthcoming sugar sales at much more attractive prices during the price rally, the way in which European beet sugar processors choose to sell sugar makes it harder for themselves to take advantages of market movements out of contracting periods. Not only does this affect processors' own margins, it also reflects in the average reported EU price, which in turn reflects in the beet contract price paid.

The failure of beet processors to properly use the hedging tools available on the world market could result in growers, and even more so the processors themselves, once again paying the price. EU+UK refiners may well be hedging raw sugar prices for 2020/21 right now, allowing them to remain competitive even if the world market does readjust, posing a competitive challenge to beet processors as long as they continue to sell as they do.

Partly as a result of Covid-19, the first forecasts of the 2020/21 world sugar balance have pegged supply very close to demand despite then world market coming from one of the largest deficits in many years in 2019/20. There are two Covid-19 related factors—a substantial shift from ethanol to sugar production in Brazil, on the back of the oil price collapse as covered in last month's Beet Brief, and a much more disputed impact on total world consumption. As shown in figure 2, a range of forecasters are pegging the world 2020/21 balance at either a small surplus or small deficit.

Figure 2 World 2020/21 balance forecasts

	Mt
FO Licht	-1.6
Green Pool	0.3
LMC	0.5
Rabobank	0.6
Czarnikow	0.7

There is much more uncertainty than usual in global 2019/20 consumption, and hence the stock that will carried forward into 2020/21. Forecasters have generally revised down anticipated 2019/20 consumption in their figures as a result of Covid-19, though the magnitude varies from case to case, but there is not yet any evidence to back up either whether there will be a lower consumption than expected nor how large this will be.

Czarnikow were one of the first to revise down figures, moving to virtually flat world demand compared to 2018/19, by making a 'best-guess' 5% reduction across those countries in lockdown as a result of supply chain disruption and the loss of out of home consumption.

A case against that is made by FO Licht, who expect consumption simply to shift into home, perhaps through different products. While falling out of home consumption is likely to particularly hit the soft drink sector, they point out that these are being increasingly formulated with other sweeteners as it is, while there is some evidence from the US of people stocking up on more sweetened convenience food (cookies, popcorn etc) than usual.

My personal view is towards the latter, although almost all analysts expect lower sugar demand of some scale. Nearly 8bn people in the world still need to eat, and as a basic staple sugar is found in most foods, even if people substitute which products they eat and where. Where I could be wrong, however, is if lockdowns cause people to eat and drink less in total. Personally, I don't believe my own sugar consumption has fallen; if anything, I believe it has risen, not least considering how many biscuits I have got through in the last three weeks.

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