NFU SUGAR NATIONAL NEWSLETTER

The Beet Brief

19 June 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 crown)	€0.008	€1 = £0.87547	£0.007	**£0.007**
2017 three-year contract	**£22**	0	-	0	**0**
2018 three-year contract	**£22.50**	0	-	0	**0**

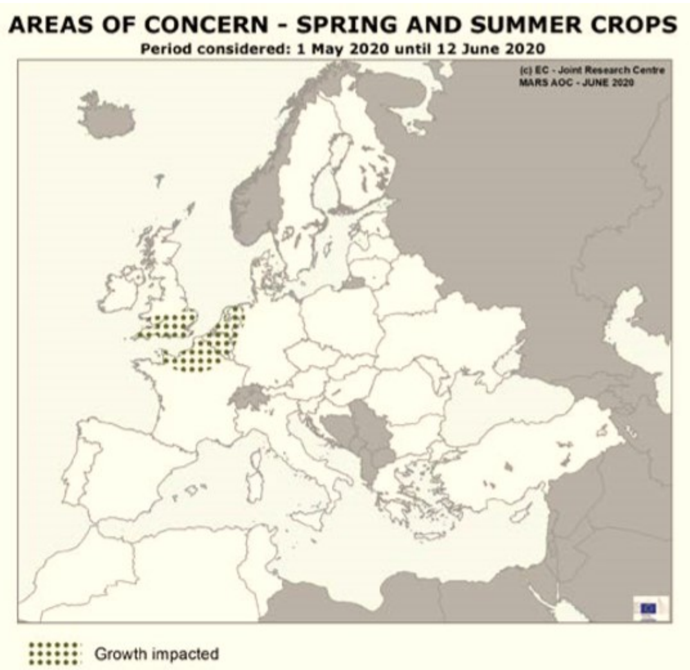
Prices before adjustments. Bonuses apply when EU+UK price >€475/t (2017 & 2018 contracts) or >€375/t (2019 contract).

Highlights

- The 2019/20 one year contract has now triggered a 0.7p/t monthly bonus from April 2020.
- Concerns for a fall in yield compared to last year are building in both the EU and UK.
- World sugar prices are recovering strongly following the initial price fall due to Covid-19.

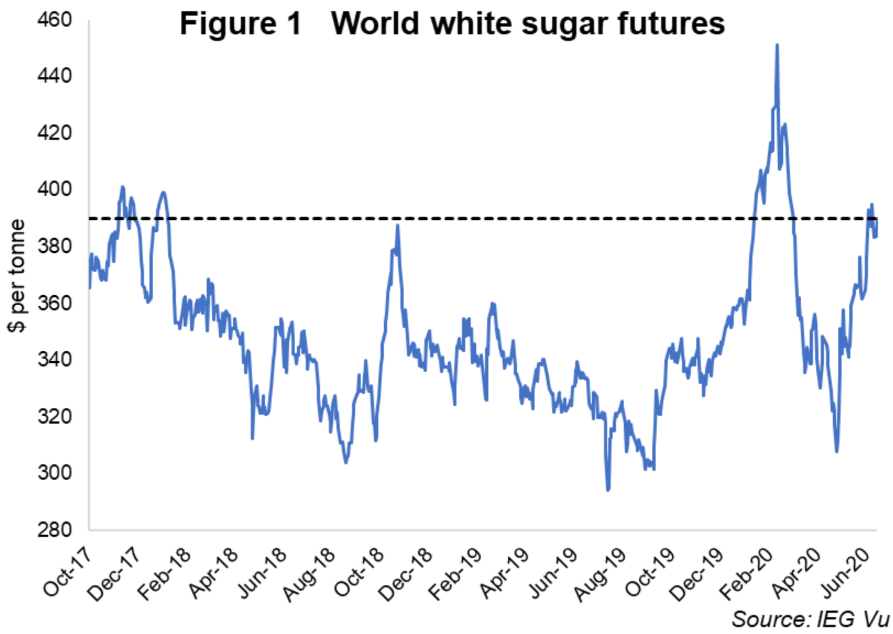
The average EU+UK white sugar price in April 2020 was €379/t, leading to a 0.7p/t monthly bonus on the 2019/20 one-year contract. This is the highest average monthly value reported by the EU Commission since December 2017, and comes as concerns over 2020/21 crops in Europe continue. Despite a downward adjustment to expected consumption, the EU Commission continues to forecast EU+UK net imports (imports minus exports) at their highest level in 2019/20 since the end of quotas. This continued tight balance sheet, combined with the growing risk of a third consecutive below average yield in the region as a whole, is expected to maintain support for prices.

In last month's Beet Brief, we noted how the weather has fluctuated from one extreme to another in 2020 to date, and May has been no exception to that rule. In the UK, it has been the driest May on record in both East Anglia and in Eastern/North East England, while our colleagues on the near continent report similar conditions. British Sugar recently released a press statement forecasting production in 2020/21 below 2019/20, despite a roughly 5% larger beet area, predominantly due to germination issues. Similar difficulties have been widespread across nearby countries.



The most recent EU crop monitoring report shows these concerns focused around the beet growing hub of north-western Europe, as shown in the graphic to the right, demonstrating the concerns covering the beet growing areas in France, Belgium, Netherlands and the UK. These four countries account for 46% of EU+UK sugar production in 2019/20, meaning that a weather impact in these alone would be enough to sway the wider market. Furthermore, reports from our German beet growing friends suggest similar issues there despite not having suffered quite such severe weather.

World raw sugar futures have recovered a third of their value since the Covid-19 related price fall in March**,** while world white sugar futures prices are now on a par with the level they reached in mid January and remain considerably stronger than they have been for much of the post-quota period, as shown in figure 1. This is significant for two reasons, as the world sugar market price dictates both the value that can be achieved for marginal tonnes of UK sugar sold outside of British Sugar's core customers, such as to buyers outside of the UK and EU market, and underpins the price at which sugar imports can enter the UK and EU markets (with the addition of tariffs as necessary depending on origin).



This recovery in the sugar market has come alongside steady recovery in crude oil prices following their initial collapse after the introduction of widespread lockdowns. Brent crude oil futures have now more than doubled in value compared to their low point in later April, which has supported ethanol prices in countries like Brazil where mills can divert cane into either sugar or ethanol. Brazilian ethanol prices in early June reached a higher level than at the same point in any of the last four years according to Czarnikow, who also note that prices are now not far off incentivising Brazilian mills to buy themselves out of sugar commitments and increase ethanol production.

Analysis of hedging positions on the world sugar futures market by Czarnikow shows interestingly that sugar producers worldwide hedged very heavily during the rally at the beginning of 2020 (locking in fairly attractive prices), while sugar buyers took out record levels of hedges during the recent price crash (pricing in the low prices seen near the beginning of the Covid-19 price fall). Their analysis shows that it was predominantly speculators selling sugar futures at this time, meaning that as this selling activity dried up, prices began to rise again. It is possible that the price recovery has been aided by some speculators buying back futures positions and having to accept a loss on those trades, whereas commercial sugar buyers and sellers have broadly achieved better results.

Future UK tariffs on sugar

On 19th May 2020, the government released its proposals for the future applied tariff schedule. The so-called UK Global Tariff (UKGT) sets the tariffs that will apply to imports coming into the UK outside of preferential agreements at the end of the transition period, i.e. 1st Jan 2021 onwards. Aside from conversion of existing tariffs and concessions from euros into sterling, the Government has also introduced an Autonomous Tariff Quota (ATQ) for raw cane sugar that is open to all countries. The quota volume is 260Kt annually at 0%, with the out of quota tariff rate maintained at £280/t (the sterling equivalent of the EU raw sugar tariff). This comes on top of an additional 140Kt of raw sugar that could enter the wider EU+UK market tariff free due to the duplication of quotas offered to various Central and South American countries under EU trade deals replicated by the UK.

NFU Sugar has expressed concerns to government about the impact this could have, as duty-free access for sugar from any origin means UK growers will have to compete with sugar entering the market grown in ways that would be illegal in the UK. For example, there are over 25 active substances permitted for use on sugarcane in Australia that are illegal for any use in the UK. Opening up a zero tariff ATQ achieves neither genuine economic competition on a level playing field nor consistency in the UK government's own regulatory policy aims.

Next issue expected: Friday 17 July 2020

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