NFU SUGAR NATIONAL NEWSLETTER

The Beet Brief

25 Sep 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)	€0.006	€1 = £0.90467	£0.005	**£0.019**
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).

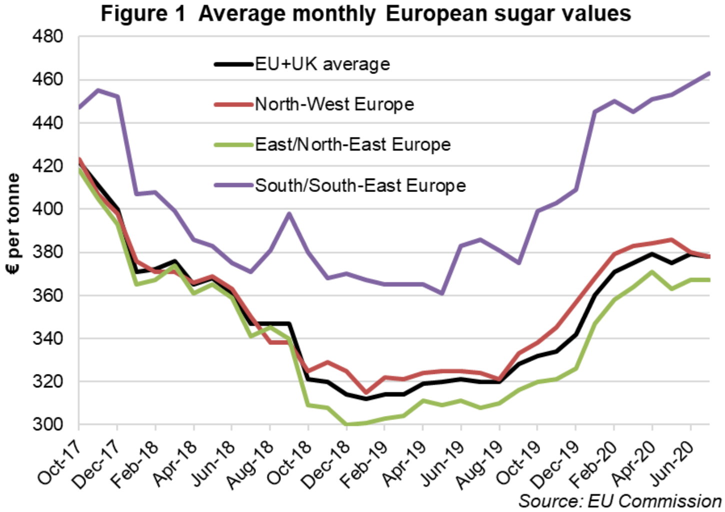
Highlights

- The average EU+UK white sugar price in July 2020 was €378/t, €1/t lower than in June.
- Average prices in southern Europe are at their highest level post-quota, but values remain lower elsewhere.
- December 2021 white sugar futures are trading over £21/t in UK beet price equivalent.
- Make your voice heard on sugar import tariffs to safeguard the homegrown sugar industry.

The average EU+UK white sugar price in July 2020 was €378/t, €1/t lower than the price in June and another indication that average EU white sugar prices are unlikely to deviate far from this range for the remainder of the marketing year. Average prices remain heavily weighted by values in the main beet producing regions, as while sugar prices in the southern EU rose for the fourth consecutive month, prices fell in the east/north-east region.

As shown in figure 1, average sugar prices in southern Europe reached their highest level in the post-quota period in July 2020, while elsewhere prices remained about €50/t below their October 2017 level. As southern Europe is the main sugar deficit region of Europe, almost all European sugar refineries are located there, in contrast to the much greater domestic sugar production in the main beet producing regions of north-western and eastern Europe.

Figure 1 Average monthly European sugar values



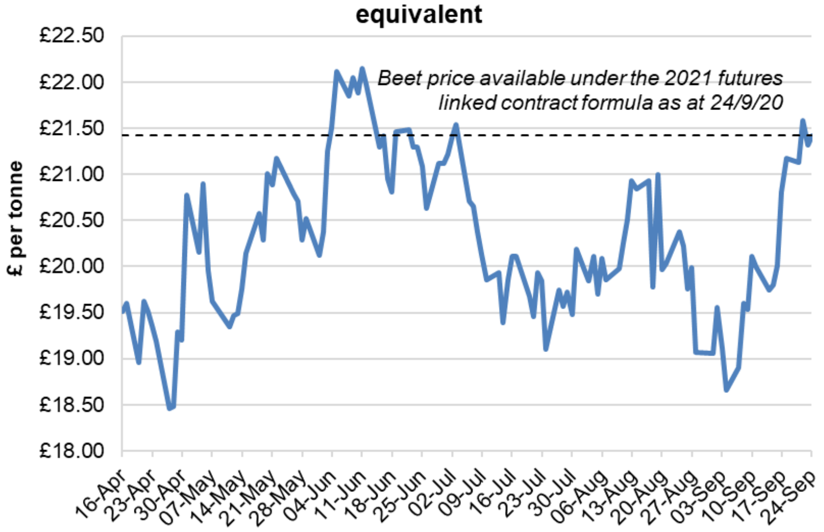
Source: EU Commission

The growing gap between prices in southern Europe and elsewhere in the continent reflects two trends in pricing:

1) The increasing tightness in European sugar supply, even despite the slowdown in usage due to Covid, meaning the market is having to pay more to incentivise imports into peripheral regions. With less beet sugar travelling from the core producers, this is necessary to incentivise refineries to import from increasingly costly origins.
2) The heavier influence of spot sales on average prices in southern Europe, which have been at levels above average prices across the last two marketing years. The growing differential in reported regional prices partly reflects the higher price for sugar on the spot market compared to the lower average value of contracted sugar sales, especially multi-year deals signed prior to the 2018/19 campaign. This price contrast continues to reflect the tighter availability of sugar than was anticipated when those deals were agreed.

Dec-21 white sugar futures are trading a little over £21/t in beet equivalent based on the futures linked contract formula being piloted in 2021. Daily closing prices have varied from £18.66 to £21.59 over the past month, but as shown in figure 2 there has been a greater range of prices over the time period the Dec-21 contract has been open to date. The underlying market, quoted in US dollars, has been on a slowly rising (but bumpy) trend over the period, but the pattern looks different in UK beet terms.

Figure 2 Dec-21 white sugar futures in beet price equivalent



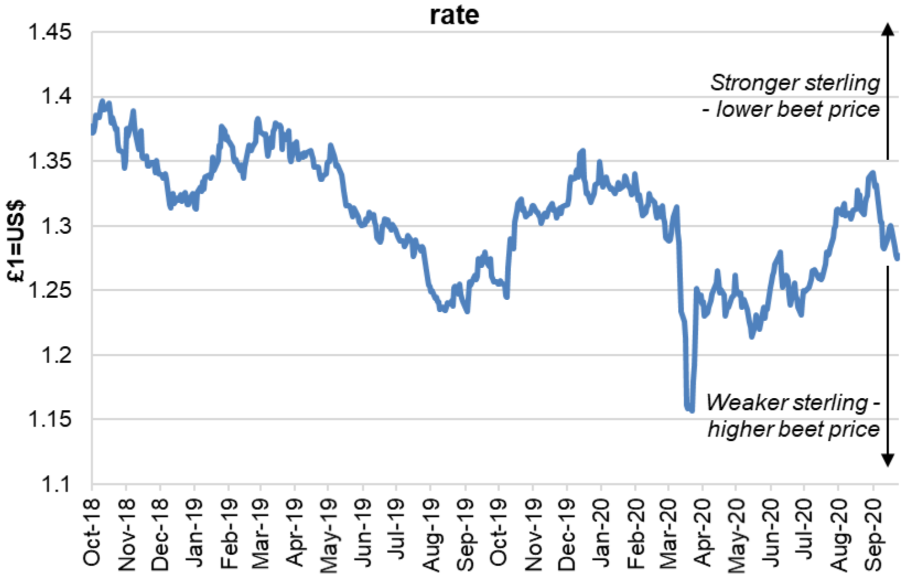
Sources: Sugaronline, Barchart.com

Although the crop outlook is challenging for most major producers, sugar markets are now reported to be under pressure from large sugar crops in the two main sources. Brazil is at the peak of its cane crush, with more sugar and less ethanol sales made than in previous years given relative prices. India, meanwhile, has had a favourable monsoon and looks set to produce a sizeable surplus in 2020/21—although questions exist about the availability of labour to harvest the cane due to the ongoing impacts of coronavirus. Forecasters agree that any continued slowdown in consumption due to coronavirus will likely tip the world market from deficit into surplus in 2020/21.

However, the sterling/US dollar exchange rate also has a strong influence on UK beet prices under this formula—at times, even more impact than sugar market movements.

As shown in figure 3, sterling has been generally strengthening compared to the US dollar since March. For any given sugar price in dollars, a stronger sterling means a lower beet price while a weaker sterling means a higher beet price. The Dec-21 sterling/dollar rate has varied from 1.27 to 1.34 over the past month, meaning the volatility in this market has contributed about £2/t of variance to the UK beet price equivalent as shown in figure 4.

Figure 3 Dec-21 forward sterling/US dollar exchange rate



Source: Barchart.com

Figure 4 Impact of £/US$ exchange rate on futures linked beet price formula

£1=US$	Beet price according to contracted formula
$1.20	£24.39
$1.22	£23.59
$1.24	£22.81
$1.26	£22.06
$1.28	£21.33
$1.30	£20.62
$1.32	£19.93
$1.34	£19.27
$1.36	£18.62
$1.38	£18.00
$1.40	£17.39

Based on Dec-21 ICE white sugar futures close on 24 Sep at $367.90/t

The Department for International Trade has opened a consultation on a proposed tariff free quota for raw sugar imports, closing Monday 5th October. [Make your voice heard to safeguard the homegrown sugar industry.]

Next issue expected: Friday 30 October 2020

NFU SUGAR

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