NFU SUGAR NATIONAL NEWSLETTER

The Beet Brief

30 Oct 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 = £0.9008	£0.005	**£0.024**
2017 three-year contract	**£22**	0	-	0	**0**
2018 three-year contract	**£22.50**	0	-	0	**0**

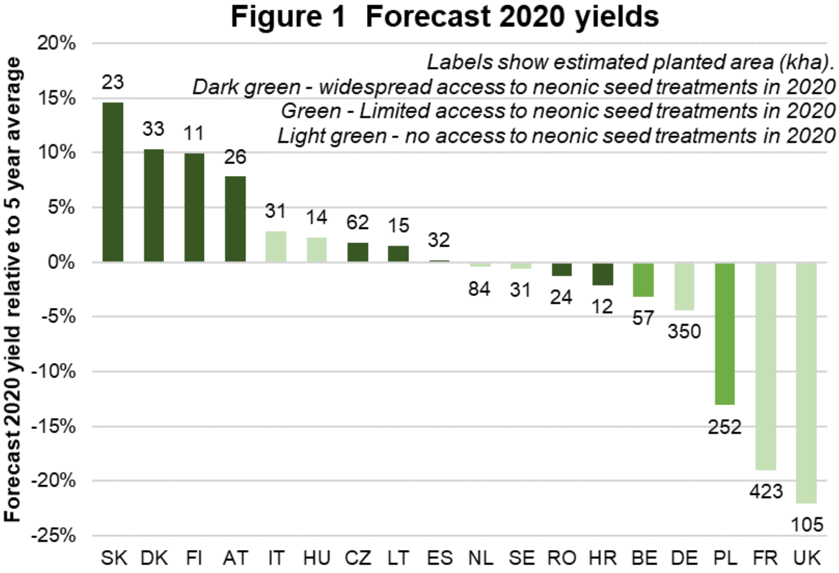
Prices before adjustments. Bonuses apply when EU+UK price >€475/t (2017 & 2018 contracts) or >€375/t (2019 contract).

Highlights

- The average EU+UK white sugar price in August 2020 was €378/t, the same value as in July.
- Yield losses from the 2020 EU+UK crop are becoming more apparent as beet is lifted and factories process.
- December 2021 white sugar futures have remained around £21-£22/t in UK beet price equivalent.

The average EU+UK white sugar price in August 2020 was €378/t, unchanged from July and leading to another small market bonus on the 1 year contract deal. With campaigns across Europe now in full swing, the scale of damage to beet crops from Virus Yellows is becoming clear. This is particularly evident in some of those countries with more maritime climates and milder winters, but has also been impacted by aphid migration patterns. While poor weather conditions throughout spring and summer as well as assorted other issues such as cercospora will no doubt also have played a part in this year's yields, as can be seen in figure 1 there is a clear correlation with those countries that faced limited or no access to neonic seed treatments in 2020 also suffering the largest yield losses relative to average.

Figure 1 Forecast 2020 yields

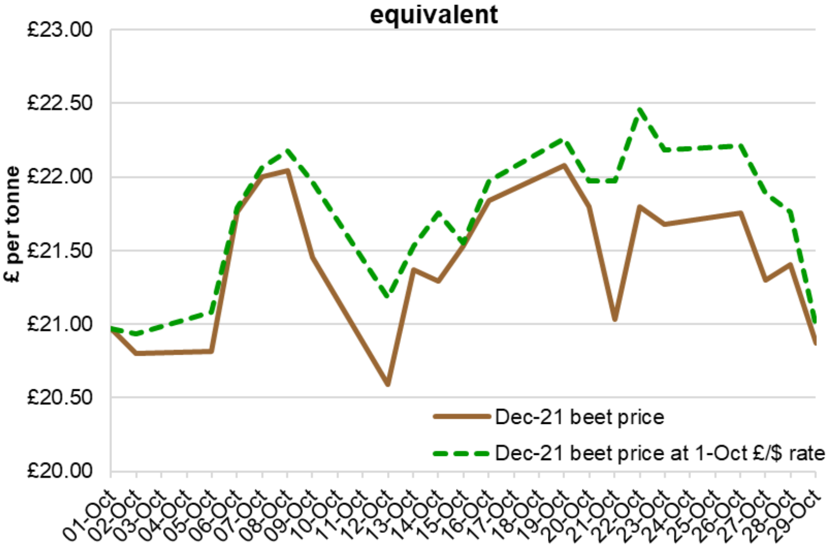


Sources: EU Commission, LMC (2020 area/yield forecasts)

LMC's latest 2020 EU+UK sugar production forecasts sharply decreased estimated sugar output in the five largest EU+UK sugar producers compared to September estimates, all of which have limited or no access to neonic seed treatments. Cumulatively, reductions to estimated output in France, Germany, Poland, the Netherlands and the UK amounted to over 600Kt of sugar, with this one month's drop in forecast output alone offsetting the estimated 600-700Kt cumulative shortfall in EU+UK sugar usage since March. While lower monthly consumption than usual continues to affect demand, the shortfall in production compared to average remains much larger. This would lead to a third year with spot market prices needing to exceed €400/t, potentially quite substantially, in order to attract sufficient imports into the market. However, as explained in last month's Beet Brief, this will not necessarily show up in reported average prices given that processors have reportedly once again sold large amounts of sugar at lower prices in the main 'pricing window'.

December-21 white sugar futures have been mostly in the £21-£22/t range over the month, as the white sugar futures market has steadily risen for most of the month offset slightly by sterling strengthening against the dollar. The main direction of the UK beet price equivalent has been driven by sugar market movements, but values would have been up to £0.50/t higher had the sterling/dollar exchange rate remained at the same level since 1 October (see figure 2).

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



Sources: Sugaronline, Barchart.com

World white sugar futures have been driven by raw sugar futures, although the white sugar market has not increased as much as the raw sugar market. In late October, raw sugar futures reached their highest level since February, before the knock-on impact of covid-19 was felt in the market.

Support has come mainly from two sources, with a few other factors that market participants are likely to be watching. A large amount of buying interest has come into raw sugar futures from speculators (hedge funds etc.), which now hold their highest net-long position (i.e. they have bought futures with the intention of selling again before expiry) since 2016; while on the flipside, there has been little selling pressure to counteract this. Following the market movements in spring and summer, the Brazilian industry has now 'locked in' a programme favouring sugar over ethanol production, and with this already accounted for in the market, there has been no new major bearish news to increase supply or selling pressure. Speculators' interest in buying sugar has followed a general pattern of buying commodity futures, which commentators suggest is part of a medium-term wider market strategy rather than as a short term bet on the direction of sugar prices in particular.

The biggest factor being watched, which could have a large impact on the price in either direction depending on the policy announced, is the subsidy programme India announces for sugar exports in 2020/21. If a policy package of a similar magnitude to last year is enacted, which amounted to around $150/t for c.5Mt of sugar, commentators expect the market to fall, as this would result in greater supply entering the world market than is currently factored in. However, the less generous the package is when it is announced, which is thought possible due to tighter budgetary constraints on the Indian government due to the impacts of the covid pandemic, the higher the world market price would need to be to result in Indian sugar being exported in these volumes. Furthermore, if there is a substantial delay in the package being announced, less Indian sugar will be exported in practice.

Because India, alongside Brazil, is in the top two world sugar producers, it is large enough that Indian sugar policy can itself influence, and not just be influenced by, the world market price. As supply from Brazil and elsewhere is now fairly fixed for 2020/21, and because the world market is likely to need to price at a level to draw out some export supply from India (though not necessarily all potential supply), this creates an unusual situation for Indian policymakers where they can expect that the market will have to offset a reduction in export subsidy to provide the same price incentive to Indian exporters on the ground. Therefore, some commentators believe Indian policymakers will take the opportunity to reduce the cost of the subsidy programme, banking on the world market price having to rise as a result to continue to draw out some exports from India.

Campaign to date—As of 25 October, the average sugar content of all UK deliveries was 16.08%, compared to around 17.5% on average at the same point over the last three years. Adjusted beet yields from completed contracts are significantly below average, particularly in Newark and Wissington but also in Bury.

Next issue expected: Friday 27 November 2020

Your NFU Sugar:
Helpline: 0370 066 1974

Written by **Arthur Marshall**
Arthur.Marshall@nfu.org.uk 07827 291 684

Michael Sly | **Simon Smith** | **James Northen** | **Greg Brighouse** | **Charlie Parkin** | **Arthur Marshall**
Chairman | Vice Chairman | Head of Sugar | Beet Intake Manager | Sugar Adviser | Commercial Analyst