NFU SUGAR NATIONAL NEWSLETTER

The Beet Brief

27 Nov 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)	€0.002	€1 = £0.9095	£0.002	**£0.026**
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 September 2020 was €376/t, down €2/t from August.
- EU+UK 2020/21 production estimates continue to fall yet reported EU average prices may not respond
- We are set for an unprecedented third consecutive decline in rolling 5 year average UK yields after 2020/21

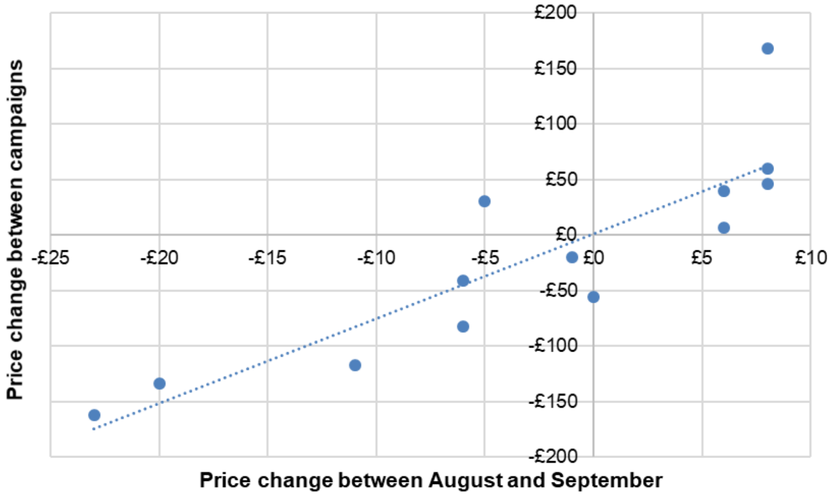
The average EU+UK white sugar price in September 2020 was €376/t, down €2/t from August. This means the final bonus to be paid on the 2019/20 one-year contract amounts to 2.6p/t. More detail on the final bonus and how it will be paid is available on NFUonline.

While widespread expectations are that 2020/21 EU average prices will be firmer than those in 2019/20, the slight dip in prices into September could indicate a different trend. Historically, being a transitional month between old campaign and new campaign sugar sales, price movements in September have reflected the price movements to come in the campaign to follow—where prices have risen from August to September, prices have generally been higher in the following campaign and vice versa. Following the price fall from August to September 2020, the 2020/21 campaign would have to buck this trend if prices are to be stronger in 2020/21 than 2019/20. As shown in figure 1, the season to season price change has been in the opposite direction to the August to September price change only once in the last 13 years.

This relationship tends to exist in reported EU prices because the average white sugar price is mostly made up of fixed contract prices agreed in advance of the campaign rather than spot prices.

Therefore, as a month where both old crop stock and new crop sugar is available, September deliveries tend to include a mixture of old and new campaign sugar when looked at across the continent as a whole. As such, the reported price also contains a mixture of old season and new season values, and therefore average prices in September tend to move in the same direction as prices across the campaign as a whole.

Figure 1 Correlation between EU average price changes into September and between years

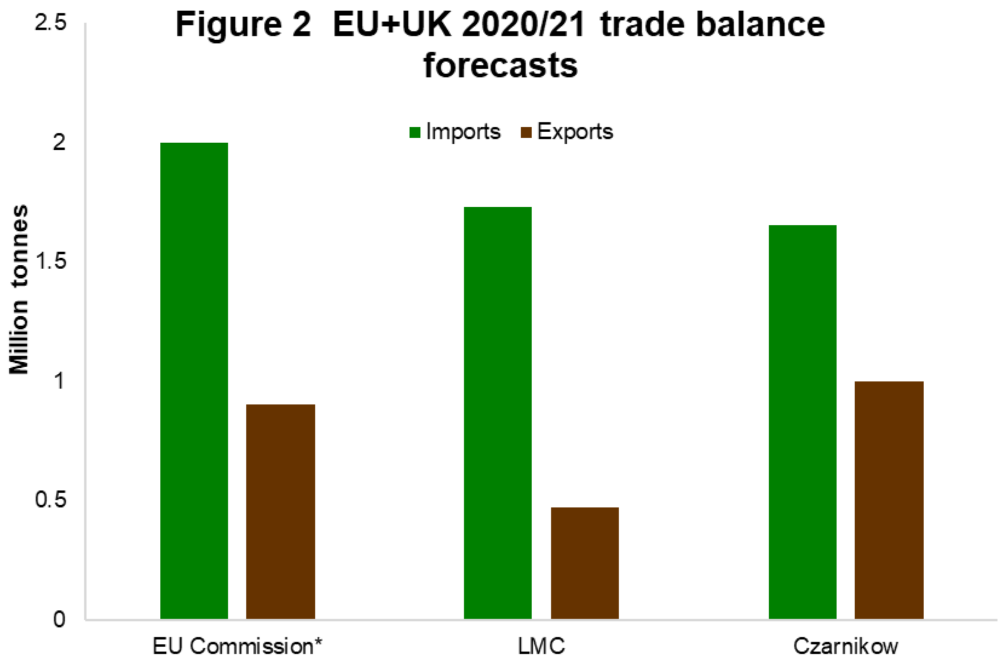


Source: EU Commission

As result of the sugar contracting model adopted by most processors, most sugar sale values are not liable to subsequent changes in the market. More significantly, this means most sales values are not related to subsequent changes in sentiment once the reality of the crop is apparent. Anecdotally, with many European sugar processors keen to retain their core customers and avoid competitors gaining market share, there has been an incentive on sugar processors to underplay the scale of crop losses earlier this year in order to retain volume. Where prices are simply agreed at fixed levels, this has meant volume has come at the expense of sugar prices.

If average sugar prices agreed for 2020/21 are indeed weaker, or even similar to, those in 2019/20, despite the much tighter market balance in 2020/21, it would seem to indicate a fundamental problem in the ability of sugar sellers operating in EU sugar market to react to market changes. This sentiment is reflected by LMC in their latest monthly EU market report: “Less than two months into the 2020/21 season, the market is very tight, yet producers have sold sugar at or below cost. World prices cannot be blamed: they may not be great, but neither are they terrible. This shows that the sector has not yet found a sustainable model for the future whereby processors can pay attractive beet prices and cover their own costs.”

Estimates of 2020/21 EU&UK sugar production continue to fall, with further downside risks to production in some of the worst hit areas as campaigns progress. The latest EU Commission forecast for 2020/21 puts EU+UK sugar production at its lowest level since 2010/11—lower even than in 2015/16 and 2016/17 when the planted area was significantly lower due to having to manage out oversupply from the previous year that couldn't be sold due to the quota at the time. LMC’s latest estimate is 600Kt lower again. As shown in figure 2, the latest estimates from various sources all put the EU/EU+UK in a substantial deficit position.



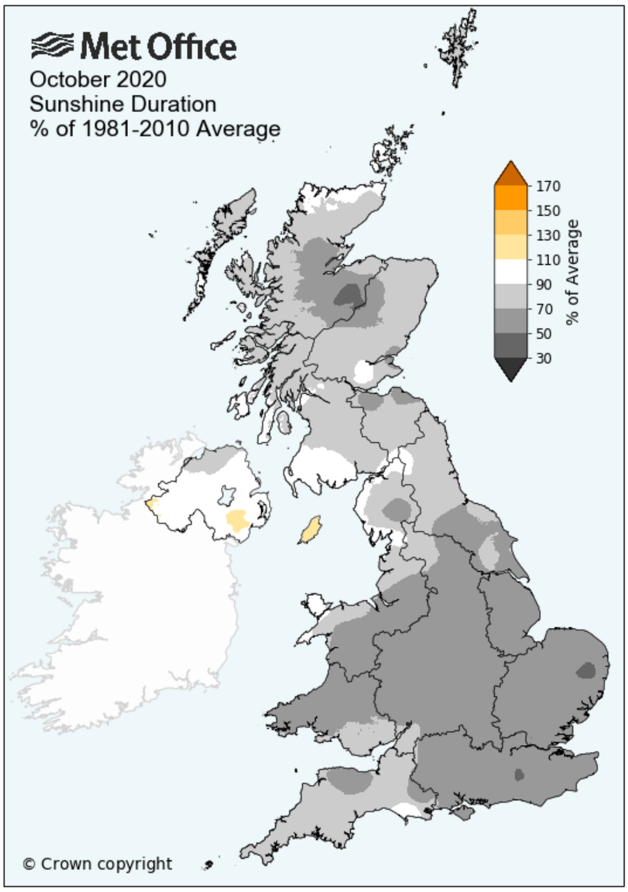
**Mid-point of export forecast range used* *Sources: EU Commission, LMC, CzApp*

Notably, 2020/21 sugar production in France is expected to be below that of Germany. This would be a substantial drop in production for what has traditionally been the largest sugar producer in Europe.

Most, if not all, these forecasts will include an assumption that beet yields will improve throughout the campaign. Even the LMC estimate for UK sugar production, for example, at 950Kt would require a substantial improvement in beet yields compared to those delivered to factories so far. However, in the campaign to date, UK and French yields have not been improving anywhere near enough to meet forecasts, raising the possibility of further downward adjustment to output.

As well as the dire state of many crops’ canopies limiting the ability for beet to grow this autumn, the Met Office map shown overleaf highlights how sunshine levels in the UK, and therefore solar energy for the crop to use, was more than 30% below average in October, further compounding the problem. Likewise, in France, Agritel reports the sector being ‘unfavourably surprised’ by the lack of yield progress exceeding even the most pessimistic assumptions.

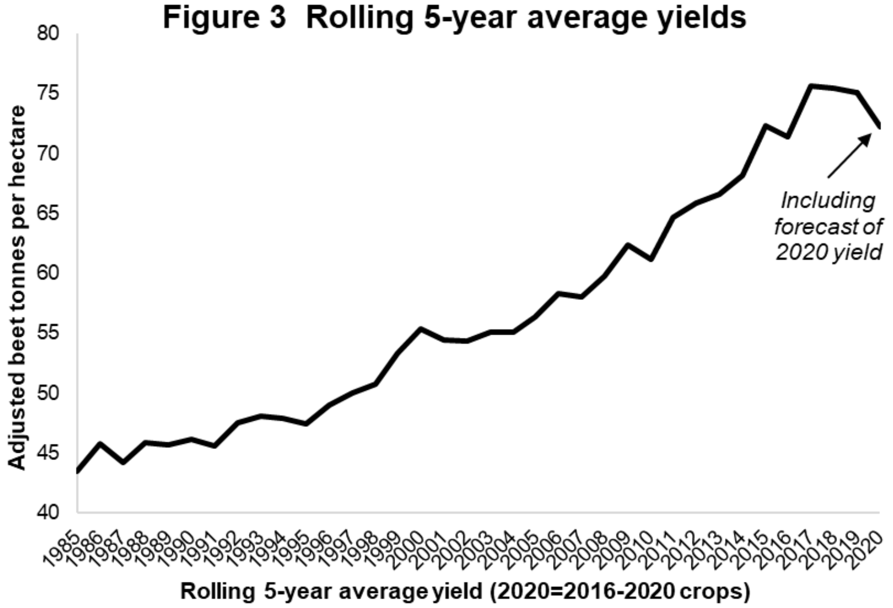
As we well know from the many phone calls and messages we are receiving from growers, the pressure on yields in 2020/21 is likely to have a significant impact on 2021 plantings in the UK. Across Europe, there are similar challenges in some other hard-hit areas, but not all areas are facing this pressure. Nonetheless, with European sugar prices remaining fairly weak, most analysts expect a small drop in area across Europe again for 2021/22, but one that could easily be offset by a recovery in yield on a Europe-wide basis.



However, the enormous yield pressures faced this year are also a symptom of a longer term trend. Even before this year, UK rolling 5-year average yields up to 2019/20 dropped for two consecutive years for the first time on record according to the data we hold (going back to 1981). 2020/21 will mark the third consecutive year of this trend which is unprecedented for a crop that has always been regarded as delivering consistent yield progress every year, as shown in figure 3.

The increasing loss of actives is a clear factor in this, in combination with the challenges posed by climate change which in our case is delivering a climate conducive to the development of unprecedented levels of aphid and cercospora pressure. This climatic challenge is not unique to the UK, as we found out at the recent annual International Sugar Organisation seminar, focusing on the risks posed to sugar industries across the world by climate change. Growers worldwide are finding themselves having to deal with pest, disease and climate pressures that they have not had to deal with before, or with greater severity than previously felt. The session made it clear that this presents long term issues for the sugar sector worldwide, and ones that need governments to offer the right policy tools to address.

Figure 3 Rolling 5-year average yields



Source: British Sugar yield data

Next issue expected: Late December 2020

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