NFU SUGAR NATIONAL NEWSLETTER

The Beet Brief

13 Aug 2021

UK beet price tracker

£/adjusted tonne	Base price, £/t (inc. crown tare)	Bonus, €/t (latest month)	ECB £/€ rate (monthly average)	Bonus, £/t (latest month)	Bonus, £/t (cumulative to Nov)
2020 one-year contract	**£20.99** (contracted at £19.60 / zero crown)	**EU+UK prices no longer being reported**			**£0.018**
2018 three-year contract	**£22.50**	*Market bonus from December onwards will be based on British Sugar's sales price compared to the EU average, relative to British Sugar's existing premium/discount pre-Brexit.*			**0**
2020 three-year contract	**£21.90** (contracted at £20.45 / zero crown)				**0**

Bonuses apply when EU+UK price >€475/t (2018 contract), >€400/t (2020 3-year contract) or >€375/t (2020 1-year contract).

Highlights

- The EU27 average white sugar price in June 2021 was €397/t, very marginally above May's figure.
- NFU Sugar has heard UK ex-works prices having been agreed around the mid €400s for 2021/22.
- A very tight short term supply picture may force an earlier campaign start in the UK.

Expected European sugar production for 2021/22 has been increasing after the official French beet area was unexpectedly revised up by 11kha to 408kha coupled with an expectation of above average yields. Most forecasters and market sources NFU Sugar has spoken to expect the region to remain a slight deficit market overall, but very close to balance. This would mean that prices in the surplus beet belt regions (e.g. France) need to be price competitive with imported duty-free sugar into peripheral markets such as southern Italy, meaning prices in France trade at a small premium to the world market**.**

For 2021/22 in the UK, a rebound in European beet production alongside Tate & Lyle's access to duty-free raw sugar from any origin is likely to prevent sugar prices from rising substantially over and above the underlying gains in the world market in the past year. The reappearance of French interest in the UK market could indeed offset some of this underlying gain, if the local premium to the world market reduces as expected, though on the flipside rising logistics costs (more below) will support the UK price premium. NFU Sugar has heard UK ex-works prices having been agreed around the mid €400s which would align with these views.

For different reasons, both domestic and international freight costs have risen substantially recently, and could continue to do so. Internationally, ships are reported to be out of position and have been in high demand into China, meaning that transporting bulk sugar from Brazil to the UK, for example, has risen from under $30/t to around $50/t. With the local and European market underpinned by the price at which refiners can import sugar, greater transport costs mean the potential for a greater local premium over the world price.

Domestically, operators in all parts of the supply chain—from beet to lime to sugar to food products– are reporting the same story of driver shortages, rising costs and, ultimately, a lack of haulage supply relative to demand. While this increases the cost of importing French sugar relative to UK sugar, as covered above, it is also causing concerns about the ability of the beet sector to maintain factory supply, and the costs this will put on both growers and British Sugar. The concern NFU Sugar has at this point is that we may find ourselves in a situation where growers have beet to deliver, British Sugar would like the throughput, but with simply insufficient capacity to get

ACT NOW – YOU ONLY HAVE UNTIL 31ST AUGUST TO DECLARE ANY VIRUS YELLOWS IN YOUR CROP

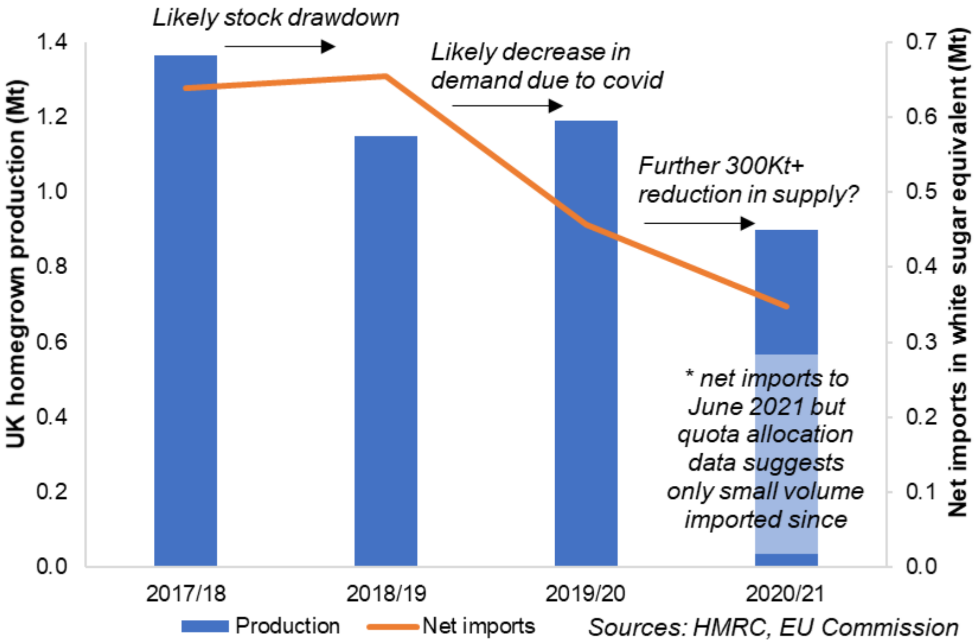
All 2021/22 beet contracts are included in this year's Virus Yellows assurance scheme. In order to be eligible for compensation you must declare presence of VY in your sugar beet crop by Tuesday 31st August. VY presence can be very simply logged via My British Sugar beet from field to factory. Although the crop would almost certainly be delivered eventually, if haulage efficiency and coordination between haulage and harvesting is compromised then the industry could face not just higher costs but also lose yield potential as a result.

A very tight short term supply picture in the UK and Europe is making sugar virtually impossible to source on the spot market for the remaining part of 2020/21 and may force an earlier campaign start for the homegrown sector. Some continental processors have already begun to talk of moving forward planned campaign starts in order to maintain supply to customers, which could have an impact on yields.

Sugar supplies available in the UK for the end of 2020/21 are looking particularly tight, with imports significantly down on previous years despite the smallest UK crop since 2016/17 (see figure 1). Although exports have also reduced to near-trivial levels, these were of a far smaller magnitude than imports regardless. In the short term, supply from UK and continental beet processors has been fixed, with poor yields meaning no further sugar to sell into the UK. This has left Tate & Lyle effectively the only marginal supplier into the market, but increasing throughput in the short term is not trivial (e.g. recruiting and training staff to put an additional shift on), while some sources have told us of a reluctance by some buyers to purchase from Tate & Lyle due to the added complexity of Rules of Origin in the UK/EU trade agreement. As such, the immediate result of the UK policy changes appears to have been simply substitution of sugar sources not an increase in supply (as covered below), with any cost savings unlikely to have been passed down the supply chain.

It is not clear whether the much lower sugar volume is due to lower demand than expected, use up of significant stock carry over by either buyers or sellers, substitution of processed products with imports in place of domestic production, or whether it will force an earlier UK campaign start in September to avoid the system running out of stock. Currently, NFU Sugar understands that British Sugar intend to begin the campaign in Bury around the 16th September, Newark on 21st September, Wissington 28th September and Cantley 12th October. Although these dates would mean a relatively early start for Bury, in recent years Newark has opened as early as 13th September and Wissington on the 19th. The 12th October would be the joint-latest ever campaign start for Cantley, equal to last year.

Figure 1 Sugar supply in the UK



Sources: HMRC, EU Commission

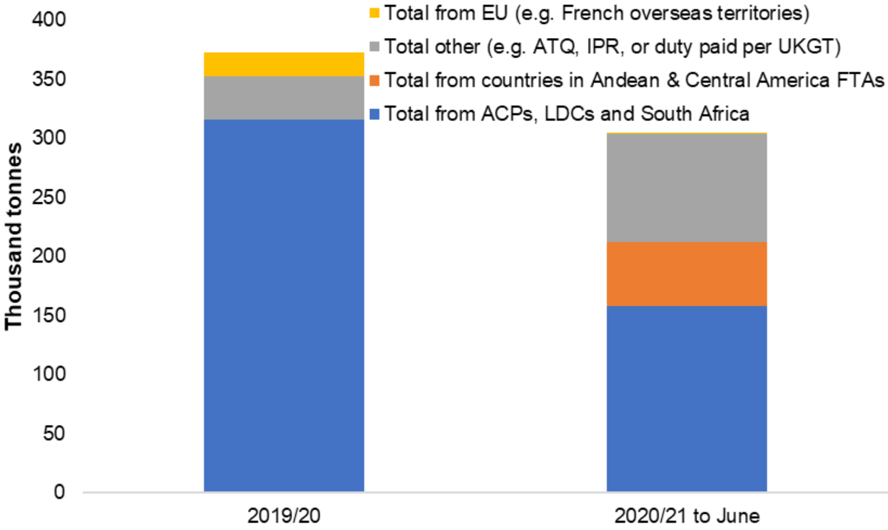
Al Khaleej, the Dubai-based sugar refining company which explored the potential for building a beet factory in the UK in 2017, has announced agreement with Spanish authorities to build a new factory in Spain. This will become the second beet factory owned by the group, following their recent establishment of what is intended to be the world's largest beet factory in Egypt. The new factory would likely have a significant impact on market dynamics across western Europe if constructed as planned.

Construction of the Spanish factory is expected to begin in 2022 in a region of Spain where beet has never previously been grown, with a planned processing capacity of 5.5Mt beet annually producing around 800,000t of beet sugar. It is intended to have further co-refining capacity to produce a similar volume of white sugar from imported raw cane sugar.

Spain's net imports of sugar are around 1Mt annually. Combined with the logistics costs associated with its physical distance from the main beet belt, this makes it one of Europe's premium priced markets currently, consuming a large amount of sugar from countries such as France. The proposed new factory could turn Spain into a net exporter of white sugar (when including white sugar refined from raw cane sugar), potentially displacing over 1Mt of sugar from other European suppliers and making Europe far more likely to be a sugar surplus market needing to price at a level that secures exports onto the world market.

As shown in figure 2, ACP/LDC/South African sugar has gone from accounting for the vast majority of UK raw sugar imports in 2019/20 to only about half of raw for refining imports to date this season. Despite the ATQ for raw sugar from any origin to enter the UK tariff free only taking effect in 2021, as of June sugar from sources not covered by free trade agreements or ACP/LDC arrangements had already constituted nearly a third of all raw sugar for refining entering the UK in 2020/21, suggesting a clear displacement of sugar from developing countries' supplies (and a devaluation of the trade agreements made by the UK).

Figure 2 Sources of UK imports of raw sugar for refining

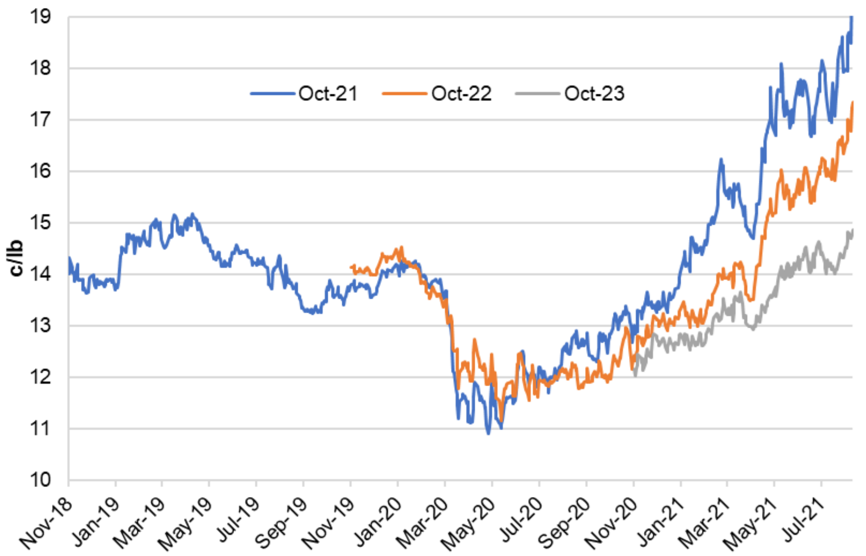


Source: HMRC

World raw and white sugar futures have reached new highs over the last month as the upward price trend in world sugar markets continues. As shown in figure 3, raw sugar futures reached new contract highs both for 2021/22 deliveries and contracts further forward, while white sugar futures for mid 2022 onwards also hit contract highs. With much greater liquidity, raw sugar futures are generally seen as the primary indicator of forward world sugar prices at any given time.

This is primarily driven by concerns caused by frost in Brazil, on top of a generally tight world supply picture to begin with. With anticipated exportable sugar supply concentrated in Brazil even more than usual, the world market has been especially sensitive to risks to production there.

Figure 3 World raw sugar futures



Source: Sugaronline

The Danish beet growers association and Nordic Sugar have reached agreement on Danish beet contracts starting in 2022, becoming the second industry in Europe after the UK to pilot a beet contract linked to sugar futures.

The pilot of it in the UK this year, based on the price formula agreed last year, provided an opportunity for growers to sell beet at up to £30/t while British Sugar had the chance to buy the same tonnage from as little as £20/t, and to achieve a known margin for sugar sold to buyers on futures linked price index. The success in delivering value for the industry has generated interest in the model elsewhere.

As communicated previously, NFU Sugar's intention in the ongoing 2022 UK negotiations is to secure further roll out of this model for next year to allow growers who would like to price in this manner to take greater advantage of the opportunities.

Next issue expected: Friday 10 September 2021

NFU SUGAR

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