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EU beet sugar market update
Impacts of COVID-19 crisis

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In order to streamline the monitoring of the impacts of the COVID-19 crisis on the EU sugar and ethanol markets, CIBE is establishing a regular short **market report**. **This short report updates the report dated 27 April 2020; it reflects that the low point that followed the COVID-19 crisis is over but that sugar prices remain low and that their recovery is hindered by the 2020/21 global outlook**.

Production, consumption

The ISO has issued its third revision of the world sugar balance in the 2019/20 but without including a provision for the impact of COVID-19 because the full extent of this impact is yet to be established. However, it has provided a specific note on it. The ISO stated that sugar and ethanol consumption are the main areas affected by COVID-19 at this stage. Its assessment is that, up to May 2020, 2.1 Mt of global consumption have been lost or deferred due to the pandemic, but with potentially greater losses to follow. This estimate represents around 1.2% of consumption and nullifies most of this year's projected global consumption growth.

The decrease in demand is affecting major countries in the world, while a beginning of recovery has started in regions and countries where the outbreak is slowing down and lockdown measures are being phased out. In India, the largest country in terms of sugar production and consumption, where the sugar demand peaks in May-June, the lock-down has had severe impacts. The government has extended the nationwide lockdown till 30 June with a phasing-out plan starting on 8 June. The director general of the ISMA (Indian Sugar Mills Association) stated a month ago that sugar offtake had dipped due to the decrease in market demand and transport restrictions.

In Brazil, the analyst Platts considers that there will be no growth in sugar consumption, but possibly a decrease. According to Platts, China has also lost consumption by around 0.5Mt to 0.7 Mt.

In Europe, despite some move towards an increase in the use of sugar for direct consumption in the EU due to lock-down measures, the drop in sugar consumption due to the closure of bars, restaurants, etc. is expected to negatively impact the **EU sugar demand.** French sugar producer Tereos issued negative data on 4 June 2020, considering that total European sugar demand fell by -10% during the coronavirus lockdowns, with beverage consumption down by -25%, ice-cream by -24% and festive chocolate consumption down by -27%. Tereos also stated that European ethanol demand fell -10% in March 2020 and by -55% in April 2020

due to the lockdowns. It is to be recalled that analysts have reduced their EU sugar consumption estimates by 120 000 to 300 000 t (i.e. by around 1-2%) due to the coronavirus outbreak.
Weak ethanol demand, in particular in Brazil, is also a major concern. Unica reported that Brazil's fall in hydrous ethanol sales started to slow down in June 2020: they were 24% below last year's levels, compared to up to 50% below in the first weeks of the coronavirus quarantine. Reduced ethanol demand is encouraging Brazil's mills to produce less ethanol and more sugar.

Prices and trend

After 7 months of increase due to better EU market and global fundamentals, the decrease in **spot market prices in the EU reached a level close to the sugar reference threshold**. There is currently a consensus among analysts that EU average sugar prices would move closer to or even below the sugar reference threshold of €404/t rather than to the €500/t expected before the 2020 sowing had started in the EU. This €100/t of loss in sugar value, directly related to the consequences of the COVID-19 crisis, will represent for our **EU sugar beet sector around €1.6 billion loss in value for the season to come.**
On the global markets, raw and white sugar prices have fallen by respectively 30% and 22% between February and April 2020 - and to levels not seen in nearly thirteen years on the New York futures market. **On 24 April 2020 July, the New York raw sugar price sank to a contract low and the London white sugar price fell to a 7-month low. The nearest-futures May and July New York raw sugar contracts sank below 10cts/lb on 24 April 2020. Hopefully, May and June can be seen as months of stability and even slow recovery for sugar**. Raw and white sugar both gained 5 %: raw sugar entered June at above 11cts/lb and white sugar close to 375$/t on front term contract. Sugar prices recovered slowly thanks also to a slump in the dollar index which boosted the prices of most commodities, including sugar. Sugar prices also have carry-over support from crude oil. In the week to 16 June 2020, non-commercial investors increased their net long position and since then their attitude is scrutinized closely as any change from them could lead to a fall in prices. Futures prices rose to 12.19 cts/lb on that date. On 29 June 2020, raw sugar July contract stabilized downwards and closed at 11.59 cts/lb, while October contract closed at 11.61 cts/lb. As far as white sugar was concerned, on the London futures market the recovery has benefited from a slowdown of raw sugar refining activities and delays in shipment of raw cane sugar, mainly from Brazil, to be refined in destination refineries. This resulted in a good refining premium which reach a peak of $130/t in May 2020. But these difficulties has eased now and white sugar prices have gone down again below $350/t and white premium below $100/t.
However, the Brazilian currency after having reached a new historic low against the dollar of BRL 5.8/USD, remains very weak at around BRL 5/USD. Between January 2020 and May 2020, the Brazilian currency depreciated by 46%. It regained 17% between May 2020 and June 2020 but this weakness has compensated for the fall in world prices for Brazilian producers. On the contrary This persistent weakness in the Brazilian real against the dollar is a **major bearish factor for sugar prices.** A weaker real encourages export selling by Brazil's sugar producers. And ample global sugar supplies are weighing on prices. Sugar prices were in fact undercut in June 2020 by a report from Unica that Brazil's Center-South sugarcane crush in the first half of May was above expectations. Sugar production in the first half of May surged by +55.8% y/y. On 15 June 2020, Unica reported that Brazil's Center-South sugar production in the second half of May rose by +36.2% y/y to 2.548 Mt, with the percentage of cane used for sugar climbing to 47.35% in 2020/21 from 35.28% in 2019/20. 8.0 Mt of sugar were produced between 1 April and 1 June,, up 65% over last season's 4.9 Mt, according to UNICA. The 2nd half of May saw a 5% reduction in can processede vs 2019/20, but with a higher % allocated to sugar, production rose by +36% to 2.548 Mt.
In 2020/21, Brazil can return to record-high levels reached three years ago. A production of 38 Mt of sugar is expected for the 2020/21 crop. This amounts to an increase of approximately 10 Mt compared to 2019/20. This means that there will be an extra 10 Mt of Brazilian sugar available for exports!
The ISMA also raised its India 2019/20 sugar production estimate to 27 Mt from a previous forecast of 26.5 Mt and 2020/21 sugar production would climb by +17.7% y/y to 32 Mt. The USDA's Foreign Agricultural Service (FAS) reported that India's 2020/21 sugar production will climb to 33.7 Mt. FAS also projected that India's 2020/21 sugar ending stocks would climb by +8.8% y/y to 17.4 Mt. India's Meteorological Department said recently that the total monsoon rains in India during June 1-21 was 26% above normal; this exceptional monsoon season in India is bearish for sugar prices.

Thailand's 2020/21 sugar production is also expected to climb by +2.4% y/y to 8.5 Mt. Thailand is the world's second-biggest sugar exporter.
Projections from the USDA's FAS on May 21 were negative for sugar prices with FAS forecasting that global 2020/21 sugar production will climb +13.2% y/y to 188.1 Mt and that global ending stocks will fall by only -2% y/y to 43.55 Mt.

Support packages in third countries

The Indian sugar industry has called for more subsidies in addition to the export subsidies from which they already benefit. This because India's 2019/20 sugar production forecast was revised upwards due to higher production than expected and because farmers were diverting more cane to sugar mills instead of selling to artisanal sugars (gur/jaggery manufacturers) that have shut down during the lockdown. An increase in the minimum selling price of sugar and in the price for sugar cane to growers is now foreseen. These measures will come on top of the export subsidy that would remain.
In Thailand a cash relief/compensation scheme with a total budget of THB10 billion (€280 millions) has been approved to benefit those cane growers affected by COVID-19, through a production assistance, to be given to cane growers having registered and contracted with mills.
In Brazil, the BNDES has approved on 4 June 2020 a BRL3 billion ($547 million) credit line to finance ethanol storage. According to the announcement, BNDES will finance 50% of the program, while private banks will participate in the other 50%. It will benefit around 10 % of total ethanol output.

EU Trade with third countries

The **fall in the import parity** price in the EU resulting from the decline in world prices to around €350/t for zero duty preferential imports is particularly worrying. This is well below the EU sugar reference threshold of €404.4/t.
By the end of May 2020, the EU's total imports were 8.4% higher and exports were 57% lower than last year at the same period. It should be noted that Egypt, a traditional destination for EU sugar exports, has decided an import ban on sugar. EU stocks at the end of April 2020 were higher than last year at the same period.
In the face of this jeopardy, there is **an urgent need to monitor the EU spot price closely and be ready to implement exceptional measures**, of which imports safeguard measures as soon as this price falls below the reference threshold. These safeguard measures could take the form of additional duties, calculated to prevent the EU sugar market price from falling below this threshold.

Furthermore, in the light of a possible deterioration of the EU balance sheet due to this crisis and with the strong uncertainties that remain in relation to Brexit, **implementation of safety nets and of Article 222 should be considered**.

A third year of non-remunerative prices for the EU beet sugar sector and in particular for EU sugar beet growers would be catastrophic and unsustainable. The conditions of the current season are also of concern for sugar beet growers: persistent dry conditions but also very early pests infestations (aphids and weevils) are negatively impacting the emergence and the first growth stages of the beet crop. In many regions, sugar beet growers are struggling with the lack of effective sustainable alternatives to the ban of neonicotinoids in pelleted beet seed. **The threat of a combination of low prices and low yields is looming**.
This shows how important it is to pay attention to alternative tools and to accompany closely the increased banning/removal of active substances. Reducing the crop protection toolbox too quickly and too dogmatically leaves farmers unable to combat in a sustainably way against naturally occurring threats. Objectives introduced in the Farm to Fork Strategy, should be carefully assessed in the light of availability of alternatives tools. The Farm to Fork Strategy and the revision of the Directive on the sustainable use of plant protection products must address the gap between the rapid loss of active substances and the availability and costs of new tools to ensure crop protection.