



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**.

Production and consumption in the EU

Before the crisis, the EU market balance sheet reflected a decreasing trend in ending stocks. The EU market was recovering after two years of severe crisis following the end of quotas. There was hope among EU operators that their situation would improve during the 2020/21 season. But within a couple of weeks, the EU market fundamentals turned from bullish to bearish, due to a combination of reduced sugar consumption caused by European countries in lock down and a potential increase in EU sugar imports, resulting in higher ending stocks.

Despite some EU consumer move towards an increase in the use of sugar for direct consumption in the EU due to lock-down measures, a **negative impact with a decline in total EU sugar demand is expected**. The sugar trader Czarnikow communicated that it has reduced its EU sugar consumption estimate by 700,000 tonnes or 4% for the rest of 2019/20 due to the coronavirus outbreak.

Prices and trend

After 7 months of increase due to better EU market and global fundamentals, **spot market prices in the EU have started to decrease in first week of April**. There is currently a consensus among analysts that EU sugar prices would now move closer to the sugar reference threshold of €404/t than to the €500/t expected before the sowing season had started in the EU.

On the global markets, New York raw sugar and London white sugar on the front term closed respectively at 10.3 cts/lb and \$336,5/t on 3rd April 2020. This represents a **plunge** by respectively 26% and 20% in one month. More worrying is that future terms are also on a decreasing trend, with speculators turning to net short positions amid the vanishing perspective of a global deficit for the 2020/21 season.

According to the recent estimate of the International Sugar Organization, communicated in February 2020, the global sugar deficit in 2019/20 would have reached 9.435 Mt, a record of the past 11 years. The ISO also estimated a deficit for the coming 2020/21 season. However, the COVID-19 outbreak has

put a damper on this trend and even resulted in a sudden and severe drop in prices. This is mainly a consequence of macroeconomic changes: a **strong depreciation of the Brazilian currency that sank to a record low and a plunge in crude oil prices** that is leading to a decrease in ethanol prices and a weakening sugar demand.

Persistent weakness in the Brazilian real against the dollar is indeed a major bearish factor for sugar prices. The Brazilian currency fell again on 3rd April 2020 by -1.18% against the dollar and posted a new record low of 5.3225 reals/USD. This represents a **depreciation of the Brazilian currency of more than 35% on one year**. This is huge and represents an advantage for Brazil on the exports market compared to other countries, in particular the EU. A weaker real encourages export selling by Brazil's sugar producers. This trend is already materializing: the International Sugar Organisation reported that Brazil's sugar exports reached 1.45 Mt in March 2020, according to the Ministry of Trade. This is over 10% higher than in February 2020 and nearly 30% higher than in above March 2019.

Furthermore, Brazil's sugar production is expected to increase significantly this 2020/21 season (by 7 to 10 Mt), as ethanol production based on sugar cane is significantly less attractive. The slump in crude oil is negative for ethanol prices and prompts Brazil's sugar mills to divert more cane crushing toward sugar production rather than ethanol production, thus boosting sugar supplies. Indeed, ethanol prices in Brazil have also fallen (by around 20% in BRL and 35% in USD) following decreasing gasoline prices and decreasing demand.

In the EU, the price for biofuel ethanol decreased by 30%, from €64/hl before the COVID-19 crisis to €45/hl for the May contract.

EU Trade with third countries

On the one hand, the fall in the import parity resulting of the decline in world prices would **boost sugar imports to the EU the short term**, especially raw sugar for refining. On the other hand, **EU white sugar becomes uncompetitive against other origins**. Looking at EU export destinations, Egypt, the 2nd largest destination for EU sugar, is currently boosting its reserves of commodities, of which sugar, but with Brazilian or Indian sugar. In addition, the risk of very negative impacts of depressed world prices on European prices is clearly materializing, even though the European market is balanced so far.

In the face of this jeopardy, there is **an urgent need to monitor the EU spot price closely and to implement exceptional measures, of which imports safeguard measures** (based on Article 194 and 195 of CMO Regulation) **as soon as this price falls below the reference threshold**.

These safeguard measures could take the form of additional duties, calculated to prevent EU sugar market price from falling below this threshold. In the event of a further deterioration of the EU balance sheet, possible implementation of safety nets should be considered.

A third year of non-remunerative prices for the EU sugar beet sector and in particular for EU sugar beet growers would be catastrophic and unsustainable.