

Required Report: Required - Public Distribution

Date: April 15,2020

Report Number: MX2020-0021

Report Name: Sugar Annual

Country: Mexico

Post: Mexico City

Report Category: Sugar

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Report Highlights:

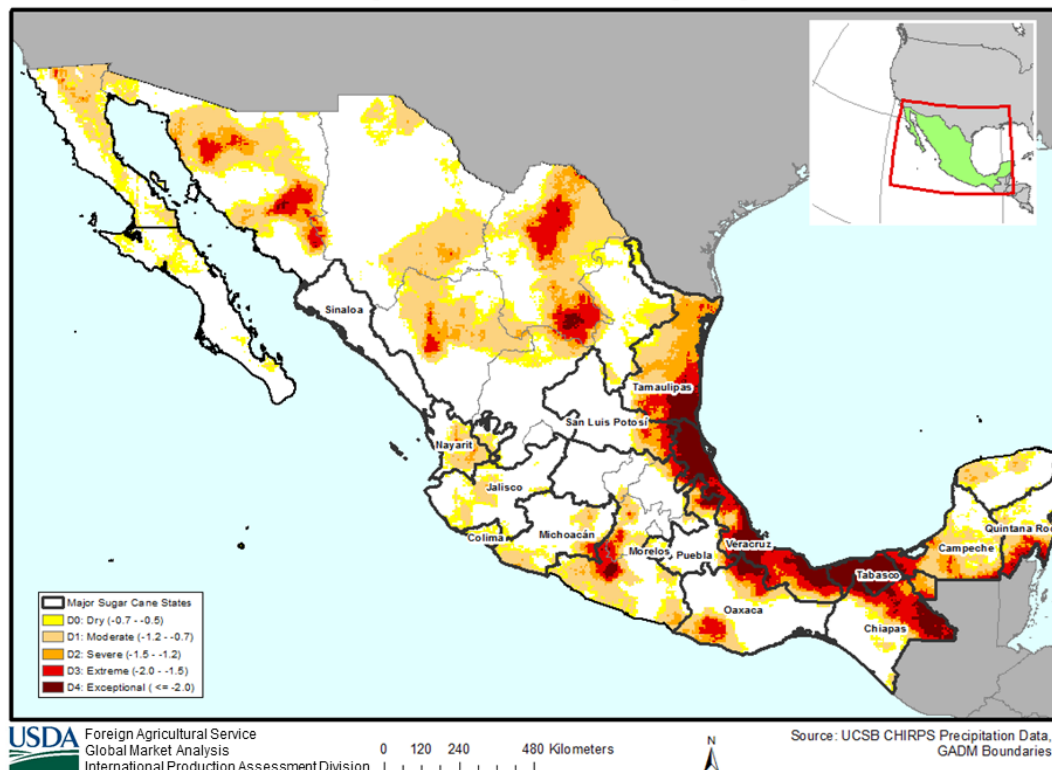
Mexico looks to recover sugar production in marketing year (MY) 2020/21, after a severe drought in a number of sugar cane producing states devastated production in MY 2019/20, which is forecast to fall to seven year lows. While an unprecedented shortfall in U.S. sugar production, also due to adverse weather, has increased needs for Mexican sugar, supplies are not sufficient to meet demand. As a result, the U.S. has opened up additional tariff rate quotas to obtain sugar from other producing countries. Rains have begun to fall in five important sugar cane producing states, signaling some potential relief to the sustained dry conditions.

PRODUCTION

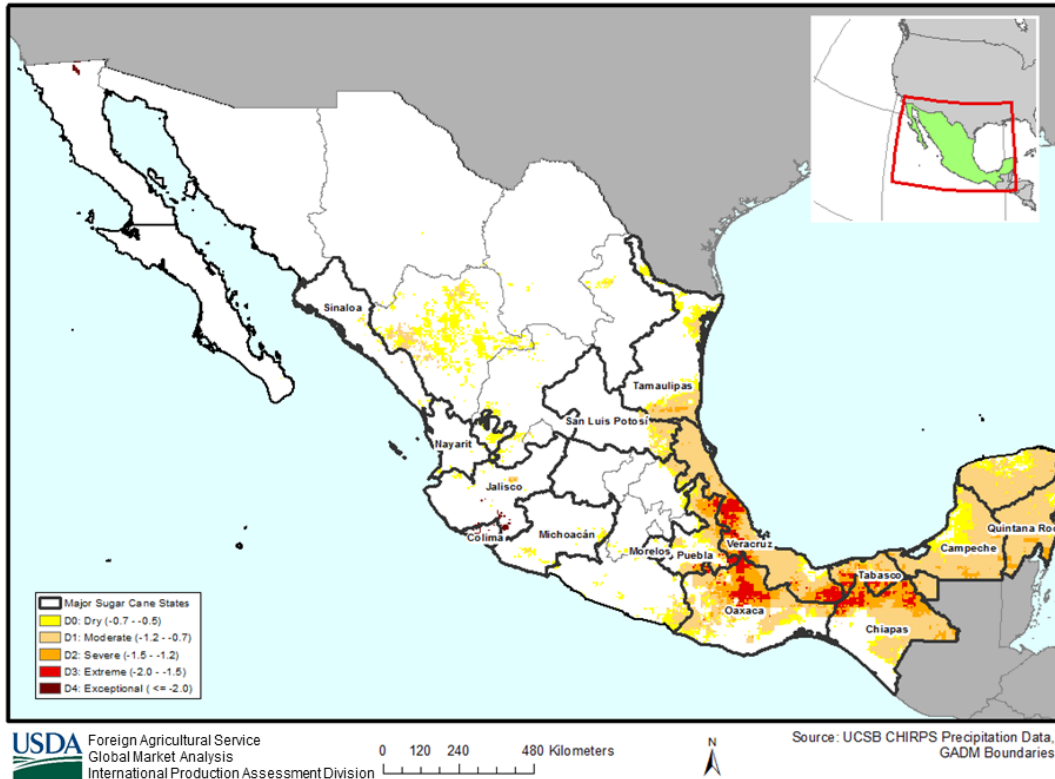
The sugarcane agribusiness is economically important in Mexico. Sugarcane is grown in 15 states and generates more than 450,000 direct jobs and indirectly benefits more than two million people. There is not yet an official sugar production forecast for MY 2020/21 (October-September), however Post forecasts production is at 6.16 million metric tons-raw value (MMT-RV). The final output will depend on sufficient rain and stable climatic conditions throughout the growing season. Rains are beginning to fall in some sugar cane producing areas, signaling some potential relief of the drought that began in June 2019. The final production will also depend on sugar mills preparing their factories for production on time.

Mexico has faced severe production shortfalls in MY 2019/20, due to the drought mentioned above. Rains have begun to fall in the Pacific (the states of Colima, Jalisco, and Michoacán) and Papaloapan Regions (southern Veracruz and Oaxaca). The National Committee for the Sustainable Development of Sugar Cane (CONADESUCA) - the official source of information for the sugarcane business in Mexico- estimates that 810,803 hectares (Ha) will be harvested in MY2019/20. The top producing states are Veracruz, Jalisco, and San Luis Potosí, which house 28 of 50 sugar mills currently operational in the country. At current estimations, the planted area would be highest in the last ten years; however, the harvested cane would fall to the lowest level observed in the previous seven years.

Mexico Drought Conditions During August 2019

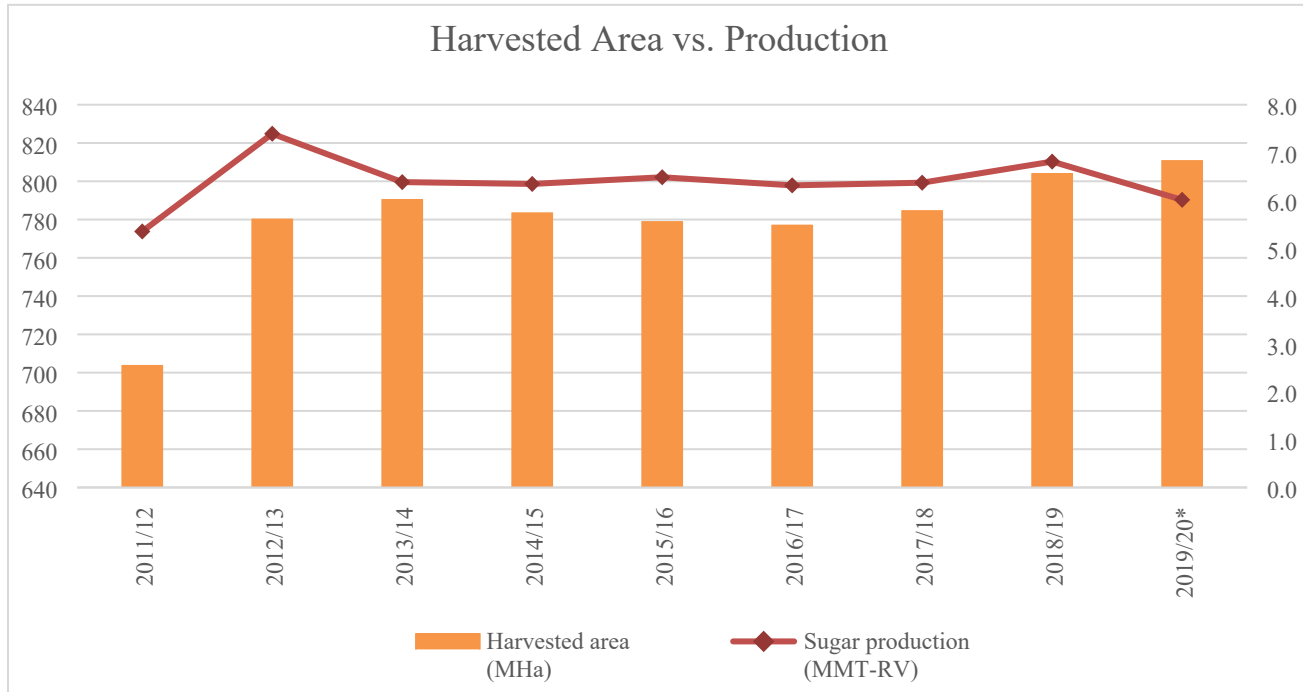


Mexico Drought Conditions During March 11-20, 2020



According to the second production estimate from CONADESUCA published on February 2, MY 2019/20 sugar production is forecast at 6.0 MMT-RV. However, according to production data to date, Post believes there is likely to be a significant production shortfall due to uncertainties surrounding precise drought effects. The Post production forecast for MY 2019/20 is 5.74 MMT-RV, a fifteen percent reduction from previous estimates. The main producing states affected by drought are Tamaulipas, Veracruz, Quintana Roo, San Luis Potosí, Tabasco, and Campeche. According to sources, field yields for MY 2019/20 are estimated at 62.70 tons per hectare, and factory yields at 10.83. A factory yield represents tons of sugar produced by a ton of cane.

Contacts indicate that to date, there are no COVID-19 related effects to sugar production. Sugar mills are operational, with no labor shortages mentioned. However, mills throughout the country have mentioned a lack of cane cutters during the MY 2019/20 harvest, forcing growers to look for labor from afar. Bringing in outside labor increases operational costs for sugar cane growers, as they must provide lodging and food to workers. Cane cutting is a difficult job, as workers must labor in high temperatures. As a result, the sector is finding fewer and fewer workers each year, as workers prefer to work on less intensive crops, such as grapes. The continued loss of labor in the sugar cane sector will be detrimental due to the lack of harvest mechanization available in the country.



Source: CONADESUCA

Mexico produces four cane varieties: CP 72-2086, Mex 69-290, Mex 79-431, and ITV 92-1424, which together make up more than 70 percent of the planted area. These varieties are typically low-efficient and less profitable than other types.

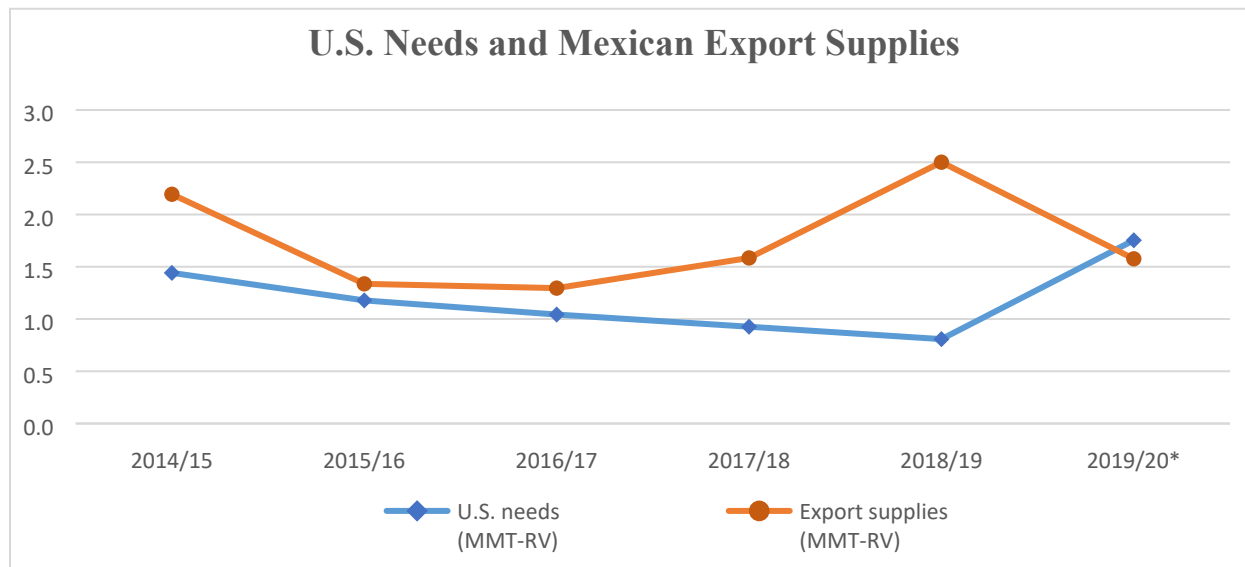
Efforts to modernize sugar cane production are undertaken by the Sugar Cane Research and Development Center (CIDCA) located in the state of Chiapas. The main objective of this center, created by the Government of Mexico, industry, and sugar cane associations, is to develop, coordinate, and evaluate scientific research projects in sugarcane and technology, to provide greater competitiveness and profitability through the development of new varieties of sugarcane. CIDCA has registered 20 varieties of sugarcane, however, the process for release into the market takes 8 to 12 years, so none are currently commercially available.

TRADE

The MY 2020/21 Post export forecast is 1.30 MMT-RV, fourteen percent lower compared to the previous year, and contingent on a return to more normal weather during the growing season.

Due to an unprecedented shortfall in U.S. sugar production as a result of bad weather in the Midwest, and a freeze in Louisiana, the Mexican quota for sugar exports in MY 2019/20 has reached 1.753 MMT-RV. An 'extraordinary volume' of refined sugar (Pol. ≥ 99.2), which does not fall within the 70/30 rule as outlined in the U.S. Mexico Sugar Suspension Agreement (70% of other sugars and 30% of refined sugar exports) has reached 272,155 MT-RV. This quota is 116 percent larger than the MY 2018/19 level, and the largest granted since the Suspension Agreements entered into force in February 2015. Per

terms of the Suspension Agreements, Mexico is given first opportunity to supply the U.S. sugar needs. On March 23, Mexico announced that they only had available 1.507 MMT-RV for export, due to lower than expected production. The U.S. has responded to the shortfall by raising tariff rate quotas for other sugar-producing countries.



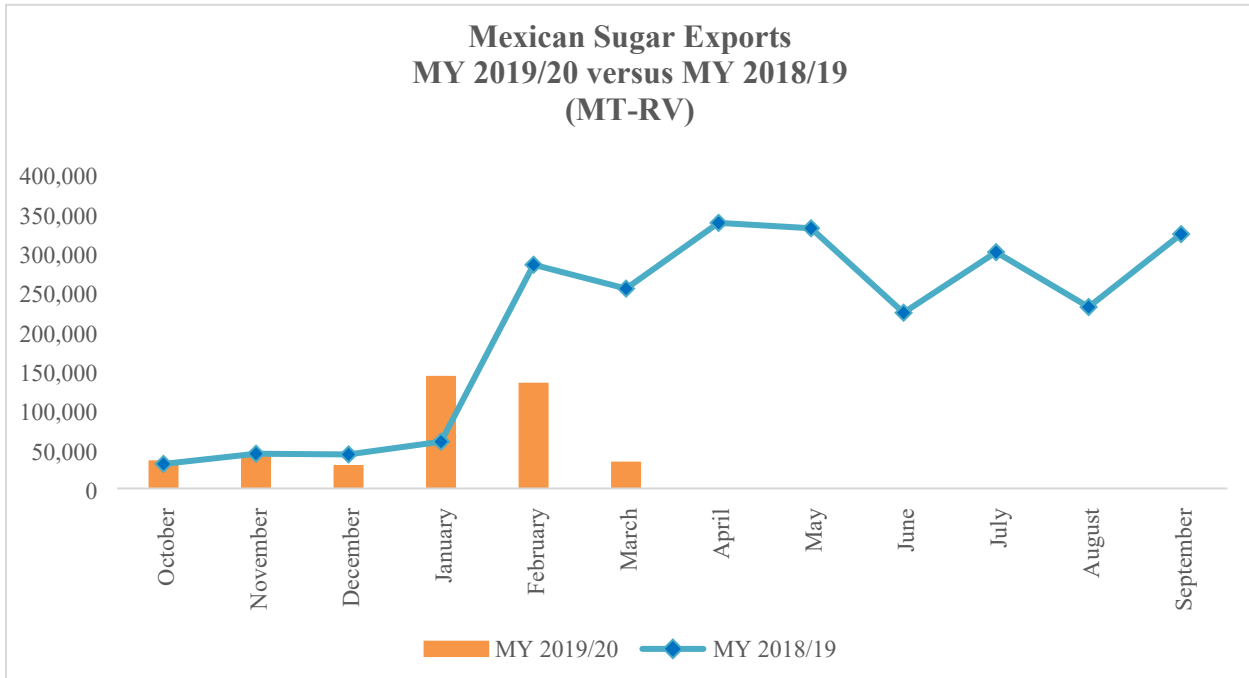
Source: CONADESUCA

The amount and polarization of sugar to be exported -according to the Mexican Government- is as follows:

	Metric Tons	Metric Tons Raw Value
Total	1,421,901	1,507,215
Raw sugar Pol <99.2	815,605	864,542
Refined sugar Pol ≥99.2	349,545	370,518
Refined Sugar Pol ≥99.2 (Extraordinary volume)	256,750	272,155

The Post export forecast for MY 2019/20 is 1.521 MMT-RV, 34 percent lower than the previous MY due to the significant decrease in production.

As of March 29, 426,140 MT-RV of the original quota, plus 10,522 MT-RV of the extraordinary refined sugar quota have been exported to the United States. Exports to world markets have reached 36,238 MT-RV. Of the total exported, 53,469 MT-RV is sugar from MY 2018/19 that was put into Certificates of Deposit (CEDES) because they were unable to be shipped in MY 2018/19.



*Exports include U.S. and world markets.
Source: CONADESUCA

Due to the large U.S. quota, exports of additional supplies to the world market are not expected for the remainder of MY 2019/20. As of March 29, 36,238 MT-RVs have been shipped, with Hong Kong, Morocco, and Canada being the main destination countries.

**Mexico Exports to the World Market
(MT-RV)**

Country	MY 2018/19	MY 2019/20*
Hong Kong	0	13,780
Morocco	441,363	6,901
Canada	278,154	3,590
Madagascar	0	1,855
Guinea	8,313	1,643
Venezuela	32,143	1,509
Others	495,155	6,955
Total	1,255,127	36,238

Source: CONADESUCA
*Through March 29, 2020

The Post forecast for MY 2020/21 sugar imports is 24,000 MT-RV, on an expected return to average production. The Post MY 2019/20 import forecast remains at 24,000 MT-RV. During the first quarter of MY, the imports of sugar increased more than 200 percent compared to the same period in the previous marketing year, due to low international prices in comparison to high domestic prices. Total

imports to date are 16,807 MT-RV. The main countries from which sugar is imported are Nicaragua and Guatemala.

**Monthly Sugar Imports
(MT-RV)**

Month	MY 2018/19	MY 2019/20	Change
October	1,494	3,088	106.7%
November	708	5,672	701.0%
December	1,351	4,166	208.5%
January	627	2,276	262.9%
February	1,142	1,003	-12.1%
March	6,903	677	-90.19%
Total	12,225	16,882	38.11%

Source: CONADESUCA

High fructose corn syrup (HFCS) imports were slower than usual in MY 2019/20, due to lower international sugar prices. As a result, the Post forecast for HFCS imports for MY 2019/20 is 978,429 MT dry basis, two percent lower compared to the previous MY. Even with high domestic sugar prices, the depreciation of the peso in relation to the dollar has made high priced domestic sugar purchases more cost-effective than importing high fructose from the United States.

**Monthly HFC Imports
(MT dry basis)**

Month	MY 2018/19	MY 2019/20	Change
October	82,636	76,113	-7.9%
November	62,069	71,909	15.9%
December	79,082	65,398	-17.3%
January	68,923	69,847	1.3%
February	75,361	66,279	-12.1%
March	80,413	61,269	-23.8%
Total	448,484	410,815	-8.39%

Source: CONADESUCA

**HFCS Imports
(MT dry basis)**

JMRF42	20,423
JMRF50	7,212
JMRF55	362,050
JMRF90	42
JMRF100	21,088
Total	410,815

Source: CONADESUCA

CONSUMPTION

Sugar consumption in Mexico is facing several challenges, ranging from a weak economy affecting consumer purchasing power to actions by the Government of Mexico to 'protect' citizens from consuming high-calorie food products (please see the Policy section for more information). Low oil prices and severe economic effects due to COVID-19 have resulted in a 20 percent devaluation of the peso since March 20 (as of April 8). COVID-19 is also likely to have significant demand effects, as contacts estimate that up to 20 percent of 'corner store' style businesses may close as a result of low economic prospects, or under the order of non-essential business closures. A significant percentage of demand for soda and other snack products are fulfilled through these types of shops.

Sugar use under the "other disappearance" category is mainly for the Maquiladora, Manufacturing and Export Services Industry (IMMEX). The Post forecast for MY 2020/21 sugar use under IMMEX is 382,000 MT-RV, without change compared to the previous year.

The Post forecast for MY 2019/20 is 382,000 MT-RV, nine percent lower compared to MY 2018/19, due to more sugar being shipped to the U.S. This market is difficult to expand because companies must receive authorization from the Ministry of the Economy.

POLICY

Front of Package Labeling Regulation

Domestic and imported prepackaged, processed foods, and non-alcoholic beverages in Mexico are subject to Mexican labeling regulations. On March 27, the general specifications for the new labeling that will be mandatory from October 1, 2020, were published in the Official Gazette. The front-of-the pack (FOP) labeling law includes the implementation of warning signs to be affixed to processed foods and beverages labels if the products exceed critical thresholds of certain nutrients (e.g., fats, sugars, sodium, etc.) that may lead to adverse health conditions. The regulation also includes other modifications, such as mandating precautionary legends for products that contain caffeine and sweeteners, and the ban of characters, graphics, pictures, or games on products targeted towards increasing consumption by children's requirements. Please see the report [Implementation of the New Mexican Regulation for Front-of-Package Nutrition Label](#) produced by ATO Mexico City for more information.

The U.S. Department of Commerce and Mexico agree to new amendments to the U.S. –Mexico Sugar Suspension Agreement

In January 2020, the U.S. Department of Commerce and Mexico agreed to new amendments to the U.S. –Mexico Sugar suspension agreement, identical to those reached in 2017. Negotiations for new amendments were necessary after a court case that nullified the 2017 amendments and reverted to those achieved in 2014. The newly finalized amendments provide much-needed certainty to sugar trade between the two countries.

Wellbeing Production Program

The Mexican government is supporting cane growers through the 2019 Wellbeing Production Program, and currently has more than 172,000 cane producers registered. The program is funded at 1.2 billion Mexican pesos (US\$65.1 million), with each cane producer receiving direct yearly support of 7,300 Mexican pesos (US\$383), regardless of plot size. The program is expected to continue during MY 2020/21, and every person registered in the list of producers of the Ministry of Agriculture and Rural Development (SADER) can apply to the program. Participation is expected to reach 190,000 cane producers.

Ethanol

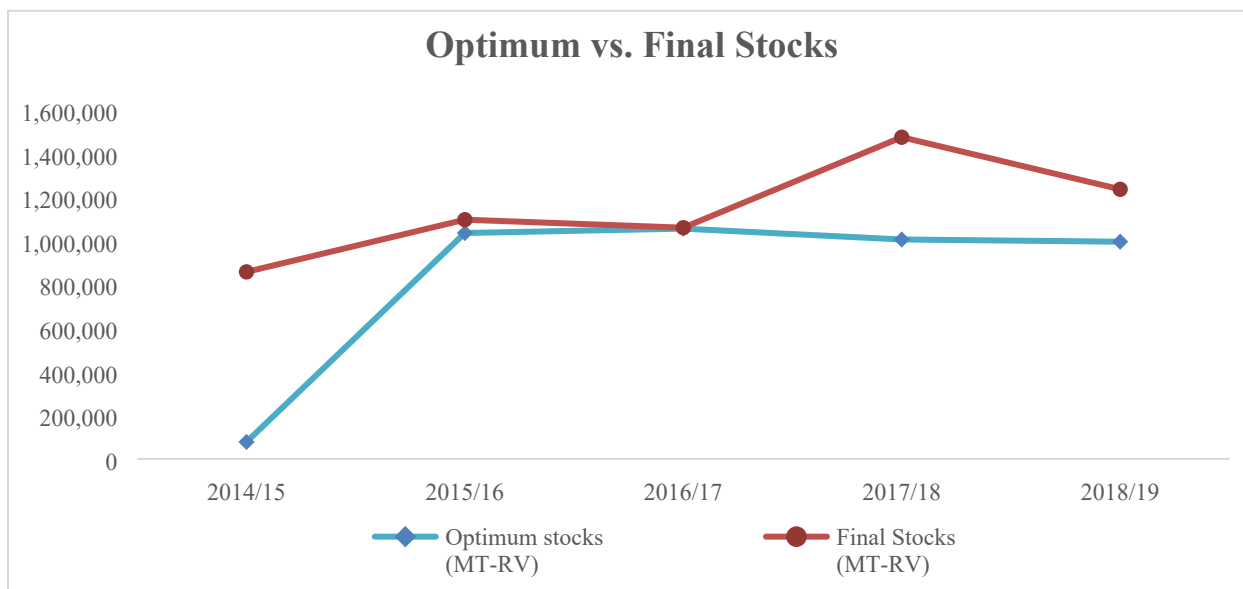
The Mexican sugar industry has shown interest in developing ethanol production from sugarcane, mainly to reduce the surplus of sugar that is typically destined for world markets. However, significant impediments to developing a sugar cane for ethanol programs exist, including investment in infrastructure, government support, and a cohesive ethanol policy within Mexico.

STOCKS

The post forecast for MY 2020/21 ending stocks is 976,000 MT. This amount represents optimal final stock (two and a half months of national consumption) levels, as Mexico is expected to export all additional sugar supplies.

The Post forecast for MY 2019/20 ending stocks is 783,000 MT-RV, 36 percent lower compared to the previous year, due to expectations that Mexico will lower the optimal stock level to export additional supplies to the U.S.

Sales data from sugar mills is self-reported and collected in the System of Information and Integration of the Sugar Balance (SIIBA), managed by CONADESUCA. To ensure the truthfulness of the information, sales data is also collected through audits of physical inventories, and commercial operations in February, May, September, and December, inspections are carried out by authorized firms.



Source: CONADESUCA

SUGAR PRICES

The Secretariat of Economy (through SNIIM) and CONADESUCA (through SIMAN) report monthly sugar prices of sugar delivered to local markets in various Mexican cities, and from different mills. The prices below (see Table 9) reflect sugar delivered to the wholesale market in Mexico City (on a 50-kilogram bag basis).

Low sugar supplies are reflected in high wholesale prices, especially for refined sugar. This could result in some sugar mills selling their sugar on the domestic market instead of exporting it at lower prices.

Mexico: Average Wholesale Sugar Prices in Mexico City (CIF Basis) in Pesos per 50 Kilograms - Bulk

Month	Standard			Refined		
	2019	2020	Percent Change	2019	2020	Percent change
January	579.5	725	25.1	687.8	885.6	28.74
February	740.5	728.7	-1.5	796.3	869.5	9.19
March	702.5	795	13.16	789.6	918.63	16.34
April	760.2	-	-	829.7	-	-
May	762.3	-	-	837.8	-	-
June	758.3	-	-	840.6	-	-
July	755.2	-	-	822	-	-
August	730.6	-	-	795.8	-	-
September	711.3	-	-	817.1	-	-

Sugar Cane for Centrifugal Market Begin Year	2018/2019		2019/2020		2020/2021	
	Oct 2018		Oct 2019		Oct 2020	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Mexico						
Area Planted	840	843	843	845		848
Area Harvested	780	804	800	810		812
Production	53,800	57,036	55,000	50,908		55,000
Total Supply	53,800	57,036	55,000	50,908		55,000
Utilization for Sugar	53,800	57,036	55,000	50,908		55,000
Utilization for Alcohol	0	0	0	0		0
Total Utilization	53,800	57,036	55,000	50,908		55,000
(1000 HA), (1000 MT)						

Attachments:

No Attachments