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Date: 9/26/2018
GAIN Report Number: MX8048

Mexico

Sugar Semi-annual

Exports to Increase on a Production Surplus

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Report Highlights:
Mexican sugar exports for MY 2018/19 are forecast to increase to 1.7 million metric tons raw value (MMT-RV) on a production surplus, resulting in an unprecedented increase in export certificate guarantees through the Master Trust for the Exportation of Sugar Surpluses Program. Industry was anticipating additional announcements of U.S. sugar quotas to cover the remainder of uncommitted supplies, but this did not occur. Under the terms of the Trust, all sugar must be exported by December 31, 2018. Sugar consumption is revised lower in MY 2018/19 to 4.60 MMT-RV due to consumer health concerns, a preference for less-caloric food products, and continued deterioration of purchasing power due to high inflation. Mexican sugar production for marketing year 2018/19 is forecast to reach 6.4 MMT-RV due to favorable weather conditions and strong yields.

Executive Summary:

Sugar production for MY 2018/19 is forecast at 6.4 MMT-RV due to favorable weather conditions and expected strong yields. However, international uncertainties, the fluctuation of the Peso against the Dollar, and international price fluctuations have discouraged large expansion of production area in some regions. The 2017 Sugar Agreement between the United States and Mexico posed challenges to the Mexican industry, as it had to produce more raw than refined sugar for export to the United States.

The Post/New sugar export estimate for MY 2017/18 is revised higher to 1.3 MMT-RV, based on CONADESUCA's August 26, 2018 Sugar Export Report. Exports to the United States are expected to continue at 1.15 MMT-RV, to meet Suspension Agreements. Unsold sugar for MY 2017/18 will be placed into export certificates through the Master Trust for the Exportation of Sugar Surpluses (FIMAE in Spanish). This program guarantees that surplus sugar will be exported. To date, industry believes that 284,160 MMT-RV of sugar will be converted into export certificates by FIMAE. The Post/New sugar export forecast for MY 2018/19 is revised higher to 1.75 MMT-RV due to this surplus.

The Post/New sugar consumption forecast for MY 2018/2019 is revised lower to 4.60 MMT-RV on continued effects of high inflation. In July, the Bank of Mexico forecast inflation for 2018 at 4.8 percent. Post/New sugar consumption for MY 2017/18 is revised lower due to a relative deterioration of consumer income due to high inflation. According to the Bank of Mexico, the 2017 inflation rate was 6.7 percent.

Production:

Sources believe optimal precipitation in most sugar cane planted areas has been beneficial for sugar production for MY 2018/19. Therefore, Post/New sugar production is forecast to increase to 6.4 MMT-RV. However, final production will depend on appropriate cultivation practices, including the application of fertilizers, pesticides, crop rotation, and pruning; as well as timely maintenance of sugar mills, weather throughout the growing season, and harvest conditions.

The Mexican National Committee for the Sustainable Development of Sugar Cane (CONADESUCA) published on July 23, 2018, the last update of the final data for sugar production for MY 2017/18 at 6.370 MMT-RV. Fifty-one sugar mills operated throughout the country during this period. According to the most recent official estimates, cane yields are expected to be 67.97 metric tons (MT)/hectare (Ha); mill yields are expected at 11.27 percent, and cane field yields are expected at 7.66 MT/Ha. Area harvested is estimated at 784,661 hectares and milled cane at 53,335,717 MT. During MY 2017/18, the industry produced 24.3 percent refined sugar, 58.6 percent standard sugar and 13.5 percent sugar with a polarization of less than 99.2, mainly for export to the United States under the 2017 Suspension Agreement rules.

According to official sources, Mexico is not producing organic sugar on a commercial basis. As previously reported, virtually all sugar cane goes to the production of centrifugal sugar. There is some production of ethylic alcohol as a by-product. Mills operate between November and June to coincide with the cane harvest.

The Post/New forecast for sugar cane planted area and area harvested for MY 2018/19 remains unchanged. The Post/New estimate of cane to be processed for MY 2018/19 is 53.8 MMT. Sugar cane planted area for MY 2017/18 remains unchanged from previous estimates and area harvested is revised higher. The Post/New estimate of cane to be processed for MY 2017/18 is revised lower.

High Fructose Corn Syrup

The Mexican high fructose corn syrup (HFCS) industry estimates stable levels of production for MY 2017/18 at 524,626 MT dry basis. These levels of production are nearly maximum capacity. Expectations are that HFCS production for MY 2018/19 will continue at similar levels.

The Mexican HFCS industry produces fructose with domestic and imported U.S. yellow corn. According to IDAQUIM (Industria de Derivados Alimenticios y Químicos del Maíz), the industry group that represents starch/HFCS producers, this industry consumes about 2.8 million tons of yellow corn, of which 80 to 90 percent is imported. The Government of Mexico continues to encourage forward contract purchases between Mexican farmers and yellow corn buyers in an attempt to increase domestic production of yellow corn. The main producers of yellow corn are the states of Chihuahua and Jalisco. The United States is the main supplier of yellow corn to Mexico; however, the Mexican government is trying to increase diversification of suppliers.

Consumption:

The sugar industry believes that sugar consumption in Mexico is decreasing due to health concerns and demand for less caloric food products. Industry reports that soda companies, large sugar consumers, are reformulating their products to decrease sugar content. Therefore, the Post/New sugar consumption forecast for MY 2018/2019 is revised lower to 4.60 MMT-RV. According to July data from the Bank of Mexico, the inflation forecast for 2018 is 4.8 percent. Post/New sugar consumption for MY 2017/18 is revised lower due to a relative deterioration of consumer income due to high inflation. According to the Bank of Mexico, the 2017 inflation rate was 6.7 percent. Sources indicate that sugar prices have been responding to exchange rate fluctuations. Consumption will also depend on the substitution of sugar with HFCS.

Sugar in supermarkets is usually sold in 2 Kg packages and for September 7, 2018 standard sugar was sold at about $48.05 pesos/2 kg bag (US$2.55/ 2 kg bag), and refined sugar was sold at about $57.22 pesos/2 kg bag (US$3.04/ 2 kg bag).

The substitution of sugar for HFCS has been slowly increasing. While soda bottlers continue to use stable amounts of HFCS in their products, there are new products on the market -like juice combinations and bakery products- also using HFCS. Consumption for MY 2017/18 is estimated at 1.570 MMT dry basis according to CONADESUCA. However, import data from Global Trade Atlas is higher than CONADESUCA's data, and could indicate consumption is closer to 1.8 MMT dry basis. According to CONADESUCA, the volume of HFCS represents about 26 percent of total domestic sweetener consumption. HFCS consumption depends on domestic sugar prices, imported corn and HFCS prices, and exchange rates.

Sugar Wholesale Prices

The Secretariat of Economy, through the National Market Information Service (SNIIM), reports monthly on sugar prices delivered to various cities in Mexico from different mills. According to industry, higher prices after April/May reflect the end of the harvesting season, and November prices have a tendency to fall, reflecting the beginning of a new cycle. However, sugar prices are now responding to multiple factors: lower/higher sugar supplies, prices in sugar Contract 11 and 16 (futures), and to exchange rate fluctuations. Additionally, prices are reflecting the policy of sugar mills to sell at speeds dependent upon on their needs, and as they fulfill international contracts.

Table 1. Mexico: Average Wholesale Sugar Prices in Mexico City
MX Pesos per 50 Kilograms – Bulk (CIF Basis)

Month	Standard			Refined		
	2017	2018	Percent Change	2017	2018	Percent Change
January	650.40	752.00	15.62	751.40	807.67	7.94
February	640.75	679.25	6.00	770.00	788.58	2.41
March	637.00	639.00	0.31	780.00	778.50	(0.19)
April	647.00	698.75	7.99	768.33	777.25	1.16
May	748.00	666.50	(10.89)	829.73	746.25	(10.06)
June	807.25	691.25	(14.36)	848.17	779.84	(8.07)
July	790.25	668.40	(15.41)	841.67	757.80	(9.96)
August	785.20	667.25	(15.02)	833.47	742.42	(10.92)
September	815.75	655.00*	(19.79)	845.17	734.44*	(13.10)
October	790.40	N/A	N/A	836.00	N/A	N/A
November	798.25	N/A	N/A	829.42	N/A	N/A
December	782.25	N/A	N/A	819.59	N/A	N/A

Source: Servicio Nacional de Información de Mercados SNIIM-ECONOMIA http://www.economia-sniim.gob.mx/Sniim-an/e_SelAzu.asp?
*As of 3rd week of September 2018

Trade:
Sugar and HFCS

The Post/New sugar export estimate for MY 2017/18 is revised higher to 1.3 MMT-RV, based on CONADESUCA's August 26, 2018 Sugar Export Report. Exports to the United States are expected to continue at 1.15 MMT-RV to meet the U.S. Suspension Agreements. According to the Report, Mexico has exported 1,066,674 MT-RV to the United States under the 2017 Sugar Suspension Agreements. Total sugar exports including IMMEX (Mexican Sugar Re-export Program) are at 1,359,747 MT-RV. Industry was expecting additional announcements of U.S. sugar quotas to cover the remainder of uncommitted supplies. However, since this scenario did not occur, Mexico will end up with higher than expected supplies of sugar destined for world markets.

Domestic regulations to pay sugar cane growers differs among sugar sold domestically and that exported to international markets. Because the payment calculation considers export prices, sugar mills guarantee the export of unsold sugar through export certificates, and is facilitated by FIMAE. To date, industry believes that 284,160 MT-RV of sugar will be converted into export certificates by FIMAE.

The trust falls within the trade policies of CONADESUCA, and is managed by sugar producers. Sugar supplies under the trust must be exported before December 31, 2018.

There is no official forecast for sugar exports in MY 2018/19. Levels will depend on production, the needs under the new 2017 U.S./Mexico sugar agreements, and U.S. and international sugar and sweeteners (HFCS) prices. However, the Post/New sugar export forecast for MY 2018/19 is revised higher to 1.75 MMT-RV considering the sugar surplus under FIMAE. The August 15, 2018 Notification from the Secretariat of Economy in Mexico on the maximum sugar export quota to the U.S. under the Sugar Suspension Agreements is 750,876.85 MT-RV. This quota is based on the initial fiscal year export limit calculation that equals 50 percent of U.S. needs. This is a reduced quota compared to MY 2017/18 level of 1.15 MMT-RV, which was tied to previous Sugar Suspension Agreements. This information is based on the July 2018 World Agricultural Supply and Demand Estimates report and CONADESUCA data. The Post/New sugar export estimate for MY 2016/17 is 4.78 MMT-RV based on CONADESUCA's data.

The Post/New MY 2018/19 import forecast remains at 70,000 MT-RV, on industry belief that international market prices may not be as attractive to traders in comparison to MY 2017/18, where an estimated 135,000 MT-RV were imported into Mexico. Most imports came from the United States and were used to produce chocolates and candies. In addition, the tequila industry imports sugar for their products, with one company importing as much as 70,000 MT to produce refined liquid sugar. CONADESUCA believes the high level of imports in 2017/18 were due to higher prices in Mexico. The Post/New estimate for sugar imports for MY 2016/17 is revised lower based on CONADESUCA's information.

Sugar use under the "other disappearance" category is mainly for the Mexican Sugar Re-export program industries (IMMEX). The Post/New forecast for MY 2018/19 for sugar use under IMMEX is 350,000 MT-RV, as the *maquila* industries are buying similar volumes from MY 2017/18. The Post/New MY 2017/18 estimates for sugar use under IMMEX is revised lower based on CONADESUCA's data. Sugar for this purpose was sold by mills and not imported. Post/New sugar estimates for MY 2016/17 are also revised lower on official data.

HFCS imports for MY 2017/18 are expected to increase slightly from MY 2016/17 imports. According to CONADESUCA, imports are estimated to increase from 1.043 MMT dry basis in MY 2016/17 to 1.049 MMT in MY 2017/18. Although a negative impact was expected due to the depreciation of the Mexican peso versus the U.S. dollar, the industry has been importing HFCS steadily in the last two marketing years. Most of the HFCS is imported from the United States under contracts, which help with exchange rate fluctuations.

Stocks:

Post/New sugar ending stocks for MY 2018/19 are revised higher to 1.11 MMT-RV. However, production, sugar prices, and exports under the 2017 Sugar Suspension Agreements will determine final stocks. Post/New ending stocks for MY 2017/18 are also revised higher to 1.34 MMT-RV due to the sugar surplus deposited in FIMAE export certificates. The remainder of stocks are approximately two-and-a-half months of domestic consumption plus some IMMEX sugar according to CONADESUCA. Sugar mills and traders hold most of the sugar stocks in Mexico.

Policy:
The United States and Mexico signed the final amendments to the Sugar Suspension Agreements on July 3, 2017. The amendment applies from October 1, 2017 through September 30, 2018 and until further amendment. The initial fiscal year Export Limit calculation will now be 50 percent of the U.S. Needs Calculation based on the July World Agricultural Supply and Demand Estimate Report. For additional information, see **https://www.commerce.gov/news/press-releases/2017/07/us-mexico-sign-final-amendments-sugar-suspension-agreements**

Ethanol Production
The current version of Mexico's Biofuels Law was published in the *Diario Oficial* (Federal Register), on February 1, 2008. The Law contains a comprehensive biofuels policy that is intended to promote ethanol production from different agricultural commodities. There are provisions within the Sugar Law that contain overall goals focused on the possibility of producing ethanol. Ten years later, Mexico has not formally introduced ethanol into its commercial gasoline mix. Regulatory issues and the lack of an established supply chain have prevented the country from fully establishing its "clean-fuel" strategy. Mexico's state-run oil company, Petroleos Mexicanos (PEMEX) has made no apparent progress in response to the 2015's bidding process (GAIN Report MX5041) to begin changes on its distribution and storage infrastructure to be able to receive ethanol. The companies that won bids have yet to begin ethanol production, so no immediate ethanol deliveries are expected in the short term.

The Mexican government has fully implemented the liberalization of commercial fuels. As of January 19, 2018, the Mexican Ministry of Energy (SENER) reports that 264 gasoline import permits, totaling over 75 billion gallons of gasoline are still "valid." SENER indicates that PEMEX is responsible for 98.3 percent of the imported gasoline into Mexico (771 billion gallons in January 2018), which implies that the imported volume by private companies has been almost insignificant, and many of the permits are yet to be used. Sources indicate this is a result of the lack of infrastructure and associated costs with imports, transportation, and distribution. Diesel imports, however, show that PEMEX accounts for only 85% of the imports, so private companies importing diesel have shown more dynamism. Whereas before the gasoline price was determined and set by the Mexican Ministry of Finance (SHCP), fuel prices in Mexico became fully liberalized on Dec. 01, 2017. Consumers can now see and compare fuel prices, as gas stations should have them visible; smartphone apps and specialized web pages also allow for price comparison.

In August 2016, the Energy Regulatory Commission (CRE) published new gasoline specifications in the Mexican Official Norm, NOM-016 allowing for the first time the use of up to 5.8 percent of ethanol as an oxygenate in gasoline. However, ethanol is not permitted to be used in gasoline in the metropolitan areas of Mexico City, Guadalajara, and Monterrey. The new NOM entered into force on October 29, 2016. In June 2017, CRE increased the maximum blend rate for most of the country from 5.8 percent to 10 percent (E10), which is the most common blend rate in the United States. However, the restriction on the three largest cities remains in place. CRE has been in the process of consulting with the private sector and interested organizations to review the NOM and assess how it is currently functioning. As part of this effort, the state of Nuevo Leon has formally requested the removal of the ban on ethanol in Monterrey, and Jalisco has indicated interest in doing the same for Guadalajara. Removal of the bans could create a significant ethanol market in Mexico, and some Mexican companies have shown increased interest in establishing ethanol plants to meet this potential demand.

Production, Supply and Demand Data Statistics:
Table 2. Mexico: Centrifugal Sugar PS&D

Sugar, Centrifugal	2016/2017		2017/2018		2018/2019	
Market Begin Year	Oct 2016		Oct 2017		Oct 2018	
Mexico	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	1099	1099	1062	1062	1318	1347
Beet Sugar Production	0	0	0	0	0	0
Cane Sugar Production	6314	6314	6328	6370	6386	6400
Total Sugar Production	6314	6314	6328	6370	6386	6400
Raw Imports	0	0	0	0	0	0
Refined Imp.(Raw Val)	125	51	202	135	89	70
Total Imports	125	51	202	135	89	70
Total Supply	7538	7464	7592	7567	7793	7817
Raw Exports	847	1014	686	956	862	770
Refined Exp.(Raw Val)	440	256	578	344	641	980
Total Exports	1287	1270	1264	1300	1503	1750
Human Dom. Consumption	4769	4786	4597	4570	4835	4600
Other Disappearance	420	346	413	350	413	350
Total Use	5189	5132	5010	4920	5248	4950
Ending Stocks	1062	1062	1318	1347	1042	1117
Total Distribution	7538	7464	7592	7567	7793	7817
(1000 MT)						

Table 3. Mexico: Sugar Cane for Centrifugal PS&D

Sugar Cane for Centrifugal	2016/2017		2017/2018		2018/2019	
Market Begin Year	Nov 2016		Nov 2017		Nov 2018	
Mexico	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	824	824	840	840	840	840
Area Harvested	777	777	778	785	780	780
Production	53308	53308	53759	53336	53800	53800

Total Supply	53308	53308	53759	53336	53800	53800
Utilization for Sugar	53308	53308	53759	53336	53800	53800
Utilizatn for Alcohol	0	0	0	0	0	0
Total Utilization	53308	53308	53759	53336	53800	53800
(1000 HA) ,(1000 MT)						

Table 4. Mexico: Monthly Exchange Rate Averages for 2015-2018
MX Pesos per U.S. $1.00

	2015	2016	2017	2018
January	14.68	18.02	21.37	18.95
February	14.92	18.47	18.47	18.63
March	15.21	17.69	17.69	18.66
April	15.22	17.49	18.77	18.36
May	15.26	18.09	18.76	19.57
June	15.46	18.12	18.16	20.31
July	15.92	18.58	17.83	19.05
August	16.50	18.47	17.80	18.83
September	16.85	19.16	17.81	19.09*
October	16.58	18.91	18.77	
November	16.63	20.03	18.94	
December	17.03	20.51	19.12	
Annual Avg	**15.85**	**18.62**	**18.91**	

*As of 3rd week of September, 2018

Source: Mexican Federal Register
Note: Monthly rates are averages of daily exchange rates from the Banco de Mexico