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Mexico

Sugar Semi-annual

Exports to Continue as Expected

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Report Highlights:

Mexican sugar production for marketing year 2017/18 is forecast to be at 6.4 million metric tons raw-value (MMT-RV). Sugar production for MY 2016/17 was revised downward to 6.3 MMT-RV. The sugar export forecast for MY 2017/18 is expected at about 1.3 MMT-RV. Post total sugar export estimate for MY 2016/17 is 1.3 MMT-RV, where exports to the United States under the suspension agreements are expected at 1,137,140.0 MT-RV. The high fructose corn syrup (HFCS) import forecast for MY 2017/18 is expected to be similar to MY 2016/17 imports, or close to 1.0 MMT dry basis. The Sugar Agreement Amendment between the United States and Mexico was signed July 3, 2017.

Commodities:

Sugar Cane for Centrifugal

Production: **PRODUCTION** **Sugar**

There is not yet an official forecast for sugar production for marketing year (MY) 2017/18 (October/September). Sources believe that rainfall will be beneficial to some areas but other areas could remain flat, therefore, Post/New sugar production is forecast at about 6.4 million metric tons raw value (MMT-RV) for MY 2017/18. Strong rainfall and effects from Hurricane Katia in sugar cane areas in the state of Veracruz have not yet been finalized. Final production will depend on appropriate cultivation practices, such as application of fertilizers, pesticides, crop rotation, and pruning as well as timely maintenance of sugar mills, weather throughout the growing season, and harvest conditions.

According to the Mexican National Committee for the Sustainable Development of Sugar Cane (CONADESUCA), the last estimate for sugar production for MY 2016/17 is lower from previous estimates at 6.3 MMT-RV. Fifty-one sugar mills operated throughout the country during MY 2016/17. According to official estimates, cane yields were 68.6 tons/hectare and mill yields were at 11.1 percent. Area harvested is estimated at 777,078 hectares and milled cane at 53,308,643 metric tons (MT). The Post/New sugar production estimate for MY 2015/16 remains unchanged from previous estimates.

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 for MY 2017/18 remains unchanged from previous estimates and area planted is revised slightly downward. The Post/New estimate of cane to be processed for MY 2017/18 is 54.0 MMT. Sugar cane planted area for MY 2016/17 remains unchanged from previous estimates and area harvested is revised slightly downward. The Post/New estimate of cane to be processed for MY 2016/17 is revised downwards from previous estimates. Sugar cane area planted for MY 2015/16 is revised upward and area harvested is revised downward based on information from the sugar sector. Sugar cane production is revised slightly downward from previous estimates based on CONADESUCA's information.

During MY 2016/17 the industry produced 64 percent of standard sugar and 27 percent of refined sugar and during MY 2015/16, 63 percent was standard sugar and 30 percent refined sugar. In fact, with the new amendments to the Sugar Suspension Agreements (See Policy Section) the Mexican sugar industry will have to reduce the percentage of refined sugar that may be exported to the United States from 53 percent to 30 percent. Mexico will have to adjust its production to produce more raw sugar of polarity 99.2 percent to comply with the export quota to the United States.

High Fructose Corn Syrup

The Mexican high fructose corn syrup (HFCS) industry estimates that for MY 2017/18 it will continue producing HFCS at almost the same levels as in the previous marketing year as prices continue to be

profitable. CONADESUCA's estimate of HFCS production for MY 2016/17 is 520,000 MT dry basis, slightly lower compared to MY 2015/16 production of 523,492 MT. This level is nearly at the industry's maximum capacity. Industry members indicate that there is no additional HFCS manufacturing capacity being built or expanded in Mexico.

The Mexican HFCS industry produces fructose with domestic and imported U.S. yellow corn. According to the Maize Derivatives and Chemicals Industry (IDAQUIM), the industry group that represents HFCS producers, this industry consumes about two million tons of yellow corn of which 80 to 90 percent is imported. The United States will remain the main supplier of corn to Mexico. Corn imports are expected to continue.

SUGAR AND HFCS CONSUMPTION

Assuming current pricing trends for sugar and fluctuating exchange rates, and an inflation forecast for 2017 that is expected to be over 5.6 percent, versus 2.9 percent during 2016, the sugar industry expects sugar consumption for MY 2017/18 to grow at a slower rate compared to the previous year 2016/17. Therefore, the Post/New forecast for domestic sugar consumption for MY 2017/18 is revised slightly downward to 4.79 MMT-RV. Consumption will also depend on the substitution of sugar with HFCS. The Post/New domestic sugar consumption estimate for MY 2016/17 was revised slightly upward from previous estimates based on CONADESUCA's estimates. The Post/New domestic sugar consumption estimate for MY 2015/16 is revised downward from previous estimates based on official sources.

Substitution between HFCS and sugar has been increasing slowly, as industries have been using HFCS in similar amounts over the last two years, including the largest user of HFCS- soda bottlers. Trends for MY 2016/17 indicate a growth in HFCS consumption to 1.48 MMT dry basis, almost 2.5 percent increase over MY 2015/16 consumption of 1.44 MMT dry basis.

This volume of HFCS still represents about 25 percent of total domestic sweeteners consumption.

HFCS consumption depends on domestic sugar prices, imported corn and HFCS prices, and exchange rates.

Even as sugar prices have been somewhat high, HFCS consumption is not expected to increase much due to the import costs. It is expected that the bottling industry will continue to have similar HFCS consumption as in the past.

Sugar Wholesale Prices

The Secretariat of Economy (SE), through the National Market Information Service (SNIIM), reports sugar prices on a monthly basis as delivered to different cities in Mexico from different mills.

According to the industry, higher prices after the month of April/May 2016 reflect the end of the harvesting season. In fact, higher prices have affected bottling companies who are accommodating soda prices for the final consumer. Sugar prices had the tendency to go down in November, reflecting the beginning of a new cycle. However, now sugar prices tend also to respond to lower sugar supplies, to prices in sugar Contract 16 (futures) and also to the exchange rate fluctuations. However, prices are also reflecting the sugar mills own policy of selling sugar at slower speed depending on their needs, and as they fulfill international contracts.

Sugar in supermarkets is usually sold in 2 Kilograms (Kg) packages and for September 6, 2017 standard sugar has been sold at about \$48.00 pesos/2 kg bag (US\$2.65/ 2 kg bag), and refined sugar has been sold at about \$54.86 pesos/2 kg bag (US\$3.03/ 2 kg bag).

TRADE

Sugar

Since there is no official data yet on exports for MY 2017/18, based on different sources, Post/New sugar export forecast was revised downward to 1.3 MMT-RV from previous estimates, also based on the expectations for the quota allotment of sugar to be exported to the United States. Export data is tentative and will tend to change depending on production, U.S. and international sugar and sweeteners (HFCS) prices, and exchange rates. The new 2017 sugar agreement amendments reduce the percentage of refined sugar that may be imported into the United States from 53 percent to 30 percent.

The Post/New sugar export estimate for MY 2016/17 has been revised upward from previous estimates to 1.3 MMT-RV, based on CONADESUCA's recent data. The Secretariat of Economy (SE) announced [on March 31, 2017](#), the amount of the total quota of sugar to be exported under the U.S.-Mexico [Agreement](#) to the United States through September 30, 2017, for the 2016/17 sugar cycle of 1,042,854.51 MT-RV. However, on July 21, 2017, the U.S. Government increased the [sugar quota](#) amount for 94,285.5 MT-RV making a total of 1,137,140.0 MT-RV. However, it seems this additional amount does not change the total export volume that Mexico is shipping or 1.3 MMT-RV, as Mexico will try to cover this demand from the sugar it has not exported to third countries. As of September 3, 2017, according to CONADESUCA, Mexico has exported to the U.S. market about 982,594 MT-RV, and for the rest of the world 175,589 MT-RV. The Post/New sugar export estimate for MY 2015/16 is revised slightly upward from previous estimates based on official information from CONADESUCA.

The Post/New sugar import forecast for MY 2017/18 is revised downward to about 45,000 MT-RV as domestic supplies are expected to remain adequate. The Post/New sugar import estimate for MY 2016/17 is revised downward and MY 2015/16 estimate remains unchanged based on official data. Sugar use under the "other disappearance" category is mainly for the re-export program (IMMEX). The Post/New forecast for MY 2017/18 for sugar use under IMMEX is revised downward from previous estimates to 350,000 MT-RV according to sources. The Post/New estimate for MY 2016/17 for sugar use under IMMEX was also revised downward from previous estimates based on CONADESUCA's information. The Post/New estimate for sugar use under IMMEX for MY 2015/16 was updated based on CONADESUCA's information.

HFCS Imports

HFCS imports for MY 2017/18 are expected to be similar to MY 2016/17 imports, or 1.0 MMT dry basis as usage by the industry is not expected to change. Although, a negative impact was expected due to the depreciation of the Mexican peso versus the U.S. dollar, the industry has been importing almost the same amount of HFCS in the last two marketing years. Most of the HFCS is imported under contracts. According to CONADESUCA, imports of HFCS for MY 2016/17 are expected at 998,292 MT dry basis. HFCS imports for MY 2015/16 were 995,426 MT dry basis.

STOCKS

The Post/New sugar ending stocks for MY 2017/18 is forecast to be at 1.0 MMT-RV close to MY 2016/17 ending stocks, however, production, sugar prices and exports under the 2017 Sugar Agreement Amendment (See Policy Section) will determine the final stocks. The Post/New sugar ending stock for MY 2016/17 is revised downward from previous estimates due to higher exports than estimated. These stocks are approximately two-and-a-half months of domestic consumption plus some IMMEX sugar according to CONADESUCA. MY 2015/16 stocks remain unchanged from previous estimates. Most sugar stocks in Mexico are held by mills and traders.

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 onward. The initial fiscal year Export Limit calculation will now be 50 percent of U.S. Needs Calculation based on the July World Agricultural Supply and Demand Estimates (WASDE). 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 promotes ethanol production from different agricultural commodities. There are provisions within the Sugar Law that contain overall goals focused on the possibility of producing ethanol. Almost ten years later, Mexico has not formally introduced ethanol into its commercial gasoline mix. Price fluctuations in both the oil and ethanol markets 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) is still working with the winners of 2015's bidding process (GAIN Report [MX5041](#)) and is scheduled to begin changes on its distribution and storage infrastructure to be able to receive ethanol. Still, some of 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 September 5, 2017, the Mexican Ministry of Energy (SENER) reports that 226 gasoline import permits, totaling almost 80 billion gallons of gasoline are still "valid". SENER indicates that PEMEX is responsible for 99.4 percent of the imported gasoline into Mexico, 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. Whereas before the gasoline price was determined and locked by the Mexican Ministry of Finance (SHCP), now the SHCP determines a daily maximum price.

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. This change has allowed some sales of ethanol-containing U.S. gasoline to Mexico. However, the restriction on the three largest cities remains in place. CRE is in the process of consulting with the private sector and interested organizations to review the NOM and assess how it is currently functioning. CRE is expected to consider proposed changes arising from this process by fall 2017. Public officials and service station operators in the state of Jalisco and elsewhere have called for adoption of E10 throughout the country to create new opportunities for Mexican-produced ethanol.

STATISTICAL TABLES

Table 1. Mexico: Centrifugal Sugar PS&D

Sugar, Centrifugal Market Begin Year Mexico	2015/2016		2016/2017		2017/2018	
	Oct 2015		Oct 2016		Oct 2017	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	860	860	1099	1099	1423	1052
Beet Sugar Production	0	0	0	0	0	0
Cane Sugar Production	6484	6484	6557	6314	6598	6413
Total Sugar Production	6484	6484	6557	6314	6598	6413
Raw Imports	0	0	0	0	0	0
Refined Imp.(Raw Val)	88	88	80	45	80	45
Total Imports	88	88	80	45	80	45
Total Supply	7432	7432	7736	7458	8101	7510
Raw Exports	0	0	0	0	0	0
Refined Exp.(Raw Val)	1280	1288	1171	1311	2114	1300
Total Exports	1280	1288	1171	1311	2114	1300
Human Dom. Consumption	4703	4650	4729	4745	4799	4790
Other Disappearance	350	395	413	350	413	350
Total Use	5053	5045	5142	5095	5212	5140
Ending Stocks	1099	1099	1423	1052	775	1070
Total Distribution	7432	7432	7736	7458	8101	7510

(1000 MT)

Table 2. Mexico: Sugar Cane for Centrifugal PS&D

Sugar Cane for Centrifugal Market Begin Year Mexico	2015/2016		2016/2017		2017/2018	
	Nov 2015		Nov 2016		Nov 2018	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	824	848	824	824	824	824
Area Harvested	801	778	784	777	808	780
Production	54190	54188	54257	53328	55000	54000
Total Supply	54190	54188	54257	53328	55000	54000
Utilization for Sugar	54190	54188	54257	53328	55000	54000
Utilizatr for Alcohol	0	0	0	0	0	0
Total Utilization	54190	54188	54257	53328	55000	54000

(1000 HA) ,(1000 MT)

Table 3. Mexico: Average Wholesale Sugar Prices in Mexico City
MX Pesos per 50 Kilograms – Bulk (CIF Prices)

MONTH	STANDARD			REFINED		
	2016	2017	Percent	2016	2017	Percent
			Change			Change
January	530.75	650.40	22.54	591.25	751.40	27.08
February	560.75	640.75	14.26	602.50	770.00	27.80
March	552.80	637.00	15.23	598.00	780.00	30.43
April	587.50	647.00	10.12	613.75	768.33	25.18
May	585.00	748.00	27.86	615.00	829.73	34.91
June	603.75	807.25	33.70	643.75	848.17	31.75
July	647.50	790.25	22.04	691.25	841.67	21.76
August	710.60	785.20	10.49	744.00	833.47	12.02
September	715.00	816.00*	14.12	754.58	846.00*	12.11
October	709.63			750.00		
November	686.80			741.33		
December	662.00			720.67		

Source: Sistema Nacional de Información e Integración de Mercados [SNIIM-ECONOMIA](#)
*As of 3rd week of September 2017

	2014	2015	2016	2017
January	13.20	14.68	18.02	21.37
February	13.28	14.92	18.47	18.47
March	13.22	15.21	17.69	17.69
April	13.29	15.22	17.49	18.77
May	12.93	15.26	18.09	18.76
June	12.99	15.46	18.12	18.16
July	12.97	15.92	18.58	17.83
August	13.14	16.50	18.47	17.80
September	13.21	16.85	19.16	17.75*
October	13.47	16.58	18.91	
November	13.59	16.63	20.03	

December	14.44	17.03	20.51	
Annual Avg	13.29	15.85	18.62	
*As of third week of September 2017				
Source: Mexican Federal Register Note: Monthly rates are averages of daily exchange rates from the Banco de Mexico				