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GAIN Report

Global Agricultural Information Network

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Mexico

Sugar Annual

Exports Depend on U.S. Sugar Needs

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Report Highlights:

Mexican sugar production for marketing year 2018/19 is forecast to be 6.57 million metric tons raw-value (MMT-RV), although there is not yet an official forecast. Sugar production for MY 2017/18 is estimated at 6.4 MMT-RV, according to new estimates. The sugar export forecast for MY 2018/19 is 1.5 MMT-RV, although there is not yet an official forecast. Export estimates for MY 2017/18 are 1.49 MMT-RV, whereas exports to the United States are expected at 1.1 MMT-RV. Sugar exports were slow at first as the industry was having difficulties in producing the polarity needed in the United States, but have adjusted.

Executive Summary:

Sugar production in Mexico is produced in 15 states with 51 sugar mills. There are approximately 150,000 sugarcane growers and 100,000 seasonal cutters generating about 450,000 direct jobs. Growers are organized within two major unions that represent over 95 percent of all cane growers. This is a very important commodity for Mexico as it is a key source of jobs in the country side. Initial MY 2018/19 sugar production estimates are 6.57 million metric tons raw value (MMT-RV).

International uncertainties, the fluctuation of the Peso against the Dollar, and international price fluctuations discourages 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 sugar versus refined sugar to export to the United States. As exports for MY 2017/18 was the first year under this agreement, sugar exports were slow at first as the industry had difficulties producing the polarity needed, as few mills can produce that specific type of sugar. Initial MY 2018/19 exports estimates are 1.5 MMT-RV, but this amount will depend on sugar production and needs under the new 2017 U.S./Mexico sugar agreement.

Domestic sugar consumption for MY 2018/19 and MY 2017/18 is expected to be slow. Inflation for 2018 is forecast at about 3 to 3.5 percent, less than 2017 inflation, therefore, sources expect sugar consumption to grow slightly. Initial MY 2018/19 consumption estimates are 4.77 MMT-RV.

Commodities:

Sugar Cane for Centrifugal

Sugar, Centrifugal

PRODUCTION

Sugar

There is not yet an official forecast for sugar production for marketing year (MY) 2018/19 (October/September). Sources believe weather has been beneficial for sugar production. Initial Post/New sugar production estimates are 6.57 million metric tons raw value (MMT-RV), as area planted with cane is expected to be similar to MY 2017/18 area planted. Final production will depend on 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 National Committee for the Sustainable Development of Sugar Cane (CONADESUCA), the [2nd estimate](#) for sugar production announced on February 2, 2018 for MY 2017/18 is 6.4 MMT-RV where mill yields are expected at 11.25percent (See Table 1. Therefore, the Post/New estimate is revised downward from previous estimates. Untimely rainfall has delayed harvesting in some areas. The recent Advance Report # 20 from March 24, 2018 indicates that there is an accumulated deficit of sugar production of 212,250 MT-Actual Weight (224,985 MT-RV) compared to the 2nd estimate of sugar production. Fifty-one sugar mills are operating in the country for MY 2017/18. According to official sources, Mexico is not producing organic sugar on a commercial basis. There are approximately 150,000 sugarcane growers and 100,000 seasonal cutters generating about 450,000 direct jobs.

According to CONADESUCA's Advance Report # 20 for MY 2017/18, area harvested has advanced 62 percent, milled sugarcane 67 percent, and sugar production 66 percent compared to the organization's 2nd estimate. Official production estimates in Mexico for MY 2016/17 remain unchanged from previous estimates.

	Area Harvested (Has)	Milled cane (MT)	Sugar production (MT-Actual weight)	Sugar w/> 99.2 pol. *	Mill Yield %
Current MY 2017/2018	487,418	36,114,694	4,021,758	510,777	11.14
2nd. Estimate 2017/18	526,305	37,649,694	4,235,008	572,907	11.25

Source: CONADESUCA Report #20 for 2017/18
* Sugar with a polarization of less than 99.2 mainly to export to the U.S. under the 2017 new suspension agreement rules.

Growers are organized within two major unions that represent over 95 percent of all cane growers. These unions are the National Sugar Cane Growers (affiliated with the Confederacion Nacional Campesina- a strong organization of peasants/small agricultural producers that is very close to the ruling PRI (Partido Revolucionario Institucional) Party) and the National Association of Sugar Cane Growers (CNPR), both strong organizations supported by the government. All growers operate under contracts to deliver their cane to contracting mills. In exchange, they receive technical support and agrochemicals

from the mills to grow cane. The industry has been fostering better working relationships between mills and sugar cane grower associations to better integrate overall sugar production.

Sugar Cane Production

There is no official Mexican forecast for sugar cane production for MY 2018/19, but based on past performance, the Post/New forecast of cane to be processed is 53.8 MMT. International uncertainties, the fluctuation of the Peso against the Dollar, and international price fluctuations discourages large expansion of production area in some regions. Post/New area planted for MY 2018/19 is forecast to continue at 840,000 hectares.

Post/New estimates for area planted for sugar cane for MY 2017/18 are revised upward to 840,422 hectares from previous estimates based on official data. According to CONADESUCA, sugar cane production to be processed for MY 2017/18 is lower than previously estimated; therefore, the Post/New estimate is revised down to 53.7 MMT from previous estimates. According to the last Advance Report # 20 there is a slowdown of about 1,535,000 MT of sugar cane compared to the 2nd estimate of sugar production, due to untimely rainfall that prevents harvesting. Yields are expected to be at 69.08 MT/Ha. Sugar cane Post/New production estimates for MY 2016/17 are revised slightly downward based on official information. Area planted and harvested data for MY 2016/17 remain unchanged.

As previously reported, virtually all sugar cane goes to the production of centrifugal sugar. Mills operate between November and May to coincide with the cane harvest. According to the Secretariat of Agriculture's (SAGARPA) Agri-food and Fishery Information Service (SIAP), area planted data includes area planted in past marketing years, as well as any new planted area, since the growing phase of this crop is approximately 18 months. In addition to sugar prices, area expansion will depend on weather conditions, production cost changes, and the level of continued investment by sugar mills.

Sugar Cane Reference Price

Cane growers receive payment for their cane from sugar mills. The price is negotiated each year and is based on a complex formula involving sugar prices and other domestic and international market conditions. These factors are used to determine the Sugar Cane Reference Price. According to Article 58 of the [Law of Sustainable Development for Sugar Cane](#), approximately 57 percent of the Reference Price is paid to growers for their sugar cane. Throughout the year, depending on how high or low prices are, two additional payments can be made to growers. The first opportunity is during the summer after mills have made significant sales. At the end of the cycle, a final adjustment is made, resulting in the next marketing year's Sugar Cane Reference Price and a potential final payment to growers.

As announced by the Secretariat of Economy (SE) on October 31, 2017, the standard sugar reference price to calculate sugar cane payments for the MY 2017/18 crop is \$13,283.64 pesos per MT (\$707.70 dollars/MT at \$18.77 pesos per dollar exchange rate). This price is slightly higher compared to the one announced for the past MY 2016/17 of \$11,077.76 pesos per MT (\$591.44 dollars/MT at \$18.73 pesos per dollar exchange rate). The following reference prices are the initial ones announced at the beginning of each marketing year.

**Table 2. Mexico: Reference Price for Sugar Cane
MY2013/14-MY2017/18**

Sugar cane MY Oct./Sept.	Standard Sugar Price in MT/Peso	Standard Sugar Price in MT/Dollar	57 % Payment for Growers in Dollars	Exchange Rate in Pesos per Dollar
2013/14	6,697.00	\$511.22	\$291.39	13.10
2014/15	7,099.93	\$517.10	\$294.74	13.73
2015/16	8,130.65	\$486.86	\$277.51	16.70
2016/17	11,077.76	\$591.44	\$337.12	18.73
2017/18	13,283.64	\$707.70	\$403.38	18.77
Source: Diario Oficial				

Sugar Wholesale Prices

The SE, through the National Market Information Service ([SNIIM](#)), reports sugar prices on a monthly basis delivered to various cities in Mexico from different mills. (The prices in Table 5 and 6 below are for monthly prices of sugar delivered to the wholesale market in Mexico City on a 50-kilogram bag basis.) According to the industry, higher prices after the month of April/May 2017 reflect the end of the harvesting season. In fact, higher prices have affected bottling companies who are increasing soda prices for the final consumer. November sugar prices have a tendency to go downward reflecting the beginning of a new cycle. However, sugar prices are now responding to lower/higher sugar supplies, to prices in sugar Contract 16 (futures) and also to the exchange rate fluctuations. Also, prices are reflecting the sugar mills own policy of selling sugar at slower speed depending on their needs, and as they fulfill international contracts.

High Fructose Corn Syrup (HFCS)

The Mexican high fructose corn syrup (HFCS) industry believes 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 2017/18 is at 524,626 MT dry basis, whereas production for MY 2016/16 production was 516,399 MT dry basis. These levels are nearly at the industry's maximum capacity. Industry members indicate that there is no additional HFCS manufacturing capacity being built or expanded in Mexico. Sources report that as long as HFCS prices remain competitive, it is easier and more financially prudent to import the remainder of the HFCS demand.

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 import suppliers. (See Gain Report [MX7007](#) Grain and Feed Annual).

CONSUMPTION

Sugar and HFCS

Based on current pricing trends for sugar and inflation forecast for 2018 of 3 to 3.5 percent, less than 2017 inflation, the sugar consumption for MY 2018/2019 is expected to grow to about 4.77 MMT-RV. The sugar industry expects sugar consumption for MY 2017/18 to decrease as a result of a slower economic growth and a relative deterioration of the consumer income. Inflation in Mexico for 2017 was high at about 6.7 percent. The Post/New forecast for domestic consumption for MY 2017/18 is revised downward from previous estimates to 4.72 MMT-RV based on official sources. Sources indicate that sugar prices have been responding to the exchange rate fluctuations. Consumption will also depend on the substitution of sugar with HFCS. The Post/new sugar consumption estimate for MY 2016/17 is revised slightly upward from previous estimates due to more demand than expected.

Substitution between HFCS and sugar has been steady, as industries have been using HFCS in similar amounts over the last two years, including the largest user of HFCS- soda bottlers. Consumption for MY 2017/18 is estimated at 1.570 MMT dry basis, marginally upward from MY 2016/17 consumption of 1.521 MMT dry basis. This volume of HFCS represents about 20 to 25 percent of total domestic sweeteners consumption. HFCS consumption depends on domestic sugar prices, imported corn and HFCS prices, and exchange rates.

TRADE

Sugar and HFCS

There is not yet an official forecast for sugar exports MY 2018/19 as this will depend on sugar production and the needs of sugar under the new 2017 U.S./Mexico sugar agreement. However, the initial forecast is close to the previous marketing year or 1.5 MMT-RV. The Post/New sugar export forecast for MY 2017/18 is lower compared to previous estimates or 1.49 MMT-RV, based on official estimates. This export forecast is tentative and will tend to change depending on production, U.S. and international sugar and sweeteners (HFCS) prices, and exchange rates. Exports to the United States are expected at 1.1 MMT-RV. Sugar exports, however, were slow at the beginning of the cycle since this is the first year of the new 2017 agreement. Mills were having difficulties in producing the polarity needed in the United States. Based on the new 2017 U.S./Mexico sugar agreement amendments, Mexico is shipping 70 percent of sugar that has to be 99.2 polarity or less. The sugar agreement amendments reduce the percentage of refined sugar that may be imported into the United States from 53 percent to 30 percent. Since the mills have a quota to cover for export purposes, CONADESUCA believes the mills are negotiating sugar swaps between them to cover the polarity on sugar to be exported, as not all the mills can produce that specific type of sugar. Post/New sugar exports estimates for MY 2016/17 are adjusted downward, based on official data. Up to March 18, 2018, Mexico has exported under the Sugar Agreement with the United States 482,700 MT-RV from a total of exports of 598,785 MT-RV including IMMEX (Mexican Sugar Re-export Program) sugar.

The peso's continued fluctuation against the U.S. dollar is helping trade as exports are more profitable for Mexico due to exchange rates. However, imported inputs such as agrochemicals are more expensive.

Formerly, a large portion of imports were used to cover the needs of the Mexican Sugar Re-export Program industries (IMMEX), but modifications to this program (February 5, 2016) does not allow companies to import sugar that benefit from the U.S. Sugar Re-export Program. The domestic sugar industry was expected to cover most of the needs of the industry at the border that needed sugar for specialty products. This is the reason why sugar imports for MY 2016/17 were revised downward from previous estimates, as imports under IMMEX program were not allowed. However, MY 2017/18 imports increased to 127,000 MT-RV. The government believes that about 10,000 MT are special quality to produce some chocolates and sweets, also, the tequila industry imports some sugar for their products and a company is importing to produce refined liquid sugar. However, CONADESUCA believes that most sugar imports were to take advantage of higher prices in Mexico. There is not yet an official forecast for sugar imports for MY 2018/19 as this will depend on sugar production, special quality needs from the industry, and sugar prices in the domestic market. The initial forecast is estimated at 70,000 MT-RV as the domestic market prices could not be as attractive as last MY 2017/18.

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 similar to MY 2017/18 use as the maquila industries are not changing output significantly. The MY 2017/18 Post/New estimate for sugar use under IMMEX remains unchanged from previous estimates based on official data. Some of the sugar for this purpose was sold by the mills and not imported. The Post/New estimate for sugar use under IMMEX for MY 2016/17 is revised downward as specialty products manufacturing did not increase as expected.

Imports of HFCS for MY 2017/18 are expected at 1.0 MMT dry basis similar to MY 2016/17 imports as usage by the industry is not expected to change much. 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 which help with exchange rate fluctuations. The soda industry has been using around the same amount of product in their products.

STOCKS

The Post/New sugar ending stock forecast for MY 2018/19 is 1.05 MMT-RV. However, production, sugar prices and exports under the 2017 Sugar Agreement Amendment will determine the final stocks. Ending stocks for MY 2017/18 are likely to end up at 1.03 MMT-RV, higher than previously estimated due to a lower consumption and a lower volume of exports. These stocks are approximately two-and-a-half months of domestic consumption plus some IMMEX sugar according to CONADESUCA. The Post/New ending stock estimate for MY 2016/17 remains unchanged at 1.06 MMT-RV. 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 amendments apply 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 WASDE (World Agricultural Supply and Demand Estimates). For additional information see <https://www.commerce.gov/news/press-releases/2017/07/us-mexico-sign-final-amendments-sugar-suspension-agreements>

Ethanol Production

Mexico's Biofuels Law from February 1, 2008, contains a comprehensive biofuels policy that is intended to promote ethanol production from different agricultural commodities. Also, there are provisions within the Sugar Law that contain goals on the possibility of producing ethanol. However, 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 are not currently producing ethanol, so no immediate ethanol deliveries are expected in the short term.

On the other hand, the Mexican government implemented the liberalization of commercial fuels as of January 19, 2018. PEMEX is responsible for 98.3 percent of the imported gasoline into Mexico (771 billion gallons in January 2018). The Secretariat of Energy (SENER) reports that 264 gasoline import permits, totaling over 75 billion gallons of gasoline are still valid. This indicates that imports by private companies are almost insignificant and many of the permits are yet to be used. According to sources, this is a result of the lack of infrastructure and associated costs with imports, transportation, and distribution. SENER data indicate that diesel imports by PEMEX are 85 percent, demonstrating that private companies are importing more product. Gasoline price in Mexico was set by the Secretariat of Finance (SHCP), but on December 1, 2017, price was liberalized and consumers can now compare fuel prices as gas stations must have them visible and price can be found at web pages.

In October 29, 2016, the Energy Regulatory Commission (CRE) implemented new gasoline specifications in the Mexican Official Norm, NOM-016 allowing the use of up to 5.8 percent of ethanol as an oxygenate in gasoline. However, this new gasoline cannot be used in the largest cities of Mexico: Mexico City, Guadalajara, and Monterrey. 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. A subsequent lawsuit has limited some companies' ability to sell E10 in the rest of Mexico as well, maintaining the 5.8 percent limit while CRE contests the lawsuit in the Mexican court system. Meanwhile, CRE has been consulting with the private sector and organizations to review the NOM and how it is currently functioning. Presently, the state of Nuevo Leon has requested the removal of the ban on ethanol in Monterrey, and Jalisco could do the same for Guadalajara. If this turns out to be positive, the ethanol market in Mexico would increase as well as the interest of Mexican companies in establishing ethanol plants.

STATISTICAL TABLES

Table 3. Mexico: Centrifugal Sugar PS&D

Sugar, Centrifugal Market Begin Year Mexico	2016/2017		2017/2018		2018/2019	
	Oct 2016		Oct 2017		Oct 2018	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	1099	1099	1062	1062	0	1031
Beet Sugar Production	0	0	0	0	0	0
Cane Sugar Production	6314	6314	6466	6418	0	6570
Total Sugar Production	6314	6314	6466	6418	0	6570

Raw Imports	0	0	0	0	0	0
Refined Imp.(Raw Val)	125	51	101	127	0	70
Total Imports	125	51	101	127	0	70
Total Supply	7538	7464	7629	7607	0	7671
Raw Exports	0	686	0	860	0	860
Refined Exp.(Raw Val)	1287	584	1547	637	0	640
Total Exports	1287	1270	1547	1497	0	1500
Human Dom. Consumption	4769	4786	4857	4729	0	4770
Other Disappearance	420	346	350	350	0	350
Total Use	5189	5132	5207	5079	0	5120
Ending Stocks	1062	1062	875	1031	0	1051
Total Distribution	7538	7464	7629	7607	0	7671
(1000 MT)						

Table 4. Mexico: Sugar Cane for Centrifugal PS&D

Sugar Cane for Centrifugal Market Begin Year	2016/2017		2017/2018		2018/2019	
	Nov 2016		Nov 2017		Nov 2018	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Mexico						
Area Planted	824	824	824	840	0	840
Area Harvested	777	777	780	778	0	780
Production	53328	53308	54000	53759	0	53800
Total Supply	53328	53308	54000	53759	0	53800
Utilization for Sugar	53328	53308	54000	53759	0	53800
Utilization for Alcohol	0	0	0	0	0	0
Total Utilization	53328	53308	54000	53759	0	53800
(1000 HA) ,(1000 MT)						

Month	Standard			Refined		
	2016	2017	Percent Change	2016	2017	Percent 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	815.75	14.09	754.58	845.17	12.00

October	709.63	790.40	11.38	750.00	836.00	11.46
November	686.80	798.25	15.97	741.33	829.42	12.02
December	662.00	782.25	18.16	720.67	819.59	13.72
Source: Servicio Nacional de Información de Mercados SNIIM-ECONOMIA http://www.economia-sniim.gob.mx/Sniim-an/e_SelAzu.asp?						

Table 6. 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	768.50	(1.47)
April	647.00	700.00*	8.19	768.33	783.44*	1.96
May	748.00	N/A	N/A	829.73	N/A	N/A
June	807.25	N/A	N/A	848.17	N/A	N/A
July	790.25	N/A	N/A	841.67	N/A	N/A
August	785.20	N/A	N/A	833.47	N/A	N/A
September	815.75	N/A	N/A	845.17	N/A	N/A
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? *Through 3rd week of April 2018						

Table 7. Mexico: Monthly Exchange Rate Averages for 2015-2018 MX Pesos per U.S. \$1.00				
Month	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	18.20*
May	15.26	18.09	18.76	
June	15.46	18.12	18.16	
July	15.92	18.58	17.83	
August	16.50	18.47	17.80	
September	16.85	19.16	17.81	
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 3 rd week of April, 2018				
Source: Mexican Federal Register Note: Monthly rates are averages of daily exchange rates from the Banco de Mexico				