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Mexico

Grain and Feed Annual

2016 Grain and Feed Annual Mexico

Approved By:
David Wolf

Prepared By:
Benjamin Juarez

Report Highlights:
The marketing year (MY) 2016/17 corn production is forecast at 22.6 MMT with harvested area estimated at 6.95 million hectares. Some forecasters predict the El Nino weather pattern could affect the MY 2016/17 corn crop. MY2016/17 corn imports are forecast to increase approximately 4.3 percent to 12 MMT driven by strong demand from Mexico's livestock and industrial use sectors. Post/New MY2016/17 production forecasts are up for wheat and sorghum at 3.9 MMT and 6.9 MMT respectively, while rice production is forecast at 240,000 MT (rough production). The strength of the U.S. dollar continues to be a major headwind against the Mexican peso.

Commodities:

Wheat

Corn

Sorghum

Rice, Milled

Production:

Wheat:

For MY2016/17 (July to June) Post/New total Mexican wheat production is forecast to increase to 3.9 million metric tons (MMT). This increase of approximately 3.7 percent assumes favorable weather conditions and normal yields in the key wheat areas of Northwest Mexico (Baja California and Sonora) for the 2015/16 fall/winter crop cycle.

Unlike last year's crop, when adverse weather conditions negatively affected the harvest and yields in the main producing state of Sonora, this year's wheat production has benefited from relatively favorable weather conditions and sufficient water availability in the reservoirs and dams used for irrigation. Officials from the Mexico based International Maize and Wheat Improvement Center (CIMMYT) pointed out that wheat requires cool temperatures for its proper development and that has been sufficient this crop year. CIMMYT officials also stated that cooler weather is important during the stage when wheat tillers are developing, as the cereal requires lower temperatures for its growth stage to obtain optimal development. Weather conditions in Baja California the weather conditions registered have also been reported as favorable during the 2015/16 fall/winter crop cycle.

Similarly, Mexico's the National Water Commission (CONAGUA) reported that as of January 20th, 2016, in the state of Sonora, the Alvaro Obregon dam, which caters to the agricultural area in the Yaqui Valley, recorded 82 percent of capacity versus 78.1 percent registered at the same date a year earlier. While the Adolfo Ruiz Cortines dam, which irrigates farmlands in the Mayo Valley, registered 69 percent capacity against 64.5 percent at the same date of 2015. The Plutarco Elias-Calles dam, which is the second largest reservoir in size (2.96 million cubic meters of storage capacity), has met the growing demand generated by the agricultural region of the coast of Hermosillo, having recorded 91.9 percent capacity versus 70.6 percent, on the same date last year. According to SAGARPA data, nearly 84 percent of the wheat planted area nationwide is irrigated.

Based on available official information from the Secretariat of Agriculture, Livestock, Rural Development, Fisheries and Food (SAGARPA), during marketing year 2015/16, approximately 111,000 MT of wheat seed was sowed, while in MY 2014/15 wheat farmers used 107,000 MT of wheat seed. Because most of the wheat production in the major growing regions is irrigated, average yields are expected to remain steady at around 5.1 MT/ha.

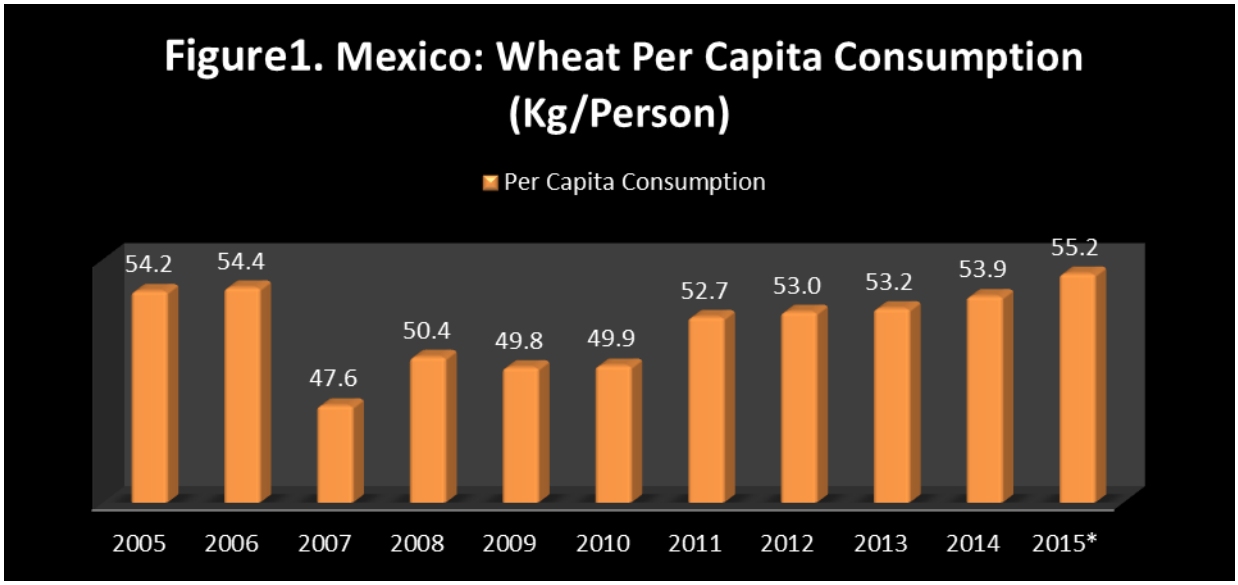
The majority of the wheat grown in the north and northwestern states of Baja California (i.e. Mexicali Valley and San Luis Rio Colorado) and Sonora apply advanced production technology methods to their crops similar to those used in the United States. Sonora continues to be the main wheat producing state

with approximately 48 percent of total wheat production, followed by Baja California, which contributes 16 percent, and Guanajuato with 12 percent. Durum wheat continues to be the principal crop in Sonora and Baja California.

Private sources indicate that despite some efforts by the Mexican government to encourage planting of more wheat milling and soft varieties instead of durum, farmers have continued cultivating the durum variety. Numerous wheat producers have stated that durum yields are higher than for bread wheat varieties in the desert regions of Baja California and Sonora, making it the varietal choice for farmers. Similarly, private sources stated that this trend of increased acreage and production is expected to continue provided there are no water shortages and as long as the Forward Contract Program continues (see corn Policy section).

Consumption:

Mexico's consumption is expected to increase slightly in MY2016/17 due in part to population growth and the continued popularity throughout Mexico for bread products and the interest among consumers for other types of wheat-baked goods. The Mexican Millers Association (CANIMOLT) has stated that wheat consumption is expected to grow in to the next decade, driven by population growth and higher per capita consumption.



*** Estimated**
Source: Elaborated with SIAP-SAGARPA-CONAPO and USDA official data.

CANIMOLT also points out that consumption preference for bread products in Mexico have changed in the last couple of years from sugarloaf and cakes to white bread. The main factors that have motivated these changes have been Mexican Government campaigns against obesity. , According to the World Health Organization 70 percent of the Mexican population is considered overweight and 33 percent obese. Another factor for the change in preferences has been the Special Tax on Production and Services (IEPS). This tax which took effect in 2014 is applied to sugared items and products with high caloric content. For example, IEPS taxes products such as sugarloaf, cookies, stuffed pastas, cakes and pastries (see 2013 GAIN Report MX3309 Conditions of Proposed 2014 Value Added Tax in Mexico).

According to the National Association of Professional Suppliers Industry of Bread, Bakery and Similar Products (ANPROPAN), bread is a staple in the Mexican diet, with per capita consumption at 34 kilos per year, of which 70 to 75 percent is white bread consumption.
Based on most recent available data from CANIMOLT, Mexico has 84 different millers located across the country that process approximately 8.31 MMT of wheat and produce 4.8 MMT of flour each year. In 2014 for example, the milling industry consumed approximately 6.5 MMT of wheat, which was used to manufacture 4.8 MMT of flour and meal and 1.6 MMT of bran (a byproduct of the wheat milling process). The remaining byproducts are consumed by the livestock sector. The millers have a capacity of approximately 8.316 MMT of production. CANIMOLT stated the wheat milling industry has continued to consolidate in the last few years through the acquisitions and fusions of some millers. At the same time, wheat milling companies have continued to invest in modernizing their plants. As a result, the wheat flour mill industry output has continued growing at an average rate of between 1 and 1.5 percent annually.

The Post/New feed consumption estimate for MY2016/17 is forecast to increase to 450,000 MT. Sources state that due to favorable prospects in the domestic hog sector, including the possibility of increased pork exports to Japan (see Sorghum Consumption section), feed manufactures could increase the use of domestic durum in feed rations because of the higher nutritional value.

Trade
The Post/New total wheat import forecast for MY2016/17 is estimated to increase slightly to 4.45 MMT from MY 2015/16, due to higher demand for imported varieties used to make bread wheat. Private analysts expect that the proportion of domestic durum production (or "*cristalino*") will be slightly higher in MY2016/17, compared to the previous year. As result, Mexican millers could increase their demand for imported wheat of various varieties for milling, especially soft wheat varieties.

The Post/New wheat import estimate from the United States for MY2015/16 is based on private traders' information and preliminary official data from official government statistics covering the first seven months of the marketing year. Private sources stated that price and quality continue to be the main factors that decide import sources. As a result, private analysts indicated that many Mexican millers in MY2015/16 have been sourcing wheat from non-traditional suppliers such as Ukraine, Russia and France, as they have said to have found the right balance between price and quality. However, this trend could reverse slightly in MY 2016/17 as several Mexican millers who imported US wheat in the past could return to US origin due to, among others things, better logistical arrangements and reliable supplier advantages. According to private trade sources, some Mexican millers had quality issues with some of their wheat suppliers from the non-traditional origins. In light of this fact, Post/New MY2016/17 wheat imports from the U.S. are forecast to increase to approximately 3.2 MMT.

Post/New MY2016/17 wheat exports are forecast to increase slightly to 1.15 MMT assuming a relatively neutral to slightly bullish international wheat market.

Stocks
For MY 2016/17, the Post/New ending stocks forecast is estimated to increase to 635,000 MT, due primarily to an increase in domestic production.

Production, Supply and Demand Data Statistics:

Table 1: Mexico Wheat Production, Supply and Demand for MY2014/15 to MY2016/17

Wheat	2014/2015		2015/2016		2016/2017	
Market Begin Year	Jul 2014		Jul 2015		Jul 2016	
Mexico	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	707	707	818	818	0	775
Beginning Stocks	316	316	495	495	0	555
Production	3687	3687	3760	3760	0	3900
MY Imports	4446	4446	4400	4400	0	4450
TY Imports	4446	4446	4400	4400	0	4450
TY Imp. from U.S.	3065	3065	0	2800	0	3200
Total Supply	8449	8449	8655	8655	0	8905
MY Exports	1104	1104	1100	1100	0	1150
TY Exports	1104	1104	1100	1100	0	1150
Feed and Residual	400	400	400	400	0	450
FSI Consumption	6450	6450	6600	6600	0	6670
Total Consumption	6850	6850	7000	7000	0	7120
Ending Stocks	495	495	555	555	0	635
Total Distribution	8449	8449	8655	8655	0	8905
(1000 HA) ,(1000 MT)						

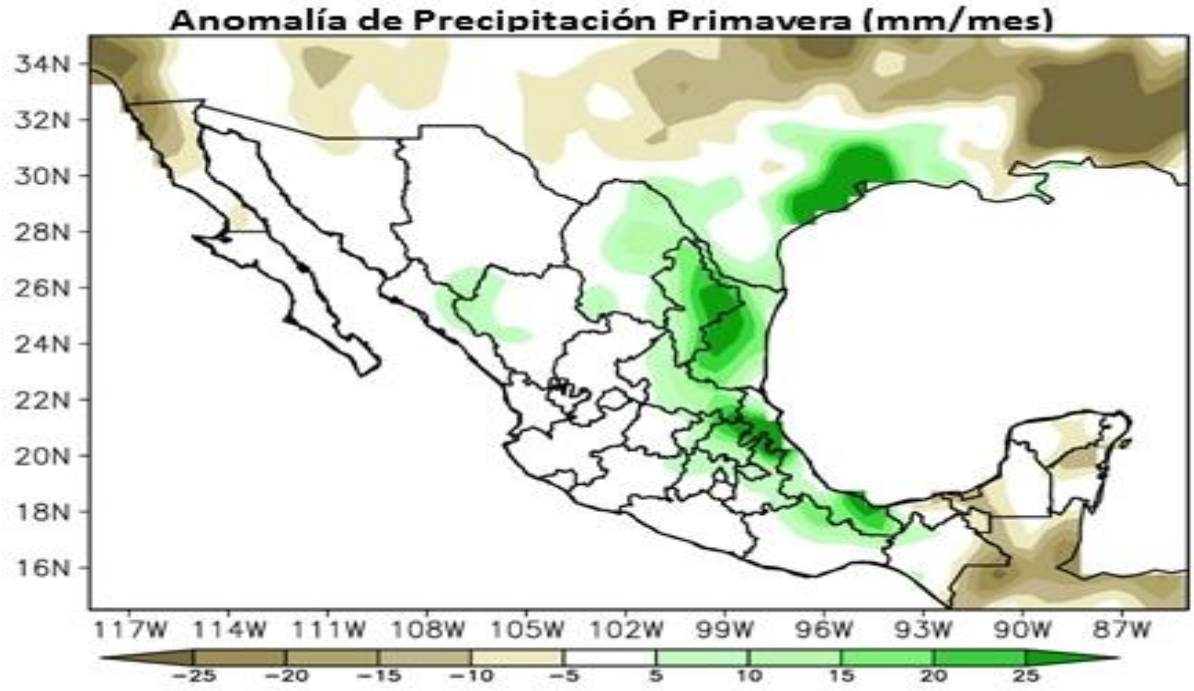
Corn

Production

The Post/New MY2016/17 (October to September) corn production forecast is 22.6 MMT with harvested area estimated at 6.95 million hectares (ha.). The slightly lower harvested area forecasted, compared to the previous two years, responds to concerns that the "El Niño" weather phenomenon could have on the crop. Some official sources are anticipating that El Niño (El Niño Southern Oscillation event - ENSO -) could take place in the upcoming 2016 spring/summer crop cycle. At the same time, the World Meteorological Organization (WMO) stated the 2015-2016 ENSO was expected to be one of the three most powerful ENSO events since 1950 with lingering weather effects that could last for up to eight months.

Official sources anticipate that if these climatological forecasts take place, we should expect reduced summer rainfall in Mexico's central highlands, and even a risk of more severe drought conditions resulting in lower crop yields. The following CONAGUA map spells out their projection of summer precipitation anomalies, in the event an intense El Niño climate phenomenon takes place in the spring of 2016. Although now only projections, but if they do hold true a significant reduction in rainfall could be expected across most of central Mexico, though some areas in the southern part of the country would likely get more rainfall than normal.

Figure 2.POSSIBLE RAINFALL ANOMALY IN THE SPRING OF 2016 (mm/Month)



Source: CONAGUA

Official sources indicated that historical analysis combined with greater climatological understanding shows that many of the worst droughts and floods in Mexico have been associated with ENSO events. On the other hand, some official and private sources have insisted that is still too premature to anticipate an extreme ENSO event during the 2016 spring/summer crop cycle.

The Post/New corn production estimate and area harvested for MY2015/16 have been revised upward to 24.0 MMT and 7.1 million hectares, respectively, from USDA/Official figures, based on updated official data from SAGARPA. Official sources stated that results for the 2015/16 fall/winter crop cycle are anticipated to be better than previously estimated due to higher planted area and favorable weather conditions. For example, based on SAGARPA figures, as of January 31, 2016, approximately 62,000 more hectors of corn were planted in Sinaloa than initially estimated. With this increase in planted area and favorable weather conditions, corn production is expected to reach approximately 5.6 MMT in Sinaloa instead of 5.1 MMT that was initially forecast by SAGARPA and private sources. Sinaloa continues to be the main corn producing state in the Northwest Region of Mexico.

The average yield for the MY 2016/17 corn crop in Mexico is forecast at 3.229 MT/ha. However, yields continue to vary significantly throughout the country, depending in large part on the level of technology used. For example, on average, Sinaloa has yields similar to those obtained in the United States due to the advanced farming technology methods used by the growers of this state.

On the other hand, there are a large number of small scale producers of low-income, without proper organization that have a culture rooted in traditional cultivation practices and techniques. These small growers often lack training, are without access to information and commercial services, have limited access to risk management instruments, or no funds available to market their crops.

Corn continues being, by far, the most important agricultural commodity in Mexico, both in terms of production and consumption (it is considered a food staple). In addition, corn is produced in all regions of Mexico in a wide range of agro-climatically diverse conditions by growers who differ widely in resource capabilities, managerial structures and technical skills. Sinaloa and Jalisco are the two main white corn producing states. Corn is grown throughout the year during two seasons: spring-summer (April-March) and fall-winter (October-September).

Approximately 73 percent of Mexican corn is obtained from the spring-summer season and 83 percent of the corn is produced from dry land farming. The 2015 spring/summer crop (harvested mainly the last part of November and December 2015), was reported of good quality due to favorable weather conditions.

According to private sources, one of the critical factors that would allow for substantial increases in the production of corn and other grains, without increases in planted area, would be the use of hybrid seeds and better application of appropriate cultivation technology packages. In the case of corn, it is estimated that only 25 percent of total planted area uses such seeds and technology. At the same time, the high yields gleaned in the northern regions (i.e. Sinaloa, Chihuahua and Sonora) does not necessarily mean that competition is resolved between other countries. For example, grain production costs in some regions of Mexico are still too high to competitively compete with the US farmers.

Official sources stated that there are still a number of constraints in the production and marketing of basic grains in Mexico, among others: the lack of organization and training of farmers; lack of access to commercial information in real time and the latest information about new technologies. The absence of strategic production planning according to market demands that affect increases in marketing costs is another production constraint in Mexico.

Other factors, according to sources, that explain the issues related to the effective marketing of corn and coarse grains:

- Deficiencies in commercial services, among others, insufficient and/or inadequate storage infrastructure and maintenance.
- Lack of equipment and a single standard for determining quality and classification of commodities.
- Inadequate communication channels.
- Deficiencies in access to roads to agricultural areas where the product is harvested for collection and marketed as well as for distribution toward processing, and consumption centers, which cause financial and transportation costs above market levels.

The impact of climate change has already been noted in the Mexican agricultural sector, particularly in the area of grains production. Some of the more significant productivity impacts are related to their geographical positions. For example, the central and northern territories are particularly vulnerable to increased frequency and severity of drought conditions that are accentuating the negative effects on agricultural productivity in Mexico.
In contrast, in the south-east region, rainfalls are now arriving with greater intensity and concentration during the rainy season, derived especially from tropical depressions and hurricanes that hit Mexico's coasts.

The Mexican Government still does not allow issuing of permits for the commercial domestic cultivation of genetically engineered (GE) corn due to a federal judge, who in September 2013, effectively suspended the plantings of all GE corn in Mexico by placing a provisional injunction against all such plantings. After more than two years, there still is no clear timeline for solution. (See 2015 GAIN Report MX5028 Agricultural Biotechnology Annual Mexico).

Consumption

The Post/New total consumption estimate for MY2015/16 has been revised upward from USDA/Official figures, based on information from private sources. Feed consumption is expected to shift somewhat from sorghum to corn, due to lower than previously estimated domestic sorghum production.

For MY2016/17 total corn consumption is forecast to increase 1.6 percent compared to the previous year. This increase is expected to be driven mainly by the expansion in the Mexican livestock and poultry sectors and other food industries such as starch, cereal and snacks.

Regarding feed consumption, animal feed industry sources indicated that during 2014 its industry performed favorably, gaining 3.3 percent in output growth, a figure not seen for several years. Factors such as better control or elimination of some diseases that had negatively affected the livestock industry in the past; affordable prices for main raw materials (i.e. coarse grains); and more favorable prices paid to livestock producers, were all incentives to produce more meat, milk, and eggs. As a result, Mexican animal feed production reached 30.1 MMT in 2014. This consolidated Mexico's ranking as the fourth largest animal feed producer in the world. This trend continued in 2015. The animal feed industry estimated feed consumption growth at approximately 3.5 percent.

However, for 2016, the Mexican animal feed industry stated that with a highly "dollarized" industry like theirs, the effects of the exchange rate on production costs could be reflected immediately. They stated that a long term adverse exchange rate, even with well-managed risk, could force the animal feed industry to transfer costs to their clients, who in turn most likely would transfer their costs to the final consumer, with a subsequent undesirable effect on inflation. Industry sources stated that they were concerned about the eventual rises in transportation and imported raw materials costs, due to the dollar strength. But, at the same time, the animal feed industry foresees that Mexico's animal production has favorable expectations in almost all sectors, especially for poultry, swine, and beef production. These expectations are based on favorable domestic demand and improved productivity. Both factors are by themselves the driving force that should stimulate production of the animal feed industry in Mexico which could increase between 2.0 and 2.5 percent in 2016.

In the case of the poultry sector, which continues to be the major user of feed grains in Mexico, the perspective for 2016 is optimistic. According to the National Union of Poultry Farmers (UNA), the Mexican poultry industry, as a whole, estimates it will grow by 3 percent in 2016. The Association noted that the sector continues its recovery. For example, last year the poultry sector produced 5.8 MMT of food production, of which 3.1 MMT was poultry meat and approximately 2.7 MMT were eggs. Poultry production increased 5.6 percent compared to the level achieved in 2014, while at the same time, the poultry egg industry sector grew 2 percent compared to 2014.

Over the past two years per capita poultry meat consumption increased by 1.5 kilos with per capita consumption last year reaching 27 kilos. For 2106, poultry production is expected to reach 3.2 MMT,

meaning that Mexico will remain as the sixth largest producer of chickens worldwide. Data for egg production is also encouraging. Growth in egg production is estimated at 3 percent in 2016 and is expected that annual per capita consumption will hit 22.6 kilograms, which is 700 grams above that registered two years ago.

In reference to human consumption, corn continues to be the most important staple crop in Mexico. According to the National Institute of Statistics and Geography (INEGI), corn and tortillas concentrate on average 8.3 percent of total food expenditure of Mexican households, well above the 5.4 and 5.3 percent, respectively, of expenditures allocated to milk and soda; or 4.4 percent for poultry meat and 4.3 percent for beef. However, in the last few years Mexico has experienced a decline in human corn consumption. Private and official sources stated that the main factors behind the weakening demand for white corn comes from the myths that have arisen around over consumption of tortillas.

According to Mexico's Ministry of Health, the myth that even moderate corn tortilla consumption causes weight gain is false. By contrast, removal of corn tortillas from the daily diet reportedly can promote weight gain and obesity, as corn tortillas are rich in fibers that help a person maintain a good digestive system. This is reflected in the figures from the National Health and Nutrition Survey (2012), which noted that while the tortilla consumption per capita in Mexico has fallen nearly 20 percent in the last decade, the prevalence of overweight and obesity has tripled. The other factor that has provoked the reduction in corn tortillas consumption is price increases.

Despite these trends, private sources estimate that the use of corn flour to make tortillas for human consumption has still remained stable over the last few years. It is expected that corn flour use for human consumption could increase marginally in 2016, assuming relatively lower consumer purchasing power due to the slowdown in the domestic economy.

Tortilla Prices

According to the Information System and Market Integration (SNIIM) of the Economy Secretariat, the average price of tortillas nationwide began to increase in February 2106. SNIIM stated that tortilla prices increased up to one peso per kilogram in 14 of 56 cities and urban areas surveyed. These detected increases in tortilla prices range between 1 and 12 percent above the average tortilla prices, when compared to prices reported in December 2015.

Reportedly, the cause of the tortilla price increase is due to the increased corn prices that range from 3,600 pesos to 4,500 pesos per metric ton (196.30 to 240.00 U.S. dollars/MT) and even this year as high as 5,000 pesos per metric ton (245.37 U.S. dollars/MT),; depending on the origin of the corn (i.e. Sinaloa, Jalisco or Durango) and the state where it is sold. According to leadership at the National Union of Industrialists of Dough and Tortillas, there is no shortage of corn; as domestic production is satisfactory to meet demand. However, the leaders noted that large trading companies link the domestic corn market price to the Chicago Board of Trade and this has resulted in prices skyrocketing as the peso faces significant devaluation against US dollar.

Recently, Mexico's Economy Secretary, publically affirmed that there are not substantive elements to justify any increase in the tortilla prices, noting that when comparing corn prices from January 2015 to the same month in 2016, the increase was only 3.0 percent of its value, "which does not justify an

impact on the tortilla price". In addition, the Secretary highlighted the reduction in gas and electricity prices, both important inputs for tortilla production.

Private analysts have warned that, unlike calendar year 2015, when the lowest inflation in history was recorded (2.13 percent) in Mexico; 2016 food prices have put pressure on the general price index, due to concerns about the possible transfer of the strength of the dollar to domestic prices. As a result, it is projected that the general increase in inflation will be greater than 3 percent at the end of 2016. The analysts stated that despite rising commodity prices that could be caused by several factors such as lower domestic supply or adverse weather conditions, the main concern now is higher production input costs including seeds and fertilizers that are mostly imported. As a result, the US dollar remains a major headwind against the Mexican peso.

Trade

The Post/New total corn import forecast for MY 2016/17 is expected to increase approximately 4.3 percent, driven by the strong demand from the livestock and starch sectors. For MY 2016/17, the corn export forecast for Mexico is 300,000 MT's.

The Post/New corn import estimate for MY2015/16 has been revised upward from USDA/Official estimate to 11.5 MMT based on private traders information and preliminary official data from SAGARPA and the General Customs Directorate of the Finance Secretariat (SHCP) covering the first four months of the marketing year. Private traders have stated that Mexican feed grains importers have opted to import higher levels of feed corn instead of sorghum, as the price difference has continued to be favorable to corn in the last few months. Also, these sources indicate that the price of sorghum must be approximately 90 to 92 percent of the price of corn for the poultry industry – the primary consumer of corn and sorghum – to switch. Another factor that has motivated this increase is the lower domestic sorghum production than initially estimated.

According to animal feed industry sources, demand for Distiller's Dried Grains with Solubles (DDGS), a co-product of corn-based ethanol production that is used mainly as an animal feed protein supplement, has been increasing slightly over the last couple years. Its utilization as a feed ingredient is well documented as both an energy and a protein supplement. These sources indicated that DDGS have been regularly used as a substitute for oilseed meal in feed concentrate formulas. However, as international prices of soybean meal have declined, the Mexican feed industry has increased its use of soybean meal. While there is still an increase in imports of DDGS, the pace is relatively lower in 2015 compared to a year earlier. It is estimated that DDGS imports in 2016 could remain mostly unchanged compared with last year (see charts below).

Table 3. Annual Imports of Main Raw Materials by The Animal Feed Industry, 2009-2014* (000 Metric Tons)

	Yellow Corn	Sorghum	Soybean Meal	Dried distiller grain
2009	6,500	2,497	920	1,470
2010	6,600	2,253	898	1,618
2011	7,389	2,324	1,114	1,692
2012	7,409	1,726	1,262	1,404
2013	6,031	1,167	1,231	1,239
2014*	7,314	55	1,450	1,276

Source: Consejo Nacional de Fabricantes de Alimentos Balanceados y de la Nutricion, A.C.

*Preliminary

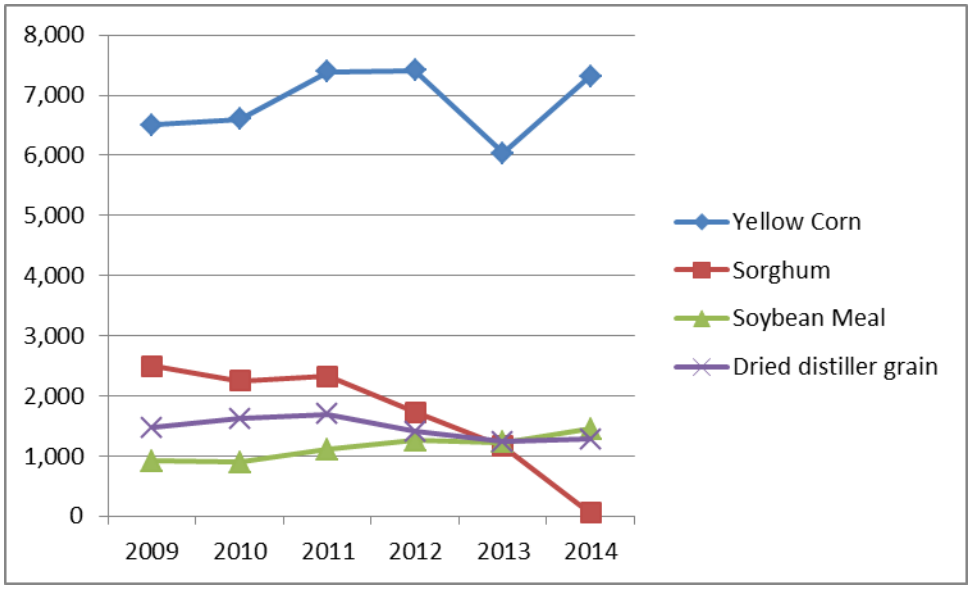


Table 4. Mexico: Production of Feed Ingredients
(000 Metric Tons)

Calendar Year:	2010	2011	2012	2013	2014	2015/e
Compound Feed Capacity	34,000	35.000	35,200	35,670	36,200	37,000
Total Compound Feed Produced	28,124	28,510	28,389	29,090	30,063	31,115
---- by integrated producers	17,691	17,992	17,526	18,055	18,630	19,211
---- by commercial producers	10,433	10,518	10,863	11,035	11,433	11,904
Marketing Year: (000 Metric Tons) Feed Production by type of animal	**2010**	**2011**	**2012**	**2013**	**2014**	**Forecast 2015**
Poultry	14,400	14,613	14,187	14,484	15.040	15,535
Pork	4,300	4,305	4,428	4,600	4.787	4,958
Beef Cattle	3,000	3,157	3,222	3,360	3,399	3,514
Dairy Cattle	4,555	4,504	4,570	4,606	4,686	4,798
Aquaculture	214	207	197	124	171	234

Stocks

Post/New MY2016/17 ending stocks are forecast to decrease to 2.459 MMT, due to a decrease in domestic production. The Post/New ending stocks estimate for MY 2015/16 is higher than the USDA/Official estimate (3.709 MMT) as a result of higher domestic production and imports than previously forecast.

SAGARPA's Food and Fisheries Statistics Service (SIAP) continues to release information about grain and oilseed stocks on its website and called "Availability-Consumption Balance (ACB)". In addition to stock data the ACB includes information on production, import and export as well as domestic consumption.

Policy

PROAGRO

On December 30, 2015, SAGARPA announced in the Mexican Federal Register (*Diario Oficial*) a notice which modifies the operational rules of "PROAGRO Productivo", the Mexican domestic agricultural support program, during the calendar year 2016. This program grants direct supports to growers with farms in operation that appropriately registered in the PROAGRO directory (see 2015 GAIN Report MX5011 "Grain and Feed Annual Mexico")

The notice informs that for the calendar year 2016, PROAGRO Productivo reduces the maximum amount of support per production unit and agricultural crop cycle from 100 to 80 hectares, which is intended to benefit growers of lower acreage and that are located in the municipalities served by the National Crusade Against Hunger - CNCH – (see 2013 GAIN Report MX3005 "Mexico Pushes Crusade Against Hunger Campaign")

In addition, the notice stated that the objective of the PROAGRO Productivo is "support the rural agricultural economic units to increase their working capital". Furthermore, the notice pointed out that "SAGARPA can define (subject to federal budget availability) strategies to reincorporate farmers registered in the PROAGRO directory that are not currently in the Program's target population for not having completed the geo-referencing of their land plots and/or updated their file. Similarly, SAGARPA can incorporate growers who have not been registered in the PROAGRO program, giving priority to subsistence growers that cultivate basic grains and oilseeds."

Under PROAGRO Productivo, a flat rate payment for corn, sorghum, wheat, and rice will be provided to growers for 2016 spring/summer and 2016/2017 fall/winter crop cycles. Also, SAGARPA indicated that the supports will be granted based on the size of the production unit as follows:

- Subsistence (up to five hectares of non-irrigated land and 0.2 hectares of irrigated land)
- Transition (greater than 5 hectares and up to 20 hectares non-irrigated land and greater than 0.2 hectares and up to five hectares of irrigated land), and
- Commercial (more than 20 hectares non-irrigated and more than 5 hectares irrigated).

According to the new operational rules, support will also include subsistence growers with production units up to 3 hectares of non-irrigated land and located in the CNCH municipalities. These growers will receive the largest amount of support payment per hectare or portion of 1,500 pesos (approximately 82 U.S. dollars/ha) for their production units.

For the rest of the country, growers will receive a support payment per hectare or portion of 1,300 pesos (71 U.S. dollars/ha) for production units. They will receive support if they have up to three hectares of non-irrigated land and are located in the municipalities not included in the CNCH, as well as the rest of the production units up to five hectares of non-irrigated land and 0.2 hectares of irrigated land.

Similarly, the production units called "Transition" will receive 800 pesos per hectare (43.62 U.S. dollars/ha.), while the "Commercial" production units will be granted 700 pesos per hectare (38.17 U.S. dollars/ha).

Growers with production units of non-irrigated land and whose acreage is less than one hectare, will receive the support equivalent of one hectare, with certain exceptions. The operational rules state that beneficiaries are required to plant at least the eligible supported area during the agricultural crop cycle.

Also, the rules indicate if weather conditions or natural disasters prevent planting in eligible areas, support may still be granted as long as SAGARPA Delegations submit a written request, accompanied by a technical opinion of the competent authority that endorses the presence of such conditions in the affected areas. This measure shall be subject to federal budget availability.

It should be noted that various grower organizations have argued that to increase the number of beneficiaries in the poorest sectors, the size of the production units should have been limited to only 20 hectares and not 80.

Forward Contract Program

SAGARPA continued to encourage forward contract purchases between farmers and buyers through the "Forward Contract Program", *Agricultura por Contrato*, (see 2008 GAIN Report MX8075 "Mexico Announces Support Program for Sinaloa White Corn").

According to SAGARPA's administrative body called "Marketing Services and Agricultural Market Development Agency" (ASERCA) as of September 30, 2015, 32.72 MMT of various commodities have been supported through the Forward Support Program; mainly corn (white and yellow), sorghum, wheat (bread wheat and durum) and soybeans.

Furthermore, in the first 10 months of 2015, the Program had benefited 195,590 participants (growers and buyers): 187, 748 growers and 7,843 buyers.

ASERCA stated that the Forward Contract Support Program has become the most effective instrument for promoting the marketing of grains and oilseeds, promoting a business culture that includes mechanisms for risk management and income protection for farmers, as well as promoting the system of markets and price control. With these actions and despite the drastic decline in recent months of international grain prices, growers using the program have mostly been protecting their incomes and thus allowing them to continue operating their farm business.

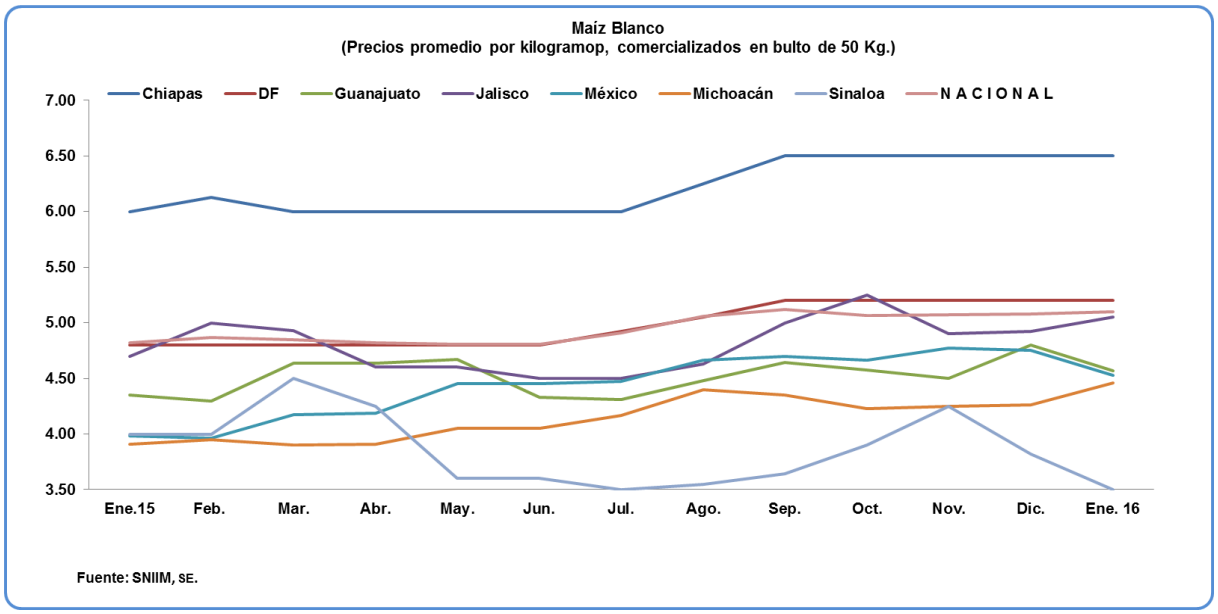
On the other hand, considering the budget distribution by product, which favors corn, 62.96 percent was allocated to this commodity; followed by sorghum with 18 percent and wheat with 15 percent of the total budget allocation.

Regarding hedging support requests by state, the Forward Contract Program highlights the participation of Sinaloa which requested approximately 29.1 percent of the total program budget, followed by Tamaulipas, which represented approximately 19 percent of the total budget and 12 percent of the budget was allocated to Jalisco. The rest of the hedging budget was distributed among the other states.

Corn Prices

The following chart shows wholesale prices of domestic white corn, quoted in the main wholesale centers in Mexico as well as nationwide. They are average prices per kilogram, sold in 50 kg bags. The data shown in Figure 3 is up to the first half of January 2016.

Figure 3. Mexico: Monthly Wholesale Prices for White Mexican Corn in pesos per 50 KG Bags. 2015-2016



Exchange Rate: 18.34 pesos per 1 U.S. Dollar.
Source: National Market Information System (SNIM), belonging to the Ministry of Economy

Production, Supply and Demand Data Statistics:

Table 5: Mexico Corn Production, Supply and Demand for MY2014/15 to MY2016/17

Corn	2014/2015		2015/2016		2016/2017	
Market Begin Year	Oct 2014		Oct 2015		Oct 2016	
Mexico	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	7325	7325	7000	7100	0	6950
Beginning Stocks	2694	2694	4209	4209	0	3709
Production	25480	25480	23500	24000	0	22600
MY Imports	11269	11269	11300	11500	0	12000
TY Imports	11269	11269	11300	11500	0	12000
TY Imp. from U.S.	11168	11168	0	11400	0	11900
Total Supply	39443	39443	39009	39709	0	38309
MY Exports	784	784	1000	1000	0	300
TY Exports	784	784	1000	1000	0	300
Feed and Residual	17700	17700	17900	18200	0	18650
FSI Consumption	16750	16750	16800	16800	0	16900
Total Consumption	34450	34450	34700	35000	0	35550
Ending Stocks	4209	4209	3309	3709	0	2459
Total Distribution	39443	39443	39009	39709	0	38309
(1000 HA) ,(1000 MT)						

Sorghum

Production

Total Mexican sorghum production for MY 2016/17 is forecast at 6.9 MMT, 21.1 percent greater than the previous year's revised estimate. This increase is due to an expansion in area planted in Mexico's sorghum producing regions, and assumes normal weather conditions. Private and official sources noted that farmers will continue planting sorghum, despite the damages provoked by the sugarcane aphid (SCA) in MY2015/16 due to lack of feasible alternatives crops. They noted that, among other factors, sorghum needs less water to grow than corn, and in general, seed costs are lower. According to private

sources, the key to reach that level of production in MY2016/17 will be implementation of campaigns to control and mitigate the SCA plague, including proper fumigation methods which SAGARPA and local state authorities already promote and support.

Due to revised SAGARPA data and preliminary information provided by private sector contacts, Post/New estimates for sorghum production and harvested area for MY 2015/16 were adjusted downward. The main reason for this adjustment was the severe infestation of the sugarcane aphid in several states including Guanajuato, Michoacán, and Jalisco in West Central Mexico (called the "Bajio" region), where the bulk of the fall harvest is produced. According to private and official sources, it is estimated that sorghum production reached 2.9 MMT in 2015 spring/summer crop cycle, which is 30 percent lower than the same crop cycle of 2014 (see 2015 GAIN Report MX5042 Grain and Feed October Update Mexico).

Overall crop conditions are reportedly very good in the state of Tamaulipas due to favorable weather conditions and enough available soil moisture for the 2015/16 fall/winter crop cycle, which should be to the benefit of higher yields. As a result, it is expected that Tamaulipas sorghum production will be approximately 2.0 MMT during the 2015/16 fall/winter crop cycle. Tamaulipas alone accounts for 70 percent of Mexico's fall/winter crop cycle. The 2015 spring/summer crop cycle will account for approximately 40 percent of total sorghum production whereas the remainder of the crop will come from the 2015/16 fall/winter cycle.

Consumption

The Post/New total consumption estimate for MY2015/16 has been revised downward from the USDA/Official estimate to 6.5 MMT, based on information from official and private sources. Feed consumption is expected to shift away from sorghum to feed corn, due to lower than previously estimated domestic sorghum production.

The forecast for sorghum consumption in MY2016/17 is 7.0 MMT, an increase of approximately 7.8 percent compared with last year's revised estimate. The main factor for this increase is the upward demand from the poultry and hog sectors. The hog sector outlook, for example, is moderately optimistic for 2016 in comparison with 2015. According to industry sources, carcass pork meat has registered consistent growth in the last five years, despite some past health disease problems in the hog sector, as favorable prices paid to pork producers have prevented a drop in overall production. In addition, Japan recently recognized Mexico being free of classical swine fever. This authorization will enable the Mexican pork meat industry to improve competitiveness and to boost exports to Japan, which already exceeds 70,000 tons annually. Previously, the Japanese Ministry of Agriculture, Forestry and Fisheries (MAFF) only recognized the states of Baja California, Chihuahua, Sinaloa, Sonora, Yucatan and Jalisco as being free of disease. Therefore, only producers from these areas were eligible to export pork meat. Industry sources stated that this latest achievement was the result of joint work between pork producers, industry, and federal and state governments, whose efforts have guaranteed that pork producers meet high standards of health and safety.

In general, sorghum continues to be an important animal feed in Mexico, as good-quality sorghum is regularly available with a nutritional feeding value that is equivalent to that of corn. Sorghum can be processed to further improve its feed value and techniques such as grinding, crushing, steaming, steam

flaking, popping and extruding, all have been used to enhance the grain for feeding. The products are fed to laying hens and poultry, beef and dairy cattle, hogs, and used in pet foods.

Trade

The Post/New MY2016/17, import forecast is estimated to decrease to 200,000 MT over the Post/New MY 2015/16 revised estimate due to the expected increase in domestic production. Private analysts stated that sorghum, corn, and eventually wheat will all continue competing with each other, in some degree, to meet Mexican feed demand, and ultimately all will depend on the market price situation.

The Post/New import estimate for MY2015/16 has been increased to 700,000 MMT based on more current private information and official figures from SAGARPA and SHCP for the first four months of this marketing year.

Stocks

For MY 2016/17, the Post/New ending stocks forecast is estimated to increase to 338,000 MT, due to the expected increase in domestic production. The ending stocks estimate for MY 2015/16 remains unchanged.

Production, Supply and Demand Data Statistics:

Table 6: Mexico Sorghum Production, Supply and Demand for MY2014/15 to MY2016/17

Sorghum	2014/2015		2015/2016		2016/2017	
Market Begin Year	Oct 2014		Oct 2015		Oct 2016	
Mexico	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	1715	1715	1700	1600	0	1800
Beginning Stocks	647	647	338	338	0	238
Production	6270	6270	6600	5700	0	6900
MY Imports	29	29	500	700	0	200
TY Imports	29	29	500	700	0	200
TY Imp. from U.S.	29	29	0	700	0	200
Total Supply	6946	6946	7438	6738	0	7338
MY Exports	8	8	0	0	0	0
TY Exports	8	8	0	0	0	0
Feed and Residual	6500	6500	7100	6400	0	6900
FSI Consumption	100	100	100	100	0	100
Total Consumption	6600	6600	7200	6500	0	7000
Ending Stocks	338	338	238	238	0	338
Total Distribution	6946	6946	7438	6738	0	7338
(1000 HA) ,(1000 MT)						

Rice

Production

The Post rice production estimate for MY 2015/16 (October-September) has been revised upward from USDA/Official estimate to 223,000 MT (rough production) due to more complete data from SAGARPA, which reflects higher-than-previously expected planted area. The increased rough production is equivalent to 153,000 MT of milled rice. However, this new production estimate is still approximately 15 percent lower than that estimated a year earlier. The reduction in planted area and production in MY 2015/16, compared with a year earlier, was mainly due to adverse weather conditions

and the lack of planting different rice varieties than the usual "Philippine Miracle" variety traditionally planted in Mexico. Reportedly, this variety of rice cannot compete well on cost with rice imported from the U.S. or Asian countries.

The originally projected total planted area for the 2015 spring/summer crop cycle of 33,000 ha reached just 27,349 ha. The main states that reduced their planted area were Veracruz, Nayarit, Michoacán and Campeche. The lack of access to financing by Mexican growers reportedly also contributed to the reduction in planted area.

In the case of Veracruz, for example, the National Council of Rice Producers affirmed that this state fell from first place as the top producer of rice in Mexico to third place. The Council explained that by the 2015 spring/summer crop cycle, nearly 500 hectares were lost due to drought at the beginning of the season and excessive rains later in the "Papaloapan" region. Another adverse factor was the outbreak of a rice plague called "Sogata" which in the past had not affected the rice crop in Mexico, but now has to be fought.

Despite the adverse scenario, the Mexican Rice Council (MRC) considers that in MY 2016/17 rice production could rebound slightly as a result of the implementation of some measures that were announced last year by Mexico's main rice millers, such as:

- Planting of more long-grain varieties, which can increase yields.
- The efficient use of main and secondary canals for irrigation and drainage in rice arable areas of Campeche and Nayarit, covering 40 hectares, which were built recently.
- The electrification of irrigation systems for new rice areas in Campeche and Tabasco.

Accordingly, the New/Post MY 2016/17 (October to September) rice production is forecast at 240,000 MT, with harvested area estimated at 42,000 ha. This year's rough rice production level converts to 165,000 MT of milled rice.

Consumption

The Post/New rice consumption estimate for MY2016/17 is forecast to increase 1.15 percent to 880,000MT. The main factor driving rice consumption in MY2016/17 in Mexico is population growth. According to private sources, Mexico's per capita rice consumption continues to be quite low (approximately 7 kilograms) compared with other countries in Latin America, although per capita consumption has continued to grow at around the same rate as the population growth (1.18 percent) and thus the potential to increase rice consumption further. The Mexican market continues to be largely price driven, although consumers with favorable disposable incomes increasingly demand higher rice quality. Reportedly, Mexican consumers, after price, placed the highest value on rice appearance, specifically on whole rice, followed by favorite brand. Private sources also noted that for lower disposable income families a slowdown in the domestic economy would continue to force them to shift from buying more expensive food products to lower priced rice. Although rice quality is a factor, in general rice should remain a low cost food staple for this segment of the population.

Trade

The Post/New MY 2016/17 import forecast is 750,000 MT, an 8.7 percent increase from the previous year. In comparison with the USDA/Official estimate, the Post/New import estimate for MY 2015/16 was decreased to 690,000 MT form USDA/Official estimate, in order to reflect available information

from SAGARPA and SHCP for the first four months of this marketing year. Similarly, Post/New MY2015/16 rice exports estimate has been revised downward also based on updated official information from SAGARPA and SCHP.

MRC officials have stated there are serious concerns over the sustained strength of the US dollar especially when considering that the Mexican rice market is driven mainly by price. Those officials pointed out that there is a ready market in Mexico for low priced rice. For example, the MRC indicated that under current market prices for US rice, the price gap is wide when compared to Vietnamese rice prices, for both, paddy and milled. For example, Vietnamese rice has been imported to Mexico, even with a 20 percent import duty. Private sources also noted that if the peso exchange rate continues to deteriorate against the US dollar there is the potential that several Mexican millers and importers could revert to other sources which in some cases has already been happening. (Please See 2015 GAIN Report MX5011 2015 Grain and Feed Annual Mexico). According to Mexican official data, Mexico imported 2,114 MT's of rice from Vietnam (H.S. codes 10063001 and 10063099), in December 2015. Sources say they expect that this trend of importing lower priced rough and milled rice from other countries such as Vietnam could continue in 2016 as some Mexican importers are constantly on the lookout for more competitive pricing. Traditionally, Mexico had relied substantially on rice imports from the United States, mostly in paddy form.

On the other hand, there is a segment of the Mexican rice market that will continue to demand a product that is safe, reliable and of high quality, all attributes of US rice.

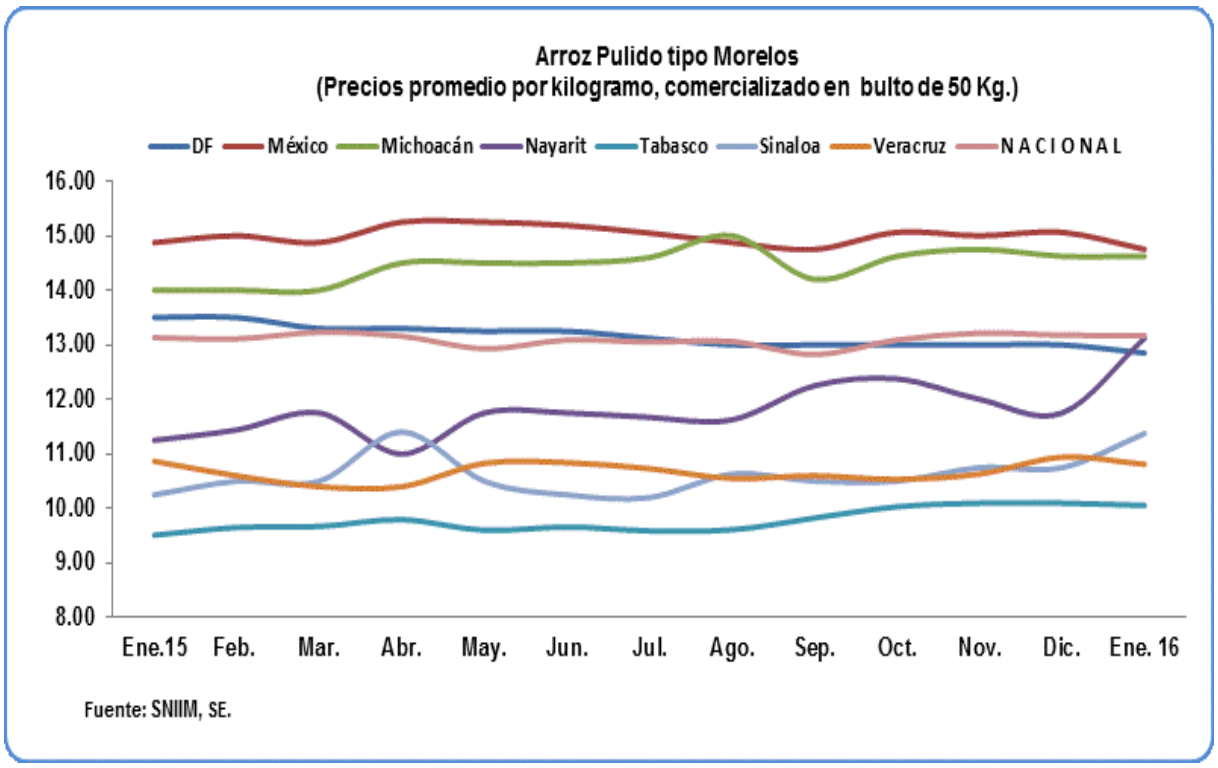
Stocks

The MY 2015/16 Post/New ending stock estimate was revised upward from the USDA/Official estimate due to higher than previously estimated domestic production. This is reflected in the upward adjustment for MY 2016/17 carryover as well. For MY 2016/17 the Post/New stock forecast is 156,000 MT.

Wholesale Milled Rice Prices

Figure 4 shows the monthly average wholesale prices of milled rice for the variety called "Morelos", from several states and nationwide for the period January 2015 to January 2016. In this period, a slight increase (0.3 percent) was observed in the national average price compared to January of last year. The slight overall increase was mainly due to price increases in the states of Nayarit, Sinaloa Tabasco and Michoacán; this despite price reductions found in the states of State of Mexico, Veracruz and Mexico City (DF). Moreover, the national average price recorded in the month of January 2016 remained constant compared with the national average price of December 2015.

Figure 4. Mexico: Average Monthly Market Prices for Milled Rice Type "Morelos" in pesos per 50 KG Bag (2015-2016)



Exchange Rate: 18.34 pesos per 1 U.S. Dollar.
Source: National Market Information System (SNIM), belonging to the Ministry of Economy

Production, Supply and Demand Data Statistics:

Table 7: Mexico Rice Production, Supply and Demand for MY2014/15 to MY2016/17

Rice, Milled	2014/2015		2015/2016		2016/2017	
Market Begin Year	Oct 2014		Oct 2015		Oct 2016	
Mexico	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	44	44	33	39	0	42
Beginning Stocks	151	151	152	152	0	123
Milled Production	179	179	134	153	0	165
Rough Production	261	261	195	223	0	240
Milling Rate (.9999)	6870	6870	6870	6870	0	6870
MY Imports	698	698	700	690	0	750
TY Imports	700	700	700	690	0	750
TY Imp. from U.S.	0	619	0	560	0	600
Total Supply	1028	1028	986	995	0	1038
MY Exports	2	2	3	2	0	2
TY Exports	2	1	5	2	0	2
Consumption and Residual	874	874	870	870	0	880
Ending Stocks	152	152	113	123	0	156
Total Distribution	1028	1028	986	995	0	1038
(1000 HA) ,(1000 MT)						

For More Information:

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Other Relevant Reports Submitted by FAS/Mexico

Report Number	Title of Report	Date Submitted
MX6004	Grain and Feed January Update Mexico	1/26/2016
MX5029	Grain and Feed July Update Mexico	07/21/2015
MX5011	2015 Grain and Feed Annual Mexico	03/18/2015
MX5001	Grain and Feed January Update Mexico	01/15/2015
MX4073	Grain and Feed October Update Mexico	10/17/2014
MX4059	Grain and Feed July Update	07/31/2014
MX4020	2014 Grain and Feed Annual	03/14/2014