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Mexico

Grain and Feed Annual

Corn Production Forecast to Rebound

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Report Highlights: Mexico's total grain production is estimated to increase, with only rice decreasing slightly. Nevertheless, corn imports are forecast to increase to 9.8 MMT. Meanwhile, sorghum production is expected to increase 9.2 percent while imports are expected to increase almost 22 percent, to 2.8 MMT for MY 2009/10 due to strong demand from feed millers. Even with the recent trade disputes over contaminated rice, imports for MY 2009/10 are forecast to reach 650,000 MT due to the domestic production's inability to keep up with stronger consumer demand. As usual, durum wheat will continue to drive Mexico's wheat production but imports should remain at 3.1 MMT. On the other hand, dry bean imports are expected to drop to 80,000 MT due to a increases in production. Dry bean production is forecast to rebound to 1.13 MMT.

Commodities:
Corn
Wheat
Sorghum
Rice, Milled
Wheat, Durum

Production:
CORN

The corn production estimate for MY 2009/10 has been revised down 3.2 percent to 21.3 million metric tons (MMT) based on the most recent data issued by Mexico's Secretariat of Agriculture, Livestock, Rural Development, Fisheries and Foodstuffs (SAGARPA). Drought-like conditions during critical phases of the corn crop resulted in irreversible yield losses during the 2009 spring/summer crop cycle. In 2009 estimated damage to harvest area was approximately 1.47 million hectares for the 2009 spring/summer crop. In MY 2008/09 only 632,000 hectares were damaged due to drought-like conditions. (For more information, please see GAIN Reports: MX9053, MX9082 and MX9096.)

The MY 2010/11 corn production forecast is 22.5 MMT, with an estimated 7.2 million hectares of harvested area, assuming normal weather conditions. According to industry sources, corn producers had a poor MY 2009/10 year and should increase harvested area as well as production so long as enough moisture is available to foster next summer's corn planting. Another factor that could drive up corn production is the implementation of specific technical supports for corn growers under PROMAF. (PROMAF is a government program that assists corn and dry bean growers with support for planting plots, purchases improved seeds and fertilizers, and provides expert technical support.) This program is expected to have a significant influence on the MY 2010/11 crop cycle.

According to official sources, for CY 2010 PROMAF developed, among other activities, a project to improve non-irrigated corn soils with medium to high yields, which was developed with the National Institute of Forest, Agricultural and Livestock Research (INIFAP). This project is extremely relevant for many growers, considering that over 65 percent of Mexico's corn production is non-irrigated. The 2010 project also includes technical assistance for higher sowing density, promotes the use of bio-fertilizers, improvements in plant nutrition and increases the planted area by applying efficient technologies, particularly for yellow corn. Mexican corn producers generally specialize in white corn production but, because of increased domestic demand for yellow corn, it has become more attractive to plant yellow corn in Mexico. Yellow corn production has increased from a very small level of production a few years ago to being the third largest crop in terms of planted area (approximately 1.4

million hectares). PROMAF's goal for 2010 is to plant approximately 500,000 hectares of yellow corn in the south and southeast regions of the country.

Due to unfavorable weather conditions, the 2009 spring/summer crop is reportedly of low quality. As a result, the harvested area for MY 2008/09 decreased and also reflects the latest official information issued by SAGARPA.

Mexico is the fourth largest corn producing country in the world, and white corn accounts for 75 percent of total production while yellow corn represents only six percent. Other types of corn account for 19 percent of total corn production, including blue corn, hominy and popcorn. Corn is grown throughout the year during two seasons: spring-summer (April-March) and fall-winter (October-September). Approximately 75 percent of Mexican corn is obtained from the spring-summer season and 65 percent of the corn is produced using dry land farming.

Corn is produced in all regions of Mexico in a wide range of agro-climatically diverse conditions by growers who differ in resource endowments, managerial structures and technical skills. Approximately 70 percent of the total production comes from eight states: Chiapas, Guerrero, Jalisco, Mexico, Michoacán, Puebla, Sinaloa and Veracruz. Moreover, corn production in Mexico is divided into two categories: commercial and traditional. Commercial production is practiced by large and medium growers, who produce white and/or yellow corn, while traditional refers to small and subsistence farmers who specialize mostly in white corn production. Commercial producers generally obtain higher yields and use more inputs and technology than traditional farmers.

Corn production for the MY 2009/10 fall/winter cycle is estimated at 6.6 MMT, which is slightly higher than the previous year. Crop conditions for corn planted in September and October have been adequate, due to plentiful water reservoir levels in the state of Sinaloa. Approximately 75 percent of the total fall/winter corn production takes place in Sinaloa. Moreover, Sinaloa's corn production, which is almost all irrigated, accounted for more than 25 percent of total domestic production. Nearly all of the corn produced in Sinaloa is consumed in other states. Harvest in Sinaloa is expected to occur in May and June.

Yields continue to vary significantly throughout the country, depending in large part on the level of technology used. The average yield for the MY 2010/11 corn crop in Mexico is forecast at 3.1 MT/ha. However, Sonora and Sinaloa have yields similar to those obtained on average in the United States for both white and yellow corn.

One of the main characteristics of corn production in Mexico is the high degree of land fragmentation. According to SAGARPA, there are nearly two million corn producers in Mexico, and more than 85 percent of those growers have landholdings smaller than 5 hectares. In Veracruz and Oaxaca, for example, more than 75 percent of growers produce on less than 2 hectares. Even in Sinaloa and Jalisco, the states with the least fragmentation, only 57 percent produce on more than 5 hectares.

Transportation, storage, and marketing continue to be sources of unnecessary high costs and bottlenecks in the Mexican corn sector. Long distances from fields to consumption centers, reliance on expensive trucking, an inadequate road infrastructure, and the lack of direct railroad links at key transport hubs (especially at ports and markets) have thwarted efforts to create an integrated market from the farmers to

the consumers. Furthermore, Mexico has a substandard storage network that lacks effective instruments for financing inventories in warehouses. Similarly, the relatively high cost of fuel (i.e., diesel) is another factor that has affected corn prices. The competitiveness of Mexican growers is also hampered relative to U.S. imports, with nearly all imports coming via rail and/or ship, since most internal movement of Mexican production is by higher-cost trucking.

Despite the fact that the government of Mexico (GOM) continues promoting the planting of yellow corn through the forward contracts program, it has not reached the expected results. In Sinaloa, for example, SAGARPA anticipated that 95,000 hectares of yellow corn could be planted during the 2009/10 fall/winter season. However, less than 3,000 hectares were planted. Reportedly, the main factor that discouraged growers from planting yellow corn was the high production cost of yellow corn, which is greater than that of white corn.

DRY BEANS

Mexican dry edible bean production in MY 2010/11 is forecast at 1.12 MMT, 7.1 percent higher than last year's revised estimate. The area harvested is forecast to increase to 1.52 million hectares. Both forecasts reflect an average bean crop that would result from normal weather conditions. Official sources state that the main incentive to increase the planted area is the relatively high producer prices. The MY 2009/10 production and harvested area estimates were both revised up. This change reflects the most recent data from SAGARPA, which includes an update for the 2009 spring/summer crop cycle and a preliminary estimate for the 2009/10 fall/winter crop. The production estimates as well as the harvested area estimates for MY 2008/09 have been revised downward and upward, respectively. These changes reflect the most recent data from SAGARPA.

Industry sources estimate that the 2009 spring/summer crop cycle could produce approximately 730,000 MT of edible dry beans. In the previous crop, Mexico harvested 815,212 MT. This contraction in production was due to the drought (please see GAIN Report: MX9068). However, the impact of this drought was less severe than initially anticipated. Official sources stated that, after field tours throughout the Zacatecas, their assessment that the drought affected the same areas that traditionally have drought problems was confirmed, although the effects were more dramatic. Growers traditionally plant their spring/summer harvest from March to August and harvest it from September to March.

The main producing state, Zacatecas, is expected to produce approximately 270,000 MT, which is 7 percent more than the previous year. Official sources recently stated that late rains in July in the Rio Grande region, which is the main producing area in the state, allowed bean production to recover in Zacatecas. Moreover, extra beans were planted this season - approximately 10,000 hectares – and the relatively good price of dry beans encouraged some producers to switch from wheat production to dry beans. State production was broken down into approximately 40 percent black beans, 14 percent pinto beans, and 38 percent colored beans (Flor de Mayo and Flor de Junio), and 7 percent other variety (Bayo). Prices in Zacatecas ranged from 12 to 13 pesos per kilogram. Official sources stated that the bean-cleaning plants in the Zacatecas towns of Calera and Sombrerete were once again not used due to the lack of technical expertise. It should be noted that these plants were financed by the GOM several years ago. (For more information on these plants, please see GAIN Report: MX7024.)

Durango is the second most important dry bean producing state. Official sources stated that the harvest, which was planted on 224,878 hectares with a production of approximately 139,000 MT, has nearly finished. Most of the beans planted in Durango were pinto varieties. Prices have been fluctuating because of some speculation, but the average price registered in the state was 10 pesos per kilogram. The GOM expects to receive up to 40,000 MT in its elevators at this price. As in Zacatecas, the bean-cleaning plant is not operational due to the lack of budget and technical expertise.

In Chihuahua, the third most important dry bean producing state, official sources stated that they also suffered from late rainfall during the 2009 spring/summer cycle. Fortunately, they received rain at the end of June, which allowed growers to finish their plantings by the end of July and the first days of August. The approximately 134,000 hectares are expected to produce approximately 115,000 MT and average yields are expected to be around 0.89 MT/ha, which are slightly higher than the previous year's 0.856MT/ha. Prices were between 10 to 11 pesos per kilogram. Chihuahua is increasingly using more modern farming practices, which has resulted in more effective weed control and higher bean quality.

Although the GOM has not financed bean-cleaning plants in Zacatecas and Durango, industry sources indicate that Mennonite growers have their own plants. In those plants, both Mennonite and Mexicans growers are cleaning their beans at a reasonable price of 100 pesos per MT. As a result, Chihuahua appears to be the bright spot for Mexico's bean crop, as it has higher average yields and consistently high quality crops. Chihuahua produces mainly pinto varieties.

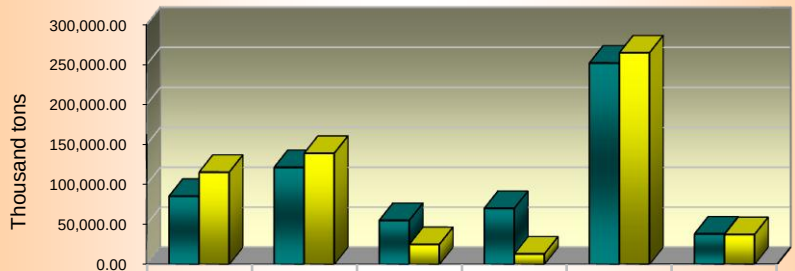
For the 2009/10 fall/winter crop cycle, Nayarit reports a planted bean surface of around 58,249 hectares, which is 17 percent higher than a year ago, and reflects attractive prices registered for beans in 2009. In 2010, the expected production is approximately 77,000 MT. Of this production, the majority is Jamapa Black. The rest of the production consists of colored beans, such as the Peruanos, Azufrados, Canario, Bayo, and other clear and pink varieties. SAGARPA officials state that harvesting began in the first week of February and is expected to conclude in March. Despite rumors of damage to the dry bean crop due to bad weather at the beginning of January, the area damaged was no more than 1,500 hectares.

Sinaloa is the main producing state for the fall/winter crop cycle. SAGARPA officials report that 137,234 hectares were planted in this state, of which 134,083 hectares were irrigated. Production is expected to reach 185,000 MT of Mayocobas and Peruano varieties, which should be harvested in March. The estimated yield is 1.75 MT/ha and is practically the same as last year despite the fact that growers experienced some damage resulting from the November storms. The Secretary of Agriculture of Sinaloa pointed out that despite the Government of Sinaloa's implementation of a program to store 70,000 MT of local harvest for eight months, it will still be impossible to sell the crop at 17 pesos per kilogram, which occurred last year. The Secretary stated that growers are paying the consequences of a larger area planted. State authorities have suggested producing only 70,000 MT instead of 185,000 MT in order to sell at higher prices. As a result of the increased planted area, average prices have dropped to 11 pesos per kilogram in Sinaloa.

In Chiapas, growers planted 43,600 hectares of black beans, from which they expect to obtain approximately 27,000 MT. The yields in this state are low, at an average 0.5 MT per hectare, but production is consumed in the state. Sources indicate that Chiapas needs to bring black beans from other states to fulfill its demand. Veracruz is also a black bean producer but almost all of its production

is consumed in the state, with any surplus typically sold in Chiapas. In Veracruz, for the 2009/10 fall/winter cycle, growers planted 24,328 hectares from which they expect to produce 20,000 MT.

Figure 1. Mexico: 2008 - 2009 Spring/Summer Cycle
Dry Bean Production Comparison



	Chihuahua	Durango	Guanajuato	San Luis Potosi	Zacatecas	Chiapas
2008/09	85,358	121,363	55,041	70,119	251,835	38,125
2009/10	115,259	138,963	24,954	13,095	264,643	37,421

Source: SIAP-SAGARPA data; January 31, 2010.

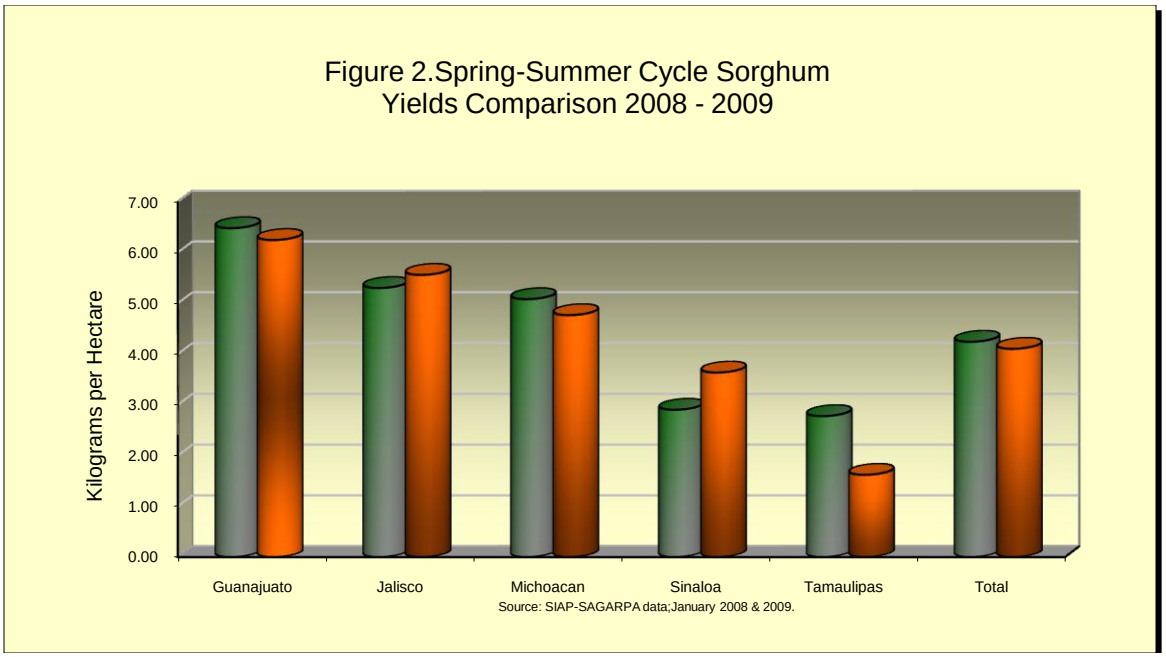
SORGHUM

Total Mexican sorghum production for MY 2010/11 is forecast at 7.1 MMT, 9.2 percent greater than the previous year's revised estimate. This increase is due to a slight expansion in area planted in Mexico's sorghum producing regions, and assumes normal weather conditions. Total sorghum production and harvested area estimates for MY 2008/09 and MY 2009/10 have been revised slightly upward based on updated official data. Despite the fact that sorghum production in the 2009 spring/summer crop registered less than ideal seasonal conditions (due to the dry weather), the adverse impact was less severe than initially estimated. However, as of January 31, 2010, official data reveals that the overall yield for the 2009 spring/summer crop is almost 2 percent lower than a year ago, and crop quality is reportedly average at best. The graph below illustrates the difference between the 2008 and 2009 spring/summer crop yields in the main producing states.

Mexico is the world's fourth largest producer of sorghum, and the largest importer of sorghum from the United States. Sorghum production in Mexico is spread throughout the country, with the largest producing states being Guanajuato, Tamaulipas, Michoacán, Sinaloa, and Jalisco, which all account for approximately 75 percent of total sorghum production. Approximately 24 percent of the fall/winter crop is irrigated, while nearly 25 percent of the spring/summer crop is irrigated.

Tamaulipas produces the largest portion of Mexico's fall/winter crop, and livestock and poultry producers in several neighboring regions are dependent upon it for feed. However, traditional feed millers of other regions (i.e., the center of the country) have been less aggressive in purchasing sorghum from the Tamaulipas fall/winter crop due to transportation and quality issues. Although sorghum plantings were delayed slightly by excess moisture in December, overall crop conditions are reportedly excellent in Tamaulipas. The expectation is that Tamaulipas will produce approximately 2.1 MMT during the 2009/10 fall/winter crop cycle.

The GOM continues to encourage forward contract purchases between farmers and feed millers buyers through the Forward Contract Program (please see GAIN Report: MX8075) in order to encourage the purchasing of Tamaulipas sorghum for the 2008/09 fall/winter crop cycle. Private sources state that approximately 2 MMT have been sold in Tamaulipas through this program. The harvest season is expected to start in May and end in June.

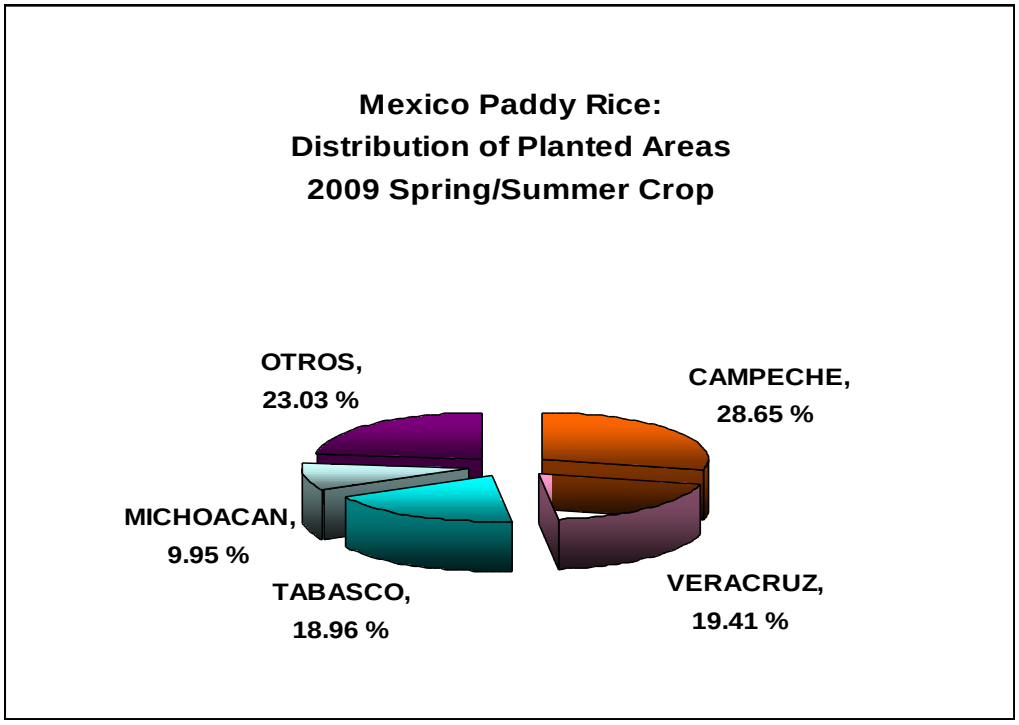


RICE

Rice production for MY 2010/11 is forecast to decrease 9 percent to 160,000 MT (milled basis) due to a smaller-than-expected planted area. Campeche is the main rice producing state, with approximately 25 percent of total national production, but sources indicate planted area is down significantly for MY 2010/11. While many of these states were able to avoid the drought that plagued several crops in MY 2009/10, the planted area for MY 2010/11 is forecast to decrease. However, rice producers in the southeast (Veracruz, Tabasco and Campeche) are expected to boost planting in coming years according to official sources. Based on the latest official figures from SAGARPA, production decreased to 175,000 MT in MY 2009/10.

Due to the switch from rice to sorghum production, mainly in the states of Campeche and Tabasco, and untimely implementation of government support programs, production and harvested area for MY 2008/09 have been revised downward from previous estimates. Another factor that adversely lowered yields was the presence of the plague *Steneotarsonemus spinki*, which is commonly known as the rice mite. The rice mite mainly affected rice areas in Campeche and Tabasco. Despite the reduction of planted area in Campeche and Tabasco, both states continue to represent more than 50 percent of the total planted area for the spring/summer crop cycle.

Given that most rice production in the major growing regions is irrigated, average yields are expected to remain at about 4.8 MT/per hectare, with yields in Veracruz higher. Sources point out that the application of better technology, such as the use of hybrid seeds, and the expected favorable financing from the GOM could promote the competitiveness of rice producers.



WHEAT

Total Mexican wheat production for MY 2010/11 (July/June) is forecast to increase slightly to 4.35 MMT compared to 4.3 MMT in MY 2009/10. Even though area harvested for MY 2010/11 remains unchanged, sources indicate that yields should return to normal considering favorable weather conditions and access to water. Industry sources have stated that despite an increase in input costs, the Forward Contract Program subsidization scheme continues to push wheat production higher, which has seen wheat acreage increase by more than 57 percent since MY 2004/05. During that same period, production increased 65 percent, or 1.6 MMT. This trend is expected to continue as long as the program continues and there are no water shortages throughout Mexico. MY 2008/09 reflects official data from SAGARPA.

In Mexico, two crop cycles are grown annually: a spring/summer cycle and a fall/winter cycle. Approximately 90 percent of wheat production is grown in the fall/winter cycle and harvest takes place in May and June. The higher importance of the fall-winter cycle is due to the weather conditions prevailing at that time of year in the north and northwestern states, as higher humidity and warm temperatures are basic conditions for proper development of the crop. Mexico produces two wheat varieties: durum (or crystalline) and bread wheat. Mexico is characterized as a country that imports more wheat than it exports. Typically, Mexico produces less bread varieties (i.e., hard red winter and hard red spring) but more durum wheat. Mexican producers find that durum wheat is simply easier to grow and yields more than other varieties.

Sonora continues to be the main producing state with approximately 41 percent of total production, followed by Guanajuato, which contributes 15 percent, and Baja California with 14 percent. However,

durum wheat continues to be the principal crop in Sonora and Baja California. According to trade sources, the Bajío Region (Guanajuato, Michoacán and Jalisco) continues to gradually increase its planted area of bread and soft varieties. The majority of the wheat grown in the north and northwestern states of Baja California and Sonora is produced using advanced technology similar to what is used in the United States. These areas continue to use improved seeds and fertilizers as well. Private sources in the Bajío indicated that planting in the area, which was completed in December, has fallen up to 40-45 percent due to a severe drought that left reservoirs depleted, leaving few water resources for irrigation. Irrigation accounts for 97 percent of total wheat production in the region and many producers have reportedly switched acreage to barley, which has lower water requirements. While production throughout the Bajío could decrease, overall production in Mexico, especially in Sonora, is forecast to offset lower production.

Pasta, the major end-product derived from durum wheat, is not consumed at a high rate in Mexico, but durum yields are higher than bread wheat in the desert regions of Baja California and Sonora, making it the varietal choice for producers. As much as 40 percent of Mexican durum production is channeled to animal feed. During the past five years, the states of Sonora and Baja California have accounted for 55 percent of total Mexican production. Since most of the wheat production in the major growing regions is irrigated, average yields are expected to remain at 5 MT/ha with yields in Sonora slightly higher at approximately 6.1 MT/ha. According to SAGARPA, nearly 75 percent of the wheat planted area is irrigated.

Consumption:
CORN

The total consumption estimate MY 2009/10 has been revised down based on official data and information from private sources. Feed consumption is expected to decline further than originally estimated as a result of the economic recession. Mexico's statistical agency (INEGI) recently released data that showed Mexico's Gross Domestic Product in 2009 dropping 6.5 percent as compared to 2008, which is the biggest drop in the past 30 years.

According to animal feed industry sources, the poultry, pork and meat markets weakened, largely because of reduced consumer purchasing power due to Mexico's negative growth in 2009. For example, the poultry sector, which continues to be the major consumer of feed grains in Mexico, registered a contraction in poultry meat production of 2.2 percent in 2009. Even though poultry products are the cheapest source of protein, the economic crisis affected sales and consumption, especially with lower income families. As a result, the demand for yellow corn (mainly imported) was worse than initially estimated. Regarding human consumption, the estimate for MY 2009/10 has been revised downward slightly based on official data from SAGARPA.

For MY 2010/11, total corn consumption is forecast to increase 2.2 percent compared to the previous year's revised estimate. This increase is expected to be driven by population growth (0.8 percent) and increased growth in the Mexican livestock and poultry sectors.

Mexico is the third largest consumer of corn in the world, after the United States and China. Although corn in Mexico is mainly produced during spring-summer, demand is constant throughout the year. In Mexico, there are about 9,000 corn mills that process white corn to flour and about 30,000 tortilla shops ("tortillerias"), where tortillas are produced for immediate consumption. Corn continues to be the most

important staple crop in Mexico, with consumption of corn and tortillas accounting for about 47 percent of average caloric intake. Although per-capita tortilla consumption dropped 25 percent between 1997 and 2007 (from 120 kilograms to 90 kilograms), it is still the most important component of the Mexican diet.

Yellow corn is generally used to produce cornstarch, cereals and animal feed. According to SAGARPA, approximately 50 percent of the yellow corn in Mexico is used for feeding purposes within the livestock industry. Cornstarch production uses nearly 2.1 MMT of yellow corn annually; 90 to 95 percent of the cornstarch is produced using corn imported from the United States.

DRY BEANS

The MY 2010/11 forecast for dry bean consumption is 1.15 MMT, an increase of approximately 2.6 percent over last year's revised estimate. Dry beans continue to be a basic staple food in Mexico, despite the fact that Mexico has experienced a decline in consumption over the last few years. Increasingly in many Mexican families both parents work outside the home, which is forcing a change in the food consumption habits of many Mexicans. Because of the amount of time required to prepare beans, bean consumption has declined as the opportunity cost versus time has increased. In addition, sources state that the high prices registered last year discouraged bean consumption as the purchasing power of many Mexican families deteriorated. The MY 2009/10 bean consumption estimate was revised upward, reflecting the most recent official information.

SORGHUM

Projected sorghum consumption for MY 2010/11 is expected to increase by 350,000 MT to reach 9.95 MMT, due to a slight recovery of livestock demand. The poultry sector outlook is slightly optimistic for 2010 in comparison with 2009 (please see GAIN Report: MX0010) and this sector is the major consumer of sorghum in Mexico. There are two factors that could stimulate broiler production in 2010: the rate of economic recovery as it pertains to family incomes and an expected record yield level of U.S. grains, which would reduce prices. Sorghum is 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 have all been used to enhance the grain for feeding. The products are then fed to laying hens and poultry, beef and dairy cattle and pigs, and are used in pet foods. The feed consumption estimate for MY 2009/10 has been revised upward reflecting more recent available data from the feed millers association and SAGARPA.

RICE

MY 2010/11 rice consumption is forecast at 820,000 MT, a 5 percent increase from the previous marketing year. The two main factors that should drive consumption of rice in MY 2010/11 are population growth and the income effect; people will shift from buying more expensive foods to rice. Even at higher prices, rice is a very low-cost food and keeps for a long time. Therefore, it will likely get a boost from the continued economic downturn. Moreover, rice continues to be a staple food for the majority of lower income families in Mexico. MY 2009/10 consumption estimates remain the

same as previous estimates, reflecting more accurate and current data from the industry sources. MY 2008/09 reflects official data.

WHEAT

Mexico's total consumption for MY 2010/11 is expected increase somewhat compared to MY 2009/10, in part due to the growing popularity of bread consumption throughout parts of Mexico. According to industry sources, consumer purchasing power in MY 2009/10 decreased dramatically due to the economic recession and this trend is forecast to continue for MY 2010/11. However, this trend is subsequently forecast to rebound later in the marketing year. Since production is forecast to increase to its highest total in 25 years, it remains to be seen just how vigorously most Mexicans will react to the extra production. Historically, Mexicans prefer corn tortillas over bread and the lack of consumer purchasing power decreased the share of wheat even more. However, sources have stated that feed manufacturers prefer domestic durum in feed rations rather than sorghum or corn because of the higher nutritional value. Therefore, feed consumption is forecast at 250,000 MT in MY 2010/11. For MY 2009/10, the consumption estimate (including feed consumption) reflects updated private and governmental data. MY 2008/09 reflects official data.

Trade:
CORN

Imports are forecast to increase approximately 22.5 percent in MY 2010/11 to 9.8 MMT, driven by population growth and a slightly increased demand from the livestock and starch sectors, as the economy is expected to recuperate and consequently boost family incomes. Moreover, an expected record level of U.S. corn production could reduce grain prices and benefit Mexican importers, mainly livestock growers. The import estimate for MY 2009/10 was adjusted downward due to lower total domestic consumption than previously estimated. The import figure for MY 2008/09 was revised slightly upward, reflecting final official data from the Secretariat of Economy (SE). Similarly, export figures for MY 2008/09 have been decreased based on SE's final data.

The rising dependence on corn imports is the result of increased corn use, as an input either for food or feed in Mexico, as well as the inefficiency of Mexico in properly allocating domestic corn throughout the country. Growers already face a variety of production challenges but, with the expected recovery in domestic consumption, the situation will become extremely challenging in the next few years. Most of the small producers have limited market access and often sell their product at low prices to market intermediaries that capture larger profits. This situation affects most of the agricultural growers in Mexico, especially small- and medium-sized traditional farmers. Lack of technology, market intermediaries, corruption, low yields and inefficiency in their marketing system are just some of the problems that most of the corn growers in Mexico face in the transition from a more subsistence agricultural system to a market-based system.

DRY BEANS

For MY 2010/11 imports are forecast to decline to 80,000 MT, assuming an increase in domestic production. Import estimates were adjusted upward for MY 2009/10 based on end-of-the-year data from the SE.

SORGHUM

Imports for MY 2010/11 are forecast to increase by 500,000 MT to 2.8 MMT due to the stronger demand from feed millers, assuming an improvement in Mexico's economy. Recently, private analysts have raised their estimate for Mexican economic growth in 2010 because of a stronger-than-expected rebound in manufacturing and an improvement in domestic demand. It is expected that Mexico's gross domestic product will expand 4.5 percent in 2010, up from 3.3 percent, based on the Bank of Mexico's estimate. According to these analysts, even though domestic demand has remained subdued, it has started to pick up as employment conditions have improved in the past few months. In addition, sorghum demand is likely to increase if sorghum prices become cheaper relative to corn. The imports estimate for MY 2009/10 has been decreased to 2.3 MMT based on more current official trade data and private information, which reveals higher-than-previously-estimated domestic production. Likewise, the MY 2008/09 import estimate has increased to 2.53 MMT based on official trade data from SE.

RICE

Imports in MY 2010/11 are forecast to increase to 650,000 MT due to insufficient domestic production relative to a stronger consumer demand. While imports in MY 2009/10 increased significantly compared to MY 2008/09, imports are forecast to continue to increase as long as consumers in Mexico continue to change eating habits. Imports for MY 2009/10 were also revised upward due to lower-than-previously estimated domestic production while imports for MY 2008/09 reflect official data from the SE. The United States is expected to maintain its dominate market share in Mexico.

WHEAT

Total wheat imports in MY 2010/11 are forecast to remain unchanged from MY 2009/10 at 3.1 MMT, in part due to an increase in domestic production. As usual, price and quality will decide the import source. Industry sources have stated that high domestic production, compared with previous years, continues to decrease imports. Millers in the Bajío region (Guanajuato, Michoacán and Jalisco) stated that they are importing more Canadian wheat due to more affordable prices, compared to U.S. prices, as well as some favorable characteristics, such as a higher extraction rates. Although the protein level of Canadian wheat has been slightly lower (13.7 percent versus 14 percent), many importers prefer Canadian wheat slightly more than U.S. wheat. However, many Mexican millers prefer to purchase U.S. wheat due to the ease of shipments, which means it depends on what the buyer values the most. The import estimate from the United States for MY 2008/09 reflects official data. Mexico is the sixth largest buyer of spring wheat from the United States and that trend is expected to continue for MY 2010/11.

In MY 2010/11, Mexico is forecast to increase exports approximately 7.7 percent compared to MY 2009/10, due to attractive international prices as well as an increase in domestic production. Mexico is the third largest exporter of durum in the world after Canada and the EU. Durum production is forecast to have another great year in MY 2010/11, and exports should continue to rise, but U.S. durum exports are expected to surpass Mexico's by a small margin based on marketing and quality advantages as well as competitive pricing.

Stocks:
CORN

MY 2010/11 ending stocks are forecast to increase to 2.73 MMT due to an increase in domestic production and imports. The MY 2008/09 stock estimate has been increased to reflect more recent information. However, the MY 2009/10 stock estimate has been decreased as a result of lower domestic production and imports.

DRY BEANS

Carryover stocks are expected to increase by approximately 2 percent because domestic production is forecast to increase in MY 2010/11. Estimated stocks for MY 2009/10 have been revised upward due to higher-than-previously-estimated domestic production and imports. Similarly, estimated stocks for MY 2008/09 were revised downward due to lower domestic production than previously estimated.

SORGHUM

Ending stocks are forecast to decline by nearly 9 percent because of a stronger feed demand for MY 2010/11 in Mexico. The MY 2008/09 and MY 2009/10 ending stocks estimate increased significantly based on higher production and imports, which are more than previously estimated.

RICE

Ending stocks are forecast to decrease in MY 2010/11 to 110,000 MT due to an expected decrease in production. Rice mills generally keep between one to two months supply of imported rice in stock. However, due to insufficient domestic production, mills will increasingly look to import; especially between the traditionally short supply months of April to July, which are between Mexico's two rice crop cycles. Meanwhile, ending stocks for MY 2009/10 have been revised downward to 125,000 MT due to lower-than-previously estimated domestic production. Ending stocks for MY 2008/09 reflect official data.

WHEAT

For MY 2010/11, ending stocks are forecast to decrease to 317,000 MT due to the Mexican industry's need to maintain adequate year-to-year stocks. According to Canimolt (National Association of Mexican Wheat Millers), millers keep an estimated six-week supply of imported wheat at any given time and MY 2010/11 is not forecast to be the exception. Ending stocks in MY 2009/10 have been revised downward to 367,000 MT due to stronger-than-previously estimated domestic consumption. MY 2008/09 ending stocks reflect official data.

Policy:
CORN

Under PROCAMPO (the Mexican domestic agricultural support program), a flat-rate payment for corn, sorghum, wheat, rice, and dry beans was provided to farmers for the 2009 spring/summer crop cycle. On April 8, 2009, SAGARPA announced in the Mexican Federal Register (*Diario Oficial*)

modifications to the operational rules of PROCAMPO for the 2009 spring/summer to the 2012 spring/summer planting seasons. The new supports are between 963 to 1,300 pesos per hectare (U.S. $71.07- 95.94/ ha), depending on the number of hectares each producer has registered in the program. Additionally, SAGARPA reduced the maximum payment limit under the program to 100,000 pesos (roughly U.S. $7,380.00), regardless of total area under production. (For more information, please see GAIN Report: MX9020.)

The GOM continues to encourage forward contract purchases between farmers and corn buyers through the Forward Contract program (please see GAIN Report: MX8075). On September 17, 2009, SAGARPA announced in the *Diario Oficial* the specific guidelines for support programs available for Sinaloa white corn growers produced during the 2008-09 fall/winter season. It is estimated that through this program, SAGARPA provided support for the production of 3.85 millions tons of white corn.

According to official sources, from February 19 to March 5, 2010, Sinaloa corn growers sold approximately 1.1 MMT of white corn through the forward contract purchases program, which represents nearly 22 percent of the total estimated harvest for the 2009/10 fall/winter crop. Of this total, 731,577 MT are for human consumption, 50,040 MT are for industrial consumption, and 273,579 MT are for the livestock sector. Through the forward contract program, growers have sold 115,071 MT of yellow corn for animal consumption and the oil industry.

However, these programs are now facing new challenges. Private industry sources have acknowledged that new corn crop contracts under these programs for the 2008/09 fall/winter crop cycle resulted in unattractive prices for some buyers, especially the starch industry. These sources recently stated that the methods the GOM considers to establish the final corn price per metric ton have resulted in artificially high prices. As a result, many private companies prefer acquiring imported corn instead of buying locally-produced corn.

DRY BEANS

In October 2009, SAGARPA (through ASERCA) launched a program to stabilize the dry bean market, and thereby support dry bean producers, in the states with a bean production surplus (such as Zacatecas, Durango and Chihuahua in the spring/summer cycle, and Nayarit and Sinaloa in the fall/winter cycle). The scheme seeks to support 25 percent of the crop marketed in these states, and has already paid 10 pesos per/kilogram to producers. Furthermore, this program provides an additional 2 pesos per/kilo to the companies that demonstrate they acquired the beans at 10 pesos/kilo. Reportedly, most of these companies consist of growers. Official sources state that this program attempts to prevent the excessive intervention of intermediaries and directly protects the growers by establishing a minimum price per kilogram. (For more information, please see GAIN Reports: MX6019 and MX7024.)

Additionally, the GOM continues to promote the transition of marginal bean areas into other products such as grains and grasses. The GOM uses the conversion program and the Bean Reorganization Program to promote these efforts. This program has had some success in Zacatecas. According to official sources this program has obtained the following results from 2003 to 2009:

- The substitution of 171,000 hectares of dry beans with feed grains and grasses;

- Change in pattern variety, increasing the participation of pintos by 20 percent and reducing the black variety by 7 percent;
- Construction of two bean-cleaning plants,
- Support for equipment upgrades for 60 small bean plants by providing more than 300 new pieces of equipment, such as combines; and
- Improved profitability and prices for farmers.

RICE

U.S. rice trade with Mexico has been largely unimpeded following the announcement of the presence of genetically-engineered Liberty Link 601 (LL601) in August 2006. Trade was halted briefly in March 2007 by SAGARPA, which stated that all shipments of U.S. rice must be accompanied by a GMO-free certificate. Trade quickly resumed and, since that time, sources have indicated that there have been no traces of LL601 in U.S. rice. However, on November 5, 2009, Mexico's Federal Commission for the Protection against Sanitary Risk (COFEPRIS) issued an order to stop the importation of milled rice from several U.S. suppliers due to an unsupported contamination claim of aflatoxins and genetically-modified material in milled rice. After several internal discussions between USDA and the government of Mexico, there was no evidence that any of the rice shipments contained GM rice. The shipments were released in three weeks and U.S. trade resumed without a problem.

Marketing:
RICE

Marketing activities should continue to center on branded promotions and other avenues for creating niche markets for U.S. specialty and quality rice. In addition, given the overall low level of rice consumption in Mexico, it may also be strategically beneficial to provide nutritional information on rice to encourage healthier diets and increase rice consumption in lower income areas of the country. Forecasters predict a steady and continued growth for the mid-term. On one side, Mexico's 113 million population is young and growing. Thirty percent of the population is age 15 or younger, and 75 percent of that population lives in urban areas reached by major media markets. Mexico still consumes rice at half the rate of the United States — 29 pounds per capita compared to Mexico's 14 pounds — and far below that of other Latin American countries. Seventy-five percent of that rice is imported, with more than 95 percent coming from the United States. Agricultural experts state that domestic production is unlikely to grow enough to match the increasing demand. All of this means that Mexico will continue to be a wide-open market for U.S. rice growers, limited only by demand. The key to success is to continue to increase per-capita consumption.

WHEAT

U.S. wheat prices must stay competitive in order for U.S. producers to maintain their current market share. Furthermore, wheat consumption in Mexico should be stimulated by market development activities that focus on consumer use of wheat products (bread, cookies, etc.). Also, close contact should be maintained with industry and government personnel in charge of regulatory functions so that

grades, standards, and phytosanitary regulations do not impede wheat trade between the United States and Mexico. Regarding the wheat miller industry, it continues to be one of the most important consumers of U.S. wheat. Based on Canimolt's information, Mexico has 93 different millers that process approximately 4.64 MMT of wheat and produce 4.1 MMT of wheat flour each year. The millers have a capacity of 8.1 MMT of production. Canimolt has expressed its interest in continuing to work with U.S. exporters and authorities in order to solve their concerns on grain quality issues.

Production, Supply and Demand Data Statistics:

CORN

Corn Mexico	2008			2009			2010		
	2008/2009			2009/2010			2010/2011		
	Market Year Begin: Oct 2008			Market Year Begin: Oct 2009			Market Year Begin: Oct 2010		
	USDA Official Data		New Post	USDA Official Data		New Post	USDA Official Data		Jan
			Data			Data			Data
Area Harvested	7,318	7,318	7,318	6,300	6,300	6,230			7,200
Beginning Stocks	4,131	4,082	4,131	3,559	3,434	3,483			1,933
Production	24,226	24,226	24,226	22,000	22,000	21,300			22,500
MY Imports	7,764	7,679	7,679	9,500	9,800	8,000			9,800
TY Imports	7,764	7,679	7,679	9,500	9,800	8,000			9,800
TY Imp. from U.S.	7,725	7,679	7,679	0	9,800	8,000			9,800
Total Supply	36,121	35,987	36,036	35,059	35,234	32,783			34,233
MY Exports	162	153	153	50	50	50			50
TY Exports	162	153	153	50	50	50			50
Feed and Residual	16,400	16,400	16,400	16,000	16,000	14,800			15,300
FSI Consumption	16,000	16,000	16,000	16,200	16,200	16,000			16,150
Total Consumption	32,400	32,400	32,400	32,200	32,200	30,800			31,450
Ending Stocks	3,559	3,434	3,483	2,809	2,984	1,933			2,733
Total Distribution	36,121	35,987	36,036	35,059	35,234	32,783			34,233
Yield	3.	3.	3.3105	3.	3.	3.4189			3.125
TS=TD			0			0			0

DRY BEANS

Beans Mexico	2008	2009	2010
	2008/2009	2009/2010	2010/11
	Market Year Begin:	Market Year Begin:	Market Year Begin:

	Jan 2008			Jan 2009			Jan 2010		
	Annual Data Displayed		Old Post	Annual Data Displayed		Jan	Annual Data Displayed		Jan
	Official	Post	Data	Official	Post	Data	Official	Post	Data
Area Harvested	0	1,505	1512	0	1,200	1,223			1,520
Beginning Stocks	0	100	100	0	215	206			193
Production	0	1,145	1136	0	900	980			1,125
MY Imports	0	93	93	0	130	172			80
TY Imports	0	93	93	0	130	172			80
TY Imp. from U.S.	0	87	87	0	120	150			70
Total Supply	0	1,338	1,329	0	1,245	1,358			1,398
MY Exports	0	23	23	0	20	20			20
TY Exports	0	23	23	0	20	20			20
Feed Consumption	0	0	0	0	0	0			0
FSI Consumption	0	1,100	1100	0	1,145	1,145			1,150
Total Consumption	0	1,100	1100	0	1,145	1,145			1,150
Ending Stocks	0	215	206	0	80	193			228
Total Distribution	0	1,338	1,329	0	1,245	1,358			1,398
Yield	0.	0.7608	0.7513	0.	0.75	0.8013			0.7401

SORGHUM

Sorghum Mexico	2008			2009			2010		
	2008/2009			2009/2010			2010/2011		
	Market Year Begin: Oct 2008			Market Year Begin: Oct 2009			Market Year Begin: Oct 2010		
	USDA Official Data		New Post	USDA Official Data		New Post	USDA Official Data		Jan
			Data			Data			Data
Area Harvested	1,780	1,880	1,890	1,800	1,800	1,800			1,850
Beginning Stocks	373	238	373	569	538	1,366			566
Production	6,300	6,900	7,067	6,400	6,400	6,500			7,100
MY Imports	2,496	2,100	2,526	2,700	2,300	2,300			2,800
TY Imports	2,496	2,100	2,526	2,700	2,300	2,300			2,800
TY Imp. from U.S.	2,495	2,100	2,526	0	2,300	2,300			2,800
Total Supply	9,169	9,238	9,966	9,669	9,238	10,166			10,466
MY Exports	0	0	0	0	0	0			0
TY Exports	0	0	0	0	0	0			0

Feed and Residual	8,500	8,600	8,500	9,100	8,650	9,500			9,850
FSI Consumption	100	100	100	100	100	100			100
Total Consumption	8,600	8,700	8,600	9,200	8,750	9,600			9,950
Ending Stocks	569	538	1,366	469	488	566			516
Total Distribution	9,169	9,238	9,966	9,669	9,238	10,166			10,466
Yield	4.	4.	3.7392	4.	4.	3.6111			3.8378

RICE

Rice, Milled Mexico	2008 2008/2009 Market Year Begin: Oct 2008			2009 2009/2010 Market Year Begin: Oct 2009			2010 2010/2011 Market Year Begin: Oct 2010		
	USDA Official Data		New Post	USDA Official Data		New Post	USDA Official Data		Jan
			Data			Data			Data
Area Harvested	61	61	52	60	60	55			50
Beginning Stocks	193	193	193	166	118	135			125
Production	175	175	156	190	190	175			160
MY Imports	262	262	234	285	285	262			240
TY Imports	6,667	6,667	6,667	6,667	6,667	6,667			6,667
TY Imp. From U.S.	588	500	539	600	600	600			650
Total Supply	610	500	539	600	600	600			650
MY Exports	0	498	539	0	590	600			650
TY Exports	956	868	888	956	908	910			935
Feed and Residual	10	10	8	5	5	5			5
FSI Consumption	10	10	8	5	5	5			5
Total Consumption	780	740	745	780	780	780			820
Ending Stocks	166	118	135	171	123	125			110
Total Distribution	956	868	888	956	908	910			935
Yield (Rough)	4.	4.	4.5	5.	5.	4.7636			4.8

WHEAT

Wheat Mexico	2008 2008/2009 Market Year Begin: Jul 2008			2009 2009/2010 Market Year Begin: Jul 2009			2010 2010/2011 Market Year Begin: Jul 2010		
	USDA Official Data		New Post	USDA Official Data		New Post	USDA Official Data		Jan
			Data			Data			Data
Area Harvested	800	802	800	870	850	870			870
Beginning Stocks	382	574	382	317	290	317			367
Production	4,000	4,020	4,000	4,300	4,180	4,300			4,350
MY Imports	3,341	3,150	3,341	3,100	3,100	3,100			3,100
TY Imports	3,341	3,150	3,341	3,100	3,100	3,100			3,100
TY Imp. from U.S.	2,666	2,528	2,666	0	2,500	0			2,600

Total Supply	7,723	7,744	7,723	7,717	7,570	7,717			7,817
MY Exports	1,406	1,254	1,406	1,200	1,100	1,200			1,300
TY Exports	1,406	1,254	1,406	1,200	1,100	1,200			1,300
Feed and Residual	200	200	200	250	250	250			250
FSI Consumption	5,800	6,000	5,800	5,900	5,900	5,900			5,950
Total Consumption	6,000	6,200	6,000	6,150	6,150	6,150			6,200
Ending Stocks	317	290	317	367	320	367			317
Total Distribution	7,723	7,744	7,723	7,717	7,570	7,717			7,817
Yield	5.	5.	5.	5.	5.	4.94			5.