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Date: 6/20/2011

GAIN Report Number: MX1048

Mexico

Post: Mexico

Grain and Feed June Update

Report Categories:

Grain and Feed
Agriculture in the Economy
Agriculture in the News
Climate Change
Global Warming

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Report Highlights:

Excessive heat and continued drought have resulted in reduced expectations for fall/winter grain yields and delayed seeding of spring/summer crops. Dry weather conditions in recent weeks have led the Secretariat of Agriculture, Livestock, Rural Development and Fishery (SAGARPA) and private sources to adjust their forecasts for the new crops. Both Post/New corn production forecasts for MY2011/12 and MY 2010/11 have been revised downward from the USDA/Official forecast to 24.0 MMT and 20.9 MMT, respectively. Also, the Post/New MY2011/12 (July/June) wheat production and harvested area estimates have been revised downward, based on updated information from official and private sources. The forecast for marketing year (MY) 2011/12 for sorghum, dry beans and rice supply and demand remains unchanged.

General Information:

Corn

Production

The Post/New total corn production volume and harvested area estimates for MY2010/11 (October/September) have been revised downward and upward, respectively, from the USDA/Official estimate, based on updated official data. These estimates are based on the preliminary final results of the 2010 spring/summer crop cycle as well as information from private and official sources who have indicated that yields across areas replanted in Sinaloa following the February 2011 freeze are going to be lower than initially expected (see 2011 GAIN Report MX1017 *February Freeze Impacts Marketing Year 2010/11 Crop Production Forecast* and MX1012 *Hard Freeze Damages Sinaloa Corn and Produce*). It should be noted that Sinaloa historically accounts for approximately 70 percent of Mexico's fall/winter white corn production.

Private and official sources have informed Post that several factors have influenced Sinaloa's 2010/11 fall/winter corn production and yields in the area replanted last February and March. The factors include:

- Official sources stated that 308,000 hectares, not 285,000 hectares as originally planned, were replanted under the SAGARPA program announced last February.
- Higher replanting area reduced irrigation water availability for later in the season.
- Heat stress and pest infestations damaged large areas of corn.
- Corn plants that survived the February freeze (approximately 75,000 hectares) are producing lower weight/density grains due to the stress.
- Several areas were planted with seed varieties not suitable to the area.
- Harvest will stretch into July and August.
- There is a high risk that rains could occur during harvest season, which could influence yields and grain quality.

Because of these factors, corn yields should be lower than initially estimated. Sources report yields will be between 6 to 6.5 metric tons per hectare (MT/Ha), whereas normal yields in Sinaloa average 10.5 MT/Ha. Sources estimate that total Sinaloa corn production could reach between 1.7 to 2.0 MMT, including the area that survived the freezing temperatures. As SAGARPA initially expected Sinaloa white corn production would reach 4.5 MMT during the 2010/11 fall/winter cycle, this implies a reduction of more than 2.5 MMT.

The Post/New production forecast for MY2011/12 has been revised downward from the USDA/Official forecast to 24.0 MMT due to expectations that harvested area will be lower than previously anticipated. The MY 2010/11 corn production estimate is reduced further due to impact of drought and the aftermath of the February freeze. Unseasonably dry weather conditions have led SAGARPA and private sources reduce their individual forecasts for the new corn crop. Private sources, for example, pointed out that May 2011 was the driest May of the last 10 years. This has delayed, in turn, seeding in the *Bajio* region (encompassing the states of Michoacán, Jalisco, and Guanajuato) that will be harvested in the next marketing year (see weather section, below). These sources stated that rains expected in June and July are critical for the development of the 2011 spring/summer crop cycle; which accounts for approximately 73 percent of Mexico's total marketing year production. The production estimates for MY 2008/09 remain unchanged.

Consumption

The Post/New total corn consumption estimate for feed and residual use for MY2010/11 is identical to USDA/Official data. The estimate has been reduced, however, in comparison with Post/Old estimates based on new information from private sources. These sources stated that feed consumption is expected to shift from corn to sorghum, wheat, and DDGS due to lower-than-previously estimated domestic corn production.

Trade

In comparison with the USDA/Official estimate, the Post/New import estimate for MY2010/11 has been increased to 8.6 MMT due to needs resulting from lower-than-previously estimated domestic production. Trade sources stated that the pace of corn imports in the first half of this marketing year has been lower than expected as feed corn buyers have substituted domestic sorghum and wheat. The Government of Mexico (GOM) promoted consumption of those grains through the implementation of policy and support measures (see the sorghum and wheat consumption sections, below).

Stocks

The MY2010/11 Post/New ending stocks estimate was revised upward to 1.5 MMT from USDA/Official estimates, due to higher-than-previously estimated imports. Also, the Post/New ending stocks estimate for MY2011/12 has been revised downward to 2.3 MMT due to lower-than-previously estimated domestic production.

Sorghum

Production

The Post/New sorghum production estimate for MY2010/11 has been revised slightly upward to 6.6 MMT from the USDA/Official estimate based on updated official data from SAGARPA. Private sources indicate that the Sinaloa sorghum crop should be higher than originally estimated (i.e., 210,000 MT), due to some white corn producers shifting area lost in the February freeze to sorghum. Approximately 75,000 hectares of sorghum were planted at the end of February and beginning of March in Sinaloa. The production estimates for MY2009/10 and MY2011/12 remain unchanged.

Consumption

The Post/New MY2010/11 sorghum consumption estimate for feed and residual use has been revised upwards from 8.9 MMT to 9.0 MMT based on new information from industry sources and reflecting higher-than-previously estimated domestic production. Moreover, private sources stated that the GOM, through ASERCA, has renegotiated the white corn contracts that were reached under the *Agricultura por Contrato* (forward-contract purchases program) in Sinaloa with the animal feed industry as well as with livestock producers, in order to shift white corn deliveries to the tortilla and corn flour industries. The livestock producers and animal feed industry, in exchange, have been purchasing domestic sorghum.

Sources indicate that the method that the GOM is using to convince livestock producers and the animal feed industry to buy domestic sorghum is to threaten withholding of future "Call" coverage (550 pesos per MT) signed under the forward-contract purchases program. As such, trade sources have stated that this is one explanation for livestock producers' and the animal feed industry's having imported lower volumes of corn over the past few months.

Stocks

Ending stocks in MY2010/11 have been revised downward to 237,000 MT due to higher-than-previously estimated domestic consumption of feed and residual use for this year. This is reflected in the downward adjustment to MY2011/12 carryout, as well.

Wheat

Production

The Post/New MY2011/12 (July/June) wheat production and harvested area estimates have been revised downward, based on updated information from official sources. As was mentioned in the Corn Production Section, unfavorable dry weather conditions in recent weeks have led SAGARPA and private sources to adjust their forecasts for the new crop balance sheets. Similarly, the Post/New MY2010/11 wheat production and harvested estimates have been revised upward and downward, respectively, based on preliminary final data from SAGARPA.

Consumption

The Post/New MY2010/11 wheat consumption estimate for feed and residual use has been revised upward by 200,000 MT to 600,000 MT based on new information. The increased consumption estimates reflect information from private sources who have commented that the durum wheat export support program handled by ASERCA has been canceled for calendar year (CY) 2011. Sources stated that due to lower domestic corn production, the GOM is promoting the diversion of durum wheat from export channels to domestic feed milling and pork producers. Reportedly, Sonoran pork producers are increasing their consumption of durum wheat over corn. For the same reason, the wheat consumption estimate for feed and residual use has been revised upward for MY2011/12 to 400,000 MT, considering that at least half of this marketing year is part of CY 2011.

Trade

The Post/New wheat export forecast for MY2010/11 has been revised downward from USDA/Official data to 550,000 MT as result the higher-than-previously estimated domestic feed consumption and the cancelation of the governmental export support program for durum wheat in CY 2011. Similarly, the Post/New wheat export forecast for MY2011/12 has been decreased from the USDA/Official forecast as Mexico´s livestock producers and animal feed manufacturers are expected to continue substituting wheat for corn in the first part of this marketing year that will, in turn, reduce exportable inventories. The Post/New total wheat import forecast for MY2011/12 has been revised upward from USDA/Official data to 3.5 MMT due to lower-than-previously estimated domestic wheat production.

Stocks

The Post/New MY2010/11 ending stocks estimate has been increased slightly from the USDA/Official estimate based on new production information. The Post/New wheat stock forecast

for MY2011/12 has been increased from the USDA/Official forecast due to higher-than-previously estimated imports.

Weather

Excessive heat and continued drought are of significant concern across Mexico's grain production areas and have resulted in reduced expectations for fall/winter crop yields and delayed seeding of spring/summer crops. Sources indicate that a drought of this severity has not been seen since 1941 and has affected millions of hectares of farmland. In addition, industry sources have stated that, should the trend continue through June and into July, some areas that normally seed at this time might remain fallow until the next seeding seasons begin in November or December.

The following 4 figures, from a recent presentation delivered by Mexico's National Meteorological Service and the National Water Commission (CONAGUA), demonstrate the extreme heat and the severity of Mexico's current drought. The figures offer a comparison of heat levels and precipitation in May 2011. Modeling (see Figure 5) suggests that many parts of the country will continue experiencing lower-than-normal precipitation levels through the month of June. As such, timely rains will gain added importance for dryland agricultural areas and be critical for replenishing water tables for irrigated areas.

Figure 1. Mexico: May 2011 Average Maximum Temperatures in Degrees Celsius

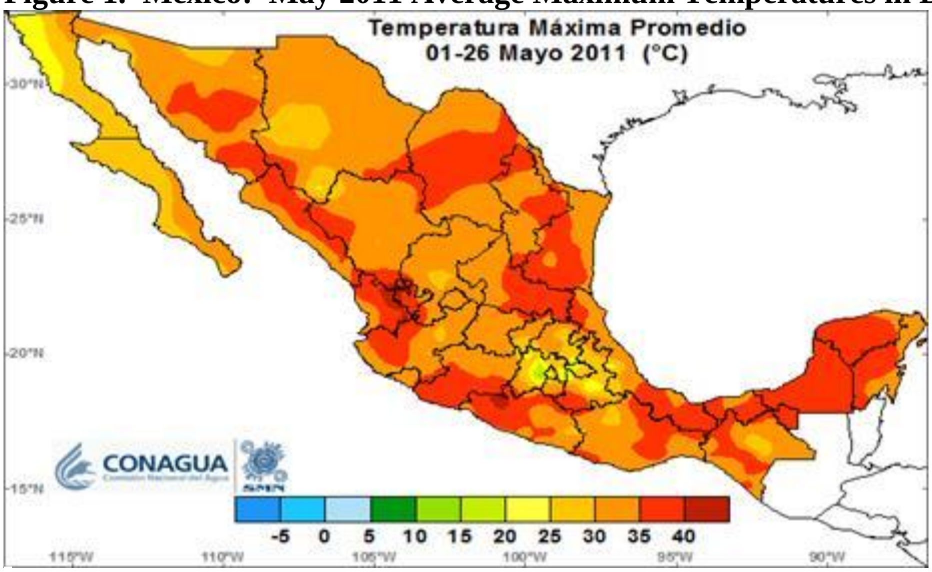


Figure 2. Mexico: May 2011 Extreme Maximum Temperature in Degrees Celsius

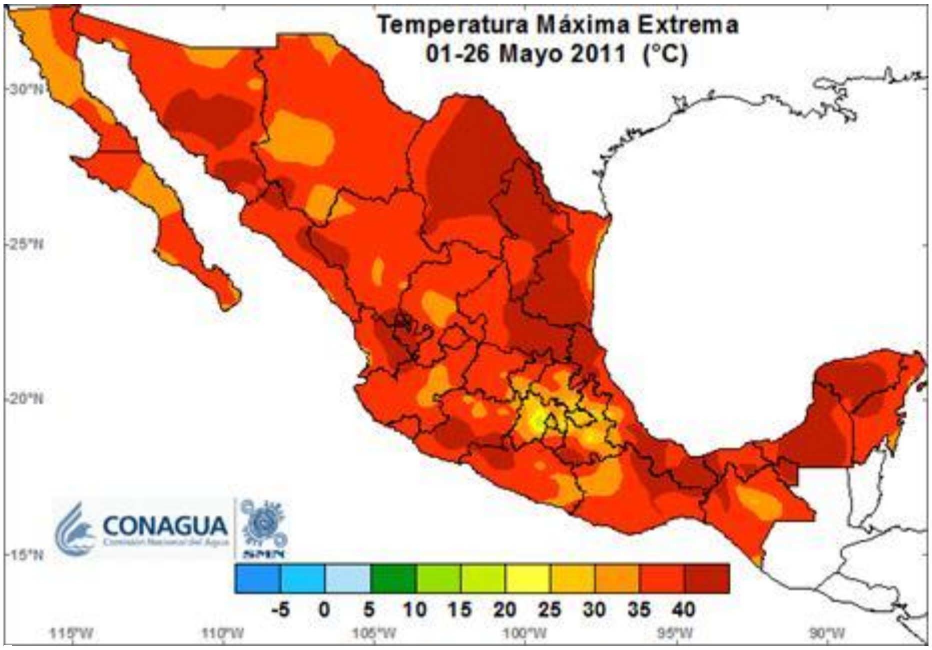


Figure 3. Mexico: Historical Accumulated Precipitation for the Month of May in Millimeters

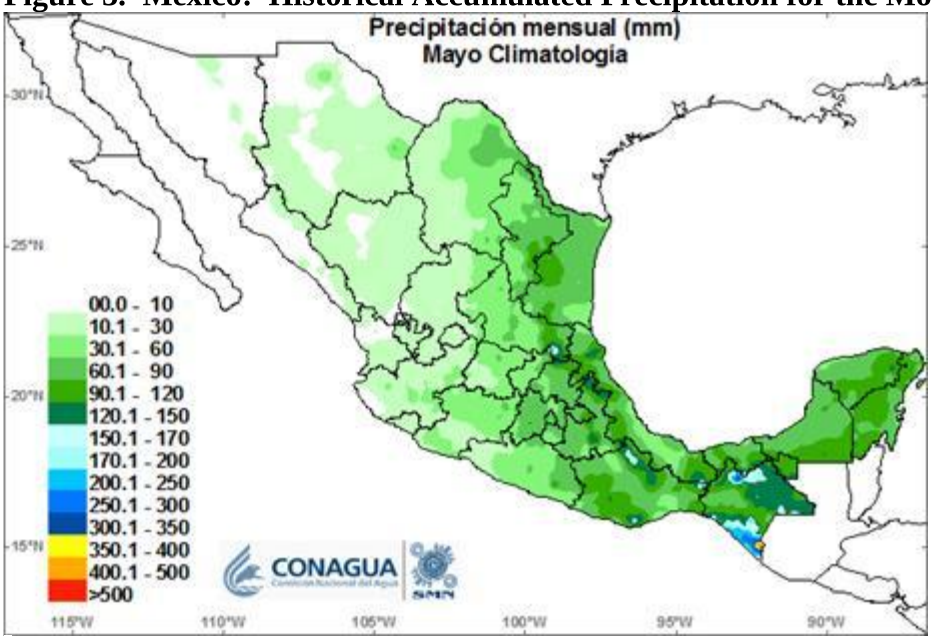


Figure 4. Mexico: Accumulated Precipitation for May 1-26 2011, in Millimeters

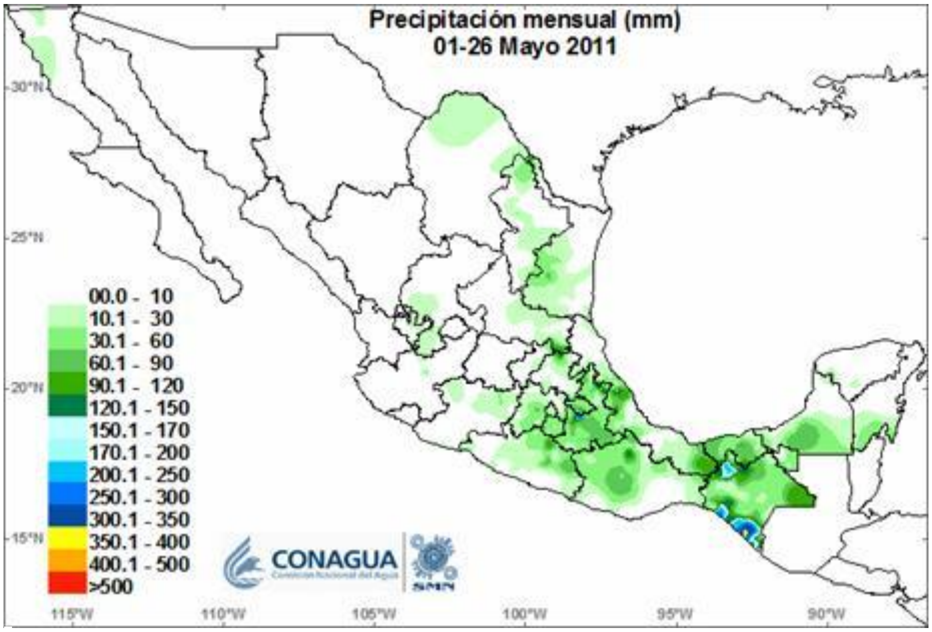


Figure 5. Mexico: Modeled Precipitation Outlook for June 2011 in Comparison with Normal Levels

Production, Supply and Demand Data Statistics:

Table 1. Mexico: Corn Production, Supply and Demand for MY 2009/10 to 2011/12

Corn Mexico	2009/2010		2010/2011		2011/2012	
	Market Year Begin: Oct 2009		Market Year Begin: Oct 2010		Market Year Begin: Oct 2011	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	6,280	6,280	6,600	7,000	7,350	7,050
Beginning Stocks	3,559	3,559	1,389	1,409	1,489	1,509
Production	20,374	20,374	21,500	20,900	24,500	24,000
MY Imports	8,298	8,108	8,000	8,600	9,200	9,200
TY Imports	8,298	8,108	8,000	8,600	9,200	9,200
TY Imp. from U.S.	8,254	8,108	0	8,600	0	9,200
Total Supply	32,231	32,041	30,889	30,909	35,189	34,709
MY Exports	642	632	100	100	300	300
TY Exports	642	632	100	100	300	300
Feed and Residual	14,200	14,000	13,700	13,700	15,800	15,800
FSI Consumption	16,000	16,000	15,600	15,600	16,300	16,300
Total Consumption	30,200	30,000	29,300	29,300	32,100	32,100
Ending Stocks	1,389	1,409	1,489	1,509	2,789	2,309
Total Distribution	32,231	32,041	30,889	30,909	35,189	34,709
1000 HA, 1000 MT, MT/HA						

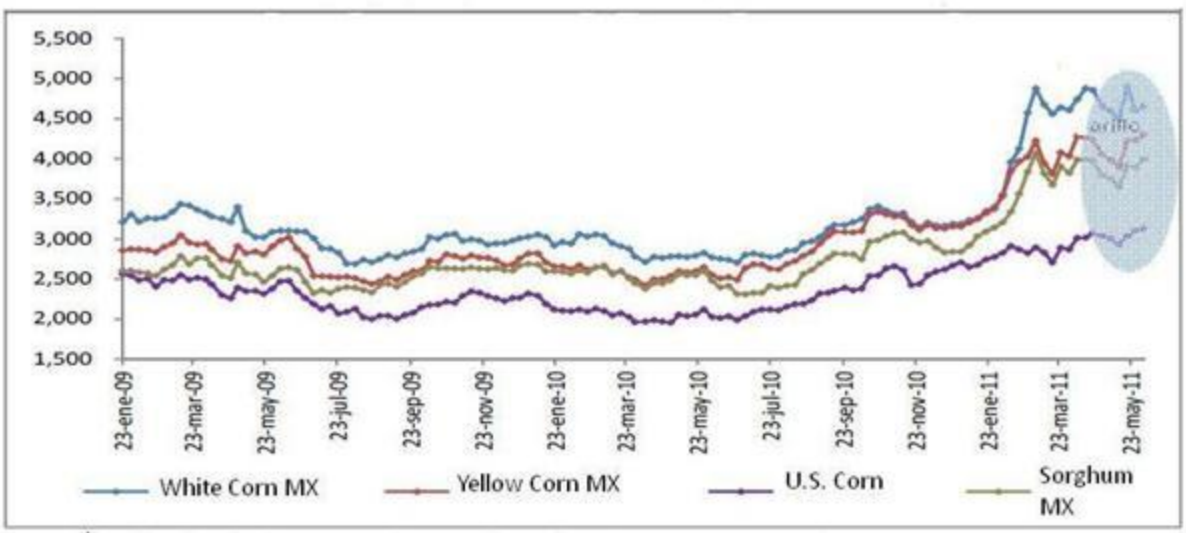
Table 2. Mexico: Sorghum Production, Supply and Demand for MY 2009/10 to 2011/12

Sorghum Mexico	2009/2010		2010/2011		2011/2012	
	Market Year Begin: Oct 2009		Market Year Begin: Oct 2010		Market Year Begin: Oct 2011	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	1,616	1,616	1,740	1,722	1,750	1,750
Beginning Stocks	1,336	1,336	414	337	264	237
Production	6,250	6,250	6,450	6,600	6,800	6,800
MY Imports	2,528	2,451	2,400	2,400	2,300	2,300
TY Imports	2,528	2,451	2,400	2,400	2,300	2,300
TY Imp. from U.S.	2,528	2,451	0	2,400	0	2,300
Total Supply	10,114	10,037	9,264	9,337	9,364	9,337
MY Exports	0	0	0	0	0	0
TY Exports	0	0	0	0	0	0
Feed and Residual	9,600	9,600	8,900	9,000	8,900	8,900
FSI Consumption	100	100	100	100	100	100
Total Consumption	9,700	9,700	9,000	9,100	9,000	9,000
Ending Stocks	414	337	264	237	364	337
Total Distribution	10,114	10,037	9,264	9,337	9,364	9,337
1000 HA, 1000 MT, MT/HA						

Table 3. Mexico: Wheat Production, Supply and Demand for MY 2009/10 to 2011/12

Wheat Mexico	2009/2010		2010/2011		2011/2012	
	Market Year Begin: Jul 2009		Market Year Begin: Jul 2010		Market Year Begin: May 2011	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	828	828	686	681	800	720
Beginning Stocks	315	315	520	555	570	584
Production	4,148	4,148	3,650	3,679	4,100	3,750
MY Imports	3,196	3,231	3,500	3,500	3,100	3,500
TY Imports	3,196	3,231	3,500	3,500	3,100	3,500
TY Imp. from U.S.	2,152	2,242	0	2,900	0	3,400
Total Supply	7,659	7,694	7,670	7,734	7,770	7,834
MY Exports	839	839	700	550	800	700
TY Exports	839	839	700	550	800	700
Feed and Residual	500	500	400	600	250	400
FSI Consumption	5,800	5,800	6,000	6,000	6,200	6,200
Total Consumption	6,300	6,300	6,400	6,600	6,450	6,600
Ending Stocks	520	555	570	584	520	534
Total Distribution	7,659	7,694	7,670	7,734	7,770	7,834
1000 HA, 1000 MT, MT/HA						

Figure 6. Mexico: Weekly Prices for White and Yellow Mexican Corn and U.S. Corn in pesos per metric ton



* Bulk prices in the consumption area in Mexico City. Source: Reuters & GCMA

Table 4. Mexico: Annual Average Prices of White and Yellow Corn in Mexico for 2008 to 2011

	White			Yellow		
	Pesos/MT	Percent Change	Standard Deviation	Pesos/MT	Percent Change	Standard Deviation
2008	3079.8		257.6	2974.1		202.0
2009	3049.3	-1.0	201.4	2748.3	-7.7	161.5
2010	2985.9	-2.1	201.5	2803.8	2.0	279.4
*2011	4324.5	44.8	582.6	3911.5	39.5	354.5

Source: SFA & GMCA. Note: *Year to Date for 2011.

Table 5. Mexico: Monthly Exchange Rate Averages for 2009-2011 in Mexican Pesos per U.S. $1.00

	2009	2010	2011
January	13.15	12.80	12.13
February	14.55	12.95	12.06
March	14.71	12.59	12.00
April	13.41	12.23	11.73
May	13.19	12.71	11.67
June	13.47	12.72	
July	13.36	12.65	
August	13.00	13.15	
September	13.41	12.84	
October	13.24	12.44	
November	13.12	12.33	
December	12.85	12.39	
Annual Avg.	**12.33**	**12.65**	**11.92**

For More Information

FAS/Mexico Web Site: We are available at www.mexico-usda.com or visit the FAS headquarters' home page at www.fas.usda.gov for a complete selection of FAS worldwide agricultural reporting.

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Report Number	Subject	Date Submitted
MX1043	Grain and Feed May Update -- Sorghum Situation	**5/25/2011**
MX1033	Grain and Feed April Update	4/29/2011
MX1017	2011 Grain and Feed Annual	3/14/2011
MX1012	Hard Freeze Damages Sinaloa Corn and Produce	2/11/2011
MX1006	January Update for Corn and Rice	1/28/2011

Useful Mexican Web Sites: Mexico's equivalent to the U.S. Department of Agriculture (SAGARPA) can be found at www.sagarpa.gob.mx , equivalent to the U.S. Department of Commerce (SE) can be found at www.economia.gob.mx and equivalent to the U.S. Food and Drug Administration (SALUD) can be found at www.salud.gob.mx. These web sites are mentioned for the readers' convenience but USDA does NOT in any way endorse, guarantee the accuracy of, or necessarily concur with, the information contained on the mentioned sites.