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Report Highlights:

Precipitation in some sugar cane planted areas has not been beneficial for production for MY 2019/20, as drought that began in June has continued to affect a number of important sugar producing states. Therefore, Post sugar production for MY 2019/20 is forecast at 6.4 MMT-RV, a reduction of more than five percent from MY 2018/19, which was the second highest on record. While production is likely to decline, supplies will be sufficient to fulfill export commitments to both the United States and the world market. According to terms of the US-Mexico Sugar Suspension Agreement, the September quota for Mexican exports to the U.S. is 709,899 MT-RV. In December 2019, representatives from United States and Mexico are expected to meet for the five-year review of the agreement, as mandated by the United States Department of Commerce.

PRODUCTION

Precipitation in most sugar cane planted areas has not been beneficial for MY 2019/20 sugar production, with significant drought conditions affecting a large area over the past four months. The main states affected by drought are Tamaulipas, Veracruz, Quintana Roo, Tabasco and Campeche. As a result, Post sugar production for MY 2019/20 is forecast to decrease to 6.4 MMT-RV from previous estimates. This production amount is more than five percent lower than MY 2018/19 levels, which were the second highest on record. According to sources, cane yields are expected to be 67.45 metric tons (MT)/hectare (Ha), and mill yields at 11.44 percent. Area harvested is estimated at 795,000 hectares and milled cane at 53,701,000 MT.

On July 25, the National Committee for the Sustainable Development of Sugar Cane (CONADESUCA) published the final national production report for MY 2018/19, reporting 6.81 MMT-RV, up seven percent from previous year levels. Industry produced 23.1 percent refined sugar, 58.6 percent standard sugar and 12.2 percent sugar with a polarity of less than 99.2, mainly for export to the United States under the Sugar Suspension Agreement rules. Veracruz was the most productive sugar producing state and San Cristóbal the most productive mill.

Table 1. Main sugar producing states, MY 2018/19*

STATES MY 2018/19	Sugar Produced (MT)	Industrialized area (ha)	Milled Cane (MT)
Veracruz	2,496,147	332,186	22,512,560
Jalisco	825,365	76,229	7,139,321
San Luis Potosí	629,778	96,294	5,231,564
Oaxaca	377,642	55,725	3,456,785
Chiapas	322,740	31,447	2,900,697

TRADE

There is not yet an official forecast for sugar exports for MY 2019/20, as this will depend on sugar production, sugar consumption and quota amounts in accordance to the 2017 U.S.-Mexico Sugar Suspension Agreement. The Post forecast has been reduced to 2.0 MMT-RV from an earlier estimate of 2.2 MMT-RV, due to the expected reduction in production.

Under terms of the US-Mexico Sugar Suspension Agreement, the September export quota for MY 2019/20 Mexican sugar exports to the U.S. is 709,899 MT-RV, a sixty-two percent increase from the July minimum allocation. This number may increase throughout the year in accordance with agreement rules (please find further details about the Sugar Suspension Agreement in Appendix 1).

The sugar export forecast for MY 2018/19 has been reduced slightly to 2.2 MMT-RV because of lower than expected exports from four sugar mills, and slow Certificates of Deposit (CEDES) exports to the world market. Mills place sugar supplies into CEDES certificates (as managed through the Master Trust for the Export of Sugar (FIMAE)) as a way to designate supplies for export and avoid market distorting effects on the domestic market. As of September 22, 175,388 MT-RV of sugar remain in CEDES, mainly because of low contract 11 (world market) prices and low demand due to large global supplies. Although sugar in this trust is meant to be exported by September 30, Post believes it will be difficult to fulfill the total export allotment. As a result, the remaining balance will roll into MY 2019/20.

MY 2018/19 exports to the U.S. under Suspension Agreement terms include 811,513 MT-RV and the additional quota of 90,718 MT-RV requested in July by the U.S. Department of Commerce. As of September 22, 2019, Mexico has exported 863,981 MT-RV to the U.S., 95.8 percent of the quota. Exports to world markets are forecasted at 1.59 MMT-RV, with 1.37 MMT-RV exported through September 22, 2019. The main destinations are Morocco, Canada and Uzbekistan.

The MY 2019/20 import forecast is 23,000 MT-RV, similar to previous MY levels, as there will be sufficient domestic sugar supplies to cover needs. The MY 2018/19 import forecast remains unchanged. Most imports come from Nicaragua and the United States.

The Post forecast for imports of high fructose corn syrup (HFCS) for MY 2019/20 remains at 1,043 MMT dry basis. Imports of HFCS during MY 2018/19 have decreased marginally compared to the previous market year, due to low domestic sugar prices during the first quarter of the year. Therefore, imports for MY 2018/19 are forecast at 1,039 MMT dry basis. Most HFCS is imported from the United States under contracts, which helps with exchange rate fluctuations.

Table 2. Mexican Sugar Exports, MY 2018/19*

Country	MT RV	Percentage share
Total	2,398,307	100.0%
U.S	1,319,305	55.0%
Morocco	370,022	15.4%
Canada	241,216	10.1%
Uzbekistan	164,830	6.9%
Tunisia	84,005	3.5%
Others	218,929	9.1%

*As of August 31, 2019

CONSUMPTION

Mirroring global trends, sugar consumption in Mexico is decreasing, due to negative health campaigns, changes in eating habits, and the substitution of HFCS and other sweeteners. Additionally, the Mexican government has placed taxes on sugar-containing products (please see Policy section below). Therefore, the Post sugar consumption forecast for MY 2019/20 is revised down to 4.63 MMT-RV, on expectations that these trends will continue.

The Post forecast for MY 2018/19 sugar consumption is 4.72 MMT-RV, three percent lower than the previous MY.

Similar to sugar, fructose consumption is also declining, mainly due to health concerns and healthy eating campaigns; therefore, the Post forecast for MY 2019/20 fructose consumption is 1.51 MMT-RV. Fructose consumption for MY 2018/19 is revised down to 1.52 MT dry basis according to CONADESUCA, and represents about 27 percent of total domestic sweetener consumption. HFCS consumption depends on domestic sugar prices, imported corn, HFCS prices, and exchange rates.

Sugar use under the "other disappearance" category is mainly for the Maquiladora, Manufacturing and Export Services Industry (IMMEX). The forecast for MY 2019/20 sugar use under IMMEX is 349,800 MT-RV. The MY 2018/19 forecast for sugar use under IMMEX is increased to 381,000 MT-RV, due to industry selling more sugar to this program instead of exporting to the world market because of low global prices. To date, 358,357 MT-RV has been exported. Sugar for this program comes directly from the mills.

STOCKS

Sugar ending stocks for MY 2019/20 are forecast down 20 percent to 1,038 MT-RV due to lower production. Sugar ending stocks for MY 2018/19 are forecast up 12 percent to 1,297 MT-RV due to lower than anticipated exports to world markets and large production. Final stocks are ideally equivalent to two-and-a-half months of domestic consumption plus IMMEX. Sugar mills and trading companies hold most of the sugar stocks in Mexico.

POLICY

Sugar Suspension Agreement

In December 2019, the Department of Commerce will initiate the five-year review of the U.S-Mexico Sugar Suspension Agreement. The Mexican sugar industry says that they will continue to comply with the agreement, and that there are no problems with operation. According to sources, Mexico´s biggest concern is that the American sugar industry may request changes to reduce the quantity of refined sugar that can be exported to the U.S., and request an increase in reference prices.

Reference price of sugar for the payment of sugar cane

According to sources, a Sugar Reference Price Agreement between the sugarcane growers and the industrial sector for the payment of sugarcane for MY2018/19 has been reached at $11,500 Mexican pesos per ton. This price is used to liquidate the MY 2018/19 cycle and to pre-liquidate the MY 2019/20 cycle. The agreement was reached near the end of July, earlier than usual, due to uncertainty in the existing pricing mechanism, and will ensure a level of price stability for sugar cane growers.

According to federal law, the reference price of sugar must be calculated using data from 23 local markets across the country, and is facilitated by the National Market Information Service (SNIIM) through daily domestic pricing reports. Staff cuts due to austerity measures put in place by the Mexican administration has reduced SNIIM's ability to collect pricing information from all 23 markets. The Mexican Government and the sugar sector are having regular meetings to determine which pricing information method will be used for MY 2019/20 in place of SNIIM. While the reference price between sugar cane growers and the industrial sector has been agreed upon, the official price is set and published by the Government of Mexico, typically in the beginning of October.

Wellbeing Production Program

The sugar cane support program through the 2019 Wellbeing Production Program currently has more than 172,000 cane producers registered. The program is funded at $1.2 billion Mexican pesos (US$65.1 million), with each cane producer receiving yearly direct support of $7,300 Mexican pesos (US$383), regardless of plot size. Producers are required to invest in crop improvement and renewal, and nutrition and phyto-sanitary control. Sources suggests that this support program caused sugar production to grow more than estimated at the beginning of MY 2018/19. Post believes the program will continue to be operational throughout the MY 2019/20 season.

Ethanol

The Mexican sugar industry has shown interest in developing ethanol production from sugarcane, mainly to reduce the surplus of sugar that is typically destined for world markets. However, significant impediments to developing a sugar cane for ethanol program exist, including investment in infrastructure, government support, and a cohesive ethanol policy within Mexico. Post will continue to monitor efforts.

Special Tax on Production and Services (IEPS) for Sugar

On September 8, the Secretary of Finance submitted a proposal, through their revenue budget to the Lower House, to increase the IEPS in tobacco, alcohol, sugary drinks and non-essential foods high in caloric density.

The proposal suggests that from January 1, 2020 the applicable quota for sugary drinks will be 1.27 pesos per liter (current tax is 1.17 pesos). The Mexican Government claims that this proposal will bring attention to problems of obesity in the country. The tax is applicable to flavored beverages, as well as to concentrates, powders, syrups, essences or extracts of flavors, and syrups or concentrates to prepare imported or flavored beverages. If the revenue budget and new proposal is approved on October 31, U.S exports of sweeteners to Mexico may be affected.

Front of Package Labeling Law

The Mexican legislature is currently considering a proposal to have warning or "stop" sign labels on the front of pack labels for processed products and non-alcoholic beverages that inform consumers of "unhealthy" products, similar to the system currently used in Chile. On July 24, 2019, the Health Commission of the Mexico House of Representatives approved the proposed reforms to various articles of the General Health Law that would require the labeling changes. The proposal is now set to be voted on by the entire lower chamber. Post will monitor and report as the measure makes its way through both Executive and Legislative Branch processes.

SUGAR PRICES

The Secretariat of Economy, through SNIIM, reports monthly sugar prices of supplies delivered to local markets in various Mexican cities, and from different mills. As mentioned above, due to austerity cuts in SNIIM, the Mexican Government and the Sugar Industry are currently discussing a new mechanism to replace this process. Contacts indicate that currently SNIIM is unable to collect information from the full 23 markets, as required.

Sugar prices have a tendency to fall in November, at the start of a new cycle. Sugar prices also respond to multiple factors: lower/higher sugar supplies, demand, prices in sugar Contract 11 and 16 (futures), and to exchange rate fluctuations. Prices reflect the policy of sugar mills to sell based on their needs, and as they fulfill international contracts. The prices below in Table 3 are for sugar delivered to the wholesale market in Mexico City (on a 50-kilogram bag basis).

Mexico: Centrifugal Sugar PS&D

Sugar, Centrifugal	**2017/2018**		**2018/2019**		**2019/2020**	
Market Begin Year	**Oct 2017**		**Oct 2018**		**Oct 2019**	
Mexico	**USDA Official**	**New Post**	**USDA Official**	**New Post**	**USDA Official**	**New Post**
Beginning Stocks	1062	1062	1479	1478	1055	1297
Beet Sugar Production	0	0	0	0	0	0
Cane Sugar Production	6371	6370	6572	6811	6466	6429
Total Sugar Production	6371	6370	6572	6811	6466	6429
Raw Imports	0	0	0	0	0	0
Refined Imp.(Raw Val)	233	140	74	23	74	23
Total Imports	233	140	74	23	74	23
Total Supply	7666	7572	8125	8312	7595	7749
Raw Exports	844	640	1533	659	1093	659
Refined Exp.(Raw Val)	302	555	538	1629	384	1422
Total Exports	1146	1195	2071	2288	1477	2081
Human Dom. Consumption	4512	4482	4490	4346	4554	4280
Other Disappearance	529	417	509	381	509	350
Total Use	5041	4899	4999	4727	5063	4630
Ending Stocks	1479	1478	1055	1297	1055	1038
Total Distribution	7666	7572	8125	8312	7595	7749

Table 4. Mexico: Average Wholesale Sugar Prices in Mexico City
MX Pesos per 50 Kilograms – Bulk (CIF Basis)

Month	Standard			Refined		
	2018	2019	Percent Change	2018	2019	Percent Change
January	752.00	579.50	(22.93)	807.67	687.83	(14.83)
February	679.25	740.50	9.01	788.58	796.25	0.97
March	639.00	702.50	9.93	778.50	789.59	1.42
April	698.75	760.00	8.76	777.25	829.66	6.74
May	666.50	762.25	14.36	746.25	837.84	12.27
June	691.25	757.67	9.60	779.84	840.58	7.78
July	668.40	755.20	12.98	757.80	822.00	8.47
August	667.25	730.63	9.49	742.42	795.84	7.19
September	645.00	682.50*	5.81	730.83	796.67*	9.0
October	594.00			722.93		
November	581.00			716.42		
December	534.33			702.44		

Source: Servicio Nacional de Información de Mercados SNIIM-ECONOMIA
http://www.economia-sniim.gob.mx/Sniim-anANT/e_SelAzu.asp
*Through 2er Week of September 2019

Table 5. Mexico: Average Sugar Prices of future contracts

Month	Contract 16			Month	Contract 11		
	2018	2019	% Change		2018	2019	% Change
	US Cts/Lb				US Cts/Lb		
January	26.59	25.57	(3.84)	January	13.98	12.68	(9.29)
February	25.67	25.77	0.38	February	13.57	12.93	(4.74)
March	24.73	26.23	6.06	March	12.83	12.47	(2.74)
April	24.81	26.87	8.29	April	11.82	12.54	6.02
May	24.60	26.36	7.18	May	11.83	11.83	(0.02)
June	25.62	26.37	2.91	June	12.06	12.44	3.13
July	25.54	25.66	0.45	July	11.16	12.13	8.73
August	25.66	25.79	0.51	August	10.46	11.56	10.52
September	25.40	25.72	1.27	September	10.78	10.97	1.74
October	25.20			October	13.18		
November	25.04			November	12.79		
December	25.23			December	12.55		

Source: ICE-Intercontinental Exchange

Appendix 1

Agreement suspending the Countervailing Duty Investigation on Sugar from Mexico

The 2014 Sugar Suspension Agreement is managed through the U.S. Department of Commerce, to suspend the countervailing duty investigation of Sugar from Mexico. It has most recently been amended in 2017. Under the agreement, Mexican sugar exports are limited by amount, polarity, and pace.

The export limit is a quarterly calculation based on information published by the USDA based on U.S needs. 'U.S. needs' is calculated based on domestic production, beginning stocks, and other sugar import programs (such as WTO obligations). Therefore, 'U.S.' needs could be defined as needs reserved for Mexican Sugar.

The export limit (based on marketing year October-September) is based on the quarterly recalculation/reassessment of U.S. production and demand through the monthly USDA World Agricultural Supply and Demand Report.

Additionally, prior to April 1 of any Export Limit Period, USDA may notify Commerce of additional U.S. sugar needs (outside of the initial export limit). After consultations with USDA and the Government of Mexico regarding their ability to fulfill 100 percent of quantity and variety needed, the export limit can be increased. Additional quota supplies must beat less than 99.5 percent polarity).

Export limits by quarter:
-The **July** limit represents **50 percent** of U.S. needs (the limit is effective October 1).
-The **September** limit is a calculation of additional target U.S. sugar needs beyond the July forecast and represents **70 percent** of U.S. needs (the limit is effective October 1). If the amount is less than or equal to the July limit, it will not change.
-The **December** limit is a recalculation of additional target U.S. sugar needs beyond the September calculation, and represents **80 percent** of U.S. needs (the limit is effective January 1). If the amount is less than or equal to the September limit, it will not change.
-The **March** limit is a recalculation of additional target U.S. sugar needs beyond the December calculation, and represents **100 percent** of U.S. needs (the limit is effective April 1). If the amount is less than or equal to the December limit, it will not change.

Shipping Patterns:
- No more than 30 percent of U.S. Needs calculated in each July and effective October 1 may be exported to the United States during the period October 1 through December 31.
-No more than 55 percent of U.S. Needs calculated in each December and effective January 1 may be exported to the United States during the period October 1 through March 31.

Polarity and Price Requirements:
- **Refined Sugar**: At a polarity of 99.2 and above, and may account for no more than 30 percent of exports during any period. Current reference price is $0.2800 per pound.
- **Other Sugar**: At a polarity of less than 99.2. Current reference price is $0.2300 per pound.

Attachments:

No Attachments