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## Mexico

**Post:** Mexico

### September Grain and Feed Update

**Report Categories:**

Grain and Feed

Bio-Fuels

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**Report Highlights:**

The outlook for marketing year (MY) 2010/11 corn, sorghum, and wheat production in Mexico is 24.5 million metric tons (MMT), 7.1 MMT, and 4.1 MMT, respectively. This represents a 2 MMT increase in corn production over previous estimates because of better rainfall that suggests higher yields in Mexico's rain fed corn production regions. This should result in reduced corn imports over the MY 2010/11 by 1 MMT. Sorghum and wheat estimates remain unchanged from previous reports (please see [MX0047](#) and [MX0032](#)). In addition, a recent joint statement by the Secretariat of Agriculture (SAGARPA), the Secretariat of Economy (SE), and private sector sources reported domestic production of corn and wheat is very strong and that the country will not experience a significant shock to the supply and demand situation from recent events among Black Sea grain exporters.

**General Information:**

**Production:**

CORN

The total corn production estimate for MY 2010/11 is revised upward to 24.5 MMT, based on discussions with industry sources who report better rainfall across much of Mexico’s rainfed corn production areas. Rains in main production states, such as Jalisco, State of Mexico, Puebla, and Chiapas may have increased production yields by 1.4 MMT in comparison to the previous spring/summer crop cycle. The remaining increase (600 thousand MT) in the corn production forecast reflects weather-based optimism throughout the industry coupled with recent government estimates of 26 MMT production.

**Consumption:**

CORN

The total consumption estimate for MY 2010/11 has been increased by 450 thousand MT over the previous figure. This reflects a 300 thousand MT increase in livestock feed and residual use and a 150 thousand MT increase in food, seed, and industrial (FSI) consumption. Industry sources expect animal feed consumption to grow over the next year as the economy recovers and demand for corn strengthens. Similarly, as the economy recovers, consumer purchasing power should push FSI use higher.

**Trade:**

CORN

Import forecasts are expected to drop by 1 MMT from previous estimates as increased corn production is expected to offset part of total import demand. The new forecast for corn imports in MY 2010/11 is 8.8 MMT.

**Stocks:**

CORN

MY 2010/11 estimated ending stocks are revised upward by 550 thousand MT because of higher production that is expected to outstrip demand that remains slow due to the pace of economic recovery.

**Production, Supply and Demand Data Statistics :**

Corn Mexico  (1000 HA & 1000 MT)	2008/2009			2009/2010			2010/2011		
	Market Year Begin: Oct 2008			Market Year Begin: Oct 2009			Market Year Begin: Oct 2010		
	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post
Area Harvested	7,318	7,318	7,318	6,230	6,245	6,245	7,200	7,200	7,200
Beginning Stocks	4,131	4,131	4,131	3,559	3,483	3,483	1,809	1,783	1,783
Production	24,226	24,226	24,226	21,300	20,350	20,350	24,000	22,500	24,500
MY Imports	7,764	7,679	7,679	8,000	8,000	8,000	9,100	9,800	8,800
TY Imports	7,764	7,679	7,679	8,000	8,000	8,000	9,100	9,800	8,800
TY Imp. from U.S.	7,721	7,679	7,679	0	8,000	8,000	0	9,800	8,800

Total Supply	36,12 1	36,03 6	36,03 6	32,85 9	31,83 3	31,83 3	34,90 9	34,08 3	35,08 3
MY Exports	162	153	153	250	50	50	150	50	50
TY Exports	162	153	153	250	50	50	150	50	50
Feed and Residual	16,40 0	16,40 0	16,40 0	14,80 0	14,00 0	14,00 0	15,60 0	15,30 0	15,60 0
FSI Consumption	16,00 0	16,00 0	16,00 0	16,00 0	16,00 0	16,00 0	16,20 0	16,15 0	16,30 0
Total Consumption	32,40 0	32,40 0	32,40 0	30,80 0	30,00 0	30,00 0	31,80 0	31,45 0	31,90 0
Ending Stocks	3,559	3,483	3,483	1,809	1,783	1,783	2,959	2,583	3,133
Total Distribution	36,12 1	36,03 6	36,03 6	32,85 9	31,83 3	31,83 3	34,90 9	34,08 3	35,08 3
Yield	3.	3.	3.310 5	3.	3.	3.258 6	3.	3.	3.402 8

### Author Defined:

#### LITTLE IMPACT OF RUSSIAN EVENTS ON THE MEXICAN MARKET

After the initial Russian announcement of a ban on grain exports, SAGARPA, SE, and the National Chamber of Mexican Wheat Millers (CANIMOLT) issued a joint statement that Mexico's wheat supply is sufficient, that wheat stock levels are adequate (at least for one year), and that Mexican wheat production and consumption remain stable. In addition, SAGARPA, SE, and CANIMOLT reported that between 2004 and 2009, Mexico's wheat production grew 78 percent, from 2.3 to 4.1 MMT and imports fell from 3.6 MMT in 2004 to 2.8 MMT in calendar year 2009.

Trade sources believe that United States Government forecasts of global grain stocks at 347 MMT and a stocks-to-use ratio estimated at around 19.4 percent provide comfort to the Mexican market as the average stocks-to-use ratio for the 9 years prior averaged just slightly higher at 20.7 percent. Furthermore, sources believe global supplies are adequate for Mexico's demand if no production setbacks occur in the Southern Hemisphere.

SAGARPA officials and private sources initially believed that the increase in global wheat prices stemmed from speculation and not from a supply shortfall in Russia. Moreover, they believed that Russia's inability to meet client contracts initiated the volatility and that prices would settle after some time. These sources reported that production of other crops and in other geographic regions remained stable or moved higher. Moreover, sources reiterated that global stocks remain near the highest levels in the past 23 years and that they do not perceive supply and demand problems in Mexico as buyers purchase wheat from the United States and Canada, but not from Russia or the European Union.

#### GOVERNMENT OFFICIALS ANTICIPATE STRONG CORN AND WHEAT PRODUCTION

Secretary of Agriculture Francisco Mayorga recently stated that 2008 rainfall was normal and Mexico's corn production reached 25 MMT. In 2009, he said, production fell to 23 MMT, but in 2010 could reach 26 MMT if favorable rains continue. For wheat, Mayorga stated that Mexico produces four MMT in good years and may exceed this goal in 2010.

SAGARPA contacts stated that the 2009/10 fall/winter crop season in Sonora and Baja California was good. In addition, SAGARPA sources stated that the wheat milling industry maintains a year's worth of durum wheat stocks and approximately four or five months of milling wheat stocks. Sonora continues

to be the main producing state and accounts for approximately 41 percent of total production. Guanajuato is the second biggest producing state and contributes 15 percent. The Baja California area is the third most important area and contributes another 14 percent of total wheat production.

Typically, Mexico produces fewer bread varieties (i.e., hard red winter and hard red spring) but more durum wheat (or, crystalline). Mexican producers find that durum wheat is easier to grow and yields more than other varieties.

## STOCK LEVELS PROVIDE COMFORT TO THE MEXICAN MARKETPLACE

SAGARPA's Director in Chief of the Agency for the Support and Services of Agricultural Trading (ASERCA) Manuel Martinez del Leo reiterated Secretary Mayorga's public statement, that, "unlike two years ago, there is no pressure on the market from biofuels demand that is adversely impacting grain prices." Martinez stated, "Today's energy market is pretty quiet, and depressed. In addition, the stock levels of commodities such as wheat, corn and soybeans are at very good levels. Some trade sources (using private data) expect that the world wheat stocks-to-use ratio will fall to 21.5 percent in the 2010/11 season, down from 25.5 percent in 2009/10 and remain more abundant than the 17 percent ratio reached in the 2007/08 season."

## PRICE MOVEMENTS DO NOT THREATEN MEXICO

Private and government sector sources do not anticipate a new price crisis in Mexico. Rather, sources view the increase in grain prices as a temporary situation and, in general, report that commodities, including wheat, corn and soybeans show adequate stock levels. These sources do not perceive significant problems as many are aware of and concur with American and Canadian forecasts showing strong North American production.

After analyzing recent grain and cereal market price movements, SE and SAGARPA sources stated that Mexico will not have wheat supply problems and that they do not envision price increases reaching record levels witnessed in 2008. In addition, both Secretariats are monitoring basic grain markets to avoid disorder on the domestic marketplace.

Trade sources anticipate that 2010/11 market prices will be active and volatile as changing trade flows need to accommodate demand. Domestically, traders indicate that grain prices need to be strong enough to persuade producers to provide an adequate supply stream for 2010/11 and to encourage increased planted area in 2011/12.

The Mexican Institute of Finance Executives (IMEF) revealed that the increase in fuel prices is a greater inflationary factor than world grain prices. IMEF stated that the annual inflation rate in June was 3.69 percent, and the highest increases are from higher prices for energy (gasoline and electricity). According to the IMEF President, "If fuel prices do not increase too much, our outlook for inflation is 4.5 percent in 2010."

IMEF said, "World wheat stocks are high and we believe that prices will soon reach stable levels." The IMEF suggested that while wheat is important in the Mexican diet, with globalization, it is possible to substitute. "Wheat is for bread, pasta, biscuits, and wheat flour tortillas. Fortunately, however, there

are many substitutes like rice. Therefore, an increase in wheat prices could lead to increased consumption of substitutes as Mexican families balance their household food expenditure budget by switching from one product to another.”

IMEF acknowledged that inflationary risk is present if corn and egg prices move higher as they are determinants in the food basket of lower purchasing power consumers. Wheat price increases alone, however, are not a significant indicator of domestic inflation.

#### **POLICY INITIATIVES TAKING HOLD**

Trade sources indicate the wheat milling industry is taking advantage of the Forward Contracts Program during MY 2009/10 (see GAIN reports [MX8017](#) and [MX7071](#)). This Program has contributed, increasingly, to the substitution of imported bread wheat with domestic bread wheat. A similar course of action is occurring in the animal feed sector. Feed producers are using domestic white corn and sorghum, rather than imported yellow corn and sorghum to meet part of the livestock industry demand.

Industry representatives believe another of SAGARPA’s plans, to convert durum wheat land to bread wheat land, is well intentioned and appropriate, as only 1.2 MMT of the 4.0 MMT of wheat produced in Mexico is bread wheat. In line with this plan, industry sources report Guanajuato growers are increasing planted area to bread and soft wheat varieties.

#### **FAS/Mexico Web Site:**

We are available at [www.mexico-usda.com](http://www.mexico-usda.com) or visit the FAS headquarters' home page at [www.fas.usda.gov](http://www.fas.usda.gov) for a complete selection of FAS worldwide agricultural reporting.