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Sugar and Sweeteners Outlook

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Reduced Sugar Production Outlook for Mexico in 2016/17 and 2017/18 Limits Supplies Available for Export to United States in 2017/18

The June *World Agricultural Supply and Demand Estimates* (WASDE) reduced projected U.S. sugar supplies by 430,000 short tons, raw value (STRV) to 13.606 million STRV for 2017/18. Reduced supplies are due to a 527,000-STRV reduction in projected imports—all of which is due to fewer imports from Mexico. The reduction of imports is partially offset by a 59,000-STRV increase in beginning stocks and a 38,000-STRV increase in domestic production; both are related to a raised production outlook for the 2017/18 sugarbeet crop and a higher expected proportion produced before the October 1 beginning of the fiscal year. Total-use projections are unchanged from the previous month at 12.502 million STRV, including 12.322 million STRV for domestic food and beverage deliveries. Ending stocks in 2017/18 are projected to be 430,000 STRV less than the May figure, with a stocks-to-use ratio falling to 8.8 percent.

Ending stocks for the 2016/17 year are estimated at 1.536 million, a 59,000-STRV increase from the May estimate. As a result, the stocks-to-use ratio is raised from 11.8 percent in May to 12.3 percent in June. The increase is accounted for by a 59,000-STRV increase in estimated beet sugar production, the result of a raised outlook for the 2017/18 sugarbeet crop that was planted ahead of historical averages this spring, which increases the likelihood of high yields and a larger proportion of early-season production. Use estimates are unchanged in June, with domestic deliveries for food and beverage use totaling 12.200 million STRV.

Estimated sugar production in Mexico for 2016/17 is reduced 201,000 metric tons, actual value (MT), for 2016/17 based on production reports as the harvest concludes in June and July. This results in a net reduction to ending stocks of 192,000 MT to be carried over into 2017/18. Projected production for 2017/18 is also reduced by 125,000 MT, resulting in total 2017/18 supplies projected at 366,000 MT less than the previous month's projection. As a result, total exports are projected to be 1.544 million MT, including 1.519 million MT to the United States—a 451,000 MT reduction from the May projection and less than the current projected Export Limit that would be set by the U.S. Department of Commerce under the current market projections. Ending stocks are projected to be 815,000 MT, which is expected to be the minimum amount of supplies needed to supply the domestic market before the 2018/19 sugarcane harvest comes to market.

Early-season 2017/18 crop year beet sugar production raises production prospects for 2016/17

The June USDA *World Agricultural Supply and Demand Estimates* (WASDE) estimates that total U.S. sugar supplies in 2016/17 will be 14.016 million short tons, raw value (STRV), a 59,000-STRV increase from the May estimate. The increase in supplies is due to higher domestic production estimated for 2016/17, at 8.832 million STRV—a 56,000-STRV increase from the previous month's estimate.

Table 1 -- U.S. sugar: supply and use, by fiscal year (Oct./Sept.), June 2017.

Items	2015/16	2016/17 (estimate)	2016/17 (forecast)	2015/16	2016/17 (estimate)	2017/18 (forecast)
	1,000 Short tons, raw value			1,000 Metric tons, raw value		
Beginning stocks	1,815	2,053	1,536	1,647	1,863	1,394
Total production	8,989	8,832	8,738	8,155	8,013	7,927
Beet sugar	5,119	4,988	4,988	4,644	4,525	4,525
Cane sugar	3,870	3,844	3,750	3,511	3,488	3,402
Florida	2,173	2,051	2,000	1,971	1,861	1,814
Louisiana	1,428	1,612	1,600	1,296	1,462	1,451
Texas	116	138	150	106	125	136
Hawaii	152	43	0	138	39	0
Total imports	3,341	3,130	3,331	3,031	2,840	3,022
Tariff-rate quota imports	1,620	1,578	1,373	1,469	1,432	1,245
Other program imports	396	375	175	359	340	159
Non-program imports	1,325	1,177	1,784	1,202	1,068	1,618
Mexico	1,309	1,162	1,774	1,187	1,054	1,609
Total supply	14,145	14,016	13,606	12,832	12,715	12,343
Total exports	74	125	25	67	113	23
Miscellaneous	-33	0	0	-30	0	0
Deliveries for domestic use	12,051	12,355	12,477	10,932	11,208	11,319
Transfer to sugar-containing products for exports under re-export program	148	120	120	134	109	109
Transfer to polyhydric alcohol, feed, other alcohol	22	35	35	20	32	32
Commodity Credit Corporation (CCC) sale for ethanol, other	0	0	0	0	0	0
Deliveries for domestic food and beverage use	11,881	12,200	12,322	10,778	11,068	11,178
Total Use	12,091	12,480	12,502	10,969	11,322	11,342
Ending stocks	2,053	1,536	1,104	1,863	1,394	1,001
Private	2,053	1,536	1,104	1,863	1,394	1,001
Commodity Credit Corporation (CCC)	0	0	0	0	0	1
Stocks-to-use ratio	16.98	12.31	8.83	16.99	12.31	8.83

Source: U.S. Dept. of Agriculture, Economic Research Service, Sugar and Sweetener Outlook.

U.S. beet sugar production is estimated to be 4.988 million STRV, an increase of 56,000 STRV from the previous month's estimate. The higher production outlook is based on estimated early-season production from the projected 2017/18 sugarbeet crop. With that crop's planting complete, planting progress would suggest a higher-than-average proportion of beet sugar production in August and September, assuming normal weather conditions for the growing season. The early-season production is not expected to be as large as was recorded in 2015/16 or 2016/17, however, as both crops had very early planting campaigns due to fortunate weather and field conditions. More discussion regarding the planting progress and the 2017/18 sugarbeet crop can be found in the 2017/18 U.S. sugar supply and use projections section below.

Table 2: Beet sugar production projection calculation, 2016/17

	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17 May	2016/17 June
Sugarbeet production (1,000 short tons) 1/	29,783	32,034	28,896	35,224	32,789	31,285	35,371	36,881	36,881
Sugarbeet shrink 2/	5.7%	5.9%	5.9%	4.8%	6.8%	5.4%	6.5%	7.0%	7.0%
Sugarbeet sliced (1,000 short tons)	28,097	30,137	27,184	33,532	30,545	29,595	33,066	34,314	34,314
Sugar extraction rate from slice	14.3%	15.4%	15.0%	15.3%	14.3%	14.6%	14.6%	13.6%	13.6%
Sugar from beets slice (1,000 STRV)	4,023	4,631	4,086	5,142	4,325	4,325	4,820	4,667	4,667
Sugar from molasses (1,000 STRV) 2/	325	357	401	327	324	341	362	353	353
Crop year sugar production (1,000 STRV) 3/	4,348	4,987	4,487	5,469	4,648	4,667	5,183	5,020	5,020
August-September sugar production (1,000 STRV)	396	623	294	708	315	461	688	606	606
August-September sugar production forecast (1,000 STRV) 4/	--	--	--	--	--	--	606	483	539
Sugar from imported beets (1,000 STRV) 5/	--	--	--	--	--	--	--	36	36
Fiscal year sugar production (1,000 STRV)	4,575	4,659	4,900	5,076	4,794	4,893	5,119	4,932	4,988

Notes: 1/ National Agricultural Statistics Service, U.S. Dept. of Agriculture. 2/Projections based on processor forecasts published by U.S. Dept. of Agriculture, Farm Service Agency. 3/ August-July basis. 4/ 2016/17 based on 10-year historical average. 5/ Sugar from imported beets split out for projections only. They are incorporated into total production in historical data.

Source: U.S. Dept. of Agriculture, Economic Research Service and World Agricultural Outlook Board.

Cane sugar production in 2016/17 is estimated to be 3.844 million STRV, a 3,000-STRV increase from the previous month. The change is due to estimated higher Texas production, as the Farm Service Agency's (FSA) *Sweetener Market Data* (SMD) reported a small amount of production occurring in April, which should mark the final production from Texas' current harvest campaign. The State is estimated to produce 138,000 STRV in 2016/17, in line with the most recent reporting. Florida and Louisiana production estimates are unchanged at 2.051 million and 1.612 million STRV, respectively. Florida had produced 2.019 million STRV of sugar through April in 2016/17, with production expected to have concluded in May. Production in Hawaii is estimated to be 43,000 STRV, based on reported production through December, as the only remaining cane processor in the State ceased operation at the end of the calendar year.

Import estimates for 2016/17 are unchanged from the previous month at 3.130 million STRV. Imports under quota programs are estimated to be 1.578 million STRV, which includes an estimated 99,000 STRV shortfall in the WTO raw sugar TRQ. Imports for the re-export and polyhydric programs remain unchanged as well, at 375,000 STRV.

Imports from Mexico are estimated at 1.162 million STRV for 2016/17, unchanged from the previous month. This is based on the announced Export Limit established by the U.S. Department of Commerce (USDOC) subsequent to the March 2017 WASDE and in line with the terms of the suspension agreements signed between the USDOC and Government of Mexico in December 2014.

The United States and Mexico announce a draft agreement for revised terms of suspension agreements

On June 6, 2017, the U.S. Department of Commerce (USDOC) announced an agreement in principle with the Government of Mexico to amend the agreements to suspend the antidumping and countervailing duties against sugar imports from Mexico. On June 14, 2017, USDOC released the terms of the draft agreement for a public comment period through June 21, 2017. The amendments revise the terms of several of the components of the December 2014 agreement. A summary of the details from the USDOC's draft agreement is presented below.[1]

[1] For the full text of the draft agreement see: https://www.commerce.gov/news/press-releases/2017/06/public-comment-sought-amended-sugar-agreement.

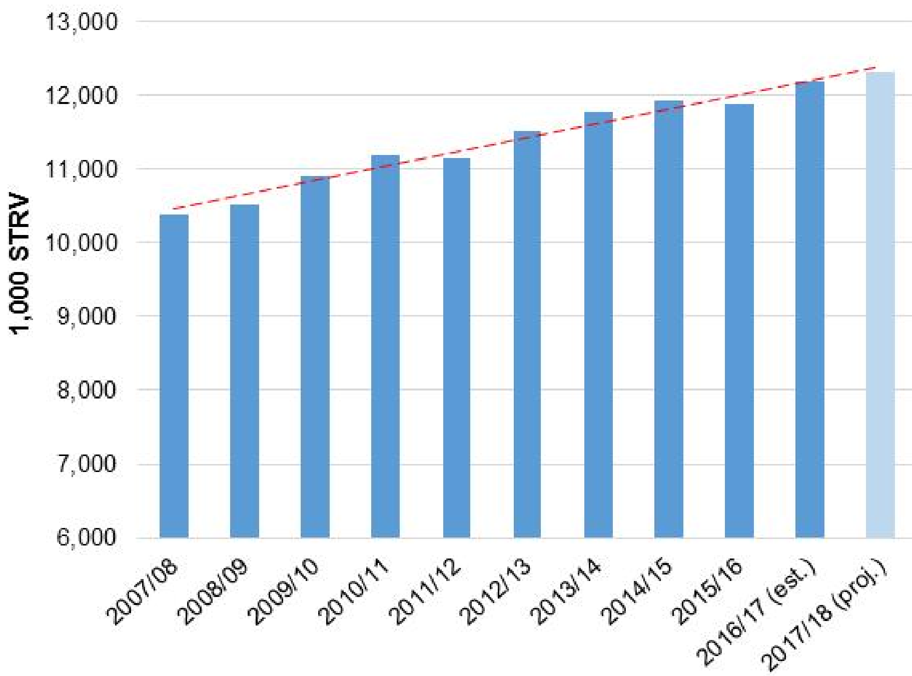
Summary of terms for agreements to suspend AD/CVD for sugar from Mexico		
	December 2014 Terms	**June 2017 Draft Agreement**
Price	*Refined sugar*- 26 cents per pound *Raw sugar*- 22.25 cents per pound	*Refined sugar*- 28 cents per pound *Raw sugar*- 23 cents per pound
Calculation of U.S. Needs	Based on a formula using USDA's WASDE projections in July, September, December and March as parameters.	No changes stated in the USDOC announcement.
Determination of Export Limit	A share of U.S. Needs: July – 70%; September – 70%; December – 80%; March – 100%; or the previous Export Limit if the calculation results in a reduction from one period to the next.	The share of U.S. Needs for the July Export Limit is reduced to 50%.
Allocation for refined sugar	Up to 53% of the Export Limit can be refined with a polarity above 99.5.	Up to 30% of the Export Limit can be refined with a polarity of above 99.2. Additionally, raw sugar exported to the United States must be loaded in bulk and free flowing (i.e. not packaged). Any sugar that is not free flowing is considered Refined Sugar.
Shipping patterns	No more than 30% of U.S. Needs calculated in July may enter between October 1 and December 31. No more than 55% of U.S. Needs calculated in December may enter before March 31.	No more than 55% of U.S. Needs calculated in September may enter before March 31, unless that amount is less than the July calculation.
Additional U.S. Needs	No terms specified.	For any additional U.S. needs, with the type and amount determined by USDA, Mexico will be offered the opportunity to supply to the United States before other countries are granted additional access.

The draft agreement was made public after the June WASDE release and only the terms described in the June 6 announcement were taken into consideration. While there are significant changes to the agreement, the draft agreement is not expected to impact U.S. or Mexico's sugar market projections in the June WASDE. The changes to the terms for the allocation of refined sugar, calculation of U.S. Needs, shipping patterns proportions, supplying additional U.S. market needs, and price limits are likely to impact the specifications and timing of sugar shipped from Mexico to the United States. With no changes to the methodology for the calculation of U.S. Needs and the ultimate Export Limit, however, the amendments are not projected to impact the total market volumes projected in the current WASDE.

Domestic deliveries pace for 2016/17 remains strong through April, particularly for beet processors

Domestic deliveries for 2016/17 are estimated to be 12.355 million STRV, unchanged from the previous month's estimate. This includes an estimated 12.200 million STRV for deliveries for food and beverage use, also unchanged from the May estimate. If realized, this would amount to a 2.7-percent increase from the 2015/16 totals, which would be a large year-over-year increase, although 2015/16 deliveries actually declined from 2014/15. As a result, the large estimated increase in 2016/17 could be seen as a return to longer-term trends.

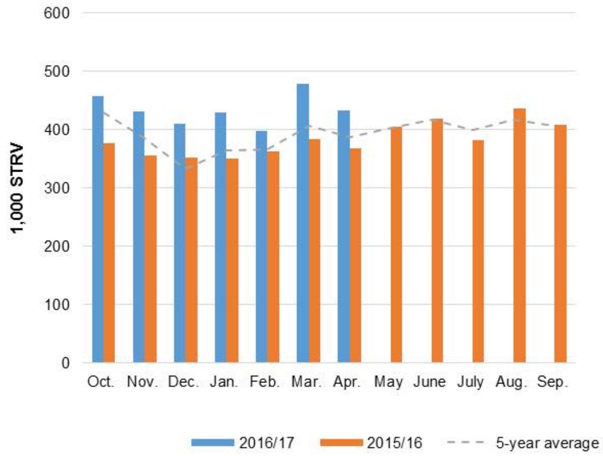
Figure 1
U.S. sugar deliveries for food and beverage use, fiscal year, 2007/08 to 2017/18



Source: U.S. Department of Agriculture, Economic Research Service.

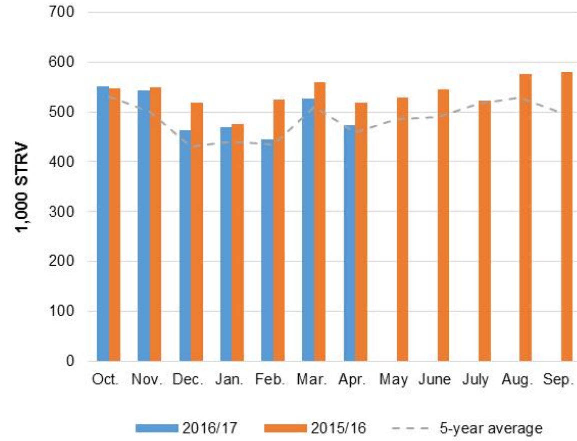
Through April, total sugar deliveries have totaled 6.971 million STRV for the fiscal year, a 3.5-percent increase from the same period the previous year. While still strong compared with historical growth, a revision to SMD data by reporters resulted in a reduction in non-reporter imports that lowered the rate of year-over-year growth compared with the previous month's report. Beet sugar deliveries continue to be the largest contributor to the higher deliveries in 2016/17. Through April, beet sugar delivers are 19.0 percent higher, year-over-year, recovering from the relatively slow performance in 2015/16. Cane deliveries are 5.9 percent lower than the strong pace that occurred in 2015/16.

Figure 2
Beet sugar deliveries, monthly, 2010/11 to 2016/17



Source: U.S. Department of Agriculture, Farm Service Agency.

Figure 3
Cane sugar deliveries, monthly, 2010/11 to 2016/17



Source: U.S. Department of Agriculture, Farm Service Agency.

Other domestic deliveries and exports also remain unchanged from the previous month, estimated at 155,000 STRV and 125,000 STRV, respectively.

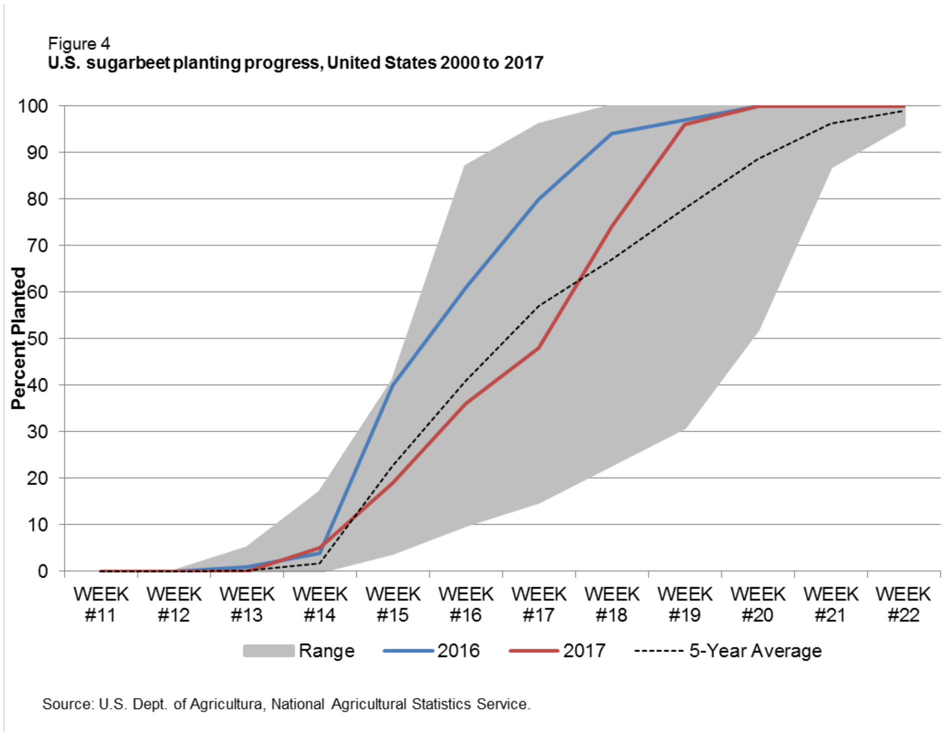
Ending stocks for 2016/17 are estimated to be 1.536 million STRV, 59,000 STRV higher than the May estimate due to the increased production outlook. The result is a stocks-to-use ratio of 12.3 percent compared with the previous month's 11.8 percent.

U.S. sugarbeet planting for 2017/18 complete, ahead of average pace

U.S. sugar supplies in 2017/18 are projected to be 13.606 million STRV, a 430,000-STRV reduction from the May projection. Higher beginning stocks and production projections are more than offset by a reduction in projected imports.

Production in 2017/18 is projected to be 8.738 million STRV, a 38,000-STRV increase from the previous month. Cane sugar production remains unchanged at 3.750 million STRV. State-level production also remains unchanged, with Florida projected to produce 2.000 million STRV, Louisiana 1.600 million STRV; and Texas 50,000 STRV. As yet, there have been no harvested area or yield forecasts from NASS regarding sugarcane production estimates for the 2017/18 crop. Initial processor forecasts for the upcoming year were in line with the previous WASDE projections.

Beet sugar production is projected to total 4.988 million STRV, a 38,000-STRV increase from the May estimate that, coincidentally, would be effectively unchanged from the previous year's estimate. The planting season for sugarbeet growers concluded at a good pace. The pace was not as strong as the 2015/16 or 2016/17 crops, but was ahead of historical averages. Early planting is correlated with higher yields and a larger portion of the crop's sugar production being processed before October 1. The 2017/18 August-September crop year production estimate is projected to be 5.044 million STRV, with 10.7 percent (or 539,000 STRV) produced before the beginning of the October 1 fiscal year. The total fiscal year production projection is then calculated, assuming early-season production for the 2018/19 crop is in line with historical averages.



Projected imports for 2017/18 reduced due to supply constraints from Mexico

U.S. sugar imports in 2017/18 are projected to be 3.331 million STRV, a 527,000-STRV reduction from the previous month. Imports under quota programs are unchanged from the previous month, totaling 1.373 million STRV. This total still only includes WTO minimum quota commitments and established free-trade agreement amounts. There has not yet been an announcement regarding the establishment of the Specialty Sugar quota for 2017/18.

The reduction in imports is due to fewer imports from Mexico expected for 2017/18, currently projected at 1.774 million STRV. According to the terms of the suspension agreements signed between the USDOC and the Government of Mexico in December 2014—and assuming a Specialty Sugar quota that is in line with the initial amount set for 2016/17— the calculated U.S. Needs would be 2.204 million STRV. The current outlook is that Mexico will not be able to fill the entirety of the projected Export Limit. The reason for the reduction is a lowered production outlook in Mexico for both 2016/17 and 2017/18, which reduces available supplies in the Mexican market. Additional discussion on the situation in Mexico is included in subsequent sections. While a reduction from the previous month’s projection, the current figure would still represent a 52.7-percent increase from the 2016/17 estimate.

Domestic deliveries for 2017/18 are projected to increase in line with longer-term growth trends

Domestic deliveries for 2017/18 are projected to be 12.477 million STRV, unchanged from the previous month. This includes deliveries of 12.322 million STRV for food and beverage use, also unchanged. The increase mentioned above represents a 1.0-percent increase from the current 2016/17 estimate and is in line with trends over the past decade. Domestic deliveries for other uses also remain unchanged, projected to total 155,000 STRV.

Ending stocks are projected to be 1.104 million STRV, a 430,000-STRV decline from the previous month due to the net reduction in projected supplies. The stocks-to-use ratio is projected to be 8.8 percent, compared with the previous month’s projection of 12.3 percent. If realized, this would be the lowest stock level since at least 1990/91.

Mexico production estimates lowered as harvest season nears conclusion

Total sugar supplies in Mexico for 2016/17 are estimated to be 7.096 million metric tons, actual value (MT), a 201,000-MT decrease from the previous month's estimate. Through June 3, 2017, Mexico has reported 5.859 million MT of sugar production. With only a few more weeks of production expected and the majority of Mexican mills ending their harvest campaigns, it appears unlikely that production will reach the April forecast published by Mexico's *Comité Nacional para el Desarrollo Sustentable de la Caña de Azúcar* (Conadesuca) and adopted by the USDA in previous WASDE reports.[2]

Table 3 -- Mexico sugar supply and use, 2015/16 - 2016/17 and projected 2016/17, June 2017.

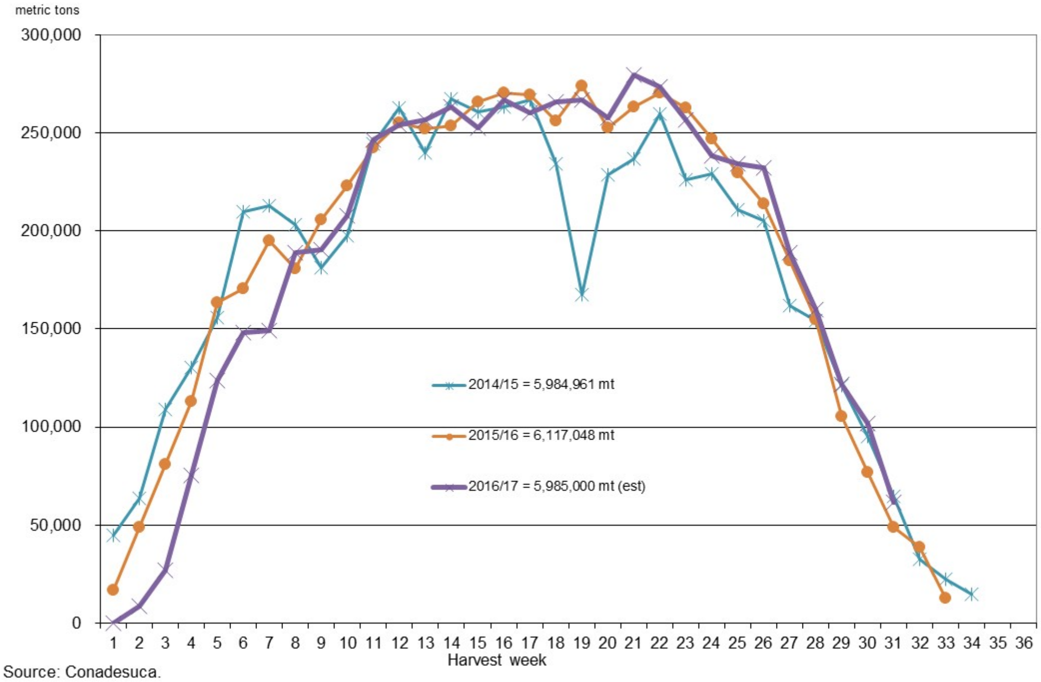
Items	2015/16	2016/17 (estimate)	2017/18 (forecast)
	1,000 metric tons, actual weight		
Beginning stocks	811	1,037	1,101
Production	6,117	5,985	6,100
Imports	83	75	75
Imports for consumption	17	25	25
Imports for sugar-containing product exports, IMMEX 1/	66	50	50
Total supply	7,011	7,097	7,276
Disappearance			
Human consumption	4,387	4,461	4,528
For sugar-containing product exports (IMMEX)	390	390	390
Other deliveries and end-of-year statistical adjustment	-10	0	0
Total	4,767	4,851	4,918
Exports	1,207	1,145	1,544
Exports to the United States & Puerto Rico	1,120	995	1,519
Exports to other countries	86	150	25
Total use	5,974	5,996	6,461
Ending stocks	1,037	1,101	815
	1,000 metric tons, raw value		
Beginning stocks	859	1,099	1,167
Production	6,484	6,344	6,466
Imports	88	80	80
Imports for consumption	18	27	27
Imports for sugar-containing product exports (IMMEX)	70	53	53
Total supply	7,431	7,523	7,713
Disappearance			
Human consumption	4,650	4,729	4,799
For sugar-containing product exports (IMMEX)	413	413	413
Other deliveries and end-of-year statistical adjustment	-10	0	0
Total	5,053	5,143	5,213
Exports	1,279	1,213	1,636
Exports to the United States & Puerto Rico	1,187	1,054	1,610
Exports to other countries	92	159	27
Total use	6,332	6,356	6,849
Ending stocks	1,099	1,167	864
Stocks-to-human consumption (percent)	23.6	24.7	18.0
Stocks-to-use (percent)	17.4	18.4	12.6
High fructose corn syrup (HFCS) consumption (dry weight)	1,482	1,484	1,484

1/ IMMEX = Industria Manufacturera, Maquiladora y de Servicios de Exportación.

Source: USDA, *World Agricultural Supply and Demand Estimates* and Economic Research Service, Sugar and Sweeteners Outlook; Conadesuca.

[2] Conadesuca released an updated, lowered forecast of 5.950 million MT on the same day the WASDE was released.

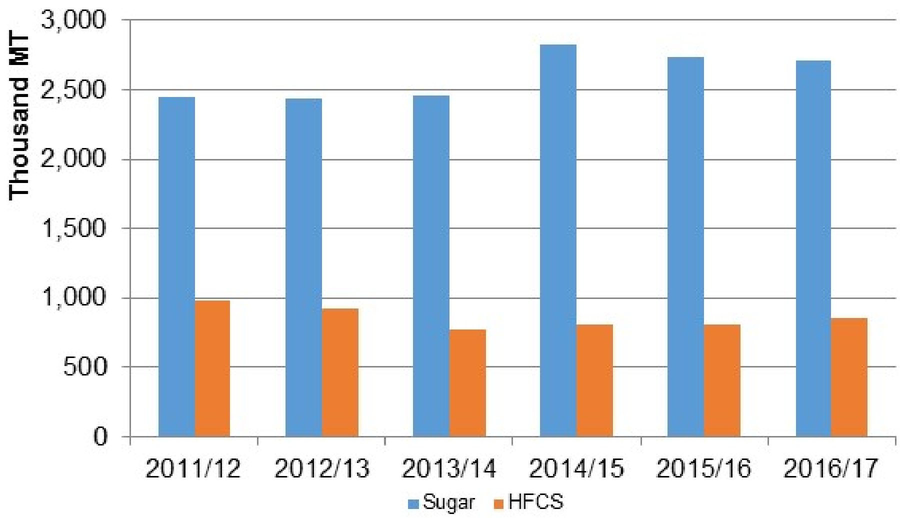
Figure 5
Mexico sugar production, by week of harvest, 2014/15-2016/17



Source: Conadesuca.

Domestic deliveries in Mexico for 2016/17 are estimated to be 4.851 million MT, unchanged from the previous month. Deliveries for human consumption also remain unchanged from the previous month at 4.461 million MT. Through April, Mexican sugar deliveries for human consumption are 0.8 percent lower than the previous year. Deliveries for high fructose corn syrup (HFCS) are 5.5 percent above the same period last year, however, resulting in total sweetener deliveries 0.6 percent higher for the year. HFCS deliveries are estimated to be 1.484 million MT, also unchanged from the previous month.

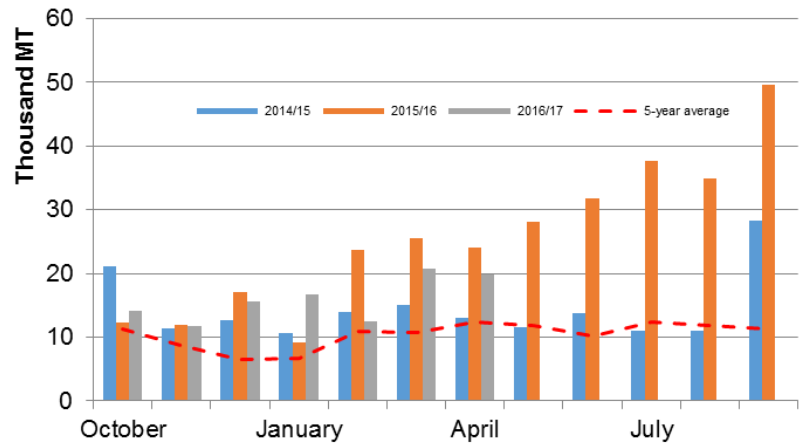
Figure 6
Mexican sweetener consumption October to April



Source: Conadesuca.

Deliveries for the IMMEX program are estimated to be 390,000 MT, unchanged from the previous year. IMMEX deliveries from domestic producers through April have totaled 111,000 MT according to Conadesuca reports, representing a 10.2-percent decrease from the same period the previous year. IMMEX monthly delivery totals from Mexican mills have not reached the levels seen in 2015/16 in recent months, but they have been larger than average. Deliveries to the IMMEX program increased substantially in 2015/16, primarily due to the implementation of new regulations in February 2016 that no longer allowed U.S. sugar that benefited from the U.S. re-export program to qualify for the duty benefits under the IMMEX program. As a result, the IMMEX program relied more heavily on domestic supplies than imports.

Figure 7
Mexico domestic IMMEX deliveries, monthly, 2009/10 to 2016/17



Source: Conadesuca.

Mexico exports are estimated to be 1.145 million STRV in 2016/17, a 40,000-MT increase from the previous month. Exports to the United States remain unchanged at 995,000 MT, in line with the Export Limit announced by the USDOC subsequent to the March WASDE, in accordance with the suspension agreements signed by the USDOC and the Government of Mexico in December 2014. The 2016/17 estimate also includes 11,000 MT of sugar imported from Mexico in early October that entered under a certificate from the 2015/16 Export Limit Period.

Exports to other countries total 150,000 MT, a 40,000-MT increase from the previous month's estimate. The increase is based on the year-to-date exports that have been shipped so far. It also includes 16,000 MT of sugar that was shipped to the United States but that was used in the U.S. re-export program. As a result, the shipment did not require a license under the suspension agreements and is accounted for as an import under the U.S. re-export program rather than as an import from Mexico. Similarly for Mexico, the shipment is counted as a shipment to other countries, since it does not count against the Export Limit.

Ending stocks for 2016/17 are estimated to be 1.101 million MT, a 192,000-MT reduction from the May estimate, the result of lower production and increased exports. The stocks-to-consumption ratio is estimated to be 24.7 percent, compared with the previous month's estimate of 29.0 percent.

Projected Mexico exports to the United States for 2017/18 reduced due to expected supply constraints

Total supplies in Mexico for 2017/18 are projected to be 7.276 million MT, a 366,000-MT reduction from the May projection. Much of the reduction is due to the 241,000-MT reduction in the carryover from 2016/17.

Production in 2017/18 is projected to be 6.100 million MT, 125,000 MT lower than the previous month's projection. The reduction is in line with the reduction in the outlook for the 2016/17 production. The projection is based on harvested area of about 790,000 hectares, sugarcane yields in line with recent historical averages, and a mill recovery rate of about 11.2 percent—also in line with recent historical levels. The projected area would be the largest yet harvested, topping the current record set in 2012/13 of 789,490 hectares, which occurred under extremely favorable growing conditions and resulted in a high-yielding crop.

Deliveries for domestic use are projected to be 4.918 million MT, unchanged from the previous month's projection, including 4.528 million MT for human consumption, also unchanged. The increase in deliveries from the previous year's estimate is due to population growth, as per capita sweetener consumption is assumed to stay the same and total HFCS consumption remains constant. The remaining growth in total sweetener deliveries is allocated to sugar deliveries, resulting in an annual increase of 1.5 percent compared with the current estimate for 2016/17.

Exports for 2017/18 are projected to total 1.544 million MT, a 451,000-MT decrease from the May projection. Exports to countries outside the United States are projected to be unchanged at 25,000 MT. Exports to the United States are reduced 451,000 MT from the May projection to 1.519 million MT. The total would be less than the calculated Export Limit based on the terms of the suspension agreements signed between the USDOC and the Government of Mexico in December 2014. Available supplies for export in 2017/18 are projected to be constrained due to the reduction in beginning stocks—caused by less production than previously estimated—and less production projected for 2017/18. Exportable supplies are also expected to be constrained by the amount of inventories needed at the end of the year to supply the domestic market from October until mid-December, or even into January, before the next sugarcane harvest gets underway and sugar from the new crop reaches the market.

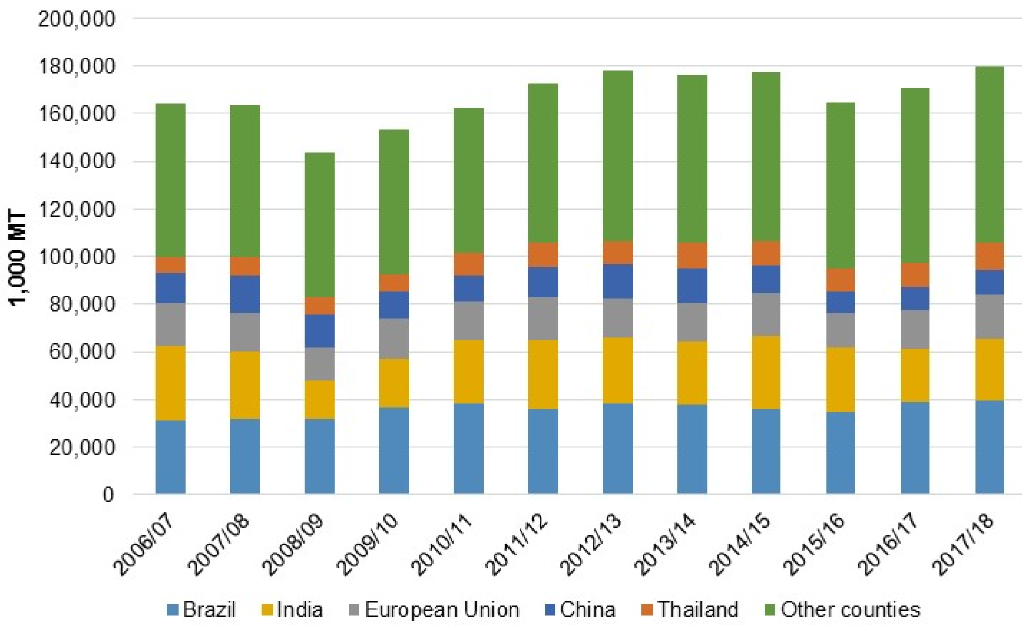
The current outlook indicates that it will be very challenging for Mexico to fill the projected Export Limit that USDOC will set for 2017/18. Several key factors in the Mexican outlook will be important in determining if Mexico increases its exportable supplies to partially or fully satisfy the projected Export Limit. First, potential substitutability of sugar and HFCS for domestic consumption in Mexico is an important factor. HFCS deliveries in Mexico reached their peak in 2011/12 at 1.721 million MT. HFCS deliveries levels have since fallen to the levels similar to current 2016/17 estimates, around 1.400 and 1.500 million MT. Domestic deliveries to the IMMEX program constitute another potential market segment that could affect exportable supplies. As noted above, IMMEX deliveries have become more reliant upon domestic deliveries since changes in regulations affect the tax-benefit status of some imported sugar. Similarly, exports to other countries are likely to reflect the optimum market returns that Mexican processors can negotiate. However, despite the fact that U.S. returns are typically better than other alternative foreign markets, Mexico has always shipped sugar to markets beyond the United States even when there have been no policy constraints. There does not appear to be a high probability that shipments to other countries is nil. While the current projections are unchanged from the previous month for these items, market developments or trends in the Mexican deliveries market would have meaningful implications for Mexican shipments to the United States and the U.S. balance sheet.

Ending stocks in Mexico are projected to be 815,000 MT, resulting in a stocks-to-consumption ratio of 18.0 percent. The current levels are projected to be a minimum amount to satisfy domestic demand during the first few months of 2018/19, before that year's sugarcane harvest gets underway several months later.

Special Article: Global Sugar Production Projected To Increase for Second Consecutive Year in 2017/18; Production Surpluses and Ending Stocks Projected Larger

The USDA's Foreign Agricultural Service (FAS) released *Sugar: World Markets and Trade* on May 18, 2017, which provided the department's updated global sugar market outlook, including the first projection for 2017/18.[3] Global sugar production is projected to increase 5.2 percent in 2017/18 to 179.6 million metric tons, raw value (MT). This would mark the second-consecutive year of global production increases. Global production remains relatively concentrated, with the five largest producing countries accounting for 58.9 percent of global production—including 22.1 percent of production accounted for by Brazil, the world's largest producer and exporter of sugar. Larger production is projected in 2017/18 in all five of the top producing countries, accounting for the majority of the growth projected for the year.

Figure 8
World sugar production 2006/07 to 2017/18

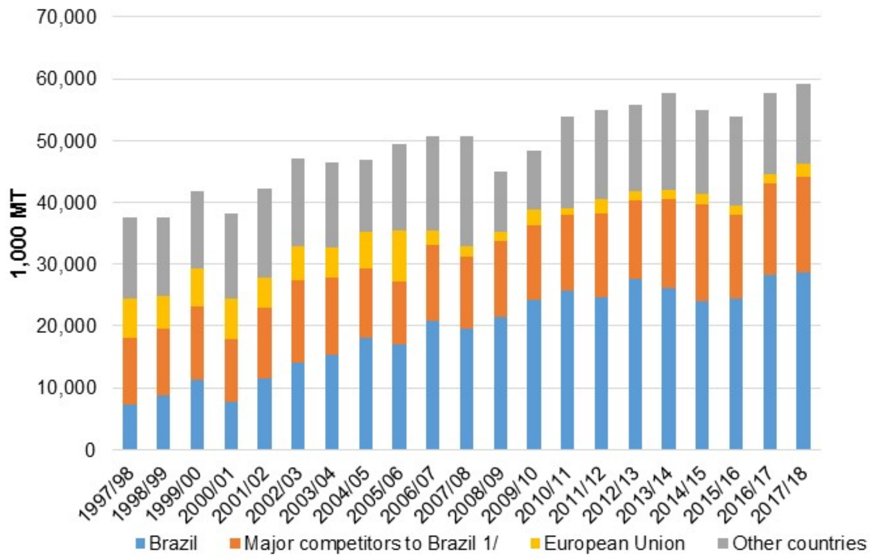


Source: U.S. Department of Agriculture, Foreign Agricultural Service.

Global exports are projected to increase 2.5 percent from 2016/17 estimates, to 59.2 million MT. Brazil will remain the world's predominant supplier to the world market, accounting for nearly half of total exports. Thailand is projected to continue to grow its export presence in 2017/18, accounting for nearly 30 percent of the global export share.

[3] For full report: https://www.fas.usda.gov/data/sugar-world-markets-and-trade.

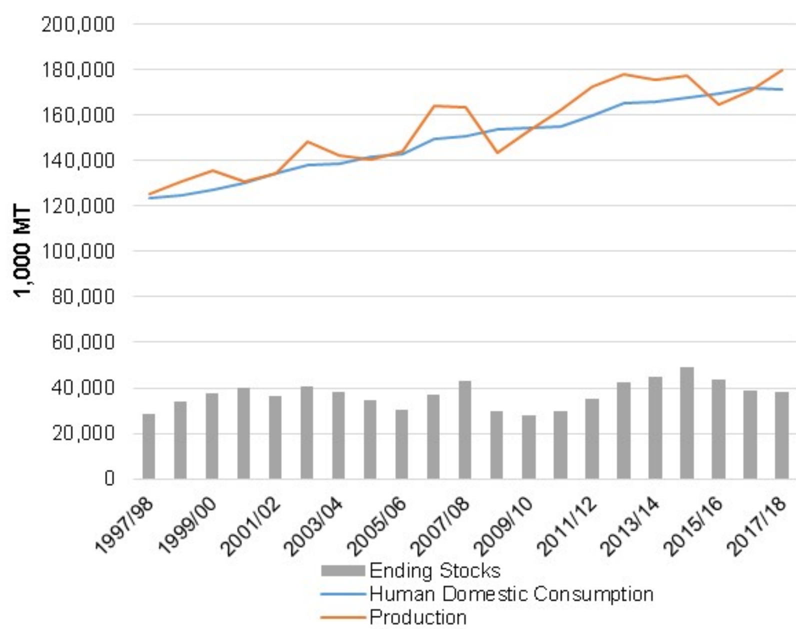
Figure 9
World sugar exports 1997/98 to 2016/17



1/ Includes: Thailand, Australia, Guatemala, Colombia, and South Africa.
Source: U.S. Department of Agriculture, Foreign Agricultural Service.

Global human consumption is projected to decline slightly in 2017/18 by 0.2 percent to 171.6 million MT. Ending stocks, however, are still projected to fall 1.5 percent to 38.2 million MT—in line with the 10-year average for global inventories.

Figure 10
World sugar production, human consumption, and production surpus, 1997/98 to 2017/18



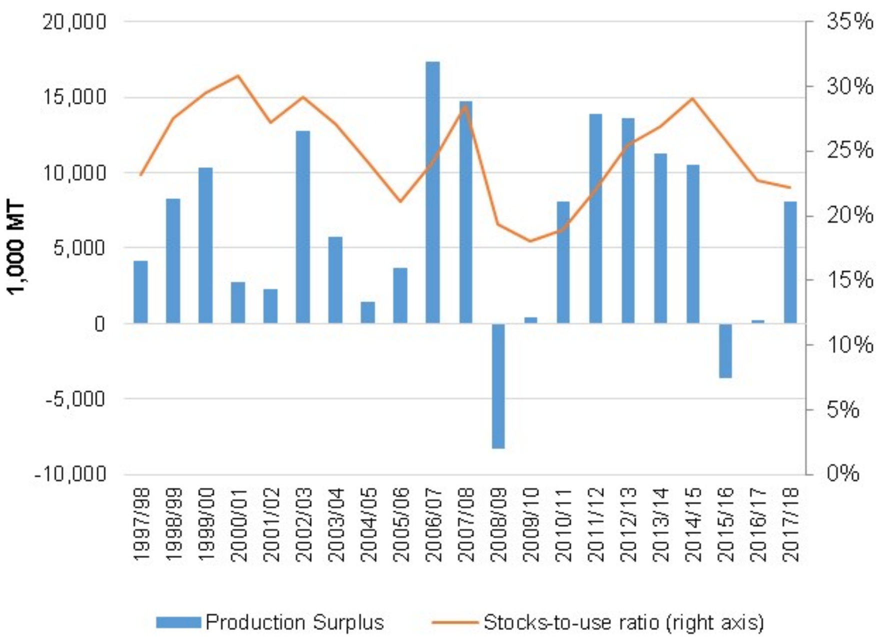
Source: U.S. Department of Agriculture, Foreign Agricultural Service.

One significant change in the sugar PSD methodology beginning in the May report is a change in the coverage for sugar markets. A number of countries that make up a relatively small amount of global market totals will no longer be reported by FAS.[4] Historical data for these countries will continue to be maintained in the database. These countries will not have projections or estimates beginning in 2017/18, however. Based on historical averages over the last 5 years, the countries represent about 0.4 percent of global production and 1.1 percent of human consumption. While relatively minor, the countries do represent a larger share of total sugar use compared with sugar production.

As a result of the changes to the methodology, a few key market indicators are affected when comparing yearly changes before and after the change in coverage. Comparing projected 2017/18 consumption to adjusted 2016/17 estimates, human consumption is projected to increase by 1.0 percent—in line with the increases seen in recent years—rather than the 0.2 percent decline in the adjusted data. Likewise, global production would be projected to increase 5.6 percent if adjusted, compared with 5.2 percent in the unadjusted projections.

The stocks-to-use ratio for 2017/18 is projected to be 22.2 percent, down slightly from the 22.8 percent estimated for 2016/17, adjusted for the countries that were removed. The lower ratio indicates that despite higher production, the global sugar balance is expected to remain relatively tight compared with historical levels. In 2017/18, the global market is expected to see a production surplus of about 8.1 million MT. By comparison, the 2015/16 production surplus was negative for the first time in 7 years, and the 2016/17 production surplus is estimated to be less than 500,000 MT. The reemergence of a production surplus of this magnitude follows the cyclical production cycles that have been a predominant force in the global sugar market over the past few decades.

Figure 11
World sugar production, human consumption, and production surpus, 1997/98 to 2017/18 1/

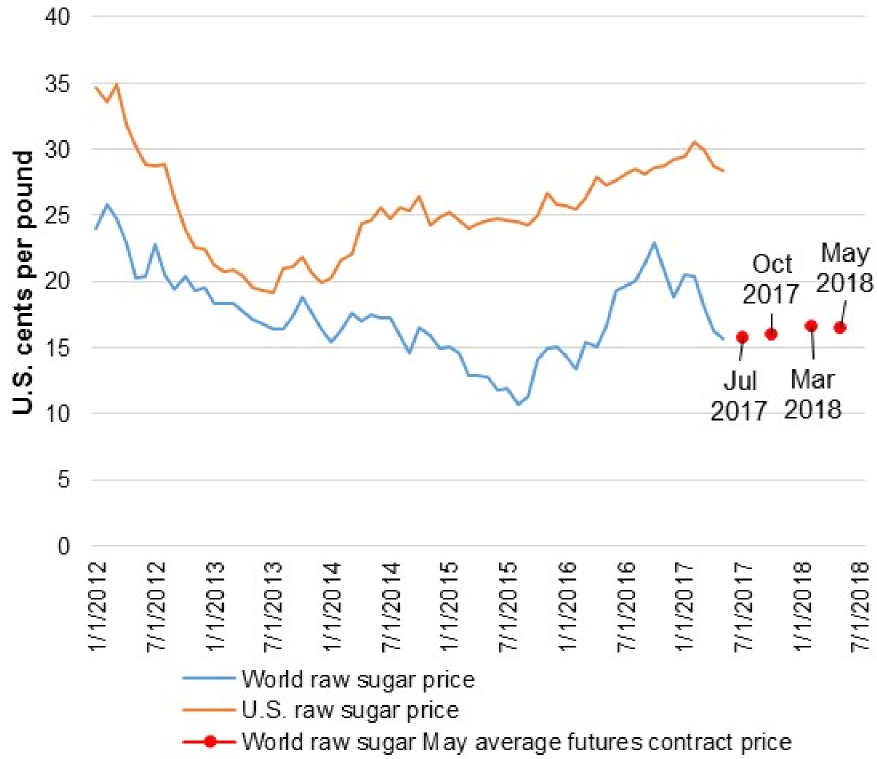


1/ Historical data adjusted for sugar market coverage changes beginning in 2017/18.
Source: U.S. Department of Agriculture, Foreign Agricultural Service.

[4] Countries no longer included beginning in 2017/18 include: Afghanistan, Albania, Armenia, The Bahamas, Bermuda, Bosnia and Herzegovina, Botswana, Brunei, Burkina, Burundi, Cameroon, Cape Verde, Central African Republic, Chad, Comoros, Congo (Kinshasa), French West Indies, Grenada, Guinea, Guinea-Bissau, Iceland, Korea North, Kuwait, Kyrgyzstan, Liberia, Macau, Macedonia, Maldives, Mali, Mongolia, Nepal, New Caledonia, Niger, Oman, Qatar, Rwanda, Samoa, Senegal, Seychelles, Sierra Leone, Suriname, Tajikistan, Tonga, Turkmenistan, Uzbekistan, and Vanuatu/New Hebrides.

Average world raw sugar prices were 15.66 cents per pound, which was 6.1 percent below May 2016 prices of 16.68 cents and 31.7 percent lower than the most recent price peak of 22.92 cents in October 2016. While prices have been trending down in recent months, price levels remain above recent lows seen in 2014/15, when the market was characterized by successive years of global surpluses and a weakening currency in Brazil. Average futures contract prices from May 2017 indicated that price levels for deliveries for the next 12 months were expected to stay at comparable levels to the nearby contract price, even subsequent to the beginning of the 2018/19 Brazilian harvest campaign.

Figure 12
World and U.S. raw sugar prices, 2013 to 2017

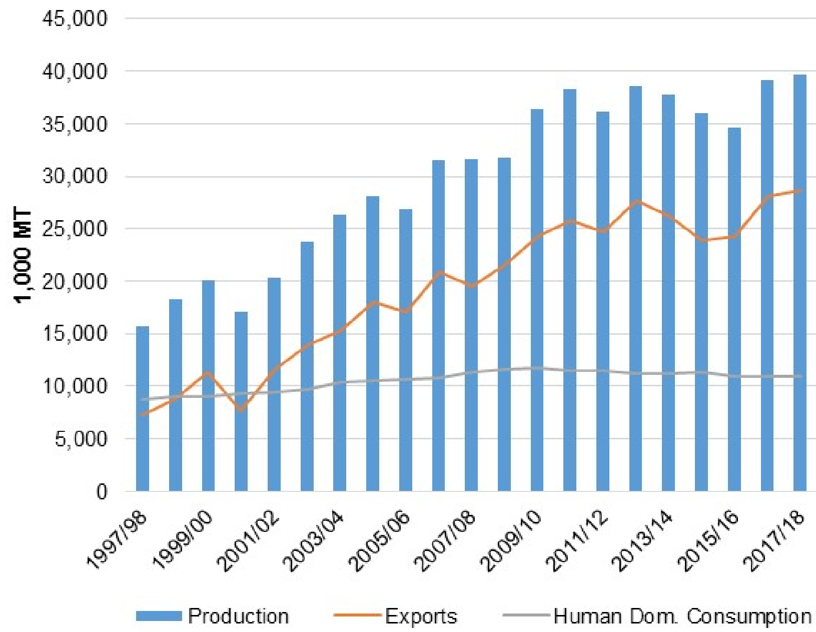


Source: U.S. Department of Agriculture, Economic Research Service.

Brazil sugar production projected to increase for second-consecutive year

Brazil continues to be the most significant producer in terms of global sugar market volumes and price discovery. Brazil sugar production is projected to increase 1.3 percent in 2017/18 compared with the previous year to total 39.650 million MT. The increase in production will accommodate a 1.9-percent increase in projected exports, at 28.690 million MT. Being the largest producer and exporter of sugar in the world, the majority of Brazil's sugar production is shipped overseas. As a result, global sugar market conditions are a key driver of Brazilian sugar production. Likewise, the costs associated with producing, transporting, and shipping sugar overseas from Brazil—including taking into account exchange rates—has a large influence on world raw sugar prices.

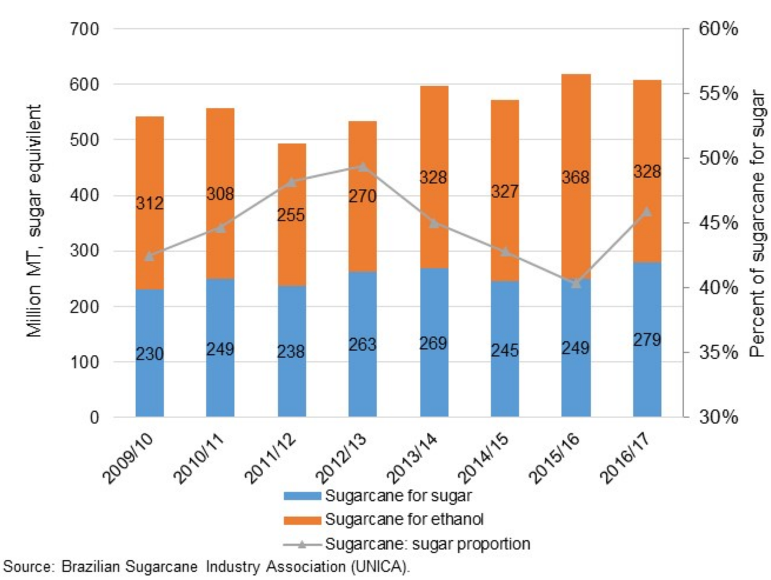
Figure 13
Brazil sugar production, exports, and domestic consumption 1997/98 to 2016/17



Source: U.S. Department of Agriculture, Foreign Agricultural Service.

In 2016/17, the increase in estimated sugar production was aided by a higher proportion of the country's Center-South sugarcane production being used for sugar production rather than ethanol production. According to the Brazilian industry group UNICA, 45.9 percent of the region's sugarcane crop was used for sugar, driven by fuel demand, gasoline market reforms, and the relative returns for sugar production compared with ethanol. This was the highest proportion of sugarcane harvested used for sugar production since 2012/13. This trend is expected to persist in 2017/18, resulting in additional sugar production projected.

Figure 14
Brazil Center-South sugarcane production and use through April 1

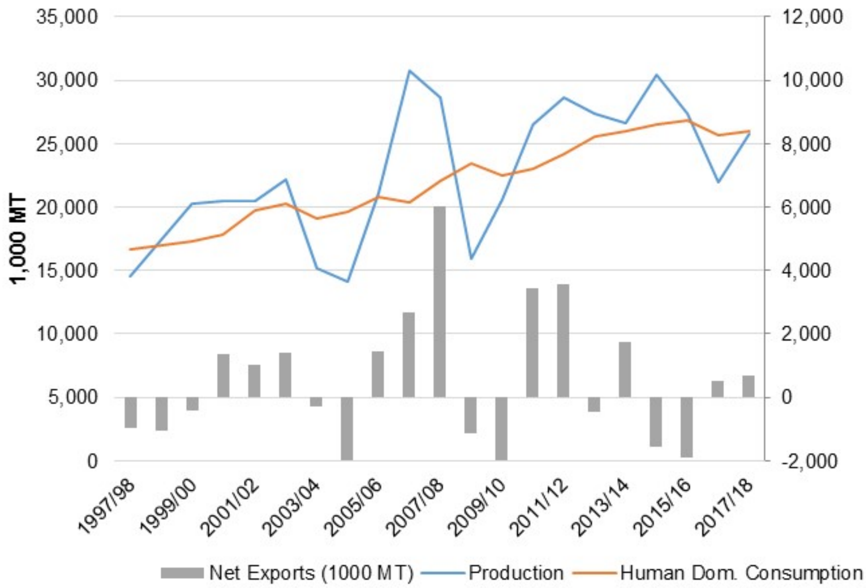


Source: Brazilian Sugarcane Industry Association (UNICA).

Large Asian markets continue to be a key factor in global sugar market as producers, consumers, and exporters

Asia is also a key geographic center for sugar markets, influencing the global balance. India is the second-largest producer and the largest sugar-consuming country in the world. In 2017/18, India is projected to see a rebound in its sugar production due to higher area and improved yields in key sugarcane-producing regions. As a result, India is projected to have net exports of 700,000 MT—the second consecutive year of net exports, if realized. The projected trade levels, though, are relatively small compared with the period between 2007/08 and 2011/12, where strong cyclical fluctuations in India's supply and use balance contributed to global sugar market price volatility.

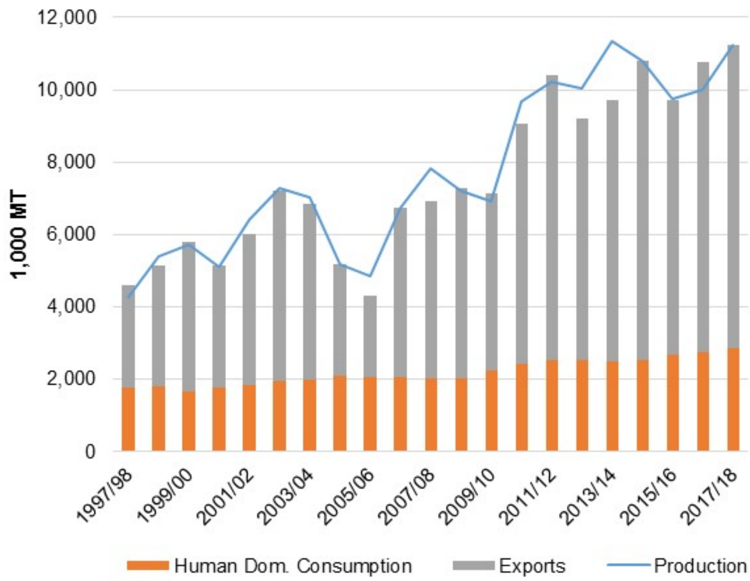
Figure 15
India sugar production, exports, and domestic consumption 1997/98 to 2017/18



Source: U.S. Department of Agriculture, Foreign Agricultural Service.

Thailand is projected to produce 11.230 million MT of sugar in 2017/18, which would be a 12.3-percent increase from the previous year as the country is expected to recover from recent droughts. Thailand's sugar industry has become increasingly export-oriented, with the country currently the second-largest sugar exporter in the world. Since 2010/11, when Thailand took several policy and market steps to shift agricultural production from rice to sugarcane in certain regions, exports have accounted for approximately three-quarters of Thailand's production. Thailand's exports primarily go to regional trading partners, with the top five export destinations in 2016/17 being: Indonesia, Myanmar, Cambodia, Japan, and China.

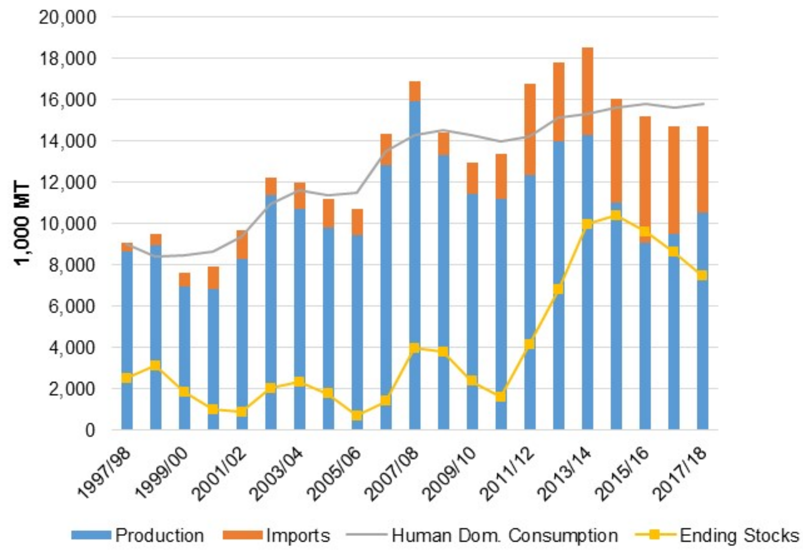
Figure 16
Thailand sugar production, exports, and domestic consumption 1997/98 to 2017/18



Source: U.S. Department of Agriculture, Foreign Agricultural Service.

China's sugar market has had a growing impact on global sugar markets over the past several years, as inventories and ending stock levels have grown substantially. In 2017/18, China is projected to increase production by 10.5 percent and imports are projected to fall by 19.2 percent. As a result, ending stocks are projected to fall for the third consecutive year. Projected ending stocks are still expected to account for 42 percent of human consumption, which is down from a peak of 67 percent in 2014/15 but still considerably larger than pre-2012/13 levels. Subsequent to the release of the USDA world market projections, China announced safeguard measures against sugar imports, particularly from Brazil and Thailand. This measure is likely to further reduce the amount of imports into China, which could potentially hasten the reduction in inventories.

Figure 17
China sugar production, exports, and domestic consumption 1997/98 to 2016/17



Source: U.S. Department of Agriculture, Foreign Agricultural Service.

Implementation of sugar market reforms in the European Union has important market implications

Sugar production in the European Union is projected to increase 12.7 percent in 2017/18, which is the first year that producers in the EU will operate without a production quota regime and export restrictions. The CAP reforms are expected to shift sugar production to areas and countries that are the most efficient and productive. Human consumption within the EU is expected to decline a slight 0.3 percent, while exports are expected to increase 46.7 percent to 2.200 million MT. That would be the largest volume of exports since 2011/12, although still substantially less than export volumes before 2007/08, when policies provided greater opportunities for EU processors to export their sugar. Between 2000/01 and 2005/06, EU sugar exports ranged from 4.793 million MT and 8.345 million MT. The reforms also lift restrictions on the isoglucose sector, which use grains as a feedstock to produce sweeteners. As a result, the caloric sweetener market in the EU is expected to go through a transition period that could result in market volatility as the sector works toward an industry structure equilibrium. There is still uncertainty, however, about what that transformation will ultimately result in and the timeframe of the transition.

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