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Financial Aspects of the Mexican Sugar Market

USDA Agricultural Outlook Forum

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Global Liquidity Vacuum-Commodities Finance

- **Continued Global Scarcity of Credit**

- Post crisis, traditional suppliers not quickly returning to the market
- Historically housed within international banks
 - No top-10 player with head office located in the Americas
 - Redeployment of capital and staff to core markets

- **Changed Landscape in 2009**

- *Dealogic* reports 21% contraction of global trade finance deals after a 51% reduction in 2008
- Commodity finance bank exit trend continued
 - HSH Nordbank, Lloyds TSB
 - BNPP exits soft commodities and Latin markets
 - DZ announces exit from Mexico
- Consolidation of sector
 - BNPP acquisition of Fortis
- Relatively few new players emerging

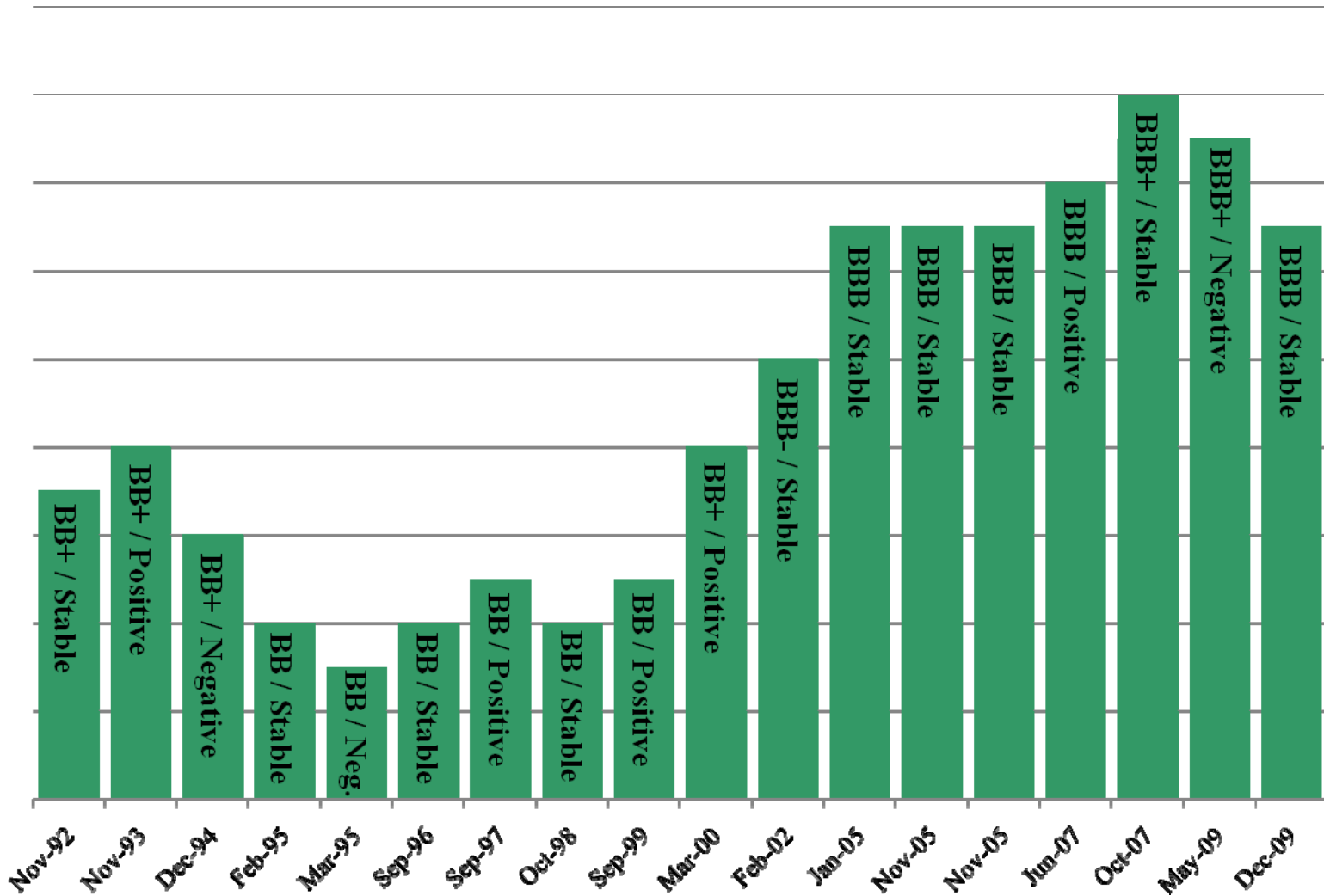
Tight Mexican Bank Market

Mexico's Top Five Banks:

		Bank	Parent Company (Country)
1		BBVA Bancomer	BBVA (Spain)
2		Banco Nacional de Mexico (Banamex)	Citigroup (United States)
3		Banco Santander	Grupo Santander (Spain)
4		HSBC Mexico (formerly Bital)	HSBC Holdings (UK)
5		Banco Mercantil del Norte (Banorte)	Grupo Financiero Banorte (Mexico)

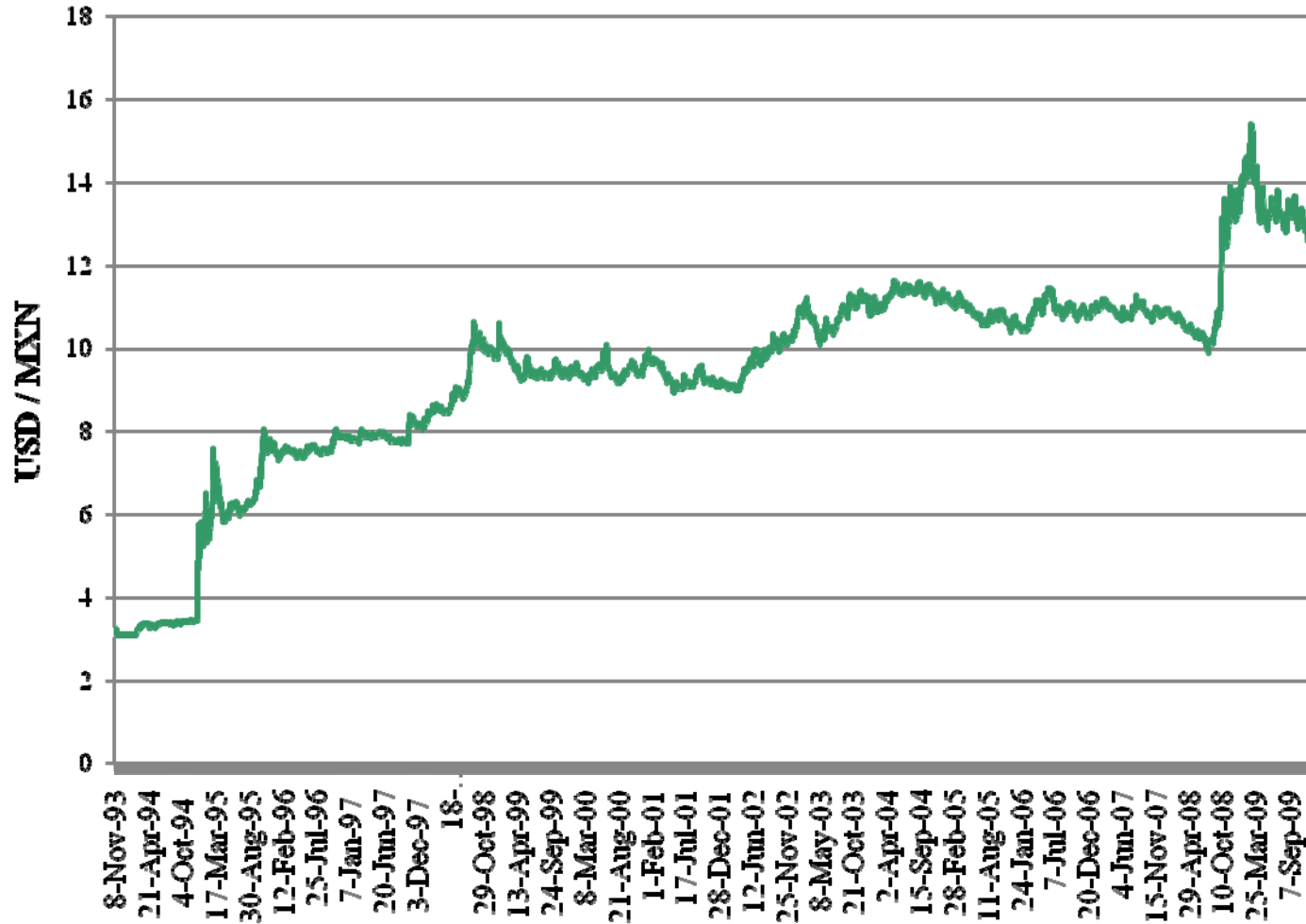
Foreign banks control 70% of loans and deposits in Mexico

Mexico Sovereign Credit Rating History



Source: Standard & Poor's, *Sovereign Rating and Country T&C Assessment Histories*

USD/MXN Exchange Rate



Source: Federal Reserve , <http://www.federalreserve.gov/releases/H10/hist/>

Difficult Financial Climate in Mexico

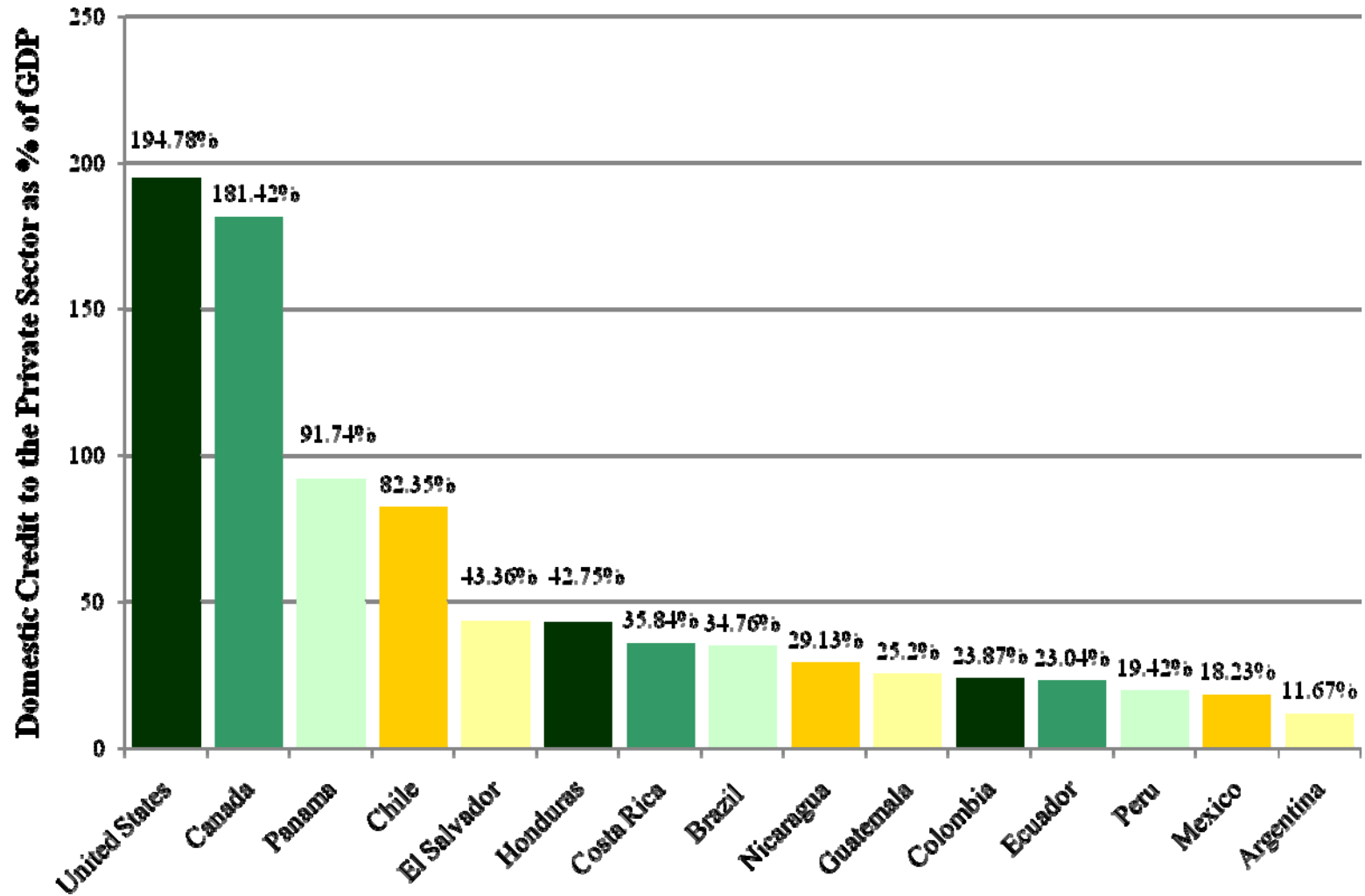
- **History of Negative Credit Events**
 - **Sovereign debt defaults in 1982**
 - **Lasting effects of 1994 “Tequila Crisis”**
 - Explosion of bad debts
 - Triple digit inflation
 - Peso Devaluation

- **Challenging legal system for creditors**

- **Headline risks remain**
 - Corruption
 - Drug related incidents

- **Primarily private unrated companies**

Credit Availability in the Americas



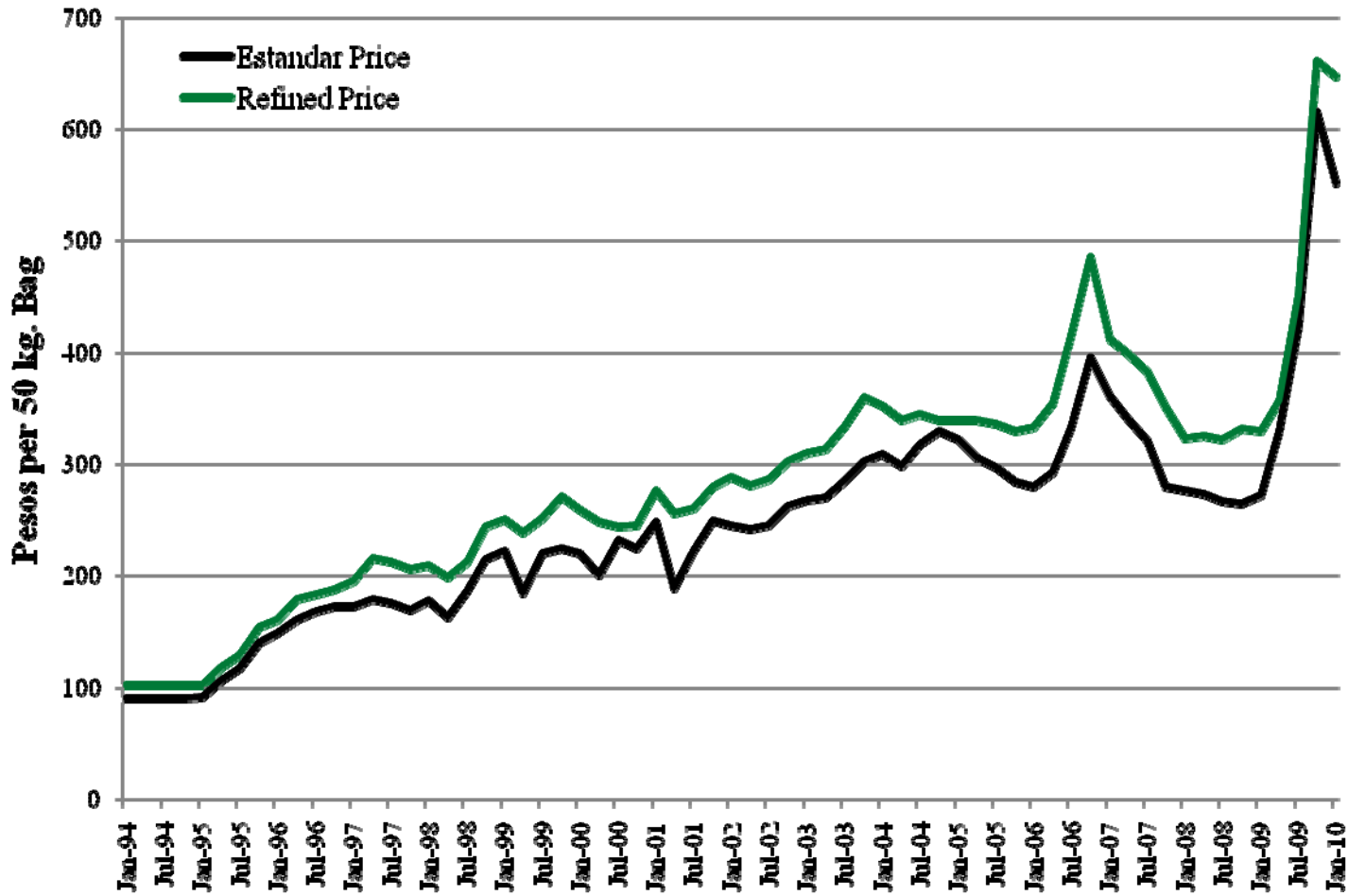
Source: World Bank: *World Development Indicators*

Government Plays Prominent Role in Mexican Sugar Industry

- Social and political pressures motivate continued government intervention and support
- Through FEESA/FICO, government controls 25% of sugar market
- Ongoing mandate to re-privatize industry
- Subsidies provided to cane growers
- Highly negotiated sugar cane prices
- Government controls import quotas

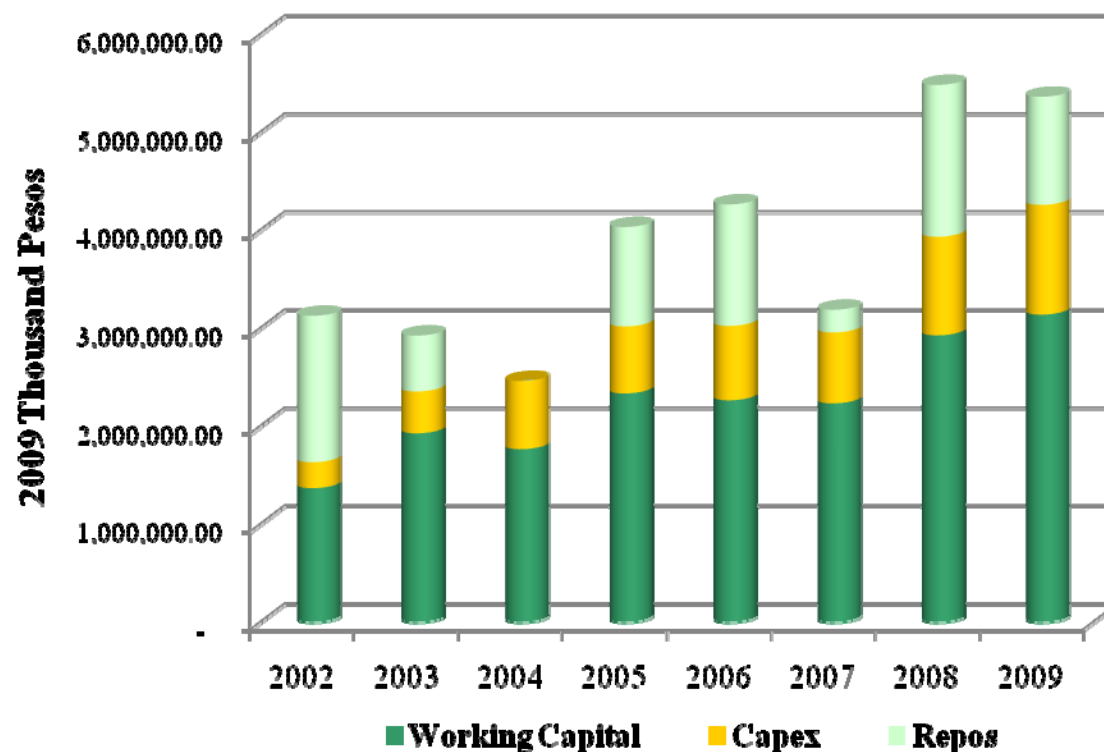
➤ **Public funds are primary financing source for Mexican sugar industry**

Mexican Sugar Prices Since 1994



Source: USDA, <http://www.ers.usda.gov/Briefing/Sugar/Data.htm>

FIRA Sugar Cane and Sugar Inventory Financing in Mexico



	PESOS OF 2009 (THOUSANDS)							
	2002	2003	2004	2005	2006	2007	2008	2009
Working Capital	1,365,314.75	1,924,951.12	1,762,746.01	2,331,887.49	2,261,649.66	2,230,616.76	2,924,367.82	3,136,147.49
Capex	265,251.16	427,041.04	695,871.13	683,881.73	759,603.07	723,712.82	1,006,389.01	1,120,581.87
Repos	1,494,012.25	570,587.91	-	1,014,487.56	1,239,839.96	231,138.84	1,549,265.49	1,102,571.20
Total	3,124,578.16	2,922,580.08	2,458,617.15	4,030,256.77	4,261,092.69	3,185,468.42	5,518,938.10	5,359,300.56

Source: FIRA

Additional Financial Services Providers

Mexican Banks

- Strengths: Understanding of Mexican creditor system, peso loan book
- Weaknesses: Foreign ownership, liquidity strains, lack operational expertise
- Other: Limited culture of financing agribusiness, Highly politicized industry

Sofoles

- Strengths: FIRA funding, FEGA guarantees, local presence & knowledge
- Weaknesses: Limited size, lack of scale
- Other: Reasonably new players, focused on field finance

International Banks

- Strengths: Structuring expertise, history of sugar industry lending
- Weaknesses: Cultural divide, limited capital resources, dollar loans, slow to execute
- Other: Tenuous commitment over long-term

Trade Houses

- Strengths: Local presence, investing in assets, vertical integration, risk management
- Weaknesses: Higher cost of capital, finance is non-core activity
- Other: Link credit with commercial activities, limited structures

Summary

- Mexican sugar industry remains undercapitalized
- Despite difficult environment and limited funding alternatives:
 - Sustained higher prices improving industry health
 - Investment in co-generation, irrigation and land
 - Foreign investment continues
 - Re-privatization and consolidation occurring
 - Ethanol may play a future role