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Post: Buenos Aires

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Report Highlights:

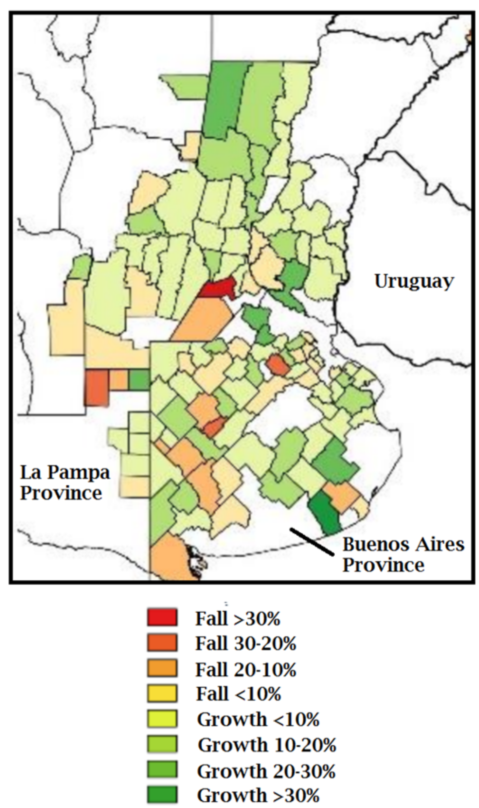
2020 Argentine milk production is revised upwards to 11.35 million tons on favorable production conditions. Whole milk powder exports are raised to 180,000 tons on competitive prices and low domestic margins. 2021 fluid milk production is projected up 2% to 11.57 million tons. An anticipated recovery in the Argentine economy in 2021 will encourage processors to refocus on the domestic economy and trim exports of powdered milk.

Introduction:

Following favorable weather, a steady increase in peso-denominated milk prices, and strong domestic and international demand Argentine dairy producers have steadily increased production of fluid milk over 2019 levels. This increase has led to a rise in the production, consumption, and export of all products except certain cheeses (notably mozzarella) which have fallen since the closure of food service outlets in response to COVID-19 outbreaks in Argentina in March 2020.

Political and economic uncertainty continue to affect the local dairy industry. Argentina has primarily been financing its COVID-19 recovery and stabilization efforts through printing more pesos. While inflation has run at more than 40% in recent years, the industry fears that the inflation rate will rise even higher once post pandemic economic growth resumes. Further, currency controls intended to boost the foreign currency reserves have prevented the Argentine peso from depreciating to the extent it might have otherwise done without such controls. Since the beginning of the COVID-19 crisis in Argentina in March, the peso fell from 63 pesos per US Dollar to 76 pesos per dollar, a devaluation of 21%. However, outside of the formal banking system, an exchange rate of between 130-145 pesos is being reported by market participants. Producers and processors are therefore concerned that if capital controls were to be lifted, official and unofficial rates would converge, resulting in a devaluation of more than 100% against the US dollar.

Argentina Dairy Production by County
Change Aug 2019-2020



Source: Argentine Ministry of Agriculture, Livestock and Fisheries

Due to the current profitability of most segments of the dairy industry, producers and processors are seeking ways to reinvest peso-denominated earnings to protect them from inflation and devaluation. While generally not making large expansions due to industry overcapacity, sector participants are accelerating repairs and necessary upgrades by investing in assets such as milk processing equipment, tractors, and trucks. Dairy farmers with grazing land are converting some of that land to crop production as another means of guarding current earnings. They reason that newly planted soybeans and corn will retain more value after harvest than pesos saved at banks even with high interest.

Domestic dairy consumption has held up better than expected at the beginning of the COVID-19 outbreak, thanks in part to continued government price freezes on many key consumer staples, including dairy products. However with inflation rising 3-4% per month, the profit margins for retail dairy products are eroding rapidly and farmers warn that rising costs for labor and other inputs could quickly overtake slowly rising milk prices paid to farmers. On October 6, 2020, per Disposition 14/2020 the government allowed the prices of most dairy products to rise 2%. Some major dairy processors are seeking to maintain profitability by introducing new product lines unaffected by the price freezes and limited at-home delivery of milk.

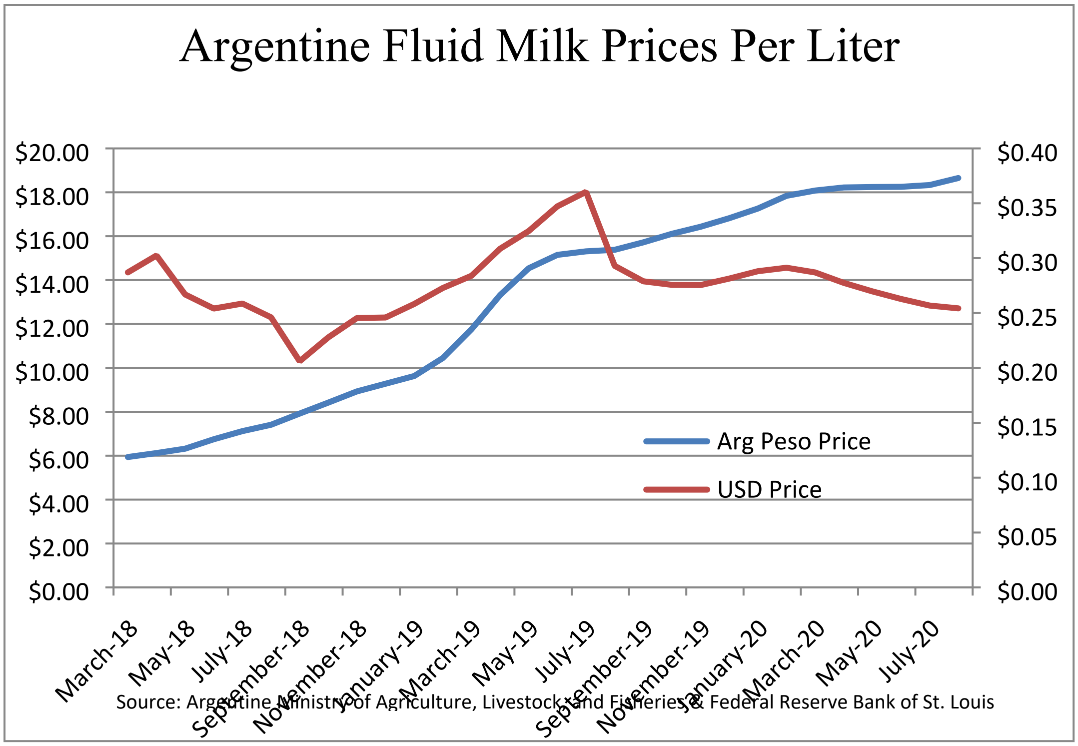
Argentina has had strong export performance so far in 2020, exceeding earlier expectations. It could become more competitive if its currency is allowed to depreciate further. Post contacts report that the government is considering reducing the current 9% export tax on powdered milk to 5%. The government is eager to replenish foreign currency reserves and recently lowered export taxes on soybeans and mining products in an effort to increase exports. Argentine regulations require that exporters convert their sales from dollars to pesos and farmers are paid in pesos.

Production:

Fluid Milk

With strong peso prices in the first half of the year and substantially better weather than the hot, insect-heavy summer of 2019, Argentine fluid production is on its way to its highest output since 2015. As Argentina enters its peak production season, Post raises its 2020 end of year production to 11.35 million metric tons (MMT) up 7% from 2019, and 250,000 tons higher than USDA official estimate. Despite warning political leaders about recent declines in the dollar-based price, producers expect prices to improve somewhat in the coming months and are not managing down milk production. A lack of precipitation and pasture health remain concerns, especially for dairy producers in eastern Cordoba Province and western Buenos Aires Province.

For 2021, Post projects a production of 11.575 MMT of fluid milk, an increase of 225,000 tons or 2% above revised 2020 projections. A trend toward continued consolidation is expected to accelerate in 2021 as margins for smaller dairies under current prices are negative, while mid-size and large dairies have positive margins. Less pastureland will be available for grazing as dairy farmers are choosing to plant available land to crops such as corn and soybeans to reinvest current earnings in future commodities. Potential dry weather from a weak La Niña has the potential to raise feed costs in 2021 if pastures are degraded and corn production is weaker than expected. Argentine dairies have access to lower cost feed than many of their international competitors because export taxes keep grain and oilseed prices artificially low. However, Argentine dairy farmers also receive a lower price per liter of milk than most of their competitors and export taxes decrease profitability.



Argentina's dairy sector is based primarily in the provinces of Buenos Aires, Santa Fe, and Cordoba. There are approximately 10,000 dairies in the country with about 80% of dairies having fewer than 500 cows. However, in terms of total numbers of cows, about equal numbers are on dairies smaller and larger than 500 cows. Argentine dairies utilize three types of production systems, pastoral, semi-pastoral, and stabled/indoor. By far the most common is the semi-pastoral or mixed production system, utilizing grazing when available and supplementing with compound feed. As a general trend, smaller dairies utilize proportionally more grazing and larger dairies rely more on purchased compound feed.

A recent assessment done in conjunction between the Argentine National Agricultural Institute and a university partner (IAPUCO) estimated that in the first half of 2020, the value of a liter of milk was split by industry participants in the following manner: dairies receive 34.5% of the total value, processors receive 30%, retailers 23.5%, and 12% to taxes. Argentina has a low rate of concentration in the dairy processing sector relative to many of its competitors and much unused capacity. The Argentine Ministry of Agriculture estimates that only 49% of available industrial capacity was utilized in July 2020.

Butter

Post maintains its projection of 39,000 tons of butter for 2020 matching USDA official. For 2021, post projects production at 37,000 tons as even demand and higher ending stocks reduce growth slightly.

Cheese

Post adjusts production numbers for 2019 and 2020 upward based on revised estimates of previously unmeasured cheese production, especially in Buenos Aires Province. 2019 cheese production is revised to 523,000 tons, up 94,000 tons over USDA official. 2020 cheese production is projected at 488,000 tons, up 48,000 tons from USDA official but down 6.7% from revised 2019 levels. The 2019 to 2020 reduction is primarily driven by a decline in the production of mozzarella cheese used for pizza in the province of Buenos Aires, due to the closing of many restaurants because of COVID-19 restrictions. However, production of all classes of cheese has declined in the first half of 2020, with the exception of certain soft and specialty cheeses that consume a small proportion of milk destined for cheese. Post projects 2021 cheese production at 537,000 tons, up 10% as restaurant demand improves, and an improved economy allows Argentine consumers to purchase more hard cheeses.

Whole Milk Powder

Post projects 2020 whole milk powder production at 267,000 tons, 62,000 tons over USDA official and up 42% from low 2019 levels on official statistics. As the Argentine economy contracts, and inflation squeezes domestic retail margins, Argentine dairy processors are finding that exporting whole milk powder is the most profitable use of milk. Some producers who previously sold to independent cheese makers are now selling to large scale processors who can produce and market whole milk powder competitively. Post projects 2021 whole milk powder production at 250,000 tons, down 6% as processors reorient to a recovering domestic market and cooling export demand..

Skim Milk Powder

Post raises its 2020, skim milk powder production projection to 48,000 tons, 5,000 tons over USDA official and up 6% relative to 2019 on early year production figures. Strong international and domestic demand is driving production. Post projects 2021 at 49,000 tons, up 2%.

Consumption:

Thanks in part to government price controls, 2020 fluid milk consumption is now projected to rise to 1,750,000 MT up 150,000 MT from USDA official and up 6.7% from 2019. Driven by economic shutdowns related to COVID-19, the World Bank projects that Argentina's GDP will fall by 7.2% in 2020, though some private analysts believe it could decline by 12-13%. As a result of this decline consumers have altered spending habits by consuming more food at home instead of at restaurants and are generally shifting to lower priced dairy products such as ultra-pasteurized milk, creamy cheese, and large volume package size yoghurt. Sales have fallen for lower-priced products like flavored milks, processed and hard cheeses, and individually serving yogurts. At a macro level, price controls and inflation are allowing Argentines to increase their consumption of all dairy products listed in the PSD tables below except cheese, which will decline from 2019 to 2020. In concert with the increase in cheese production associated with previously uncounted cheese production, cheese consumption for 2019 and 2020 isrevised upward to 460,000 and 421,000 respectively.

In an effort to keep up with inflation, some dairy companies are introducing new product lines with unique designations that previously have not been subject to price controls. These new products are priced 40-100% higher than similar products that are subject to price controls. Another interesting strategy has been taken by the company Mastellone which owns the popular brand Serenisima. It is trialing direct marketing to consumers of dairy products via home delivery in four affluent northern suburbs of Buenos Aires. As profit margins are squeezed at the retail level, the company aims to take back a share of earnings from the supermarket chains who serve these upper and upper-middle class consumers.

Trade:

Post projects 2020 exports for 18,000 tons matching USDA official and rising 29% over 2019. 2021 butter exports are projected flat at 18,000 tons. Post lowers its cheese export projection for 2020 to 65,000, but is still 5,000 tons over USDA official based on strong pace of exports through August and exporter expectation of continued demand from Brazil, its largest market for cheese. Post projects 2021 cheese exports at 60,000 tons, down 7.7% as an improved economy leads to increased domestic demand for cheese. 2020 export projections for non-fat dry milk and whole milk powder are raised on strong global demand and increased pace of early year exports. Processors had feared Argentine prices would be less competitive as the year progressed. However continued peso depreciation and increased efficiency in production have buoyed Argentine exports of milk powder. 2020 dry whole milk powder exports are now projected at 180,000 tons, 70,000 tons over USDA official and up 85% from 2019. Algeria and Brazil have been the top two markets for Argentine whole milk powder in recent years, and increased exports to Algeria are the primary driver of higher 2020 exports. 2021 whole milk powder exports are projected at 150,000 tons, down 16% from 2020 as processors seek higher returns on the domestic market under improving domestic economic conditions. 2020 non-fat dry-milk exports are projected at 28,000 tons, 4,000 tons over USDA official and up 27% from 2019. Brazil is the largest market for Argentine non-fat dry milk exports, though China has also made important purchases in 2020. 2021 dry whole milk exports are projected at 25,000 tons, down 10.7% from 2020.

On October 15, 2020 Argentina will regain dairy market access to South Korea, a market it last exported to in 2016, when sanitary authorities blocked imports. Argentina will be permitted to export butter, cheese, whey, powdered milk, and cream. Prior to 2016, Argentina shipped limited quantities of fluid milk and cheese to South Korea.

Argentina is a strong net exporter of dairy products, importing only limited quantities of dairy products from neighboring countries. These limited imports are projected to continue to fall thanks to the deteriorating economic situation in Argentina.

Stocks:

End of year stock projections for 2020 revised downward for cheese and whole fat powdered milk. Whole fat powdered milk exports and domestic consumption are running at a faster pace than anticipated in the May Semi-Annual report, allowing processors to reduce stocking levels. Reduced cheese production year on year, 2019-2020 will allow for reduced stocking.

Production Supply and Demand Tables:

Dairy, Milk, Fluid	2019		2020		2021	
Market Year Begins	Jan 2019		Jan 2020		Jan 2021	
Argentina	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Cows In Milk (1000 HEAD)	1598	1598	1610	1610	0	1615
Cows Milk Production (1000 MT)	10640	10640	11100	11350	0	11575
Other Milk Production (1000 MT)	0	0	0	0	0	0
Total Production (1000 MT)	10640	10640	11100	11350	0	11575
Other Imports (1000 MT)	1	1	1	1	0	1
Total Imports (1000 MT)	1	1	1	1	0	1
Total Supply (1000 MT)	10641	10641	11101	11351	0	11576
Other Exports (1000 MT)	0	0	0	0	0	0
Total Exports (1000 MT)	0	0	0	0	0	0
Fluid Use Dom. Consum. (1000 MT)	1645	1645	1600	1750	0	1825
Factory Use Consum. (1000 MT)	8996	8996	9501	9601	0	9751
Feed Use Dom. Consum. (1000 MT)	0	0	0	0	0	0
Total Dom. Consumption (1000 MT)	10641	10641	11101	11351	0	11576
Total Distribution (1000 MT)	10641	10641	11101	11351	0	11576
(1000 HEAD) ,(1000 MT)						

Dairy, Butter	2019		2020		2021	
Market Year Begins	Jan 2019		Jan 2020		Jan 2021	
Argentina	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks (1000 MT)	3	3	2	2	0	5
Production (1000 MT)	30	29	39	39	0	37
Other Imports (1000 MT)	0	0	0	0	0	0
Total Imports (1000 MT)	0	0	0	0	0	0
Total Supply (1000 MT)	33	32	41	41	0	42
Other Exports (1000 MT)	15	14	18	18	0	18
Total Exports (1000 MT)	15	14	18	18	0	18
Domestic Consumption (1000 MT)	16	16	18	18	0	18
Total Use (1000 MT)	31	30	36	36	0	36
Ending Stocks (1000 MT)	2	2	5	5	0	6
Total Distribution (1000 MT)	33	32	41	41	0	42
(1000 MT)						

Dairy, Cheese	2019		2020		2021	
Market Year Begins	Jan 2019		Jan 2020		Jan 2021	
Argentina	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks (1000 MT)	30	30	33	33	0	36

Production (1000 MT)	429	523	440	488	0	537
Other Imports (1000 MT)	2	2	1	0	0	0
Total Imports (1000 MT)	2	2	1	0	0	0
Total Supply (1000 MT)	461	555	474	521	0	573
Other Exports (1000 MT)	61	61	60	65	0	60
Total Exports (1000 MT)	61	61	60	65	0	60
Human Dom. Consumption (1000 MT)	367	461	360	420	0	472
Other Use, Losses (1000 MT)	0	0	0	0	0	0
Total Dom. Consumption (1000 MT)	367	461	360	420	0	472
Total Use (1000 MT)	428	522	420	485	0	532
Ending Stocks (1000 MT)	33	33	54	36	0	41
Total Distribution (1000 MT)	461	555	474	521	0	573
(1000 MT)						

Dairy, Dry Whole Milk Powder	2019		2020		2021	
Market Year Begins	Jan 2019		Jan 2020		Jan 2021	
Argentina	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks (1000 MT)	20	20	29	29	0	25
Production (1000 MT)	188	188	205	267	0	250
Other Imports (1000 MT)	2	2	0	0	0	0
Total Imports (1000 MT)	2	2	0	0	0	0
Total Supply (1000 MT)	210	210	234	296	0	275
Other Exports (1000 MT)	97	97	110	180	0	150
Total Exports (1000 MT)	97	97	110	180	0	150
Human Dom. Consumption (1000 MT)	84	84	80	91	0	92
Other Use, Losses (1000 MT)	0	0	0	0	0	0
Total Dom. Consumption (1000 MT)	84	84	80	91	0	92
Total Use (1000 MT)	181	181	190	271	0	242
Ending Stocks (1000 MT)	29	29	44	25	0	33
Total Distribution (1000 MT)	210	210	234	296	0	275
(1000 MT)						

Dairy, Milk, Nonfat Dry	2019		2020		2021	
Market Year Begins	Jan 2019		Jan 2020		Jan 2021	
Argentina	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks (1000 MT)	5	5	8	8	0	8
Production (1000 MT)	45	45	43	48	0	49
Other Imports (1000 MT)	0	0	0	1	0	0
Total Imports (1000 MT)	0	0	0	1	0	0
Total Supply (1000 MT)	50	50	51	57	0	57
Other Exports (1000 MT)	22	22	22	28	0	25
Total Exports (1000 MT)	22	22	22	28	0	25
Human Dom. Consumption (1000 MT)	20	20	20	21	0	22
Other Use, Losses (1000 MT)	0	0	0	0	0	0
Total Dom. Consumption (1000 MT)	20	20	20	21	0	22
Total Use (1000 MT)	42	42	42	49	0	47
Ending Stocks (1000 MT)	8	8	9	8	0	10
Total Distribution (1000 MT)	50	50	51	57	0	57
(1000 MT)						

Attachments:

No Attachments