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Report Highlights:

2022 Argentine dairy production is projected at the same level with respect to 2021 or with a drop of less than one percent year-on-year to 11.495,000 MT, due to abnormally dry and warm weather during the first half of the year which is expected to continue until the end of the year. Post forecasts Whole Milk Powder (WMP) production to rise to 245,000 MT in a recessionary domestic market with stable production compared to 2021, which would result in a higher export balance. As Argentine consumers struggle to maintain already decreased household dairy consumption in face of very high inflation, the entire increase in processed product will be exported, which would bring exports of WMP to 155,000 MT. The Russia-Ukraine war created a challenge for cheese and butter exporters to Russia. Since the beginning of the war, sales to that destination fell sharply, although operations are still being carried out and it is expected that the trend will continue during the rest of 2022.

General conditions

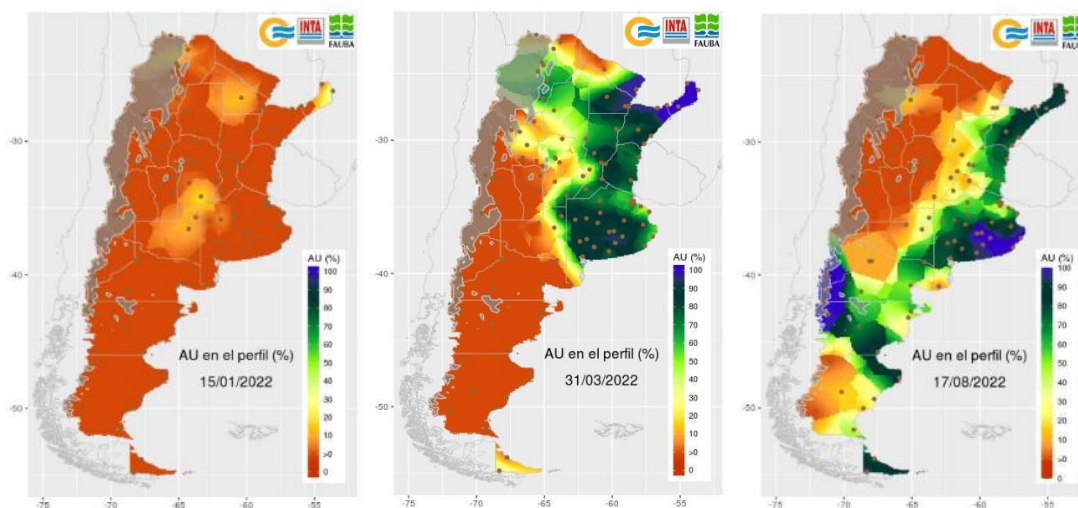
Weather

During 2021 the weather was one of the key variables in milk production. After the first four-months period with good humidity and temperature, which favored pasture supply and cow comfort, the year was very dry. Drought worsened during the spring, the period for corn silage planting and for 2022 hay making for the next winter.

January 2022, the critical time for first-crop corn, was particularly warm and dry followed by heavy - even excessive - rains at the end of the month. This weather resulted in lower reserve production but higher cow comfort due to the low humidity. However, autumn was particularly cold and dry, so the lack of reserves was combined with a low supply of green forage. It was not until August that rain started to fall in some of the country's dairy basins. Forecasts for the remaining part of the year are not encouraging, as the weather is expected to remain dry. This would be the beginning of the third consecutive “La Niña” event, which would mean a potential drought for Argentina’s milk production regions; the key issue being that in the last few years, each season begins with a drier profile.

Soil Moisture 2022:

Month of January on the left, March in the middle, and August on the right



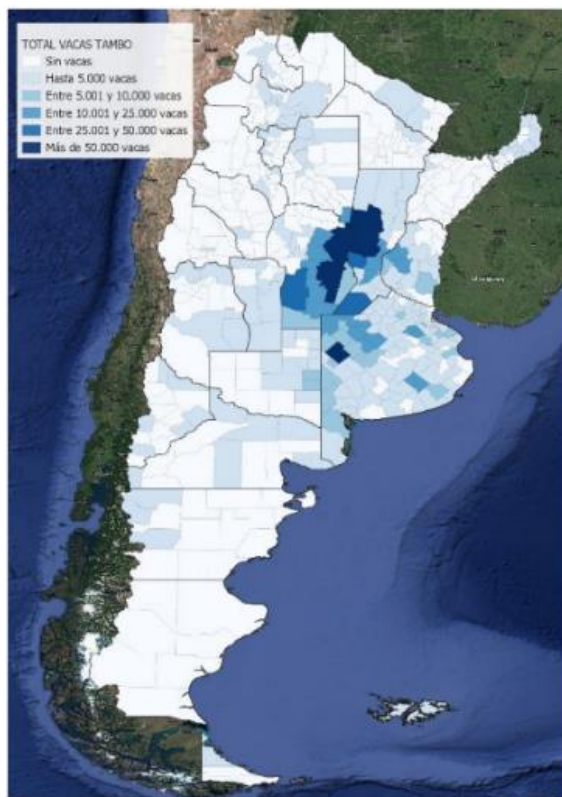
Source: Servicio Meteorológico Nacional de Argentina

Dairy cow stock and production stratification

According to official figures, the dairy cattle stock fell 1.6 percent to 1.56 million heads during 2021 as compared to 2020. The concentration of production in fewer dairy farms that withhold animals of higher genetic merit, and the value of beef exported to China, encourages the slaughter of low-production cows.

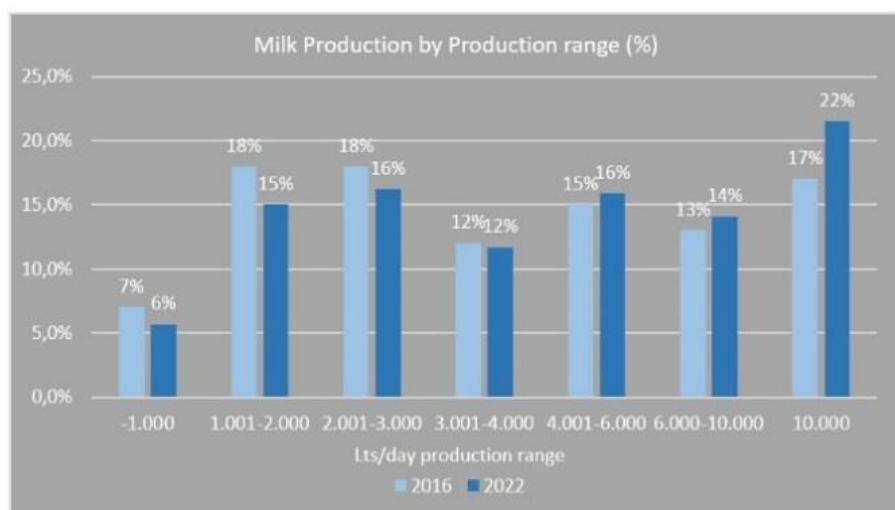
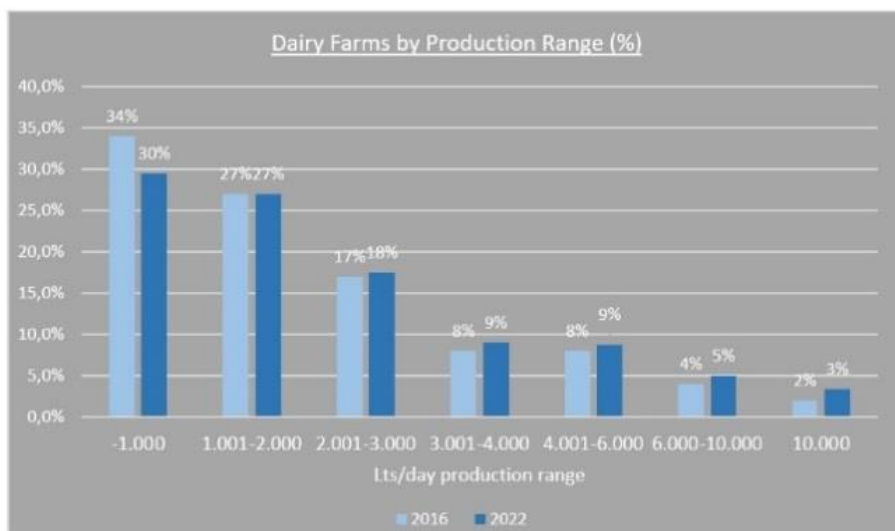
This trend is expected to continue in 2022 resulting in a one percent drop to 1.54 million and there is no indication that the situation will change in 2023.

Dairy cattle distribution in Argentina.



Source: SENASA

The consolidation of large-scale producers continues. In 2016 dairy farms producing more than 10,000 liters per day were two percent of the total and produced 17 percent of the milk, in March 2022 three percent of the farms produced 22 percent of the milk.



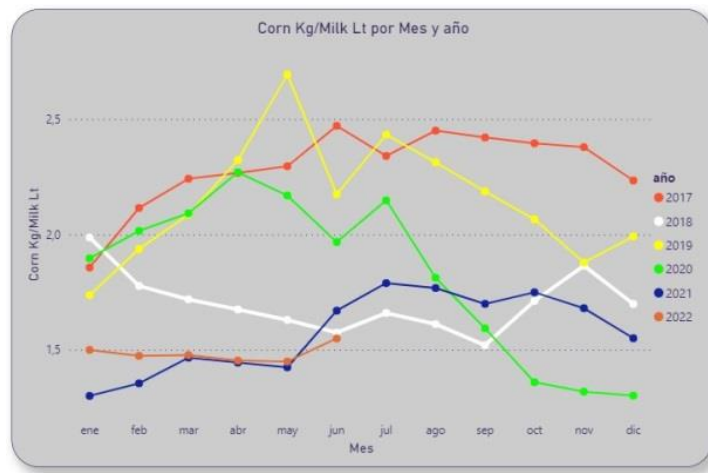
Source: Observatorio de la Cadena Láctea Argentina

Costs

Another feature of 2021 was the rise in costs, chiefly of concentrates, fertilizers, and energy in general. During 2021, corn purchasing power was among the lowest in historical terms, a trend that intensified in 2022 because of the Ukraine and Russia war. The situation slightly improved in the second quarter of 2022.

A continued increase in the cost of energy is expected for the remainder of 2022, both in fuels and electric power, mainly due to the removal of State subsidies. In the latter case, depending on consumption, dairy facilities could be facing increases in the cost of energy of 20-30 percent in October, and up to 200 percent in January.

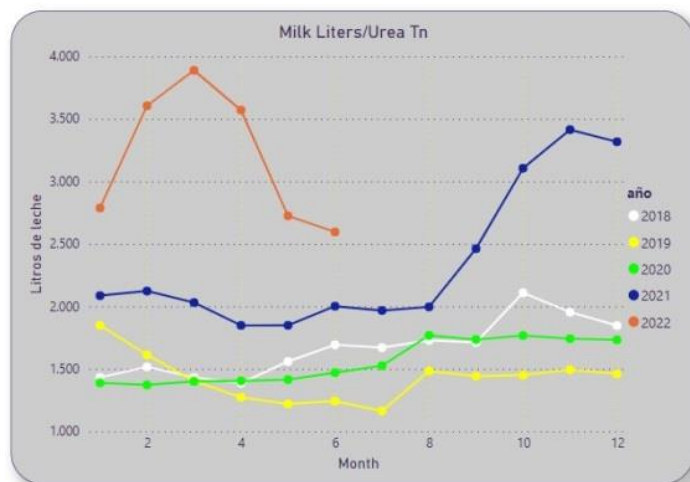
Corn Kg/Milk Liter (month and year)



Source: *Economía Lactea*

In the case of fertilizers, when analyzing the evolution of the liters of milk needed to purchase one ton of urea, historical record levels were reached during the second half of 2021, a trend that only grew stronger with the beginning of the war.

Milk Liters/Ton of Urea



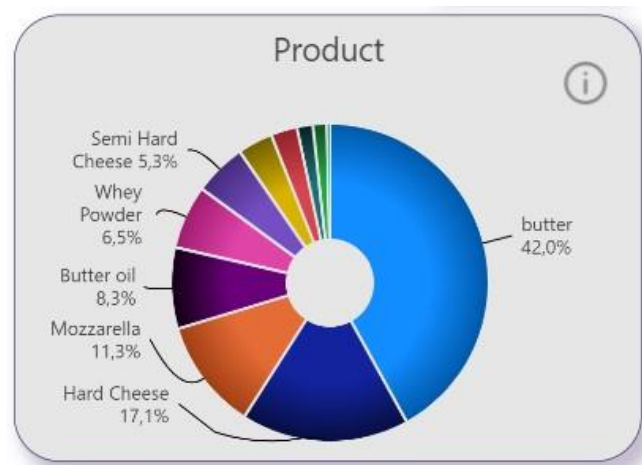
Source: *Economía Lactea*

Ukraine-Russia war

The conflict, which began in February 2022, had a double effect on the Argentine dairy industry. On the one side the effects suffered by the whole world due to the increase in costs -mainly fuels- but also fertilizers and forage grains. Yet, the most relevant impact was the loss of the Russian cheese and butter market. Since 2014, when Russia banned the import of dairy products from the EU, the United States, Canada, and Australia, Argentina became one of the key dairy suppliers for cheeses and butter. During 2021 Argentina exported slightly less than 36,000 MT of dairy products to Russia, more than 50 per cent of the exported volume is accounted by the combination of butter and butteroil, the rest consisting mostly of different types of cheese.

Since the beginning of the war, exports to Russia dropped dramatically, and while there is still some movement, it is expected that the downward trend on dairy exports to Russia will continue during the rest of 2022.

Argentine Dairy Products Exports to Russia



Source: FAS Buenos Aires based on various sources

Milk production

Despite poor overall conditions, CY2021 output grew 4.27 percent over 2020 amounting to 11.553,000 MT. Weather conditions with low levels of ambient humidity in general and few days of extreme temperatures favored cow comfort. In addition, the herds were in very good condition in 2020 due to increased comfort technology and more efficient husbandry practices.

During the first half of 2022, milk output grew one percent compared to the same period in 2021. After dropping in January 2022 due to the heat wave, February production grew 3.6 percent year-on-year, and

then continued to grow at positive but decreasing rates, turning to the negative in June as compared to June 2021. This trend reversal is due to the persistent drought, lower reserves due to a dry summer and very hot weather in January, at the critical time for first-crop silage corn. Autumn was particularly cold and dry, generating lower grass availability. Also, higher input costs – mainly concentrates, fertilizers and fuels - that although already increasing, spiked in the onset of the war.

The good international price for dairy, especially whole milk powder, allowed the price of milk to rise in the first half of the year, and thus the input-output ratios (mainly of concentrates) did not fall so much.



Source: Ing. Jose Quintana, Economia Lactea – Left: Production in 1,000 liters per month, 2018-2022; Right: Year on Year production growth by month.

Post estimates that the trend will continue to be towards lower production in the second half of 2022, so that the year would end either neutral with respect to 2021 or with a drop of less than 1 percent year-on-year, to 11.495,000 MT. The estimation is based, in the first place, in the weather which will continue to be dry, with a “La Niña” forecast for the third consecutive year. Also, international prices are dropping significantly while Argentina is heading towards its highest production months and exportable balance towards spring. The macroeconomic situation and the speculation about an adjustment in its variables generate further uncertainty, which does not favor growth either.

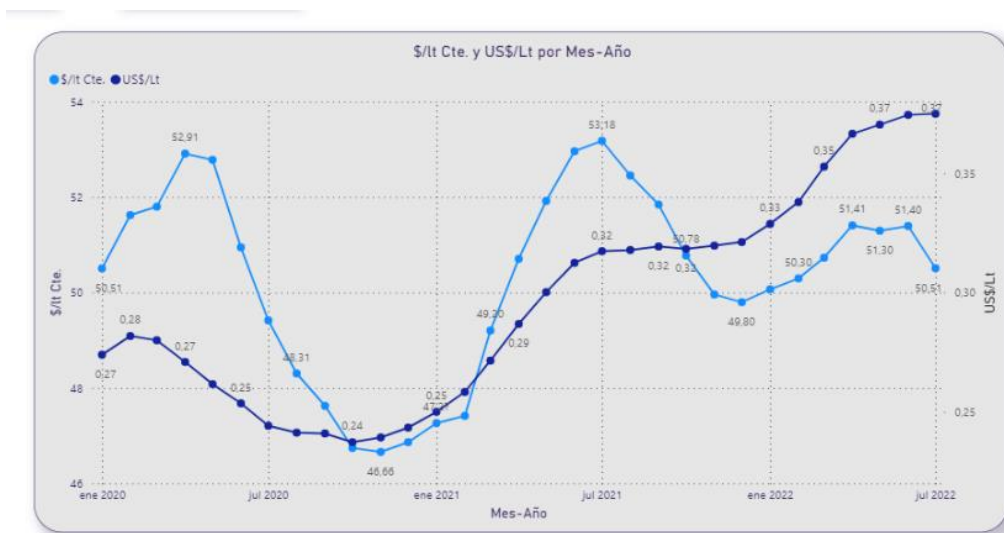
Milk prices mirrored inflation during the first half of 2022. The peso devaluation rate remains below the high inflation rates, which resulted in a significant increase in the price of milk as expressed in dollars. In June 2022, inflation reached a 65 percent increase over July 2021, while milk had increased by 53 percent and the peso devaluation was 27 percent, less than half that of inflation, which is accounted for by rising international prices. As the global market evolves, it will be difficult for raw milk to maintain

prices like US\$ 0.38/Lt in the second half of 2022 (milk powder pays a 9% export duty). In the event of a drop in price in dollars, input-output ratios would fall and would add to the lower production forecast. For all these reasons, year-on-year growth rates are expected to remain negative compared to 2021.

Factors pointing towards increased milk production include the incorporation of comfort-related technology and more efficient husbandry practices. Sheds, collars or other types of electronic identification, automated milkers, a trend that is favored by the aforementioned exchange rate lag, which results in imported technology being cheaper and producers speculating on by investing at current, distorted exchange rates, while forecasting a devaluation of the Peso above inflation at some point in the near future. Many investments in this kind of technologies are expected of the remainder of 2022 and 2023.

Post forecasts production up to 11.724,000 MT a two percent increase for CY 2023 under the assumption that weather conditions will be better than in 2022 and that there will be an improvement in the purchasing power of concentrates.

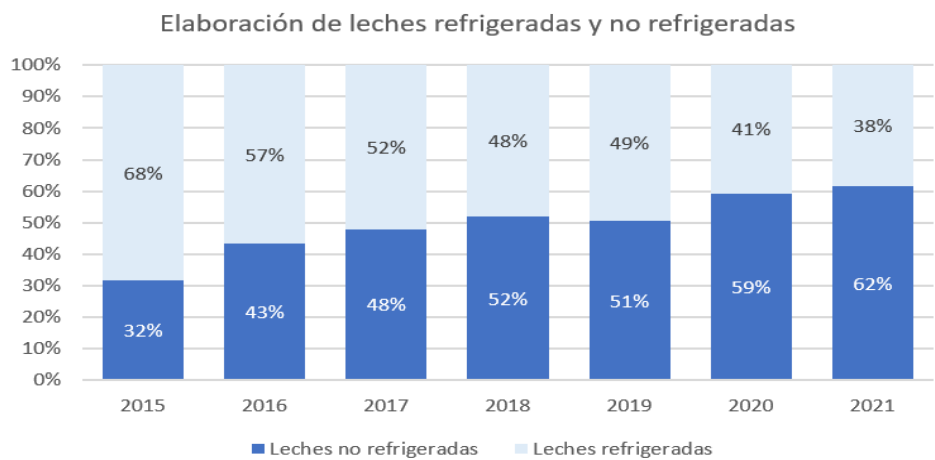
AR\$/Lt and USD/Lt (month and year)



In 2023 consumption is also expected to be stable despite the projected growth in milk production. The reason for the lack of increase in consumption would continue to be the country’s macroeconomic situation.

The trend of increased share of non-refrigerated milk over refrigerated milk continues. In 2015, 68 percent of the elaboration accounted for refrigerated milks, but there was a progressive change that led to 63 percent of the manufacture being of non-refrigerated milks in 2021.

Manufacturing of refrigerated and non-refrigerated milks



Source: Ministry of Agriculture

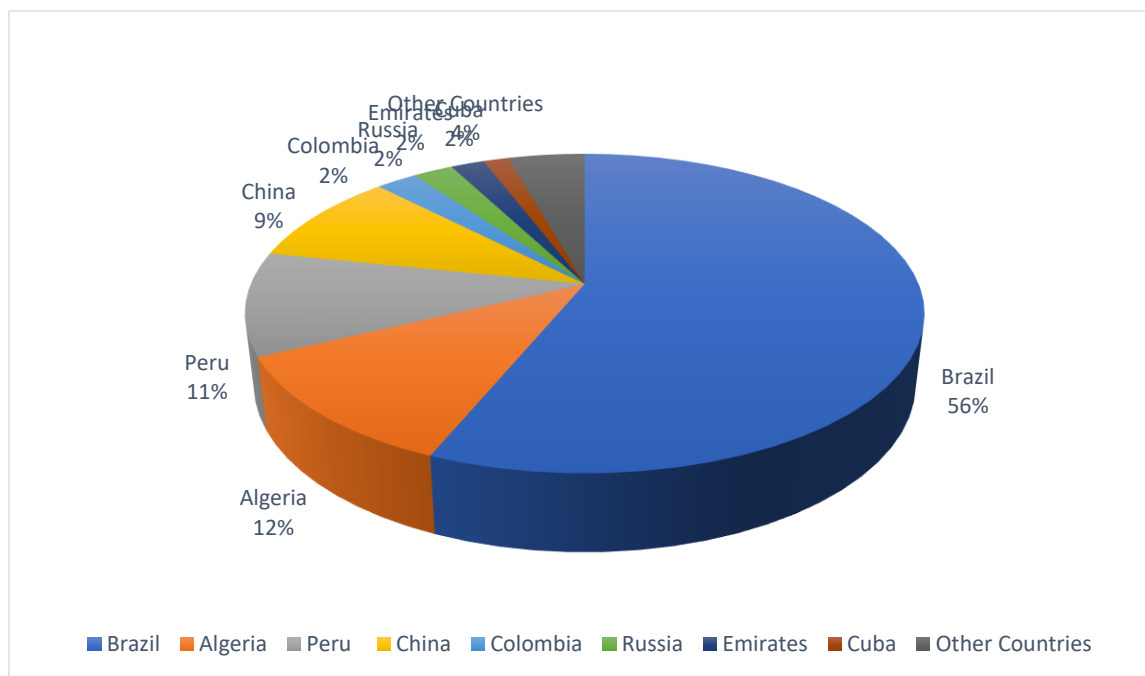
Skim Milk Powder (SMP)

During CY 2021 SMP processing increased by 4.7 percent to 54.9 MT compared to CY2020. The trend is caused by the growth in milk production and the high price of butter, which favors the production of SMP and butter mix compared to other dairy products.

Domestic sales remained stable compared to 2020 at 20 MT. Despite the increase in processing, exports fell to 21 MT resulting in a higher final stock.

The main destination of SMP exports in 2021 was Brazil (56 percent), followed by Algeria (11.6 percent) and Peru (10.4 percent)

2021 Argentine Export destinations of Skim Milk Powder



Source: TDM

In the first 5 months of 2022, SMP processing remained stable compared to 2021. Post forecasts a slight increase during the rest of the year, supported by good prices for both this product and butter, total production estimated at 57 MT. CY2022 exports of SMP are expected to grow to 24,000 MT, in line with the increase in processing.

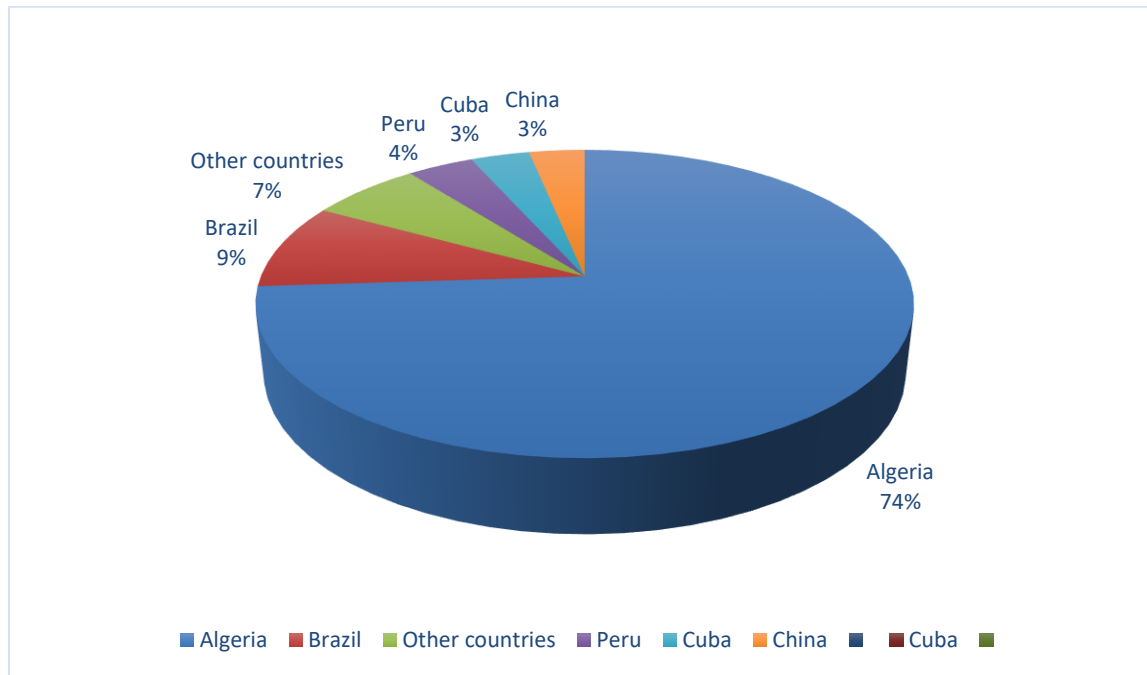
An increase in processing of five percent up to 58,000 MT is estimated for 2023, in-line with the growth in milk production, which is expected to be entirely allocated to export products. Domestic consumption is estimated to remain stable at 23,000 MT, while exports are expected to grow by 18 percent to 26 MT.

Whole milk powder

The production of whole milk powder (WMP) reached 234,000 MT in 2021, 9.8 percent higher than in 2020. This growth is accounted for by the combination of production growth of 3.9 percent compared to 2020 and a drop in domestic consumption due to the country's adverse economic situation. Domestic consumption fell to 65,000 MT in 2021. Exports also dropped with respect to 2020 to 145,000 MT, the combination of higher production and lower consumption and exports in 2020 resulted in an increase in final stock.

The main destination for WMP exports was Algeria with a 74 percent share, followed by Brazil with nine percent, and Peru with 3.9 percent. The remaining 13 percent was distributed in smaller volumes to 28 countries.

Argentine Export destinations of Whole Milk Powder



Source: TDM

Post forecasts 2022 production to rise to 245,000 MT within the frame of a recessionary domestic market and stable production compared to 2021, which would result in a higher export balance. The whole processing increase would be exported, which would bring exports of WMP to 155,000 MT.

Post forecast a four percent rise for 2023 up to 255,000 MT since all production growth will have to be exported with stable domestic consumption.

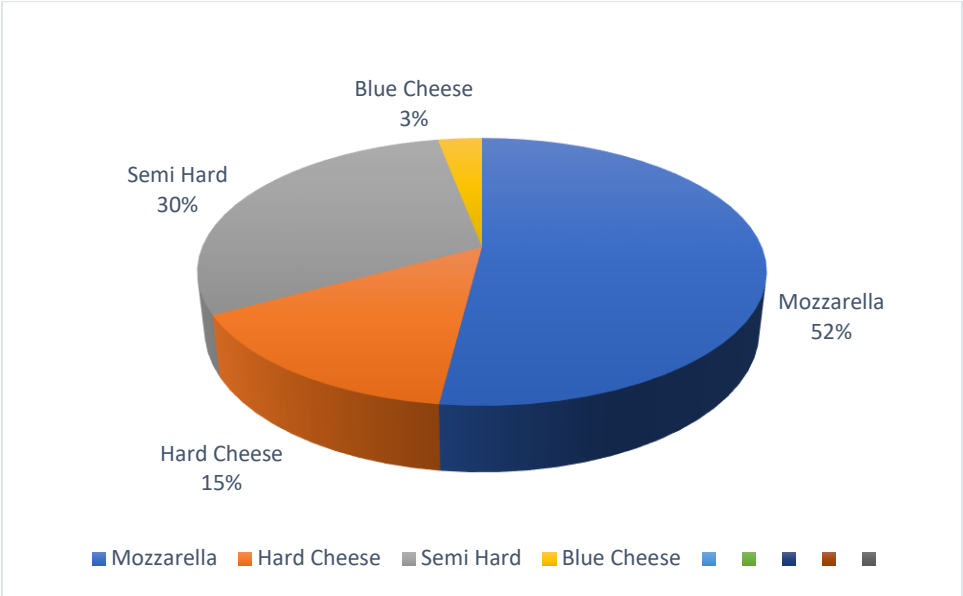
Cheese

During 2021 cheese production increased to 552,000 MT, and domestic sales, according to official figures, grew by 3.3 percent compared to 2020. If so, it could probably be explained by to supply pressure, since the domestic market was particularly recessionary.

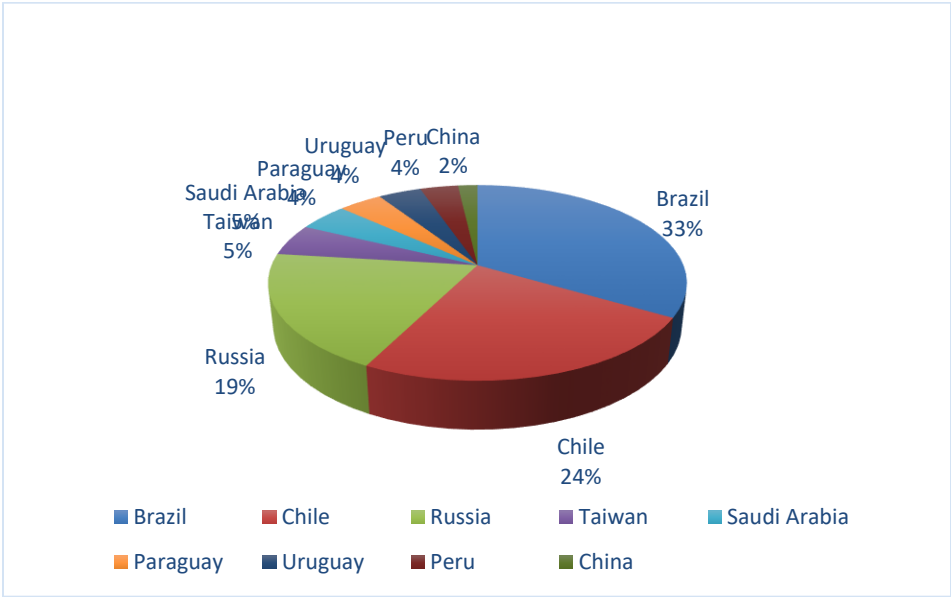
In the export market, sales were 77,700 MT up 11.5 percent with respect to 2020. During 2021, cheese accounted for 19.4 percent of dairy products exports, with mozzarella being the most exported variety (51.4 percent) followed by semi-hard cheeses (29.5 percent) and in third place hard cheeses (14.7percent).

The main destination was Brazil (29.25 percent), followed by Chile (21.0 percent) and Russia (17 percent).

2021 Argentine Cheese Exports by type



2021 Argentine Cheese exports by destination



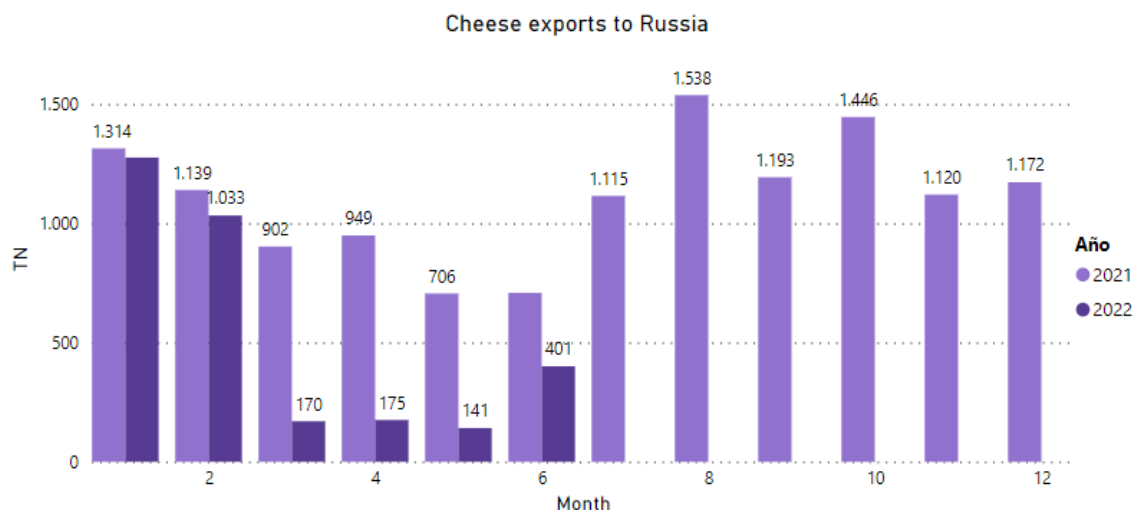
Source: TDM

During the first months of 2022, cheese processing showed a slight fall, but the year is expected to close with a stable volume of processing compared to 2021 in approximately 552,000 MT.

Cheese exports are expected to continue to grow in CY2022, reaching 90,000 MT as the leading cheese producer company has decided to increase production of cheese for export.

The Russia-Ukraine war created a conflict and a challenge for cheese and butter exporters to Russia. For several Argentine industries, Russia has been a key destination since 2014, when the country banned imports of dairy products from the EU, Canada, the United States, and Australia. In view of the difficulties caused by the war, sales to Russia dropped sharply, forcing the industry to seek new export destinations. As this market is in high demand, at least during the first half of the year, expectations were not difficult to meet.

During 2021, 17 percent of cheese exports were shipped to Russia. Since the war began, the volume exported to that country has dropped significantly. In order to meet and increase the volume exported in the first half of the year -compared to the same period of 2021- sales to Brazil and Chile were increased significantly.



Source: FAS Buenos Aires based on various sources

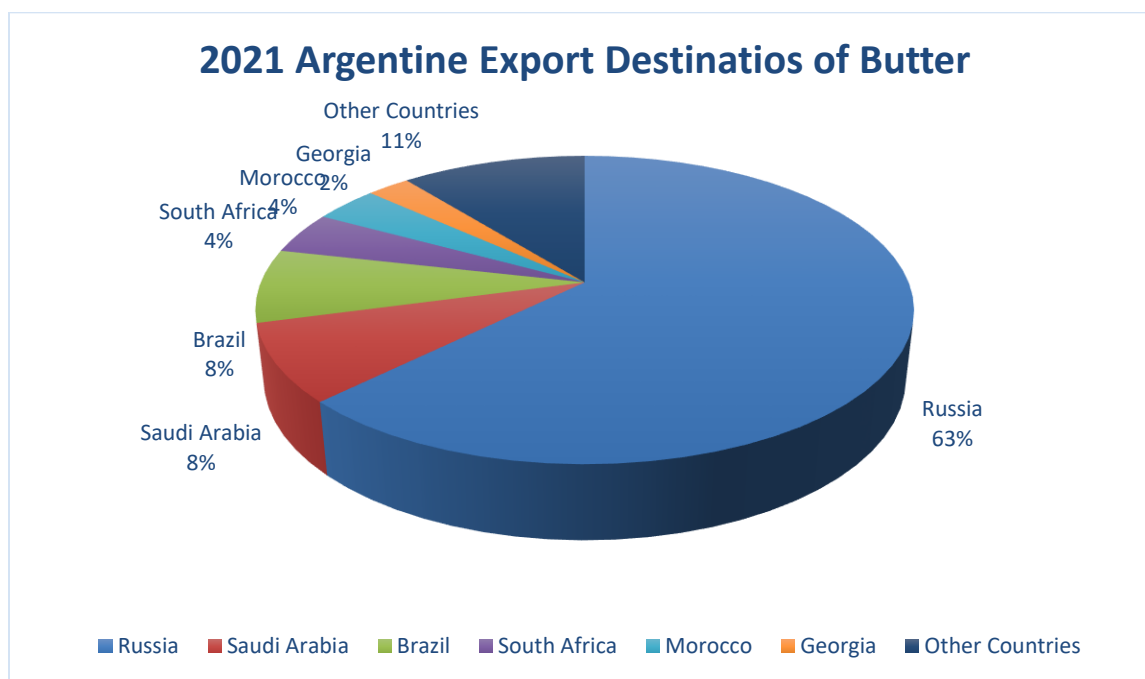
Post estimates CY2023 cheese processing to remain stable at 552,000 MT, with exports growing six percent to 95,000 MT as domestic consumption is expected to grow marginally by one percent.

Butter

During 2021, butter production increased to 41,000 MT up 18 percent compared to 2020. The favorable prices of the skim milk powder - butter mix favored the allocation of more milk to these products and the use of surplus cream from other products.

2021 Domestic consumption grew slightly with respect to 2020 to 21,000 MT. Exports reached 23,000 MT, also increasing when compared to 2020 for the same reasons mentioned above.

Russia accounted for 61.1 percent of the butter exported, followed by Saudi Arabia (7.9 percent), Brazil (7.5 percent) and South Africa (4.3 percent). The remainder was exported in smaller volumes to 26 countries.

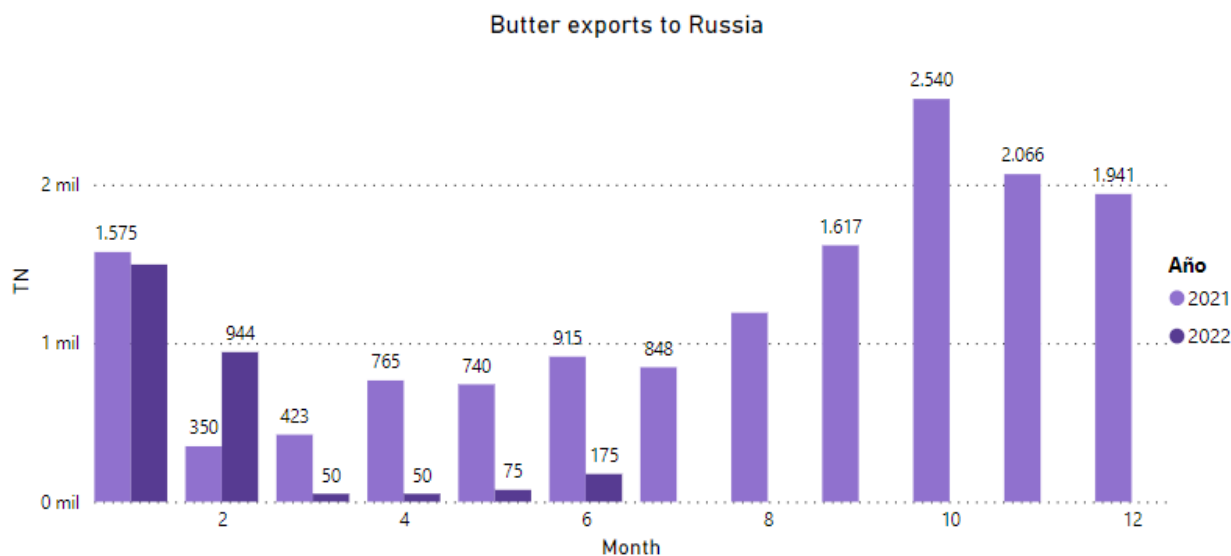


Source: TDM

Post forecasts butter processing to continue to increase during CY2022 up to 45,000 MT, as prices continue to be favorable despite the difficulties caused by the outbreak of the Russian-Ukrainian war.

Despite the sharp drop in exports to Russia in the first half of 2022 the total volume exported, according to preliminary figures, would have been only nine percent lower than in 2021, as sales to alternative markets such as Saudi Arabia increased from a share of 11.1 percent in the first half of 2021 with 1.100 MT, to 36.8% in the first half of 2022 with 3.400 tons. The year is expected to close with butter exports of 25,000 MT.

Post forecasts butter production for CY2023 at 45,000 MT, steady compared to CY2022 but with growing exports, estimated at 30,000 MT, if the conflict between Ukraine and Russia ends or at least that international trade with Russia improves.



Source: FAS Buenos Aires based on various sources

Policy

Export duties: The government maintains its policy of collecting export duties that are partially offset by export refunds.

In the case of powdered milk - the most exported product and reference for the setting of the price of milk to the producer - the tax reaches nine percent with a refund of 0.75 percent- so that the net amount payable by exporters is 8.25 percent of the export value. In the case of cheese, the export duty is 4.5percent with a refund of 2.5 percent.

Exchange rate policy: One of the most noteworthy issues of what is happening in Argentina is the high inflation rates, well above the high inflation rate in the world. Between June 2021 and June 2022 retail inflation reached 65 percent and continues to grow. At the same time, the government's policy was that the devaluation of the peso should not keep pace with inflation, as it was considered that this would generate more inflation. Thus, in June 2022 the devaluation of the peso accumulated 27% with respect to the same month of 2021 with the consequent loss of external competitiveness. The pace of devaluation is expected to accelerate, but in a context of great uncertainty. With international prices falling, the loss of exchange competitiveness may result in serious problems for the dairy chain.

Elimination of subsidies: In recent years, Argentina has had a policy of significant energy subsidies. For the remainder of 2022, it is expected that most of these subsidies will be eliminated to reduce the fiscal deficit. This will have a strong impact on the entire productive sector, including the dairy chain, both at primary and industrial level, although the greatest impact will be seen in 2023 when subsidies will be completely eliminated.

Dairy, Milk, Fluid	2021			2022			2023			
Market Begin Year	Jan 2021			Jan 2022			Jan 2023			
Argentina	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post	
										(Units)
Cows In Milk	1615	1615	1562	1640	1630	1546	0	0	1530	(1000 HEAD
Cows Milk Production	11900	11900	11553	12000	12019	11495	0	0	11724	(1000 MT
Other Milk Production	0	0	0	0	0	0	0	0	0	(1000 MT
Total Production	11900	11900	11553	12000	12019	11495	0	0	11724	(1000 MT
Other Imports	1	1	0	0	1	0	0	0	1	(1000 MT
Total Imports	1	1	0	0	1	0	0	0	1	(1000 MT
Total Supply	11901	11901	11553	12000	12020	11495	0	0	11725	(1000 MT
Other Exports	0	0	0	0	0	0	0	0	0	(1000 MT
Total Exports	0	0	0	0	0	0	0	0	0	(1000 MT
Fluid Use Dom. Consum	1640	1710	0	1650	1710	1650	0	0	1650	(1000 MT
Factory Use Consum.	10261	10191	11553	10350	10310	9845	0	0	10075	(1000 MT
Feed Use Dom. Consum	0	0	0	0	0	0	0	0	0	(1000 MT
Total Dom. Consumption	11901	11901	11553	12000	12020	11495	0	0	11725	(1000 MT
Total Distribution	11901	11901	11553	12000	12020	11495	0	0	11725	(1000 MT
CY Imp. from U.S.	0	0	0	0	0	0	0	0	0	(1000 MT
CY. Exp. to U.S.	0	0	0	0	0	0	0	0	0	(1000 MT
TS=TD	0	0	0	0	0	0	0	0	0	
Post Notes						0				

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Attachments:

No Attachments