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Argentina - Dairy & Products Update

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Report Highlights:
Post forecasts Argentine milk output for calendar year (CY) 2016 to reach 11.62 million tons, a one percent decrease from USDA's CY2015 estimates. Post estimates Argentina's milk production for CY2015 at 11.39 million tons. Total exports of dairy products in CY2015 are estimated at 271,000 metric tons (MT). Because domestic consumption is relatively stable, virtually all the increase in milk production goes directly to the production of commodities and products for export. During the period of August-December 2014, Argentina increased the volumes of cheese shipped to Russia by 273 percent, but those huge sales stopped after Russia's devaluation in December 2014.

Commodities:

Dairy, Butter

Dairy, Cheese

Dairy, Dry Whole Milk Powder

Dairy, Milk, Fluid

Dairy, Milk, Nonfat Dry

Production:

Given favorable weather conditions, Post forecasts Argentine milk output for calendar year (CY) 2016 to reach 11.62 million tons, a one percent decrease from USDA's CY2015 estimates.

Post estimates Argentine milk output for CY2015 at 11.39 million tons, almost the same level as USDA's CY2014 official figures. CY2015 production is lower than initial estimates due to unfavorable weather conditions in the main production areas: excessive rain during January, February and March in the Santa Fe and Cordoba regions, and heat waves in Buenos Aires province during that same period. However, due to the favorable weather in April and May, production figures already showed signs of recovery. Pasture quality is reported to be very good. This estimated modest growth for CY2015 is mainly based on the following factors:

-Standard weather conditions during winter and spring

-Modest recovery in international prices for whole milk powder (WMP).

-Sustained corn/milk ratio (currently at an ideal place)

Farm gate prices increased substantially during CY2014, although not enough to compensate for inflationary impacts. Current per liter price is AR$ 3.00-3.25 (approximately US$ 0.34-0.36).

High inflation continues to be an issue that also impacts production, but there are other important issues that producers would like to have addressed, such as limited financing, high freight costs, and a strong peso which makes it difficult to remain competitive in the international arena. The strong drop in Whole Milk Powder (WMP) in world commodity prices over the past several months, the export restrictions through import permits, along with the other mentioned difficulties have a strong impact both on production and on export capacity for the Argentine dairy producers. There is high expectation in the agricultural sector that the upcoming presidential elections in late 2015 will bring some changes, although some contacts are skeptical on the implementation and timing of these changes.

Post revised downwards CY2014 production estimates to 11.17 million tons, a two percent decrease in milk output compared to USDA's CY2013 figures. The main reason behind the decrease was the excessive rain affecting the main dairy basins. This decline happened despite the fact that pasture quality was excellent, and the corn/milk ratio was at record highs.

Whole Milk Powder Production

CY2015 production is expected to increase to 268,000 MT, an approximate one percent increase from USDA's CY2014 estimates. This modest increase is based mainly on low international prices. The industry's current drying capacity is approximately 15 million liters per day, running at full capacity during the spring.

Cheese Production

Post estimates cheese production to grow in CY2015 to 571,000 MT, a 3.8 percent increase from USDA's CY 2014 estimates. Cheese is the second most important dairy product in Argentina. With the low international prices of Whole Milk Powder, contacts estimate that most producers will opt to produce more cheese this year. Soft/fresh types (Cremoso, Saint Paulin and Mozzarella) dominate the cheese categories constituting 50 percent of the market. Semi-soft varieties, such as Gouda and Swiss, hold 38 percent of the market share, followed by hard cheese (Provolone and Sardo), accounting for 12 percent of the market.

Consumption:

CY2015 domestic consumption of dairy products is estimated to only grow marginally. Per capita consumption is estimated at 211 liters per capita, with a small margin for growth. Despite the high domestic inflation, and the reported contraction of the Argentine economy, consumption remains stable, showing only marginal growth.

Cheese consumption is currently high (estimated at 12 kg per capita) and it is expected to grow only marginally. Over 90 percent of the cheese production is consumed domestically, and there is little room for further expansion.

Trade:

In September 2013 the Government of Argentina (GOA) announced that the use of export permits (ROE), previously required for just a few products, would be mandatory for most dairy products effective immediately. During CY2014 and the first months of CY2015, in an attempt to keep domestic prices low, the GOA limited the issuance of ROEs. However, it is expected that the situation will normalize based on the increase in production during the year. Given a normal flow of export permits, Post forecasts dairy commodity exports to remain in line with the projected increase in fluid milk production. Approximately 25 percent of total milk output is projected to be exported, primarily in the form of whole milk powder (WMP) and cheese. Post estimates total exports for CY2015 at 247 MT, reaching about 107 markets.

Argentina's best markets for dairy products continue to be Brazil (20 percent), Venezuela (19 percent), Algeria (14 percent), China (10 percent), and Russia (9 percent). In the face of weak purchases from China and Russia, and with at least some emerging markets buyers heavily impacted by falling currencies (such as Brazil), Post projects that Argentine exports of dairy products are unlikely to be strong in 2015, estimating that they will remain in line with CY2014 figures.

Lower production during CY2014 also had an impact on Argentine dairy exports. Exports of WMP fell 21 percent during CY2014 compared to CY2013, while cheese exports increased 30 percent during the same period due to huge purchases made by Russia during the period of August-December 2014. Argentina increased the volume of cheese shipped to Russia by 273 percent, but those huge sales stopped after Russia's devaluation in December 2014.

Whole Milk Powder Exports (WMP)
Argentina continues to be the world's third largest exporter of WMP. Exports for CY2015 are projected at 162,000 MT. The five most important markets for Argentina are expected to continue to be Algeria, Venezuela, Brazil, China, and Russia.

The average export price reported for the first three months of CY2015 was approximately US$ 3,300. This price is the result of the important volumes shipped to Venezuela, which continues to pay prices above the market average.

Nonfat Milk Powder Exports
Nonfat dry milk exports for CY2015 are projected to increase to 22,000 MT, a very small volume compared to WMP. Brazil (45 percent), Algeria (22 percent) and Russia (15 percent) were the main markets for this product during CY2014.

The average export price reported for the first three months of CY2015 for this product was approximately US$ 2,900. Brazil is reported to be the main destination for this product during the above mentioned period.

Cheese Exports
Post estimates CY 2014 cheese exports at 57,000 MT. Cheese is the second most important dairy product exported. Russia (39 percent), followed by Venezuela (15 percent), Chile (9 percent) and Brazil (8 percent) continue to be the main markets for the Argentine cheese.

During the period of August-December 2014, Argentina capitalized on the opportunity to supply the Russian market after the international diplomatic dispute over Ukraine, and shipped big volumes of cheese to Russia. This opportunity ended with the devaluation of the Russian currency in December 2014, which made Argentine cheese less competitive. Although Russia continues to be one of the top importers for Argentine dairy products, this resulted in some extra tons of cheese that were shifted to the domestic market and some stocked by producers.

Imports
Dairy imports are negligible, and especially now due to the strong import restriction system imposed by the GOA. Post estimates no change for CY2015. Most imports are caseinates and casein derivatives from Uruguay, Chile and the Netherlands.

Production, Supply and Demand Data Statistics:

Dairy, Milk, Fluid	2014		2015		2016	
Market Begin Year	Jan 2014		Jan 2015		Jan 2016	
Argentina	USDA Official	New post	USDA Official	New post	USDA Official	New post
Cows In Milk	2,000	1,826	2,000	1,786	0	1,770
Cows Milk Production	11,404	11,173	11,746	11,396	0	11,623
Other Milk Production	0	0	0	0	0	0
Total Production	11,404	11,173	11,746	11,396	0	11,623
Other Imports	0	0	0	0	0	0
Total Imports	0	0	0	0	0	0
Total Supply	11,404	11,173	11,746	11,396	0	11,623
Other Exports	13	13	13	13	0	13
Total Exports	13	13	13	13	0	13
Fluid Use Dom. Consum.	2,045	2,004	2,107	2,044	0	2,084
Factory Use Consum.	9,346	9,156	9,626	9,339	0	9,526
Feed Use Dom. Consum.	0	0	0	0	0	0
Total Dom. Consumption	11,391	11,160	11,733	11,383	0	11,610
Total Distribution	11,404	11,173	11,746	11,396	0	11,623
1000 HEAD, 1000 MT						

Dairy, Dry Whole Milk Powder	2014		2015		2016	
Market Begin Year	Jan 2014		Jan 2015		Jan 2016	
Argentina	USDA Official	New post	USDA Official	New post	USDA Official	New post
Beginning Stocks	36	36	47	40	0	38
Production	266	253	275	268	0	276
Other Imports	0	0	0	0	0	0
Total Imports	0	0	0	0	0	0
Total Supply	302	289	322	308	0	314
Other Exports	155	147	180	162	0	164
Total Exports	155	147	180	162	0	164
Human Dom. Consumption	100	102	104	108	0	110
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	100	102	104	108	0	110
Total Use	255	249	284	270	0	274
Ending Stocks	47	40	38	38	0	40
Total Distribution	302	289	322	308	0	314
1000 MT						

Dairy, Milk, Nonfat Dry	2014		2015		2016	
Market Begin Year	Jan 2014		Jan 2015		Jan 2016	
Argentina	USDA Official	New post	USDA Official	New post	USDA Official	New post
Beginning Stocks	0	0	0	0	0	0
Production	38	37	36	38	0	39
Other Imports	0	0	0	0	0	0
Total Imports	0	0	0	0	0	0
Total Supply	38	37	36	38	0	39
Other Exports	23	22	20	22	0	23
Total Exports	23	22	20	22	0	23
Human Dom. Consumption	15	15	16	16	0	16
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	15	15	16	16	0	16
Total Use	38	37	36	38	0	39
Ending Stocks	0	0	0	0	0	0
Total Distribution	38	37	36	38	0	39
1000 MT						

Dairy, Cheese	2014		2015		2016	
Market Begin Year	Jan 2014		Jan 2015		Jan 2016	
Argentina	USDA Official	New post	USDA Official	New post	USDA Official	New post
Beginning Stocks	39	39	33	42	0	40
Production	550	564	566	571	0	576
Other Imports	1	1	1	1	0	0
Total Imports	1	1	1	1	0	0
Total Supply	590	604	600	614	0	616
Other Exports	57	56	60	62	0	66
Total Exports	57	56	60	62	0	66
Human Dom. Consumption	500	506	511	512	0	514
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	500	506	511	512	0	514
Total Use	557	562	571	574	0	580
Ending Stocks	33	42	29	40	0	36
Total Distribution	590	604	600	614	0	616
1000 MT						

Dairy, Butter	2014		2015		2016	
Market Begin Year	**Jan 2014**		**Jan 2015**		**Jan 2016**	
Argentina	**USDA Official**	**New post**	**USDA Official**	**New post**	**USDA Official**	**New post**
Beginning Stocks	4	4	4	5	0	5
Production	58	56	60	56	0	57
Other Imports	0	0	0	0	0	0
Total Imports	0	0	0	0	0	0
Total Supply	62	60	64	61	0	62
Other Exports	15	12	19	12	0	13
Total Exports	15	12	19	12	0	13
Domestic Consumption	43	43	41	44	0	44
Total Use	58	55	60	56	0	57
Ending Stocks	4	5	4	5	0	5
Total Distribution	62	60	64	61	0	62
1000 MT						