

USDA Foreign Agricultural Service

# GAIN Report

Global Agricultural Information Network

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## **Argentina**

### **Grain and Feed Annual**

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**Report Highlights:**

Argentine wheat production for crop 2015/16 is forecast down at 12 million tons due to a projected smaller planted area. The current policy limiting exports negatively impacts wheat prices and produces significant marketing problems. Barley production, which has no marketing restrictions, is projected up at 3.5 million tons. Corn production in marketing year 2015/16 is forecast to drop at 20 million tons. Under current policies and market conditions corn is the crop which demands the highest investment but provides the worst profitability. Sorghum production in 2015/16 is expected up at 4.5 million tons. Argentina is now eligible to export to China, bringing expectations of better prices. Rice production is forecast at 1.5 million tons (rough production), with a practically unchanged planted area.

## GENERAL

High inflation, an over-valued peso, limited financing and government policies have all combined to force producers to reduce plantings of wheat and corn for the 2015/16 crop year. Barley and sorghum, which are not subject to government export restrictions, are expected to increase production. Sorghum has also benefited from an Argentina-China agreement that has opened up Chinese markets for Argentine product. In 2014/15 despite the decrease in inputs used by producers given the financial difficulties facing the sector, production has increased compared to the previous year. This is mainly due to some of the best weather in years, with rainfall occurring at exactly the right time, particularly for corn, which has resulted in high yields for 2014/15.

The upcoming presidential election could result in changes in government policies towards grains (See Policy section). Argentine producers usually make planting decisions at the last minute. Planting decision for summer crops will occur at the same time of the presidential elections (October 2015) and could be influenced by the results of those elections.

## PRODUCTION

**Wheat:** Post projects 2015/16 crop output at 12 million tons, slightly lower than the previous season. The area planted/harvested is forecast at 4 million hectares, down 10 percent from the 2014/15 planted area (the final harvested area was 4.2 million hectares due to losses caused by flooding). Based on the current market and policy conditions, farmers are quite discouraged to plant. Many still have a significant volume of wheat stocks in their hands, some because they are waiting for better market conditions and many others (mostly in the wheat belt in center-south Buenos Aires province) because there are basically no buyers. Many farmers' planting decisions are determined by the "short memory" of how the previous crop season turned out. In this case, most producers are not happy. Recent returns have been negative as wheat price were lower than expected, quality issues existed, and there were losses due to flooding.

Estimates for planting intentions for 2015/16 marketing year vary widely. Post received forecasts of planting intentions ranging from no change to more than 600,000 hectares lower than last year. At current prices and costs, farmers' returns will be very tight or negative. However some producers are speculating that a new Presidential administration in December 2015 will bring positive policy changes and are planting with that in mind. It will be important to follow how the weather develops in the future, as the southern wheat belt is currently in need of rain. Many producers indicated that they will still plant wheat for rotational purposes, winter soil coverage and the need of cash at the beginning of the summer crop season. Farmers in the center of the country find the combination of wheat with soybean second crop as the best combination. In general, lower technology is expected to be applied as production costs have not come down despite the significant drop in world oil prices. The direct costs of planting wheat are above US\$400 per hectare. Many producers expressed interest in expanding barley area instead of planting wheat as returns in the past crop were better primarily because barley does not have export/marketing restrictions.

**Barley:** The planted area for 2015/16 crop season is forecast at one million hectares, while production is projected at 3.5 million tons, up from last year, but not nearly as high as 2013/14 level. Barley continues to be a good alternative for some farmers who want to plant winter crops but want to escape from the commercial difficulties that wheat faces. It has also the benefit that it is harvested approximately 2-3 weeks earlier than wheat, providing a significant advantage to those farmers in the more southern production area who want to

plant second soybeans right after. Producers who were able to sell good quality barley under contracts in 2014/15 had good returns, much better than with wheat. Those who sold feed barley were able to sell under a much more fluid market than wheat. Production costs are lower than wheat and, at current prices, barley returns are positive, while those of wheat are negative. Barley does not have export quotas. Some producers in the central part of Argentina indicate that they will increase somewhat barley area combined with second soybeans. Barley production for the 2014/15 crop is lowered to 2.75 million tons, 250,000 tons lower than earlier expected due to area losses and lower yields in the South East Buenos Aires province (the main producing area) because of flooding.

**Corn:** Post projects corn production for crop season 2015/16 at 20.0 million tons, lower than the previous season as a result of a lower planted area and normal yields (productivity in 2014/15 is expected to be a record high). Planted area is forecast at 2.75 million hectares, 200,000 hectares lower than USDA's current 2014/15 harvested area. Based on current market and policy conditions, most farmers are quite discouraged with corn production as it is the crop which demands the highest investment (current direct costs are US\$600 per hectare) and has a significantly lower projected returns than soybeans. Corn will still be produced by farmers owning the land (roughly 70 percent of the total area is leased land), have operations close to ports (no more than 200-300 kilometers) since high freight costs have a severe negative impact on returns, by producers which are contractually obliged to plant corn, and in the northern part of the country which due to environmental and productive issues need to rotate almost every year corn with soybeans. In Argentina, the current ratio of planted area between soybeans and corn is roughly 6 to 1. Farmers know that this is damaging soil quality, but continue planting soy given the favorable returns compared to corn. Moreover, Argentina is currently having a significant and growing problem with weeds resistant to glyphosate, forcing them to spend between US\$60-100 dollars per hectare more than two or three crop seasons ago in different cocktails of herbicides. Much of this situation is attributed to the low level of crop rotation (winter crops are also at a minimum). Argentina is quite ahead in the adoption of GMO seed technology, especially in soybeans and corn hybrids. However, in the past couple of seasons the resistance of corn to armyworms has not been as effective as expected, affecting yields and increasing farmers' costs due to spraying needs.

If a new government, which takes office in December, quickly moves to eliminate export quotas (ROE) and reduce or completely eliminate export taxes on corn, producers have indicated that they could shift from planting soybeans to increasing late corn acreage for the 2015/16 season. This last minute shift could be relatively big as returns for corn would improve significantly. However, most farmers nowadays prefer not to speculate with such possibility as they mention that there is still a high degree of uncertainty of who could become elected and what and when could they apply any policy changes for the agricultural sector.

Roughly ten percent of the 2014/15 corn crop is already harvested, with an expected average record yield. Early planted corn yields are so far averaging 10.5-11.0 tons per hectare in the Argentine Corn Belt (practically all corn in the country is produced without irrigation). Weather has been extremely beneficial with good rains in almost the whole growing stage. Therefore, Post now estimates Argentine crop production for 2014/15 at 24 million tons.

**Sorghum:** Production for 2015/16 is projected at 4.5 million tons. Planted area is expected to rebound somewhat from the previous year and back to 2013/14 levels. A combination of a lower investment than corn, the possibility of expanding to dryer areas and the good prices (relative to corn) paid this year will make farmers plant around one million hectares. Sorghum is an excellent crop but faces some difficulties which make many farmers avoid it. Bird attacks is a serious problem (even with high tannin hybrids), generally selling corn is easier than sorghum so some farmers prefer to plant "sons of corn hybrids" or late corn which is proving to be very good, with somewhat lower costs than early corn and quite stable yields. However, the recent sanitary

protocol signed with China to export local sorghum is making local prices remain firm and opens new expectations for the future. A vessel of Argentine sorghum is already sailing to China and several large traders who were initially skeptical about the fulfillment of the signed protocol are now ready to make business. To date, the harvest of the 2014/15 sorghum crop is roughly ten percent finished, with average yields of around 5.0 tons per hectare.

**Rice:** Production for 2015/16 is forecast at 1.5 tons (rough production), higher than last year's crop. Harvested area could increase marginally at 235,000 hectares, but average yields are forecast to be higher (yields in crop 2014/15 were lower than average). Rice area in Corrientes province could increase somewhat as there are no production alternatives and water ponds have good levels of water. Rice area in Entre Rios could remain relatively similar as it is produced with diesel and electrical pumps. Despite lower world oil prices, fuel prices in Argentina have not declined, making this type of production unprofitable. Those using electricity are expected to come breakeven in marketing year 2014/15. Contacts have indicated that current domestic prices will have to decline somewhat to meet what exporters can pay, and, if not, exports will be minimal. Higher yields and better quality than earlier estimated is occurring with the 2014/15 crop. More than 50 percent of the harvest is already finished. Approximately 10,000 hectares were lost earlier in the season due to flooding and river overflows.

## CONSUMPTION

**Wheat:** Consumption for 2015/16 is forecast at 6.15 million tons, slightly lower than the previous year. The demand for wheat from local flour mills to supply the domestic demand is quite stable. What varies within crops is the use of wheat for animal feed, which normally increases in years in which there are quality problems (such as in 2014/15). There are over 170 flour mills in Argentina of which more than half are located in Buenos Aires province. The rest are in Cordoba, Santa Fe and Entre Rios provinces. Under current conditions, flour mills are assured by the government that they will be able to purchase the volume of wheat they need so they do not hurry up to stock product. However, many people think that this system will be eliminated with a new administration taking office in December and that the market will return to normal.

**Barley:** Argentine barley consumption for 2015/16 is projected at 1.5 million tons, unchanged from 2014/15. Domestic demand is stagnant, with little new investment and malting processors working at full capacity. Five malting plants have a total processing capacity of approximately 1.1 million tons. Argentina's malting barley is destined for use in the local beer industry (three large companies) and for malt which is exported to several countries throughout South America, directly supplying beer manufacturers. Feed barley consumption is projected at 200,000 tons, similar to last year.

**Corn:** Consumption for 2015/16 is forecast at 10 million tons, the highest ever as production in the domestic livestock sector is expected to increase. The ethanol industry mostly uses corn and it is expected to operate at high capacity as the official mandate of ethanol in gasoline increased to ten percent in December 2014. Furthermore, all the recent investments would be fully operational during the whole crop year. In late 2014, the Argentine government presented a preliminary study indicating that the local consumption of corn in Argentina in 2013 was roughly 13 million tons. This volume is far larger than what Post is estimating at 8.8 million tons. The high consumption correlates with the government's high production estimate for 2013 of 32 million tons. Neither Post nor most in the private sector agree with these high numbers. In the report, the government estimated that the poultry sector consumed 3.3 million tons of corn, the beef sector 3.0 million tons, the dairy sector 2.5 million tons, pork 0.9 million tons, eggs 0.8 million tons, wet milling 1.3 million tons

and the grain ethanol industry 0.4 million tons. The largest growth in demand over recent years has been in the new grain ethanol industry, which is forecast to consume approximately 1 million tons of corn in 2015/16. By then, probably the six large plants will have the capacity to dry the distilled grains.

**Sorghum:** Domestic consumption for 2015/16 is forecast to remain unchanged at 2.9 million tons. A large share of the sorghum supply is normally used on-farm or in nearby operations for feeding beef and dairy cattle. Despite an expected rebound in livestock production, the possibility of exporting sorghum to new markets like China could turn prices upwards, making some producers look for less expensive feed alternatives.

**Rice:** Argentine rice consumption for 2015/16 is forecast at 410,000 tons (milled basis). Rice demand is expected to remain stagnant as most local economists predict a slow growing economy.

## TRADE

**Wheat:** Argentine wheat exports for the crop season 2015/16 are forecast at 7.2 million tons. However if new export policies are implemented by a new administration in early 2016, export volumes could be even higher. Currently wheat exports are subject to discretionary export quotas announced sporadically. Most contacts in the trade expect that the quota system will be eliminated and that this will make trade flow much easier. In fact, expected high carryover stocks could begin to be reduced. Brazil would be the natural market for the vast majority of Argentina's wheat exports. Some minor shipments are expected to go to other regional markets such as Chile, Bolivia and Colombia.

Exports for the 2014/15 crop are estimated at 5.5 million tons, 1.0 million tons lower than USDA's official number. It is unknown what the final export volume will be as it fully depends on the volumes authorized by the government. There are traders who are quite pessimistic, indicating that a low of 4.5 million tons could be shipped. Export licenses have been coming out very slowly. For the current crop, the government has announced so far 3.2 million tons plus 0.4 million tons from the past crop season which was not exported. Of the total production, farmers have so far sold only 60 percent of the crop due to low prices and to the fact that it is difficult to find buyers. There are some quality problems because of excessive rain throughout the whole of the growing season, but this will not be a problem for export. Traders indicate that exports to Brazil are relatively slow as they had a good harvest and that in the first few months they have supplied their mills mostly with domestic production. In the meantime, Argentina is exporting wheat to Congo, Nigeria, Algeria, and South Africa.

**Barley:** Exports in crop 2015/16 are projected at 2.0 million tons, up 400,000 tons from USDA's estimate for the previous year as a result of an expected larger output. Roughly half of the exports are malting barley to regional markets such as Brazil, Uruguay, Colombia, and Chile, and eventually some to China. The other 50 percent of exports would be feed barley primarily to the Middle East. Exports in 2014/15 are down at 1.4 million tons as a result of a shorter crop than earlier expected. Local traders indicate that roughly 1.1 million tons would be malting barley to supply beer companies in South America and the balance feed barley. Barley exports normally take place during December-April each year due to logistical issues as the southern Buenos Aires port of Necochea becomes very busy in May-June shipping corn and soybeans.

**Corn:** Corn exports for 2015/16 are projected at 10.0 million tons, a significant drop from the previous year and the lowest since 2005/06. This is a result of a projected significant drop in production. North Africa, South East Asia and the Middle East are the main destinations expected for Argentine corn. Some regional shipments to

Chile, Peru and Venezuela are also expected. Although Argentina is eligible to export corn to China, traders are somewhat skeptical of doing business, but do not discard that a few vessels could be shipped.

Exports in crop season 2014/15 are increased to 15.0 million tons, reflecting an increase in production. Argentina is expected to export roughly 1.8-2.4 million tons per month from April through August. After that, monthly shipments will diminish significantly. The government has already provided ROE (export permits) for 8.0 million tons. Most traders believe that the ROE system will end in December 2015 with the change of the government and that this will make the market more dynamic.

With the new grain ethanol plants Argentina has begun to export dry distiller's grains to Chile and Uruguay. Exports are averaging 10-15,000 tons per month. These products pay a five percent export tax while corn exports are taxed 20 percent. In general the 5-6 plants which produce ethanol from grains prefer to sell wet distiller's grains to nearby customers, but drying the distiller's grains gives them more flexibility to market their entire volume.

**Sorghum:** Argentine sorghum exports in 2015/16 are forecast at 1.5 million tons. Japan, followed by Chile, Saudi Arabia and Colombia have been historically the main destinations for local sorghum. However, in November 2014 the country signed a protocol with China to open its market to Argentine sorghum. At the beginning local traders were somewhat skeptical of doing business, but things have changed. It is quite troublesome because the sorghum to be shipped has to be immobilized for about 40 days until the local authority makes all the analysis previous to delivering the export certificate. In mid-March Argentina's sanitary authority approved the first shipload of 44,000 tons of sorghum which is already heading for China. If everything goes well, we could expect several more shipments. Local traders indicate that exports to this market could range between 300,000 and 500,000 tons a year.

**Rice:** Exports for 2015/16 are forecast up at 580,000 tons as a result of a projected larger output. Argentina is expecting to continue to export large volumes of milled rice to Iraq (under official bids). Exports to Brazil are uncertain as Argentina has lately been more expensive than Paraguayan rice. Export of milled rice to Bolivia is expected to continue strong. This market imports officially some 30-40,000 tons of milled rice and local rice may experience border leakages in a similar volume. Chile is also a significant market, but lately Paraguayan rice has been very price competitive, making purchases of Argentine rice drop.

## STOCKS

**Wheat:** Ending stocks for crop 2015/16 are forecast to drop to 1.9 million tons. The final stocks will depend on the policies which the future administration will take. If they eliminate the ROE system and free exports, we could see stocks fall even further. Ending stocks for crop 2014/15 are increased to 3.2 million tons as post reduced exports by one million tons due to the government's slow pace to provide permits.

**Barley:** Stocks by November 2016 are forecast to remain unchanged at 342,000 tons, a relatively low level. The local malting industry technically needs a level of stocks which ranges between 200,000-300,000 tons.

**Corn:** Ending stocks for crop 2015/16 are projected to remain unchanged at 1.1 million tons, mostly in hands of the different users.

**Sorghum:** Ending stocks for 2015/16 are forecast to remain practically unchanged at 834,000 tons.

**Rice:** Ending stocks for 2015/16 are forecast at 236,000 tons, similar to the previous year.

## **POLICY**

The current policies that mostly affect grain production and trade are export tariffs and export quotas for wheat and corn. The export quota system known as the Registry of Export Operation, or ROE, was created in 2007 with the original objective of delinking high international prices from local food prices. The ROE system is currently applied primarily on wheat, corn and beef exports. By limiting exports and announcing export quotas without a given pattern, buyers for the domestic market and exporters do not compete for the product, making farmer prices artificially low. Export taxes provide price advantages for local processing industries and animal feed sector. Current export taxes are 23 percent for wheat, 20 percent for corn, 20 percent for barley and 5-10 percent for rice. These policies have reduced both corn and wheat production over the years in favor of soybean production, which is not affected by export quotas. The leading presidential candidates have all indicated that the agricultural sector needs to be reformed and have stated that they would eliminate the ROE and reduce or eliminate export taxes on grains, save for soybeans, upon taking office on December 2015. If such a reform would occur, one would expect an increase in corn planted area and in wheat exports for the coming marketing year. As of now, Post estimates are based on the policies currently in place.

## STATISTICAL INFORMATION

Wheat Market Begin Year Argentina	2013/2014		2014/2015		2015/2016	
	Dec 2013		Dec 2014		Dec 2015	
	USDA Official	New post	USDA Official	New post	USDA Official	New post
Area Harvested	3,500	3,500	4,200	4,200	0	4,000
Beginning Stocks	286	286	2,556	2,556	0	3,246
Production	10,500	10,500	12,500	12,500	0	12,000
MY Imports	20	20	40	40	0	30
TY Imports	2	2	40	40	0	30
TY Imp. from U.S.	0	0	0	0	0	0
Total Supply	10,806	10,806	15,096	15,096	0	15,276
MY Exports	2,200	2,200	6,500	5,500	0	7,200
TY Exports	1,601	1,601	5,500	5,000	0	7,200
Feed and Residual	100	100	100	300	0	100
FSI Consumption	5,950	5,950	6,050	6,050	0	6,050
Total Consumption	6,050	6,050	6,150	6,350	0	6,150
Ending Stocks	2,556	2,556	2,446	3,246	0	1,926
Total Distribution	10,806	10,806	15,096	15,096	0	15,276

1000 HA, 1000 MT, MT/HA

Barley Market Begin Year Argentina	2013/2014		2014/2015		2015/2016	
	Dec 2013		Dec 2014		Dec 2015	
	USDA Official	New post	USDA Official	New post	USDA Official	New post
Area Harvested	1,270	1,270	900	800	0	1,000
Beginning Stocks	333	333	592	492	0	342
Production	4,750	4,750	3,000	2,750	0	3,500
MY Imports	0	0	0	0	0	0
TY Imports	0	0	0	0	0	0
TY Imp. from U.S.	0	0	0	0	0	0
Total Supply	5,083	5,083	3,592	3,242	0	3,842
MY Exports	2,891	2,891	1,600	1,400	0	2,000
TY Exports	2,829	2,829	1,600	1,300	0	2,000
Feed and Residual	300	400	200	200	0	200
FSI Consumption	1,300	1,300	1,400	1,300	0	1,300
Total Consumption	1,600	1,700	1,600	1,500	0	1,500
Ending Stocks	592	492	392	342	0	342
Total Distribution	5,083	5,083	3,592	3,242	0	3,842

1000 HA, 1000 MT, MT/HA

Corn Market Begin Year Argentina	2013/2014		2014/2015		2015/2016	
	Mar 2013		Mar 2014		Mar 2015	
	USDA Official	New post	USDA Official	New post	USDA Official	New post
Area Harvested	3,400	3,400	2,950	2,950	0	2,750
Beginning Stocks	1,315	1,315	1,520	1,520	0	1,130
Production	26,000	26,000	23,500	24,000	0	20,000
MY Imports	5	5	10	10	0	0
TY Imports	1	1	10	10	0	10
TY Imp. from U.S.	1	1	0	0	0	0
Total Supply	27,320	27,320	25,030	25,530	0	21,130
MY Exports	17,000	17,000	14,500	15,000	0	10,000
TY Exports	12,846	12,846	14,500	15,000	0	10,000
Feed and Residual	5,800	5,800	6,100	6,100	0	6,500
FSI Consumption	3,000	3,000	3,300	3,300	0	3,500
Total Consumption	8,800	8,800	9,400	9,400	0	10,000
Ending Stocks	1,520	1,520	1,130	1,130	0	1,130
Total Distribution	27,320	27,320	25,030	25,530	0	21,130

1000 HA, 1000 MT, MT/HA

Sorghum Market Begin Year Argentina	2013/2014		2014/2015		2015/2016	
	Mar 2013		Mar 2014		Mar 2015	
	USDA Official	New post	USDA Official	New post	USDA Official	New post
Area Harvested	1,000	1,000	850	850	0	1,000
Beginning Stocks	784	784	1,184	1,234	0	734
Production	4,400	4,400	4,000	3,800	0	4,500
MY Imports	0	0	0	0	0	0
TY Imports	0	0	0	0	0	0
TY Imp. from U.S.	0	0	0	0	0	0
Total Supply	5,184	5,184	5,184	5,034	0	5,234
MY Exports	1,300	1,250	1,400	1,400	0	1,500
TY Exports	953	953	1,500	1,500	0	1,500
Feed and Residual	2,300	2,300	2,500	2,500	0	2,500
FSI Consumption	400	400	400	400	0	400
Total Consumption	2,700	2,700	2,900	2,900	0	2,900
Ending Stocks	1,184	1,234	884	734	0	834
Total Distribution	5,184	5,184	5,184	5,034	0	5,234

1000 HA, 1000 MT, MT/HA

Rice, Milled Market Begin Year Argentina	2013/2014		2014/2015		2015/2016	
	Apr 2013		Apr 2014		Apr 2015	
	USDA Official	New post	USDA Official	New post	USDA Official	New post
Area Harvested	241	241	239	222	0	235
Beginning Stocks	227	227	224	224	0	246
Milled Production	1,027	1,027	975	877	0	975
Rough Production	1,580	1,580	1,500	1,349	0	1,500
Milling Rate (.9999)	6,500	6,500	6,500	6,500	0	6,500
MY Imports	5	5	5	5	0	5
TY Imports	6	6	5	5	0	5
TY Imp. from U.S.	0	0	0	0	0	0
Total Supply	1,259	1,259	1,204	1,106	0	1,226
MY Exports	600	600	580	450	0	560
TY Exports	494	494	580	450	0	560
Consumption and Residual	435	435	440	410	0	410
Ending Stocks	224	224	184	246	0	256
Total Distribution	1,259	1,259	1,204	1,106	0	1,226

1000 HA, 1000 MT, MT/HA