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Grain and Feed Update

Grain and Feed Update - January 2016

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Report Highlights:

Post estimates wheat production for 2015/16 at 10.8 million metric tons (MMT), 300,000 tons higher than USDA. Although yields were higher than normal, the protein content of a large share of the production is low. Exports are forecast at 6.5 MMT, 500,000 tons higher than USDA primarily due to the production increase. Barley production for 2015/16 is estimated at 4.3 MMT, significantly higher than USDA's 3.4 MMT as result of excellent weather during the entire cycle which produced almost record yields. Larger production is expected to increase exports at 2.4 MMT (USDA at 2.0 MMT) and increase ending stocks. Post projects 2015/16 corn production at 24 MMT, 1.6 MMT lower than USDA, primarily due to a smaller harvested area. Crop condition was very good so far, but lately the lack of rains and high temperatures are affecting the crop condition in some areas. Post projects corn exports at 14.2 MMT, 1.8 MMT lower than the official number as Post projects a smaller corn supply. Sorghum exports for 2015/16 are forecast at 1.0 MMT, 100,000 tons lower than USDA. Local traders indicate that the demand is slow. Rice production for 2015/16 is expected at 1.262 MMT (rough basis) due to excess rain which has made farmers lose some 9,000 hectares planted.

Background: Policy Changes Under New Macri Government

Soon after the accession of President Mauricio Macri on December 10th, his administration implemented a series of significant policy changes in the agricultural sector, affecting the entire grain and oilseed sector in Argentina. These changes included the reduction of the export tax on soybeans and its byproducts by 5 percentage points and eliminating export taxes on all other agricultural commodities (see [New Government Lifts Currency Controls and Cuts Export Taxes](#)). Agricultural commodities with a new zero percent export tax include meat products, grains, fruits, and vegetables among other products. Soon after that, the Macri administration eliminated export permits (ROEs) for grains and oilseeds (see [New Government Eliminates Export Permits for Grains and Oilseeds](#)). This dropped the pre-approval requirement for export sales and eliminates an intrusive control on the flow of grain, particularly wheat and corn. Along with these political changes, came the removal of foreign exchange restrictions and devaluation of the Argentine peso by about 45 percent on December 17th. This boosted the competitiveness of agricultural exporters and was a positive signal to producers who waited for such an adjustment to occur before they began liquidating their inventories. In the short term, these changes are expected to spur an increase in the sales of Argentine agricultural commodities, primarily corn and wheat, on the world market as producers move forward with sales that have been held up in anticipation of policy changes. In the medium to long term, these changes are expected to significantly improve farmers' returns (which in many cases were negative before the new policies were implemented) and are expected to encourage wheat and corn planting for the 2016/2017 season and beyond.

Wheat

Post estimates Argentine wheat production for crop 2015/16 at 10.8 million metric tons (MMT), 300,000 tons higher than USDA's official volume. Harvest is expected to finalize this week. Despite a lower use of technology, especially fertilizers, very favorable weather in the last few months of the production cycle more than offset an earlier estimation of average or somewhat lower yields. In general good soil moisture, lower than usual crop diseases attacks and abnormally cooler weather (in November and December) during the grain filling stage resulted in heavier grains and higher yields than normal in most of the key wheat production areas. In contrast, the average quality of the wheat produced is poorer than expected, with lower protein content than desired. Brokers indicate that there is a large volume of wheat below 10% of protein. Most of the higher quality wheat was purchased by exporters which need to comply with their contracts. Feed wheat will also be exported. Local exporters are offering for delivery in southern Buenos Aires ports US\$180 per ton for 10.5% protein wheat, US\$160 for 10% protein wheat and US\$145 for lower than 9.5% protein wheat. Current prices are not yet showing the full price which traders could pay after the elimination of the export tax and export quotas in December 2015. Traders indicate it is mainly because low quality problems. Farmers are not eager to yet sell their wheat and are waiting for Brazil to become more active (normally in May-June of each year). Local wheat mills are expected to have to use somewhat lower quality wheat this year. With the new policies in place and after the devaluation, mills are currently buying the higher quality wheat at pesos 2800 per ton (or US\$200 per ton), more than double of last year in peso terms. Many mills made large purchases in the last few months of 2015 in anticipation of the new policies and their impact.

Exports of wheat for 2015/16 are now set at 6.5 million tons, 500,000 tons higher than USDA. This additional volume is from a new higher production estimate and a larger carry in from the 2014/15 season as exports will

finally be 5.2 MMT, 300,000 MT shorter than expected by USDA. Currently Argentina is competitive exporting low-priced wheat to Egypt (120,000 tons in January), Vietnam, Indonesia, South Korea, Thailand, Morocco and Brazil. It has also shipped two cargoes of feed wheat for a total of 39,000 tons to North Carolina for feed. Since the export taxes were eliminated late last year, around 1 million tons of wheat exports have been declared to be shipped during this time. Exports of wheat flour have historically been a little below 1 million tons per year, with Brazil taking 70 percent of it, followed by Bolivia. However, due to official policies, exports in 2013-15 dropped to an average of 300,000 tons of flour per year. With the new government and its policies in place, we believe this market will recover quite rapidly.

Although volumes are difficult to estimate, Post believes that the local use of wheat for animal feed will remain higher than normal in 2015/16. The low quality crop in 2015/16, large volumes of wheat stocks from the previous two crop seasons which have quality problems as well, and expensive corn will most likely encourage some producers to use some wheat as animal feed.

Ending stocks for 2015/16 are now projected at 1.45 MMT, slightly below USDA. A free export market is expected to result in ending stocks more in line with historic levels.

Barley

Post estimates Argentine 2015/16 barley production at 4.3 MMT, 900,000 MT higher than USDA's official number. There is great variation in production estimates ranging from 4.0 to 4.8 million tons of production. Post adjusts harvested area at 980,000 hectares, 30,000 hectares higher than USDA (some 150,000 hectares were lost due to excess rain during planting season). As in wheat, the weather in the main barley production areas was very good, resulting in higher than normal yields. There was good soil moisture throughout the production cycle, cool weather at the end of the growing season, and good conditions during harvest. Farmers also used good crop protection management. The use of new high yielding barley varieties also helped quite significantly. Just a few years ago, Scarlett variety was used in more than 70 percent of the area, but it currently represents only 15 percent of total plantings. This variety has been in the market quite a long time and has had serious disease problems in the past 2-3 crop seasons. The new varieties used, such as Andreia and Shakira, developed by a multinational beer company, are high yielding and are well demanded by the beer industry. As in wheat, high yields and lower fertilizer use has negatively affected the protein content and large volumes of barley will be sold (exported) for feed purposes.

With the new level of production, Post projects barley exports for crop 2015/16 at 2.4 MMT, 400,000 tons higher than USDA. Local traders project roughly 800,000 MT of exports of malting barley for regional customers which every year demand a similar volume. The rest of the exports will be feed barley. Although exporters indicate that foreign demand is slow, more than 700,000 tons of feed barley was already contracted and most of it is being shipped at this time. Argentine feed barley prices are currently very competitive. Saudi Arabia, China, Brazil are the leading destinations. Exports for 2014/15 are set at 1.59 MMT, 90,000 tons higher than USDA.

Ending stocks for crop season 2015/16 are at 652,000 tons, 360,000 tons higher than USDA's official number. Local exporters doubt that they will be able to export the entire export surplus as the world market is slow because it is well supplied by other world producers.

Corn

Post estimates Argentine corn production for crop season 2015/16 at 24 MMT, 1.6 MMT lower than USDA's official number. This difference is result of Post estimating a lower harvested area and a slightly lower average yield. The planting is over 95 percent complete, only missing some fields in the northern part of the country where normally planting is done somewhat later. Four months ago, just at the time the first early corn fields

were planted, the market was estimating a drop in area between 20-40 percent. This estimate was during the middle of the presidential election with a lot of uncertainty of who the future president could be and thus what policies could be implemented. With the election of President Macri in a run off in late November, things began to change in the local farm sector as the new president promised to support the agricultural sector by eliminating export taxes (except for soybeans which decreased 5 percentage points) and export quotas and devaluing the local currency to reflect a more realistic exchange rate. As noted above, these changes were implemented in December.

The new policies improved significantly corn returns which went from negative to positive, and made corn profitability significantly higher than planting soybeans. While these changes have resulted in a larger area than initially estimated, they came too late to fully offset the reduction. Post currently estimates harvested area for 2015/16 at 3.05 million hectares, 150,000 hectares less than USDA. Practically all analysts expect a drop in area from last year, ranging from 5-15 percent.

Until ten days ago the crop condition was very good in almost all areas. However, in the northeastern part of Buenos Aires province and southeastern part of Santa Fe province, an important corn area, corn fields are suffering a significant drought together with some days with extreme high temperature which will negatively affect yields on early planted corn. Immediate rain is necessary in a significant and important corn area to stop further damage. Most technicians indicate that if rains resume over the next 10 days the situation would be normalized. Weather forecasts indicate that February and March will bring good rainfall. However, this year's El Nino, which normally results in excess rain in Argentina's main crop producing area, has been very erratic and less positive in yields in several producing areas. Also an important factor to monitor is that Argentina is facing the worst locust attack in 60 years. The official sanitary service is very active in spraying the areas where the worst takes place, forest land in Santiago del Estero province. The goal is to control this plague rapidly before it turns into a flying thronk which could then seriously affect crops and pastureland. So far, corn planted for silage (normally estimated between 800,000-1,000,000 hectares) for cattle feed is yielding somewhat above average. When this happens, most producers prefer to harvest the volume of silage they had originally budgeted and leave the surplus area for harvest as commercial corn.

Post increases corn production for 2014/15 crop season to 27.0 MMT, 500,000 tons higher than USDA. The main reason is the excellent weather during the whole crop cycle which covered a large area where corn plantations were located. Yields were almost record high. Post continues to estimate harvested area at 3.3 million hectares, 100,000 hectares more than USDA.

As result of Post having a lower 2015/16 production estimate than USDA, Argentine corn exports are projected at 14.2 million tons, 1.8 MMT lower than the official volume.

Argentine corn exports for the 2014/15 crop are very active; with a large increase in shipments since the removal of export restrictions in December. Traders indicate that exports for 2014/15 crop will total around 18.3 MMT, 800,000 tons more than USDA. This is the result of a strong foreign demand which is being supplied with a larger than expected production and smaller ending stocks than earlier projected. Current FOB prices are quite good and producers react to such prices by selling. Main destinations are Saudi Arabia, South Korea, Indonesia, north of Africa and Chile.

Sorghum

Post projects sorghum exports in 2015/16 at 1.0 MMT, 100,000 tons lower than USDA. Post estimates the same

for 2014/15. Traders indicate that sorghum exports are quite slow, especially after the halt of exports to China, which had brought a lot of enthusiasm in the local market. Post projects sorghum domestic consumption to be 100,000 tons higher than USDA's official number as a well-supplied market, low exports and strong corn prices could encourage livestock producers to increase its consumption.

Rice

Post estimates Argentine rice production for crop 2015/16 at 1.262 MMT (rough basis), 169,000 tons lower than USDA. This is primarily due to a smaller harvested area. El Nino has created significant problems in the northern part of the country with heavy rains, resulting in the breaching of rice-field ponds, and to the over flooding of several rivers bringing water from Brazil and Paraguay which have also received more rain than normal. The country's planted area in 2015/16 totaled 211,000 hectares, but so far there were losses of 4,000 hectares in Corrientes, 3,000 hectares in Santa Fe and 2,000 hectares in Entre Rios. In the past several weeks it has not rained and more sunlight than expected under El Nino conditions has improved the crop condition. Nonetheless, most contacts expect average yields to be somewhat lower than normal. The harvest has begun in the northern part of the country.

Statistical Information

Wheat Market Begin Year	2013/2014		2014/2015		2015/2016	
	Dec 2013		Dec 2014		Dec 2015	
Argentina	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	3500	3500	4200	4200	3500	3500
Beginning Stocks	288	288	2490	2490	3175	3475
Production	10500	10500	12500	12500	10500	10800
MY Imports	2	2	35	35	30	30
TY Imports	2	2	35	35	30	30
TY Imp. from U.S.	0	0	0	0	0	0
Total Supply	10790	10790	15025	15025	13705	14305
MY Exports	2250	2250	5500	5200	6000	6500
TY Exports	1675	1675	4200	4200	6500	6500
Feed and Residual	100	100	300	300	100	300
FSI Consumption	5950	5950	6050	6050	6050	6050
Total Consumption	6050	6050	6350	6350	6150	6350
Ending Stocks	2490	2490	3175	3475	1555	1455
Total Distribution	10790	10790	15025	15025	13705	14305

(1000 HA) ,(1000 MT)

Barley Market Begin Year	2013/2014		2014/2015		2015/2016	
	Dec 2013		Dec 2014		Dec 2015	
Argentina	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	1270	1270	900	800	950	980
Beginning Stocks	333	333	492	492	392	252

Production	4750	4750	2900	2850	3400	4300
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	5083	5083	3392	3342	3792	4552
MY Exports	2891	2891	1500	1590	2000	2400
TY Exports	2829	2829	1598	1598	2000	2400
Feed and Residual	400	400	200	200	200	200
FSI Consumption	1300	1300	1300	1300	1300	1300
Total Consumption	1700	1700	1500	1500	1500	1500
Ending Stocks	492	492	392	252	292	652
Total Distribution	5083	5083	3392	3342	3792	4552
(1000 HA) ,(1000 MT)						

Corn	2013/2014		2014/2015		2015/2016	
	Mar 2014		Mar 2015		Mar 2016	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Market Begin Year						
Argentina						
Area Harvested	3400	3400	3200	3300	3200	3050
Beginning Stocks	1308	1308	1408	1408	1113	813
Production	26000	26000	26500	27000	25600	24000
MY Imports	2	2	5	5	5	5
TY Imports	1	1	3	3	5	5
TY Imp. from U.S.	1	1	0	0	0	0
Total Supply	27310	27310	27913	28413	26718	24818
MY Exports	17102	17102	17500	18300	16000	14200
TY Exports	12846	12846	18447	18447	17500	15000
Feed and Residual	5800	5800	6000	6000	6300	6300
FSI Consumption	3000	3000	3300	3300	3500	3500
Total Consumption	8800	8800	9300	9300	9800	9800
Ending Stocks	1408	1408	1113	813	918	818
Total Distribution	27310	27310	27913	27913	26718	25118
(1000 HA) ,(1000 MT)						

Sorghum	2013/2014		2014/2015		2015/2016	
	Mar 2014		Mar 2015		Mar 2016	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Market Begin Year						
Argentina						
Area Harvested	1000	1000	770	800	870	870
Beginning Stocks	781	781	1202	1202	802	902
Production	4400	4400	3500	3500	3900	3900
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	5181	5181	4702	4702	4702	4802
MY Exports	1279	1279	1100	1000	1100	1000
TY Exports	953	953	954	954	1200	1100
Feed and Residual	2300	2300	2400	2400	2500	2600
FSI Consumption	400	400	400	400	400	400
Total Consumption	2700	2700	2800	2800	2900	3000
Ending Stocks	1202	1202	802	902	702	802
Total Distribution	5181	5181	4702	4702	4702	4802
(1000 HA) ,(1000 MT)						

Rice, Milled	2013/2014		2014/2015		2015/2016	
	Apr 2014		Apr 2015		Apr 2016	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Market Begin Year						
Argentina						

Area Harvested	241	241	231	228	215	202
Beginning Stocks	227	227	359	359	548	524
Milled Production	1027	1027	1014	990	930	820
Rough Production	1580	1580	1560	1523	1431	1262
Milling Rate (.9999)	6500	6500	6500	6500	6500	6500
MY Imports	5	5	5	5	5	5
TY Imports	6	6	7	5	5	5
TY Imp. from U.S.	0	0	0	0	0	0
Total Supply	1259	1259	1378	1354	1483	1349
MY Exports	465	465	400	400	520	520
TY Exports	494	494	325	325	480	480
Consumption and Residual	435	435	430	430	430	430
Ending Stocks	359	359	548	524	533	399
Total Distribution	1259	1259	1378	1354	1483	1349
(1000 HA) ,(1000 MT)						