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Grain and Feed Update

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Report Highlights:
Argentine wheat production for 2015/16 is forecast down at 10.2 million tons (mmt), 1.3 mmt lower than USDA. This is a result of an adjusted smaller area as the crop is unprofitable in most cases and to a lesser use of inputs. Exports are projected at 5 mmt, significantly lower than USDA official exports at 6.7 mmt. Barley production for 2015/16 remains unmodified. Non-feed use is set at 1.3 million tons, 100,000 tons lower than official USDA estimates. Corn production for 2015/16 is estimated at 21 mmt, 4 mmt lower than official USDA estimates. This is the result of a significantly lower area due to the lack of profitability and the challenge of selling production domestically. This output negatively impacts projected exports which are now set at 11.5 mmt, 4 mmt lower than USDA. Sorghum estimates remain unchanged. Rice production for 2015/16 is projected down to 1.25 mmt (rough production), 364,000 tons lower than official USDA estimates as farmers plan to cut area and only plant in fields with good production potential.

Post:
Buenos Aires

Background: The 2015/16 Argentine crop continues to develop under great uncertainty. The Annual Grain and Feed report (March 2015) included the first forecast for the 2015/16 crop and Post already issued an alert on the complicated scenario local producers faced and difficulty and uncertainty to make planting decisions (at that moment they were beginning to harvest corn and soybeans). In general, the 2014/15 crop had high yields, but in most cases with negative economic returns. This was due to a combination of factors: significantly lower world commodity prices, high local inflation with a direct impact on production costs, a devaluation of the local currency lagging far behind inflation, high export taxes, domestic policy limiting exports (for corn and wheat), extremely high internal freight/transport costs, record high tax pressure, somewhat lower credit availability with higher interest rates, etc. To add to this situation, there will be presidential elections in October, with primaries in August. The leading candidates have expressed support to the agricultural sector (primarily removing export limitations and reducing export taxes case by case). However, in all cases it is unclear what policies will be implemented as of December 2015 when the new government takes office. Politics had little influence in winter crop decisions. In general, farmers planted based on current policies and economic conditions, having little or no expectations of change. Wheat planted area dropped 500,000 hectares from last year's planted area and barley area remained about the same. However, the October elections can have a strong influence on the planting decisions for the summer crops. If policies remain unchanged, Post envisions the potential of a strong shift from corn to soybean area. If friendlier policies are finally implemented Post envisions corn and soybean area remain relatively unchanged to 2014/15. Roughly 60-70 percent of Argentina´s crop area is produced on leased land. Most farmers, who typically own the equipment, are not in a good financial nor economic situation after the last 2-3 crop seasons, where returns were very tight or negative. Contacts indicate that approximately half of the farms are still not rented, and if farmers do not receive the right signals, Argentina's aggregate planted area in 2015/16 could drop between 5-10 percent.

Wheat: Post estimates Argentine wheat production for crop 2015/16 at 10.2 million tons (mmt), 1.3 mmt lower than USDA´s official estimate. Yields could be somewhat lower than normal as most producers are reported to be using low technology (especially fertilizers) to reduce production costs. Another factor which could hurt yields and quality further is an expected rainy spring. Most local and international weather forecast services predict an El Nino for spring in Argentina, which normally results in excessive rain. Area is estimated at 3.7 mmt, the third lowest area since 1970, and 100,000 hectares lower than the official USDA estimate. Expected negative returns, difficulties to market production and large stocks have discouraged many producers to plant wheat. However, there are several reasons why some producers still plant. In the southern province of Buenos Aires, wheat is hands-down the best crop to produce, and over one third of Argentina's area planted to wheat is concentrated in this region. There is a possibility that policies could alter in the future with the change of government right at harvest time. Some prefer to maintain their crop rotation scheme, others prefer to maintain soil coverage during winter to control weeds, and still others believe that the combination of wheat plus second soybeans could be a good economic alternative. Through the end of July, a vast majority of wheat fields were in very good condition. Planting is expected to be finalized in early August.

Wheat exports for 2015/16 are estimated by Post at 5 mmt, 1.7 mmt lower than USDA´s official

estimate. This is the result of Post´s expected lower output in 2015/16 and to a lower carry in from the previous year. Exports in 2014/15 are estimated at 5.5 million tons, 500,000 tons higher than official USDA estimates. In mid-July the local government authorized an additional 500,000 tons of low-protein wheat for export. This announcement will partially ease the situation of producers in southeast Buenos Aires province who have large stocks of wheat unsold with little or no demand from local flour mills. By the end of July 2015, the government had announced the export authorization of 4.2 mmt of wheat, plus 500,000 tons of low-protein wheat and 500,000 tons of wheat flour (equivalent to 650,000 tons of wheat) for a total of 5.35 mmt. The market believes that some more authorizations to export could be announced in October/November, closer to the beginning of the harvest season of the new crop.

Barley: Post estimates Argentine barley production for 2014/15 at 2.8 mmt, 100,000 tons lower than official USDA estimates. Harvested area is also set lower than USDA at 800,000 hectares due to area losses mainly because of flooding in southeast Buenos Aires province, the country's primary barley production area. Total domestic consumption for crop 2015/16 is estimated at 1.45 mmt, 150,000 tons lower than USDA´s official volume. The local malting industry demands between 1.1-1.15 mmt and some 150,000 tons of barley is used for seed, totaling 1.3 million tons of non-feed domestic use. Feed barley use will ultimately depend on the quality of the crop and exports volumes. At this point, Post forecasts 150,000 tons of barley for animal feed use. However, if spring is very rainy, barley quality could be negatively affected, increasing the availability of poorer quality barley and thus serving as an alternate animal feed.

Barley exports for crop 2014/15 are estimated at 1.45 mmt, 50,000 tons higher than official USDA estimates. Traders expect exports of approximately 830,000 tons of malting barley and 620,000 of feed barley.

Carry out stocks for crop 2013/14 are adjusted down at 492,000 tons, 100,000 tons lower than USDA´s official estimate. Industry contacts believe carry out stocks were quite tight. Therefore, Post believes that feed consumption must have been higher than earlier expected.

Corn: Argentine exports for crop 2015/16 are estimated at 11.5 mmt, significantly lower than USDA's official estimates at 15.5 mmt. The main reason for this is the expected shorter export surplus as a result of a reduction in production now projected at 21 mmt, 4 mmt lower than official USDA estimates. Given current economic conditions, world commodity prices and domestic policies in place, Post estimates corn harvested area in 2015/16 at 2.8 million hectares, 300,000 hectares lower than official USDA area estimates. To date practically all crops have negative returns. In contrast with other commodities, corn (1) has the highest production cost, (2) faces high freight costs which have a significant negative impact on returns, (3) demands the highest investment per hectare, and (4) faces serious difficulties and limitations in the domestic commercialization which negatively affects farmer prices. Although there is still time (early corn is planted as of September, while late corn is planted in December), several policies could be modified to encourage corn production. If not, planted area could drop anywhere between 15 to 30 percent. If policies are modified to favor corn, we could see a late shift from soybeans to late corn which has become very popular in the past 3-4 crop seasons. Farmers in the northern part of the country normally plant more than 1 million hectares of corn because they have to rotate almost yearly with soybeans due to the strong pressure of weeds and insects. These farmers have had serious difficulties in the past 3-4 crop seasons due to weather and scarce market opportunities, and

there are sizeable doubts about what they will decide regarding the new crop season. As an example, the current cost of transporting corn from Salta or Tucuman provinces to the port of Rosario is equivalent to 50 percent of the farmer's net income.

Corn harvested area for crop 2014/15 is now estimated at 3.3 million hectares, 300,000 hectares more than official USDA estimates. There is a significant divergence among local crop analysts on the final harvested area, with most contacts ranging between 3.1 and 3.45 million hectares. Almost record high yields, slightly above eight tons per hectare, are expected to produce a total 26.5 mmt, 1.5 mmt higher than USDA's official volume. Consistent high yields in almost all the corn producing areas are a result of excellent soil moisture, good radiation and almost perfect temperatures. However, late corn which is currently being harvested (to date over 75 percent of the total corn harvest is finished) is yielding above average, but somewhat lower than earlier expected.

Corn exports for 2014/15 are expected at 17 mmt, 1.5 mmt higher than official USDA estimates, and in line with a larger crop volume. The government has so far authorized 15 mmt (in two tranches) and indicated that it might open an additional volume in the future. The Argentine government stated that through mid-July 2015, exporters had purchased 13.4 mmt and shipped 9.2 mmt. Vietnam ranks as the first destination for Argentine corn, followed by Algeria, Indonesia and Malaysia. Local traders indicate that Vietnam has become the number one market as Vietnam's domestic needs have also increased due to a short production and a larger demand. Additionally, perhaps some Argentine corn then flows across Vietnam's border into China. Argentine corn exports directly to China are extremely slow, with the last large shipment (66,000 tons) logged in mid-2013. Local traders indicate that China has a limited TRQ to import corn.

Sorghum: After signing a sanitary protocol in late 2014, Argentine sorghum exports to China are moving slower than earlier expected. In our March 2015 report Post forecasted exports at 300-500,000 tons a year. Only a few shipments were exported in March-May 2015 for a total of 88,000 tons. Local traders have encountered difficulties in obtaining the sanitary certificates issued by the Argentine authority which pre-monitors each shipment. The protocol lists 25 weeds, which in a few cases present compliance barriers. Traders estimate that the total shipments of sorghum to China in 2014/15 could now range between 120-160,000 tons. Argentine sorghum is normally less expensive than that of the United States and Australia.

Rice: Argentine rice production for 2015/16 is now estimated at 1.25 mmt (rough production), the lowest in the last 6 crop years, and 364,000 tons lower than USDA's official estimate. Post estimates harvested area at 205,000 hectares, lower than official USDA estimates at 242,000 hectares. Very tight returns (in many cases negative), low farm prices, and large unsold stocks are making producers think of planting only in fields with high production potential to reduce risks of losing production via either flooding or low productivity. Contacts estimate that some 15-25,000 hectares could be left unsown in the coming season. Area is expected to drop in all provinces, including Corrientes and Entre Rios, the two most important producing provinces. In Santa Fe province producers are also facing severe competition from a weed called red rice. The possibility of a rainy and cloudy spring could negatively impact rice yields. The planting season is in October/November.

Rice exports for 2015/16 are projected at 500,000 tons (milled), 80,000 tons lower than official USDA estimates. This is a reflection of a lower expected production.

Post estimates 2014/15 production at 1.42 mmt (rough production). This volume is 131,000 tons lower than official USDA estimates. Most contacts in the local rice industry estimate production between 1.35-1.44 mmt. Lower rice availability is expected to impact exports. Post forecasts shipments at 450,000 tons, 140,000 tons lower than official USDA estimates. Traders are finding increased difficulties in selling Argentine rice abroad because of high local prices and due to the fact that Paraguay, Uruguay, Brazil and the United States are very competitive in world markets. Paraguay lately has displaced Argentine rice from Brazil and Bolivia.

STATISTICAL INFORMATION

Wheat	2013/2014		2014/2015		2015/2016	
Market Begin Year	Dec 2013		Dec 2014		May 2016	
Argentina	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	3500	3500	4200	4200	3800	3700
Beginning Stocks	288	288	2490	2490	3680	3180
Production	10500	10500	12500	12500	11500	10200
MY Imports	2	2	40	40	30	30
TY Imports	2	2	40	40	30	30
TY Imp. from U.S.	0	0	0	0	0	0
Total Supply	10790	10790	15030	15030	15210	13410
MY Exports	2250	2250	5000	5500	6700	5000
TY Exports	1675	1675	4000	4500	6200	4500
Feed and Residual	100	100	300	300	100	100
FSI Consumption	5950	5950	6050	6050	6050	6050
Total Consumption	6050	6050	6350	6350	6150	6150
Ending Stocks	2490	2490	3680	3180	2360	2260
Total Distribution	10790	10790	15030	15030	15210	13410
(1000 HA) ,(1000 MT)						

Barley	2013/2014		2014/2015		2015/2016	
Market Begin Year	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	950
Beginning Stocks	333	333	592	492	592	342

Production	4750	4750	2900	2800	3400	3400
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	3492	3292	3992	3742
MY Exports	2891	2891	1400	1450	2000	2000
TY Exports	2829	2829	1500	1550	2000	2000
Feed and Residual	300	400	200	200	200	150
FSI Consumption	1300	1300	1300	1300	1400	1300
Total Consumption	1600	1700	1500	1500	1600	1450
Ending Stocks	592	492	592	342	392	292
Total Distribution	5083	5083	3492	3292	3992	3742
(1000 HA) ,(1000 MT)						

Corn	**2013/2014**		**2014/2015**		**2015/2016**	
Market Begin Year	**Mar 2014**		**Mar 2015**		**Mar 2016**	
Argentina	**USDA Official**	**New Post**	**USDA Official**	**New Post**	**USDA Official**	**New Post**
Area Harvested	3400	3400	3000	3300	3100	2800
Beginning Stocks	1308	1308	1408	1408	1513	1513
Production	26000	26000	25000	26500	25000	21000
MY Imports	2	2	5	5	5	5
TY Imports	1	1	5	5	5	5
TY Imp. from U.S.	1	1	0	0	0	0
Total Supply	27310	27310	26413	27913	26518	22518
MY Exports	17102	17102	15500	17000	15500	11500
TY Exports	12846	12846	18000	19500	15000	11000
Feed and Residual	5800	5800	6100	6100	6500	6500
FSI Consumption	3000	3000	3300	3300	3500	3500
Total Consumption	8800	8800	9400	9400	10000	10000
Ending Stocks	1408	1408	1513	1513	1018	1018
Total Distribution	27310	27310	26413	27913	26518	22518
(1000 HA) ,(1000 MT)						

Sorghum	**2013/2014**		**2014/2015**		**2015/2016**	
Market Begin Year	**Mar 2013**		**Mar 2014**		**May 2016**	
Argentina	**USDA Official**	**New Post**	**USDA Official**	**New Post**	**USDA Official**	**New Post**
Area Harvested	1000	1000	800	800	1000	1000
Beginning Stocks	781	781	1202	1202	502	502
Production	4400	4400	3500	3500	4500	4500
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	5002	5002
MY Exports	1279	1279	1400	1400	1800	1800
TY Exports	953	953	1500	1500	1700	1700
Feed and Residual	2300	2300	2400	2400	2500	2500
FSI Consumption	400	400	400	400	400	400
Total Consumption	2700	2700	2800	2800	2900	2900
Ending Stocks	1202	1202	502	502	302	302
Total Distribution	5181	5181	4702	4702	5002	5002
(1000 HA) ,(1000 MT)						

Rice, Milled	**2013/2014**		**2014/2015**		**2015/2016**	
Market Begin Year	**Apr 2014**		**Apr 2015**		**Apr 2016**	
Argentina	**USDA Official**	**New Post**	**USDA Official**	**New Post**	**USDA Official**	**New Post**
Area Harvested	241	241	231	225	242	205
Beginning Stocks	227	227	359	359	342	427
Milled Production	1027	1027	1008	923	1050	813
Rough Production	1580	1580	1551	1420	1615	1251
Milling Rate (.9999)	6500	6500	6500	6500	6500	6500
MY Imports	5	5	5	5	5	5
TY Imports	6	6	5	5	5	5
TY Imp. from U.S.	0	0	0	0	0	0
Total Supply	1259	1259	1372	1287	1397	1245
MY Exports	465	465	590	450	580	500
TY Exports	494	494	560	450	580	500
Consumption and Residual	435	435	440	410	440	410
Ending Stocks	359	359	342	427	377	335
Total Distribution	1259	1259	1372	1287	1397	1245
(1000 HA) ,(1000 MT)						