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Report Name: Dairy and Products Annual

Country: Argentina

Post: Buenos Aires

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Report Highlights:

2019 Argentine dairy production is projected at 10,650,000 tons, down 1.8% from 2018 due to abnormally warm weather during the first half of the year. Exports are projected at 202,000 down 12% on lack of exportable supplies of powdered milk. Argentine consumers struggle to maintain household dairy consumption in the face of inflation and currency devaluation. 2020 exports are forecast up at 215,000 tons as production recovers.

Production:

Argentina's dairy sector is based primarily in the provinces of Buenos Aires, Santa Fe, and Cordoba. There are approximately 10,000 dairies in the country with about 80% of dairies having fewer than 500 cows. However, in terms of total numbers of cows, about equal numbers are on dairies smaller and larger than 500 cows. Argentine dairies utilize three types of production systems, pastoral, semi-pastoral, and stabled/indoor. By far the most common is the semi-pastoral or mixed production system, utilizing grazing when available and supplementing with compound feed. As a general trend, smaller dairies utilize proportionally more grazing and larger dairies rely more on purchased compound feed.

Financing is increasingly limited as the government was forced to raise interest rates to over 70 percent to mitigate the devaluation of the Argentine peso since June 2017. Over half of producers must finance some portion of their production costs; many are now searching for alternative or non-conventional forms of financing. A lack of investment in the sector limits the ability for dairies to increase production capacity in response to global demand, though producers have sought to import improved genetics from the US and EU.

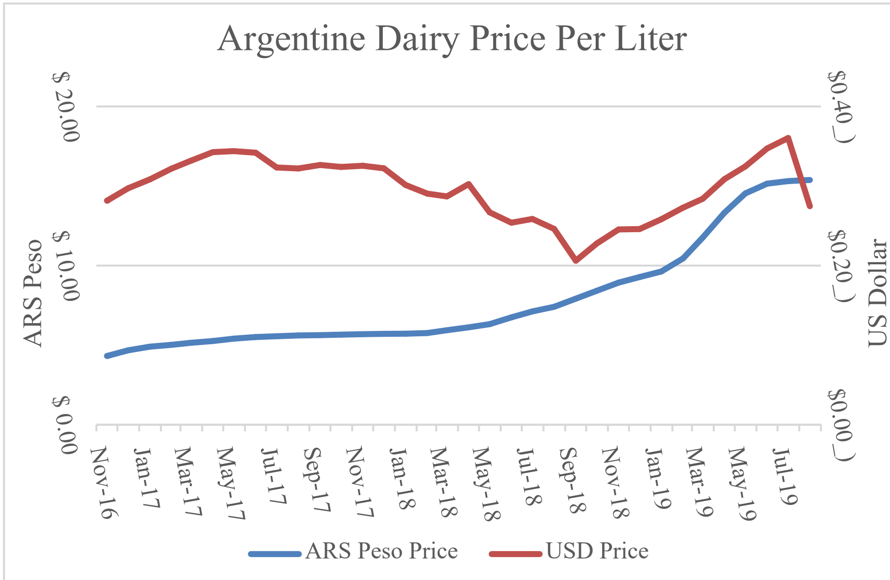
The processing sector has a low rate of utilization relative to installed capacity, though official statistics include facilities which have fallen into disrepair or are obsolete and unlikely to be put back into use. For the period January-July 2018, utilization was 44.8% while for the same period in 2019 utilization was 41.8%. In the period January-July 2019 dairy production of specific products fell by the following percentages from the same period in 2018: Powdered Milk: -10.1%; Cheese: -2.4%; Butter: -2.9%; Yogurt: -13.1%; Dulce de Leche: -1.2%; Other Products: -24.1%.

2020

Post forecasts CY 2020 dairy production at 10.90 Million Metric Tons (MMT) or 10.58 million liters up 2.3% from CY2019 on a return to average temperatures as producers seek to capitalize on positive margins. While low beginning stocks should provide support for milk prices, rising costs of production (principally labor and utilities) may begin to erode margins as 2020 progresses.

2019

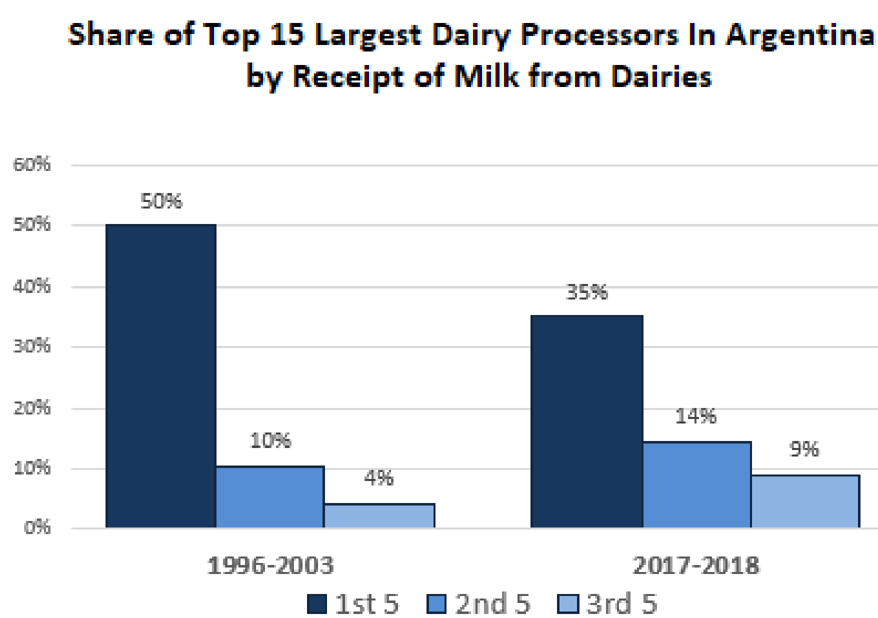
Post projects CY2019 dairy at 10.65 MMT or 10.34 million liters down 1.8% from CY 2018 on lower than expected production during the first half of the year. Higher than average temperatures caused stress to lactating cows and reduced production 5.8% over the first half of the year. However ample feed supplies and favorable margins for producers will lead to greater than average production over the last months of 2019. Though parts of Argentina have begun to face dryer conditions that are reducing spring grass availability, most of the dairy belt has adequate moisture at this time.



Source: Argentine Ministry of Agricultural, Forestry, and Fisheries & St. Louis Federal Reserve Bank

Prices:

Since September 2018, milk prices received by Argentine dairy producers have steadily climbed both in Argentine Peso (ARS) and US Dollar (USD) denominated terms. However, the Argentine peso fell 24% against the US Dollar from July 2019 to August 2019 following the results of a primary presidential election. So, though the peso denominated farm gate price rose from $15.31 ARS to $15.38 ARS per liter from July to September, the farm gate price dollar-denominated price fell from $0.36 USD to $0.28 USD per liter.

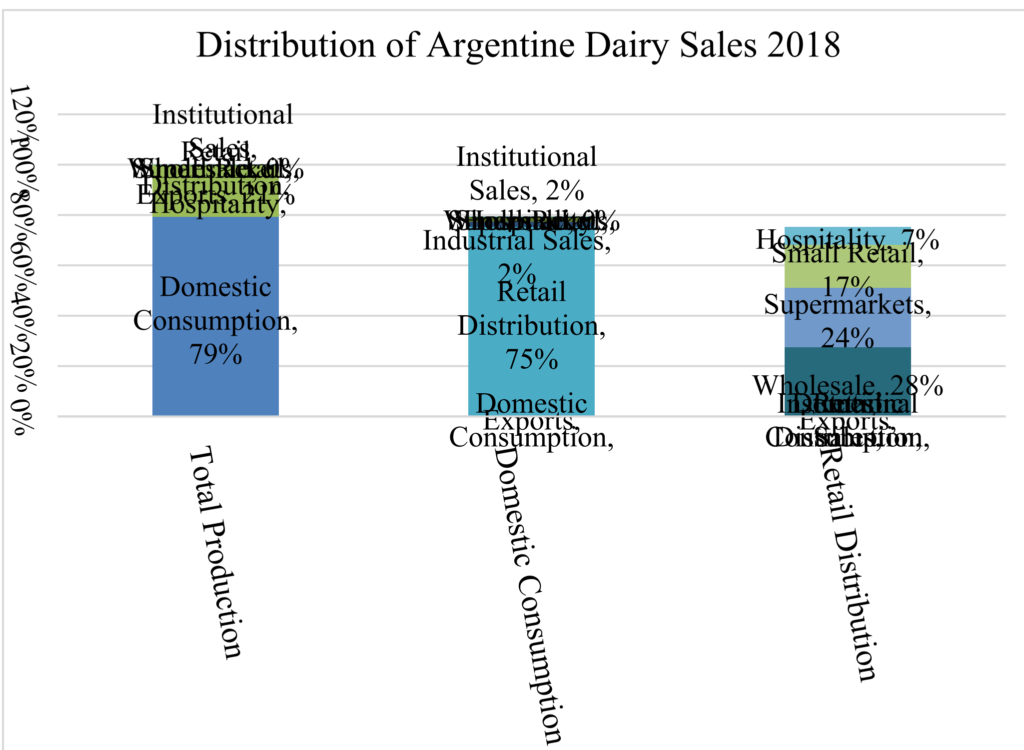


Source: Marcos Synder, Ingeniero Argonomo, Dairylando.com

Consumption:

In recent years, approximately 80% of Argentine dairy production is consumed domestically and 20% is exported. The processing sector has 349 registered companies and the top 5 companies have traditionally controlled a large proportion of milk purchases from dairies. However, in recent years, in part spurred by the partial breakup and asset sales of SanCor (see Argentina GAIN Report 2018 Dairy and Products Annual) a cooperative which was formerly the largest processor, concentration has greatly reduced. In fact, at 32%, Argentina's C4 score (share of top four companies) is now the lowest among major dairy producers like the US, EU, and New Zealand. Small processors are particularly important for less capital-intensive sectors, such as cheesemaking. Industrial sales are only 2% of all sales as the Argentine baking industry is composed principally of small and medium sized businesses that purchase dairy products from wholesalers.

According to government statistics, consumer prices for dairy products have risen by 84.7% from August 2018-August 2019 compared to 58.9% for all food. While 75% of Argentine dairy is distributed through retail channels, large supermarket chains are the only downstream retailers with significant market power. In addition to the advantage of bulk purchasing, supermarkets are choosing to absorb some of the impact of higher milk prices by discounting dairy products (especially fluid milk for consumption) in an effort to maintain stable volumes and customer loyalty. Small retailers, which cannot match these prices, are losing sales to supermarkets. Households affected by inflation and devaluation are turning away from name brands and substituting for lower priced dairy options. Consumption of desserts and other more discretionary products have been particularly impacted by economic difficulties and higher prices. Recent government policies (see policy) may lift consumption of these products, especially yogurt.



Source: Observatorio de la Cadena Lactica, Argentina

2020

Post forecasts CY2020 domestic fluid use milk consumption at 1,780,000 MT up 8.2% from projected CY2019 and domestic factory use at 9,121,000 MT up 1.3% from projected CY2019. Higher production should reduce retail prices allowing for consumers to increase consumption.

2019

Post projects CY2019 domestic fluid use milk consumption at 1,645,000 MT down 7.1% from CY2018, and domestic factory use at 9,006,000 down 0.7% from CY2018. Lower production has led to higher domestic prices at the same time as continued economic difficulties have eroded household purchasing power. However recent government policies (see policy) are expected to boost household demand in the last third of the year.

Trade:

In recent years, approximately 20% of Argentina's dairy production has been exported. In CY2018, Argentina exported 230,000 MT of dairy products (Fluid Milk, Dry Whole Milk Powder (DWMP), Dry Non-Fat Powder (DNFP), Cheese and Butter) with a value of $753 Million. Brazil, Algeria, Chile, and Russia were the top four destinations. Dry Whole Milk Powder was 54% of exports by value and 59% of by volume, Cheese was 33% of exports by value and 26% by volume. Dairy products are subject to an export tax of 3 Argentine pesos per $1 U.S. dollar (placed on the export value), which at the current exchange rate is equivalent to an export tax rate of 5.3 percent. The devaluation of the Argentine peso since June 2017 has made Argentine dairy exports more competitive and imports more expensive.

Argentina is not a major importer of dairy products. In 2018, Argentina imported 7,600 MT of dairy products (Fluid Milk, Dry Whole Milk Powder (DWMP), Dry Non-Fat Powder (DNFP), Cheese and Butter) with a value of $24 Million, supplied primarily by Uruguay and Brazil along with small volumes from the EU and U.S. Cheese was 75% of the imports by value and 49% by volume.

2020

Argentine CY 2020 dairy product exports are forecast at 215,000 MT up 6.4% from projected CY 2019 on recovered milk production and continued global demand.

2019

Argentine CY 2019 dairy product exports are projected at 202,000 MT down 12% from CY 2018 on reduced milk production. The reduction is driven by a fall in powdered milk exports, which have the lowest margins for Argentine dairy processors. However cheese and butter exports are up on competitive Argentine currency and strong global demand.

Stocks:

Dairy stocks were down 22% from July 2018 to July 2019 as decreased production forced processors to utilize already low 2018 ending stocks. However, increased production in the second half of CY 2019 through CY 2020 is forecast to lift CY 2020 ending stocks 17% over projected CY 2019 ending stocks.

Policy:

Ongoing economic volatility and recent currency control policies are affecting the capacity of the dairy sector to import capital goods and other inputs. In September, the government announced a series of short-term measures intended to boost living standards following the currency devaluation in August. Among these measures were the elimination of the 21% value added tax on fluid milk and yogurt and one-time salary bonuses for certain classes of workers. These measures are expected to increase the consumption of these dairy products in September, October, and the first part of November. An upcoming Presidential election in late fall may result in policy changes that will further impact dairy sector profitability and competitiveness.

Dairy, Milk, Fluid	2018		2019		2020	
Market Begin Year	Jan 2018		Jan 2019		Jan 2020	
Argentina	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Cows In Milk	1640	1640	1598	1598	0	1620
Cows Milk Production	10837	10837	10800	10650	0	10900
Other Milk Production	0	0	0	0	0	0
Total Production	10837	10837	10800	10650	0	10900
Other Imports	0	3	0	1	0	1
Total Imports	0	3	0	1	0	1
Total Supply	10837	10840	10800	10651	0	10901
Other Exports	6	0	0	0	0	0
Total Exports	6	0	0	0	0	0
Fluid Use Dom. Consum.	1762	1771	1784	1645	0	1780
Factory Use Consum.	9069	9069	9016	9006	0	9121
Feed Use Dom. Consum.	0	0	0	0	0	0
Total Dom. Consumption	10831	10840	10800	10651	0	10901
Total Distribution	10837	10840	10800	10651	0	10901
(1000 HEAD) ,(1000 MT)						

Dairy, Dry Whole Milk Powder	2018		2019		2020	
Market Begin Year	Jan 2018		Jan 2019		Jan 2020	
Argentina	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	44	37	39	20	0	24
Production	192	192	206	177	0	200
Other Imports	1	1	2	2	0	0
Total Imports	1	1	2	2	0	0
Total Supply	237	230	247	199	0	224
Other Exports	118	135	110	96	0	115
Total Exports	118	135	110	96	0	115
Human Dom. Consumption	80	75	85	77	0	76
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	80	75	85	77	0	76
Total Use	198	210	195	175	0	191
Ending Stocks	39	20	52	26	0	33
Total Distribution	237	230	247	199	0	224
(1000 MT)						

Dairy, Milk, Nonfat Dry	2018		2019		2020	
Market Begin Year	Jan 2018		Jan 2019		Jan 2020	
Argentina	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	11	11	8	5	0	9
Production	34	41	40	41	0	43
Other Imports	0	0	0	0	0	0
Total Imports	0	0	0	0	0	0
Total Supply	45	52	48	46	0	52
Other Exports	16	23	18	21	0	23
Total Exports	16	23	18	21	0	23
Human Dom. Consumption	21	24	23	16	0	19
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	21	24	23	16	0	19
Total Use	37	47	41	37	0	42
Ending Stocks	8	5	7	9	0	10
Total Distribution	45	52	48	46	0	52
(1000 MT)						

Dairy, Cheese	2018		2019		2020	
Market Begin Year	Jan 2018		Jan 2019		Jan 2020	
Argentina	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	23	23	29	29	0	30
Production	555	444	550	435	0	450
Other Imports	1	3	4	2	0	2
Total Imports	1	3	4	2	0	2
Total Supply	579	470	583	466	0	482
Other Exports	43	61	44	70	0	65
Total Exports	43	61	44	70	0	65
Human Dom. Consumption	507	380	509	366	0	387
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	507	380	509	366	0	387
Total Use	550	441	553	436	0	452
Ending Stocks	29	29	30	30	0	30
Total Distribution	579	470	583	466	0	482
(1000 MT)						

Dairy, Butter	2018		2019		2020	
Market Begin Year	Jan 2018		Jan 2019		Jan 2020	
Argentina	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	2	2	4	3	0	1
Production	43	33	44	30	0	32
Other Imports	0	0	0	0	0	0
Total Imports	0	0	0	0	0	0
Total Supply	45	35	48	33	0	33
Other Exports	4	11	3	15	0	12
Total Exports	4	11	3	15	0	12
Domestic Consumption	37	21	43	17	0	19
Total Use	41	32	46	32	0	31
Ending Stocks	4	3	2	1	0	2
Total Distribution	45	35	48	33	0	33
(1000 MT)						

Attachments:

No Attachments