

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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POLICY

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Report Highlights:

Argentine beef exports in 2016 are forecast at 265,000 tons carcass weight equivalent (cwe), the highest since 2011. This is as a result of policy changes implemented by the recently elected government to improve the country's export competitiveness. Cattle slaughter and beef production are projected to drop somewhat, as Argentina continues to undergo a cattle retention phase with good returns in the cow calf business. Rebuilding cattle herds and resuming more normal exports is expect to result in lower domestic consumption, which could drop 140,000 tons to 2.4 million tons in 2016. The drop in consumption will be offset by higher consumption of pork and poultry. High domestic beef prices are making the government hurry the sanitary protocol to import cattle from

Uruguay, but little trade is expected as prices are quite similar in the two countries.

Commodities:

Animal Numbers, Cattle

Meat, Beef and Veal

Author Defined:

Policy: In December 2015, the newly elected government of President Macri began to implement the changes in policy affecting the local beef sector which he had promised during the presidential campaign. The 15 percent export tax on beef was eliminated and the exchange rate was liberalized, with an immediate devaluation of the peso of approximately 45 percent (to date the devaluation is 60 percent). Later in the month government stopped using the ROE (registry of export operations) system to control and limit exports. These changes dismantled the policies implemented by the previous government during 2005-2015, primarily aimed at supplying inexpensive beef to the Argentine consumer, but which also resulted in lower production and exports. The old policies included high export taxes, limitation (and in some cases ban) on exports, and obligation to supply a given volume of inexpensive beef to local supermarkets. Argentina in 2005 was the world's 3rd largest beef exporter with 762,000 tons (cwe), falling to number 10th in 2014 with 197,000 tons (cwe). During this period the herd grew 1.3 million head, but suffered a significant reduction in 2010-11 due to a combination of policies and a severe drought. The local meat packing industry has also suffered significant losses with the closure of many plants. The sector is very enthusiastic about the future of the business as result of the newly implemented measures.

Production: The calf crop for 2016 is forecast at 14 million head, 300,000 head higher than our estimate for 2015. This is a result of good weather during the breeding season and to the fact that producers in the last couple of years have been retaining more females for breeding due to improved profitability. Also there were high expectations of policy changes and further improvement in the sector with a new government in place as of December 2015. The number of beef cows in production is estimated 21.8 million, 500,000 head more than in 2015. Local calf prices began to increase in late 2014 and experienced a significant jump in the last two months of 2015. Calves are currently being sold at about US\$2.10 per live kilo.

Until last year, with inexpensive feed costs (corn sold locally at pesos 900-1000 per ton) many players fed corn to cattle, not only professional feedlots but many at the ranch/farm. With the new policies in place (the 20 percent export tax on corn and export limitations were also eliminated, which together with the devaluation doubled domestic corn prices) most analysts believe that the total number of cattle fed with grain will drop marginally. Most cattle producers which are not very efficient will reduce dramatically the use of corn, while the large, professional and most efficient operations could

increase somewhat as they could suffer less competition in the market. There is a growing trend to finish cattle at the feedlots a little heavier, with many breeders and feedlots growing out calves to produce a bigger frame animal. This is especially true after the new administration eliminated all the export restrictions on beef. Local slaughter plants will start to readjust from having to operate almost exclusively for the domestic market, as they did in the past decade, to an export/domestic mix.

Slaughter and Beef Production: Post continues to project 2016 slaughter at 12.1 million head, 400,000 head smaller than in 2015. This is as a result of continued cattle retention due to good profitability at the ranch and heavier average cattle weights which could delay somewhat the finishing of some animals. A smaller number of females are expected to be sent to slaughter. Beef production for 2016 is forecast at 2.68 MMt (cwe). Despite higher average slaughter weights, a smaller slaughter will result in a marginally smaller beef output, with just a drop of 60,000 tons (cwe) from 2015.

Exports: Post projects Argentine beef exports for 2016 at 265,000 tons (cwe), the same as USDA's official number, showing a recovery from 2014 and 2015. This is primarily a result of the new policies in place which improve Argentina's export competitiveness significantly. After a decade of self-limited beef exports, Argentina is back in the world beef market. Local operators will have to reestablish contacts with former and new clients. Given current domestic and world beef prices and the cattle situation in the country, it will take Argentina a few years to export 400-500,000 tons cwe of beef, a normal volume prior to the market intervention a decade ago.

Carcasses of heavy steers for export were sold at US\$ 4.0-4.50 per kilo in November 2015 (prior to the change of government). During February 2016 the price of that same product has been selling for US\$ 3.10 per kilo, roughly 25 percent lower in dollar terms. However, local cattle prices and production costs still make Argentina more expensive than its neighbors which have also devalued strongly in the past several months. The cost of beef for export in Argentina is practically the same as in Uruguay, and roughly 15-20 percent more expensive than in Brazil and Paraguay.

Beef exports in the first two months of 2016 were slow, but are expected to pick up in a few months' time with somewhat lower cattle prices and a more stable exchange rate. In January 2016, shipments to China, Chile, Israel and the EU accounted for 85 percent of total beef exports (measured in volume). The EU remains the most profitable market with the Hilton Quota and the 481 Quota. Regarding the latter, contacts indicate that the number of cattle for this quota is slowly growing, which allows exporting many more cuts (up to 17) than under the Hilton Quota. Israel is expected to continue to import significant volumes. Chile, a natural market for Argentina, is expected to purchase lower volumes, as Paraguay is very competitive there, especially after their difficulties to export to the Russian market. Exports to the Chinese market dropped after Brazil entered that market in the second semester of 2015 with more competitive prices. The Russian market is practically non-existent. The US market is still closed for Argentine fresh beef, with both sanitary services working to resolve the last few technical matters. Once the market is open, local exporters are expected to supply a large share of the 20,000 ton tariff-rate quota (product weight) which the US concedes Argentina every

year. Most likely those exports will be primarily beef trimmings. However, some exporters will also explore niche markets of high value cuts.

Beef exports in 2015 totaled 186,000 tons (cwe), lower than earlier projected. Exports during the last two months of the year were slower due to the combination of an expected devaluation with a new Administration in place and very high domestic beef prices in dollar terms. Based on official data, Argentina exported 76,000 tons (product weight) of boneless frozen beef with an average price of US\$4,690 per ton, and 55,000 tons (product weight) of boneless chilled beef with an average price of US\$9,210 per ton. Exports of thermoprocessed beef totaled a little less than 1,000 tons.

Consumption: Argentine domestic beef consumption for 2016 is projected at 2.4 million tons (cwe), 140,000 tons lower than the previous year. This reduction is a result of lower heifers being withheld from slaughter to rebuild herds and higher beef exports. Lower beef supplies will be offset by other alternative meats, such as poultry and pork. These two industries have expanded production significantly in the past several years. Pork and broiler meat are less expensive than beef.

Argentina continues to suffer high inflation, which the new administration is focused on reducing gradually. Most analysts expect inflation in 2016 at about 25-30 percent. With higher cattle prices, beef prices at retail have increased significantly. Because beef prices are a very sensitive issue the government monitors prices closely - and is putting pressure on the beef chain to keep them under control. In response, the government recently announced that it is working with the Uruguayan government to define the sanitary protocol and certificates to be able to import cattle for slaughter, fattening and breeding. Most analysts agree that if current prices in both countries remain as is, trade will be very limited as beef and cattle prices in Uruguay are currently similar as in Argentina, but imported cattle would have greater marketing and freight costs.

Ending inventories: Post forecasts 2016 ending stocks at 53.2 million head, the highest since 2008. This level is very similar to USDA's official number. Compared to 2015, the stock is 1.2 million head larger, as result of herd rebuilding phase initiated a couple of years ago and to good calf crops. Most analysts believe that the current situation will last a few more years.

Statistical Tables

Animal Numbers, Cattle Market Begin Year	2014		2015		2016	
	Jan 2014		Jan 2015		Jan 2016	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Argentina						
Total Cattle Beg. Stks	51545	51545	51545	51545	51995	51995
Dairy Cows Beg. Stocks	2100	2100	2000	2000	2000	2000
Beef Cows Beg. Stocks	21300	21300	21300	21300	21500	21800
Production (Calf Crop)	13300	13300	13700	13700	14000	14000
Total Imports	0	0	0	0	0	0

Total Supply	64845	64845	65245	65245	65995	65995
Total Exports	0	0	0	0	0	0
Cow Slaughter	3500	3500	3400	3200	3100	3100
Calf Slaughter	3900	3900	3900	3900	3600	3800
Other Slaughter	5000	5000	5200	5400	5400	5200
Total Slaughter	12400	12400	12500	12500	12100	12100
Loss	900	900	750	750	650	700
Ending Inventories	51545	51545	51995	51995	53245	53195
Total Distribution	64845	64845	65245	65245	65995	65995
(1000 HEAD)						

Meat, Beef and Veal Market Begin Year Argentina	2014		2015		2016	
	Jan 2014		Jan 2015		Jan 2016	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Slaughter (Reference)	12400	12400	12500	12500	12100	12100
Beginning Stocks	0	0	0	0	0	0
Production	2700	2700	2740	2740	2680	2680
Total Imports	0	0	0	0	0	0
Total Supply	2700	2700	2740	2740	2680	2680
Total Exports	197	197	230	186	265	265
Human Dom. Consumption	2503	2503	2510	2554	2415	2415
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	2503	2503	2510	2554	2415	2415
Ending Stocks	0	0	0	0	0	0
Total Distribution	2700	2700	2740	2740	2680	2680
(1000 HEAD) ,(1000 MT CWE)						