

Required Report: Required - Public Distribution

Date: October 11, 2022

Report Number: AR2022-0016

Report Name: Oilseeds and Products Update

Country: Argentina

Post: Buenos Aires

Report Category: Oilseeds and Products

Prepared By: Benjamin Boroughs

Approved By: Rachel Bickford

Report Highlights:

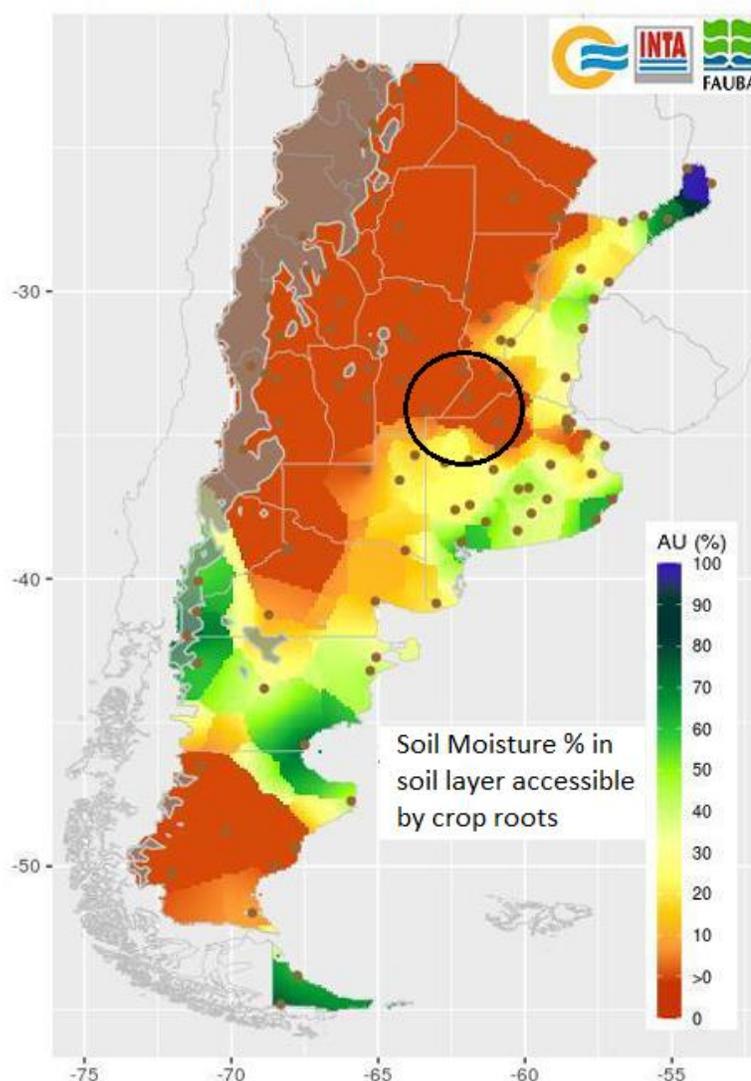
According to the Argentine government, farmers sold a record volume of soybeans, more than 13.7 million metric tons (MMT) in September, after the government offered a special exchange rate for producers. As a result, exporters booked nearly 4 MMT in export declarations, with China as the principal destination. Post raises projected MY 2021/22 soybean exports to 5.5 MMT and reduces projected crush to 37.5 MMT. Soybean ending stocks are lowered to 5.7 MMT, the lowest level since MY 2012/13. MY 2022/23 production is lowered to 49 MMT, due to lower than anticipated area switching from corn to soybeans. However, farmers may still make changes if dry weather persists. MY 2022/23 sunflower planted area is lowered 100,000 HA to 1.9 million HA due to dry conditions in northern Argentina, lowering total production to 3.8 MMT. This would still be a 13 percent increase of 2021/22.

Argentine farmers are in a relatively strong financial position as they head into the Southern Hemisphere spring planting season. Most larger commercial farmers bought inputs for the 2021/22 marketing year at relatively low prices and despite a season marred by drought in some key growing regions, high global commodity prices for most row crops compensated farmers for lower production. Farmers reinvested their earnings in more inputs and machinery, paid down lingering debts, and purchased U.S. dollars. However, input costs have risen significantly since last year, especially for fertilizer and agrochemicals, and this raises the risk for farmers heading into the planting season in the midst of a drought.

Political considerations continue to affect farmers. Most notably was the government's decision to provide a special exchange rate for soybean farmers during September. This raised the peso-denominated price of soybeans in the local market by 38 percent practically overnight. Greater than expected sales will lead to the lowest ending stocks of soybeans in Argentina since marketing year (MY) 2012/13.

However, this September sales boom combined with elections in 2023, mean that farm sales of all commodities are likely to slow through August 2023, when farmers will see the results of primary elections. If the conservative opposition performs well, farmers are likely to hold onto to as much grain and oilseeds as possible, hoping that a change of government in December 2023 could result in the end of currency controls and potentially lower export taxes. In contrast, a stronger than expected performance by the ruling coalition in August 2023 could mean that farmers would begin selling in earnest to avoid any new taxes imposed by a reenergized Peronist government.

Figure 1: Usable Soil Moisture, Sept 30, 2022



Source: National Institute of Agricultural Technology (INTA)

Note and circle highlighting key soy and corn growing area added by FAS Buenos Aires

Hanging over this scenario is the current dry weather conditions and the risk posed to Argentine production by the third consecutive year of a La Niña climate pattern which typically leads to less rainfall in most of Argentina's key growing regions. Argentina has had lower than average production over the last two years because of drought linked to La Niña, but well-timed rains and Argentina's wide planting window across regions have forestalled more significant losses. Estimates in this report assume normal weather conditions, but local analysts are already beginning to shave production estimates in anticipation of another dry year.

Soybeans

MY 2021/22

In MY 2021/22 Argentine soy farmers continued to reduce soybean planted area in favor of other commodities such as corn, sunflower, sorghum, and cotton. Post revises its estimate of planted area down to 16.25 million hectares (HA) and harvested area at 15.75 million HA. Yields in some regions were higher than anticipated in the [Argentina Oilseeds & Products Annual Report](#) published in April 2022, so despite the lower final area, Post raises its production estimate to 42 million metric tons (MMT), which is 2 MMT lower than USDA official. After the initial post-harvest wave of soybean deliveries to ports and elevators, farmer selling slowed below the pace seen in prior years. High global commodity prices allowed farmers to cover their immediate financial needs through the selling of wheat and barley in November-March 2021-22 and corn and sorghum through the period March-August 2022. Crushers and exporter were forced to raise prices to secure soybean supplies and this reduced local crush margins. However, despite these higher prices, farmers held onto soybean stocks as form of savings, hedging against inflation.

Due to persistent, very high inflation (>90 percent) in the Argentine economy, farmers prefer not to hold the Argentine pesos they receive from selling their commodities. Currency controls (which have been in place since 2019) make it difficult to easily convert pesos into U.S. dollars, which are seen as a more secure savings vehicle. The same currency controls, combined with monetary emission and deficit spending by the Argentine government have led to a divergence in the official value of the peso and various other informal exchange rates. As of September 30, 2022 the official exchange rate was 146 Argentine pesos per 1 U.S. dollar and the most commonly tracked informal exchange rate, the "blue" dollar was reportedly 284 Argentine pesos per 1 U.S. dollar.

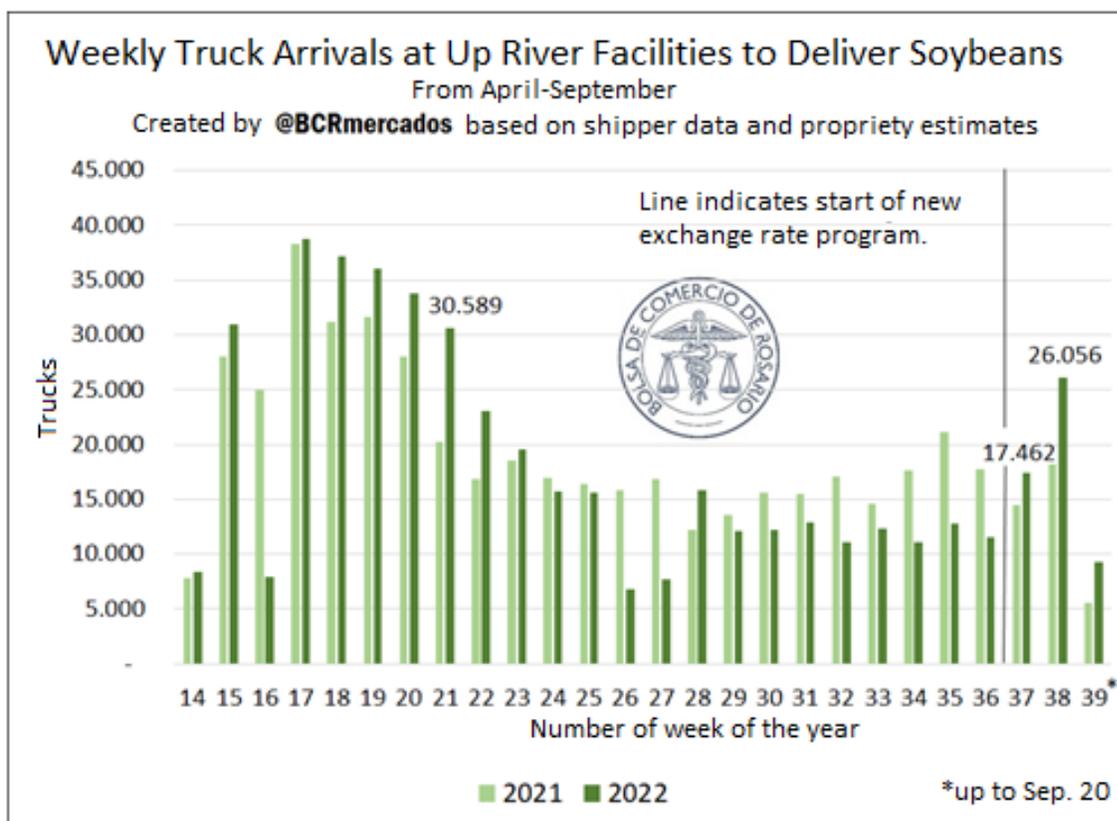
This divergence between official and informal exchange rates, implies a risk of a substantial devaluation if the two rates were to converge. As a consequence of this devaluation risk and the steady erosion of the value of the peso due to inflation, Argentine farmers, like other businesses, hold value in physical stores rather than cash, and the most easily convertible store of value is soybeans. Many rent contracts are priced in soybeans and ag input businesses allow farmers to barter soybeans for ag chemicals and other products.

In addition to the government's currency controls, the Argentine Central Bank (BCRA) also makes interventions to support the value of the peso, which requires it to sell foreign currency. As the BCRA's reserves declined over the period of July-August 2022, political figures within the ruling center-left coalition began accusing farmers of hoarding soybeans and speculation.

Soybeans and its subproducts, soybean meal and oil, account for more than half of Argentina’s exports and in recent years have accounted for almost two-thirds. Therefore exports of these products are the largest single source of foreign currency for the BCRA. In late July, the BCRA announced a new program intended to encourage farmer selling. The program allowed farmers to receive a higher exchange rate on 30 percent of the volume of soybeans sold until August 31st.

The program was seen by farmers as too complicated and not sufficiently attractive to induce more selling. As BCRA reserves declined further in August, the Argentine government designed a new incentive structure and on September 4th issued [Decree 576/2022](#) which provided for a special temporary exchange rate for soybean exports of 200 Argentine Pesos per 1 USD from September 5, 2022 through September 30, 2022.

Figure 2: Soybean Truck Shipments to Up-River Facilities in Rosario.



Source: [Rosario Grain Exchange](#) – Translated by FAS Buenos Aires, note the use of commas and periods are opposite to the convention used in the United States. For example, ten thousand dollars in Argentina would be written \$10.000,00 as opposed to \$10,000.00 in the United States.

When the new Minister of Economy, Sergio Massa, announced this so-called “soy dollar” he said the aim was to encourage the sale of U.S. \$5 billion worth of soybeans, which translated to around 8.3 MMT at the prevailing price local price. After the failure of the initial BCRA sales incentive program, many private sector observers were skeptical that the new program would meet its objectives, and provided estimates ranging between 4 to 6 MMT as more likely.

Unexpectedly though, farmers took advantage of the program in droves as the price of a metric ton of soybeans rose from 52,000 pesos to nearly 72,000 pesos as the measure took effect. The Rosario Grain Exchange reported that in September, the number of trucks entering the Rosario port regions was 120 percent higher than the average of the previous three months. According to a summary provided by the Argentine government, over the course of the program, farmers and farm businesses sold USD \$8.123 billion or 13.7 MMT worth of soybeans. Of this total about 73 percent were new sales and 27 percent were price agreements, where farmers accepted a fixed price on soybeans they had already delivered to ports or elevators.

The effect of the sudden onrush of soybeans strained logistics and lowered prices for soybeans both in the domestic and international market. Prior to this time, Argentine soybeans were largely out of the market as whole Argentine beans were less competitive than Brazilian or U.S. soybeans. In a normal year, most Argentine beans are taken by the local processing sector and the resultant meal and oil are exported, and about 15 percent of production is usually exported as whole beans. From January 1, 2022 to August 31, 2022 only 1.7 MMT of whole soybean exports were registered with the Argentine government. In September 2022, 3.98 MMT were registered for sale. Though export declarations aren't required to list destinations, industry contacts believe that the vast majority (>95 percent) of these soybeans are destined for China.

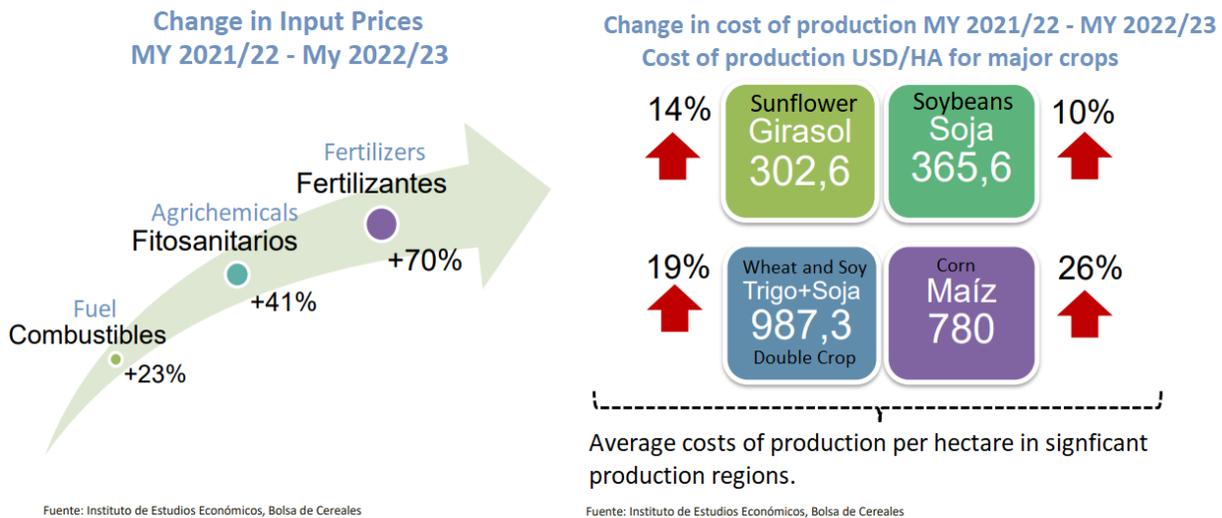
Due to this change in government policy and resulting sales, Post raises its MY 2021/22 export forecast to 5.5 MMT, which is 3.25 MMT higher than USDA official. Crush is lowered to 37.5 MMT, which is 2.35 MMT lower than USDA official. This reduction is based on the current pace of crushing and expected fall in monthly crush volume after the industry finishes processing the new influx of soybeans. It also reflects a smaller estimated production than the USDA official number and the loss of some soybeans to the export market. Though crush margins improved as widespread selling drove the price of soybeans down, crushers are closely watching declining edible oils prices, since high oil prices have helped support the complex. Post lowers its ending stocks estimate to 5.7 MMT, which is 1.2 MMT below USDA official. This would be the lowest level of ending stocks in Argentina since MY 2012/13.

Though this low stock number is primarily the result of high global prices and the wave of selling in September, the government has placed additional financial pressure on farmers to sell. On September 8, 2022 [the BCRA announced](#) that farmers who retained more than 5 percent of their soy production in stocks would face an interest rate of 120 percent times the market rate when using bank financing. While there is a carve-out for small farmers, farm groups rejected this measure as discriminatory. In practice, most farmers have already taken out what loans they needed or are liquid enough to not need new financing at this juncture, but it will limit the flexibility of some farmers to make rational business decisions in the coming months. In late September, in an effort to protect the value of the peso, the government also prohibited farm businesses who had sold soybeans in September from using certain stock and bond transaction to convert pesos into dollars.

MY 2022/23

For MY 2022/23 Post estimates planted area of 16.85 million HA which would be an increase of 600,000 HA over revised and lowered MY 2021/22. This increase reverses a downward trend in soybean area that Argentina has seen over the last 5 years. Prior to MY 2016/17, the prevailing structure of export taxes encouraged soybean planting at the expense of wheat and corn. Following the liberalization of grain markets under the Macri Administration, Argentine farmers began to plant more grains and found significant benefits to new crop rotations in terms of productivity and reducing pest and weed pressure. Due to these benefits many commercial scale farmers are choosing to maintain their crop rotations rather than break their rotations to plant soybeans which have a higher projected return than corn this year. However, for smaller or more economically precarious farmers, the high cost of fertilizer this year will push some land from corn into soybeans. Argentine farmers lack a public safety net, so if farmers make a significant outlay on fertilizer and hybrid seed for early planted corn (which also has excellent projected returns) and the crop is damaged by drought like last year, then farmers face a large financial risk. In contrast soybeans are grown in Argentina’s most productive growing regions without much fertilizer and using saved seed, so there is much less initial risk, but still a possibility of a strong return.

Figure 3: Rising Input Prices in Argentina



Source: [Buenos Aires Grain Exchange](#), Translated by FAS Buenos Aires, note the use of commas and periods are opposite to the convention used in the United States. For example, ten thousand dollars in Argentina would be written \$10.000,00 as opposed to \$10,000.00 in the United States.

Projected planted area could still change based on weather patterns. Farmers are very concerned about drought conditions across much of Argentina that are currently damaging the wheat crop. There is currently very little useful soil moisture in much of the key central production region and if rains don’t arrive in a timely manner, farmers may abandon plans to plant early corn and instead plant soybeans or late corn.

There is currently a La Niña climate pattern in place, and La Niña typically brings dryer than normal weather to most Argentine growing regions. This would be an unprecedented 3rd La Niña in a row. Over the past two growing seasons, Argentine farmers have faced extremely dry springs and early summers which have pushed crops to the brink of failure, only to be saved by rains in January and March. Early planted crops have generally fared worse than late planted crops. While corn has a higher initial financial outlay, farmers in many areas report that new varieties are more drought resistant than soybeans. While farmer decision making is already being affected by the expectation of dry weather, Post is maintaining a trend yield projection of 3 MT/HA. With this projected yield on a slightly smaller planted area than the USDA official number, and with an estimated average area loss of 500,000 HA, Post projects total Argentine soybean production at 49 MMT, which is 2 MMT below USDA official.

Tabel 1.

Production, Supply, and Distribution

Oilseed, Soybean (Local) Market Year Begins	2020/2021		2021/2022		2022/2023	
	Apr 2021		Apr 2022		Apr 2023	
Argentina	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted (1000 HA)	16600	16600	16500	16250	17000	16850
Area Harvested (1000 HA)	16470	16470	16000	15750	17000	16350
Beginning Stocks (1000 MT)	11820	11820	8719	8838	6919	5738
Production (1000 MT)	46200	44500	44000	42000	51000	49000
MY Imports (1000 MT)	4438	4438	3500	3500	4800	5000
Total Supply (1000 MT)	62458	60758	56219	54338	62719	59738
MY Exports (1000 MT)	5377	5377	2250	5500	4700	4700
Crush (1000 MT)	41043	41043	39850	37500	41250	41250
Food Use Dom. Cons. (1000 MT)	0	0	0	0	0	0
Feed Waste Dom. Cons. (1000 MT)	7319	5500	7200	5600	7269	5600
Total Dom. Cons. (1000 MT)	48362	46543	47050	43100	48519	46850
Ending Stocks (1000 MT)	8719	8838	6919	5738	9500	8188
Total Distribution (1000 MT)	62458	60758	56219	54338	62719	59738
Yield (MT/HA)	2.8051	2.7019	2.75	2.6667	3	2.9969
(1000 HA) ,(1000 MT) ,(MT/HA)						

Sunflowerseed

The 2021/22 sunflowerseed crop was a record in terms of profitability for producers. Post maintains its production estimate of 3.4 MMT on a harvested area of 1.65 million hectares. While sunflowerseed oil prices were already high in Argentina due to short global stocks and disappointing production in northern Argentina in MY 2020/21, the Russian invasion of Ukraine dramatically boosted prices for farmers in Argentina. Sunflowerseed is already considered a low

input crop in Argentina so with low upfront costs the final margins were fantastic. A second year of drought in the north (Chaco, Santiago de Estero, and northern Santa Fe province) again limited planted area and total production for the country. However strong results in southern Buenos Aires Province and eastern La Pampa Province led to average yields for the country.

Despite some declines in global sunflowerseed oil prices, Argentine farmers are primed to increase planting of sunflowerseed in MY 2022/23 and sunflowerseed has the highest theoretical margin of any row crop in Argentina. Once again, dry conditions in the north of Argentina, particularly in Chaco prevented farmers from hitting their planting targets in July and August. However, the combination of strong prices and slightly better residual soy moisture means that farmers were able to plant more than in 2021/22. A late frost also affected early planted fields. Post reduces its projected planted area by 100,000 HA to account for the reduced northern plantings and estimates a total planted area of 1.9 million hectares for MY2022/23. Maintaining a trend yield of 2 MT/HA, Post lowers its production estimate to 3.8 MMT, 400,000 tons below the official USDA estimate. Planting is complete in the north and is progressing at an average pace in the central growing area where area increases are expected on a low base. In mid to late October, producers in southern Buenos Aires province and La Pampa will begin planting in earnest and this the most important growing region.

Figure 4: Developing Sunflowers in Province of Chaco, September 21, 2022



Source: FAS Buenos Aires. Some frost damage can be seen on lower leaves.

Many farmers have complained of a lack of available seed for planting. Post assesses that constraints within the seed market have not significantly affected the ability of farmers to source

the amount of seed they need. However sourcing seed has become more complicated as seed dealers have tried to bargain for the most favorable prices possible and have tried to spread out seed sales to better manage cash flows in an inflationary environment. Some farmers have reported needing to contact several different dealers to make separate smaller purchases when in the past they could buy all the seed they needed from a single dealer. It also appears that there is shortage of seed from certain high-performing hybrids that are in high demand. Some companies who are not traditionally significant players in the sunflowerseed seed market in Argentina have begun selling new varieties to meet demand. There are also reports that some seed intended for planting in the north has been resold in the south. These factors could mean that less well-adapted varieties may be sown in Argentina this year, possibly reducing yield potential in those fields. Locally adapted varieties mature at an appropriate rate for the growing season in each region, have improved resistance to disease, and have heads that rotate downward to help protect them from predation from doves and parakeets which are major crop pests in Argentina. Sunflowerseed is considered to be a drought resistant crop, so outside of the area already lost in the north, planted area is not expected to be reduced due to the ongoing drought in Argentina.

Tabel 2.

Production, Supply, and Distribution

Oilseed, Sunflowerseed Market Year Begins	2020/2021		2021/2022		2022/2023	
	Mar 2020		Mar 2022		Mar 2023	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Argentina						
Area Planted (1000 HA)	1670	1500	1600	1700	2000	1900
Area Harvested (1000 HA)	1670	1450	1600	1650	2000	1900
Beginning Stocks (1000 MT)	980	980	806	446	381	86
Production (1000 MT)	3430	3100	3350	3350	4200	3800
MY Imports (1000 MT)	0	0	0	0	0	0
Total Supply (1000 MT)	4410	4080	4156	3796	4581	3886
MY Exports (1000 MT)	187	187	160	160	200	170
Crush (1000 MT)	3137	3137	3400	3250	3500	3350
Food Use Dom. Cons. (1000 MT)	0	0	0	0	0	0
Feed Waste Dom. Cons. (1000 MT)	280	310	215	300	250	305
Total Dom. Cons. (1000 MT)	3417	3447	3615	3550	3750	3655
Ending Stocks (1000 MT)	806	446	381	86	631	61
Total Distribution (1000 MT)	4410	4080	4156	3796	4581	3886
Yield (MT/HA)	2.0539	2.1379	2.0938	2.0303	2.1	2
(1000 HA) ,(1000 MT) ,(MT/HA)						

Peanuts

The 2021/22 peanut crop was marked by the influence of drought which lowered yields significantly in northern and western Cordoba Province and in San Luis Province. However better moisture in eastern Cordoba, western Buenos Aires, and southern Santa Fe Province led to above average yields that helped to compensate for the shortfall in the west. Overall production could have risen higher, but a frost at the end of March 2022 stopped further grain filling. Generally dry conditions during April-June provided good harvest conditions and processors report excellent peanut quality, though grains are slightly smaller than normal.

Demand in Argentina's principal markets in Europe remains firm despite rising inflationary pressures. The fall of the Euro against the U.S. Dollar has also raised costs for importers since contracts are priced in dollars, but falling shipping costs over the last few months have improved Argentina's competitive position. The pace of exports has held steady and Argentine exporters don't anticipate substantial changes in export destinations in the coming year.

For the 2022/23 marketing year, Post maintains its projection of 380,000 hectares and 1.25 MMT of production. This represents a decline of 5 percent in area from the prior year. The rise in international prices for other commodities, primarily corn and soybeans, over the last few years has chipped away at margins for the peanut value chain. A few years ago, peanut companies were able to pay high rental rates to secure sufficient land to meet the needs of processors. Now, rising rents for other crops have made it more difficult for peanut companies to compete. Because of their fixed investment in processing, they are obligated to ensure that at least 350,000 hectares are grown every year, but margins for farmers have fallen, and many contract farmers in western Cordoba lost money during the drought last year. Landowners still benefit from peanut contracts which offer generous upfront terms, but the value chain is under pressure.

Most of the peanut growing region is very dry so far this year, with very little usable soil moisture. Even if there is little rain in October, farmers intend to sow their peanuts into dry soils at the end of October and beginning of November regardless of current conditions and hope that rains in November and December will allow for adequate germination. In the past two years, peanuts have outperformed soybeans, and to some extent corn, in their resistance to drought and heat.

Inflation and the Argentine government's currency controls continue to affect the processing sector. Companies are paid in pesos at the official exchange rate for their exports. The official exchange rate values the Argentine peso at approximately twice its values in more informal markets. Contacts report that costs, which are often dollarized (that is to say, reflective of the informal exchange rate) are rising faster than income earned from exports. Some within the industry are working to convince the government to provide peanuts, along with other "regional" commodities a special exchange rate similar to what soybeans received in September. However because these commodities continue to be exported at a relatively normal pace and individually they don't bring in the volume of dollars that could significantly improve the balance sheets of the BCRA, contacts are pessimistic about the likelihood of such measures in the short term.

Tabel 3.

Production, Supply, and Distribution

Oilseed, Peanut Market Year Begins	2020/2021		2021/2022		2022/2023	
	Mar 2021		Mar 2022		Mar 2023	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Argentina						
Area Planted (1000 HA)	402	402	410	400	400	380
Area Harvested (1000 HA)	402	402	410	400	380	380
Beginning Stocks (1000 MT)	425	425	388	369	330	244
Production (1000 MT)	1270	1300	1300	1280	1250	1250
MY Imports (1000 MT)	0	0	0	0	0	0
Total Supply (1000 MT)	1695	1725	1688	1649	1580	1494
MY Exports (1000 MT)	937	937	950	950	900	900
Crush (1000 MT)	245	244	280	280	240	250
Food Use Dom. Cons. (1000 MT)	76	90	78	90	80	90
Feed Waste Dom. Cons. (1000 MT)	49	85	50	85	50	85
Total Dom. Cons. (1000 MT)	370	419	408	455	370	425
Ending Stocks (1000 MT)	388	369	330	244	310	169
Total Distribution (1000 MT)	1695	1725	1688	1649	1580	1494
Yield (MT/HA)	3.1592	3.2338	3.1707	3.2	3.2895	3.2895
(1000 HA) ,(1000 MT) ,(MT/HA)						

Attachments:

No Attachments