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Report Highlights:

2021 Argentine milk production is revised upwards to 11,900 million tons on favorable weather conditions. Whole milk powder exports are estimated at 142 million tons on competitive prices and low domestic margins. Argentine consumers struggle to maintain already decreased household dairy consumption in the face of very high inflation. CY 2022 fluid milk production is projected at 12,019 million tons, up 2.7 percent compared to USDA's official production figure for 2021.

THIS REPORT CONTAINS ASSESSMENTS OF COMMODITY AND TRADE ISSUES MADE BY USDA STAFF AND NOT NECESSARILY STATEMENTS OF OFFICIAL U.S. GOVERNMENT POLICY

Introduction

The competitiveness of the Argentine dairy industry continues to be affected by chronic political, economic, and institutional instability in the country., Government policies include trade interventionism and a heavy tax burden, continue to generate uncertainty, and complicates operational planning resulting in reduced investment. Nevertheless, Post projects a 4% increase in CY2021 total milk output compared to CY2020. Good weather is the principal driver of this increased production, allowing farmers to reap production gains from their limited investment in nutritional and technological inputs aimed at improving the comfort of dairy cows.

The economic effects of the COVID-19 outbreak drove the Argentine economy further into recession, affecting demand trends. Though GDP growth has resumed after three years of recession, fluid milk consumption is now projected to drop sharply as the buying power of ordinary Argentines erodes through lack of income due to job losses, exhaustion of savings, and high inflation decreasing their purchasing power. The Argentine government has attempted to support continued consumption through a variety of measures, including by fixing prices of a wide range of products, including certain dairy products, in an effort to restrain inflation for staple food products. While the Argentine peso continues to lose value in the parallel market and has surpassed $200 per dollar, the official exchange rate remains artificially strong at $106 pesos per dollar, resulting in economic distortions affecting the relative values of imported inputs and exported products.

This scenario is not very different from the one in the 2020/21 financial year, when the economic results of the dairy farms were not bad, but much worse than in the previous years. While domestic consumption is not be expected to quickly recover, exports are in a position to remove the threat of highs stocks in the domestic market, especially in a world in which the other main exporting countries are unable to increase their milk production sufficiently to meet continued firm global demand.

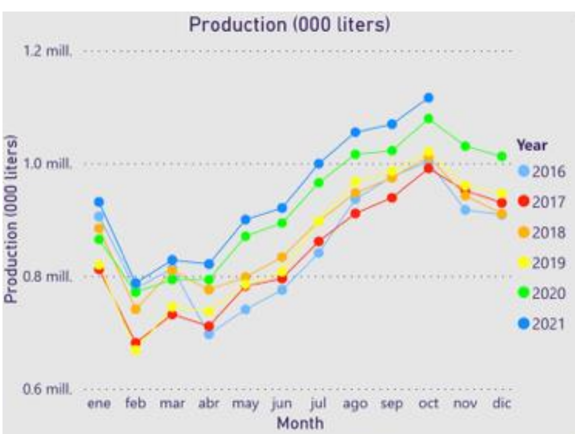
Production

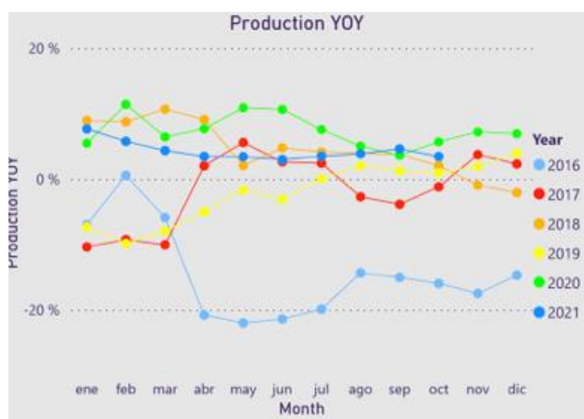
The first ten months of 2021 have shown higher production (+4.30 percent growth) compared to the same period in 2020, and Argentine fluid production is on its way to its highest output since 2015. With this improved performance, Post forecasts total production of fluid milk for 2021 to reach 11,900 Million Metric Tons (MMT), 4 percent growth over USDA's CY2020 figures.

The causes are the same as those that have been accompanying production for the past two seasons: a good start to the year with few hot and humid days, boosted by a dry climate and the excellent condition of the herds. This is probably in addition to the increasingly better management of the systems and use of technologies that favor production efficiency and animal comfort, and something not less important, although not quantified, the growing number of cows kept indoors, which generates a high leap in productivity. Nothing suggests in the short term that this trend will change beyond the normal seasonal drop that should start at the beginning of the summer.

Post estimates CY2021 cheese production to increase about 11 percent compared to CY2020 USDA's figures. Cheese production grew for several reasons, but the main one is that in Argentina there is a group of companies (mainly small and medium) whose production follows the milk production curve, so that an important part of the growth was devoted to cheese production and, additionally, exports increased. During the first months of 2021, cheese prices were much lower than last year, slightly favoring domestic consumption.

Argentine Dairy Production by Month





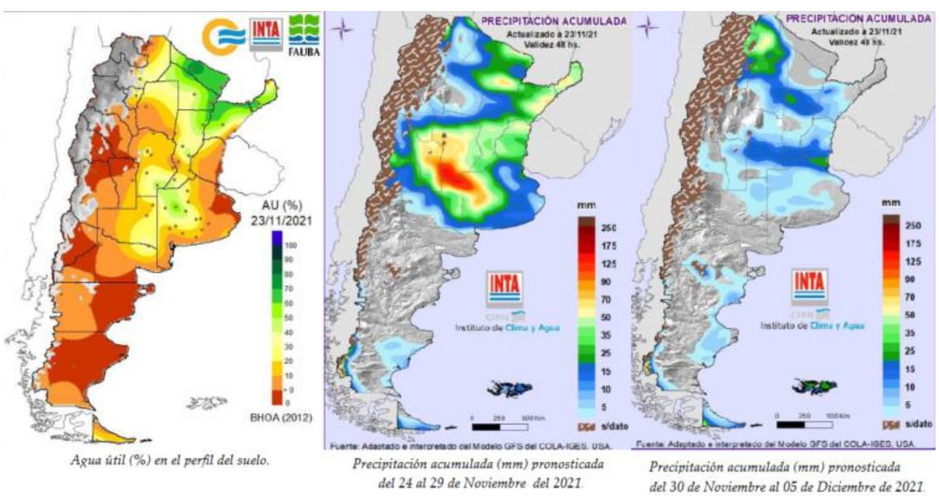
Source: Ing. Jose Quintana, Economia Lactea – Left: Production in 1,000 liters per month, 2016-2021; Right: Year on Year production growth by month.

According to official figures, butter production during CY2020 reached 34,661 Tons (including butter oil). And for the of period Jan – Sept 2021, production of butter and butter oil rose 10.3%, accumulating 29,784 Tn. Total consumption is estimated at 14,600 tons, representing 320 grams annual per capita consumption.

For CY2022, Post projects a production of 12.019 MMT of fluid milk, 1% above revised 2021 projections. Although a lack of precipitation and pasture health is still a concern, especially for dairy producers in eastern Cordoba Province and western Buenos Aires Province, with mild weather and sustained international demand, production it is expected to be maintained or even slightly increased.

The soil moisture situation has improved a little, but it is still a concern. As can be seen in the maps below, the usable water in the soil profiles as of the end of November was adequate in western Buenos Aires, in the Villa Maria basin, while the east of Córdoba, Entre Ríos, and Mar y Sierras were still in critical situation. Due to La Niña, medium term forecasts are still for below-normal rainfall, although opinions differ as to how far below normal it will be.

Argentine Soil Moisture and Precipitation



Source: INTA.gob.ar – From left to right: percent useful water in the soil profile, Precipitation the week of November 24-29, Precipitation the week of November 30-December 5

Milk production in Argentina is concentrated mainly in the provinces of Córdoba (37%), Santa Fe (32%) and Buenos Aires (25%), and to a lesser extent in Entre Ríos (3%), Santiago del Estero (1%) and La Pampa (1%). In 2021 there are reported 10446 dairy farms, 34.1% in Santa Fe; 29.3% in Córdoba, 23.8% in Buenos Aires, 7.7% in Entre Ríos.

In relation to the stratification by size of the dairy farms, production is increasingly concentrated in fewer production units. The distribution of the number of dairy farms and milk production according to production stratum (liters/day) shows that 68% of dairy farms produce less than

3,000 liters/day, while units of more than 3,000 liters/day are 32 % of the total, but represent 69 % of the production.

Dairy farms size (liter/day)	**Quantity of farms (%)**	**Production share (%)**
Less than 3000 lt/day	62.1%	24.1%
More or equal than 3000 lt/day	37.9%	75.9%
Total	100.0%	100.0%

Source: October 2021 data from the Observatorio de la Cadena Láctea (OCLA)

According to the Observatorio de la Cadena Lactea (OCLA - Dairy Supply Chain Observer) data, the domestic market is the destination for 74.7 percent of the national milk production and the rest, 25.3 percent to exports. Of what is destined for domestic consumption, most is marketed through the retail channel (96 percent), while the rest is sold to industrial buyers and is marketed through industrial and institutional channels (2 percent each).

Destination of milk to products:

Dry whole and semi-skimmed milk powder	25.1%
High humidity cheeses (soft paste)	16.9%
Nonfat dry milk powder	8.6%
Medium moisture cheeses (semi-hard paste)	16.8%
Low moisture cheeses (hard paste)	6.0%
Refrigerated milk	7.3%
Yogurts and other fermented milks	4.0%
Dulce de leche	2.4%
UHT milk	10.6%

Source: *Observatorio de la Cadena Láctea (OCLA)*

The Cost of Production Index continues to rise more than the Price Index, mainly due to the increase in the cost of fertilizers and agrochemicals, many of which are imported.

The Cost of Production Index in Dairy Farms accumulated an increase of 44.24 percent year-on-year increase versus the Price Index which increased 69 percent year-on-year, as a result of which the Price-to-Cost Ratio increased 17.79 percent year-on-year.

Consumption

Post adjusts CY2021 consumption numbers from USDA’s figures of 1825 MT to 1710 MT and maintains the same estimate for consumption of CY2020. Argentine domestic demand fell in

CY 2021 due to a contraction in GDP, and Post does not anticipate any recovery during CY 2022.

COVID-19 quarantine-related closure of many restaurants in the greater Buenos Aires area that dramatically reduced demand for mozzarella cheese, are beginning to recover as these restaurants have reopened.

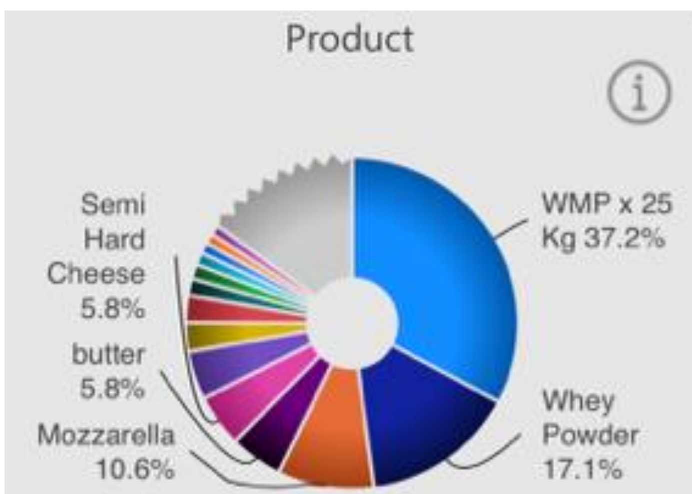
Trade

Exports

Post estimates total exports for CY 2021 at 313 MT, almost 11% higher than CY2020.

According to Post's contacts, though exports in CY2021 are higher than those of CY2020, they show a strong monthly oscillation due to several factors. They started very high in January due to the Brazilian production problems in December 2020, which accumulated in January, then normalized in February, and grew strongly again in March due to the improvement of prices. From then on the industry faced some logistical problems, both internal (difficulties in ports and administrative challenges) and external (availability of containers/ships) that delay exports and produce low months and high months.

Argentine Dairy Exports by Product

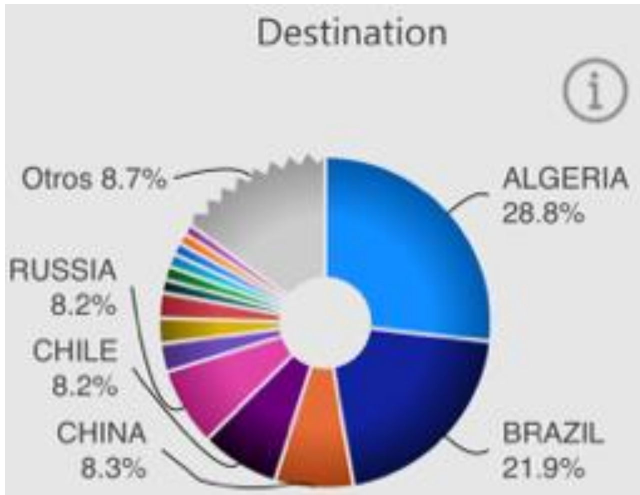


Source: Ing. Jose Pepe Quintana. Economia Lactea

Whole Milk Powder: the main export product for Argentina is whole milk powder. In a context of an estimated 4% production growth, with a sharp drop in domestic demand and an international market in demand with very firm prices, it is logical that the main destination for growth should be this product for export. Approximately 38.2% of the volume exported in CY2021 first 10 months was in the form of WMP. Post estimates total exports of this product for CY 2021 at 142 MT. Algeria accounted for 73.4% of the total volume exported, followed by

Brazil. Williner is the company that exported 16.2% of the total for this period, followed by NOAL with 14.2%, and Mastellone Hnos. with 10.6%. The average export price in October was US$3,530/Tn.

Argentine Dairy Exports by Product



Source: Ing. Jose Pepe Quintana. Economia Lactea

Whey and derivatives: The second most exported products were whey and whey derivatives, with 17.1% of the total volume exported so far this year, reaching 55,744 MT, an increase of 19.5% over the previous year. Arla Foods exported 37.2% of that total, followed by Molfino Hnos., with 19.5% of the total volume exported. In terms of destinations, China accounted for 34.6%, followed by Brazil with 20.1% and Indonesia with 10.3%.

Mozzarella: This product ranked third in external sales volume in the first ten months of the year. A market in which Molfino Hnos. exported 61.6% of the 34,795 tons exported (+30.7% with respect to 2020), followed by Corlasa with 13.9%, and Pampa Cheese with 6.6%. Brazil was the destination of 40.3% of sales, followed by Chile with 13.6%.

Butter: there is little information regarding the participation of butter exports, the number of exporters and the diversity of destinations of a product of great external demand.

CY 2020 Argentine butter exports are estimated at, 20,046 tons, representing 57.8% of total production (the precise figure is unknown because if in any case there were less than 3 exporters, the government restricts statistical data to protect the privacy of exporters).

According to official data, during the period of January-September 2021, 4,927 tons of butter oil and 15,368 tons of butter were exported, totaling 20,295 tons. That is 68% of the butter-butteroil produced in the country was exported. Although there may be a discrepancy between the volumes produced and those exported, the number is sufficiently large to be able to extrapolate that the main destination of Argentine butter is exports.

As per data from customs information, 84% of the butter exported from Argentina in CY2020 was destined for Russia, followed by Saudi Arabia with 4.9% and Chile with 1.8%.

Regarding butter oil, the main destination was also Russia with 60.4% of the total volume exported, but in this case, it was followed by Brazil with 23.9% and Peru with 9.7% of total external sales.

For the period January-October 2021 Russia continues to lead, with 57.7%, followed by Brazil with 8.7% and Saudi Arabia with 5.9%. These 3 are followed by 30 destinations with smaller volumes (in 2020 there were 21 destinations).

As for butter oil, in 2021 Brazil accounted 44% of the exported volume, 41.3% Russia and 8.7% Mexico. In total, there were 8 destinations in the period analyzed.

Imports

Argentina is a strong net exporter of dairy products, importing only limited quantities of dairy products from neighboring countries. These limited imports are projected to continue to fall thanks to the deteriorating economic situation in Argentina.

Stocks

With the seasonal peak of maximum production in October already passed, with domestic consumption probably declining and with some uncertainty about the logistical possibilities of increasing export volumes, it is likely that stocks will be rebuilt in the coming months.

Production Supply and Demand Tables:

Dairy, Milk, Fluid	2020		2021		2022	
Market Year Begins	Jan 2020		Jan 2021		Jan 2022	
Argentina	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Cows In Milk (1000 HEAD)	1610	1610	1615	1615	0	1630
Cows Milk Production (1000 MT)	11445	11445	11700	11900	0	12019
Other Milk Production (1000 MT)	0	0	0	0	0	0
Total Production (1000 MT)	11445	11445	11700	11900	0	12019
Other Imports (1000 MT)	1	1	1	1	0	1
Total Imports (1000 MT)	1	1	1	1	0	1
Total Supply (1000 MT)	11446	11446	11701	11901	0	12020
Other Exports (1000 MT)	0	0	0	0	0	0
Total Exports (1000 MT)	0	0	0	0	0	0
Fluid Use Dom. Consum. (1000 MT)	1800	1800	1825	1710	0	1710
Factory Use Consum. (1000 MT)	9646	9646	9876	10191	0	10310
Feed Use Dom. Consum. (1000 MT)	0	0	0	0	0	0
Total Dom. Consumption (1000 MT)	11446	11446	11701	11901	0	12020
Total Distribution (1000 MT)	11446	11446	11701	11901	0	12020
(1000 HEAD) ,(1000 MT)						

Dairy, Butter	2020		2021		2022	
Market Year Begins	Jan 2020		Jan 2021		Jan 2022	
Argentina	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks (1000 MT)	2	2	1	1	0	2
Production (1000 MT)	39	34	46	52	0	52
Other Imports (1000 MT)	0	0	0	0	0	0
Total Imports (1000 MT)	0	0	0	0	0	0
Total Supply (1000 MT)	41	36	47	53	0	54
Other Exports (1000 MT)	21	20	24	36	0	35
Total Exports (1000 MT)	21	20	24	36	0	35
Domestic Consumption (1000 MT)	19	15	21	15	0	18
Total Use (1000 MT)	40	35	45	51	0	53
Ending Stocks (1000 MT)	1	1	2	2	0	1
Total Distribution (1000 MT)	41	36	47	53	0	54
(1000 MT)						

Dairy, Cheese	2020		2021		2022	
Market Year Begins	Jan 2020		Jan 2021		Jan 2022	
Argentina	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks (1000 MT)	33	33	32	32	0	47
Production (1000 MT)	488	488	537	549	0	554
Other Imports (1000 MT)	1	1	4	3	0	3
Total Imports (1000 MT)	1	1	4	3	0	3
Total Supply (1000 MT)	522	522	573	584	0	604
Other Exports (1000 MT)	70	70	75	87	0	90
Total Exports (1000 MT)	70	70	75	87	0	90
Human Dom. Consumption (1000 MT)	420	420	460	450	0	450
Other Use, Losses (1000 MT)	0	0	0	0	0	0
Total Dom. Consumption (1000 MT)	420	420	460	450	0	450
Total Use (1000 MT)	490	490	535	537	0	540
Ending Stocks (1000 MT)	32	32	38	47	0	64
Total Distribution (1000 MT)	522	522	573	584	0	604
(1000 MT)						

Dairy, Dry Whole Milk Powder	2020		2021		2022	
Market Year Begins	Jan 2020		Jan 2021		Jan 2022	
Argentina	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks (1000 MT)	29	29	14	14	0	42
Production (1000 MT)	213	213	250	245	0	250
Other Imports (1000 MT)	0	0	0	0	0	0
Total Imports (1000 MT)	0	0	0	0	0	0
Total Supply (1000 MT)	242	242	264	259	0	292
Other Exports (1000 MT)	148	148	160	142	0	155
Total Exports (1000 MT)	148	148	160	142	0	155
Human Dom. Consumption (1000 MT)	80	80	83	75	0	80
Other Use, Losses (1000 MT)	0	0	0	0	0	0
Total Dom. Consumption (1000 MT)	80	80	83	75	0	80
Total Use (1000 MT)	228	228	243	217	0	235
Ending Stocks (1000 MT)	14	14	21	42	0	57
Total Distribution (1000 MT)	242	242	264	259	0	292
(1000 MT)						

Dairy, Milk, Nonfat Dry	2020		2021		2022	
Market Year Begins	Jan 2020		Jan 2021		Jan 2022	
Argentina	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks (1000 MT)	8	8	8	9	0	11
Production (1000 MT)	52	52	60	56	0	57
Other Imports (1000 MT)	0	0	0	0	0	0
Total Imports (1000 MT)	0	0	0	0	0	0
Total Supply (1000 MT)	60	60	68	65	0	68
Other Exports (1000 MT)	28	28	35	31	0	30
Total Exports (1000 MT)	28	28	35	31	0	30
Human Dom. Consumption (1000 MT)	24	23	25	23	0	23
Other Use, Losses (1000 MT)	0	0	0	0	0	0
Total Dom. Consumption (1000 MT)	24	23	25	23	0	23
Total Use (1000 MT)	52	51	60	54	0	53
Ending Stocks (1000 MT)	8	9	8	11	0	15

Total Distribution (1000 MT)	60	60	68	65	0	68
(1000 MT)						

Attachments:

No Attachments