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Oilseeds and Products Update

Sunflower Production Revised Down on Increasingly Unfavorable Economic Situation as Soybean and Peanut Production Remains Steady

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Report Highlights:
2015/2016 sunflower production is revised down to 2.61 million tons on an increasingly less profitable situation, especially in Buenos Aires and La Pampa provinces. 2014/2015 sunflower production is revised down 9 percent to 2.86 million tons on new and updated information from local analysts. A number of producers are switching from sunflower to soybeans as the latter remains the most cost-effective option for adequate returns. Soybean production remains unchanged at 57 million tons. Peanut production is unchanged at 1.2 million tons.

Sunflowerseed

Oilseed, Sunflowerseed	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 Planted	1300	1300	1440	1300	1600	1450
Area Harvested	1300	1300	1440	1300	1600	1450
Beginning Stocks	998	998	675	675	820	620
Production	2000	2000	3160	2860	3200	2610
MY Imports	1	1	1	1	2	2
MY Imp. from U.S.	0	0	0	0	0	0
MY Imp. from EU	0	0	0	0	0	0
Total Supply	2999	2999	3836	3536	4022	3232
MY Exports	73	73	68	68	75	75
MY Exp. to EU	18	18	20	20	20	20
Crush	2211	2211	2900	2800	2950	2700
Food Use Dom. Cons.	0	0	0	0	0	0
Feed Waste Dom. Cons.	40	40	48	48	54	54
Total Dom. Cons.	2251	2251	2948	2848	3004	2754
Ending Stocks	675	675	820	620	943	403
Total Distribution	2999	2999	3836	3536	4022	3232
(1000 HA) ,(1000 MT)						

2015/2016 Season

Only a month ago, prospects for sunflower production looked very positive with significant area gains expected in Santa Fe and Chaco and steady production in other provinces. However, new information indicates that significant economic pressures, especially in Buenos Aires and La Pampa provinces, will offset any production gains potentially achieved in other areas of the country leading to a downward revision of 2015/2016 production to 2.61 million tons. The majority of redirected areas originally designated for sunflower production are expected to be shifted towards soybean and corn production. As such, 2015/2016 area harvested is revised down to 1.45 million hectares. Although, this figure represents a 12 percent rise in area compared to the previous season, this season's yields are not expected to reach the historic levels of last year and should average around 1.8 tons per hectare– signifying a return to historical trend yield levels. The revised 2015/2016 production estimate represents a decline in production of 9 percent compared to the revised production estimate of the previous season.

Planting conditions originally looked favorable in Buenos Ares and La Pampa provinces with sowing expected throughout the past month. However, a new economic reality – higher production costs and relatively lower international sunflower prices – along with excessive humidity in some areas, pests and pigeon problems have shifted producers' decisions. As a result, planted area for sunflower in the region – which represents about 20 percent of national production - is expected to decline by at least ten percent as producers face a serious decline in prices compared to a year ago ($300 per ton plus a $40 high oleic premium a year ago compared to $200-225 per ton plus a $20 high oleic premium today according to sources). Analysis of the region's production costs and expected returns for this season points to margins on average of $56 per hectare for sunflowerseed. If you compare those expected margins with the returns from last season, this season will experience a decline in margins of 53 percent. In order to maintain positive margins, producers will utilize less technology i.e. less and lower quality inputs. For producers planning to finance their inputs, there are two main options: 1. utilize a special "rural credit

card" provided by most private banks lending in pesos for the purchase of inputs only or 2. negotiate with large input providers an arrangement where producers compensate for the cost of inputs with its equivalent value of the harvested crop.

Producers continue to plant to achieve some gains and to maintain the health of their soils via crop rotation. Based on these conditions and economic factors, it's estimated that breakeven yields for sunflower are estimated at 1,473 kilograms per hectare. At present, Post estimates national average yields around 1,800 kilograms per hectare for this season – signifying a return to historical trend yield levels. The primary drive for continued production is the expectation that economic conditions specifically Argentina's exchange rate will change and deliver greater returns in time for harvest.

Crush is revised down to 2.7 million tons to reflect trend crush levels and lower available supplies due to lower than expected beginning stocks and decreased production. This places downward pressure on stocks for the end of the season at 403,000 tons.

2015/2016 Planting Conditions and Progression

Based on an estimated planting area of 1.45 million hectares for the season, local analysts estimate that 36 percent (522,000 hectares) of the crop has been planted as of October 23rd. Planting continues slowly south of Cordoba province, Nucleo Norte[1] and Nucleo Sur[2] areas. The northern part of the country – Chaco, Formosa, East Santiago del Estero and North Santa Fe – has planted the entire crop area at a projected total of 330,000 hectares. This region is reportedly experiencing limited moisture levels and transitioning into the flower bud and flowering stage while other areas that planted later area are reaching the end of the foliage development stage. Over the past few weeks, lower temperatures in Center-North Cordoba are hindering vegetative development even under optimal health and moisture conditions. As mentioned before, the grand part of La Pampa and Buenos Aires provinces are dealing with excessive moisture levels and await an El Nino event which in most parts of Argentina's crop area means more moisture than normal. While El Nino usually delivers higher yields for most crops, in the case of sunflower, it could lead to significant damage. According to local producers in southern Buenos Aires province, a strong El Nino event around January or February could mean a reduction of 20-25 percent in yields.

2014/2015 Season

Based on new information, 2014/2015 sunflower seed estimates are revised. Area harvested is revised down to 1.3 million hectares based on new data from producers and industry analysts. The season delivered historically high yields at 2.2 tons per hectare, which resulted in production of 2.86 million tons for 2014/2015. This represents a downward revision of 9 percent compared to the previous estimate of 3.16 million tons. Crush is revised down to 2.8 million tons based on year-to-date crush levels that are demonstrating a 22 percent increase from the same period last marketing year. As a result, of the change in production and crush, ending stocks for the season are revised down to 620,000 tons.

[1] East of Córdoba, Central-South of Santa Fe and Southeast Entre Ríos.
[2] South of Santa Fe and North of Buenos Aires.

Soybeans

Planting Area Continues to be Diverted to Soybeans as it Remains Best Option

While soybeans are experiencing lower and in many circumstances negative returns, it continues to be the best option for producers due to its relatively lower costs to produce and ease to market. One way producers will curb their costs will be through lower technology use via lower quality seed and less fungicides, pesticides and other soil preparations. Due to these lower costs, some grain and sunflower areas are being diverted to soybean production. This season is also marked with the production of more first crop soybeans. Traditionally, some producers will grow wheat or barley at the beginning of the season and after harvest plant soybeans i.e. second crop soybeans. However, a second crop soybeans (combined with the returns of wheat for example) is expected to deliver much lower returns than first crop soybeans. Sources estimate 2015/2016 soybean returns in southwest Buenos Aires/east La Pampa will be $71 dollars per hectare for first crop soybeans. However, returns are negative at -$41 dollars for second crop soybeans (wheat at -$9 plus -$32 for second crop soybean). As such, producers will continue to forgo planting area for grains and sunflower and focus on first crop soybeans. In northern Buenos Aires province, first crop soybean production is expected to rise by 12 percent while fall 23 percent for second crop soybean. Historically, the ratio between the two crops is 8 to 2.

Producers continue to hope that an El Nino weather event will help the crop along with boosted yields – currently estimated 2.9 tons per hectare nationally. These updates reinforce Post's outlook for the 2015/2016 and thus PSD estimates are unchanged.

Peanuts

Production for peanuts remains unchanged at 1.17 million tons. While some sources indicate the potential for greater production via larger planting areas, there isn't a strong enough indication to warrant a change in the estimates. Planting continues in the primary growing regions of Cordoba (over 90 percent of production), San Luis, Norte of La Pampa and north-west Buenos Aires province.

As the case for other oilseeds, peanut producers are facing slightly lower world prices. Yet, unlike other oilseed crops, peanut producers cannot modify their "technological package" or the levels of inputs and soil preparation in order to control costs. Pests are a huge burden for peanut crops that require extensive pesticide use and in many circumstances soil tilling up front. Because of this high risk economic environment for this crop, producers are encouraged to share certain costs – harvest, transportation, certain inputs – with other producers to maximize returns as much as possible. Industry sources indicate that the largest increase in costs will come from pesticides and fungicides for this season.

Post:
Buenos Aires

Commodities:
Oilseed, Soybean

Oilseed, Sunflowerseed

Oilseed, Peanut