

# LATIN AMERICA DAIRY MARKET UPDATE

JANUARY 2022



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With a new year unfolding ahead of us, many people are keen to leave the complications of the last couple of years in the past. But while there may be reason for optimism that the direct impacts of the pandemic are becoming more manageable, numerous other challenges have cropped up. Weather fluctuations, galloping inflation, and a lackluster economic outlook are all weighing on expectations for Latin America's dairy industry during 2022.

La Niña and the resulting dry weather has been top of mind in Latin America for months. Up until recently though, the impacts of the weather phenomenon had been relatively minor. It was indeed dry across many of South America's dairy regions in late 2021, but intermittent rains and moderate spring temperatures had staved off the worst impacts. However, in the first weeks of the new year, drought conditions worsened and combined with historically hot temperatures in many areas. These climatic circumstances have undoubtedly had negative consequences for milk production, although it may take some time before the toll appears in the data.

The negative impacts have not only been limited to milk production. Dry conditions have also weighed on expectations for the region's corn and soybean production this year. Lower crop output will likely translate into higher feed costs, creating additional margin pressure for producers that have seen their costs rise persistently in recent months. Of course, it is not feed costs alone that have risen. Labor, fuel, and fertilizer have also become more expensive and there is little indication that this trend will reverse any time soon. The increase in milk prices that helped to shield producers from operating cost increases during most of last year is also unlikely to persist. While some processors would like to encourage additional milk volumes that could be exported at

prevailing global prices, resistance from consumers within the region is making it increasingly difficult to pass these prices on locally.

Latin America's consumers are struggling to fit dairy products into their household budgets as inflation eats away at their purchasing power. Furthermore, the region continues to reckon with the fallout from the pandemic, including high unemployment, weakening currencies, and general economic malaise. Government austerity is likely to be a focus this year as governments, which borrowed heavily to fund social programs throughout the pandemic, are forced to contend with paying this money back. Several important political contests, in particular the presidential election in Brazil, will keep attention on the region and are likely to push Latin American politics further to the left.

Despite robust milk production among the region's exporters during most of 2021, exports failed to materialize to the extent anticipated, suggesting that issues such as logistic challenges interfered with exporters' abilities to move product abroad. Data and anecdotal information indicate that much of this product remains in storage. Thus, as these supply chain kinks gradually get worked out, South America still has an opportunity to increase its participation in the global dairy trade. 📌



Thank you for reading the Latin America Dairy Market Update! If you have any questions about the information in this report or feedback for how it can be improved, please don't hesitate to reach out to me at [monica.ganley@quarterraglobal.com](mailto:monica.ganley@quarterraglobal.com)

Thank you, and I look forward to hearing from you!

*Monica Ganley*

## MILK PRODUCTION GROWTH PERSISTS IN ARGENTINA

### Hot and dry weather poses challenges

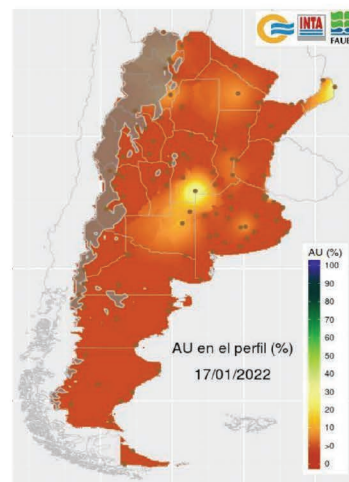
In recent months, Argentina had bucked the trend of contracting global milk supplies by continuing to post substantive year over year production increases. However, increasingly challenging weather conditions threaten to curtail the growth of Argentina's milk supply. Historically hot temperatures in early January compounded the dry conditions brought in recent months by the La Niña phenomenon, ultimately reducing forage quality and pushing back on milk output. Preliminary data provided by Argentina's processors shows that the unfavorable weather may cause a year over year decline in milk supplies in January, which would be the first drop since mid 2019.

Milk prices have continued to march upward in Argentina and have played an important role in continuing to motivate production in the country. Higher milk prices, combined with some operating cost relief, allowed average margins to improve to 1.8% in November, up 0.4% versus prior month. All the same, challenges persist. Operating costs appreciated once more in December and prevailing opinion is that the weather conditions have decreased forecasts for the country's corn and soybean production, foreshadowing higher feed prices in the coming months.

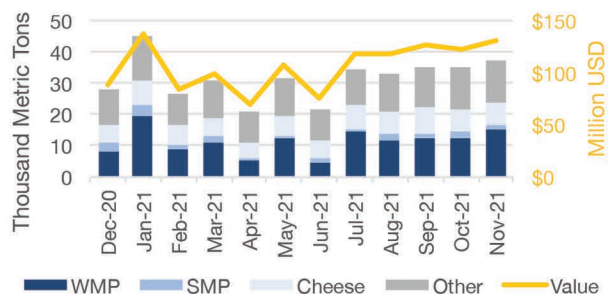
Argentina's dairy exports improved in November, aligning more closely with expectations. WMP exports exceeded 15,000 metric tons for the first time since January, due especially to strong exports to Algeria, which persisted despite reported challenges with import permits at that destination. Algeria accounted for 71.4% of Argentina's WMP shipments in

November, while Brazil claimed just 10.5% share. At home, new data from Argentina's statistics service showed that dairy product price increases outpaced national inflation. As overall food prices rose by 50.3% in 2021, dairy product prices went up by 60.3%. Hard cheeses and milk powders saw the largest price increases. 🌊

### Percent of Usable Water in Soil Profile January 17, 2022



### Argentina Dairy Exports



Source: MinAGyP, Trade Data Monitor

## HIGHLIGHTS

- Argentina's milk production has continued to grow in recent months, but dry weather and extreme high temperatures threaten to undermine gains in output.
- Higher milk prices have helped to maintain producer profitability but rising operating costs, especially higher feed prices, will put pressure on margins.
- Dairy exports improved in November, due especially to strong WMP exports to Algeria. Exports to Brazil continue to underwhelm.

## FAST FACTS ARGENTINA

				YOY	YTD
<b>Milk Production</b>					
December	1,046.8	MM ltrs		▲ 3.4%	▲ 4.2%
<b>Milk Price</b>					
December	Local \$ 34.35	ARS/ltr	▲ 1.9%	v. November	
	Off. FX \$ 0.34	USD/ltr	▲ 0.4%	v. November	
	Unoff. FX \$ 0.17	USD/ltr	▲ 1.7%	v. November	
<b>Dairy Exports</b>				YOY	YTD
November	Total 37,000	MT	▼ 15.4%	▲ 2.4%	
	WMP 15,096	MT	▼ 19.3%	▼ 8.7%	
	SMP 1,356	MT	▼ 67.2%	▼ 20.9%	
	Cheese 7,144	MT	▼ 3.8%	▲ 13.8%	

Source: MinAGyP, Trade Data Monitor

## URUGUAYAN OUTPUT FALTERS

### Processors raise milk prices

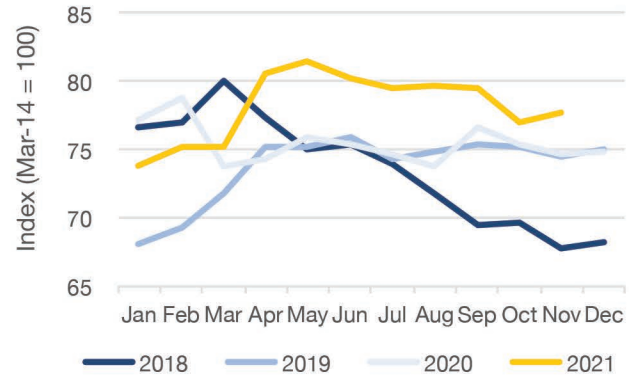
Uruguayan milk production retrenched further in November, posting the third consecutive month of year over year losses. Nevertheless, the country remains on track to post record production for 2021. Conaprole reported that its collections were up 3% in December, contributing to 2021 volumes that led prior year by 4.3%. However, during the first half of January, climatic conditions caused milk production to fall by 1.8% relative to prior year volumes. Dry weather has been a major factor undermining milk production growth in the last few weeks. Recent rains should help to improve pastures, but soil moisture levels remain below average. The Uruguayan government is offering emergency financial aid to producers affected by the drought.

As milk production has faltered but international demand remains robust, processors have raised milk prices to motivate additional output. The top line increases outpaced the appreciation in operating costs in November, lifting producer purchasing power. An extension group in Uruguay estimates that producer profitability was the best it had been in seven years. While strong international prices are expected to keep milk prices elevated this year, rising operating costs will likely diminish margins somewhat.

After improving in November, Uruguay's dairy exports weakened in December, posting the lowest volumes for the month since 2017. Total volumes for the year were down 3.9% relative to 2020. In contrast, higher product prices and a favorable product mix lifted exports in value terms to \$753.8

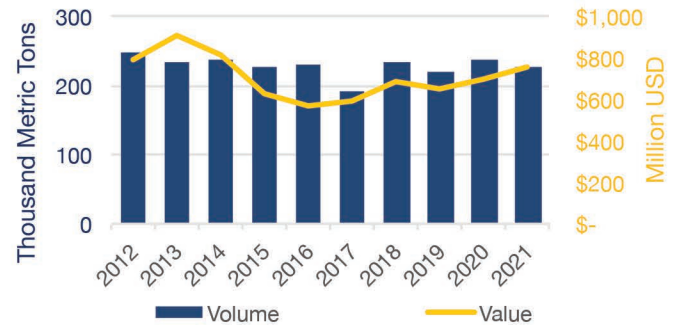
million USD, the highest annual value since 2014. Algeria was the top destination for Uruguayan exports during 2021 with 24% share, and China came in a close second at 22%. Brazil took bronze with 20% share. 🇺🇵

### Uruguay Producer Purchasing Power Index



Source: INALE

### Uruguay Dairy Exports



Source: INALE

## HIGHLIGHTS

- Uruguayan milk production fell in November for the third consecutive month as dry weather weighed on output. Record production is still expected for the year.
- Processors have raised milk prices to encourage additional production. Milk price increases are outpacing operating cost appreciation, resulting in higher margins.
- Uruguay's dairy exports weakened in December relative to prior month. Full year exports were down 3.9% in volume terms but up 9.2% in value terms due to higher prices.

## FAST FACTS URUGUAY

			YOY	YTD	
<b>Milk Production</b>					
November	192.7	MM ltrs	▼ 3.0%	▲ 2.1%	
<b>Milk Price</b>					
November	\$ 15.33	UYU/ltr	▲ 2.5%	v. October	
	\$ 0.35	USD/ltr	▲ 1.7%	v. October	
<b>Purchasing Power Index</b>					
November	78	Pts	▲ 0.9%	v. October	
<b>Dairy Exports</b>			YOY	YTD	
December	Total	19,812	MT	▼ 0.2%	▼ 3.9%
	WMP	7,801	MT	▼ 19.5%	▼ 3.5%
	SMP	5,299	MT	▲ 109.0%	▼ 5.4%
	Cheese	2,555	MT	▲ 7.4%	▼ 5.0%

Source: INALE

## BRAZILIAN PRODUCERS FEEL MARGIN PINCH

### Operating costs rise dramatically

Milk production in Brazil continues to trail prior year volumes, although data from CEPEA indicate that the rate of decline may be narrowing. Dry weather conditions and rising operating costs are weighing on production. During 2021, average operating costs rose by about 18%, due to the rising price of feed, labor, fuel, and fertilizer. Meanwhile, farmgate milk prices declined in December for the third consecutive month. Industry stakeholders are concerned that the margin pressure is not only pushing back on short term production but is also discouraging long term investments in the sector. While the decline in milk prices appears poised to slow, operating cost increases show little sign of abating. USDA and CONAB have both lowered their expectations for corn and soybean production this year due to the dry weather, suggesting higher feed prices on the horizon

Sluggish economic growth, high unemployment, and galloping inflation have translated into reduced purchasing power for Brazilian consumers. Retail prices for dairy products have been mixed as processors and retailers attempt to balance tepid demand with defending their own margins and preventing inventory accumulation

Brazilian imports finished the year on a weak note, continuing the trend seen throughout 2021. Imports for the full year declined versus prior year by 16.5% in volume terms, even though they were up a modest 1.0% versus 2019. WMP imports fell to their lowest level since 2014. The decline was driven by a combination of frail domestic

demand, high international prices, and a dramatically weaker real. Brazilian exporters capitalized on the circumstances to increase exports during the year to about 38,800 metric tons, an increase of 19% versus prior year and the highest export volume seen since 2016.

### Brazil Operating Cost Appreciation



Source: CEPEA

### Brazil Dairy Imports



Source: COMEX

## HIGHLIGHTS

- Dry weather, rising operating costs, and lower milk prices are pushing back on production and raising concerns about long term investment in Brazil's dairy industry.
- Consumer purchasing power is being undermined by weak economic performance, high unemployment, and galloping inflation.
- Brazilian dairy imports were down markedly in 2021 due to a combination of weak demand, devalued currency, and high international prices.

## FAST FACTS BRAZIL

<b>Milk Production</b>					
September	2,077.7	MM ltrs		YOY	YTD
				▼ 4.5%	▼ 1.1%
<b>Milk Price</b>					
December	R\$ 2.12	BRL/ltr	▼ 3.0%	v. November	
	\$ 0.38	USD/ltr	▼ 4.6%	v. November	
<b>Retail UHT Price</b>					
December	R\$ 3.19	BRL/ltr	▲ 1.9%	v. November	
<b>Dairy Imports</b>					
December	Total	13,929	MT	YOY	YTD
	WMP	3,353	MT	▼ 75.0%	▼ 41.5%
	SMP	2,389	MT	▼ 22.1%	▼ 8.2%
	Cheese	2,564	MT	▼ 27.4%	▲ 3.2%

Source: IBGE, CEPEA, IPCA, COMEX


## MEXICAN MILK PRODUCTION SETS RECORD

### Strong growth in Jalisco, Durango

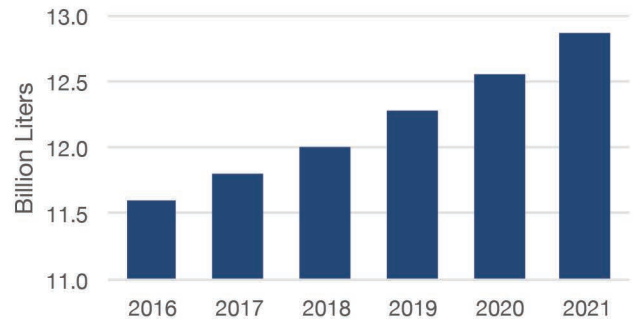
Mexican milk production continued to grow aggressively through the end of 2021, according to data released by SIAP. A 2.7% increase in national production in December lifted volumes for the year to a new record of 12.9 billion liters. Mexico's top dairy state, Jalisco, saw output grow by 6.0% versus last December, adding an equivalent of 12.9 million liters for the month and a total of 80.6 million liters for the year to the national total. This amount was dwarfed by Durango, which added 153.7 million liters to Mexico's milk production during 2021, boasting year over year gains in excess of 6% during each month of the year. On the other hand, the states of Mexico, Oaxaca, and Coahuila all saw December volumes contract by at least a million liters relative to last year's production in the same month.

The strong milk production gains are surprising considering that rising operating costs, especially feed, and more recently fuel prices, are placing ever more pressure on producer margins. Some processors have increased milk prices which has helped to support volume growth. But this action has also resulted in higher prices for retail products. Mexican consumers are finding their purchasing power diminished by inflation, compounding other economic complications caused by the pandemic. Retailers are expressing concern over flagging demand for dairy products.

Despite strong domestic production and lukewarm domestic demand, dairy imports have continued to enter

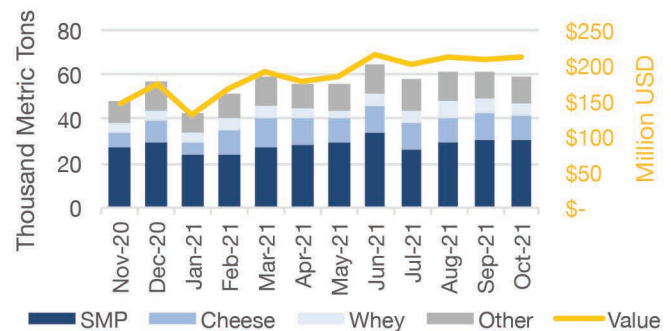
Mexico at a rapid pace. While logistical advantages are likely still supporting import volumes, rising prices for dairy products, especially nonfat dry milk in the United States, are likely to slow the rate of imports in coming months. 

### Mexico Annual Milk Production



Source: SIAP

### Mexico Dairy Imports



Source: Trade Data Monitor

## HIGHLIGHTS

- A strong month of milk production in December elevated Mexican output to a record high for 2021. Jalisco and especially Durango contributed significantly to the gain.
- Mexican consumers are facing higher prices for dairy products at the grocery store, leaving retailers concerned that dairy demand will decline.
- Imports have continued to stay strong although rising dairy product prices are expected to discourage import volumes in the new year

## FAST FACTS MEXICO

Milk Production				YOY	YTD
December		1,092.6	MM ltrs	▲ 2.7%	▲ 2.5%
Dairy Product Production				YOY	YTD
November	Fluid	286	MM ltrs	▼ 6.4%	▼ 5.3%
	SMP	4,080	MT	▲ 33.8%	▲ 5.2%
	Cheese	43,508	MT	▲ 7.9%	▲ 6.1%
Dairy Imports				YOY	YTD
October	Total	59,268	MT	▲ 17.6%	▲ 8.2%
	SMP/NDM	30,763	MT	▲ 3.9%	▲ 12.9%
	Cheese	10,337	MT	▲ 61.6%	▲ 11.8%
	Whey	5,946	MT	▲ 30.5%	▲ 21.6%

Source: SIAP, INEGI, SIAVI, Trade Data Monitor

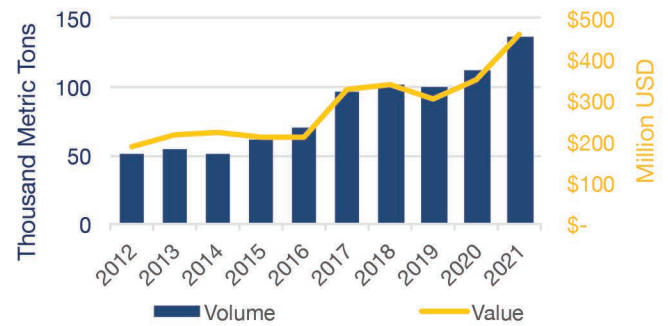
## CHILEAN MILK PRODUCTION STUMBLES

### Dry weather hurts pasture growth

Dry weather and the resulting damage to pasture quality pushed back on Chilean milk production during November. Chile's largest dairy region, Los Lagos, saw output stumble by 1.9%, while Los Rios and the Metropolitana region managed to stay in the black. As production fell, processors increased milk prices modestly in an effort to attract additional supplies. Despite climatic challenges, a new study from Chile's dairy observatory revealed that the Chilean dairy herd has continued to grow, albeit modestly, in recent years, suggesting that producers still find opportunity in the activity.

Chile's dairy imports were strong in December, capping off a 2021 characterized by robust demand for foreign dairy products. Chile imported a record 71,911 metric tons of cheese last year, an increase of 35.8% or 18,959 metric tons over the previous record set in 2020. Imports of fluid milk, whey products, and fats also bested prior year's volumes. 📈

## Chile Dairy Imports



Source: ODEPA

## FAST FACTS CHILE

Milk Production			YOY	YTD
November	249.0	MM ltrs	▼ 1.6%	▲ 0.4%
Milk Price				
November	\$ 311.42	CLP/ltr	▲ 0.5%	v. October
	\$ 0.38	USD/ltr	▲ 0.5%	v. October
Dairy Imports			YOY	YTD
December	Total	12,581	MT	▲ 26.5%
	Cheese	4,967	MT	▲ 36.2%
				▲ 0.0%

Source: ODEPA

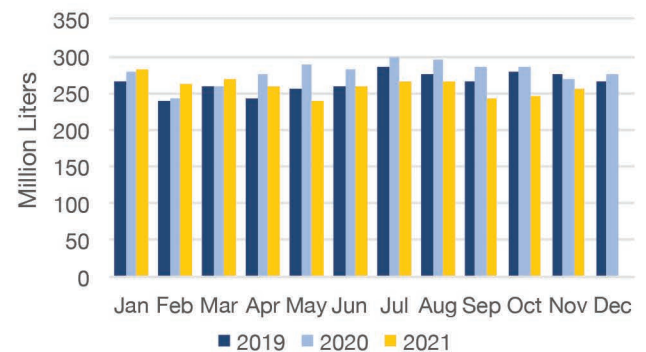
## COLOMBIAN MILK PRICES RISE

### Milk production losses slow

Colombian milk production continues to trail prior year volumes, but the rate of contraction has declined. The 4.1% year over year dip witnessed in November was the mildest drop since March. While Antioquia, Colombia's largest producing department, saw output fall by 16.9% in November, Cundinamarca moved back into positive territory with volumes rising by 3.0% versus November 2020. Scarcer supplies have pushed milk prices up for the fourth consecutive month, reaching levels not seen in years.

Higher milk prices are translating into elevated retail prices contributing to broader food inflation being experienced by Colombian consumers. Meanwhile, Colombia's dairy imports perked up in November, but cumulatively continued to run well behind prior year volumes. After seeing their petition for the implementation of a safeguard mechanism rejected, Colombian producers spent several days protesting at Colombian ports. The effort is largely seen as symbolic and is not expected to have a substantive impact on imports. 📈

## Colombia Milk Production



Note: February 2020 volume has been adjusted to a 28 day month

Source: USP

## FAST FACTS COLOMBIA

Milk Production			YOY	YTD
November	256.5	MM ltrs	▼ 4.1%	▼ 7.1%
Milk Price				
November	\$ 1,500	COP/ltr	▲ 5.7%	v. October
	\$ 0.38	USD/ltr	▲ 2.1%	v. October
Dairy Imports			YOY	YTD
November	Total	5,866	MT	▲ 141.7%
	SMP	1,700	MT	▲ 436.3%
				▼ 24.0%
				▼ 17.4%


Source: USP

## REGIONAL ROUNDUP

Widespread drought conditions are negatively impacting milk production in **Paraguay**. Representatives of **Paraguay's** dairy industry estimate that output may have fallen by up to 20% in recent weeks as the dry conditions were compounded by extremely hot temperatures. The drought has had a multifaceted impact on the country's producers. Most directly, the climatic conditions have greatly reduced forage quality. In addition, it has negatively impacted the country's grain production, which will raise operating costs for producers. Some soybean producers in **Paraguay** have warned that they are expecting their worst harvest in 20 years. The reduction in milk supplies is expected to result in higher prices for consumers or could even cause shortages of products in some cases.

**Venezuela's** dairy industry continues to suffer at the hand of the country's widespread macroeconomic challenges. Fuel shortages, combined with disruptions caused by the pandemic, have pushed more milk into informal channels. Sources close to **Venezuela's** dairy industry estimate that over the past few

months between 15% and 20% of the milk produced in **Venezuela** was processed formally. However, today, only about 10% of the 5 million liters of milk produced each day in the country finds its way into formal processing facilities. The rest is consumed on the farm or is used to produce products such as artisanal cheeses. Some producers utilizing these informal channels are negotiating the price of their milk in US dollar terms, which helps protect them from the rapid devaluation of the local currency. Rampant inflation and devaluation of the bolivar has plagued **Venezuela** for years, but the crisis deepened in 2021.

A court in San Jose has ordered the dissolution of a workers union associated with **Costa Rican** dairy cooperative Dos Pinos. The court found that the union had falsified its date of creation on official documents to give itself more seniority and insulate itself from personnel changes at the company. The court's decision was extremely unusual, with one lawyer citing that no union has been dissolved in the country since 1982. 

### SPOTLIGHT: MERCOSUR

Mercosur is a customs union located in South America whose existence has an important impact on the flow of dairy products in the region. The name Mercosur is adapted from the bloc's full name in Spanish, Mercado Común del Sur, or the Southern Common Market. The bloc was established in 1991 and currently has four full members: Argentina, Brazil, Uruguay, and Paraguay. Venezuela was originally part of the bloc, but its membership was suspended in 2016 due to a number of factors, particularly its record of human rights abuses. Leadership of the bloc rotates between the member states.

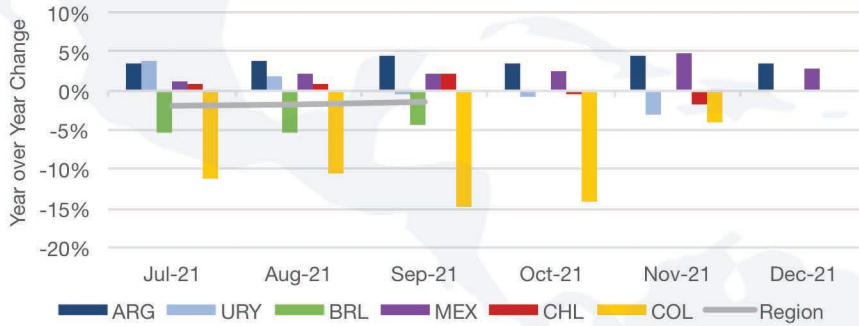
The member states of Mercosur receive important tariff advantages when trading products among themselves. Most products, including dairy, move within the bloc tariff free. In contrast imported products coming from outside the bloc often face prohibitively high tariffs. As a result, important commercial relationships have developed between the bloc's dairy exporters, Argentina and Uruguay, and its key dairy importer, Brazil. While many exporting countries outside of the bloc would be interested in accessing the Brazilian market, the high tariffs levied against them often render them uncompetitive.

Mercosur currently has trade agreements with Colombia, Egypt, and Israel, as well as several other preferential arrangements with countries both in and out of Latin America. In mid 2019, Mercosur signed an agreement with the European Union following years of negotiation. However, that agreement still needs to be ratified by the individual members of both trade blocs, and given the political climate as well as leadership changes that have occurred in recent years, it is unlikely to advance.

Mercosur's members are expected to negotiate trade agreements as part of the bloc, not individually. Thus, Uruguay caused a stir in 2021 when its president indicated that it would pursue a bilateral free trade agreement with China. The move was likely a bit of political posturing on the part of Uruguay, which believes that the bloc has become too protectionist and wanted to see Mercosur lower its prevailing tariffs and pursue additional trade agreements.

# LATIN AMERICA DAIRY DASHBOARD

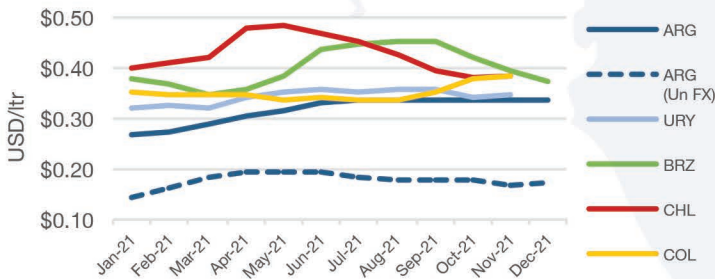
## MILK PRODUCTION



### November Milk Production

	YOY	YTD
Argentina	▲ 4.5%	▲ 4.3%
Uruguay	▼ 3.0%	▲ 2.1%
Brazil		
Mexico	▲ 4.9%	▲ 2.5%
Chile	▼ 1.6%	▲ 0.4%
Colombia	▼ 4.1%	▼ 7.1%
LatAm Index	▲ 2.7%	▲ 1.9%

## MILK PRICES



USD/ltr	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21
Argentina	\$ 0.3343	\$ 0.3347	\$ 0.3363	\$ 0.3356	\$ 0.3361	\$ 0.3374
Arg (Unofficial)	\$ 0.1807	\$ 0.1798	\$ 0.1792	\$ 0.1762	\$ 0.1680	\$ 0.1710
Uruguay	\$ 0.3500	\$ 0.3551	\$ 0.3555	\$ 0.3428	\$ 0.3485	
Brazil	\$ 0.4481	\$ 0.4491	\$ 0.4523	\$ 0.4215	\$ 0.3934	\$ 0.3751
Chile	\$ 0.4493	\$ 0.4274	\$ 0.3946	\$ 0.3804	\$ 0.3823	
Colombia	\$ 0.3336	\$ 0.3338	\$ 0.3515	\$ 0.3769	\$ 0.3847	

Source: MinAGyP, INALE, CEPEA, ODEPA, USP

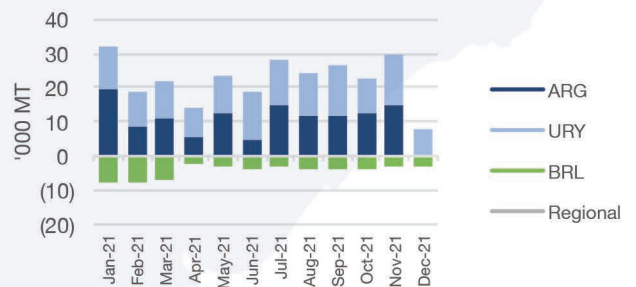
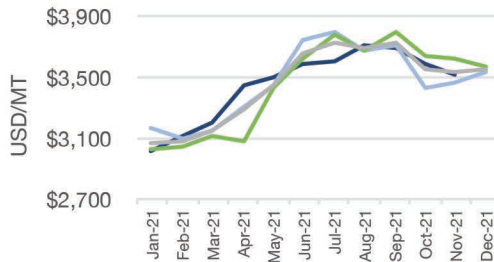
## DAIRY COMMODITY PRICES & TRADE

### WMP

#### LatAm PRICE INDEX December

\$3,550 USD/MT

▲ 0.1% v. PM

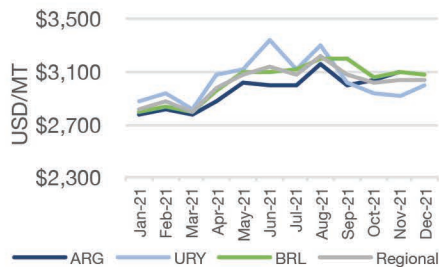


### SMP

#### LatAm PRICE INDEX December

\$3,033 USD/MT

▲ 0.7% v. PM



### CHEESE

#### LatAm PRICE INDEX December

\$4,389 USD/MT

▲ 2.0% v. PM

