

Fundamentals Signal Opportunities for KS Wheat in South America

Argentina may dominate the South American wheat market, but Kansas hard red winter (HRW) wheat is no insignificant player. Together with U.S. Wheat Associates (USW), the industry's export market development arm, Kansas wheat farmers are building markets in the Southern Hemisphere.

Casey Chumrau recently transitioned to the marketing manager of the USW South American Regional Office in Santiago, Chile, from her previous position as the USW market analyst in Arlington, Virginia. Fresh from her first Association of Latin American Millers (ALIM) meetings November 15 to 18, 2015, in Buenos Aires, Argentina, she shared her perspectives on the region's potential.

The Players The USW South American Regional Office in Santiago, Chile, covers six countries: Bolivia, Brazil, Chile, Colombia, Ecuador and Peru. Peru and Colombia consistently purchase the most HRW wheat in the region, at respective annual averages of 14.3 million bushels (390,000 metric tons) and 12.5 million bushels (340,000 MT).

"In the last 10 years, about 16 percent of all HRW exports have gone to the six countries in this region," Chumrau said. "The population is growing and the economic situation improving in many of the countries. Those two things, combined with the long-standing relationship USW and U.S. wheat farmers have with customers here, provide a very optimistic outlook for increased HRW sales."

The largest overall wheat importer in South America is Brazil, but purchases from the United States vary greatly from year to year. Brazil has purchased an average of 55.1 million bushels (1.5 MMT) of U.S. HRW over the last five marketing years. However, Chumrau noted that annual imports from the United States ranged from zero in 2011/12 to 150.7 million bushels (4.1 MMT) in 2013/14. Brazil had already purchased 5.95 million bushels (162,000 MT) through the end of September, but varying factors in chief competitor Argentina will affect purchases the rest of the 2015/16 marketing year.

The Competition

Argentina is the principal wheat exporter in the South American region, followed by smaller exportable supplies from Paraguay and Uruguay. Geographic advantage is coupled with preferential treatment under the Mercosur trade agreement, which slaps an automatic 10 percent import duty on non-Mercosur wheat.

To further complicate the South American market this year, Chumrau said the strength of the U.S. dollar adds cost to U.S. wheat imports. As a result, HRW is still priced higher than abundant competing supplies of similar wheat classes, in spite of lower cash and export prices.

She reported the topic was discussed at this year's ALIM meetings.

"The strength of the U.S. dollar came up over and over," Chumrau said. "The dollar is so high right now that it has completely offset the reduction in wheat prices, providing less incentive for customers who want to buy U.S. wheat."

It is important to note that the recent political situation in Argentina has not favored wheat farmers. Current President Cristina Fernández de Kirchner instituted policies that dissuaded farmers from planting wheat, including a program of restrictive export licenses. Mauricio Macri, elected as the new Argentinean president on November 22, has pledged to ease these restrictions. However, Chumrau explained more basic economic factors may offer a market opportunity for U.S. wheat farmers this marketing year.

"Assuming Macri keeps his promise, which is never a given in politics, the fundamental supply and demand situation in Argentina this year could naturally limit exports," Chumrau said.

To start, USDA projected Argentina, currently harvesting their wheat crop, will produce 385.8 million bushels (10.5 MMT) of wheat this year, down 73.5 million bushels (2.0 MMT) from 2014/15. However, Chumrau said that estimate may be inflated as other analysts in country project production nearer to only 330.7 million bushels (9.0 MMT). USDA also projected Argentinian domestic consumption at 226 million bushels (6.15 MMT), making a significant increase in exports unlikely.

"Combined with exports, that would exceed the generous production estimate and Argentina does not have many reserve stocks from which to draw," Chumrau said.

The Potential

The three traditional Mercosur suppliers (Argentina, Paraguay and Uruguay) combined are projected to export 257 million bushels (7.0 MMT). Considering the entire South American region imported an average of 438.3 million bushels (12.2 MMT) per year over the past five marketing years, Mercosur exportable supplies will be insufficient to meet even average demand this year. Of note, Brazil alone is estimated to purchase 231 million bushels (6.3 MMT) in 2015/16. These supply/demand factors signal potential market opportunities for Kansas wheat farmers to supply South American needs, even before considering quality needs and miller preferences.

Watching for market opportunities and building the relationships needed to quickly take advantage of them is exactly why Chumrau and her USW colleagues are situated in South America. By regularly demonstrating the performance and quality of HRW to customers throughout the region, USW and Kansas Wheat further ensure Kansas HRW is positioned in the right place at the right time to meet the world's demands.

