

Challenging times ahead for Argentina's soya bean crushers

By Dayane Stringhini, S&P Global

Argentina has been facing economic problems for some time and has accrued much debt with the International Monetary Fund. Many citizens expect the government to seek a way to raise cash soon.

One of the ways in which the country can accomplish this is through export taxes, which have already increased from 25 to 30% for the soya complex as of 14 December last year. On 21 December 2019, Congress approved a bill allowing taxes to increase to 33% for the complex, with the backing of Alberto Fernández, who won the presidential election in October last year.

Political context

When Mauricio Macri became president in 2015, Argentinians expected the economy to turn around. However, their expectations were not met, and they were dissatisfied by the time his

term ended. In 2019 voters turned to Fernández, whose vice-president, Cristina Kirchner, was Macri's predecessor as president. During Kirchner's presidency, the increase in export taxes left its mark on the agricultural market and, when Fernández won the presidential election, many were sure he would support a higher export tax.

Soya bean crush margins were not great during 2019, and there were times when margins were negative. Despite these circumstances, the April to October crush of 2019 was the second largest in the past five years and the continuation of the trade dispute between the United States and China throughout 2019 increased soya bean prices in South America.

On the other hand, there was no real demand for crushing products, which meant that margins were compressed. In the past, soya bean meal and oil enjoyed lower export taxes than that

of unprocessed soya beans, which helped crushing facilities in the country. So far, the prospects of this happening are not good considering the increase in taxes, which will not aid crush margins.

Vicentin's troubles

Another main theme of the year ahead is the financial situation of crushing giant Vicentin. The company faced financial stress at the beginning of December last year, right before the government

shift, and it is unclear how and when this will be resolved.

Several news portals reported that Vicentin's debt amounts to \$350 million and that the company does not have the means to escape the burden. The crushing giant has sold some of its shares in the Renova facility to Glencore, its partner in the venture. It now owns only 33,33% as opposed to the 50% it previously owned. This deal was negotiated before Vicentin's problems became known.

If the challenges persist, the company might not be able to crush soya beans this year which, according to sources, would affect the crush figures for 2020. According to a soya meal broker in Argentina, the company crushes 6 to 7 million tons of beans a year. "Crushing will not be reduced by that amount, as other crushers will increase their rate," the broker said. "It might decrease a little, though not by that much."

Weather factors

Weather conditions until harvest season will also play an important role in 2020's forecast. Dry weather delayed soya bean seeding for the 2019/20 crop, and some regions face soil moisture stress. "The Buenos Aires region needs rain for the crop to develop well," a source in Argentina said.

According to the United States Department of Agriculture's December 2019 *World Agricultural Supply and Demand Estimates* report, Argentina's 2019/20 soya bean crop production was forecast at 53 million tons, which is 2,3 million tons lower than the 2018/19 crop. 🌱

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(Photograph: United Soybean Board)