

U.S. Commodities Markets

Argentine Elections Pose Long-Term Price Risks for U.S. Corn and Soy Exports

Argentina's presidential election on Nov. 19 represented a seismic shift in the country's political and economic discourse. Facing a depreciating currency, high unemployment, egregious budget deficit, and rampant inflation the electorate backed the right of center Libertarian candidate Javier Milei. Despite being a congressman, Milei essentially campaigned as a political outsider. Lower taxes, reduced capital controls, trade liberalization, lowering inflation, and government spending were cornerstones of the campaign.

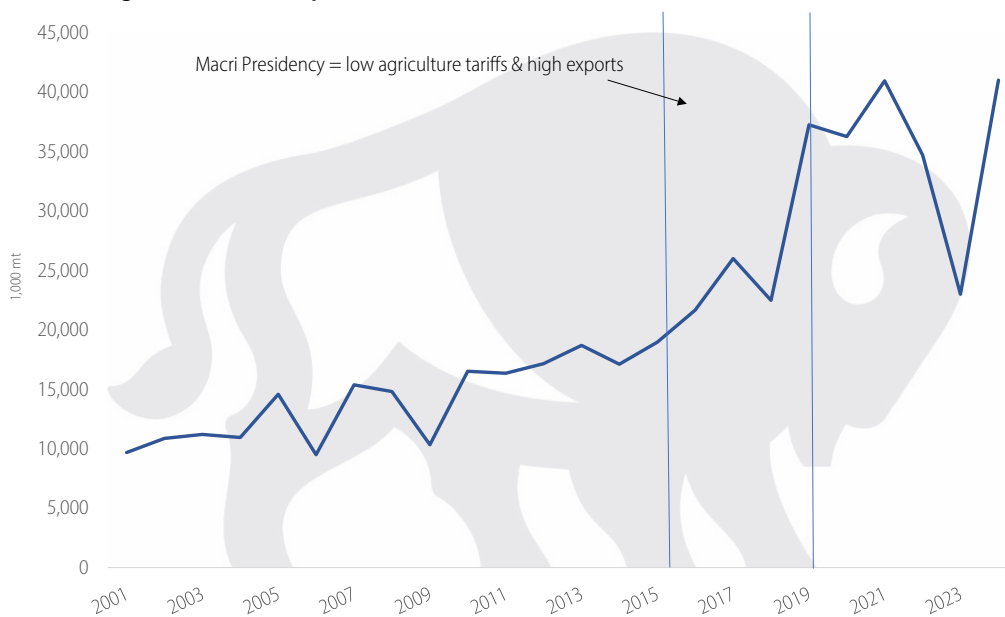
As Milei's election pertains to Argentina's agriculture sector we see the removal of capital controls, reduced tariffs, and trade liberalization can have impact on U.S. agriculture exports.

Historically, when Argentina pivots to a right of center presidency agricultural exports rise. We believe that Milei's campaign rhetoric of lower taxes and trade liberalization will come to fruition and should hasten corn, soybean meal, and soybean oil exports. Increased local exports volumes will likely pressure U.S. volumes and prices.

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Annual Argentina Corn Exports



Source: USDA and HilltopSecurities.

Political Background

Argentina's modern political history has been dominated by a leftist social and economic populist party known as the Peronists. The Peronist party has several different ideological factions that are represented throughout the national government. The largest of these groups is the Justicialist Party (PJ). Since the 1970s when the country started pivoting from military rule the Peronist party has dominated Argentine politics and the PJ faction is a proving ground for the country's presidents. Since 2001, 5 of the 6 Presidents have originated from the PJ wing of the Peronist party.

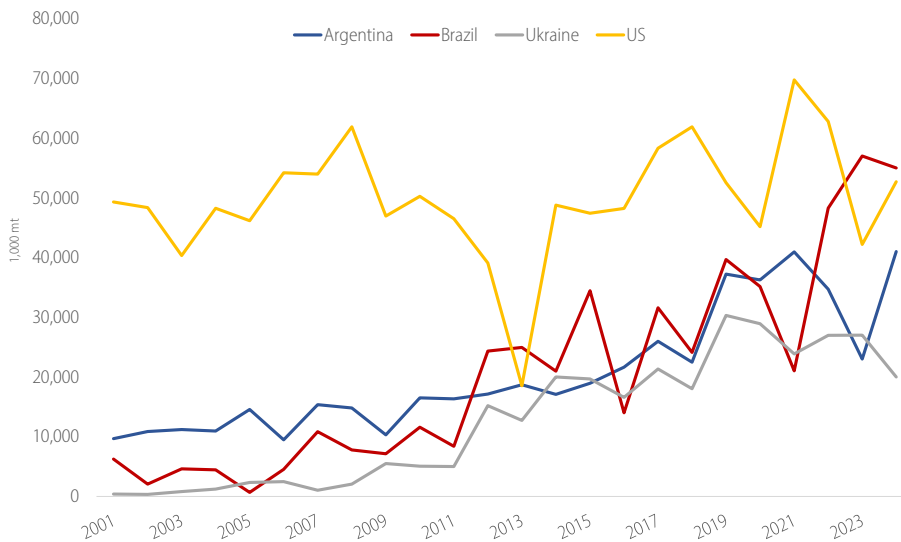
The single break occurred during December 2015 – 2019 when right of center Mauricio Macri was president. Milei's 2023 election represents the first time in local history that a member of the libertarian party is elected president.

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Agricultural Background

Historically Argentina is an important source of global corn and soy meal and soy oil supplies. **Corn:** Excluding China, since 2000 Argentina has maintained its position as the third largest global producer and exporter. Over a 20-year period, Argentina averages 16% of the annual global corn trade. **Soy:** Argentina is the world's third largest producer of soybeans and the largest exporter of soybean meal and oil. Over a 20-year period the country averages of 43% of annual global soybean meal exports and 47% of the global soybean oil trade.

Annual Global Corn Exports



Source: USDA and HilltopSecurities.

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Populist Economic and Political Policies Have a Long History of Negatively Impacting Argentina's Agricultural Sector

Removing the 4-year period when Macri reduced export tariffs on Argentine agricultural commodities, the Peronists have exploited the country's agricultural sector for political and economic gain. Spanning several decades, the PJ populists have categorized the Argentine farmer as right-winged, land-owning and, aristocrats. The political benefits of this categorization have been used to extract economic gains through asymmetrical tax

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revenue schemes that targeted a vast array of agricultural commodities. Specifically, the local agricultural tax centric policies are directed at farmland transfers, commodities in storage and commodities for export.

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Taxing the Agricultural Sector Is an Argentine Political Football

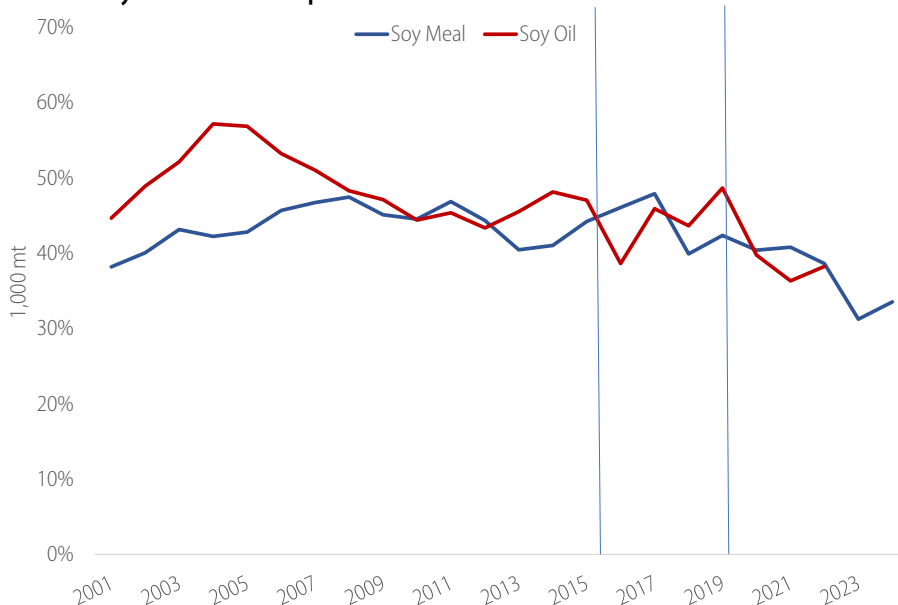
After winning election in 2015 former president Macri lowered export tariffs which helped propel export volumes to record levels. After Macri lost his reelection bid in 2019, current President Alberto Fernandez raised agricultural export tariffs to record levels. Citing the application of “social equality”, in 2020 Fernandez raised export taxes on soy and soy derivatives to a record 30% and 33%. Corn, sorghum, and wheat tariffs remained unchanged at 12%. **Milei’s campaign platform included a “gradual reduction and an eventual elimination of the agricultural export tariffs.”** We have no reason to believe that Milei will rescind this proposed policy.

History Shows That When Argentina’s Agricultural Export and Import Tariffs Are Lowered, Corn and Soy Production Along with Exports Rise

The Macri administration’s approach to trade liberalization highlighted this fundamental economic theory. During Macri’s term, import tariffs on fertilizers and agricultural exports tariffs declined which resulted in record large domestic corn production and exports. During 2015-2019 domestic corn harvested acres rose by 170% to a record 6.3 mha. Domestic corn production rose by 75% from 29.5 mmt to a record 52.0 mmt while exports averaged 18% of the world total., +3% from the previous 15 years. Soy production during the same period also reached record levels while the pace of soy meal and oil exports expanded at a slightly above trend pace.

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Annual Soy Meal & Oil Exports Percent of World Total



Source: USDA and HilltopSecurities.

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When Argentina's Corn Exports Rise Due to Favorable Tax Treatment, U.S. Corn Exports As a Percent of World Total Decline

From 2000 to 2015, annual U.S. corn exports averaged 52% of the world total. During the Macri administration, annual U.S. exports averaged 33% of the world total. As U.S. global corn export participation rate declined, spot and +30 day FOB differentials between NOLA and Argentina Up-river displayed asymmetrical price deviations with NOLA trading at premium. When Fernandez assumed the presidency and corn export tariffs were reestablished at a higher rate, Argentina exports as a percentage of the world total softened, U.S. exports reverted to a higher trend, and FOB differentials favored the U.S.

HTS Commodities Views

We believe Argentina's shift from a populist left ideology will result in reduced agricultural export tariffs. A lower export tariff structure on corn, soy meal, and soy oil should help increase planted acres which should result in enhanced global export participation. We believe that the historically weak Argentine peso should help provide an economic incentive for participants of the local agri-supply chain to export what could be record large volumes of corn and soy derivatives.

As increasing Argentine corn and supplies are expected to increasingly enter the global export markets we see the potential for U.S. commodities to be crowded out. **To combat this effect and to help clear domestic supply surpluses we believe that the price trajectory of MY 24/25 U.S. corn, soy meal, and soy oil futures are vulnerable to fundamentally driven downside price risks.**

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