



January 7, 2020

First of all, a Happy New Year to all of you and your families. This year is shaping up to be a very interesting one with difficulties with the USA crop and high Chinese prices. The International market will be basically in the hands of Argentina (where an additional 5% export tax was just imposed). The US domestic market will need to deal with its terrible Southeast quality, and all the consequences arising from it.

USA

USDA tonnage report to date: 2'732'840 fst including 55'948 fst of seg 2/3.

USDA crop estimate of November 8, 2019: 2'821'350 fst

The crop jumped quite a bit since my last report. Not yet to the USDA estimate number, but higher than my previous estimate. Unfortunately, this seemingly better number doesn't do anything to improve the situation. The quality of the Southeast crop is throughout a big issue. According to JLA, about 35% of all lots are failing grade once shelled, with mediums seemingly the biggest issue. This will obviously add costs to shellers either through reprocessing or blanching. But the big question will end up being if shellers are able to logistically deliver all of their contracts with a 35% failure. And as I mentioned before, what happens when shellers have to start shelling seed during February through April. At first glance, looking at the supply/ demand, the carryover looks decent at my projection of 900'000 fst. But when considering the quality issue, the question becomes how much of that carryover is actually of usable product. Peanuts can be reprocessed many times and possibly pass, but shellers won't be able to bare those costs. So, is the unusable number 30%? Higher, lower? That's anybody's guess.

Considering those factors, the US will not only need a good 2020 crop, but it will need an increase of probably 10% to keep the supply of good quality peanuts flowing. Otherwise we can expect much higher prices continuing. And with cotton prices for Dec 20 at 71.5, shellers will have to pay much more than last year to get such an increase. And obviously the higher cotton prices go, the higher peanut farmerstock prices go. Nevertheless, as I previously mentioned, I don't believe shellers are going to support the farmerstock market without buyers supporting them.

Prices have not moved up since my last report due to the holidays and consequently the lack of activity. Market is a firm 55 cents for 2019 crop for negative material with big premiums on tighter specs. Premium for 10 or less is probably at least 7 cents today but that would be for minimal quantity. The real question is how much of that quality is available and where will prices go for such. Three years ago, the market went to 65 cents for negative material and I think that with the quality issues all Southeast shellers are facing, we are headed in that direction. Manufacturers have been completely silent as to the remainder of their purchasing for this year. I am not sure why. For one, prices are not going to get better. Secondly any early 2020 crop will go at a premium.

Blanched product is in high demand with prices now at 68 cents. With the quality of the crop, blanching spots are filling up quickly.

USDA stocks and processing for November 2019:

Nov 19 vs. Nov 18: Peanut candy **up 5.11%**, Peanut snacks **up 5.38%**, Peanut butter **down 5.23%**, Total edible **down 1.73%**, Inshells **down 14.55%**

Aug-Nov 19 vs. Aug-Nov 18: Peanut candy **down 3.42%**, Peanut snacks **up 3.50%**, Peanut butter **up 3.01%**, Total edible **up 1.73%**, Inshells **down 0.86%**

USDA exports for November 2019:

Nov 19 vs. Nov 18: total exports are up 25.75% vs. a year ago with 46'913 mt exported vs. 37'307 mt a year ago. Despite the slump in exports to Europe down 51.84% vs. last year and to Japan down 61.63%, all other major destinations have showed good increase with Canada up 9.74%, Mexico up 15.71% and China/Vietnam up 13'822 mt.

Aug-Nov 19 vs. Aug-Nov 18: total exports up for the first 4 months up 19.93% with 168'038 mt exported vs. 140'117 mt a year ago. The increase coming from Canada up 9.16%, Mexico up 6.30% and of course China/Vietnam up 40'000 mt. This helps the continuing decline from Europe with a decline of 33.42% or 16'091 mt and Japan down 35.88% or 1'257 mt.

Argentina

The new Argentine government slapped peanut exporters with additional export tax now totaling 12%. This means basically an increase of 7% over the duty they previously had. An increase that the Argentine will have to find a way to recoup on new sales.

Considering the market situation, at least until June/July, the Argentine should be able to capitalize on any demand considering that the US is basically a non-factor, China is non-factor due to their very high prices, Brazil has no current crop to speak of and with the quantity they postponed from 2019 crop to 2020 crop, there should not be much pressure coming from there until June/July. Moreover, there doesn't seem to be much 2019 crop available making the first 6 months of the year even more difficult.

I have been trying to find what the market levels are, but I was unable to find any sellers of any quantity until now. A few parcels might be available at us\$ 1600.- Cfr Rotterdam for whole blanched, but any significant volume would probably be at us\$ 100.- premium to that.

With the US situation, I don't believe any EU can be found, at least not for any substantial quantity, thus the Argentine could put whatever prices they want for the first 6 months.

The new crop was plagued by a drought (very high temperatures for the season and no rain) until a few days ago. A general rain was received last week which gave some relief. The forecast though doesn't look particularly good. Argentina will need to receive a lot more rain with the temperatures and high wind they are experiencing. Have not heard any prices on new crop either but would assume that shellers are awaiting to see how the weather and of course the market develops prior to sell any substantial additional quantities.

Brazil

After a dry start, Brazil has had very good rains, almost on a daily basis. The crop is looking excellent at the moment. As to the market it is very difficult to gauge where the market is and for what shipment period as many Brazilian had to postpone old crop contracts to new crop.

I would estimate prices to be us\$ 1575/1600.- Cfr Rotterdam for whole blanched peanuts. No reason though that prices in Brazil would not follow whatever prices the Argentine decide on. So, expect those prices to go higher.

China

Prices in China continue to be very high making it difficult for them to either sell, especially into Europe considering the potential import tariff. There are some reports that Chinese blanched peanuts will be imposed a 11.2% import tariff when entering the EU as the Chinese export blanched peanuts under the roasted peanuts HS code. I have not seen any EU directive on such, so I cannot confirm it, but wanted to share what I hear from different sources. The Chinese are wanting to keep the 2008 HS code as they receive a 10% subsidy from the government for those.

The high prices are pushing Chinese importers to buy foreign origin. The biggest question remain, will they continue buying after the Chinese New Year? And I do believe they will for reason previously mentioned.

India

Update on the market from two of our contacts:

1/Currently, the rabi season peanuts are being planted. Rabi peanut acreage will rise because of good rainfall and reservoirs used for irrigation are at good capacities across the country. A total of 120 reservoirs in the country that has higher water levels. Peanuts are planted throughout January and harvested (java) in April. Peanut may be in excess, but consumption is still positive. With interest in health, people who had diverted to other edible oils, are now back to peanut oil. Reflecting a rise in crushing demand for peanuts had created scarcity of peanut for export. Shortage in market supplies has kept the prices firm for export. Export of peanut oil gave some stability to the market. The crushing activity is in full swing and oil prices have also strengthened due to increased exports and higher demand from China. Apart from oil export, India has challenges to fulfil the demand arising from Vietnam, Indonesia and Malaysia who are loyal consumers of the Indian peanut. When the going gets tough, the tough get going.

2/ The Indian markets ended the year with a firm undertone for a number of reasons. 1. We had very good local demand from oil companies and local retail sale. 2. Support from Palm, Soya as well as other edible oils. 3. Demand for planting seed in some areas. 4. Farmers expecting better prices and holding cargo due to the increase.

Most of these factors are easing out now and while markets have not come back to the levels of November, they are surely off their peaks for now. There is demand from China at certain price levels and we also have a small but steady stream of business to other destinations so there is almost a matching between demand and supply for now. Government purchases continue for now at a slow but steady pace in many parts of the country but with peak arrivals tapering off we may see some slow down here after the end of the month.

Quality is a bit of a challenge for EU destinations as the excess and untimely rain has had some unseen impact on Aflatoxin levels. At the same time, with a bigger crop we don't have much of the smaller sizes and 40/50s on the bolds and 50/60s on the Javas are the easiest in terms of recoveries.

In the coming months if local and international demand drops, we could possibly see some weakness in the markets, but this would take a few days, if not weeks to percolate down to the farm levels. If not, we expect markets to be range bound for the coming months see-sawing based on demand and supply in a USD. 20 – 40 band from current levels.

Current FOB price indications for NON – EU destinations would be as follows –

Bold 40/50 : USD. 1050.00 pmt

Java 60/70 : USD. 1195.00 pmt

Blanched 40/50 : USD. 1390.00 pmt

For edible use in EU the prices are typically USD. 120 -160 per ton higher

South Africa

After a dry start, the crop has fared much better lately. Some are estimating the crop at this stage to be potentially 45'000 to 50'000 mt, whereby others are saying with the difficulty in planting on time, they are looking at 35'000 to 40'000 mt. Regardless another small crop, albeit not as small obviously as this past year.