



May 10, 2017

USA

USDA stocks and processing for March: the USDA fixed their mistake of last report of 50 million lbs. (no explanation). March 17 vs. March 16: Peanut candy up 12.86%, Peanut snacks down 1.44%, Peanut butter up 8.50%, Total up 7.37%, Inshells down 13.22%. Aug 16-Mar 17 vs. Aug 15-Mar 16: Peanut candy up 9.49%, Peanut snacks down 6.93%, Peanut butter up 4.28%, Total up 2.21%, Inshell down 14.35%.

USDA exports for March 17 vs. March 16: 50'038 mt vs. 46'067 mt, an 8.62% increase. Big increases for The Netherlands (325%) and Mexico (24%). Canada continues to do well with a 10% increase. China and Vietnam are starting to show the decline we were all expecting with 15'865 mt vs. 19'386 mt, 18.16% decline. Aug 16-Mar 17 vs. Aug 15-Mar 16: 341'512 mt vs. 269'590 mt, a 26.67% % increase.

Plantings progress as reported by the USDA is 25% complete as of May 7, 2017, at par with last year and 3% ahead of the 5-year average. Most of Georgia plantings seem to have been done on irrigated land until now, but with the good rains of last Thursday, we can expect a pickup in dry land.

Current crop market has been at a standstill with a lack of buying interest but also very few sellers. Prices are lingering at the 61/62 cents level. Quality obviously going at a premium, with EU material being hard to find. A couple weeks ago, while Argentina was receiving more rains, we noticed more interest for EU material, but very few sellers with the quality problems most are seeing in the Southeast. Everybody will be happy to be done with the 2016 crop. It seems there is more and more availability of out of grade material from the different Southeast shellers. As much as such material wasn't a problem until now because the Chinese buyers were buying it all, now that the Chinese market has weakened, Chinese buyers are not keen on buying anything, at least not at the requested prices. Out of grade material was being sold throughout the year at 45 to 49 cents, but now one will be hard pressed to find a buyer at 40 cents.

Very little business on new crop. Prices are roughly the same as a month ago i.e. 53 to 55 cents depending on cuts. Some sellers were shying away from some sales with the dry weather the Southeast suffered until last week. Most buyers have taken the coverage that they wanted. There has been a lot of question as to what impact a problematic Argentine crop would have on prices domestically in the US. I don't believe there is any physical impact as usually only a small portion of the US crop will meet EU standards, thus anything above EU standard can only be sold mostly to the US, Mexico, Canada and China. There could be a psychological effect on the prices though, but I don't see that as a lasting effect. I believe that there are three other important potential factors: 1/China, 2/the new farm bill 3/support for cotton as an oilseed.

1/China: China can buy the same quality the US, Mexican and Canadian buyers buy and will also buy any out of grade material and they can buy in very large volume as evidenced the past several years. The big questions are what kind of plantings and crop will China have for the 2017 crop, how strong will Chinese consumption be (especially for oil) and will they continue buying the quantities they have been buying. It also needs to be considered that China could buy any forfeitures the US has, thus if one is looking at the 2017 crop being a big crop, a number of peanuts could be forfeited and potentially bought by the Chinese putting pressure on the market for the 2018 crop. As long as China continues to buy the volume they have been buying, it is unlikely that the US will have any surplus. Because of that I believe there is little room on the downside for prices. Too many unknown at this time though.

2/Farm bill: the current farm bill goes through the 2018 crop. It doesn't look like that there will be dramatic changes to the peanut portion of the bill but one never knows. The target price could potentially be lowered. And it looks like generic base will be redistributed. Any changes in the farm bill could affect 2018 crop prices.

3/Support for cotton as an oilseed: cotton almost received some support as an oilseed (for the 2017 crop) in the last appropriation bill, but they didn't. I think though that it is just a matter of time before they do. So, one could assume they will have some support for the 2018 crop. Therefore, the questions are a/what kind of support are we looking at b/at what price does cotton need to be at to start taking acres away from peanuts? Prices for cotton will eventually come back. That means higher prices for peanuts. But when?

Argentina

Argentina has been dry the past 2 weeks, but unfortunately rain returned over the weekend and could return this week with rain forecasted for Thursday and Friday. Nevertheless, it doesn't look like heavy rains. Dry weather forecasted thereafter. The floods that were experienced last month had a negative impact on part of the crop. There doesn't seem to be a consensus as to the losses. Some say up to 5 to 10%, some other call for losses of up to 20% of the crop. There is no doubt that there are some losses, but I also believe that the yields will make up for some of those losses. The key though is for the weather to remain mostly dry and for temperatures to continue to be mild which will allow Argentine shellers to have high yields and a good quality. Digging has gone at a rapid pace the past several weeks with 60% of the crop dug. Harvesting though has been slow with probably only 10 to 15% done so far.

As you all know Argentina is a key supplier to the West European market. Any further problems with the 2017 crop would result in a rapid rise of prices. There is still plenty of buying that has to be done by the Europeans. The good Brazilian crop will help some, but many cannot buy Brazilian peanuts. The US can hopefully help some with the 2017 crop but at higher prices, and let's not forget that we have yet to plant that crop. So, it goes without saying that European buyers are concerned and watching the weather carefully. Having said that, prices could also have some pressure should the weather cooperates. But logically the prices shouldn't go much lower than us\$ 1600.- Cfr Rotterdam for blanched 40/50 or 38/42 because of the lack competition. But as always, Argentine shellers biggest competition is themselves.

Brazil

Harvesting of the Brazilian crop is basically completed with shellers reporting a very good crop both quantity and quality wise. Prices remain very competitive especially on blanched basis with levels roughly us\$ 20/30.- lower than Argentina.

China

The Chinese market has been deadly quiet the past month with prices in China declining. Hereunder a report received from one of our Chinese partner: As reported last time, price for the Chinese peanuts did rise by RMB300 to 500 per mt after Qingming Festival (April 4), but price started to drop around April 20 because of the following reasons: 1. Supply in Jilin is still huge, farmers are worrying to sell their stocks before summer comes, situation is similar for other origins; 2. Demand is weak; Most factories are cautious to buy; 3. EU buyers are willing to purchase Argentine new crop which is expected good harvest with lower quotation; 4. Some Crushing factories even stop purchasing and others purchase with more strict quality requirements. Planting is delayed by at least two weeks' time because of drought in Northern China, farmers in Shandong are planting now since we just had a rainfall last Thursday/Friday. China has decreased its VAT for peanuts from 13% to 11%. The import duty remains at 15% (with the exception of Senegal) making the total import tax 26%.

South Africa

The South African CEC issued their newest crop estimate on April 25, 2017 and the 3rd forecast is still calling for 56'000 has and a production of 86'600 tons. Despite the good weather during the crop, I still believe this estimate is a little too optimistic, not on the yield but on the hectares. From discussions with several people, it seems production could be 10 to 15% lower than those projections. The peanut crop is being harvested as we speak and weather seems to be cooperating. Prices have taken a dive with the good crop expectations. One seem to able to buy us\$ 1600.- Cfr Rotterdam today, fairly cheap for Spanish 60/70.