



September 14, 2016

USA

The rain that all the farmers and shellers were waiting for came through hurricane Hermine. The next 2 weeks are also showing good chances of rain in the Southeast. A sight of relief for many it seems especially for those fields that still need 2 to 3 weeks before harvesting but some are wondering if this was too little too late. There is no doubt that the constant heat and lack of rain the Southeast has experienced this summer will have some effect on the yields and quality of the dryland peanuts. But these rains will help in terms of both yields and quality.

According to the latest USDA production forecast numbers, the US will produce a crop of 3.2 million fst although I have some doubt about some of the forecasted yield, especially Georgia. In any case that should be a sufficient supply for this market. Having said that, there are 2 big questions to evaluate if that supply is enough. One is the quality. There will be sufficient supply for the domestic market, but will there be enough supply of EU (European) aflatoxin material. It will take time to find out the answer.

First the crop needs to be harvested. Once the peanuts have been stored and tested, we will have the first indication of the quality of the farmer stock. After that, we will have to wait and see what the shelling numbers show. As much as the EU market has been at the us\$ 1500.- to us\$ 1550.- Cif Rotterdam basis for raw (although very little business has taken place and very little if any has been offered), we could see this price increase should there be any surprise on the quality and/or should the demand be stronger than expected. Considering that Argentine price are in the low to mid us\$ 1600's, it is easy to think that prices from the US could reach those levels. Blanched prices are more difficult to ascertain.

On one side, there is the issue of split percentage (if maxed out in the low 20's) that can affect the price dramatically (making blanching premium vary from us\$ 300.- to us\$ 440.-) and secondly there is the issue of blanching capacity. The blanching capacity could potentially be adversely affected by any aflatoxin issue with the crop. The other question will be what will be exported this coming season. This past season, due to the surprising and heavy buying from the Chinese, exports went up 48%, from 623'684 fst to 906'952 fst. In MT basis that is 386'412 mt to 572'917 mt. Exports to China (either directly or through Vietnam) went from 40'426 mt to 244'168 mt accounting respectively for 10.46% and 42.62% of the US exports. With a reported substantial increase in plantings for the Chinese new crop (10 to 15% from what I hear) which should produce a crop of 17 to 18 million mt, a crop that seems to have developed well, prices have dropped considerably the past month (us\$ 200 to us\$ 300.- per mt). So this begs the question of how active a buyer will China be.

I don't believe we will see the same appetite from Chinese buyers for edible goods, but farmer stock seems to still be of interest, although at lower levels than this past year. On shelled goods, equivalent US domestic price should equal to us\$ 1250.- Cif China. Considering that China was already hesitant at us\$ 1150.-, I don't see them jumping on those prices. The best option might be higher aflatoxin and high damage peanuts although at what level. 45 cents would equate to a price similar to what China can

probably buy from India. So 40 cents might be closer to what they want to buy. Time will tell. Still tough to tell what level will work on farmer stock. I hear indication that us\$ 500.- to us\$ 525.- Cif might work which is lower than what was being sold for the 2015 crop. I think the question is will the increase in the Chinese production be enough to carry the supply from China through to next season or will there be a similar gap as last year which will create an opportunity for imports. And lastly, especially on farmer stock, at what price will it make sense for the Chinese to buy and for the shellers to sell.

I think that US exports will shrink next year by at least 10% to 15% which should translate in a carryover of roughly 1 to 1.05 million fst at the end of July 2017. Thereafter comes the question of how many peanut acres will the US plant for the 2017 crop. With cotton price having retreated down to 67 cents, one wonders how much of a threat cotton can be but. We are only in September so still some time before farmers start making some decisions. With China continuing to grow less cotton and using their government stockpile, one wonders if China could actually buy more than the expected quantity, thus potentially impacting prices. Thereafter and very important the potential impact of changes in the new farm bill, but those discussions will not start before planting, but could impact next year market once we start hearing about it.

Because of what I had mentioned in previous reports and here above, I still feel that it will be difficult for the US domestic market price to move much above the low to mid 50's unless cotton prices move up unexpectedly and/or discussions on the new farm bill indicate a potential decrease in peanut plantings for the future. But the international market price has room on the upside depending on the different factors I mentioned.

USDA stocks and processing numbers came out on August 28.

Domestic consumption ended up the season with Peanut candy up 0.44%, Snacks with the biggest increase up 18.02%, peanut butter with the only decrease down 0.32%, an overall increase for edible of 3.84% and Inshells up 6.14%.

After months of not believing the numbers, the USDA finally corrected the numbers not only for the month but for the entire year. It seems that the numbers were not being reported correctly which was uncovered by the USDA. The impact is humongous and shocking. It is quite shocking to hear that numbers were being reported erroneously when most companies in this business have been around for years. Makes one wonder about the accuracy of any of those numbers. The numbers are finally showing what the market has been telling us. The carryover is now reported at 895'453 fst just above what one would consider a normal carryover. Truthfully the market is acting more like if the carryover was closer to 700'00 fst with shellers off the market on 2015 crop.

With the US seemingly reaching close to its limit on peanut production, a growing domestic peanut market (now at around 2 million fst), seemingly normal exports of 600'000 to 650'000 fst, it does leave much room for error. Farm bill talks, weather patterns, the cotton market and peanut plantings will have to be watched much more closely in the future.

Argentina

The third estimate from the Cordoba grain exchange issued on August 18, 2016 (based on August 4 numbers) gave the following numbers for the 2016 crop.

Planted HA of 336'400 vs. 345'200 the previous year. A 2.55% decline

Harvested HA of 289'370 vs. 341'200 the previous year. A 16.2% decline
Yield of 3.209 kgs/ha vs. 3.483 the previous year. An 8.79% decline
Inshell production of 928'600 tons vs. 1'188'400 the previous year. A 21.86% decline
Kernel production of 670'600 tons vs. 839'600 the previous year. 20.13% decline

We are positively surprised at those yields as most of our contacts have been estimating a 2.9 to 3 mt yield.

The report also mentions that damage on harvested acres was reported with 68% being type 1 (mostly internal and frost damage) and 32% being type 2 (mostly external mold). This probably will be one of the biggest factor for customer specifications compliance as well as for shellers to meet grade 1 requirements. It is difficult to estimate at this time, the losses associated with the quality problem but needless to say they will be much bigger than normal.

Shellers are still evaluating their position. With the maturity of the crop, yields on small counts are very small creating a shortage not only in the crop, but on contracts. 38/42 count are hard to find too with peanuts counting more like 30/36. Splits will most probably have a higher amount of dirty faces than normal. Damage numbers are much higher in this crop making it difficult for some to comply with customer specifications. We now also hear that FFA levels are already very high (approaching 1) which makes you wonder what will happen to those numbers for delivery for the first half of next year.

When it comes to what is left for sale in Argentina, well that's a difficult one. That number might be around 80'000 mt but difficult to tell. Some are a lot more sold than others. Then the next question is what quality is left for sale. I would expect one will find more blanched than raw.

Lastly what are the prices that can be obtained. Several answers on that one. Most shellers are trying to combine 16 and 17 crop to take advantage of the higher price for next season. Land rent for next season is at extremely high level as previously reported. I believe prices on a raw basis for 40/50 or larger are in the us\$ 1650.- to us\$ 1700.- range on the 16 crop with blanched prices between us\$ 1800.- and us\$ 1900.-. It all depends on position, volume, quality. Combining volumes with 17 crop might allow one to have somewhat lower levels.

China

The Chinese new crop harvesting is well under way and looks to be a very promising crop quality and quantity wise. Even though it is very difficult to ascertain how big the crop is, by most account I would estimate this crop to be 17 to 18 million mt. Accordingly prices have dropped several hundred dollars the past month. With lower prices in China, I believe that China will concentrate most of their imports this season from India and Africa. Indian prices have dropped considerably lately with their expectations of a very good crop. With prices in the low us\$ 1000's, the US will most probably not be a player with the exception of Seg 2 and 3 farmer stock and possibly higher aflatoxin and higher damage goods. Thereafter one will have to wait I believe after the Chinese New Year to ascertain if China has enough goods to carry them to their new crop or if they will show some appetite for US goods.

The Chinese buyers were quite shocked with the news of the lower carryover. Most were hoping for the previously reported high carryover to generate forfeitures which they were interested to buy.

I believe that we will also see more exports from China with the lower prices that they have and the high US and Argentine prices.

India

India is looking to produce a much better winter crop this year. Monsoons were not as good as expected but still pretty good which should enable them to produce a good crop. Prices have already come down quite considerably lately giving them the opportunity to have an impact in the market although they will probably try to stay away from the very stringent European market.

South Africa

The 8th forecast estimate issued by CEC on August 25 shows a production number of 26'550 mt which is still believed to be way too high. Most companies in South Africa would probably put this crop at max 20'000 mt if not lower than that. South Africa is importing large quantities of foreign origin peanuts and will continue to do so until their next crop which will only come out next May. Argentina will most probably be their largest supply followed most probably by Brazil, probably also India and there might even be some chances for US peanuts.

It looks as if South Africa will plant a lot more for next season. Plantings should be limited though to the amount of seeds available. I believe that this next season will be a make or break year for South Africa. Most shellers have already disappeared with Golden Peanut and GWK handling a big portion of that crop. Another bad year with peanuts and corn would break most farmers who are already in financial trouble.