



April 21, 2016

It has been a while since I last sent a market report to all of you. Things had not changed much until now but recent weather developments in Argentina have somewhat excited the export market. The US domestic market has yet to react. But I believe that the problems in Argentina will have to worsen before the export buyers start turning their attention to the US market or for the US domestic buyer to start thinking that US prices will be affected by such situation. Worth watching though.

Jean-Paul and I recently attended the International Peanut Forum in Madrid. The two main topics were the business with China and the weather in Argentina.

China

China has continued their buying spree from the USA this year, buying large quantities of 2015 crop farmer stock (after buying basically the remainder of the 2014 crop that had been forfeited) and buying large quantities of edible peanuts. It is unclear at this time what quantity was purchased that one could easily predict over 100'000 fst and 20 to 30'000 mt of kernels. We will have to wait for the export numbers to gauge what the exact numbers are. We will keep you posted on that. Prices have slowly moved up to above us\$ 1150.- Cif Qingdao/Haiphong with pretty much June being the only availability. A few Chinese companies have shown buying interest for July but considering that arrival would be close to the Chinese new crop, I don't believe that there will be much buying done unless there is a big difference in price or a problem with the Chinese new crop. Too early to speculate considering peanuts are planted as we speak.

Many Chinese customers are talking about potential increase in plantings for China of 20 to 30%. If that is real which is a big question then China appetite for USA peanuts might go down, but of course new crop conditions, demand and prices will dictate that.

There are also lots of questions about the USA 2015 crop forfeitures which will mostly take place between June and October. I think that the big issue is the timing of selling those forfeitures. The later they are sold by the government, the lower is the value of those peanuts as there should normally only be 2 options i.e. crush/peanut oil, and China. Once shellers are on 2016 crop, they will not want to shell back and forth the 2015 and 2016 crop. Also most manufacturers will not want to use 2015 crop once they start processing 2015 crop. Of course some can be persuaded sometime with a cheap enough price.

China has also bought large volumes of Argentine peanuts, cleaning pretty much what was left of 2015 crop and buying the early May/June positions for the new crop. The buying seems to have stopped with the Argentine shellers either being withdrawn or offering very high prices.

China has also cleaned up the supply from Senegal. There are no import duties in China for Senegal peanuts.

Argentina

Argentina has suffered from heavy and consistent rains the past several weeks hampering the ability of the shellers/farmers to dig the crop. There are fears that 10 to 15% of the crop could have been lost. Weather predictions have finally improved (although weather forecasting is often incorrect) and calls for sun and lower temperatures since this past Tuesday. If the rain stays away for a while, then the losses will be somewhat mitigated with hopefully good yields. If the rain comes and goes and doesn't allow for fields to dry fast enough, then not only will Argentina lose a lot more than 10/15% but the quality of the crop will be greatly affected. Let's hope for good weather the next couple of months.

Prices, after hovering in the low to mid us\$ 1100.- Cfr Rotterdam, have moved up considerably if one can find a seller. Prices are now between us\$ 1200.- and us\$ 1250.- depending on the sellers. There is actually no reason for the price to be lower than this considering that there are really not many alternatives in the market outside the US, and the question in the US is how much EU availability is there. On blanched, despite the tax changes, Argentina is still the most competitive in the market.

USA

The US continues to have an oversupply and it doesn't seem that will change soon. The USDA did come out with a 9% reduction forecast for plantings which most people do not believe. A 3 to 5% reduction would be more in line I believe. 9% would definitely be possible if one looked at crop rotation, but the issue at the moment is the financial situation of the farmers. With most commodity prices down at very low levels the past several years, many farmers are more interested in their survival than ideal rotation. The interesting situation though lately has been the rise in cotton prices which has risen steadily the past month with a price of close to 64 today. Should the price of cotton continue to rise, then the plantings situation could certainly change with cotton being a major crop rotation with peanuts.

Provided we don't see any major issues, the carryover will continue to be close to double what its need to be. China has so far helped alleviate this problem, but the question in many people's mind if this will continue. Well prices and time will tell.

Prices for the current crop mediums and jumbos have risen to the mid 40's thanks to the buying from China. Availability is tight through June. With multitude of issues on quality, any tight specs prices command premiums. In general, the market is very well covered through the end of the year.

For new crop prices are still very interesting. Buyers did cover a good percentage of their demand, but the high carryover and the expectation of another big crop, buyers do not feel any pressure to cover further.

Brazil

For Brazil, please find hereunder a report received directly from Brazil:

Brazil will have a better crop volumes and quality, from proximally 420.000 kernels in 2015 to 480.000 m/t in 2016, in despite the drought we are facing in the last two weeks for the 20% of the areas, especially at Mogiana, that still have to be harvested.

It is clear that the peanut volumes produced are too tight for the actual high demand for crude oil in China, farm prices climbed from U\$ 550.00 for U\$ 785.00 (equivalent kernels mt) , the domestic followed the trend paying actually U\$ 1,000.00 per m/t for all kernels, the dollar rate variation set the dollar today

at R\$3,50, after to have achieved R\$ 4,10. The question seems to be linked to the impeachment in course of the president, if confirmed treats us with the dollar rate of R\$3, 00.

Major companies and cooperatives lost significant volumes of their farm stocks transferred to the crushers modifying abruptly the Brazilian market. What was apparently 40% of the sales concluded to the international market seems now 60%, some cases even more. Kernels market in Brazil will be very firm, in despite the retraction at domestic market, we still have 11 months to receive the crop 2017.

The table attached shows the potential of Brazilian exports for kernel and crude oil, further appoints the increase of the FOB average prices difference in favor of the oil, difference that will increase. It further draws the attention the exported volumes of kernel in March of above 11.000 m/t. For future period we shall considered the period for describing yearly crop volumes from February to March instead March to April. The demand proportion remains favorable for the domestic consumption with 45%, crushing 35% and kernels export 25%. We shall see later in the year the distribution changed for 40% at domestic consumption and 45% for crushing, it will certainly modify the Brazilian market.

Remains to mention the consequences of the new requirement to export to EU, peanut will have to be stuffed at drying ports of the region for the control of MAPA health authorities of sampling and testing. New system has increased the operational costs, already very high, and will not give the guarantees that authorities expect. However, exporters are forced to adjust the processing lines and increase the quality controls, for the future will force export companies improves production and controls.

Finally, we are hopeful that the world peanut market can positively react with prices improvement, the only thing can turn positive the prospects of the Brazilian exporters of peanut kernels.

South Africa

No words yet on how small the new South African crop will be but I believe that we are looking at 20 to 25'000 mt not more. Obviously South Africa will have to buy a lot, mainly splits and splits blanched, to supplement their market. Lots of buying has been already but lots more will have to be done. Another unexpected market for the Argentine and the Brazilians. USA is not a factor for that market because of their uncompetitive freight rates.