



October 8, 2019

USA

Needless to say, that the US 2019 crop is not looking good. The Southeast suffered 5 to 6 weeks of extreme heat and basically received no rain. Despite the needed cooldown starting this week, temperatures in the Southeast will still be in the high 80's with the only real chance of rain coming 12 days from now. The Virginia/Carolina area has fared better but has still been hurt by similar conditions. If one looks at the USDA crop and progress report, the 2019 crop fares worse than the 2016 crop and that says something. The only positive at this point is that harvesting is way ahead vs. previous years. As of September 30, we had harvested 645'422 fst which is a little more than 300'000 fst more than in 2018, and a little more than 200'000 fst more than in 2017. The problem is that quality is deteriorating day by day with grade factors being lower and aflatoxin going up. Everybody is wondering what they will end up with both quantity and quality wise.

This situation makes it very difficult to estimate the crop the US will produce. The USDA latest estimate called for a crop of 2.825 million fst. I think that the crop will produce between 2.6 and 2.7 million fst this year not counting additional supply losses coming from lower grades and quality. At this point, with the lower supply and slightly lower exports, I estimate that the US carryover on August 1, 2020 will be max 900'000 fst. This number is much lower than what the market has been accustomed to the past couple of years, but still sufficient if one doesn't take the quality in consideration. With customer requirements getting tighter every year, the US might find itself short of good quality product, at the least it will cost shellers a lot more than normal to produce good quality product.

Now comes the question of unsold farmerstock availability. Needless to say, that deliveries on contracted farmerstock will be lower than normal, how low is the question. Thereafter the question is how long are the shellers. Farmers, who have suffered dramatically these past several years because of the cotton crisis and low peanut prices, will certainly be inclined to try to get higher prices on their unsold 2019 crop especially considering that they have 9 months to decide what to do. The longer the farmers are, the more complicated will it be for the shellers, not necessarily because of the 2019 crop, but because of unexpected consequences towards the 2020 crop.

It looks as if quality will be somewhat of an issue this year, but until the shellers have the crop in hand and have had an opportunity to shell some, it will be difficult for them to evaluate where they stand on either sales or future sales. One would think that the spread between negative material and low aflatoxin material will widen, but nobody knows at this point. Which probably explains part of the quietness of the market. The other reason for the quietness is the good coverage of the manufacturers as mentioned before.

Looking forward, cotton is still at extremely low levels with Dec 20 at 63.80 this morning. It doesn't seem that there is any hope for those prices to rally any without a resolution of the US/China trade war. Considering that situation, farmers should be inclined to plant peanuts, and plant at least the same amount as this past year. It will be interesting to see what happens now on 2019 crop uncontracted farmerstock and what affect it will have on 2020 crop plantings. Depending on the final 2019 crop figure and total exports, the market will need probably a 2.750 to 2.850 million fst 2020 crop to keep the carryover at par.

2018 crop forfeitures: so far 79'816 fst have been forfeited. 124'019 fst are still outstanding through January. So far, I can only find 41'956.04 fst sold with Golden Peanut buying 26'754 fst, Golden Grove buying 12'177 fst and lastly Great Southern buying 2'745 fst. Unclear how many tons will be forfeited from the 124'019 fst loans outstanding. The government has been trying to sell those peanuts immediately after forfeitures unlike what they did with the 2017 crop. We guess that some of the tons that were bought ended up being sold to China with some others probably going for crush. At this point for calculation purposes I would estimate 100'000 fst of supply (coming from the 2017 and 2018 crop) disappearing in the crush market.

USDA stocks and processing for August 2019 vs. August 2018:

Peanut Candy **down 4.69%**, Peanut snacks **up 1.37%**, Peanut butter **up 5.24%**, Total edible **up 1.63%**, Inshells **up 11.65%**

USDA exports for August 2019: exports for the month are up 11%. While Canada and Mexico were up respectively 20.26% and 0.08%, Japan was down 7.34%, the EU28 was down 10.65%. Despite not being big numbers, exports to China/Vietnam are continuing with 4'314 mt exported vs. 260 mt the year before.

Argentina

The Argentina Camara just released their latest crop estimate calling for a total crop of 1'396'800 mt inshells with a forecasted exportable quantity of 663'760 mt. This represents an increase of 52.88%. Despite the late harvest, Argentina managed an average kernel yield of 2.52 mt, a jump of 37.70%. The exportable number makes one wonder about oversupply, but considering the issue that Brazil had, the additional demand coming from South Africa and also some from Russia and the potential quality issue with the 2019 USA crop, I don't believe that we will have an oversupply. Many of the big exporters are seemingly already very well sold. Prices on 2019 crop have not moved much with blanched in the mid 1400's from the smaller shellers and high 1400's from the largest shellers, but I wouldn't be surprised to see a move upward for the first half of next year. Moreover, let's not forget about the potential risk of the EU imposing tariffs on US goods. With the new WTO ruling on Airbus which resulted in the US imposing tariffs on certain EU goods, the chance of tariffs on US peanuts is getting bigger. That would result in an immediate increase of Argentine prices.

It is getting time to think about the 2020 crop. Without even talking about the weather, Argentina, it seems, is looking at planting a little less (5 to 7%) due to economic and financial issues affecting not only the country but peanut shellers as well. Thereafter one has to look at what is happening with the weather and it is very dry for this time of the year. The forecast doesn't show any rain to speak of for the next 2 weeks. Planting usually starts middle of October, so one can expect a delay in plantings.

There continues to be a lot of talks about the Argentine government imposing additional export taxes. Something to keep an eye on.

Brazil

Brazil has started slowly the planting of their new crop. They have faced some dry weather that has slowed somewhat the plantings, but they still are on pace. Last I heard Brazil was looking to plant 5% more this coming season. Some shellers are already looking at selling new crop at low to 1400's but interest is low at this time.

India

After a delay in the monsoons, India is now hoping for the rains to stop. Some reports damages from the rains, but until the crop can be harvested, the damage cannot be ascertained. Although in my experience, I have never seen a crop being lost because of too much rain. I would expect the Indian crop to fare very well should the rain stop soon. Quantity wise plantings seem to have been higher by 5 to 7%, so one can expect India to have a good supply this year.

China

As usual it is difficult to get an accurate picture of the situation in China.

The new crop that was just harvested is said to be about the same to 5% higher than last year. The question then becomes how big the carryover vs. was last year.

The figures that were presented at the last Peanut conference in Weihai showed a carryover of 3 million tons going into the 2018 crop and a carryover of 1.5 million tons going into the 2019 crop.

So, if one takes those numbers and looks at what happened to the Chinese peanut market the past 6 months, one could forecast higher prices after the Chinese New Year. Time will tell.

Despite the tariff issues between the US and China, the US still exported 38'657 mt to China/Vietnam for the running 12 months between September 2018 and August 2019, well below though the 85'262 mt exported the season before during the same period. It will be interesting to see if the US continue shipping a similar quantity this coming season

South Africa

The CEC crop forecast (8th) was revised slightly higher to 19'455 mt, still a far cry from the 2018 crop of 57'000 mt. Same situation persists with buyers probably needing to cover a lot of peanuts January forward until their new crop. Buyers are trying to procure product from African countries such Malawi, but there is only so much quantity that will meet the tight specs of South Africa (even after blanching). Meanwhile, despite the tight situation, buyers are rejecting product from Nicaragua, Brazil and Argentina from different reasons, but mainly aflatoxin and dirty splits.