



December 11, 2019

At this point, there is no arguing that there are some issues in both the US and international markets, different but issues, nonetheless. The international market is basically faced with only one supplier for the next 6 months, being Argentina. The remaining demand for the first half will influence how high the prices go. The second half will be decided by how good of a crop Argentina and Brazil have, and also what plantings and crop we have in the US.

The US domestic market is faced with issues of quality which will impact the entire season. The amount of demand left in the market and the ability of shellers to handle the crop will determine where the prices go for the 2019 crop. Going further will be determined by 2020 crop plantings, and obviously production. Surprisingly the manufacturers have been very quiet both in the US and international market.

USA

USDA 2019 crop inspected to date: 2'537'958 fst including 48'372 fst of seg 2/3. I still think the crop won't be much bigger than 2.650 million fst. So, quantity is not the issue, but quality is. The Southeast, especially Georgia and Alabama, are dealing with an extremely difficult crop. There is a percentage of the crop, for early planted peanuts, that is of good quality, but that percentage is low. I would gage that number to be at best 30%. The rest of the Southeast crop is affected by aflatoxin. And that seems to be true for both dryland and irrigated peanuts. To make matters worse, the damage percentages are not high making it very difficult for the shellers to not only segregate the farmerstock, but also sort the product. Needless to say, this will lead to higher oilstock number and most probably result in the carryover from 2019 crop to be a combination of negative (at best) and positive material. So, if one analyzes the supply/demand, there does not seem to be an issue with overall quantity. The issue is that Southeast shellers will fail a fairly high percentage when shelling. Considering that there is only so much quantity shellers can remill at any given time, the issues of the supply/demand will demonstrate itself on a monthly basis, especially for those shellers having sold heavy and tight specs. To make matters worse, during February through April, many shellers have to shell seed which will create even more supply issues. The real question is how much of that carryover will be usable at one point after remill.

Two unknowns that will affect the carryover number are exports and quality losses. If exports continue at this pace, exports could reach 800'000 fst. But that's a big if and China is the key as usual. November and December shipments will most likely continue to be strong. Thereafter it is unclear what will happen after the Chinese New Year. The higher prices in China and the subsequent higher purchases from the US can be somewhat explained by the lower carryover, the lower stocks in oil crushers hands and the trading aspect that took place. Senegal has started to sell their new crop and looks as if they had a decent crop, so they will supply their usual quantity. Sudan, after prices jumped internally to very high levels, has recently banned the exports of peanuts. The Sudanese government was concerned after signing a trade protocol specifically for peanuts going to China, allowing exporters to basically contract any quantity of crushing material with extra cleaning and fumigation to which exporters rushed. But it seems that the Sudanese and Chinese governments are negotiating and will most probably find a solution. Specifically, for the US, especially after the Chinese New Year, the question really is twofold. First of all, there is the issue of import duties. China has imposed duties of 45% on kernels and 25% on farmerstock. Considering this, and provided there are no changes, I think China will concentrate on buying farmerstock with some quantity of kernels finding their way to China through Vietnam. Secondly will China need to buy much USA product. I think it is a fact that the carryover was at least cut in half this year. The question remains on the crop size. As much as some say that the crop was the same or 5% higher than the year before, I believe that the reality is that there was a drop of 5 to 10% in production. This would lead me to believe that China will continue buying, but what quantity, that is the million-dollar question.

Market has heated up the last month with prices moving to 54/55 cents for negative USA runner medium/jumbos. Tighter specifications would go at a much higher premium, but most if not everybody is unwilling to offer any tight specs. Expect a minimum of 5 cents premium for 10ppb or less and 10 cents premium for EU. Expect those differentials to widen. Manufacturers have been very silent though, acting as if the problem was not as big as reported. Prices could certainly move higher going forward. One issue with quality is that we might lose some key accounts in Europe that market specifically the US origin. Hopefully we will only lose that volume for one season.

We will soon need to look at the 2020 crop. Considering the quality of the quality of the carryover, it will be imperative for the US to plant more next year. In order for that to happen, the shellers will most probably need the support of manufacturers.

USDA stocks and processing for October:

Oct 19 vs. Oct 18: Peanut candy **down 5.83%**, Peanut snacks **up 4.08%**, Peanut butter **up 8.93%**, Total edible **3.36%**, Inshells **down 6.19%**

Aug-Oct 19 vs. Aug-Oct 18: Peanut candy **down 5.95%**, Peanut snacks **up 2.91%**, Peanut butter **up 5.64%**, Total edible **2.81%**, Inshells **up 4.42%**

USDA exports for October:

In October, the USA exported 41'238 mt vs. 32'979 mt the year before, an increase of 25.04%. The big standout was as expected China/Vietnam with exports of 11'572 mt vs. 501 mt the year before. Mexico was up 6.70%, but otherwise all other major markets were down with Canada down 4.84%, Japan down 39.91% and the EU28 down 26.58%.

For the August through October period, the USA exported 121'125 mt vs. 102'810 mt the year before, an increase of 17.81%. China/Vietnam continues their good performance with 26'939 mt vs. 710 mt the year before. The EU28 is down 26.96% and Japan is down 20.95%, but Mexico is up 3.30% and Canada is up 8.94%. Without the impact from China, the exports are down 7.70%.

Argentina

Not much new for Argentina. As to the new crop, plantings are completed, slightly late but completed. Expectations are still for a decrease of 10 to 12%. Not talks at this time of any prices for new crop although I don't expect them to be different than current crop prices.

But where are current crop prices. Pretty much nowhere. If I had to put a level, I would say that whole blanched is at least us\$ 1600.- Cfr Rotterdam if not higher. The issue at this point is that the Argentina shellers are very well sold, and for what they have left they are awaiting news from the Argentine government on potential additional export taxes. And considering that Argentine peanuts are the only game in town at this point, it is easy for the shellers to just wait and see what happens. Through June next year, there is no additional supply to speak of coming from either the USA or Brazil. So, the market price will be whatever the Argentine want it to be.

Looking at the second half of next year, the US will most probably not be much of a competition at least not until November at the earliest. Brazil will on the other hand bring some relief.

Brazil

New crop plantings are almost done. Plantings were late. What remains to be planted is in the Tupa region. After delays created by the lack of timely rains, moisture seems to be adequate at this moment.

One source believes that plantings are up 2 to 3% vs. the 5 to 6% expected.

Current crop is sold out.

New crop is being offered at us\$ 1550.- Cfr Rotterdam basis for blanched wholes.

India

Report received from one of our Indian sources:

Despite untimely rain late in the season delaying the last part of the harvesting, the quality of the peanut crop came up good. Looking at an overall supply increase of over 60% with an estimated 6 to 6.5 million ton has enabled India to be very competitive on the export market. The state government has projected Gujarat peanut crop at about 3.2 mn ton in kharif year 2019-20, nearly double the volume from last year's 1.59 mn ton. India peanut market is experiencing hot commerce. The country is targeted as a prime source of supply this season due to other origin markets going through natural and manmade complexities in the market. The Indian peanut market is now the world's supermarket where several types of buyers come to satisfy their peanut requirements. With multiple origins harvested at the same time, it is India's advantage to supply the world market its diversity. The only uncertainty that remains for the Indian peanut market and that is indeed a challenge, is the Chinese demand which seems to come with a lot of uncertainty and lack of commitment this time. The Indian peanut prospects are good despite the anomalies/noise. However, it's a dog eat dog world out here in the peanut market (no offence meant folks) Only the fittest survive.

South Africa

No updates on planting intentions outside the 48'000 has forecasted. One can estimate the crop to eventually yield a production between 40'000 to 45'000 mt depending on the weather.

Rains in the Free State were late whereby other areas received very good rains. Not a great start but all in all better than last year.

As to current crop, it seems the supply of neighboring countries peanuts is dwindling down which will be making for an interesting situation for January through June. I still think some buyers are short of product.