December 7, 2020

The market continues to tighten.

- Europe imposed a 25% import duty on US peanuts.
- Covid 19 in full strength in Europe and USA.
- The US new crop harvest is pretty much completed and with much debate as to the size of the crop.
- China continues to put pressure on the international markets.
- China is disrupting the freight market.
- Argentina new crop plantings are completed. 2020 crop availability dwindling fast.
- Brazil new crop plantings continues to be delayed.

Covid 19 is in full swing in Europe and USA. But vaccines are on the way. With this two factors in mind, manufacturers are having a hard time evaluating what the impact will be on demand this coming year and how this will impact their individual peanut coverage, and as well what the demand will be when the world start under the "new "normal.

On November 10, the European Community imposed a 25% import duty on US peanuts which took the market by surprise. We knew for a long time that the EU would eventually look at imposing tariffs on certain US goods because of the Boeing/Airbus dispute, but nobody knew when and on what products. To be honest, I believe the market didn't expect for anything to happen or at the worst, that there would be some time for importers to plan. Well, it happened with only one day notice and there was no warning. The question now is how long will this last. If we take the example of US peanut butter, an additional duty of 25% was imposed in June 2018 and it has yet to be rescinded. Secondly, will a Joe Biden US administration look at this situation differently and when would it look at it. As much as many buyers are hoping for this new duty on peanuts to be solved rapidly, it could be that this duty is here to stay. As long as it is in place, it obviously makes US prices less competitive, hence most probably reducing US imports, and makes all other origins more competitive which means increase imports from all other origins at higher levels. A big us$ win for all origins and a big loss for the US.
For kernels, some buyers have no choice but to take the peanuts that they bought and some buyers are delaying their contracts in the hope that the duty disappears rapidly.
For inshells, things are more complicated as the alternatives are expensive leaving most buyers no choice but to take their contracts.

Needless to say that the increase in tariff for US peanuts into the EU had an immediate effect on prices from Argentina which was and still is the only real option outside the US at this point in time and until 2nd/3rd quarter next year. Prices for Argentine raw and blanched wholes increased by us$ 150.- to date. The issue with this situation is that there is very little left to buy. Manufacturers in Europe are probably very well covered for the next 6 months. The issue will be for those having holes in their coverage. It is unclear at this time how big markets such as Russia and Algeria are covered. The European market will probably suck whatever is left from Argentina to play the spread with the US. But once that supply is gone, the only option for the next 6 months will be the US. For Russia, the only options will be India and the US. For the next 6 months prices have only one way to go and that is up.
Thereafter one will have to evaluate what happens with the EU tariff on US goods, the Argentine and Brazilian new crop and finally the US 2021 crop plantings and crop.

USA

The new crop is almost done, but the industry is debating the size of the crop. With only 2.941 million fst inspected so far by the USDA, we are far away from the USDA last estimate of 3.321 million fst. At this point I believe that most people in the industry believe that the crop is at max 3.1 to 3.15 million fst. Despite the crop being of excellent quality, the last 10 to 15% of the Southeast crop has shown signs of problems with aflatoxin. I believe at best, the US carryover on August 1 next year will be a healthy 1 million fst, but 2 numbers could affect this carryover. The first one is US domestic consumption that I estimate will grow 4%. Secondly the US exports. Europe could have a slight positive impact, but the bigger question is how many tons will China buy. I am currently estimating 100'000 fst going to China and I believe this is very conservative. That number could easily be twice as much if not higher.

The market has strengthened slightly this past month with the expectations of the crop getting lower. As much as 50 cents was the low of the market a month ago, this number has moved up by about a couple cents with prices varying between shellers between 52 and 55 cents. Going forward, the crop size, the US domestic and export demands will move those prices up or down, but one should not forget about the impact of cotton on peanut prices. After going back to 69 cents for December 21, cotton has started its move upward now at 70.83. The market seems to be fairly bullish at the moment and looking at moving towards the mid 70's. If we do reach such levels, it will certainly impact the 2021 peanut crop. Looking at it very simply, either manufacturers pay higher prices enabling shellers to pay higher prices or acres go down.

USDA stocks and processing for October 2020: Consumption continues to be strong. This huge increase we are seeing on candy consumption is making everybody wonder about the accuracy of the USDA numbers. Not counting the USDA has yet (I believe) to correct their numbers to come closer to what the industry believe is the carry over for the 2019 crop. The USDA is still showing a seed/residue numbers of 290 million lbs that makes no sense comparing previous crop years. Not counting that their milling numbers for the past 4 years are way lower than in the past. Go figure.
Oct 20 vs. Oct 19: Peanut candy up 37.42%, Peanut snacks up 7.79%, Peanut butter down 3.99%, Total edible up 3.12%, Inshells down 10.16%
Aug-Oct 20 vs. Aug-Oct 19: Peanut candy up 32.41%, Peanut snacks up 6.60%, Peanut butter 4.31%, Total edible 6.79%, Inshells down 5.20%

USDA exports for October 2020:
Oct 20 vs. Oct 19: 43'538 mt were exported vs. 41'322 mt a year ago, an increase of 5.36%. Exports to China continues at a good pace with an increase 107.21% (with 92.58% of exports being farmerstock) and Canada is back up with an increase of 7.14%. Mexico was down 4.44%, Japan was down 36.69% and the EU+UK continued its year long slide with a decrease of 59.84%.
Aug-Oct 20 vs. Aug-Oct 19: The running 3 months is still down 2.24% with 118'497 mt exported vs. 121'209 a year ago. China was up 126.20% and Japan was up 9.67%. Canada was down 6.01%, Mexico was down 22.15% and the EU+UK was down 56.80%.

Argentina

Current crop prices have gone up and are continuing to go up with little left to sell. Prices are a minimum us$ 1550/1575.- on raw wholes and us$ 1700.- to us$ 1750.- on blanched. Considering the lack of availability from other origins through June next year, and considering the 25% duty into Europe on US goods, there is no reason to think that prices will not continue to rise.

New crop plantings are pretty much completed due to the timely rainfalls. Nevertheless sub soil moisture continues to be fairly poor which means that field will need timely rains to develop correctly. The weather forecasts a strong La Nina during the next 3 months.

Exports from Argentina:
Peanut oil – 5'429 mt exported in October.

Brazil

Brazil is continuing to have issues with the weather and yes plantings are not completed yet. Difficult to figure out what percentage of the crop has been planted, but would assume only 80% so far. Needless to say that it looks as if will be difficult for Brazil to plant as much as last year. Moreover no idea how these delays in plantings will affect the outcome of the crop, both for quantity and quality.
Brazil is completely off the market.

Exports from Brazil for October:
19'396 mt of kernels exported. Exports to the EU + UK totaled 4'385 mt, to Algeria 875 mt, to South Africa 1'200 mt and to Russia/Ukraine 8'334 mt.
6'051 mt of oil exported for which China accounted for 69.77%.

Exports for the total year:
225'215 mt of kernels exported.
60'507 mt of oil.

China

The situation with China continues to be very confusing. Chinese companies are continuing to buy peanut oil from around the world at prices above us$ 2000.- Cif.
Peanut oil is riding the wave of the high demand/high prices that is currently happening on vegetable oils. It is unclear what has driven this surge in demand and how long it will continue. The longer it continues, the longer the Chinese buyers will continue buying peanut oil and peanuts at high prices. It will interesting though to see what happens on peanuts and peanut oil after the Chinese New Year when African origins (Sudan and Senegal) start to arrive in China and probably most importantly when Chinese farmers and dealers will need to move their current crop fearing the warmer weather.

The timing of all this is also important for the new crop plantings. High prices through April would entice Chinese farmers to increase plantings next year.

Freight from China have increased dramatically with some freight doubling. This has led to many issues of container availability throughout the world with many empty containers being shipped to China for shipping lines to take advantage of the higher rates. The US has for sure seen issues with container availability which makes one wonder if rates on peanuts will increase in the future.

Hereunder a report received from one of our friends in China:
Situation at this end is confusing.
Crushing plants keeps buying raw materials between CNY9100/MT and CNY9500/MT, all of which of course are nominal price. All crushing plants are imposing strict quality standard which means actual price could be about CNY100-200/MT lower, though there are some loads paid at highest level.
Lots of competition going on in the domestic market between the major oil crushers (Wilmar, Luhua and Cofco). It is difficult to tell who will win so far, but it seems that we cannot expect the market to drop dramatically in the near future.
Local demands remains stable, mainly for Hsujis, demands from wholesale market increased in certain cities, which kept price of HSUJI 40/50 and 50/60 fairly high.
Exporters are facing more challenges than local demands due to quick increase of market and lack of demand. A strong Chinese currency and lack of shipping space worsened the situation. We were told that the sea freight market will remain bullish at least until next January/February.
Farmer stock availability, however, remains high so far, especially in northeast China, the production in this area is better and higher percentage of jumbo size is good news, but we noticed higher moisture and higher percentage of frozen kernels as well. The sufficient farmer stock is partly due to farmers' reluctance to sell, as price increased too quickly in October. On the other hand, exporters who rely on northeast China are concerned with quality and price prefer to buy the minimum volume the need for delivery, I think that is why price for Virginias eased a little comparing with weeks ago.
European customers seems not prepared for this, I think that they may be back to market in January, which may push prices slightly higher again.

India

It is still difficult to ascertain the exact situation with the Indian crop size and quality. The late monsoons have affected both the size and the quality of the last kharif crop.
Prices have increased and countries such as South east Asia, China and Russia will continue buying from them, but it is unlikely that we will see much supply going to Europe, regardless if birdfood or edible.

Moreover all oils have increased in prices in India (and of course throughout the world), another reason for the higher Indian prices. Hereunder an interesting quote from one of our Indian friends:
According to Solvent Extraction Association of India (SEA), on the 16th of Oct '20 peanut oil was at Rs 130/kg, while it was Rs 125/kg a month ago and on Oct '19 it was Rs 98.75/kg. Peanut oil prices rose by 30 percent in the last one year. The reason for this increase is not only domestic demand but also lower imports due to Covid & high import duty of other edible oils. However the price may start easing when the government reduces import taxes and when the new crop supply picks up pace. What's fueling the current oil market are the "shorts".

Africa

Senegal: the Senegalese government fixed the minimum price to CFA 250 per kgs this year vs. CFA 210 last year, an increase of 19.05%. Moreover the government also announced an export tax of CFA 30 per kgs. No words yet on how this will impact exports to China who are already paying very high prices for peanuts from Senegal.
Otherwise Senegal is expected to have a slightly bigger crop pegged at 1.4 million mt.

Sudan: reports of issues on currency and port issues with sellers struggling to sell to China.
Sudan is also looking at a good crop this year.