



November 6, 2017

USA

With reports of the crop doing well and being a good and big crop, buyers have gone into hibernation. Shellers are still trying to sell some of their higher priced farmer stock purchased earlier in the season and buyers, looking at plenty of supply, feel comfortable waiting, hoping for some cheap prices. Even if one discounts the higher price farmer stock, one should consider that the shellers have no incentive buying farmer stock that they will have to sell at a loss. On the other hand, farmers have no incentive selling below us\$ 355.- per farmer stock tons because the US government guarantees such price, which means that they will look at selling the farmer stock at a premium, maybe us\$ 375.-. And us\$ 375.- per fst is probably equivalent to 45/46 cents per lbs. So that's the problem today. Shellers still have some high price farmer stock, farmers are starting to accept that they will not get more than us\$ 375.- (that is if they find a buyer before forfeitures) and buyers are at best at 45 cents (but feeling no pressure to buy at the moment).

The traditional international buyers have been slightly more active and have started to buy at the cheaper levels, but there again, they are looking at plenty of supply coming from the US and Argentina. Interestingly enough, the past 2 weeks has seen interest coming from China, especially on farmer stock and high oleic peanuts. I don't believe that much business has taken place on high oleic, but on low oleic farmer stock I believe that business is starting to take place since shellers seem to be able to buy farmer stock at us\$ 375.-.

As of November 3, 2017, the USDA national tonnage report shows 2'681'915 fst inspected vs. an USDA crop estimate of 3.893 million fst. To date we are probably close to 80% harvested (the difference between the tonnage report and harvested numbers is just paperwork delay). The quality of the crop continues to be very good, but we hear more and more reports of yields not being as good as first expected in some parts of the Southeast. I believe that the crop at best will be 3.7 million fst and possibly as low as 3.5 million fst, which is still plenty of supply and could result in a carryover of around 1.4 to 1.6 million fst on August 1, 2018. The problem that the US is facing is that, even with a 15% decrease in plantings assuming a 4000 lbs. average yield for the 2018 crop and exports staying stable at 750'000 fst, the carryover on August 1, 2019 would be as big as the carryover on August 1, 2018. So, the big question is how is the US going to lower that carryover? Well, the answer has not changed. The only buyer that can buy tremendous volume is China.

On October 23, 2017, effective immediately APHIS (the Animal and Plant Health Inspection Service) restrict the imports of raw peanuts from Argentina and Brazil due to the Peanut Smut. Nevertheless, if peanuts are blanched, they can still be imported.

Starting with the 2018 crop, the allowance for damaged kernels in farmer stock Seg 1 peanuts will be changed from max 2.49% to 3.49%. This change was implemented to align the farmer stock standards with the changes made to outgoing standards.

USDA Stocks and Processing for September:

- Sep 17 vs. Sep 16: Peanut candy up 16.38%, Peanut snacks down 1.10%, Peanut butter up 6.63%, Total up 7.91%, Inshells up 11.13%
- Aug-Sep 17 vs. Aug-Sep 16: Peanut candy up 6.41%, Peanut snacks down 5.07%, Peanut butter up 3.93%, Total 3.10%, Inshells up 17.73%

USDA exports for September:

- Sept 17 vs. Sept 16: 23'928 mt vs. 32'220 mt, a drop of 25.74%. The most noticeable volume drops coming from Europe and Japan, probably due to quality. I would expect those shipments to pick up again starting with October thanks to the good 2017 crop.

Argentina

The situation on the 2017 crop is strange. On one side, Argentina had a tough crop with all kinds of quality problems created by the lengthy and rainy harvest. By all accounts most Argentine shellers seemed to be very well sold. Moreover, as we all know Europe needs Argentina for its blanched peanuts, thus there is really no need for Argentine shellers to compete with the low USA prices considering the lack of blanching capacity in the US. But, once US shellers started to offer low prices on blanched peanuts, Argentine shellers started to compete. Argentina has always been its worst enemy. One must wonder, why is it that Argentina was competing for all this blanched business at the high us\$ 1400's/low us\$ 1500's when shellers were seemingly well sold and trying to manage their quality issues. Quite a lot of business seem to have taken place the past 3 weeks. Either the Argentine shellers were not as sold as the market thought, or more plausibly, they wanted to sell their remaining position prior the US filling the holes. Supermarkets are busy trying to negotiate their 2018 contracts with the manufacturers. Thus, I feel we could potentially reach a situation where there is more demand for Argentine peanuts for the first half of 2018 than there is supply. Part of this assumption is that the Argentine shellers still must deal with some quality problems, and not everybody can switch from Argentine to US. For raw wholes, it doesn't seem that Argentina wants to really compete with the US. Prices are in the low us\$ 1300's where by the US are slightly lower.

Weather conditions for the 2018 crop are reported to be adequate which has enabled a good start of the 2018 crop planting season. Plantings are probably a little more than half done and should be finished by mid-November provided the weather allows it. Despite the steep increase in the land rent, it seems that Argentina will plant a little more than last year (maybe 2 to 4% more). And the only way to counteract the increase in land rent and low market prices is to have good yields. It seems that several Argentine shellers sold new crop at similar levels as to 2017 crop as a 2017/2018 combination. No one can say that the market cannot go lower as we all can remember the cheap levels we had a couple years ago, but we are reaching a point where the US is offering prices that are close to cost price on a us\$ 400/375.- per fst basis which is a price that has yet to be readily available from the farmers.

Brazil

Despite the lack of rain that Brazil has had the past month, they're still looking at planting the same as last year. The danger by planting a month late will be the risk of rainy harvest and potential lower yields. Instead of being able to start shipping new crop by the second half of March, I think that Brazil will start shipping new crop probably in May. Despite the poor planting conditions, Brazilian shellers are competing with the low market with prices in the high us\$ 1400's on blanched wholes and high us\$ 1300's on splits blanched Cfr Rotterdam. Lower specs available of course at discounted prices.

India

The Winter crop harvest has started. Despite the lower plantings, the monsoon seems to have been positive for yields, especially in Gujarat. Thus, India is looking at a good supply out the winter crop. Price though are weak, as they are for every origin. Bolds are being traded to Vietnam between the high us\$ 900's and mid us\$ 1000's depending grades. Different Asian countries as well buying small javas in the mid to high us\$ 1000's. One needs to keep an eye on the Rupee situation as well as the election taking place early December.

China

The new crop is in but so far, I am having a hard time figuring out what kind of a crop China has. Not that it is much different than any other years. Some areas were affected by drought at the beginning of the season and then some other areas were affected by flooding during harvesting. My feeling is that despite all the somewhat negative reports we are receiving, China doesn't have the huge crop that many were expected, but still has a decent crop probably in the 17 million range. Who knows. Prices, after being weak, have gone up in the past 3 weeks. And suddenly we are seeing buying interest from China for both high oleic from Argentina and USA, and regular farmer stock from USA. Lots of mixed signals, but no direction yet. If the crop in China was bad, the Chinese would be aggressively buying. The US will need for China to buy a lot of their 2017 crop. The question still is though when and at what price. Lots will depend on forfeitures and government actions.

South Africa

The CEC announced on October 26, 2017 peanut planting intentions of 65'500 has for the South African 2018 crop, 17% higher vs. the 2017 crop. Plantings could end up being slightly higher considering the low corn prices and poor experience farmers have had the past several years with corn.