



December 14, 2016

Europe

One of the big talks in Europe lately has been the discussion by the World Customs Organization on the harmonized System Tariff Code for blanched peanuts.

The U.S. Government has for some years had a tariff code for blanched peanuts under Chapter 20 (processed products) of the Harmonized Tariff Schedule of the United States, HS Code 2008.11.22, but it is one of only a few countries in the world that has used a separate code for blanched peanuts, including South Africa. Most countries, including those regions the US export blanched peanuts to, such as Europe, consider blanched peanuts to be raw and classify them under Chapter 12.02 (raw peanuts). Chapter 20 is reserved for processed products and carries imports duties.

In 2015, South Africa (due to internal conflicts between industry/government on the correct classification for blanched peanuts and therefore the import duty to be paid on them) had asked the World Customs Organization (WCO) to make a ruling to clarify which Chapter blanched peanuts should be placed in. The WCO had a meeting in September and the vote was 26 to 19 in favor of placing blanched peanuts under Chapter 20.

There is a short window until the end of the year for a member country to file a "reservation" (appeal) to the decision at the WCO. That deadline is December 31. If a reservation is filed, then the issue will have to be reconsidered at the spring meeting of the WCO. In the meantime, Australia has filed a reservation thus ensuring that it comes up again in the spring at the WCO meeting.

Needless to say, that imposing import duties on blanched peanuts would have major consequences making blanching in Europe potentially viable again (vs. blanching in origin). Although with most manufacturers having moved away from doing their own blanching, the ones that would potentially benefit would be the few blanching outfits left in Holland.

We shall keep you posted on these developments.

USA

The latest USDA inspection shows 2.717 million farmer stock tons inspected. Little left in the pipeline. Probably the US 2016 crop will end up around 2.8 million tons when it's all said and done.

The market has moved up quite a bit the past several weeks. All shellers are now realizing that the crop is much shorter than first anticipated (and for some reason the USDA still predicts a crop of 3.1 million tons). Moreover, a big percentage of the Southeast crop is affected by higher than expected damage and aflatoxin levels. Prices for runner peanuts, if one can find an offer, have now jumped to anywhere between 58 and 60 cents Fob SE for negative material. Splits, that were somewhat discounted before, are now at similar levels. We have not seen any offers for EU material for a while now, but I would assume that price, if one can find an offer, to be at least us\$ 1700.- Cif Rotterdam if not higher.

If we believe the USDA carryover number for this year, then our carryover for next year should be between 750'000 and 800'000 fst (provided exports are not more than 750'000 fst). One will argue that a percentage of the crop should be deducted from the supply because of quality reason, but we believe that many quality problem lots can find their way

into the Chinese market, thus there shouldn't be a regular deduction for quality; I believe that 5% should cover it. Based on numbers, there is enough supply but probably not of the right quality. I believe that the market is logistically tight at this time with shellers barely producing enough material for their contracted deliveries and not having enough time to remill lots that have failed either on damage or aflatoxin. This situation could become even tighter during the first quarter, a time where many shellers have dedicated production for seeds. What will be much harder to get will obviously be tight specifications especially for Europe. That price will continue to go higher and most of that supply would have to come from the Southwest.

The USDA just released export numbers for October showing 30'630 mt exported vs 29'626 mt during October 2015. August through October 2016 show 103'225 mt exported vs. 93'243 mt the same period last year, a 10.71% increase. Export to China and Vietnam for that period totaled 6'540 mt vs. 10'020 mt the prior year. Sales to China have been slow these past several months with most Chinese companies concentrating on trying to buy farmer stock, especially seg. 2/3. Latest price paid was us\$ 575.- Cif China per mt. Nevertheless, with the shorter than expected crop and the heavy sales in shellers books, several shellers seem to be looking at using their seg 2/3 vs. selling them. Some Chinese companies have also been buying lower quality shelled goods. With prices, having increased by several hundred of us\$ locally in China, everybody wonders what China will do for the rest of the year. It is difficult to imagine them paying prices in the high 50's but one never knows.

USDA stocks and processing:

October 16 vs. October 15: peanut candy up 0.86%, peanut snacks down 1.64%, peanut butter up 8.14%, total up 3.90%, inshells down 14.94%

Aug-Oct 16 vs. Aug-Oct 15: peanut candy up 8.71%, peanut snacks down 4.58%, peanut butter up 6.65%, total up 3.68%, inshells down 15.08%

The Southeast finally received some rain after 3 months of dry weather. It seems that the dry and hot weather pattern has finally broken off. We will need more rain in the months to come to replenish the top soil moisture.

With price for current crop going up and the dry weather we have experienced, prices for new crop have gone up as well. Today's price is close to the mid 50's. One can argue that such prices are not realistic should the 2017 crop produce a crop of above 3 million fst. It appears that one sheller in particular has upped their price on farmer stock to us\$ 475.- per fst. Most people in the industry are wondering why such high price is being paid as peanuts is still the best revenue crop for the farmers in the peanut belt. The tendency for the crop will certainly be for a potential acreage increase of 5 to 10% which would push the crop output to 3.3 to 3.5 million fst under good growing conditions resulting in a substantial carry over the year after. One can easily imagine what could happen to the price if we get such a crop, but many things are to be considered:

- US Growing conditions
- Argentine 2017 crop
- China 2017 crop
- India 2017 crop
- Senegal 2017 crop
- Demand from China for both calendar 2017 and 2018

Any problems in any of the origins would push the market up. Due to "La Nina", dry weather is forecasted to impact Argentina and Brazil. Dry weather early can potentially benefit the crop. Dry weather late impacts negatively the yields. The better the Chinese, Indian and Senegalese crops are, the less appetite will there be from China to buy US

peanuts. I could go on. The point is that the prices can certainly come down at one point for calendar 2018, but good conditions will be needed everywhere.

Argentina

The 2016 crop is almost sold out. Very few offers in the market with the lowest on raw at us\$ 1600.- Cfr Rotterdam. That price was a couple weeks ago, and today it is difficult to find any price below us\$ 1700.-. These days, if one has a buying need, he needs to buy immediately as there is so little offers in the market. And considering the price for US peanuts being much higher, one could easily see the price for Argentine go up at least another us\$ 100.- to us\$ 150.- per mt. A few blanched splits can be found but with higher FFA and higher amounts of dirty faces.

Plantings for the 2017 crop are complete. The south of Cordoba had issues with excessive water which resulted in many fields not being planted with peanuts. Overall though, the general consensus is that Argentina will end up with an acreage similar to last year. So far, despite early lower temperatures than normal, fields are developing well. Everybody will be watching carefully the impact of the "La Nina" weather phenomenon that is said to bring drier than normal weather to the Southern hemisphere.

It seems good business has taken place for new crop since the end of October. Nominal price for runner 40/50 and 38/42 blanched is around us\$ 1750.- Cfr Rotterdam basis. With the US situation as it is and price for blanched peanuts being at least us\$ 2000.- Cif, there is no reason to see Argentine prices go down through the end of 2017 calendar year. As usual this will all depend on the discipline (or lack thereof) of the Argentine shellers. Even if the US has a good and plentiful 2017 crop, US prices can only hope to come down to roughly us\$ 1750.- on blanched basis.

China

As you will see from hereunder prices have definitely moved up the last month in China.

China has been trying to buy all the farmer stock they could buy in the US, mostly Seg 2 and some seg 3 with last traded price being around us\$ 575.- Cif. Nevertheless, with the lower than expected US crop, most shellers will probably use the remainder of their seg 2 peanuts unless quality is very poor. It is therefore unlikely that we will see much more farmer stock sold to China as US shellers are heavily sold and will probably need all the farmer stock they can get their hands on. Chinese buyers have also been buying some of the lower quality shelled peanuts at prices equivalent to us\$ 1050.- to us\$ 1100.- Cif. The question is will China come in and buy more of that quality after the Chinese New Year or will they only concentrate on Senegal and India. Senegal seem to have had a decent crop quantity wise but an immature crop when it comes to quality. India has had a bumper crop and has been selling at very cheap prices. I continue to believe that exports to China will drop quite a bit with total US exports not being above 750'000 fst.

One of our source reports as follows:

Although 2016 crop was expected a bumper one at the beginning of harvest, during the whole Sep., but situation changed after China National Day festival (Oct.1—7). Northeast, especially Jilin province suffered from

continuous rainfall, supply of moisture-safe (within 9%) peanuts gets very few and difficult, which resulted in the rising tendency of the peanuts from Oct. till now.

Most food factories didn't have enough stock before the new crop, all the people, including crushing factories, believed they could collect good Peanuts at a much lower price. But the weather conditions changed the

Situation. Reviewing our previous report, only Northeast had a much-increased Acreage, around 40% higher than previous year, but poor weather situation Made the supply of 'dry' peanuts quite few. Those food factories, including

Factories for EU market have to collect the peanuts at a much higher price with a much 'higher' moisture (some even over 13%) .

Another fact is Chinese Lunar New Year will come Jan.28 which is at least 10 days earlier than the normal year. CNY is the most important festival for The Chinese. Pre-festival preparation of various foods requires a huge amount

Of raw peanuts, all the food factories, including crushing, are busy in collecting Good peanuts to prepare the NY's supply to the market.

Price for the raw peanuts might remain strong before CNY. Another news is that the price stops rising because of the recent arrival of the imported Peanuts in South China.

India

The following received from one of our contact:

The Indian market is getting back to normal after the demonetization move. Should take some more time before things get going as they were previously.

However, judging by the quality of the harvest, it seems that we are indeed in for a bumper crop, and no one at this stage would be able to comment or guess the correct figures. Indian market seems likely to stay steady owing to the abundance in supply. India shall continue to offer competitive prices this season. We are experiencing very good demand mainly from Vietnam. One thing though seems to be established already that due to the shortage of the Argentinian crop and the lack of carry over stock in America, India stands to gain immensely.

Another contact reporting the following:

Indian Peanut Market is stable. Prices same, though local peanut prices have gone up but the Indian Rupee being weak compensated the rise in local market.

Arrival should have been at its peak but unfortunately due to demonetization of Indian Currency of Rs.500 and Rs.1000 (which constitutes 85% of the entire Indian currency in circulation), the farmers are not able to bring their peanuts to the marketing yards and on top of it the (trucks) transport is not available, as no cash transaction permitted and withdrawals from banks restricted to Rs.24000/- per individuals and Rs.50000/- for companies per week.

Brazil

The following information received from one of our Brazilian source:

The figures of the table below indicate the very low volumes and yields of the actual crop, other aspects are also part and cause for the difficulties Brazilian market had to face last few months; the three successive years of adverse climate in contrast with the massive investments made by the industry aiming to export, the very low local peanut stocks, the inflationary period we are living and the appreciation of the Brazilian currency.

EXPORTS MONTHLY VOLUMES OF KERNELS AND OIL 2013 - OCTOBER 2016

2013			2014			2015			2016		
Period	Kernel (m/t)	Oil (m/t)	Period	Kernel (m/t)	Oil (m/t)	Period	Kernel (m/t)	Oil (m/t)	Period	Kernel (m/t)	Oil (m/t)
February	5.225	4.126	February	6.050	3.500	February	3.415	3.365	February	7.771	5.190
March	2.240	6.976	March	4.115	3.115	March	5.666	3.683	March	11.278	6.673
April	5.772	6.399	April	5.003	4.471	April	8.603	6.140	April	12.030	7.198
May	6.234	6.868	May	5.150	3.230	May	8.115	8.947	May	11.250	6.396
June	8.658	4.501	June	4.489	3.185	June	9.355	4.150	June	11.495	3.630
July	11.164	4.792	July	7.770	2.835	July	13.305	6.395	July	11.275	2.885
August	7.196	7.731	August	5.826	3.354	August	9.937	4.851	August	10.029	2.620
September	8.839	5.759	September	6.206	5.762	September	8.425	5.595	September	5.934	1.857
October	6.971	5.377	October	5.074	4.100	October	11.200	5.619	October	5.283	2.170
November	6.594	3.233	November	5.391	4.031	November	7.009	4.300	November		
December	6.800	4.490	December	4.541	2.225	December	8.512	4.242	December		
January	5.900	1.800	January	3.053	482	January	8.167	2.255	January		
Total	81.593	62.052	Total	62.668	40.290	Total	101.709	59.542	Total	86.345	38.619

In February, initially by the Chinese oil demand, farm prices rose from U\$650.00 to U\$875.00 per m/t pre-cleaned and dry, equivalent Kernels U\$1,150.00 per m/t. Kernels and Splits have been trade at U\$1,560.00/ U\$ 1,250.00 based Ex – Works Brazilian Factories.

KERNELS AVERAGE FOB PRICE

	February	March	April	May	June	July	August	September	October	November	December	January
2013	\$1.440,00	\$1.337,00	\$1.420,00	\$1.405,00	\$1.395,00	\$1.374,00	\$1.347,00	\$1.374,00	\$1.380,00	\$1.399,00	\$1.403,00	\$1.438,00
2014	\$1.431,00	\$1.405,00	\$1.357,00	\$1.327,00	\$1.338,00	\$1.313,00	\$1.305,00	\$1.346,00	\$1.341,00	\$1.325,00	\$1.331,00	\$1.342,00
2015	\$1.292,00	\$1.291,00	\$1.248,00	\$1.237,00	\$1.172,00	\$1.124,00	\$1.163,00	\$1.143,00	\$1.125,00	\$1.042,00	\$1.049,00	\$1.020,00
2016	\$1.003,00	\$1.052,00	\$1.041,00	\$1.106,00	\$1.130,00	\$1.178,00	\$1.217,00	\$1.326,00	\$1.291,00			

PEANUT OIL AVERAGE FOB PRICE

	February	March	April	May	June	July	August	September	October	November	December	January
2013	\$1.778,00	\$1.773,00	\$1.751,00	\$1.734,00	\$1.711,00	\$1.612,00	\$1.483,00	\$1.399,00	\$1.372,00	\$1.372,00	\$1.296,00	\$1.317,00
2014	\$1.257,00	\$1.224,00	\$1.167,00	\$1.159,00	\$1.265,00	\$1.286,00	\$1.222,00	\$1.260,00	\$1.226,00	\$1.300,00	\$1.324,00	\$1.231,00
2015	\$1.290,00	\$1.309,00	\$1.290,00	\$1.291,00	\$1.291,00	\$1.266,00	\$1.269,00	\$1.251,00	\$1.238,00	\$1.232,00	\$1.231,00	\$1.190,00
2016	\$1.192,00	\$1.205,00	\$1.288,00	\$1.591,00	\$1.689,00	\$1.544,00	\$1.586,00	\$1.439,00	\$1.406,00			

RELEVANT SHELLERS LISTED BY MAPA & POTENTIAL GROSS IN SHELL & KERNELS

	SHELLERS	Gross in Shell	Kernels	Percentage
EU listed	8	300.000	240.000	40,13%
Major Candy Producer	1	62.500	50.000	8,36%
Major Oil Companies	3	125.000	100.000	16,72%
Thirst Countries	14	82.500	66.000	11,04%
Domestic Market	23	140.000	112.000	18,73%
Under Registration Process	10	37.500	30.000	5,02%
Total	59	747.500	598.000	100,00%

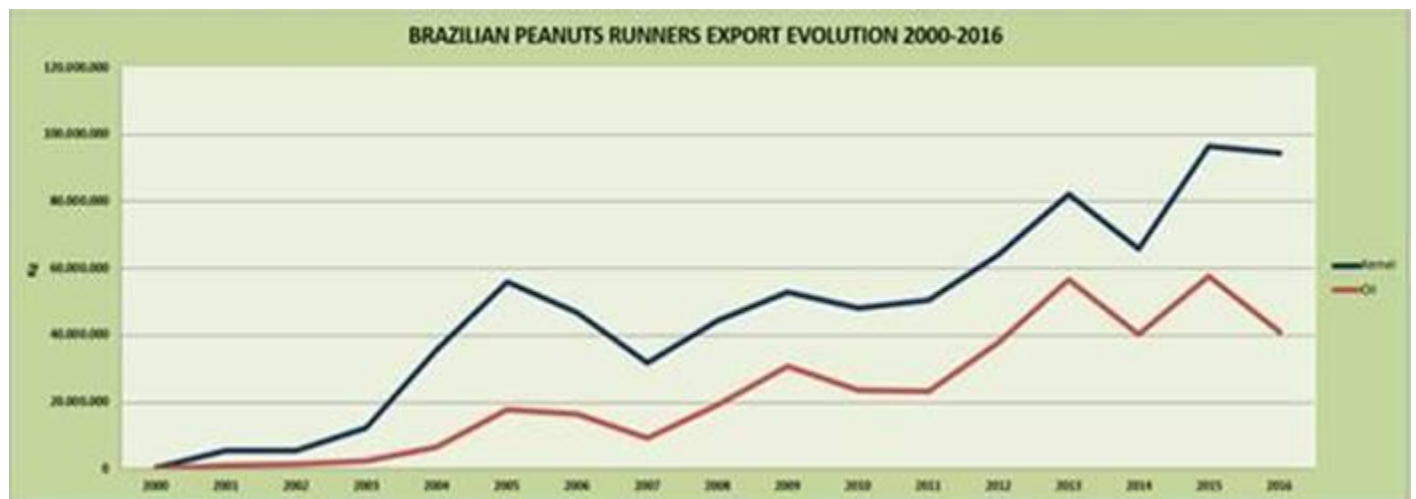
Companies registered by MAPA, and in course of registration totalizing 59 shellers, which 33 are small, 14 mediums that together moves the commercialization of 35% of the volumes while 12 major shellers/crushers move other 65%.

CROP AND TRADE 2013-2017									
PLANTED		First Crop	Second Crop	Área Total	Grãos	Grãos Total	Grãos Total		
CROP (year)	São Paulo Southwest (ha)	São Paulo Southwest (ha)	Outras Origens Other Origins (ha)	Área Total (ha) Increase (%)	Kernel (kg/ha)	Kernel (m/t)	Kernel (%)		
2012/13	110.000	110.000	4.000	114.000 7	3.500	399.000	19		
2013/14	135.000	135.000	4.000	139.000 21	2.400	333.600	-16		
2014/15	145.000	145.000	6.000	151.000 17	2.800	422.800	50		
2015/16	152.000	152.000	6.000	158.000 5,0	2.350	371.300	-12		
2016/17	172.000	172.000	4.000	176.000 10,3	3.150	554.400	50		
TRADE		Interno	Share	Exportação	Share	Óleo	Esmagados	Share	Consumo total
CROP (year)	Domestic Kernels (m/t) *	Domestic Kernels (m/t) *	%	Exported Kernels (m/t)	%	Exported Oil (m/t)	Crushed (m/t)	%	Total Demand (m/t)
2013	165.000	165.000	42,0	85.000	21,7	57.000	142.500	36,3	392.500
2014	165.000	165.000	50,1	62.700	19,03	40.723	101.808	30,90	329.508
2015	170.000	170.000	40,4	101.000	23,99	60.000	150.000	35,63	421.000
2016	160.000	160.000	43,6	100.000	27,24	45.000	107.143	29,18	367.143
2017	175.000	175.000	36,6	160.000	33,48	60.000	142.857	29,90	477.857

* 25.000 m/t seed included at Domestic Kernels .

New crop is almost totally planted, the weather has been favorable during the period. The harvest will start in January but will concentrate in March. Grower's enthusiasm after few months preparing the new crop indicates around 12 / 15% of area increase that under normal climate condition could represent a production of kernels from 530.000 to 580.000 kernels m/t.

From now on, exports to EU will force shippers to move kernels parcels to be stuff in specific dry port areas far from the factories before confirming the quality and shipment authorization. It will generate extra logistic and analysis costs. It is not clear yet what consequences will be. EU receives 40% of the Brazilian exports. We definitely hope that situation can result in positive progress in despite to seems contrary.



In these last 18 years, we follow the development of the runners variety in Brazil, it may seem to not have the same fast evolution compared with other Brazilian agricultural cultures. Nevertheless, we see an enormous, continue and positive transformation at the agriculture, the industry which will now be the base for a sustainable and faster development for new regions. We would like to remind that between 2008 and 2013 little was said about aflatoxin from Brazil.

One will have to watch carefully what the effect of the "La Nina" will be.

South Africa

Nothing new on that side. We will have to wait for the next crop estimate to evaluate what has been planted. Some parts of the peanut belt did not receive sufficient rain.

Despite the expected good increase in plantings, South Africa will continue to have a supply deficit that will need to be supplemented by foreign origins such as other African countries, Argentina and Brazil.