



**November 9, 2016**

The market continues to be relatively quiet but firm. Buyers seem to be well covered domestically and internationally. The biggest issue in this market will probably be European quality. Argentina has very little left to sell until their new crop and the US will most likely have very little left to sell as well dealing with a smaller crop and aflatoxin issues. Prices for European quality, until new crop from Argentina becomes available, can only go higher should there be any demand left until then. The rest of the market seems to be somewhat stable, although many wondering what China will end up doing after the Chinese New Year. Any unexpected demand from China March forward would certainly move all markets higher. Most buyers seem to believe that the market should soften second half of next year once Argentina has a good new crop and with potential higher plantings in the US. As much as that is definitely possible, these are IF's. We need good crops in all the major origins for prices to have a chance to soften. There is no room in this market for any problems.

## USA

We are November 9, 2016 and the USDA is only showing 2.328003 Million fst inspected. The USDA just announced their latest new crop estimate at 3.121600 million fst (numbers attached). Based on this estimate, only 74.58% of the crop has been inspected (by state that number is AL 96.52%, FL 64.80%, GA 81.66%, MS 75.43%, NC 73.5%, OK 67.57%, SC 64.54%, TX 38.54%, VA 83.19%). Delays have been created by several situations. The Southeast dryland peanuts have been delayed due to the lack of rain the past 2 months. The Virginia/Carolina area has been delayed due to the consequences of hurricane Matthew. The biggest issue that the shellers will face with this 2016 crop will probably be quality. Many shellers have reported problems with aflatoxin and damage in the Southeast, especially coming from dry land. The Southwest could have problems with aflatoxin on some of the dryland peanuts that are unexpectedly producing a crop. Despite the newly but only slightly reduced USDA crop estimate, it looks as if the crop will be closer to 2.8 to 2.9 million fst.

Despite the lower than expected 2016 crop, the carryover for next year should remain very similar to the one of this year. The only moving target will be the export numbers that we feel should go down to about 750'000 fst and very dependent on exports to China. If exports to China are weak, that number could be even lower. Chinese buyers have been concentrating on buying Seg 2 and 3 farmer stock. Unless something dramatic happens, I still believe that most of the interest we will see from China will be for higher afla/higher damage peanuts as these will go at a discount. Considering the lack of blanching, this is a good alternative for shellers.

Several shellers have started to offer again 2016 crop for the domestic market at levels in the mid 50's with a potential discount for splits (although most shellers being heavily sold on splits might ask the same price as mediums). Looking at the supply demand, based on numbers, there shouldn't be any reason for the market to go up or down. The biggest issue though will be on quality where most probably one will pay premiums for lower aflatoxin peanuts. The tighter the specifications, the higher the price. As previously mentioned, EU material is at a big premium if one can find a seller, probably around us\$ 1600.- Cif Rotterdam. That price can only go up should there be any substantial demand before the availability of the Argentine new crop.

Lastly the Virginia kernel and Virginia inshell markets continue to go up. This market will only continue going higher considering the tight supply.

Exports numbers were released for September showing exports up 10% vs. the same period last year with 32'086 mt shipped vs. 29'089. China/Vietnam has slowed down considerably with only 813 mt having been shipped in September 2016 vs. 2'968 mt in 2015. August/September exports show a 14% increase vs. the previous year with 72'596 mt shipped vs. 63'617 mt the previous year. Despite the early increase, I believe that we will see exports to China and Vietnam dropped considerably this year which should bring the exports down.

September USDA stocks and processing numbers: after a huge increase in August, only the Candy sector continues to see a good increase with all other categories showing losses in consumption. Overall shelled peanut consumption for the first 2 months though is still positive with an increase of 4.62%.

	Candy	Snacks	Peanut butter	Other	Total	Inshells
Sept 2016 vs. Sept 2015	+17.16%	-15.82%	-2.10%	-58.78%	-2.52%	-3.82%
Aug/Sep16 vs. Aug/Sep 15	+17.82%	-5.67%	5.91%	-15.36%	+4.62%	-5.12%

2017 crop is already being talked about with sellers just slightly cheaper than 2016 crop. We understand that one sheller would be trying to contract us\$ 450.- per fst on non-irrigated farmer stock and us\$ 475.- on irrigated. As far as we know most shellers are not offering any contracts except if they have to match not to lose buying tonnage. With continuing cotton prices in the high 60's and low corn prices, we could see an increase in peanut plantings especially in the Southeast.

### Argentina

Very little left on 2016 crop. All that is left is basically 38/42 or larger at prices around us\$ 1550.-. Very small quantity left of 40/50. Some splits available but quality is mostly grade 2 or 3. FFA is definitely an issue this year and will become a bigger issue until the new crop.

Plantings for the 2017 crop have started very slowly. During the first three weeks of October, Argentina received heavy rains and had unusually low temperatures which unfortunately has delayed plantings (and might result in some peanuts having to be replanted). Planted area is probably 5 to 7% done. Provided the weather cooperates from now on, this slow start of the plantings could result in Argentina planting about the same as last year despite the fact that most expected an increase of 5 to 10%. The only blessing from this rain is that there will be plenty of moisture in the ground.

As previously reported, shellers had to pay extremely high prices to rent land for this new season.

Prices for new crop are basically at the same as for 2016 crop (maybe slightly cheaper).

One needs to take in consideration that the market will be empty until probably August and September.

### China

Back in September we saw prices in China drop several hundred dollars. Since then, as you will see hereunder confirmed by one of our sources, the market has gone back up a little. It still seems that China had a good size crop vs the previous year. The question that many people are wondering in the market is what will China do on the import size. That's the hundred-dollar question. I think they will definitely focus on India which had a good size crop and cheap prices so far. Next will be Senegal which seems to be having a good crop as well. The Chinese are still trying to buy US peanuts, but focusing basically on farmer stock (mainly seg 2 (higher damage) and 3 (visual aflatoxin)). Seg 1 farmer stock and shelled peanuts (even red tag material (higher damage and/or aflatoxin) seem to be too high priced compared to current Chinese domestic prices. I believe this situation will continue until at least the Chinese New Year. Thereafter a lot will depend on if the current supply of the Chinese new crop, the purchases from India and Senegal will be enough to supply the ever-increasing Chinese domestic demand.

### **One of our contacts reports as follows:**

Chinese peanut market has undergone very dramatic change since harvest. Thanks to optimistic forecast of planted area in Liaoning/Jilin and part of Inner Mongolia, the industry has expected that the good production in referred area can

counter the negative influence by dry weather in Shandong. Unfortunately, the continuous rainfalls have significantly delayed harvest in Liaoning/Jilin and resulted in a firming market in the past October.

## **Supply:**

### **1) Virginia type in Shandong**

Traditional type mainly planted in Qingdao/Yantai/Weihai has suffered from the dry weather. Yield and quality are not up to expectation, supply of traditional variety will remain tight for the whole crop year, which has kept price for this on the high side since beginning of 2016 crop. Price of Traditional type has been increased from about RMB9800 to current level of RMB10800-11000/MT which proved to be too high. We have to face challenge of high aflatoxin risk for non-traditional type this year from Shandong, especially the type used for blanching purpose.

### **2) Virginia type in Jilin**

Production of Virginia type did increase significantly thanks to the sharp increase of planted area and newly developed areas in Inner Mongolia, which should have been an encouraging news to keep price stable, although yield is not that satisfying. Unfortunately, the continuous rainfalls have slowed harvest, and high moisture forced dealers to postpone delivery. Both resulted in a firming up market of Virginias from Jilin area. Good news is that there is smaller percentage of frozen kernels, however, the low temperature prevented moisture to drop further, dealers started to reduce moisture mechanically. Price of Virginia type remains at about RMB8400/MT, but moisture is as high as 13-14%, we have been expecting that price will remain and moisture drop to about 9-11% but it is now not possible to expect that level by natural drying.

### **3) Hsujis**

We noticed that situation of Hsujis relatively encouraging-crop has been OK so far while price also attractive thanks to a good harvest, although moisture is also high till this moment. Price for 40/50 is something around RMB8800/MT ex work in Liaoning, moisture remains over 10-12% so far. Overall volume available is considered to be sufficient, but quality-especially moisture content will be troublesome to suppliers/buyers. Market relatively quiet due to weak demands, and we can expect some slight drop when weather condition is better, farmers' willingness/intention to sell may also help to expect a bear market.

## **Crushing Market:**

Price of crushing materials is around RMB7400-7600/MT, delivered price, nominal price is slightly higher. Limited volumes were received and quality specifications must be carefully followed. We understand that crushing plants are waiting for lower prices as well.

## **Market outlook**

We expect that market will fluctuate around current level, due to lack of quality products, there may be slightly fallback in the coming weeks when farmers in northeast China started to sell, however, considering the high moisture and weak Chinese currency/inflation expectations, we cannot hope that market will drop significantly in a short period of time.

## **Brazil**

Prices locally in Brazil have increased quite a lot throughout 2016 creating supply issues to the export market, but potentially resulting as well in a good increase for this new crop. As you can tell from hereunder numbers, it looks as if Brazil could have an acreage increase of 15%. We shall wait to see if the weather will cooperate and enable Brazil to have yields above 3 mt.

Hereunder numbers received from one of our contacts:

Crop and Trade								
PLANTED	First Crop		Second Crop	Área Total (ha)	Área Total	Grãos	Grãos Total	Grãos Total
	São Paulo		Outras Origens		Increase	Kernels	Kernels	Kernels
CROP (year)	Southwest (ha)		Other Origins (ha)		(%)	(kg/ha)	(m/t)	(%)
2012/13	110,000		4,000	114,000	7	3,500	399,000	19
2013/14	135,000		4,000	139,000	21	2,400	333,600	-16
2014/15	145,000		6,000	151,000	17	2,800	422,800	50
2015/16	150,000		6,000	156,000	3.0	2,400	374,400	-1
2016/17	172,500		7,000	179,500	15.0	3,100	556,450	50
TRADE	Interno	Share	Exportação	Share	Óleo	Esmagados	Share	Consumo total
CROP (year)	Domestic Kernels (m/t) *	%	Exported Kernels (m/t)	%	Exported Oil (m/t)	Crushed (m/t)	%	Total Demand (m/t)
2013	165,000	42.0	85,000	21.7	57,000	142,500	36.3	392,500
2014	165,000	50.1	62,700	19.03	40,723	101,808	30.90	329,508
2015	170,000	40.4	101,000	23.99	60,000	150,000	35.63	421,000
2016	170,000	42.4	100,000	24.94	55,000	130,952	32.66	400,952
2017	170,000	36.0	160,000	33.84	60,000	142,857	30.21	472,857
* 25.000 m/t seed included at Domestic Kernels.								

## India

The following report was received by one of our contacts:

This year the crop is almost 25 to 30% more than last year. The crop is almost 5.8 to 6 million M.T. In the state of Gujarat and Rajasthan the crop is good. This year the harvest is late by almost 15 to 20 days. The first harvest (mainly Java) was affected by rain and had an issue of Aflatoxin. Since last 7 days the harvesting has started. The quality looks very good this year. The prices of Groundnut have gone down very fast due to sudden arrival of goods in the market as the farmers are in requirement of money for the upcoming Diwali festive season starting from 28/10/2016 to 06/011/2016.

At present the prices are very low and below M.S.P (Minimum Support Price) and not sustainable for the farmers. At many places, due to very low prices the farmers are on strike and have stopped the auction of Groundnut in the APMC. The farmers are creating pressure on the Government. The Government has to take action and will have to buy the Groundnut at MSP as there are election in three states and they need the support of the farmers. The trade of Groundnut will start from 6/011/2016 onward after the Diwali holidays.

The price will go up from the bottom as the farmers will not sale the material until the government purchases the material at MSP or will not sale to the trader below MSP. The traders and the stockist will stock the material after 10 to 15 days once it is dried and moisture is low. The MSP price in India is Rs.42.25 per Kg. Since last three four days' price for the good quality went down up to Rs. 38.50 per Kg. which is very low and temporary.

At present, there are big contracts with Vietnam, Indonesia, Philippines, Ukraine, Russia, South Africa

### **One of our other contact reports similarly as follows:**

We expect a crop of Indian Groundnut Kernels, New Kharif (Winter) crop estimated on an all India basis of Peanuts at (about) around 6.5 M/MT In-Shell (farmers stock) compared to last year's Kharif (Winter) groundnut crop output around 5.3 M/MT In-shell basis. The Spanish variety (Java type) harvest has commenced and arrivals have started flowing into the marketing yards. The quality is good and prices low. The In-shell prices have gone below the Minimum Support Price (MSP) and therefore the Government of India has decided to intervene and purchase 100,000 M/T commencing from the 5th November 2016.

### **Senegal**

After huge increases in exports of shelled peanuts from Senegal since 2011, the Senegalese government has put in place an export tax of 15 CFA per kg for inshells (or us\$ 25.- per mt) and 40 CFA per kg for shelled peanuts (or us\$ 67.- per mt). Not a huge export tax, but certainly an opportunity for the government to capitalize on exports (especially to Asia). This tax will not change the potential for exports to Asia as long as local prices for Senegalese peanuts are competitive.

It bears to be noted that the Senegalese government has also taken over Sonacos/Suneor (the country's largest crusher). The newly implemented export tax will give a small advantage to them to buy shelled peanuts (depending obviously, a lot on the international market and especially the Chinese market). But should that tax not be sufficient for them to get sufficient supply of peanuts to crush, one could expect the Senegalese government to come up with new measures.

Senegal seems to be having a good new crop. No word yet on what prices will be.

### **South Africa**

On October 26, CEC released their new crop planting intentions at 33'500 has vs. 22'600 has for 2016, a jump of 48.2%. Despite this big increase, this will be the second lowest acreage on record. Even with a decent crop, South Africa will have to import peanuts to cover its domestic demand. Unfortunately, weather is no completely cooperating again with late rains. It remains to be seen if all these hectares will be planted. If planted, it will be again a late planted crop.