Alimenta Agri

August 9, 2019

- The US domestic market continues to be quiet.
- The Argentine new crop is finally harvested.
- The European market is still dealing with issues created by the Argentine shipment delays. Supply issues should be soon solved.
- India finally received good monsoon, but prices continue to be at very high levels.

<u>USA</u>

The USDA will only release their report on certified acres on August 12, 2019. We will only know then if the industry was right in believing USDA forecasted acres were too low. I still believe we will end up with similar acres to last year. Regardless of how many acres of peanuts the US planted for the 2019 crop, there should be sufficient supply provided the weather continues to cooperate the rest of the month. Weather has not been great, but overall descent until now. The key is for the next 3 to 4 weeks to bring the crop sufficient rain. This will ensure good yields and a good quality.

With the China/US trade dispute continuing, cotton has not fared well. Cotton is now at 57.73 for Oct 19, and 63.27 for Dec 20. Unless we get some resolution between the two countries in the next 6 months, it is unlikely we will have any competition coming from cotton for peanut acres for the 2020 crop. If that was to be the case, and obviously provided we had a good crop as well in 2020, it looks like the US will be oversupplied for the coming couple of years. Pretty gloomy. As I said before, the only thing that will change this is either a US crop failure, a sharp increase in cotton prices, or potentially a Chinese crop failure or China buying the oversupply (once the trade dispute is solved).

The US domestic market is certainly acting like an oversupplied market. Things have not changed from last month. Shellers are still trying to sell some 18 crop and not finding any takers of consequences, shellers are still not being able to contract at prices that they want, and buyers are happy to stay on the sideline hoping that the 2019 crop ends up well and that the oversupply pressures the prices downward.

The export market seems to be at a standstill as well with many buyers waiting on a decision from the EU Commission on potential tariffs on US peanuts.

The US government finally sold the remainder of the 2017 crop forfeitures on July 24, 2019 in an exchange for peanut butter: Golden Grove got 4’438 fst with Golden Peanut getting the balance of 70’842 fst. It is unclear what Golden Peanut will be doing with these 2017 crop but considering the lack of interest from China (at least at reasonable prices), it is likely that these peanuts will end up being crushed. This could potentially put pressure on the oilstock market going forward.

As to 2018 crop forfeitures, there have been only 4’559 fst forfeited so far with the heavy months coming up.

USDA stocks and processing for June 2019:
Jun 19 vs. Jun 18: Peanut candy up 7.22%, Peanut snacks down 15.42%, Peanut butter down 5.19%, Total edible down 5.71%, Inshells up 1.54%
Aug 18-Jun 19 vs. Aug 17-Jun 18: Peanut candy down 1.29%, Peanut snacks down 10.83%, Peanut butter up 1.84%, Total edible down 0.84%, Inshells down 2.34%

USDA exports for June 2019:

Jun 19 vs. Jun 18: 36'237 mt exported vs. 33'667 mt the previous year, an increase of 7.63%. All major destinations with the exception of the EU28 were up with Canada up 26.73%, Mexico up 16.59%, Japan up 24.94%, and exports to China/Vietnam were up to 5'985 mt vs. 1002 mt the year before. The EU 28 was down 30.77%.
Aug 18-Jun 19 vs. Aug 17-Jun 18: For the running 11 months, exports were down 5.86%.

Argentina

The Argentine 2019 crop is basically harvested with only a few fields left. This long delay in harvesting has impacted some the yields and quality, but overall Argentina should be looking at 550'000 to 575'000 mt of exports which is very good taking in consideration that they just finished harvesting their new crop. With a lack of offer from Brazil until their new crop, Argentina only has to compete with the US. And with still no words from the EU as to a potential tariff on US peanuts, Argentina doesn't seem to have much competition. Price on raw wholes are at around us$ 1325.- with blanched in the high us$ 1400 Cfr Rotterdam. There does not seem to be any pressure for Argentina to lower their prices, on the contrary. Until the new Brazilian crop and considering regular competition from the US, Argentina will end up having additional demand from the lack of Brazilian peanuts and the lack of supply in South Africa to name a few.

Land rent for the new crop is definitely higher and could result in some small decrease in the 2020 crop plantings. But as always, what matters will be the weather during the crop and during harvesting.

Brazil

Brazil, after early heavy sales, drought and poor harvesting conditions, is basically out of the market until their new crop next year. It seems that any parcels failing afla levels for Europe are marketed at better levels in their domestic market. It is a little early to estimate new crop, but at this time I would call for an even to a slight increase in plantings.

China

As you will notice from hereunder report, the crop in China is doing ok. Not great, not bad. Obviously the weather during the last month of the crop will be key. Talking to several people, they seem to all agree that China could have a crop similar to last year quantity wise. I am not quite sure though that I understand what last year was considering how the market behaved after the Chinese New Year.

Despite the trade dispute between China and the US some goods are still being shipped to China from the US. Not huge quantities but some, with 63% directly to China and 37% to Vietnam (taking USDA figures for June).

Here under a crop report received from one of my good friends in China:

2019 crop has faced challenges of dry weather in the early stage (during plantation and growth) and not doing well in the early stage, this was improved in certain areas thanks to the sufficient rainfalls from June and onwards, however, the crop situation varied significantly in different regions.

In Shandong and Henan, good watering system helped a lot to peanut sprouting and growth this crop when rainfalls are absent in May, although average precipitation in Shandong is above average, areas where peanut are widely planted did not benefit from this. Peanut in flat and fertile fields are better than those in hilly/sandy and high land which usually are lack of watering system.

Some farmers in Peninsula area of Shandong said that they only finished plantation in late May due to lack of rainfalls, which can be verified by quite some pieces of land peanut just started flowering.

The precipitation in June continued to be below average in most peanut planted areas, especially in Shandong, while in Northeast China, it is up to average or slightly over the average, which indicates that peanut in Jilin and Liaoning are progressing better than in Shandong; Situation in Henan is improving comparing with May, but our sources said that the crop is not doing well due to dry weather in May.

So far, we consider 2019 crop is OK, but not good or excellent, as the situation varied significantly in Hilly/sandy areas and flat fields, so far, the latter is better. Average number of pods is 10-15 for Virginia type in flat field vs. less than 10 in high lands. Hsujis are doing better than Virginias so far.

- Flat field: fair to good 60-70%, average 20-30%, around 10% poor
- High land: Fair to Good 40-60%, Average: 20-30%, Poor: around 20-30%
- In Northeast China, overall crop shall be considered fair to good, seems that we find no fields are excellent in our tour.

Outlook

We are seeing sufficient rainfalls in the past several days in Shandong and Northeast China, which should be good to peanut, but hilly areas are more desperate for water which unfortunately is absent. If the situation continues, 2019 Crop in Shandong/Henan can best be classified as a fair crop, if not a poor one, while crop in Jilin and Liaoning may be a fair to good crop.

India

Hereunder report received from Peanut King in India: According to all India Kharif crop coverage report, as on July'19, sowing of peanut was around 2.72 mn hectares compared last year 2.91 mn hectares. In Gujarat, 10 to 15 percent area under cotton to be replaced by peanut due to delayed monsoon. Until last week, the area under kharif sowing was 27% less than the year-ago. A strong revival of the monsoon, especially in central, east and northwest India, has raised hopes for the annual kharif crop's performance. Most parts of Gujarat have received good rains. Moderate to heavy rains occurred over multiple places in Saurashtra and the Kutch region is battling flood-like situation. Poor rainfall last year slashed India's peanut crop output by 29 percent. For 201920, Indian peanut area may bounce back by 6 percent to 5 million hectares, and provided the monsoon season is less erratic, peanut yields could rebound. Indian peanut production would then be projected to recover to 5.8 million tons from the 4.7 million tons produced in their 2018-19 season, which could lead to more exports. Almost all of these early stages of growth are attributable to the unsung heroes of the peanut industry: Farmers. Every peanut farmer takes defeat and victory in the same stride and no matter what, he is ready to face the challenge; one more time

Hereunder another report from a friend in India:

- The planting of Crop-2019 (Kharif-2019) was done in time during 5 to 15th June-2019.
- This year the planting has increased approx. 20 to 25 % compared to last year due to all time high price during May and June and shortage of crop of 2018 due to drought situation.
- One of the main reasons for increase in area is that our Government has increased the MSP (Minimum Support Price to farmers) of Groundnut to Rs.51.00 per Kg. (USD 734 P.M.T) and also supported the farmers by procuring the harvest at MSP during last two seasons. Also, our Modi government (2nd Term) has promised and declared in the agenda to double the income of farmers by 2022 by supporting them and increasing the MSP every year.

Since last two years if you notice that most of our big peanut exporters have shifted their focus and business to Sudan because our government is purchasing the groundnut at MSP and storing in their ware house to support the farmers. Since last two years the MSP is higher than the global market so the processors and exporters are not able to buy the peanuts at higher price than the government, so they have explored the opportunities from African countries like Sudan etc.

Looking the government commitment towards farmers and if they don't declare any export benefits to the exporter than our prices will be always higher in the coming future unless global prices go higher than Indian Prices.

Some experts also forecast that India will be net importer of groundnuts in coming future.

Coming back to the progress of crop and our survey in the state of Gujarat and Rajasthan the crop is very good at present because there is a very good and timely rain during last 5 to 6 days after planning on peanut belts of Gujarat and Rajasthan. As per the weather forecast this year the monsoon is normal and if the its rains in a proper interval of time than we will have a very good crop, but the prices will be higher if government do not declare any schemes to the exporters.

The Java prices went all time high and many exporters have deflated because summer crop (June Harvest) completely failed due to heat wave and scarcity of water and winter crop was also short due to draught situation.

- The Java Price went up to US$ 1500.00 PMT in Domestic Market
- The Bold Price went up to US$ 1230.00 PMT in Domestic Market.
- At present the Java material is not available in the market.

South Africa

CEC issued their 6th estimates on July 25, 2019 crop calling for a crop of 18’880 mt, down 66.88% vs. last year.
Things have not changed in South Africa. Buyers will need to import a lot of peanuts (at least 50’000 mt) from African countries and other main edible countries like Argentina.

Some buying has been done, but it seems buyers are delaying their buying of Argentine peanuts as much as they can concentrating on trying to find cheaper alternatives such as African origins. I still believe that at best buyers are covered through the end of the year, leaving another 6 months to be covered.