



September 17, 2018

Please note that Karl Zimmer and I will be attending the SIAL in Paris in October. Please visit us at the USA Georgia booth 4M019.

The market still is very quiet especially in the USA, but the European market has started to wake up a little bit after the summer vacations. Interest from smaller manufacturers are starting to come out. Nevertheless I believe that most of the International market is well covered through the end of the year and somewhat covered for the first quarter next year. Looking at the international supply, irrespective of origins, things look descent despite a terrible Argentine 2018 crop with a good supply from the US, considering carryover and new crop and provided the new crop continues to do well until harvesting. The big question is will Brazil and Argentina have good 2019 crop, when will those peanuts be available in Europe and will there be enough peanuts until then. And that is the big if. Those who can use multiple origins might be ok until then, those who don't could have issues. And if Brazil and Argentina don't have good new crops, then things could get ugly as the US wouldn't be able to fill in the shortage.

The international market continues to be basically a two tier market with Argentina and the US. Argentine prices are us\$ 150.- higher than US prices. No reason for such except that the US has the product and needs to move it. And that scenario creates lower prices. The weakness for US prices is driven by the availability of 2017 crop that is in the hands of only a few. Once that 2017 crop is gone, the prices weakness can only go so far. Remember that with the system we have in the US, the peanuts are only available if they are bought by the shellers. And for the 2018 crop, shellers have probably bought 60 to 70% of the crop. The rest still has to be purchased from the farmers. The decision that will have to be made by shellers and farmers will be impacted by what happens next year with cotton and peanut plantings. If cotton stays at current levels (78 cents for December 2019) and shellers offer a cheap peanut farmerstock because of the current high supply of peanuts, then peanuts acres will go down. The weaker the cotton price, the less opportunity for peanut acres to go down and vice versa.

Despite the Argentine situation, the market and the demand feels weak, but things can change very rapidly.

USA

The new crop in general is doing very well. Weather has turned slightly dry in the Southeast. Alabama and westward should be helped by TS Gordon. Georgia though will normally not getting any of that rain. Quite the opposite. Harvesting is starting and will probably last until thanksgiving. So we will need adequate weather until then. So far so good. As long as mother nature cooperates, the US will have plenty of supply combining the new crop and the carryover from the 2017 crop. And so far quality of the 2018 crop should be as good as the 2017 crop. Forfeitures on the 2017 crop have been basically nonexistent with only 7000 fst forfeited so far. September and October are heavy months, but I don't expect much more than 75'000 fst to be forfeited and those would be of lower quality.

The domestic market has been extremely quiet with good coverage from manufacturers. With the 2017 crop putting pressure on the market and a good growing season for the 2018 crop, buying has been basically nonexistent resulting in a weakening of the 2018 crop. 2018 crop prices were lingering at the 51/52 cents Fob SE until a couple weeks ago, but are now at 49/50 cents with 2017 crop at 47 cents. Market dynamics look weak until contracting time. Thereafter let's look at cotton prices and its impact on plantings.

USDA Stocks and Processing for July:

Jul 18 vs. Jul 17: Peanut candy **down 33.12%**, Peanut snacks up 21.54%, Peanut butter **down 7.67%**, Total edible **down 3.45%**, Inshells **down 8.04%**

Aug 17 – Jul 18 vs. Aug 16 – Jul 17: Peanut candy **down 6.92%**, Peanut snacks up 11.16%, Peanut butter **down 1.77%**, Total edible up 1.84%, Inshells up 4.40%

The Stocks and Processing numbers show a carryover of 1'385'829 fst on August 1, 2018. Extrapolate this to next year with a 2018 crop of 2.9 million fst and exports of 700'000 fst, the carryover on August 1, 2019 could be basically the same as this year, if not higher.

Argentina

The country of Argentina is having serious economic issues at the moment. The Argentine peso (vs us\$) has weakened dramatically going from 20 at the end of April to 38 today.

In a move to try and reduced their debt, the Argentine government announced a reduction of the export rebates effective August 21, 2018 that as follows:

Raw shelled peanuts whole and splits from 3.4% to 0.5%.

Crushing stocks shelled peanuts from 2.5% to 0.5%.

Blanched Peanuts/Roasted peanuts & Chopped peanuts from 4.05% to 1.25%.

Peanut oil we had from 2.5% to 0.5%.

Peanut flour we had from 2.05% to 0.5%.

And to make things worse, the Argentine government now has imposed a temporary export tax. I am waiting to hear the exact details but understand it will be 3 to 4 Argentine peso for every US\$ of exports.

This is a difficult time for the Argentine exporters who have already faced a disastrous crop.

Market wise, there has been very little activity. Some of the few long sellers are trying to sell a combination of current and new crop at the high current crop prices to recoup some of the 2018 crop losses. But buyers are not interested to lock in such prices when they can buy US peanuts at much cheaper levels. Argentine prices are in the mid us\$ 1700.- Cfr Rotterdam on blanched basis whereas US blanched are being offered at us\$ 1575/1600.- Cif. Moreover most of the buyers opening are probably.

In general though most exporters are more concerned about covering their contracts then selling. Until now the market has not suffered from the disastrous crop in Argentina with the exception of the market prices, but the more time passes and the bigger the issue will be for the shellers in having sufficient goods and in having the right quality. Buyers are well covered it seems through the end of the year and possibly early next year, but a real concern exist in getting deliveries on time and of the right quality. This is something to watch very carefully.

China

Miles Yao, the APC representative in China, reports that the FUDA peanut producer alliance and the China National Grains and Oil Information Center predicted that the peanut acreage for the 2018 crop would be reduced by 8.96% (details hereunder). They further reported that the 2017 crop produced a crop of 18 million tons, with a prediction of 16.2 million tons for the 2018 crop which would be lower than the 17.29 million tons of the 2016 crop.

Area	2017 Acres	Yields/acre	2018 Acres	Change %
China	13,166,666.67	1,794.30	11,986,666.67	-8.96%
Henan	3,333,333.33	1,942.26	3,016,666.67	-9.50%
Shandong	2,216,666.67	2,033.82	2,008,333.33	-9.40%
Hebei	1,166,666.67	2,000.34	1,111,666.67	-4.71%
Liaoning	1,000,000.00	1,902.84	976,666.67	-2.33%
Hubei	616,666.67	1,790.70	560,000.00	-9.19%
Anhui	491,666.67	2,250.00	428,333.33	-12.88%

Jiangsu	248,333.33	1,770.00	193,333.33	-22.15%
Jilin & Inner-Mongolia	1,413,333.33	1,370.88	1,218,333.33	-13.80%
Others	2,680,000.00	1,423.62	2,473,333.33	-7.71%

The traditional peanut areas and the biggest provinces seem to have a good crop so far, whereby the Northern provinces have been affected by drought.

It is unknown yet when the new Chinese retaliatory tariffs will be effective, but considering that new tariffs imposed by the US went into effect on August 23, 2018, I think it is a foregone conclusion that the new tariffs will be applied on US peanuts.