



July 13, 2018

Despite the demise of the Argentine crop and the lower plantings of the major peanut producing countries, the market continues to be quiet. Some buyers in Europe are starting to look for merchandise but that's about it. Europe is still carrying big stocks in Rotterdam. USA has a large carryover. Those large stocks seem to be giving the buyers a false sense of security. There might be enough peanuts in the market until the end of the year, although the question is of what quality, but thereafter the market will need to have good crops in all origins to make up the lower plantings, it will not take much in this market to have price strengthen further.

USA

The US market continues to be very quiet despite the expected lower 2018 crop. The reason for that quietness continues to be the 2017 crop carryover with the long holders offering 47/48 cents Fob Se. New crop is being offered anywhere between 51 and 53 cents depending on shellers and count. Until the 2017 crop lingers, it will be difficult for prices to move much unless we have a crop issue. Thereafter the market prices will be impacted by 2019 crop plantings. With cotton prices hovering around 80 cents, shellers will most probably have to pay close to us\$ 475.- per fst just to keep acres at par with this year's. US\$ 475.- is probably around 53 cents. So, my view is that unless we see weakness in cotton (and most people I talk to are bullish on cotton), the market is underpriced.

Despite the USDA estimating plantings reduction of 19.70%, most believe that the reduction will be between 22 to 25%. That probably could translate to a crop of 2.6 to 2.7 million fst which would reduce the carryover by 200'000 to 300'000 fst. Having said that, one has to wonder what the exports will be considering the potential impact of a trade war between the US and China. There already has been an equivalent of 140'000 fst exported to China through May. So, the question how many tons will be exported to China next year should a trade war impact US peanuts. Let us assume that US exports a similar amount of peanuts next year. Now the question becomes what will be planted for the 2019 crop. Similar plantings to 2018 crop would bring the carryover below 1 million ton and closer to a normal carryover. There is some room but not much.

USDA stocks and processing for May:

- May 18 vs. May 17: Peanut Candy **down 31.52%**, Peanut Snacks up 15.95%, Peanut Butter **down 2.53%**, Total Edible **down 2.58%**, Inshells up 0.24%
- Aug 17-May 18 vs. Aug 16-May 17: Peanut Candy **down 3.63%**, Peanut Snacks up 10.14%, Peanut Butter **down 1.14%**, Total Edible up 2.29%, Inshells up 7.01%

USDA exports for May:

- May 18 vs. May 17: 45'316 mt exported vs. 34'995 mt a year ago, an increase of 29.49%. Exports to China were up 5'576 mt to 7'095 mt. While exports to Mexico were up 14.12% to 10'277 mt, exports to Canada were down 9.63% to 6'709 mt. Exports to the EU 28 were up 33.61% to 15'605 mt with the biggest increase coming from exports to France and the United Kingdom.
- Aug 17-May 18 vs. Aug 16-May 17: The running 10 months exports are still running behind last year by 7.34% with 382'530 mt exported vs. 412'834 mt. There are still 2 months to go. If exports for those 2 months continue to be as strong as May, exports for the year will be very close to last year's.

Argentina

The harvesting of the new Argentine crop has yet to be finished. 15 to 20% still is in the fields. One of our source stated that one of the only good news with this late harvesting has been that aflatoxin contamination has gone down. But that probably is the only good news I have heard. Aflatoxin is a bigger problem than normal affecting at least 20% of the crop, but that problem should be taken care of by the blanching. Damage is obviously a big issue, but I am not sure that anybody knows the extent of the problem. The biggest issue is obviously yields in the field and yields in the shelling plants. I fear that the June 8 estimate of the Argentine Peanut Chamber of 381'670 mt of exports is the best-case scenario.

It seems at the moment that the large stocks in Rotterdam are compensating any shipment delays from Argentina although many are starting to see demand slowly come back after a usual slow activity. That demand though is from the smaller customers. Medium and big customers are staying on the sideline it seems. Many buyers, regardless if they are big or small, are still doubting the Argentine and their crop problems. They believe that, as it happened in the past, the problem is not as bad as the Argentine are reporting and that the prices will come back down. All is possible, but the past 2 years where we saw that tendency, the difference was that the crop problems started when the crop had produced already good yields before harvesting, thus the impact was not as pronounced. This year Argentina had a bad crop that just got worse. Maybe I am wrong. Time will tell.

Sellers are few and far between. I believe that many are almost sold out, some are short on specific quality sold, but they are a few that still have some goods to sell, but they won't come cheap. Last levels I saw on Cfr Rotterdam basis were above us\$ 1550.- to us\$ 1600.- for raw and us\$ 1750.- for blanched.

A little too early to talk about the 2019 crop, but with the financial impact the 2018 crop will have on the medium to small shellers, we could potentially see a reduction in acreage in Argentina or an increase in the large shellers share.

Brazil

I just received the exports figures from one of our friends and I believe that part of the quietness in the market is due in part to the Brazilian increase in exports. On a February through January basis, Brazil exported 62'668 mt in 2014, 101'709 mt in 2015, 101'923 mt in 2016 and 165'446 mt in 2017, an increase of 62.32%. So far in 2018, for February through June, they have exported 79'694 mt vs. 55'577 mt, an increase of 43.39%. So, we could see Brazil export over 200'000 mt by the end of the year which would be a record. These export figures finally put Brazil as one of the major origins in the international market. And the market definitely needs them until the Argentine 2019 crop. Let's hope for a good 2019 crop for Brazil. On the other end I don't believe there is much left to sell from the 2018 crop. Brazil has experienced some delays lately due to major strikes, but no word on the impact it has had on customers, if any.

China

Nothing really new with China. It is unclear what the exact reduction in peanut plantings is. The consensus I have gathered is 10 to 15% with plantings being roughly the same as the 2016 crop. Lots will depend on the yield, but China could certainly lose 1.5 to 2.5 million under normal conditions. Obviously more if yields are not good. This will certainly move the prices up (they have actually already move up a little bit on good quality peanuts). The next item of discussion is the trade war with the US and what impact, if any, it will have on imports of US peanuts.

India

India's new crop plantings are facing two issues at the moment. One is weather and second is low peanut prices. An article that came out on July 9 in the Hindu Business explains that the rain deficit in Gujarat is at 83% of the long term average. As of July 2, the percent coverage vs. last year is at 20% on peanuts and 39% on cotton. Widespread rains are expected soon. Should these rains not happen, we could see some farmers switching some of their acreage to shorter maturing crops. Low peanut prices are also an issue, especially with the run up in cotton prices. Some say that peanut plantings could consequently be reduced by 20%.

Lastly minimum support price by the Indian government was issued. The peanut price was increased by 9.9% whereby other crops prices increased substantially more; cotton price was increased by 26.2% and other seeds price were increased even more such Niger seeds with 45.1%. I think it is a little too early to estimate anything. Let us wait and see what happens with the monsoon first, but we could certainly see another major peanut producing country lowering their peanut plantings.

South Africa

The CEC published their 5th forecast on June 27 calling for 56'300 has to produce 60'600 tons or 7'800 tons less than the 4th forecast and a reduction of 31'450 tons vs. the previous year. Some are even predicting for the crop to be closer to 55'000 tons. South Africa should definitely need to import peanuts for the first half of next year to fulfill their demand, probably more from Brazil than Argentina considering the Argentine 2018 crop issues.