



June 7, 2018

Despite the problems the market is facing now, things remain fairly quiet on both the US domestic and international fronts. The domestic market is concentrating on the outcome of the 2018 crop plantings, trying to evaluate what impact the sudden increase in cotton price will have. The International market has been dominated by talks on the Argentine 2018 crop with the market trying to understand how low the production will be and how bad the quality will be. Surprisingly many European buyers, who get a big portion of their supply from Argentina, have been skeptical about the extent of the problems Argentina faces. The origin (in this case Argentina) will (most of the time) somewhat exaggerate the problem it faces. Nevertheless, the drought Argentina faced the first several months of this year, and the subsequent rains during harvesting are factual. I don't think that one can question if there is a problem, the question should be how bad the problem is and what will be the consequences on the supply. It is also possible that retailers have yet to come and buy. It might be that retailers might not be either aware or do not believe in this potential supply problem created by Argentina. Stocks are high in Rotterdam, thus the physical side is not yet impacted. The further we get into the second half of this year, the clearer the problem will be with January through June next year being a complete unknown at this point. Until the end of the year, with stocks and shipments from the different origins, supply should be sufficient (provided manufacturers are flexible). For January through June 2019, we will have to wait and understand what supply the market will get from Argentina (both quantity and quality), what crop we will get in the USA and later in Brazil (both quantity and quality). China and India will also be important but to a lesser degree for the Europeans. China 2018 crop outcome (combined with trade negotiations) will be a key for the US domestic market.

I believe that the international market prices are already including all the good news, and can only go up from this point. I will talk about the US market later on. The international market will only get reprieve a year from now when the market gets hopefully a good 2019 crop in Argentina.

USA

Demand from the domestic manufacturers has been very slow. Moreover manufacturers seem to continue to think that there is and will be plenty of supply in this market with the expected carryover from the 2017 crop. Probably a true statement as long as we get a good 2018 crop and as long as the Chinese do not start buying big volumes. Cold storages are full everywhere. Probably caused by the slow uptake from certain big customers and the fact that shelling plants are running full to make room for the upcoming 2018 crop. 2017 crop prices continue to be very stable at the 47/48 cents level due to the market being well covered, a large carryover and the lack of urgency the manufacturers have towards this market.

The big question now is the 2018 US crop. The USDA has previously estimated a reduction in acreage of 18%. With cotton price at 91 cents for December 19, the delay in plantings due to rain and the fact that some peanut acres need to be replanted, we could see peanut acres being reduced further, possibly up to 22% to 25%. Based on harvested acres and a 5 year average yield, an 18% reduction would produce a crop of 2.841 million tons. A 22% reduction would give a crop of 2.7 million tons and 25%, 2.6 million tons. With an expected carryover of 1.4 million tons, the overall supply for next year is still above what one would call normal. With a 2.841 million fst production, the carryover on August 1, 2019 would only go down by 80'000 to 100'000 tons, still way above a normal carryover. With a 25% reduction that carryover would be close to 1 million tons.

Nevertheless it wouldn't take much for things to change quite rapidly even if we have a decent 2018 crop. If cotton prices were to continue being strong, the second half of 2019 could see prices for 2018 crop rising depending on what prices manufacturers are ready to pay shellers. And then we have the Chinese effect. The question being what crop will

China have, and it seems that they will have a 10 to 15% reduction in acreage (at a minimum), and will they come to the market buying US peanuts which could put even more pressure onto the market.

With the uncertainty of the plantings, I don't believe shellers are very keen on selling any 2018 crop at this time unless they can get a 2017 crop option for a long period of time. A 25% reduction in plantings and lower than expected yields would change the supply scenario quite rapidly and would certainly push the prices much higher.

USDA stocks and processing for March and April 2018: Snacks continuing to do very well with major increases for March and April, while candy and peanut butter, after a terrible March, are now down for the year.

Mar 18 vs. Mar 17: peanut candy **down 23.13%**, peanut snacks up 21.83%, Peanut butter **down 11.87%**, Total Edible **down 6.09%**, Inshells **down 13.62%**

Aug 17-Mar 18 vs. Aug 16-Mar 17: peanut candy **down 0.18%**, peanut snacks up 5.90%, Peanut butter **down 0.81%**, Total Edible up 2.05%, Inshells up 9.14%

Apr 18 vs. Apr 17: peanut candy **down 0.74%**, peanut snacks up 44.76%, Peanut butter **down 2.68%**, Total Edible up 9.70%, Inshells **down 1.79%**

Aug 17-Apr 18 vs. Aug 16-Apr 17: peanut candy **down 0.25%**, peanut snacks up 9.49%, Peanut butter **down 0.98%**, Total Edible up 2.87%, Inshells up 7.84%

USDA exports for March 2018:

Mar 18 vs. Mar 17: 47'543 mt exported vs. 50'038 a year ago, a drop of 4.99%. The slide in US exports continue, although slower than previous months. China surprises with an increase in exports of 3.19% with 14'078 mt exported. Mexico and Canada as well up with respectively increases of 8.82% and 2.55%. But Europe continues to be lower with a decline of 16.85%.

Aug 17-Mar 18 vs. Aug 16-Mar 17: 291'999 mt exported vs. 341'582 mt for the same period last year, a decline of 14.52%

USDA exports for April 2018:

Apr 18 vs. Apr 17: 45'040 mt vs. 36'140 mt a year ago, finally an increase and an increase of 24.63%. China/Vietnam continues their increase with 8690 mt exported, an increase of 41.66%. Canada was down 1416 mt vs. a year ago, a drop of 15.69%. Mexico though was up by 1574 mt vs. a year ago, an increase of 19.43%. Europe is finally showing their increase in buying with the EU28 up 5'192 mt, an increase of 55,71% vs. a year ago.

Aug 17-Apr 18 vs. Aug 16-Apr 17: 337'038 mt exported vs. 377'722 mt a year ago, a decline of 10.77%

The US will have to export 135'360 mt to match last year's exports (or 45'120 mt a month) for the August through July period, which would be 40'683 mt more for than last year's exports between May and July. Possible as long we continue strong shipments to the US major partners.

Argentina

Argentina had once again some rain last week which delayed even further the harvesting of the 2018 crop. Many seem to be skeptical about the problem Argentina is facing. Rain is of course not a new thing in Argentina. What is new is the drought that affected the crop during the growing cycle. Thus, the rain that has fallen onto the fields since the beginning of the harvesting is just compounding the problems that the Argentina are facing. I don't believe it is possible to estimate the losses at this point as the losses will come both in yield and quality. It will be take some time for the shellers to first harvest the crop and then evaluate what their average quality is. Yields at this point are probably 2 mt at best. But higher LSK, higher oilstock, aflatoxin and high damage issues will lower the edible yield as well. I am not going to make a guess at this time, but It doesn't look like 400'000 mt is in the cards. I think that we are looking at something in between 350'000 and 400'000 mt.

As I said before, I think 400'000 mt would be manageable with the shortage being supplied by Brazil and USA (provided they both have good new crops). Below that I think it is a problem. Eventually the market will get supplied but prices will eventually reflect the gap in supply. I don't believe that prices reflect the issue yet despite the higher levels. The position January through June will be the hardest hit I believe.

No one is offering at this point. Every sheller will have to wait to evaluate what they have to sell if anything. I wouldn't be surprised to see many being sold out. And watch out for default. If I had to guess a price today, I would guess us\$ 1550.- on raw and us\$ 1700.- on blanched.

China

Despite reports that CIQ would have mentioned that they would no longer accept imports from the USA, it seems that it is not the case. Nevertheless, one should pay attention to future trade negotiations between China and the US.

Plantings in China are basically finished. As usual, it is difficult to ascertain what was planted, but what seems to be sure is that China planted less than last year. The biggest drop in plantings seems to be in the North of China where we could have 15 to 20% less. The traditional area could have a reduction of 10 to 15% at a minimum. This has not an immediate effect. First the Chinese companies themselves have to ascertain what that reduction. Secondly yield will be key, but we will have to wait for September/October to have an idea of the production. Thereafter the market will have to digest how much of the old crop was carried over by mainly the crushers, evaluate demand, ascertain the impact that the old crop and the new crop has on prices. With a lower production, one can expect prices to rise in China. Will prices rise enough to generate demand for foreign origins including US peanuts? That's the question. I don't feel that China will need much supply until the Chinese New Year, but we could potentially have demand coming the US way depending again on prices and supply from other origins such as India and Senegal.