



July 7, 2017

The market continues to be very dull despite continuing problems in Argentina. It seems that nobody is concerned about it and more worried about how big of a crop the US will have and how big of an increase China will have. And, provided the weather in the US and China behaves, we think the quietness will continue for a while.

USA

we still think that the USDA acreage of June 30, 2017 was on the high side. Needless to talk about it. Certified acres are coming out very soon and we will then have a better idea what increase we are actually looking at. To be honest we don't think that it really matters. We know that, provided the weather continues to be good, the US will have a big crop. That the US produces a crop of 3.2 or 3.3 or 3.4, we don't think it makes any difference. It only increases the surplus the US will have above its normal carryover. Thereafter the question is what happens to that surplus: does it get mostly purchased by China or does it find its way into the regular market or a combination?

Secondly most customers associate big crops with lower prices. Unfortunately that doesn't always hold true when it comes to US peanuts because of the system we have in the US (farm bill). Shellers have purchased a good portion of their handlings (maybe up to 70%) at relatively high prices, and have as well (at least most of them) sold a good portion of those purchases to manufacturers. So shellers don't seem to have an incentive to lower prices until they have sold their long position and manufacturers don't seem to have any incentive to get more coverage with a potential big crop on the way. Sounds like a standoff to me. It is too early to make any predictions. We just need to think about what happened last year. The crop does look good at this point in time. Another 5 weeks of good weather and the crop will have a great potential. No rain, and things will be very different in 5 weeks. A couple other things that could impact prices next year: one thing is of course cotton prices. Cotton prices have been very weak recently, but we could potentially see some government support for cotton coming for the 2018 crop. we think it will definitely happen for the 2019 crop when the new Farm Bill gets negotiated. The second thing is the new Farm Bill. Despite being for the 2019 crop, any potential changes could affect the 2018 crop, and possibly the 2017 crop. Lastly, as one of my good friend put it, it all comes down to who owns the crop. Ans that is exactly true.

The current crop market has held at the 60 cent Fob SE level for the past month with very little to no interest from the manufacturers. So tough to tell where the actual price is with no business taking place. The only real interest in the market has been coming from Western Europe with EU quality not available.

The new crop market was slightly higher the past month with nominal levels of 53/54 on splits, 54/55 on mediums and 55/56 cents on jumbos. we think that these slightly higher levels were caused by the earlier drier weather we had in the US and the weather problems in Argentina. As we said previously, it seems that both sellers and buyers are happy just waiting.

USDA stocks and processing for May:

- May 17 vs. May 16: Peanut candy up 10.04%, Peanut snacks down 2.21%, Peanut butter down 0.42%, Total edible up 1.67%, Inshells down 4.18%
- Aug 16-May 17 vs. Aug 15-May 16: Peanut candy up 5.93%, Peanut snacks down 7.51%, Peanut butter up 3.29%, Total edible up 1.07%, Inshells down 12.44%

USDA exports for May:

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- May 17 vs. May 16: 34'998 mt vs. 93'086 mt a 62.40% decline. The biggest volume decline continuing to be coming from China/Vietnam down 63'165 mt or 95.76%. Mexico after being down is coming back with an increase of 2'585 mt or 40.24%. The Netherlands continues to do very well with shipments up 4'048 mt.
- Aug 16-May 17 vs. Aug 15-May 16: 412'719 mt vs. 430'064 mt, down 4.03%.

If we try to estimate full exports for the year taking similar exports than last year for June and July (except China) and give China maximum 10'000 mt, the US will end up exporting roughly 480'000 mt vs. 572'783 mt the previous year.

we think the bigger question is not what will China do the rest of this year, but what will they do next year. For the next several months, regardless what China does, the US will be tight. And considering the weak market China is facing right now, we don't think anybody is worried about it. The bigger question is what will China do with the 2017 crop. Between the 2012 and 2016 crop, US exports, taking China/Vietnam out, totaled roughly 510'000 fst to 600'000 fst. The past 4/5 years, the US has been somewhat operating under the impression that any surplus (above the regular carryover) would be gobbled up by China. That could still hold true, but the bigger question is probably when. Should many of the major peanut crops worldwide produce good yields, and with the Chinese current market being oversupplied and weak, at what price will China want to buy that surplus. And will they want to buy that surplus before or after forfeitures. Buying before or after forfeitures could mean potentially a big discount just because there could be little procurement costs added to the price once it is in the government's hands. It could also mean much lower prices considering today's market around us\$ 475.- per fst and the basic support price of us\$ 355.- per fst. It can of course go lower than us\$ 355.- but there is no incentive for the government to sell lower than us\$ 355.-, and the regular market (for edible or oil) will be interested in those prices/peanuts as well.

we will leave you with this thought: 600'000 fst of exports would give the US a carryover twice as big as needed. So it is important to think about who will be interested in the surplus (not the carryover), at what price will it be available and when will it be available, and how will all this impact the market (both domestically and internationally).

Argentina

Argentina continues to battle bad weather having received 2 rain occurrences in the past week. It is tough to estimate what the 2017 crop quantity will be as about 35 to 40% still has to be harvested. What is for sure is that there is hardly any carryover from the 2016 crop, thus supply at best will be the same as last year if not lower. Despite problems with the weather, prices have not moved up much. we cannot quite grasp why that is. All we can figure is that expectations were for a big crop and that shellers were not as sold as much as most people thought. But with a lot more sold in the past couple of months, a lot less available (both quantity and quality) because of weather problems, and Europe needing the rest of the Argentine crop, why are prices not moving up. Quite the mystery. Nominal prices Cfr Rotterdam for raw mediums/jumbos are us\$ 1500.- and blanched in the mid us\$ 1600's.

On another note, land rent for 2018 crop will definitely be higher (we understand that the market is talking about us\$ 1000.-). Quite an increase over this past year.

Brazil

Brazil continues to market their peanuts, especially blanched, just below Argentine prices. It doesn't seem that there is that much left to be sold out of this new crop despite the big crop. On EU basis Cfr Rotterdam, blanched jumbos are at us\$ 1600's.

China

China continues to be weak. we don't believe now that the issue is demand, but supply is. It seems that the uncertainty of the crop size of the 2016 crop and the fact that oil crushers had bid up the market at one point gave the market a

false sense that the supply was tight. Once the Chinese New Year was over, the market seemed to realize that the 2016 crop was actually bigger than expected and that demand was not strong enough to consume it, especially when adding imports. So now we are faced with a lack of demand and low prices.

So now of course, everybody wants to know what's going to happen with the 2017 crop. Despite some reported drought issues in the major growing regions (which have since then improved), it seems that the consensus is that China will definitely plant more. Some say a lot more. With poorer returns from other commodities vs. peanuts, abundant government stocks of corn, it seems that peanut is in real favor this year. we am not sure anybody can put a number on the crop, but we would venture to say that we are getting close to 20 million tons. To get to that number China would need roughly a 15 to 17% increase in production. And yes, that would be a record. That would definitely result in lower Chinese prices both domestically (in China) and internationally impacting other origins on both exports (although China has not been a threat to runners for a long time) and imports (having enjoyed elevated price levels the past couple of years). But let's not get carried away, we are only early July and, China is and will continue to be a mystery.

South Africa

The 5th crop estimate of the CEC increase the estimated 2017 crop production to 90'550 mt on 56'000 has. we still believe that those numbers are overstated, and it seems that many of my South African friends feel the same way. we still believe that South Africa has a crop closer to 75'000/80'000 mt.

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