



July 12, 2016

USA

Not much to say on the US since my last report. The crop is progressing well although the Southeast could use some rain, but its early.

Export statistics came out with a huge jump for May, with exports of 94'023 mt vs. 27'179 mt a year ago. August 15 through May 16 total exports are 430'461 mt vs. 325'642 mt the previous year. China is the cause of this jump with 158'450 mt having been shipped to China and/or Vietnam vs. 33'914 mt the previous year.

Tough to guess what the end number will be for the season, but heavy shipments to China should still take place in June with a slowdown for July. So I estimate that the US will end up exporting between 850'000 to 900'000 fst. For the season.

This still leaves the US with a carryover of roughly 1.2 million fst on August 1, 2016. With a regular domestic and export demand for August through October totaling 650'000 to 700'000 fst, the US should still have a surplus of 500'000 fst that no one seems to have. That demand could be slightly higher but numbers are somewhat miscued because of the Chinese demand. Shellers are unanimously reporting that they have very little unsold farmer stock in their warehouse. There lies the big question in the market. Only roughly 560'000 fst are left in the loan. And only part of these peanuts will get forfeited. So where is that surplus? There could be several answers or a combination of answers. Exports could jump further than expected. Numbers could be delayed. Shellers are holding more than they say. And yes numbers could be wrong.

Makes one wonder if there will be any forfeitures. I still believe that there are only 2 options for any forfeited peanuts and that is crush for oil or China. A lower carryover would just help the carryover for next year not be another record.

A couple of thoughts:

Should China have a bigger crop as predicted, should India recover some with their peanuts production (which seems in the cards), China will either not be as big a buyer as they have been or definitely not at the higher prices (current market prices). Exports for Europe should increase this next season because of the Argentine situation, but one should not forget that the US can only supply a certain percentage of EU material out of its crop.

One of the big question in this current market is price. I think it is fair to say that prices for EU material will follow closely the Argentine levels. As much as there was a disparity in prices between USA and Argentina, I believe that the gap has been shortened. Instead of an illogical US\$ 150/200.- difference, we probably have today more of a US\$ 50/100.-, but on one side nobody can really figure out where Argentine prices are since there have been basically no sellers and no one knows what the crop will end

up being (with only 50% harvested) and what will be left to be sold by the shellers (an estimated 80% of the crop has been sold); secondly it is tough to figure what US shellers would sell being somewhat withdrawn. I think that the market for EU material is probably around us\$ 1400.- to 1450.- Cif for raw material and us\$ 1700.- for blanched material. I believe that unfortunately those prices have still room on the upside considering that supply of EU material will be tight through June next year.

The difficult thing is to ascertain what will happen to prices domestically. Prices went from a low of roughly 42 cents to a recent 48 to 50 cents. It's easy to warrant such a price for 15 crop considering the lack of supply or selling interest. Prices could move higher for the next couple of months depending on the amount of interest. Nevertheless 16 crop is a different story. Buyers are well covered with probably 65 to 70% coverage. Therefore, no pressure from them to cover. Provided the US enjoys a goods growing season, supply will be plentiful with roughly 3 million fst. Prices will struggle to move higher unless acres are reduced for 17 crop. I don't have much of a feeling on that at this point. Peanut is still a very profitable crop for the US farmers. Cotton would have to move much higher for the acres to shift. Obviously crops around the world need to be good too.

Virginias, especially Inshells, continue to be very tight. The 2016 crop should produce both in the VC and the SW a larger production of Virginias, but I don't believe that the increase in production will be sufficient to fill in the worldwide gap. Prices should therefor continue to be at higher levels with tight supplies.

Argentina

Argentina is having one of its worse crop in many years. The harvesting delays created by the rain has only allowed for 50% of the crop to be harvested so far. From what I hear quality is holding although damage will be higher. Yields have definitely suffered and will keep on suffering the longer the slow harvest persist. To date I would estimate that Argentina will not have more than 400'000 to 450'000 mt of edible out of the 2016 crop, a drop of 20 to 25% vs. the year before.

Needless to say that offers are non-existent out of Argentina with price levels being just guesses. I would call the raw 40/50 market at us\$ 1500.- Cif Rotterdam with blanched at a minimum us\$ 1700.-.

China

Not much to report on China at this time. The crop is still developing well although some rain is needed in the main growing areas. Floods have occurred in many parts of China although most peanut areas do not seem to have been affected.

Still no clear indication as to what the increase in planting is. Most seem to agree on 15 to 20% increase, but with such a huge country, it is very difficult to ascertain.

Provided China has a normal growing season, China will most probably not be back in the market until end of the year or beginning of next year (outside potential forfeitures and Senegal). Thereafter prices will determine if there are any opportunities for the Chinese to continue buying as they have in the past several years.

India

Reports that I have recently received talk about a favorable monsoon season. Plantings are expected to be increased by 20% for the winter crop. Plantings are somewhat delayed and planting numbers are yet to be released. Will keep you posted. A good crop in India would be a welcome surprise after several years of poor plantings and dry weather.

South Africa

The South African department of Agriculture released their 6th forecast on June 28, 2016. From everything I hear, they seem to completely discount the historic drought that the country suffered this past season. A production of 31'600 mt would give them a yield of 1.4 mt which would be a descent crop for South Africa. Unfortunately, I believe that most farmers and shellers would be happy if they were to reach 1 mt per ha which would give them a production of only 22'00 mt.

It is difficult to evaluate the tonnage that South Africa will need to import because prices will inadvertently impact consumption. Not only will they have to buy at very high prices to cover their demand, but prices will be further inflated by the weak currency. I still think though that we could be looking at 50'000 mt of imports.

One could expect a big increase in plantings for the 17 crop, but with corn prices being as well very high in South Africa, and with peanut seeds availability that will be an issue, I am not sure how much they will be able to increase peanut plantings.