



**March 21, 2018**

I guess things were too good to be true. The depressed feeling that we had had the past several months resulting from record supplies in the USA and China has stopped.

The past month, the market has been dominated by uncertainties:

- Uncertainty as to the Argentine new crop that is suffering one of its worst droughts ever.
- Uncertainty as to the US new crop plantings, with cotton prices now at 78 cents and cotton being included in the title 1 price support.
- Uncertainty as to the Chinese new crop plantings, with weak 2017 crop Chinese domestic prices and a surge in corn prices.

## USA

The main topic of discussion this past month was cotton. Both because of the inclusion of cotton into Title 1 payments and the rise in price. With the generic base gone, farmers have now to figure out to which covered commodities, including cotton, they will convert that generic base. Results unknown yet. If no action is taken by each farmer within the 90 days, then generic base automatically converts to seed cotton base; many FSA offices are yet ready to support this work, so the next few weeks will be hectic. The short-term result though of these changes and rise in price will be a decrease in peanut plantings, a needed reduction in plantings (to get back to a more normal rotation). I still believe that the US will plant 10 to 15% less. If cotton was to break above the 80 cents barrier, then the reduction in peanut plantings could be even higher.

As I mentioned before, even a 20% reduction in supply out of the 2018 crop would result in a relatively unchanged carryover in August 2019. Until a month ago, the market for both the 2017 and 2018 crop was very weak with prices basically being in the mid 40's or close to the mid 40's. That has now changed with sellers either off the market or 2 to 3 cents higher. The reason for this sudden change was a direct result of the rise in cotton price. That rise came just after shellers started to contract farmer stock for the 2018 crop. Farmers were already not very keen on contracting at the us\$ 390/400.- price, but when cotton price started to close in on 80 cents and with seed cotton being now included as a covered commodity, farmers were very hesitant to contract at that price, hence the reason why peanut prices went up a little.

As to the oversupply of the 2017 crop, I believe that the big three shellers (having most of the storage capacity) will contract more than expected if they can obtain us\$ 355.- to us\$ 375.- to hedge their risks on 2018 crop. It makes it therefore very difficult to evaluate what quantity will be forfeited between July and October. And when it comes to the repayment rate, we shouldn't count on the government lowering the repayment rate. Too many options still exist for the 2017 crop; the big 3 shellers to purchase prior to forfeiture at close to \$355, and/or forfeitures happening with subsequent sales to China or buyback by shellers. With the generally good quality of the 2017 crop, we may see shelling for the edible market into late 2018 or even early 2019.

The potential short supply from Argentina will probably result in an increase in exports, but that increase might only make up for the shortfall for the decline in exports to China. I still believe that exports will be down this year vs. last year. The US only has so much EU material and so much blanching capacity. The consequence from the Argentine drought will most probably be an increase in the spreads between US negative material (i.e. 15ppb) and EU material. I wouldn't be surprised to see that spread come back to last year spread that was around 10 cents a lbs. As much as some have reported price for US 17 crop at us\$ 1200.- Cif for raw and us\$ 1450.- for blanched, I don't believe that anything can be bought below us\$ 1250.- and us\$ 1500.-. I think that anything below us\$ 1350.- on raw and us\$ 1600.- on blanched are good prices.

### **USDA peanut stocks and processing for January:**

- Jan 18 vs. Jan 17: Peanut candy up 6.39%, Peanut snacks up 4.48%, Peanut butter **down 3.35%**, Total edible up 1.66%, Inshells up 21.37%
- Aug 17-Jan 18 vs. Aug 16-Jan 17: Peanut candy up 4.25%, Peanut snacks up 1.27%, Peanut butter up 1.18%, Total edible up 3.18%, Inshells up 11.87%

### **USDA exports for January:**

- Jan 18 vs. Jan 17: 35'537 mt vs. 36'776 mt, a **decline of 3.37%**. Declines in exports to The Netherlands, Germany and Japan were offset by increases to China and the UK.
- Aug 17-Jan 18 vs. Aug 16-Jan 17: 207'069 mt vs. 244'153 mt, a **decline of 15.19%**.

### **Argentina**

Argentina is experiencing one of their worst droughts ever. It is difficult to ascertain the extent of the problem as the rainfalls are very different for all the areas. Every week without rain decreases the yields. At this point I think that the market will be happy if Argentina has a yield of at least 2 mt. Not only will the yields be down, but smk (sound mature kernels) will be down, kernel sizes will be down and aflatoxin will be a question. Supply through the end of the year will be tight and January through June 19 will be very difficult to procure.

It is difficult to evaluate how much was sold for the new crop, but with a supply being potentially cut by 40 to 50%, one can easily conclude that some of the shellers might be sold out. All Argentine shellers are withdrawn at this time. And not sure really when they will be back. After having sold blanched material all the way down to us\$ 1350.- Cif, I wouldn't be surprised if the market opens up again close to us\$ 1600.- Cif. Some will say that the US and Brazil will cover the Argentine shortage. Well Brazil has so much and will certainly not sell at cheap prices.

The US does have an oversupply but 1/as much as the quality of the 2017 crop was good, there is only a certain percentage that will meet the EU quality. And a good percentage was already sold. 2/ Blanching is and will continue to be tight. Some say that us\$ 1200.- Cif on raw and us\$ 1450.- Cif on blanched are still available. I don't see those levels. Watch for the EU US quality goods to continue going up.

On a side note, with the terrible drought, why is it that some shellers were still selling fairly cheap Argentine peanuts 3 weeks ago?

### **Brazil**

Similarly, to Argentina, Brazilian shellers are withdrawn. They are not withdrawn because of a crop issue, but because of prices locally firming up. The crop is actually quite good it seems with harvesting well under way. Many of the shellers in Brazil sold a portion of their crop internationally at prices all the way down to us\$ 1300.- Cif for blanched. But the Argentine drought has resulted in farmers increasing their price hence the reason why shellers are withdrawn.

I don't believe that major suppliers will have any issue delivering their contracts, but the smaller shellers could certainly use this opportunity to default on some of their commitments. The Brazilian origin will find lots of interest with the lower supply from Argentina.

### **China**

The Chinese current crop market continues to be very weak with seemingly plenty of supply left to be sold. Chinese farmers are starting to feel some pressure. The temperatures in China will soon start to rise and quality deterioration is in the mind of the farmers. New crop plantings are around the corner, and farmers will need to sell to get money to buy seeds. No bullishness for the current crop. But with corn prices having gone up, one wonders if a portion of the farmers will not switch to corn instead of peanuts. Some say that with the Chinese government having cancelled the corn

program, we will not see much switch. Others think differently. I think that we could easily see a planting reduction of 10%.

A substantial planting reduction in China could be potentially bullish for the market. The question though, that I don't believe any can answer, is how big will the carryover be. But it is possible that a substantial reduction could increase Chinese domestic price which in turn could entice, especially the Chinese crushers, to look at buying peanuts from the US.

## **India**

The following report received from one of our contacts:

The Gujarat government having procured 800,000 tons of In-shells since November 2017, has permission to procure another 100,000 tons from the Central Government. However, for now they are not going ahead with this additional purchase. It remains to be seen when the government will unload this purchase back in the market but even today local prices are below the Minimum Support Price levels and farmers would love to sell to the government.

On the export side we continue to have fairly slow demand this season with China, a large buyer until last year, practically out of the market expect the initial period of November – December last year. Other large markets for the Bolds which are traditionally Russia, Algeria etc. have been buying more and more of the Brazilian peanuts, out pricing India as an origin. On the Javas, we continue our dominance in the Far East markets of Indonesia, Malaysia etc. as we are able to ship on time and the cargo reaches quickly as well as compared to African origins which have been making inroads into these markets as well. For the larger Javas, the domestic demand is very healthy and some small shipments are taking place to South Africa, EU as well as the Far East.

The crop from South India, which is mainly Javas, is showing decent arrivals since the last few weeks already and we expect supply to continue for the next 3- 45 days. What is a question however, is the state of planting for Summer Javas in Gujarat. There is a shortage of water in this region so my personal expectation is lower planting and hence a smaller crop. This could lead to a jump in prices for Javas ex India eventually.

### **Prices reported as follows on a Fob India basis:**

- Bolds 40/50: us\$ 1000.- for non-EU and us\$ 1200.- for EU
- Bolds 60/70 for EU birdfood at us\$ 1040.-
- Javas 60/70: us\$ 1140.- for non-EU and us\$ 1375.- for EU