



February 6, 2018

USA

The final 2017 crop estimate from the USDA called for a crop of 3'616'800 fst. Nevertheless, the USDA National Tonnage Report shows only 3'528'774 fst inspected to date. Still plenty of peanuts though. Depending on the domestic and export demand, the carryover on August 1, 2018 should be around 1.4 to 1.5 million fst, basically twice the normal carryover. The US government is supposed to try and minimize the amount of forfeitures that will normally take place between June and October 2018. The only tool the government has to minimize forfeitures is the lowering of the repayment rate. There is no word yet on when and if the repayment rate will be lowered. If the repayment rate is lowered, the shellers will most probably redeem any farmer stock contracted. In the event of a lowering of the repayment rate, I don't think that peanuts will be priced cheaper by the sellers, at least not until the market is confident about the 2018 crop and even then, I don't see much reduction. Then comes forfeitures (whatever that number will be). I think that most of the forfeitures will end up being bought by the shellers (and mainly by the big three as they are the ones with the storage) because they know what the quality is and the price should be interesting. Nevertheless, it all depends on the US and Chinese new crop as the forfeitures (at least most of them) will only happen after August at which point we will know what kind of crops we have in USA, China, India and Argentina. The other important factor will also be when will the government sell them. Will they sell them on a monthly basis or all at the same time?

As to the 2018 crop, I think that acres will be down as much as 10% just because of crop rotation and better cotton prices. If cotton prices were to continue to increase and reach the 80 cents level and/or get government support through an inclusion in the 2018 crop, then we could see acres go down possibly 15%. It does sound like a lot, but per my calculation, even a 20% reduction in production in the US for the 2018 crop with export demand staying stable would result in a relatively unchanged carryover for August 2019. Several shellers have come out with contracts lately, for limited volume it seems, with prices probably averaging around us\$ 390.- per fst. This tells me that there has been relatively good volume sold to manufacturers.

There seems to be very little activity in the 2017 crop market. Prices have been stuck in the 44/45 cents Fob SE depending on the grade with new crop 1 to 2 cents higher. Cif Rotterdam price have been around us\$ 1150.-/1175.- on a raw basis and us\$ 1400.- on a blanched basis. Buyers seem to be very well covered. With the plentiful supply worldwide, buyers are acting as prices can only go down (or they are more covered than the market thinks). It wouldn't take much for prices to go up. For Europe, any problems in Argentina, will certainly move the prices higher. Otherwise any issue with the US or Chinese new crops, will make the prices go up (but it seems we have time since we have yet to have those crops planted).

USDA peanut stocks and processing through December: consumption is showing a healthy increase of 3.56% for edible and 12.86% on inshells. Talking to some manufacturers about the up and down numbers for November and December on candy and snacks, they are clueless as to why those numbers are showing such differences between the 2 months.

- November 17 vs. November 16: Peanut candy **down 7.92%**, Peanut snacks **down 0.63%**, Peanut butter up 6.37%, Total edible up 3.35%, Inshells up 6.73%
- December 17 vs. December 16: Peanut candy up 22.10%, Peanut snacks up 24.10%, Peanut butter up 1.46%, Total edible up 5.56%, Inshells up 7.63%
- August-December 17 vs. August-December 16: Peanut candy up 3.70%, Peanut snacks up 0.06%, Peanut butter up 2.96%, Total edible up 3.56%, Inshells up 12.86%

USA exports for December:

- Dec 17 vs. Dec 16: 46'480 mt vs. 59'606 mt, a 22.02% drop. Notables being China/Vietnam with a drop of 9'221 mt or 31.98%. All other major countries down 10 to 20%.
- Jan-Dec 17 vs. Jan-Dec 16: 436'553 mt exported vs. 624'636 mt, a 30.11% drop.
- Aug-Dec 17 vs. Aug-Dec 16: 171'532 mt vs. 207'377 mt, a drop of 17.29%

There has been lots of talk about the potential of cotton being included in the 2018 crop through the disaster relief bill which would avoid many discussions for the 2019 crop farm bill. I will spare you the debate between the House "seed cotton" and the Senate "cotton seed" although I will tell you that "seed cotton" is the one farmers are wanting considering it takes both lint and seed in consideration.

The proposed policy is as follows:

- Establish seed cotton as a covered commodity under Title 1 making them eligible for ARC/PLC
- Would be effective with the 2018 crop
- A proposed reference price of 36.7 cents per lbs (being a weighted average for both lint and seed)
- Generic base would no longer exist. Instead, it would be converted to seed cotton base and/or other covered commodities

It seems that regardless what happens with the cotton policy, the Generic base will cease to exist either for the 2018 crop or in the next farm bill.

Argentina

At the end of last year, Argentina was busy selling some of the remainder of their 2017 crop combined many times with 2018 crop. Very low prices were achieved (us\$ 1350.- Cfr Rotterdam for whole blanched). Since then not much business to talk about. Moreover, most of what remains to be sold out of Argentina is probably of doubtful quality.

Official planting estimates call for an area of 423'000 has for the 2018 crop, a 5.22% increase over last year. So far, the crop is developing fairly well, with a few areas (South and North of Rio Cuarto), needing some additional rain. The new crop is at a critical stage. With about 1 and half to 2 months to go, rain is needed pretty much on a weekly basis. The crop can turn quickly from a good crop to a stressed crop. For these reasons, Argentine shellers are not very keen on selling.

Brazil

The new crop plantings in Brazil was delayed by about a month. Despite that the crop seems to be up about 5% and in very good condition. Harvest is expected to start in early March for some. Of course, we are still 2 months away and these are the most critical month for growth and quality. Thereafter, similar to Argentina, one will hope for dry weather for the harvesting. Difficult to tell what the total planted area was, but one source estimates 190'000 to 200'000 has were planted. Prices have been very competitive from Brazil, with low us\$ 1300.- being available for 38/42 blanched with a us\$ 100.- discount for splits.

China

All that can be said about that China is that the market is very weak both domestically (which is the most important) and export. There doesn't seem to be much hope for the crushing material for the rest of the year. There is plenty of supply domestically and pressure coming as well from external supply, especially from Africa at the moment.

We will have to wait for the end of the Chinese New Year to star getting some more indications on the market for the rest of the year and expectations for the new crop plantings. There continues to be interest from China to buy farmer stock form the USA, but there is a us\$ 75.- to us\$ 100.- per mt price gap between sellers and buyers, gap that will be difficult to be bridged.

India

Hereunder reports received from our contacts:

“Indian market is extremely sluggish to say the least. Barely any demand from China or any other country. Domestic markets aren't too exciting either at this moment. Other African countries have been able to successfully eat into The Indian market share due to lower prices.

The government so far was procuring groundnut from the farmers at the MSP. This has had a huge impact on the processors of groundnuts this year causing a direct disparity in the trade. Most of the processing units are closed at the moment. There is news that the government may not procure any more groundnuts. Everyone is hopeful of a correction, once this happens. But the extent of the correction and whether it will bring back the trade to life remains the million-dollar question.”

“Government of Gujarat has already bought 800000 tons Inshell from farmers and will continue to buy additional 100,000 tons at the MSP of Rs.45000 per ton. This has kept the prices high. The exchange rate is not favorable for exports. The Indian Rupee versus the US Dollar has appreciated by 7 to 8% from Rs.68.86 now to Rs.63.60. The Indian Peanut Market is listless.”

South Africa

On January 30, 2018 the CEC issued their crop estimate calling for 53'000 has to be planted vs. 56'000 has the previous year. They report that the intentions were originally for 65'500 has. My feeling is that with the dry weather that South Africa suffered at planting time, plantings must be off more than the 53'000 has. I wouldn't be surprised to see something more like 40'000 to 45'000 has.

Weather patterns have changed lately and South Africa did receive some beneficial rain. But this will have to continue for the crop to have a chance to achieve average yield. I think everybody can forget about yields as last year. So, expect lower supply and higher prices for next season. The difficult situation is that shellers bought at lower prices, farmers are looking at a tough season with yields, but with low international prices (Argentina and Brazil) it makes it difficult for sellers to raise their prices.

Current crop material might be sufficient to supply the country through next crop although considering that consumption has been strong there might some shortages coming April/May.