

Est. 1986

GOLDEN

PEANUT **AND** TREE NUTS

October 29, 2014

The market has been quiet the past several weeks. Some are surprised at the lack of activity considering the quality concerns of the U.S. 2014 crop and the production shortfall of both Argentina and China. Some have been questioning the European demand which is probably at best flat. Some have been wondering about the impact of the smaller Chinese new crop, but we believe that 2013 crop carryover in China was bigger than expected, therefore keeping prices somewhat in control. The best explanation for this quiet market is the fact that manufacturers are well covered into 2015 calendar year, or at least through middle of the year if not further.

Prices have actually risen in this quiet market, it is just that a lack of activity has not given the market the full opportunity to show the full impact of the different issues affecting the market.

Prices in the U.S. have gone up 4 to 5 cents a lb, and even more for tight specifications. Argentine prices have gone up by at least US \$ 150.- per mt. Prices in the U.S. might not go up much more considering the coverage and the lack of unsold good quality. The only unknowns are future cotton prices and the potential demand from China. Should cotton prices rise, peanut prices will rise. Should China domestic supply dry up, prices will go up with the increase in demand. Chinese buyers have slowly showed interest and have so far only bought limited volumes, but should supply tighten up and prices rise domestically in China, prices in the U.S. will rise.

Things are different for Argentina. Through November of next year, Argentina has the biggest supply of EU material and blanched product. Any holes in the European demand will have to be filled by them, thus an opportunity for prices to rise. The question is how many holes are left in the demand for next year.

U.S.

It will take some time to figure out the size of the 2014 crop, but one can assume a number between 2.4 to 2.5 million farmer stock short tons. About 50% of the 2014 crop is now harvested. The quality is better than expected on the incoming farmer stock as far as aflatoxin is concerned, but damage levels are higher than expected. It will take some time to evaluate if the aflatoxin levels on edible goods mirror the levels of the incoming farmer stock.

Having said that, most of the quality that remains to be sold by shellers will most likely be regular USDA negative material considering that heavy sales have been done to tight spec customers, including EU material. With that in mind, there will probably be big differences in prices between USDA negative material and low aflatoxin material.

We estimate that 75 to 80% of what shellers will handle has already been sold.

Blanching capacity continues to be a concern in the U.S. Very little opportunity through June of next year in the southeast, with some shellers already booked up through October. The southwest situation is better but with raw material costs being more expensive than the southeast and additional freight costs it makes it a very expensive alternative.

FOB prices for current crop raw mediums are in the low 50's negative material with tight spec material, if it can be found, at mid to high 50's.

Many are starting to think about the 2015 crop. With low corn prices and especially low cotton prices, one can easily estimate that we could have a healthy increase in plantings for next crop. Tough to evaluate what that number will be, but one can assume a 10% increase which would keep the carryover above normal. The 2014 crop will bring the carryover number down some considering a demand of roughly 2.5 million fsst, and considering some additional losses from quality issues. But a 10% increase would bring the carryover back up to roughly 1 million fsst.

Having said that, we are only in October and things can change, and change very fast in the commodity world.

A note on demand, should additional blanching capacity be available in the U.S. in years to come, we could see export demand increase with competitive U.S. production costs.

ARGENTINA

Many wonder how much unsold quantity is left from the 2014 crop after the crop having been affected by rains during harvesting. The 2014 crop yields were announced (by the Grain Exchange) to be 2700 kgs per hectare. This is the third year in a row that yields in Argentina are below average. The lower than average crop combined with the country's economic difficult situation has made it difficult for Argentine shellers to be competitive in the world market and has resulted in a difficult financial situation for many of the smaller shellers.

The 2015 crop plantings are under way. The Grain Exchange has announced that plantings would be 4.6% lower than the 2014 crop with most of the decrease (if any at the end) coming from the consequences of high land rent costs.

Prices for both current and new crop have been in the us\$ 1400.- to us\$ 1450.- CIF Rotterdam for raw 40/50 and us\$ 1600.- to us\$ 1650.- for blanched.

CHINA

It is difficult to ascertain the exact shortfall in the Chinese 2014 crop production. The consensus seems to be a decline of 20% in production or roughly 3 million tons. One would think that such a shortfall would push prices up and consequently push buyers into the market. Nevertheless the seemingly higher than expected carryover from the 2013 crop is keeping prices somewhat in check. We believe that this is also coupled with a slowdown in the Chinese economy and cheap alternative oils such as soybeans.

The Chinese buyers have slowly started to enquire about U.S. peanuts, and have bought some small quantity, but it will be interesting to see their buying appetite. The window for the Chinese New Year is narrowing, and it might be that if the Chinese really buy big volumes that they would only come into the market March forward. Should that happen, the prices will for sure rise.

It will also be interesting to see what will happen with the 2015 crop plantings. Peanuts do not seem to have been very profitable for the Chinese farmers the past couple of years, thus one could forecast another decrease in plantings which would definitely change market sentiments.

SOUTH AFRICA

The South African 2014 crop was a relatively good crop with 78'090 tons of production (reported by the department of agriculture. Contrary to other origins, prices have gone down mostly due to the weak currency vs. the U.S. dollar. Despite the lower prices, demand has not risen much both domestically and for export. Consequently, we could see some carryover into new crop which could also put some pressure on prices.

New crop plantings are slowly under way despite the dry weather. The department of agriculture announced planting intentions would be up 11.7%. This increase is due to the low corn prices in South Africa.

BRAZIL

Brazil planted 140,000 hectares for 2014 crop with an outturn of 370,000 mt kernels but 30% of such kernels was of lesser quality.

For the 2015 crop, Brazil will more than likely increase plantings by 5-10 %.