Johnvince Business Review: Peanut Costing Analysis

USA Peanut Market Update

Runners - In the Southeast production areas, we saw an increase in acreage for the ‘20 crop by approximately +/- 10%. This allowed most to expect a total crop production size of 3.3 - 3.4 million tons of farmers’ stock. Optimistic for sure, vs. LY’s 2.7/2.8, and allowed pricing to drop from unusually high prices during this past summer on the ’19 crop. Recall that our ’19 crop was full of problems, and prices during most of CY ’20 were sky high. Since then, prices have declined somewhat from summer time highs to existing levels for whole blanched Runners.

Growers were aware of expected ’20 crop production (and they know they have a great deal when growing peanuts), so they were content to contract with shellers early on at similar levels to last year. Most took a normal sales hedge of 50-65%, w/ expectation to contract more later on. Neither growers or shellers were in any hurry for the remainder of ’20 crop contracting. Manufacturer buyers, however, saw the expected price reduction for Dec/Jan + shipments and bought pretty heavily early on, since new (’20) crop prices were attractive compared to ’19 crop. That took care of most of what the shellers and growers contracted early on, but there still remained good quantities of uncontracted ’20 Runners left to go.

Given the weather during the growing season almost everyone expected this market to remain stable or decrease slightly, and it would have normally. Unfortunately, as with everything in ’20, this is again not a normal year. What occurred is that expected yields per acre were reduced in most SE Runner areas (although no one is sure why), causing a 5 -10% reduction in overall crop production. That brought our overall crop to 3.1 - 3.2 million tons expected.

Additionally, and this one was also somewhat unexpected, the Chinese developed a heavy taste for U.S. farmers’ stock peanuts and started buying big quantities last summer. As you know they use it for oil crushing purposes, after shelling themselves, but also take the good kernels out to sell. They make minimum spec standards for peanut oil refiners and then sell the rest off for a nice profit. They’ve always bought U.S. farmers’ stock, but they usually purchase the product that has some problems, like damage (Seg. 2) or high aflatoxin (Seg. 3), because it’s cheap. They did this from the ’19 crop, but prices got too high for their taste and quantities disappeared. Well, since the ’20 crop was so good, they bought the same (seg 2 & 3) but those quantities were very limited due to good quality crop. They ended up (unexpectedly) buying big quantities of Seg. 1 peanuts (same as normal edible product) from shellers (at the start) but then from buying points and growers themselves… China, as you know, will look under every rock and they paid prices well above what shellers had been paying growers. This has caused a lot of the remaining uncontracted farmers’ stock to disappear and has tightened up the supply side and overall Runner market. It has created a higher floor than most expected thus we’re looking at a stable to increasing priced market going forward. No dramatic increases, but I do not expect prices to fall at all.

USA Peanut Market Update Cont.

Contrarily, given the new improved pricing options that growers will have when they plant their next crop in May ‘21, we may see peanut acreage decline. Prices for cotton, corn and soy are up and that’s what competes w/ peanuts for acreage. Growers like to rotate and the lack of it for the last few years (as peanuts were the only thing that a grower made any $ with) may be the reason for the yield reductions… Makes sense, right? If growers can make some money w/ these other commodities and they can get back to a normal rotation, then they certainly will… That is food for thought for the ’21 crop for sure!

Southwest (Texas) Runners - All are high oleic and they had some unusual early harvest season frigid weather and snow / ice, which reduced quantities out in West Texas. Normal desert dry conditions during the growing season, that didn’t allow the irrigation to keep up, so these issues also contributed to a further reduction in overall Runners…

Virginias - Staying in the Southwest where a large amount of Virginias are planted, they had the same weather as mentioned above and Virginias simply got whacked. Runners are shelled but Virginias out there are grown primarily for use as Inshell, so you can imagine the result. All are planted in West Texas which is where the worst weather occurred. Currently the inshell market is thru’ the roof over. FOB basis and largest domestic roasters are worried about overall supply and will have to offset the lack of SW Virginia supply w/ product from the Virginia / Carolinas (V/C) so that they can make contracts. Export buyers in the EU, who also have a taste for SW Virginias, are absolutely screwed as they don’t have many options to turn to…

For the V/C production, they also had an unusual growing season. Cool wet weather during early summer, then it just never got the heat units and sunshine needed to produce a good crop. Again, acreage was up, but their production was reduced more than the Southeast. When it did turn warmer, it was just too late to make a big impact, thus overall production, quality and maturity (key word here, as large Virginia kernels are most mature) suffered. Harvest brought moist / foggy weather (unusual) and thus it was delayed and is still not finished. Suffice to say that Virginia in shells are not looking great and the overall supply of large Virginia kernels (XL’s) is reduced significantly. Again, I’d have to say a pretty dramatic supply reduction for large kernel Virginias. As you are aware, there is currently no sheller who is willing to offer any ’20 crop Virginia Extra Large (either w/ or w/o skin), but would expect pricing to be up ~ 20-25% vs. last years levels… Inshell prices certainly reflect that as well…