

Is the Cashew market going to be on fire ???

Are there fundamentals that could give reason to believe that the general cashew market must brace itself for what is to come ? What has happened over the past 18 months or so and what can be the impact on the coming 6-12 months ? And how must one read the current situation in the RCN market place and how to understand the reality under the Vietnamese import and export figures, how to really look through the Indian reality on RCN availability and kernel sales locally ?

In this report we strive to look at the details as we see and understand them and try to take a mathematical view on how the market may display itself in the next 6-8 months and beyond.

Some general observations and potential explanations offered :

1- Indian imports RCN to date down vs last year.

- Possible caused by uncertainty on the RCN market. Plenty of importers/local processors having lost a lot of money from approx. September 2018 on RCN deals closed where the market totally fell out of bed.
- Possibly caused by lack of finance being available to importers due to more severe banking rules and controls, making down-payments to for example African exporters of RCN harder or even impossible
- Possibly caused by lack of faith in the general market for kernels, fueled by comments from the kernel market that kernel prices should come down rather than go up.
- Possibly caused by Indian processors having decided to first use their own crop and then look at possible imports -wait it out and see how the market develops-

2- Indian export of kernels to date are slightly up.

- The export market (imports into USA, EU, Middle East and really all other countries) for kernels is strong (stronger than 12 months ago), especially for Vietnam product, but India has taken quite some kernel orders too.
- Local market is good, not overwhelmingly better than last year, but the generally lower prices have helped build additional demand.

3- Vietnam imports of RCN are up by almost 100.000 Mton (vs half July 2018), in part that is due to more imports from Cambodia

- Vietnam and Cambodia crop combined was estimated higher than last season but now the imports from African countries is picking up momentum.
- Factories are booking relatively nearby positions still to fill kernels demand or position themselves for the coming months of processing.
- It is said that small Vietnamese processors are closing the door since they struggle to turn RCN's at today's price and quality into kernels at a margin.
-

4- Vietnam exports of kernels to date up by approx. 6,5%. (9.6% end June)

- Half July 2019 exports are approx. 19.000 Mton, if this trend continues for the month, Vietnam will export 38.000 Mton kernels, which is 19% over last year July.
- For 2018, Vietnam exported 46,6% of its exports till June and hence 53,4% in the second half of the year.
- What number of export growth in sheer volume should one use to estimate Vietnams final export number in kernels ?

A wise man said : if you know your history, you can likely predict your future.

2011/2012 was a year similar to this one. Tanzania's 2011 crop was left unbought till approx. mid 2012 and RCN prices kept falling, till the RCN buyers realized that the Tanzanian crop was needed to keep the Cashew kernel motor running....

Is 2019 a repetition ?

In some ways, surely ! But there are differences as well (see the points on RCN India as strong drivers of the differences).

A snap shot on the African side of things, looking at the crop, local processing & exports of RCN :

2018/19 crop East Africa (Oct/Nov/Dec 2018 – Feb 2019 harvest) :

Tanzania – mostly still in Tanzania – estimated at 220.000 Mton.

Mozambique – practically sold out / shipped or in hands of local processors.

Kenya – in hands of local processors for domestic market mainly.

2019 crop – West Africa :

Generally speaking, crop volumes were OK but not super good. The general quality was down from previous years, causing less kernels to come out of the RCN.

RCN was kept (not really by choice, likely due to lack of liquidity in the market due to less advances being paid by buyers of RCN) by farmers and traders in anticipation of rising prices, but a lot of RCN has been released to the market since it was clear the buyers for RCN were less plentiful compared to previous years.

What did not help was for some African governments declaring minimum prices to farmers that were not directly linked to the kernel market parity.

There has been lots of talk about large export contracts for RCN in every country really, but in fact there has been less buying interest due to :

- a- Lack of financial backing from banks in both Vietnam and India due to issues with unpaid loans in previous seasons.
- b- Lack of faith/trust in the kernel market by buyers, causing a hand-to-mouth buying pattern which caused cautioned buying of RCN by processors in Asia.
- c- Some larger kernel traders selling short in the USA and EU market, taking kernel demand out of the market, compounding the issue hereabove.

General observations :

- Kernel stocks in destination countries remain limited (have been limited for the past
- (Much) lower prices for pieces (from FS down) cause issues for processors on their average price achieved, causing them to need lower RCN prices to break even.
- Ivory Coast carried quite some RCN into the new crop, product has been mixed, which reduced the kernel yield.
- The Tanzanian RCN of the 2018 crop are needed to balance out the world market on kernel supply and demand.
- The Tanzanian 2019 crop is around the corner.
- The RCN market is general is emptying and remaining product in the market is of low quality, resulting in :
 - Higher processing expenses for anyone buying this material.
 - Lower kernel yields in general and lower quality in general too.

Where is RCN needed in order to keep the cashew wheels running ? And what is the best way to analyze this ?

Herebelow we have followed a logical approach using :

- The assumption that Vietnam is and shall remain the dominant factor on kernel supply.
- The assumption that there was approx. 200.000 Mton of RCN standard with the processors (in stock in Vietnam), i.e. with processors who service the kernel export market.
- Using the facts on RCN imports and kernel exports till end July 2019 to do forward calculations into 2 end dates :
 - end of December 2019.
 - end of February 2020 (the real date to be used to calculate the RCN need in Vietnam since by that time their own crop shall start coming in).
- For this analyses we use the assumption that the export over the year 2019 shall be similar in pattern as 2018 (i.e. if in 2018 approx 55% was exported by end July, we use the same % for 2019 calculations).
- We assume that Vietnam exports of kernels continue the same pace as set these past months.

This is the stock flow of Vietnam, matching the import figures reported by government and using the export kernel figure at an average yield of 21%.

Per end July one would thus expect the Vietnamese processors have about 415.650 Mton RCN in hand, which is the starting stock of August 2019 of course.

VIETNAM	January	February	March	April	May	June	July
Beginning stock Vietnam (estimated)	200.000	100.999	97.399	190.340	293.656	311.629	363.788
Imported	56.851	66.691	95.122	55.944	188.754	239.007	244.516
Own crop	-	-	150.000	200.000	25.000	-	-
Cumulative stock	256.851	167.690	342.521	446.284	507.410	550.636	608.304
Export RCN volume in kernels	155.852	70.290	152.181	152.629	195.781	186.848	192.654
Remaining stock	100.999	97.399	190.340	293.656	311.629	363.788	415.650

Following the same numbers into August, and working on the estimated RCN on the water to arrive in August, and using the remaining African stocks to calculate the exports to Vietnam, at the end of February the stocks will be down to 65.188 Mton RCN.

August	September	October	November	December	January	February
415.650	570.925	625.755	544.855	430.196	321.634	144.897
343.854	225.000	100.000	75.000	75.000	-	-
-	-	-	-	-	-	-
759.504	795.925	725.755	619.855	505.196	321.634	144.897
188.579	170.170	180.900	189.659	183.562	176.737	79.709
570.925	625.755	544.855	430.196	321.634	144.897	65.188

Note :

This is assuming that :

- 20.000 Mton 2018 crop Tanzania RCN is shipped to arrive in August
- 200.000 Mton 2019 crop Tanzania RCN is shipped during September-November (to arrive in the following month).

Summary :

- ❖ Till end February Vietnam alone will need to import of well over 800.000 Mton RCN, assuming the kernel demand continues at today's growth rate.
- ❖ What is known of the RCN in the market place (especially Africa) is that the remaining quality is low (this phenomenon has not been taken into account in this report, but West African RCN have been considerably lower quality compared to the previous seasons, which of course impacts the kernel recovery yield negatively, but also increases cost of processing).
- ❖ Is there 800.000 Mton RCN in Africa still (and if so, how much is left to buy for Indian processors) ?
- ❖ And WHAT-IF....what if Tanzania does not market its new crop RCN as needed by the market ?

So where is *India* in this reality ?

India :

Indian processors have been downsizing their fixed stocks from 5-6 months holding to average 3 months holding. This caused the demand to be slower, even though demand for kernel did not slow down.

Exports from India are up, and imports of RCN that started slower in the first couple of months of 2019 are now up from previous season too.

It is said that importing into India is becoming harder due to :

- Lack of abundant finance.
- Increased rules on documents making imports more difficult, shying away importers of the past.
- Lack of forward contracting of RCN due to (heavy) losses made by local processors in the past season.

However, using a flat kernel demand of 350.000 Mton kernels (calculated back to RCN in below overview at 21% yield) and keeping the exports of kernels at the 7,8% increase for the coming months, using a figure of 600.000 Mton RCN for the local crop in India (we took 600.000 mton for our calculation as reported by some Indian traders to us

but this number could be higher between 670-725.000 mton), one can see that India needs at least 981.393 Mton RCN to not run out of RCN stock at the end of February 2020.

Starting position in RCN stock by Indian processors is estimated at 500.000 Mton (one can discuss this number as this could be lower working towards Indian new crop). Thereafter, the numbers are factual till end July, import statistics on RCN imports and kernel export.

The local consumption is spread evenly over 12 months, i.e. just over 29.000 Mton kernels monthly, converted at 21% to RCN.

INDIA	January	February	March	April	May	June	July
Beginning stock India (estimated)	500.000	364.726	233.204	276.600	426.125	580.272	586.281
Imported	15.926	16.821	42.696	42.292	98.756	151.208	130.000
Own crop	-	-	150.000	250.000	200.000	-	-
Cumulative stock	515.926	381.547	425.900	568.892	724.881	731.480	716.281
Export RCN volume in kernels	32.152	29.295	30.252	23.719	25.562	26.151	32.105
Local consumption	119.048	119.048	119.048	119.048	119.048	119.048	119.048
Rest stock	364.726	233.204	276.600	426.125	580.272	586.281	565.129

August starts where July ended, and we have assumed that Indian processors will be able to buy (at least) 375.000 Mton RCN from African countries.

However, using these figures, it is clear that India will run out of RCN by end January 2020.

August	September	October	November	December	January	February
565.129	541.942	522.428	499.936	343.698	190.847	40.876
125.000	125.000	125.000	-	-	-	-
-	-	-	-	-	-	-
690.129	666.942	647.428	499.936	343.698	190.847	40.876
29.140	25.466	28.444	37.191	33.803	30.923	30.523
119.048	119.048	119.048	119.048	119.048	119.048	119.048
541.942	522.428	499.936	343.698	190.847	40.876	-108.694

That would mean that the stocks at processors is totally used up, and there is no buffer in the market anymore....

The combination picture looks as follows (simply adding up the numbers for easy reading) :

Indian and Vietnam combined :

VIETNAM & INDIA COMBINED	August	September	October	November	December	January	February
Beginning stock Vietnam (estimated)	980.779	1.112.867	1.148.183	1.044.791	773.894	512.481	185.774
Imported	468.854	350.000	225.000	75.000	75.000	-	-
Own crop	-	-	-	-	-	-	-
Cumulative stock	1.449.633	1.462.867	1.373.183	1.119.791	848.894	512.481	185.774
Export RCN volume in kernels	217.718	195.637	209.344	226.850	217.365	207.660	110.232
Local consumption	119.048	119.048	119.048	119.048	119.048	119.048	119.048
Rest stock	1.112.867	1.148.183	1.044.791	773.894	512.481	185.774	-43.506

And what role plays *Africa* in the coming months ?

Africa :

The entire world seems to be looking at the Tanzanian crop to give direction to the market....is this founded or not ?

Looking at the above calculations, indeed Tanzania holds the keys to the world market prices.

It seems that without these RCN's being made available, will create a shortage that will cause kernel prices to have to go up to reduce the demand (that has been growing fast over the past 8 months or so).

The scenarios painted assume that :

- ❖ Indian consumption is not going up from the norm.
- ❖ That all RCN from West Africa is shipped before end 2019 to Asia for processing.

- ❖ The quality kernels coming from the last stock of RCN that will go to Asia will make the first grades (the entire market has been able to upgrade its quality and buy first grades because of the generally lower prices).
- ❖ Demand from China and other Asian countries has been kept steady, the question is if this is a correct assumption, because the much cheaper Cashew kernels may find way more demand, which would then add fuel to the fire.

Africa has more than one key in hand !

- 🚧 Local processing is limited, but these kernels shall be needed to help stabilize the market.
- 🚧 Processed at source will prove its quality this season, since it must be expected that many buyers around the world will see the kernels from Africa physically.
- 🚧 Tanzanian kernels shall likely be ‘the new kid on the block’ with plenty of interested parties.

Keeping all the above in mind, it seems rather logical for the following to happen :

- a- Last RCN stocks in most West African countries shall be taken up by RCN traders that read the market well.
- b- Even though RCN quality is down from desired levels, the potential shortage of RCN towards the end of the season will cause processors to buy RCN ‘at any price’ and for ‘any quality’.
The question on this point however is : will banks play along, i.e. provide for the necessary finance to fund the purchases ?
- c- Kernel demand will continue to grow and at some stage the entire market will start to see/feel the undercurrent that is right now not so visible.
The unknown on this point is the USA where a large roasting company has been sold, and the kernels buyers are still working through some positions that were bought about 15% above today's replacement prices.
- d- On the other hand on the USA demand is that new products gain momentum, like Cashew spread and Cashew milk but also Cashew pieces for ingredient business.
- e- By the time the ‘market starts to run’ it can be expected that :
 - Second grade kernels will gain momentum and the difference between first and lower grade kernels will reduce.
 - FB and FS may gain lots of momentum and the price difference to WW320 will narrow fast.
 - LWP and other pieces are likely to see more demand, and buyers will try to buy longer term deals rather than hand-to-mouth, which may fuel price rises.

In closing :

It seems a clear picture, **but in cashews that has never been the case.**

So here we caution : this may be the real picture that we are all facing in the market place, but the question is : who has what card up his sleeve, and when will all the cards all come to the table.

We caution also : it seems best to be well covered at these kernel levels, which are clearly among the lowest in the past decade.

Trust to have informed you well, we are at your disposal to help you make your buying decisions.

Sliedrecht, August 08, 2019