

Cashew Market Update

May 4th, 2017

For a long period between the last market update for ComCashew in February and a couple of weeks ago the cashew kernels market looked steady with limited activity. Many people expected that, as the crops continued to come in, prices would ease back from the established range of US\$4.50 – 4.60 per lb WW320 FOB toward levels closer to US\$4.00-4.20 per lb WW320 FOB. How wrong these expectations have proved to be! Over a few days, with heavy buying interest from US buyers the market moved up from US\$4.60 per lb WW320 to over US\$5.00 per lb traded and processors offer in the region of US\$5.15-5.25 per lb WW320 FOB. The prices of broken cashews which had not moved followed the earlier rise also moved up but on thin trade. The buying was for shipments up to September but we understand that there was also trade involving importers up to the end of the year. Why now and why in such an aggressive fashion has more to do with the operations of the individual buyers than it has to do with the fundamentals of supply and demand. There was no dramatic news, no crop announcement or weather event that stimulated this move to record price levels. Some say that prices are likely to drift back down but when the market has this kind of sentiment it takes a braver man than me to argue with it.

rises especially when they were to new record levels have impacted demand. This can be seen in terms of US and EU imports during 2011, the last time a new price record was set.

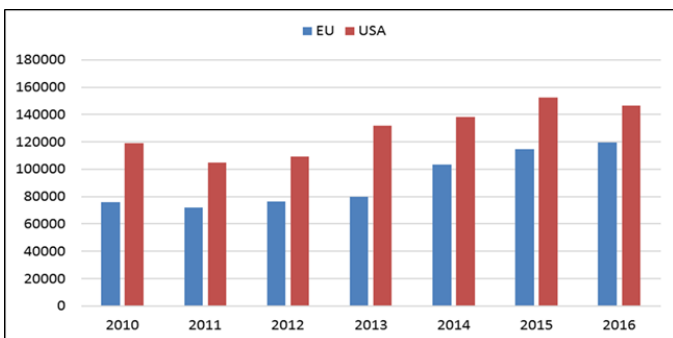
The impact of higher prices in 2008 interrupted the growth in cashew demand but did not change the underlying trend in the US and European markets. However, in more price sensitive markets like India, the largest consumer, and China higher prices have halted demand growth for longer periods.



Bags of RCN Photo: ComCashew/GIZ

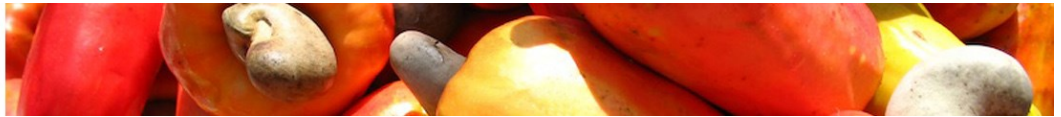
The cashew crops continue to come in in West Africa, India, and Vietnam. Reported harvesting in Nigeria, Benin and forecasts from Senegal/Gambia indicate good volumes compared to last year. Cote D'Ivoire has been progressing well according to reports which are backed by official figures which indicate exports are up by 30% on the same time last year. There are some reports of a poor second crop but it is difficult to distinguish truth from propaganda in a market where so much day to day information comes from sources with a short term commercial interest.

In Asia, India has officially estimated a crop of 779,000 tonnes for 2017 which would be a record crop and well up on last year. Some may not agree with the actual figure but a good crop seems assured at this stage. Vietnam has proven once again to be more problematic. The poor weather conditions which we mentioned in the February report have caused a lower than expected crop. How low remains



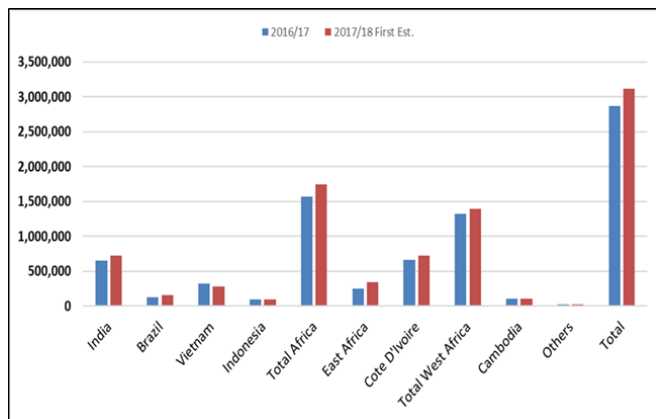
US & EU Cashew kernel Imports Tonnes

The question now is the impact that these higher prices will have on demand. In the past, sharp price



to be seen but a reduction of 25% seems the best case for now which means a loss of 80-100,000 tonnes. This is by no means a “disaster” in the context of the overall crop in excess of 3m tonnes but has a major impact on the thinking of Vietnamese processors who now process more than 45% of the Worlds cashews. As a result, they entered the market early and aggressively causing RCN prices to move up from the opening levels. In 2016 Vietnam imported more than 1m tonnes of RCN taking it above India to become the largest importer. The competition between Vietnamese and Indian buyers has been a key factor in supporting prices which can be seen this year at the farm gate in West Africa. Farmers have benefitted by this competition and rising consumer demand as well as better information, training, and inputs than ever before. How much more would they benefit if well managed competitive processing was located locally?

The RCN market has not reacted so far with the volatility of the kernels market. Prices are higher than last year in the usual wide range from US\$1650-US\$1900 per tonne Cfr India/Vietnam for origins from Nigeria to Cote D’Ivoire depending on quality. For the



2015/16 Crop vs 2016/17 Crop Tonnes

crops now arriving quotes are in the range US\$2100-2400 per tonne Cfr India/Vietnam reflecting the high-quality material available from Guinea Bissau, The Gambia and Senegal.

Overall, we see the 2017 crop as being better than 2016. The estimates for the crops now starting are good. There is a question mark over Cote D’Ivoire. It

has the tone of manipulation by traders but only the coming weeks will tell. On what we know now we see the crop as up 10-12% on last year. That means that 56% of the Worlds cashews will be produced in African countries.

The cashew market regularly seems to defy the logic of supply and demand. That usually means that there is some relevant fact that we do not know (e.g. a crop problem somewhere) or that the structure of the market gives rise to this behaviour. Today the cashew buyer depends on one country for almost 80% of their shelled cashews, Vietnam. Vietnam in turn depends on imported cashews for more than 75% of its in-shell cashews which grow far from the factories on another continent. It also has a very competitive, low cost processing industry. This means that large Vietnamese processors individually or as a group have tremendous influence on the market.

On the demand side the number of buyers has concentrated so that buying of cashew kernels is in the hands of a few major players. Their decisions, right or wrong, have an impact throughout the sector. This can increase volatility as we are now seeing or it can keep the markets relatively calm as we saw in 2015. Either way the African farmer and the fledgling African processor finds him or herself caught between the two. For the farmer, it has been good but for the processor it has been difficult. This difficulty for the processor is compounded by the price volatility of the market which is itself partly due to the lack of processing at the origin of the product.

Looking forward, further price rises cannot be ruled out but eventually the market must return to an equilibrium of supply and demand but this could be months rather than weeks away.

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