After the speculation, a fall in prices

After falling by more than 25% between March and October 2018, rates for unshelled cashew nuts climbed slightly over the last two months of the year. The spectacular fall in prices, which started at the beginning of March 2018, was in large part the consequence of excessive speculation by market players in 2017, reminding everyone that all things cashew are now played out in Vietnam.

We should recall that the 2017 campaign was marked by very poor production in Vietnam (16% of world production), but by very good harvests in West Africa (45% of world production) and India (21% of world production).

During this 2017 campaign, the very many processors based in Vietnam (50% of the world processing sector), fearing a lack of raw material and losing market share against Indian processors, drove each other into a speculative bubble, purchasing raw cashew from West Africa at sky-high prices, and causing a crazy increase in prices across the market. Prices only subsided slightly once the 2017 supply campaign had finished, in the latter half of 2017, the market finally taking into account the excellent production in West Africa.

In February 2018, Vietnamese processors approached the new campaign with a very different analysis. On the one hand, their production seemed distinctly better than the previous year, and on the other hand, large stocks of raw cashew imported during the previous campaign were still available in their warehouses.

Despite mediocre raw cashew production in India, which drove Indian processors to import much more raw African cashew than in previous years, Vietnamese processors approached this new campaign with a clearly smaller-scale outlook, cutting back and deferring by several months the bulk of their imports of African cashew.

Ultimately, the 2017 and 2018 campaigns were similar in terms of balance between world supply and demand, though the Vietnamese producers had a completely different perception, and in this context, the evolution of world rates reversed its course.

Only the surprise decision of the Tanzanian government in November 2018 to purchase via the army all of its production (9% of world production) and process it locally finally put an end to the downward spiral.

The beginning of 2019 will depend greatly on this surprising interventionist policy. Tanzania (the biggest producer in the Southern Hemisphere and therefore the main raw cashew supplier on the world market between December and February) may never have the means to locally process all of its production. Its established processing capacity is less than 50 000 tonnes of raw cashew per year, and the Tanzanian government has already purchased more than 200 000 tonnes from its producers (i.e. two-thirds of the estimated production). Building new factories would take at least a year. So Tanzania will need to resign itself to exporting its production in raw form.

If it decides to do so, prices could even slip a little, but as long as it does not, the Vietnamese and Indian processing industries will again be under pressure from a lack of raw material, and the potential for a fall in prices remains very limited.

Source: Service N’Kalô - Nitidae
cashew nut - average monthly price