Determining the Relationship between Peanut Prices and Stocks-to-Use Ratio

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It has been widely established that agricultural commodity prices respond to components of market supply and demand. One common measure of supply and demand is the stocks-to-use ratio (SUR), which captures the relationship between total stocks (supply) and total utilization (demand) at a given point in time. Typically, a current SUR exhibits an inverse relationship with price, i.e. when current SUR is high, the current price will be low. This indicates that market prices respond in real time to changes in production, inventory, and sales.

Peanut markets, however, are less well defined than other commodities. There is a lack of a futures market and there is considerable market power by first-buyers in the industry. Therefore, we hypothesize that the typical relationship between pricing and supply and demand may not be relevant with respect to peanuts. We use regression analysis to empirically test this relationship and show that peanut prices do not exhibit the same relationship as other agricultural commodities like corn, soybeans and wheat. Rather than a current SUR being inversely related to prices, we find a lagged SUR is inversely related. This indicates there is a delay in the price response to changes in supply and demand. Understanding this relationship is important for farmers as they assess marketing opportunities and form expectations for future prices. This also suggests the need for farmers to seek alternative marketing opportunities in an effort to mitigate the market power in the industry and to be able to obtain a price that is more responsive to current supply and demand conditions.