DERCO FOODS®

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February 2021 Walnut Report

2020/21 Walnut Supply (inshell tons)

Carry-in from prior season:	63,985
2020 Crop Receipts:	783,754
Total available for shipment:	847,739
Less: Shipments to date thru Feb 28:	463,670
Remaining supply:	384,069

Shipments

- Inshell walnut shipments were 26.8 million pounds for the month of February, an increase of 12.8 million pounds (+92%) compared to February 2020.
- Season to date inshell shipments are 324.6 million pounds through February, an increase of 72.3 million pounds (+29%) compared to the same period last season.
- Shelled walnut shipments were 43.8 million pounds for the month of February, an increase of 1.5 million pounds (+4%) compared to February 2020.
- Season to date shelled shipments are 263.4 million pounds through February, an increase of 19.8 million pounds (+8%) compared to the same period last season.

February 2021 walnut shipments from California were strong at 63,528 inshell tons. This is the second largest shipment total for the month of February, trailing only February of 2019. The year-over-year increase is in both inshell and shelled walnuts and is spread across multiple markets, with the largest increases seen in shipments to Europe and the Middle East.

The congestion at the ports in California and with the ocean carriers had an unknown total effect on February shipments. This situation is causing problems for California shippers who are rebooking containers multiple times as schedules change and prior bookings are cancelled. Buyers in overseas markets are also suffering as their goods are delayed indefinitely. Delays are pushing delivery of some goods after major consumption events. Looking at the month of February…some shipments originally scheduled for January were rolled into February while some shipments originally scheduled for February were delayed into March.

Looking at shipments to specific markets:

North America: Domestic shipments were down for the month of February for both inshell (-22%) and shelled (-14%) walnuts compared to February 2020. This is concerning given current market pricing and the need for the domestic market to perform well in the coming months to consume remaining inventory. Season to date shipments are better but growth in kernel shipments is likely being held back by the lack of demand for the foodservice sector. As foodservice begins to gain activity, we hope to see stronger shipment figures for USA and Canada in the months to come.

	Inshell Pounds			**Shelled Pounds**		
	Sep 19 - Feb 20	**Sep 20 - Feb 21**	**% Change**	**Sep 19 - Feb 20**	**Sep 20 - Feb 21**	**% Change**
USA	8,726,088	9,233,068	6%	106,285,029	106,513,230	0%
Canada	2,147,798	3,351,216	56%	8,387,258	9,228,552	10%
North America	11,042,070	12,690,242	15%	114,701,787	115,743,542	1%

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Europe: February shipments to Europe were up for inshell (+197%) and shelled (+6%) walnuts compared to February 2020. While season to date shipments remain behind last year, the trend appears to be reversing with shipments growing the past two months. Looking ahead we anticipate inshell business moving to Chile. Kernel business in the coming months may be interesting as fresh crop from Chile is being priced at a premium to inventory remaining in California.

	Inshell Pounds			Shelled Pounds		
	Sep 19 - Feb 20	Sep 20 - Feb 21	% Change	Sep 19 - Feb 20	Sep 20 - Feb 21	% Change
Germany	10,929,780	11,253,886	3%	38,436,312	31,610,523	-18%
Italy	49,640,076	44,761,895	-10%	3,255,602	3,266,718	0%
Netherlands	1,970,476	1,592,272	-19%	6,646,166	7,970,555	20%
Spain	16,790,408	15,963,329	-5%	14,329,825	14,370,203	0%
U.K.	211,182	42,000	-80%	4,439,957	5,208,367	17%
Europe	80,555,604	76,143,156	-5%	69,501,315	66,167,471	-5%

Middle East / Africa: February was a strong shipment month for the Middle East and North Africa for inshell (+199%) and shelled (+23%) walnuts compared to February 2020. This expands on a trend of strong shipments throughout the 2020/21 season so far. February accounted for the last of the shipments which should arrive in time for Ramadan. With Chandler inventory low in California and the start of harvest in Chile, we anticipate shipments to slowly fade to this region for the remainder of the crop year.

	Inshell Pounds			Shelled Pounds		
	Sep 19 - Feb 20	Sep 20 - Feb 21	% Change	Sep 19 - Feb 20	Sep 20 - Feb 21	% Change
Algeria	3,658,592	10,845,796	196%	0	0	n/a
Egypt	2,006,640	3,571,464	78%	887,458	1,453,980	64%
Iraq	793,664	1,014,188	28%	294,000	1,051,887	258%
Israel	584,139	1,405,117	141%	5,153,206	8,843,383	72%
Jordan	573,104	1,342,983	134%	1,534,953	4,239,460	176%
Lebanon	1,255,694	4,950,828	294%	-42,000	20,790	n/a
Morocco	4,763,028	6,878,128	44%	0	21,120	n/a
Pakistan	44,092	6,539,864	14732%	0	0	n/a
Saudi Arabia	264,552	397,552	50%	1,623,800	2,785,782	72%
Turkey	81,225,869	100,800,352	24%	286,910	1,196,336	317%
UAE	32,438,260	36,835,819	14%	3,939,776	5,894,588	50%
Middle East / Africa	128,020,996	175,163,418	37%	14,861,895	26,812,443	80%

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Asia / Pacific Rim: For the month of February, inshell shipments to this region fell primarily due to reduced shipments to India (-64%) compared to February 2020. This reverses the strong trend we've seen in shipments to India so far this season and is reflective of large inventories and the local market trading below origin levels. Kernel shipments to this region were strong for February (+15%) which is in line with the season to date trend. Attractive pricing and popularity of healthy foods is driving this increase in demand.

	Inshell Pounds			Shelled Pounds		
	Sep 19 - Feb 20	Sep 20 - Feb 21	% Change	Sep 19 - Feb 20	Sep 20 - Feb 21	% Change
Australia	2,000	0	n/a	3,914,170	4,014,484	3%
China	552,693	5,057,250	815%	863,000	357,550	-59%
Hong Kong	10,803	264,552	2349%	461,012	664,800	44%
India	15,418,141	35,300,529	129%	1,346,726	1,968,099	46%
Japan	0	0	n/a	17,249,418	18,458,752	7%
Korea	842,160	1,069,746	27%	12,668,669	18,453,787	46%
Taiwan	303,133	154,601	-49%	4,444,900	5,683,301	28%
Vietnam	12,831,478	12,890,781	0%	40,000	168,240	321%
Asia / Pacific Rim	30,224,960	55,133,827	82%	43,495,710	52,617,724	21%

Inventory

- Estimated inventory of California walnuts as of February 28, 2021 is 384,069 tons. This is an increase of about 70,000 tons (+22%) compared to February 29, 2020.
- If shipments the remainder of the crop year (March – August) match the same period during 2020, the carryout would be about 151,000 tons. This would be a higher beginning inventory position for the industry than faced in prior seasons.
- In order to achieve a carryout of about 100,000 tons, the industry needs to ship about 20% more than last season each month for the remainder of the season.
- The makeup of existing inventory is a topic of discussion among growers and buyers.
    - Export quality inshell Chandler inventory appears to be low.
    - Export quality Chandler kernel inventory (especially higher half counts) appears to be low.
    - If the majority of remaining inventory consists of "domestic light" and "combination" kernels, shippers will be heavily dependent upon the domestic market and possibly Europe to make additional purchases in the coming months.

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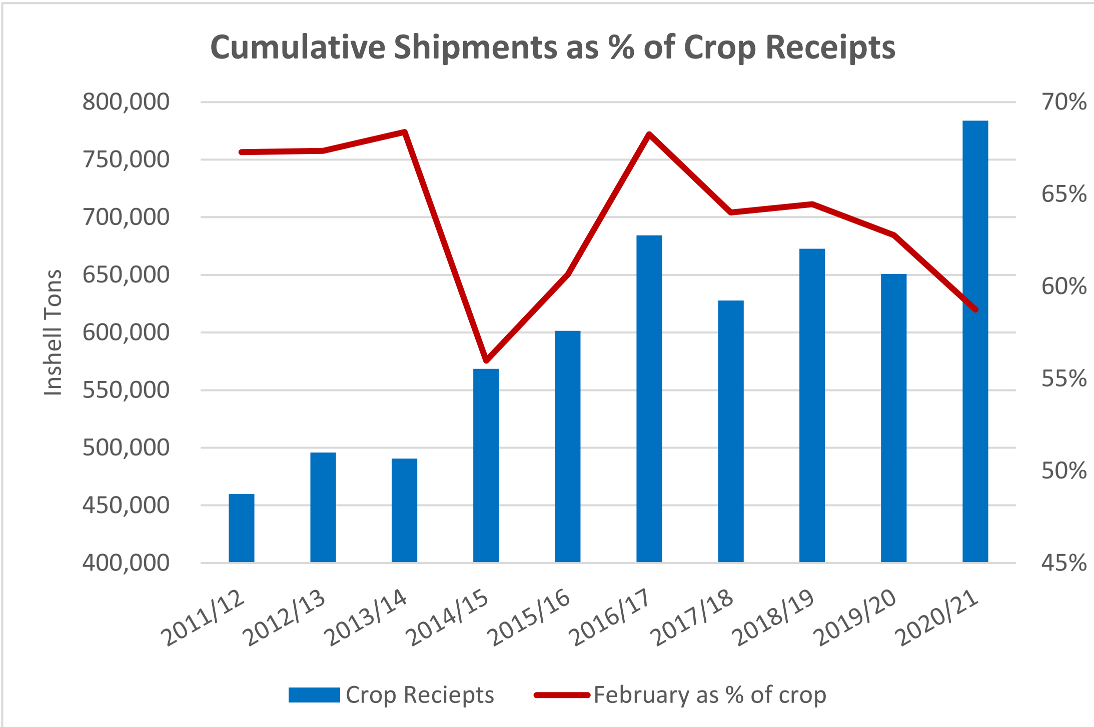
- The industry has shipped 59% of the 2020 crop as of February 28, 2021. This is slightly below the 10-year average of 65%.



Summary

Shipments during the month of February and so far this season are growing to most major markets. This growth is being driven by growing consumption of healthy foods, new product development and of course pricing at levels lower than we've seen in recent memory. With worldwide production trends indicating larger crops in years to come it is important to open new markets so that demand can keep pace with supply.

Despite the strong shipments to date, California still has significant inventory which needs to be sold and shipped ahead of the 2021 harvest. With weather turning warmer over the next month, we expect to see smaller handlers push to sell remaining inventories.

Harvest is now underway in Chile where expectations are for a crop of about 150,000 metric tons. Early indications are that quality is good in terms of color, yield and size. Harvest has just begun and we will learn more over the next month as Chandler harvest begins. Inshell markets have been most active early while some kernel markets are waiting to see clarity on the crop and pricing before buying.

Please let us know if we can be of service.

Best regards,
DERCO FOODS