



2670 West Shaw Lane, Fresno, California 93711 U.S.A.

Telephone (559) 435-2664 • Fax (559) 435-8520 • www.dercofoods.com • e-mail: derco@dercofoods.com

January 2016 Walnut Report

January 2016 shipments were 84.7 million inshell equivalent pounds. This is 19.6 million pounds (+30%) more than January 2015.

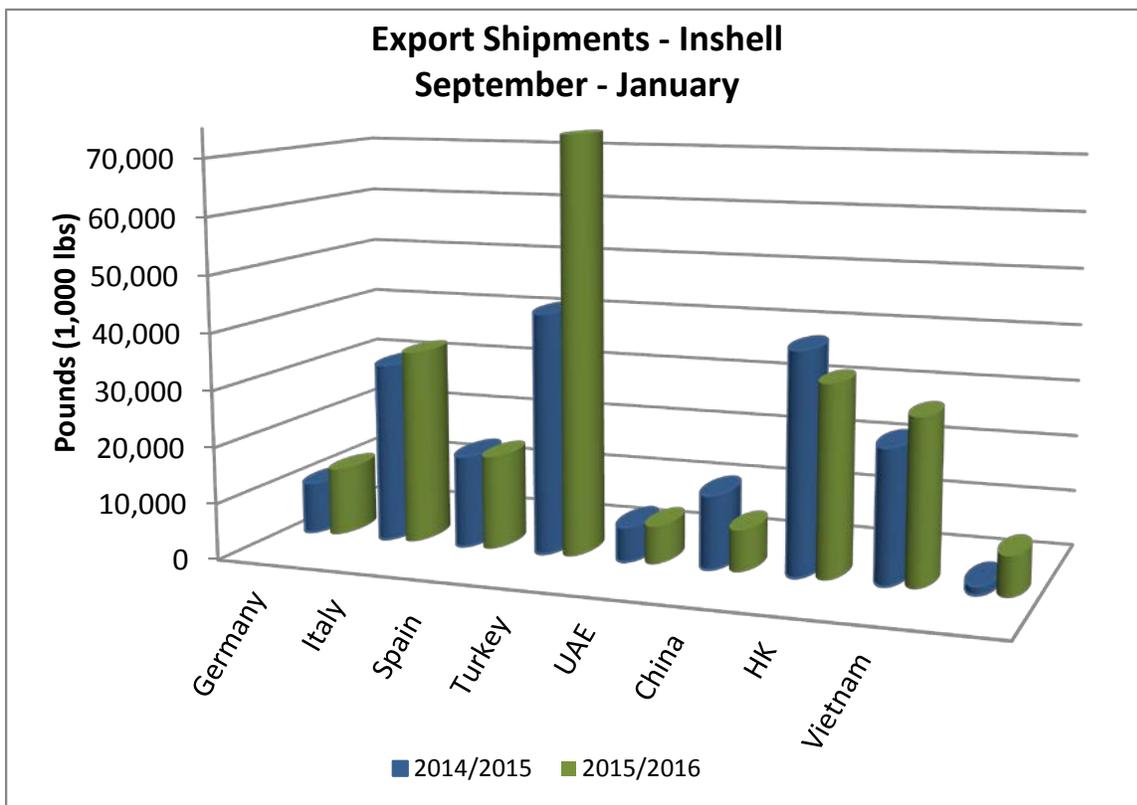
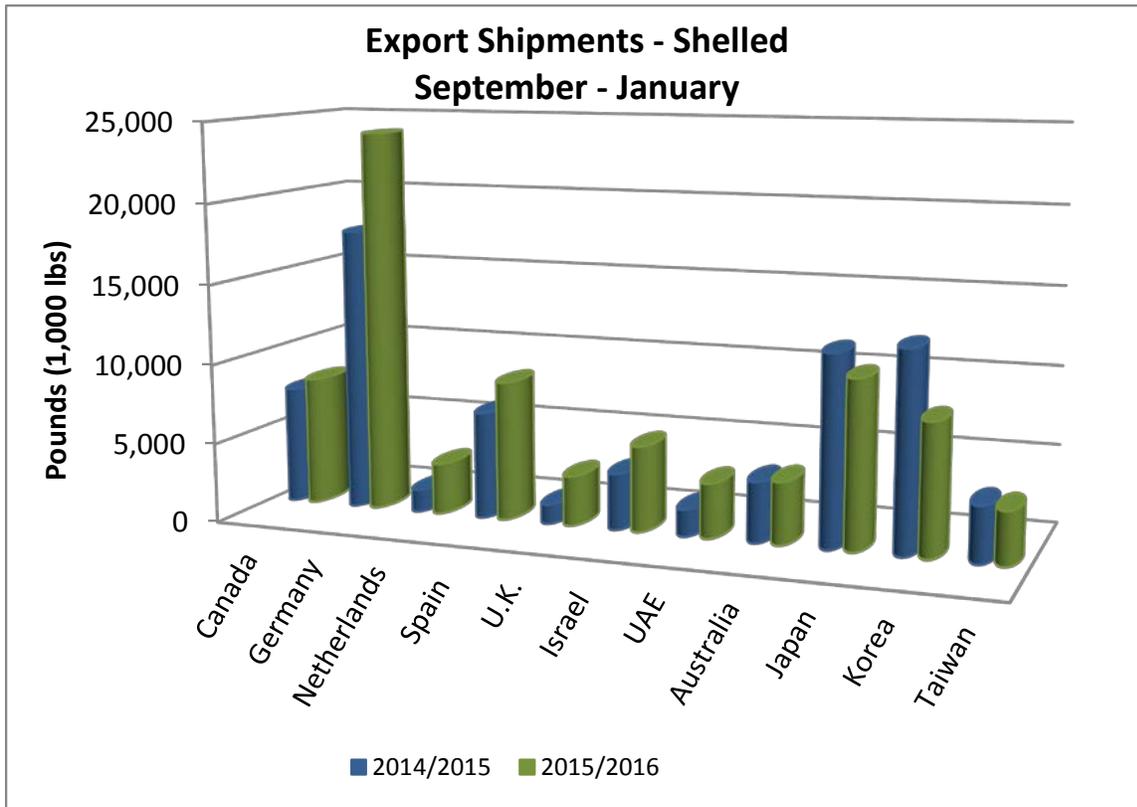
2015 Walnut Supply (1,000 pounds)

Carry-in from prior season:	167,022
2015 Crop Receipts:	1,202,706
Total available for shipment:	1,369,728
Less: shipments to date thru Jan 31:	633,616
Remaining supply:	736,112

- Crop receipts per the December 31 inventory report were 1.202 billion inshell equivalent pounds. We expect this figure to be final.
- Inshell shipments were 17.9 million pounds for the month of January, an increase of 5.2 million pounds (+41%) compared to January of 2015.
- Season to date inshell shipments are 247.4 million pounds through January, an increase of 37.4 million pounds (+18%) compared to the same period last season.
- Shelled shipments were 29.5 million pounds for the month of January, an increase of 6.2 million pounds (+27%) compared to January of 2015.
- Season to date shelled shipments are 170.3 million pounds through January, an increase of 15.8 million pounds (+10%) compared to the same period last season.

Below are some of the major walnut markets and the relative statistics (in pounds):

Country	<u>Sep 2015 - Jan 2016</u>		<u>Sep 2014 - Jan 2015</u>		% Change Shelled	% Change Inshell
	Shelled	Inshell	Shelled	Inshell		
USA	69,437,056	11,073,898	73,639,457	10,863,802	-6%	2%
Canada	8,126,720	2,064,231	7,407,635	1,530,804	10%	35%
Germany	24,077,259	12,087,987	17,844,093	9,198,984	35%	31%
Italy	1,843,997	34,564,477	1,250,402	32,007,416	47%	8%
Netherlands	3,219,870	1,664,087	1,415,443	2,731,809	127%	-39%
Spain	8,787,154	16,685,080	6,726,601	16,441,113	31%	1%
U.K.	3,142,994	401,644	1,213,311	389,784	159%	3%
Israel	5,382,412	903,200	3,549,378	772,202	52%	17%
Egypt	851,460	959,116	527,581	629,139	61%	52%
Saudi Arabia	1,569,716	330,322	950,094	520,745	65%	-37%
Turkey	772,262	73,830,404	46,560	42,887,658	1559%	72%
UAE	3,435,312	6,661,833	1,691,033	6,186,824	103%	8%
Australia	3,908,235	0	3,795,400	0	3%	n/a
China	978,710	7,315,620	769,800	13,037,067	27%	-44%
Hong Kong	897,297	33,634,234	785,611	39,053,929	14%	-14%
Vietnam	567,516	29,050,402	0	23,564,343	n/a	23%
Thailand	1,998,725	2,025,264	151,801	881,840	1217%	130%
India	10,010	7,023,782	33,520	1,530,621	-70%	359%
Japan	10,499,865	0	11,915,833	0	-12%	n/a
Korea	8,243,660	975,720	12,447,886	986,567	-34%	-1%
Taiwan	3,330,378	75,301	3,499,134	101,138	-5%	-26%



Final 2015 walnut receipts are 1.2 billion inshell equivalent pounds. This is an increase of about 65 million pounds over the 2014 crop.

Season to date shipments are 633 million inshell equivalent pounds. This is an increase of about 75 million pounds over the same period last season.

A simplistic view is that season to date shipments have already accounted for the increased crop size. With prices about 40% lower than they were a year ago, remaining inventory will easily sell out and prices will move up. A few other factors to include:

- The 2015 reported carry-in was about 90 million pounds larger than the 2014 carry-in
- The 2015 unreported carry-in which consisted of 2014 crop inventory being held by overseas
- Increased competition in the form of supply from overseas origins

January shipments from California were strong and will likely help stabilize the market. Due to the large 2015 crop and opening inventory position, prices have retreated about 30% from opening levels. Walnuts at current prices are a good value in comparison to most other tree nuts, particularly pecans which are often considered to be a substitute.

Remaining supply of about 736 million pounds is about 78 million pounds (+12%) larger than this time last season. A larger anticipated crop from Chile will add competition in the coming months as California growers look to reduce season-ending inventory. It is important for California to continue shipping at an aggressive pace in the coming months to manage ending inventory.

- If California shipments the remainder of the season are equal to those of last season, the carryout would be about 240 million pounds (+73 million pounds or +44%)
- If California shipments the remainder of the season are about 16% above last season, the carryout would be about 162 million pounds (almost equal to last season)
- If California shipments the remainder of the season are about 20% above last season, the carryout would be about 142 million pounds (-24 million pounds or -15%)

Good quality inshell walnuts and light color kernels are already becoming difficult to find in California. Some small and mid-size growers are already sold out of light color and others are trying to move remaining inventory in the next month...before the weather turns warmer and they have to utilize cold storage. We anticipate prices for light color kernels to remain stable and possibly move upward as inventories grow thin.

Inventory of darker colored kernels is readily available. The market for combination or light amber product may face additional pricing pressure as growers compete to move this inventory. A planned purchase of light amber product by the government for use in school lunches is a positive step toward reducing this inventory.

Buyers have shown more interest at current market levels. We anticipate stronger demand at current prices once buyers have confidence in the market.

Regional market analysis:

- USA: January shipments were disappointing as both inshell and shelled domestic shipments were below prior season. It takes time for the lower wholesale prices to reach the consumer level, especially for retailers who had locked in higher prices last season. Aggressive advertising by the California Walnut Board should also help to boost domestic demand in the coming months.
- Europe: This market has shown impressive growth in walnut shipments all season. January shipments were up 38% for inshell and 60% for shelled. Season to date shipments through January are up 6% for inshell and 48% for shelled. This growth comes despite a stronger US Dollar and shaky economic outlook in Europe. Shipments to nearly all major European markets are up compared to last season.

- Middle East / North Africa: January shipments are up 36% for inshell and 130% for shelled over January of 2015. Season to date through January, shipments are up 61% for inshell and 72% for shelled. This is strong growth in spite of the political and socioeconomic difficulty in the region as well as the widespread defaults that plagued the region in the fall of 2015.
 - Turkey: Inshell shipments to Turkey are up 46% (+1.8 million pounds) for the month of January and are up 72% (+31 million pounds) season to date. This accounts for the large majority of the increased inshell shipments to the entire region. Demand has been strong despite some difficulty with lower than anticipated color and meat yield in the Chandler variety. Buyers are trying to ensure they have inventory for Ramadan which will be difficult to meet from Chilean harvest. The earlier Ramadan has boosted demand for California walnuts despite a difficult political landscape and weaker currency in relation to the US Dollar.
 - Israel: Kernel shipments to Israel are up 126% for the month of January and are up 52% season to date (+1.8 million pounds). Buyers who made early season purchases are continuing to buy at lower prices in hopes of bringing down their average purchase price for the season. With prices for lighter color kernels seeming to have stabilized and inventory beginning to run thin, buyers are moving back into the market to cover their needs for the coming months.
 - UAE: Walnut shipments to UAE for the month of January are up 14% for inshell and 691% for shelled compared to January 2015. Season to date shipments are up 8% for inshell and 103% for shelled. This is strong growth for a market that has seen a lot of turbulence and plenty of defaulters over the past six months. The remaining participants in this market should be well positioned in the coming months/years as less competition remains and sellers in California will remember and remain loyal to those who performed according to their contracts.
- Asia: January shipments to this region were strong for both inshell and shelled walnuts. Shipments of inshell were up 121% while kernels were up 35% compared to January of 2015. This is welcome improvement in shipments to a region that has been slower so far this season. Season to date shipments are up 1% for inshell and down 7% for kernels. It appears inventory of 2014 crop walnuts that was carried into the new season is finally gone as January was the second consecutive month of growth for the major buyers in this region.
 - China/Hong Kong/Vietnam/Thailand: January shipments of inshell are up 146% (+2.7 million pounds) compared to January of 2015. Season to date inshell shipments are down 5.9% (-4.5 million pounds) compared to the same period a year ago. The market has been quiet for the past few weeks as buyers have taken a break to celebrate Chinese New Year. Post Chinese New Year demand will depend on inventory levels after the holiday, availability of inshell from California and price levels of Chilean crop walnuts that will be available in the coming months. With California prices at lower levels, buyers in China indicate that California origin walnuts are competing not only for Chinese consumer business but also with exports of Chinese origin walnuts in other markets around the world.
 - India: This market continues to show exceptional growth with January inshell shipments up 559% (+731 thousand pounds) and season to date inshell shipments up 359% (+5.5 million pounds). India is viewed as a key growth market for future seasons with a rapidly growing population and history of consuming nuts. So far, the difficulties that are plaguing the California almond industry seem to have bypassed the walnut industry. Shippers have taken note of the almond industry's defaults and refusal by many Indian importers to provide No Objection Certificates (NOC). This behavior is likely to limit the growth in the near future while allowing proven buyers to take advantage of less competition in their local market.



2670 West Shaw Lane, Fresno, California 93711 U.S.A.

Telephone (559) 435-2664 • Fax (559) 435-8520 • www.dercofoods.com • e-mail: derco@dercofoods.com

- Japan: January was a strong month for shipments to Japan with kernel shipments up 117% (+1.8 million pounds) compared to January of 2015. Season to date kernel shipments are still down 12% (-1.4 million pounds) as shipments to this country got off to a slow start in the fall of 2015. Buyers in Japan who have been working through higher priced inventory of 2014 crop are now being rewarded with lower prices for 2015 crop as most buyers were not active early in the season.
- Korea: Walnut kernel shipments to Korea continue to trail last season with January shipments down 20% (-595 thousand pounds) and season to date shipments down 34% (-4.2 million pounds). Inventory of higher priced 2014 crop walnuts and painful memories of market losses during the spring/summer of 2014 have kept buyers from participating at a more aggressive rate. With the tariff on US origin walnuts falling again as of January 1 and the slow depletion of inventory, some buyers have begun to move back into the market. We anticipate a hand to mouth approach as buyers do not want to be left with large inventory positions heading into the 2016 crop.

The January shipment report should help to provide further stability to the California walnut market. While overall inventory remains above prior seasons, shipments are on pace to end the season with a manageable carryout. Walnuts are considered a good value compared to most other tree nuts and with light color kernels beginning to disappear, we anticipate buyers to move into the market to cover their spring and summer requirements.

Let us know if we may be of further service.

Best regards,
DERCO FOODS