DERCO FOODS®

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January 2018 Walnut Report

2017 Walnut Supply (inshell tons)

Carry-in from prior season:	55,976
2017 Crop Receipts:	627,798
Total available for shipment:	683,774
Less: shipments to date thru Jan 31:	352,902
Remaining supply:	330,872

January 2018 shipments were 55,632 inshell equivalent tons. This is about equal (down 0.9%; -529 tons) to January 2017 and is the second largest January shipment figure on record.

- Crop receipts are 627,798 inshell tons which is down 8% (-56,540 tons) from the 2016 crop. This is the second largest production on record from California. This is considered the final crop receipt number as reported on the December 31, 2017 inventory report. This is about 15,000 tons larger than expected (or reported on prior shipment reports).
- Inshell shipments were 22.2 million pounds for the month of January, a decrease of 5 million pounds (-19%) compared to January of 2017.
- Season to date inshell shipments are 255.3 million pounds through January, a decrease of 95 million pounds (-27%) compared to the same period last season.
- Shelled shipments were 39.3 million pounds for the month of January, an increase of 2 million pounds (+5%) compared to January of 2017.
- Season to date shelled shipments are 198.7 million pounds through January, a decrease of 14 million pounds (-6%) compared to the same period last season.

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

	Sep 2017 - Jan 2018		Sep 2016 - Jan 2017		% Change	% Change
Country	Shelled	Inshell	Shelled	Inshell	Shelled	Inshell
USA	80,602,939	16,044,993	86,769,006	10,032,079	-7%	60%
Canada	7,830,103	2,461,007	7,748,801	1,952,212	1%	26%
Germany	29,976,351	11,543,736	27,767,745	14,148,854	8%	-18%
Italy	2,529,161	43,190,013	2,855,850	51,854,629	-11%	-17%
Netherlands	4,804,964	2,746,544	3,357,964	2,571,919	43%	7%
Spain	11,271,226	16,614,070	12,450,059	20,502,350	-9%	-19%
U.K.	2,965,125	580,485	4,440,140	220,372	-33%	163%
Israel	5,265,814	486,384	4,816,554	1,385,681	9%	-65%
Jordan	564,600	308,660	2,262,238	1,204,649	-75%	-74%
Lebanon	0	3,835,101	0	2,814,703	0%	36%
Morocco	0	4,370,019	0	5,289,759	0%	-17%
Saudi Arabia	875,087	264,368	3,425,678	1,102,668	-74%	-76%
Tunisia	0	2,247,315	170,548	473,989	-100%	374%
Turkey	879,527	64,914,425	471,049	114,856,071	87%	-43%
UAE	1,744,733	21,235,507	5,414,372	19,288,944	-68%	10%
Australia	4,736,106	8,267	3,706,145	22,046	28%	-63%
China	1,161,500	8,210,639	2,533,199	6,045,187	-54%	36%
Hong Kong	707,666	10,238,005	1,314,723	28,954,608	-46%	-65%
Vietnam	99,680	16,244,598	538,400	37,185,422	-81%	-56%
Thailand	291,598	0	1,591,124	353,101	-82%	-100%
India	0	20,213,640	52,855	21,155,040	-100%	-4%
Japan	17,393,582	0	13,098,071	0	33%	0%
Korea	14,138,032	1,331,612	14,994,317	1,150,766	-6%	16%

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January shipments from California were good, essentially equal to the record January 2017 shipments. The strong markets in January were USA, Turkey, Japan and Korea. This was offset by weakness in shipments to Western Europe, India and China. Shipments to key markets are as follows:

- North America: Domestic shipments were good in January with kernel shipments up 9%, helping to close the gap on season to date shipments which remain down 7%. Shipments to Canada were also strong, with kernels up 19% for January and 1% season to date.

- Western Europe: Shipments were down in January compared to last season for both inshell and kernels.
    - Reductions in inshell were seen to Italy (-7%) and Spain (-32%).
    - Kernel shipments were lower to Germany (-6%), Spain (-1%) and U.K. (-44%).
    - Season to date shipments remain mixed to the region with inshell trailing last season by 15% and kernel shipments ahead of last season by 2%.

- Middle East/North Africa: January inshell shipments were up 60% compared to January of 2017 driven by strong shipments to Turkey (+82%) and U.A.E. (+136%).
    - Season to date inshell shipments still lag the 2016/17 season, down 33% as a region. The improved shipments in January were partially driven by a reduction in tariffs on shipments to Turkey.
    - Kernel shipments in January were weaker, trailing January 2017 by 16%. Israel was the lone bright spot with shipments up 99% over January 2017.
    - Season to date kernel shipments are down 48% over prior season with reports of slow movement in local markets.

- Asia: January shipments were mixed for the region with inshell down 67% and kernels up 12% compared to January 2017.
    - Inshell shipments to China/HK/Vietnam are down 95% for the month of January and down 52% season to date. Buyers in China took advantage of big production, good quality and lower prices of domestic production. This may be a new reality and will impact California going forward if this once robust market for inshell walnuts disappears.
    - Inshell shipments to India were down 49% for the month of January and are down 4% season to date. While there remains tremendous opportunity for growth in this market, the degree of growth we've seen over the past few years is not sustainable. Buyers in India are now looking ahead to Chilean origin walnuts which were received well last season.
    - Kernel shipments were strong in January to Japan (+32%) and Korea (+19%). Japan maintained the strong pace with season to date shipments up 33% and reports of good volumes of additional business done in January. Shipments to Korea remain down 6% season to date.

If shipments the remainder of the season (Feb – Aug) are equal to last season's totals, the carryout would be manageable at about 65,000 inshell tons. Assuming shipments trail last season by 10% for the remainder of the crop year, the carryout would increase to about 90,000 inshell tons.

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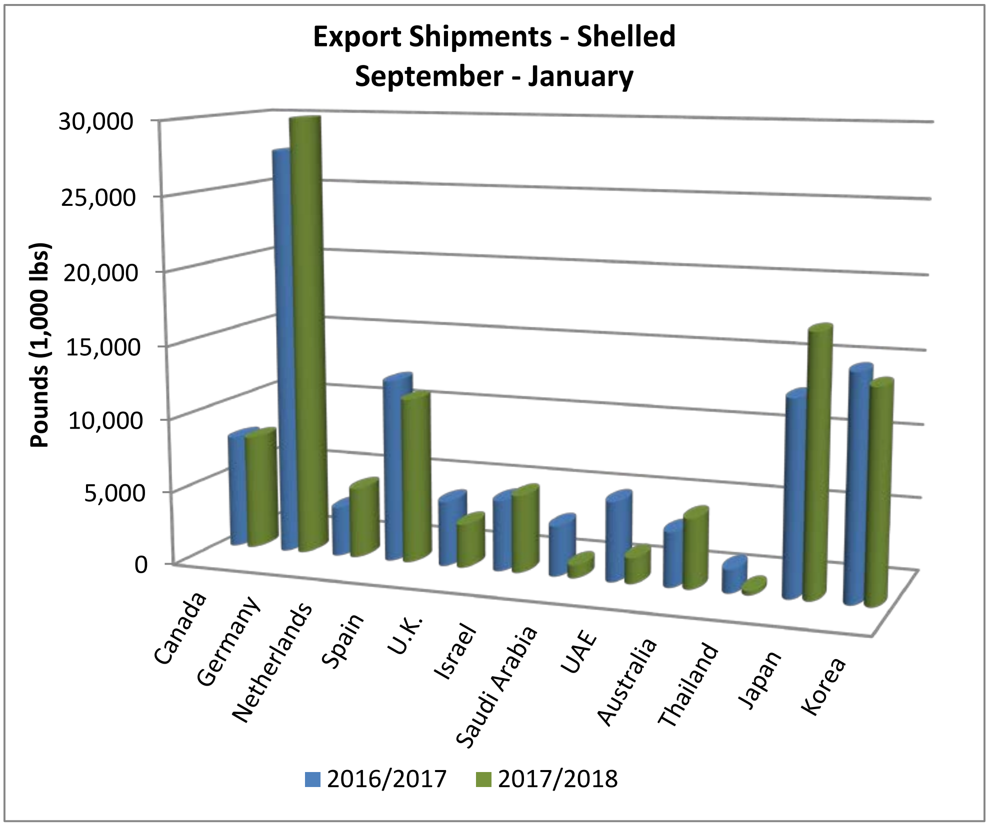

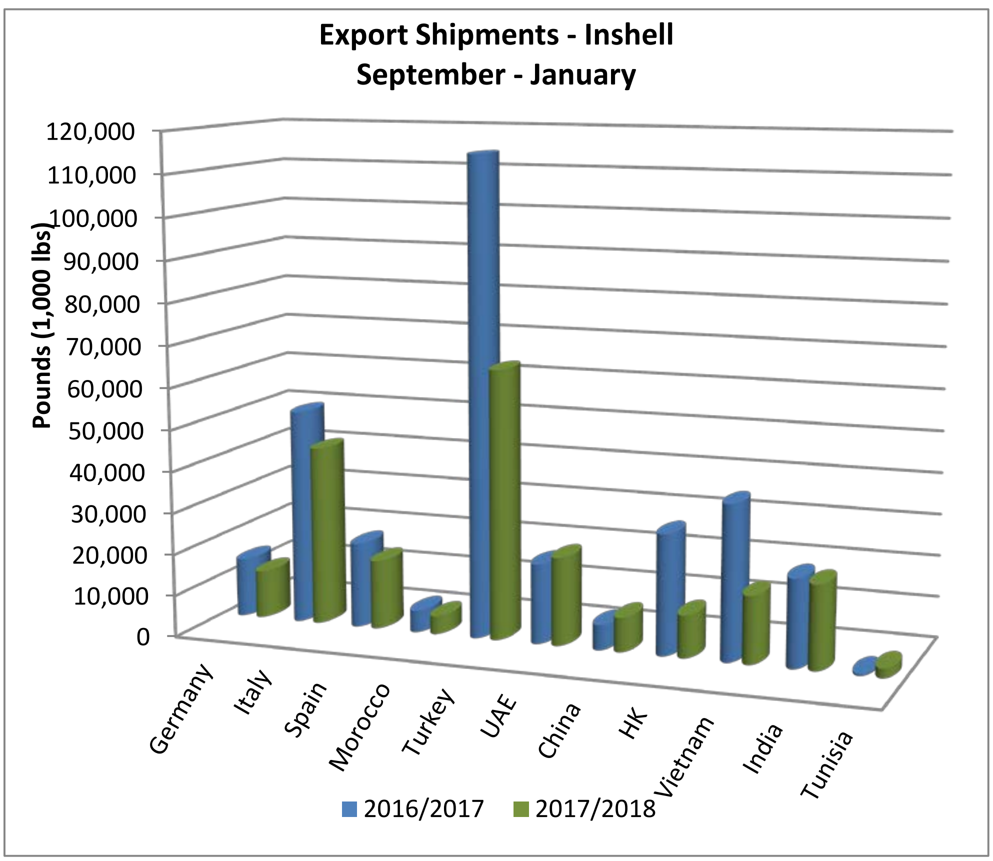

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Most markets have been quiet in terms of new business over the past month. While reported inventory in California is similar to that of last season at this time, new business has been slow and the market has a different feel from last season when most growers were effectively sold out by the end of February. Gulfood begins in another week and many buyers are already looking ahead to fresh crop from Chile, where expectations are for a crop in the 130,000 metric ton range (an increase of about 20% over last season).

Inventory in California is centered in Chandler light kernels, especially higher half counts. Combo and pieces are in shorter supply. Inshell is also in shorter supply as most packers are beginning to shell remaining inventory.

It's still much too early to know anything about 2018 production. We do know that bearing acreage is continuing to increase in California, China and Chile and world production is likely to get larger in the near future. This may play well into the hands of buyers as prices are likely to trend lower as competition increases.

The market for Chilean origin walnuts is likely to open over the next 1-2 weeks as Gulfood approaches. While there is still a month or more until harvest, reports from Chile indicate good growing conditions and expectations for good quality and production. Early demand from buyers in Turkey and India will likely play key roles in setting the market for inshell. Kernel sales may be more challenging due to increasing production and more competition in the market from others in Chile as well as inventory in other origins.

Please let us know if we may be of further service.

Best regards,
DERCO FOODS