

March 2018 Walnut Report

2017/18 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 Mar 31:	451,443
Remaining supply:	232,331

March 2018 shipments were 50,017 inshell equivalent tons. This is a decrease of 9,433 inshell tons (-16%) compared to March 2017. This is the second largest March shipment figure on record.

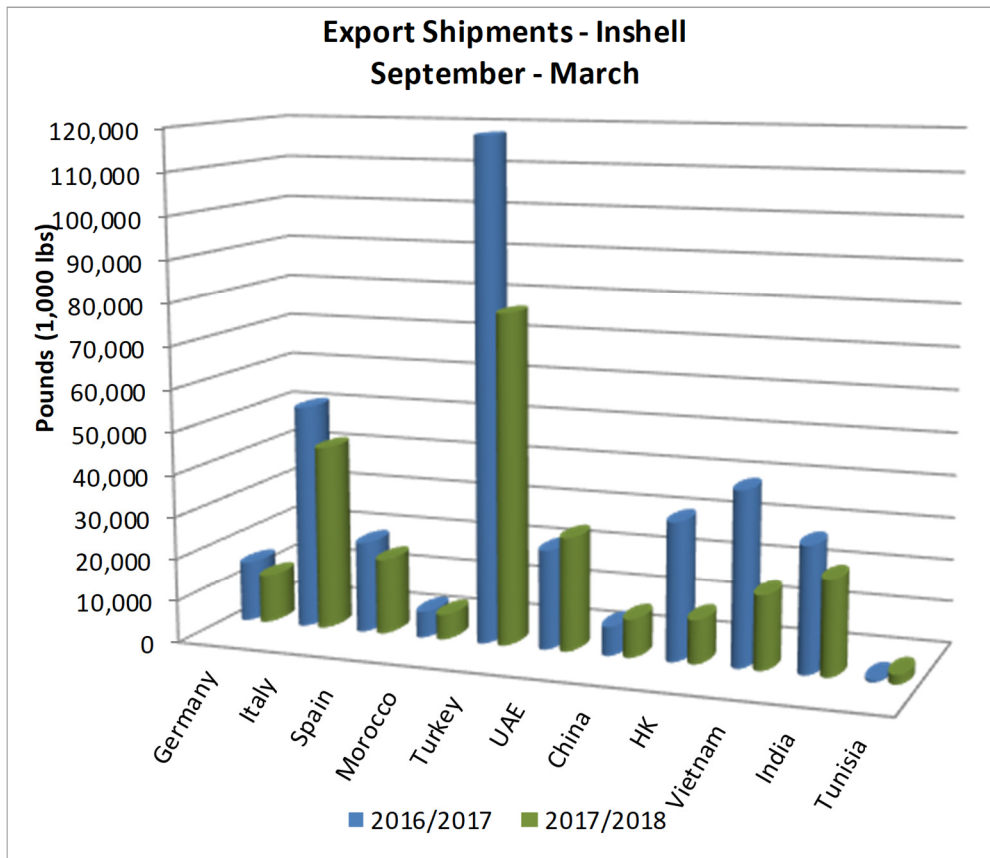
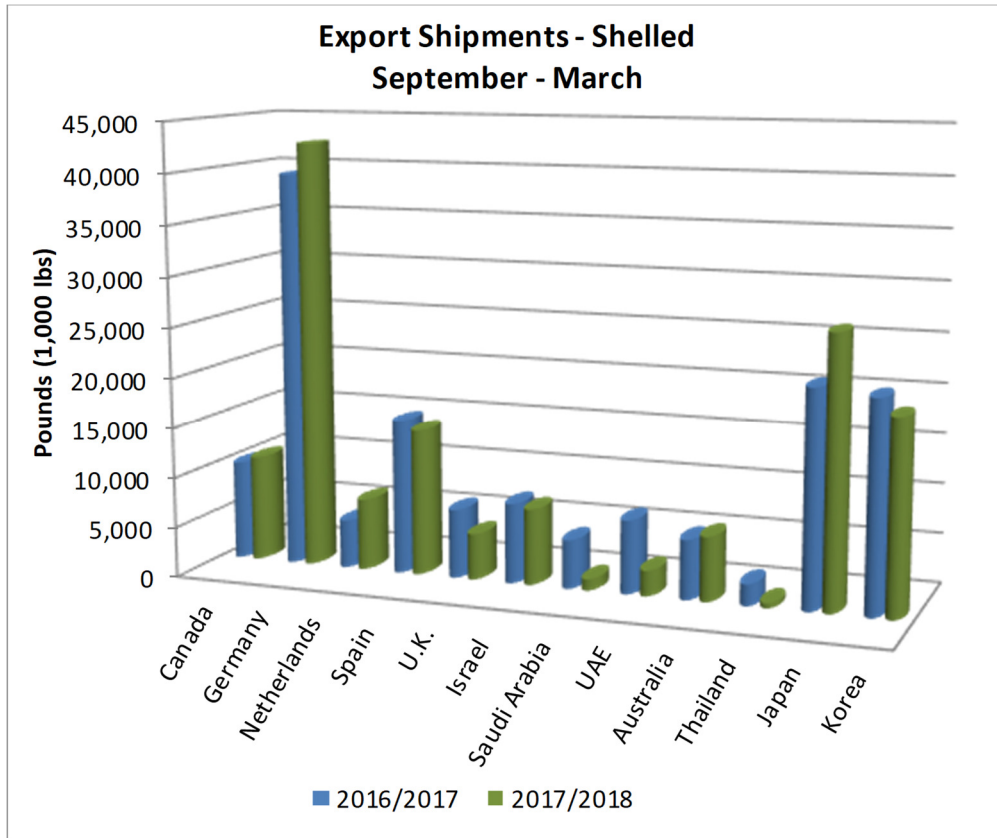
- Inshell shipments were 14.2 million pounds for the month of March, almost equal (-1%) to March of 2017.
- Season to date inshell shipments are 286.7 million pounds through March, a decrease of 98 million pounds (-25%) compared to the same period last season.
- Shelled shipments were 37.8 million pounds for the month of March, a decrease of 8 million pounds (-18%) compared to March of 2017.
- Season to date shelled shipments are 271.8 million pounds through March, a decrease of 23 million pounds (-8%) compared to the same period last season.

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

Country	<u>Sep 2017 - Mar 2018</u>		<u>Sep 2016 - Mar 2017</u>		% Change Shelled	% Change Inshell
	Shelled	Inshell	Shelled	Inshell		
USA	104,099,021	18,026,556	115,000,912	12,085,779	-9%	49%
Canada	10,597,750	2,709,641	9,895,416	2,170,062	7%	25%
Germany	42,625,425	11,543,736	39,544,643	14,369,314	8%	-20%
Italy	3,236,490	43,891,437	3,921,552	53,220,751	-17%	-18%
Netherlands	7,108,045	3,086,052	4,820,922	3,091,103	47%	0%
Spain	14,627,707	18,022,482	15,451,169	21,690,949	-5%	-17%
U.K.	4,594,130	1,253,966	6,868,924	231,372	-33%	442%
Israel	7,567,374	486,384	7,959,292	1,539,727	-5%	-68%
Jordan	841,500	352,756	2,962,743	1,668,347	-72%	-79%
Lebanon	0	4,271,612	0	2,946,979	0%	45%
Morocco	0	5,912,507	0	6,171,615	0%	-4%
Saudi Arabia	1,134,507	441,288	4,826,834	1,412,496	-76%	-69%
Tunisia	0	2,247,315	170,548	562,173	-100%	300%
Turkey	901,527	78,017,589	765,494	118,429,576	18%	-34%
UAE	2,532,940	26,917,515	7,292,155	23,574,400	-65%	14%
Australia	6,370,086	8,267	5,902,355	22,046	8%	-63%
China	2,441,950	9,007,797	3,776,895	6,821,231	-35%	32%
Hong Kong	1,032,556	10,282,097	2,071,123	32,618,982	-50%	-68%
Vietnam	100,780	17,394,298	538,400	41,016,546	-81%	-58%
Thailand	459,638	0	2,132,624	353,101	-78%	-100%
India	0	22,375,804	63,855	29,710,984	-100%	-25%
Japan	26,635,024	0	21,427,286	0	24%	0%
Korea	19,133,289	1,340,012	20,815,712	1,150,766	-8%	16%

Analysis of Key Markets:

- **North America:** Domestic inshell shipments were strong in March (+43%) which is in line with year to date shipments (+49%). Domestic kernel shipments were weaker in March (-21%) and year to date (-9%). Many California shippers expect to see additional buying activity from the domestic market in the coming months but currently buyers are staying patient. Shipments to Canada were strong in March, with kernels up 7% and inshell up 25%.
- **Western Europe:** March shipments of inshell and shelled walnuts are essentially equal to March of 2017. Year to date, inshell shipments are down 14% while kernel shipments are up 3%.
 - Year to date inshell shipments are down to Germany (-20%), Italy (-18%), and Spain (-17%). Reports indicate big stocks of inshell walnuts in major European markets, softening prices and a few defaults in some markets.
 - Strong year to date kernel shipments to the region are being driven by Belgium (+232%), Germany (+8%), and Netherlands (+47%).
- **Middle East/North Africa:** March inshell shipments were up (+77%) to the region due to strong shipments to Turkey. March kernel shipments were down (-52%) with weaker shipments to almost all markets.
 - March inshell shipments to Turkey are up 222% compared to March 2017. Season to date inshell shipments still lag the 2016/17 season (-34%). We've seen stronger shipments to Turkey the past few months driven by lower tariffs on US product, lower prices compared to earlier in the season, and high opening prices from Chile (which made remaining California inventory a good value in comparison).
 - Kernel shipments to the region were down for March (-52%) and year to date (-49%). Movement of walnut kernels in the local markets is reported to be slow and inventory remains in the market from the 2017 California crop and the 2017 Chilean crop (hand cracked).
- **Asia:** March shipments to the region were down for inshell (-73%) and kernels (-22%). Year to date shipments are also down for inshell (-46%) and kernels (-2%).
 - China/Hong Kong/Vietnam: Inshell shipments are down for March (-67%) and year to date (-54%). The year to date decrease in inshell shipments is over 21,000 inshell tons. Buyers in China report to be holding good amounts of inventory from their early season purchases with movement slow in local markets. Availability of Chinese origin walnuts this season with good quality and lower prices took significant market share from California this season. This may be a fundamental change in buying patterns from China which will last for years to come and is worth noting as we look ahead to larger production from California and other origins.
 - India: Season to date shipments to India are down from last season (-25%). This is a surprise to most California growers who expected to continue seeing the big growth figures we've seen the past several seasons. Indian buyers are now focusing their attention on Chilean origin product and early expectations are for a good Indian crop in the fall of 2018.
 - Japan: Shipments to Japan are the bright spot in the region up 14% in March and up 24% year to date. California walnuts continue to resonate well in this market.
 - Korea: Kernel shipments to Korea were down in March (-39%) and are down year to date (-8%). Lower prices from origin are contributing to a sloppy 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

The walnut market has been quiet recently. Growers in California are holding unsold inventory, several overseas markets are reporting good levels of unsold stocks and Chile is in the midst of harvest. Growers in California who do not have cold storage or developed kernel markets are getting anxious to move remaining inventory before temperatures turn too warm. Growers in Chile are now into Chandler harvest and need to ship promptly to generate cash flow and stay within storage limits.

Buyers are patient as prices are softening from all origins. We expect buyers to continue taking hand-to-mouth approach to cover their needs until California 2018 crop becomes available in the fall.

Looking at March walnut shipments from California, results were mixed. The 50,017 tons of shipments was the second largest March shipment on record behind only March of 2017. Strong inshell shipments to Turkey were offset by weaker shipments to India and China. Kernel shipments were weaker than expected to the US domestic market, the Middle East and North Africa, as well as Asia and Pacific Rim.

If shipments the remainder of the season (Apr – Aug) are equal to last season's totals, the carryout would be manageable at about 68,000 inshell tons. Assuming shipments trail last season by 10% for the remainder of the crop year, the carryout would increase to about 70,000 inshell tons.

Growers in Chile are well into harvest. Reports indicate a smaller Serr crop with good quality. Expectations are for a large Chandler crop with total production expected to be in the 130,000 metric ton range. Opening prices from Chile were above opening levels from last season despite larger production and higher levels of competition in the market from California. Some early business was done as buyers wanted first shipments but the market has since slowed and we've seen prices begin to soften.

California walnut orchards are in the midst of bloom and so far look good. It's too early to make any predictions but assuming no unforeseen weather events most expect record production. Per acre yields were lower last season, the primary growing regions have received good water and additional acreage will begin to bear fruit this season. Production will also continue to increase from other origins.

With bigger production coming from multiple growing regions, we expect to see price moderation in an attempt to grow demand. The makeup of the crop is also changing with more light color and higher half counts being produced which is contributing to lower premiums for these items. This season we witnessed a price spike in California due to concerns over smaller production (even though it was still the second largest crop in history). The rapid price increase acted to limit demand and we now see prices falling during the second half of the season in an attempt to move remaining inventory. It will be important to set opening prices for California's 2018 crop at levels that encourage buyers to make purchases and keep product moving at a steady pace.

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

Best regards,
DERCO FOODS