DERCO FOODS®

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October 2017 Walnut Report

October 2017 shipments were 106,004 inshell equivalent tons. This is down 20% compared to October 2016 (-25,871 tons).

2017 Walnut Supply (inshell tons)

Carry-in from prior season:	55,976
2017 Crop Receipts:	569,560
Total available for shipment:	625,536
Less: shipments to date thru Oct 31:	130,210
Remaining supply:	495,326

- Crop receipts through October 31 were 569,560 tons. Last season the crop was about 92% received by the end of October. Assuming the same for this season, the total crop would be about 622,000 inshell tons. While harvest began late, weather was good and harvest moved quickly. Even if the crop was more than 92% received at the end of October, it seems likely that the total crop will exceed 600,000 tons.
- Inshell shipments were 110.6 million pounds for the month of October, a decrease of 39 million pounds (-26%) compared to October of 2016.
- Season to date inshell shipments are 117.7 million pounds through October, a decrease of 67 million pounds (-36%) compared to the same period last season.
- Shelled shipments were 44.7 million pounds for the month of October, a decrease of 5.5 million pounds (-11%) compared to October of 2016.
- Season to date shelled shipments are 62.9 million pounds through October, a decrease of 16 million pounds (-21%) compared to the same period last season.

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

	Sep 2017 - Oct 2017		Sep 2016 - Oct 2016		% Change	% Change
Country	**Shelled**	**Inshell**	**Shelled**	**Inshell**	**Shelled**	**Inshell**
USA	31,976,579	9,233,428	38,764,182	5,363,846	-18%	72%
Canada	2,669,620	1,486,711	2,930,100	1,106,620	-9%	34%
Germany	9,163,405	9,173,700	12,424,323	11,701,629	-26%	-22%
Italy	406,298	23,406,702	474,342	30,004,520	-14%	-22%
Netherlands	1,302,598	1,769,007	715,480	1,682,179	82%	5%
Spain	4,170,853	10,143,779	5,432,884	12,653,568	-23%	-20%
U.K.	489,224	128,969	1,007,385	176,276	-51%	-27%
Israel	877,871	132,552	1,154,008	395,635	-24%	-66%
Jordan	84,000	176,380	333,700	923,927	-75%	-81%
Lebanon	0	925,394	0	792,829	0%	17%
Saudi Arabia	42,020	44,092	578,725	528,920	-93%	-92%
Tunisia	0	2,203,223	22,046	341,713	-100%	545%
Turkey	127,067	24,648,035	208,275	55,334,415	-39%	-55%
UAE	83,565	8,254,880	1,247,541	9,276,779	-93%	-11%
Australia	2,073,830	8,267	1,216,215	22,046	71%	-63%
China	408,500	2,997,369	438,000	3,418,034	-7%	-12%
Hong Kong	110,374	4,839,291	218,510	13,674,836	-49%	-65%
Vietnam	84,000	9,953,630	240,000	24,720,989	-65%	-60%
Thailand	81,600	0	1,134,515	309,101	-93%	-100%
India	0	4,013,793	0	6,629,062	0%	-39%
Japan	3,615,809	0	3,083,556	0	17%	0%
Korea	3,090,710	0	4,029,170	0	-23%	0%

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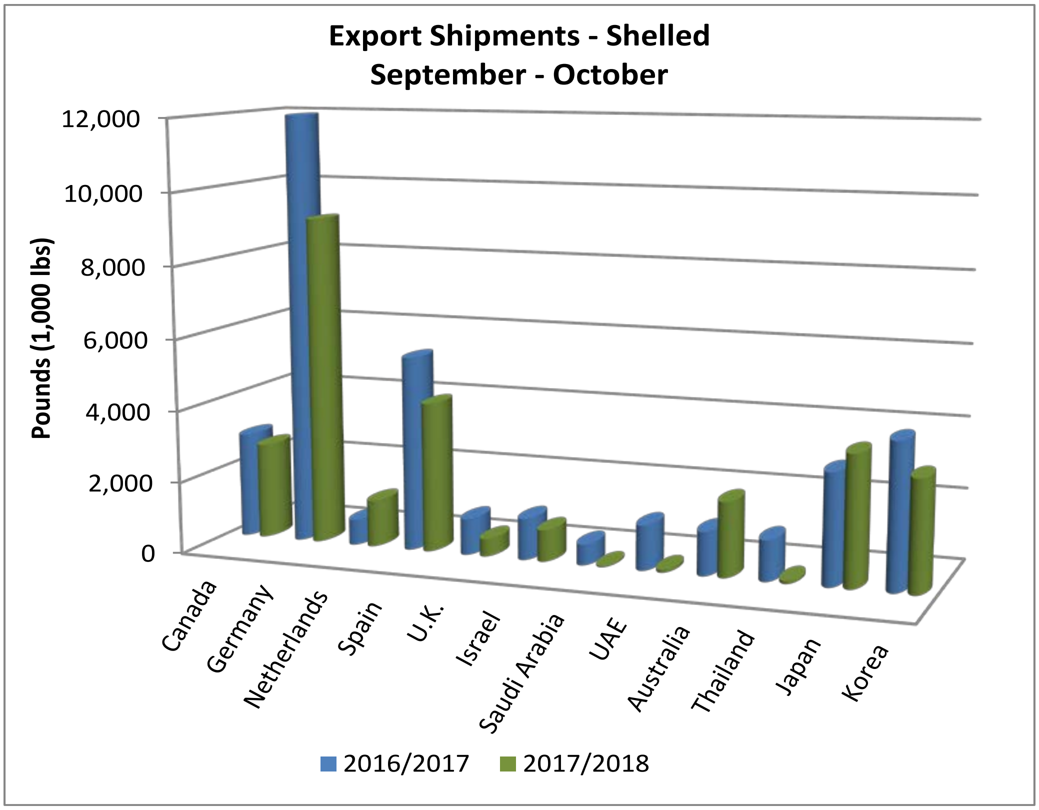

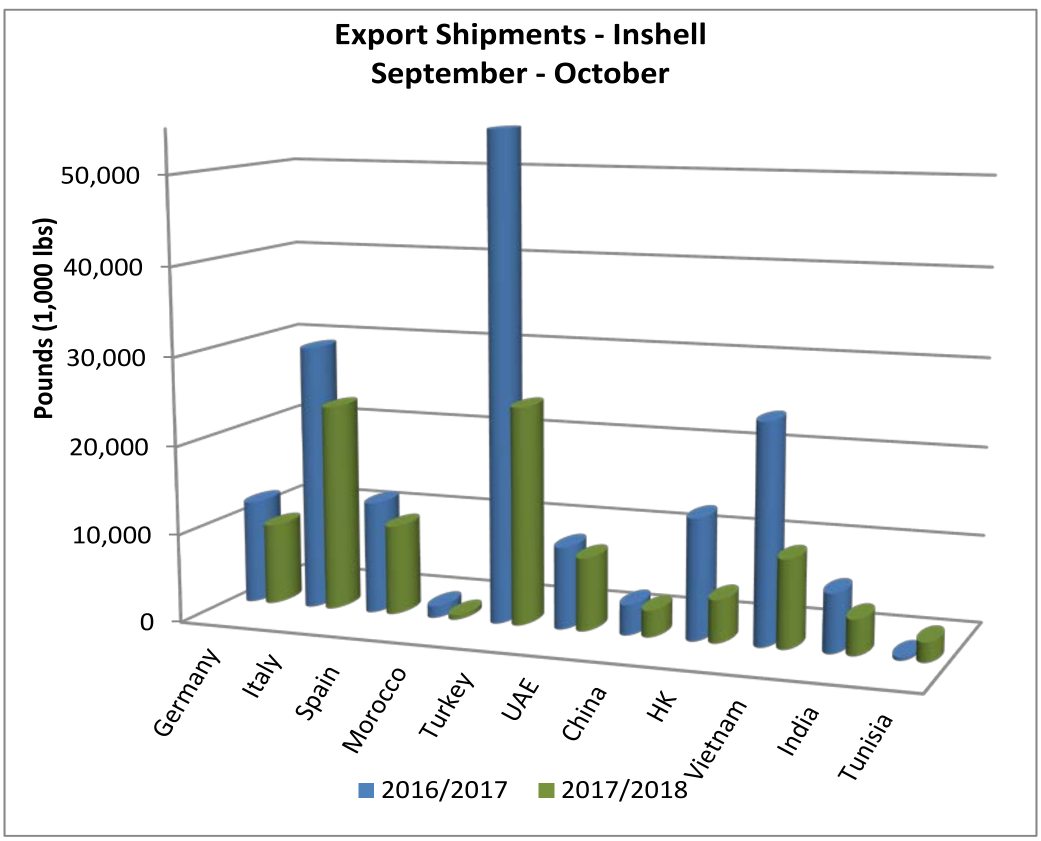

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October 2017 walnut shipments from California of 106,004 tons were good but trailed last season's record pace. This is the second largest October shipment report on record. Shipments were expected to trail last season due to a later start to harvest (compared to the 2016 season) and slower purchasing from some key markets…most notably China and Turkey.

The bigger story from this shipment report is crop receipts of 569,560 through October 31st. There has been a wide range of expectations for this season's crop size depending largely on each individual grower's location within the California growing region. Southern and mid-state regions report much lower yields than last season. Northern California reports good yields and substantial new acreage coming into production which is offsetting any losses due to lower yields.

Early varieties were largely disappointing in terms of volume and quality. Darker color was reported and production was reduced in part by the extreme summer heat in the growing region. The Hartley crop is also reported to be down after a big crop last season. Later season varieties such as Howard and Chandler are reported to have better production and good overall quality. This is welcome news as many growers were concerned due to the heat and results of early varieties.

In 2016, California was about 92% received as of October 31st. If we assume this holds true for 2017, the total crop would be about 622,000 inshell tons. We should have a good idea of the final crop size by the time we receive the November shipment report but for now we are using an estimate in the 610-630,000 ton range. This is well below last season's record production and below the objective crop estimate.

Season to date shipments are trailing last season in most markets.

- The domestic market is mixed with inshell shipments up 72% but shelled shipments down 18%.
- Shipments to Western Europe are down for inshell and shelled. Stronger shipments are expected in November as sales of kernels into Germany and inshell into Italy are reported to be strong.
- The Middle East/North Africa is well behind last season's pace led by a sharp reduction of inshell shipments to Turkey (-55%). The lone bright spot in this market is inshell shipments to Tunisia which are up 545% versus prior season.
- Asia is well behind last season's pace, particularly for inshell. China has been quiet as buyers have been taking advantage of good quality and lower prices from domestic production, especially in Xinjiang province. This is a key trend to watch as production continues to grow in China and California. Shipments to India are also behind last season's pace (-39%) but much of this difference is likely attributed to the later harvest and should be made up for in the coming months. Kernel shipments were strong to Japan (+17%) and Australia (+70%) while Korea has been slower so far this season (-23%).

As harvest began and crop expectations fell, the market moved sharply higher. The crop does appear to be short of the estimate although not as short as some have been reporting. Shipments so far this season are good in spite of some difficulty with early varieties and a later overall start to harvest. The market more recently has been quiet in terms of new business with buyers from China and Turkey being notably absent.

Over the next couple of months we'll watch to see final receipts and to see if shipments in November and December stay on track with last season. If we see strong shipments, the market is likely to stay firm. Any increase in activity from China or Turkey will add to California's confidence. If we continue to see a slower market, we could see some growers get anxious as they will want to avoid carrying large inventories into spring which presents added costs of cold storage and fresh competition from Chile.

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

Best regards,
DERCO FOODS