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October 2018 Walnut Report

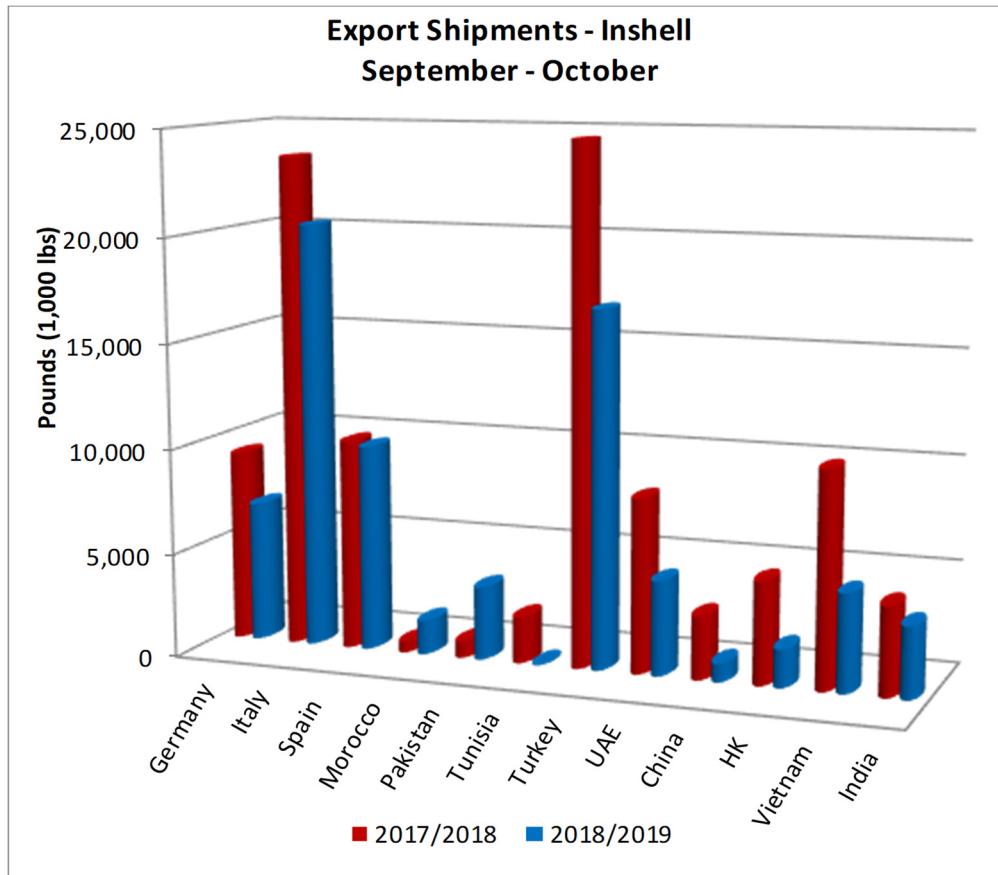
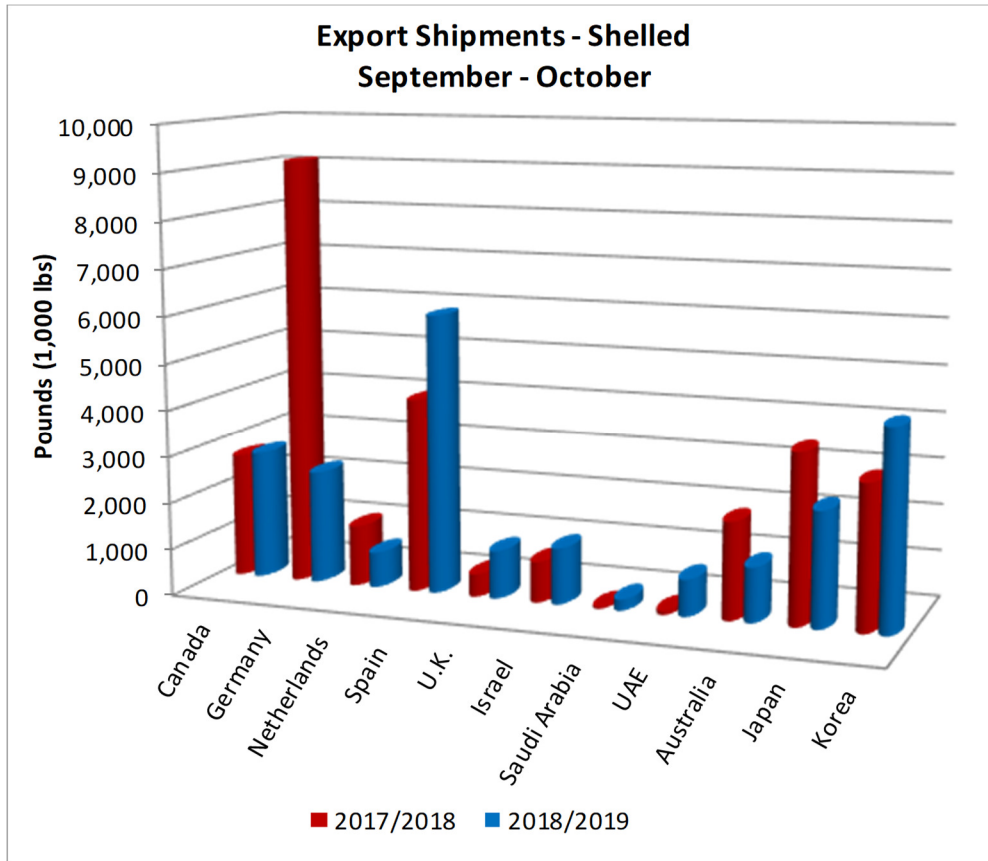
2018/19 Walnut Supply (inshell tons)

Carry-in from prior season:	63,539
2018 Crop Estimate:	690,000
Total available for shipment:	753,539
Less: shipments to date thru Oct 31:	118,155
Remaining supply:	635,384

- Crop receipts through October 31 are 597,269 inshell tons. Over the past 5 seasons, the crop has been about 91% received through October 31st. If this holds true, the 2018 crop will be about 650,000 tons versus the estimate of 690,000 tons.
- Inshell shipments were 85 million pounds for the month of October, a decrease of 26 million pounds (-23%) compared to October 2017.
- Season to date inshell shipments are 89 million pounds through October, a decrease of 29 million pounds (-24%) compared to the same period last season.
- Shelled shipments were 43 million pounds for the month of October, a decrease of 1.7 million pounds (-4%) compared to October 2017.
- Season to date shelled shipments are 65 million pounds through October, an increase of 1.2 million pounds (+2%) compared to the same period last season.

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

	<u>Inshell Pounds</u>			<u>Shelled Pounds</u>		
	Sep 17 - Oct 17	Sep 18 - Oct 18	% Change	Sep 17 - Oct 17	Sep 18 - Oct 18	% Change
USA	9,320,152	6,864,600	-26%	32,338,845	37,439,845	16%
Canada	1,488,474	1,526,878	3%	2,669,620	2,758,973	3%
Germany	9,173,700	6,745,530	-26%	9,163,405	2,418,379	-74%
Italy	23,582,702	20,409,528	-13%	406,298	725,384	79%
Netherlands	1,769,007	1,206,247	-32%	1,302,598	759,218	-42%
Spain	10,099,643	9,898,590	-2%	4,170,853	5,997,787	44%
U.K.	128,969	176,276	37%	489,224	1,030,132	111%
Israel	132,552	218,368	65%	877,871	1,205,151	37%
Jordan	176,380	264,368	50%	84,000	168,000	100%
Lebanon	925,394	1,454,668	57%	0	0	0%
Morocco	530,758	1,626,019	206%	0	0	0%
Pakistan	798,104	3,536,908	343%	0	0	0%
Saudi Arabia	44,092	44,092	0%	42,020	238,830	468%
Tunisia	2,203,223	44,092	-98%	0	0	0%
Turkey	24,645,649	16,959,656	-31%	127,067	0	-100%
UAE	8,334,880	4,542,776	-45%	83,565	787,834	843%
Australia	8,267	0	-100%	2,073,830	1,166,538	-44%
China	2,997,369	878,644	-71%	408,500	253,650	-38%
Hong Kong	4,927,291	1,807,404	-63%	110,374	152,000	38%
Vietnam	10,261,906	4,667,282	-55%	84,000	21,800	-74%
India	4,234,069	3,394,419	-20%	0	0	0%
Japan	0	0	0%	3,615,809	2,451,525	-32%
Korea	0	0	0%	3,090,710	4,259,329	38%



The 2018 walnut harvest is quickly coming to an end. Early varieties are reported to be up in tonnage with better quality compared to a season ago. Mid and late season varieties are reported to be about equal to last season with lower yields per acre being offset by increased bearing acreage. With crop receipts of 597,269 through October 31, it is unlikely the crop will reach the estimate of 690,000 inshell tons. While harvest was later this season, the majority of harvest was complete by the end of October.

Overall quality in terms of color and defects is reported to be good this season. However, when looking at Chandler variety, sizing and meat yield are below normal. With meat yield running 3-4% below normal and growers reporting lower half counts from mechanical shelling, the marketable crop may ultimately be similar to last season.

October shipments are well below last season's pace for inshell and almost flat with last season for shelled. Inshell markets have been most severely affected by tariffs and currency devaluation (China, Turkey, India). Shelled shipments in the US market are well above last season's pace as buyers are taking advantage of lower pricing. This has helped offset lower shelled walnut shipments to Europe.

Looking at some key markets:

- USA: Lower prices this season have allowed buyers in the domestic market to increase purchases of shelled walnuts in anticipation of Thanksgiving and Christmas holidays. It remains to be seen how much of the price reduction will be passed on to consumers which will ultimately prompt more demand.
- Europe: Through October, shipments to Europe are down **-14%** for inshell and **-27%** for shelled. Growing purchases from Chile (which arrive in plenty of time for Christmas holidays) are thought to be negatively affecting early demand for California walnuts.
- China/Hong Kong/Vietnam: Growing domestic walnut production, higher tariffs on US imports and challenges vis-à-vis import channels are all working against California walnut exports to China. Yet some demand continues to come from this market particularly for California Chandler which is known for good and consistent quality and is considered to be a good value compared to premium Chinese varieties.
- India: Season to date shipments to India are down 20% compared to last season. Higher tariffs on walnuts have offset the lower prices from origin. Growing purchases of inshell walnuts from Chile during the spring and summer months allowed buyers to be patient entering the California market.
- Pakistan: We cannot discuss walnut shipments in this region of the world without noting that season to date inshell walnut shipments are up 343% (2.7 million pounds). Much of this product is eventually to be re-exported to other nearby markets. Pakistan is likely acting as a pass through destination.
- Turkey: Ahead of the 2018 season there was optimism for walnut shipments to Turkey as tariffs had been reduced and California walnuts were popular for local consumption and re-export. Moving through the summer months, continued devaluation of the Turkish Lira and higher tariffs on US imports left questions about demand from this market. Over the past few weeks demand has been fairly stable, currency has improved and there is optimism that sanctions may be eased in the foreseeable future. We anticipate good demand from Turkey although likely at a slower pace than the prior few seasons.
- United Arab Emirates: Economic instability in the region, particularly in Iran, is hurting business to this trading hub. Inshell walnut shipments through October are down 45% from prior season. We expect buyers to remain cautious due to uncertainty in the surrounding region.



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The October shipment report may be viewed as bullish in that receipts are below expectations or bearish in that shipments are trailing last season. While the crop is unlikely to come near the estimate, it will still be a big supply and many growers will not want to hold product into the spring when weather turns warmer and Chilean crop comes into play. Demand has been steady the past few weeks which has allowed the market to stabilize. Looking ahead, we expect a stable market over the next 1-2 months. January forward the market will depend on final crop receipts, the strength of Nov-Dec shipments and the outlook for the coming Chilean crop in the spring of 2019.

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

Best regards,
DERCO FOODS