

December 2015 Walnut Report

December 2015 shipments were 132.6 million inshell equivalent pounds. This is 30.5 million pounds (+30%) more than December 2014.

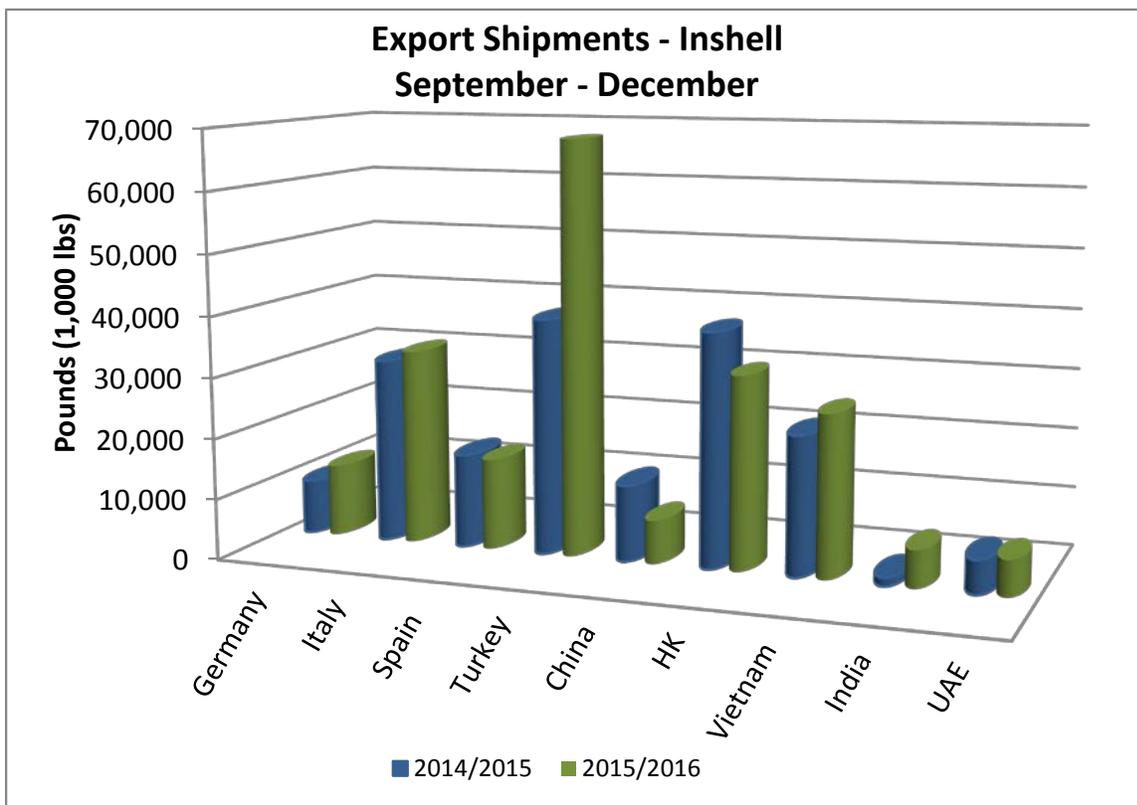
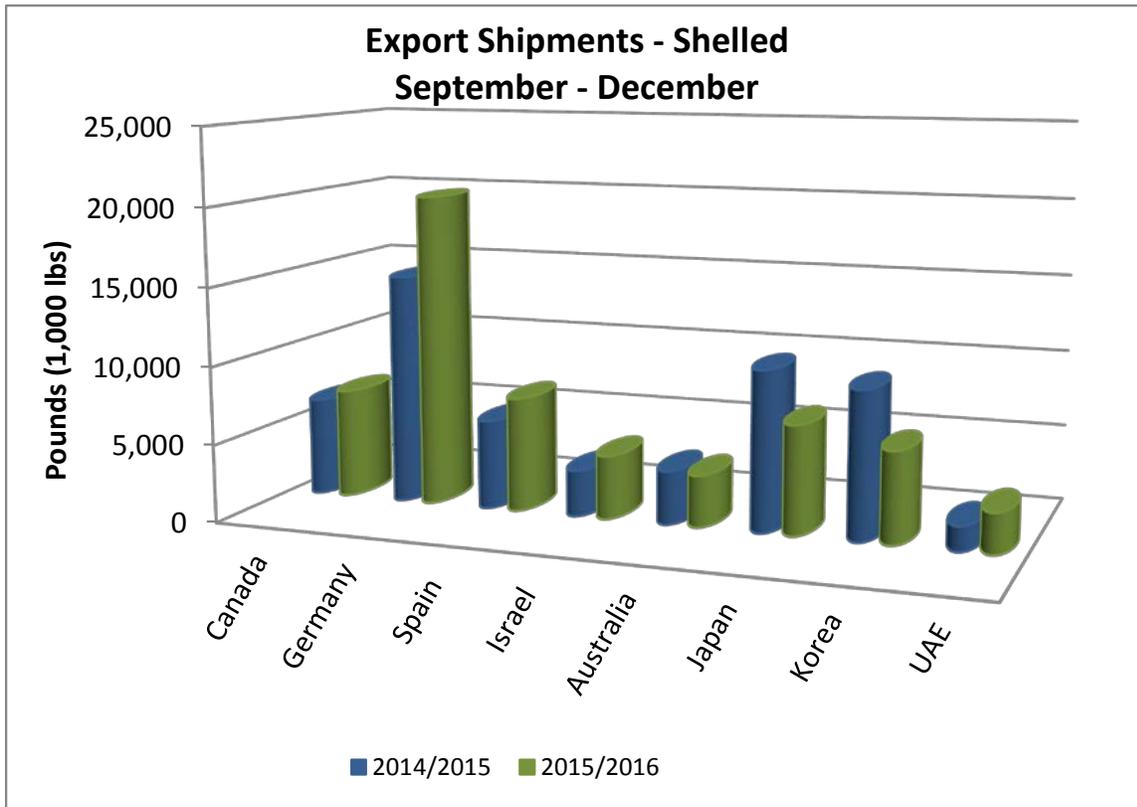
2015 Walnut Supply (1,000 pounds)

Carry-in from prior season (estimate):	167,022
2015 Crop Receipts (thru Dec 31):	1,196,622
Total available for shipment:	1,363,644
Less: shipments to date thru Dec 31:	548,245
Remaining supply:	815,399

- Crop receipts through December 31 were 1.19 billion inshell pounds (598,311 tons). This is about 60 million pounds (+5%) higher than 2014 crop receipts. We expect the final 2015 crop receipts to be close to the current reported level.
- Inshell shipments were 47.3 million pounds for the month of December, an increase of 18.1 million pounds (+62%) compared to December of 2014.
- Season to date inshell shipments are 229.1 million pounds through December, an increase of 31.8 million pounds (+16%) compared to the same period last season.
- Shelled shipments were 37.6 million pounds for the month of December, an increase of 5.3 million pounds (+17%) compared to December of 2014.
- Season to date shelled shipments are 140.8 million pounds through December, an increase of 9.5 million pounds (+7%) 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 - Dec 2015</u>		<u>Sep 2014 - Dec 2014</u>		<u>% Change</u>	
	Shelled	Inshell	Shelled	Inshell	Shelled	Inshell
USA	59,847,802	10,575,768	63,332,509	9,295,029	-6%	14%
Canada	7,081,485	2,019,431	6,349,677	1,523,404	12%	33%
Germany	20,181,433	11,876,050	14,897,478	9,022,572	35%	32%
Italy	1,468,065	32,370,051	1,120,671	30,596,200	31%	6%
Netherlands	2,570,408	1,619,719	1,247,383	2,511,349	106%	-36%
Spain	7,385,497	15,053,492	5,785,233	15,514,887	28%	-3%
U.K.	2,531,209	401,644	996,803	395,784	154%	1%
Israel	4,102,184	528,832	2,984,406	484,828	37%	9%
Turkey	664,124	68,204,080	46,560	39,019,295	1326%	75%
UAE	2,609,600	5,954,993	1,586,753	5,566,640	64%	7%
Australia	3,326,990	0	3,455,375	0	-4%	n/a
China	951,210	7,183,344	656,100	12,596,147	45%	-43%
Hong Kong	771,257	31,773,788	645,726	38,504,525	19%	-17%
Vietnam	567,516	26,619,328	0	22,896,955	n/a	16%
Thailand	1,936,747	1,804,804	151,801	705,472	1176%	156%
India	10,010	6,161,092	33,520	1,399,642	-70%	340%
Japan	7,004,735	0	10,304,473	0	-32%	n/a
Korea	5,879,054	645,579	9,488,068	358,384	-38%	80%
Taiwan	2,712,506	49,397	3,160,394	101,138	-14%	-51%



Final 2015 walnut receipts are expected to be at or just below 1.2 billion inshell equivalent pounds. Looking at supply this season versus last, the 2015 crop is about 60 million pounds and the carry-in is up about 90 million pounds. This combined 150 million pound supply increase represents about 14% of total shipments for the 2014/15 crop year (Sep 2014 – Aug 2015). What this does not account for is (1) inventory of 2014 crop California walnuts being held in overseas markets when the 2015 harvest began and (2) continual growth in supply of walnuts from overseas origins (most notably China and Chile). We cannot quantify these numbers but they certainly would add to the additional supply that is available this season.

The December walnut shipment report is welcome news to California growers. Stronger shipments to many major markets is a sign that demand is improving based partially on the recalibrated price levels in the market. Walnuts are considered to be a good value when compared to some other nuts including pecans, pistachios and almonds. Season to date shipments are 11% ahead of prior year. For the month of December, shipments are up 30% compared to December 2014 with nearly all major markets participating. Strong shipments need to continue in the coming months if the carry-out is to be manageable. If shipments the remainder of the season are 10% ahead of last season, the projected carry-out would be about 200 million pounds. To reach a carry-out similar to last season, shipments would need to average about 17% above last season for Jan - Aug.

Maintaining strong shipments the next few months will be important. Most of the smaller growers in California do not traditionally carry inventory past March as they do not have cold storage. Additionally, the harvest in Chile will begin in March which will add new, freshly harvested competition in the marketplace.

Buyers who have been patient in their purchases have benefited from lower prices. Until California growers show discipline and provide buyers with confidence that their purchases today won't be above market tomorrow, buyers are likely to continue with a hand to mouth approach.

Regional market analysis:

- USA: Mixed results with inshell shipments up 25% for the month of December and 14% season to date. However, kernel shipments are down 11% for December and 5% season to date. We expect shipments to improve as consumers take advantage of lower prices, a planned school lunch purchase takes effect and the marketing efforts of the California Walnut Board begin to pay dividends.
- Europe: Showing good growth to every major market. Season to date shipments to the region are up 4% for inshell and 46% for kernels. For the month of December, inshell shipments are up 97% while kernel shipments are up 41%. Inshell growth is being driven by Germany, Italy and Spain. Kernel growth is being driven by Germany and Spain. This growth is impressive in spite of the USD's 11.33% gain versus the Euro since January 2015.
- Middle East / North Africa: This region has faced political and socioeconomic hardship, massive defaults in the almond market, currency devaluation, sanctions and more. In spite of all this, December shipments to the region are up 88% for inshell and 75% for shelled compared to December 2014. Season to date shipments are up 64% for inshell and 60% for shelled. The largest drivers of the shipment growth are Israel, Turkey and UAE. Smaller markets are also showing good growth including Egypt, Jordan, Kuwait, Lebanon, Morocco and Saudi Arabia.
 - Turkey: Inshell shipments to Turkey are up 97% (+7.6 million pounds) compared to December 2014 and up 75% (+29 million pounds) season to date. Some buyers indicate they would like to wait for the coming Chilean harvest to make additional purchases but it will be difficult to have product arrive in time for Ramadan. Political unrest and weak currency continue to threaten consumption in Turkey and surround areas. The Turkish Lira is off 24.9% versus the USD since January 2015.

- UAE: There are fewer buyers in the Al Ras market than there were a few months ago. Those that remain have navigated the chaos that took over the market this fall when almond prices began to fall and buyers began to disappear. Walnut shipments to UAE for the month of December are up 38% for inshell and 130% for shelled compared to December 2014. Season to date shipments are up 7% for inshell and 64% for shelled. Those companies remaining in the market who have acted responsibly and honestly should have opportunity to take additional market share with fewer competitors remaining.
- Asia: As a region, Asia is the only major walnut consuming region where season to date shipments are less than a year ago. Inshell shipments are down 3% season to date driven by China while kernel shipments are down 15% season to date driven by Japan, Korea and Taiwan. The month of December showed great improvement with inshell shipments up 39% and kernel shipments up 25%.
 - China/Hong Kong/Vietnam/Thailand: Season to date inshell shipments are down 9.8% (-7.3 million pounds). December monthly shipments are up 33% (+4.3 million pounds) compared to December 2014. Buyers who are not left holding high priced 2014 crop inventory report good movement of California walnuts ahead of Chinese New Year. Buyers are now looking to post Chinese New Year shipments to rebuild inventory. Recent currency devaluation is making it more difficult to import walnuts and other products from the U.S. Between January and December 2015, the Chinese Yuan lost 4.7% versus the USD....with more likely to come.
 - India: Strong growth in shipments of inshell walnuts to this market have continued with season to date shipments up 340% (+4.7 million pounds) and December shipments up 210% (+807 thousand pounds). We expect this market to continue to grow in future seasons, although likely at a slower pace. With a long transit and weather expected to turn warmer, we are likely to see slower demand during the second half of this season. In the nearer term, the 4.8% loss in value of the Indian Rupee versus the USD is offsetting some of the price reductions.
 - Japan: Kernel shipments to Japan got off to a slow start this season as many buyers were still holding inventory of higher priced 2014 crop when the 2015 harvest began. As this inventory has been consumed, we've seen buyers re-enter the market over the past few weeks. Season to date shipments of kernels are down 32% (-3.3 million pounds). However, in December, shipments were up 9% (+226 thousand pounds) compared to December 2014. The Japanese Yen is doing well against the USD, losing only 0.8% of its value versus the USD in 2015.
 - Korea: There were also reports of higher priced 2014 crop kernels in Korea which discouraged buyers from making additional purchases in the fall of 2015. Season to date kernel shipments to Korea are down 38% (-3.6 million pounds) while December shipments are down 19% (-530 thousand pounds). Some buyers are likely to return to the market as old crop inventories are exhausted and the tariff on California walnuts is reduced. Unfortunately the benefit of the tariff reduction will be partially lost due to the Korean Won losing 7.5% of its value versus the USD over the past year.

The strong shipment report for December is good news in light of the larger supply. If we see price stability in the coming weeks, buyers will be encouraged to move into the market as they will have more confidence in their purchases. This, in turn, will allow California growers to continue shipping ahead of last season's pace so that the carryout is manageable and does not cast a shadow over the start of the 2016 crop harvest.

Let us know if we may be of further service.

Best regards,
DERCO FOODS