

December 2018 Walnut Report

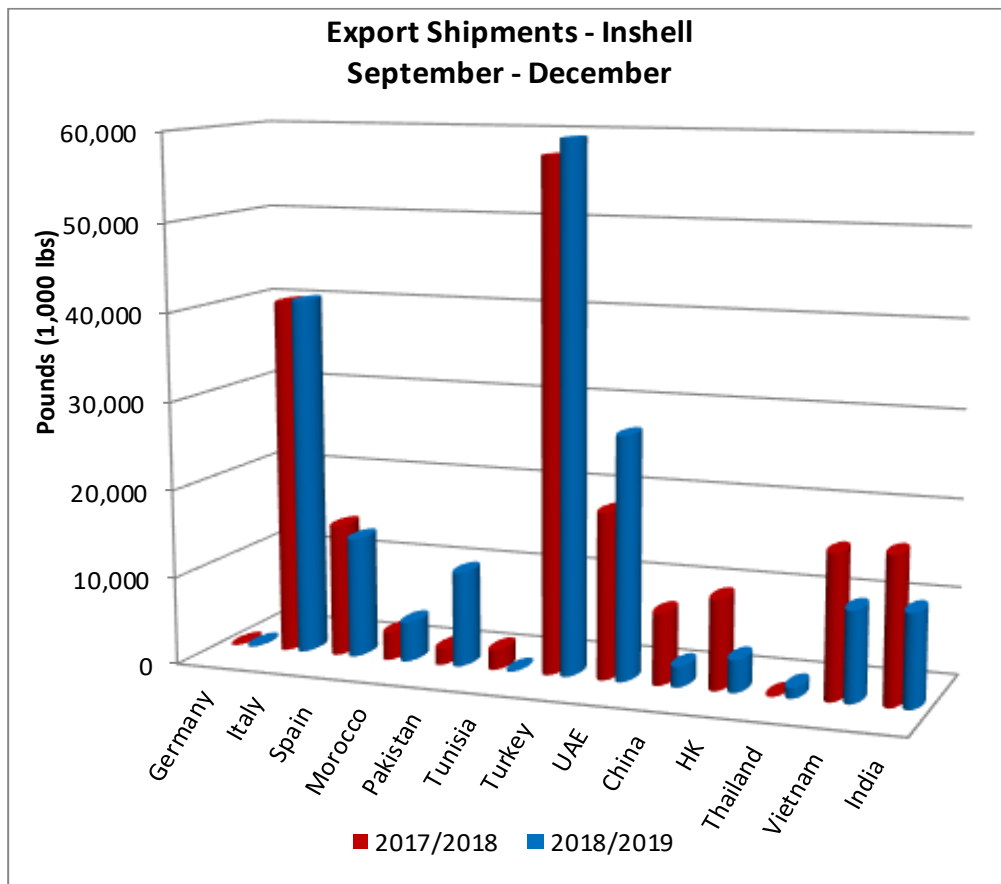
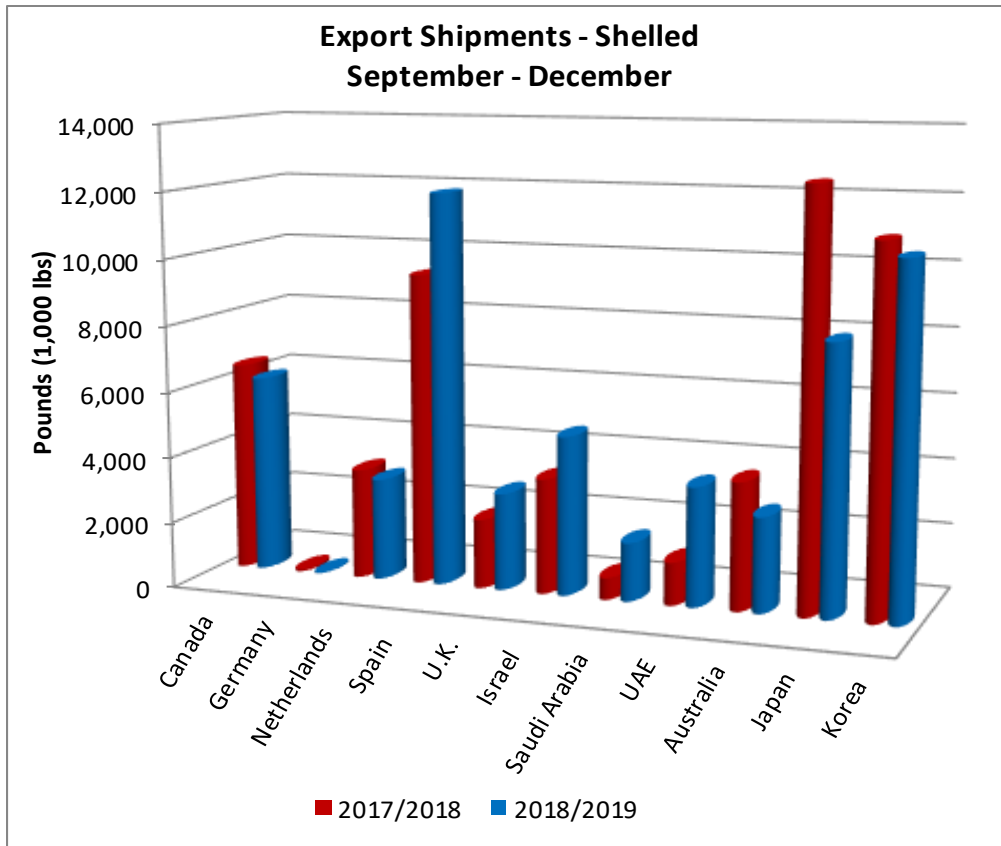
2018/19 Walnut Supply (inshell tons)

Carry-in from prior season:	63,539
<u>2018 Crop Estimate (receipts thru Dec 31):</u>	<u>669,868</u>
Total available for shipment:	733,407
<u>Less: shipments to date thru Dec 31:</u>	<u>292,297</u>
Remaining supply:	441,110

- Crop receipts through December 31 are 669,868 inshell tons. This should be close to final crop receipts.
- Inshell shipments were 55 million pounds for the month of December, an increase of 19.3 million pounds (+54%) compared to December 2017. This is a big inshell shipment figure for December.
- Season to date inshell shipments are 226 million pounds through December, a decrease of 7.2 million pounds (-3%) compared to the same period last season.
- Shelled shipments were 44 million pounds for the month of December, nearly equal to December 2017.
- Season to date shelled shipments are 158 million pounds through December, a decrease of 2.1 million pounds (-1%) 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 - Dec 17	Sep 18 - Dec 18	% Change	Sep 17 - Dec 17	Sep 18 - Dec 18	% Change
USA	15,172,352	12,007,952	-21%	68,080,550	73,295,213	8%
Canada	2,404,770	2,575,151	7%	6,410,653	6,032,433	-6%
Germany	88,184	171,080	94%	69,000	19,675	-71%
Italy	40,499,868	40,727,160	1%	2,060,998	2,451,726	19%
Netherlands	2,573,593	1,668,937	-35%	3,358,506	3,109,354	-7%
Spain	15,081,517	13,752,031	-9%	9,469,485	11,937,249	26%
U.K.	485,688	236,738	-51%	2,115,809	2,958,195	40%
Israel	441,384	865,800	96%	3,509,149	4,843,222	38%
Jordan	352,752	1,321,656	275%	457,100	1,545,326	238%
Lebanon	3,526,457	5,221,420	48%	0	84,046	0%
Morocco	3,178,670	4,535,723	43%	0	0	0%
Pakistan	1,902,596	10,804,474	468%	0	42,328	0%
Saudi Arabia	220,276	925,932	320%	666,241	1,777,333	167%
Tunisia	2,247,315	44,092	-98%	0	22,046	0%
Turkey	57,630,997	59,523,036	3%	879,527	64,001	-93%
UAE	18,903,594	27,560,632	46%	1,303,785	3,617,307	177%
Australia	8,267	0	-100%	3,864,426	2,877,953	-26%
China	8,122,455	2,328,723	-71%	837,500	1,130,380	35%
Hong Kong	10,238,005	3,679,715	-64%	490,774	640,487	31%
Thailand	0	1,190,484	0%	291,598	81,490	-72%
Vietnam	16,376,598	10,272,245	-37%	99,680	66,480	-33%
India	16,684,456	10,560,802	-37%	0	60,667	0%
Japan	0	0	0%	12,530,725	8,088,666	-35%
Korea	962,274	605,697	-37%	11,004,882	10,539,542	-4%



December 2018 walnut shipments from California were a record at 77,012 inshell tons. The real story is inshell walnut shipments of 55,018 tons which is up 54% from December 2017. Shelled shipments were good also (almost identical to December 2017) but the increase in inshell shipments puts the industry into a much more comfortable shipped position compared to just 1 month ago.

Strong demand for inshell walnuts has quickly made inshell Chandler a difficult product to find in California and moved the market up about \$0.15/lb over just a couple of weeks. Even at today's prices which are well above the levels seen earlier in the season, most growers in California are sold out of export quality inshell Chandler.

Looking ahead, most smaller inshell packers are essentially sold out. This is a positive development for larger packers who carry inventory into the second half of the season as they will not face as much competition from packers trying to sell remaining inventory. This is also a positive development for Chilean producers who should face limited competitions from California as they enter the market.

Looking at some key markets:

- **USA:** By far the largest market for California walnuts, the lower pricing is being well-received with shelled walnut shipments up 7.66% season to date. We anticipate demand staying strong as major retailers have locked in lower prices for most of 2019.
- **Europe:** For December, inshell shipments to Europe are up 75%. Italy and Spain saw the biggest gains by volume. Shelled shipments however are down 12% for the month of December and down 18% season to date as California shippers have had to compete with good volumes of 2018 crop Chilean product in local markets. It remains to be seen if large kernel buyers will come back to California for another round of purchasing for spring shipment or if they have enough product on hand to wait for Chilean crop which isn't likely to ship until May-June onward.
- **China/Hong Kong/Vietnam/Thailand:** Season to date inshell walnut shipments are down 50% versus the same period last year. This is simply part of a larger trend of the Chinese walnut industry growing and being able to supply Chinese origin walnuts for domestic consumption. The added tariffs on California walnuts and changing import channels have made it more expensive to import California walnuts this season, but this trend was in place long before the trade war. It is worth noting that while shipments to China, Hong Kong and Vietnam are all down compared to last season, shipments to Thailand are up 1.2 million pounds as importers look for more creative import channels.
- **India:** December shipments are down 33% and season to date shipments are down 37%. Importers in India are battling with higher tariffs, product left in the market from Chile and product entering the market via Pakistan. This market still holds good opportunity for growth in California walnuts but is currently suffering from ongoing trade disputes.
- **Pakistan:** Shipments of inshell walnuts are up 468% (8.9 million pounds) season to date. This more than compensates for the 6.1 million pound reduction in shipments to India. There is no way to explain how much of this product is going to India or other markets in the region but certainly some of this product is likely to enter India via Kashmir. This means difficult competition for buyers who have imported legally and paid full tariffs.
- **Turkey:** December shipments are up 72% and season to date shipments are up 3%. This is evidence that good quality and attractive prices do drive demand higher. All of the discussion about higher tariffs, currency devaluation and political conflict have been forgotten. Short term demand is expected to remain strong as California crop will be used to supply Ramadan demand ahead availability of product from Chile.

- United Arab Emirates: Discussion of economic instability, trade barriers and currency devaluation in the surrounding region have been dispelled by strong shipments. December shipments are up 138% for shelled walnuts and 433% for inshell walnuts. Season to date shipments are up 177% for shelled walnuts and 46% for inshell walnuts. Demand remains steady, especially for inshell walnuts which are now in short supply.
- Japan and Korea: Shipments to these two large kernel markets are down season to date by 35% (Japan) and 4% (Korea). As lower prices are slowly passed on to consumers, we expect these markets to come back for additional purchases.

The December shipment report is welcome news to California growers. While most anticipated strong December shipments, the inshell shipment figures are stronger than expected and explain why inshell walnuts have suddenly become in tight supply. Looking ahead, there is significant shelled walnut inventory left to be shipped and competition from Chile will soon enter the market. In order to finish the season with a carryout similar to last season, California will need to ship about 10% more than last season for the period of January – August. Also keep in mind that the Chandler crop this season has a lower meat yield than normal which will act to reduce inventory this spring as remaining inventories are shelled.

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

Best regards,
DERCO FOODS