DERCO FOODS®

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February 2020 Walnut Report

2019/20 Walnut Supply (inshell tons)

Carry-in from prior season:	66,179
2019 Crop Receipts:	650,730
Total available for shipment:	716,909
Less: shipments to date thru Feb 29:	402,407
Remaining supply:	314,502

- 2019 crop receipts 650,730 inshell tons. This is a decrease of 21,993 inshell tons (-3%) compared to the 2018 crop.
- Inshell shipments were 13.8 million pounds for the month of February, a decrease of 21.5 million pounds (-61%) compared to February 2019.
- Season to date inshell shipments are 252.3 million pounds through February, a decrease of 57.0 million pounds (-18%) compared to the same period last season.
- Shelled shipments were 41.9 million pounds for the month of February, equal to February 2019.
- Season to date shelled shipments are 243.1 million pounds through February, a decrease of 2.4 million pounds (-1%) compared to the same period last season.

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

	Inshell Pounds			Shelled Pounds		
	Sep 18 - Feb 19	Sep 19 - Feb 20	% Change	Sep 18 - Feb 19	Sep 19 - Feb 20	% Change
USA	13,838,596	8,814,272	-36%	105,026,440	106,224,129	1%
Canada	2,663,551	2,147,798	-19%	9,159,629	8,387,258	-8%
Germany	9,147,610	10,929,780	19%	23,542,932	38,310,312	63%
Italy	48,782,267	49,390,043	1%	3,949,719	3,213,602	-19%
Netherlands	2,013,186	1,970,476	-2%	4,952,259	6,646,166	34%
Spain	16,656,446	17,338,361	4%	14,466,563	14,329,825	-1%
U.K.	236,738	211,182	-11%	5,339,277	4,416,857	-17%
Egypt	1,718,710	2,006,640	17%	1,029,030	845,658	-18%
Israel	1,028,948	573,116	-44%	9,815,494	5,142,206	-48%
Jordan	1,674,024	573,104	-66%	2,827,226	1,534,953	-46%
Lebanon	6,930,804	1,343,878	-81%	126,046	-42,000	-133%
Morocco	7,841,519	4,763,028	-39%	0	0	0%
Pakistan	15,890,170	44,092	-100%	42,328	0	-100%
Saudi Arabia	1,058,208	264,552	-75%	3,107,517	1,623,800	-48%
Turkey	84,412,181	81,093,593	-4%	106,001	286,910	171%
UAE	53,603,016	32,350,076	-40%	6,501,816	3,897,976	-40%
Australia	2,205	2,000	-9%	4,377,783	3,914,170	-11%
China	2,727,327	552,693	-80%	1,767,280	863,000	-51%
Hong Kong	4,032,451	10,803	-100%	986,846	461,012	-53%
Vietnam	11,940,049	12,831,478	7%	66,480	40,000	-40%
India	13,139,845	15,197,681	16%	146,410	1,346,726	820%
Japan	0	0	0%	16,627,050	17,249,418	4%
Korea	674,857	842,160	25%	15,999,606	12,600,414	-21%

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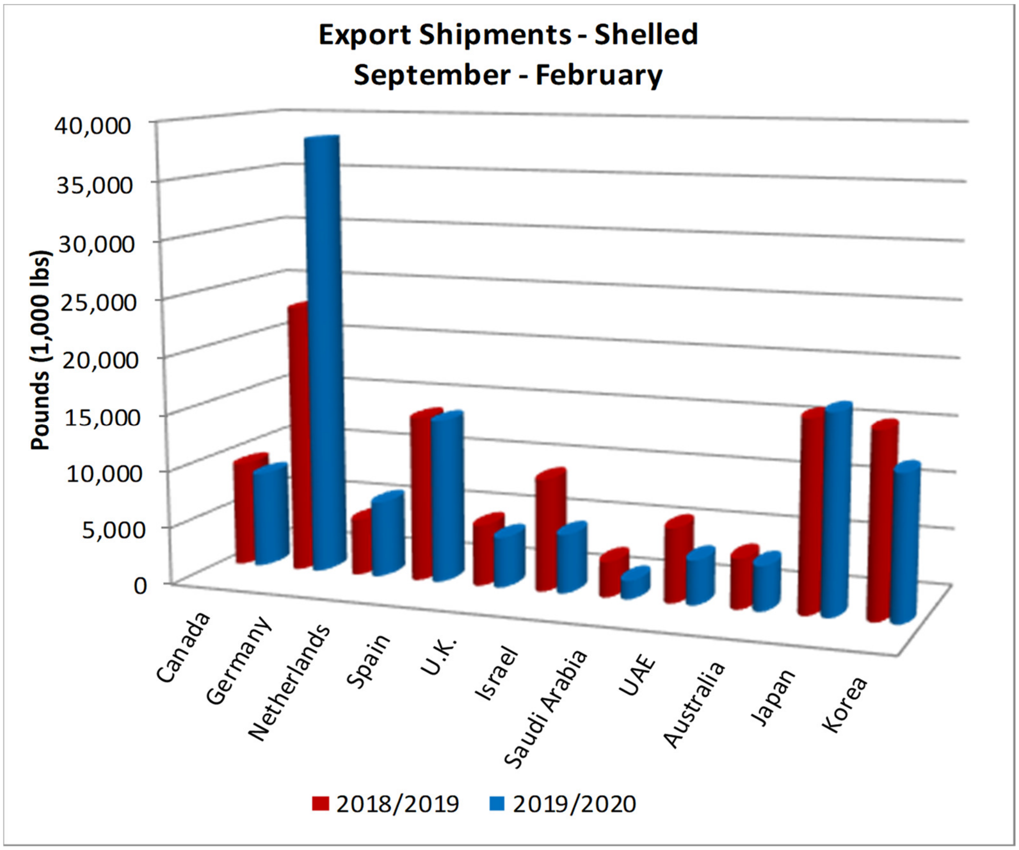

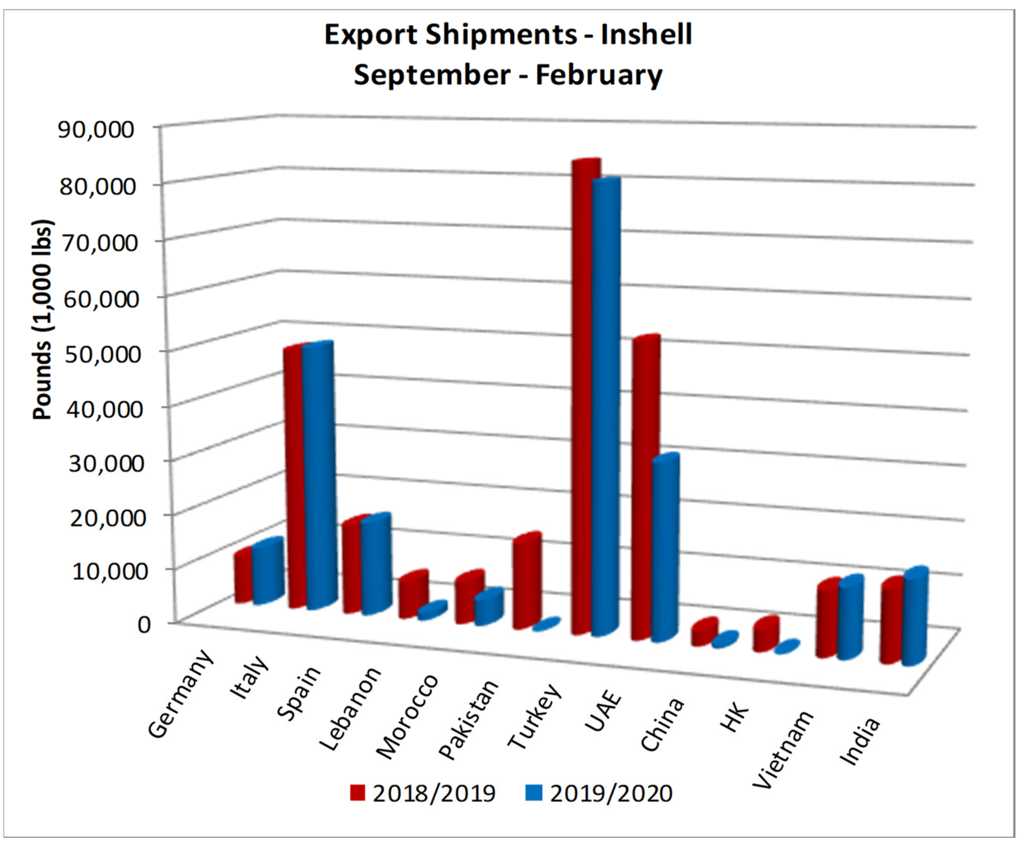

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The 2019 California walnut crop was 21,993 inshell tons smaller (-3%) than the 2018 crop. Early season shipments (Sep-Nov) were almost equal to the same period last season. However, Dec-Feb shipments have trailed last season by 10%, 23% and 16%, respectively. Shelled walnut shipments remain in line with prior season but inshell walnut shipments trail last season by -18.4%. The slow inshell walnut market over the past 2-3 months is the driver behind a total season to date decrease in shipments of 30,000 inshell tons (-6.9%).

Over the past 60 days, the walnut market in California has been slow in terms of new business. This has led the market to decline as productions schedules have slowed and California growers remain holding inventory as we enter the spring. Growers who do not have cold storage and access to kernel markets must choose between lowering prices or moving inventory into third party cold storage and hoping the market improves. With a good amount of inventory remaining in California, the weather turning warmer, and the start of harvest in Chile, many growers are choosing to price remaining inventory more aggressively.

Inshell walnut inventory in a few key overseas markets has moved slowly. One contributing factor is lower priced and higher yielding Chinese origin walnuts. This season Chinese exporters made significant inroads into export markets in Turkey and Dubai. Because of the price level and higher meat yield (compared to California varieties), the Chinese origin walnuts have moved faster in local markets. Some buyers have complained about off color and taste, but prices were attractive enough to compensate. Chinese origin walnuts will continue to compete with California in the market going forward as China now produces more than they consume and the crop is expected to continue growing.

More recently, border closures in the Middle East have also contributed to a slow market. With borders closed for various political and health related reasons, product flow in the region has slowed.

Looking at a few key export markets:

- Western Europe: Inshell walnut shipments are up 3% season to date but down -58% for the month of February. Shelled walnut shipments are up 22% season to date and were up 25% for the month of February, led by strong shipments to Germany, Netherlands, Spain and U.K. Early inshell shipments are moving slowly in some markets while kernel demand remains steady.

- Middle East and North Africa: Inshell walnut shipments are down -28% season to date and were down -58% for the month of February. The season to date decline is led by lower shipments to Turkey (-4%), U.A.E. (-40%), Morocco (-39%) and Pakistan (-100%). Of note, the shipments last season to Pakistan were primarily for feeding India but the border between Pakistan and India has been closed this season. Shelled walnut shipments are down -43% season to date and were down -28% for the month of February. The season to date decline is led by lower shipments to Israel (-48%), Jordan (-46%), Saudi Arabia (-48%) and U.A.E. (-40%). Inventory of California walnuts have been moving slowly in this region but we expect consumption to increase ahead of Ramadan, allowing importers to sell ahead of the coming Chilean walnuts.

- Asia/Pacific Rim: Inshell walnut shipments are down -12% season to date but were up 168% for the month of February. The increase in February was driven by stronger shipments to India (+196%) as competition via Pakistan/Kashmir has been reduced and to Vietnam (+222%) with most shipments to this region going to hand shellers for re-export. Shelled walnut shipments are down -8% season to date and were down -6% for the month of February. Kernel shipments to Australia, Korea and Taiwan are all slightly less than last season while shipments to Japan are slightly up.

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Over the past 2 weeks, new business activity in California has increased as buyers are returning to take advantage of more attractive pricing. Despite the slower market, season to date shipments are not far from last season's pace. If shipments the remainder of the season are equal to last season, the carryout would be about 95,000 inshell tons. If aggressive pricing results in shipments 10% ahead of last season, the carryout would be a very manageable 70,000 tons.

Harvest in Chile is just beginning with expectations for a crop of similar size to 2019. Increases in bearing acreage are expected to be offset by lower yields resulting from poor rainfall and snowfall during the winter months. Ultimately the affects of drought will only be known after harvest but growers are anticipating smaller nut sizing, lower meat yields and some darker color in regions hardest hit. Most growers began selling during Gulfood with a fair amount of business reported. We expect the market in Chile to become more active in the coming weeks as harvest continues.

Current price indications (subject to confirmation):

California

- Inshell Jumbo/Large Chandler $1.08/lb
- Chandler LHP20 $2.85/lb
- Chandler LHP40 $3.00/lb
- Chandler LH80 $3.10/lb

FAS California

Chile

- Inshell 30mm+ Serr $3.10/kg
- Inshell 30mm+ Chandler $3.05/kg

CIF most major markets

Please let us know if we can be of service.

Best regards,
DERCO FOODS