

## August 2020 Walnut Report

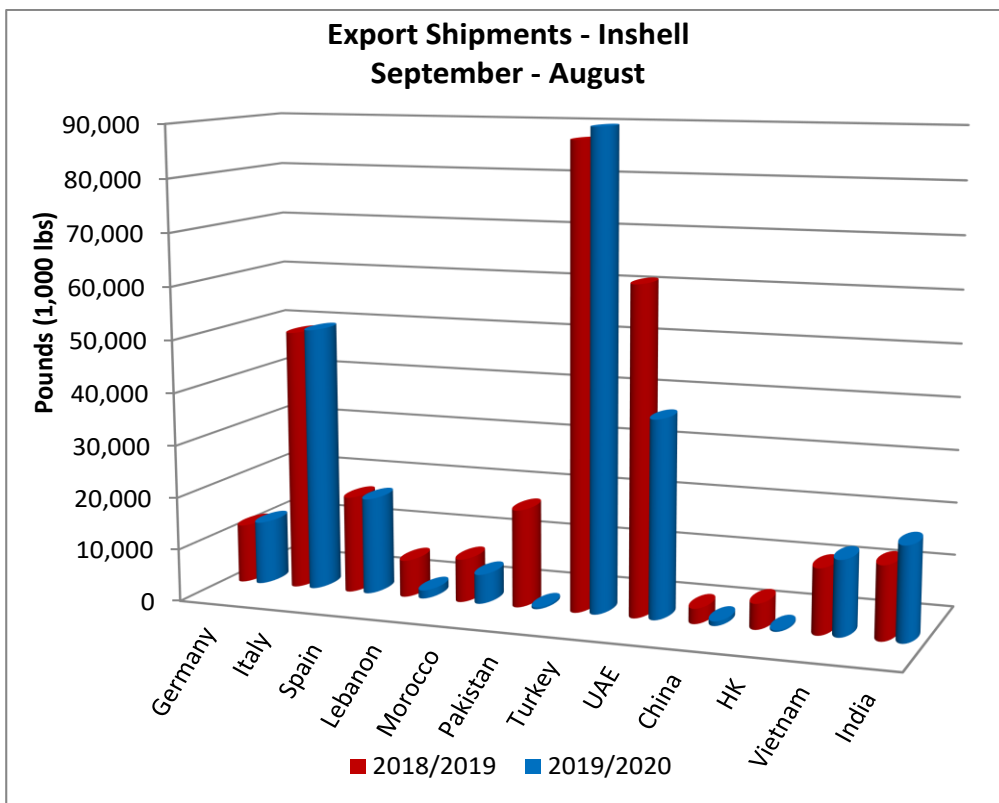
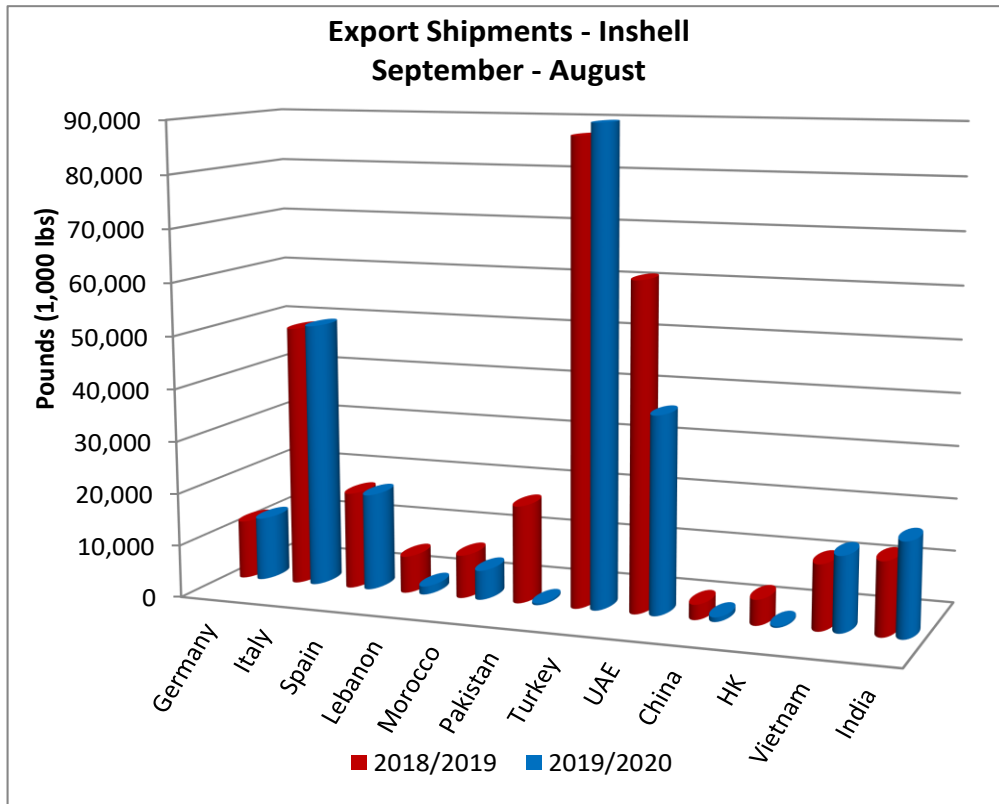
### 2019/20 Walnut Supply (inshell tons)

Carry-in from prior season:	66,179
<u>2019 Crop Receipts:</u>	<u>650,730</u>
Total available for shipment:	716,909
<u>Less: shipments to date thru Aug 31:</u>	<u>639,031</u>
Remaining supply:	77,878

- Inshell shipments were 1.1 million pounds for the month of August, an increase of 596 thousand pounds (+107%) compared to August 2019.
- Season to date inshell shipments are 284.0 million pounds through August, a decrease of 54.9 million pounds (-16%) compared to the same period last season.
- Shelled shipments were 24.6 million pounds for the month of August, an increase of 284 thousand pounds (+1%) compared to August 2019.
- Season to date shelled shipments are 437.4 million pounds through August, a decrease of 8.2 million pounds (-2%) compared to the same period last season.

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

	<u>Inshell Pounds</u>			<u>Shelled Pounds</u>		
	Sep 18 - Aug 19	Sep 19 - Aug 20	% Change	Sep 18 - Aug 19	Sep 19 - Aug 20	% Change
USA	16,401,623	10,558,929	-36%	207,327,218	201,949,024	-3%
Canada	3,239,235	2,211,971	-32%	16,678,714	16,361,546	-2%
Germany	11,257,983	12,119,528	8%	41,550,802	60,471,606	46%
Italy	49,839,647	50,536,431	1%	4,980,491	4,169,299	-16%
Netherlands	2,644,087	2,182,558	-17%	12,039,882	12,209,447	1%
Spain	18,507,662	18,486,140	0%	22,818,755	23,588,570	3%
U.K.	343,111	563,802	64%	10,047,312	9,899,857	-1%
Egypt	1,762,802	2,354,416	34%	1,182,130	1,085,018	-8%
Israel	1,465,704	735,868	-50%	13,666,030	7,933,302	-42%
Jordan	1,824,844	705,380	-61%	3,499,226	1,765,703	-50%
Lebanon	7,062,896	1,557,614	-78%	168,046	-42,000	-125%
Morocco	8,238,179	5,602,176	-32%	0	0	0%
Pakistan	18,621,223	344,377	-98%	42,328	0	-100%
Saudi Arabia	1,235,484	460,433	-63%	3,701,540	2,358,752	-36%
Turkey	87,590,605	90,939,038	4%	477,552	712,633	49%
UAE	62,000,206	37,532,161	-39%	8,420,654	5,499,802	-35%
Australia	25,463	2,000	-92%	7,913,641	7,798,034	-1%
China	2,884,964	861,337	-70%	2,709,180	1,143,525	-58%
Hong Kong	4,867,349	275,355	-94%	1,777,908	973,542	-45%
Vietnam	12,443,671	14,312,009	15%	192,480	104,750	-46%
India	13,975,614	17,879,377	28%	223,740	1,590,445	611%
Japan	0	0	0%	35,433,115	35,269,486	0%
Korea	674,857	842,160	25%	25,586,821	23,117,566	-10%



August walnut shipments from California were strong at 28,529 tons. This represents an increase of 3% over August 2019 and is just shy of the record shipments of August 2016. Inshell shipments primarily went to Spain, Israel, Turkey and UAE. Shelled walnut shipments were spread out to North America (-11%), Western Europe (+45%), Middle East (+47%), and Asia/Pacific Rim (+36%). As this is the last month of the crop year most packers try to ship remaining inventory to minimize carry-over into the new crop year.

September 2019 – August 2020 shipments (full crop year) of 639,031 tons represent a decrease of 34,442 tons (-5%) versus prior season. For the same period (2019/20 crop year), California walnut production was -3% which explains a portion of the lower year-over-year shipments. Total shipments as a percent of the 2019 crop are 97.9% which is in line with the prior 5-year average of 98.7%. The projected 2020 carry-out will be about 80,000 tons which is up from the prior few years but considered manageable as a percentage of the crop.

North America: Domestic shipments were down -36% for inshell and -3% for shelled versus prior year. Shipments to Canada followed a similar trend down -32% for inshell and -2% for shelled. Lower inshell shipments are reflective of higher pricing versus prior season as well as consumer demand moving toward ready to eat shelled walnuts.

Lower shelled shipments are primarily reflective of higher commodity pricing early in the season. It's also difficult to quantify the exchange between lower foodservice demand versus increasing retail demand during the second half of the season as COVID-19 began to change distribution.

Europe: Shipments of inshell walnuts to Europe were essentially flat year over year (+1%) while shipments of shelled walnuts exhibited strong growth (+16%) for the season. Inshell shipments were mostly concentrated to Germany (+8%), Italy (+1%) and Spain (flat versus prior year).

Shelled shipments exhibited strong growth to Germany (+46%) while maintaining steady volume to most other markets including Italy (-16%), Netherlands (+1%), Spain (+3%) and UK (-1%). With a larger crop coming from California it will be important to maintain these shipments.

Middle East / Africa: Inshell walnut shipments were down -24% and shelled walnut shipments were down -38% versus prior season. This is largely reflective of higher prices early in the crop year compared to the prior season but also affected by changes in distribution routes in the region, fluctuating currency valuation, changes in tariffs and other trade barriers, and COVID-19 disruptions.

For inshell, most major markets were notably down versus prior season including Israel (-50%), Jordan (-61%), Lebanon (-78%), Morocco (-32%), Pakistan (-98%), Saudi Arabia (-63%) and UAE (-39%). Most notably was the decrease to Pakistan which had been used primarily as a transit route into India during the prior year. Increased shipments were seen to Algeria (+79%), Egypt (+34%), Iraq (+76%) and Turkey (+4%).

For shelled walnuts, shipments to all major markets were lower, led by Israel (-42%), Jordan (-50%), Saudi Arabia (-36%) and UAE (-35%). These will be important markets in the upcoming season, particularly for inshell walnuts, as growers plan to ship a good portion of the increase in the crop as inshell.

Asia / Pacific Rim: Inshell shipments to this region overall were down (-5%). Lower shipments to China (-70%) and Hong Kong (-94%) are reflective of growing production of walnuts in China as well as higher California prices in comparison to Chinese origin walnuts early last season. We also saw Chinese origin walnuts being exported to several markets where they now compete against California (most notably in Turkey and UAE). Shipments to India were up (+28%) but the market likely consumed less California walnuts overall when prior season shipments to Pakistan are factored in. An increase in shipments to Vietnam (+15%) was primarily driven by walnut shelling operations which ultimately re-export the kernels to markets all over the world.

Lower shelled walnut shipments to the region (-5%) were spread over most major markets. Shipments were down to Australia (-1%), Japan (-0.5%), Korea (-10%), and Taiwan (-4%). While still relatively small tonnage, it's worth noting an increase in shelled walnut shipments to India (+611%) as some consumers there begin to accept machine cracked kernels as an alternative to product which is hand shelled locally.

Looking ahead...

The 2020 California walnut harvest is just beginning for the earlies varieties. Larger volume varieties including Tulare, Howard and Chandler will begin harvest in the coming weeks and carry through October. The Objective crop estimate of 780,000 inshell tons represents an increase of 19% over 2019 production. While there is some debate in California about whether or not the crop will reach the estimate, the consensus is that it will be record production and there will be plenty of walnuts to sell.

- Early pricing is reflective of the larger production with both inshell and shelled walnuts currently trading about 30% lower than at the same time last year.
- New business activity has been strong the past few weeks as buyers in multiple markets are jumping in to take advantage of prices at levels they have not seen in recent memory. Strong demand is driving the market to remain firm and slowly move higher.
- Inshell walnut buyers in key markets including Turkey and UAE are finding California pricing attractive compared to current pricing of Chinese origin walnuts. Even with higher meat yields associated with Chinese 185 variety, the color and consistency associated with California walnuts is being received as a good value.
- Some packers are already filling up for early production space (October-November). This will help establish a floor for the market as there is no reason to lower prices in the near term if nothing more can be added to production/shipment schedules.
- It will be important to have strong early shipments (October-December) to allow for a manageable inventory going into the second half of the season. With reports from Chile indicating good rain and snow we anticipate a larger Chilean walnut crop this coming season.

Please let us know if we can be of service.

Best regards,  
DERCO FOODS