DERCO FOODS®

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October 2020 Walnut Report

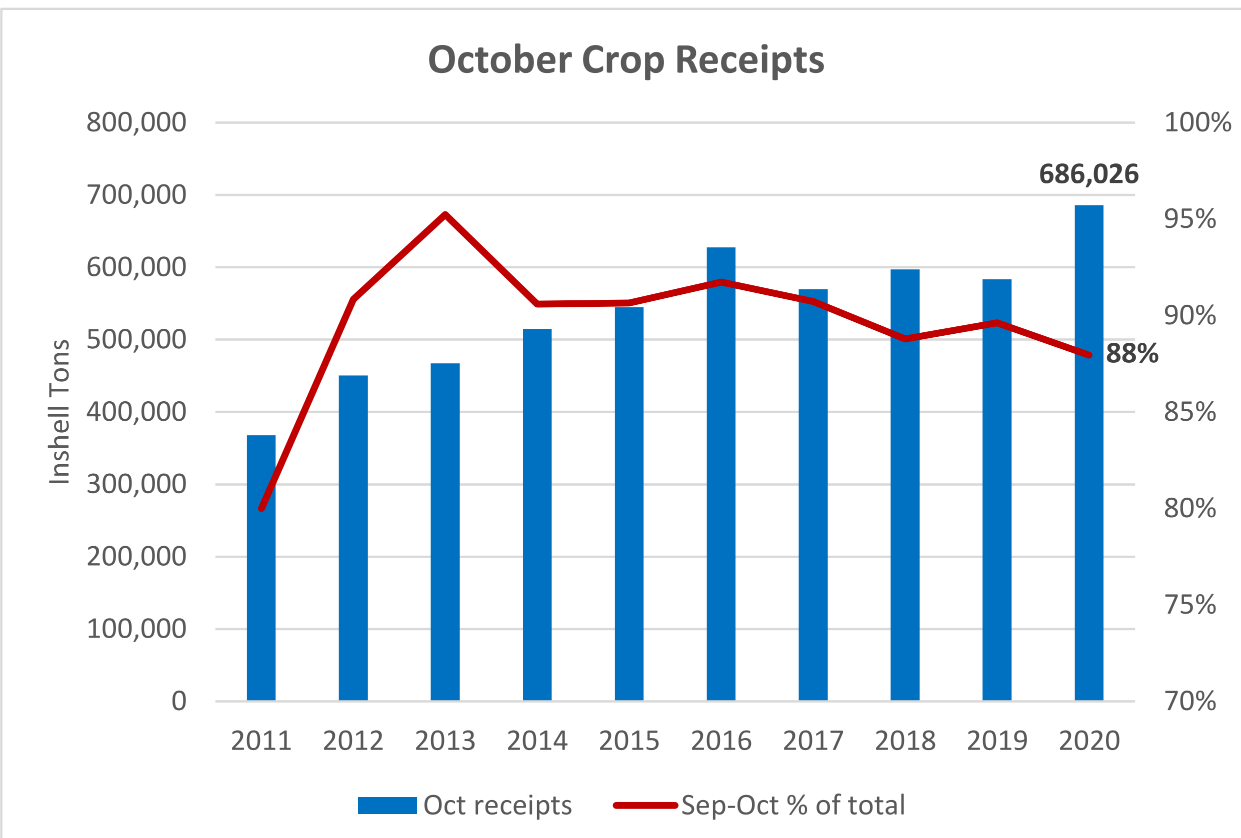
2019/20 Walnut Supply (inshell tons)

Carry-in from prior season:	63,985
2020 Crop Receipts:	780,000
Total available for shipment:	843,985
Less: Shipments to date thru Oct 31:	132,814
Remaining supply:	711,171

Receipts

- Crop receipts through October 31 are 686,026 inshell tons. This is up 102,827 tons (+18%) over October of 2019. This is the largest receipts through October on record.
- Based on the Objective Crop Estimate of 780,000 inshell tons, the crop was 88% received as of October 31st.
- The industry is typically about 90% received as of October 31. Assuming this figure is accurate for the 2020 crop, total production would be about 762,000 inshell tons.

The below chart shows receipts as of October 31st over the past 10 years in tons and as a % of final production:



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Shipments

- Inshell walnut shipments were 97.6 million pounds for the month of October, an increase of 5.0 million pounds (+5%) compared to October 2019.
- Season to date inshell shipments are 103.6 million pounds through October, an increase of 6.9 million pounds (+7%) compared to the same period last season.
- Shelled walnut shipments were 47.6 million pounds for the month of October, an increase of 5.7 million pounds (+14%) compared to October 2019.
- Season to date shelled shipments are 70.8 million pounds through October, an increase of 7.7 million pounds (+12%) compared to the same period last season.

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

	Inshell Pounds			Shelled Pounds		
	Sep 19 - Oct 19	Sep 20 - Oct 20	% Change	Sep 19 - Oct 19	Sep 20 - Oct 20	% Change
USA	4,777,535	5,976,633	25%	37,800,383	41,130,277	9%
Canada	1,303,640	1,981,447	52%	2,690,200	2,619,789	-3%
Germany	6,557,630	5,942,540	-9%	7,944,380	7,670,686	-3%
Italy	23,857,035	24,449,620	2%	737,996	213,270	-71%
Netherlands	1,256,346	753,973	-40%	1,155,336	1,819,051	57%
Spain	10,115,670	8,117,873	-20%	3,861,281	3,430,749	-11%
U.K.	167,090	0	-100%	556,657	1,251,718	125%
Algeria	1,101,932	2,469,192	124%	0	0	n/a
Egypt	573,196	749,564	31%	0	36,960	n/a
Israel	264,560	352,736	33%	294,328	1,200,537	308%
Morocco	1,102,300	1,146,392	4%	0	0	n/a
Pakistan	0	2,304,128	n/a	0	0	n/a
Saudi Arabia	0	133,184	n/a	42,020	40,040	-5%
Turkey	29,424,177	25,351,580	-14%	82,800	126,328	53%
UAE	10,652,024	11,156,168	5%	243,214	1,045,520	330%
Australia	0	0	n/a	1,198,820	1,360,810	14%
China	132,276	617,104	367%	198,000	12,300	-94%
Hong Kong	0	44,092	n/a	42,000	49,000	17%
India	2,578,922	7,775,772	202%	39,683	662,007	1568%
Japan	0	0	n/a	2,466,204	1,625,002	-34%
Korea	0	0	n/a	2,138,836	3,597,110	68%
Taiwan	60,627	44,092	-27%	352,532	881,953	150%
Vietnam	1,270,918	1,389,930	9%	0	42,240	n/a

October was the first full shipment month for the 2020 crop as September shipments were largely comprised of carryover from the 2019 crop. Overall October shipments were strong as reflected by the increase in total October shipments of 8.2% over prior season. In light of the large increase in production, October shipments were not as robust as anticipated by some and fell well short of the record October shipments of 131,875 tons.

Demand ahead of harvest was good, especially for inshell walnuts. Buyers were anxious to lock in purchases for early shipment periods with prices 30-35% lower than this time last season. Over the past few weeks, new business activity has slowed as buyers pause to wait for receipt of existing purchases. Buyers seem happy to take a hand-to-mouth approach to further purchases.

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Looking at shipments by region:

- North America:
  - Domestic demand has been strong as lower pricing is being well received at the consumer level. Strong growth for both inshell (+14%) and shelled (+10%) has been reported from the US market.
  - Inshell shipments were also strong to Canada (+49%) during October while shelled shipments were slower (-9%).

- Europe:
  - Inshell shipments to Europe are down (-10%) for the month of October as buyers have been less aggressive to skewed demand from COVID and aggressive pricing of competing nuts. Shipments to Italy were stable (+0.37%) while inshell shipments were significantly lower to Germany (-17%) and Spain (-28%).
  - Shelled walnut shipments to Europe were relatively stable for the month of October (+1.67%). A strong increase in shipments to U.K. (+173%) was offset by drops in shipments to Germany (-9%) and Spain (-11%). Significant new business was booked with buyers in Northern Europe during the month of October which should boost shipment figures in the coming months.

- Middle East / North Africa:
  - Notable increases of inshell walnut shipments were seen to Algeria (+124%), Egypt (+31%), Lebanon (+47%), Pakistan (up from 0 lbs to 2.3 million lbs), and UAE (+5%). Low existing inventory positions and attractive pricing are credited for the increases. Ramadan also continues to move earlier in the year but there is ample time for Nov-Jan shipments to arrive in time for holiday demand.
  - Lower shipments of inshell walnuts to Turkey (-12%) partially offset the increases in the rest of the region. Buyers in Turkey are patient due to inventory of Chilean walnuts, competing offers of Chinese origin walnuts and expectations for pricing of California walnuts to stay at attractive levels for the near future.
  - Increased shelled walnut shipments were led by an increase in shipments to Israel of 327% compared to October 2019. This is a big year over year increase for this market but is not out of line with past demand. Shipments of shelled walnuts were also up strongly to UAE (+359%).

- Asia / Pacific Rim
  - Increased inshell shipments were driven by strong early demand from India (+195%). Shipments were also up to China (+366%) as inshell Chandler has been priced at a discount to most Chinese origin varieties and is viewed as a good value as well as Vietnam (+11%) due to demand for hand shelling.
  - Strong kernel shipments to this region were led by Australia (+6%), India (+1,477%), Korea (+66%) and Taiwan (+169%). Shipments were lower shipments to Japan (-41%) as buyers work through existing inventory and have been slow to buy.

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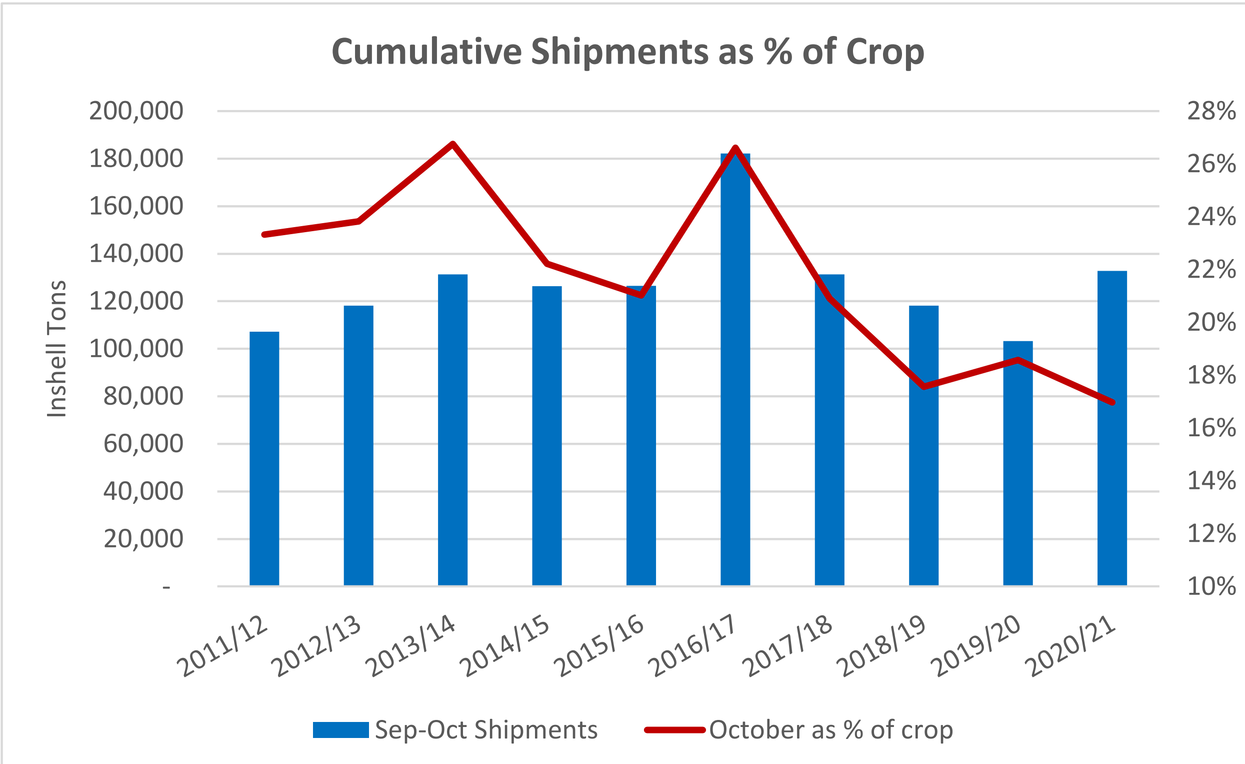
October shipments were a good start to marketing record California production but there are plenty of walnuts left to sell. Some packers report full production schedules through Nov-Dec while others are competing for business for prompt shipment. Assuming the crop reaches the estimated 780,000 inshell tons of production, the industry is about 17% shipped which is slightly behind pace of the past few seasons.



Aggressive early pricing has driven strong demand so far this season. We anticipate pricing remaining stable as the large crop will likely prevent a significant upward movement and strong consumer demand at current pricing levels will help provide a floor. It will be important to maintain strong shipments over the next couple of months so that the industry is well positioned heading into the spring/summer and well sold ahead of what is likely to be growing production from Chile.

Please let us know if we can be of service.

Best regards,
DERCO FOODS