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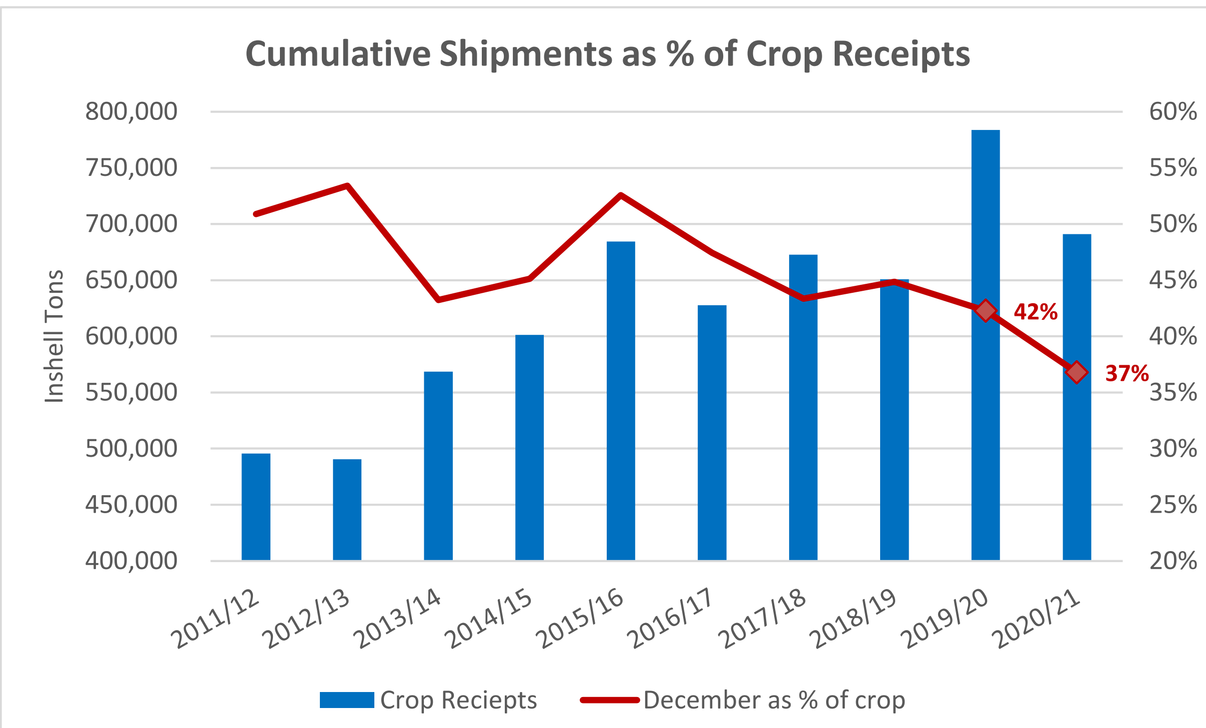
December 2021 Walnut Report

2021/22 Walnut Supply (inshell tons)

Carry-in from prior season:	98,054
2021 Crop Receipts (to date):	691,146
Total available for shipment:	789,200
Less: Shipments to date thru Dec 31:	257,532
Remaining supply:	531,668

California walnut industry crop receipts through December 31 are 691,146 inshell tons. This should be close to the final receipt figure and is down -92,608 tons (-12%) from the 2020 crop.

- Crop receipts to date exceed the Objective Estimate of 670,000 inshell tons by 21,146 tons (+3%). This remains within a reasonable margin of error.
- Estimated marketable supply as of December 31, 2021 was 531,668 inshell tons. This exceeds marketable supply as of December 31, 2020 by about 15,000 tons. Looking at the current position of the industry, despite a smaller 2021 crop and slower shipments to date compared to prior season, the remaining supply to market during the remainder of the season is almost identical to December of 2020.
- The graph below illustrates the crop size and the % sold as of December 31. While the % sold is down to 37% from 42% last season, the remaining supply is roughly equivalent to last season due to smaller production.



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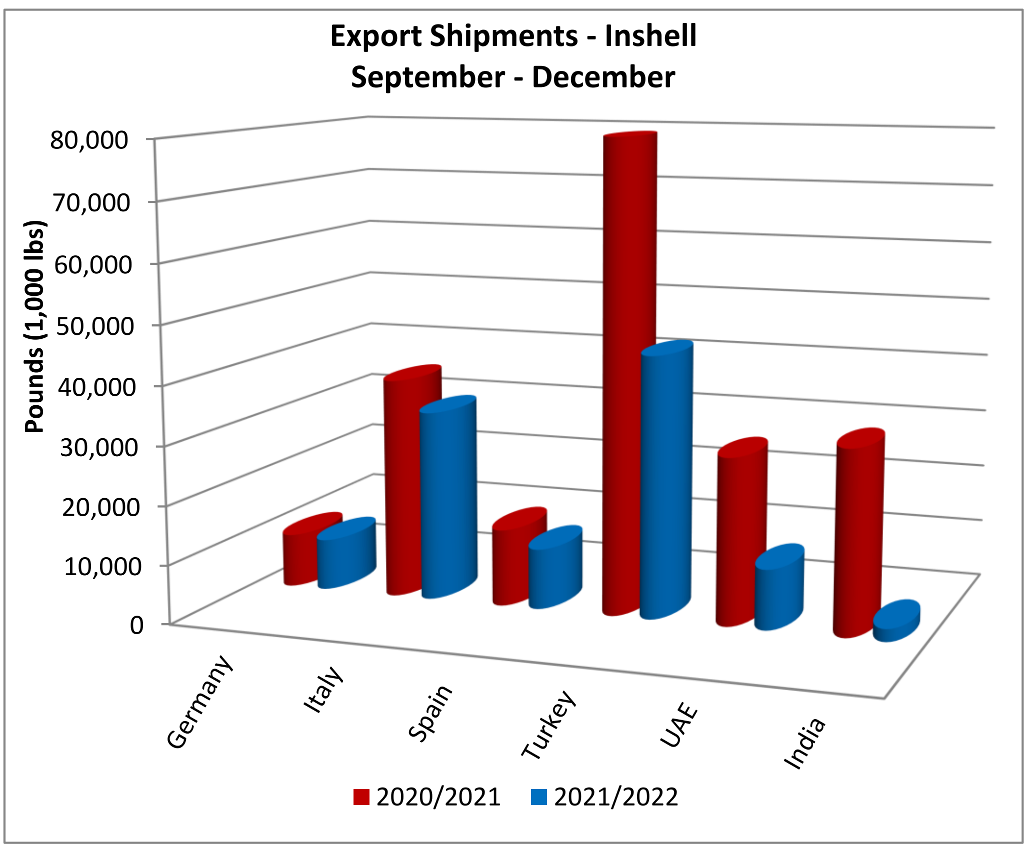
Shipments

- Inshell walnut shipments were 25.5 million pounds for the month of December, a decrease of -32.0 million pounds (-56%) compared to December 2020.
- Season to date inshell shipments are 137.5 million pounds through December, a decrease of -128.0 million pounds (-48%) compared to the same period last season.
- Regional inshell walnut shipments:
  - North America is down -24.3% season to date and -57.3% for the month of December. Consumption is down significantly in both USA and Canada despite traditional holiday demand.
  - Europe is down -12.9% season to date and -10.9% for the month of December. Traditional markets of Germany, Italy and Spain have all purchased substantially less compared to prior season. Lower demand is being driven by higher opening prices from CA and competing origins of Eastern Europe and China.
  - Middle East / Africa is down -57.3% season to date and -55.9% for the month of December. Lower demand is being driven by large purchases from the 2021 Chilean crop, high opening prices in California, aggressive pricing and a large crop from China and economic instability in the region. The largest inshell market, Turkey, is down -46.6% season to date (-39 million pounds). Violent fluctuations in the value of the Lira are making it difficult for buyers in this market. Demand from the region as a whole has been weak and substantial market share has been yielded to Chinese origin walnuts this season.
  - Asia / Pacific Rim is down -80.8% season to date and -88.8% for the month of December. The biggest driver of this figure is India which is down -93.1% season to date (-29 million pounds). Large purchases from the 2021 Chilean crop and fresh memories of losses from the 2020 CA crop have buyers in India choosing to bypass the 2021 CA crop.



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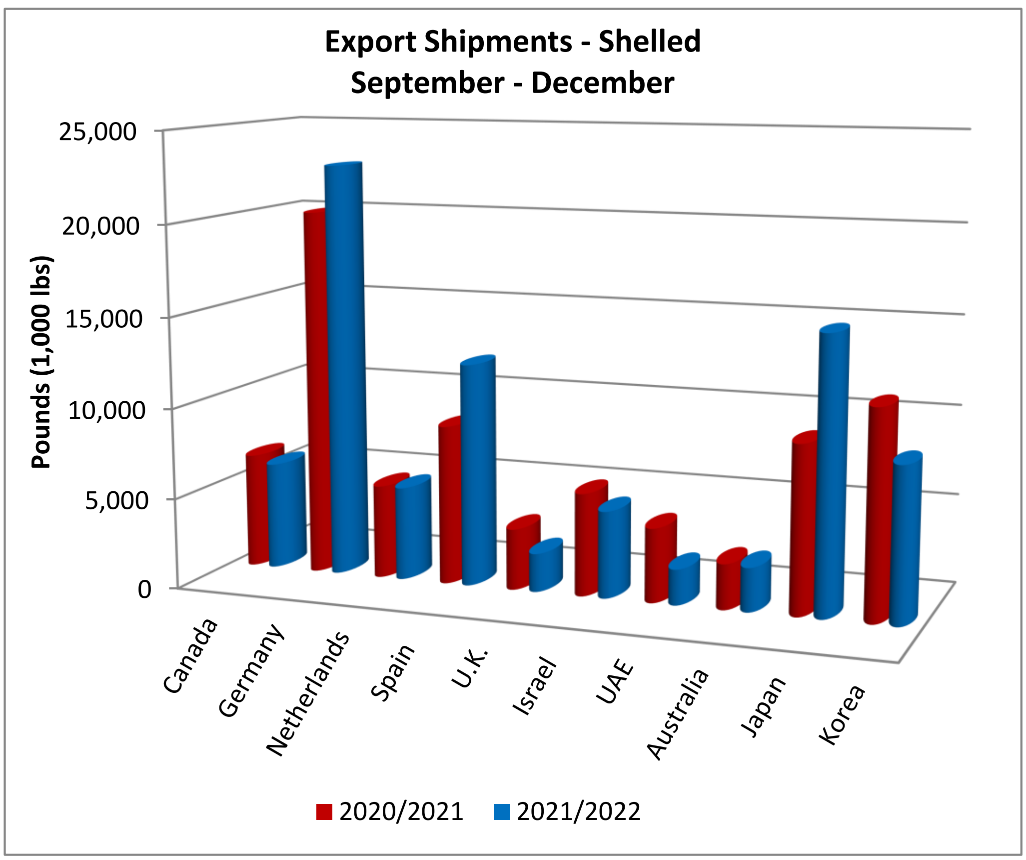
- Shelled walnut shipments were 45.7 million pounds for the month of December, a decrease of -5.3 million pounds (-10%) compared to December 2020.
- Season to date shelled shipments are 165.8 million pounds through December, a decrease of -12.3 million pounds (-7%) compared to the same period last season.
- Regional shelled walnut shipments:
  - North America is down -8.3% season to date and -9.7% for the month of December. The lone bright spot is December shipments to Canada which are up +13.3% over December of 2020.
  - Europe is up +10.4% season to date and +8.7% for the month of December. Shelled walnut shipments to Europe is one of the only areas of growth compared to prior season. Large increases in kernel shipments have been seen to Germany and Spain as both markets purchased less from Chile this season.
  - Middle East / Africa is down -48.5% season to date and -48.5% for the month of December. All major buying markets in this region have shown less demand due to higher opening pricing from California and aggressive competition from China.
  - Asia / Pacific Rim is down -2.6% season to date and -9.5% for the month of December. The bright spot for this region is Japan who is up +63.2% season to date. However, other markets including Australia, Korea and Taiwan are all trailing prior year.



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Summary

Initial review of the September – December shipment numbers from California paints a negative picture for the industry. Demand for both inshell and shelled walnuts has fallen resulting in substantially lower shipments to most major markets. Slow demand has allowed prices to fall from opening levels down to levels similar to the 2020 crop year.

Upon closer review, there are several positive factors as we move forward into the second half of the marketing season:

- The 2021 crop appears to be about 85,000 tons less than the 2020 crop.
- Season to date shipments are down about 75,000 tons which accounts for most of the drop in production.
- Pricing has dropped from artificially high opening levels back to levels where we have seen strong demand in past seasons. This should present attractive buying opportunities moving forward.
- The fact that shipments are so far down to most major markets indicates that supplies in those markets is low. Buyers will need to begin purchasing soon to replenish stocks.

The challenging logistical situation appears to be here to stay for the foreseeable future. This will make shipping to overseas markets more expensive and time consuming. Buyers will need to move purchase plans forward in order to receive goods in time for traditional demand.

In another month we are likely to see the first offers from the 2022 Chilean walnut crop. We expect a good crop as weather has been fairly cooperative. We anticipate opening pricing at a premium to California which may encourage some buyers to make more aggressive purchases from California in the coming months.

Please let us know if we can be of further assistance.

Best regards,
DERCO FOODS