DERCO FOODS®

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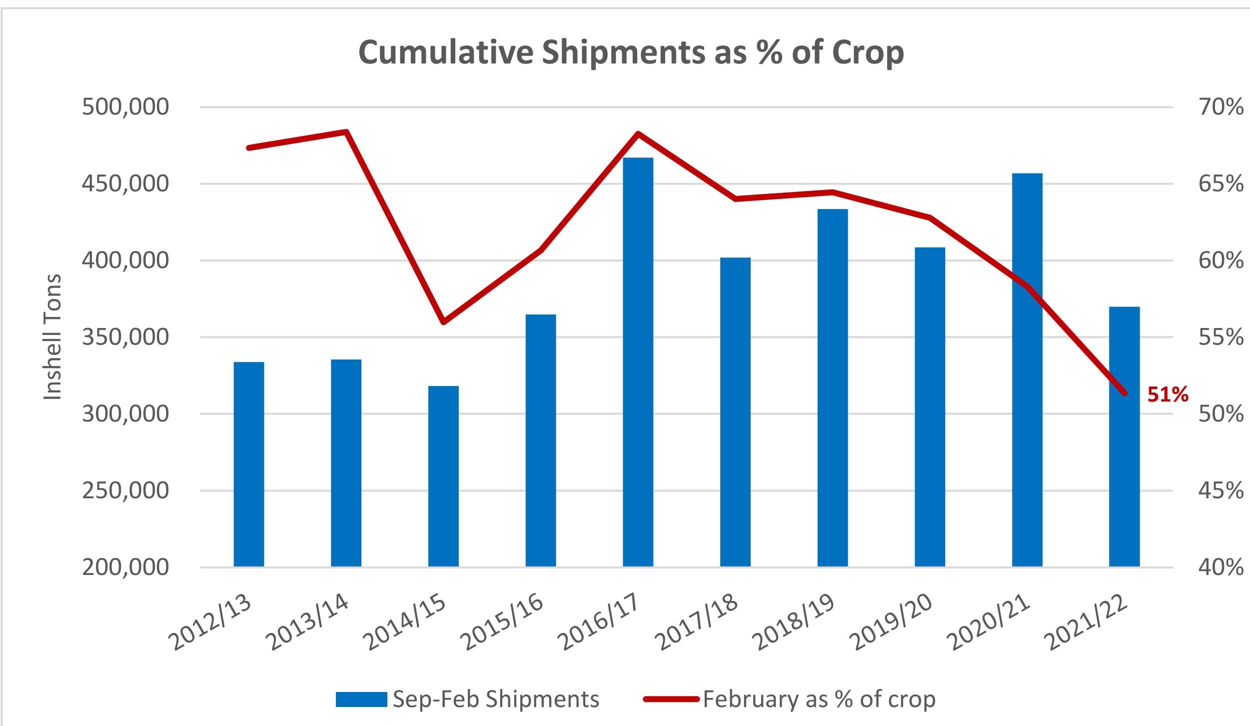
February 2022 Walnut Report

2021/22 Walnut Supply (inshell tons)

Carry-in from prior season:	98,054
2021 Crop Receipts:	720,163
Total available for shipment:	818,217
Less: Shipments to date thru Feb 28:	373,645
Remaining supply:	444,572

California walnut industry crop receipts were reported as 720,163 inshell tons.

- This figure exceeds the Objective Estimate of 670,000 inshell tons by 50,163 tons (+8%).
- This figure is less than the 2020 crop of 783,754 inshell tons by -63,591 tons (-8%).
- Total marketable supply for the 2021/22 crop season (carry-in + production) is 818,217 inshell tons. This is less than the 2020/21 crop year marketable supply by -29,522 tons (-3%).
- Estimated marketable supply as of February 28, 2022 was 444,572 inshell tons. This exceeds marketable supply as of February 28, 2021 by about 60,000 tons (+16%).
- The graph below illustrates the crop size and the % sold as of February 28. Season to date shipments are the lowest since the 2015/16 season in terms of total volume and the lowest over the past 10 seasons in terms of percentage of crop.



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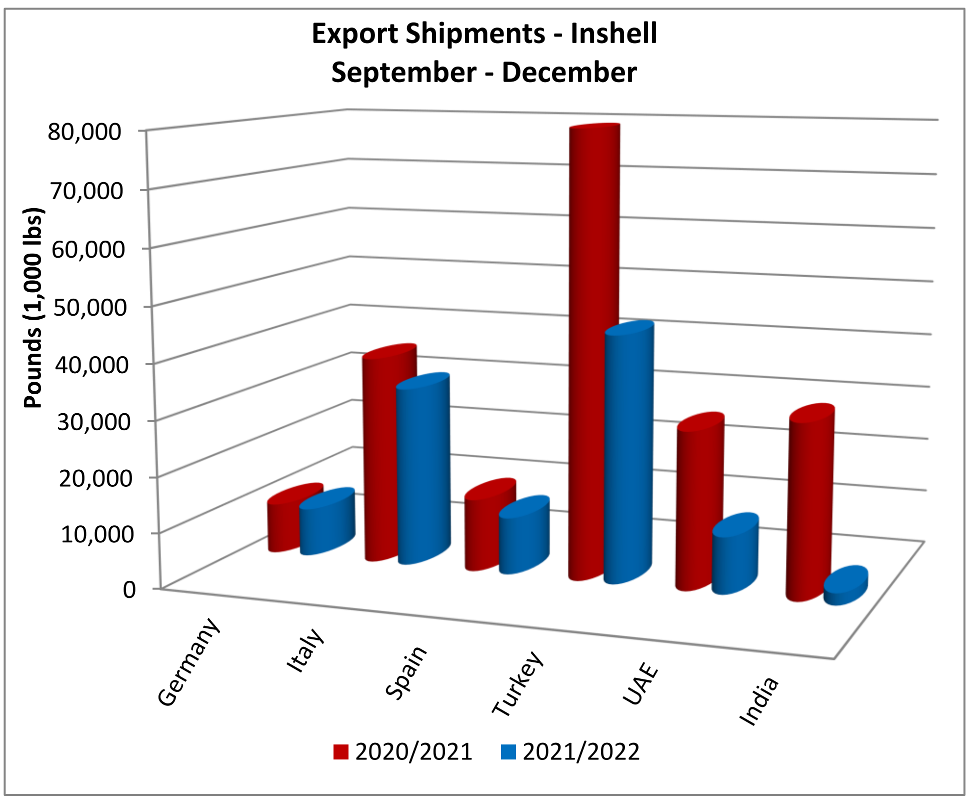
Shipments

- Inshell walnut shipments were 15.8 million pounds for the month of February, a decrease of -11.1 million pounds (-41%) compared to February 2021.
- Season to date inshell shipments are 173.2 million pounds through February, a decrease of -152.3 million pounds (-47%) compared to the same period last season.
- Shelled walnut shipments were 47.5 million pounds for the month of February, an increase of +3.6 million pounds (+8%) compared to February 2021.
- Season to date shelled shipments are 252.0 million pounds through February, a decrease of -11.5 million pounds (-4%) compared to the same period last season.

Season to date, shipments of both inshell and shelled walnuts are down substantially compared to prior season. Declining inshell shipments are led by India (-84%), Turkey (-46%), UAE (-60%), Algeria (-86%), Italy (-17%) and Spain (-25%). Most smaller volume markets are down equally. During the month of February, we saw some improvement with increased shipments compared to February 2021 to North America (+182%) and India (+57%). Lower pricing in California and higher opening pricing from Chile has driven increased demand for inshell walnuts in recent weeks. We anticipate March and April shipments of inshell to continue improving compared to prior season.



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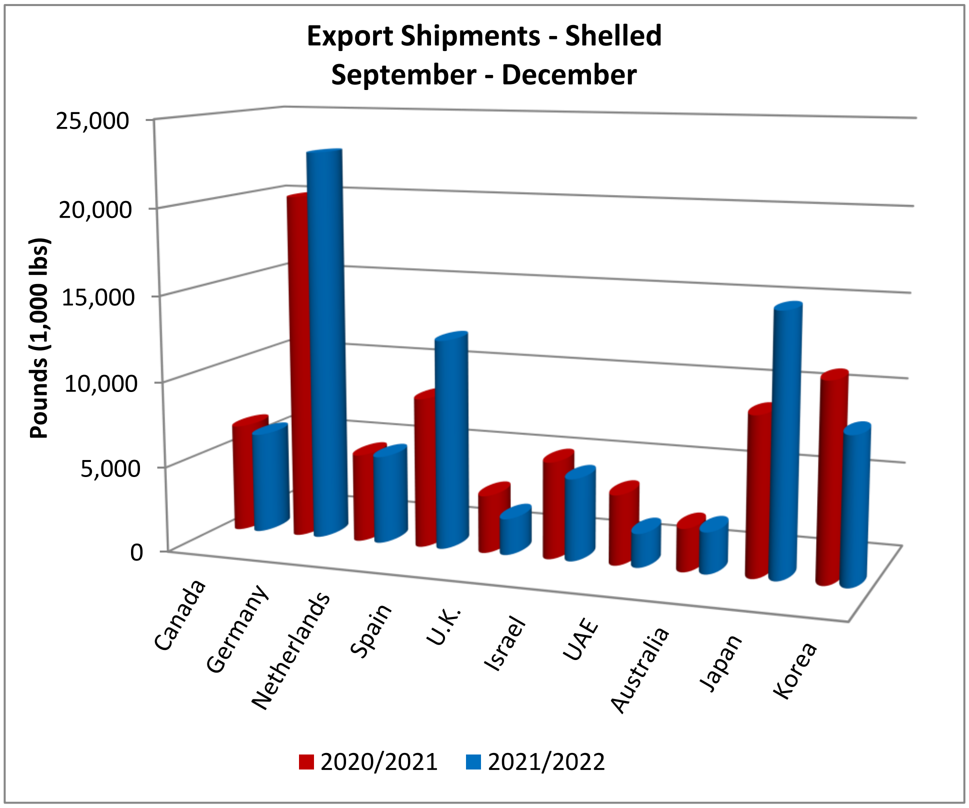
Shelled walnuts shipments season to date are also down led by USA (-6%), Israel (-21%), UAE (-33%), Australia (-5%) and Korea (-13%). Stronger shipments have been to Germany (+17%), Netherlands (+16%), Spain (+12%) and Japan (+38%). For the month of February, additional improvement was driven by increases to USA (+10%), Germany (+20%) and Japan (+19%). Again, we are seeing that lower pricing is driving stronger levels of activity and we expect to see shipments continue improving in the coming months.



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Summary
Over the past several weeks, demand for California walnuts (inshell and shelled) has noticeably improved. This is driven in part by lower prices and in part by empty overseas markets. We do not expect to see noticeable upward movement in pricing as there is still substantial inventory to sell/ship in California. However, we have seen prices stabilize. They are no longer falling and considerable business is taking place at prices which are stable.

Good quality inshell walnuts are getting difficult to find as most packers have either shipped or sent product for shelling. Kernels are readily available in California with some products holding at steady pricing while others are under more pressure. Combination and/or light amber kernels will continue to face downward price pressure due to limited marketing opportunities and larger supply this season due to untimely rains during harvest.

February shipments from California were almost identical to February 2021. If this trend continues for the second half of the marketing season (March – August), the carryout into the 2022/23 crop year would be about 150,000 tons. This is a concerning level given potential for a large 2022 crop, growing production in other regions, and inflationary pressures in most markets which are reducing disposable income. Also of concern is the product mix of light amber/amber kernels which is likely to make up a good portion of the carryout.

Looking at logistics, the situation remains challenging with costs continuing to move higher and service sporadic and unpredictable. Buyers who wait until the last opportunity to make purchases are increasingly at risk of missing key demand periods.

Opening inshell offers from Chile began during Gulfood and pricing has remained steady since. Active markets include India, UAE, China and Morocco. Enough volume of inshell business is taking place to fill early production/shipment spots and keep pricing stable. One key difference is that most business is being conducted on FOB Chile sales terms with freight to be added at a later date once shippers can lock freight prices in. Higher freight costs may come as a surprise to some buyers. Harvest of Serr variety is just beginning in Chile and Chandler harvest will start in April. We will watch the market closely in the coming weeks as buyers in Europe and Turkey are expected to become more active.

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

Best regards,
DERCO FOODS