

October 2022 Walnut Report

2022/23 Walnut Supply (inshell tons)

| | |
|---|----------------|
| Carry-in from prior season: | 137,969 |
| <u>2021 Crop Receipts:</u> | <u>720,000</u> |
| Total available for shipment: | 857,969 |
| <u>Less: Shipments to date thru Oct 31:</u> | <u>68,604</u> |
| Remaining unshipped supply: | 789,365 |
| <u>Less: Commitments as of Oct 31:</u> | <u>217,412</u> |
| Remaining supply available for sale: | 571,953 |

Supply

- The 2022 California walnut Objective Crop Estimate is 720,000 inshell equivalent tons. This is a decrease of about 10,000 tons (-1%) compared to the 2021 crop.
- Through October 31, total crop receipts were reported at 675,263 inshell tons. This is in line with crop receipts from 2 seasons ago (686,026 as of October 31, 2020). Harvest began late this season and was initially slow due to heat in the growing region. Later in October, harvest of all varieties picked up pace as weather in the growing region cooperated.
- If the USDA crop estimate of 720,000 inshell tons is accurate, that would mean that the crop was 94% received as of October 31. This is well above the 5-year average of being 87% received as of October 31. Most growers in the industry are expecting a final receipt figure in the range of 750,000 inshell tons. Due to crop damage during the summer heat wave, we expect a larger than normal amount of the crop to be commercially unusable.

Shipments

October was the first month in which packers were able to begin shipping 2022 crop walnuts in any real quantity.

- Inshell walnut shipments were 43.0 million pounds for the month of October, a decrease of -12.2 million pounds (-22%) compared to October 2021.
- Season to date inshell shipments are 45.2 million pounds through October, a decrease of -16.2 million pounds (-26%) compared to the same period last season.
- Shelled walnut shipments were 41.4 million pounds for the month of October, a decrease of -1.1 million pounds (-3%) compared to October 2021.
- Season to date shelled shipments are 72.3 million pounds through October, an increase of +2.9 million pounds (+4%) compared to the same period last season.
- Purchase commitments (product sold but not yet shipped) as of October 31 were about 217,000 inshell equivalent tons. This is an increase of about 72,000 tons (+50%) compared to October 31, 2021. This increase in commitments is reflected in both inshell and shelled walnuts and is indicative of buyers locking in future purchases at the lowest prices they've seen in recent history.

| | Inshell Pounds | | | Shelled Pounds | | |
|---------------|----------------------------|----------------------------|-----------------|----------------------------|----------------------------|-----------------|
| | Sep 2021 - Oct 2021 | Sep 2022 - Oct 2022 | % Change | Sep 2021 - Oct 2021 | Sep 2022 - Oct 2022 | % Change |
| USA | 3,752,022 | 3,926,912 | 5% | 40,083,127 | 46,687,131 | 16% |
| Canada | 1,299,609 | 1,913,851 | 47% | 2,815,934 | 4,010,713 | 42% |
| North America | 5,093,631 | 5,922,763 | 16% | 42,899,061 | 50,853,344 | 19% |

Shipments to North America were strong during October. Season to date inshell shipments are up +5% to USA and +47% to Canada. Season to date shelled shipments are up +16% to USA and +42% to Canada.

| | Inshell Pounds | | | Shelled Pounds | | |
|-------------|----------------------------|----------------------------|-----------------|----------------------------|----------------------------|-----------------|
| | Sep 2021 - Oct 2021 | Sep 2022 - Oct 2022 | % Change | Sep 2021 - Oct 2021 | Sep 2022 - Oct 2022 | % Change |
| Germany | 5,669,140 | 573,028 | -90% | 7,555,910 | 2,590,840 | -66% |
| Italy | 18,601,849 | 10,996,425 | -41% | 85,998 | 339,532 | 295% |
| Netherlands | 1,669,985 | 441,471 | -74% | 989,195 | 1,262,242 | 28% |
| Spain | 6,449,161 | 3,639,623 | -44% | 5,032,671 | 3,028,305 | -40% |
| U.K. | 22,046 | 0 | -100% | 964,238 | 1,883,175 | 95% |
| Europe | 32,809,009 | 15,893,053 | -52% | 15,192,912 | 9,724,867 | -36% |

Shipments to Europe are trending mostly lower through October. Inshell is down -52% to the region, led by declines in shipments to Germany (-90%), Italy (-41%), and Spain (-44%). Shelled shipments are also trending lower, down -36% for the region. Reductions in shipments to Germany (-66%) and Spain (-40%) are partially offset by stronger shipments to the Netherlands (+28%) and the United Kingdom (+95%). Buyers in this region report ample inventory of 2021 crop California walnuts and 2022 crop Chilean walnuts.

| | Inshell Pounds | | | Shelled Pounds | | |
|----------------------|----------------------------|----------------------------|-----------------|----------------------------|----------------------------|-----------------|
| | Sep 2021 - Oct 2021 | Sep 2022 - Oct 2022 | % Change | Sep 2021 - Oct 2021 | Sep 2022 - Oct 2022 | % Change |
| Algeria | 88,184 | 1,807,772 | 1950% | 0 | 0 | n/a |
| Egypt | 396,828 | 617,288 | 56% | 0 | 0 | n/a |
| Iraq | 0 | 529,012 | n/a | 0 | 41,950 | n/a |
| Israel | 132,276 | 176,368 | 33% | 1,164,309 | 867,190 | -26% |
| Jordan | 0 | 132,276 | n/a | 209,190 | 546,455 | 161% |
| Lebanon | 44,092 | 880,870 | 1898% | 0 | 0 | n/a |
| Morocco | 220,460 | 793,646 | 260% | 0 | 0 | n/a |
| Pakistan | 0 | 749,564 | n/a | 0 | 0 | n/a |
| Saudi Arabia | 0 | 0 | n/a | 0 | 84,040 | n/a |
| Turkey | 16,822,057 | 8,840,924 | -47% | 115,817 | 462,000 | 299% |
| UAE | 2,637,859 | 6,261,064 | 137% | 211,025 | 455,464 | 116% |
| Middle East / Africa | 20,385,848 | 20,788,784 | 2% | 1,700,341 | 2,517,145 | 48% |

Shipments to the Middle East/Africa are mixed so far this season. Season to date shipments of inshell has been strong to Algeria (+1,950%), Egypt (+56%), Iraq, Lebanon (+1,897%), Morocco (+260%), Pakistan, and U.A.E. (+137%). This has been offset by lower shipments to Turkey (-47%) which has become a trading hub for the surrounding region. Shelled walnut shipments to the region overall are up (+48%) compared to the same period last season.



2670 West Shaw Lane, Fresno, California 93711 U.S.A.

Telephone (559) 435-2664 • Fax (559) 435-8520 • www.dercofoods.com • e-mail: derco@dercofoods.com

| | Inshell Pounds | | | Shelled Pounds | | |
|--------------------|---------------------|---------------------|----------|---------------------|---------------------|----------|
| | Sep 2021 - Oct 2021 | Sep 2022 - Oct 2022 | % Change | Sep 2021 - Oct 2021 | Sep 2022 - Oct 2022 | % Change |
| Australia | 0 | 0 | n/a | 1,183,250 | 1,103,910 | -7% |
| China | 220,460 | 352,736 | 60% | 42,000 | 0 | -100% |
| Hong Kong | 0 | 44,092 | n/a | 49,500 | 82,700 | 67% |
| India | 264,552 | 1,236,392 | 367% | 0 | 84,000 | n/a |
| Japan | 0 | 0 | n/a | 4,351,573 | 2,421,671 | -44% |
| Korea | 0 | 0 | n/a | 3,204,104 | 3,232,550 | 1% |
| Taiwan | 22,046 | 47,046 | 113% | 75,800 | 613,620 | 710% |
| Vietnam | 1,863,065 | 462,920 | -75% | 0 | 0 | n/a |
| Asia / Pacific Rim | 2,370,123 | 2,143,186 | -10% | 9,167,727 | 8,243,817 | -10% |

Shipments to Asia/Pacific Rim so far this season are falling behind last season’s pace. Inshell shipments are stronger to India (+367%) but offset by lower shipments to Vietnam (-75%). Shelled shipments to the region are down (-10%) compared to last season led by a notable decline in shipments to Japan (-44%).

Summary

New business activity for California walnuts continues to take place at a slower pace. The combination of inventory from prior crop year and other origins, the strengthening US Dollar, global inflation, conflict in Ukraine and other factors are making business difficult. Global walnut supply has grown quickly (California, China, Chile, Eastern Europe) and demand is struggling to keep pace.

In California, the talk of the industry is in regards to quality and color. The 2022 crop suffered heat damage across all growing regions and varieties. Nevertheless, the Chandler harvest appears to be up in terms of total tonnage. The result will be an eventual shortage of light kernels or high quality inshell and an abundance of combination or light amber colored kernels. We’re already seeing darker colored kernels priced at or below the cost of harvest and processing/packing (not counting the cost of farming). Buyers and sellers of inshell walnuts are being careful and providing full disclosure about the color as even “light” walnuts are a shade darker than most seasons.

The 2022 Chilean crop is largely sold out at this time. Buyers in some markets acted quickly to purchase remaining Chilean supplies due to color concerns from California. Now growers are looking ahead to next season and anticipating good early demand for premium Chilean product. In China, reports indicate higher than normal levels of mold in some regions and growers are facing difficulty in shipping product out of the Xinjiang region due to COVID related travel restrictions and outright lockdowns. But overall, production in China is continuing to grow and newer varieties with improved yield and color are gaining attention and market share.

Pricing for walnuts remains at the lowest levels seen in years. The strong commitment numbers indicate that some buyers are recognizing the value and making forward purchases at attractive levels. Current pricing is not sustainable given the level of financial stress at the grower level. We will surely see a faster pace of orchard removal in the near future. For now, walnuts are being perceived as an exceptional value which will lead to improved demand.

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

Best regards,
DERCO FOODS