

January 2019 Walnut Report

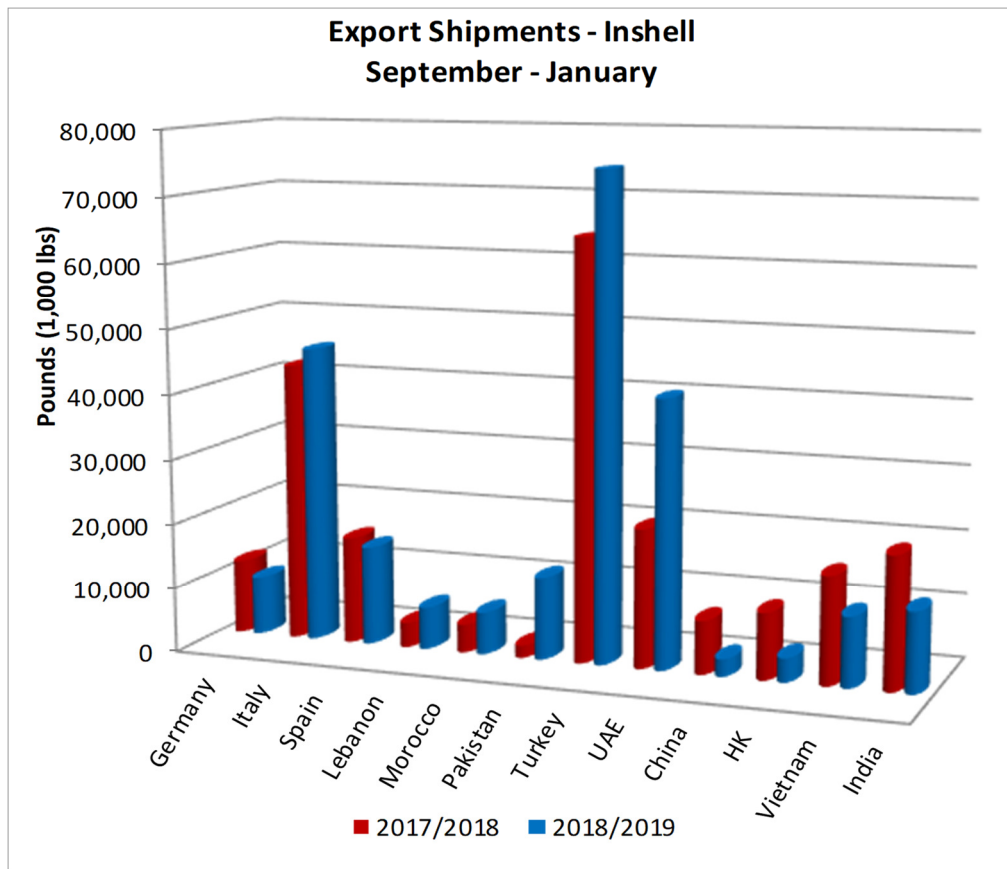
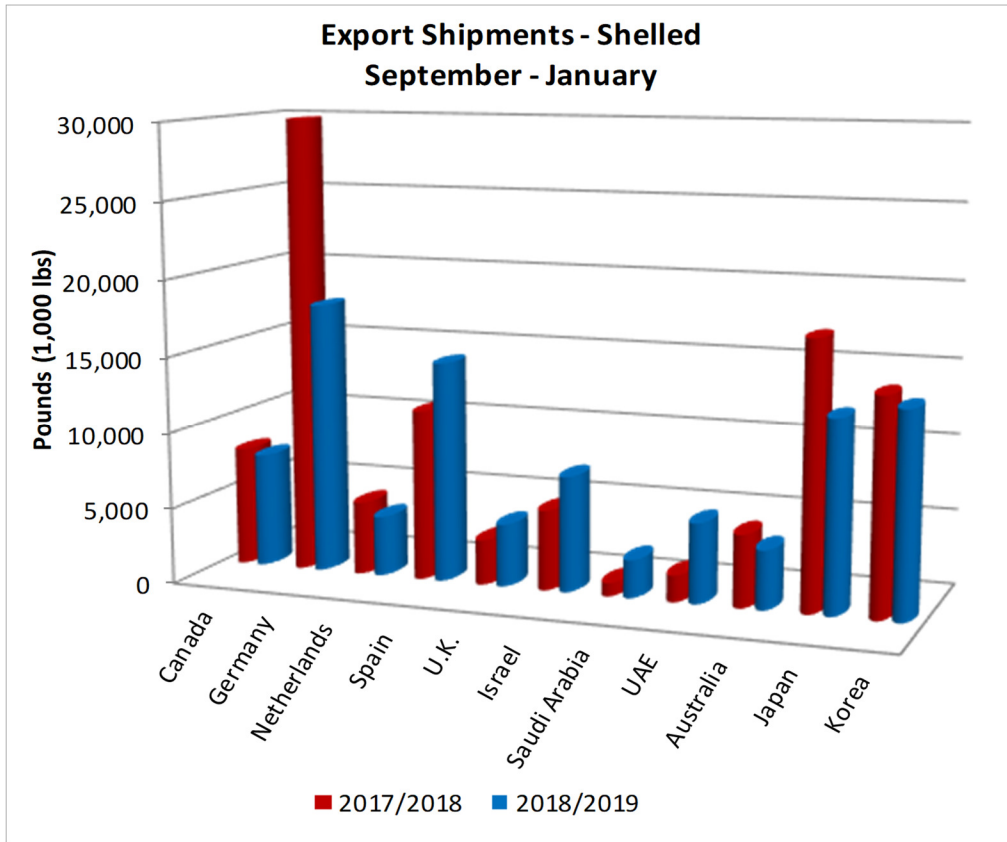
2018/19 Walnut Supply (inshell tons)

Carry-in from prior season:	63,539
<u>2018 Crop Receipts:</u>	<u>672,723</u>
Total available for shipment:	736,262
<u>Less: shipments to date thru Jan 31:</u>	<u>369,496</u>
Remaining supply:	366,766

- Final 2018 crop receipts are 672,723 inshell tons. This is about 17,000 inshell tons (-2.5%) less than the estimate and is the second largest California crop in history
- Inshell shipments were 47 million pounds for the month of January, an increase of 25.1 million pounds (+113%) compared to January 2018.
- Season to date inshell shipments are 274 million pounds through January, an increase of 17.9 million pounds (+7%) compared to the same period last season.
- Shelled shipments were 47 million pounds for the month of January, an increase of 5.8 million pounds (+3%) compared to January 2018.
- Season to date shelled shipments are 205 million pounds through January, an increase of 5.8 million pounds (+3%) compared to the same period last season.

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

	<u>Inshell Pounds</u>			<u>Shelled Pounds</u>		
	Sep 17 - Jan 18	Sep 18 - Jan 19	% Change	Sep 17 - Jan 18	Sep 18 - Jan 19	% Change
USA	16,059,993	13,153,568	-18%	80,771,165	90,526,586	12%
Canada	2,462,770	2,623,551	7%	7,830,103	7,503,685	-4%
Germany	11,543,736	9,103,514	-21%	29,976,351	17,882,074	-40%
Italy	43,190,013	45,922,549	6%	2,529,161	3,176,520	26%
Netherlands	2,746,544	1,841,778	-33%	4,804,964	3,948,169	-18%
Spain	16,614,070	15,382,493	-7%	11,271,226	14,504,676	29%
U.K.	580,485	236,738	-59%	2,965,125	4,117,466	39%
Egypt	944,722	1,631,408	73%	237,338	887,130	274%
Israel	486,384	984,856	102%	5,265,814	7,585,819	44%
Jordan	352,752	1,497,656	325%	564,600	2,112,226	274%
Lebanon	3,835,101	6,488,874	69%	0	84,046	0%
Morocco	4,370,019	6,519,771	49%	0	0	0%
Pakistan	1,902,596	12,797,478	573%	0	42,328	0%
Saudi Arabia	264,368	1,014,116	284%	875,087	2,493,937	185%
Turkey	64,738,057	74,733,938	15%	879,527	64,001	-93%
UAE	21,500,059	41,315,894	92%	1,744,733	5,245,628	201%
Australia	8,267	0	-100%	4,736,106	3,861,113	-18%
China	8,210,639	2,683,235	-67%	1,161,500	1,490,780	28%
Hong Kong	10,238,005	3,679,715	-64%	707,666	772,906	9%
Thailand	0	1,455,036	0%	291,598	123,490	-58%
Vietnam	16,641,426	10,757,259	-35%	99,680	66,480	-33%
India	20,478,192	12,329,356	-40%	0	106,727	0%
Japan	0	0	0%	17,393,582	12,538,375	-28%
Korea	1,331,612	666,457	-50%	14,138,032	13,374,494	-5%



January 2019 walnut shipments from California were a record 77,173 inshell tons, surpassing the prior January record by 21,067 tons (+38%). A strong shipment report was widely anticipated but this exceeds most expectations.

- Inshell walnut shipments were especially strong at 47,337 tons which is up 113% from January 2018. Buyers in major inshell markets including Turkey, U.A.E. and Italy have been active buying up remaining inventory. Much of this activity appears to be in anticipation of demand around Ramadan as the 2019 Chilean crop will be too late to meet this holiday.
- Shelled shipments were also strong at 47,191 tons, up 7,927 tons (+20%) from January 2018. The biggest gains were in the US domestic market where lower prices are being well received by consumers and the Middle East where buyers are stocking up ahead of Ramadan.

Over the past month, strong demand and comfortable inventory levels have allowed for inshell walnut prices to move up about \$0.20/lb. The shelled walnut market did not move up as quickly as the inshell market but is now catching up. Most smaller growers are essentially sold out for the season and larger growers are committed forward. California is comfortably sold and the industry is anticipating another strong shipment month in February. We anticipate pricing remaining stable or moving slowly higher in the coming months.

The Chilean inshell walnut market has become active the past couple of weeks as buyers and sellers both look to lock in early production space. Larger volumes are likely to be sold in the coming 1-2 weeks and during Gulfood which has become the unofficial opening of the Chilean market. Business is currently taking place at a premium of about \$0.10/lb over California levels which is less of a premium than we've seen in prior seasons. This is reflective of the growing Chilean crop and some of the difficulties experienced last season when opening prices were higher and quickly dropped after harvest.

At this time, California has remaining marketable inventory of 366,766 tons. This is 35,894 tons more (+11%) than January 2018 marketable inventory of 330,872 inshell tons. At first glance, this appears bearish and expectations would be for lower pricing as we enter the spring and fresh competition from Chile. However, the mindset in the California industry is very different than this time last season. Growers have much higher levels of forward commitments than a season ago. A few large California packers have even been in the market as buyers recently to cover forward commitments. While shipments from California are expected to remain strong in the coming months, new business will be limited. This should present less competition for Chile as harvest begins.

Looking at some key markets:

- USA: Season to date shelled shipments are up 12% and January shelled shipments are up 36%. Lower prices are making their way to the consumer and being well received. The lower prices are driving higher consumption and investment in new product development which together are the cure for lower prices. The health message and new ways of using walnuts will continue driving higher consumption in this market.
- Europe: Season to date, shipments to Europe are down 2.9 million pounds (-4%) for inshell and down 8.2 million pounds (-15%) for shelled. These shipment figures are disappointing compared to other regions. As prices for 2018 Chilean origin walnuts fell during the summer and fall of 2018, many European buyers took advantage of the opportunity which likely reduced demand for California origin product in the fall of 2018. January 2019 shipments show some improvements with inshell shipments to the region up 2.5 million pounds (+53%) and shelled shipments almost even (-3%) with January 2018. It remains to be seen if buyers will come back for another round of purchases for spring shipment from California or if they will wait for Chilean crop availability which likely will ship in the summer of 2019.

- China / Hong Kong / Vietnam / Thailand: Season to date inshell walnut shipments are down 16.5 million pounds (-47%) versus the same period last year. While the ongoing trade disputes and newly imposed tariffs are often cited, reality is that shipments to this region were already falling as Chinese domestic production continues to grow to feed local demand. Even if trade disputes are settled, it is unlikely that shipments would materially change to this region. The disappearance of this market has not been the cataclysmic event some in California feared as attractive pricing has helped open and expand other markets for California walnuts.
- India / Pakistan: Evaluating India and Pakistan as a single market is worthwhile as the majority of walnuts shipping to Pakistan are making their way into India via alternative import routes. High tariffs on imported walnuts in India and competition from walnuts being imported via the Kashmir region are making business difficult for importers in India. It's worth noting that the tariffs apply to all walnuts (not just U.S. origin) which will affect shipment from Chile as well. The strong combined shipments provide another example of the inability of governments to effectively regulate international trade with tariffs alone.
 - January shipments to India are down 2 million pounds (-53%) and season to date shipments are down 8 million pounds (-40%).
 - January shipments to Pakistan are up 2 million pounds (from 0 in January 2018) and season to date shipments are up 10.9 million pounds (+573%).
 - Combined, January 2019 shipments are even with January 2018 and season to date shipments are up 2.7 million pounds (+12%).
- Turkey: Shipments of inshell walnuts to Turkey continue to be strong with January shipments up 8.1 million pounds (+114%) and season to date shipments up 9.9 million pounds (+15%). This comes despite currency devaluation, higher tariffs and various conflicts in the surrounding region. Demand remains strong in this region and has been bolstered by the lower prices and good quality in this crop. Buyers also appear to be stocking up for Ramadan demand. Most California inventory will be shipped ahead of Ramadan allowing for Chile product to replenish stocks after Ramadan.
- United Arab Emirates: January shipments are up 11.2 million pounds (+430%) for inshell and up 1.2 million pounds (+269%) for shelled. Season to date shipments are up 19.8 million pounds (+92%) for inshell and up 3.5 million pounds (+201%) for shelled. Regional demand is reported to be strong from the local market as shipments to Dubai are being redistributed through Turkey and into the surrounding region. Lower prices are spurring demand and buyers in the region are building stocks in anticipation of demand for Ramadan.

The January shipment report shows evidence of strong demand in most markets worldwide. Shipments are expected to remain strong for the next couple of months based on strong recent sales activity. California needs to maintain a shipment pace about 10% above last season in order to have a manageable carryout. This seems achievable based on shipments the past two months and reported forward commitments. As Chilean harvest begins in March, California is well committed and should not present significant competition for new business. But with a larger crop anticipated and the difficulty of last season still fresh in mind we anticipate Chilean growers wanting to fill early production space aggressively as harvest nears.

Please let us know if we may be of further service in meeting your needs for California and Chilean origin walnuts. We look forward to visiting together at Gulfood where we are exhibiting in the USA Pavilion; Sheikh Saeed Hall; S3 C34-36.

Best regards,
DERCO FOODS