DERCO FOODS®

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February 2015 Walnut Report

February 2015 shipments were 40,213 inshell equivalent short tons. This is 6,965 tons (+21%) more than February 2014.

2014 Walnut Supply

Carry-in from prior season:	38,568
2014 Crop Receipts (through Feb 28):	561,635
Total available for shipment:	600,203
Less: shipments to date thru Feb 28:	319,549
Remaining supply:	280,654

- 2014 crop receipts through February 28th were 561,635 inshell short tons. This is up 72,650 tons (15%) from the 2013 crop and 16,635 tons (3%) larger than the NASS 2014 crop estimate.
- Inshell shipments were 19 million pounds for the month of February, an increase of 4.8 million pounds (+1.7%) compared to February of 2014.
- Season to date inshell shipments are 228 million pounds through February, a decrease of 55 million pounds (-19%) compared to the same period last season.
- Shelled shipments were 27 million pounds for the month of February, an increase of 3.8 million pounds (+16%) compared to February of 2014.
- Season to date shelled shipments are 181 million pounds through February, an increase of 7.9 million pounds (+4.6%) compared to the same period last season.

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

	Sep 2014 - Feb 2015		Sep 2013 - Feb 2014		% Change	% Change
Country	**Shelled**	**Inshell**	**Shelled**	**Inshell**	**Shelled**	**Inshell**
USA	83,597,328	12,982,329	86,042,698	14,172,420	-3%	-8%
Canada	8,106,350	1,640,266	9,107,832	1,727,934	-11%	-5%
Germany	22,919,133	9,154,892	13,840,285	11,733,477	66%	-22%
Italy	1,542,417	32,660,414	1,619,000	34,081,125	-5%	-4%
Netherlands	2,013,471	2,731,809	1,942,391	3,232,661	4%	-15%
Spain	7,780,925	17,675,691	7,284,735	19,067,391	7%	-7%
U.K.	1,550,512	477,784	811,184	390,249	91%	22%
Israel	4,396,728	772,202	5,106,043	2,557,583	-14%	-70%
Turkey	172,560	48,273,595	105,500	49,928,929	64%	-3%
UAE	1,934,385	6,847,988	2,662,324	11,084,756	-27%	-38%
Australia	4,716,900	0	5,117,481	56,768	-8%	-100%
China	889,800	13,435,495	1,265,892	16,218,101	-30%	-17%
Hong Kong	869,611	41,258,449	2,491,383	74,404,543	-65%	-45%
Vietnam	0	26,428,820	456,800	26,225,119	-100%	1%
Thailand	151,801	1,895,496	1,042,532	5,642,427	-85%	-66%
India	77,520	1,705,887	0	221,368	100%	671%
Japan	14,354,134	0	11,636,210	0	23%	0%
Korea	14,381,580	986,567	13,189,580	858,897	9%	15%
Taiwan	4,351,054	101,138	3,133,270	85,783	39%	18%

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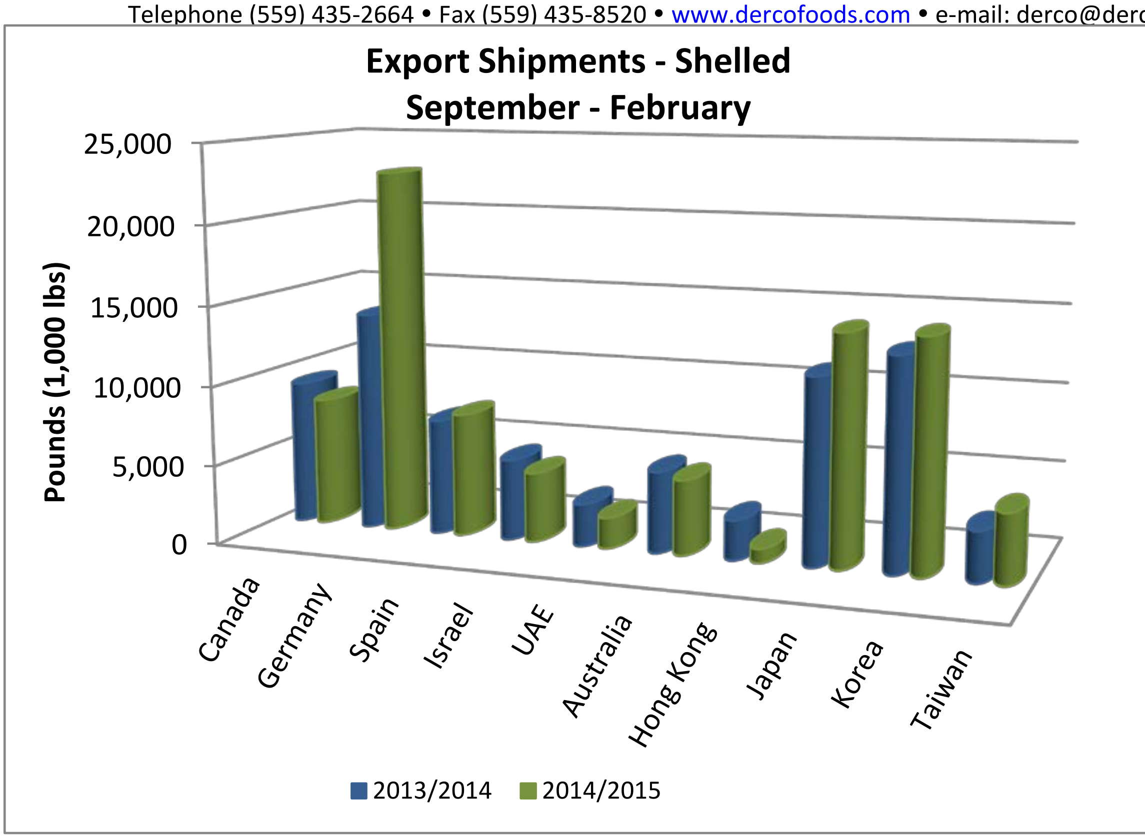

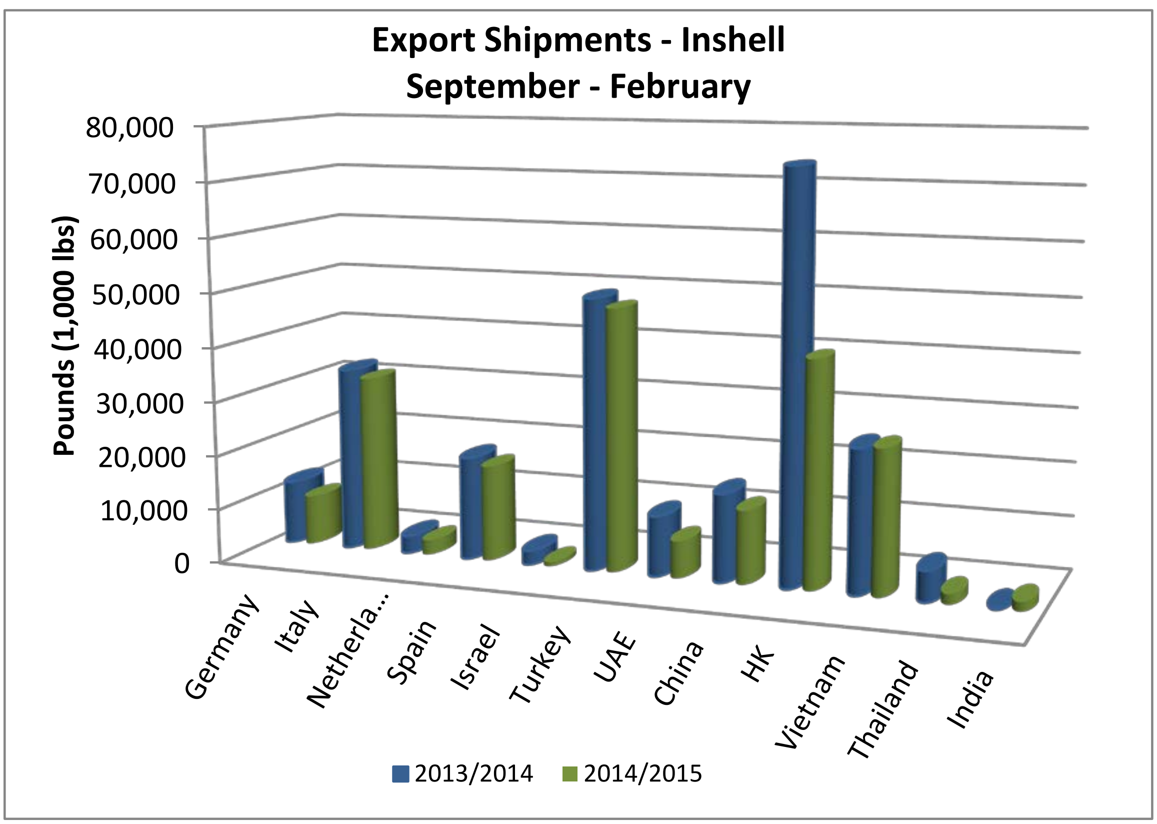

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The California walnut industry had about 278,000 inshell equivalent tons of inventory at the end of February. This is about 79,000 tons (40%) above the inventory level at the end of February 2014.

- If California ships the same amount as was shipped a year ago for the remainder of this crop year (March – August 2014 shipments were 161,000 inshell short tons), the industry would be left with a carryout of about 117,000 tons. This is an increase of 78,000 tons (204%) versus last season.
- If California can match the record spring shipments seen in 2008/2009 of 195,000 tons, the carryout would be about 84,000 tons, an increase of 45,000 tons (117%) versus last season.
- Quality of the remaining inventory in California is of concern as light color kernels and good quality inshell are becoming difficult to find. Light amber and amber color kernels are readily available.
- Another obstacle facing California is the recent strength of the U.S. Dollar versus most other currencies. Even with lower prices in California, buyers overseas are facing higher costs.

<u>Major Market Comments:</u>

- Shipments of inshell to China (China, Hong Kong, Vietnam and Thailand) are down over 39 million pounds (-32%) compared to the same period a year ago.
  - With a large domestic crop and high opening prices from California, buyers in China focused more attention on local production. Increasing production and improved yields and quality from domestic producers are expected to continue in future years.
  - Demand has been slow post Chinese New Year. Buyers are yet to re-enter the market for California walnuts.
- Season to date shipments to Western Europe are mixed, with inshell down 10% and shelled up 35%.
  - The driver of the strong kernel shipments is Germany where season to date shipments are up over 9 million pounds (+66%). Recent sales activity has been slow as delayed shipments and high prices curb demand.
  - Shipments of inshell are down in major markets of Germany (-22%), Italy (-4%), Netherlands (-15%) and Spain (-7%).
- Season to date shipments to the Middle East and North Africa also trail last season. Inshell shipments to the region are down by 9.9 million pounds (-14%) while kernel shipments to the region are flat.
  - Lower inshell shipments are driven by U.A.E. (-38%), Turkey (-3%), Israel (-70%) and Morocco (-70%).
  - Lower kernel shipments to U.A.E. (-27%) and Israel (-14%) are offset by increases to Saudi Arabia (+39%).
- Shipments of inshell walnuts to India are 1.7 million pounds through February. This is welcome growth for a relatively untapped market with big potential. California will compete with local production as well as other origins.
- Kernel shipments to Japan through February are up 2.7 million pounds (+23%) compared to the same period last season.
- Kernel shipments to Korea through February are up 1.2 million pounds (+9%) compared to the same period last season.

A tentative contract agreement was reached between the ILWU (International Longshore and Warehouse Union) and the PMA (Pacific Maritime Association) in mid-February (although the agreement still needs ratification by ILWU members).

- Since the agreement was reached, the situation at the port has worsened for California exporters.
- Shipping lines are not giving new bookings as they scramble to unload and load cargo as quickly as possible in an attempt to catch up with the delayed and missed shipments from the past few months.
- Some local ILWU factions continue to cause work stoppages as they attempt to negotiate outside of normal channels.
- Assuming the new contract is ratified by vote in April, we expect the delays and congestion at the ports in California to continue for several more months.

As Chilean walnuts begin harvest, reports are of a record crop of 65,000 inshell metric tons or more. Little early business has taken place as buyers and sellers wait to see how the crop turns out. With slow demand from most markets and a large crop, opening prices will need to moderate from levels seen last season. If Chilean prices open high, it could provide some benefit for California growers who will be able to move remaining inventories at lower levels.

Let us know if we may be of further service.

Best regards,
DERCO FOODS