DERCO FOODS®

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February 2016 Walnut Report

February 2016 shipments were 100.7 million inshell equivalent pounds. This is 19.8 million pounds (+25%) more than February 2015. This is the second consecutive record monthly shipment from California.

2015 Walnut Supply (1,000 pounds)

Carry-in from prior season:	167,022
2015 Crop Receipts:	1,202,706
Total available for shipment:	1,369,728
Less: shipments to date thru Feb 29:	736,206
Remaining supply:	633,522

- Inshell shipments were 20.5 million pounds for the month of February, an increase of 1.3 million pounds (+7%) compared to February of 2015.
- Season to date inshell shipments are 267.9 million pounds through February, an increase of 38.7 million pounds (+17%) compared to the same period last season.
- Shelled shipments were 39.4 million pounds for the month of February, an increase of 8.0 million pounds (+29%) compared to February of 2015.
- Season to date shelled shipments are 206.5 million pounds through February, an increase of 24.7 million pounds (+14%) compared to the same period last season.

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

	Sep 2015 - Jan 2016		Sep 2014 - Jan 2015		% Change	% Change
Country	**Shelled**	**Inshell**	**Shelled**	**Inshell**	**Shelled**	**Inshell**
USA	82,027,219	11,711,743	83,379,892	12,610,924	-2%	-7%
Canada	9,591,368	2,106,731	8,444,050	1,641,466	14%	28%
Germany	27,745,279	12,340,856	22,919,133	9,243,076	21%	34%
Italy	2,215,129	35,102,336	1,542,417	32,834,440	44%	7%
Netherlands	4,350,190	1,708,179	2,013,711	2,731,809	116%	-37%
Spain	10,681,960	17,733,810	7,822,945	17,675,689	37%	0%
U.K.	3,792,240	401,644	1,550,512	477,784	145%	-16%
Israel	6,632,392	1,044,037	4,396,728	772,202	51%	35%
Egypt	1,264,150	1,312,404	691,681	1,072,979	83%	22%
Saudi Arabia	2,190,014	374,322	1,283,097	520,745	71%	-28%
Turkey	899,690	80,481,185	214,580	48,999,644	319%	64%
UAE	4,181,968	7,848,961	1,998,185	6,847,988	109%	15%
Australia	4,446,065	40,000	4,716,900	0	-6%	n/a
China	1,296,110	8,153,428	889,800	13,612,047	46%	-40%
Hong Kong	1,051,360	37,951,934	869,611	41,744,117	21%	-9%
Vietnam	651,666	31,967,097	0	26,647,760	n/a	20%
Thailand	2,460,725	2,199,262	151,801	1,895,496	1521%	16%
India	10,010	7,419,509	77,520	1,749,979	-87%	324%
Japan	13,480,032	0	14,354,132	0	-6%	n/a
Korea	11,481,223	975,720	14,448,330	986,567	-21%	-1%
Taiwan	4,455,078	97,347	4,351,054	101,138	2%	-4%

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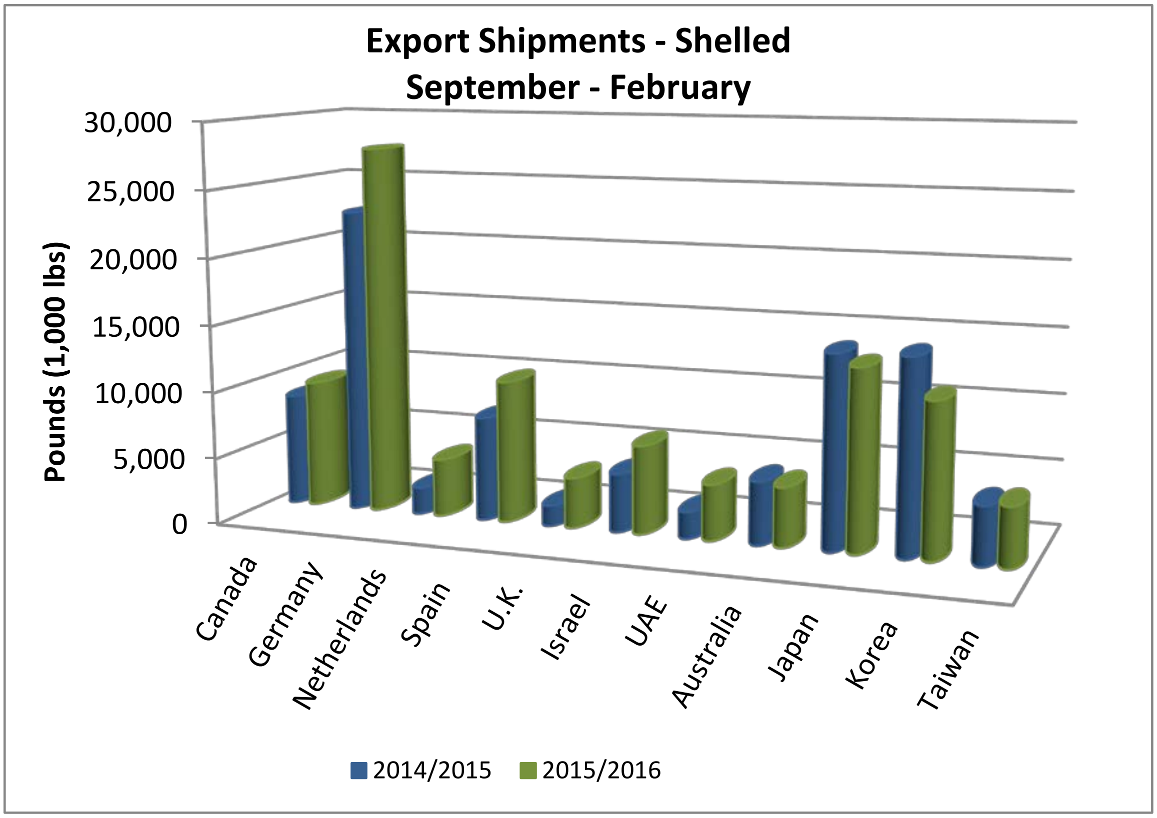

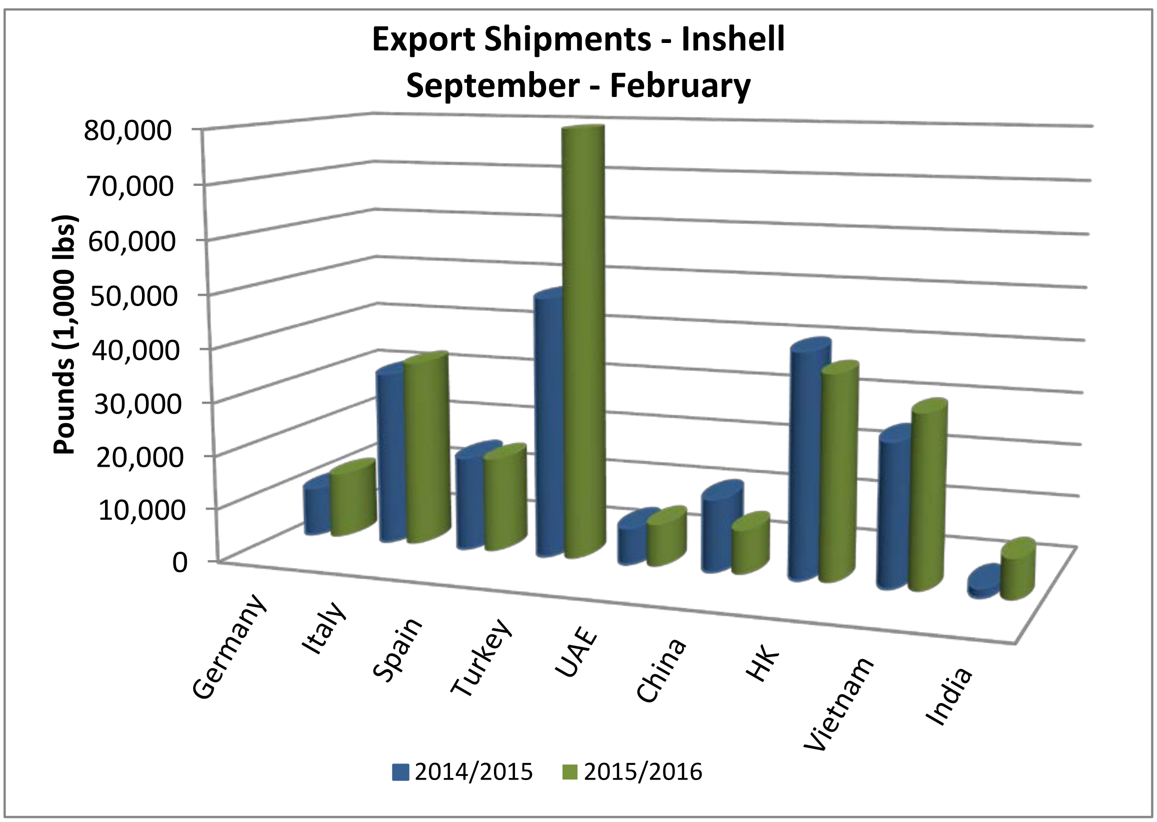

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February walnut shipments from California of just over 100 million pounds marked the second consecutive month of record shipments. This is good news. It suggests positive momentum is being built in some markets and that the lower prices and promotion are slowly turning into demand.

The 2015/16 crop year has been tumultuous so far with a large carry-in, record production and prices retreating over 30% from opening levels. Several markets that took years to open up to California walnuts have seen dwindling shipments over the past 12 months due in part to the record high prices seen the past few seasons. With prices now recalibrated to more reasonable levels, walnuts are again viewed as a good value.

The calculated remaining inventory in California as of February 29th was about 633 million pounds. This is about 72 million pounds (+13%) larger than this time last season.

- If California shipments for the remainder of the season are equal to those of last season, the carryout would be about 220 million pounds (+54 million pounds or +33% from this season's carry-in)
- If California shipments for the remainder of the season are about 10% above last season, the carryout would be about 180 million pounds (similar to this season's carry-in of 167 million pounds)
- If California shipments for the remainder of the season are about 20% above last season, the carryout would be about 138 million pounds (-28 million pounds or -17% from this season's carry-in)

The U.S. government recently contracted for purchase of walnuts for a school lunch program. This should help move some quantities of light amber pieces over the next few months. March will also include the last of the shipments to the Middle East and North Africa for product to arrive prior to Ramadan.

2016 crop Chilean origin walnuts are being offered and some business is being confirmed. Opening prices are well above California levels. However, buyers in some markets are willing to pay premiums for the large sizes and light color typically offered by growers in Chile. As the overall size of the Chilean crop continues to grow, more and more kernels are being offered as "machine cracked" because there is not enough labor to keep up with demand for hand cracked. This is likely to create a wider gap between hand and machine cracked walnuts going forward.

Prices in California seem to have stabilized. Higher priced offerings from Chile, the arrival of warmer weather in California and the dwindling supply of light colored walnuts in California will likely act to keep the market stable/firm in the coming months. The market for combo/light amber color product is likely to remain weak as sellers are anxious to move product in a market crowded with competition.

For the month of February, there was positive news for domestic shipments: kernel shipments were up 28% compared to February 2015. The lower prices are finally reaching the consumer level and the heavy domestic advertising by the California Walnut Board may be paying off. Other bright spots were kernel shipments to Europe (+9%), the Middle East and North Africa (+82%), Japan (+22%) and Korea (+62%). Inshell shipments are up to the Middle East and North Africa (+21%), China/Hong Kong (+33%) and India (+80%).

With moderate prices and good momentum, California appears to be headed toward finishing the season with a manageable carryout. This will be important, along with reasonable opening prices, as we look ahead to the 2016 crop.

Let us know if we may be of further service.

Best regards,
DERCO FOODS