DERCO FOODS®

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March 2016 Walnut Report

March 2016 shipments were 95.9 million inshell equivalent pounds. This is 3.8 million pounds (-4%) less than the record setting March 2015. This is the second largest shipment for the month of March on record.

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 Mar 31:	832,337
Remaining supply:	537,391

- Inshell shipments were 9.7 million pounds for the month of March, a decrease of 12.3 million pounds (-56%) compared to March of 2015.
- Season to date inshell shipments are 277.8 million pounds through March, an increase of 26.6 million pounds (+11%) compared to the same period last season.
- Shelled shipments were 38.0 million pounds for the month of March, an increase of 3.6 million pounds (+10%) compared to March of 2015.
- Season to date shelled shipments are 244.5 million pounds through March, an increase of 28.2 million pounds (+13%) compared to the same period last season.

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

	Sep 2015 - Mar 2016		Sep 2014 - Mar 2015		% Change	% Change
Country	**Shelled**	**Inshell**	**Shelled**	**Inshell**	**Shelled**	**Inshell**
USA	98,240,301	13,355,030	96,091,539	14,434,262	2%	-7%
Canada	11,565,450	2,136,881	9,724,298	1,729,209	19%	24%
Germany	31,006,647	12,737,684	27,235,785	9,287,168	14%	37%
Italy	2,783,531	35,784,788	1,847,750	33,341,625	51%	7%
Netherlands	5,171,336	1,840,731	2,533,281	2,952,269	104%	-38%
Spain	12,483,179	18,880,462	9,299,393	19,087,073	34%	-1%
U.K.	4,882,785	401,644	1,970,137	565,968	148%	-29%
Israel	7,597,902	1,088,129	5,659,806	904,478	34%	20%
Egypt	1,451,350	1,621,048	978,101	1,293,899	48%	25%
Saudi Arabia	2,289,586	374,322	1,642,092	608,745	39%	-39%
Turkey	899,690	81,361,649	218,982	51,279,790	311%	59%
UAE	4,585,517	9,200,757	2,512,117	7,244,540	83%	27%
Australia	5,231,165	84,000	5,421,450	0	-4%	n/a
China	1,510,110	8,021,244	944,800	16,079,074	60%	-50%
Hong Kong	1,246,560	38,483,890	943,466	50,250,651	32%	-23%
Vietnam	693,666	33,025,305	0	28,329,532	n/a	17%
Thailand	2,541,075	2,552,990	216,149	2,659,167	1076%	-4%
India	10,010	7,635,468	77,520	2,324,390	-87%	228%
Japan	16,802,502	0	17,396,983	0	-3%	n/a
Korea	14,746,190	975,720	18,621,961	986,567	-21%	-1%
Taiwan	5,419,048	207,577	5,367,806	101,138	1%	105%

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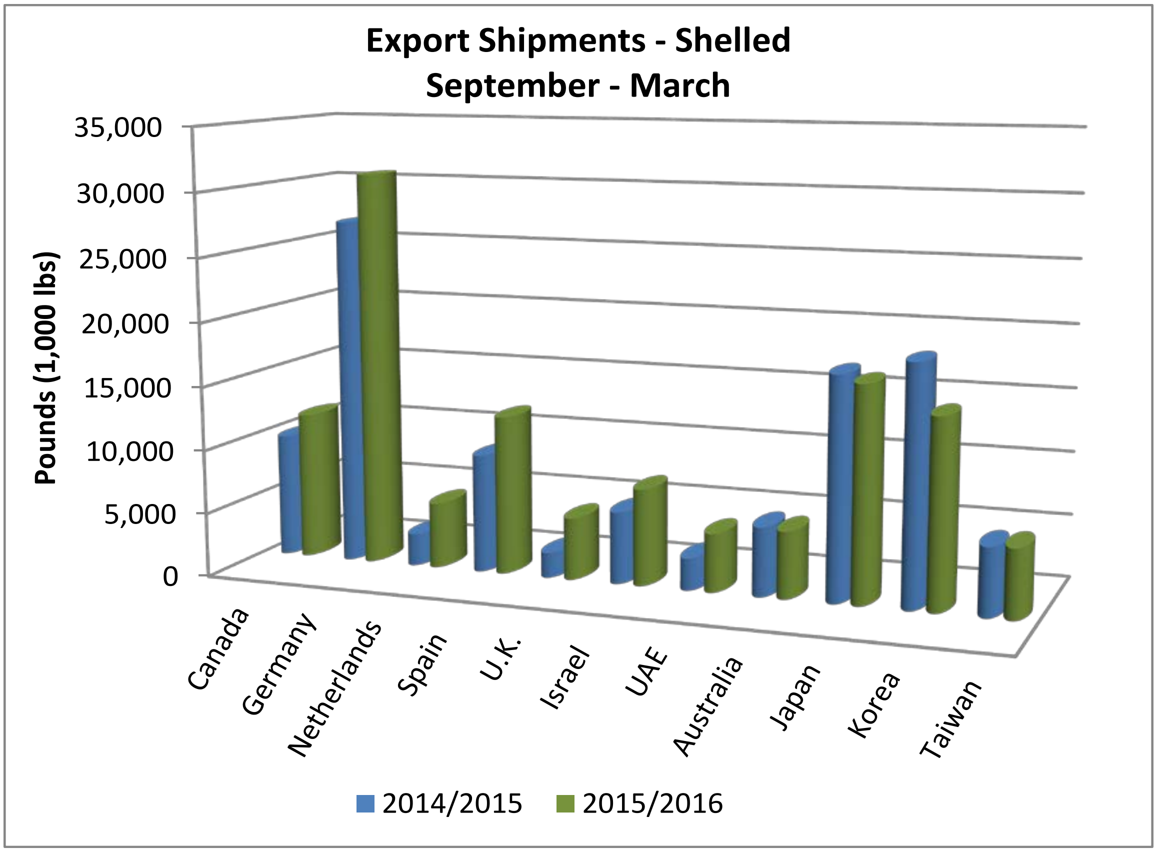

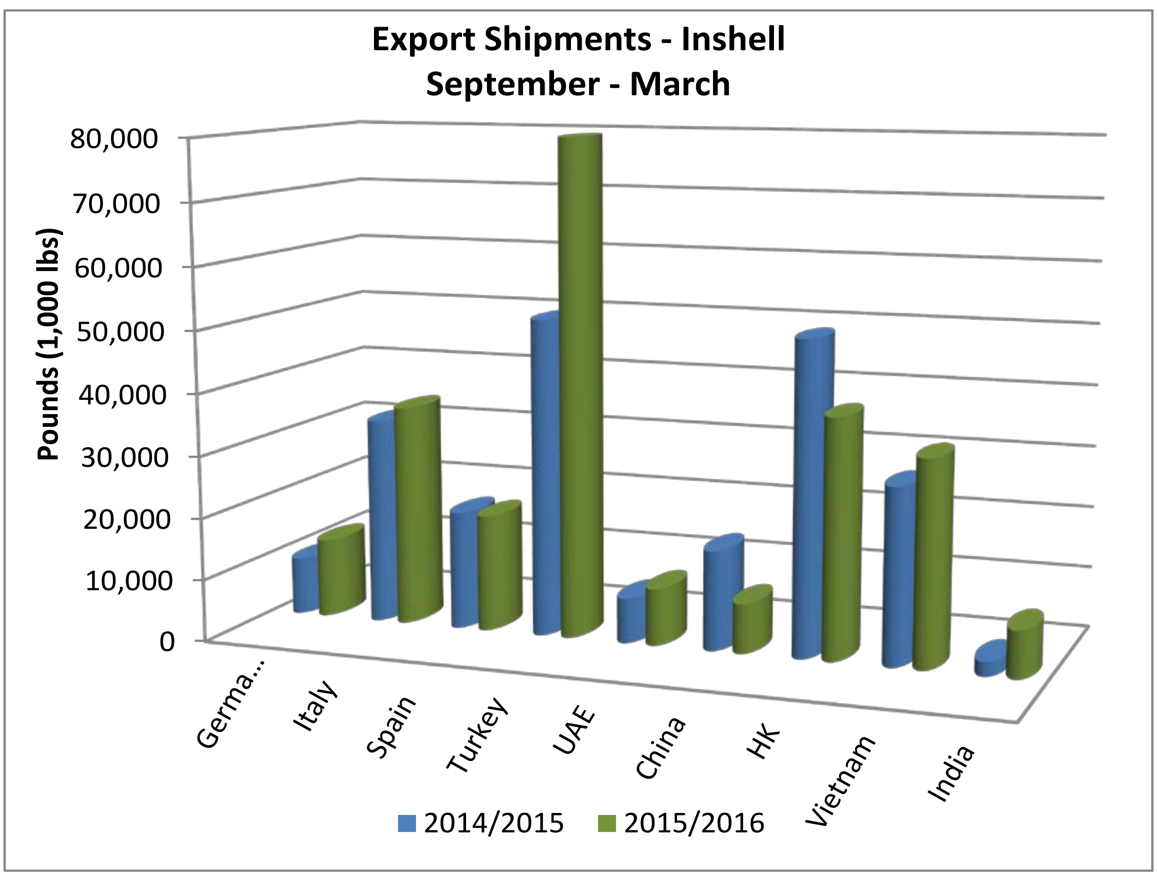

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March walnut shipments from California of 95 million pounds represent the second highest shipment figure for the month of March on record, trailing only March of 2015 (when relief from the port strike in California boosted shipments). The combination of lower prices and the show of confidence among remaining sellers are leading to improving demand and strong shipments for California walnuts.

In California, many of the small and medium sized packers are essentially sold out. Larger packers have limited stocks of light kernels of which some is forward contracted with domestic buyers. Remaining inventory of inshell is likely best suited for shelling. Light kernels are in short supply…particularly light halves. Products that are readily available are combo kernels and medium pieces.

The calculated remaining inventory in California at the end of March was about 537 million pounds. This is about 59 million pounds (+12%) larger than this time last season.

- Shipments have shown good pace over the past several months. Lower price levels present an attractive value to buyers and demand appears to be slowly improving.
- The composition of the remaining inventory in California may be the key to maintaining strong shipments through the late spring and summer months. As light kernels become less available, some buyers may look to combo which will help reduce remaining stocks and provide a manageable carryout.
- If California shipments for the remainder of the season are equal to those of last season, the carryout would be about 227 million pounds (+60 million pounds or +36% from this season's carry-in)

Region specific comments:

- North America: Shipments of shelled walnuts to the US domestic market and Canada continue to show improvement. Lower prices and the domestic advertising campaign by the California Walnut Board appear to be driving stronger demand. As the California crop is expected to continue growing in future years, it will be important to continue growing the domestic market which already accounts for about 28% of season to date shipments.
- Europe: Shipments from California to Europe continue to grow with March shipments up 7% for shelled and 4% for inshell. Season to date shipments are up 35% for shelled and 5% for inshell. The largest growth is in shipments to Germany, Italy and Spain.
- Middle East & North Africa: Season to date shipments to this region are up 52% for inshell and 53% for shelled compared to last season. This is exceptional growth in spite of very difficult markets over the past 12 months. Shipments for March were not as robust, down 14% for inshell and 27% for shelled compared to March 2015. An earlier Ramadan and the pent up shipments from a year ago caused by the West Coast port strike both contributed to the larger shipment numbers in March 2015.
    - Inshell shipment growth has been driven by Turkey (+59% or 30 million pounds season to date). Turkish buyers are now actively buying Chilean origin inshell. Shipments are also up to Egypt (+25%), Morocco (+49%) and UAE (+27%).
    - Shelled shipment growth has been driven by Israel (+34%), Jordan (+112%), Saudi Arabia (+39%) and UAE (+83%) season to date. With light kernels in short supply in California, buyers may turn to Chilean origin for the coming months.
- Asia & Pacific Rim:
    - China/Hong Kong/Vietnam/Thailand: Season to date shipments to the Chinese market is 15 million pounds less than last season (-16%). This is driven by a number of factors including the growing Chinese domestic crop. Large stocks of California walnuts are reported to remain in inventory in China which has driven new business to a standstill. Walnuts are still very popular in this region but going forward California will be competing with larger crops from other origins. A recent agreement for zero tariffs on Chilean origin walnuts has Chinese buyers exploring this origin more so than in past seasons.

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- India: This developing market has shown substantial growth this season with shipments to date up over 5 million pounds (+228%). This market holds substantial opportunity for growth but can also be difficult to navigate (as learned by California almond shippers this season).
- Japan: After a slow start to the 2015/16 purchasing season due to old crop inventory on hand, buyers in Japan have re-entered the market to take advantage of lower prices. March shipments were up 9% compared to March 2015 while season to date shipments are slowly catching up to last season (down 3% season to date).
- Korea: Shelled walnut shipments to Korea are down 21% season to date and 22% for the month of March. Excessive purchases during the spring of 2015 resulted in large inventories of old crop walnuts being held over into the 2015/16 season. When prices from origin fell, the result was large losses for many Korean importers. Buyers are slowly returning to the market to buy at substantially lower levels but are being cautious to only buy what is needed.

Many buying regions are now focusing attention on 2016 crop Chilean origin walnuts. Harvest in Chile is now underway and business is taking place to buyers in Turkey, Europe, China, Dubai and India.

- Serr harvest was delayed by about 2 weeks and volumes appear to be lower than expected. Overall quality is good in terms of color and yield.
- Chandler harvest has just begun. Early results are positive.
- Expectation is for a crop of about 80,000 metric tons. This crop will continue to grow at a rapid pace in future seasons based on young plantings. Lower prices may discourage additional plantings in the near future.
- Opening prices are at a premium to California, although less of a premium than we've seen the past few seasons. Chilean walnuts present an attractive buying opportunity for buyers looking for fresh product and light color during the offseason of most other origins.
- Turkey remains the dominant shipment destination for Chilean walnuts. As the crop grows, we expect to see more diversification as new markets are opened for both inshell and shelled walnuts.

California is shipping at a good pace to finish the season with a manageable carryout. Inshell and light colored kernels are difficult to find which has helped to stabilize the market…and in some cases push prices up. Buyers are increasingly looking to Chilean origin walnuts for spring/summer shipment needs. We will continue monitoring the Chilean market as well as development of the 2016 crop in California over the coming months.

Let us know if we may be of further service.

Best regards,
DERCO FOODS