DERCO FOODS®

INTERNATIONAL DIVISION

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June 2014 Walnut Report

June 2014 shipments were 22,970 inshell equivalent short tons. This is 3,963 tons (-15%) less than June 2013. Season to date shipments through June of 455,699 inshell short tons are 1,486 tons (0.3%) more than last season.

2013 Walnut Supply

Carry-in from prior season:	45,888
2013 crop receipts to date:	488,981
Total available for shipment:	534,869
Less: shipments to date thru June 30:	455,699
Remaining supply:	79,170

- Computed inventory of 79,170 inshell short tons as of June 30 is 11,494 tons (-13%) less than June 30, 2013. Shipments for July-August 2013 were 43,455 inshell short tons. If shipments are the same this season, the carryout would be only 35,360 inshell short tons. To maintain a carryout of 45,000 inshell short tons, the industry would need to ship 24% less in July and August than last season.
- Inshell shipments were 1.8 million pounds for the month of June, an increase of 999 thousand pounds (120%) compared to June of 2013.
- Season to date inshell shipments are 295.7 million pounds through June, a decrease of 9.5 million pounds (-3%) compared to the same period last season.
- Shelled shipments were 19.5 million pounds for the month of June, a decrease of 4.0 million pounds (17%) compared to June of 2013.
- Season to date shelled shipments are 272.7 million pounds through June, an increase of 4.9 million pounds (2%) compared to the same period last season.

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

	Sep 2013 - Jun 2014		Sep 2012 - Jun 2013		% Change	% Change
Country	**Shelled**	**Inshell**	**Shelled**	**Inshell**	**Shelled**	**Inshell**
USA	133,961,283	13,424,017	134,687,673	18,181,287	-1%	-26%
Canada	14,502,188	1,445,630	13,492,811	2,302,991	7%	-37%
Germany	23,694,954	11,645,293	20,555,409	7,864,925	15%	48%
Italy	2,376,673	34,845,126	2,213,271	25,012,011	7%	39%
Netherlands	3,964,406	3,276,753	2,120,199	3,037,443	87%	8%
Spain	10,748,046	20,785,899	8,902,484	13,777,321	21%	51%
U.K.	1,719,864	390,249	2,388,418	264,460	-28%	48%
Israel	6,515,833	2,910,051	6,546,552	633,730	0%	359%
Turkey	216,851	52,353,990	133,760	38,870,860	62%	35%
UAE	3,597,238	11,437,216	1,611,393	6,376,368	123%	79%
Australia	8,409,961	78,768	7,449,953	99,069	13%	-20%
China	2,159,872	17,667,663	4,482,191	45,933,252	-52%	-62%
Hong Kong	2,840,853	76,216,465	3,577,575	104,672,096	-21%	-27%
Vietnam	626,892	30,422,364	3,804,497	25,720,758	-84%	18%
Thailand	1,294,508	5,333,967	1,571,452	2,666,740	-18%	100%
Japan	20,903,818	0	21,046,867	0	-1%	0%
Korea	20,680,666	858,897	18,646,701	1,937,566	11%	-56%
Taiwan	4,446,615	85,783	4,998,359	192,904	-11%	-56%

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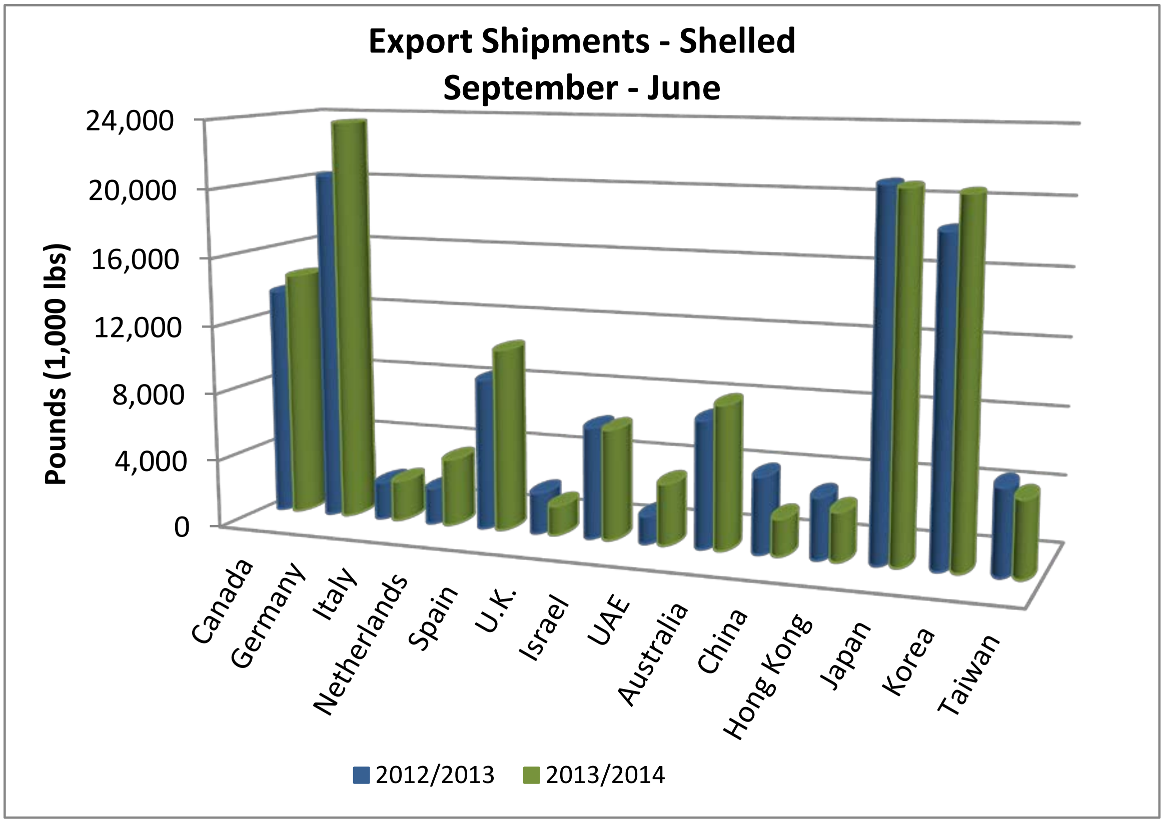

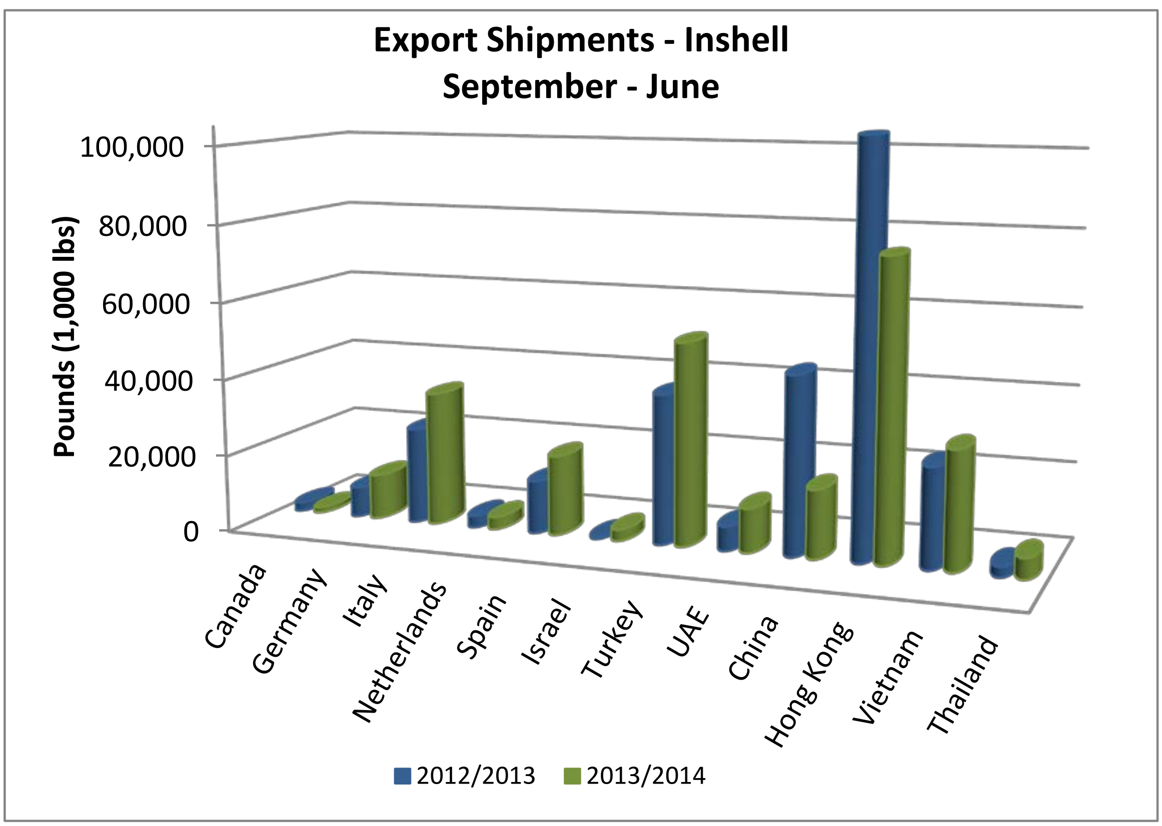

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- The 2013 California walnut crop is essentially sold out. Over the past two months, prices for 2013 crop have been driven up by limited inventory and strong demand from multiple markets including domestic, Europe, China, Korea and Japan. The pent up demand is carrying into early new crop business, especially for early shipments.
- China purchased about 52 million inshell equivalent pounds (-28%) less in 2013/14 than in the prior season. This includes shipments to China (-29 million pounds), Hong Kong (-29 million pounds), Vietnam (+3 million pounds) and Thailand (+3 million pounds). Lower season over season shipments were driven by:
    - High inventories in China entering the 2013 harvest
    - Government driven anti-corruption campaign which cut product given as gifts and consumed at banquets
    - Slowing Chinese economy
    - High prices
- The Middle East and Northern Africa purchased about 24 million inshell equivalent pounds (+43%) more in 2013/14 than in the prior season. The strongest demand was shown by Turkey (+13 million pounds), UAE (+6 million pounds), Israel (+2.2 million pounds) and Morocco (+1.6 million pounds).
- Europe purchased about 26 million inshell equivalent pounds (+38%) more in 2013/14 than in the prior season. The strongest demand was shown by Germany (+5 million pounds), Italy (+10 million pounds), The Netherlands (+1 million pounds) and Spain (+8 million pounds).
    - This surge in demand was surprising from a market many considered to be “mature”. The health message associated with walnuts (and other tree nuts) continues to resonate in this market.
- The 2014 California walnut crop is progressing well and is expected to be significantly larger than last season. Early estimates are ranging between 530,000 – 560,000 inshell short tons, compared to 489,000 in 2013.
    - The Subjective crop estimate is scheduled to be released by a coalition of handlers on July 22nd.
    - The Objective crop estimate is scheduled to be released by the USDA on September 5th.
    - The primary growing region has experienced temperatures well above 100 degrees Fahrenheit (38 degrees Celsius) for the past week. If the heat continues through the remainder of July and August, heat damage may reduce the marketable crop.
- Demand for new crop is steady, especially for early shipments. Opening prices have been only moderately below the highs of the 2013 crop.
- Key demand factors that will contribute to the further development of the market for the 2014 crop:
    - Will demand from China rebound and if so, to what level? How big is the 2014 Chinese crop and how will that weigh on demand for California walnuts? So far, Chinese buyers have shown strong early demand despite higher opening prices.
    - Will the Middle East and Africa continue buying at the same level despite regional conflicts which may limit demand and restrict trade routes?
    - Will European demand stay strong despite higher opening prices?
    - Does California have sufficient storage capacity for the larger expected crop?
- We anticipate prices to remain firm for early shipments as inventory is low in key markets around the world. Once initial demand is met, assuming the 2014 crop is as large as expected, we could see softening for later shipment periods.

Let us know if we may be of further service.

Best regards,
DERCO FOODS