DERCO FOODS®

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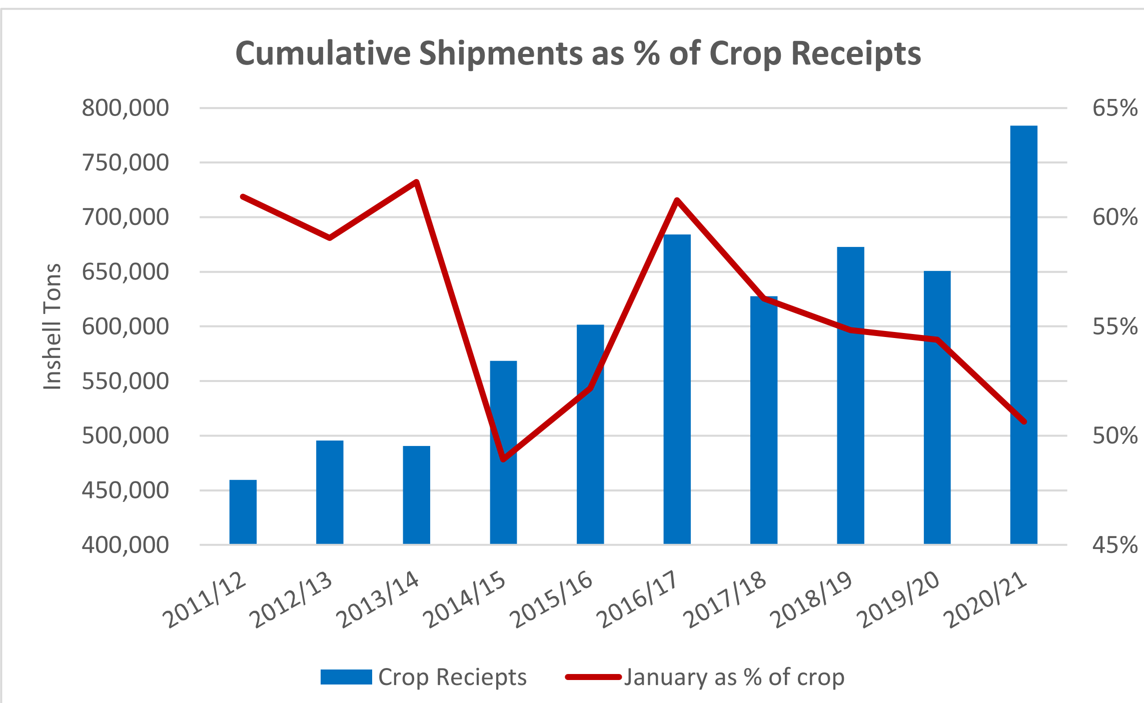
January 2021 Walnut Report

2020/21 Walnut Supply (inshell tons)

Carry-in from prior season:	63,985
2020 Crop Receipts:	783,754
Total available for shipment:	847,739
Less: Shipments to date thru Jan 31:	399,153
Remaining supply:	448,586

Receipts and Inventory

- Final crop receipts as of the December 31 inventory report were 783,754 inshell tons. This is up 133,024 tons (+20%) over the 2019 crop. This is in line with the USDA estimate of 780,000 inshell tons.
  - Chandler production of 448,349 tons was up 58,511 tons (+15%) compared to the 2019 crop
  - Hartley production of 34,388 tons was up 4,801 tons (+16%) compared to the 2019 crop
  - Howard production of 106,303 tons was up 24,873 tons (+31%) compared to the 2019 crop
  - Tulare production of 129,696 tons was up 28,051 tons (+28%) compared to the 2019 crop
- Inventory of inshell walnuts as of December 31, 2020 was 274.4 million pounds. This is an increase of 88.0 million pounds (+47%) compared to December 31, 2019.
- Inventory of shelled walnuts as of December 31, 2020 was 331.8 million pounds. This is an increase of 48.1 million pounds (+17%) compared to December 31, 2019.



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Shipments

- Inshell walnut shipments were 32.6 million pounds for the month of January, an increase of 11.6 million pounds (+55%) compared to January 2020.
- Season to date inshell shipments are 297.3 million pounds through January, an increase of 58.9 million pounds (+25%) compared to the same period last season.
- Shelled walnut shipments were 40.9 million pounds for the month of January, a decrease of -3.0 million pounds (-7%) compared to January 2020.
- Season to date shelled shipments are 219.0 million pounds through January, an increase of 17.6 million pounds (+9%) compared to the same period last season.

January 2020 shipments were up +1.8% compared to prior season. This is a smaller year-over-year increase than the prior couple of months. It is difficult to quantify the extent to which delayed shipments by ocean carriers affected January shipments but it was significant with many shipments being pushed into February. New sales activity during January was steady which contributed to market prices slowly moving higher throughout the month.

With record supply, California needs to maintain a pace of about 20% over last season for the remainder of the season (Feb-Aug) in order to achieve a carryout of about 100,000 inshell tons. A carryout of this level would be above prior season, representing about 13% of production compared to carryout of about 10% the prior season.

Looking at shipments to specific markets:

North America: Season to date demand has been strong with reports of large retailers throughout USA and Canada moving shipments forward. Attractive pricing should continue to make its way down to the consumer level and drive demand. January shipments to the US domestic market were somewhat concerning with total domestic shipments down -4,297 tons (-22%) compared to January of 2020.

	Inshell Pounds			Shelled Pounds		
	Sep 19 - Jan 20	Sep 20 - Jan 21	% Change	Sep 19 - Jan 20	Sep 20 - Jan 21	% Change
USA	8,525,377	9,075,734	6%	91,540,349	93,651,898	2%
Canada	2,103,798	3,347,216	59%	7,130,248	7,671,116	8%
North America	10,797,359	12,528,908	16%	98,674,097	101,323,014	3%

Europe: Shipments to Europe of both inshell and shelled walnuts continue to trail prior season despite attractive opening pricing. For the month of January, shipments of inshell to Europe were up compared to prior season which may be a sign of stronger shipments during the second half of the season. European buyers have been more active in the market recently for kernels as buyers are working to lock in spring supply ahead of Chilean harvest which is forecast to bring somewhat higher pricing.

	Inshell Pounds			Shelled Pounds		
	Sep 19 - Jan 20	Sep 20 - Jan 21	% Change	Sep 19 - Jan 20	Sep 20 - Jan 21	% Change
Germany	10,885,684	10,063,586	-8%	30,958,644	24,866,547	-20%
Italy	48,491,030	42,015,359	-13%	2,857,793	2,443,086	-15%
Netherlands	1,796,202	1,592,272	-11%	5,068,166	6,159,645	22%
Spain	16,349,580	14,517,139	-11%	12,340,204	11,501,132	-7%
U.K.	211,182	42,000	-80%	3,140,107	4,215,191	34%
Europe	78,747,360	70,638,946	-10%	56,345,372	52,130,326	-7%

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Middle East / Africa: Shipments to this region are well ahead of prior season with positive trends to almost every country listed. Attractive early season pricing encouraged buyers to purchase good quantities and product is reported to be moving well in local markets. Looking ahead we may see shipments slow somewhat as we move beyond supply for Ramadan and begin to compete with product of Chilean origin.

	Inshell Pounds			**Shelled Pounds**		
	Sep 19 - Jan 20	**Sep 20 - Jan 21**	**% Change**	**Sep 19 - Jan 20**	**Sep 20 - Jan 21**	**% Change**
Algeria	3,217,664	10,448,968	225%	0	0	n/a
Egypt	1,851,864	3,439,188	86%	682,638	1,308,560	92%
Iraq	396,836	926,004	133%	252,000	883,887	251%
Israel	484,932	1,383,071	185%	4,029,826	7,240,937	80%
Jordan	529,012	1,166,795	121%	1,198,953	3,525,460	194%
Lebanon	1,167,510	4,289,448	267%	-42,000	20,790	n/a
Morocco	3,482,532	5,202,708	49%	0	21,120	n/a
Pakistan	44,092	6,495,864	14633%	0	0	n/a
Saudi Arabia	132,276	309,552	134%	1,090,520	2,095,400	92%
Turkey	79,370,667	92,570,003	17%	210,800	966,676	359%
UAE	31,688,696	32,253,563	2%	2,661,782	4,743,671	78%
Middle East / Africa	122,735,351	159,066,491	30%	10,958,059	21,919,838	100%

Asia / Pacific Rim: Shipments to this region have seen strong year-over-year growth of both inshell and shelled walnuts. Demand from China has been surprisingly strong given growing Chinese production. Demand from India has been robust in light of attractive pricing and growing consumer demand for healthy foods.

	Inshell Pounds			**Shelled Pounds**		
	Sep 19 - Jan 20	**Sep 20 - Jan 21**	**% Change**	**Sep 19 - Jan 20**	**Sep 20 - Jan 21**	**% Change**
Australia	0	0	n/a	3,245,575	3,512,334	8%
China	332,233	4,439,962	1236%	652,250	285,550	-56%
Hong Kong	10,803	44,092	308%	345,708	455,880	32%
India	12,886,815	34,288,334	166%	1,154,206	1,886,416	63%
Japan	0	0	n/a	13,220,098	13,942,930	5%
Korea	842,160	1,009,288	20%	10,134,680	14,619,189	44%
Taiwan	303,133	154,601	-49%	3,563,250	4,663,801	31%
Vietnam	9,027,010	9,756,085	8%	40,000	168,240	321%
Asia / Pacific Rim	23,666,706	50,044,638	111%	34,477,928	41,982,576	22%

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Summary

On one hand, the market has been active and pricing has moved higher in recent weeks. Many growers are reporting advanced sold positions with limited available inventory to offer. Chandler variety seems to be in particularly limited supply given that the large season to date increase in inshell shipments was largely comprised of Chandler variety.

On the other hand, reported inventory as of December 31st represents a substantial increase over prior season. The industry needs to maintain an aggressive shipment pace the remainder of the season in order to achieve a manageable carryout. With Chandler variety seemingly well sold, a good portion of remaining inventory may consist of varieties other than Chandler. If this is the case, the domestic market will be a key buyer for remaining inventory as many export markets will not well receive other varieties. As we move further into the spring and early summer months it will be challenging to maintain the pace of demand the industry experienced last season when consumer demand spiked due to COVID fears. It was somewhat surprising to see January domestic shipments fall compared to January 2020 (as domestic shipments were not affected by shipping lines the way export shipments were).

Looking ahead we expect record production of walnuts from Chile in the 140,000-150,000 metric ton range. It is reported that most growing regions recovered well from the prior drought with good growing conditions so far. Harvest is expected to begin in mid-March. Early season business is just beginning to take place with larger volumes expected to be traded toward the end of February. While sellers in Chile are closely monitoring shipments and pricing from California, we anticipate opening market conditions which will encourage buyers to make larger volume purchases.

Please let us know if we can be of service.

Best regards,
DERCO FOODS