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Dear Diamond Grower,

With harvest hitting full stride, we would like to provide you with a brief update. On September 1, CASS released the 2022 Walnut Objective Measurement at 720,000 tons, down 1.3% from last season's production of 729,770 tons. The estimate has been met with widespread skepticism as most handlers and growers (with the limited exception of those with frost damage) have reported improved nut sets across virtually all varieties and all major growing regions. Historically, the CASS statisticians have had a good track record estimating production, but the 2021 objective measurement of 670,000 tons undershot final receipts by nearly 9% in a year where a sizable amount of volume went unharvested due to the rain. For 2022, CASS data indicated an additional 10,000 net bearing acres along with a 2.6% increase in tree density per acre, but a 1.1% decrease in nut set and a 9% decrease in nut weight. Sampling was conducted from late July to mid August, prior to the various rounds of extreme heat. Taking these mixed indicators into account, the industry is left to monitor its own progress to determine if the estimate is accurate.

The 2021/22 marketing year concluded on August 31 with the California Walnut Board (CWB) reporting preliminary, year-end shipments at 1,382 million pounds. This represents a 7.6% decrease (-114.5 million pounds) and only an 83% utilization of the 2021 total supply. Inshell exports led the decline while shelled shipments fared better with mixed results between export and domestic markets. The final 2021 crop carryover has swelled over 40% to 276 million pounds (from 196 million) and when combined with the official CASS forecast, the 2022 projected supply will set a record exceeding 1.71 billion pounds. Should the crop come in closer to the subjective handler estimate, total supply could potentially grow to over 1.85 billion pounds.

CA Walnut Shipments -12 Months ending August 31, 2022				
Inshell	2020	2021	Lb Var	Pct
Dom Inshell	11.9	11.2	-0.7	-5.8%
Export Inshell	355.5	244.5	-111.0	-31.2%
<b>Sub Total Inshell</b>	<b>367.4</b>	<b>255.7</b>	<b>-111.7</b>	<b>-30.4%</b>
Shelled				
Dom Shelled	215.9	194.7	-21.3	-9.8%
Exp Shelled	288.9	299.9	11.0	3.8%
<b>Sub Total Shelled</b>	<b>504.8</b>	<b>494.6</b>	<b>-10.2</b>	<b>-2.0%</b>
Inshell Equivalent				
Dom ISE	247.5	227.3	-20.2	-8.1%
Exp ISE	500.9	463.8	-37.1	-7.4%
<b>Total ISE Tons</b>	<b>748.4</b>	<b>691.2</b>	<b>-57.2</b>	<b>-7.6%</b>
Total ISE M Lbs	1,496.8	1,382.3	-114.5	-7.6%
Shipped as % of	88%	83%		

In normal years, a smaller crop estimate would generally spark an uptick in overall market levels and buying activity, but the current environment is anything but normal. Since the estimate was released, seasonal demand has not emerged, and export offers have been met with deafening silence. Walnuts are not the only specialty crop to encounter this market stagnation which clearly signals that there are more, and greater, factors suppressing demand. While shipping conditions are nominally improved, the delays impacting the past two seasons have greatly shifted market timing and forced a build-up of inventory in virtually all forward destinations. Worldwide, buyers currently have ample to excess levels of inventory on hand along with many willing sellers from multiple origins lined up. Globally, the weakening of nearly all currencies against the U.S. Dollar, along with decade's high inflation is taking its toll on both importers and local consumers and noticeably reducing the ability to move inventory smoothly through market channels. As an example, skyrocketing energy costs, inflated food prices, and the uncertainty of further impacts of the Russia-Ukraine war are elevating consumer concerns across Europe and detracting from the consumption patterns of normal, daily life- even altering when businesses are open. All of this is occurring amidst the backdrop of record Chinese supply and unchanged Indian tariffs that continues to greatly impact demand in light of historically low market price levels. As California enters the new marketing year, approximately one third of the Chilean harvest remains unsold while substantial volume is in route to various countries. Chilean handlers have traditionally not carried crop over into the next year, but



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current conditions will force an operational shift on their part and broaden the annual global overlap of production and origins. The Chilean carryover situation is further magnified in California as there are many handlers currently saddled with significant 2021 crop inventory, with a majority consisting of darker kernel material. Fortunately, Diamond is not one of them.

Clearly, the near-term outlook for the California walnut industry is not healthy. The ability for the industry to dig its way out of a multi-year, shipping-induced predicament in the face of low buyer confidence, record supplies, and limited demand is problematic at best and will take time. The industry is pursuing all available relief, but options outside the free market are limited. USDA has rounded out the balance of the latest \$30 million purchase that will consume nearly 18 million kernel pounds domestically in the next 3-4 months. The CWB has already begun targeting a much larger purchase for the first half of 2023. Diamond is confident in its diversified strategy and that reasonable demand for high quality California crop will emerge. However, the ability for the greater California industry to influence improved export pricing will be highly unlikely under the current supply and economic conditions, leading to depressed market levels resembling those from more than 20 years ago. Absent significant and immediate changes to tariffs or global supply, many believe the California walnut industry will need to reduce its production base while elevating its overall quality to remain globally competitive. The quicker the industry can rebalance, the sooner a recovery to profitability could happen. In the interim, demand and farmgate value will be exceptionally minimal for legacy varieties and for deliveries of any variety with below average quality (dark color, high off grade, small size). Growers producing inferior quality should really consider removing this acreage. In the interest of protecting our loyal grower base and optimizing supply under the current circumstances, Diamond has suspended contracting with additional growers. Furthermore, Diamond will be monitoring current grower production and only accepting contracted acreage. Uncontracted volume may be refused upon delivery and returned to the grower at the grower's expense.

2022 crop delivery payments will begin on October 7th and will occur weekly throughout harvest. This season's initial payment reflects the current market conditions but does not represent a specific percentage of any estimated final value. Overall payments will be greatly influenced by variety and individual quality attributes such as color and off grade. Beginning this year, Diamond has instituted a new kernel color evaluation system. The new system has been developed over the course of several years to provide a more objective, larger scale evaluation of kernel color with results that align to the industry's color standards. Soon growers will have the opportunity to view color and categorized images of their deliveries via the Diamond Online grower portal. If you have not previously logged into the portal, please email Aileen Beredo in Grower Services ([aberedo@diamondfoods.com](mailto:aberedo@diamondfoods.com)) for access instructions.

We wish you the best this harvest season and will continue to keep you updated as the marketing year unfolds.

Best Regards,

A handwritten signature in black ink, appearing to read "E. Heidman".

Eric Heidman  
VP Grower Services

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