



# Crop Report



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NICHOLS FARMS

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The pistachio industry, at any level, is not for the faint of heart. 6 weeks after learning the 2016 crop was over 900 million pounds, buyers are calling to ask about rumors of future price increases. Shipments to export markets during October were the highest in history. Growers and packers are already questioning the potential size of the 2017 crop. Pricing for US extra #1, size 21/25, raw open inshell is holding steady at \$3.40 to \$3.50 per pound level.

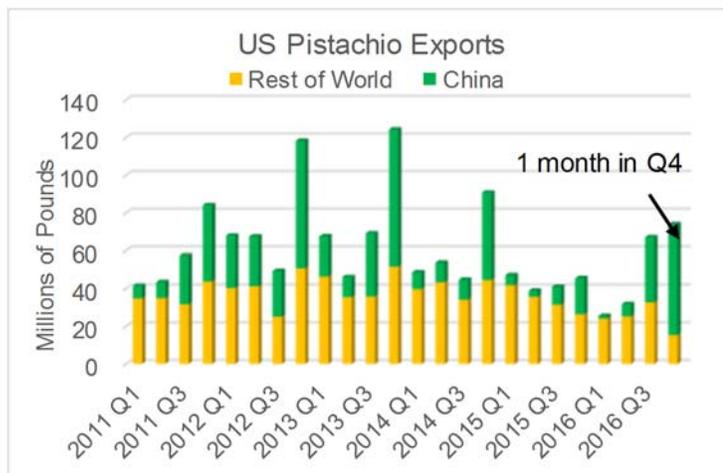
We are amazed there is talk of price increases. Before we get too far into this discussion, let us first state we love high prices for pistachios. We profit as a grower, and growers who deliver to us prosper and invest in good agricultural practices when pistachio farming is profitable. Getting back to the issue of potential price increases, the reasons are there, but likely fleeting. This talk started, we believe, for two reasons. Export shipments during October were off the charts, and the weather during October and the first half of November was warmer than usual, leading to thoughts of a very small crop in 2017.

First, let's talk about the 2017 crop potential. Winter weather has a large impact on the next year's crop. We're farmers, and we love to talk about weather. It was a very warm fall until the past week. This led growers and processors to worry about a lack of chilling, and a recurrence of the warm winter which devastated the 2015 crop in California. It's a little early to start discounting the 2017 crop due to weather, but natural to focus on the weather risk, given that 2015 is still top of mind. We don't know what the upcoming months will bring as far as weather, but do know there has been one statewide lack of chilling crop failure in California since Nichols Farms began growing pistachios in 1983.

It's not only weather concerns driving down the expectations for the 2017 crop; alternate bearing is the other. There is no question 2016 was an "ON" year, with most statewide orchards reporting high yields that led to the record crop. The 2017 potential crop is limited by the huge 2016 crop. How much it is limited is unknown, and like the weather issue, we won't have an idea of the crop potential until the spring of 2017. So half (or more) of the reasons for price increases are based upon diminished crop expectations for 2017 that won't be known until next year's harvest.

The other half is shipments. The October export shipment number, on face value, was staggering. It was the biggest month in the history of the industry, and almost double the entire 4th quarter of 2015. It is easy to become bullish in light of this kind of shipment number.

The huge shipment month in October was driven largely by shipments to China and Hong Kong. In the graph to the right, we've broken down exports for the past 6 crop years into quarterly shipments to China/HK, and to the rest of the world. We wonder if China is loading up on pistachios, or will they maintain this record pace over the upcoming year? The China market has taken up to 140 million pounds of US pistachios in both 2012 and 2013, but only 76 million in 2014, and 37 million in 2015. Shipments to the rest of the world are up from last year, but only on par with the 2013 and 2014 years. Domestic shipments (not shown), are higher than last year by about 35%, and were up about 4 million pounds in October, 2016 versus October, 2015.



Discussion of price increases are premature, in our opinion. There is still a very large pile of pistachios in California, and the events which should drive prices higher have not occurred, and may be months away. We expect China to import record volumes this year, but not to continue at the current pace for much longer.

Price stability is good for the market, and one of the hallmarks of the pistachio industry. As we said before, we love high prices, but in today's market, we value stable prices and growing demand just as much.