Crop Report

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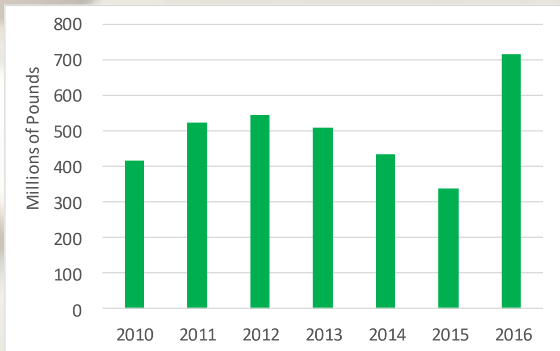
In the last newsletter, we looked at carryout from the current crop year to the 2017 crop year. At 250 to 300 million pounds, it will be the largest carryout for the US pistachio industry, but that does not negate the fact that 700 to 750 million pounds of pistachios were consumed through shipments, shelling, and shrink. It's more than we thought possible, and puts the industry in good condition moving into the 2017 marketing year.

So what will that look like? We have a better idea of the carryover than the 2017 crop prospect. Early season estimates were in the 450 million to 650 million range. Lately we've heard mostly 550 to 650 million plus. Rather than focus on what the crop "might" be, we'll take a look at where things might go AFTER the crop is known. Here is our list of factors to watch:

- We've estimated the carryout, but we'll keep a close eye to see if it tracks toward our estimate
- How will early season demand be as compared to the red hot beginning of the 2016 marketing year? This year, there will be no pipeline filling or price averaging as there was at the beginning of the 2016 crop year, which followed the disastrously short and high priced 2015 crop.
- What is the total 2017 crop year supply, and more importantly, what is the required consumption during the 2017 marketing year? We need three pieces of information to answer this one:
    - 2016 carryout to 2017 crop year—previously discussed
    - 2017 crop size—unknown at this point in time
    - Desired carryout to the 2018 crop year
- What are the prospects for the crop in Iran?

We look at the 2017 crop year starting with the carryout to the 2018 crop. It is likely to be an "on" crop, given the "off" crop in 2015 and "on" crop in 2016. Desired carryout to this expected large crop will be less than going into a small crop. The carryout going into the 2016 crop year was about 100 million pounds. This was a large carryout going into an expected big crop (though a much bigger crop than anyone expected), and caused some concern about where to store all the crop. However, processors adjusted, and early season demand helped create space to store the large crop. We expect processors to add more storage capacity before the 2018 crop to guard against insufficient storage capacity. As the industry grows, the carryout to the following crop needs to grow to buffer against early season shortages and crop failures. The desirable carryout to the 2018 crop year, based on these factors, is in the 75 million to 150 million pound range.

As previously mentioned, we expect the carryout from the 2016 crop to be in the 250 million to 300 million pound range. Using the midpoint of this range (275 million pounds) , along with the midpoint of the 2017 crop desired carryout (~110 million pounds), we can see what needs to be consumed during the 2017 crop year. It is: 2017 production + 2016 carryout—2017 desired carryout, or 2017 production + 165 million pounds.



At right is the total "consumption" of pistachios by crop year. The number for the 2016 crop is an estimate, based upon numbers explained in the last newsletter. It is not shipments, but more than that. Unlike almonds, pistachios have significant processing losses, and these losses are included in the "consumption" number. As can be seen, the total consumption from the 2016 crop will be in excess of 700 million pounds. Thus, under the same conditions, we know we can consume 700 million pounds. Under these conditions, a 2017 crop of 500 to 600 million pounds would be in the sweet spot of stable consumption and pricing, and lead to a desirable carryout from the 2017 crop.

As we all know, conditions rarely stay the same. That's where the other factors above bear watching. Iran is likely to have a better crop than 2016, but how much better? Most estimates put the Iranian crop at 200,000-250,000 metric tons. Some of these estimates come from buyers interested in buying as cheap as possible. We do know it has not been a perfect growing season in Iran. The winter was too warm in some places, and Iranian producers continue water quantity and quality issues reduce their crop potential. Also, how much product is held in inventory at destinations in China and Europe? We know it will be more than last year, but don't know how much more. Differences in these supply and demand altering conditions may or may not have big impacts on demand and pricing during the upcoming season. Our take at the moment is that a crop of about 500 to 600 million pounds is neutral to the market. Over 600 million may be bearish to prices, but at least some of the above factors will push the market one way or the other.