



# Market Report



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NICHOLS FARMS

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Last month we looked at plantings of pistachios and future crop potentials. Getting back to the present, what are the prospects for the 2015 crop and how has the 2014/15 marketing year proceeded thus far? We'll give you thoughts on both issues, all in one page!

In terms of the 2015 crop outlook, there are 3 factors influencing production: new bearing acres, lack of winter chilling, and the drought. We've talked a great deal about new acreage, so for this discussion we'll focus on winter chilling and drought impacts on the 2015 crop.

Many in the industry believe the weather patterns this winter mirrored last year. In terms of rainfall, that is true. In terms of chilling, there was more variation this year than last. The central part of the valley, where Nichols Farms is located, had significant fog this winter, and it appears there was adequate chilling. As of today, most of our orchards have not yet bloomed, and overlap between male and female trees appears normal. On the south, east, and west edges of the San Joaquin Valley, lack of chill was as bad or worse than last year. We have orchards on the west side of the San Joaquin Valley where female trees have fully bloomed, with little or no male pollen visible.

Chilling and pollination are very important in determining the size and quality of the 2015 crop. Despite what most people talked about last year, the production issues that limited the crop size were mostly due to a lack of chilling. In 2015, the situation is more complex, as there are areas with adequate chilling and the water issue has gotten more severe. Unfortunately, most of the pistachio growing regions in California are in areas where chilling was as bad or worse than 2014.

That leaves the discussion of water. We had 2 growers whose crops were impacted by water stress in 2014. In both cases, the growers had wells fail during the summer irrigation season. In total, less than 1% of the crop was affected, and the yield reduction on that 1% was not much. We expect more growers to be impacted in 2015 by lack of water and use of salty well water (as opposed to surface water, which is generally low in salts). However, we don't expect the effect to be all that large on the final crop. How could this be, given that California is in the 4th year of a historic drought?

The answer is quite simple: pistachios are making growers a lot of money. When one is making money (in any kind of business), you don't walk away just because business conditions get more difficult. Pistachios, in the past, made growers money at \$1.50 per pound. For the 2013 crop, growers received in the neighborhood of \$3.70 per pound. At 3,000 pounds per acre, the price difference accounts for \$6,600 in revenue per acre. That is powerful motivation to secure enough water to keep production at optimum levels. Together with the fact that other commodities grown in the central valley have slumped in price (cotton, wheat, corn, alfalfa, tomatoes), it means pistachio growers will have less competition bidding for remaining water supplies. They will have to battle for water with almond growers, whose economic incentives are very similar to pistachio growers, and municipalities in southern California, who were not in the market last year.

One thing not related to chilling or water is the bud set on trees. We have not looked at enough orchards for it to be major concern, but we've seen a number of orchards with less than an expected bud set. This could be an effect of water quality (salt buildup), the very hot 2014 summer, two years of less than adequate chilling, or more likely, something else. It is of enough concern that it bears mentioning here.

A month ago, we were expecting a record crop, and put the crop in the 550 million to 650 million pound range. Given the issues around continuing drought, lack of chilling in the major production areas, and lack of buds, we are less bullish on the crop. In a month, we may have another opinion! Stay tuned.

The market in the past 6 weeks has gotten a bit squishy. There are not a lot of sales taking place, but enough of a sample to validate prices that are weaker to considerably weaker than last fall. The range for US extra #1 size 21/25 open inshell, as best as we can determine, is in the \$4.85 to \$5.00 range. There have been a few offers and sales considerably below these levels, but we believe these were driven by non economic factors. Movement is slow, and the carryout to the 2015 is growing each month.

We expect the market to stabilize, given that we expect growers and processors to lower their expectations for the 2015 crop. Market prices over the next month will give a very good indication of the 2015 crop prospects! If they slide further, a big crop is expected. If they hold, mother nature will have again put a floor under prices.