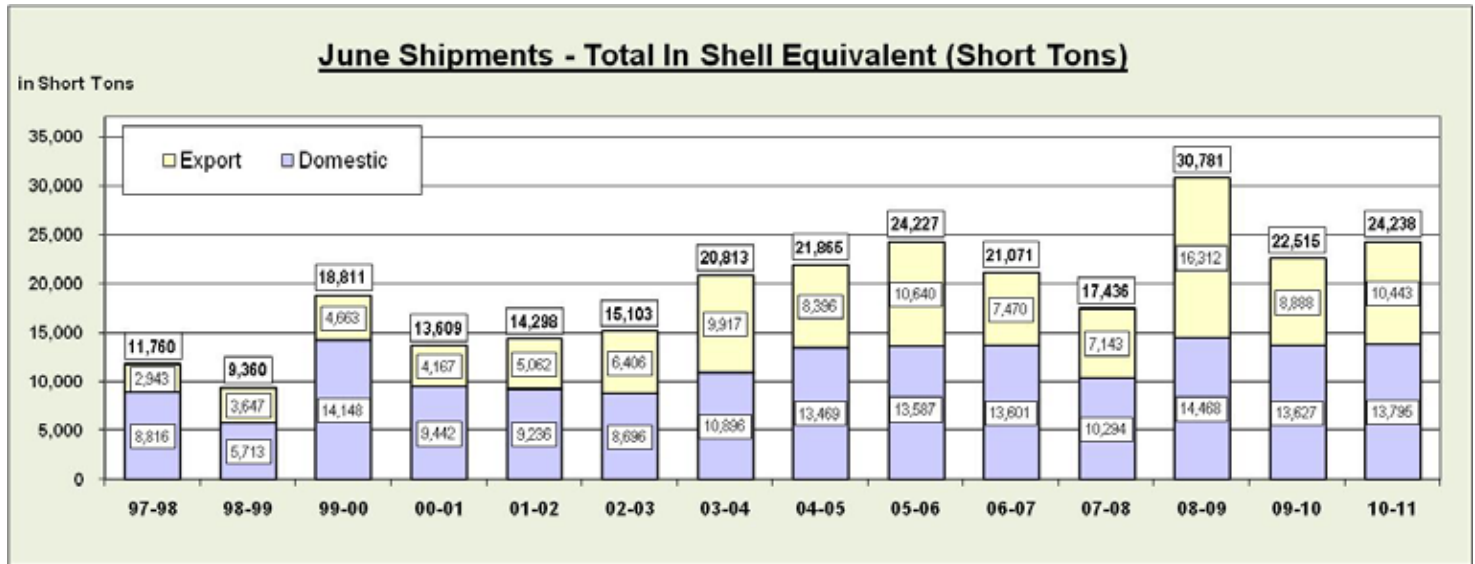


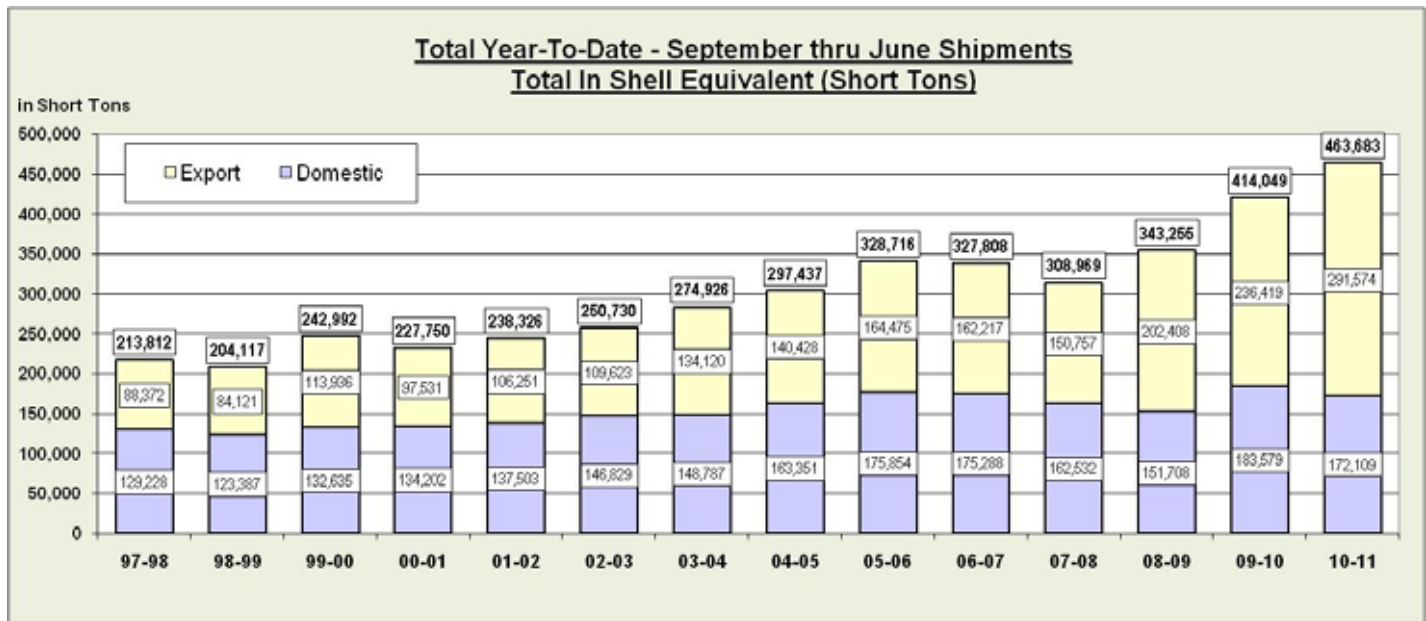
US Walnut Update

July 28th 2011

Total InShell equivalent shipments of Walnuts in June reached 24,238 short tons (48.5 million lbs), a 7% increase compared to June 2010 and the 2nd highest June shipment after the 2008 crop. Exports gained 3 million lbs or 17%. Domestic deliveries remained stable.

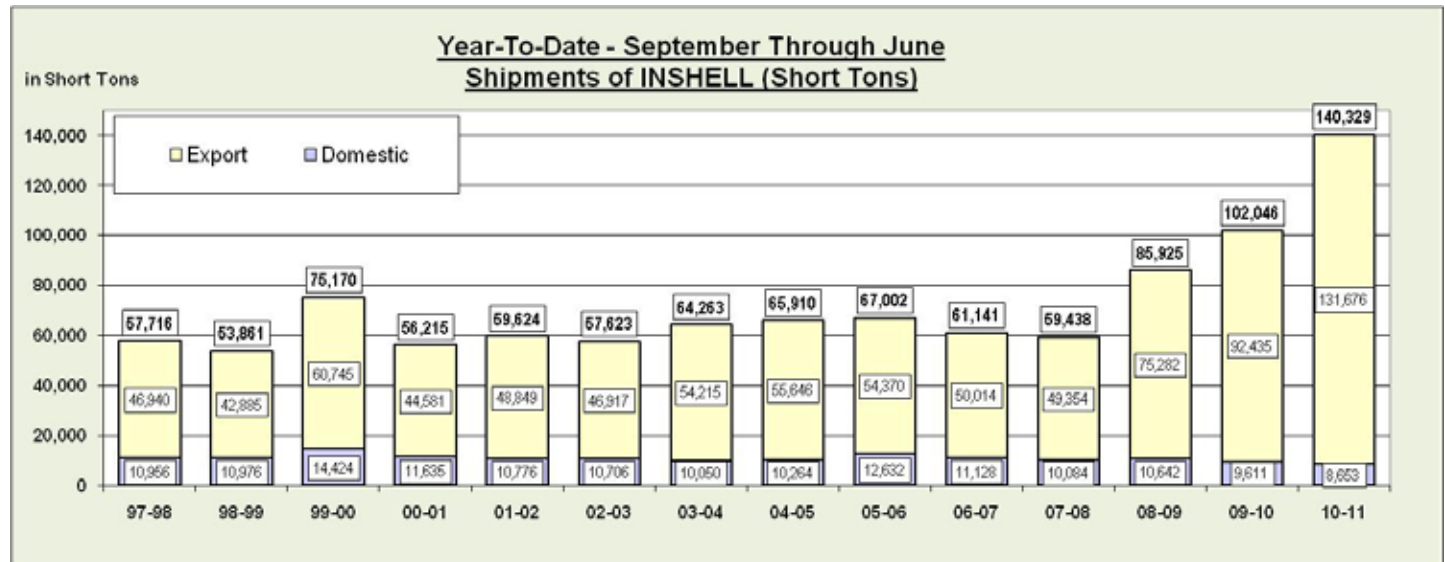


Total Inshell equivalent shipments for the September through June period reached a RECORD 463,683 short tons (927 million lbs), close to 50,000 tons or 12% more than last year's record. Export markets gained 55,155 short tons, or UP 23%. Domestic deliveries are DOWN 11,470 tons, or 6%. Again, this evidences how Export markets continue to gain way, accounting now for about 2/3rd of the total shipments.

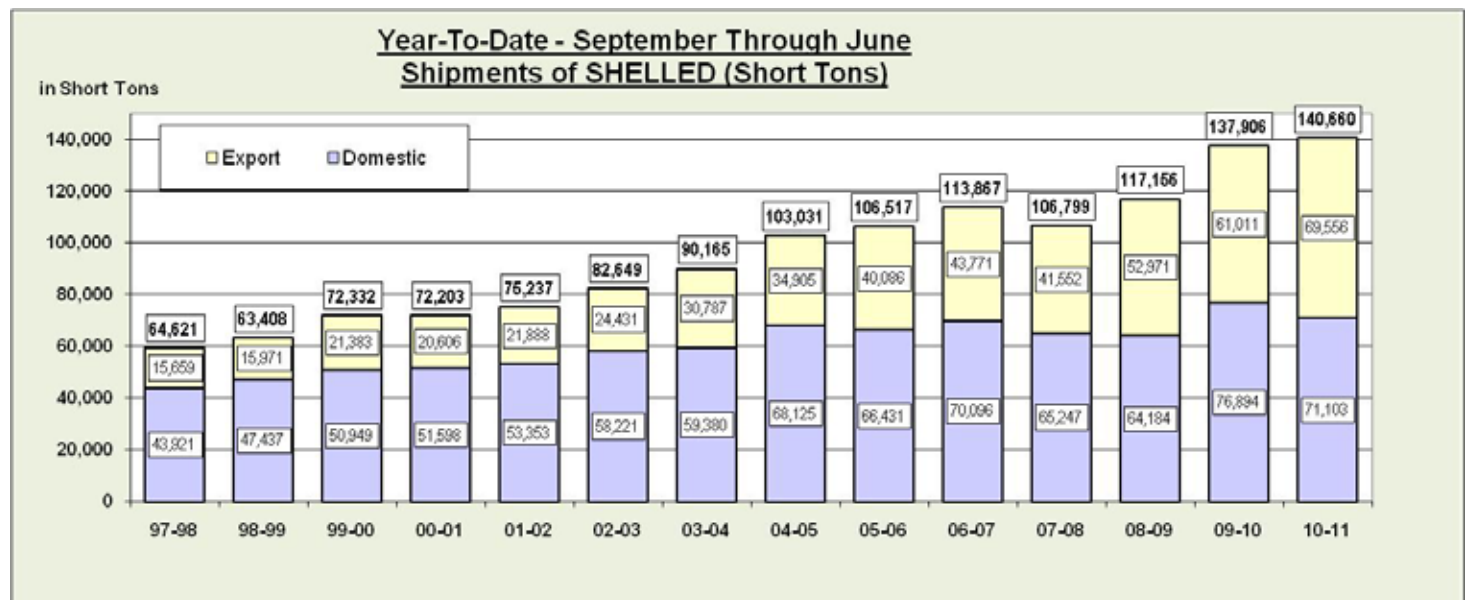


Breaking down the individual Inshell and Shelled Walnut Shipments:

INSHELL shipments: From September through June, the industry shipped a **RECORD 140,329 short tons (280 million lbs) of Inshell Walnuts, UP 76 million lbs or 37% more** than last year's record, 94% going to the Export markets. Domestic deliveries are shrinking to their lowest level since we started compiling historical data.



SHELLED shipments: the industry reached a more modest, but **RECORD nonetheless, on the Year-To-Date September through June shipments, with 140,660 tons (281 million lbs), UP 6 million lbs or 2% compared to the same period last year.** Again, the increase is fueled by Export markets. Export shipments are UP 17 million lbs or 14%, while Domestic market dropped 11 million lbs or 10%. Where the domestic market used to handle 65-75% of the total shelled walnut business, domestic deliveries have stagnated for the past 8 years while Exports have doubled and now represent very close to 50% of Shelled Walnut shipments.



Market update:

The 2010 season saw a record crop of 501,000 tons, followed by record shipments which will potentially reach 500,000+ short tons. We could see the industry with one of the lowest carry over on record, as evidenced by the tight availability on Inshell since January/February, and tight availability on Kernels throughout the year.

Prices of the 2010 crop started on the lower end, as a result of the industry deliberately setting low opening prices to generate demand and momentum. J/L Chandlers opened at \$1.35 FAS to reach \$1.95-2.00 FAS at their highest. Kernels LHP20% opened at \$2.75 FAS with a complete lack of selling interest. In reaction to the lack of offers, prices quickly jumped over \$3.00 and reached \$4.20-4.25+ at their peak, while Chandler LH 80-85% were reported sold at above \$5.00 / lb FAS in limited quantities.

Shipments have been steady and strong throughout the year with 6 consecutive monthly record shipments from October onwards and impressive numbers coming from the export markets:

- China, Hong Kong and Vietnam combined have bought so far 101 million lbs of Inshell (approx. 2250 x 40' FCL equivalent), 2.5 times more than last year. Collectively, they also imported 9.5 million lbs of Shelled Walnuts, a 2% decline compared to last year.
- Turkey imported 55.6 million lbs of Inshell (approx. 1250 FCLs), or 14% more than last year.
- Europe collectively imported 79 million lbs of Inshell and 51 million lbs of shelled Walnuts so far this season, a respective 8 and 25% increase compared to last year – with Germany, Italy and Spain leading the imports.

This week, an independent packer/grower committee got together to discuss crop estimate for the 2011 season. Their averaged guesstimate for the new crop came out at 523,000 short tons (1.046 billion lbs). This represents a 4% increase from last year's crop of 502,000 short tons. However, with the increase in demand in many new markets, packers are confident that the increase in crop size can be easily managed.

China walnut crop is also rumored to be a good and large one, better than the past 2 years. However, our challenge is that we do not have much objective data to pull from. The crop size is mostly a word of mouth speculation from origin.

For US Walnuts - New Crop is not typically traded before the Objective Estimate and subsequent opening prices released during early/mid September. Historically, packers dictate opening prices. However, this year, packers are under heavy pressure to sell early due to strong demand from buyers at higher than anticipated prices.

Some factors leading to earlier sales are:

- Harvest delayed by 2-3 weeks depending on areas, resulting in some markets eager to book early shipments in order to catch up with shipment time
- Demand for shipments to Chinese market is pushed up early this year due to Lunar New Year coming earlier, in late January instead of Early Feb last year.



- Newcomers to the industry eager to participate in this business as they saw good margins made from early bookings last year by speculators/traders. We are seeing more inexperienced new buyers/speculators in the market chasing prices blindly, without much understanding of the product or industry.
- Markets who did not book at opening prices last year lost out and the same buyers are now interested in securing at least some quantities for early shipments in order not to repeat their mistake.

Upcoming challenges to the industry:

- With the 2008 crop price volatility from opening prices still fresh, handlers know the challenge of setting the right price. On one hand, packers will be hesitant to set prices too high, considering the upcoming record crop. On the other hand, buyers' pressure as early as July, to secure Inshell quantities, will push Inshell prices up and consequently, lead to increase in the kernel prices.
- Although many packers are reluctant to let buyers set opening prices, limited new crop sales have been done possibly due to packers finding some of the bid prices too good to pass up. The challenge is to figure out whether the market can sustain the higher than expected prices (\$0.25-\$0.35/lb on average higher than last year's opening prices for most Inshell varieties), or whether these were spot deals to secure early shipments.
- The shift in the major players/markets is also creating new dynamics for the industry. Many new buyers/markets have only experienced an upwards market in 2009 and 2010 and have not seen fluctuations like the ones in 2008. Buyers' behavior and reliability in a declining market can be a serious question for packers to consider.

While there was some limited new crop business heard traded, we continue to find it a challenge today to secure new offers. Firm bids seem to be the way to secure some business at the moment.

Your inquiries, comments and feedback are always welcome and important to us.

Primex International Trading Corp.