



Green & Gold Macadamias

Your global solution to macadamia supply chain security

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Macadamia Market Newsletter – February 2016

2015 season summary

Please note all inshell numbers are at 1.5% moisture levels.

In general the world wide 2015 crop was a good one. Most origins recorded record crops as new plantings continue to come into production. Below is a summary of the world crops compiled from statistics collected by the International Nut Council.

Estimated World Macadamias Production. In Shell Basis. Metric Tons							
COUNTRY	2014/2015				2015/2016		
	BEGINNING STOCK	CROP	TOTAL SUPPLY	ENDING STOCK	BEGINNING STOCK	CROP	TOTAL SUPPLY
AUSTRALIA	0	40.663	40.663	0	0	43.834	43.834
SOUTH AFRICA	178	44.890	45.068	412	412	46.950	47.362
KENYA	0	19.429	19.429	0	0	22.218	22.218
USA	0	15.668	15.668	0	0	15.668	15.668
MALAWI	0	7.204	7.204	0	0	7.261	7.261
GUATEMALA	0	8.091	8.091	0	0	8.114	8.114
CHINA	0	5.000	5.000	0	0	5.000	5.000
BRAZIL	0	5.167	5.167	0	0	5.596	5.596
COLOMBIA	0	1.000	1.000	0	0	1.000	1.000
NEW ZEALAND	0	600	600	0	0	600	600
SWAZILAND	0	110	110	0	0	110	110
OTHERS	0	4.000	4.000	0	0	4.000	4.000
WORLD TOTAL	178	151.822	152.000	412	412	160.351	160.763
WORLD CONSUMPTION (T. Supply - End. Stock)				151.588			

2015 started with extremely buoyant prices mainly driven by demand from China. We saw European buyers behaving cautiously due to the weak Euro while the USA market has consolidated into a few larger players due to concerns from many about food safety.

In April, after a central government crackdown on the smuggling of nuts into mainland China by importers attempting to avoid the import duties, the supply chain into China was severely disrupted. However fundamental demand remained strong in China and the market recovered towards the end of the year. It is estimated over 50% of the South African crop and 30% of the Australian crop was exported to China in 2015. While a Euro that recovered early 2016 also encouraged European buyers somewhat.

On the back of this strong demand we will start the 2016 season with very little world carryover.

The 2016 crop expectation.

Suffering under the El Nino weather pattern Southern Africa is experiencing its worst drought ever recorded across all the major growing regions in the country. The Southern African Macadamia Growers Association (SAMAC) have collated data from the country's major processors and estimate the crop at 43000mt which is approx. a 10% drop from the 2015 crop. This is despite thousands of new hectares coming into production which highlights the

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significance of the drought. The same drought will also affect the emerging macadamia origins of Malawi, Zimbabwe, Zambia and Mozambique.

Australia is expecting a crop of 44000mt which is also showing no growth due also due to low rainfall. Below is our 2016 estimation based on consultation with relevant macadamia experts in each origin.

	Nut inshell in metric tons at 1.5% moisture
Australia	44000
South Africa	43000
Kenya	25000
USA	15500
Guatemala	8800
China	8000
Malawi	6500
Brazil	6000
Others	4000
Columbia	1000
Mozambique	750
New Zealand	600
Vietnam	500
Total	163650 metric tons

This represents a world crop very similar in size as in 2015. Some growth in newer origins will help offset the poor crop from South Africa.

The current market outlook

We generally expect 2016 to remain tight in terms of both kernel and nut inshell supply, however much will depend on demand from China. With the 2 major macadamia origins being heavily reliant on this market and significant increase or decrease in demand from China will have a major effect on prices as the year progresses.

Demand from China (in many instances direct to farmer) has pushed up the price that processors must pay for their nut inshell (NIS). With the majority of the industry's cost of production being NIS, we expect a corresponding increase in kernel prices.

It is also important to remember that on an inshell basis macadamias are relatively inexpensive compared to other tree nuts due to the lower kernel recoveries. For example a nut inshell price of \$5.50/kg inshell for a 30% kernel recovery macadamia distorts the equivalent kernel price far more than a \$5.50/kg price for a tree nut with a 60% kernel yield. As most of the Chinese macadamia imports are in fact sold to consumers on an inshell basis we expect this pricing bias to continue to uphold firm kernel prices.

China's demand for better quality nut inshell is also likely to put pressure on the kernel market. In the past they have taken large volumes of questionable quality now within this developing market the demand is shifting to better quality nut inshell. This will have an even

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greater proportional impact on the kernel market than in the past. The strong impact of Chinese demand on macadamia supply can result in serious volatility and something to watch over the course of the season.

A further development we have noticed is a strong increase in demand in macadamia nuts as an ingredient. Currently 70-80% of macadamias are consumed as a snack. We expect this to change in the future as the nut becomes more popular as an ingredient. Green and Gold recently exhibited at the Food Ingredients Europe exhibition in Paris. It is clear that demand from the ingredient sector is growing and is able to support the relatively high kernel price. We have seen over the past few years the gap between whole nuts and pieces shrink to the narrowest margin in some time due to an increase demand for Style 4, 5, 6 and 7. This demand is coming from the bakery and ice-cream industries.

We therefore expect prices to remain firm prices to remain a similar levels as those in 2015 and we recommend buyers who do not want to be caught short should cover the majority of their requirements for the year ahead. Although considering Chinese influence the market is exposed to some volatility throughout the season and the situation needs to be monitored carefully.

New crop shipments will start in May/June.

We look forward to the opportunity to discuss you macadamia needs for the 2016 season.

Sincerely,

Green & Gold Nuts

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