



CALIFORNIA CROP

Curly Top Shrinks Crop

Curly Top sounds like the name of a plucky animal hero in a children's story. But it's not. Curly Top is a virus, lethal to plants, that wiped out a sizeable portion of California's processing tomato crop this summer.

California produced 12.1 million tons of tomatoes but fell short of contract intentions by 7.5%. In May, growers were expecting a near record volume, planning to deliver 13.1 million tons. However, challenging weather (heat and wind) coupled with damage from Curly Top Virus created one million tons in losses.

All of California's losses were in the southern Central Valley where the Curly Top outbreak hit extensively. *(Please see our September Newsletter for details about the virus.)* Official yield numbers won't be released until January, but the south's estimated yields were off 13.4% from expectations.

Meanwhile, tomatoes in the north enjoyed balmy weather and no damage from the virus. With yields estimated at 45.1 tons per acre, northern fields exceeded 2012 yields by 8.1% and likely broke records.

Unfortunately, because the southern region plants significantly more acres with higher yields, the impressive northern bounty was not large enough to recoup all the losses in the south.

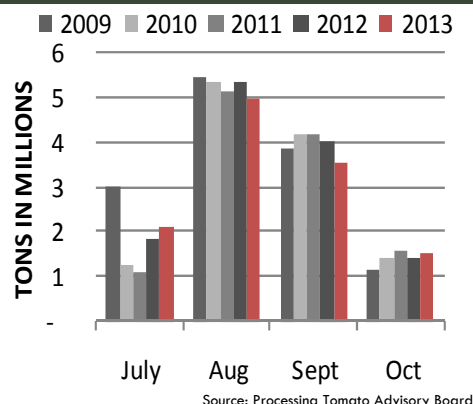
As a result of the stricken crop, packers ran below capacity. The peak of the season was briefer and smaller than normal. Typically tomato deliveries exceed one million tons through August and September. This season, only the four weeks in August went over 1 million

SUMMARY

Disease and inclement weather caused underproduction of tomatoes around the world. Supplies are tight, pushing bulk tomato paste prices upward.

tons each, and deliveries began tapering in the first week of September. An unseasonable, heavy rain did hit the state but did little damage. Since packers were not running at capacity, harvesting was ahead of the crop and tomatoes held up well in fields.

DELIVERIES BY MONTH



October tonnage was larger than normal because growers had replanted some fields lost to Curly Top. Weather stayed pleasant allowing the season to end smoothly around October 18.

Despite the struggles, overall tomato quality was first-rate, with bright color and Natural Tomato Soluble Solids averaging 5.23.

COMPARISON OF CALIFORNIA'S GROWING REGIONS

	NORTH	SOUTH	TOTAL
ACRES			
2012	91,000	167,000	258,000
2013 Contract	88,000	171,000	259,000
TONS			
2012	3,796,813	8,839,824	12,636,637
2013 Contract	3,700,000	9,400,000	13,100,000
2013 Actual	3,970,474	8,142,541	12,113,015
AVERAGE FIELD YIELDS			
2012	41.7	52.9	49.0
2013 Contract	42.0	55.0	50.6
2013 Estimate	45.1	47.6	46.8
2013 Estimated Yields vs.			
2012	8.1%	-10.0%	-4.5%
2013 Contract	7.3%	-13.4%	-7.5%

Sources: PTAB final tonnage report, 2012 Harvested Acreage and 2013 Contracted Acreage from CA Processing Tomato Report (May 2013)

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OUR PRODUCTS

Hot Break Tomato Paste
 (28% and 31% NTSS)
Organic Hot Break Paste
 (31% NTSS)
Cold Break Tomato Paste
 (31% and 37% NTSS)
Organic Cold Break Paste
 (31% NTSS)
Concentrated Crushed
 (26% and 28% NTSS)
Diced Tomatoes
 (3/8", 1/2" and 3/4" cut)
Organic Diced Tomatoes
 (1/2" and 3/4" cut)
Fire Roasted Diced Tomatoes
 (1/2" and 3/4" cut)
Ground Tomatoes in Puree
Tomato Puree (1.07)
Chili Sauce
Ketchup
Sun Dried Tomatoes

CONTAINERS

300-gallon aseptic bag-in-box
 55-gallon aseptic drum
 StarPak
 (four 75-gallon bags-in-box)

INTERNATIONAL CROP

Production Down Globally

Conversion Note: 1 metric ton = 1.102 short tons

At 33.2 million metric tons (MT), global production was off 7.2% from February intentions of 35.8 million MT. Most of the world's big production regions suffered sizable losses due to weather.

China's production of 3.85 million MT was 14.4% below forecasts of 4.5 million MT. China's season was shortened as cool temperatures delayed the start and rains in September ended the harvest early. Prices for Chinese tomato paste have risen in response to the short crop.

Italy battled poor yields and green tomatoes all season. At 4 million tons, production fell below intentions by 12.4%. The northern growing region experienced its worst field yields in a decade. A cold and wet spring delayed planting, and the crop was never able to recover. Even the central and southern Italian growing regions reported yields below normal due to the unfavorable weather.

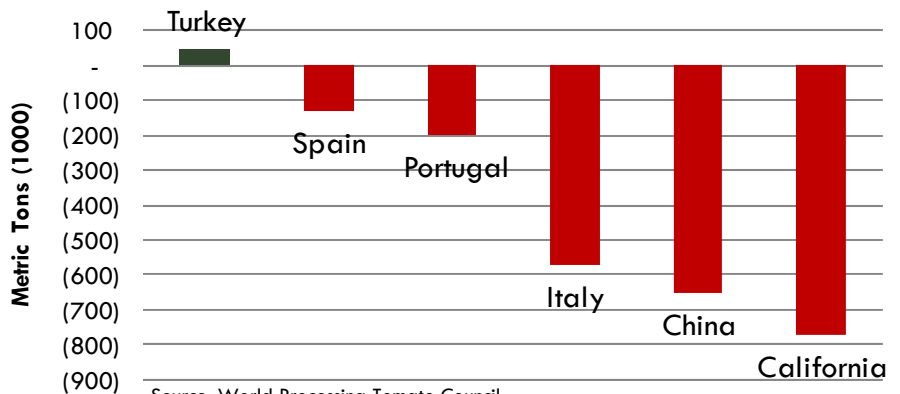
Portugal's season was short as rains delayed the start of the harvest and ended it in September. Factories ran at 80% capacity most of the season. With one million MT produced, Portugal fell 16.7% below intentions targeted in February.

Despite a late start, Spain found its season rather normal and produced 1.67 million MT.

The big winner for the 2013 season was Turkey, beating February intentions by 2.4%. At 2.15 million MT, Turkey processed its second largest crop on record due to excellent weather.

Chile also hopes to be a big winner by taking advantage of its alternate season. In September, while the harvest in the northern hemisphere suffered, Chile planted extra fields. Their harvest begins in mid-January and ends in April. Chilean growers plan to deliver 870,000 MT, a 28% increase from last year.

2013 DEVIATION FROM INTENTIONS
 February vs. Actual



Source: World Processing Tomato Council

MARKET ANALYSIS

Tight Supplies Bring Up Paste Price

After years of surplus, the processed tomato market is entering a year of very tight supplies. With the world's crop short by three million tons in 2013, processors could not make all the product customers want. As a result, demand is greater than supply and prices are rising.

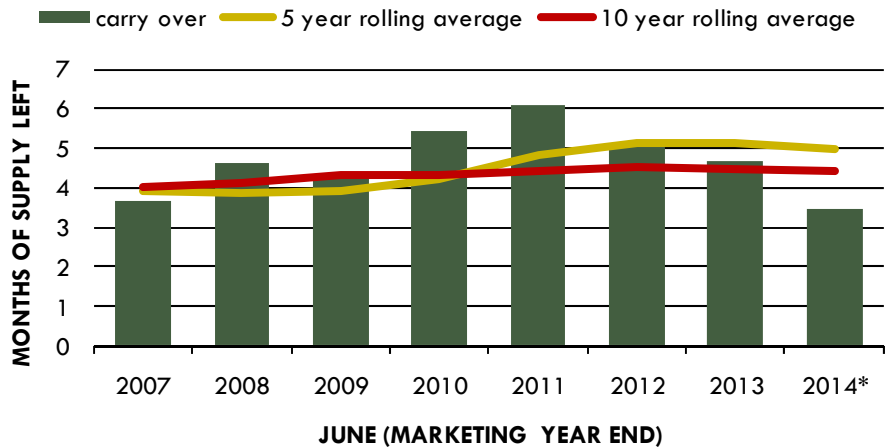
In California, paste on the open market is selling for about 40-42 cents per pound. This price reflects that processor stocks are missing the one million tons of tomatoes California's growers were not able to produce.

Domestic packers needed more tomatoes because demand has grown an average of 3.5% annually over the last five years. Assuming this demand trend continues, then in June 2014, packers would only have enough supply for 3.5 months of shipments.

Months of supply would be 22% less than the 10 year average and a 44% drop from the record high set in June 2011 when carryover was 6 months of movement. (See Domestic Carryover graph.)

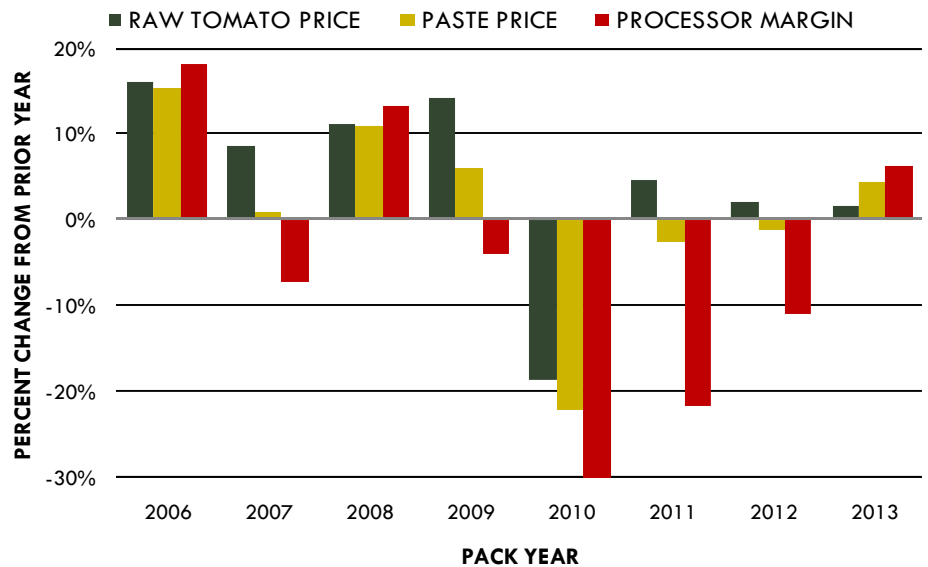
Tight supplies require a greater partnership between packers and their customers to meet expectations. The stricken crop created gaps in deliveries to packers, limiting their ability to make some product. Therefore, product with certain specifications or packaging is unavailable, and customers will be asked to be flexible with their product requirements.

DOMESTIC CARRYOVER



Source: California League of Food Processors, *Morning Star forecasts.

ANNUAL CHANGE IN PRICING For California Paste Industry



Source: California Tomato Growers Association, Morning Star calculations

Input costs are a quantifiable driver in the price of paste but not the only one. Supply influences the price and affects processor margins. As indicated in the above graph, to reduce the surplus, California's paste processors have suffered four years of declining margins, hitting a record low in 2012. Despite increases in the price of raw tomatoes in 2011 and 2012, paste prices fell slightly which ate into processor margins.

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INDUSTRY SITUATION

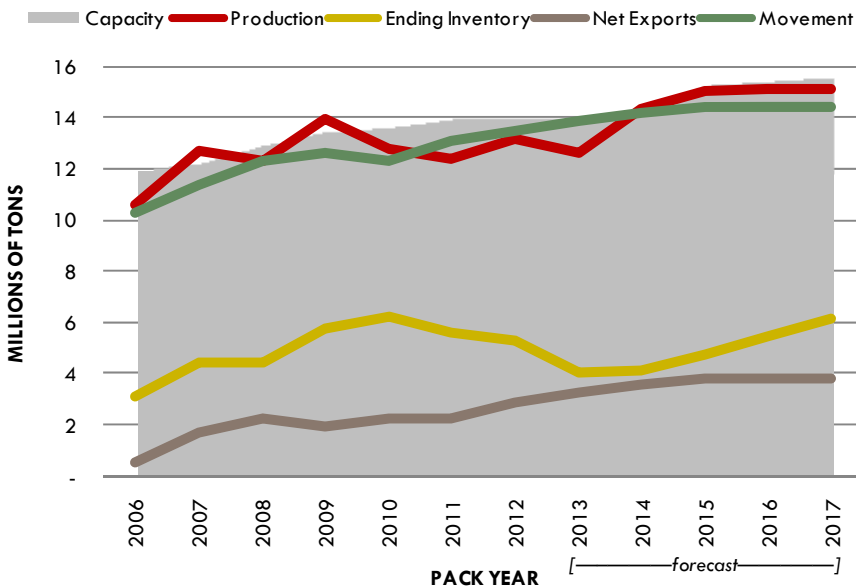
Morning Star Expanding Operations

Over the next few years, Morning Star expects to add 700 tons per hour (TPH) to its operations. For the 2014 season Liberty is getting an additional 200 TPH of capacity and Williams will grow by 500 TPH in following seasons.

With this expansion and capacity likely added by other processors, Morning Star anticipates state-wide capacity to outstrip demand by 2016, putting the industry into a surplus situation again.

The surplus benefits our customers' profitability by keeping tomato paste prices low, as long as the price of raw tomatoes stays reasonable.

U.S. TOMATO MARKET DRIVERS



Source: California League of Food Processors, USDA, Morning Star estimates and forecasts.