

February 2009 Almond Position Report

February 2009 shipments were 116.4 million pounds. This is up about 35% from the February 2008 shipments of 85.9 million pounds. This is not a typographical error.

Analysis

Carry-in from the 2007 crop year:	231 million pounds
2008 Crop Receipts:	1.59 billion pounds
Less 3% loss / exempt:	(48 million pounds)
Total available supply:	1.774 billion pounds
Less shipments to date:	812 million pounds
Remaining supply:	961 million pounds

Receipts

Seller's Perspective: The 1.59 billion pounds received to date was expected. This crop will settle in at around 1.6 billion pounds.

Buyer's Perspective: We had been thinking that 1.65 would be the number after last month's receipt totals. We are not ready to concede 1.6 billion, but would agree that 1.6 – 1.65 billion pounds is the level at which the 2008 crop will settle. CASS missed this estimate by at least 100 million pounds....proving the theory that big crops get bigger....(or that CASS needs taller ladders)?

"I never guess. It is a capital mistake to theorize before one has data. Insensibly one begins to twist facts to suit theories, instead of theories to suit facts." Sir Arthur Conan Doyle (1859 – 1930).¹

Shipments

Seller's Perspective: 116.4 million pounds. New record.

Buyer's Perspective: Shipped.....not necessarily sold or picked up. Ask any of your European clients how many containers are at their neighborhood ports. You can ship 200 million pounds if you're willing to warehouse overseas. And uncommitted inventory is up 58% - to 605 million pounds. That's a lot of uncommitted, dear record-setting friends.

Export

Seller's Perspective: New record set at 80.9 million pounds, obliterating the previous record of 56.72 million pounds set last February.

Buyer's Perspective: Shipped.....not necessarily sold or picked up. Ask any of your European clients how many containers are at their neighborhood ports. You can ship 200 million pounds if you're willing to warehouse overseas. And uncommitted inventory is up 58% - to 605 million pounds. That's a lot of uncommitted, dear record-setting friends.

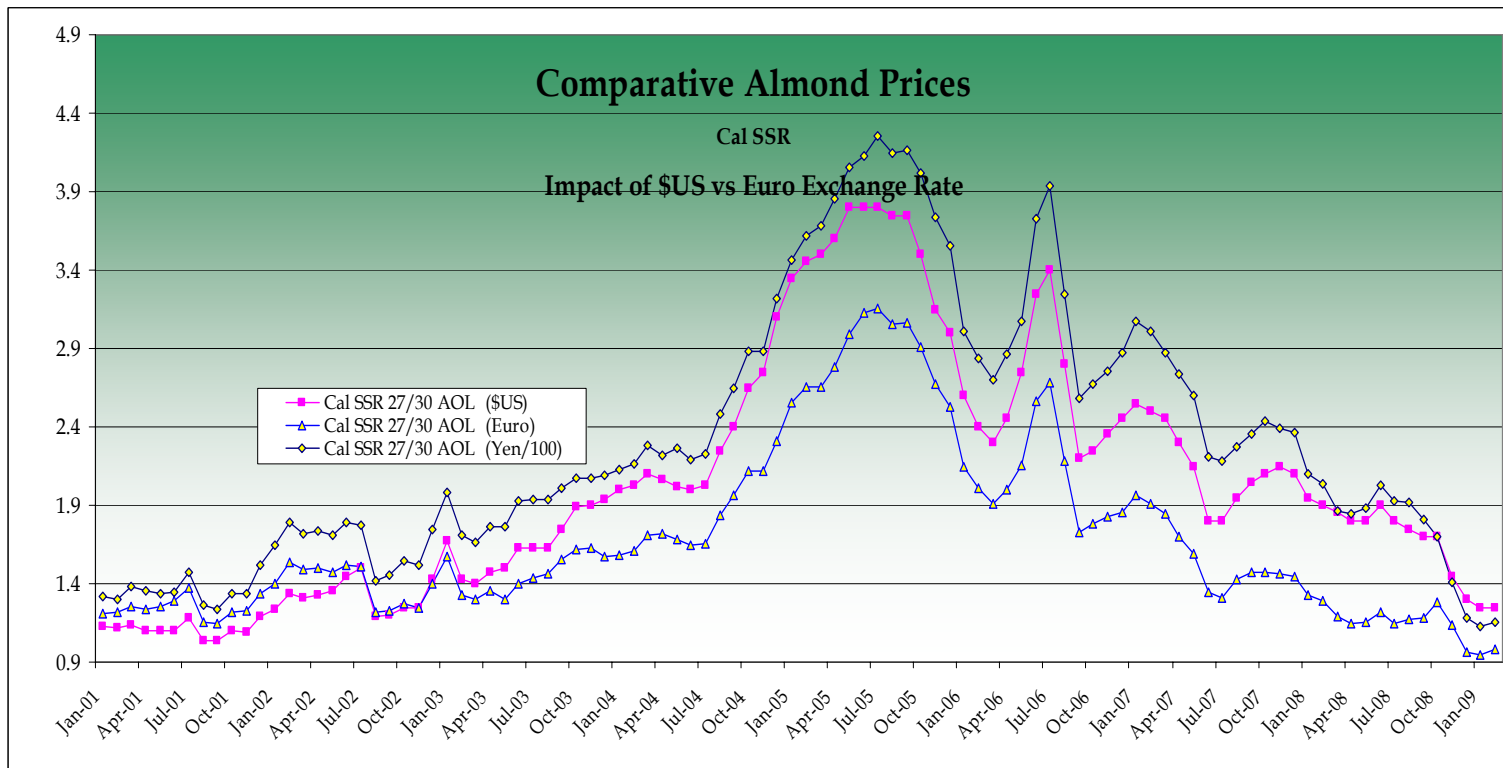
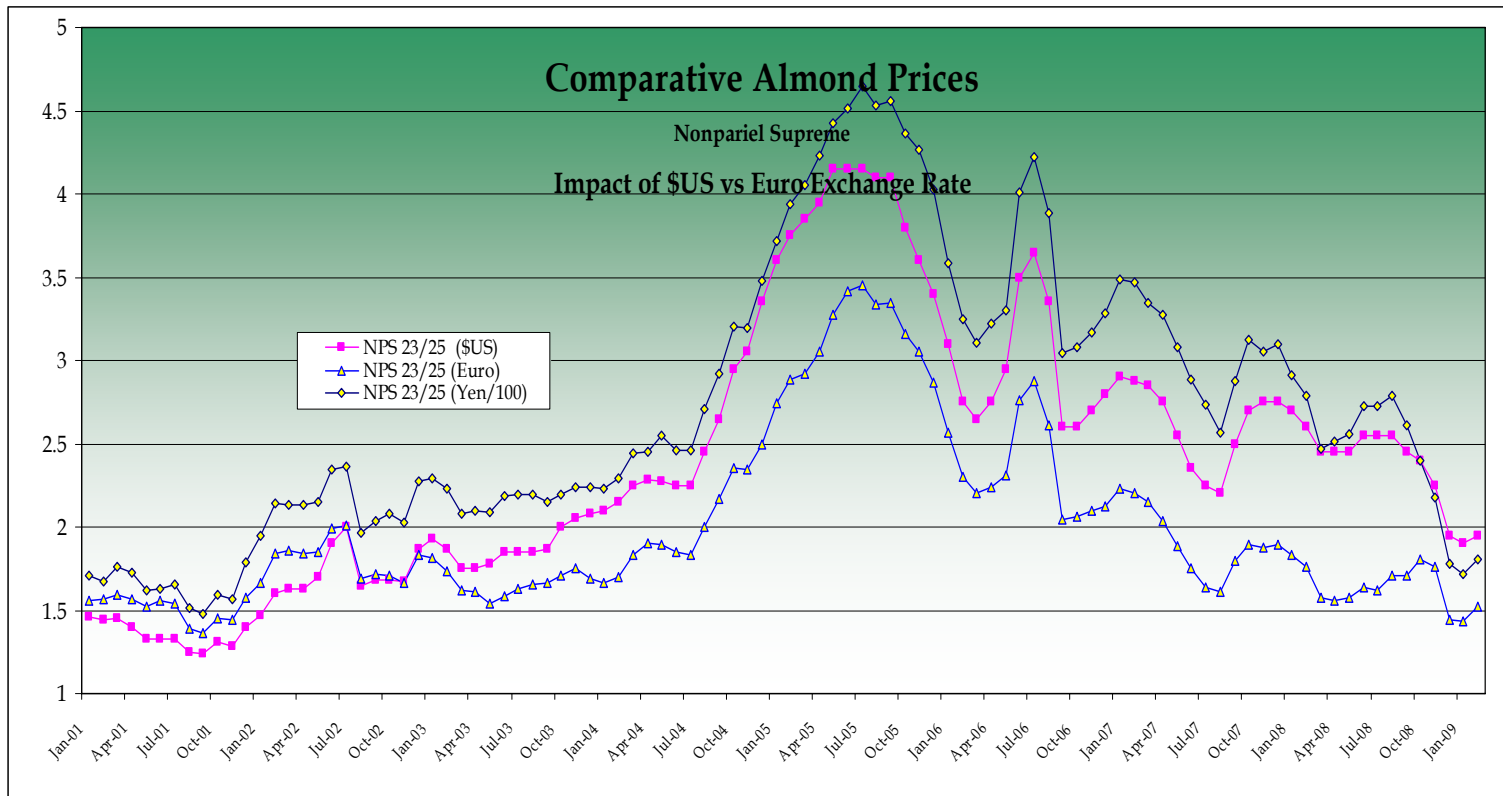
Domestic

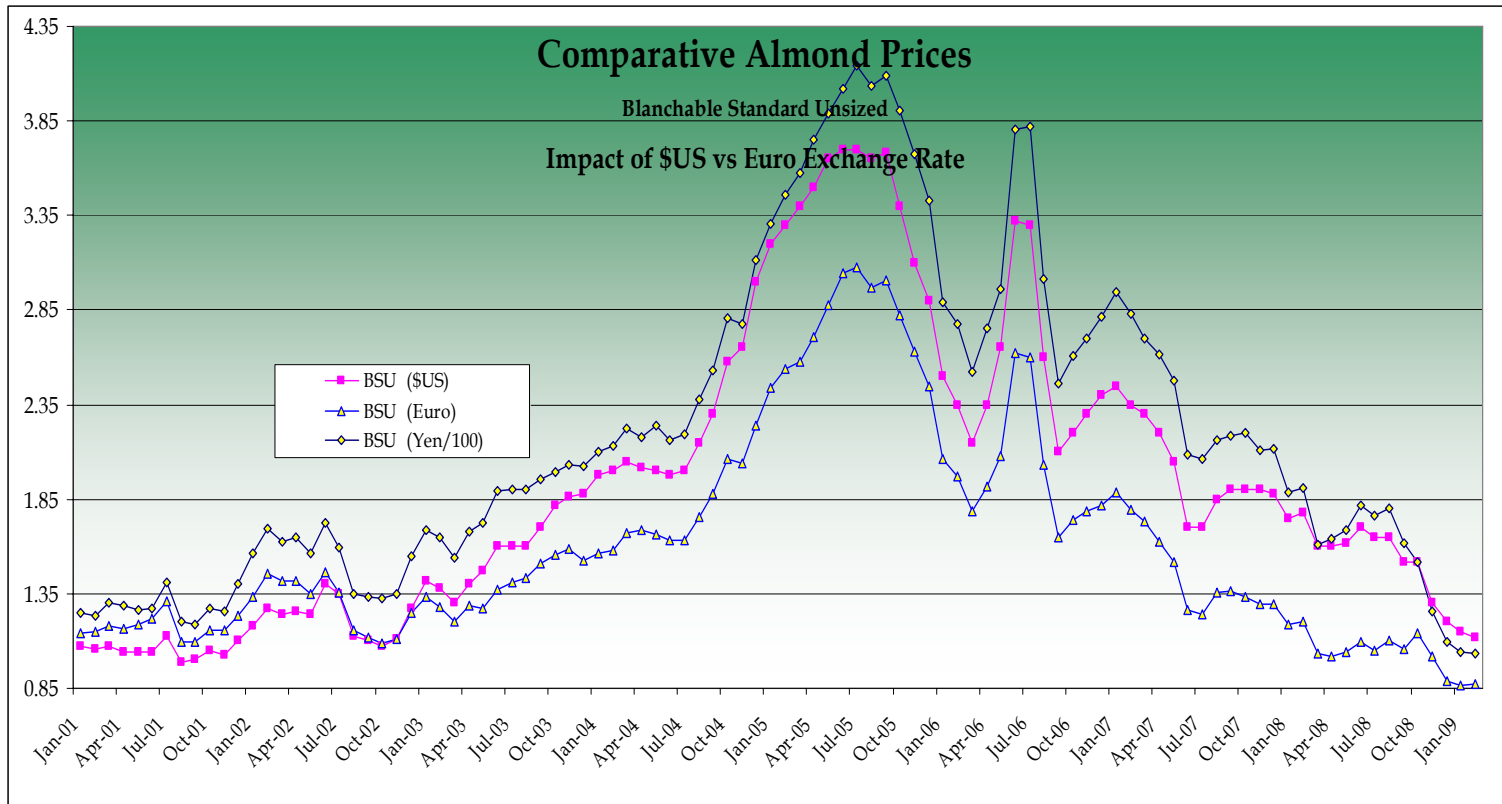
Seller's Perspective: 35.5 million pounds. New record.

Buyer's Perspective: We will give you the domestic shipments. It's good to have you back after a 4 month absence.

¹ All those with \$1.75 per pound BSU5% contracts raise your hands. Ours are up.

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Pricing




Conclusion

The January shipment numbers were disappointing, though many insiders in the industry understood that the market was very quiet in December and that most of the buying interest came after the second half of January. They knew January would not be indicative of the demand going forward and that a lot of the business booked in January could not ship until February. A considerable percentage of business was also booked at that time for March. We expect March to be a strong month, though a repeat performance of this magnitude seems unlikely.

We now see just how massive the February shipment totals were. As with every piece of information, this 116 million pounds shipped will be the subject of vastly different commentary, based on individual perspective. So what does 116 million pounds shipped mean to the industry overall?

First, we need to see where these nuts went. The domestic market showed a nice increase of 21.4%. It's always reassuring to see such strong shipments in the US market, especially during such difficult economic times. This would indicate that at current levels, domestic companies feel that almonds are a good value, both as a snack item and as an ingredient. We tend to agree. Domestic shelled shipments were higher by 21% and manufactured shipments were up by 46%.

On the export side, the numbers are telling and they indicate a paradigm shift that we have discussed periodically in these reports. With about 262 million pounds going to Western Europe, it remains the most prolific importing region for California almonds. But where are the export shipment increases coming from? Not from Europe. Of the significant importing countries, Belgium is down 34%, Denmark is down 31%; France

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is down 31%; Germany is down 5%; Greece is down 32%²; Italy is down 21%; Spain is down 4%³. The only major Western European market that is higher is the United Kingdom, up about 10%. Overall Western Europe is down 10%. Eastern Europe is also down 10%, with Russia (the largest market) down about 11% and Latvia (the second largest entry point in Eastern Europe) down over 50%. Only the Czech Republic is up – about 30%.

The export growth is coming from Asia, the Middle East and North Africa. This is exciting for the California almond industry, but also comes with ramifications. Let's first look at the exciting parts:

- India remains the world's largest importer of inshell almonds and shelled almond imports to India are up 43%.
- Chinese imports are through the roof, as we predicted they would be this season. Shelled imports have more than doubled (43.7 million pounds v. 19.5 million pounds) and inshell shipments have nearly tripled (19.5 million pounds v. 7.9 million pounds) compared to last year.
- Shipments to Pakistan have more than doubled (from 1.08 million pounds last season to 2.3 million pounds this season). Other Asian markets are not much changed. Japan is down slightly. Korea, Taiwan and Thailand are virtually unchanged.
- Turkey is quickly becoming an important destination for California almonds. Shelled and inshell shipments to that destination have nearly doubled compared to last year.
- The United Arab Emirates continues to be a regional leader and major distribution center for the Middle East.
- Algerian imports of almonds are up 297%; Egyptian imports are up over 80%.

Ultimately, we must acknowledge that Western Europe accounts for 45% of exports. But we must not overlook the fact that Asia and the Middle East combined now account for 44%.

Now that we know where the nuts went, what are the implications in regards to availability and pricing? In our opinion, it means that we are going to continue to see a bifurcated market where Nonpareil supreme (or better), Carmel/Carmel type supreme (or better) and all varieties of inshell are going to continue to command a disproportionate premium. Asian and Middle Eastern markets buy little select sheller run grade in comparison to Europe. These markets are not particularly fond of the rounder and darker California/Butte/Padre varieties. For the near future, this should keep a cap on the prices of these more "industrial" type products that are favored by European processing facilities. Inshell almonds will continue to carry a premium as inventories of most types of inshell are limited and what is left in stock will have to stretch to meet the demand for Ramadan (August 21st) and Diwali (October 17th; about 3 weeks earlier than the Diwali date of November 9, 2008).

At some point, and some will argue we are there now, the difference in price will simply become too big to ignore. When BSU5% is at \$1.10 per pound (with European second hand toying at prices below \$1 per pound), and Nonpareil Supreme 20/22 is over \$2.25 per pound – it seems inevitable that some markets will make the shift to the more affordable product. Before you say "never" – just think at how much Nonpareil Extra #1 in sizes 27/30 – 32/34 the Middle East bought ten years ago. Virtually none. Buyers adapt. The almond

² If you count the containers the Greeks don't pick up in timely manner, they are down much more than that. Soon the almond industry will have to keep separate statistics for Piraeus and Thessaloniki ports as the stocks there will rival the imports of full-fledged nations.

³ Footnote #2 applies to Italy and Spain too. It's the warm-hearted Mediterranean people. Don't worry – they're going to pay – eventually. What's six months of financing and a re-issued VASP between friends? And at these low interest rates, it's almost a shame to discuss the financing costs. When is the rest of the world going to realize that the financial crisis has hit Spain, Italy and Greece worse than anyone else and that importers in those countries have the right to expect preferential treatment? Is that really too much to ask? (rhetorical question)

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business, as much as we would at times like to glamorize it, is still just business. It is not religious doctrine. Companies and individuals are driven by profit maximization. Changing from a Nonpareil to a Butte may be tough, but it's not quite the equivalent of renouncing Jesus in favor of the Prophet Mohammed. It can be done with less pain than many would have you believe when the price difference is \$50,000 per container.

Until Butte/Padre become a part of the Asian and Middle Eastern lexicon, expect to see Europe do their best to keep the stranglehold on small Californias and BSU5%. And expect California to squeeze whatever profits it can out of Nonpareil, Carmel and inshell.

To all those of you who are acting like you are the only ones holding high-priced contracts, remember: "The man of virtue makes the difficulty to be overcome his first business, and success only a subsequent consideration." Confucius (551 BC - 479 BC).

Act honorably. Your mother would want you to do it.

Best regards,
DERCO FOODS