

May 2007 Almond Position Report

May 2007 shipments were 76.714 million pounds. This is down about 4% from the May 2006 shipments of 79.882 million pounds.

Analysis of current (2006 crop)

Carry-in from the 2005 crop year: 112 million pounds

Receipts through May 31, 2007: 1.113 billion pounds

Less 3% loss / exempt: (33.3 million pounds)

Total Supply: 1.192 billion pounds

Less shipments to date: (901,800)

Less estimated carry out: (150 million pounds)

Remaining Supply: 141 million pounds

Shipments

Seller's Perspective: These are great shipment figures. This is the second strongest May in history, only 3 million pounds less than the record set last May. We have shipped more almonds so far this season (901 million pounds between August 2006 – May 2007) than ever before. The next best performance was during the 2003 season (August 2003 – May 2004), when we shipped 876 million pounds.

Buyer's Perspective: Good shipments; but less than last May (record or not) and facing a record crop coming in 60 days. Keep things in context, dear friends, context.

Commitments

Seller's Perspective: 134 million pounds committed this season compared to 129 million pounds last season. That's more.

Buyer's Perspective: 156 million pounds uncommitted this season compared to 109 million pounds last season. Unfortunately, that's more too – but in the wrong direction. Crop this season 1.1 billion pounds; crop next year considerably more. Next?

Domestic

Seller's Perspective: Last month we missed a record by just over 1 million pounds. This month we have another domestic record shipment of 31 million pounds, 3.5 million pounds higher than the last record of 27.5 million set in the 2004 season. For those of you keeping track, that's a record set in 8 of the last 9 months.

Buyer's Perspective: Not much to say about that...that's impressive.

Export

Seller's Perspective: We're not so ecstatic about our exports in recent months, but overall, still up nearly 14% over last year.

Buyer's Perspective: To put it eloquently, your exports these past few months suck. May exports are down about 14% over May 2006. Aren't you supposed to be growing exports heading into the largest crop in history? (Hint: "yes")

Currency

The USD average for May was the same as April, at €1 = \$1.35. The European Central Bank raised interest rates to 4% this week, but sent signs that there may not be further increases in the short term. This, combined with the fact that the US Economy is showing signs of strength (and thus making it less likely that we will see interest rate cuts domestically), has resulted in a slightly stronger USD. However, most economists still seem to think that the 6 month trend is for a weaker USD vis à vis the Euro.

Prices

Prices are falling faster than George W. Bush's approval ratings. Prices have dropped significantly this week. Current crop BSU5% was trading at \$2.15 - \$2.20 / lb (\$473 - \$484) in mid April. Prices dropped to \$2.05 / lb (\$451) by mid May. Today BSU5% for June-July is at \$1.75 / lb (\$385). New crop has been a bit more resilient, though this week new crop prices dropped about \$0.05 - \$0.10 / lb from \$1.70 / lb (\$374) for BSU5% to \$1.60 - \$1.65 / lb (\$352 - \$363).

Conclusion

The price drop can be explained by the fact that California growers and packers believe that they are going to sell more current crop almonds at \$1.75 / lb than at \$2.00 / lb, despite the fact that new crop is still lower by about \$0.15 - 0.20 / lb. So if price, and not need, is the motivator, why are buyers booking prompt shipments? Why don't they wait until September? On the other hand, if they need the prompt shipments, would they not pay \$2.00 / lb instead of \$1.80 / lb?

It can be argued that some of this buying is to ensure that there are stocks in Europe prior to the implementation of VASP. Buyers cannot afford to wait and see "if" this new system is going to work and how smoothly shipments leaving California after September 1st are going to clear European customs. Nevertheless, is it worth paying \$0.20 / lb more for peace of mind and if so, how many containers do buyers want to book before they simply roll the dice and wait for new crop?

We are seeing wonderful examples of emotion at work: fear in California and greed in Europe. Both perfectly normal, and both perfectly predicted by people in our industry who commented that we would see new crop BSU5% at \$1.50 / lb (\$330) before the end of summer.

Fear: Growers who are still holding inventory want to cash in now and get out before new crop. Not much is different today than it was 90 days ago...with the exception that it is now 90 days closer to new crop. When you know your inventory is going to be worth \$0.20 - \$0.30 / lb less in 2 months, you take what you can get. Of course a more disciplined approach would have seen growers releasing product earlier in the year and consequently keeping prices at more moderate levels, but hey, that model didn't look so good the past 3 years. During that time, growers who held until the end of the season got more for their nuts than those who sold early....So, it's only human nature to see them repeat a pattern that proved profitable. Unfortunately, all good things must come to an end and this year, those who sold early enjoyed the frosting on the cake while those who waited are going to be mopping the floor after the party guests have gone home.

Greed: In Euros, we are near historic lows – yet that does not seem enough for buyers who are now pushing to get \$1.55 / lb (\$341) for new crop BSU5%. As is always the case, on that fateful day when California finds its testicles again, prices will start to firm and the growers and packers here will be surprised to see the buying interest return in earnest. Those who are waiting for the bottom will not know, until we have hit it and bounced back, that they were even close to the ground.

Are California sellers expecting buyers to tell them that prices need to go up? Is that like waiting for the fox to tell the farmer that he is full and does not want to eat more chickens? Who is going to set the floor and when is the floor going to be set? All that people are looking for is leadership and stability. We have said this before but it warrants repetition: "People want leadership.....and in the absence of leadership, they will listen to anyone who walks up to the microphone." (from The American President)

California is not proving to be either willing or capable of providing leadership and stability. Sure, there is talk, there is bravado, there is "I don't have grower support." But that seems not to last as long as Paris Hilton's time in prison.

The unity at origin so many talk about.....it vanishes in these situations because the profits are not communal. Each company gets to keep its own. So many growers were not sellers of BSU5% 2 months ago at \$2.30 / lb (\$506) because they were not happy with a \$0.75 / lb return.

Emotion, emotion, emotion. When dealing with people, remember you are not dealing with creatures of logic, but creatures of emotion. Dale Carnegie

Best Regards,
DERCO FOODS

Bonus Material.....at no extra charge

TOP TEN THINGS CALIFORNIA ALMOND GROWERS & SHIPPERS WILL BE SAYING IN SEPTEMBER

10. I can't believe the summer is already over. Three weeks fishing in Cabo were just not enough.
9. What do you mean ocean freight rates are up by 25%? What about all those CIF shipments I entered into back in May?
8. Man, there are a lot of almonds coming off those trees. But 1.37 billion pounds??? No way!...No, I'm sure not.....No, probably not.....No, I hope not.....Oh Shit, Maybe!
7. Let's pasteurize something!! Heck, we paid \$1 million for the damn machine.
6. Don't these buyers realize that it's hard to live on less than \$0.25 / lb net profit? What next? Are they are going to expect us to sell our planes and fly coach on our shopping trips to Europe?
5. We are united at origin. We are united at origin. We are united at origin.
4. OK, \$1.50 for standards – but just for you – and keep it quiet.
3. Where is the staff from the European Food & Veterinary Office? I need some of them to help deliver my 15 kilos of almond samples per shipment to the yet-to-be USDA certified lab for Aflatoxin testing.
2. I never thought I would look back fondly on the days of Salmonella.
1. At least our VASP certificate is final as to Aflatoxin!

TOP TEN THINGS EUROPEAN BUYERS WILL BE SAYING IN OCTOBER

10. I can't believe the summer is already over. 8 weeks of holiday was just not enough.
9. I'm glad I bought CIF; wow, those freight rates really went up while I was sunbathing in Mykonos.
8. Remember when those guys were saying "No Way" to \$1.60 / lb bids for BSU5%? Was that just 4 months ago? Time sure flies, doesn't it?
7. I'm glad I ordered some old crop almonds back in June, because by the time these September shipments get here and clear customs, I just may be able to use them in time for Easter.
6. Our governments are the best – they pass down ignorant laws that are then enforced by our bureaucrats like the word of God.
5. Have you read the Uniform Almond Export Contract? We better save our money in case we have to pay for 50% of an Aflatoxin load that is going to be destroyed by our government.
4. Didn't you know that Aflatoxin grows in transit and that global warming is a myth supported by Al Gore, Leonardo DiCaprio and George Clooney?
3. Have you read the Uniform Almond Export Contract? It is Fair and Balanced, just like Rupert Murdoch's Fox News.
2. Isn't it time for Christmas holiday yet?
1. The VASP certificate is final as to Aflatoxin testing unless customs says it is not or we decide to retest and find Aflatoxin. But in all other instances, it is certainly final!