

October 2009 Almond Position Report !!

October 2009 shipments are 168 million pounds. This is up about 6.6% from the October 2008 shipments of 157 million pounds.

Analysis

Carry-in from the 2008 crop year:	413 million pounds
Estimated 2009 Crop Receipts:	1.35 billion pounds
Less 3% loss / exempt:	(40 million pounds)
Total available supply:	1.723 billion pounds
Less shipments to date:	426 million pounds
Remaining supply:	1.297 billion pounds

HISTORY HAS BEEN MADE!

(Shipments)

Seller's Perspective: Shipments of 168 million pounds have made October 2009 the highest shipment month in the history of the almond industry. Total shipments to date are 426 million pounds, up 8.8% over last year. At this pace, the California almond industry will ship over 1.5 billion pounds for the 2009 season.

Buyer's Perspective: The huge push in shipments at the end of last season was spurred on by low prices. Now that prices have recovered, we expect demand to slow.

IS THE WORLD RUNNING OUT OF ALMONDS?

(Receipts)

Seller's Perspective: Yes. Just ask Select Harvests Ltd., who claims that within 5 years, there will not be enough almonds to meet growing global demand.¹ Now if Australia's largest almond grower is not the definitive and unbiased source on this issue, we don't know who is! Receipts to date are 968 million pounds and most feel that the crop will be close to the 1.35 billion estimate. No surprises yet on this front.

Buyer's Perspective: No. The last nut is never sold. Prices may go up, but there will always be enough almonds. And consumers always have alternatives in regards to non-staple foodstuffs. How quickly you forget June 2009 prices.

SURVEY RESULTS JUST IN: REAL AMERICANS DON'T EAT QUICHE; THEY EAT ALMONDS!

(Domestic)

Seller's Perspective: Domestic shipments set a new record. At 44.38 million pounds, this was not only the biggest October ever, it was the biggest domestic shipment month ever. Domestic shipments set a new record. At 44.38 million pounds, this was not only the biggest October ever, it was the biggest domestic shipment month ever. Domestic shipments set a new record. At 44.38 million pounds, this was not only the biggest October ever, it was the biggest domestic shipment month ever. It just feels too good to stop!

Buyer's Perspective: Bravo.

¹ Select Harvests Predicts Almond Shortage. *Australian Associated Press*, October 29, 2009.

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GLOBAL WARMING FOR CALIFORNIA'S NUTS!

(Export)

Seller's Perspective: See domestic section; except substitute the word "Export" for the word "Domestic" and substitute "123.67 million pounds" for "44.38 million pounds." Repeat as necessary.

Buyer's Perspective: Bravo.

GREEK DOCKWORKERS NOT ON STRIKE!

....Oops. Never mind. But this time their beef is with the Chinese (COSCO). The Greeks better remember that they don't have the Spartan army to protect Piraeus.² Do you really want to piss off the Chinese? Ask a Uigur from Xinjiang Province. And now you also know why China is not buying inshell Peerless. But they are buying everything else.

EU MEMBER STATES DOWNGRADE VALUE OF THEIR CITIZENS' LIVES AS OF FEBRUARY 2010

Well, not *really*. But permissible aflatoxin levels are going up in the EU. So California growers, don't worry about putting a tarp over that stockpile or covering those bins – a little mold never hurt anyone – the Europeans just said so!

The Good News: Current maximum levels for aflatoxin are 4 ppb total (with max 2 ppb B1). This will be increased to 10 ppb total (with max 8 ppb B1) for ready-to-eat almonds³ as of February 2010. A large percentage of cargo that would have previously been rejected will now be allowed entry into the European Union.

The Bad News: You still have to bring back that load rejected from (select from your favorite: Italy, Greece, Spain) which had a finding of 4.2 ppb....and the retest of which (received 2-3 months later) was a shocking 4.2 ppb (because the same sample was retested). Europeans certainly do write air-tight legislation based on sound science...

So will there be retroactive reimbursement on aflatoxin rejection related losses? No - prompting the question: "Who is going to agree to ship BSU5% into Europe from California at the end of December, with a possible arrival date before February 1st?" Do you really want that aflatoxin rejection on January 29th, when an arrival 3 days later would mean product gets in? Those who know more about this topic (should be a significant subset), feel free to write back.

² Yes, we know that Piraeus was actually a port city controlled by the Athenians and not the Spartans. But Spartans just have a more "bad-ass" reputation that sounds better for our theatrical purposes. Since this is not a graduate thesis, we are taking liberty in re-writing history. As far as we're concerned, the Spartans were responsible for protecting Piraeus. If you want real history, pick-up your own copy of The Peloponnesian War. Donald Kagan will be glad you did.

³ Not to be confused with Prêt-A-Porter. The ever-important "for further processing" clause will remain in useless effect, raising the total aflatoxin limit to 15 ppb for product that is destined "for further processing" after import. This will allow any importer who wants to explain to a supermarket chain or an end user why he accepted a lot over 10 ppb, to use the product. So processors and exporters in California, keep putting this clause on the bills of lading. It sure feels good for those 30 days of transit, doesn't it?

PRICES GEARED TO CONTINUE CLIMB!

Tough to argue against this market at the moment. Record domestic and export shipments, not only for October, but for all-time. This, despite India, the world's largest inshell market, being down 27% year-to-date. China is continuing to devour almonds at a record pace. The Middle East is up 41%, and not yet even fully engaged. They are watching the market and preparing for the Ramadan buying binge. The US market continues to grow, captivated by the health message and the affordability of almonds. Europe is down slightly – and waiting for what? Cheaper hazelnut prices? \$0.85 per pound standards?

Prices have been going up for the past 4 months – since July 2009. But before that time, they had been on an 18-month decline (virtually every month since January 2008, with a short flat period between June-August 2008).

The price for BSU5% between September – December of 2007 was \$1.85 - \$1.90 per pound. Starting in January 2008, it decreased to \$1.75 and fell all the way to \$0.95 per pound in June (and reportedly as low as \$0.85 per pound though not for any considerable amount of time and not supported by origin). Today the price for BSU5% for prompt shipment is at \$1.50 per pound.

During these 4 months, Standards, Cal/Butte/Padre, and Carmel/Carmel Types have seen the greatest price increases. Nonpareil prices have firmed, but not at the same rates. Nevertheless, the gap between Nonpareil and the other varieties remains big. In the spring and early summer of this year, the difference between BSU5% and NPS 23/25 had become as large as \$1.10 per pound. Today, the difference is \$0.80 per pound. This is still too big of a price gap if you ask most growers. It is also too big a price gap if you ask buyers – who will gladly substitute a good Carmel or California Supreme in the place of a Nonpareil now.

Looking at the price charts below, you will note that BSU5% prices are the lowest they have been since the spring of 2003. And if looking at it from the context of the Euro, BSU5% and Cal/Butte/Padre SSR 27/30 prices are at historical lows.

A few interesting price statistics:⁴

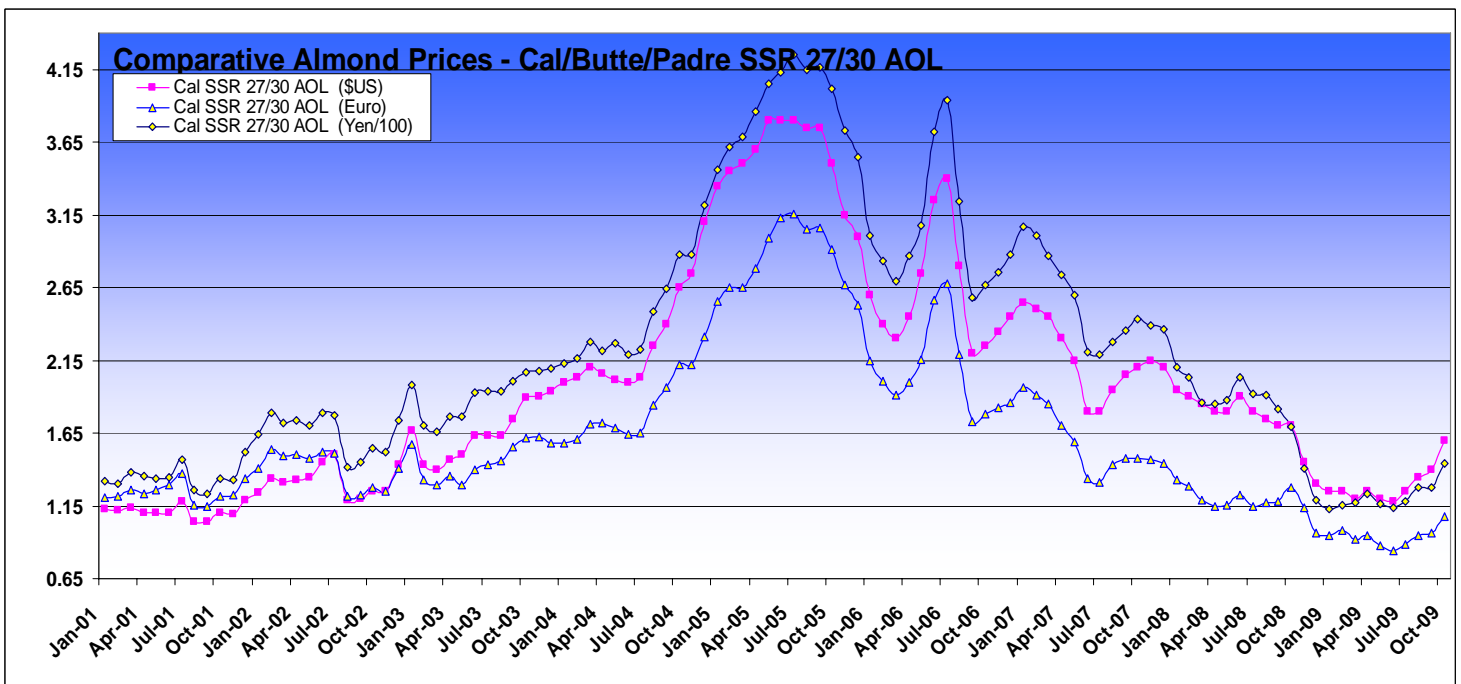
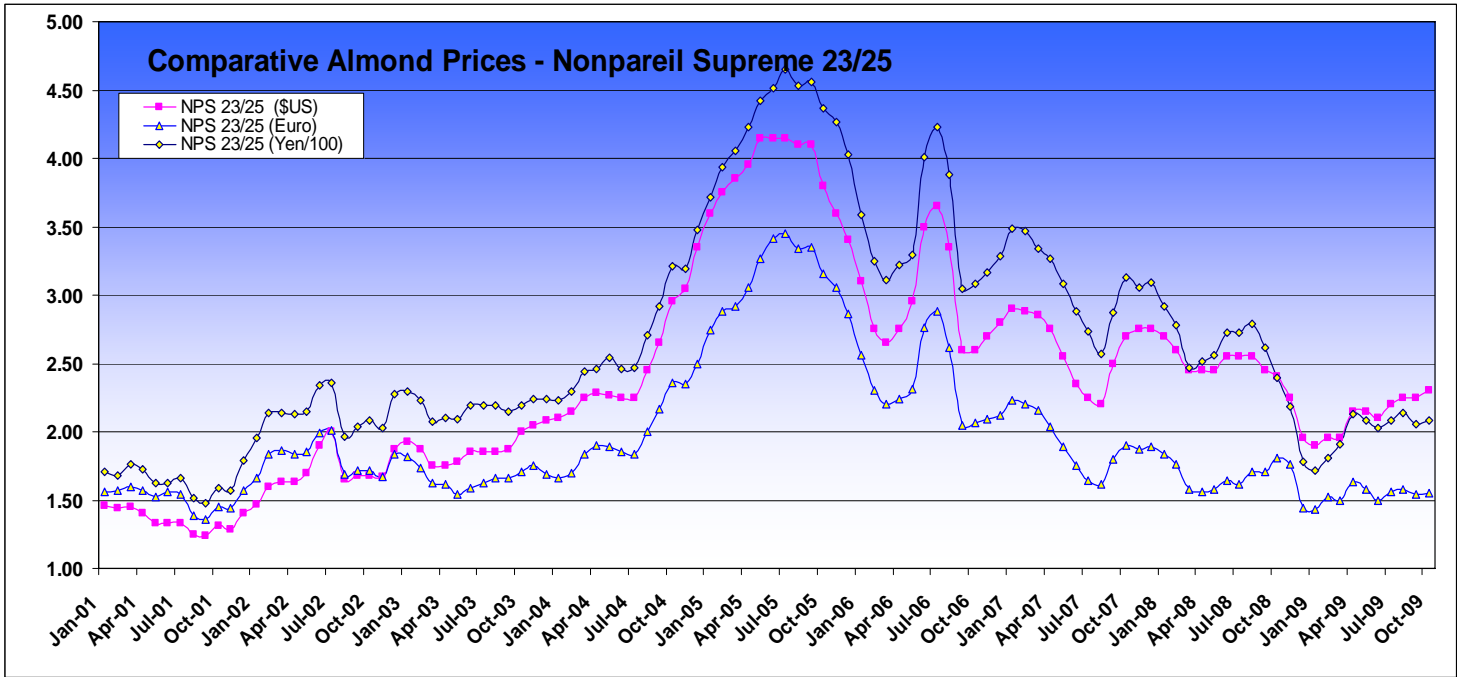
- The average price of NPS 23/25 between January 2000 and October 2009 is \$2.31 per pound.
- The average price of Cal/Butte/Padre SSR 27/30 AOL between January 2000 and October 2009 is \$1.96 per pound.
- The average price for BSU5% between January 2000 and October 2009 is \$1.86 per pound.
- There have been no price declines *starting* in November for the past 10 years; the last instance was in 1998.

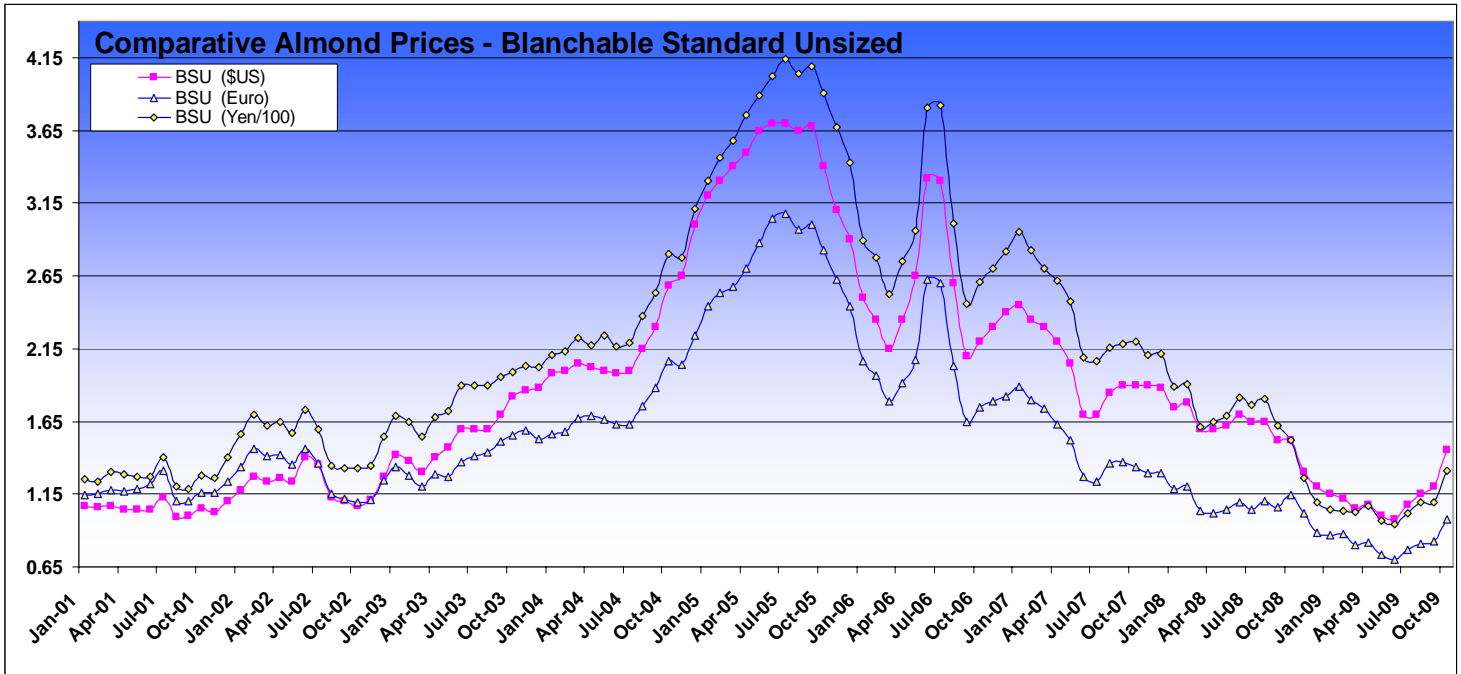
This is why more and more in California maintain that there is no reason, given the current supply/demand scenario and the outlook for continued demand growth, why prices (especially for standards and

⁴ These are based on price statistics that we keep in-house, on confirmed – not merely offered - business. We don't claim to be accurate to the penny, but we are close. If you disagree, it means that you either have a personal agenda (about which we don't care, because we are too busy pursuing our own) or that you are keeping more accurate records than we are (which means that you are working longer hours than us, spending less time with family and friends, and not enjoying life; this certainly entitles you to write your own report, that we will gladly read).

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California/Carmel) should decline. On the contrary, growers feel that they are poised to rise another \$0.20-\$0.30 per pound just to reach the 10-year average.





ALMONDS BEST NUT VALUE OF ALL TIME!

Well, maybe this is not entirely true – but prices are attractive compared to other nuts. Walnuts are between \$2.50 - \$3.85 per pound. Inshell raw 21/25 pistachios are over \$3.25 per pound. Inshell Pecans are over \$1.75 per pound, with kernels over \$3.50 per pound. Shelled hazelnuts from Oregon are over \$3.25 per pound.

THE END IS NEAR!

Some things to think about:

- There is continued expansion of developing markets, which is fundamentally changing the almond consuming world's landscape. Traditional models and expectations no longer apply. Europe is still vitally important to California, but it's importance is becoming relegated to industrial grades.
- The seasonality of the almond business is still there, but it is much less pronounced. Instead of the mad rush to sell as much as possible by mid-November, an increasingly staggered demand model is permitting California to take a more settled marketing strategy. The traditional Christmas trade is still king, but it is gradually becoming just one holiday among many of rising importance: Diwali, Chinese New Year, Ramadan, etc.
- Many in California feel that with less small-sized almonds (that had to be sold as standards last year), and a market (buying and selling side) that generally considers \$1.75 per pound for BSU5% to be a fair price, there is no reason for standards to continue to be sold below the cost of production, which continues to rise in California.

- We would say that there is more confidence among growers and processors in their ability to move existing supply – but we don't really believe that. This is still an emotional marketplace, where the weakest links in need of cash can still bring an entire market and industry to its knees. We saw it just last season and we will certainly see it again....but probably not anytime soon.

“Men, it has been well said, think in herds; it will be seen that they go mad in herds, while they only recover their senses slowly, and one by one.” Charles Mackay.

Just when you think the market can only go in one direction...

Best regards,
DERCO FOODS