

July 2016 Almond Position Report and 2015 Season End Summary

“Deceivers are the most dangerous members of society. They trifle with the best affections of our nature, and violate the most sacred obligations.” George Crabbe (1754 - 1832)

July 2016 shipments are 138.5 million pounds. This is up 13% from the July 2015 shipments of 122 million pounds.

Review of the 2015 Almond Season

Carry-in from the 2014 crop:	376 million pounds
2015 crop receipts:	1.894 billion pounds
Less 2% loss / exempt:	37.8 million pounds
Total Supply:	2.233 billion pounds
Less Shipments for 2015 season:	1.811 billion pounds (0.07% decrease v. 2014 season)
Carry-out into the 2016 season:	422 million pounds (21% increase v. 2014 season)
Uncommitted inventory:	198 million pounds (45% increase v. 2014 season)

2016 Almond Supply

Carry-in from the 2015 crop:	422 million pounds
2016 crop forecasted supply:	2.05 billion pounds
Less 2% loss / exempt:	41 million pounds
Total Supply:	2.431 billion pounds (8.8% increase in total supply v. last season)

July shipments summary

July was another good shipment month from California and essentially brought the 2015 seasonal shipments to par with 2014 shipments. After a slow start and a very rough ride from September through February, the last 4 months, which experienced more moderate and relatively stable pricing, saved the season.

Exports were 87 million pounds, up 24% over last year. Domestic shipments were 51 million pounds, down 1.6% from last year. But domestic commitments at 117 million pounds are up 9% over last year at this time. Export commitments are up about 1% over last year. Total commitments are up 5%. Uncommitted inventory is up 44% at 197 million pounds.

Taking a quick look at the big markets for the month: China/HK was **-16%**; Japan **-32%**; South Korea **+29%**. India was up a massive **+154%** in July, bringing the seasonal total to **+2%** over 2014. In Europe, Germany, Italy, Spain and the UK were up big for the month. The Middle East continues to struggle with all major markets down. The UAE is **-53%**, Turkey **-60%** and Saudi Arabia **-14%**. All major North African destinations were also down big in July. More on the Middle East and India later.

Special congratulations to Spain, which is for the second year in a row the #1 export destination of California almonds. At 201 million pounds imported in the 2015 season, it has surpassed its nearest global competitor (China/HK/Vietnam) by nearly 60 million pounds. The words of a good Spanish friend, spoken at the INC Congress in Budapest, ring truer today than ever: “You should not forget your old girlfriend Europe who brought you to the dance because you have found a new girlfriend in China.”

2015 Seasonal Shipments to Major Markets

	<u>August 2015 - July 2016</u>		<u>August 2014 - July 2015</u>		<u>% Change</u>
	<u>Shelled</u>	<u>Inshell</u>	<u>Shelled</u>	<u>Inshell</u>	
<u>EUROPE</u>					
France	23,138,157	113,177	20,047,995	68,090	16%
Germany	102,682,959	124,466	122,114,151	40,365	-16%
Italy	56,062,918	1,658,051	40,982,247	1,539,618	36%
Netherlands	46,842,324	0	43,257,656		8%
Spain	200,047,726	1,056,488	151,871,659	1,185,561	31%
U.K.	32,415,388	34,746	29,143,979	31,500	11%
<u>MIDDLE EAST</u>					
Israel	8,279,448	443,989	6,735,508	408,312	22%
Jordan	8,097,750	500,713	5,721,625	712,310	34%
Saudi Arabia	13,629,756	557,845	13,079,775	457,413	5%
Turkey	24,489,483	12,656,930	28,955,066	7,634,687	2%
UAE	51,780,909	5,543,568	87,383,729	10,688,948	-42%
<u>ASIA</u>					
China/HK	70,861,460	70,798,186	64,197,096	63,928,815	11%
Japan	60,938,752	375,493	65,687,391	182,313	-7%
South Korea	46,228,524	0	53,484,055	0	-14%
Taiwan	9,115,704	209,384	10,624,450	309,527	-15%
Thailand	4,117,550	0	3,997,599	0	3%
Vietnam	2,807,084	19,309,869	1,281,152	17,463,145	18%
India	8,980,766	117,470,992	13,157,514	110,527,915	2%

2015 Season Recap

Carnage [kahr-nij]: the slaughter of a great number of people, as in battle; butchery; massacre



To put it plainly, the 2015 season sucked. Here are the official rankings of how much it sucked and for whom it sucked the most:¹

¹ You don't often think of things in terms of what sucked most. But this is a good opportunity to take a closer look at this crap-comparison tool, which in our opinion, is far under-used. Initially, we wanted to compare the candidates running for president, but then we remembered that we live in Central California. We need to continue doing business in a region where evolution is still being debated because, well, 'if we came from monkeys, then why are there still monkeys around?' Can't argue with that air-tight logic, so Creationism it is in our neck of the woods. Since politics is anathema, we will have to settle for other themes to make our crap-comparison point. So what sucks more, John Gruden leaving the Raiders to coach the Bucs the season they both end up meeting in the Super Bowl or the 49ers hiring Chip Kelly, who once used to matter at Oregon (but after he was a bust in Philly), as their latest head coach? What sucks more, losing \$1 million in Dubai to rich crooks who took their money and ran without paying you, or having lunch with a grower and having to listen to him complain that he is now 'only' making \$1.50 per pound profit? This last one is rhetorical. Of course making only \$1.50 per pound is intolerable.

5. Growers – they made less money. (*Kleenex, please.*)
4. Brokers – they had to tell processors that they weren't going to be paid. (*Must have been a tough phone call.*)
3. Processors – those who went direct suffered more than others; but most experienced some type of crap, especially those who had call pools to which they guaranteed specific sales prices...which they never ended up getting because of defaults. (*Still better than selling to traders, who don't add value...*)
2. Traders (the ones who paid) – had a nice proctologic exam. They sometimes even got a thank you from their suppliers for pulling their shipments that were \$2 per pound above market. (*Boo hoo...sorry that they don't give out gold stars for doing your job....who told you to take title anyway?*)
1. Buyers – hard to have it suck more than buying a container and having it be worth \$100,000 less when it arrives at the port of destination a few months later. Well...having bought multiple containers in this scenario would suck more. Exponentially more. (*You made money in an 8-year bull market. Prices go up and down; if you play with money you can't afford to lose, you go away. Life sucks. Pass the beer nuts.²*)

We were due for a 2015. It had been too good, for too long. Every monkey with internet access and a handler or client list became a buyer or seller of almonds and walnuts during the past eight years. Prices detached from reality, and like Icarus, flew too close to the sun.³ Prices didn't quite fall into the sea, but they came close enough. This impacted most everyone in the chain in one way or another.

Many other things happened in the 2015 season, but the main theme from September through the end of February was falling prices of about 50%, defaults all over the world (especially in Dubai, Turkey and India), and the fallout that those defaults had back in California.

Top Ten Sixteen Things We (Re-)Learned in 2015

16. A 'defaulter' to a good supplier is a 'new prospect' to a marginal one.
15. Inaccurate information is sometimes worse than no information at all. When speculation creates artificial commercial expectations, the end result is usually unduly painful to buyer or seller.....this season, mostly to buyer.
14. Almond demand is elastic. Prices matter.

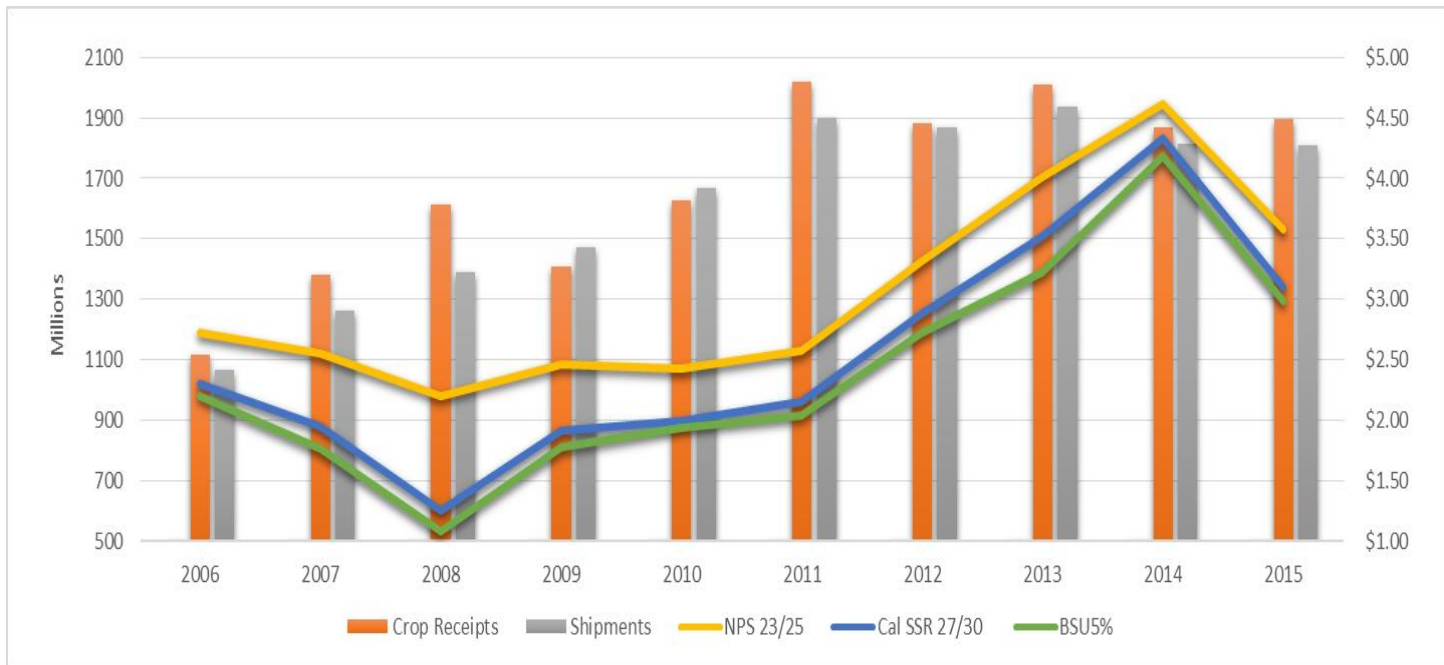
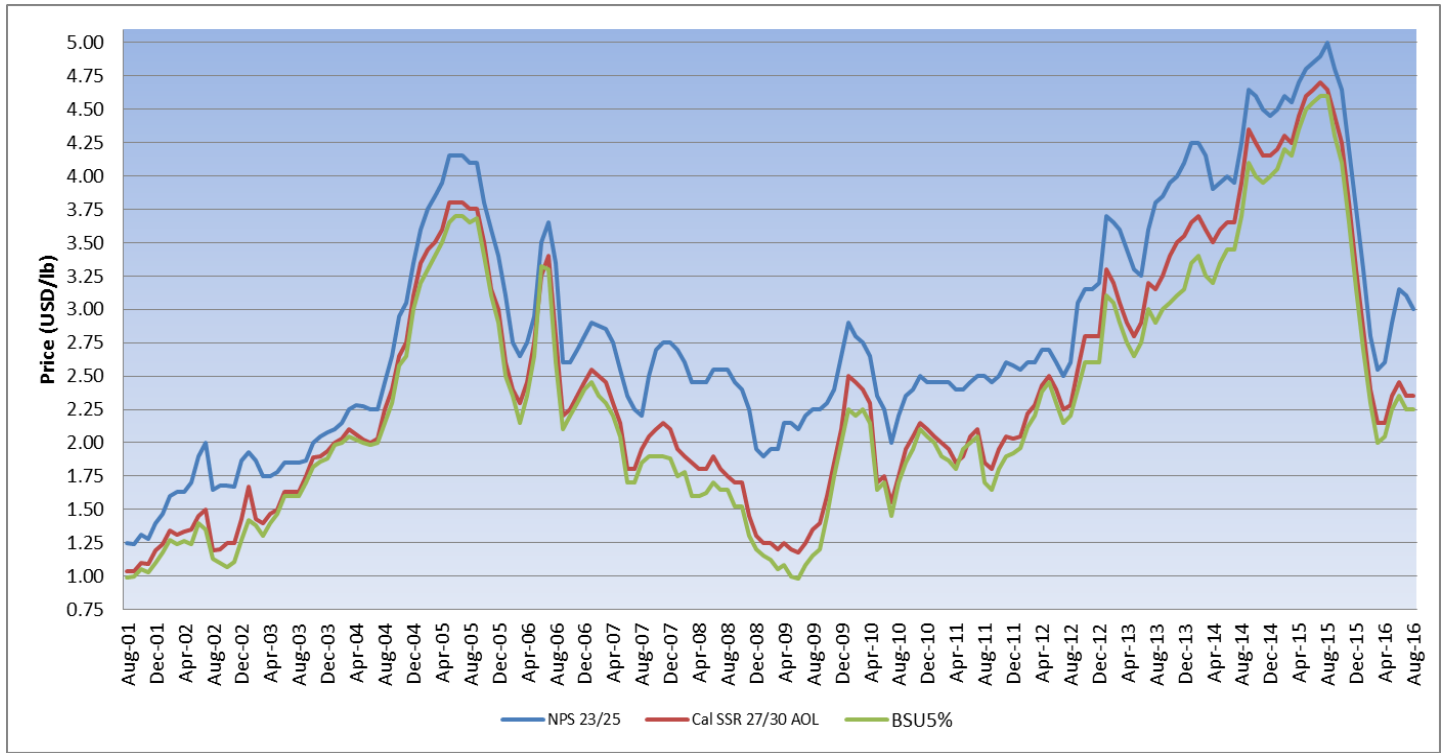
² [Pass the beer nuts](#) Cheers. Arguably the best TV show ever.

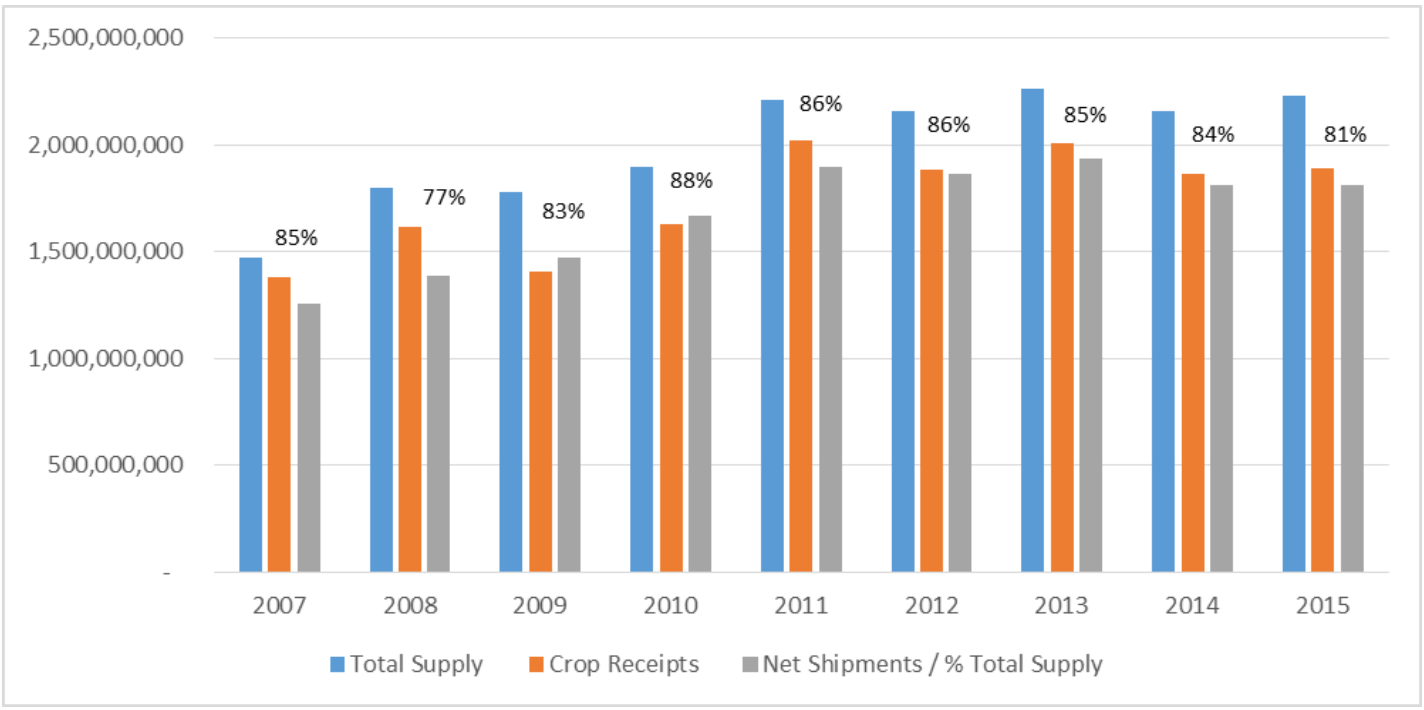
³ Great song (but crappy video) from my nostalgic head-banging '80s metal drummer days: [Flight of Icarus - Iron Maiden](#) in case you want a quick listen.

13. Good clients are hard to find and worth keeping.
12. Bad clients are a distraction and worth firing.
11. Performance history in difficult years is the ultimate litmus test of whether or not a commercial trading partner is 'good.' Any other measurement metric is bullshit.
10. Almond industry unity is a fiction that appears during rising markets and at times of scarcity when product is being allocated, not marketed. During periods of abundance or commercial difficulty, industry unity crumbles.
9. Prepayments don't mean anything when you're going to an NOC country. If you can't control your cargo at destination, you can't control diddly-squat (...not even the prepayment you're going to be sending back soon).
8. Credit risk insurance, if you had it and used it, was worth having. Credit risk insurance, if you had it and used it, you won't have it again.
7. If you haven't been in this business through at least a couple of serious price corrections, you haven't been in this business.
6. There is no shortcut to knowing your customer.
5. There is no shortcut to *really* knowing your customer.
4. If the deal is too hard to put together, the deal is not worth putting together.
3. There is, strikingly often, an inverse proportionality between a buyer's repeated and conspicuous display of materialism and his integrity.
2. The time to flee from Dubai after fleecing your clients and/or suppliers is Thursday. Not Wednesday or Friday...but Thursday. Note to self. DXB -> LHE for \$733....a bargain on Emirates. And since you're of course flying first class (coach is just \$153), there's no need to abandon the Ferrari at the Dubai airport parking garage. Just use the Emirates chauffeur-drive service and leave all traces of your criminality behind...in Lahore style!
1. Life is too short to sell almonds poolside in Antalya...swim with the twins instead.

CHARTS TO MAKE US FEEL SMART (clearly not prepared by the author)

“It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own self-interest. We address ourselves, not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantages.” Adam Smith (1723 - 1790)





What BUYERS around the world are saying heading into the 2015 crop year

“There are always survivors at a massacre....Among the victors, if nowhere else.” Lois McMaster Bujold

This was a hard year for us buyers. Whether in India, Dubai, Turkey, South Korea, Europe, China/HK or the United States, all those of us who touched almonds this season got hurt. The degree of the pain depended on the timing and quantity of purchases, the local market and the integrity of each individual buyer. The easy thing to do was to walk on obligations and many people did just that. Despite all the publicity that defaults get, the majority of us clients honored our commitments. In doing so, we lost a lot of capital. Many of us are simply incapable of losing again. This is now a top-of-mind concern. And we are pissed at all the people who were given discounts or payment terms because they asked for them or blackmailed their suppliers.....Whatever happened to the decency of protecting your good customers and exposing the defaulters? A few lists circulated around aren't going to do anything unless there is a clear understanding throughout the supplier community that empowering default behavior is bad for everyone, including suppliers, in the long run. If someone did not meet their obligations, they should be cut off from supply. Period.

Looking at the market, within four months, almond prices have rebounded from their seasonal lows (February 2016), in some cases by as much as \$0.50 per pound. So the 'deer in the headlights' look you're getting now is because we're shell-shocked and scared. We have no confidence in California's ability to hold the prices any longer. After all, this is the same group that allowed the market to free fall by 50% in 6 months. Moreover, while you are worried (or excited, in case you live in Central California) about the prospect of Donald Trump becoming president, there are actually serious problems all over the world that your news media is not covering in any meaningful manner but which make up a big part of our daily reality.

- Historic instability in the Middle East: ISIS remains a leading threat to human decency and global safety. Turkey just had a failed ‘coup’ attempt and tensions with the US, whom a majority of Turks view as responsible, are at an all-time high. Low oil prices have hurt many Middle Eastern economies, including that of the UAE. Dubai is a major re-export market for California almonds and provides the greatest source of ‘almond liquidity’ in the Middle East. Though Dubai is not an oil producer, it exports its services to the Gulf States. Dubai’s economy is in the worst shape it’s been in since 2008, with debts of around 140% of GDP and loan/bond repayments of \$22 billion through 2018. UAE trade with Iran has come to a standstill and the almonds going into India via Pakistan...which came from Dubai....are also down to a trickle. So are Dubai’s days as an important almond hub numbered? (We certainly hope not because we have a long-term office lease in place there!)
- North “*We’re-Still-Better-Than-South-Sudan*” Africa: Libya has become a failed state. The economic situation in Algeria and Tunisia resembles the balance sheet of a Trump Atlantic City casino. Egypt...well, they still have the pyramids...pending another ISIS attack. Muammar, Hosni, Saddam...do we actually miss you? Can it be? Has it gotten that bad?
- China/HK is facing overall economic malaise with a cooling real estate market and falling private investment. The only hope to meet the 2016 target GDP growth rate of 6.5% is by government spending on infrastructure....but this type of debt-fueled stimulus only makes superficial numbers look good....it doesn’t give consumers (who don’t have more money in the bank) the confidence to eat more almonds.
- In Europe, with the exception of Germany, there’s not much good news. French economic growth is stagnant, while Spain and Italy are headed in the wrong direction. There is no need to talk about Portugal or Greece....unless you’re looking to buy a vacation home in either country at bargain basement prices. Unemployment throughout Europe is high, there is a crushing immigrant crisis, and the fallout from Brexit is still being evaluated (though it clearly appears that the economic impact on the British economy will be much worse than anywhere else within Europe...a good reminder of what happens to a country when the majority of uneducated voters get their way....).

So with this kind of global outlook, and the price beating which we just took (and in some cases, are still taking), we don’t have the confidence to build up inventories. Who’s going to be eating the almonds?

What SELLERS are saying heading into the 2015 Crop Year

“The only way to discover the limits of the possible is to go beyond them into the impossible.” Arthur C. Clarke

You buyers are a bunch of drama queen pansies. Please! There is never going to be global peace and harmony. This is the real world, not an “I’d Like to Teach the World to Sing (In Perfect Harmony)” Coca-Cola ad from 1971.⁴

⁴ Bernie Sanders-loving, granola-eating, Birkenstock-wearing socialists would have loved this ad: [Buy The World a Coke](#)

People ate through the Dark Ages, they'll eat through this. In fact, people snack more during difficult times. They forego expensive vacations, not a pack of reasonably priced almonds or an almond croissant. So spare us the global warming, world is ending, hug-a-polar-bear drama. Screw the bear and the piece of ice he's floating ON. (We love polar bears...just making a point...please don't call PETA.)

Now...In hindsight, we will admit that \$5.15 for NPX 23/25 may have been a bit too high. But you know what, markets get to where they get because there are people willing to pay the prices every step of the way. It's easy to blame the 'greedy grower' or the 'opportunistic packer' or the 'speculating trader'....but the reality is that, to quote the (in)famous Alan Greenspan, there was 'irrational exuberance' on the buying side too.

A virtually uninterrupted decade of rising prices led to an undisciplined market. There was lots of blame to go around. Banks (most notably in Dubai) were lending money far too easily, without doing their due diligence and knowing their customers. Opportunistic and uncommitted new entrants into the industry saw the 'easy' money that was being made and thought that they could do it too. When the market fell, they walked (or ran) on their obligations.⁵ But even the old-hands at this game got caught up in the market hype and in supporting pricing that everyone admitted 'didn't feel right.' The problem was that buyers didn't fully appreciate how fast and how far prices could fall...and how much of a 'save yourself' mentality there was in California.

Well, last season is last season. Today prices are much more reasonable and well within the trading range of the past 10 years. Supply should be better than it has been in recent years, but we will need another four months before we can determine whether or not the NASS estimate of 2.05 billion will be met or exceeded. Without much of a doubt there are more acres in the ground than are being counted, but the same acres have been in the ground for a while. So all this means is that California is very likely over-representing the statewide pounds per acre number. It doesn't mean much of anything else.

Every market needs to buy and in a few weeks, you will see how strong demand is. At these prices, everyone can and will make money.

CONCLUSION

"If you don't get what you want, you suffer; if you get what you don't want, you suffer; even when you get exactly what you want, you still suffer because you can't hold on to it forever. Your mind is your predicament. It wants to be free of change. Free of pain, free of the obligations of life and death. But change is a law, and no amount of pretending will alter that reality." Dan Millman

In India, the Goods & Services Tax (GST) passed.⁶ This is a unified value added tax and the first step in bringing 1.3 billion consumers and a \$2 trillion economy into a single Indian market for the first time.

⁵ We know of one guy hanging out in Lahore (his name starts with Atif and ends with Ibrahim) we'd like to get into a court....but the doctor has advised that † we have to let that one go or he'll have to increase ~~my~~ our Xanax dosage. After all, [Everyone Has Redeeming Qualities](#) (crude language advisory, but worth it...and you can trust the link).

⁶ For one of the clearest explanations we have seen on the GST, click here [GST for Dummies](#)

Taxes currently account for about 25% of the final price of Indian-made products, so the passing of GST was hailed as very good news by India's manufacturing sector. The timing of GST implementation will depend on how the national parliament and India's 29 states pass additional legislation to determine the rate (expected to be between 13-18%) and scope of the tax. But consensus seems to be that, once implemented, New Delhi and the Khari Baoli market will cease to be the 'mecca' of almonds in India. The playing field will be leveled and more states will begin to import almonds directly. Nothing like new Indian clients going to new Indian ports where there are new Indian officials who are inexperienced in handling almond imports. All around fun in the sun!

Hong Kong has been a cheap re-seller throughout the past few months. A couple of HK trading companies took good positions during March, at the lowest levels of the season, and were selling below California prices by \$0.10 - \$0.15 per pound. Once those availabilities are gone (which we expect will happen very shortly), it will be interesting to see the degree of demand coming back to California from China/HK/Vietnam.

Europe has more buying to do and is playing the annual cat-and-mouse game. Not much time left, so we expect European industrial demand to come at the second half of this month when holidays are over. Europeans just want to ensure that there is some stability and that their BSU5 purchase prices are not going to be undercut the minute new crop starts to ship. As with all other global markets, no one in Europe is seriously complaining about prices being too high....California just isn't providing them with the required confidence, lowering prices from origin during the slowest time of the year when most buyers are on vacation.

The US market should see good demand, as prices at the retail level start to reflect lower replacement costs. We expect domestic demand to be very strong this season. We are most pessimistic about demand from the Middle East – not because there is less consumer demand (we don't believe that to be the case) – but because the historic channels through which the almonds have moved are all under either political or financial strain (or both). We don't expect the Middle East to be a shining star this year.⁷ Will the lethargic demand from this region eventually impact NPX prices?

It should be another interesting season, hopefully with less bloodshed for all.⁸

"Every person takes the limits of their own field of vision for the limits of the world."

Arthur Schopenhauer (1788 - 1860)

Best Regards,

DERCO FOODS

⁷ Yes, we also see the irony of using 'Middle East' and 'shining star' in the same sentence. It's like using the words 'Hillary Clinton' and 'thoughtful email server management' in the same sentence.

⁸ After ten years and nearly 120 almond reports, we have reached the end of the road. There is no more water in the well. We will publish the occasional 'special edition' from time to time (written for cathartic purposes), but this is the final 'regular' report. Thanks for the support you have all given during the past decade. Special thanks to Derco colleagues who have helped to censor the reports so that we don't lose too many trading partners along the way. It's been a real pleasure for us to prepare these reports for all of you. "It behooves every man to remember that the work of the critic is of altogether secondary importance and that in the end, progress is accomplished by the man who does things." Theodore Roosevelt (1858 - 1919)