

2670 West Shaw Lane, Fresno, California 93711 U.S.A.
Telephone (559) 435-2664 • Fax (559) 435-8520 • www.dercofoods.com • e-mail: derco@dercofoods.com

JANUARY 2005 ALMOND POSITION REPORT

January shipments were 77.612 million pounds - up from the January 2004 shipments of 77.048 million pounds.

FACTS & INTERPRETATIONS

Carry-in from last year: 148.9 million lbs

Crop Receipts: 998 million lbs*

Less 4% loss / exempt: (39.9 million lbs)

Total supply: 1.107 billion lbs

Less shipments to date: (593.369 million lbs)

Less reasonable carry-out: (120 million lbs)

Supply remaining: 393.631 million lbs

*This is our estimate of the final receipts figure; receipts through January (988.4 million lbs) historically reflect 99% of the final receipts total.

What do these figures mean?

Seller's Perspective: Our price increases are not applying the brakes to shipments. We need a substantial price jump to slow this thing down so that we have a semblance of liquidity during the summer months.

Buyer's Perspective: Export shipments are slowing down and they will slow down more dramatically in February. If not by February, then definitely by March!

Shipments Year to Date

Seller's Perspective: Domestic shipments are up 13%; exports are down only 1.29%; total shipments are up 2.69%.

Buyer's Perspective: We are just starting to see the slow down. There are still lots of low-priced contracts being shipped. Within the next few months we will all see the drastic slow down.

Supply Scenarios (ignoring committed inventory):

Seller's Perspective: We have 393.631 million lbs left to ship for this season. That is 65.6 million lbs per month. Total shipments for this period last year averaged 74.4 million lbs. We need to slow down shipments by about 12% per month.

Buyer's Perspective:

Carry-in from last year: 148.9 million lbs

Crop Receipts: 1.005 billion lbs*

Less 2% loss / exempt: (20 million lbs)**

Total supply: 1.134 billion lbs

Less shipments to date: (593.369 million lbs)

Less minimal carry-out: (70 million lbs)***

Supply remaining: 470.631 million lbs

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*based on 98.3% receipts through January; the lowest number in the past 6 years.

**loss/exempt adjusted down from 4% to 2%

***carry-out figure reduced from 140 million lbs

Under this scenario, we have 78 million lbs to ship per month through July, which is more than we shipped last year during this same period (though we have to admit that 70 million lbs of carry-out would arguably not be enough for a smooth transition to new crop - especially if the crop is even slightly delayed).

Export Shipments

Shipments to Canada are up 14%; South America is down 13%, but that is only 143,000 lbs - an insignificant figure. Eastern Europe is down 6% - that equates to only about 1 million lbs. The largest market in that region, Russia, is ahead of last year on shipments.

The Middle East has purchased about 14% less or approximately 3.2 million lbs. The largest loss is attributable to Saudi Arabia which is down about 2 million lbs. Yet the largest market in that region - Dubai - is up on last year by nearly 1 million lbs.

Western Europe is the most vociferous critic of California's pricing strategy, yet that market is down only 0.8% year to date. Most countries in that region are either relatively unchanged or higher. Spain is down 5 million lbs and France is down 3 million lbs. In contrast, Italy is up over 4 million lbs and The Netherlands are up 6 million lbs.

Asia has taken 5 million lbs less, with the largest drops in shipments to China and Japan. India is up considerably on inshell, despite the problems Indian importers have faced with their tax authorities (which happened after the peak import season was over).

Shipments to Australia are down about 1 million lbs (a significant 33% decline). Africa is down about 5%, with the largest drop coming from the biggest market in the region - Algeria. Egypt is up nearly 70%.

The US Dollar

Seller's Perspective: The USD was stronger in January overall - and recently dropped below 1.28 against the Euro. However this strengthening is short-term, and mostly in reaction to President Bush's new budget proposal. There is still an implicit weak-dollar policy in place and the long-term outlook for the USD is bearish.

Buyer's Perspective: Several global economies, especially those in Europe, are concerned about the strength of their currencies vis a vis the USD and how that will hurt their exports and consequently, their domestic economies. You know you're in trouble when DaimlerChrysler AG announces (as it did on Monday) that it is going to delay the US release of it's new Mercedes Benz B-class sport wagon because of the weakness of the USD (which would eat into its profits). If that's not a call to strengthen the Euro, we don't know what is!

Bloom and New Crop Outlook

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Seller's Perspective: We are genuinely hoping for a good bloom. We need to set a big crop so that we can moderate prices and continue to expand demand and make inroads into emerging markets. We realize that such high prices are not good for the industry in the long run and we hope that with favorable bloom conditions during the next month we can bring supply and demand into equilibrium at a lower average price point. At this time, long-range weather forecasts are calling for some rain towards the end of February and during the early days of March. With such a large growing area in the San Joaquin Valley, it is difficult to know what, if any, adverse effects this will have. At this early stage, only the earliest varieties (Neplus and Sonora) are just starting to bloom in the Northern and Southern regions. There is no appreciable bloom yet in the Central areas of the valley.

Buyer's Perspective: We understand that weather in Spain so far has been favorable and as of last week about 10% of the trees were in bloom. Hopefully Spain can set a good crop which will take some of the pressure of supply off California and help to ease new crop prices. We all agree that a good bloom in both California and Spain is crucial to keeping the momentum of increased global almond consumption moving forward.

Conclusion

Legitimate Buyer Concerns:

- Price increases have not yet filtered down to end users;
- When things slow down, they are going to slow down dramatically;
- California is going to lose markets that it worked hard to obtain;
- End-users are going to curtail their usage of almonds;
- End-users may even drop almonds altogether;
- If the price gap between current crop and new crop stays the same or even widens, whoever can delay purchases until the new crop (from either California or Spain) will certainly try to do so.

Legitimate Seller Concerns:

- We don't want to stunt demand - we have worked hard to market almonds as a healthy product and we want our momentum to continue;
- We don't know how to slow demand without raising prices;
- We are concerned that prices are too high and that we are over-correcting; but we have been thinking this for several months still shipments just keep moving along. To date, our price increases have had no effect on overall shipments; any perceived effect is purely anticipatory;
- Look at the price of other nuts....are there many better alternatives to almonds?

There is one theme that we hear being repeated regularly by people in California as well as by overseas buyers: "Economic principles no longer apply - this market is just acting irrationally." That is an emotional statement that is simply not true. Economic principles always apply (except when you are talking about hazelnut prices in Turkey). Absent external intervention in a market, when there are more buyers than sellers, prices go up. If there are more sellers than buyers, prices come down. That is rational economic behavior.

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So far during this 2004-2005 season, we have not seen substantial evidence of shipments slowing down. There is lots of talk and plenty of people are complaining, but no solid evidence of a slow down. Exports are down slightly, but domestic shipments have more than compensated for this shortfall. Bottom line: year to date shipments are up despite the fact that we have a very big crop and historically high prices. The remedy for disgruntled buyers is simple: to reverse the trend of price increases, stop buying almonds or curtail your usage, if your customers will let you. That will send the message loud and clear that prices have peaked. Otherwise, accept the fact that the demand curve has shifted, that more people want to have almonds as part of their diet, and that looking at historical prices and saying "this market is too high" is of little tangible value - at least for now. If hazelnut (and other nut) prices come down from the stratosphere, if the Dollar gets stronger, if the bloom is perfect here and in Spain....then we would need to revisit the situation. But that's a lot of "ifs."

In any case, buyers just remember that in a couple of years, when new plantings are converted to bearing acreage, California will need to move 1.5 billion lbs or more per year. You can then remind the sellers that there is no such thing as prices being "too low" or of the market "acting irrationally." Remind California that when those days come, growers should just stop selling almonds if they're not happy with their return...but they may not hear you as they will be busy pulling out almond trees and planting.....grapes again?

Best regards,
DERCO FOODS

Ago Dermenjian
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