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### **January 2006 Almond Position Report**

January 2006 shipments were 63.331 million pounds. This is down about 18% from the January 2005 shipments of 77.612 million pounds.

Carry-in from last year: 137.7 million pounds

Crop receipts to date: 898.8 million pounds

**Less 4% loss / exempt: (35.952 million pounds)**

Total Supply: 1 billion pounds

**Less shipments to date: (480 million pounds)**

Supply Remaining: 520 million pounds

### **Shipments and Commitments**

**Seller's Perspective:** We are down by 18% in January but we expect February to be strong. Prices have dropped substantially since September but have recently gained a degree of stability. Buyers have started coming in larger numbers booking more significant tonnage. We will see a rebound in the February shipments and we believe that we will ship around 850 - 875 million pounds for the season. That will leave us with a carry-out of around 125 - 150 million pounds.

**Buyer's Perspective:** Who wants to be holding that inventory in the summer? This is the 12th month in a row that shipments are down and it's the worst January since 2001. Not a fad any longer, but a trend. Exports are down 22%. Domestic committed inventory is down 30%. Export committed inventory is down 11%. Uncommitted inventory is up 23%....and how exactly are you accounting for the containers sold and now sitting in Europe without a home? It's probably safe to say that uncommitted inventory number is actually higher than presented. Every significant export region is down. Your psychological state is a mess. You are now realizing that you sell almonds, a fungible commodity. You do not sell uranium. Welcome to the party, about 9 months too late!

### **Receipts**

**Seller's Perspective:** Higher than we expected.

**Buyer's Perspective:** Higher than we had hoped, considering our purchase prices and the market now. CASS's estimate of 880 million pounds was a legitimate one. Let's remember that next May and June.

### **Domestic Market**

**Seller's Perspective:** Domestic market is off by around 14% overall. Manufactured is holding steady; but shelled brown skins are down.

**Buyer's Perspective:** You are right. Things have been better for you. Well, at least you have your memories. No one can take that away from you. Hope that Hummer is on a lease.

### **Bloom**

**Seller's Perspective:** Sonora, Neplus and Peerless are in early stages of bloom (less than 10% at this time). Weather has been favorable throughout the state and the next two weeks are expected to



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provide good pollination weather. There is always a risk of frost or rain, but for the time being, the weather is cooperating.

**Buyer's Perspective:** Bad bloom = 800 million pounds; marginal bloom = 950 million pounds; average bloom = 1 billion pounds; good bloom = 1.1 billion pounds; great bloom = 1.2 billion pounds or more. Bad bloom is extremely unlikely with the weather forecasts we have all seen. Weather is expected to be around 70F/21C for the highs throughout the San Joaquin Valley with nothing near or below freezing for the next few weeks.

Earlier this season, the largest suppliers and those with supposedly the best field intelligence were putting the crop at no more than 830 million pounds. So to say that we are going to be skeptical about information coming out of California this time around is an understatement. Unless there are torrential, pervasive rains - or a serious, widespread frost - we are going to work under the assumption that the crop is 1 billion pounds or better. The burden of proof is going to be on California that this assumption is erroneous. It's going to be a big burden to overcome.

In the meantime, we expect growers to become increasingly nervous, because the memory of this market which collapsed is fresh. They are going to want to have a higher percentage of their crop sold before the season begins. With each sunny day that goes by, there will be more offers from California.

#### Prices

**Seller's Perspective:** The market has been stable for about 3 weeks. A record since September. It's a nervous stability, but we'll take it. Prices today are where they were back in August of 2004, when the estimate for the crop was 1.1 billion pounds and we were looking at a 162 million pound carry-in. During the 2004-2005 season (August 2004 - July 2005), California managed to move 985 million pounds. This was done at the highest historical prices. With much lower prices expected from now until the foreseeable future, demand should be much more robust.

**Buyer's Perspective:** If by "stable" you mean "not much business", then you're right on target. The containers left in Europe are being cannibalized first. Then the afloat loads are being taken. New origin shipments are not a top priority. There seems to be enough product in the pipelines to keep us going for the near future and we are buying only what we need for immediate shipment....and thanks to the Spanish who are offering manufactured product at around \$2.70 / lb, we don't have to worry about paying \$3.20 / lb and buying from California. New crop is trading \$0.30 - \$0.50 / lb below current crop. We expect the current crop to drop and meet new crop in the next few months.

One of the few bright spots for you recently has been the Middle East - where activity has picked up because inventories are low. The fact that Ramadan is coming in September this year will also help give the latter shipping months a boost. This will not give you anywhere near the tonnage you need to increase, but you can hang your hat on that for now anyway.

#### Currency

The January average was \$1.21 = 1 Euro. February is closer to \$1.19 = 1 Euro. Currency has been stable and somewhat overlooked in light of the dramatic fall in prices. As prices stabilize, it will

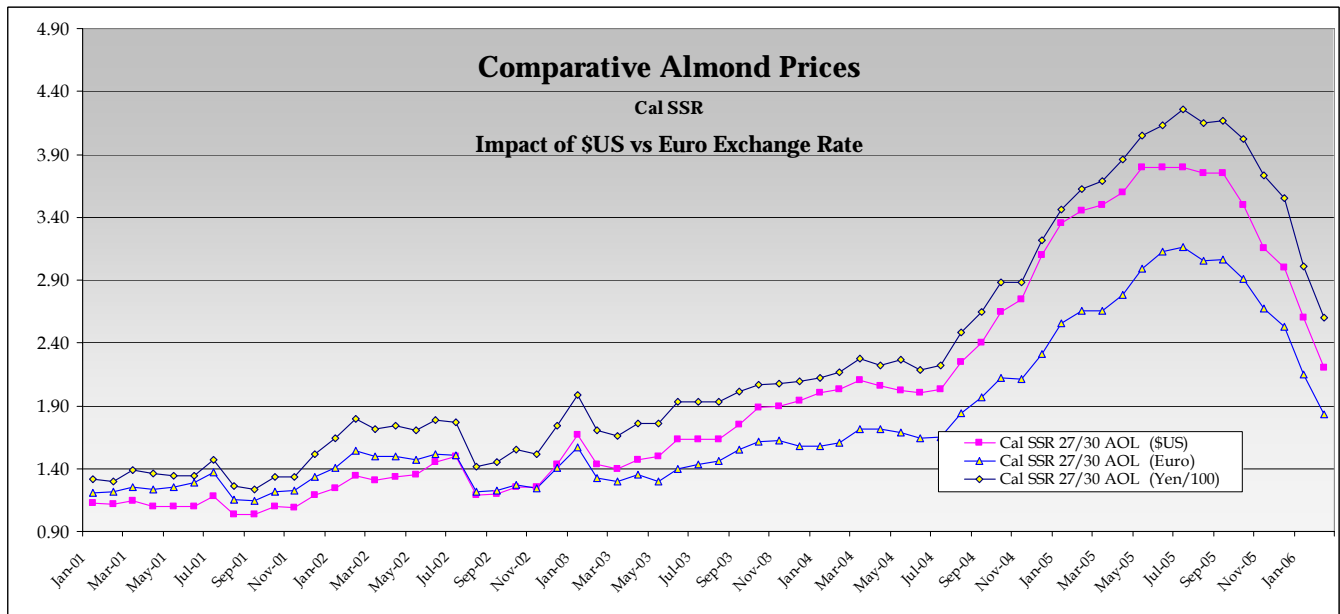
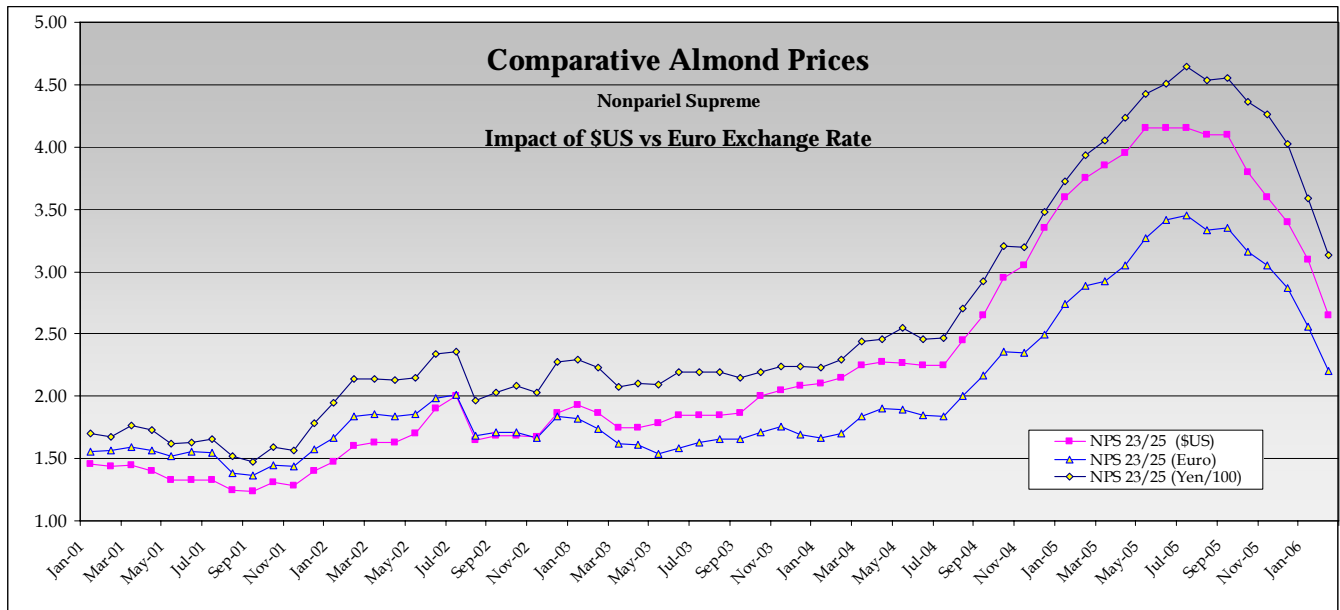


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once again become a more important piece of the market discussion.

Here are the latest price and currency updates:



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The graph displays three data series over time. The yellow diamond series starts at approximately 1.0 and fluctuates between 1.0 and 1.5. The pink square series starts at approximately 0.5 and fluctuates between 0.5 and 1.0. The blue triangle series starts at approximately 0.2 and fluctuates between 0.2 and 0.5. All three series show a sharp increase starting around the 10th data point, with the yellow diamond series reaching approximately 1.5, the pink square series reaching approximately 1.0, and the blue triangle series reaching approximately 0.5. The graph is partially obscured by a large yellow redaction shape.

| Time | Yellow Diamond Series | Pink Square Series | Blue Triangle Series |
|------|-----------------------|--------------------|----------------------|
| 1    | 1.0                   | 0.5                | 0.2                  |
| 2    | 1.0                   | 0.5                | 0.2                  |
| 3    | 1.0                   | 0.5                | 0.2                  |
| 4    | 1.0                   | 0.5                | 0.2                  |
| 5    | 1.0                   | 0.5                | 0.2                  |
| 6    | 1.0                   | 0.5                | 0.2                  |
| 7    | 1.0                   | 0.5                | 0.2                  |
| 8    | 1.0                   | 0.5                | 0.2                  |
| 9    | 1.0                   | 0.5                | 0.2                  |
| 10   | 1.0                   | 0.5                | 0.2                  |
| 11   | 1.0                   | 0.5                | 0.2                  |
| 12   | 1.0                   | 0.5                | 0.2                  |
| 13   | 1.0                   | 0.5                | 0.2                  |
| 14   | 1.0                   | 0.5                | 0.2                  |
| 15   | 1.0                   | 0.5                | 0.2                  |
| 16   | 1.0                   | 0.5                | 0.2                  |
| 17   | 1.0                   | 0.5                | 0.2                  |
| 18   | 1.0                   | 0.5                | 0.2                  |
| 19   | 1.0                   | 0.5                | 0.2                  |
| 20   | 1.0                   | 0.5                | 0.2                  |
| 21   | 1.0                   | 0.5                | 0.2                  |
| 22   | 1.0                   | 0.5                | 0.2                  |
| 23   | 1.0                   | 0.5                | 0.2                  |
| 24   | 1.0                   | 0.5                | 0.2                  |
| 25   | 1.0                   | 0.5                | 0.2                  |
| 26   | 1.0                   | 0.5                | 0.2                  |
| 27   | 1.0                   | 0.5                | 0.2                  |
| 28   | 1.0                   | 0.5                | 0.2                  |
| 29   | 1.0                   | 0.5                | 0.2                  |
| 30   | 1.0                   | 0.5                | 0.2                  |
| 31   | 1.0                   | 0.5                | 0.2                  |
| 32   | 1.0                   | 0.5                | 0.2                  |
| 33   | 1.0                   | 0.5                | 0.2                  |
| 34   | 1.0                   | 0.5                | 0.2                  |
| 35   | 1.0                   | 0.5                | 0.2                  |
| 36   | 1.0                   | 0.5                | 0.2                  |
| 37   | 1.0                   | 0.5                | 0.2                  |
| 38   | 1.0                   | 0.5                | 0.2                  |
| 39   | 1.0                   | 0.5                | 0.2                  |
| 40   | 1.0                   | 0.5                | 0.2                  |
| 41   | 1.0                   | 0.5                | 0.2                  |
| 42   | 1.0                   | 0.5                | 0.2                  |
| 43   | 1.0                   | 0.5                | 0.2                  |
| 44   | 1.0                   | 0.5                | 0.2                  |
| 45   | 1.0                   | 0.5                | 0.2                  |
| 46   | 1.0                   | 0.5                | 0.2                  |
| 47   | 1.0                   | 0.5                | 0.2                  |
| 48   | 1.0                   | 0.5                | 0.2                  |
| 49   | 1.0                   | 0.5                | 0.2                  |
| 50   | 1.0                   | 0.5                | 0.2                  |
| 51   | 1.0                   | 0.5                | 0.2                  |
| 52   | 1.0                   | 0.5                | 0.2                  |
| 53   | 1.0                   | 0.5                | 0.2                  |
| 54   | 1.0                   | 0.5                | 0.2                  |
| 55   | 1.0                   | 0.5                | 0.2                  |
| 56   | 1.0                   | 0.5                | 0.2                  |
| 57   | 1.0                   | 0.5                | 0.2                  |
| 58   | 1.0                   | 0.5                | 0.2                  |
| 59   | 1.0                   | 0.5                | 0.2                  |
| 60   | 1.0                   | 0.5                | 0.2                  |
| 61   | 1.0                   | 0.5                | 0.2                  |
| 62   | 1.0                   | 0.5                | 0.2                  |
| 63   | 1.0                   | 0.5                | 0.2                  |
| 64   | 1.0                   | 0.5                | 0.2                  |
| 65   | 1.0                   | 0.5                | 0.2                  |
| 66   | 1.0                   | 0.5                | 0.2                  |
| 67   | 1.0                   | 0.5                | 0.2                  |
| 68   | 1.0                   | 0.5                | 0.2                  |
| 69   | 1.0                   | 0.5                | 0.2                  |
| 70   | 1.0                   | 0.5                | 0.2                  |
| 71   | 1.0                   | 0.5                | 0.2                  |
| 72   | 1.0                   | 0.5                | 0.2                  |
| 73   | 1.0                   | 0.5                | 0.2                  |
| 74   | 1.0                   | 0.5                | 0.2                  |
| 75   | 1.0                   | 0.5                | 0.2                  |
| 76   | 1.0                   | 0.5                | 0.2                  |
| 77   | 1.0                   | 0.5                | 0.2                  |
| 78   | 1.0                   | 0.5                | 0.2                  |
| 79   | 1.0                   | 0.5                | 0.2                  |
| 80   | 1.0                   | 0.5                | 0.2                  |
| 81   | 1.0                   | 0.5                | 0.2                  |
| 82   | 1.0                   | 0.5                | 0.2                  |
| 83   | 1.0                   | 0.5                | 0.2                  |
| 84   | 1.0                   | 0.5                | 0.2                  |
| 85   | 1.0                   | 0.5                | 0.2                  |
| 86   | 1.0                   | 0.5                | 0.2                  |
| 87   | 1.0                   | 0.5                | 0.2                  |
| 88   | 1.0                   | 0.5                | 0.2                  |
| 89   | 1.0                   | 0.5                | 0.2                  |
| 90   | 1.0                   | 0.5                | 0.2                  |
| 91   | 1.0                   | 0.5                | 0.2                  |
| 92   | 1.0                   | 0.5                | 0.2                  |
| 93   | 1.0                   | 0.5                | 0.2                  |
| 94   | 1.0                   | 0.5                | 0.2                  |
| 95   | 1.0                   | 0.5                | 0.2                  |
| 96   | 1.0                   | 0.5                | 0.2                  |
| 97   | 1.0                   | 0.5                | 0.2                  |
| 98   | 1.0                   | 0.5                | 0.2                  |
| 99   | 1.0                   | 0.5                | 0.2                  |
| 100  | 1.0                   | 0.5                | 0.2                  |

Page 4

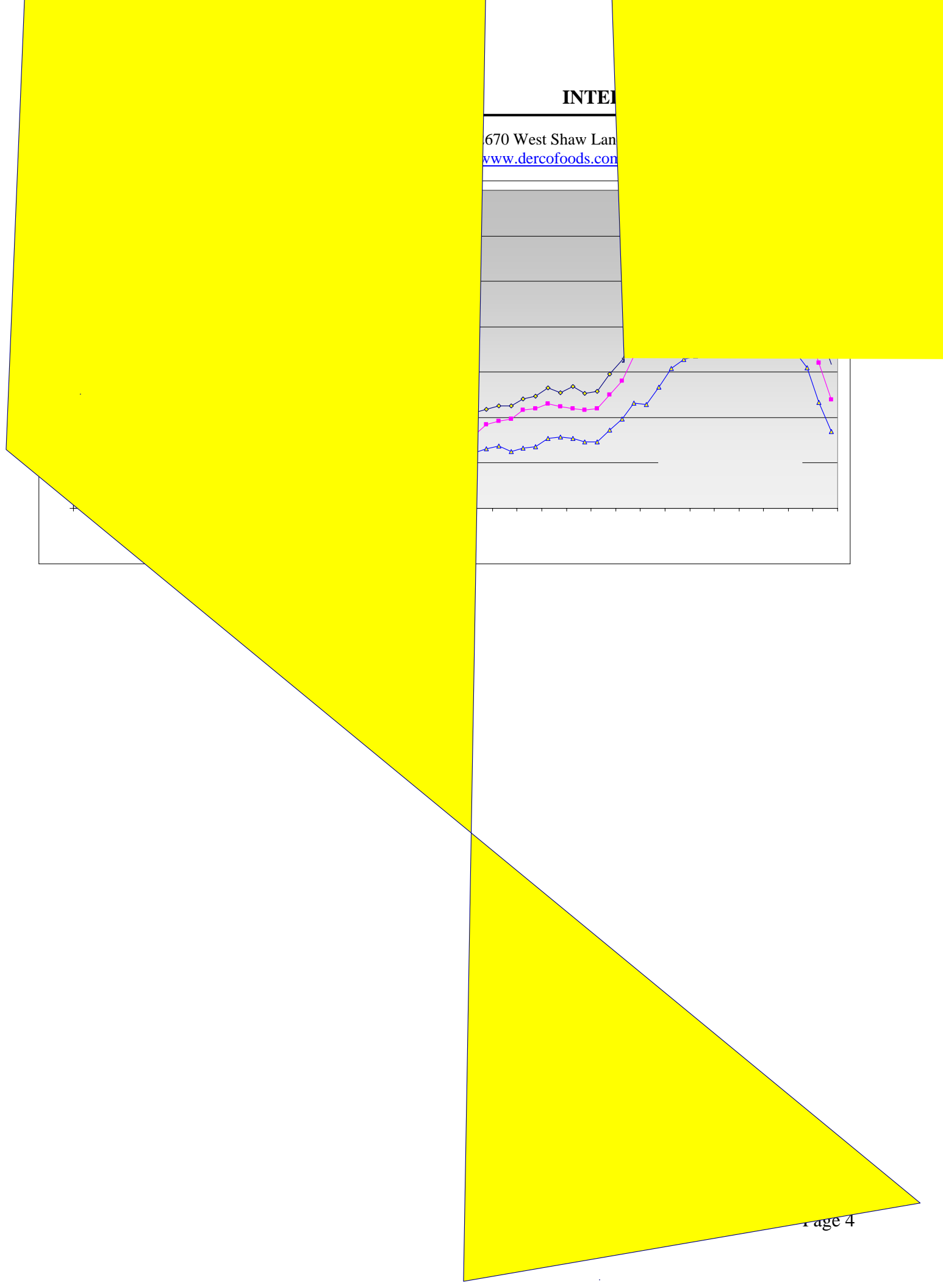
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The graph displays three data series over an unlabeled horizontal axis. The series are represented by yellow diamonds, pink squares, and blue triangles. The yellow diamonds and pink squares show a relatively steady, slightly fluctuating upward trend. The blue triangles show a similar initial trend but then exhibit a sharp, steep increase towards the right side of the graph, reaching the highest value among the three series at the end of the plotted range.

| Series          | Approximate Values (from left to right)   |
|-----------------|---|
| Yellow Diamonds | 0.5, 0.6, 0.7, 0.8, 0.9, 1.0, 1.1, 1.2, 1.3, 1.4, 1.5, 1.6, 1.7, 1.8, 1.9, 2.0, 2.1, 2.2, 2.3, 2.4, 2.5, 2.6, 2.7, 2.8, 2.9, 3.0, 3.1, 3.2, 3.3, 3.4, 3.5, 3.6, 3.7, 3.8, 3.9, 4.0, 4.1, 4.2, 4.3, 4.4, 4.5, 4.6, 4.7, 4.8, 4.9, 5.0, 5.1, 5.2, 5.3, 5.4, 5.5, 5.6, 5.7, 5.8, 5.9, 6.0, 6.1, 6.2, 6.3, 6.4, 6.5, 6.6, 6.7, 6.8, 6.9, 7.0, 7.1, 7.2, 7.3, 7.4, 7.5, 7.6, 7.7, 7.8, 7.9, 8.0, 8.1, 8.2, 8.3, 8.4, 8.5, 8.6, 8.7, 8.8, 8.9, 9.0, 9.1, 9.2, 9.3, 9.4, 9.5, 9.6, 9.7, 9.8, 9.9, 10.0 |
| Pink Squares    | 0.5, 0.6, 0.7, 0.8, 0.9, 1.0, 1.1, 1.2, 1.3, 1.4, 1.5, 1.6, 1.7, 1.8, 1.9, 2.0, 2.1, 2.2, 2.3, 2.4, 2.5, 2.6, 2.7, 2.8, 2.9, 3.0, 3.1, 3.2, 3.3, 3.4, 3.5, 3.6, 3.7, 3.8, 3.9, 4.0, 4.1, 4.2, 4.3, 4.4, 4.5, 4.6, 4.7, 4.8, 4.9, 5.0, 5.1, 5.2, 5.3, 5.4, 5.5, 5.6, 5.7, 5.8, 5.9, 6.0, 6.1, 6.2, 6.3, 6.4, 6.5, 6.6, 6.7, 6.8, 6.9, 7.0, 7.1, 7.2, 7.3, 7.4, 7.5, 7.6, 7.7, 7.8, 7.9, 8.0, 8.1, 8.2, 8.3, 8.4, 8.5, 8.6, 8.7, 8.8, 8.9, 9.0, 9.1, 9.2, 9.3, 9.4, 9.5, 9.6, 9.7, 9.8, 9.9, 10.0 |
| Blue Triangles  | 0.5, 0.6, 0.7, 0.8, 0.9, 1.0, 1.1, 1.2, 1.3, 1.4, 1.5, 1.6, 1.7, 1.8, 1.9, 2.0, 2.1, 2.2, 2.3, 2.4, 2.5, 2.6, 2.7, 2.8, 2.9, 3.0, 3.1, 3.2, 3.3, 3.4, 3.5, 3.6, 3.7, 3.8, 3.9, 4.0, 4.1, 4.2, 4.3, 4.4, 4.5, 4.6, 4.7, 4.8, 4.9, 5.0, 5.1, 5.2, 5.3, 5.4, 5.5, 5.6, 5.7, 5.8, 5.9, 6.0, 6.1, 6.2, 6.3, 6.4, 6.5, 6.6, 6.7, 6.8, 6.9, 7.0, 7.1, 7.2, 7.3, 7.4, 7.5, 7.6, 7.7, 7.8, 7.9, 8.0, 8.1, 8.2, 8.3, 8.4, 8.5, 8.6, 8.7, 8.8, 8.9, 9.0, 9.1, 9.2, 9.3, 9.4, 9.5, 9.6, 9.7, 9.8, 9.9, 10.0 |

Page 4





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solidarity at origin (aka the CAEA) and were certain that there would be no discipline in a falling market - especially as more and more growers were shifting their focus from farming practices to international marketing. Everyone with a laptop became an exporter. But now, people "cannot believe" how this market has fallen. It has been "a travesty, a tragedy." "We are losing \$40,000 - \$60,000 a container" etc.

Where did everyone think the discipline was going to come from? The second hand traders who were salivating at the prospect of selling short? When customers are saying that they are going to take almonds off supermarket shelves, remove them from ingredient lists, use splits instead of wholes, dramatically reduce the amounts used in mixes, shift to peanuts or cashews; and when growers on the other end of the spectrum are turning down \$3.90 / lb in the field while packers are simultaneously saying that they cannot believe these crazy high prices - isn't the proverbial writing on the wall? How could anyone expect an orderly decline? This isn't an economics book, this is almonds! People were making obscene profits per container last year. Who honestly believed that this was a sustainable pricing model?

No one can fault the cautious buyer who covered a percentage of his requirements at higher prices. Anything can happen in a commodity market and with the hype that was being generated in California, a reasonable person could have believed that Nonpareil was on it's way to \$5.00 / lb. It's those who bought recklessly that are the ones now causing the problems.

If you sold to unreliable, developing markets; if you sold to a guy whose assets comprise of a computer, fax and dog; if you were in a document chain of 10 people and received your BL 3 weeks after the vessel arrived; if you extended too much credit to an unproven customer; if you sold to someone who feels entitled to make money on every deal and wants to "renegotiate" every deal; if you sold to a factory that does not know how to manage inventory.....Don't worry - you're in great company! Most everyone fell into one or more of these categories this year. It's easy to get jaded after a market that goes up for several consecutive years. It's now time to appreciate strong partners - the ones that are stepping up and pulling contracts as scheduled, without saying a word. There are many of these companies, but you don't hear much about them. No one talks about all the good people and the good things that happened on the evening news - instead they focus on the one murder. This is what we are all doing in this market. Dozens of companies are honoring their obligations. We only hear of the irresponsible few.

And the good news is.....Humility is back in vogue! Want to hear a grateful voice? Call your supplier and tell him that you just paid a \$185,000 invoice. Best friends again. It's heart-warming, really.

In these difficult times, remember what Alan Simpson said: "If you have integrity, nothing else matters. If you don't have integrity, nothing else matters."

Best regards,  
DERCO FOODS