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January 2009 Almond Position Report

(Special defaulter section included inside at no additional charge!)

January 2009 shipments were 92.6 million pounds. This is down about 4.7% from the January 2008 shipments of 97 million pounds.

Analysis

Carry-in from the 2007 crop year:	231 million pounds
2008 Crop Receipts:	1.57 billion pounds
Less 3% loss / exempt:	(47 million pounds)
Total available supply:	1.754 billion pounds
Less shipments to date:	696 million pounds
Remaining supply:	1.058 billion pounds

Receipts

Seller's Perspective: "Just when I thought I was out, they pull me back in!"¹.....ooops...didn't mean to actually write that...Uhhmm....1.57 billion pounds. A big number, made up mostly of small nuts.

Buyer's Perspective: Small nuts are not what you need right now.²

Shipments

Seller's Perspective: Under the current global conditions, show us an industry that is essentially on par with its performance last year (695.9 million pounds shipped this season through January 2009 v. 697.8 shipped last season through the same time) and we will show you one heck of a healthy and vibrant industry.

Buyer's Perspective: We agree that the almond industry has done a very good job under difficult conditions. Unfortunately, there are no awards given for effort in the real world. You have 1.058 billion pounds left to sell through July 31, 2009. You had 752 million pounds to sell through the same period last season. Assuming you can maintain shipments for the balance of the season that are on last year's pace - in a global economic environment that is exponentially worse than last year at this time - that will leave you with a carry out of 495 million pounds. This seems like a lot of small nuts laying around.³

Export

Seller's Perspective: Exports are down 1.3% at a time when the most revered and profitable multinational companies are losing money for the first time in their collective histories. A negative spin can be put on this, but under the given circumstances, this seems like a solid performance.

Buyer's Perspective: Gold star for the solid performance.

Domestic

Seller's Perspective: Domestic shipments are down 12.4%. They will pick up in February.

Buyer's Perspective: ?

¹ Al Pacino (Michael Corleone) in The Godfather Part III.

² Pun intended.

³ Ibid...or just: pun intended again.

Water

This is a tough issue. The water shortage in California is real. The fact that we are in a drought is real. Reservoirs are low, snow pack is light, the water content in the snow is disappointing. The rain that has come is often not falling in the places that are best designed to capture the rainfall or to help agriculture. This water issue has been publicized sufficiently in international, national and local print, radio and television media. Where the media has left any information gaps, California growers and processors have filled them in ably by broadcasting information about the shortage within the domestic and international industry.

The disconnect between buyers and sellers is not about the fact that rainfall totals are down or that California is in a drought. That is objective information that is being measured by organizations that have no interest in almond prices. The disconnect is occurring on what this shortage means to almond trees, their short term production and their long term viability. Growers are convinced that the lack of water is going to mean lower production in 2009, and perhaps more meaningfully, in a diminished capacity of almond orchards moving forward in years ahead. Many buyers simply don't believe this. They feel that California has been playing the water card for several years now and has still proceeded to set consecutive record crops. They think that water is being used as a "fear factor" to stop the falling prices, detract attention from the large crops, the average shipment totals, and the prospect of a large carry-out.

Pricing

Prices are up about \$0.10 - \$0.20 per pound on Nonpareil Extra #1 all sizes since the last report. They are up \$0.05 - \$0.15 per pound on Carmel. The smaller California/Butte/Padres remain under pressure (as they are likely to make up the bulk of the carry-out), though BSU5% offers are now around \$1.15 - \$1.18 per pound FAS, up from the bottom of \$1.10 per pound we saw in December and early January. Going forward, the greatest increase in prices will likely come in sizes 30/32 AOL. The inshell market is very firm, with most of the cheap sellers sold out and few offers in the market for any inshell variety.

Prices have not been going up because buyers are worried about a water shortage. Rather, prices have been going up because California has greatly reduced the number of offers, which is a direct result of the fact that growers are sincere in their beliefs that the water shortage is real and is going to have a tangible impact on the size of the 2009 crop. If growers are bluffing, or wrong, the impact will likely be felt mid-summer. Before that time, even if the nut set is good, the water card (if that is all that it is) can continue to be used effectively.

Example of a what a grower or processor may say following good bloom weather: "Yes, the nut set looks good, but that's because bloom weather was sunny and dry. This means not enough water. Now that the weather is starting to get hot, we need to irrigate these orchards and we simply don't have the water to do it. What you see on the trees today could well be on the ground in a few weeks as the trees are not able to sustain so many nuts." But by mid summer / near harvest, if the nuts are still on the trees, then what? Holding back inventory when that inventory is not going to be needed for a smooth transition means too much inventory. Where are these nuts going to be stored? Who is going to store them and what kind of discipline will be left by that time? The only bullish talk out of California under such a scenario would be talk of shrivel, bad quality, etc. But all this will be shrouded under an umbrella of lost confidence from the buyers' perspective. On the other hand, if the nuts don't set or if they do fall, then the predictions will bear fruit.⁴

Bottom line: if the call on the water shortage, which is the primary driver behind rising prices, is wrong – lookout come August/September. If the call on the water is right, prices will continue to go up, especially on

⁴ No pun intended this time.

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30/32 AOL sizes. We absolutely believe in the water shortage. We simply are not qualified to comment on the impact of this shortage.⁵

Conclusion

The global economic situation is only going to get worse. Housing prices are predicted to fall through 2009 and into 2010. Unemployment in the US is now at 7.6% and could hit 10% by next year. It is difficult to reconcile these kinds of numbers with an expectation for record setting almond shipments.

Looking at pricing trends, the focus now has to rest squarely on the shoulders of the bloom. This year's shipment results seem reasonably predictable at this point. With 1.57 billion pounds, even an increase of 10% in shipments over last year for the balance of the season will still result in a very large carry-out of over 410 million pounds. A net 10% increase will be virtually impossible to attain as half of the season is under our belts and we are on essentially the same shipment pace as last season.

Australia has become an origin with which to contend. Though their production is limited, the fact that it is a southern hemisphere producer which harvests its almond crop during California's off season is creating competition for California almonds, especially in markets like India and Dubai.

But water is the real issue. It is noteworthy that even if the water shortage materializes and the 2009 crop turns out to be 800 million pounds (50% less than the 2008 crop), there will still be around 1.3 billion pounds available to sell next year once the carry-out is factored in. We think that this reality will act as a cap on any significant jump in prices for the smaller California varieties and BSU5%. Firming is possible and with some supply-side discipline, even likely. However, expecting BSU5% to reach levels we saw at the beginning of the season (\$1.70 per pound) seem overly optimistic under the existing scenario.

With the above noted, and despite the plethora of economic bad news from all corners of the world, we still think that Nonpareil and large size Carmel/Monterey/California prices will remain firm and continue to carry a premium this year. Ultimately, the market price determinations are still in the hands of California. The demand is present. The moment that buyers feel that something is getting difficult to purchase, they are jumping in and are ready to pay higher prices to secure their needs. The issue at hand is whether or not California growers and processors will be able to maintain some discipline and not flood the market with offers, which will surely scare buyers away.

Bonus Section Below.

⁵ For those of you once again thinking of the beautiful plants in our office, and wondering how, while growing such robust horticultural masterpieces, we are not able to comment on water issues – we must admit at this point that our plants thrive because they are under the care of Inner-Green Floral plant service. There, we said it.

SPECIAL SECTION: DEFAULTER PROFILE

“Don't place too much confidence in the man who boasts of being as honest as the day is long. Wait until you meet him at night.” Robert C. Edwards.

Introducing.....

Mr. Nicola Della Bella
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The above company defaulted on 5 containers of inshell walnuts they had with Derco Foods. The reason given for leaving the containers at the port was that the price on the goods was too high and that Della Bella did not want to incur losses.⁶

“I have known a vast quantity of nonsense talked about bad men not looking you in the face. Don't trust that conventional idea. Dishonesty will stare honesty out of countenance any day in the week, if there is anything to be got by it.” Charles Dickens.

We deliver on our contracts no matter what the price. We expect full reciprocity. Once the integrity in this business is gone, all that is left are the nuts.

Best regards,
DERCO FOODS

⁶ No special points are given to Della Bella for originality or creativity in the reason for the default. It was just the age-old story of not wanting to lose money. It did not compare with what one of our good friends faced with another Italian client, where the inshell *bleached* jumbo Hartley walnuts were said to “smell of bleach.” Imagine that. But of course, in order to smell the walnut shells, you would have to pick up the documents and clear the containers. We did not get that far in this case. Perhaps our bleached walnuts smelled of bleach too. Della Bella will never know. They never picked up the documents. Bad decision.