

## **February 2007 Almond Position Report**

February 2007 shipments were 73 million pounds. This is up about 17% from the February 2006 shipments of 62 million pounds.

Carry-in from the 2005 crop year: 112 million pounds

Receipts through January 31, 2007: 1.1 billion pounds

Less 3% loss / exempt: (33 million pounds)

Total Supply: 1.18 billion pounds

Less shipments to date: (683 million pounds)

Less estimated carry out: (120 million pounds)

Available Supply: 377 million pounds

### **Shipments**

Seller's Perspective: Menk shad oorakhenk vor took noosh oodel guh sirek.... Sorry, we got so excited over the strong shipments that we started speaking in Armenian.... What we meant to say is that we are very happy about the February shipment number. This was the second highest shipment total for February, surpassed only by February 2004 (75.6 million pounds). During that 2003 crop season (August 1, 2003 – July 31, 2004), we shipped 1.024 billion pounds (highest seasonal shipping total on record). The monthly average in the 2003 season through the month of February was 94.6 million pounds. Total shipments from August 1, 2003 to February 28, 2004 were 662 million pounds. This season, the monthly average through February is 97.6 million pounds and the shipments to date are 683 million pounds. Yes, those are both records.

Buyer's Perspective: This is great; it's giving you good practice at attempting to sell the upcoming 1.3 billion pound crop.

### **Receipts**

Seller's Perspective: 1.1 billion pounds received. Most of us have been using this number for several months now....so no surprise to anyone.

Buyer's Perspective: "Most" of you may be using this number, but many of you were using a number below 1 billion for quite some time and then you were all very comfortable with 1.05 billion. But what's 50 million pounds between friends?

### **Commitments**

Seller's Perspective: The story gets better: 232 million pounds of committed shipments through July 31; compared to 180 million pounds last season. 264 million pounds of uncommitted inventory remaining, compared to 286 million pounds last year. Since the 2002 season, we have shipped an average of 70 million pounds per month between March and July. If we ship at that average for the remainder of this season, we will end up with a carry-out of 135 million pounds. If we stay on the current pace, 26% ahead of last year, we will end up shipping around 1.15 billion pounds and leave a carry out of around 30 million pounds. This is not likely to happen, as prices would have to rise in order to allocate inventory. But you get the picture....it's good to be us...just ask our bankers!

Buyer's Perspective: Shipped where and committed to whom? Do German warehouses count? Sure they do; and why not?

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

**Domestic**

Seller's Perspective: Sixth (s-i-x-t-h...6th...VI<sup>th</sup>...) consecutive record shipping month...about 2.5 million pounds more than the previous record set in February 2005. Sixth.

Buyer's Perspective: Congratulations. All those advertisements in PEOPLE magazine are paying off.

**Export**

Seller's Perspective: Canada and Mexico up 25%; South America up 85%; Western Europe up 12%; Eastern Europe up 14%; Middle East up 81%; Asia up 51%; Africa up 83%.

Buyer's Perspective: Yes, but Costa Rica is still down. That in itself is cause for concern. Remember as the Costa Ricans go.....you know the rest.

**Bloom**

Seller's Perspective: The bloom has been mixed. Weather during the early bloom period was marginal and we don't believe that the Nonpareil got a good set. We expect Nonpareil to be off of last year's record production figures. The weather during the second half of the bloom was better and we think that the Carmel-California-Butte-Padre have a very good chance of doing better than last year.

Buyer's Perspective: It rained in California in February. It has only rained every February in California for the past 15 million years. It was raining on the dinosaurs when they were roaming the San Joaquin Valley, and it was raining the first February that California decided to start an almond industry. You are not going to get 45 days of uninterrupted 75°F weather. If you consider that the ideal, then you're right, the weather was not ideal. But we all know it was darn good. And we all know that you are looking at 1.2 billion on the low side now. This is when you have to talk about the frost risk until the end of April.....we're listening...go ahead.

**Currency**

Currency has not been much of a factor during the past month. For a few days the USD was trading above \$1.32 = €1, but that did not stimulate more buying activity. Today the European Central bank raised its interest rate to 3.75%. This was the seventh rate increase since December 2005.

The concern is that if the world's major economies raise their domestic interest rates, buying or holding US Dollars becomes less attractive to investors since the relative return diminishes. Many currency experts are predicting that the US Dollar may fall in the near future, as they believe that there is a strong likelihood that the Federal Reserve will cut interest rates in the US by this summer.

The bigger concern would be if the US Dollar ceases to become the preeminent reserve currency. Ripples of this concern were felt last week through the global stock market drop. In case the US Dollar does break the \$1.35 = €1 psychological barrier and heads towards \$1.40 = €1, that could have a substantial impact on pricing from origin as many overseas buyers may be motivated to lock in prices at the favorable exchange rates.

**Prices**

Seller's Perspective: Lots of people are saying that current crop prices are going to come down. We can't predict where the prices are going to go this year, but let's look at last year (approximate prices FAS Cal Port):

March	2006	NPS 23/25	\$2.65 per pound	Cal/Butte/Padre SSR 27/30 AOL	\$2.30 per pound
April	2006	NPS 23/25	\$2.75	Cal/Butte/Padre SSR 27/30 AOL	\$2.45
May	2006	NPS 23/25	\$2.95	Cal/Butte/Padre SSR 27/30 AOL	\$2.75
June	2006	NPS 23/25	\$3.50	Cal/Butte/Padre SSR 27/30 AOL	\$3.25
July	2006	NPS 23/25	\$3.65	Cal/Butte/Padre SSR 27/30 AOL	\$3.40

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This happened with less shipments year to date and less committed inventory. Prices now are around \$2.90 - \$2.95 per pound for NPS 23/25 and \$2.40 - \$2.50 per pound for Cal/Butte/Padre SSR 27/30 AOL. Once second hand is finished profit taking, wouldn't you say that prices from origin will go up? We would.

**Buyer's Perspective:** In our world the sky is blue, not lavender. Give us a hit of that pipe you're smoking and turn down the Grateful Dead. You have had better weather this year than last. You have more acres coming into production this year than last. This past crop was 1.1 billion pounds. The next crop is going to be more. Most of us are covered through the spring and we are going to buy the absolute minimum through summer to get us to new crop. If we thought as you did, your phones would have been ringing during the past 2 months. How much have you sold lately? Why haven't you sold more if your theory is right? Fact is that the market has been dead for over a month. Nothing is moving and prices have dropped \$0.10 - \$0.15 per pound during the past 30 days. We can buy Cal/Butte/Padre SSR 27/30 AOL from traders in Europe between \$2.35 - \$2.40 per pound FAS and you guys were asking \$2.55 per pound just last month. If you don't let go of your warm and fuzzy expectations, you will also be holding your old crop almonds soon.

### **Conclusion**

Shipments remain strong, but the market has been quiet. Once again we ask the question: who is going to flinch first, buyers or sellers? For the most part, origin has held prices in a reasonable trading range; most of the discounting has come from traders with long positions. It would seem to be a mundane answer, but overseas inventory most likely holds the most meaningful answer. If the almonds that have been shipped are being consumed, then prices should stay firm. With Ramadan coming early and the new crop California varieties not ready until end September / October (for arrival end October – early November) wouldn't that indicate a need for more significant buying from the current crop?

If, instead, the product being shipped is being warehoused or is in the hands of traders, and if demand in the coming months consequently drops off sharply, the recent price weakness we have seen could well result in a more serious erosion and meld into the new crop prices which are trading at around \$0.40 per pound discounts. How quickly that could happen would depend on the duration of the buying lull and the remaining inventory.

The new crop of course is a big factor – but as far as actual consumption goes – it's a purely psychological one. It has been said many times, but you can't eat the new crop until it's off the tree. If the 2007 crop is 1.2 – 1.3 billion pounds, as most of the speculation would lead you to believe, then few would challenge the assumption that prices will need to be lower to stimulate the additional demand necessary to move the crop. But if anything goes wrong with the crop, if the Nonpareils are off, if the ominous April frost hits, if the bees die off in even bigger numbers than we thought....then everything would have to be revisited. But this is all speculation and speculation is what all of us in this industry do: whether we like it or not, whether we are good at it or not, whether by words only or by actions, and whether we call it speculation or "educated and calculated position management and inventory adjustment."

But remember...."When speculation has done its worst, two and two still make four." (Samuel Johnson)

Happy educated and calculated position management and inventory adjustment to all!

Best Regards,  
DERCO FOODS