

February 2010 Almond Position Report

February 2010 shipments are 115.5 million pounds. This is down 0.8% from the February 2009 shipments of 116 million pounds.

Analysis

Carry-in from the 2008 crop year:	413 million pounds
2009 Crop Receipts:	1.38 billion pounds
Less 3% loss / exempt:	(41 million pounds)
Total available supply:	1.755 billion pounds
Less shipments to date:	956 million pounds
Remaining supply:	798 million pounds

Shipments

Seller's Perspective: This was the second best February in history. It fell short of the February 2009 record of 116.47 million pounds by 964,851 pounds – or about 22 x 40 FCLs. We are still nearly 18% ahead of last year's shipment pace and have just passed through what we believe was the slowest shipping period for the season. We fully expect to have robust shipments resume for the rest of this season.

Buyer's Perspective: Prices went up too high, too fast. We don't expect that March 2010 shipments will be any better than those of March 2009. We will see more sellers from California in the market in the days ahead...and they will be the "We're not worried, but we'd sure like to move some material for prompt" kind of sellers. We love these kinds of sellers the most.

Seller's Rebuttal: We don't need to ship any more than we did last season for the months of March – July. Last season we shipped 577 million pounds during this period. Just repeating this performance over the next 5 months would put our carry-out at 220 million pounds, or about 16% of the total crop. This is in line with the past 9 year average carry-out of just under 15%. With the serious concern over the size of the 2010 crop, and the fact that we have about 512 million pounds of uncommitted inventory left, California sellers are in great shape, and all buyers know it.

Buyer's Rebuttal: Shipment momentum matters – even if it is only psychological. Last season February – July shipments were big records. This built a "head of steam" and despite the 400 million pounds plus carry-out, set the tone for strong new crop shipments. Prices were much lower than where they are now and buyers gained increasing confidence in their purchases moving forward. Today's prices, coupled with flat shipments and continued global economic problems, do not instill the kind of confidence you need to keep prices firm.

Receipts

Seller's Perspective: Receipts are 1.38 billion pounds.

Buyer's Perspective: Slowly creeping up. Now up to an average of around 1,950 pounds per acre for the 2009 crop and getting closer to falling exactly between the subjective (1.45 billion) and objective (1.35 billion) estimates.

Domestic

Seller's Perspective: The second strongest domestic shipment figure for February.

Buyer's Perspective: Down 3% compared to last year.

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Export

Seller's Perspective: Export shipments are up 0.1%

Buyer's Perspective: That's one tenth of one percent for those of you who are too stunned by this growth rate to fully absorb the insignificance of this number.

Bloom

Bloom is over....over. Alas, the flowers have come and gone, like the gossamer threads of a spider's web, hanging on, fluttering, but ultimately surrendering to the merciless tenacity of the blowing wind....all the while reminding us of the passing of spring, the rebirth of all living things and the ephemeral nature of our own lives.

.....Oh, yeah...and bloom weather SUCKED!

Well, not entirely. It's too early to make any conclusions on the bloom, though more pessimistic voices are being heard these days. The weather was surely not perfect. If we have more than 2,360 pounds per acre this year (the record yield per acre we had for the 2008 season), then we should officially denounce all the bloom analysis, stop subscribing to all the weather and bee flight reports, and lose all faith in humanity. Ok, that's a bit extreme, but you get the gist.

Spanish Crop

The talk is about a lot of cold weather in Spain – but nothing definitive yet about damage or predictions. And there are still regions that are not yet in bloom. It would be safe to say that California is much more concerned about Spain's fiscal solvency and continued viability as a major global purchaser of California almonds, than it is of Spain's contribution on the global supply side.

"Never advise anyone to go to war or to marry." Spanish Proverb.¹

Aflatoxin

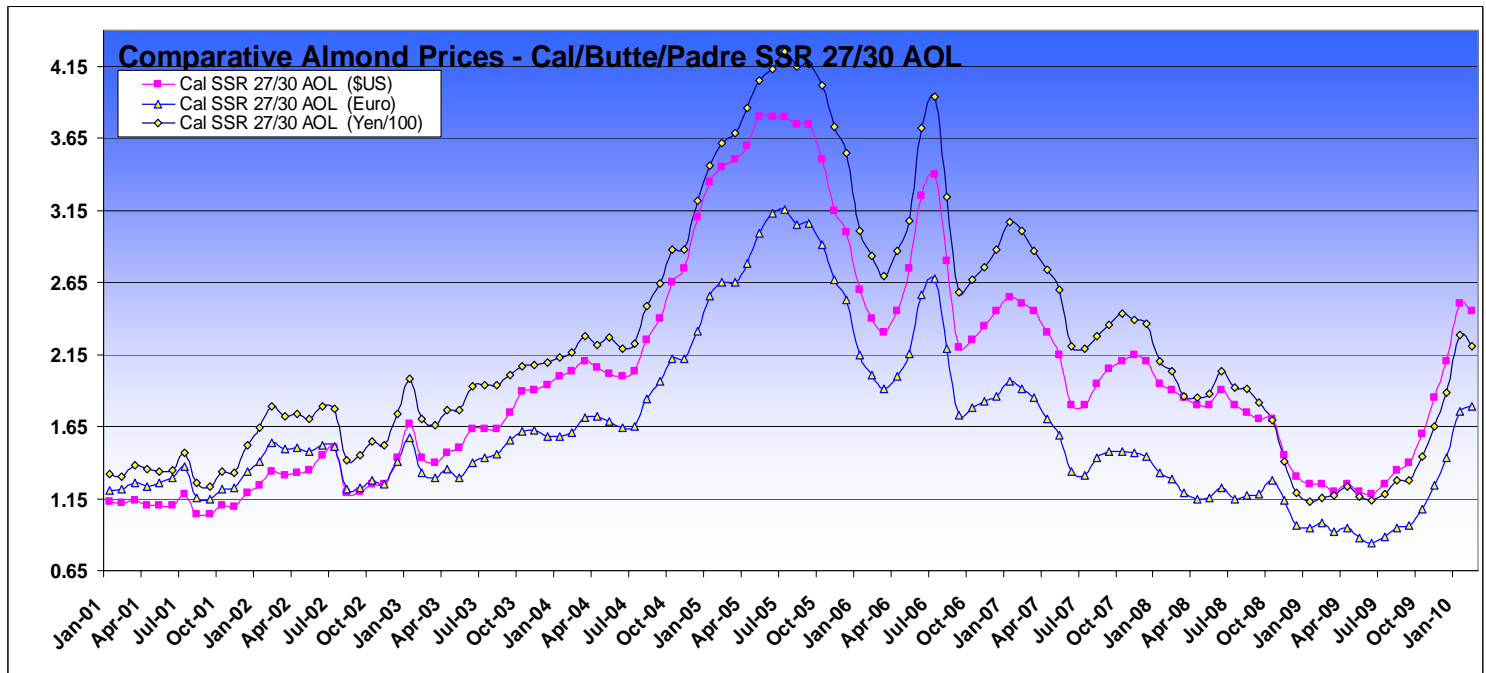
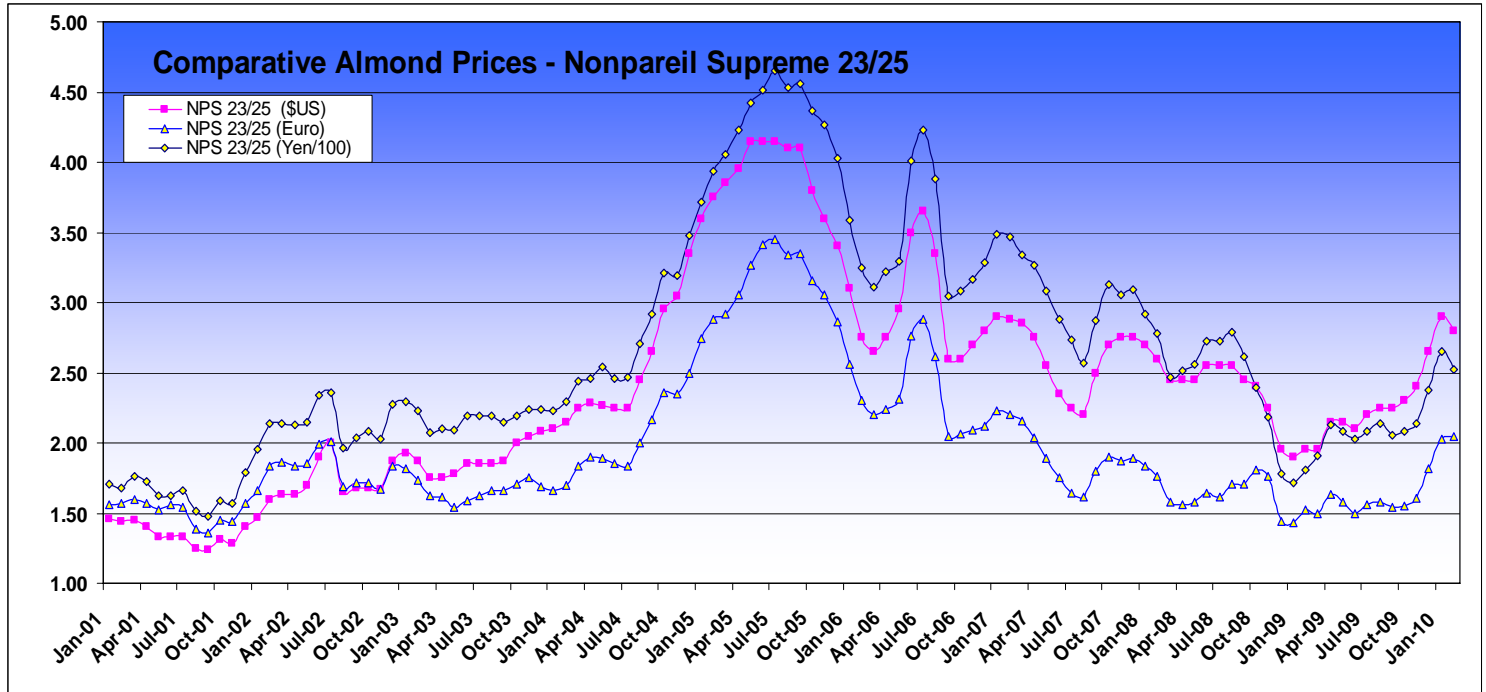
European aflatoxin levels are now (as of March 9, 2010) at 10 ppb total and 8 ppb for B1. This is a more lenient tolerance, up from the previous limits of 4 ppb total and 2 ppb for B1. The Europeans have obviously realized that with their economic troubles and birth rates which are well below the replacement rates of their individual populations' sustainability levels (2.1 children per couple), they may as well live on the wild side, throw caution to the wind, and eat the nuts that have been around since the dawn of human evolution and which have been a key source of nutrition for our ancestors. A legislative coup to be sure. Rejoice unless you are the shipper whose container got rejected for 4.5 ppb on March 8th.²

"Bureaucracy defends the status quo long past the time when the quo has lost its status." Laurence Peter (1919-1988).

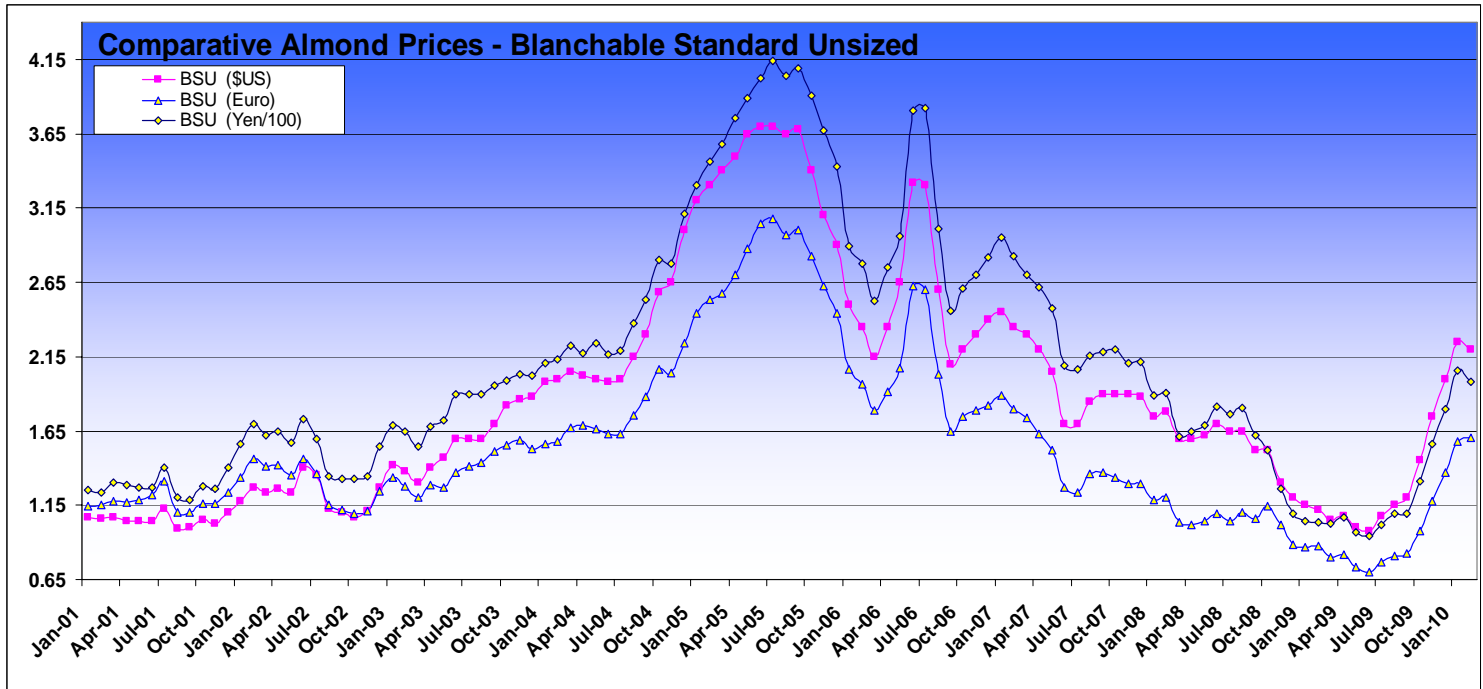
¹ If you are looking for relevance between this quote and the immediately preceding paragraph, you will be unlikely to find any. Though if you do find any relevance, it was of course intentional and sublime in its subtlety.

² There is also a new sampling protocol. If you would like to be utterly confused, just contact the Almond Board of California. They will oblige you.

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Prices


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Conclusion

As we noted last month, after the December report was issued during the second week of January, prices jumped about \$0.30 per pound. There was not much traction at the new, higher levels. Consequently, prices drifted back down to about early January levels. This was not necessarily because the prices reached unreasonable levels – but perhaps more because the timing of the price jump was not good. China was entering its Chinese New Year celebratory period and many of the importers in Dubai had just made big purchases at lower levels. So everyone was content to engage in some profit taking and to sell down their own inventories. The price decline was certainly supported in part by origin sellers who had not been active sellers earlier in the year. But much of the \$0.15 - \$0.20 per pound correction came as a result of reselling from overseas markets at below California prices.

During the last 2 weeks, the industrial grade almonds have moved up by about \$0.15 - \$0.20 per pound. BSU5% is not readily available, and that is what seems to be in most demand at this time from Europe. Prices went from a low of around \$2.10 - \$2.15 per pound during late January – mid February to around \$2.35 per pound FAS basis today for current crop and the same or slightly higher for new crop through December 2010.

The price gap between BSU5% and NPS 23/25 has shrunk quite dramatically in the past few months. What was back in August 2009 a \$1.10 per pound price difference is today not much more than \$0.40 - \$0.50 per pound. Cal/Butte/Padre SSR 27/30 AOL – which is trading between \$2.45 - \$2.50 per pound depending on shipping period – is now only \$0.30 - \$0.35 per pound below the price of NPS 23/25. Back in September-October 2009, the price difference between C/B/P SSR 27/30 and NPS 23/25 was \$0.70 - \$0.80 per pound.

One of the reasons for this price differential is the realization that there is a limited supply of BSU5%. The development of a vibrant inshell industry (in markets like China & Turkey) has taken a good portion of what could have been diverted to BSU5% material out of the supply chain (and at much more profitable levels for growers and processors). Additionally, smaller and cleaner crops result in larger nuts and less serious

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damage. This in turn results in processors holding more sized California SSR material and less 36/40 AOS nuts that have in recent years become the prototypical BSU5% input material.

2010 crop talk.....

The bee flight hours are down statewide compared to last year.³ Add to this mix the fact that (1) no one can definitively tell you how many bearing acres there are, (2) how many of those bearing acres are densely planted, (3) how many acres were taken out of production, (4) how “strong” the bees were, (5) how meaningful their bee flight hours were, (6) how many actual bee flight hours are needed to have an effective pollination, etc...and what do you have? Our favorite pastime in the almond industry – speculation!

“Any clod can have the facts, but having opinions is an art.” Charles McCabe.

People who know a lot more than we do about the farming side of the business⁴ seem to be using 740,000 bearing acres as the figure for next season. We will know the actual number that CASS is going to use on April 30, 2010. So a reasonable range for next year’s crop would likely fall within 1.4 – 1.6 billion pounds (1900 pounds up to 2200 pounds per acre).

It would seem that a crop of 1.7 billion pounds (or higher) is out of the question. We would also say that a crop of under 1.3 billion pounds is also out of the question, unless we have a significant frost event. Remember, the crop was around 1.35 billion for the 2009 season not only because of somewhat reduced bee flight hours (which are now being used to compare the upcoming 2010 crop), but because of the frost we had in the east side of the San Joaquin Valley after bloom.

Where are we now.....

Despite the economic problems in Europe, European importers and industry are now already working to cover their late spring – summer needs. Much of the cover is happening in a nonchalant way, but clearly there is more demand for industrial input stock than there are offers.

We are probably around 30 – 45 days away from many people having to take a serious new look at replenishing their stocks of Nonpareil and Carmel Supreme. From what our clients around the world are telling us, we expect that the Middle East will be back to buy in April and that China will be back to buy around May. However, if the talk around the 2010 crop grows more pessimistic, then we can see this time period brought forward as buyers, who realize that they do not have many cheaper tree nut alternatives, will want to lock in prices now and not gamble by waiting for the latter spring or early summer months.

“I like to play blackjack. I’m not addicted to gambling, I’m addicted to sitting in a semi-circle.” Mitch Hedberg (1968 – 2005).

Best regards,
DERCO FOODS

³ Almond Bloom Outlook, March 4, 2010 – Tom Dunklee.

⁴ The subset of people who know more about farming than me is comprised of the entire balance of the human population on earth.