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March 2005 Almond Position Report

March shipments were 75.2 million pounds. This is down about 8% from the March 2004 shipments of 81.987 million pounds.

Facts and Interpretations

Carry-in from last year: 148.9 million lbs
Crop receipts: 997.6 million lbs
Less 4% loss / exempt (39.9 million lbs)
Total Supply: 1106.7 billion lbs
Less shipments to date: (737.7 million lbs)
Less reasonable carry out: (120 million lbs)
Supply Remaining: 249 million lbs

Committed Inventory, Shipments Year-to-Date & Carry-out

Seller's Perspective: March 2005 shipments are down 8% over March 2004 shipments; but up nearly 17% as compared to March 2003 shipments. This, despite the fact that prices last month were up over \$2 per pound or more compared to March 2003. Shipments between April and July of 2004 were 289 million lbs – about 72 million lbs per month on average. Year-to-date shipments are still ahead of last year by 2 million lbs. Committed inventory is now 167.8 million lbs leaving an uncommitted supply of just 201 million lbs for the final 4 months of this season. Demand has to continue to slow down in order for us to have a reasonably smooth transition into the new crop.

Buyer's Perspective: If you ignore this carry-out number and just look at the total pounds of almonds available – California has 369 million lbs left to ship through July. This is still plenty of almonds – enough to stay on last year's pace and still have an 80 million lbs carry-out. Carry-out figures are being used to manipulate the supply remaining. Why not just forget this figure and deal with shipments on a month to month basis? If there are not enough almonds of a certain size heading into the transition period of July-August-September; or if the crop in August is delayed, putting pressure on the availability of particular varieties, then prices will increase to account for this fact. Forget this "smooth transition" business - that's all California hype. Let the market decide what is smooth and what is not. Shipments do not need to slow down – they can stay on pace with last year without any problems.

Spanish Crop

Seller's Perspective: If the Spanish are able to set a good crop, it will ease some of the upward pressure from California prices and add to the global supply which is good for everyone.

Buyer's Perspective: The risk of frost damage to the crop in Spain and the Mediterranean region remains through April. If the weather cooperates, Spain could see a crop of 50,000 tons (110 million lbs); though most experts in Spain would say that a 40,000 metric ton crop would be a reasonable estimate at this time. That is still about 90 million lbs – not an insignificant figure. If marketed effectively early in the season, the Spanish production could cover some of the early new crop European industrial buying needs, putting downward pressure on prices in California.

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US Dollar

Seller's Perspective: We don't see anything that will alter the continued weakness of the dollar. Fiscal and trade deficits are still at high levels; the domestic economy is still not on solid footing. Interest rates are slowly increasing, but the increases to date have been small and rates are still at historically low levels.

Buyer's Perspective: The importance of a weak dollar should not be underestimated. This has been a major factor in absorbing price increases from origin. Should the US Dollar reverse course, any downward price correction could be magnified.

Export Markets

Seller's Perspective: Exports are admittedly down across the board; but domestic shipments continue strong. The bottom line for us is overall demand; we don't care who is buying and eating our nuts as long as someone is. Can we ask for anything better than continued growth in our domestic market?

Buyer's Perspective: We must accept the fact that the domestic market in California is in part allowing this market to stay at these relatively high levels. This is especially surprising as the domestic market has not benefited from a weaker Dollar. But we are going to end this season with Nonpareils near the \$4.00 / lb mark. Where does this put us for next season? New crop prices have now risen to meet current crop levels; the price disparity of the past months has been erased. Do you think that you can *start* the year with Nonpareil near \$4 / lb? We guess that this will be a function of what the new crop holds. But what's going to happen when many Eastern European, Asian and Middle Eastern markets drastically reduce their consumption - which they will? We are seeing this already. In some of these markets it's not a question of prices being too high - it's a question of prices being out of reach. With the exception of some inelastic consumption associated with certain holidays, is it inconceivable that many people will just do without almonds in their diet?

Hazelnuts & Other Nuts

Seller's Perspective: There is no question that the price of other nuts have helped us to keep almond prices high. What are the cheaper alternatives?

Buyer's Perspective: What is going to happen if Turkey has a bumper hazelnut crop and prices come back down to earth? With a crop of 650,000 tons or better, prices of hazelnuts will have to moderate. Those who can switch to hazelnuts will do so. Despite some Turkish exporters' "selective contract acknowledgment" policy which has discouraged many buyers, if the price difference between almonds and hazelnuts becomes big enough, buyers will opt for the lower-priced option whenever substitution is feasible. Supermarkets could certainly carry retail packed cashews instead of almonds and still stay in business....

Conclusion

It's all about the new 2005 crop now. Everyone with a rental car and a GPS tracking system has become an almond estimator. Buyers and sellers are going up and down the valley, preparing their own evaluations of the crop. Some are thoughtful and conduct more "scientific" studies. But most just walk



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into an orchard, look around and get the "feeling." The big talk is how bad the Nonpareils look - and how bad the northern areas look in particular. But it's important to note that northern counties of the Central Valley account for no more than 15% of total almond production. There is variability within the state and variability within orchards in the same region. Consensus seems to be that the 2005 crop will not be as big as the 2004 crop.

There is not much consensus as to how "off" the 2005 crop will be. The real pessimists are at 700 million lbs. The real optimists are at 1.1 billion lbs. Many seem to have settled somewhere between 850 - 950 million lbs. So, for argument's sake, let's use 900 million lbs and a "low" carry-out of 80 million lbs (assuming shipments for the rest of the season stay on pace with last season). What do we get?

New Crop Scenario

Carry-in from 2004-2005: 80 million lbs

Crop receipts for 2004-2005: 900 million lbs

Less 4% loss / exempt (36 million lbs)

Total Supply: 944 million lbs

This would be about 160 million lbs less than we had available for the 2004-2005 season. Add to this a reasonable (and quite possible) Spanish crop of 90 - 110 million lbs and better overall Mediterranean production - and things may not look as cataclysmic as some would have you believe.

Will global consumption stay strong enough to support these price levels? So far, it seems that most of the new crop buying activity is by speculators, not by end users. Though some industrial buyers are taking limited positions, most are very hesitant to pay \$3.40 / lb for blanchable standards. Many countries, like China, have not made new almond purchases in some time. They simply cannot afford to buy at these prices - but this is also not a peak consumption season. What will Chinese importers do when it comes time to cover for Christmas and Chinese New Year? How much inshell will India buy for Duwali? Have Middle Eastern buyers already covered for Ramadan, which starts in early October?

The million dollar question: who will flinch first? California growers, looking at the prospect of a decent Spanish crop, potentially slowing demand and realizing that they are making fantastic profits and will still be making great profits if prices fall \$1 per pound? Or buyers, who have underestimated global demand time and time again and who simply cannot afford to guess wrong again?

Stay tuned for the May 11th subjective estimate and the psychological warfare to follow.

Best regards
DERCO FOODS