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### **March 2008 Almond Position Report**

March 2008 shipments were 91 million pounds. This is up about 29% from the March 2007 shipments of 70 million pounds.

#### **Analysis**

Carry-in from the 2006 crop year: 134 million pounds

2007 crop receipts: 1.38 billion pounds

Less 3% loss / exempt: (41 million pounds)

Total Supply: 1.470 billion pounds

Less shipments to date: (875 million pounds)

Less estimated carry out: (250 million pounds)

Estimated Remaining Supply: 345 million pounds

#### **Shipments**

Seller's Perspective: The last record of 82 million pounds set in March 2004 was obliterated today.....

Wait.....Listen.....Did you hear that groan? If you're short, that was YOU!!

Admit it, you did not think BSU5% would go above \$1.60 per pound (\$352) in 2008. We are waiting now for you to tell us how warehouses are full and how you're not sure who is buying these almonds...we will be patient. If you don't need almonds, you have nothing to worry about. If you do, we think we will call your bluff.

Buyer's Perspective: A surprisingly good number, which does really nothing in the macro scheme of things. Last season between April and July you averaged 78 million pounds per month. Let's make it 100 million pounds per month for the remainder of this season to stay on a pace that is about 30% above last year (this will not happen, but we will humor you). That will leave you with a carry-out of 200 million pounds. Not a huge carry-out, but not exactly a tight transition either. More realistically, let's target the seasonally-adjusted increase of 16% per month....which would mean shipments of 90 million pounds between April - July for a carry-out of 235 million pounds. No shortage here!

Don't feel bad....It's usually at this time of the year when you realize just what it means to have a 1.38 billion pound crop. You can have great numbers, but your carry-out just won't go down far enough, will it?

#### **Commitments**

Seller's Perspective: Overall commitments are up 50% over last year.

Buyer's Perspective: Uncommitted inventory is up 28% over last year. The shortage you so badly want to create is a figment of your imagination. A few sizes may be limited and tough to get....but Californias and Standards....dream on.

#### **Domestic**

Seller's Perspective: A record for the 10<sup>th</sup> time in 12 months. 32.7 million pounds breaks the old record of 28.4 million pounds set last March.

Buyer's Perspective: It seems your domestic market is taking advantage of \$5 per pound walnuts and pecans heading over \$4 per pound again.....enjoy the good times.

## Export

**Seller's Perspective:** Every major market is up year to date over last season. Western Europe up 22%; Eastern Europe up 24%; Middle East up 39%; Asia up 13%.

**Buyer's Perspective:** Maybe we are underestimating global demand.....maybe not. There's still four long months to go in the 2007 season.

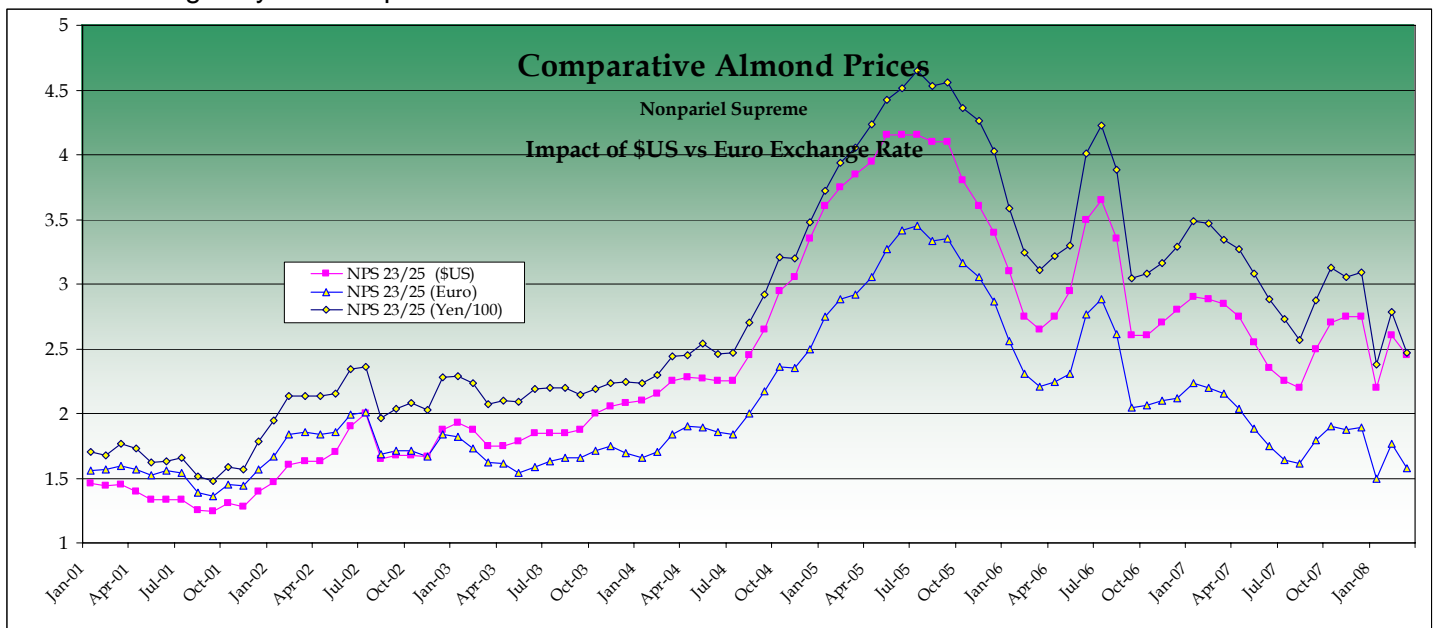
## Spain

The 2008 Spanish crop is not looking very good. Initially the bloom looked strong, but cold weather towards the end of bloom caused some damage, the extent of which is not yet clear. Spain is also struggling through a serious drought. Initial expectations for the 2008 crop are not optimistic and range between 30,000 – 35,000 metric tons. If this turns out to be the case, it will not have a meaningful impact on global production.

## Currency & Prices

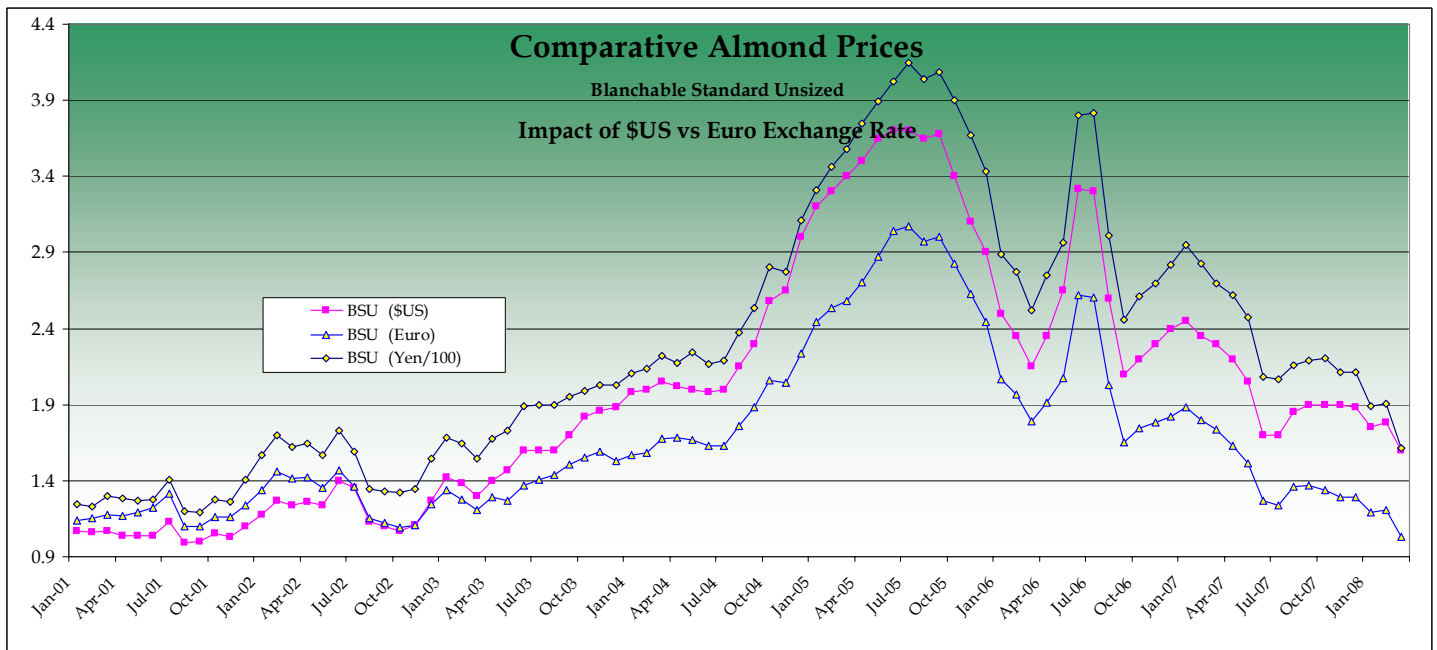
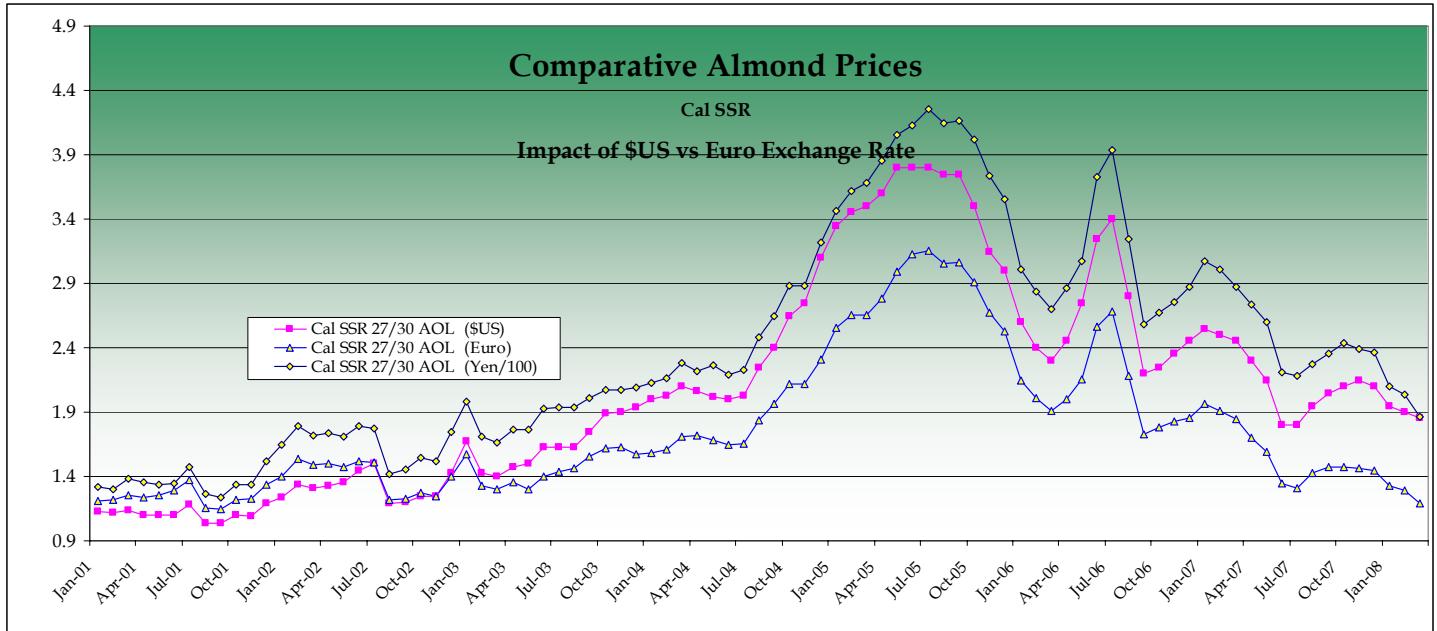
The USD/Japanese Yen went from \$1 = ¥107 in January to \$1 = ¥100.7 in March (it was in the ¥117-120 range at the same time last year). The Euro/USD average fell to €1 = \$1.552 in March. So far in April, it has been at €1 = \$1.567. Many experts feel that the Euro is grossly over-valued. A recent commentary by Stephen Roach of Morgan Stanley attributes this to the fact that US and non-European investors have been diversifying out of their own domestic asset markets, while Europeans have diversified out of their own countries, but remained mostly within the Eurozone. So the conclusion is that the Euro strength is coming from the fact that everyone else in the world is diversifying out of their own currencies while Europeans are not.

Furthermore, there is a growing sentiment among some currency experts that the \$1.60 barrier may be broken soon, as European economies remain relatively strong compared to the US, bolstered by sales to the emerging markets of the Middle East and Asia. If this \$1.60 barrier is broken, international talk may shift toward the idea of intervention. This may be more likely to happen especially if this psychological barrier is broken quickly - causing a rushed or even panicked exodus from US Dollar holdings. And as we all know, there is nothing sexy about a panicked exodus. Just ask Moses.<sup>1</sup>



<sup>1</sup> Book of Exodus; The Bible

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### **New Crop Availability Scenarios**

A few days ago Terra Nova Trading & GLM Trading released their much anticipated and widely read annual crop estimate. The number was 1.31 billion pounds (1.29 billion pounds from bearing acres and an additional 15-20 million pounds from non-bearing acres). This report had the effect of raising prices \$0.05 - \$0.10 per pound. California was thankful for this report as it provided a respite from falling prices and gave growers some courage to “withdraw” again pending the March shipment report.<sup>2</sup>

We do not expect shipments to exceed 1.25 billion pounds for the 2007 season. We are comfortable using a carry-out figure of 220 million pounds.

Here are the possible scenarios for 2008:

#### **1.3 billion pounds (pessimistic “bad bloom weather kills a crop; good bloom weather does nothing”; aka “we’re long” group)**

- 39 million pounds (loss/exempt)  
+ 220 million pounds (carry-in)  
= 1.48 billion pounds total supply; essentially same as the 2007 season

#### **1.4 billion pounds (middle-of-the-road “unimaginative people who want to hedge their bets” group)**

- 42 million pounds (loss/exempt)  
+ 220 million pounds (carry-in)  
= 1.578 billion pounds total supply; 100 million pounds more than the 2007 season

#### **1.5 billion pounds (optimistic “with such good bloom weather how can it be anything less” group; aka “we’re short” group)**

- 45 million pounds (loss/exempt)  
+ 220 million pounds (carry-in)  
= 1.675 billion pounds total supply; 200 million pounds more than the 2007 season

One can argue that if the 2008 crop is only 1.3 billion pounds and if California grows shipments another 10-15% over the 2007 season, prices will go up. Otherwise, under the 1.4 billion pounds or better scenarios, there is no conceivable shortage. So why the emotional market reactions to micro-movements? Two reasons: (1) No one in California wants to be holding inventory when the new crop is harvested; (2) Human nature and the desire to think that we are in control of a situation (of which we are not).

### **Conclusion**

Sellers want a consistently high price. Buyers want a consistently low price. Traders don’t care as long as the positions they are holding are profitable.

Buyers bemoan market conditions when they see further downside. They miraculously find interest when confronted with price increases. Just look at the past few days.

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<sup>2</sup> For the amateurs among you not plugged into industry jargon, “withdrawn” is regarded as a cool and macho thing to be in the California almond industry.....this is in diametric opposition to being “withdrawn” in other places, for example the bedroom. This coolness factor comes in because the reasons for the withdrawal are often a bit unclear to those who have been withdrawn upon (the “withdrawees”). There is also some romantic element of mystery surrounding this seemingly odd behavior on the part of a seller who is trying to move a product of which there is greater supply than demand. What are they trying to accomplish by this withdrawal? Are they withdrawn because they are somehow sold out? Holding out for a higher price? Trying to see what fellow marketers are going to do? Do they know something we don’t know? Whatever the reason, withdrawn is how some shall remain, pending further notice. Next month we will discuss “Being Withdrawn and Subsequent Related Inventory Management Crises.” Stay tuned.

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Sellers wait for that one perfect day where their inventory and the peak of the market will converge. The convergence comes and goes while their “growers want to wait some more.” They wake up a few days later, phones ringing off the hook with growers who now want to move a “few million pounds.” And what happens? Pick any of the following (and you will be right):

- February 1992
- October 1993
- February 1994
- October 1995
- July 1996
- August 1997
- November 1998
- May 2000
- August 2002
- October 2005
- September 2006
- April 2007
- February 2008

In each one of these instances, the almond market entered a multi-month price correction because California either felt undersold<sup>3</sup> or was quaking at the thought of a big crop around the corner “that could not be moved.” To put it in 2007 crop terms, the NPS 20/22 that you could not buy to save yourself in October now gets offered at a \$0.50 per pound discount. How many emails from August and September 2007 did you receive from California that said: “I will be lucky if I can make my NPS 23/25 shipments!!”

Where do we go now? Looking at somewhat recent history, the bottom of the almond market was in October 1999. During that time, BSU5% was around \$0.85 - \$0.90 per pound and NPS 23/25 was around \$1.15 - \$1.20 per pound. We saw the top of the market in July 2005. BSU5% was at \$3.70 - \$3.75 per pound and NPS 23/25 between \$4.10 - \$4.15 per pound. Accounting for the weak USD and looking at how prices compare now vis à vis 1999's lows, we have: October 1999 BSU5% at €0.84 per pound v. March 2008 BSU5% €1.02 per pound.<sup>4</sup>

Relying on buyers to let you know when you've hit bottom is not too helpful because for them yesterday's low is not low enough any longer today. If the Euro equivalent of almond prices during the past several months were not low enough for buyers, then it would seem to us that the cries of “California grower greed” coming from Europe a few years ago were nothing more than hypocritical posturing.

Regardless of monthly shipments between April – July or the actual size of the new crop, not many rational people are going to argue against the fact that we are now in a new environment where supply is likely to be larger than demand for the foreseeable future (until the water crisis, a weather event or farmers pulling out almond trees in favor of planting other crops change the supply situation). Whether this crop is 1.3, 1.4 or 1.5 billion pounds, there will be plenty of almonds to go around. The question is at what price this abundance of almonds will be sold. And remember that “abundance, is in large part, an attitude.”<sup>5</sup> So as the Arabic saying goes....Awwi Albak...”strengthen your heart,” California. Or don't complain when you get plowed under.

Best Regards,  
DERCO FOODS

<sup>3</sup> European buyers are especially good at telling California when it is undersold. They subscribe to the old adage: “When I want your opinion, I will give it to you.” Some of the more sensitive and impressionable souls in California take this as Gospel. They jump ship and others surely follow. The decline begins. Short positions turn to gold. Exotic cars are purchased. Growers fume at how a few buyers who don't even know what an almond tree looks like are able to manipulate the market .....and almond report writers accumulate the fodder with which to attempt to entertain the masses.

<sup>4</sup> In October 1999, BSU5% was \$0.90 per pound and the exchange was €1 = \$1.07. In March 2008, BSU5% was \$1.60 per pound and the exchange was €1 = \$1.57. This analysis does not consider the much higher production costs faced today (water, fuel, chemicals, bees, labor) because markets don't care about production costs.

<sup>5</sup> Sue Patton Thoele