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March 2009 Almond Position Report

Special Edition recognizing: Easter, Passover, Ramanavami, Mahavir Jayanti, Theravadin, Hanuman Jayanti, Baisakhi, Yom HaSho'ah, Ridvan, Yom Ha'Atzmaut, [insert other here]

March 2009 shipments were 106 million pounds. This is up more than 16% from the March 2008 shipments of 91 million pounds. It is risen. It is risen indeed.

Analysis

Carry-in from the 2007 crop year:	231 million pounds
2008 Crop Receipts:	1.606 billion pounds
Less 3% loss / exempt:	(48 million pounds)
Total available supply:	1.789 billion pounds
Less shipments to date:	918 million pounds
Remaining supply:	870 million pounds

Shipments

Seller's Perspective: Another good month. Shipments are now 5% ahead of last season. Another reaffirmation that almonds are a healthy, versatile and affordable tree nut.¹

Buyer's Perspective: We are with you, brothers. We all have higher priced inventory we need to move. Give us a reason to believe, California! Show us the way...lead us to the river and wash our low-priced illusions away!

Export

Seller's Perspective: See last month's report for details. This month is just more of the same...and another record. The movers are Asia and the Middle East. Europe remains the dominant export destination (and will hold this position for the foreseeable future). It also has the most developed almond market outside of the United States. It has the greatest concentration of importers, traders, brokers and market influencers. And though it is unquestionably the most vociferous export region, it's sub-specialization as a predominantly industrial destination is marginalizing it's overall importance vis à vis the entire almond varietal (and grade) spectrum. If you're not trying to move BSU5% or Cal SSR 32/34 AOS, you're a lot less concerned by Europe's "big stick" these days. They simply don't have the clout to affect the prices for Nonpareil and Carmel the way they used to in the past.

Buyer's Perspective: You are right. Hallelujah!

Domestic

Seller's Perspective: Up 11% over the previous record set in March 2008. Wait for it.....yes, another record!

Buyer's Perspective: Amen!

¹ Yes, despite blanchable standard 5% having traded this month as low as \$0.93 per pound by the European second hand, we are going to continue to call almonds a tree nut and not succumb to pressure and re-categorize them as a ground nut / peanut. We have faith. If you're ever going to have faith, April is the month to have it. The religious calendars are bursting at the seams. If you want to be really safe and ensure your spiritual salvation, cover your bases and acknowledge all of them. The best part is that you will essentially be able to take the entire month of April off from work.

Commitments²

Seller's Perspective: Domestic commitments are up 20% over last year. Export commitments are up 27%. If California matches the shipment totals from last season between April – July (386 million pounds), the carry out will be 484 million pounds. If the 5% increase holds through the season, the carry-out will be 465 million pounds.

Buyer's Perspective: Uncommitted inventory is also up....by 65% compared to last year. Last year at this time California reported 319 million pounds of uncommitted and had a final carry-out of 231 million pounds. So does that mean that using that ratio the carry-out this year will be 383 million lbs? If that's the case, rejoice brethren! We still think you will have a carry-out of at least 450 million pounds as we don't see Europe taking much product between now and new crop and the majority of the product left is what Europe, not the Middle East or Asia, buys.

Question: Do we categorize open accounts receivables as of August 1 as committed or uncommitted inventory?

2009 CROP SCENARIOS

"Imagination has always had powers of resurrection that no science can match." Ingrid Bengis.

Everyone is talking about next year's crop as though it matters. Well, of course it matters to some degree. But what is it that you think is going to change if the crop is 1.2 billion or 1.5 billion pounds?³

Bearing acreage

If California was a country, it would have the 7th largest economy in the world...at least until this year. Now that we are \$30 billion in debt, we're not so sure. But we digress. We have some of the best universities in the world, a greater concentration of Nobel laureates than any other state (or country for that matter), and our satellites can tell us the color of your underwear from space. But we don't know how many bearing acres we have. Last year the guess was 660,000 acres. This year the guess seems to be 680,000 – 720,000 (the big sticking point being how many acres have been pulled out). Let's use 700,000 to keep the calculations simple.

² We will be the first to admit that we have a love-hate relationship with the Commitments category. Though not as annoying, opaque and intentionally manipulative as the Turkish government's interference in the hazelnut market; though not as frustrating as China's inability to estimate it's walnut crop (even after the crop year is over); and though not as expected as an Iranian exporter's default on a low-priced pistachio contract....the Commitments category nevertheless deserves an honorable mention. We really don't know how it is calculated, who does and does not report, what their incentive is to report accurately and the consequences they face if they don't do so. Yet it is prominently featured by the Almond Board on the front of the monthly position report and provides material which is simply too enticing on which to pass up commentary. So we, as sinners, succumb...and comment. In this month of religious reflection, we ask for your forgiveness as we embark on an analysis of the Commitments (certainly not to be mistaken for the Commandments, on which we would not dare comment; and on which no commentary would be sufficient).

³ No one thinks that the crop will be 1.6 billion again. But then again no one thought that last year at this time, either. Remember those days? How quickly you forget. For the record, we don't think that the crop will be 1.6. It is more likely to fall within 1.1 – 1.4 billion pounds. Yes, that is a 300 million pound range. But if CASS can be off by more than 100 million pounds after counting every nut on the same branches of the same trees throughout California since 1776, we are giving ourselves another 200 million pounds of leeway.

Yields

We readily admit that we are not experts in this category. We are just doing the math to the best of our abilities based on published, public information. Here are the yields (in pounds per acre) for the past 9 years:

2000 crop: 1380
2001 crop: 1570
2002 crop: 2000
2003 crop: 1890
2004 crop: 1760
2005 crop: 1580
2006 crop: 1910
2007 crop: 2260
2008 crop: 2434
2009 crop: ????

No one that we consider to be a serious voice for the industry is saying that the crop is 40% down across the entire state. So that takes out the 2000 crop low of 1380 pounds per acre (and invalidates any estimates below 1 billion pounds). Most people agree that the crop is not nearly as good as last year, so that takes out the top production (2008 crop) of about 2424 pounds per acre (and invalidates a crop of 1.7 billion pounds).

Then the average for the rest is 1852 pounds per acre. Using this number would put California's production for 2009 off by 23.5% compared to the 2008 performance. At 700,000 bearing acres, this gives us a total of 1.296 billion pounds. 1.296 billion pounds + 450 million pounds carried out = 1.746 billion pounds to sell (ignoring loss/exempt 3% for this calculation).

Seems reasonable. We'll go with this number until the more sophisticated estimators do their thing. But the question is, if the crop is 1.2 or 1.5, is the price for BSU5% going to go much lower or much higher? How about the price of Nonpareil, which no one thinks will be as good as last year? We don't think standards will move much and we're not sure how high Nonpareil can go. At some point, buyers will shift to Carmel/Carmel Type Supreme. They have started doing this already. But remember, we thought the bottom of the market this year for BSU5% was \$1.50 per pound. So we'll stick to our day job and leave interpreting the numbers to you. All we ask is that you honor your father and mother....oh...sorry, what we meant to write is that "all we ask is that you honor your contracts." We do not legislate how you treat your family. We are more interested in contract law.

Conclusion

There will always be skeptics, but not many industries are showing 5% growth these days. Almonds are here to stay. People are going to eat and even though almonds are not considered a staple, they are an affordable and healthy indulgence in most countries around the world at current levels. The media is doing its best on a daily basis to traumatize consumers and get them to start rationing bread....but consumers are holding steady.⁴ People may be cutting back on that Sandals vacation to St. Lucia – but they are not cutting back on almonds – at least not as much as everyone expected, and certainly not in the USA, the Middle East, Asia and Africa.

⁴ Candy sales are up in the USA. For 2008, Cadbury's profits are up 30% and Nestlé's profits are up 10.9%. After a slow start, Hershey's profits increased by 8.5% in the last quarter of 2008. When times are tough, the tough buy candy. *New York Times*. March 24, 2009.

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We expect that the trend we identified last month will continue for the balance of this season (and likely in the coming few seasons): most inshell varieties, Nonpareil Supreme (or better) and Carmel/Carmel Type (supreme or better) pricing will continue to firm. Cal/Carmel SSR 27/30 AOL will hold steady and probably firm slightly. BSU5% and Cal/Butte/Padre SSR 32/34 AOS will stay flat.⁵

This has proven to be a very tough year for California growers. Many are losing money on their farming operations and current prices for standards and Californias are not sustainable in the long term. More inefficient orchards will continue to come out and we expect to see any new plantings to be in non-Butte/Padre varieties, which will be more welcome in non-European destinations. Unfortunately for California, this cannot be done overnight. Prices overall will stay sluggish until excess supply in the slower-moving Euro-dominated varieties is taken off the market, either through increased demand due to an extended period of low prices or because of a reduction in production.

“A man's character is his guardian divinity.” Heraclitus (540 BC - 480 BC) In this age of defaults and unilateral contract cancellations, we fear that, at least by Heraclitus' evaluation, some of you are walking shamefully unguarded. Yet your mothers continue to hope, as do we!

Happy [insert religious holiday here] !!

Best regards,
DERCO FOODS

⁵ For a thoughtful analysis of the Nonpareil supply situation for 2009 and onwards, contact Mr. Brian Tormey of Premier Almonds. This is not a joke, though Brian is likely to tell you one on the phone.