

April 2006 Almond Position Report & May 2006 Subjective Almond Estimate

April 2006 shipments were 70.139 million pounds. This is up about 20% from the April 2005 shipments of 58.109 million pounds.

Carry-in from last year: 137.7 million pounds

Crop receipts to date: 910 million pounds

Less 4% loss / exempt: (36 million pounds)

Total Supply: 1.01 billion pounds

Less shipments to date: (693.7 million pounds)

Supply Remaining: 318 million pounds

The May 2006 Subjective Crop Estimate is: 1.02 billion pounds on 580,000 bearing acres. Last May the subjective estimate was 850 million pounds. The objective estimate was 880 million pounds. The bearing acreage was 550,000 acres. This was later revised upward to 580,000 (February 2006) and this number has not changed for the 2006 crop.

	Subjective Estimate	Bearing Acreage	Non-Bearing Acreage	Objective Estimate	Actual Receipts	Yield/Acre
1995-1996	430	418,000	65,700	310	366	890
1996-1997	520	428,000	72,400	530	507	1,190
1997-1998	710	442,000	63,000	680	757	1,720
1998-1999	550	460,000	120,000	540	517	1,130
1999-2000	760	485,000	115,000	830	830	1,720
2000-2001	675	510,000	100,000	640	698	1,380
2001-2002	875	530,000	75,000	850	824	1,570
2002-2003	940	545,000	60,000	980	1083	2,000
2003-2004	920	550,000	60,000	1000	1032	1,890
2004-2005	1100	550,000	70,000	1080	998	1,840
2005-2006	850	580,000	100,000	880	910	1,550
2006-2007	1002	580,000				1,760 estimate

Current Crop Outlook

Overview

Seller's Perspective: This increase in shipments during the past couple of months may surprise you but it does not surprise us. It supports our ongoing view that buyers have been buying only hand-to-mouth and that there is still a lot of demand for product through the summer months. We expect this increased shipment trend to continue and prices for current crop to stay firm and potentially increase. We need to allocate the remaining inventory in a judicious manner to ensure a smooth transition into the new crop, which may be delayed because of the cooler than normal spring months.

Buyer's Perspective: We expect the gap between current crop and new crop to increase. With price differences of \$0.50 per pound or more between crops, it's in our best interest to ensure that our current crop inventories are sold out as new crop is arriving. It will be a challenging transition in August and September as we look for specific products which may be difficult to find and juggle higher priced old crop contracts with lower priced new crop ones.

Inventory & Shipments

Seller's Perspective: Shipments year to date are down by about 13% but catching up to last year. And remember that total supply is also down by about 8.5%.

Domestic up 8%. Exports up 28%. This April is back on track with April 2002 and 2003. In 2002, we shipped an average of 81.8 million pounds per month for a total of 982 million pounds for the season. In 2003, we shipped an average of 85.3 million pounds per month for a total of 1.024 billion pounds for the season. If we stay on the current trend, we will have shipped an average of 76.6 million pounds per month, the fourth highest total in history (behind the 2003, 2004 and 2002 seasons, respectively).

- If shipments for the remaining months of May – July track last year's figures, we will have shipped 882 million pounds and have a carry out of 120 million pounds.
- If we stay on the current shipment track (up 20% per month for the rest of the season), we will have shipped a total of 920 million pounds and have a carry-out of 81.5 million pounds. For the late summer months this could well put procrastinating buyers into the "I can't find anything that I'm looking for" category.
- Uncommitted inventory is 161 million pounds – only 2% higher than last year. Between May – July 2005, we shipped an average of 62.75 million pounds. Approximate prices last summer: NPS 23/25 AOL \$4.15 per pound; Cal SSR 27/30 AOL \$3.80 per pound and BSU5% \$3.70 per pound. This year, approximate prices for the same shipping period are: NPS 23/25 AOL \$2.75 per pound; Cal SSR 27/30 AOL \$2.55 per pound and BSU5% \$2.45 per pound. We are about 35% cheaper than we were last year.

The talk of just a few months ago – about an inventory of 170 million pounds or more – was much too premature. 120 million pounds, which is less than what we carried out last year, may reflect the higher limit of the actual carry-out. How things have changed in just 2 months. You were so sure about the pervasive downward trend and the anemic demand. You were still thinking about the losses you took on your high-priced contracts and were bent on making that money back on new business. You convinced yourselves that your perspective was the only rational one. Don't feel bad, after all, it was Julius Caesar who said: "What we wish, we readily believe, and what we ourselves think, we imagine others think also." Now good luck getting the California 27/30 straight counts at \$2.60 per pound....the same ones for which you were not willing to pay \$2.30 per pound back in March.

Buyer's Perspective: We love your new-found confidence. Six months of panic and after two good months, kings of the hill again (at least for the summer). Bet you won't see 20% increased shipments through summer. The price spread between current crop and new crop is rapidly reaching a level that will create a considerable disincentive for buyers to build current crop inventory. Only the absolutely necessary product will be purchased at such premiums. This will slow down shipments, eventually easing current crop prices until equilibrium is reached, likely during end August or September, based on the timing of the new crop harvest. Who is going to pay \$2.75 per pound in July for NPS 23/25 when he can buy September at \$2.15 per pound? Only the most desperate among us. There are some.

Spain

Seller's Perspective: We hear the crop in Spain is looking good.

Buyer's Perspective: You hear right. 55,000 – 65,000 tons. So add another 120 – 140 million pounds to global supply.

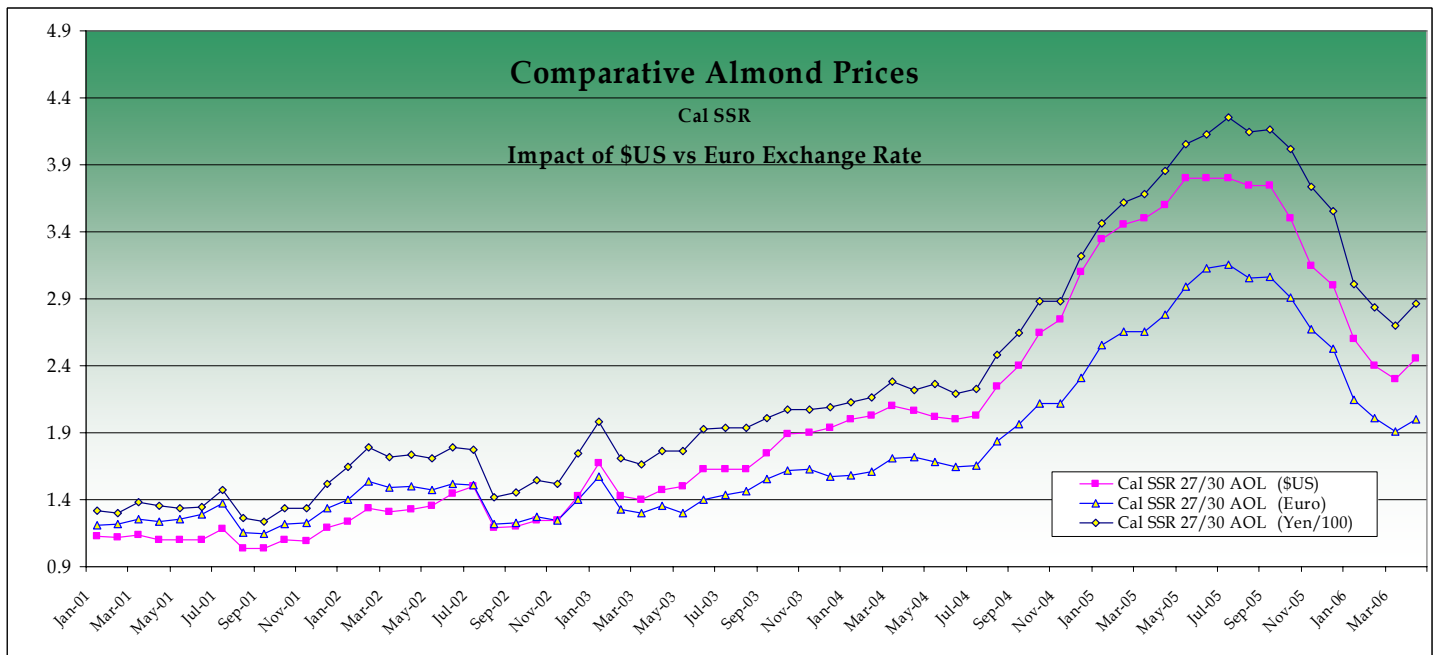
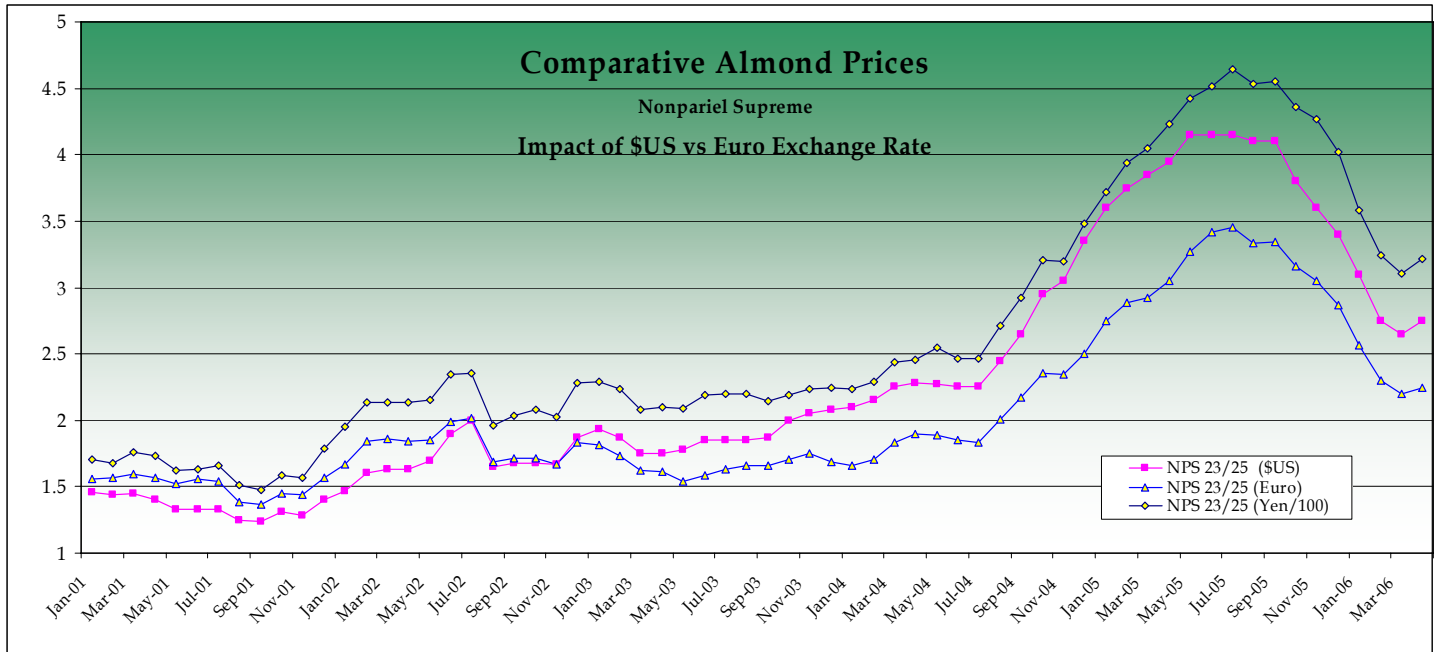
Currency

The USD has been getting weaker and is today around \$1.278 = €1. The average for April was \$1.227 = €1.

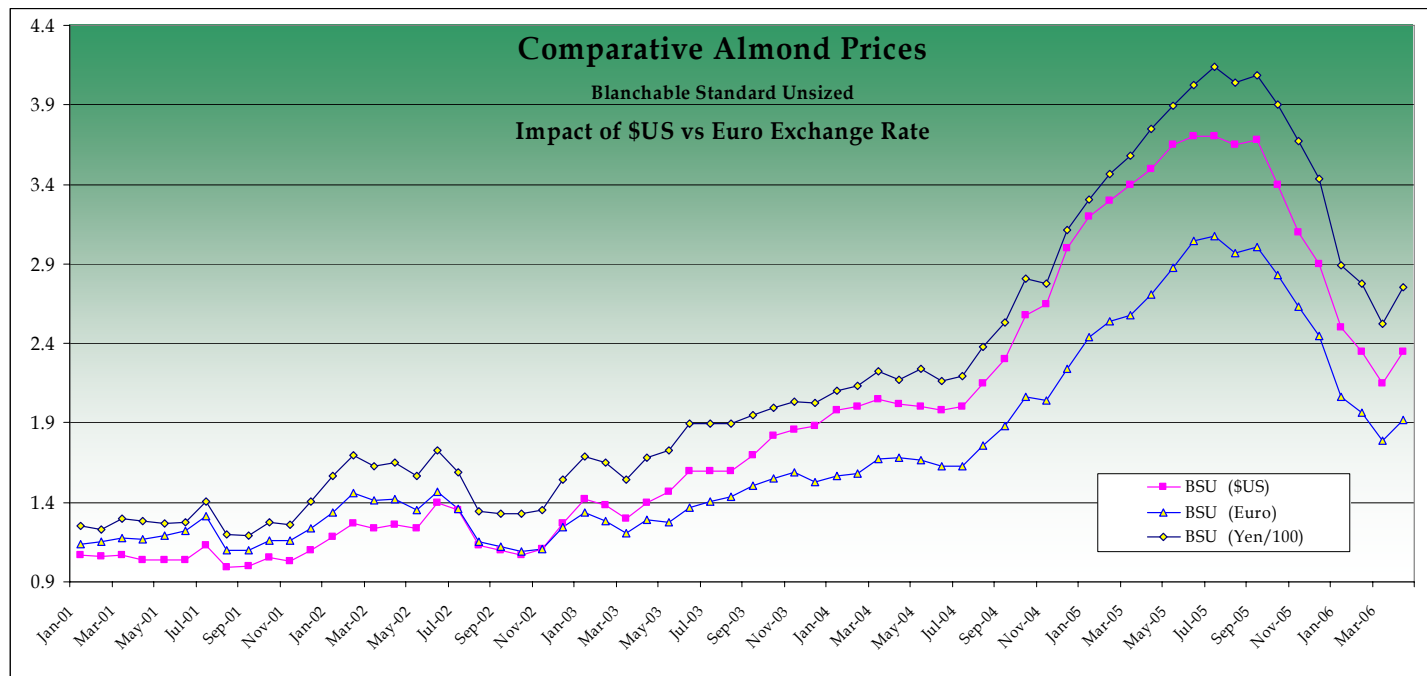
Some of the experts in the field see a continuing weakening of the USD. This week the Wall Street Journal reported that Warren Buffet, Chairman of Berkshire Hathaway Inc., believes that the USD "could weaken significantly." Mr. Buffet bases his pessimism on current US fiscal policy (which sees growing current-account deficits and trade imbalances), speculation in commodities and housing markets, and the short-term strategies of hedge funds and private-equity firms (which according to him are engaging in "deal-flipping" to make short term gains rather than in establishing lasting ownership in good companies).

If this weakening trend continues, it will help buyers absorb price increases in California. All other factors being equal, a pound of almonds is about 4% cheaper in Euros today than it was a month ago. That's more than \$0.10 per pound on Nonpareil – based only on currency. Not too shabby.

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Weather

Seller's Perspective: Weather is warming up – we are watching the drop carefully. Seems like the Butte and Padre varieties are off this year compared to last and the drop in those two varieties seems more pronounced.

Buyer's Perspective: So that means that Butte/Padres will average 2500 pounds per acre instead of 3500 pounds per acre. What a calamity! Shouldn't your Schwarzenegger declare a state of emergency? It rained, hailed, thundered, stormed and froze...the flowers turned black, the roots were drowning; you couldn't inspect, you couldn't spray. Yet you – the growers – are still estimating a crop of 1.02 billion pounds!! Unless we fall into the grips of another ice age and the woolly mammoth starts to roam the San Joaquin Valley again, we don't want to hear about the weather....and while we're at it, screw those bees, too.

What People Want to Say but Won't (about the current crop)

Seller's Perspective: I cannot believe that I sold Nonpareil at \$2.45 per pound two months ago. I wish I had more testicular fortitude. And what about these whining clients? Last year, they were making a big deal because some of us were shipping 5% less on contracts that were as much as \$2 per pound under market. It was taken for granted that we would ship. Now they are just leaving documents at the bank? How do we let these monkeys hang around for so long?.....But the Nonpareil for next year look good, real good

Buyer's Perspective: I cannot believe that I did not buy BSU5% at \$2.00 per pound two months ago. I got greedy. But at least the Nonpareils for next year look good, real good.

NEW CROP OUTLOOK

Seller's Perspective: Just as we have been saying – a good crop, but not a record one. This should keep things nice and stable. We don't expect much change in the market until the June objective estimate. If anything, this will keep those trying to push their own agenda and claiming that the crop was over 1.1 billion pounds quiet for a while.

Buyer's Perspective: Bullshit! The laws of mathematics must have ceased to exist in the USDA offices. We may accept the yield per acre of 1760 pounds. But 580,000 bearing acres? Pass the Peyote.

Shipment Scenario

Assuming the subjective estimate is right and that the carry-out is 100 million pounds, here is what we have for next season:

Carry-in: 100 million pounds
2006 Crop: 1.02 billion pounds
Less 4% loss / exempt: (41 million pounds)
Total Supply: 1.08 billion pounds

If shipments match the 2003 season record of 1.024 billion pounds – carry out will be 56 million pounds.
If shipments match the 2002 and 2004 totals of 980 million pounds – carry out will be 100 million pounds.
If shipments stay on pace with this season's (more bullish) estimates of 920 million pounds – carry out will be 160 million pounds.

New Crop Prices

Seller's Perspective: We should see current levels hold and a firming is likely for prompt shipments. If the June objective estimate affirms the subjective figures, then we don't see why new crop cannot come up a bit. Why sell at such a discount from the 2005 crop if the givens have not materially changed and if demand is so robust? Why engage in premature discounting?

Buyer's Perspective: Two words: Dream Weaver. You will see that the actual receipts come November / December 2006 will show that the crop that is closer to 1.1 billion pounds than 1 billion pounds. Shipments will be robust but they will only be kept at these levels if prices remain moderate. Without China, India and Russia – your primary emerging markets – you cannot move the excess tonnage. You also need the Middle Eastern countries to take lots of product and you need to regain domestic market share. Getting arrogant again at this critical juncture in your production cycle may be suicidal. 2007 is around the corner....but of course if the USDA estimate comes out at 580,000 acres again, there will be no over-supply to worry about (at least not on paper).

CONCLUSION

The April position report and May subjective estimate leave a lot of room for discussion.

How many people actually believe that as many orchards were pulled out as entered their fourth leaf? Who has been pulling out trees with record returns the past 4 years? What most people agree on is that the crop is not less than 1.02 billion pounds and could likely be significantly higher. Just assuming 600,000 bearing acres with the same yield per acre puts you at 1.05 billion pounds and a slightly higher yield gets you to 1.1 billion pounds easily.

Many people in California and overseas believed that the subjective estimate would be under-estimated. Some people attributed this to the inherent pessimism of a grower looking at what could be a very good crop. Others believe that there is much more drop to come and factored that in ahead of the actual drop when they were surveyed. Yet others feel that the orchards were "spotty" and that there was a lot of variability from region to region and block to block. Time will tell.

Some may argue that these figures today lend stability to the market. But the contrary is just as true. Had the estimate been 1760 pounds per acre on 600,000 or 620,000 acres, few would have been outright dismissive. But throwing in the 580,000 acres may certainly have opened the door to more new crop speculation. Buyers are going to be skeptical at best; packers who want to sell but are hampered by call pools are going to have to listen to their growers telling them that with only 1.02 billion pounds, prices have to come up. This could lead to paralysis in the market and limited activity until the June estimate is released.

Hope those of you at the INC meeting in Montreal have a nice weekend together. And if you come across that guy at the bar who left your containers at the port, remember the words of Mahatma Gandhi: "Whenever you are confronted with an opponent, conquer him with love." That strategy will also ensure that you do not spend time in a Montreal prison. So buy him a drink, give him a hug and thank him for leaving you with some BSU5% going in to the "difficult" transition period.

Best regards,
DERCO FOODS