

April 2007 Almond Position Report & CASS 2007 California Almond Forecast

April 2007 shipments were 71.111 million pounds. This is up about 1.4 % from the April 2006 shipments of 70.139 million pounds.

The CASS Subjective 2007 almond estimate is 1.31 billion pounds.

Analysis of current (2006 crop)

Carry-in from the 2005 crop year: 112 million pounds

Receipts through March 30, 2007: 1.109 billion pounds

Less 3% loss / exempt: (33.2 million pounds)

Total Supply: 1.187 billion pounds

Less shipments to date: (825 million pounds)

Less estimated carry out: (120 million pounds)

Remaining Supply: 242 million pounds

Shipments

Seller's Perspective: Another good month and a record season-to-date total of 825 million pounds. April 2003 holds the shipment record at 71.9 million pounds. But that month was bolstered by over 8 million pounds of previous under-reporting. This April is technically the second strongest April in history – just barely behind April 2004 at 71.339 million pounds. No matter how you look at the details, the fact remains that this was an impressive showing. Year to date, shipments are up nearly 19% over last season.

Since 2000, we have averaged 63 million pounds per month between May and July. Assuming that this average holds, we will ship 1.01 billion pounds. If we match last season's May-July totals, which we are confident we will do, we would have shipped 1.045 billion pounds – a new record.

Buyer's Perspective: These are muted figures, if you ask us. Up just over 1% from last season after considerable price reductions, and mostly still thanks exclusively to the domestic market's strength. There were so many sellers offering deep discounts for prompt shipments that some of us could not resist buying a little to help you out. And if you ship around 1.04 billion pounds, you will still be carrying out between 140 – 150 million pounds. This is not a huge amount, but it's also not the dire "incompressible demand" we hear so much about.... Heading into the largest crop in history, we will wait 60 days to buy what we want.

So how good are shipments going to have to be in the coming months and upcoming season to ensure that California has a "manageable" carry-out (whatever that new figure is going to be)? Answer: Damn Good. If the subjective estimate is reasonably accurate (see specific discussion below), and if we carry out 140 million pounds from the 2006 crop, you are going to have over 1.4 billion pounds to sell. Raise your hand if you want to be the one holding the inventory going into next year!

Commitments

Seller's Perspective: Domestic commitments are up 33%. Export commitments are down, but that is simply a reflection of the growing hand-to-mouth mentality that we ourselves created. Total committed shipments are mirroring last season at about 159 million pounds.

Buyer's Perspective: Uncommitted inventory is up 26% over last year. Export commitments, which you slyly glanced over, are down 18%. That's 2% less than 20%. That's down a lot, isn't it, for a segment that

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comprises about 70% of your market? It was your Mark Twain who said: "All you need in this life is ignorance and confidence; then success is sure."

Domestic

Seller's Perspective: 27% stronger than last year. We're still singing.

Buyer's Perspective: And we're unfortunately still listening.

Export

Seller's Perspective: We have to rebuild confidence in pricing to see export shipments recover. We agree that the export segment is lower than we would like to see. As we correctly noted last month, spot and afloat goods are mostly sold off and we are seeing more and more buying interest from origin. The second hand does not seem to have the requisite tonnage to affect the market as much as it has during the previous 3 months. Last month exports were off by nearly 25%; this month, off by 12%. You will see that May-July will continue the strong shipment trend and that we will hit 1.05 billion in total shipments without much difficulty.

Buyer's Perspective: This is the second month in a row that exports are down – after 6 consecutive months of beating last year's shipments. We have only seen one record export month this year (January 2007), whereas the domestic market has seen countless record shipment months. We do not necessarily share your optimism over exports. We want to see prices trading at a lower range before we commit to more substantial tonnage.

Currency

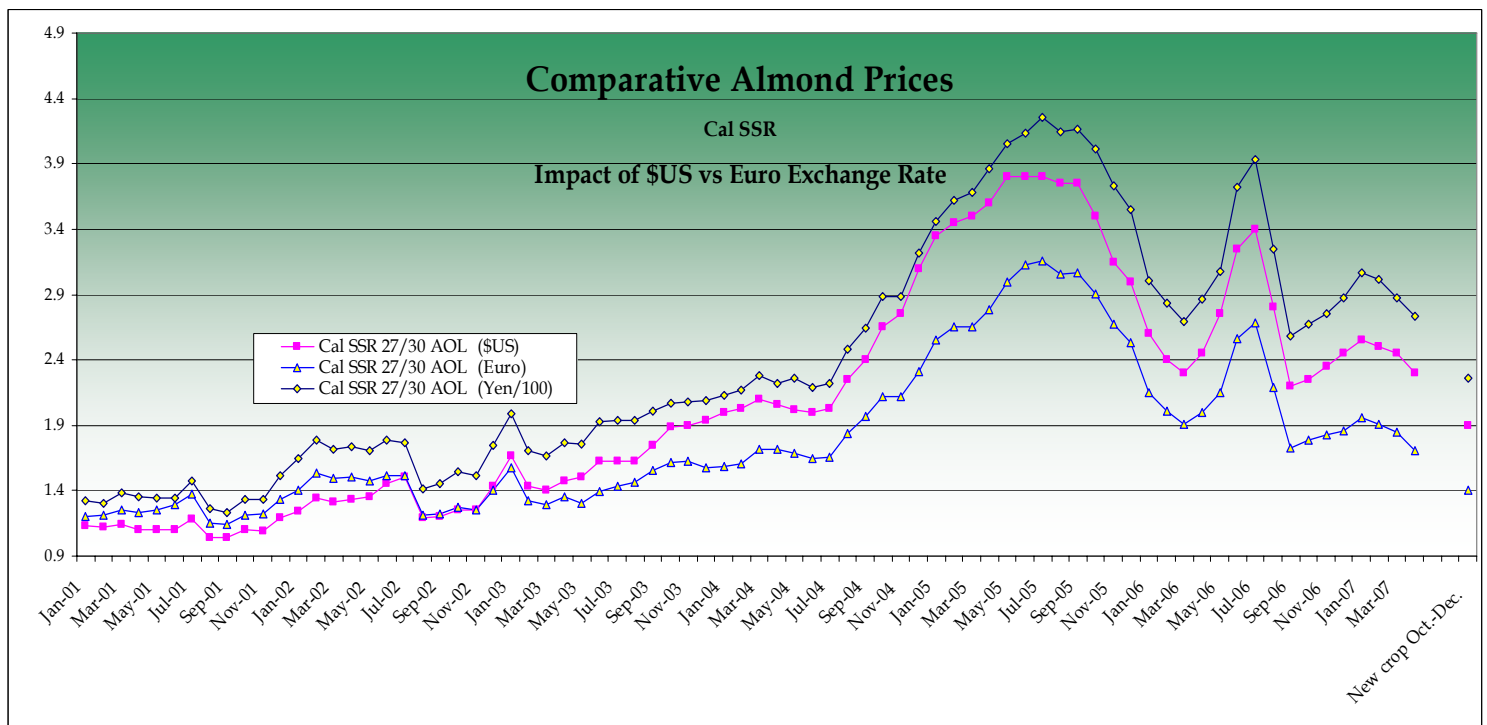
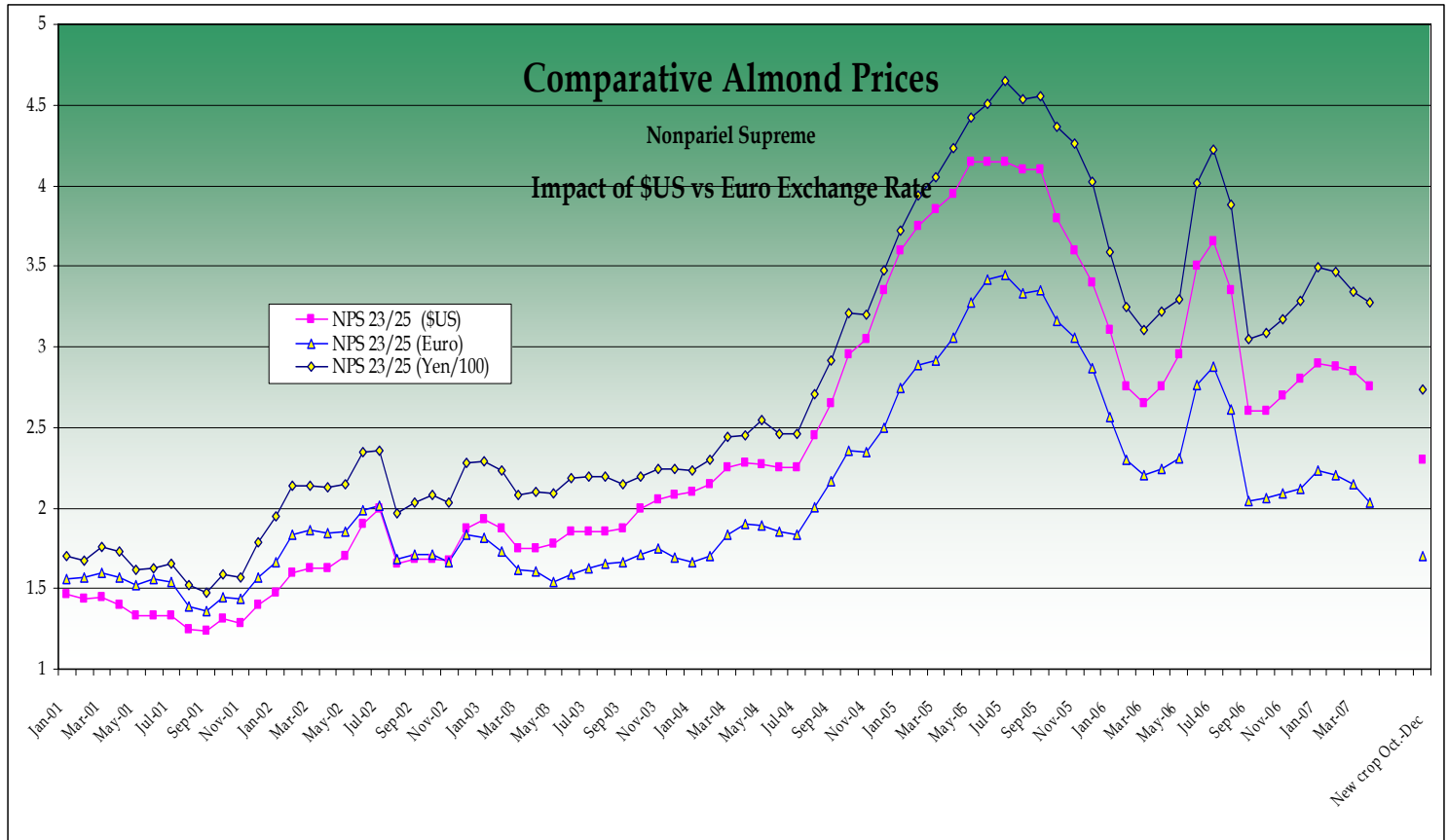
The US Dollar remains weak. The average for April was €1 = \$1.35 as compared to €1 = \$1.325 in March. This week the USD was slightly stronger against the Euro based on poor German industrial production figures and strong wholesale sales reports domestically. The Federal Reserve has just announced that it will leave the federal funds rate (the interest rate banks charge each other) unchanged for the 7th consecutive time at 5.25%.

The consensus from leading economists seems to be that the USD will continue to drift weaker against the Euro and eventually hit and break the \$1.40 barrier. Though buyers do not want to make currency a part of the dialogue, it is a variable and one that we cannot simply ignore. Just ask the UK tourist bureau...at over \$2 to the £1 (GBP), not a lot of US tourists from Kansas are flocking to the Park Lane hotel in London these days. People who say currency does not matter are being disingenuous. They may not want to talk about it, but it matters.

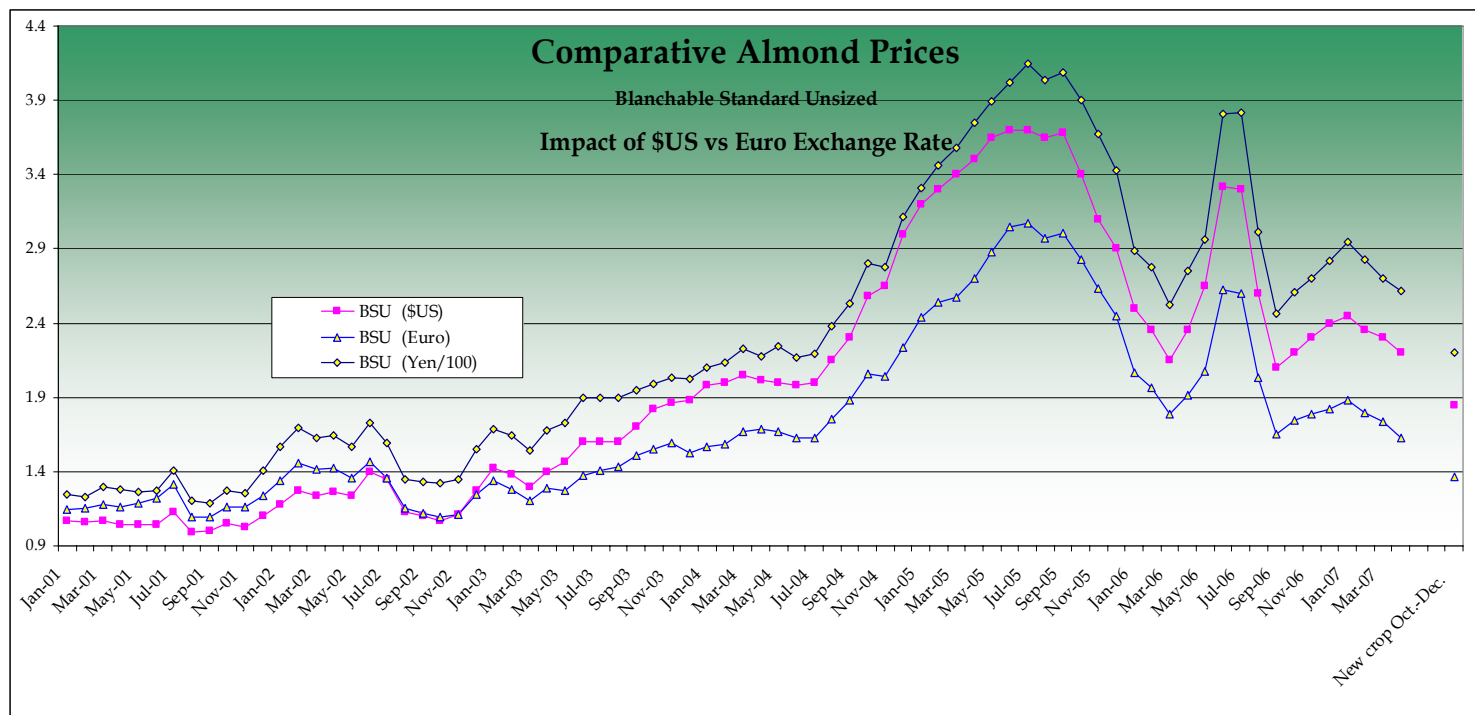
Prices

See the charts below to track historical, current and new crop prices for BSU5%, Cal/Butte/Padre SSR 27/30 AOL and NPS 23/25 AOL in US Dollars, Yen and Euro. We have added a notation to mark the level at which the 2007 crop is trading. We hope that this will give a visual representation of where new crop prices are in comparison to the past 6 years.

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CASS ESTIMATE ANALYSIS

The much anticipated subjective estimate is upon us. Growers have been called. Crop sizes have been turned in – and we have a number: **1.31 billion pounds** on 615,000 acres. This is an average of 2,130 pounds per acre.

During the past 6 seasons, the objective estimate and the subjective estimate have jointly underestimated or overestimated the crop. This means that during this 6 year period, the actual receipts have not been “in between” the subjective and objective estimates. Rather, the actual receipts have either been higher than both estimates or lower than both estimates. As one would expect, the objective estimates have been more accurate.

The objective estimate has been higher than the actual receipts 2 times (by roughly 5%) and it has been lower than the actual receipts 4 times (by about 5%). The most inaccurate subjective and objective estimates during this period occurred in the same season: 2002-2003, where the crop was 1.083 billion pounds – the largest crop ever at that time. The subjective estimate was 15% off the actual receipts. The objective was 10% off. Both were underestimations.

Great. Now you have the history. Draw comparisons and parallels with the 2007 estimate at your own peril! But feel good about the fact that you are well armed with enough statistics to put the other cocktail party guests at the INC to sleep. Have a few drinks and sell short.....hey, no one will remember in the morning. (Just remember that contracts written on cocktail napkins have been found by US courts to be binding!)

Conclusion

The writing is on the wall and has been for some time. The 2007 crop is going to be big. So what does a big crop really mean to buyers and sellers? Most are quick to say: "lower prices." This is true; but what does "low" mean and what does low actually accomplish?

The charts above show that prices today (and for new crop) – especially when currency is factored in – are at very competitive levels (we feel that comparing prices before 2000 are not terribly relevant as the entire supply and demand structure has changed in recent seasons).

So the age-old question is once again going to rear its head: do lower prices result in higher shipments? In general, lower prices do result in more sales. But there is a point of diminishing returns which many tend to ignore. Below a certain level (the exact point of which is debatable), ten cents per pound less is not going to sell the commensurate amount of more almonds.

When BSU5% hit \$3.80 per pound (\$836) a few years ago, most people knew that this was not a sustainable level. Even growers and shippers in California were anticipating the crash, which came. Buyers at that time had very legitimate arguments and concerns: "We cannot pass these prices down the chain"; "Companies that have been interested to work with almonds are going to stop research and development at these price levels"; "Once supermarkets de-list an item, it takes a long time to get the shelf-space back"; "Other nuts are much cheaper; buyers will do their best to substitute and to reduce the percentage of almonds in mixes;" etc.

At current levels, those arguments ring hollow. So what *are* the arguments for even lower prices?

- Now that new crop BSU5% is around \$1.80 per pound (\$396), should prices go to \$1.50 per pound (\$330) simply because some people have sold short and that is where they want the prices to be? That does not seem to be a satisfactory answer.
- Should prices go to \$1.50 per pound because European industry will buy more almonds at \$1.50 per pound than they will at \$1.80 per pound? This is also a specious argument. We have seen that industry is very happy to book their annual requirements at \$1.80 per pound as long as they are comfortable that the downside risk is minimal.
- Should prices go to \$1.50 per pound because developing markets will take more tonnage the lower the price? Maybe...but in our experience, we have seen the gateway to developing markets controlled by a few, well placed companies. These companies tend to ensure that the cream from any price advantage will go to them first. Though some price breaks will make it to the end user, the players along the chain will ensure that they are the primary beneficiaries of "kindler and gentler" pricing from origin. As long as the general price level is acceptable to a particular country's middle class (almonds are unlikely to replace rice or wheat as a staple foodstuff in the immediate future), the consumption trigger will have been pulled. A few cents more or less within that range are unlikely to stimulate consumption by an appreciable amount.
- Should prices go down because we may have a potential 1.3 billion pound crop next year?

Consider the following:

The most we have ever shipped was the season starting August 2003 and ending July 2004. During that period, we shipped 1.02 billion pounds. The prices in August 2003 were: BSU5% \$1.60 per pound (\$352) and NPS 23/25 AOL \$1.85 per pound (\$407). By July 2004, the end of this record shipping season, BSU5% was \$2.00 per pound (\$440) and NPS 23/25 AOL was \$2.25 per pound (\$495).

The second most we have ever shipped was the season starting August 2004 and ending July 2005. During that period, we shipped 984 million pounds (36 million pounds less than the record season). The prices in August 2004 were: BSU5% \$2.15 per pound (\$473) and NPS 23/25 AOL \$2.45 per pound (\$539). By July 2005, the end of the second most prolific shipping season, BSU5% was \$3.70 per pound (\$814) and NPS 23/25 AOL was \$4.15 per pound (\$913).

Are there a lot of ancillary factors that must be considered, like currency, carry-outs, crop expectations, etc.? Of course. But does that really eviscerate the core of the message? No. Prices doubled and consumption dropped slightly. Assuming that all the business in the 2004-2005 season was booked at the very lowest levels of the season (which many buyers feel is what happened, especially because of the subsequent crash), those prices are still higher than the levels at which the new crop is presently trading (and the US Dollar during that period was stronger: €1 = \$1.20 - \$1.30). The related reasons why all this happened matter, but they don't matter enough and they don't change the simple fact that people bought very nearly as many almonds at considerably higher prices. ***This is because prices were moving steadily up*** – buyers felt safe locking in a purchase, knowing that even at these high levels, the next purchase would likely be even higher. Ahhhhhh, the grossly underestimated virtues of buyer confidence.

It is likely that we may see a season of continued hand to mouth buying. Forward commitments could be lower for the 2007-2008 season than in years past because many people find the upward price potential of this crop to be small. What is the incentive, they say, other than locking in a favorable currency exchange, to book significant tonnage for later shipments when we may well have more than 1.3 billion pounds next season and when we all know that there are more producing acres ready to go in 2008?

Consider the following questions:

- Do you believe that we would have strong and continuous demand at existing prices if you were certain that \$1.80 / lb was the floor for the season? Though this is a purely theoretical question, the answer is meaningful because it is a true barometer distinguishing between a buyer's ability to buy at this price and his desire to buy cheaper. Inability stops a market cold – if you simply can't make money on a product, you are not going to buy it. In contrast, a desire to buy cheaper does not stop a market, unless it is broad based and effectively orchestrated....and often accompanied by a supply side that is under pressure to sell.
- Do you believe that a lot of people are selling short....and that more are likely to do so based on the 1.31 billion estimate? If yes, how much origin support will they have when they come to cover?
- Are enough growers in California convinced that the prices have to be a lot lower in order to move the crop? And who will determine how much lower? At what point will growers refuse to sell and take their chances? If that point is \$1.80 per pound, then buyers will almost surely buy at \$1.80 per pound and the market will probably move up from there. If that point is at \$1.25 per pound, and if buyers are able to step away from the market long enough for the requisite pressure to build on the sellers, then \$1.25 per pound it shall be.
- Could we see strong grower resistance to lower prices? Here it is important to note that the cost basis for growers can vary widely. Some have bought land at \$4,000 per acre and have little debt service while others have bought land at \$15,000 per acre (or more) and have much higher debt service. From growers that we have spoken with, the difference can be more than \$0.50 per pound. So what may be a great deal for one grower could be a loss to another. The markets do not care about personal losses

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on the micro level. Few will weep if a grower goes out of business for paying too much for land or being an inefficient operator. But if there are enough growers, who control meaningful acreage / tonnage, and who resist pricing, this *may* be enough to hold a surprisingly high floor. Time will tell.

With the current subjective estimate looming over their heads, California growers are going to face for the first time in several years the palpable pressure to sell and get out before their neighbor does. The growers' ability to hold the market stable, not the buyers' ability to sell forward at these levels, is going to determine where prices settle and how much tonnage is shipped.

This may be as good a time as any to live by what seems to be the motto of some of our trading friends: "The best way to predict the future is to invent it." (Alan Kay).

So, with that in mind.....any sellers of BSU5% at \$1.25 per pound? We are buyers!

Happy INC Congress to all those in Madrid.

Best Regards,
DERCO FOODS