

April 2012 Almond Position Report¹

April 2012 shipments are 148 million pounds. This is up 17.5% from the April 2011 shipments of 126 million pounds.

Analysis

Carry-in from the 2010 crop:	254 million pounds
2011 crop receipts:	2.017 billion pounds (first time ever over 2 billion pounds)
Less 3% loss / exempt:	60 million pounds
Less Shipments to date:	1.492 billion pounds
Less Commitments to date:	362 million pounds
Remaining Unsold Supply:	718 million pounds

Seller's Perspective: Shipments for the month of April set another new record. 7 of the last 9 months have been new records (including the past 4 months in a row). This has happened despite (1) an environment of economic and political uncertainty in Europe; (2) reported slowing growth in China; (3) turmoil and the threat of more serious conflict in the Middle East; and (4) signs of lingering recession and slowed economic growth in the US domestic market.

Exports for the month of April are up 19%. This is the 8th consecutive month of new export records. For the season, exports are up 30% to Asia; 6% to Western Europe (the supposedly fully developed, mature and saturated market); 18% to Central and Eastern Europe; and 27% to the Middle East and Africa.

The domestic market is up nearly 14%, with 7 of the last 9 months setting new records. Committed inventory is up 12% domestically and 44% for exports. Total commitments are up nearly 28%.

The bottom line is a year-over-year total shipment increase. With California almond exports up 15% over last year's record shipments in this difficult global environment, how can buyers argue that we are not seeing a complete paradigm shift in the global demand for healthy and versatile almonds?

"Truth is tough. It will not break, like a bubble, at the touch, nay, you may kick it about all day like a football, and it will be round and full at the evening." Oliver Wendell Homes, Jr. (1841 – 1935).

Buyer's Perspective: It would be foolish to argue that shipments are not astounding, especially given the difficult global political and economic situation. But the world is always facing some kind of challenge. People are not going to stop eating a healthy snack food just because some country is unable to form a government and may be leaving the Eurozone....or because another country has a young, new crazy leader who continues

¹ This turned out to be a long report. I know many of you get annoyed by long reports. No one used to get more annoyed than Peer Hosie. I hope he is on a sailboat enjoying himself in good health and far away from any almond reports. To help reduce your annoyance, note that there will not be another report out until the new crop is in, so you can just read 1 page of this report per month. Please don't write me to tell me the report is long. I know it's long. That's why I included this footnote....because it's long. Thank you.

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to test long-range missiles and has nuclear aspirations....or because another country has severe international sanctions placed against it which is totally disrupting trade channels in the region....or because another country has a guy who is sending his wife country-western song lyrics by e-mail while simultaneously ordering the bombing of his own people. Come on, that kind of stuff has been going on for as long the world has been around. Humans are silly beings motivated by greed, power and myth. Such petty matters are not going to stop us from eating delicious almonds!

This year there was really nothing else to buy. Almonds were a very good deal. Until recently, prices stayed stable and almonds presented a very good value in virtually every global market. Let's see what the future, and these new and relatively quick price increases bring.

Voluntary Aflatoxin Sampling Plan (VASP)

FRUCOM sent out a circular on March 3, 2012, indicating that European Union member states approved a draft regulation which maintains random aflatoxin checks on US almonds which are covered by VASP. On March 27, 2012, Regulation No. 247/2012 was published, transitioning almonds off special measures. This draft went into effect on April 17, 2012.²

Note that almond shipments not accompanied by the VASP certificate will no longer be allowed into the European Union. It is unclear if product diverted from other countries will be allowed to enter the EU.

Basically, a naturally grown food product which has helped humanity evolve for the past 5,000 years remains subject to aflatoxin controls by a union in which roughly 33% of the population smokes tobacco. There you go.

Bloom & New Crop Outlook

Bloom weather was very good. If we consider that we are talking about a crop grown on around 835,000 acres (bearing and non-bearing) – an area greater than half the size of the country of Luxembourg - we can't really expect much better weather across the board. There were some spots of patchy frost in the southern San Joaquin Valley and some reports of hail damage in the Central Valley, but seemingly nothing that will impact the final crop total in a meaningful way.

The official bee flight hours were very good; the unofficial bee flight hours were exceptional.³ The 2012 flight hours compare with those of 2006, 2008 and 2009. In those years, the average yields per acre were 1,836 pounds per acre; 2,172 pounds per acre; and 1,951 pounds per acre, respectively. The 2011 bee flight hours were marginal at best – and poor by most measurements – and we had a yield of 2,670 pounds per acre (2 billion pound crop on 760,000 bearing acres). Yet bee flight hour tracking remains a favorite pastime for the

² Almond Board of California – Memorandum – EU Legislation Change Impacting VASP Program (April 5, 2012); FRUCOM – Circular Edible Nuts 2012/03 – Update: Aflatoxin Controls On US Almonds At EU Borders (March 5, 2012)

³ Comparative Bee Flight Hours By Season During the Last 10 Nonpareil Blooms. Global Climate Center. March 2012.

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industry. We should be talking about planting density, but we continue to talk about bees as though they were the Holy Grail. Monty Python is smiling and singing.....⁴

Industry consensus seems to be that the Nonpareil crop set in the central part of the San Joaquin Valley will not be as good as last year. Again these are people who have trained eyes which we envy.⁵ Otherwise, the feeling is that the crop is solid, if not exceptional. The subjective estimate came out at 2 billion pounds. Buyers now consider 2 billion pounds to be a floor. Sellers consider 2 billion pounds to be the over-optimistic and over-corrective guess of growers who are embarrassed to admit that they have underestimated the crop 9 of the past 12 seasons by an average of 5% (which, if this average holds, would put the 2012 crop at 2.1 billion pounds). Last year the subjective estimate was less than actual receipts by 14%.

If this crop is lower than 2 billion pounds, it's not because of the weather. It's because the trees are tired and/or stressed. We don't fully grasp this concept of plant stress. Nevertheless, it must be a valid concept because I think it was mentioned on Oprah once.... And Oprah knows what she is talking about because looking at the past 22 seasons, there has only been one instance of 4 consecutive increases in yields per acre. This was during the four seasons from 2005 through 2008 (1545, 1831, 2161 and 2374 pounds per acre, respectively). If they were to increase again this year, this would be the second instance of a "fourth year in a row" of higher yields than the previous season. You either believe that planting density trumps previous history and that we are going to have a bigger yield than 2,670 pounds per acre, or you don't. The NASS Objective Estimate is on June 29.

Regional Bias

It's human nature to think "my market is slow, therefore the entire global almond market is slow and prices will come down." It's human nature for people to equate the reality of their immediate surroundings with that of the entire global situation. In that regard, January – March 2012 were interesting months. Few countries outside the Middle East and some European markets were showing serious buying interest. The rest of the world was convinced that inventories in their respective markets, coupled with difficult economic times, would force California to revise pricing downward in order to stimulate demand. California did not panic. Ten years ago, California would have looked like George Costanza running out of a kids' birthday party screaming "Fire!"⁶

China & Hong Kong

Mainland China had a good amount of almond inventory in March. We saw it ourselves. Most importers' warehouses were at least "respectably full." Some were close to being fuller than "respectably full." According to serious importers, had these almonds arrived before Chinese New Year, they would have been sold easily. The built-up inventory in China was a result of the slowdown in the import channels prior to

⁴ [Eric the Half-a-Bee](#) Monty Python (1972)

⁵ Their eyes may not be as trained as those of the guys from Queer Eye for the Straight Guy (and certainly not in Central California, where like Iran, there are no gay people), but trained nonetheless.

⁶ [George Costanza - Fire](#) ; Seinfeld – "The Fire" (May 5, 1994)

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Chinese New Year. Product got “hung up” at import points and simply did not get through in time for the heavy sales season. This inventory is already being digested of course – after all, this is China and everything gets done on a “big” scale.

In Hong Kong, inventories are manageable. Traders who purchased earlier are now selling at a few pennies below California’s price levels. Middle Eastern clients have been the primary beneficiaries of the inventory in Hong Kong and have gotten good deals, especially on large sized Nonpareils.

China / Hong Kong is up 41% for this season, with (amazing) shipments of 219 million pounds. For the month of April, China / Hong Kong is up 57% (9.5 million pounds v. 6 million pounds last April). Considering the fact that they also imported 21.5 million pounds in March (which was up 69% over March 2011), it remains to be seen how many of these almonds are going to end up in mainland China. Our guess would be that a considerable portion of the March and April shipments going to Hong Kong will move on to other destinations in transit. Of course, one limiting factor may be how well documents required for India and the Middle East can be “Photoshopped” there. The Indian government is getting picky about its fumigation certificates actually being authentic....Ah, those silly, picky Indians!

As for all the talk about China’s economic problems, most Chinese nut buyers are not too concerned about slowdown in economic growth (from roughly 9% to 7.5%, which is still a “dream” level for developed nations). They share the views of many analysts who maintain that negativity about the Chinese economy has already been factored in to global markets and that China will not have a hard landing. However these same processors (and economists, for that matter) are concerned about the higher and higher cost of labor in Guangdong province and the rest of the Eastern Chinese seaboard. It is becoming increasingly difficult to secure the cheap labor of years past....A good sign for the average Chinese; a challenge for the business owners and on global consumers who rely on cheap production coming from China. Just ask Apple....

Dubai & The Middle East

Sanctions against Iran have hurt Iranians as well as the importers in Dubai. Of that there is no doubt. Sanctions have slowed down the nut trade via Dubai, along with every other type of commodity going into Iran. Walnuts seem to have been the most impacted, as they are also facing competition from much cheaper Eastern European origins. Almonds, a more liquid commodity with more concentrated production in California, have had a relatively easier time.

Demand for almonds from the Middle East and North Africa has been robust. April shipments to the United Arab Emirates and Saudi Arabia were remarkable, up 119% and an astounding 612%, respectively. For the season, the Middle East is up 29% and has been a key driver of the overall market growth for almonds. Despite all the problems in the area, 8 of the top 11 markets are up over last season, with particularly impressive growth coming from Saudi Arabia, Turkey and the UAE.

During the past couple of weeks demand from the Middle East has softened, as earlier, lower-priced purchases are now arriving and there is sufficient inventory for buyers to book on the spot. It is also too late to ship now for arrival/use by Ramadan. But for this season, the Middle East has made its contributions and

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cemented itself as a market that cannot be ignored. Dubai - along with Mersin, a quick up-and-comer – have become two of the most important nut transshipment ports in the world.

India

Traders in Hong Kong and Dubai are selling inshell almonds to India at cheaper prices than California. The volumes have not been big – but it has been enough to divert some of the demand from California. Australia shipped inshell Nonpareil early on and seems to have slowed down now following post-harvest rains. India will remain a buyer in the coming months. Before the March and April shipments were released, the question was if California sellers would feel pressure and see any reason to drop their inshell NP prices, or if inventories of current crop were low enough to give sellers here the confidence to hold their expectations of \$2.00 per pound + for inshell Nonpareil. Now it seems clear that California is under no pressure, and inshell Nonpareil prices are over \$2.00 per pound FAS basis. Rupee valuation, lethargic local demand, and losses incurred from other commodities are impacting Indian importers. In short time all will be worked out as this is a destination that simply will not abandon almonds. Indian imports of almonds will only continue to grow. They are up 21% for the month of April and up 16% for the season.

Europe

Are European economic woes starting to have an impact on demand? Doesn't seem so. Some thoughtful European importers that we have spoken with during the past few months of course readily admit that Portugal, Italy, Ireland, Greece and Spain are all having problems of varying severity. Yet they maintain that almond consumption will not be affected much, if at all. According to these importers, the impact of a few almond purchases to an average family's budget is insignificant compared to the value and pleasure associated with the consumption of almonds and almond products. Accordingly, they don't foresee a big demand drop in almonds; they say that at worst consumption will stay stable. March shipments to Europe were up an amazing 20%. April shipments are up 2%. Season to date shipments (August 2011 – April 2012) are up 8%. Last year at this time, very few people in the almond trading community would have predicted this kind of growth coming from Europe.

Before the huge March shipment number of 172 million pounds, we did not expect prompt new interest to come from Europe for shipments during the May – September period, but since then, people who need almonds before new crop, and who are starting to get a more bleak picture about the actual size of the carry-out into the 2012 season, have decided to roll the dice and book more of what they need. Waiting for California to blink seems less and less likely. As a result, the price for current crop BSU5% has been rising steadily with some bullish people in California maintaining that before this crop is over we will see \$2.60 per pound. We cannot comment on that, but \$2.45 per pound has been done already with additional buying interest at that level.⁷

Conclusion

The market prognosticators, much like cable news television hosts, are setting the scene: 2 billion pounds is not enough. Demand must slow down. Prices must come up. The one challenge with this is that demand

⁷ The passive-aggressive European interest is reminiscent of an Armenian saying "Chem oozehr, paytz kuhrbanuhs teer." Loosely translated to "I don't want it, but why don't you just slip it in my pocket."

stops like a Maserati. Increasing prices stop like a steam train. By the time sellers recognize that they have overshot a price target, a few months have gone by. Then the question becomes: how inelastic is the demand for almonds in this new reality? Many things have changed since September 2005 when NPS 23/25 was trading at \$4.10 per pound...and six months later when they were *\$1.45 per pound less*. It would be foolish to try to make an across the board comparison with the market now and the market then – both from the supply and demand perspectives. Such dramatic price fluctuation will not happen in this environment. Nevertheless, it's good to always have a historical perspective. Human nature has not changed. Just like with the internet bubble, the real estate bubble, and all other historical bubbles, bright and articulate people give compelling arguments in the midst of the bubble why “this time it's different, this time it's not a bubble.” But as we know, rarely is it different and the outcome is often painful on sellers and especially on buyers who choose to be honorable.

To be extremely clear – we are not saying that we are anywhere near a bubble now....All we are saying is that let's do our best to not get into one and that moderation is always a good policy – on the up and down side. Is this market going to remain firm? No doubt on current crop – too much is sold and too little time is left for anything dramatic to happen. For new crop? We are very likely looking at a firm market, but many things can happen and being too sure can lead to pain and/or extinction. Just look at the “big” names in the almond business who are no longer with us. They were so sure of the market trends. Some of them even had their own planes....

Ultimately, it all comes down to price. Not necessarily a low price (whatever that means anymore), but the perceived “lowest” price for any given period. For this coming season, unless we have a catastrophic decline in shipments during the May – July period, or a NASS Crop estimate on June 29th of well over 2.1 billion pounds (which would mean a production of 2,800 pounds per acre or more), we simply don't see a big price drop to be in the cards to start the season. After this showing in March and April, shipments of 1.90 billion for the season are nearly certain. We expect May shipments to be as good or ahead of last year, which means that we are going to have a carry out of 300 – 345 million pounds going into the 2012 season.

Let's take an unemotional look at the market and just let the numbers speak.....(well, the numbers before the April report, anyway):

New crop BSU5 is trading about \$0.20 per pound below current levels....let's say \$2.25 per pound as an average for October – December 2012. Last September the average price for BSU5 was \$1.75 - \$1.80 per pound and NPS 23/25 was \$2.50 - \$2.55 per pound. The NPS price did not move much, staying within \$0.20 per pound for the entire season (lowest opening levels were in July, around \$2.35 per pound). The industrial side of the market moved up consistently all season, from the low of September to current levels of over \$2.40 per pound (mostly due to a lack of input stock and processors' reluctance to discount Cal SSR so far).

A BSU5 starting price of \$1.80 per pound would be a great way to kick-start new crop demand, though with the givens at this time, it is simply not going to happen. Similarly, an NPS 23/25 price of \$2.35 per pound would create a lot of excitement. But after having a record Nonpareil crop in 2011 where prices for NPS 23/25

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did not really dip below \$2.35 per pound (and were at that level only for a short time in July 2011), this again will not happen. And remember that production costs are not going down, nor is the price of land.

Yet all buyers around the world still talk about July 2010. Aaahhh, that was a fun month and its importance in less than two short years has become nearly mythical. Theseus is jealous of the mythology around July 2010. Hell, the Minotaur is, too. You know this story from previous reports, but it bears repeating as too many buyers around the world are still waiting for an encore performance that is not going to happen. So here goes...(California sellers, you can skip this part):

Many of us were in Modesto for an Almond Board meeting when NASS released the objective 2010 crop almond estimate at 1.65 billion pounds. The talk by the industry glitterati was that 1.5 billion was the realistic ceiling (the subjective estimate had come in at 1.53 billion pounds, which many already felt was too high). After the 1.65 billion pound number was announced, and the dropped jaws closed, the room emptied out and the meeting downstairs continued with fewer participants, as many ran to review both their sold positions as well as the client list to whom those positions were sold. Of course everyone was sure they had only "A-list" clients on the books, but it did not hurt to go to the office and check anyway, as prices were going to plummet. It was hard to follow the rest of the meeting as the sound of zippers being opened and pants dropping was deafening. Sure enough, prices dropped by about \$0.35 - \$0.45 per pound in a matter of a few days. But by mid-August, the market had recouped in its entirety the temporary but sharp decline in prices. The almond industry realized that it had given away a few hundred million dollars because of an unjustified panic.

During that 2010 season, California shipped 1.67 billion pounds; this was more than the entire new crop whose projected number had, less than a year earlier, traumatized them (actual receipts that year were 1.63 billion pounds; NASS was right, most everyone else was wrong). That year provided a big lesson for California sellers. California learned that this is now a multi-polar almond world and that almond demand is omnipresent – all you need to bring demand out of its hole is a little patience. Yeah, yeah, just a little patience.⁸

The way Europe swooped in to book the \$1.35 per pound BSU5 and China swooped in to book the \$1.85 per pound NPS 23/25 is etched in everyone's memory. The buying opportunity reeked so strongly that even the most blunt-witted buyers could not ignore it. Now even the most blunt-witted sellers grasp this concept, too. Patience.

With current crop so strong and the new crop prospects not realistically too much more than 2.1 billion pounds, there will not be a big disconnect between current and new crops. The higher current crop goes, the higher new crop will track. Until shipment numbers force California to moderate prices, we will likely see a \$0.20 - \$0.30 per pound price spread between the two crops and not much more. So barring economic or political catastrophe, we don't see a BSU5 market going below \$1.90 per pound this season, or NPS 23/25 going below \$2.30 per pound. If either does, it will be the buying opportunity of the year. To quote Bob Dole

⁸ [Patience](#) ; Guns N' Roses; G N' R Lies; 1989

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“I know it, you know it and the American people know it.” And because we all know it, it won’t be allowed to happen. Let’s just hope for moderation on the up side, so that everyone’s receivables (and our published defaulter list) stays short.

“A handful of patience is worth more than a bushel of brains.” Dutch Proverb.

Hope to see many of you in Singapore for the 31st World Nut and Dried Fruit Congress. We will all be sitting together this year in the adult dining room!

Best Regards,
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