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May 2011 Almond Position Report
Post-INC Bonus Section Inside!

May 2011 shipments are 130.4 million pounds. This is up nearly 42% from the May 2010 shipments of 91.9 million pounds.

Analysis

Carry-in from the 2009 crop:	321 million pounds
Estimate for 2010 crop:	1.65 billion pounds
Less 3% loss / exempt:	49 million pounds
Less Shipments to date:	1.422 billion pounds
Remaining supply:	474 million pounds

Shipments & Receipts

Seller's Perspective: We don't think that there is much to say when shipments are 130 million pounds and 42% over last May, and 10% over the previous record of 119 million pounds set in May 2009. But we will say a little bit anyway.....WE'RE FABULOUS. WE LOVE THIS INDUSTRY. WE'RE MAKING TONS OF MONEY. EVERY MORNING WHEN WE LOOK IN THE MIRROR, WE STEP BACK, TAKE A DEEP BREATH, AND EXCLAIM: "IT'S GOOD TO BE US!"

Buyer's Perspective:

Committed Inventory

Seller's Perspective: Domestic commitments are up 41%; Export commitments are up 47%. Uncommitted inventory is down 33%. Do you see our wide grin through the e-mail? Do you? We know you do! We know you do!

Buyer's Perspective:

Domestic

Seller's Perspective: Did we mention that domestic shipments are up 9%? Well...they are up 9%!

Buyer's Perspective:

Export

Seller's Perspective: Oh, and export? Up 66%.....it's Pandemonium! Europe roared back, wiped out the seasonal deficit and is now positive for the season – heck, +2% is +2%. Great job Europe! Asia up 22%. Mid East up 19%. Way to live and eat with uncertainty Middle East. We may bomb you occasionally, but we really love you. It's tough love, you know how it goes.

Buyer's Perspective:someday prices will come down again. We know they will. And our mothers still love us. They do.

Global Export Market Analysis

We're trying to find a market that is down season-to-date. We've found some...and let's talk about them.

Thailand down 2%: The Thais don't have time for almonds. Have you been following the election news there? Pichien Amnatvoraprasert, Pheu Thai, Chatthaipattana and Chart Pattana Puea Pandin are talking about joining hands. Between that and learning to spell each other's names, of course they are down. You think these guys have time to buy almonds?

Vietnam down 35%: Vietnam is not really "Vietnam"....if you don't know what this means, you're not really in the almond business. As long as shipments are up more to Hong Kong or China than they are down in Vietnam, all is well. No hard feelings, Vietnam. Now get back to doing what you do best: defaulting on cashew contracts.

Australia down 13%: This is 265,000 pounds, and the poor guys down there are busy trying to sell their own nuts. Cut them some slack. It's not easy riding the coattails of the California almond industry. After all, the Australian Almond Board has to justify its budget too. They can't just keep holding "ditto" meetings every time. We'll just credit them the 6 FCLs.

New Zealand down 32%: Call us when the next installment of the Lord of the Rings is coming to theatres.

Belgium down 3%: These guys can't agree on a government or a language. In a market moving up this fast, you think they can pull the trigger on almonds? They'll just pay more and buy from the spot market in Europe. Good luck, Belgium. You need it.

Finland down 40%: Finland buys almonds? Is NOKIA using them in their new smartphones?

France down 4%: OK, a serious importing country. We'll give you this one.¹

Greece down 27%: Just wait, once the Drachma is back, Greece will regain its swagger and once again be the underachieving country that rests on the laurels of it's 3000 year old ancestors. Hang in there Greece! Yassou!

Switzerland down 1%: The Swiss are down 3 loads. For their watches, chocolates, and organization, they get a pass.

United Kingdom down 4%: The difference in nuts (about 50 loads) have probably been sold, just not covered yet. Sorry UK, the cover is likely going to be expensive. But living in London you guys are used to paying retail prices for wholesale services. Get ahead of new crop while you still have a chance.

¹ We've lost too much money in France to make jokes. And the French tend to be more sensitive about these matters. We love you France. You'll catch up; we know you will. Feel good about yourself.

Croatia down 42%: If we don't know where your country is, we can't worry too much about shipments being down. And anyway, Novak Djokovich did really well. You should be proud. Wait.....what?.....He's Serbian?oh.....sorry.

Czech Republic down 20%: Hey, not bad for being half a country! Way to go Czech Republic!

Latvia down 35%: Estonia did not even make the cut, so that's good news. But Lithuania is up 21%. How does it feel to be the middling Baltic state? Next month, go for excellence. Just 1 million pounds and you'll own the Lithuanians. They're already getting nervous because they know you can do it. Come on, \$2.20 per pound BSU5% is nothing for you guys. You lost 26% of your GDP after the global crisis in 2008 and you're still around. Suck it up and get off the shame list.

Cyprus down 18%: Please, these guys have divided an Island the size of Los Angeles because they can't co-exist in the 21st century. Greek, Turkish.....the food is the same. The coffee is the same. So you have some slight religious differences that have led you to kill each other for millennia. Get over it. God's not nearly as worried about this stuff as you are. Kiss and make up or next year Qatar is going to kick your ass. Then you'll have real problems.

Israel down 11%: Home to HaMossad leModi'in ule Tafkaidim Meyuchadim....aka MOSSAD. Any country that has the capability to kill you while you are writing an almond report doesn't get made fun of....period. Israel, you import any amounts that you want. You're the chosen people. We're not holding it against you that you wandered in a desert the size of Palm Springs for 40 years and could not find your way out. A bad sense of direction is no laughing matter. You'll do better next year, when you don't pass up \$2.00 per pound NPX 20/22 as being too expensive. We know, we know, it's hard not to haggle, even when you're down to the bone marrow. Go Bibi...Go Settlements!

Turkey down 1%: Turkey is picking itself off the mat, after getting a big-time beating by the Chinese. Early in the season when Turkey was complaining that \$1.50 per pound inshell Nonpareil was too high, China booked a thousand loads. Same happened with walnuts. The good news is the new crops are just a few months away. Son in honor of their motto "We don't leave your office until you surrender and give us the inshell we want!" California hotels better be ready, 'cause there are gonna be some "Extended Stay" almond and walnut parties coming to town!

Egypt down 9%; Morocco down 38%: Ok, normally we would give North Africa a pass under the political circumstances of this year. But Libya kicked your butts, Egypt and Morocco! Come on, learn from the Libyans. A little rocket fire, some NATO bombs and a major port closure should not prevent you from importing a larger quantity of almonds than last season. Suck it up, put on a helmet and a bullet proof hijab, and go support your local grocer!

New Crop Estimate

The 1.75 billion pound subjective estimate seems, by now, to have been totally dismissed by buyers and sellers alike. California clung to it for a few weeks, to help cement the increase in current crop prices. But now, the current crop market has taken a life of its own, and most in the market have accepted 1.85 billion as a more “realistic” figure to use for the 2011 season.

The Objective Estimate....the Oracle of Delphi...has been delayed from June 30 to July 6. NASS needs those 6 days to nail down the estimate. And they know that putting it out during the first four days of vacation that I’m taking since 1997 will spare you all a report.

Here's the interesting thing about the objective estimate: most everyone in California thinks that this crop is 1.85 billion pounds or more. Many will tell you privately that they think it could well be 1.90 billion pounds or more. But the bearing acreage figure that NASS is going to have to use as the multiplier is 750,000 acres. To get 1.9 billion, the average per acre yield would have to be 2,533 pounds. This is possible, though it seems unlikely on a statewide basis. One thing that certainly seems more likely this season than in ones past is that the final receipts will be greater than either estimate. By March-April, we will know just what was harvested, and the full impact of the bearing and non-bearing acreage.

What does this mean for the market during the most crucial period? Probably not much at all. Even if a buyer is 100% sure that the final crop size is greater than all the estimates, business has to take place with the givens before us. No one can wait for the December receipts figure to cover his holiday needs. All that may be potentially waiting to happen is a price correction after the holidays. Most people in California will say “Who cares?...we’ll wait for that to happen and in the meantime, we will capitalize on the months between now and then, confident that we will have big monthly shipments.”

The sentiment in California now is: “This season we are going to ship at least 1.65 billion pounds. This is the entire new crop, plus a good bite out of the 321 million pound carry-in we had. So if shipments in 2011 increase by another 10% this coming season – against what will certainly be higher walnut, pistachio and pecan prices – that’s 1.815 billion pounds of shipments. Assuming a 250 million pound carry-out and a 1.9 billion pound crop (1.84 billion marketable), total supply for the 2011 season would be roughly 2.1 billion pounds. This would leave us with a 285 million pound carry-out. What’s the big deal? Do these numbers justify any degree of anxiety?”

The sentiment by overseas buyers is: “We are screwed on current crop. We are likely screwed on new crop through November. After that, it’s a crap shoot and we are willing to take our chances that a few quiet weeks will give us more buying opportunities. If California pushes things too high too fast, and we get one shipment month that’s not a new record, there will be enough buyers with good arguments, and sellers without enough cash for grower payments, and prices will come down. That’s the beauty of having so many handlers, some of whom should not be handling anything.”² Buyers really don’t have much else to go on for the time being. But

² This is not a veiled Anthony Weiner joke.

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things change quickly, and humility on both sides is a great virtue. Remember, we joke about the adversarial relationship, but buyers and sellers make this industry. Without either side, we are all looking for new jobs.

Conclusion

May was big. June will be big. July will be big, too. Most processors are now already booking for second half July forward. The discussion on the current crop is closed. If you're short, you're out of luck. Pay, cover, and wait for the next buying opportunity....it will come. But for now, California is not going to cut you any slack. Those sitting on inventory are loving every minute of this....and those sitting on Carmel Supreme? They're in heaven. They are almost getting more satisfaction in pointing out that you should have booked their last offer, and in giving you a market lecture, than in making a new sale. It's a good time to be holding almonds...Of course 3 months ago, some of these same marketing gurus were bemoaning the end of the almond eating world and polishing off their resumes. It's a great business we're in!

It's been repeated ad nauseum, but buyers all around the world, the US included, are too-often underestimating global demand for nuts, especially almonds. We have seen a 10-year growth average of more than 7%, with every single large crop having found a home, with only a few California panic moments thrown in (mostly either grower-emotion, or under-capitalized-processor driven) covering a few (usually Spring) months, but admittedly recalibrating pricing, if only for a short period of time.³

The old-school buyers and sellers are finding out that the game has changed. Not the ethics; but the fundamentals. There will always be honorable people (the vast majority of people in our business) and there will always be the crooks. Look for the latter at INC cocktail hour. As we all know, the bad guys wear the white hats, right? And try not to get annoyed that they could pay the INC registration fee, but couldn't pick up those documents on the loads they abandoned in Hamburg....did I say Hamburg? I meant "Hamburg" in the most generic, non-German sense.⁴

Here are some musings, and how we see some things unfolding (which means you should do the opposite to make money):

- There was no real Australian inshell this year. In seasons past, there was. This must mean that more inshell business went to California from the current crop (it did). And also that more new crop than usual demand is going to come to California (it already has, in some cases). Look for inshell demand to

³ I wanted to include this sentence as an example to all of you of what a poorly-written, run-on sentence looks like.

⁴ German buyers, I am not talking about you. So please don't send me e-mails expressing your shock at singling out Germany...I'm just singling out your port, which happens to be a busy one that non-Germans ship to also. Thank you. Any by the way, I have already forgotten about Mehdi Rahimian, who is not a German buyer anyway...he was just a buyer who happened to import almonds into Germany. He was (and still is) of course Persian, and if you recall from editions past, we failed to "shame him in the bazaar", though our attorney certainly spent enough money to shame *someone* in Tehran. It helps for us to think that the shaming money was well spent....Speaking about Mehdi, I hear he has a nice car, great carpets, and one heck of a silverware collection. Doesn't it just do your heart good to know that you have contributed to the wealth of the already wealthy? But as I was saying, the statute of limitations on that annoyance has passed. And I was talking about Mr. Shabbir, anyway. My mother used to always say that I hung onto things for too long.

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be huge for the first few months of the new crop. India, China and Turkey are going to be big buyers of inshell. Bigger than you think. The jockeying for shipment position has already begun.

- It is rumored that some Hong Kong traders are short. We do not know if this is true or not, but there were certainly many reports of Inshell Nonpareil sales at \$1.60 per pound CIF Hong Kong at the same time that business was being done at higher levels. If there are people who are indeed short, they are likely going to have a hard time profitably covering their short sales, especially for September – October; and especially on inshell. Once they decide to come to origin and actually buy what they sold, two things could well happen: First, they may realize that California has already sold a lot of September Nonpareil, and is not anxious to sell more at low prices. Second, the surge in this “new” demand will further embolden California sellers to hold or increase their prices. You can bet that, in case the objective estimate in July is more than 1.85 billion pounds, you will get more bearish pressure from Hong Kong than anywhere else in the world. The stakes are highest for that region and the best window to try to push the market down, even for a few days, is after a big July estimate which “surprises” growers.
- The crop is late – by at least 2 weeks. This means that current crop inventories have to last longer. No significant chance of a price drop. The only question becomes how the transition will be handled, once new crop is ready to ship, because the price difference between current and new crop is considerable. And in fairness, shipping mostly 2010 crop in September only means that shipping the 2011 crop is going to be delayed. The new crop is not somehow just going to disappear. It will just intensify the demand for new crop initially...and then California will either sink or swim on the strength of the monthly shipment numbers. We don’t expect many buyers will be eager to book forward long positions.....
- The strength of current crop shipments, if they continue for the 2 last months of the season (and we are confident that they will), will result in a much smaller carry-out than anticipated. We’re thinking about something in the range of 250 million pounds or less.
- Demand from Europe for the second half of the season was surprisingly strong. Many had written off Europe as being in economic turmoil, and felt that there was no way that they could catch up on seasonal shipment totals....but they did. We expect the European market to continue to surprise people. We’re in the minority, we know.
- Even a surprisingly big objective crop announcement is unlikely to impact September – October shipments. Demand simply cannot wait.

“Forgiveness is the fragrance the violet sheds on the heel that has crushed it.” Unknown Author.
(Working on it.....it’s a great virtue.)

Best regards,
DERCO FOODS

Top 10 Things Overheard at the INC in Budapest.....

10. “Antonio?.....Antonio??.....Antonio???”
9. “Should this boat be tilting this much to the left?”
8. “More goose liver pate and more goulash, please. Koszonom.”
7. “What can I say? I was going to the bathroom every ten minutes because I wanted those beautiful ladies working for the INC to keep scanning my badge. Was that so wrong?”
6. “I am glad that I was in good physical shape before coming, or I may not have been able to keep standing during lunch.”
5. “Did you see the faces of some of the Turkish delegation? Those poor guys were putting on their headsets, excited to hear the inspirational speeches on the nutritional value of dried fruit. Instead, they heard Jimmy Buffet singing [Why Don't We Get Drunk and Screw?](#)
4. “**Who’s** in the cashew business together now??”
3. “We **are** a gender sensitive organization....we have one woman on our board!”
2. “Welcome to SINGAPORE!”
1. “Your table reservation, Mr. Dermenjian?.....Oh, no reservation, I’m so sorry.... you will have to eat in the foyer. Only people with reserved tables can eat in the actual dining room..... Pardon?...Oh no, the registration fee and the fact that you were a speaker and also booked a suite in the hotel for 6 nights does not allow you to sit in the dining room. Now please step aside sir, you are holding up the line of more important people behind you.....Yes, Mr. Shabbir, how may I help you?”⁵

⁵ You don’t have to write to remind me that the fact that I was staying in a beautiful, luxurious, Danube-front suite with a very big Nespresso machine, and a hand-written welcome note (that was addressed to Mr. Cuneyd Zapsu), has nothing to do with the INC and the preferential, reserved seating that I did not get. I fully recognize the fact that the proceeds of my over-priced, not-actually-so-nice suite, went to the shareholders of the InterContinental Hotels Group plc. Oh...and this section is meant to be taken in JEST. The INC organizers do a great job, and if attendance was not so good, I would have been able to sit at the grown-ups tables too. Lighten up. Life is short. And I get too many e-mails as it is.