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May 2014 Almond Position Report

“I never think of the future - it comes soon enough.”

Albert Einstein (1879 - 1955)

May 2014 shipments are 143.7 million pounds. This is 9.2% higher than the May 2013 shipments of 131 million pounds.

2013 Almond Supply

Carry-in from the 2012 crop:	317 million pounds
2013 crop receipts to date:	2.007 billion pounds
Less 3% loss / exempt:	60 million pounds
Less Shipments to date:	1.652 billion pounds
Less commitments:	282 million pounds
Remaining unsold supply:	329 million pounds

Shipments & Receipts

Seller's Perspective:

“For certain is death for the born
And certain is birth for the dead;
Therefore over the inevitable
Thou shouldst not grieve.”

Bhagavad Gita (250 BC - 250 AD), Chapter 2

We know. We understand. It's very frustrating – month after month of record shipments despite historically high prices. A small dip in prices giving a ray of light, a glint of hope, a sliver of optimism....then another market jumps in to buy, splits the seam, shatters your dream and steals the cream. It just isn't right. It isn't. We wish it wasn't so. For your sakes. But sadly, it's not in our hands. It's demand – that dreaded demand. At the end of it all, we're just the growers and sellers....you control the demand....we're not pointing fingers because we understand that “when blame is the goal, understanding is the victim.”¹

Buyer's Perspective:

With May shipments up 15.3% and year to date shipments up 4.7%, we recognize that our last hope for a correction in prices for the short term is the June 30 Objective Estimate. If we don't see a 2.15 billion pounds+ estimate, any correction will be just temporary, creating a buying opportunity for markets and importers all low on inventory. Swimming against this demand current is futile.

“When defeat is inevitable, it is wisest to yield.” Quintilian

Commitments

Seller's Perspective: Export commitments are up 25% at 166 million pounds - an incredible showing considering the historically high price levels.

¹ Difficult Conversations; Bruce Patton; April 1, 2000.

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Buyer's Perspective: Domestic commitments are down 22% to 116 million pounds. Total commitments are flat at 282 million pounds. Uncommitted inventory is up 10% to 329 million pounds.

Seller's Summary: On average for the past 5 seasons, California has shipped 250 million pounds between June and July. Commitments from the 2013 crop are already 282 million pounds. If another uncommitted almond is not sold from the 2013 crop, then the carry out is going to be 330 million pounds. California is firmly in the driver's seat for now.

Domestic Shipments

Seller's Perspective: Just barely a new record at 54.64 million pounds...and just happens to be the 8th month out of 10 to set a new domestic shipment record.²

Buyer's Perspective: California sellers, you are humility personified.

Export Shipments

Seller's Perspective: This is where it gets exciting for us. For the 2013-2014 season, China/HK is down 30% (about 58 million pounds). Vietnam is up 3 million pounds and this increase can be assigned to China/HK, but it does not make a meaningful difference. India is down 20%, or 23 million pounds. Despite the decline in shipments to these 2 titans, who last year through May had purchased a total of 316 million pounds whereas this year they are down to 238 million pounds (-78 million pounds), overall shipments are still up 74 million pounds. This is a swing of 152 million pounds. Western Europe is up 20% or about 75 million pounds. Some of this is rightfully attributed to a poor crop in Spain...but all of it? Unlikely. Western Europe has proven to be a much less price elastic market than expected and also much less 'mature.' We love this new-found immaturity. Stay crazy Western Europe! We love you Spain, our new largest global export market! Some of you foolishly thought that King Juan Carlos was abdicating the throne to give his son, Felipe, and the younger generation, a greater voice and chance at leadership. Nonsense! He just needed more time to eat Turrón!

Where Western Europe has shone bright, most of Eastern Europe has folded like a cheap suit, down 17%. They were led by Russia, down 28% (-11 million pounds), which this year decided that it could not effectively both import almonds and invade Ukraine at the same time. Sadly, the invasion didn't help Ukrainian almond consumption either (-36%) – shattering the heretofore well-established notion that almonds are the most commonly consumed bomb-shelter snack. We understand that Orville Redenbacher is quite happy, though.

² What can we say, we are trying to keep it low key and to be humble. As Oscar Levant (1906-1972) succinctly stated: "What the world needs is more geniuses with humility; there are so few of us left." We're doing our best to not rub it in. usa usa usa!!!

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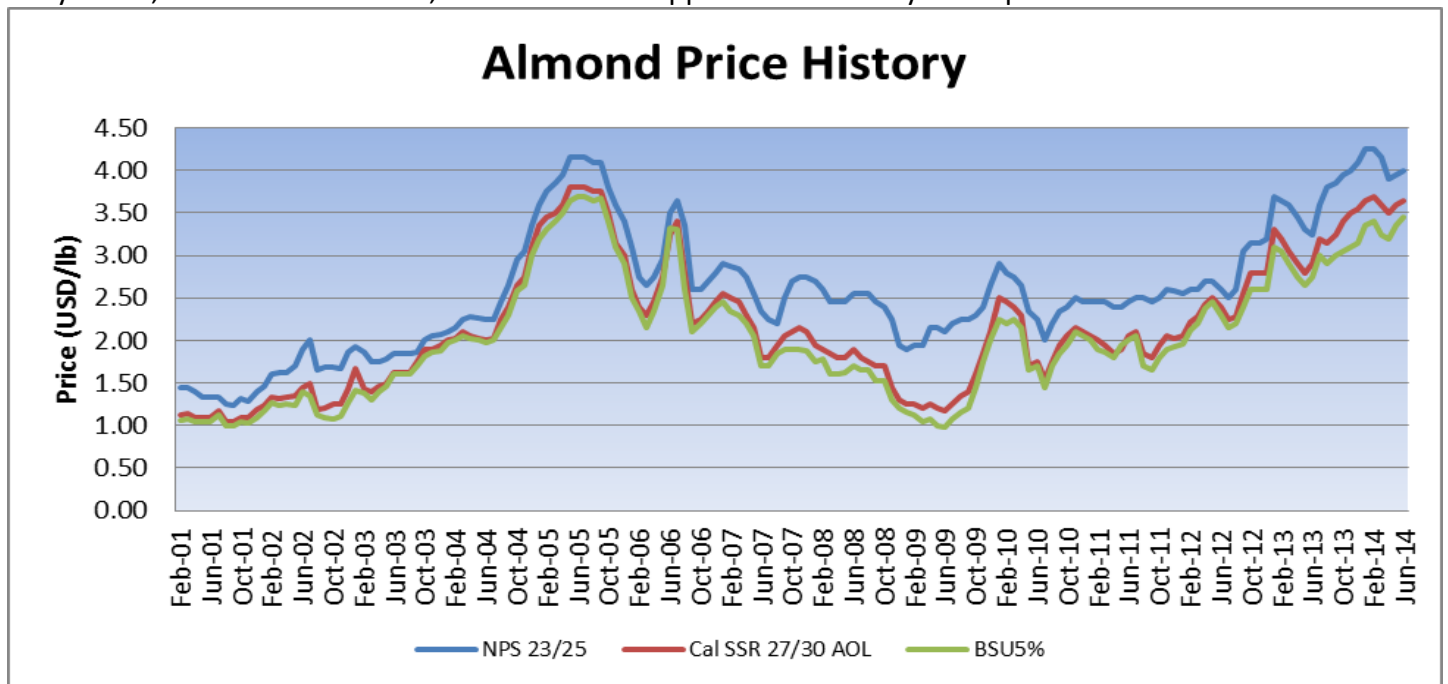
Staying in the general region, just when you thought that all Bulgaria could produce was Olympic wrestlers and weight lifters, their almond imports are up 45% to 2.6 million pounds.³ Bulgaria – we love their watches and jewelry (though they seem a bit overpriced) and as soon as we can find them on the map – we are going for a visit!

The Middle East up 21%, led by the United Arab Emirates at 73 million pounds (+6%), Turkey at 47 million pounds (+46%) and Saudi Arabia at 12 million pounds (+35%).⁴ You can't stop these guys from eating almonds. War, insurrection, bombings, sectarian killings, sanctions, nuclear ambitions, stonings, hangings, beheadings....they all just whet the appetite for more baklava, basbouseh, harisa or ma'amoul.

Buyer's Perspective: That pretty much covered everything. Thanks.

Prices

"Any event, once it has occurred, can be made to appear inevitable by a competent historian." Lee Simonson



³ ...and an admittedly delicious cheese....Bulgarian Kashkaval is a must-try...visit your local deli and then melt some in freshly-baked pita bread in a toaster oven at 425°F/233°C, until the pita bread looks reddish and crispy – then cut into small triangles and enjoy. Goes great with a nice, cold watermelon on the side. But try not to eat it too late at night or you may experience multiple unwanted visits to the restroom. We know, all this wealth of almond information, recipes and genitourinary advice - for free. The value proposition is simply staggering.

⁴ This is indisputable proof that when you prevent women from leaving the house and driving, they are forced to cook more foods with almonds. Hey, our view is simple: Any restrictive policies that directly or tangentially have a positive impact on almond sales and consumption are laudable. In fact, we're not sure why the Almond Board of California is wasting its time with celebrity trainer Gunnar Peterson when the King has made it clear that he would be delighted to be the spokesman for the industry. Come on Richard....we can do better! Give Abdullah a call or send him a text on WeChat. He may be hanging out in the desert and busy managing his Iron-Age repressive regime, but he's got Silicon Valley savvy to be sure, baby.

Conclusion

“Discovery consists of seeing what everybody has seen and thinking what nobody has thought. “
Albert Szent-Gyorgyi (1893 - 1986)

The talk globally these days in regards to almonds is:

- What is the June 30 Objective estimate going to be?
- What impact is the drought actually going to have on production?
- What impact is the drought actually going to have on quality?
- Are these new crop starting prices sustainable?
- If there is a decline, when will it come and how big will it be?

Is the crop 1.9 or 2.2 billion pounds? Many growers with whom we have spoken seem to think that the potential for a great crop would have been realized this season *if* water was not an issue. But of course sentences with an “if” thrown in tend not to be too informative or useful. As the crass saying goes, “if my aunt had nuts, she’d be my uncle.” Water is an issue – so how many bearing acres are impacted and what’s the final crop size?

All of us non-water people have started sounding professional while throwing around phrases like ‘water deficit irrigation’ and ‘permeable and porous aquifers.’ Eighty percent or more of the discussion at the INC in Melbourne (a truly well-organized affair at a great venue) was about water. Sadly the water experts in attendance were not able to harness the powers and expertise of King Julian.⁵ A few of the attendees and speakers knew what they were talking about in regards to water. Most of the others in attendance were just parroting what they heard from the few who knew what they were talking about, for the sole purpose of pretending to be in the group of those who knew what they were talking about. Basically, it was like a typical session of the US Congress.⁶

⁵ [Water Sacrifice](#)

⁶ A Congress which, by the way, will be without its Republican House Majority Leader – Eric Cantor – who last night lost the primary election in his Virginia district to the Tea Party Candidate, David Brat. A warm “Thank You” note was promptly sent by Hillary Clinton. We were lucky enough to get a preview of the contents of the card, which read: “Dear Congressman-Elect Brat, A heart-felt thank you for defeating Eric Cantor last night. Majority Leader Cantor had a few reasonable ideas which will surely be lacking once you and your Tea Party agenda make it to Capitol Hill. After all, we cannot have liberal-minded freaks like him in office. He only voted with a majority of the Republicans in the House 95% of the time and brought a mere 40 votes to the House floor to defeat Obamacare. In a display of brazen financial irresponsibility, he voted to approve \$50 billion in aid for victims of Hurricane Sandy and soon thereafter voted to raise the debt ceiling. Can you believe it? He wanted to help the victims of a natural disaster on US soil and prevent the federal government from shutting down! Worst of all, he opposed the Democratic-led Senate’s immigration bill and backed the immigration principles issued by Republican leaders in January 2014. I am so happy that you have unseated him and look forward to hearing your extreme right wing views for the future of our nation. I join all my moderate, female and Hispanic supporters in thanking you for helping me to become President of the United States in 2016. Thank you for your support. Warmest regards and best wishes, Hillary.”

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The bottom line is that no one really knows what is going to happen. Are the nuts going to be smaller in size because of reduced moisture? Are they going to appear or actually be shriveled?⁷ Are they going to be too dry and susceptible to heavier chipping and scratching after going through the hulling and shelling process? Are more than the usual amounts of nuts going to fall off the trees during the heat of June – August? We have been experiencing a strong heat wave in California with temperatures in the San Joaquin Valley at or above 100°F/38°C. The crop is progressing ahead of schedule and some growers indicate that they will be harvesting two weeks ahead of last year.

Inventories are low in most areas around the world. Many regions need to buy and yet everyone is understandably afraid. Looking at the past 10 seasons, there have not been many price-trend declines initiated between the months of June and October. The last precipitous decline occurred in October 2005 (NPS 23/25 fell from \$4.10 in September to \$3.80 in October and eventually all the way to \$2.65 per pound in March 2006 before starting a recovery in April). There was a price recalibration in August and September of 2006. Then between June and July of 2012, prices fell about \$0.20 - \$0.30 per pound. The recovery of prices in August 2012 was swift and considerable. That's all our record-keeping shows. Now our numbers are more accurate than what you would get from the Turkish hazelnut industry but not as accurate as those from the Chinese walnut industry....so ultimately you'll have to take a leap of faith. For many of you, that's easy.

We are staunch believers in fundamental economics: supply and demand determines market pricing. Every time that we have thought "this time there is an elemental and seismic shift which precludes fundamentals from applying" we have lost money. A cursory review of our stock market and real estate investment track record would make a Requiem Mass seem like a Justin Bieber concert.⁸ In fact, few people know that there is an economics course at California State University of Fresno called: "The Dermenjians and Passive Investments: A Study in Faulty Assumptions, Poor Market Timing and Flawed Execution." We are very proud to have our name associated so closely with the university, though we wish that it would rather have been because of a sizeable donation that a more thoughtful investment strategy may have allowed us to make. We leave that in the hands of the almond and walnut growers who did not think that \$4,000 an acre was "too expensive." Ahhhh hindsight - it's a bitch.

Back to almonds... the problem with sticking to the supply/demand fundamentals is that we don't know what demand really is – and certainly not at these rising price points. Everyone pretends to know, but we are not convinced that anyone really does. Shipments to Hong Kong are ending up in Dubai. Shipments in Dubai are

⁷ Apologies to some of our visual Middle Eastern friends who are not interested in objective quality control criteria and for whom this distinction is immaterial. If a kernel looks shriveled or looks like it is chipped or scratched, then of course it is. The opinion of a Pakistani Pathan in regards to almond quality carries more weight than a study conducted by a team of PhDs at UC Davis. Objective USDA inspection criteria are for the weak minded. Viva Nepal! (We know that Nepal is not in the Middle East...but it felt like a good fit here....see Eddie Murphy's [The Golden Child](#) ...there's really not much of an excuse for having made this movie).

⁸ We would not be able to name one Justin Bieber song, but as some of our readers are either (a) under 30 or (b) have a bad taste in music, we thought that a 'hip' reference may make this report seem more trendy. Some have commented that endless references to music and movies from the '70s, '80s and '90s is très passé and dating the author. They don't seem to realize that we listen to Boney M and Gloria Gaynor records on our turntables...not sure what the problem is?

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headed to Iran and all other GCC countries....or to India via Pakistan. Almonds landing in Rotterdam end up all over Eastern, Central and Western Europe – or even in Russia.

What we seem to know is that demand is stronger and more resilient than people believe, or want to believe. Buyer posturing ten years ago could change the market in California. It no longer does. There is a financial strength, patience and discipline in the almond industry like never before. Whether or not this 'unity' stays in place in the face of (1) a surprisingly large objective estimate or (2) following multiple lower than expected shipment months remains to be seen. For now, the bonds of unity among California growers are strong and offers are somewhat limited – supported by strong financials and fanned primarily by concerns of drought.

There is a new standard of pricing in our almond, walnut and pistachio worlds. "High" is no longer "high." So what is the new high and new low? Looking back at 2008 – and that is a hard thing for us to do because it was a year emblazoned in our memories by the love shown to us from Elche.....But as my colleagues insisted that I delete my diatribe in this section dealing with black 750 BMWs and seafood paella, it will have to suffice just to note that BSU5 fell from \$1.65 per pound in August of 2008 to \$0.95 per pound in July 2009. We won't see \$0.95 per pound almonds again; not for any variety, grade or size. By the way, note that this price of under \$1 per pound was not 60 years ago...it was 6 years ago. How far this industry has come and how big global demand has grown in such a short period of time.

In this brave new almond world, if we were to see a quick \$0.20 per pound price drop because of a larger-than-expected estimate, higher-than-expected carry out or lower-than-expected shipment month, what we would see is not wide-spread panic, but rather, wide-spread opportunity hunting. We are confident that a quick and meaningful price drop would bring in buyers who are waiting on the sidelines - waiting for a 'safer' price point at which to enter the market. This, in turn, would lead to an equally quick price increase. Si jeunesse savait, si vieillesse pouvait!

Here are the approximate opening prices for Inshell Nonpareil over the past three seasons respectively: \$1.65, \$1.85 & \$2.15 per pound. For the 2014 crop year, the opening level was around \$2.60 - \$2.65 per pound. We fully recognize that it's human nature to compare prices to the previous year. \$1.85 was high compared to \$1.65. \$2.65 is really high compared to \$2.15 (oh, and by the way, there are no sellers today at \$2.65 per pound). But just think about the following:

- The last time that NPS 23/25 was below \$2.00 per pound was in March 2009.
- The last time that NPS 23/25 was below \$2.50 per pound was in August 2011.
- The last time that NPS 23/25 was below \$3.00 per pound was in August 2012.
- The last time that NPS 23/25 was below \$3.50 per pound was in June 2013.
- The last time that NPS 23/25 was below \$3.75 per pound was in July 2013.

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We are not going to bet against the almond market. With China down 30%, India down 20%, Europe up 20%, and the US domestic market on track to be up 8% or more for the season - overall shipments up nearly 5% and prices at near-historic highs - we don't have an accurate handle on global demand. And when you don't have an accurate idea of demand, it's best to keep your feet inside your blanket; less likely to catch a cold that way.

"If two men agree on everything, you may be sure that one of them is doing the thinking."

Lyndon B. Johnson (1908 - 1973)

Best Regards,
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