

June 2009 Almond Position Report

June 2009 shipments were 118 million pounds. This is up about 15% from the June 2008 shipments of 102 million pounds.

Analysis

Carry-in from the 2007 crop year:	231 million pounds
2008 Crop Receipts:	1.613 billion pounds
Less 3% loss / exempt:	(48 million pounds)
Total available supply:	1.795 billion pounds
Less shipments to date:	1.268 billion pounds
Remaining supply:	527 million pounds

Shipments

Seller's Perspective: Let's show you a trend. No, really, we *want* to show you a trend.....Just 4 seasons ago (2004 season) June shipments were 66 million pounds. In the 2005 season, they were 80 million pounds. Then in 2006, 82 million pounds. In 2007, 102 million pounds and this season, 118 million pounds. This trend holds virtually for every month this season – a 12 month period that has seen the worst global economic times since the Great Depression. During the most difficult stretch when confidence was shaken and shipment records were not set (October 2008 – January 2009; some of you will recall this time: investment banks were folding, car companies were on their way to bankruptcy, home values were plunging, unemployment was sky-rocketing, the stock market in the US was down more than 50%, etc. etc.), the average net shipment reduction was just under 4% per month. In contrast, between February and June, net shipments are up an average of 23.8%. Year to date net shipments are up over 9%. The Future's So Bright, I Gotta Wear Shades.¹

Buyer's Perspective: "All you need in this life is ignorance and confidence, then success is sure."² Drop prices enough and yes, you can see GM sell more cars than Toyota. We need to buy some BSU5% at \$1.10 per pound please.

Export

Seller's Perspective: Up 17.5%, despite Western Europe being down 6% and Eastern Europe being down 8%. New record. The Boys Are Back In Town.³

Buyer's Perspective: We need to buy some NPS 23/25 at \$2.05 per pound please.

Domestic

Seller's Perspective: Up nearly 11%. New record. God Bless the USA.⁴

Buyer's Perspective: We need to buy some Cal SSR 27/30 at \$1.20 per pound please.

Objective Estimate

Seller's Perspective: Released on June 30, the content of the National Agricultural Statistics Service report is now well known and circulated. 1.35 billion pounds, on 710,000 bearing acres, 17% below last year's crop, with Nonpareil projected to be down 26%. This year we are going to ship at least 1.367 billion pounds. This is going to leave a maximum carry-out of 425 million pounds. Taking out the new crop loss/exempt of 3%, there

¹ Song by the group Timbuk3. 1986.

² Mark Twain (1835-1920), *Letter to Mrs. Foote*, Dec. 2, 1887

³ Song by Thin Lizzy. 1976.

⁴ Song by Lee Greenwood. 1984.

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will be a total of 1.734 billion pounds to sell next season as opposed to the 1.795 billion pounds available this current season. Assuming no shipment increases in 2009, we will still end up shipping more pounds than the new crop is bringing in (1.367 billion pounds v 1.35 billion pounds). Considering a minimum of 5% growth (pessimistically assuming a year of worsening global economic conditions), we will have a maximum carry-out of 300 million pounds. We expect the carry out going into the 2010 season to actually end up under 250 million pounds. So when we talk about pricing....Let The Good Times Roll! ⁵

Buyer's Perspective: The crop will be bigger than 1.35 billion pounds. Bearing acreage is underestimated. Third leaf production is unaccounted for. There's global warming. The manatees are dying. It's raining in Kinshasa. People are reading Sam Harris. Michael Jackson is dead. Prices will stay low! They will.....they will.....they will.....I Have A Dream, a song to sing!⁶

Conclusion

With the objective estimate behind us and only one month left in the 2009 season, the almond availability picture has taken on some much needed clarity...and most of the clarity points to a bullish market. Below is a quick regional analysis of how we see things developing this season.

EUROPE

After months of defaults, spot product being readily available, and a second hand eager to beat down prices as far as possible – the tide has turned. The bottom has been hit and the rebound is on its way. Inventories in Europe are dwindling and suddenly there is unexpected demand coming for July shipments and as far forward as California will sell. There are plenty of buyers for BSU5% at \$1.10 / lb (current crop) and no sellers as of today. There are plenty of buyers of new crop BSU5% at \$1.15 / lb and few sellers as of this morning..and likely no sellers remaining by the time you read this report. We expect BSU5% new crop to be offered above \$1.20 per pound (if not \$1.25 per pound) by tomorrow.

It appears that European economic recovery will be slow and lag behind the American economy. This may continue to impact consumption, but it is unlikely to affect pricing from California on anything but the industrial grades. The shipment results were achieved by-and-large this year without Europe's contribution. So barring a collapse in that market, an unexpected and disproportional availability of BSU5% input stock from the new crop, a rapidly strengthening US Dollar, or irresponsible price increases from origin, the overall almond market in California should not be married to European demand. This last factor seems to be the most probable risk. If California gets too bullish and starts believing it's own press, demand will shrink. The key is to find a balance of good value and good returns without California withdrawing en masse (as it is always prone to do), raising prices too much, and creating an inflated bubble which will pop at the first sign of slowing shipments.

MIDDLE EAST

California's new best friend. So what if a majority of Californians cannot find most of the countries in that region on a map? Charley Daniels may not like 'em, but the San Joaquin Valley almond growers sure as heck do! Shipments up 54% on the season. March – May shipments to this region were heavy. Consequently, current inventories are full and the political turmoil in Iran is not helping the smooth movement of product from hubs like Dubai. The price of Nonpareil in Dubai is cheaper at the moment than what is available from origin. But that is going to change quickly. Stocks are being used and healthy demand should come back by the end of the summer.

⁵ Song by Shirley & Lee. 1956.

⁶ Song by ABBA. 1979.

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The Middle East is likely to repeat its strong performance for the 2009 season, with the bulk of shipments going in 2010 in order to meet Ramadan. With a relatively short Nonpareil and Carmel crop, those varieties are expected to continue to command big premiums. Those who can buy and hold early will do so. Most in the region do not have the capacity to warehouse, and most California sellers are not keen to sell forward to the Middle East. So importers there will buy January onwards and likely pay higher prices than we are seeing today.

ASIA

Japan is flat. Alphaville may be Big in Japan, but almond shipments have not been this year. About 45 million pounds and holding.

South Korea – the market where you ship the container and head to your house of worship for a quick blessing on your receivables – is up more than 27% (4 million pounds to 19.4 million pounds of shelled). This is probably a good thing...as long as prices are going up.

In China - imports are astounding. 66.9 million pounds of shelled compared to 34.5 million pounds last season through June. 30 million pounds of inshell compared to 10 million pounds last season. The questions facing China for the 2009 season are: (1) How are the Hong Kong and Vietnamese importing channels going to perform this year? Will there be arbitrary crackdowns and seizures or will the uncomfortable tango continue? (2) What is the abundance and lower pricing of pistachios (China's preferred imported nut) going to do to almond shipments? (3) As China has become much more quality conscious, emphasizing Nonpareil, Carmel and California Supreme or better quality, are they ready to pay the higher prices which are almost a certainty? China is exceptionally price sensitive and importers there will shift their allegiance to any given nut based on a dispassionate profit analysis. If they can't make the margins they need on an item, they will drop it or decrease quantities dramatically. So will NPS 23/25 over \$2.35 per pound have much traction in that market? Check back in March 2010.

India – the world's largest inshell market – took about 3 times more kernels this year than last (8.3 million pounds v. 2.8 million pounds last season through June). They also imported about 3.5 million pounds more of inshell, at 71.3 million pounds. This is an exceptionally important market for California, especially early in the season. Indian imports of inshell Nonpareil between August – October generate cash for growers, pad the ever-so-studied shipment figures for that period, and create room for the storage of the crop being harvested. These 3 factors are critical to California growers regaining their solidarity and confidence in the market. If growers are moving product, seeing strong shipments, and have room to hold almonds, prices can only stay firm. On the other hand, if the crop is indeed 2 weeks late and India does not jump in the market with both feet, preferring to buy hand-to-mouth and leveraging their Australian purchases, and considering the fact that Ramadan for the coming season is a long way off, the Fall months may not be so rosy for California. Let's all hope that India gets hot and stays hot. Jai Ho!!

In closing, we note that when everyone thinks one thing is going to happen, something else often does. There are too many variables in an ever-shrinking and interdependent world to get too arrogant or sure of a market trend. Let's not forget that we are seeing these shipment figures because prices are at historic lows, the US Dollar is weak, and most other nuts are more expensive.

"Arrogance is a kingdom without a crown." George W. Bush.⁷

Best regards,
DERCO FOODS

⁷ Just kidding. It's an American Proverb whose author is unknown.