

2010 Objective Estimate & the June 2010 Almond Position Report

June 2010 shipments are 97.77 million pounds. This is down about 17% from the June 2009 shipments of 118 million pounds.

Analysis

Carry-in from the 2008 crop year: 413 million pounds
2009 Crop Receipts: 1.405 billion pounds
Less 3% loss / exempt: (42 million pounds)
Total available supply: 1.777 billion pounds
Less shipments to date: 1.359 billion pounds
Remaining supply: 417 million pounds
Projected carry-out into 2010 crop: 300 - 315 million pounds

Shipments

Seller's Perspective: Domestic shipments were great.

Buyer's Perspective: 97.77 million pounds shipped represents the third highest overall total for June. Sadly, this is not good enough to have a positive impact on the market...this is the price you pay for setting the shipment bar so high and the pricing bar so low (you were selling BSU5% at \$0.98 per pound last June...don't wax nostalgic.... you will likely be there again soon).

Domestic

Seller's Perspective: Domestic shipments were great.

Buyer's Perspective: Yes they were. A new record at 39.68 million pounds (breaking the old record set last year of 37.2 million pounds).

Export

Seller's Perspective: Domestic shipments were great.

Buyer's Perspective: Yes....you are right....they were.

Objective Estimate

The objective estimate of 1.65 billion pounds was released on July 8th.¹

¹ This number was seen around the world. When you saw it you exclaimed:

(A) **Holy Shit!** And smiled...because you are short...and you started spending the money you have not made yet, which is just around the corner, if you can only time this thing right...and wait just until the right moment before the rebound to cover your positions.

(B) **Holy Shit!** And feigned a nervous, constipated smile....because you are long...and because there were people around you when the announcement was made. You of course have to pretend that nothing bad ever happens to your company because you always make perfect decisions and always have only A+ customers who not only never default, but they pay you early too. Admit it, we all know growers and processors like this (who just got their last load paid from the guy who is defaulting on the rest of the universe). We just can't name them because we need to buy from them again!

(C) **Holy Shit!** ... And just cried. And that's ok. God still loves you. But just remember what he does to Defaulters. I don't recall off hand, but I'm sure it's addressed somewhere in the book of Judges or Leviticus or one of those other warm and fuzzy books of the Old Testament that talk about the consequences of the sins of sodomy, eating rabbits, and wearing clothes made of mixed fibers. Just sit tight and wait for the lightning to strike. It's coming. And if you're lucky, it will only be lightning...without much smiting, pillars of salt or swarms of locusts.

The significant points from the report:

- 2010 almond production is up 8% from the subjective estimate and 17% above last year's crop
- Nonpareil variety is forecast at 640 million pounds – 18% above last year and representing 39% of the total production
- Average nut set per tree is up 7% from 2009
- Average Nonpareil nut set per tree is up 9% from last year
- Average Carmel Type nut set per tree is up 6% from last year
- Average California Type nut set per tree is up 14% from last year
- Average Mission Type nut set per tree is down 6% from last year
- Average kernel weight of all varieties is 1.72 grams – up 9% from last year

This number surprised buyers and sellers alike. We have been speaking with responsible and experienced growers, many of whom thought that the 1.53 billion pound subjective estimate was too high. We have also met with countless visitors from Europe and Asia who drove through the valley and commented that the crop was spotty: great in some places and weak in others (which happens to also be our opinion). None of them really thought this was going to be a record crop. The weather during bloom was average at best. And the bee hours...the bee hours...the bee hours. For crying-out-loud they were down, down, down. This 1.65 must be an aberration. More and bigger nuts per tree? With reduced bee flight hours? If we can't count on the bee flight hours to accurately predict the size of our crop, what is left that is sacred? Where is meteorologist Tom Dunklee?

The impression from both buyers and sellers was that this was not a "limb-breaker" crop (referring to a heavy nut set which causes the tree limbs to break if they are not pruned sufficiently). Consequently, 1.65 billion pounds projected was a shock. In the past 10 seasons, the USDA's National Agriculture Statistics Service (NASS) has missed a few estimates. They underestimated the 2002 crop by 11% and overestimated the 2004 crop by 7.5%. A "miss" similar to the 2004 episode this year would mean that the 2010 crop should really only be 1.526 billion pounds. A considerable difference from the reported objective number.

There are those who are already saying with sincere conviction that NASS indeed missed this estimate and that they underestimated the impact of the poor Nonpareil set in the central part of the San Joaquin Valley. But all that really means, if in fact it turns out they did overestimate this crop, is that they cost the California almond industry a few hundred million dollars in lost revenue. Is that a reason to get upset at anyone? It's only money, friends. And look at how many buyers they have made so happy in the interim. Every dark cloud has a silver lining!

Ultimately, whether NASS was right or wrong is irrelevant for at least 4 – 5 months. Until (and if) we start accumulating receipts that point to the contrary, every buyer in the world is rightly going to refer to this number and to the consequences it presents....which are:

Projected carry-in:	310 million pounds
Objective 2010 Estimate:	1.65 billion pounds
Less 3% loss / exempt:	50 million pounds
Total available supply:	1.91 billion pounds
Projected shipments:	1.56 billion pounds (for Aug 1, 2010 – July 31, 2011; +7% over 2010 shipments)
Carry-out into 2011 season:	350 million pounds

2670 West Shaw Lane, Fresno, California 93711 U.S.A.
Telephone (559) 435-2664 • Fax (559) 435-8520 • www.dercofoods.com • e-mail: derco@dercofoods.com

A reduction in the actual receipts or a greater than 7% increase (which is not only possible, but likely in the coming year) can reduce the carry-out considerably. But for now, this is where we are and there is no shortage of product shown in the scenario above. This is now officially a buyer's market.

Currency & Finance

Many people in the US almond industry are counting on increased sales to China to help absorb some of this record crop. It's still unclear what the actual annual almond consumption of China is (as opposed to just the raw shipment data to HK / China which does not account for re-exports, etc.), but it's over 100 million pounds. This will almost certainly continue to increase in the coming years. A strengthening Yuan will of course benefit exports to China. During the past three weeks, the Yuan has appreciated by 0.7%, though US treasury officials are saying that the Yuan remains "undervalued" and are pushing for faster appreciation.

Chinese officials are worried that economic problems in the EU may impact demand for products made in China. The US economy is still also anemic. This reduced overseas demand, coupled with slowing domestic demand within China and an appreciating Yuan, would have a negative multiplier impact on Chinese exporters (though so far this impact has not been felt and Chinese exports to Europe are on a record pace). Nevertheless, a gradual, long term appreciation of the Yuan against the USD seems likely. This is good news for California almond shippers.

The Euro has made a small comeback...some more good news for exports. After falling to an average of €1 = \$1.22 in June, it is back to €1 = \$1.26 so far in July. This is neither a vote of confidence for the European nor American economies. Rather, it is a daily contest of perception relating to which region is in more lamentable condition.

Conclusion

1.65 billion pounds on 740,000 acres = 2,230 pounds per acre. This is only the second highest yield per acre (behind the 2,400 pounds per acre yield in 2008-2009). So perhaps the objective estimate is not wrong. Perhaps it's a function of the increased bearing acreage, the impact of which has not been fully accounted. Perhaps.

Last June, average prices were:

- BSU5% \$0.98 per pound FAS
- Cal SSR 27/30 \$1.18 per pound FAS
- NPS 23/25 \$2.10 per pound FAS

So it's no surprise that shipments were 118 million pounds.

To the best of our knowledge, the dates for Diwali, Christmas, Hanukkah and Chinese New Year cannot be pushed back this year. So buyers have a finite window in which to purchase what they need. Virtually every market is low on inventory, because they have been using up spot and afloat goods since February. And whether you believe it now or you don't, you can rest assured that every market around the world is going to buy more almonds this coming season than ever - it's the cheapest tree nut around and the versatility, positive perception and health message penetration are second to none.

But despite these compelling arguments, the market will do what it does: overcorrect (on the down side this time). There are 100 handlers of almonds each with their own agendas, financial needs and storage limitations. So the key now for buyers and sellers alike is to just hit the bottom as quickly as possible. The downward price samba is not in anyone's interest. Stop with this \$1.50, \$1.40, \$1.35 bullshit – more than half of it is second hand paper trading anyway, just baiting anxious processors down the path of overcorrection. If as a grower /

2670 West Shaw Lane, Fresno, California 93711 U.S.A.
Telephone (559) 435-2664 • Fax (559) 435-8520 • www.dercofoods.com • e-mail: derco@dercofoods.com

processor you cannot pull off the market and go on a fishing trip to Cabo San Lucas or to a NASCAR race that lasts until early August, then our best advice is: just drop your price on BSU5% to \$1.00, ensure that your growers are totally annoyed and ready to hold their crop instead of sell another pound to you (even though you have been begging them to sell but they insisted to wait for the estimate). You will have set the bottom and the upward recovery will be quick. Inventories are low and demand is absolutely present.

Following this advice is pulling the band-aid off quickly and getting to where you are going to go anyway faster. Otherwise, enjoy the follicle by follicle pulling agony of the slow, steady band-aid tug.²

A wise man once told me, "When almond prices for any type / variety fall to \$1.00 per pound, buy all that you can for whatever shipment period. And rent a warehouse for storage if you have to."

Defaults

With this big number now in front of all of us in the almond industry, there are going to be customers who are going to turn up who were "gambling with your money." These special types of individuals have the uncanny ability to make their wrong decisions your responsibility. And just like Bill Clinton, they will convince themselves that their transgressions are not really transgressions – just like "oral sex" does not really constitute "sexual relations." This is a rare talent indeed, but one that should not be tolerated in a serious industry where there are many reputable alternatives to these monkeys. There is nothing wrong with speculation if you pay your bills when you are wrong. But if, as the old country saying goes, "you extend your feet outside your blanket," and you choose not to honor your contracts – you cannot and should not play with those who follow the rules.

California growers and processors - if you discount to one buyer or let him walk away from a contract, you are insulting honorable companies in California and in the buyer's markets overseas who are honoring their contracts and paying you. Have respect for your contracts and you will also be showing respect for your good, ethical customers – which make up the vast majority of buyers around the world.

California growers and processors - remember that "**Cannibals prefer those who have no spines.**" Stanislaw Lem (1921-2006).

Best regards,
DERCO FOODS

² Those of you of Mediterranean or similar "follically favored" ancestry will appreciate the pain described above. This metaphor is lost on most of our Northern European friends.