

June 2011 Almond Position Report

June 2011 shipments are 135 million pounds. This is up 38% from the June 2010 shipments of 97.7 million pounds.

Analysis

Carry-in from the 2009 crop:	321 million pounds
Receipts for 2010 crop:	1.627 billion pounds
Less 3% loss / exempt:	48.8 million pounds
Less Shipments to date:	1.578 billion pounds
Remaining supply:	341 million pounds

Shipments

Seller's Perspective: 135 million pounds. In June. Just when we thought that things on our fishing trip to Cabo could not be any better, we checked our Blackberries, saw this number, and our fishing trip to Cabo just improved. It is now virtually guaranteed that by the end of July we will have shipped around 1.65 billion pounds (up at least 12% over last season), and have a carry out of under 250 million pounds. Just to sum it up: for the 2010 season, we are going to ship the entire marketable 2010 crop plus around 70 million pounds of the carry-in. Remember when 1.65 billion pounds seemed big and unmanageable? Remember?

Buyer's Perspective: A tremendous shipment month.

Domestic

Seller's Perspective: Shipments are down less than 1%, but the domestic commitments are very strong. There is no question that the domestic market will continue to shine in the 2011 season.

Buyer's Perspective: We agree with you.

Export

Seller's Perspective: Exports overall are up nearly 65%. But the star for June is Europe....Hey, Europe....have I told you lately, that I love you? Have I told you there's no one else above you? Fill my heart with gladness, take away all my sadness. Ease my troubles, that's what you do.¹

A few months ago there were reports out in the industry questioning if the season had slipped by for the Europeans and if "old" Europe was simply out of touch and becoming irrelevant on the global almond stage. Well it seems that today's shipment figures prove that Europe is not dead yet. Europe as a whole is up 97% compared to June 2010. Germany up 98%; Italy up 160% (assuming they actually pay for all their shipments, this is fabulous news); Netherlands up 63%; Spain up 118%; United Kingdom up 96%....we're not even going to

¹ "Have I Told You Lately That I Love You" Van Morrison, 1989 ([Avalon Sunset](#)). I'm thinking of the Rod Stewart version. It does not get any cheesier than this. It's not Air Supply, but it'll do. So Europe, [Have I Told You Lately](#) ?? (Rod picked the violinist solely based on her violin bowing and intonation skills.)

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touch Sweden (up 411%) and Denmark (up 226%). There hasn't been this much heat in Denmark since the days of Guthrum. Even Greece is up 3%....a collapsing economy and street riots can't keep our Hellenic brothers down for long!

The Middle East did OK too...up 67% this June compared to June 2010. Saudi Arabia was up 412%. They certainly weren't going to let the infidel, blond-haired, topless Swedes win the biggest shipment month increase award. It's inspiring to see the Saudis put their oil revenues to good use. And just wait until they allow their women to drive alone and to go food shopping when they want. Just think of what that will do to almond sales! The future is so bright for the Saudis, that they're all wearing shades....²

Buyer's Perspective: What do these kinds of shipment figures tell you about the inventory situation in Europe and Dubai looking ahead? Right. We don't need to buy much for a while, but you need to sell every month to keep up your shipment pace and to help move this 1.95 billion pound crop. You've averaged 13% growth for the past 7 years and you're going to need every bit of that this coming season.

Committed Inventory

Seller's Perspective: Up 31% domestically. Just beautiful. Down 8.9% for export, which is understandable when you consider the export figures above. Uncommitted inventory is down 36%, to 161 million pounds. Can we sell almonds or what? We're hotter than a Florida realtor preselling un-built condominiums in 2007!

Buyer's Perspective: Don't really have anything that beats a Florida realtor selling pre-market crash overpriced real-estate. Let's just go with that....

Objective Estimate

Seller's Perspective: 1.95 billion pounds? If that's what NASS says, then that's what it is. We learned our lesson last season. We don't question NASS.

Well, 1.95 billion pounds is nothing to worry about and here's why: The carry-out into the 2011 season is going to be 240 million pounds. We will have a total marketable supply of around 2.13 billion pounds. We are going to ship 1.815 billion pounds during the 2011 season, leaving a carry-out into 2012 of 315 million pounds. Admit it, that 1.95 billion pounds really doesn't seem so big, does it?

Buyer's Perspective: Great plan. Had you dropped prices \$0.20 - \$0.30 per pound and allowed buyers to jump in with confidence and book some serious forward tonnage, we may have agreed with you. But the industry has been in denial about the size of the new crop, and has been riding on the coattails of strong current crop shipments, projecting this strength onto the new crop. Or to give it a more positive spin, California sellers have shown incredible discipline in holding prices relatively firm after a shockingly high estimate. The problem is that the above textbook, theoretical scenario calls not only for record shipments, but for considerable record shipments – up at least 10% over last season's impressive levels. The first month that is not another

²and shalwar kameez's, dishdashas, agals, hijabs, abayas, niqabs, and burqas...at least until they leave Saudi air space.

strong record is going to stir up tons of bearish sentiment. And that shipment month may come as soon as July.

Conclusion

Most of us who have been in the industry over 10 years need to admit that we really cannot look at past seasons to project much of value into the future any longer. This game is just different now than what it was even 5 years ago. Global demand has reached new heights and there are few signs of a slow-down. These shipment records are being set in an environment of global economic uncertainty, hardship and fear. This fact eviscerates arguments that the condition of the global economy will thwart almond demand growth moving forward.

Yet this does not mean that fundamentals don't matter. They always do. Just look at what has happened to the global economy in the past few years if you need a reminder that irrational exuberance always ends in heartbreak. An objective analysis of the 2010 season shipment numbers show that we can no longer make any kind of meaningful determinations about a season by looking at just one month. The religiously accepted "seasonality" of almond shipments in years past is now a thing of the past.

135 million pounds in June is difficult to fathom. This was what we shipped in *September* of 2009. Between September – December of this season, California shipped around 673 million pounds. Between March and June of this season, California shipped 521 million pounds. Sure, it's less than the peak pre-holiday months...but it's still a staggering number if compared to the same period in previous seasons.

What does this mean for this coming season? Here are some thoughts:

- A precipitous price drop is unlikely to happen. Sellers fully realize that with a \$0.20 per pound price correction, demand will erupt for prompt shipments through as far as offers will permit. We are already hearing that both China and India will book all the inshell Nonpareil that they can get their hands on at \$1.60 per pound FAS basis. The same will be true from Europe for BSU5% at \$1.50 per pound and from the Middle East and Asia for NPX 23/25 at \$2.20 per pound. This should not only help sellers in their solidarity (which we are already seeing), it will also help buyers have the confidence to book without fearing a collapse.
- The lack of a violent price drop will also prevent resellers from taking positions which would allow them to later under-cut origin prices. The potential liquidity that such resellers provide in local markets will be limited, which will lead to more business coming directly back to origin.
- There are now many viable and important global markets, representing many diverse interests. Global buyer solidarity is now difficult to achieve, because buyers are now truly "global," not just concentrated in one region. Dubai, Hong Kong, India and other markets now play a more prominent role than ever before. Consequently, the concerted efforts of just a few markets are not as impactful across the entire spectrum of almond products. Germany, Spain and the UK going quiet for a few weeks may impact industrial material prices for a while, but it is unlikely to lead to an overall market

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correction, as would certainly have happened just a few years ago. If one market can wait, another cannot. This dynamic will likely create enough “churn” to prevent sellers from panicking.

- Seasonal demand now no longer means “September – November” demand. It means “entire seasonal demand, from August 1 – July 31.” Sellers who panic because of one or two “off” months will likely regret their decision to drop prices a few short weeks later.
- Production capacity in California may come into play – and buyers sometimes refer to this when arguing that shipments in the peak season of September – November cannot grow dramatically. They may be right to the extent that California may not be physically capable of processing 250 million pounds in one month. But if every processor is running at capacity, and is heavily booked for the weeks ahead, then a shipment number that is not a big new record will not have much relevance. Ultimately, there are not many more compelling arguments to hold a market firm than one’s own production facility running at capacity.
- The very high price of other nuts will act as an umbrella for almonds, to the extent that profit maximization and substitution will permit. Buyers are rational, economic actors. They know that the average container of almonds costs \$88,000 and that the average container of walnuts costs \$175,000. Inshell Nonpareil at \$1.75 per pound for 70% meat basis does not seem so bad when compared to inshell Howard/Chandler walnuts at \$1.60 per pound for 48% meat basis; or inshell hazelnuts at \$1.75 per pound; or inshell pistachios at \$3.75 per pound; or inshell pecans at [name your price here].

Few buyers are saying that prices are too high at current levels, even with the 1.95 billion pound crop. What they are saying is that they think prices “should and will” drop. They are saying this because they are comparing this season to last season. This is the famous “one-year-business-recall-phenomenon.” We all suffer from it. In moderation, it’s effective. Taken as the Infallible Word of God, it’s crippling. Buyers who wait for a repeat of last season may be waiting for a while, as their competitors book up the desirable early shipment positions.

Last season, the 1.65 billion July objective estimate freaked California out and prices plummeted in 2-3 days. But the recovery was swift and complete, as all origins pounced on California’s panic and bought at bargain-basement prices. Those who sold at the bottom kicked themselves all season. This time around, California is taking its chances that buyers will pay the going prices, and that shipments will stay strong enough to prevent a widespread decline. As long as California can hold the line when faced with a few weaker than expected shipment months, the strategy should pay off. But if there is a crack in the armor, buyers will be ready with a myriad of arguments to push prices down....creating a brief but unmistakable buying opportunity.

“It is better, of course, to know useless things than to know nothing.” Seneca (5 BC – 65 AD). My mother, and Seneca, would be proud.

Best regards,
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