

June 2013 Almond Position Report
"Believability"

Inside this report.....

- *Bovine flatulence and global warming: 'Fart Chart' no laughing matter!*
- *Order one full-priced entrée and get 50% off the second – only at Le Club 55 – where kids always eat for free!*
- *Found: Republicans who believe in science and Democrats who believe in accountability!*
- *Jeddah to host the 2014 Sports Illustrated Swimsuit Edition photo shoot; Al Hudaydah spurned!*
- *LGBT film festival in Karachi a huge success with record attendance!*
- *2013 NASS Objective Estimate: 1.85 billion pounds!*

June 2013 shipments are 137 million pounds. This is down 2.9% from the June 2012 shipments of 141 million pounds.

Analysis of the 2012 Almond Season

"If you believe everything you read, better not read." Japanese Proverb.

Carry-in from the 2011 crop:	335 million pounds
2012 crop receipts:	1.885 billion pounds
Less 3% loss / exempt:	56 million pounds
Less Shipments to date:	1.715 billion pounds
Less commitments to date:	256 million pounds
Remaining unsold supply:	192 million pounds

Shipments & Receipts

"It is hard to believe that a man is telling the truth when you know that you would lie if you were in his place."
H. L. Mencken (1880 - 1956)

Seller's Perspective: Nothing left to sell. 192 million pounds over 100 handlers. You do the math.

Buyer's Perspective: Come on, come on....somebody tell us: where did those 5 million pounds in new June receipts come from? Someone harvesting some really late varieties?

Commitments

"Man is a credulous animal, and must believe something; in the absence of good grounds for belief, he will be satisfied with bad ones." Bertrand Russell (1872 – 1970)

Seller's Perspective: Total committed shipments up over 18%. Uncommitted inventory *down* nearly 12% compared to last season, after being *up* nearly 11% last month. A huge swing.

Buyer's Perspective: Somebody was busy last month.

Domestic Shipments

"In the province of the mind, what one believes to be true either is true or becomes true." John Lilly (1915 – 2001)

Seller's Perspective: Another record.

Buyer's Perspective: A broken record.

Export Shipments

"Believe those who are seeking the truth. Doubt those who find it." Andre Gide (1869 – 1951)

Seller's Perspective: The beauty for us is that exports are down around the world except Europe, and yet we still posted this strong shipment number in June. Asia-Pacific down 27%; Middle East down 24%. India, China, Dubai – all have to buy. Europe is up 16% - and this is due almost exclusively to Spain. Viva Reus! Viva Alicante!

Buyer's Perspective: Latvia is up 250%. Lithuania is flat. Estonia did not make the board. There is some serious Riga Black Balsam getting consumed tonight as the Latvians celebrate some Baltic ass-whooping.

Currency

"I believe in an open mind, but not so open that your brains fall out." Arthur Hays Sulzberger (1891 – 1968)

The USD has been strong against most major world currencies with the exception of the Chinese Yuan. Particularly vociferous complaints have come from India, where the Rupee has weakened by more than 10% since January.

NASS 2013 Objective Estimate

"Nobody believes the official spokesman... but everybody trusts an unidentified source." Ron Nesen.

Believe it or not, NASS's estimate for the 2013 crop is 1.85 billion pounds. When the bulls in the industry consider this number to be "on the lower side of industry expectations," well – you make of it what you want. We are still believers in NASS. They have been more accurate than the subjective estimate for 11 of the past 12 seasons. But with this 1.85 billion figure, they are making it hard to keep the faith. But we can do it. We still believe that Mel Gibson is not an anti-Semite!

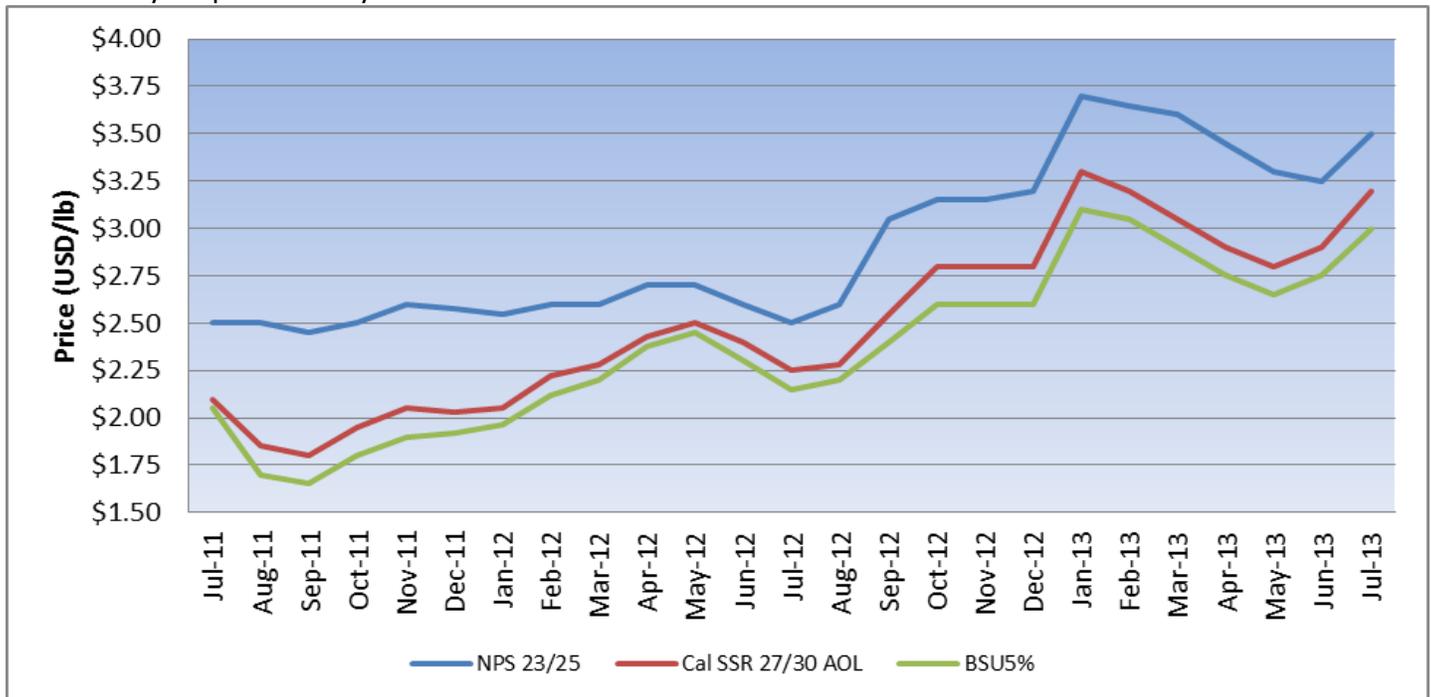
The chart below shows what the NASS Objective Estimate has done to prices.

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Prices

“We must believe in luck. For how else can we explain the success of those we don't like?” Jean Cocteau (1889 – 1963)

Here is a 2 year price history:



Seller’s Perspective: This price increase is justified to reduce demand. There is virtually no current crop left, with big demand for NPX, Carmel Supreme, California SSR....which handler is holding any substantial tonnage when the entire uncommitted inventory sits at 192 million pounds?

Buyer’s Perspective: The January 2013 price increase was justified, too...remember? Look up at the chart; see how that worked out for you. Demand has already been reduced. For the year, every single export market with the exception of North America is down: Asia-Pacific **-5%**; Europe **-3%**; Middle East **-29%**; North Africa **-31%**. Overall exports **-8%**. For the 2012 season, California is going to ship around 1.835 billion pounds. Last year we shipped 1.898 billion pounds. We are shipping 3% less already. Look at the comparison below. Supply, even if you believe in this NASS estimate of 1.85 billion pounds, will be at least the same in 2013 as it was in 2012.

	2012 Crop	2013 Crop (projected)
Carry-in	335 million pounds	329 million pounds
Crop size	1.885 billion pounds	1.85 billion pounds
Less 3% loss/exempt	56 million pounds	55 million pounds
Total Availability	2.164 billion pounds	2.124 billion pounds

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So California thinks that it needs to increase prices by \$0.50 per pound because.....it can?? Do you really want to start prices at current levels considering the condition of global markets? You've worked too hard to build the developing markets. Don't cut their legs out from under them.

Conclusion

"If you believe the doctors, nothing is wholesome; if you believe the theologians, nothing is innocent; if you believe the military, nothing is safe." Lord Salisbury.

The truth is that the NASS objective estimate caught everyone around the world, and most in California, by surprise. But whether we believe it or not, this is the number we are all going to have to work with until at least October, when hullers and shellers have gathered enough data to start to make educated guesses about the crop size. The more likely time frame, however, will be in December, when the November shipment report comes out.

Here are some factors to think about as we move ahead through the Summer and into the Fall months:

Bulls

- Low global inventory
- Many other tree nut prices are firm / higher than almonds
- 40% of global middle class growth over the next decade will come from North Asia. The US will be a major beneficiary of this growth. Chinese demand for high-value products like almonds is likely to continue to grow over the next decade. With limited land resources, importers in North Asia are expected to continue to rely on the US to meet growing demand for bulk and processed foods.¹
- Water shortages creating serious and long-term concerns for growers, who want to maximize every opportunity at profit-taking while they are able.
- The US domestic market poised to continue record growth as more and more articles espouse the healthy virtues of eating nuts.
- Europe to likely consume roughly the same amount of almonds regardless of price.
- A belief by many growers and processors that the Middle East and Asia will not buy less than they did during the 2012 season, regardless of price levels. This can become a self-fulfilling prophecy if they do not get nervous after one or two "quiet" months and inject the market with confidence.

Bears

- Continued global political unrest, especially in the Middle East.
- European economic difficulties, with the Eurozone in recession (economies there have contracted for a record six consecutive quarters)²
- Strength of the US Dollar

¹ USDA – FAS International Agricultural Trade Report: "North Asia's Importance Grows in U.S. and Global Agricultural Markets." June 2013.

² CNN Money "Eurozone Stuck in Longest Recession"; May 15, 2013

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- People's Bank of China's reluctance to inject liquidity into the banking system. It wants to force banks to rein in fast credit growth and to channel less assets into risky off-balance-sheet vehicles.³
- Slowing Chinese economy, with GDP growth in the second quarter of 7.5%, down from 7.7% in the first quarter (which was already considered a slow-down).⁴

Barring a huge decline in demand between now and October, which seems difficult to fathom considering the very low inventory levels in most markets around the world (and the very low inventory levels in California), we don't see much happening to materially reverse the price increases of the past 10 days. Whether buyers like to admit it or not, this June shipment report is more bullish than bearish: (1) shipments are virtually identical with June 2012; (2) this was the second biggest June in history; (3) the uncommitted inventory reveals that few almonds remain to sell.

Low inventory + 1.85 billion new crop = grower patience = bad news for buyers hoping for lower prices (at least in the short term)

So far, no big players from the developing markets have felt comfortable in stepping up to pay these new prices. Though some reports have been circulating to the contrary, we question their veracity. 20 ton trades do not make a real market. They make good theater. Until today, India was not yet accepting \$2.50 per pound for inshell Nonpareil. Neither was China. That could change now.....

Lastly, we would be remiss if we did not point out that buyers around the world are shocked at the estimate, but also highly annoyed and frustrated at California for the 'faster-than-overnight' \$0.40 per pound price increase. They do not feel that this is justified and have, for the most part, protested by not participating in any significant way in post-objective report purchases. How long they can hold out is the key. The game of "chicken" against California has begun. In our opinion, buyers will lose this round and they will lose it quickly. California is poised perfectly to dictate the market for the next several months.

"What we think, or what we know, or what we believe is, in the end, of little consequence. The only consequence is what we do." John Ruskin (1819 - 1900)

Best regards,
DERCO FOODS

³ Financial Times of London "PBoC Breaks Silence Over China Cash Crunch"; June 24, 2013

⁴ Wall Street Journal "Economists See Further Slowdown in China"; July 9, 2013