

### **July 2006 Almond Position Report & Year End Review**

July 2006 shipments were 60.235 million pounds. This is up about 10% from the July 2005 shipments of 54.808 million pounds.

#### **Summary for the 2005 Season**

Carry-in from last year: 137.7 million pounds

2005 Crop receipts: 911 million pounds

Less 4% loss / exempt: (36 million pounds)

Total Supply: 1.012 billion pounds

Less shipments for the 2005 season: (914 million pounds)

Carry-out: 99 million pounds

So here are the numbers that we have to work with at this time for the 2006 crop year:

Carry-in from the 2005 crop year: 99 million pounds

Objective 2006 crop estimate: 1.05 billion pounds

Less 3% loss / exempt: (31.5 million pounds)\*

Total Supply: 1.118 billion pounds

\*As of the 2006 season, the loss/exempt percentage is being reduced from 4% to 3%.

#### **What Did We Learn From 2005?**

**Seller's Perspective:** We learned that.....

- Demand for Nonpareil at \$4.25 per pound is not sufficient to hold the market.
- A contract is usually a contract (but not always).
- Italy is a wonderful country to visit: warm and beautiful people, delicious food, gorgeous scenery, great soccer team. But when it comes to almond business, "caveat venditor"!
- A customer being in business in the UK for over 75 years is a remarkable achievement. It is not a guarantee of payment.
- Pricing solidarity at origin is a work in progress.
- We panicked unnecessarily at the start of last season when a few among us started to undersell the market. This was proven by the fact that the market rebounded nicely during the spring and we ended up shipping over 900 million pounds. We now have the lowest carry-out since the 2002-2003 season (which was 81 million pounds).
- It's not fun to see a market go from \$3.80 to \$1.95 to \$3.40 in a matter of 10 months – based on little new or substantive information.

**Buyer's Perspective:** We learned that.....

- Nonpareils at \$4.25 per pound are a poor investment.
- The California growers' marketing equation is:

Price today is high + Shipments this month were strong = Market is accepting this price so price needs to go higher.

When were the contracts entered into? At what prices? Irrelevant complications and trader "sleights of hand" intended to push prices down and keep growers in the dark.

- The Hollywood industry in California is making inroads into the San Joaquin Valley. All those pictures of frost, analysis of when bud damage occurs (is it at 29°F or 27°F? for 1 hour or 2 hours?), talk of entire varieties being wiped out, cries of too much rain, too much wind, too little sun.... George Lucas would be proud.
- If Marginal Weather = a crop of 1.05 billion pounds or more. Good Weather during bloom + 40,000 to 50,000 more bearing acres = ?  
(*hint: lower prices*)
- It's not fun to see a market go from \$3.80 to \$1.95 to \$3.40 in a matter of 10 months – based on little new or substantive information.

Harvest

**Seller's Perspective:** The cooler than usual weather during spring has resulted in a harvest that is going to be 10 days to 2 weeks late. We expect to start harvesting next week.

**Buyer's Perspective:** Last we heard, the West Side growers (near the Interstate-5 corridor) started harvesting earlier this week, as did a number of growers in the Fresno to Bakersfield area. Seems that "the crop is late" refrain we have heard for several months now has been more California hype than reality. You may end up being late in some areas by 5-7 days, but please don't try to blame weak August shipments next month on the delayed harvest. Just drop your "ambitious" current crop prices to new crop levels and ship what you have in your warehouse.

Spain

**Seller's Perspective:** New crop Spanish prices are around \$2.50 - \$2.70 per pound for unselected Valencias. We don't see Spain rushing to sell in a disorderly manner. Though we do anticipate selling less to Spain this year because of their larger domestic production, we should not forget that many of the processors in Spain prefer California almonds. Furthermore, the bottleneck in processing in Spain limits their ability to deliver huge quantities of almonds quickly. So even if the desire to sell heavily early on is there, we don't feel that the processing capacity is in place. California shipments in September will remain robust despite the good Spanish crop.

**Buyer's Perspective:** 70,000 tons or more from Spain will have an impact. The Spanish growers are fully aware that California has the potential to set the largest crop in history next February / March. They are not going to want to hold inventory and risk a declining market in California. They will cash out early.

### Demand

**Seller's Perspective:** We expect that the coming months will see vibrant shipments. New crop prices are much more attractive than current crop levels. With Nonpareil in the \$2.50 - \$2.75 per pound range and BSU5% in the \$2.15 - \$2.30 per pound range, we can easily ship 1 billion pounds.

**Buyer's Perspective:** A lot of the product that has shipped in late spring and summer is earmarked for use in September and October. You told us the crop was going to be late, and we believed you. So we had to ensure that our supply was not disrupted. We bought more than we needed for prompt use. Though there is more industrial buying to do, it's not nearly as much as California growers think. The pipelines are not empty.

### Currency

The U.S. Dollar averaged \$1.268 to the Euro in July and \$1.282 so far in August, the weakest monthly average against the Euro since April of 2005. This weakening trend would favor shippers of almonds, as they can ask for higher prices without affecting real prices overseas (against currencies that are growing stronger vis à vis the US Dollar).

### Pasteurization

After much controversy surrounding this issue, the Almond Board's Food Quality and Safety Committee met this week and will recommend several changes to the previous Action Plan which called for 100% pasteurization. These include:

- For export markets, pasteurization not required, but almonds to be labeled as "pasteurized" or "un-pasteurized."
- For the US market, pasteurization required unless customers have their own DV (direct verification) programs in place, in which case exemptions will be granted.

### Conclusion

The market moved violently this year. Blood was spilled and suits were filed. Though some would argue that no market movements are purely irrational, there were periods this past season where rationality seemed to be trading at a premium. Long periods of limited activity and a lack of clarity fueled speculation and magnified otherwise insignificant pieces of information.

Jeanie Daniel Duck wrote that "In the absence of information from the organization, people will connect the dots in the most pathological way possible. In the absence of communication from leaders, people will seek information from other sources, whether those sources know what they're talking about or not. The leaders' silence doesn't stop the conversation; it just means they're not participating in it." This is as true in an industry as it is in an organization and we witnessed this first hand this year.

Luckily for many, the 2005 season came to an end in strong fashion. Shipment numbers for the months of March – July averaged 15% higher this season than in the 2004 season. There is disagreement as to whether or not demand persisted despite these high prices. Some argue that there was considerable business done as the market rebounded. Others believe that the higher prices came after the majority of the business was already concluded. They contend that the market moved higher and higher on limited trading activity, supported by buyers throughout the world who had more of a vested interest in salvaging the high-priced inventory that they were holding than trying to make additional current crop purchases.

80% of Derco's July almond shipments were contracted at \$2.70 per pound or less and 50% were contracted prior to March. If our shipments happen to be indicative of a wider trend, then this would mean that the higher prices that we have seen since May were simply an effective tool in (1) preventing further defaults (which were widely feared as we entered the Spring months), and (2) allocating the limited availability, which was not really in as much demand as some wanted to believe.

If in fact the recent high levels we revisited during the last 3 months are sustainable, and the lament of sellers that they allowed prices to overcorrect last Fall are legitimate, then one would wonder why the new crop is trading at such a "discount" when the difference between the 2005 and the 2006 crop availability is only 110 million pounds? If California is carrying out "only" 99 million pounds out of this crop and believes that it could have sold more at higher prices if product was available, wouldn't that be an argument against the new crop pricing structure? Is 110 million more pounds enough reason to start off September 2006 with Nonpareil 23/25 AOL around \$1.50 per pound cheaper than last September? Either the argument is disingenuous or the pricing strategy is flawed.

Lastly, with all the talk of the delayed crop, few sellers were eager to book August and September shipments much in advance of harvest. Now that harvest is already underway in several regions throughout the Central and Southern Valley, will this result in more availability coming online sooner than expected? If yes, what effect will that have on market prices if everyone tries to cash in on the August – September premium? We will know in a few days as the extent of demand for early shipments unfolds.

Deep down, most buyers know that at \$2.00 - \$2.25 per pound for BSU5%, they can move a lot of almonds. Sellers know that at \$2.00 - \$2.25 per pound for BSU5%, they are still making good money. Where the market goes will depend on which of the following is more pressing: California's need to convert almonds into cash or buyers' need to run almonds through their factories and into their products.

For the coming season, we hope that most in the industry will remember and live by the words of Mark Twain: "Always do right - this will gratify some and astonish the rest."

(It will also limit the portion of your budget that you need to allocate to Waren-Verein).

Wishing you all a great new season.

Best Regards,  
DERCO FOODS