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July 2008 Almond Position Report – Olympic Edition

July 2008 shipments were 99.5 million pounds. This is up about 21% from the July 2007 shipments of 82 million pounds.

Analysis

| | |
|-----------------------------------|----------------------------|
| Total 2007 crop shipments: | 1.261 billion pounds |
| Carry-in from the 2007 crop year: | 214 million pounds |
| 2008 Objective Estimate: | 1.5 billion pounds |
| Less 3% loss / exempt: | (45 million pounds) |
| Total available supply: | 1.669 billion pounds |

Shipments

Seller's Perspective: We're happy to report that we just completed a clean sweep¹....a new record set each of the past 12 months of this shipping season. Buyers - please go back and read the e-mails you sent to California one year ago. You will likely see lots of messages that have quotes like "Every month will need to be a record and we don't think that is possible"; "California will prove unable to move a 1.4 billion pound crop in an orderly manner"; "Standards need to be at \$1.50 per pound or lower with a crop of this size"; etc. etc. Luckily, we're not the kind of people who say "we told you so" or hold any kind of grudges – we just withdraw and raise prices! U-S-A, U-S-A, U-S-A!!

Buyer's Perspective: The shipment increases you have seen recently are reflections of our logistical concerns for the new season and not new found demand. We're shipping now a portion of what we would have been shipping in October. EU-RO-ZONE, EU-RO-ZONE, EU-RO-ZONE!!²

Domestic

Seller's Perspective: A record at 33.29 million pounds, surpassing the last record set July 2006 of 27.48 million pounds. This is the 9th month out of 12 that set a domestic record. Our economy may be faltering, but we expect almond sales to stay strong. U-S-A, U-S-A, U-S-A!!

Buyer's Perspective: These shipments reflect contracts that were being pulled not new business getting done. The U.S. economy may not be in an official recession, but it is certainly in an unofficial one. There are more adjustable rate mortgages coming due in the next two years and people are going to continue to lose their homes. Unemployment is growing and consumer confidence is plummeting. Let's see what the domestic shipments will be in the coming months. You can choose to believe that in tough times more people stay home and bake cookies with almonds in them....that's very quaint and Martha Stewart of you. But the reality is that when times are tough, people buy less non-essential foodstuffs. Pass the rationed rice, please. EU-RO-ZONE, EU-RO-ZONE, EU-RO-ZONE!!

¹ Now that the Olympics are upon us, we thought that some sports jargon would be appropriate.

² No offense to all the other important countries and regions around the world, but other than the U-A-E, U-A-E, U-A-E, additional, easy to pronounce three-syllable countries did not readily come to mind (OK, they did, like IN-DI-A, LE-BA-NON). But since this is holiday time for most people around the world and since we at Derco will most likely be the only people reading this report, we opted for a quick solution. So buyers in non-EU countries who may be reading this report, just know that your country is cool too, even though it was not referenced.

Export

Seller's Perspective: As with the overall / net shipment figures, every single month in the 2007 season was a new export shipment record. This July's export totals of 66.27 million pounds destroyed the previous record of 54.56 million pounds set last year. We wake up every morning, look in the mirror, and realize just how good it is to be record-breakers. We're just trying to set the tone for our athletes in Beijing, baby! U-S-A, U-S-A, U-S-A!!

Buyer's Perspective: As we noted above, global economies are all starting to hurt and the U.S. Dollar has strengthened against the Euro at lightning speed. It has gone from \$1.55 to \$1.50 in 24 hours. The European central bank this week kept interest rates at 4.25%, citing a fear of inflation and the fact that economic forecasts in the EU for the coming 6 months would be weaker than earlier expected. That move bolstered this most recent dollar appreciation. EU-RO-ZONE, EU-RO-ZONE.....EU---RO-----ZONE??

Conclusion

In an effort to maintain or potentially increase current pricing levels, sellers are going to point to the fact that water availability remains a serious issue, that costs of production are only going to go up in the coming season, and that the size of the 2009 crop is not certain to be bigger than the 2008 crop. They will note that the publicity surrounding almonds is phenomenal, that almonds are still a very reasonably priced nut, versatile, with a relatively long shelf-life and increasing global appeal.

Buyers will point to the fact that even if we increase shipments by about 10%, we are going to have a carry-out into the 2009 crop of at least 300 million pounds. They will point to a global economic slow down and to the fact that bloom weather, unless catastrophic, is no longer the big concern that it was even 20 years ago. The wide geographic planting area and the improved farming methods are likely to ensure another record crop in 2009, when more new dense plantings are going to come online. Buyers will talk about the increased costs of financing such a big crop and of the fact that a lot of the current shipments are being stored and not immediately sold.

Both parties will have some valid points. As is always the case, the reality will be somewhere between the two perspectives.

New Shipment Paradigm

Just look at the comparative shipment increase between January 2008 – July 2008 (660 million pounds) and the same period only one year ago (541 million pounds; at roughly comparable prices on average for the entire period). **This is a difference of 119 million pounds: a 22% increase.** Some people may want to attribute this to a “blip in the radar.” We don't think that is the case.

Crop sizes are now such that there is going to be an adequate almond supply of most varieties and sizes during the transition period from current crops to new crops. So the key is going to be in looking at almond marketing on a longer, annual basis, rather than on a short-term, monthly basis. California, if it continues putting as much emphasis on monthly shipment reports as it has been doing, could be setting itself up for a big (potentially unnecessary) and painful fall.

We will not bet against global demand – we have been wrong too many times to second guess just how popular almonds have become globally. But to think that the strong shipments during the past few months have all been (or are going to be immediately) consumed would be naïve. There is no question that some importers are taking positions because (a) they want to avoid shipping hassles (and much higher shipping rates) beginning in September; and (b) they realize that there is no need to engage in a mad rush for early

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shipments when the product they are buying has been properly stored and cared for at origin. Now that supply is reasonably available throughout most of the season, companies are finding that they can buy a good portion of their holiday needs from the current crop and give themselves a cushion against delivery and processing delays. This is good business for buyers and not necessarily a negative change for California. As long as the ramifications of this changing purchasing behavior are understood and accounted for - lower shipments in the historically "intense" shipment months of September through November – California should be in fine shape.

But this obviously means that California better not put too much emphasis on big record September shipments. We may still see records; but shipping constraints and processing bottlenecks will become increasingly important factors to consider. If September is not a record, there will be intense pressure to lower prices.

Growers need to think about the annual consumption, not just about what this September's shipments were as compared to last year. Otherwise, expect a price correction in October. Your local speculator who sold BSU5% at \$1.55 per pound is banking on it.

Price Corrections

Lastly, a quick note on price corrections. We have discussed this in a previous report, but feel that it bears repeating at the onset of the 2008 season. 10 of the past 14 significant price declines³ that have taken place during the last 17 seasons have occurred in August, October or February. So if you're a gambling man, and if you expect to see a price decline, the odds are that it's either going to happen now, in October (if September shipments disappoint and California panics) or around bloom time (if the weather forecast is exceptionally good or if the holiday slow down scares enough growers into thinking no one wants to buy almonds anymore).

We don't expect to have any weakness this August. July shipments were simply too strong and inshell shipments to India are expected to be very respectable in August, even if not at last year's phenomenal level of over 15 million pounds. The key as to whether or not we will see a price decline in October depends on California, not anyone else.

"I always wanted a happy ending... Now I've learned, the hard way, that some poems don't rhyme, and some stories don't have a clear beginning, middle and end. Life is about not knowing, having to change, taking the moment and making the best of it without knowing what's going to happen next. Delicious ambiguity." Gilda Radner.

Enjoy the Olympics. Hope your doped athletes don't do better than our doped athletes.

Best regards,
DERCO FOODS

³ About \$0.20 per pound or more within a period of 2-3 months.