

July 2010 Almond Position Report & 2009 Season Summary

July 2010 shipments are 112 million pounds. This is down about 7.4% from the record July 2009 shipments of 121 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 for 2009 season:	1.471 billion pounds
Carry-out into 2010 crop:	306 million pounds
Estimate for 2010 crop:	1.65 billion pounds
Less 3% loss / exempt:	(49 million pounds)
Total Estimated supply for 2010:	1.906 billion pounds

Shipments

Seller's Perspective: Not bad...not bad at all. There was no realistic chance at 121 million pounds for the month of July and most of us were hoping for 100 million pounds. Considering that the 1.65 billion (still questioned) NASS estimate came out on the 8th day of July, this was one heck of a performance. Shipments for the 2009 season ended at 1.47 billion pounds, breaking last season's record shipments of 1.39 billion pounds by nearly 6%.

Buyer's Perspective: A surprisingly good number. Of course, officially we have to remind you and all sellers alike that you are 7.4% behind last July. Unofficially, this gives us a bit of confidence as to the direction of the market....Very unofficially.

Domestic

Seller's Perspective: A record shipping month at 40.5 million pounds. For those of you keeping track, that would make it 10 out of 12 months of record shipments for the 2009 season. For those of you not keeping track, that would still make it 10 out of 12 months of record shipments for the 2009 season.

Buyer's Perspective: You should start implementing some of your same domestic marketing strategies in our home markets. Whatever you are doing in the US is working well.

Export

Seller's Perspective: 71.5 million pounds is the second-best July ever. The total exports of 1.022 billion for the 2009 season is a new record, breaking last season's total export shipments of 978.4 million pounds.

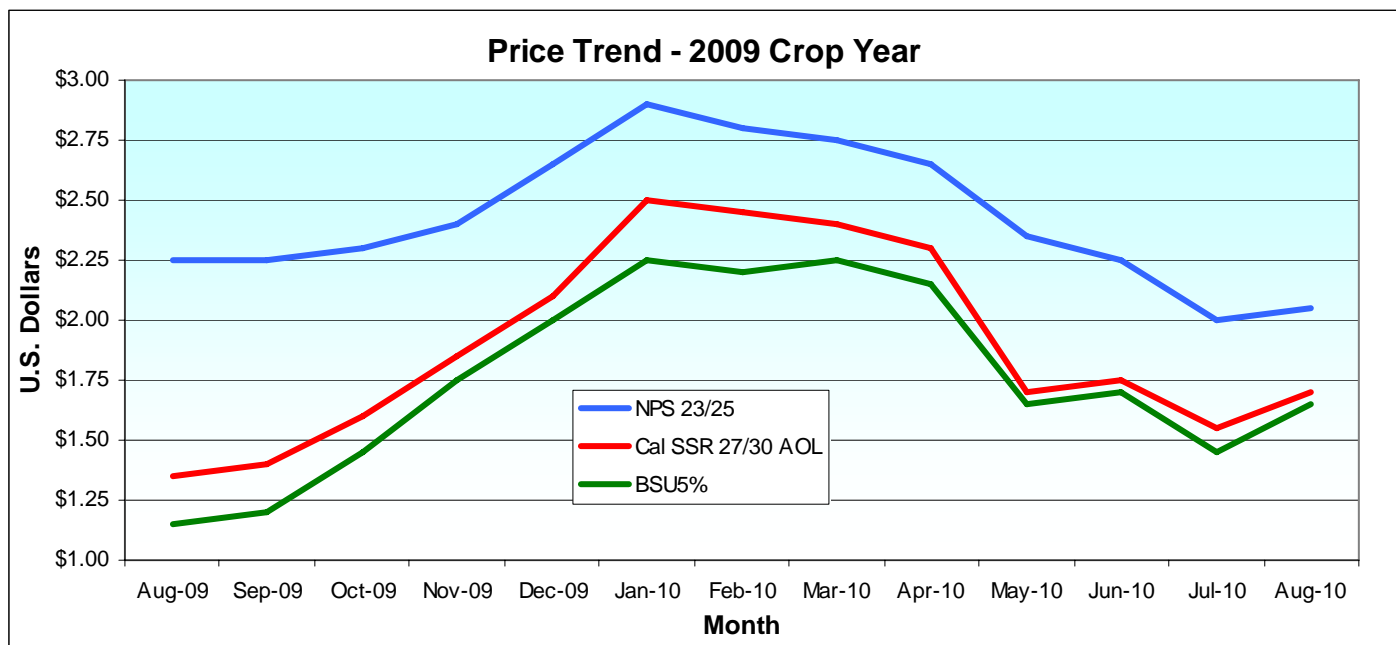
Buyer's Perspective: You've been saying second-best a lot lately. This is the fourth month in a row where export shipments have fallen below last season. What will turn things around? Maybe lower prices?

Commitments

I profess, yet again, that I do not know how to read or analyze commitments. But as they appear on the front page of the monthly report without fail every month, I can only ignore this section for a few months before having to come back with a commitment to try to sound coherent on the topic. It seems (from our in-depth analysis of the figures) that we are down 21.9% on domestic commitments and 31.7% on export commitments. That either means that we should have sold more but could not commit...or that buyers needed to buy more and did not or could not commit either. Either way, there seems to be a commitment problem. Uncommitted inventory is down 21.4%, which means we had less almonds to commit in the first place.

Recap of the 2009 Season and Thoughts on 2010

The 2009 season was another roller-coaster ride. Prices started off at near historic lows and gained momentum through January as China and the Middle East were buying at a frenzied pace. Then shortly after the new year, the export demand stopped, as overseas markets realized they had overbought. California was feeling very bullish and proud of its accomplishments for the first half of the season. As a result, offers remained limited and firm. Then the Australians jumped in and (regrettably in hindsight) booked business to the Middle East and India just under California levels. Then the rains came and Australia's problems started. Then global prices for almonds fell and Australia's problems compounded...and California's problems just started. Then the defaults came and the British and some clients in the Middle East ensured that they did their part to make matters worse. The domestic (US) market benefited from the declines, continuing to purchase record tonnage and breaking shipment records every month. Then the NASS estimate came. Prices, after having stabilized, fell another \$0.50 per pound within a few days. Alcohol was consumed. Hair was pulled. Dogs were kicked. Then Derco sent out a report saying that prices should recover quickly, and they did – going up \$0.40 per pound in less than 30 days. Then religion was found and we saw that it was good.¹ Here is the visual:



¹ For those of you whose brains are virtual repositories of useless information similar to mine, doesn't that paragraph remind you of the memorable exchange in Airplane II: The Sequel ; Ken Finkleman (1982)?

Steve McCroskey:

"Jacobs, I want to know absolutely everything that's happened up 'till now."

Jacobs:

"Well, let's see. First the earth cooled. And, then the dinosaurs came, but they got too big and fat, so they all died, and they turned into oil. And, then the Arabs came and they bought Mercedes Benzes. And, Prince Charles started wearing all of Lady Di's clothes. I couldn't believe it, he took her best summer dress out of the closet, and put it on, and went to town."

Ok, maybe not....?

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Now we find ourselves in a situation where virtually every market globally needs to buy. Buyers overseas are waiting for what they consider to be the best time. After making money during the first half of the 2009 season, many lost money during the second half. So everyone wants to come in at what they feel is the lowest point. In our opinion, that time has come and gone (as the old country saying goes: "like the morning dew on a summer's day"). The low point for the foreseeable future was likely around July 9 – 16 (the full week following the bombshell NASS objective estimate of 1.65 billion pounds).

Patience is a virtue. That seems to be the motto by which many buyers are living right now. They need to buy. Everyone knows they need to buy. There are holidays that are coming whose dates are known by all. Diwali is on November 5th. Chinese New Year is on February 3rd (11 days earlier than last year). Christmas for most Christians is on December 25th....but for the better (Orthodox) Christians, it's January 6th. Or is that just a celebration of the Epiphany?² No matter, the clock is ticking. This is akin to a wild-west showdown.

Buyers are thinking:

(a) Once the crop starts coming in, California sellers will lose their confidence and panic. They will see a better than expected Nonpareil crop (proving NASS was right in that we have more and bigger nuts per tree – something that has never happened in conjunction before). This would also give credence to the 1.65 billion number, because no one seems to be arguing the accuracy of the estimate on the other varieties.

(b) Soon after harvest, growers will realize that they have a lack of storage / warehousing space, forcing them to be aggressive on pricing in order to move prompt shipments.

(c) There is still lots of current crop inventory. It may not be the highest quality, but even the SSR material needs to be sold. What will that mean to the industrial product pricing, which, after falling to \$1.20 per pound, has made a strong and resilient comeback up to \$1.65 per pound?

(d) No matter what California "expects," the fact is that there is no shortage of almonds and everyone knows it. Even with strong shipments, a 300 million + pound carry-out is inevitable. So this will act as a natural cap to a runaway market. If we wait, we may likely pay less - but it is unlikely that we will pay much more. So let's wait for the last possible moment.

Sellers are thinking:

(a) We have 100 million less pounds in inventory than last year (306 million now v. 413 last August 1st).

(b) Looking at historical prices on a monthly average, Nonpareil are cheaper today than they have been in 7 years. For argument's sake let's say we agree that NP 23/25 is between \$2.05 - \$2.10 per pound FAS basis for July-August...that's cheaper by \$0.20 per pound than NP 23/25 was in August 2009. In fact, you have to go back to 2003 to find lower NP 23/25 prices (not considering the 2008 season crash where NP 23/25 dipped, on a monthly average, to around \$1.90 per pound during Jan-Feb 2009).

(c) Not only are Nonpareil prices cheaper than they have been in a long time, we also don't think the Nonpareil crop is as good as the report.

² It is – lest you think that I was sleeping through 14 years of Catholic school. Everyone of any substance knows that Jesus was born on the 25th and that 12 days later the Magi visited the infant Jesus with gifts of gold, frankincense and myrrh. This is known as the Epiphany, which comes from the Greek word "epiphanea"...not to be confused with the Greek word for orange "portokali." (obscure movie reference; see Gus Portokalos).

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(d) The crop is 7 – 14 days later than usual. This is going to further shorten the time period that buyers have to wait before placing orders for their respective holiday seasons.

(e) India is waiting for inshell NP prices to go lower. China is waiting for prices to go lower. The Middle East is waiting for prices to go lower. Inventories in these markets are lower than they have been in months. India simply cannot wait much longer to commit in big volumes. Once India comes in, prices will firm...and then it will be time for the Chinese to come in. With Chinese New Year on February 3rd, realistically the Chinese need to start shipping in September and will not be able to receive and process in a timely manner anything that ships after December 15th.

(f) Ramadan 2010 is just underway. This will help deplete almond inventories in the Middle Eastern countries and other areas with large Muslim populations. And though this is looking a bit forward, the next Ramadan will start on August 1, 2011....no chance for any new crop whatsoever. Everything will come from the 2010 crop. And the biggest demand will be for Nonpareil. After the most recent Australian experience, how aggressive will Australia be in selling to the Middle East?

(g) The cost of farming has gone up. Though it is amply clear that production costs do not individually dictate sales prices, when enough variables are in the favor of growers, the production cost factor can tip the scales if growers show enough resistance.

Default Notification

We have been given the virtual finger from the beautiful southern shores of the Mediterranean.

General Trading Company in Tunisia – Mr. Ali Mediouni – has defaulted on 3 almond contracts with Derco Foods. It is a sad day that we have to publish a company name. This is the result of utter intransigence and a lack of transparent, truthful communication on the part of this client. Our files are documented in writing.

To quote what a useless and expensive Persian attorney we once hired to pursue a stylish crook in Tehran³ told us when we asked for a progress update: "I am shaming him in the bazaar." We have not yet found a way to convert this bazaar shaming into a monetary recovery. If any of you know the secret, please share it with us. We prefer the money to the shaming. It is more readily convertible to obtain other goods and services.

Conclusion

The direction of this market is going to be determined by who can wait longer: buyers or sellers.

The demand is there. It is virtually guaranteed that California will sell 1.55 billion pounds of almonds this coming season, and will have a carry-out of around 350 million pounds. Most other tree nuts are going to be more expensive. Buyers know this but also know that, irrespective of the crop being 1.55 or 1.65 billion pounds, the nuts are going to start coming in quickly.

Harvest in the south part of the San Joaquin valley will be underway in earnest by the end of the second week of August and in the northern areas by the end of the third week of August. We are now in a psychological game of "chicken" whose outcome will not take long to sort out.⁴ European buyers are balking at BSU5%

³ Our then-client was a Persian gentleman who was doing business in Germany....without being registered as a German company. He walked away from his obligations and hurt many sellers in the process. His now still enjoying a lifestyle that most of you....yes, even the almond growers, would envy. I guess it all comes down to what Oscar Wilde (1854-1900) said: "One should always play fairly when one has the winning cards."

⁴ For a very good definition, and one that is too lengthy to reproduce, go to: [http://en.wikipedia.org/wiki/Chicken_\(game\)](http://en.wikipedia.org/wiki/Chicken_(game))

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offers for September – June at \$1.70 per pound. California growers are saying that they will not take less than \$1.50 per pound at the field level. An impasse.

We wait and see if today's shipment figure has given many the confidence to jump in and start buying, or the impetus to start selling.

"All you need in life is ignorance and confidence; then success is sure." Mark Twain (1835-1910).

As has now become our annual message which we say to you all with sincerity - we wish you all a successful and safe season.

Best regards,
DERCO FOODS