

2670 West Shaw Lane, Fresno, California 93711 U.S.A.
Telephone (559) 435-2664 • Fax (559) 435-8520 • www.dercofoods.com • e-mail: derco@dercofoods.com

July 2013 Almond Position Report

2012 Season Recap

THANK YOU FOR FLYING UNITED. BE CAREFUL WHILE OPENING THE OVERHEAD BINS AS CONTENTS MAY HAVE SHIFTED DURING THE FLIGHT.¹

July 2013 shipments are 151 million pounds. This is ~~26.3% higher~~ a hell of a lot more than the July 2012 shipments of 119 million pounds.

Analysis of the 2012 Almond Season

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 for 2012 season:	1.866 billion pounds (1.69% decrease v. 2011 season, but 2 nd highest ever)
Carry-out into the 2013 season:	296 million pounds (5.97% decrease v. 2011 season)
Less commitments:	190 million pounds (16.76% increase v. 2011 season)
Remaining unsold supply:	105 million pounds (30.48% decrease v. 2011 season)

2013 Almond Supply

Carry-in from the 2012 crop:	296 million pounds
2013 crop forecasted supply:	1.85 billion pounds
Less 3% loss / exempt:	55 million pounds
Total Supply:	2.091 billion pounds (compared to 2.164 billion pounds last season)*

*Total supply may be increased in the August report if the loss/exempt figure from the 2012 season is revised down from 3%, which we expect to happen.

Shipments & Receipts

Seller's Perspective: No, not interested in the V10. I want the V12 Spyder in orange.

Buyer's Perspective: Glad we bought what we bought when we bought. You shipped 1.866 billion pounds – essentially the entire 2012 crop which was 1.88 billion pounds. 2012 was the second biggest shipment season ever.

Commitments

Seller's Perspective: How many times do I have to tell you that I get claustrophobic in anything smaller than 164 feet? And make sure the kitchen has enough lobster and Cristal for everyone on board before we pull up the anchor.

¹ This is United Airlines' famous "goodbye" speech which they broadcast at the end of each flight, signaling that the flight is over / finished. We think that in the context of this month's shipment number, no further explanation is needed. If further explanation is needed, please call anyone in California and ask for an offer of NPX in any size larger than 25/27 for September. No further explanation will be needed.

2670 West Shaw Lane, Fresno, California 93711 U.S.A.
Telephone (559) 435-2664 • Fax (559) 435-8520 • www.dercofoods.com • e-mail: derco@dercofoods.com

Buyer's Perspective: Domestic commitments up nearly 18% (103 million pounds). Export commitments up 15% (87 million pounds). Total commitments up nearly 17% (190 million pounds). Uncommitted inventory remaining: down over 30% (105 million pounds remaining).

Domestic Shipments

Seller's Perspective: No, no – not Pilates...It's PILATUS...with a "U" for cryin' out loud. Yeah and remember, I want the PC-24 in dark blue and gold...not that indigo color. Let them rush the delivery. I want it here before the almond conference in Sacramento. Don't forget the logo stitching on the passenger head rests.

Buyer's Perspective: Another new record; up nearly 14% (51 million pounds this year v. 44.9 million pounds in July 2012).

Export Shipments

Seller's Perspective: Ice cold Hinano please...bring it to the upper deck before we reach Papeete.

Buyer's Perspective: Up 33% over July 2012. Led by China/Hong Kong (up 69%); Vietnam (up 2141%); India (up 15%); Germany (up 39%); Italy (up 52%); The Netherlands (up 144%). The star for the month is Spain, up 80% with a total of 18.6 million pounds.

Prices

Seller's Perspective: Are you really asking?

Buyer's Perspective: You are making a mistake. Sell into this strength. Current prices are fantastic. You are making lots of money. Leave something in the chain. If we cannot make money, too, then demand will get decimated in markets that you have worked too hard to develop.

Conclusion

The only question now: how much will higher prices truly disrupt demand?

We have certainly had a bullish ending to a very interesting year:

- NASS misses the actual crop size by over 200 million pounds.
- Prices surge in mid-January 2013 after the release of the December figures showing strong shipments and disappointing receipts. They hit a peak in late January and early February 2013.
- By March 2013, as it becomes clear that Chinese demand has fallen off and shipments are trailing last season, prices fall back.
- By the end of May 2013, they are back to where they were in December 2012, before the spike.
- Heavy opportunistic buying from Europe and the Middle East strengthen spring and early summer shipments.
- In July, the 1.85 billion NASS estimate causes most people to fall off their chairs, and prices to go up \$0.50 per pound virtually overnight.

2670 West Shaw Lane, Fresno, California 93711 U.S.A.
 Telephone (559) 435-2664 • Fax (559) 435-8520 • www.dercofoods.com • e-mail: derco@dercofoods.com

- Ongoing water shortages, concern over kernel size as well as orchard insect pressure create a very firm undertone. Growers are hesitant to offer.
- Demand for larger sizes increases the price spread between BSU5 (around \$3.00 per pound) and NPX 20/22 (any offers now hovering very close to \$4.00 per pound). There are virtually no offers for anything larger than 25/27.

Buyers remain cautious and fearful. They do not trust the estimate and fear that once harvest is underway, if the receipts start to paint the picture of a crop that is closer to 2 billion pounds, all of the growers who have been on the sidelines will recognize that these are fantastic prices and jump to cash in before their neighbor does. With the high prices, the way down could be long before sellers feel any real pain. And buyers know all too well what would follow next. The value of their containers, many of which would be afloat, will drop. Oh, and of course the chips and scratches will get bigger in the boxes during transit and the color of the kernels will mysteriously darken. Buyers who were cautioned ad nauseam to buy with discretion will act hurt and surprised by the 'sudden' and 'unexpected' correction. They will feel betrayed, misled....it will all be very sad, especially for shippers and their receivables.

Going forward, buyers must recognize the widespread bullish nature of this report. Not only did the season end on a very strong shipment note, but the way in which the sales were distributed will undoubtedly force buyers to recognize that no single market carries as much clout as it thinks. There is no individual country or region that is a long-term global market maker. 1.866 billion pounds were shipped despite the fact that exports were down 5.5% for the year. Every export market with the exception of North America was flat or down:

- Asia Pacific: -3% (with China/HK/Vietnam down 12%)
- Europe: flat (0%)
- Middle East: -25% (with UAE down 13%)
- North Africa: -31%

Furthermore, the 1.866 billion was shipped at prices higher than last season. The big question buyers always ask is "Yes, for sure shipments were up, but WHEN were the bulk of contracts done AND AT WHAT PRICES?" These are very valid questions. You know best when you bought and sold what you bought and sold. Relying on our data, here is how much higher prices were, on a monthly average, for the 2012 season as compared to the 2011 season:²

	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June	July	Average
NPS 23/25	\$ 0.10	\$ 0.60	\$ 0.65	\$ 0.55	\$ 0.62	\$ 1.15	\$ 1.05	\$ 1.00	\$ 0.75	\$ 0.60	\$ 0.65	\$ 1.10	\$ 0.74
CAL 27/30	\$ 0.43	\$ 0.75	\$ 0.85	\$ 0.75	\$ 0.77	\$ 1.25	\$ 0.98	\$ 0.77	\$ 0.47	\$ 0.30	\$ 0.50	\$ 0.95	\$ 0.73
BSU5	\$ 0.50	\$ 0.75	\$ 0.80	\$ 0.70	\$ 0.68	\$ 1.14	\$ 0.93	\$ 0.70	\$ 0.37	\$ 0.20	\$ 0.45	\$ 0.85	\$ 0.67

² For the love of the deity in which you believe, please understand that these are in-house Derco averages. We do not pretend to speak for the industry. We do not pretend to represent the industry. Our feelings are not hurt if you don't believe these numbers. All they do is paint an approximate picture of the monthly prices as we saw them. For any disagreements that you feel compelled to voice, please email Jeff Margarian jeff@dercofoods.com. He is fully responsible for this information and any errors are attributable solely to him. Yup, right under the bus.

2670 West Shaw Lane, Fresno, California 93711 U.S.A.
Telephone (559) 435-2664 • Fax (559) 435-8520 • www.dercofoods.com • e-mail: derco@dercofoods.com

So what does an importer in China or India or Dubai or Spain think after this number? The thoughtful ones will undoubtedly remain cautious, but in the back of their minds, they will know that while they are sitting on the sidelines, others will be buying. Once the inshell Nonpareil market officially gets going, China and India will be in direct competition to see who jumps first and pays the \$2.50 per pound (or higher) prices in serious volumes. European importers may be in the best position, as they are most reliant on the industrial grades and least affected by small sizing. BSU5 prices may see the smallest increases, especially as China is 'once bitten, twice shy' in regards to inshell Butte / Padre purchases. The BSU5 ingredient pot may be the fullest one for the 2013 season.

The domestic market was a hero for yet another year, up 7.6% for the season (for a total of 588 million pounds). How will higher prices impact US almond consumption for the 2013 season? What other nuts are available at lower prices? If substitution is not viable, will manufacturing companies, confectionary companies and individuals just do without?

The new crop so far is sticking to the script painted earlier this summer: smaller, lighter nuts. If this continues once the more viable orchards are harvested, then perhaps the 1.85 billion NASS estimate will not seem so difficult to believe. If sizing and yields improve moving forward, then perhaps the market has reached a peak for the time being. A few more weeks of harvest will give us all a lot more information to dissect and misinterpret! The 2013 season should be off to a good start with a strong August.

The way this market has been going, and the risks now involved, reminds us (well, me at least) of the cult hit 1986 movie Highlander where The Kurgan notes:

"I have something to say, It's better to burn out, than to fade away!"

Well, if people do not proceed cautiously, they may just get this wish fulfilled during the course of this season.

Best regards,
DERCO FOODS