

### **July 2015 Almond Position Report and 2014 Season End Summary**

July 2015 shipments are 122.5 million pounds. This is down 7.5% from the July 2014 shipments of 132.5 million pounds.

#### **Analysis of the 2014 Almond Season**

Carry-in from the 2013 crop:	350 million pounds
2014 crop receipts:	1.867 billion pounds
Less 3% loss / exempt:	56 million pounds
Total Supply:	2.162 billion pounds
Less Shipments for 2014 season:	1.812 billion pounds (6.44% decrease v. 2013 season)
Carry-out into the 2015 season:	350 million pounds (unchanged v. 2013 season)
Uncommitted inventory:	136 million pounds (1% decrease v. 2013 season)

#### **2015 Almond Supply**

Carry-in from the 2014 crop:	350 million pounds
2015 crop forecasted supply:	1.8 billion pounds
Less 3% loss / exempt:	54 million pounds
Total Supply:	2.096 billion pounds (3% decrease in total supply v. last season)

#### **2014 Season Recap**

"Be not so bigoted to any custom as to worship it at the expense of truth." Johann Georg von Zimmermann

2014 was a season dominated by talk of water shortages, crop size disappointments (NASS's Objective Estimate of 2.1 billion pounds compared to actual receipts of 1.867 billion pounds), record prices, China, India and California ports.

Major almond importing markets (for our purposes, those which take more than 5 million pounds per year) with the exceptions of Mexico, Vietnam, India, Norway, the UK, Israel and the UAE, were all down. Prices, coupled with economic and political conditions made it risky for people to build inventories.

This season we saw the demise of VASP (after about an 8-year run) and the birth of PEC (Pre-Export Check, valid as of August 1) for shipments to Europe. But you must admit, VASP sounded a lot sexier. You can hear yourself saying "Release the VASP!"<sup>1</sup> PEC just does not have the same gravitas.

The crackdown in China on importing channels, coupled with the higher prices, saw shipments to China/HK fall another 12%. Shipments to Vietnam were up slightly (346,339 pounds) – not enough to matter.

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<sup>1</sup> Since you really can't say "Release the Kraken!" anymore and not be considered insane....You know how it goes: religion + time = mythology. Like anyone ever really believed that Zeus and Thor were divine beings, or that the sun revolved around the flat earth. Please, who could be so foolish! Don't concern yourselves with such matters - faithless, godless heathens are destined for the flames of Hell anyway, so let them have their short-term thrills now. Eternal damnation will be their prize for thinking, observing and putting things into the context of human history.

With the difficulty in moving containers out of Haiphong port in the event of defaults (or imprisonments!), fewer and fewer shippers are considering this channel to be worth the risk. For the 2015 season, we expect to see more shipments going to Hong Kong as exporters shift the risk of dealing with the Vietnamese channel to the importers in China and Hong Kong who feel compelled to still use it.

Shipments to most regions were either flat or down overall. US market -0.4%; N. America (Canada/Mexico) – flat. Latin America/Caribbean -26%; Northeast Asia -10%; Southeast Asia -3%; South/Central Asia +20% (thanks to India and Kazakhstan...discount the Kazakhs at your own risk; they're not going to let Estonia easily runaway with the "I-Don't-Know-Where-This-Country-Is-But-WOW!-They're-Buying-Lots-of-Almonds" title); Oceania (it really exists, it's not a mermaid kingdom from Dora the Explorer) +17%; Western Europe -12%; Central/Eastern Europe -66%; Middle East -4%; North Africa -21%.

Ultimately in the 2014 season.....Growers made good profits. Processors lamented the fact that they had decided to process and not just grow, because the processing side of their businesses, for the most part, well....sucked (a term of art). Exporters tried to explain that shipping containers worth nearly a quarter of a million dollars each to unstable parts of the world, managing claims, handling shipment nightmares, navigating documentation gauntlets and ensuring timely payments took actual experience, skill and tireless effort. They tried. Most failed. Buyers needed more lubricant in order to 'accept' these 'firm' prices in their 'ever-tightening' margins. India was a hero again.

The ILWU (International Longshore and Warehouse Union), with its roughly 37,000 members realized that it had more power than God (and Congress) and that it could take the largest economy on earth hostage. Most workers on the rest of the planet filed membership applications to work at the ILWU. Ours are currently pending review. If these reports stop, you'll know that we landed a new gig.

Otherwise, it was a boring year.

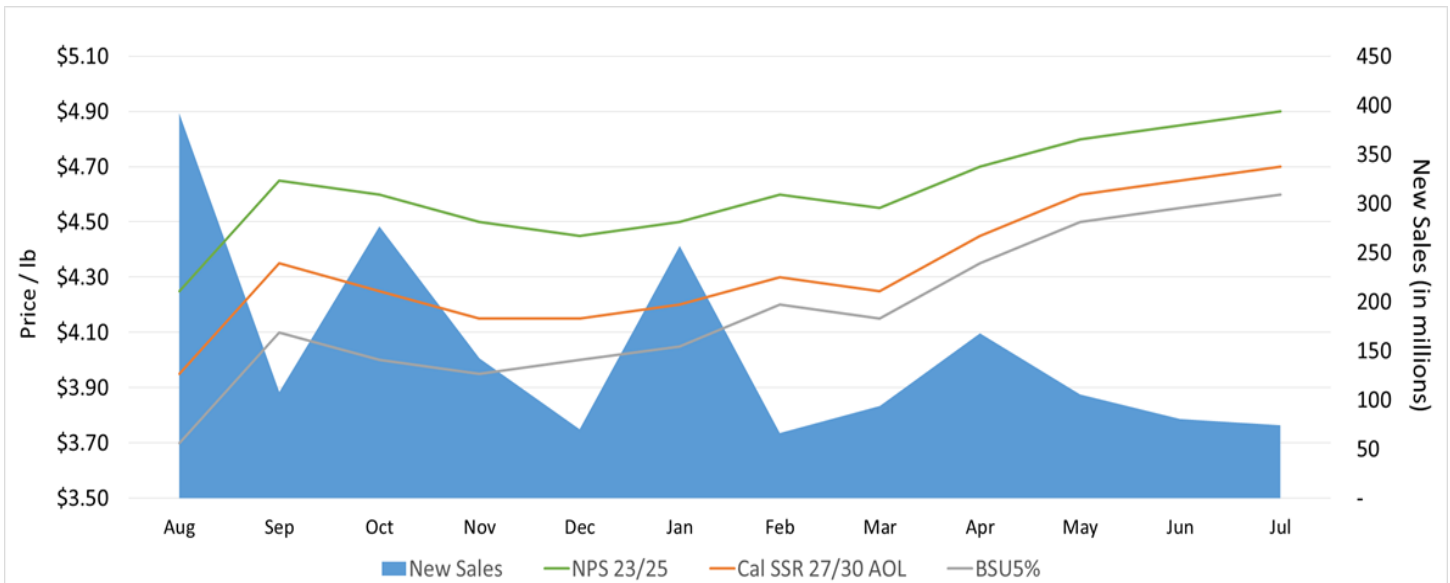
### **Price – New Almond Sales**

"Without the aid of prejudice and custom I should not be able to find my way across the room." William Hazlitt (1778 - 1830)

After lots of speculation about prices and demand, we wanted to see what the correlation was between new sales and prices, at least during this past season. We hope that the chart below helps to visualize what actually happened last season in regards to pricing/demand.<sup>2</sup> We stand behind most of the numbers...just not August! August is a transition month and we don't believe that the figures available (which take into account new crop commitments) accurately reflect what was actually sold during that month. However, we do feel that the September – July period accurately represents the new volume of business done, juxtaposed against the general prices during that period. Draw conclusions as you see fit. We just provide the data. Smarter people than us can interpret it.

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<sup>2</sup> Special thanks go to Neil Zacky, who is still too young and eager to realize that this was a lot of work for a report that is available to readers for free. God bless the young and energetic.



### Buyers' thoughts heading into 2015 crop year

"The only thing that makes life possible is permanent, intolerable uncertainty; not knowing what comes next."  
Ursula K. LeGuin

- A container of BSU5% is now \$200,000. This is in US Dollars, not in São Tomé & Príncipe Dobras. 100 tons of the cheapest almonds now cost about \$1 million. Some people can buy a reasonably nice house for \$1 million. Maybe even with a small pool and an artificial lawn that doesn't need to be watered.<sup>3</sup> In this environment, which buyer is eager to book big forward positions? How many can afford to finance multiple containers arriving at one time? What is the upside v. downside risk?
- What alternative products are available to traditional almond importers and at what higher relative profit margins? Walnuts are looking pretty good right now. Last year, walnut growers were riding just as high or higher than almond growers. The last nine years had brought nearly uninterrupted record grower returns (with the 2008 walnut price collapse a distant memory). Many scoffed at \$2.30 per pound buyers' bids for J/L Chandler because they knew that \$2.35 per pound would be available within a few days. Today, that inshell market is down \$1 per pound from its peak last season. Are similar hazelnut price corrections far off?
- \$80 million + in liquidity has disappeared from the Al-Ras market in Dubai after a high-profile default and Houdini-like market escape by an unscrupulous importer (and admittedly smart white collar criminal). To quote a friend: "He just took the money and ran away over the weekend." Why didn't we think of that? Sounds like a much easier business model than the one we are currently pursuing.

<sup>3</sup> [Buy Fake Grass Right in Fresno](#)

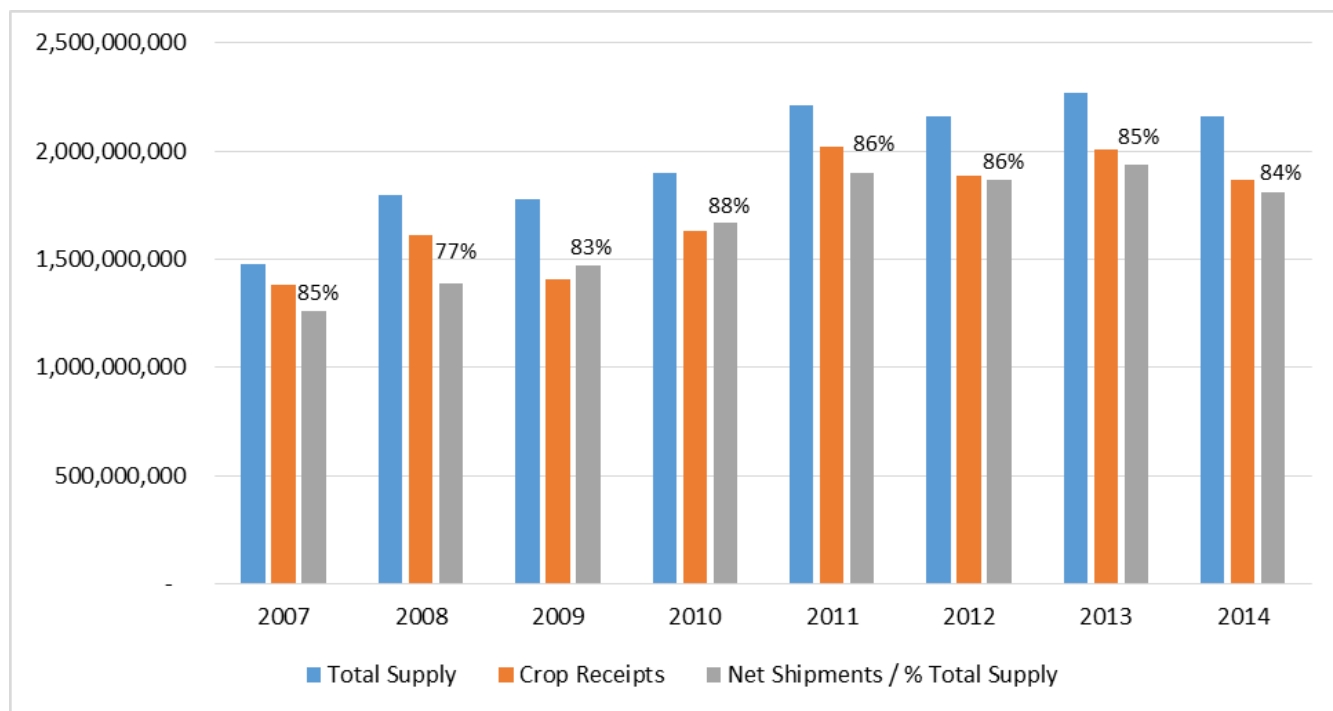
- The Middle East is in turmoil – sadly, this is more a reaffirmation of the status quo rather than a jarring newsflash. Who is containing ISIS? What happened to Libya? How quickly is Iraq sliding back into chaos? Were things really so bad under Saddam Hussein and Moammar Khaddafi? They tortured Olympic athletes, suppressed dissenting viewpoints and killed the opposition....too heavy a price for stability? Which regime is going to fall next? What is the fate of the Iranian nuclear deal? When are the problems in Syria going to spill over and cause (more) instability in Lebanon and Jordan? Are we the only ones who feel nervous when every reporter is reporting from Beirut, which has become a media hub and bastion of safety in the Middle East? What's happening between Turkey and the Kurds (not to be mistaken with Katrina and the Waves)?
- Where is China headed? Grey market crackdowns, money shop crackdowns, real estate bubbles, sagging exports, ethnic tensions, a stock market meltdown and most recently, a 1.9% devaluation of the renminbi. And all this after what has already been a three-year decline in almond imports.
- Can India sustain its record import levels? The devaluation of the renminbi has caused a 1.88% depreciation of the rupee in the past 2 days. Almonds in the Indian market were already trading at a significant discount to the replacement cost offered from California (\$0.20 - \$0.30 per pound +). What appetite remains for Indian importers to purchase inshell Nonpareil, when inshell is trading (or at least being offered) at a \$0.25 per pound or greater premium to kernels?
- South America....is a fun place to visit.
- The US market continues to amaze, astound and pay these prices. Will this season, with retailers and consumers now feeling the full brunt of price increases, keep pace with recent history or will resistance finally reduce consumption in the USA?
- Greece. Tough times....but at least they had the Hellenistic period. Even though it was 2,400 years ago, no one can take that away. Alexander was indeed Great, though the film surely was not. Casting Colin Farrell when you have Russell Crowe or Hugh Jackman available...really, Oliver? But who doesn't love galaktoboureko...phyllo dough, semolina custard....just makes the mouth water.
- Outside of the US domestic market, Europe has been the largest stable market for almond sales. Imports have historically fluctuated moderately based on price, currency and the size of the Spanish crop. This season Europeans complained vociferously about the prices, and ended up buying 17% less almonds from California (if you take Russia out because of the sanctions, and consider the fact that Spain had a much better crop than in 2013, the reduction is less dramatic; though W. Europe is still down 12%). The big questions in Europe now are: (1) How will these price increases impact European retailers and their decisions to stock the shelves with almonds at these high prices? (2) If retailers stock the shelves, will consumers buy the almonds? (3) What will industrial users of almonds do? Will they reduce the percentage of almonds in their recipes, substitute with other nuts (sure to be cheaper

hazelnuts), or just do without almonds altogether? Will European demand slide again this season? How long will Major Lazer & DJ Snake hold on to the #1 hit in Europe with “Lean On”? <sup>4</sup>

### **Sellers’ Thoughts Heading Into 2015 Crop Year**

“In conditions of great uncertainty people tend to predict the events that they want to happen actually will happen.” Roberta Wohlstetter

- Water. We are now waiting for El Nino.....Is it here yet?
- In the 2015 season, despite hearing nothing but complaints about price, we moved 1.812 billion pounds of almonds. Our 4th best performance ever. That’s the bottom line. Here is what California has shipped since the 2007 crop year, represented as a percentage of the total available supply (seasonal production + carry-in). You can clearly see why we are not worried.



- The Nonpareil variety is down compared to last year. Initial reports from harvested orchards are that the Nonpareil crop will be 10-20% less than the 2014 season. In coming up with its 1.8 billion pound objective estimate, NASS had predicted that the Nonpareil crop would be down 6% from last season. With Nonpareil representing 37% of the total crop, these initial worse-than-expected harvest reports are why many in California now believe that we will fall short of the 1.8 billion pound estimate.

<sup>4</sup> The song stinks. If you don’t believe me, check it here: [Lean On Stinks](#) I know, it looks like Dora the Explorer escaped fictitious Oceania’s Mermaid Kingdom only to find herself in Indian “Jai Ho” hell. By the way, we are quite sure that this will be the only almond report released this month with not just one, but *two* references to Dora the Explorer. Just when you think the bottom has been reached.....

- Prices this year were at record levels. But what does this mean? Does it mean that almond prices should be relegated to a certain price range regardless of supply/demand dynamics? Ultimately, you, the buyers will decide what is 'too high.' Complaints don't count. When you start to vote with your wallets and we see that we are not able to move the available production within a designated time-frame, then that will be the trigger to lower prices. Until that happens, complaints don't count.
- We are not very interested in your (buyer) happiness at this moment. We have over-built hulling and processing capacity. Our focus now is in keeping our processing facilities full of almonds delivered to us by our happy (and hopefully, loyal) growers. Please come back when the crops hit 2.5 billion pounds. You will be important again at that time.

### **CONCLUSION**

"Life is a fatal complaint, and an eminently contagious one." Oliver Wendell Holmes (1809 - 1894)

The market today is less complicated than many believe. When it's all said and done, the majority of California almond growers are not very interested about what is happening around the world. Right now, their primary focus is not on sustaining or building demand. Hardships in China, defaults in Dubai, shrinking profit margins and decreases in shipments to Europe are not on grower radars. They don't care that a container of NPX 20/22 costs the same as a Bentley. The discussion in California starts and ends with water. Call it short-sighted, greedy, foolhardy....no one here is listening.

The old country saying summarizes it well: "The money of the rich and the envious chatter of the poor." Almonds are being allocated, not marketed. Processors are obsessed with keeping growers, because they know full well that there is excess processing capacity in California now and that many growers will leave a processor in favor of a competitor paying a few cents a pound more. This is the new reality and as one industry colleague eloquently noted: "If you don't like it, go do something else." There are no longer friends or enemies. There are only elemental company interests. Relationships have been replaced with circulars and the highest bid of the day gets the business.

On the buyer side, the above concept has not fully sunk in yet. There are still rational and emotional arguments being made about difficulties being faced, financing challenges, economic troubles, political turmoil, years of loyal patronage, etc. But what people in California hear is: "Whine, whine, complain, complain, groan, groan....confirmed."

When growers can point to these prices, to their record returns, and to the fact that we came into the 2014 season with 350 million pounds and are leaving the 2014 season with 350 million pounds - can anyone really blame them? The goal of this game is not to be 'equitable' – it is to be as profitable as possible. Some will remember when the BSU market reached \$1 per pound and European buyers were bidding \$0.93 per pound. That wasn't a lack of charity or cruelty – that was Supply/Demand and capitalistic opportunism. The knife eventually cuts both ways. It's just that when one is deeply entrenched in a trend, it is human nature to think that the trend will never be reversed. That is why I bought my house in Fresno in 2007. Maybe a call to walnut growers is in order.



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“There are many who dare not kill themselves for fear of what the neighbors will say.” Cyril Connolly  
(1903 - 1974)

Best Regards,  
**DERCO FOODS**