

### **August 2006 Almond Position Report**

August 2006 shipments were 58.7 million pounds. This is up about 2% from the August 2005 shipments of 57.4 million pounds.

Carry-in from the 2005 crop year: 112 million pounds

Objective 2006 crop estimate: 1.05 billion pounds

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

Total Supply: 1.13 billion pounds

Less August shipments: (58.7 million pounds)

Available Supply: 1.07 billion pounds

### **Shipments and Commitments**

August shipments since 1999 (in millions of pounds):

	<b>August</b>
<b>1999</b>	45.6
<b>2000</b>	58.2
<b>2001</b>	60.5
<b>2002</b>	53.9
<b>2003</b>	66.6
<b>2004</b>	78.7
<b>2005</b>	57.4
<b>2006</b>	58.7

**Seller's Perspective:** Receipts are down nearly 30% compared to last year. Total supply is down 21% compared to last year. This confirms all we've been saying about the crop being late. Nevertheless, we still shipped more than last year. Not a bad August. Looking at the past 8 years, this is the fourth highest shipment total for the month.

**Buyer's Perspective:** Fourth highest? Nice inconsequential figure. What about the fact that 1.050 billion is the second largest objective estimate ever? How does that impact your calculation?

Let's take a look at your committed shipments: 238.5 million pounds or 22.7% of a 1.050 billion pound crop. We all know this is not as much as you had hoped for, as most of you want to be "heavily" sold before bloom. Moreover, a lot of growers and packers have not even participated in the earlier sales. They are going to be very motivated to sell starting....now! But no one on our side seems too anxious to buy. Do you remember what happened last October? Maybe you should remind some of the grower groups that are encouraging their members to "hold out for higher prices" and not work with traders who are "manipulating the market." We don't know about you guys, but we don't know of any trader who has the financial clout to manipulate a \$2 billion industry. If there are such people, and if they're in the almond business, we can suggest a few more enjoyable (and lucrative) hobbies for them.

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To make matters worse for you, the total committed shipments figure of 238 million pounds, if applied entirely to only the months of September and October 2006, would not be enough to cover the shipments for September and October 2002, 2003 or 2004. Combined shipments were over 240 million pounds for each of those 3 seasons. By the way, those were the only seasons where California shipped more than 980 million pounds. You've got a lot of selling to do.

#### Domestic

**Seller's Perspective:** Domestic shipments are up 10% over last year.

**Buyer's Perspective:** The actual shipments of shelled and manufactured are actually down over last August. The 10% difference is coming from the lower inter-handler and industry purchases (which, by the way, we don't understand either).

#### Demand

**Seller's Perspective:** It has been slower than we expected for November onwards requests, but we have seen consistent demand for September and October. This prompt demand coupled with the sales that were done earlier in the year leads us to believe that September and October will show strong shipment numbers. On the other hand, we are still struggling with growers, many of whom do not yet want to commit their tonnage. They want to see proof that this market is weakening before they accept the prices we are prepared to pay in the field.

**Buyer's Perspective:** Demand: "The quantity of a good that consumers are not only willing to purchase, but also have the capacity to buy at the given price per unit of time....The main determinants of the quantity one is willing to purchase will typically be the price of the good [expensive almonds], one's level of income [not as high as we would like], personal tastes [impeccable], the price of substitute goods [cheaper hazelnuts] and the price of complementary goods [beer]." (Wikipedia; with brackets inserted by author).

We just wanted to double-check the definition of "demand." As we suspected, we don't have any.

#### Spain

**Seller's Perspective:** We hear that the crop in Spain will not make 70,000 tons as some had predicted earlier in the year. A crop in the range of 55,000 – 65,000 tons is more likely.

**Buyer's Perspective:** Regardless of the crop size, the prices in Spain are coming down due to (1) lack of interest and (2) fear of further weakening prices from California. We don't see viable, sustainable arguments in favor of higher prices neither in Spain nor in California. It doesn't seem that this processing "bottleneck" everyone in California keeps talking about is even going to be a factor this year.

#### Sizing

**Seller's Perspective:** The majority of the Nonpareils harvested are coming in sizes 25/27 – 27/30. We have few 23/25s, very limited 20/22s and virtually no 18/20s. Quality overall seems good and yields in many areas are better than expected.

**Buyer's Perspective:** It's all about size for you guys....you know, size isn't everything. A couple of years ago, at the start of the season, no one was offering NPS 20/22. By the spring months, 18/20s were all of a sudden readily available, if not plentiful. This year, as late as 2 weeks ago, few were offering sizes larger than 25/27. During the last couple of weeks, people have been getting "more 23/25s than we thought we would get." Once the Nonpareil harvest is complete, those who hesitated to cash in on the September premium for NPS 23/25 AOL are going to look back and regret it.

If Nonpareil 20/22 is only 3% of the total Nonpareil crop (forecasted at 378 million pounds), that's still 260 x 40 FCLs. If you bump that up to 5%, you get 430 x 40 FCLs. Granted, this is significantly less than the Nonpareil 20/22s available last year, but many people had to "settle" for 20/22s last season. There are markets in the world that value 25/27 and 27/30 – so the amount of 20/22s shipped last year is not an indication of demand for that size. It's rather a result of the paucity of smaller sizes. Somehow, for the past 30 years, buyers have adjusted to the realities of sizing.....we expect to be able to do so again. You can keep your ridiculous premiums for 18/20 and 20/22; we'll take a size smaller.

#### Currency

For the month of August, €1 = \$1.28. This rate has been the same through the first week of September. The variation since August has not been wide enough to be a noteworthy factor in the almond market. Just for reference, the monthly average for August 2005 was €1 = \$1.23.

#### Hazelnuts

The Turkish government announced this week that as of September 11, the Turkish Grain Board will commence the purchasing of 2006 crop hazelnuts. They have indicated that they have \$150 million allocated for this purpose (with supposedly more funds available through a credit line as needed). They have announced that they will pay TRL4 for inshell Giresun variety and TRL 3.8 for inshell Levante variety. On a shelled basis, this is roughly \$2.50 / lb. The market has gained little confidence from this announcement. Today, prices are around \$2.10 - \$2.20 / lb for 11/13 – 13/15 mm.

There is a large global supply of hazelnuts and most buyers believe that prices will come down.

#### Conclusion

It seems that for August, the committed shipment figure impacted more heavily on people's psyche than the actual shipment number.

Buyers and sellers alike have been surprised at the limited activity in the almond market since harvest began. The vast majority of new orders are for prompt shipments. In most cases, for shipment "next week." Some sellers have also become hesitant to quote past December, as they want to get whatever premium is available for the earlier shipments and sell as much as they can now.

September and October have the potential to be very big shipment months (and they need to be in order for this market to have a chance to stabilize). If September shipments meet or exceed California's expectations, and if buyers subsequently all come in at the same time, prices could firm – at least in the short term. Many packers already claim to be nearly full on their October production schedules.

Starting next week we will also start monitoring the Almond Hullers and Processors Association's receipts figures. This will help to shed more light on the actual size of the crop. Something below 1 billion pounds is likely to help strengthen the market while something above 1.1 billion pounds would accelerate the decline.

Next month's receipts and shipment figures will be more meaningful.

"Everything has been said before, but since nobody listens, we have to keep going back and beginning all over again." Andre Gide.

Best Regards,  
DERCO FOODS