

August 2007 Almond Position Report

August 2007 shipments were 94.6 million pounds. This is up about 61% from the August 2006 shipments of 58.7 million pounds. Yes.....61%.

Analysis

Carry-in from the 2006 crop year: 133.9 million pounds¹

Objective 2007 crop estimate: 1.33 billion pounds

Less 3% loss / exempt: (39.9 million pounds)

Total Supply: 1.42 billion pounds

Less shipments to date: (94.6 million pounds)

Less estimated carry out: (237 million pounds)²

Estimated Remaining Supply: 1.09 billion pounds

If you like boring, repetitive, predictable and safe work, this industry is not for you. Consider a career change. If you are OK with uncertainty, surprise, risk and if you are able to accept the fact that thirty years in this business allows you to be just about as incisive, accurate and clairvoyant as a monkey throwing a dart at a price chart, you've found your calling. Welcome to the almond business!

Receipts

Through the first month of the 2007 almond season, California has received 153.7 million pounds. This is up 252% from the August 2006 receipts of 43.5 million pounds. The crop was a bit earlier this year, and this is evident in the huge difference in receipt numbers. This has happened before, as recently as in August 2004. In that year, the receipts were 149 million pounds, compared with August 2003 receipts of 46.4 million pounds (a difference of 221%). The final crop size in the 2004 season was 1.032 billion pounds. So though there is no questioning the impressive number of the early receipts this season, this is not yet a confirmation of the accuracy of the 1.33 billion pound objective estimate. It is still too early to know the crop size at this time.

Shipments

Seller's Perspective: We're happy about the shipments. Good number; heck, it's a great number. But man, are we worried about the sizing of these nuts. The size just isn't there. They look fine, but they're light. They have no weight to them. Just when we look at an incoming lot and we think we're finally getting 23/25s, they turn out to be 27/30s.

Buyer's Perspective: A great shipment month. But why so good?

- India overbought: 15 million pounds this August v. 3 million pounds last August. Wow!
- Europe circumvented VASP to the extent possible and shipped everything it could in August.
- Oh, and Ramadan starts this week, so that takes care of the Middle East for a while.

Let's see how good September will be.

¹ Adjusted up from 129 million pounds to reflect the actual loss and exempt percentage of the 2006 season of 2.59% (not the 3% blanket average used for the entire season). Hey, 4 million lbs here and 4 million lbs there and soon these quantities start to matter.

² Assumes an average 10% monthly shipment increase every month of the 2007 season over the 2006 season, where California shipped 1.066 billion pounds. A 60% increase in August is a good start. (intentional understatement)

Commitments

Seller's Perspective: Why are we talking about commitments? Why are we talking about the future? Do you see these nuts? They're tiny. We will never commit size 20/22 almonds before harvest again. Never. Almost certainly probably not ever....well maybe, but only if we get a really, really good premium.

Buyer's Perspective: Uncommitted inventory is a negative number (-94 million pounds). It's a smaller negative number than last year (-142 million), so that makes it a bigger number. Wait, or is it the other way around? Not sure; but anyway you have a lot of committed almonds: about 282 million pounds. You only have 188 million pounds available to sell through August, so that's why the number is negative. If you are confused about the negative being a good thing in this case, just raise the prices and everything will be just fine. Price increases, just like Windex, usually fix everything, don't they?

Domestic

Seller's Perspective: Another recordblowing away - à la Clint Eastwood with a .44 magnum - the August 2004 record of 78.6 million pounds. But do records really matter, punk? Why are we always so backward looking? Does anyone really care about the past? Does history teach us anything? Did history ever tell us that large crops result in small nuts?³ Look at these sizes. It's a travesty. A calamity. An outright injustice.

Buyer's Perspective: (See any of the past 13 of 14 reports for awe-filled language regarding domestic record-breaking shipment performance.)

Export

Seller's Perspective: Good figure to be sure; even a record at 59.8 million pounds. In case you're wondering, it crushed the previous export record of 49.1 million pounds set in August 2004. Sure hope we can keep it up since all we have to sell for the rest of this year is 36/40 AOS.

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VASP

Seller's Perspective: We love this new procedure. It was a long time coming – finally someone figured out a way to create a meaningless bureaucratic nightmare that has amorphous enforceability and no finality. But as they say in the old country: "Let's sit crooked but speak the truth": VASP does not go far enough. The EU should require testing for aflatoxin in parts per **trillion**. The technology is there...so why is the global community satisfied with parts per billion testing? Enough of this reckless endangerment of consumers' health. Do you know what 4 parts per billion of aflatoxin can do to you? Obviously, you don't and you probably also never drank TAB cola with saccharine. But we digress....We think that even 1 part per trillion is too much when it comes to protecting our consumers. Lower the limits and increase the testing. Let your local customs official take care of the rest!

Buyer's Perspective: Bitter because such a high percentage of your submitted VASP samples at origin are coming back positive for aflatoxin?

³ This is a rhetorical question. The answer is "yes." It is a somewhat well-known fact that large crops tend to produce smaller size nuts.

Prices

Seller's Perspective: How can prices not go up substantially when August shipments were so strong, when September shipments are also likely to be very good, and the only almonds we have to sell are 36/40 AOS? Have you seen the sizes? It's an atrocity. An epic scandal. An unspeakable horror.

Buyer's Perspective: Then what should the price for BSU5% be if all that California is producing is tiny nuts? Can you say "BSU5% price collapse coming to a theatre near you in time for Christmas"? Fasten your seat belts – California is about to drive us off a cliff again!

Conclusion

94.6 million pounds in August, regardless of the underlying reasons, is impressive. The resilience in this market has taken people by surprise and this figure will be the cause of much discussion and speculation over the coming few days. Just a couple of months ago, few expected this market to move up. Offers were plentiful and it seemed that this was shaping up to be a buyer's market. But then the Indians came! They started buying Nonpareil Inshell. They bought a lot and kept paying higher and higher prices. Those who handle inshell stopped selling kernels because they were getting better margins on the inshell. Those who don't handle inshell watched those who handle inshell – and they, too, stopped offering kernels. Prices firmed.

Then upon harvest, talk in the industry turned to the fact that the nuts were sizing small, that the turnouts were down, and that we were unlikely to make the estimate. According to many in the industry, the Nonpareil harvest in the south was disappointing, with orchards not meeting last year's production levels. Many in California started questioning the accuracy of the estimate and started to say that surpassing 1.33 billion pounds would be unlikely. This sentiment was more prevalent in the southern San Joaquin Valley than in the central & northern parts of the valley where the Nonpareil crop seems to have been better.

Consequently, many growers and packers have been withdrawn and few have been offering anything 27/30 AOL. Now, after this colossal August shipment month, either this perception is going to become more ingrained and offers are going to become more scarce, or some growers are going to jump in and try to capitalize on the strong shipments and likely price spikes, especially as they look at their mounting inventory. It's too early to know which way California will lean. Information that we have received points to the fact that sizing is improving and many handlers are reporting getting a very good amount of 23/25 and 25/27, though 20/22 seems to be in shorter supply.

There is still an admittedly large amount of speculation. It seems that our growing need for immediate and conclusive information may be affecting our patience and circumspection. Our BlackBerry time expectations may be spilling over into activities that cannot yield immediate answers. There are a lot of acres throughout the state of California that are producing almonds. There are varieties that are yet to be harvested and sized. Sweeping generalities can no longer be made early on with any conclusive degree of accuracy or reliability.

VASP and its ramifications are certain to make the next few months challenging. Some shippers have already jokingly started talking about signing service contracts from European ports back to Oakland, in order to more efficiently ship back all the rejected containers. Many packers are seeing a higher than expected number of "positive" findings on their VASP submissions and this is leading to genuine and justifiable concern – on both sides of the Atlantic. We are hearing more talk daily about the VASP "nightmare" and the logistical and commercial impact this new regulation is going to have. More to come for sure.

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For now the markets remain firm and in the coming days prices will undoubtedly go higher. When you cannot get a Cal/Butte/Padre SSR 27/30 AOL offer for November or December shipment in September – because people are afraid of sizing – you know you're facing a special kind of year.

If all else fails, at least try to remember.....SIZE IS NOT EVERYTHING!

Best regards,
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