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### **August 2008 Almond Position Report – Olympic Edition**

August 2008 shipments were 96.7 million pounds. This is up about 2% from the August 2007 shipments of 94.7 million pounds.

#### **Analysis**

Carry-in from the 2007 crop year:	231 million pounds
2008 Objective Estimate:	1.5 billion pounds
<b>Less 3% loss / exempt:</b>	<b>(45 million pounds)</b>
Total available supply:	1.686 billion pounds

#### **Shipments**

**Seller's Perspective:** Hey, they are up 2%!!

**Buyer's Perspective:** Two-Per-Cent! Two-Per-Cent! Two-Per-Cent!

#### **Domestic**

**Seller's Perspective:** The domestic market, which has not benefited from currency increases and yet set annual consumption records, will surprise this year as it has done in recent years. All the recession talk will not stop people from eating almonds and no, the natural almond slices will not be the first to go off a croissant (as some cynics have stated). Who can eat a croissant without the natural sliced almonds on top? And that nice honey glaze?

**Buyer's Perspective:** Domestic buyers may be buying, but they are buying less than last year. Down just over 4%. This is just the beginning. People who are losing their homes are not going to spend money buying snack nuts. They are going to buy "snack bread" and "snack rice."

#### **Export**

**Seller's Perspective:** New record with shipments up about 6%...And this with India taking only 8.8 million pounds of inshell this August as opposed to 15.4 million pounds last August. Lots of room for continued growth.

**Buyer's Perspective:** USD is hovering at \$1.40 to the Euro. The July monthly average was \$1.575; the September average for the first week is \$1.437. Though this may seem insignificant to a California grower who thinks that "Euro" is a heck of a lot better than "me rowing," this directly affects European customers' bottom line. And not sure what happened to all the rumors of India having booked 700 x 40 FCLs...maybe those were multi-year contracts? Or maybe September is going to be a fabulous shipment month?

#### **Conclusion**

Here's the uncensored version of what everyone is thinking right now:

#### **California:**

- Almonds are attractively priced. Considerable business has been done recently to European industry on Blanchable Standard Unsized 5% at \$1.65 / lb. That is a fair price, regardless of currency.
- All other tree nuts are going to be more expensive – including hazelnuts – at least for now.
- The water shortages this year resulted in deficit irrigation by some and astronomical water costs to others. Some orchards did not get the water that they needed and they are going to show this stress with a poor crop next year.

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- If bloom weather is good, this means not enough water. If bloom weather is rainy, it means potentially more water but not enough bee flight hours. Either scenario would point to a less than stellar crop.
- Those sellers who are discounting now were the same guys who were “withdrawn” for 3 months over the summer...waiting for ????. Now they realize that a lot of the summer shipments were for the September – December period and they missed the boat. So those speculators in Europe, Dubai and other markets are cherry picking orders at great prices. You have a bid on NPX 34/40, send it our way!
- Patience, with continued strong shipments, may well pay off.

### Europe

- California is nervous. Nothing is moving.
- Product is coming in; sizing is not good. Everyone realizes they are going to have lots of 30/32 AOS in most varieties. This means more and more standards which should be cheaper and cheaper. At least in theory.
- Today some processors in California are offering BSU5% at \$1.56; bids are at \$1.53 and they will be at \$1.50 the minute someone takes \$1.53. \$1.50 per pound is that magical price below which prices are not supposed to drop this year? Sure. A couple of energetic second hand traders + a good e-mail distribution list + a couple of more slow mornings + some grower payments coming due = \$1.50 doesn't look so bad.
- We need January – June offers, but we're afraid to book at a premium from today's prices. How many years have we heard now that “these trees just can't produce another good crop?” This was old news two years ago. It's really old now. It's a bet we're willing to take. Hand-to-mouth all the way unless there is significant upside for us (which there may be at \$1.50 for BSU5%).

### Middle East

- Why can't you just sell us some NPX 18/20 and 20/22?
- Please offer NPX 20/22.
- We don't understand. All we need is two containers.

### India

- Someone is selling inshell Nonpareil at \$1.70 per pound CIF!!!
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- The sky is falling and doom awaits us all! It's over - OVER - I tell you!
- Did you ship my October order yet? Not yet!? Not yet!? And not on APL? It's REALLY over now!

### China

- Man, our divers were wonderful sweeping all the gold, weren't they?...Oh....this is the almond question...sorry
- We bought plenty of NPS 27/30 at \$2.05 and NPS 23/25 at \$2.25 - \$2.35 a few months ago. We have enough booked to get us through the next few months. We need more for Chinese New Year, which is early this year on January 26. So we can't bluff too long, but we can wait a bit longer.
- If BSU5% is \$1.55 – why pay more than \$2.00 for NPS 27/30 and 2.25 for NPS 23/25? We certainly will if we have to – but we don't have to yet. We know that a big percentage of California's Nonpareil sizing is coming between 25/27 – 27/30 and we don't think that the current premium of approximately \$0.60 per pound for an NPS 27/30 over a BSU5% is justified.
- Every time we bid on something that gets taken, the next day a Hong Kong trader is offering it cheaper. We just had a bid for Inshell Carmel at \$1.17 per pound FAS; and before we finished our phone call with California, someone from Hong Kong was offering at \$1.13 per pound FAS.

Bottom line:

- If you think that the global economic situation is not going to impact consumption in a big way; if you really think that California is full of “hype” when they talk about water shortages, costs of production and concerns over the 2009 crop; if you think that enough processors are strapped for cash and are going to get more and more anxious in coming weeks, especially over shipping problems and their inability to get loads out and converted to cash - then sell short.
- If you think that at these prices you can make money, you have a booking that will be honored on a shipping line that is still calling on your country, and you’d rather sleep at night with a solid and reasonably safe purchase – and focus on running your business / factory - Book now.
- If you think this market is undervalued and that we are going to have a smaller 2009 crop coupled with an increased global demand, go long.

Whatever you do, be honorable doing it. Remember that CAD = Cash Against Documents. It does not mean:

- Go have coffee with your banker, take the documents, then pay 60 days later.

Or

- Call your relative on the board of directors at your local bank and get the documents, then pay 60 days later.

If you live in Italy or Spain and think that we are talking about you.....WE ARE.

If you’re not going to do business honorably and live by contractual terms, run for politics. Get out of this industry. This business is tough enough between honest, serious people. And laughably, the worst offenders of these payment terms are the first to “feel insulted” when this issue is brought up. This reminds us of the famous quote by Ralph Waldo Emerson (1803-1882): “The louder he talked of his honor, the faster we counted our spoons.”

Play by the rules. My father has a great saying<sup>1</sup>: “Remember that on the day you die, they are not going to write on your tombstone how many tons of almonds you sold. They are going to write about what kind of man you were.”

Best regards,  
**DERCO FOODS**

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<sup>1</sup> I’m sure he heard this from someone else, but I’m attributing it to him. It’s my report and I’m taking some literary license today!