

### **August 2009 Almond Position Report**

August 2009 shipments are 123 million pounds. This is up about 28% from the August 2008 shipments of 96 million pounds.

#### **Analysis**

Carry-in from the 2008 crop year:	413 million pounds
Estimated 2009 Crop Receipts:	1.35 billion pounds
<b>Less 3% loss / exempt:</b>	<b>(40 million pounds)</b>
Total available supply:	1.723 billion pounds
Less shipments to date:	123 million pounds
Remaining supply:	1.6 billion pounds

#### **Receipts**

**Seller's Perspective:** *(taking a moment to think)*

**Buyer's Perspective:** 112 million pounds received in August compared to 114 million pounds last August. This is down less than 2%....and you guys are telling us that your Nonpareils are down 27%? Were some of you harvesting Mission variety in August to make up the difference?

**Seller's Delayed Perspective:** The crop was later last year...the crop was definitely later. That accounts for the numbers being so close. The crop was definitely later. Three minutes to Wapner.<sup>1</sup>

#### **Shipments**

**Seller's Perspective:** 123 million pounds....as in prices are going to go up in 1....2....3...they're up!

**Buyer's Perspective:** *(No comment; just watching in admiration and dreaming of being an almond grower...one with cheap water, of course)*

#### **Domestic**

**Seller's Perspective:** A new record at 39 million pounds. Up 62% in just 6 years.

**Buyer's Perspective:** *(No comment; just watching in admiration and dreaming of being the public relations executive in charge of The Almond Board of California's domestic marketing program and the fee hike he / she is going to demand at the next board meeting.)*

#### **Export**

**Seller's Perspective:** A new record at nearly 85 million pounds. This number has doubled in just 6 years.

**Buyer's Perspective:** *(No comment; just watching in admiration and dreaming of being a tall, dark, once-arguably-handsome, multi-lingual exporter....oh, wait....never mind.)*

#### **The INDIA Factor**

Beautiful cities, beaches and women. Exotic animals. Tolerant people. And all that blond and inviting southern hemisphere inshell Carmel that you can ship during our summer months. Damn you Australia! You

<sup>1</sup> Poorly veiled reference to Dustin Hoffman's famous line in the movie Rain Man....But as for the receipts, it is too early to make any conclusions. The crop receipts in August 2007 were about 154 million pounds and the final crop size that season was 1.38 billion pounds. Last August the receipts were 114 million pounds and the final crop was over 1.6 billion pounds.

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

ride on the coattails of all the work that the California almond industry does – and then you sell your good quality inshell to our most important market at competitive levels. If you didn't have troops in Iraq, you would be the next contestant on the Price is Right...we mean the next addition to the Axis of Evil.<sup>2</sup>

OK – back to India. They have taken 10 million pounds this August from California – same as last year. But it does not seem that India is buying much new crop inshell Nonpareil – at least not in comparison to last season. Consequently, the price on a meat basis has gone from \$2.50 per pound to reportedly as low as \$2.25 per pound in recent trades.<sup>3</sup>

Importers in India are concerned about the volume of shipments during the spring and summer months, led by Australian Carmel and Nonpareil and the postponed shipments from California that all seemed to have shipped between July and August. The talk in recent days has been that India was expecting about 14 million pounds to be shipped from California and another 9 million pounds from Australia. This did not happen, at least from the California side. But the reduced shipments may not prevent the Indian market from panicking – since they were planning on panicking before the shipments were released. Why let good plans go to waste? An occasional panic stirs the soul and makes one feel alive!

Indian importers also don't seem to be concerned by the fact that most serious growers in California are saying that their Nonpareil production is down from last season between 5 – 30%. The receipts figure today will bolster their confidence that the Nonpareil shortage is exaggerated. But it is too early to draw any significant conclusions yet on the Nonpareil crop size.

The bottom line is that if India does not re-enter the new crop inshell Nonpareil market with vigor – and soon – the shelled Nonpareil market may weaken further. Who would have thought that September Nonpareil shipments would be offered at a discount to November shipments? Yet that is exactly what we have been seeing. The long term sentiment is bullish, but short term concerns prevail for the spot market: (1) space (not as in "outer" but as in "physical") and (2) cash. With that noted, these shipment figures may certainly motivate those sitting on the sidelines to start booking their requirements.

### **The China Wild Card**

China is the most populous nation in the world. Chinese shelled almond shipments very nearly doubled in the 2008 season compared to 2007; inshell shipments more than tripled. So far early in this season, shelled shipments are four times what they were in August 2009 and inshell shipments are over seven times last August's total. Despite these astounding figures, China remains an area where a select few control the nut trade and determine what nuts the population eats.

If the almond business is profitable, the importers will buy almonds. If it is not, they will buy something else. This year though we expect continued strong demand from China, we have to keep in mind that US inshell pistachio, inshell pecan and inshell hazelnut prices will be cheaper than they were last season. This will impact almond consumption as there will be some substitution – how much is impossible to know at this time. The industry is relying on China, India and the Middle East to continue their almond consumption rates. Everyone will be watching to see what happens in this critical year. If despite being more expensive than competing snack nuts, almond shipments to China continue to grow (reflecting consumers' willingness to pay

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<sup>2</sup> Not sure it would still be an Axis – or whether an Axis by definition has membership limitations of three nations. But it would definitely be a negative thing...and in the very least not good public relations for Australia. Now if we could only get George Bush back in office to make this happen.

<sup>3</sup> India swears this is so; everyone in California denies doing the business. Just another day in paradise.

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more for this healthy and versatile nut), then perhaps it will be fair to say that the almond industry has a new best friend in the Chinese consumer. Nihao wo zui hao de xin pengyou!

### **Kiss Your Local Shipping Line Representative<sup>4</sup>**

If you have not received a notification of a rate increase, then you can stop reading. If you have, then it must be for the better service you are receiving. Shipping lines are the text book examples of an industry that has massive barriers to entry – and what happens to such industries when competition is dramatically reduced.

Here is the shipping line model:

- We don't guarantee our schedules.
- We don't guarantee that your container will make it on board.
- We don't guarantee arrival times. In fact, we really have no idea when your container will arrive and most times we don't even know where your container is.
- We have our lowest paid and least motivated employees handling your documentation.
- We are fully protected from all acts of known and unknown incompetence, including acts of Force Majeur which may or may not further impact (and/or highlight) our baseline incompetence.
- And we are pleased to inform you that we are raising our rates effective immediately because all of us (shipping lines) are losing money on our operations – to the collective tune of more than \$6 billion for the first 6 months of 2009.<sup>5</sup>
- We are sorry for any inconvenience that this may cause you or your customer.<sup>6</sup>

### **Currency**

This week the USD has fallen to the lowest levels for the 2009 calendar year (over \$1.45 to the Euro) as investors around the world see initial signs of a global economic recovery. Many feel that the US market will not lead the recovery and are shifting their assets to riskier investments (often in emerging markets) with better returns.

In June the USD average was at \$1.40 against the Euro. In July this was 1.41, in August 1.425 and in September it is averaging 1.435 so far. Few are arguing that the USD will get stronger in the near future. This is bullish for US exports.

### **Conclusion**

Another season is underway with a whole slew of unknown variables, only some of which were discussed above. The good thing is that BSU5% is still around \$1.20 - \$1.30 per pound, which means that the downside at least on industrial material is low. After all, are standards going to fall below \$1 per pound? Never mind. Still too fresh of a ~~nightmare~~ memory. Memory – we meant memory - because just like every other shipper in California, we were not affected by the price decline either.

So far the talk in California about Nonpareil is that the crop is short and that the CASS estimate on Nonpareil (down 27%) is more than likely accurate. We will know more after the September receipts. Carmel / Carmel Type prices are firming the way everyone expected and will likely continue to firm until the gap between these varieties and Nonpareil is reduced and Nonpareil is once again perceived as being a “value” purchase. The demand for Carmel and Carmel type inshell is tremendous.

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<sup>4</sup> This entire paragraph was written under duress and protest. We love our shipping lines and don't want our rates to go up.

<sup>5</sup> Leach, P. T. (2009, September 8). First-Half Liner Losses Pass \$6 Billion. *Journal of Commerce Online*.

<sup>6</sup> Code for “Screw You - If you don't like it, rent a boat and start rowing the container there yourself.”

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We seem to have passed the worst of the economic crisis – at least in the USA. We believe that the California almond industry is rightly bullish about the domestic and export prospects for the 2009 crop. If the Nonpareil and Carmel crops are down as much as predicted, those who do not take into account the growing global appetite for almonds will find themselves short and paying higher spot prices to cover their needs. All one needs to do is look at the shipment history. In the past ten years, countless people have set forth arguments why the almond market will not continue to grow – and they have all been wrong. One can have an honest argument about the right price level – but the demand baseline has reset itself in recent years and this argument seems over. Global demand for almonds is certainly only going to continue to grow.

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

I never liked her.

Best regards,  
**DERCO FOODS**