

August 2012 Almond Position Report

August 2012 shipments are 139.6 million pounds. This is up 25% from the August 2011 shipments of 111 million pounds.

Analysis of the 2012 Almond Season

Carry-in from the 2011 crop: 335 million pounds *(increased by 20 million pounds because the actual loss/exempt number from the 2011 crop was 2%, not the estimated 3%)*

2012 projected crop receipts: 2.1 billion pounds

Less 3% loss / exempt: 63 million pounds

Less Shipments to date: 139.65 million pounds

Less commitments to date: 412 million pounds

Remaining inventory: 1.82 billion pounds

Shipments

A new record of 139.65 million pounds to start the 2012 crop. This will give California sellers more confidence to keep prices firm as they face the real possibility of a Nonpareil shortage that may be greater than 15%. If that indeed happens, then this crop could be at or below 2 billion pounds which will not leave much room for demand growth.

Regional Shipments

Here are the shipment statistics for shelled and inshell almonds to major Asian markets (in pounds) for the 2011 almond season:

Country	<u>August 1, 2012 - August 31, 2012</u>		<u>August 1, 2011 - August 31, 2011</u>		<u>% Change</u>
	Shelled	Inshell	Shelled	Inshell	
China/HK	7,196,470	5,159,760	4,856,293	1,357,692	99%
Japan	3,026,050	0	2,079,126	0	46%
South Korea	3,356,175	0	1,382,410	0	143%
Taiwan	< 500,000 pounds reported		< 500,000 pounds reported		N/A
Thailand	< 500,000 pounds reported		< 500,000 pounds reported		N/A
Vietnam	< 500,000 pounds reported		< 500,000 pounds reported		N/A
India	344,837	7,155,918	403,627	7,140,348	-1%
Pakistan	44,000	496,546	261,800	304,596	-5%
Egypt	< 500,000 pounds reported		< 500,000 pounds reported		N/A
Israel	< 500,000 pounds reported		< 500,000 pounds reported		N/A
Jordan	< 500,000 pounds reported		< 500,000 pounds reported		N/A
Lebanon	< 500,000 pounds reported		< 500,000 pounds reported		N/A
Saudi Arabia	< 500,000 pounds reported		< 500,000 pounds reported		N/A
Turkey	432,000	1,761,166	610,156	0	259%
UAE	3,615,400	1,089,043	4,537,950	436,610	-5%

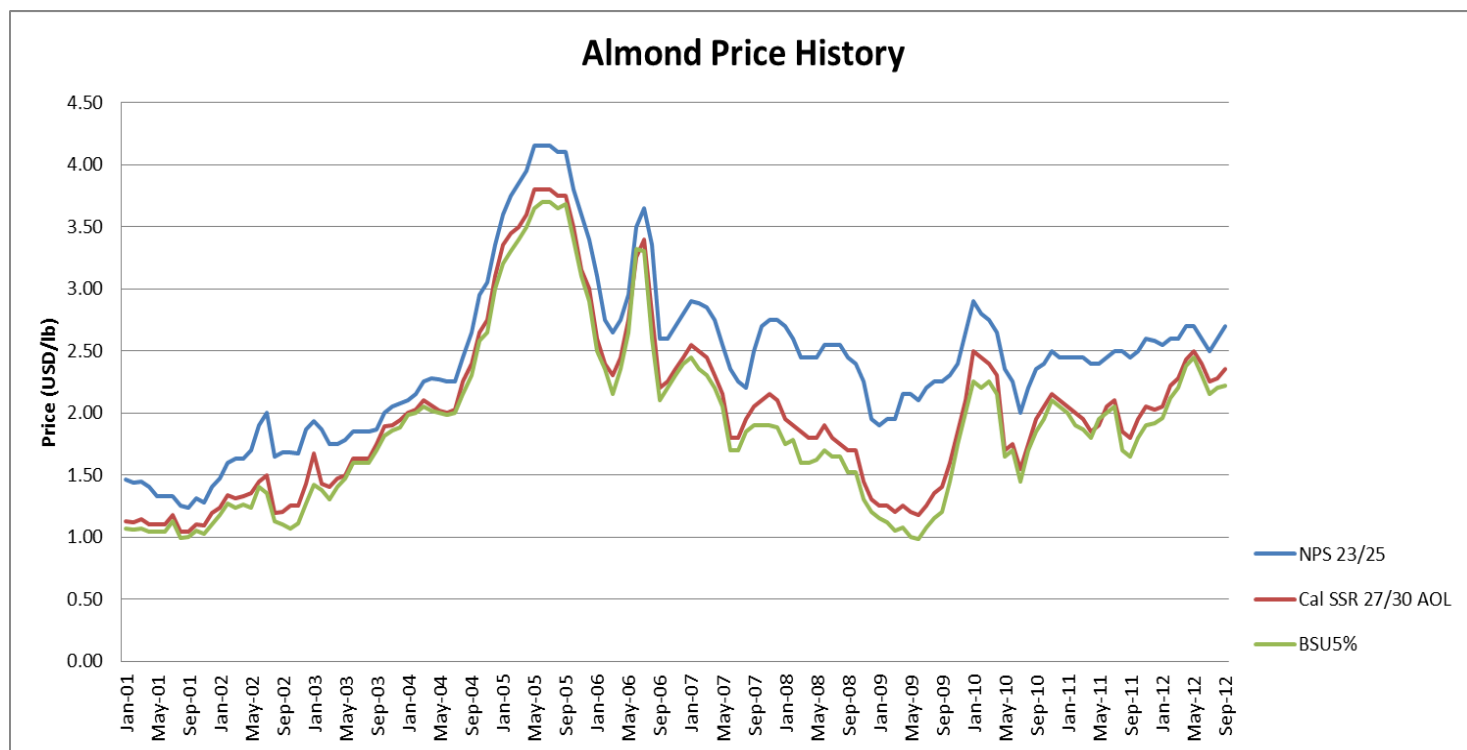
2670 West Shaw Lane, Fresno, California 93711 U.S.A.
 Telephone (559) 435-2664 • Fax (559) 435-8520 • www.dercofoods.com • e-mail: derco@dercofoods.com

Domestic Market

A new record at 48 million pounds. This was up 11% over August 2011. The previous record was in August 2010 at 45.7 million pounds.

Export Markets

Export shipments were huge at 91 million pounds. This was 34% higher than August 2011. The previous record was in August 2009 at 84.7 million pounds. Asia was up 52%; Europe was up 22%; Middle East/Africa was up 25%.



Europe

European Importers are not anxious to cover their needs. They need to buy more, but want to be patient to see how the Butte/Padre crop is going to come in. Their primary interests are for industrial items, so the size of the Butte/Padre crop (which is largely what goes into the Select Sheller Run and BSU5% product) is important. Europeans, like everyone else around the world, fear that prices are moving up too fast. They have access to spot goods in Europe but so far do not seem prepared to pay the premiums being asked for that inventory.

China

Hong Kong and Chinese importers continue to focus on the import channels into the mainland. Product is moving slowly through the border. Also, prices for almonds in the Chinese domestic market do not yet reflect the increase in prices from California. At some point, sellers inside China are going to have to raise prices to reflect the true cost of replacement goods now coming from California.

India

Imports into India for August are down 1% compared to last season. The demand for inshell has increased during the past few weeks. Importers in India are frustrated at the product coming through the Kashmir area without paying customs duties. This has kept prices in the local markets low. But the news of the short Nonpareil crop has now filtered throughout the Indian market. Inshell Nonpareil prices have moved up quickly and are now close to \$2 per pound.

Middle East

There is a lot of buying demand, but few offers of shelled large size Nonpareil kernels, which is what Middle Eastern importers want to purchase. Prices for Nonpareil 20/22 are close to \$3 per pound now and likely to continue to go up until there is more clarity regarding the size of the Nonpareil crop overall and in particular, the size of the Nonpareil kernels.

Conclusion

Buyers will argue that the 25% increase in shipments over last August is misleading because last year (2011 crop), harvest was late. This season more was harvested in August and so more new crop could be shipped. Sellers will argue that even if we take the earlier 2012 harvest into consideration, both Domestic and Export shipments were new records - even compared with years prior to the 2010 season when harvest was not delayed. Also, there was more inventory available for sale from the current crop compared to August 2011.

As most of you know by now, for the past few weeks the talk in the industry has been around the fact that the Nonpareil crop is coming in less than expected. The NASS forecast was for the 2012 Nonpareil crop to be down 7% compared to the 2011 crop. But so far the crop is coming in 15 – 30% less, depending on specific ranches and regions. A few growers maintain that their crops are the same as last year, but they are in the minority. Many growers are also complaining about the sizing. They say that the nuts are flat and dry. So even though they may visually look big, they are not sizing big. (Remember that kernel size is determined by weight: the number of nuts per 1 ounce or 28.34 grams.)

During the past 2 weeks, with each passing day prices are increasing. This is not happening because there is big demand. Rather, it is happening because there are very limited offers. During the past several days, it has been virtually impossible to get multiple containers offered from any growers or processors. Everyone wants to wait.

At Derco, we like to share and analyze facts. We don't like speculative reports that either scare clients into paying higher prices, or growers/processors into dropping their prices. As long as the information is available to all, the market will decide the pricing.

So far, it certainly seems that the Nonpareil crop is less than last year. How much less, we still don't know. We do know that a few large processors are offering to buy NPS/NPX in sizes 25/27 AOL (and/or larger) from other processors. This would lead us to believe that they are confident in their field reports confirming the Nonpareil shortage. Next month we will know more about Nonpareil receipts as well as about the California variety harvest. We will share all the information at our disposal with you.

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The concern we have is that by not offering, sellers in California may not see continuing strong September – November shipments. We recognize that there may not be enough tonnage this year to allow for 10% + demand growth, but the almond industry should not price itself out of the market and lose the “golden” shipping window for Christmas and Chinese New Year. Once that window is lost, it cannot be recouped. If prices increase too much, and ultimately the crop comes in closer to the estimate than anticipated, there may be a big price correction which will be painful for all involved. We should also all keep in mind that hazelnuts and cashews are competitively priced and could challenge the market share of almonds in the snack segment if almond prices keep increasing.

If you have questions or comments, please let us know. We are at your service.

Best Regards,
DERCO FOODS