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August 2013 Almond Position Report

“A wise man can see more from the bottom of a well than a fool can from a mountain top.” (Unknown)

August 2013 shipments are 147.9 million pounds. This is 5.9% higher than the August 2012 shipments of 139.6 million pounds.

2013 Almond Supply

Carry-in from the 2012 crop:	317 million pounds ¹
2013 crop forecast:	1.85 billion pounds
Less 3% loss / exempt:	55 million pounds
Less Shipments to date:	148 million pounds
Less commitments:	498 million pounds
Remaining unsold supply:	1.466 billion pounds

Possible conversations that may take place in the coming few days....I fear we are on a mountain top.

- Seller: Shipments are up 5.93% when they need to be down compared to last year (based on the 1.85 billion pound estimate).
- Buyer: Receipts are up by 62% compared to last August. How much of this is due to an early crop with simultaneous multi-varietal harvest and how much is due to this crop being bigger than NASS has forecasted? NASS blew last year's estimate, so did they overcompensate on the low end this season? We have yet to see someone tell us that they are down across the board on their Nonpareils.....will the pollinators tell this season's story?
- Seller: Water for next season?
- Buyer: Water for next season....!
- Seller: Domestic shipments at 50 million pounds are a new record, up 4.9% from the previous record set last August. Export shipments at 97 million pounds are a new record, up 6.4% from the previous record set last August.
- Buyer: Shipments are up as most of this business was done in June and early July before prices reached their peaks.
- Seller: Committed inventory is up 20% compared to last year at this time.

¹ Adjusted up from 296 million pounds. The Carry-In and 3% Loss & Exempt figure samba that the industry dances reminds us of the quote by Richard Feynman (1918-1988): “The first principle is that you must not fool yourself - and you are the easiest person to fool.” Maybe next year, if we are at or below 2% (for the 6th consecutive year), we can use 2% as the Loss & Exempt figure and prevent “feel good” Julys and “eat back” Augusts. Just a thought. Otherwise, on next year's L&E footnote we're going with the full song by STYX.

- Buyer: At what prices were those commitments made? Who is buying now? You dropped prices on 25/27 AOS by \$0.20 per pound in the past 2 weeks. What kind of confidence are you instilling in buyers?
- Seller: India has taken 7% more than last August
- Buyer: 540,000 pounds? A day's supply? Wanna hang your hat on that?
- Seller: China has taken 43% more almonds this August compared to August 2012.
- Buyer: The increase in Chinese imports is all on the shelled side. Shelled almond sales to China were down by over 30% last season. The market there is totally empty. The numbers to China had to be up; they could not have gone lower considering the inventory situation in that market.
- Seller: The Middle East is up 31%.
- Buyer: That is all June and July purchases that shipped in August. Virtually none of that business is from the new crop and virtually all of that business was at prices considerably lower than where they are today. Remember NPX 20/22 at \$3.25 per pound? Buyers in the region are now looking to sell their arrived and afloat inventory and to lock in their profits before they turn back to California for more purchases. Does California have the patience to wait it out?
- Seller: Quality so far is good; better than we expected with less actual insect damage than was anticipated a few months ago. Color looks good, too.
- Buyer: How does size look? With many inshell Nonpareil lots averaging smaller than 30/32, what is going to be the market reaction when these loads arrive at destination? We don't even want to talk about the Butte/Padre sizing. Is calling them peanuts an insult to peanuts? How much will the traditional inshell markets take when sizing is so small?
- Seller: Western Europe is up 10% and Europe overall is up 4%.
- Buyer: We in Europe are the happiest buyers in the almond world this season. Small sizes across the board on all varieties = more BSU5 material. Previously established price spreads between BSU5, Cal SSR 27/30 and NPS 23/25, the 3 bellwether benchmarks of the 80s, 90s and early 2000s, don't mean much any longer. Today NPX 23/25 is \$3.65 - \$3.80 per pound depending on who you ask. BSU5 is \$2.75 - \$2.90 depending on who you ask (and on who is actually selling, origin or limited second-hand). If you know many markets that are begging for NPX 36/40 AOS, good luck to youotherwise, better take our standard bids today. You may regret brushing off \$2.75 per pound....what are your growing costs again?

Seller: Outlook for this season is bright. We have an early harvest which will allow us to maximize shipments for the holiday season. We expect heavy demand in the coming days as buyers realize that between almonds, walnuts, pistachios, hazelnuts, pecans and cashews – they are going to get the overall best value and versatility by investing in almonds. With Chinese New Year coming on January 31st, there is not much time to vacillate. After all, nut processors have to process nuts.²

Buyer: Rupee? Chinese economy, government crackdowns, import channel challenges? Iran? Syria? Egypt? European outlook? Availability of credit? Obamacare?

Conclusion

Last month, buyers noted: “You are making a mistake. Sell into this strength. Current prices are fantastic. You are making lots of money. Leave something in the chain. If we cannot make money, too, then demand will get decimated in markets that you have worked too hard to develop.”

The California almond industry, along with the help of some exuberant traders, succeeded in pushing up prices. But were the increases justified by supply/demand fundamentals? It seems we were in the old scenario of limited buyers facing even more limited sellers, and prices going up based not on a lack of supply, but rather on a perceived lack of information and subsequent hesitation to sell (aka ‘lack of offers’)? Now, faced with a group of growers and processors who each have a different level of financial fortitude, some in the industry are dropping prices merely a few weeks after the world was being told that there were not going to be enough almonds to go around. Yo, this ain’t good for our street cred, man.³

August shipments are good, but they don’t resolve the underlying issue of the 2013 crop: the sizing disparity which will impact how, to whom and at what price the majority of the crop is sold.

When no one sells NPX 23/25 because sizes are small, you understand. When they ask for a premium to sell NPX 27/30 because sizes are small, that becomes more difficult to understand. When prices start to fall because: (1) every grower who was “withdrawn pending harvest” suddenly realizes as soon as harvest starts

² This is indeed a ‘deep thought’ reminiscent of other great Deep Thoughts™ by Jack Handey, including (pardon the digression):

- “To me, boxing is like a ballet, except there's no music, no choreography, and the dancers hit each other.”
- “If you lived in the Dark Ages and you were a catapult operator, I bet the most common question people would ask is, ‘Can't you make it shoot farther?’ ‘No, I'm sorry. That's as far as it shoots.’”
- “I can picture in my mind a world without war, a world without hate. And I can picture us attacking that world, because they'd never expect it.”

End of digression.

³ Pardon the street jargon, but I have just been watching The Wire (David Simon; 2002-2008). I’m 5 years late to the party, but for those of you who have not heard of or seen this HBO series yet, it’s a captivating and realistic look into a less fortunate, corrupt and seemingly hopeless urban America. It’s especially enlightening for people who have been sheltered in idealist suburbia. Definitely worth the 60-hour (5-season) investment. Remember, NPX 27/30 can continue to fall without your proactive help, so take some time off and enjoy (after the kids are asleep). I assure you that you will learn a whole new vocabulary and ways to conjugate curse words that you could not have imagined would lend themselves to conjugation……. Dat shit be aw’ight, muh-fuh!

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that almonds are actually coming off the trees; (2) the nuts are as small as the world was told they would be; (3) growers believe that these are super prices and that they need to sell 'now'....well that is just predictable.

All those who waited because NPX 27/30 at \$3.50 was not good enough seem to think that \$3.30 is better. That's the new math.⁴

Fortunately, during the past few days, there are new signs of life. The Chinese market is coming back with both inshell and shelled demand. Europe, after trying to push BSU5 down to \$2.75 per pound, is now booking at \$2.78 - \$2.83 per pound and is looking for shipments into 2014. The Indian market, though still quiet, will not be quiet for long. The Mid East will come back as soon as they feel that a relatively stable floor has been set. For now, they are comfortable paying a bit more and buying locally on credit.

If California can hold it together for the next few weeks, and minimize the damage done by the weakest sellers (who were acting the toughest just a few weeks ago by being 'withdrawn'), then we may actually have reached the floor already. All buyers are looking for is some stability and a reason to have confidence. You can do it California almond industry – keep your pants on!

"No matter what I do, no matter how predictable I try to make my life, it will not be any more predictable than the rest of the world. Which is chaotic." Elizabeth Moon.

Enjoy the cartoon. It's drawn in good fun at all of us in this global industry.

Best regards,
DERCO FOODS

⁴ Oh, lest we forget later - thanks for the help on collecting our receivables. It's always good to drop prices before the first new crop shipments leave Oakland.

