

September 2006 Almond Position Report

September 2006 shipments were 110.368 million pounds. This is up about 35 % from the September 2005 shipments of 81.5 million pounds.

Carry-in from the 2005 crop year: 112 million pounds

Objective 2006 crop estimate: 1.05 billion pounds

Less 3% loss / exempt: (31.5 million pounds)

Total Supply: 1.13 billion pounds

Less shipments to date: (169 million pounds)

Available Supply: 961 million pounds

Shipments and Commitments

Seller's Perspective: 110 million pounds is a robust number. The third highest shipment figure for September and just shy of the record 114 million pounds set in 2004 – the season in which we shipped 1.024 billion pounds. We are delighted to see almonds trading in a price range that is readily being accepted by clients throughout the world.

Buyer's Perspective: So much for the talk of 140 million pounds for September. 110 million pounds is certainly not a bad number, but prices have gone up almost daily during the past month in anticipation of something more impressive. As for the committed shipments, you must be disappointed with 305 million pounds. This is slightly higher than the commitments last time this year (when the market collapsed right around now – following the dismal 81.5 million pounds shipped). It is a lower committed figure than the September 2003 and 2004 seasons (322 million pounds and 387 million pounds respectively), during which time we had the two highest shipment totals in history (1.02 billion pounds and 984 million pounds).

Seller's Rebuttal: Yes, but in September 2002 the committed inventory was only 255 million pounds and in that season, California shipped 982 million pounds of almonds – the third highest total in history.

Buyer's Rebuttal: If you ship 982 million pounds this year, you will still have a carry-out of 150 million pounds going into the 2007 crop. Do you think that you can sustain prices at these levels if you show that you are on track to ship only 980 million pounds?

Receipts

Seller's Perspective: We have received 406 million pounds through September. On average for the past 5 years, 42.4% of the crop is harvested through September. Assuming that this average holds true for this year, our crop would be around 960 million pounds. We need to wait and see how the pollinators are going to do before we just assume that this crop is going to be over 1 billion pounds.

Buyer's Perspective: Through last September, you had received 352 million pounds out of a crop of 910 million pounds (38.7% of the crop). Assuming that we have already received 38.7% of the crop (same as last year), that would put this crop at 1.05 billion pounds – which is the same as the CASS estimate. But the crop is late this year – and we all know that. So it would seem to us that 1.05 billion should be the bottom end of our expectations.

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Domestic

Seller's Perspective: Up 21% with a big boost coming from inshell shipments.

Buyer's Perspective: Domestic commitments are down 6% and the big industrial buyers seem content to book hand-to-mouth. They see little reason to book forward at these levels. Prices are lower than last year at this time, so almonds will already account for a lower percentage of the final product cost. By waiting, buyers have little to lose. On the other hand, by booking forward, they could end up holding higher priced inventory.

Demand

Seller's Perspective: Demand has clearly picked up all over the world. Exports are up 11% in North America (Canada & Mexico); up 26% in W. Europe and 49% in E. Europe; up 200% in the Mid East, and 10% in Asia. It's an international validation that at these price levels, our crop of 1.05 billion pounds can be shipped.

Buyer's Perspective: You keep making the same mistake – by judging demand and shipments for a given month with the prices presently offered in the market. If you recall, just a few weeks ago, NPS 23/25 was offered at \$2.45 per pound FAS....today some people are asking for \$0.20 per pound more. When people lose confidence in their ability to market almonds in their own countries – they will stop buying. By the time this signal reaches back to the grower, you have over-priced your product and a correction is inevitable. Here we go again.....you just don't learn.

Sizing

Seller's Perspective: Sizes are coming in small on virtually all varieties. Nonpareil, Carmel and Sonora are all coming in smaller than we hoped for. We have clients looking for 18/20 size and we have little or nothing to offer.

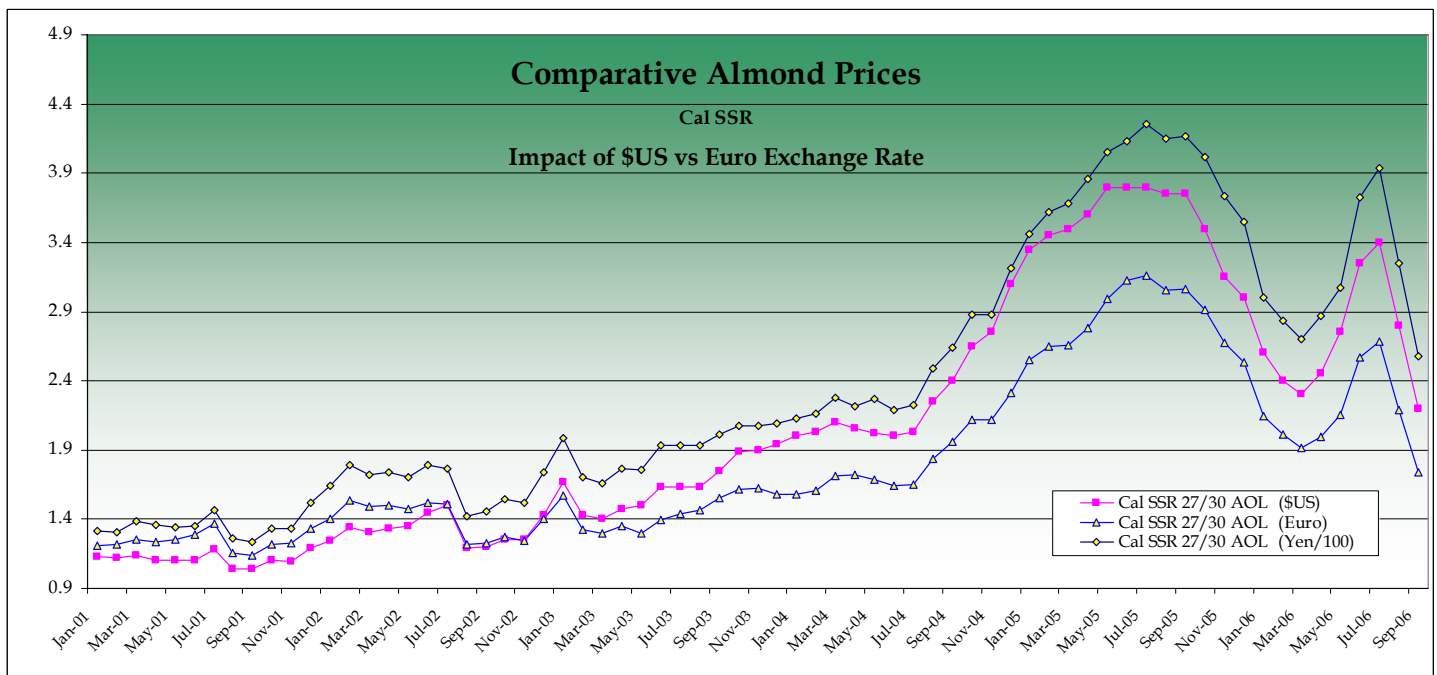
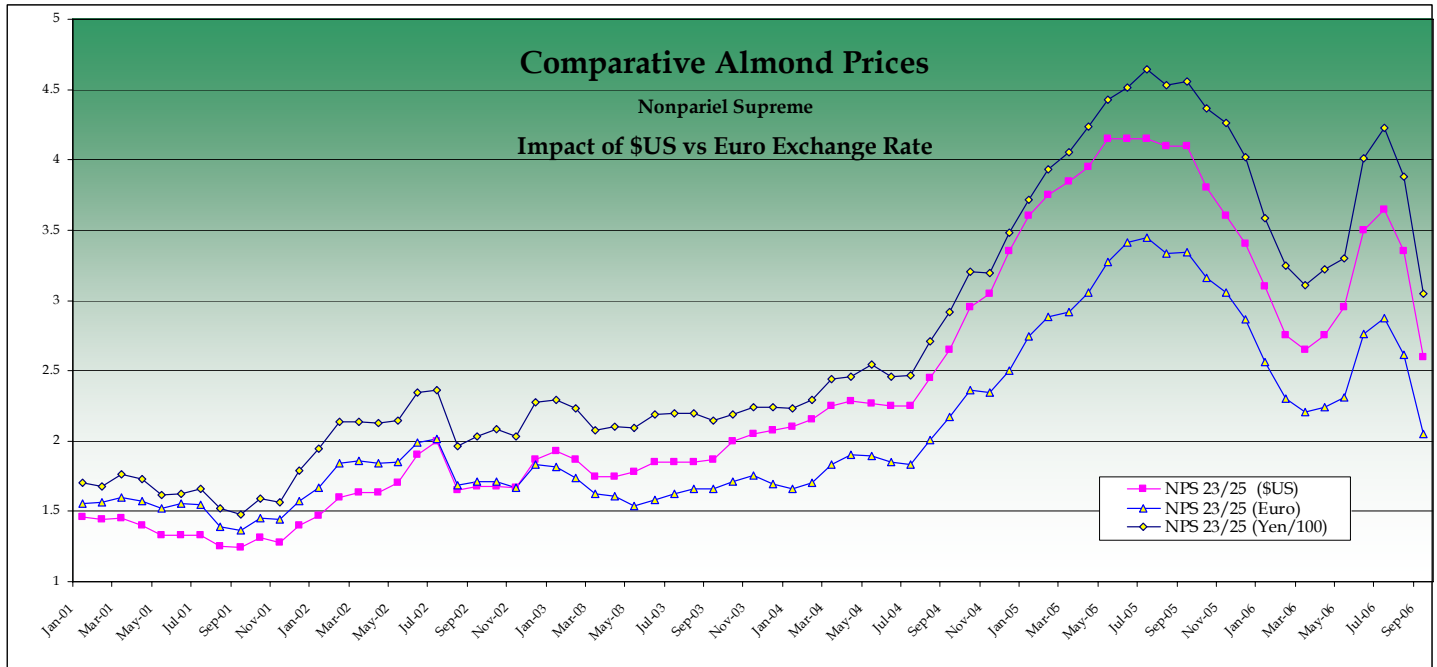
Buyer's Perspective: All those looking for 20/22 seem to have managed to find cover. Though 18/20s are difficult to find, the premium over BSU5% has also been more than \$0.50 per pound for this size. This is not sustainable in a year where you will likely have the best Nonpareil crop ever. The price spread should not be more than \$0.20 per pound.

Currency

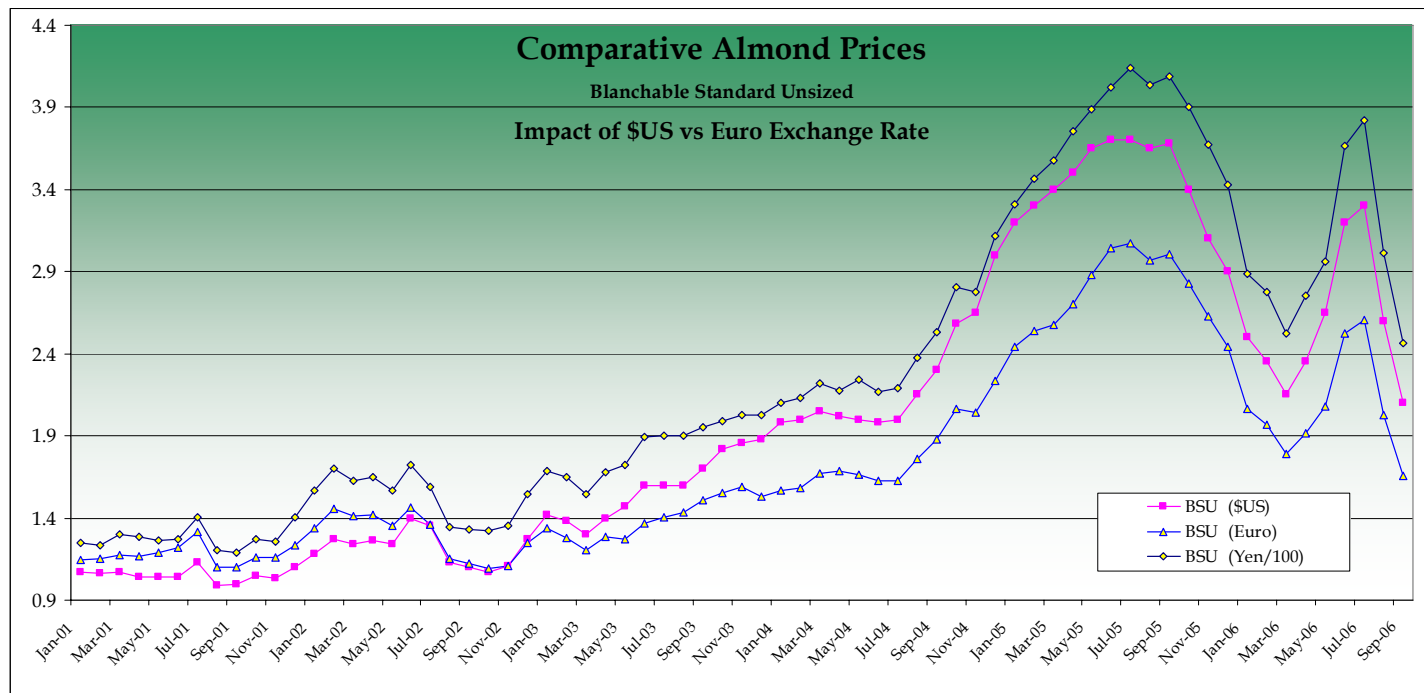
The currency has remained in a trading range. In the last four months, the USD has ranged between 1.23 – 1.29 to €1.

Below are the currency-adjusted price charts for NPS 23/25 AOL, Cal/Butte/Padre SSR 27/30 AOL and BV5%. Las Vegas doesn't seem so risky after this, does it? As a friend recently put it: "At least in Vegas, you know how much money you are putting on the table and you know what you could stand to lose....not so in almonds."

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Conclusion

Sellers seem to be comfortably sold through October and into November. October shipments promise to be healthy, if not a record. Buyers are picking up spot and afloat goods and asking for immediate shipments. They have been traumatized and don't want to risk holding inventory in a market that has seen such violent price swings during the past 12 months.

The hand-to-mouth mentality has the potential to keep things stable for now. From the seller's perspective, growers and packers are obsessed with the monthly shipment reports and it seems that this has become their "guiding light" and the basis on which they make their marketing decisions.

Similarly, on the buying side, buyers are trying to book a little bit of January – June business, just to get a small degree of cover. But overall, it seems that they don't want to commit heavily to this time period. Many feel that this market still has the chance to drop, especially if shipments stay strong but don't set any records. Buyers feel that being on target to ship 950 million pounds is not enough to maintain prices with a 1.05 billion + crop. They don't want to be caught long if bloom is good and people start talking about the 1.2 billion + crop around the corner. They, too, are content to go hand-to-mouth....which may be what it is going to take to hold things stable for a while.

Well, this is a hectic time of the year for everyone. Hope the following will help you to better "read between the lines" when trading almonds (and give you a small laugh as well).

Almond Speak – Breaking the Code:**10 THINGS THAT CALIFORNIA SHIPPERS SAY – AND WHAT THEY REALLY MEAN:****Number 10:**

What they say: I just sold that same product for \$0.05 per pound more than what you're bidding.
What they mean: I think that I should get the same price for 100 tons going to Rotterdam as I do for 2 pallets going to Boise, Idaho.

Number 9:

What they say: My growers aren't ready to release more tonnage.
What they mean: I asked myself if I wanted to sell...and the answer I got was that I think that I'll get more for my nuts if I wait.

Number 8:

What they say: It's been too [insert your favorite.....hot, cold, rainy, windy] lately. That's not good for the crop.
What they mean: I'm assuming that you don't know anything about almond growing, my farming practices or about the fact that I knew about this weather pattern 3 weeks ago. Hopefully you'll get worried enough and pay more in a panic. I better include some dramatic pictures of [insert your favorite....rain, ice, lightning] for complete effect.

Number 7:

What they say: The size just isn't there this year.
What they mean: The Nonpareil crop is so huge that the nuts had to average smaller in size. But how could I get \$0.40 per pound premium over BV5% if I admitted to that?

Number 6:

What they say: It rained overnight and my stockpiles are wet....we could have a serious mold or staining issue.
What they mean: Even though it has rained every October in recorded history in the San Joaquin Valley, we are still surprised when we leave our almonds out in the open in October and they get rained on.

Number 5:

What they say: Please roll this one week.
What they mean: I got a higher price for the same product and I'm bumping your order.

Number 4:

What they say: I was getting these same prices 15 years ago and all my costs have gone up. Why do you guys always want to buy everything so damned cheap?
What they mean: I don't fully understand the complicated economic concepts of global competition, substitute goods, optimal asset allocation and economies of scale. Hell, I'm the best grower I know and my product should defy the laws of economics anyway!

Number 3:

What they say: We're not offering that far out.
What they mean: You must have mistaken me for someone who is in the customer service business.

Number 2:

What they say: Let's wait and see what the shipment numbers will be.
What they mean: I sold too early too cheap and now I need to wait in hopes of increasing my average grower return.

Number 1:

What they say: I just did a load at that price; I'm a couple of cents higher now.
What they mean: I am a partner invested in your success and I want to make sure that I supply you with a raw material that is price-stable and readily available when you need it....just kidding:
F**K YOU!

10 THINGS THAT OVERSEAS BUYERS SAY – AND WHAT THEY REALLY MEAN:**Number 10:**

What they say: I know I bought an October shipment, but please ship earlier.
What they mean: You wouldn't have offered if I asked for September, and I wanted to get the best price possible. I really needed a September shipment all along. Now I'll e-mail you every day asking for September in hopes of pestering you to submission.

Number 9:

What they say: Your competitor is offering much cheaper.
What they mean: We both know that I don't have any other offers, but I'm just hoping that you were fishing in Mexico or buying a new truck this past week and haven't been following the market.

Number 8:

What they say: I heard that second hand sold at.....
What they mean: You gotta love the second hand....I can blame anything on them if it will help me get the price I need from origin.

Number 7:

What they say: The market on our side is not going well. Sales are slow.
What they mean: You better give me the discount I'm asking for.... Don't you know that in addition to ensuring that you ship me good almonds, you are also responsible for the market conditions in my country?

Number 6:

What they say: A contract is a contract.
What they mean: I know that prices are going up and you better ship my below market priced order.

Number 5:

What they say: Please ship to Barcelona.
What they mean: This is a high priced contract and I need to get an aflatoxin rejection.

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Number 4:

What they say:

The end user is a big supermarket.

What they mean:

You need to sell this product below market and expect to underwrite the financing expenses so that you can have the privilege of telling people you sold to [insert supermarket name here].

Number 3:

What they say:

The goods must arrive by last week of October.

What they mean:

You will of course be captaining the ship. So I expect you to go faster through the Panama Canal and dock it at my port of destination first. I am the most important buyer in the world and my nuts must get here before my competitors'. After all, I paid market price!

Number 2:

What they say:

I am a very reliable buyer – please check my references.

What they mean:

I am going to send you the name of a leather trader from Uzbekistan with whom my grandfather did some business. That should be good enough for you to extend me payment terms.

Number 1:

What they say:

I hear that the market is falling.....

What they mean:

YOU'RE F***ED. See you in arbitration and good luck collecting anything. By the way, my new company name is "Serendib Investments Limited" and I'm at your service.

Best Regards,
DERCO FOODS