

September 2007 Almond Position Report

September 2007 shipments were 121.9 million pounds. This is up just over 10% from the September 2006 shipments of 110 million pounds.

Analysis

Carry-in from the 2006 crop year: 133.9 million pounds

Objective 2007 crop estimate: 1.33 billion pounds

Less 3% loss / exempt: (39.9 million pounds)

Total Supply: 1.42 billion pounds

Less shipments to date: (216.68 million pounds)

Less estimated carry out: (200 million pounds)

Estimated Remaining Supply: 1 billion pounds

Shipments

Seller's Perspective: 121.986 million pounds is a new record for September, surpassing the old record of 114.68 million pounds set in September 2004. 216.6 million pounds shipped through the first two months of the season is also a new record (previous record of 193 million pounds set during August-September 2004).

If you have any other questions, leave a message. We're busy. Do you have any idea how hard it is to get a 2007 Maserati Quattroporte in "Almond Beige"....and did you know those things don't come with a standard tow package? Everything is options, options, options....damned Italian cars! What the hell are we going to attach our trailers to, that little pitchfork on the grille?

Buyer's Perspective: Not bad numbers in a vacuum. But when you look at the receipts to date, you see that you need every bit of these shipments to move the crop that you have on your hands. Say what you will, this crop will make every last pound of the estimate, if not more. When was the last time we had a small crop with small nuts?

Receipts

Seller's Perspective: We have received 593.6 million pounds to date. That's 46% more than last year at this time, but harvest conditions were different this year. The strong early receipts is what has allowed us to ship more nuts out early to markets in which the pipelines were empty. How could we meet this record demand without having the crop come in early?

Buyer's Perspective: And Noah thought he had problems with a flood! That was a minor precipitation event compared to what you guys have in California. The Weather Girls were partially right - It may not be Raining Men, but it's certainly Raining Almonds. Hope those extra covered sheds you were planning on putting up this summer are completed, because we are sure your normal warehousing capacity can't handle this "we're not going to make a 1.33 billion pound crop." The five year average receipts percentage through September is 40.3%. If we use this average, that puts this crop closer to 1.45 billion pounds. And what about the rain? Didn't that slow down your receipts? Now tell us this crop was early while simultaneously explaining why you could not ship Californias and Carmels sooner.

Seller's Rebuttal: This crop did come in early and the harvest of several varieties occurred within a short time frame, one on top of the other with considerable overlap. Look at the 2004 season: through September, we had received 48.5% of the total crop. Applying that percentage, this crop would be 1.22 billion pounds. It's simply too early to make determinative statements about the crop size based on receipts to date. And by the way, we could ship the Californias and Carmels sooner – just not in sizes 27/30 AOL.

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Commitments

Seller's Perspective: 370.8 million pounds committed forward leaving an uncommitted inventory of 122 million pounds. The books look good, we feel comfortable with our sold positions. Those of you who want to wait to buy more almonds, go right ahead. Chances are we can wait longer than you.

Buyer's Perspective: You have 65 million more pounds committed this year than last year, against about 187 million pounds of more receipts. Doesn't that mean that you were in better shape last year? It's a long season and the holiday buying is virtually done. What percentage of your crop have you sized and graded? How much is still in stockpiles?

Domestic

Seller's Perspective: You may ask – why talk about this category month after month after month. The answer is easy: just so we can gloat and say “We set another record for domestic shipments today!”¹

Buyer's Perspective: \$#@%^&&^#%\$@!##% !!²

Export

Seller's Perspective: Have you hugged an Indian today? Pass the Tandoori Chicken and Nan....India has bought 27.1 million pounds of almonds between August and September 2007 as compared to 15.7 million pounds last year through the same period. That's nearly a 12 million pound increase just in India. They have virtually single-handedly caused a firming in the Nonpareil market as inshell and non-inshell sellers alike have taken advantage of the heavy early bookings to say that they have “no production space in August or September” or that they “can get more by selling inshell.” Apart from India, other destinations have not been too disappointing either. Western Europe is up 25%, Eastern Europe up 30%, the Middle East is up 110%, Asia is up 48%. Costa Rica has not yet registered, but can they be far behind?

We set a new export record this month, shipping 88 million pounds and breaking the previous record of 85 million pounds set in September 2002. For those keeping track, that's two months into the new season and two record export shipment months. So much for the European traders and their mantra of “the market is dead.”

Buyer's Perspective: The market is dead. This is business booked a long time ago at much lower levels. There is little hand-to-mouth buying interest right now and most of it is for spot or afloat business.

VASP

Seller's Perspective: \$#@%^&&^#%\$@!##% !! (see footnote 2)

VASP certainly did not slow down shipments as predicted by many in the industry who were using that as an excuse to justify the strong August shipments. And have you tried finding a replacement in the spot market? The same guys that won't pay \$1.80 per pound for BSU5% November onwards are paying \$2.25 per pound or more for duty-cleared spot material.

Buyer's Perspective: As of the last week of September, there were 39 rapid alerts in the EU for aflatoxin.

¹ Professional rhyming intentional.

² We have been criticized by some of our more well-mannered and pious readers for our use of strong language. We are toning it down for the genteel among us (just this month).

Prices

Seller's Perspective: Virtually every global market can buy almonds at these prices. Most buying resistance we are encountering is merely based on a *desire* to see lower prices because of the fact that the crop is expected to be a new "record." But desire will lose out when you do the math. Where else will tree nut importers allocate their resources? Turkish hazelnut prices are over \$3.40 per pound. California Walnut prices are in the stratosphere (LHP 20% \$3.65; LHP 40% \$3.85; Light Halves around \$4.00 per pound) and other origins are quickly raising their prices. The cheaper walnut deals that could be had earlier in the season from India and other origins are disappearing. Pecan prices are over \$4.00 per pound. Almonds at an average price of around \$2.25 per pound are very competitive and remain an attractively priced nut.

Buyer's Perspective: We just don't have the confidence to pay \$1.80 per pound for BSU5% for November through June when we know that most of what California is going to have to sell is product in sizes 32/34 AOS. How much of those sizes can you sell outside the BSU5% market? How many domestic confectionary accounts do you have? We don't think enough to keep prices firm. BSU5% prices have to come down otherwise you are going to be carrying too high a percentage of the "not so easy to sell" portion of your crop into the bloom period. You may be willing to place your bets on bad weather and on your government diverting water from your almond ranches. If you want to roll the dice on frost and drought, go ahead. We won't do it. Your almonds were featured in the Wall Street Journal last month.³ The whole world knows that almonds are a top California agricultural export. Do you think your government officials are going to cut off your water supply and still hope to have a chance to get re-elected? We don't.⁴

Currency

On September 28, 2007, the US Dollar hit a record low against the Euro: €1 = \$1.427. Since that time it has recovered slightly, but is still trading above \$1.40. This has obvious impacts on almond sales to Europe, where the beneficial exchange rate helps European buyers to absorb price increases from origin (see charts below).

The wider implications beyond our relatively small almond world are even more meaningful. As the US Dollar falls and the prospect for a recession in the US continues, it seems increasingly unlikely that the Federal Reserve will step in to support the Dollar. Many economists believe that if the Fed was to choose between protecting the Dollar and averting a recession, it would avert a recession and sacrifice the Dollar. This is disconcerting to countries that are currently financing our debt. They are being asked to buy more US Dollar backed treasuries, while essentially being told that their investments are (1) being devalued on the global stage and (2) going to return lower yields. Not such an exciting investment proposition.

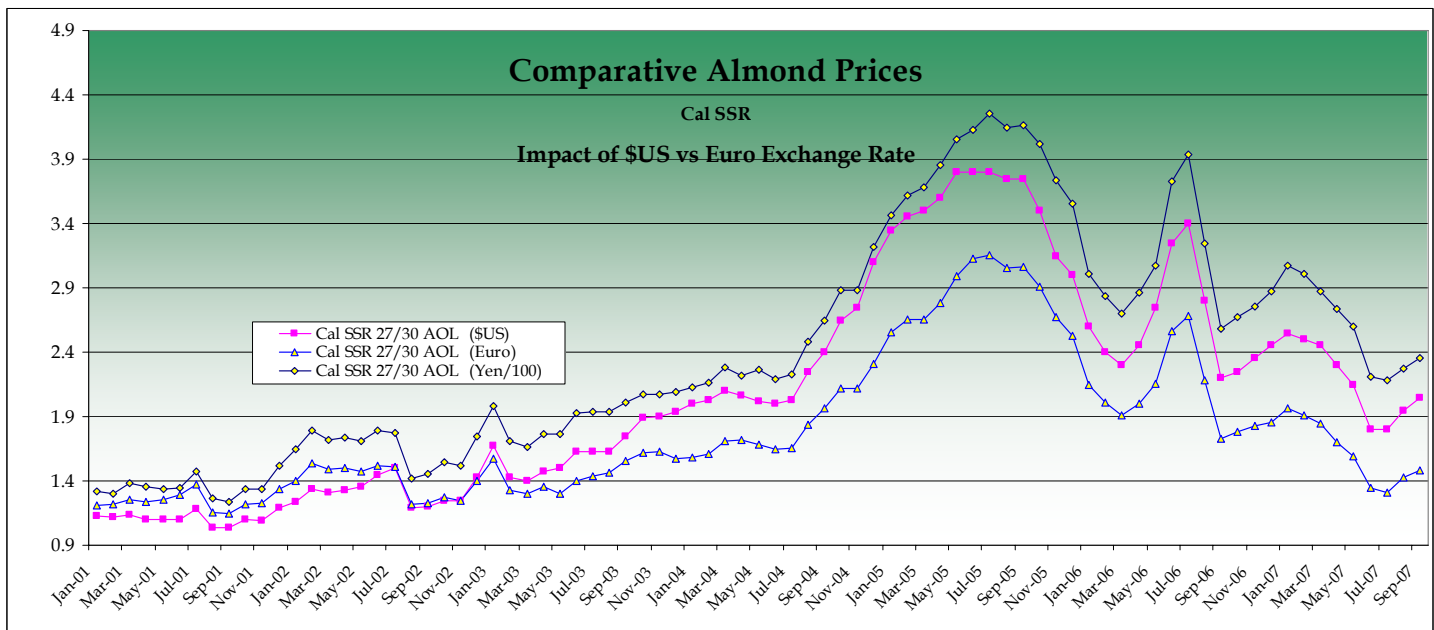
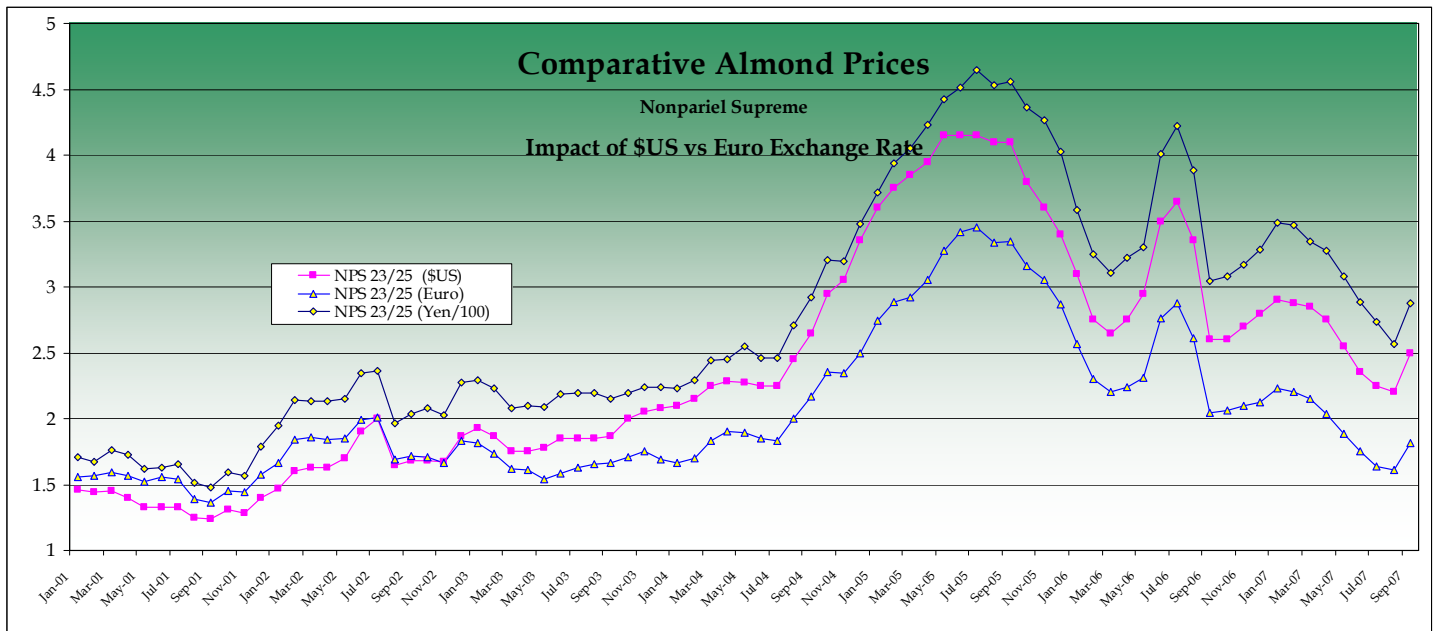
The situation of the USD is also impacting the relations with China. The US Government is telling the Chinese to strengthen the Yuan, making Chinese products relatively more expensive in the US. In the meantime, the US is stepping aside and watching the Dollar get weaker all the while continuing to encourage the Chinese to buy US Treasuries. Is this what they call "speaking out of both sides of your mouth?" Somebody ask George Bush & Henry Paulson, Jr. The Chinese are too smart to fall for this, aren't they?

The finance ministers of the G7 will be sure to discuss the relative global weakness of the US Dollar during their annual meeting in Washington, D.C. on October 20th. If you're a betting man, place your chips on a weaker USD in the coming months.

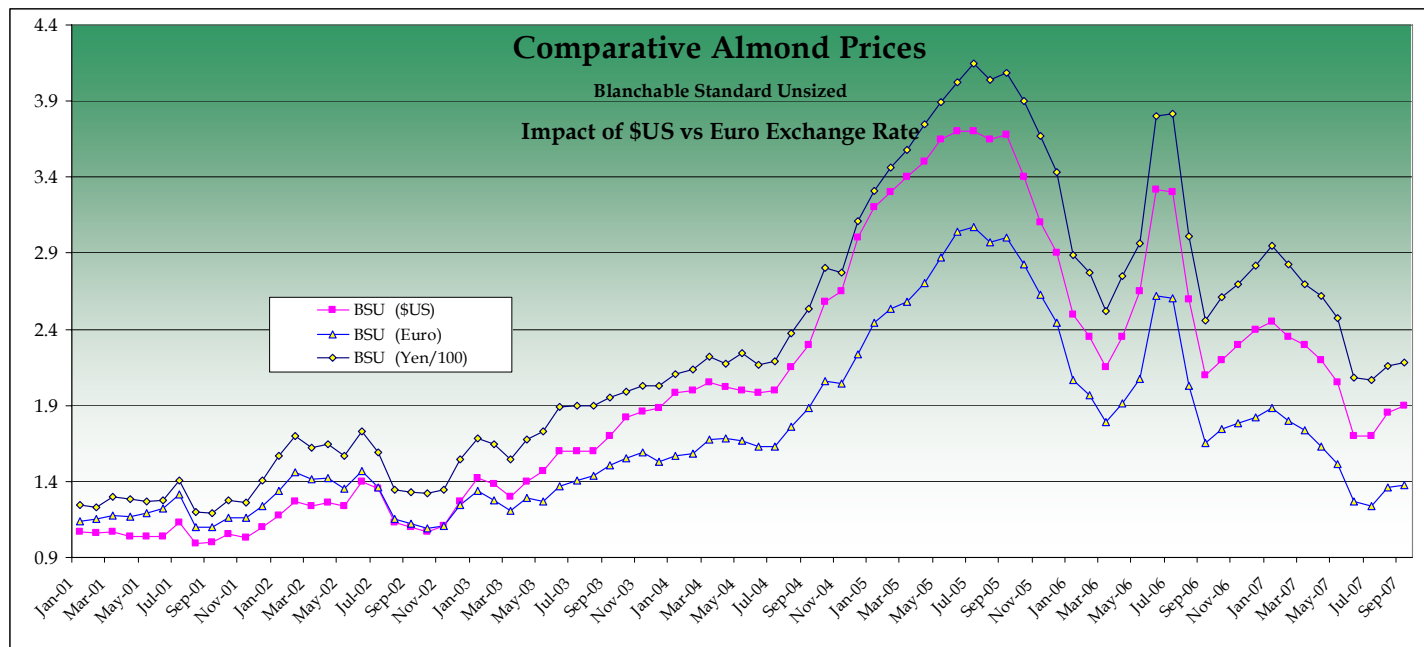
³ Wollan, Malia. "Looking for Gold in Them Thar Trees --- Investors Rush Into Almonds, But Will They Stick Around As Prices Slip, Costs Rise?" *Wall Street Journal*, 6 September 2007.

⁴ California Almond Growers: please send your angry water-shortage related e-mails, undoubtedly talking about the endangered fish and the encroaching residential and commercial development, to derco@dercofoods.com; we don't check that account regularly.

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Conclusion

Though size is not everything, you wouldn't know it by talking to some of the people in our industry. The sizes continue to disappoint across the board and remain the topic du jour. There has been some improvement, but California/Butte/Padre SSR 27/30 AOLs are still challenging to come by as are Carmel and Nonpareil 23/25 AOL. There does not seem to be much relief in sight. However, it is important to note that a sizing problem does not mean a volume problem. Sizes may be small, but this crop can still meet and even exceed the CASS estimate of 1.33 billion pounds.

Many California growers are holding out for higher prices. The "hold for higher prices" strategy has worked for the past few years but seems unlikely to succeed this year as an overall strategy unless the crop does not make the estimate. If you are holding an 18/20 or 20/22, that's one thing. But holding a majority of 32/34 AOS, may not be a great idea. Ultimately it comes down to a management of inventory and "staying power." Those who have cash and are willing to hold out through bloom may be rewarded with higher field prices, though this seems to be a minority packer view in California at this time. Many packers would be eager to sell more product at prevailing prices if they had grower support to do so. But the support simply is not there in any significant volume.

Based on these shipment figures, we expect California growers to remain conservative in their sales strategy. They are no doubt going to ask why they should lower prices for forward sales in light of such strong shipments during the first two months of this season. Buyers who are covered seem to be in a better position than those who are short. Those who need product, especially sized product 27/30 AOL in all varieties, are going to have to step up and pay the prices asked by California. It seems unlikely that this market will weaken until at least the October shipments are released around the second week of November.

If amidst the barrage of information you're unsure what to do, remember the words of Voltaire: "Doubt is uncomfortable, certainty is ridiculous."

Best regards,
 DERCO FOODS