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September 2008 Almond Position Report – “I Used to Have a Retirement Plan” Edition

September 2008 shipments were 137.2 million pounds. This is up about 12.5% from the September 2007 shipments of 94.7 million pounds.

Analysis

Carry-in from the 2007 crop year:	231 million pounds
2008 Objective Estimate:	1.5 billion pounds
Less 3% loss / exempt:	(45 million pounds)
Total available supply:	1.686 billion pounds
Less shipments to date:	233.8 million pounds
Remaining supply:	1.452 billion pounds

Shipments

Seller's Perspective: We put our 401k statements down just long enough to reach for a Kleenex to wipe away the tears and behold! Good news for a change! Shipments up 12.5%! The sky is not falling. People are still eating!

Buyer's Perspective: We ourselves just turned away from the news of another (pick your country) bank meltdown just long enough to reach for a Kleenex to wipe away the tears...and just started crying more. We waited too long. Could it be? Could it be that California may once again rally and find its lost unity?

Domestic

Seller's Perspective: It's good to be back on track after last month when domestic shipments were down 4.5%. This month shipments are up 7.5% domestically and we expect this trend to continue. The domestic market has never benefited from currency strength and we are convinced that people will eat more snack nuts while they stay home, watch television, and convince themselves that having to work another 15 years before retirement is good for their soul. Who wanted to retire on a quiet beach anyway? Chasing overdue receivables from Spanish and Italian banks is much more invigorating! And gives you an opportunity to write off a collection trip to the Mediterranean as a business expense. Come to think of it, this market crash is a good thing!!?

Buyer's Perspective: You missed your Clozaril today, didn't you?

Commitments

Seller's Perspective: Domestic commitments up 28%; export commitments up 19%. Good times.

Buyer's Perspective: Since your country's finances are based on un-provable and un-audited numbers, why not feel good about commitments? These numbers are just about as accurate as the information given a few weeks ago by the CEOs of Lehman and AIG to their stockholders....so why break from precedent? Let's run with these figures. After all, if it's good enough for your Treasury-Secretary-ex-CEO-of-Goldman-Sachs-making-\$16 million-a-year-who-is-now-fighting-against-excessive-CEO-pay-packages, it's good enough for us!

Export

Seller's Perspective: New record at 100.6 million pounds; surpassing the 88 million pound record set last year by 14%. Europe may be starting to realize that other parts of the world buy almonds too?

Not only do we love Turkey for their delicious kebabs, wonderful coffee, and the carnival-like fun atmosphere they create for buying hazelnuts. Not only do we love them because we have strategic airbases there that

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allow us to bomb other “terrorist” nations in the region. But now we have another reason to love Turkey – they love California almonds! So let’s hear it for Turkey and 5.7 million pounds of inshell imported through September.

India has caught up to last year’s shipments on inshell (27 million pounds) and once the currency and inventory panic in India dies down...and everyone there takes a communal deep breath (listen for the “whoosh” sound), they will sell and consume all they have bought and they will buy more. It’s noteworthy to mention that India has also imported 3 million pounds of kernels this year as compared to only 2 million pounds last year at this time.

China has taken 7.6 million pounds of kernels compared to 3.7 million pounds last year and they have purchased 2.3 million pounds of inshell versus 751,000 pounds last season. We knew China was going to be a bigger player this year than last. We think that there is much more to come with strong October and November shipments of almonds to China very likely.

Buyer’s Perspective: Western European imports of almonds are unchanged, but Eastern Europe is up 91%. Perhaps we do need to take a more global perspective overall....but friends¹....we all know that your crop has a huge percentage of 32/34 AOS. Who buys that? We do. In what form? BSU5%. At what price? We’ll let you know.

Conclusion

In the US, there have been two things on the news during the past month: the presidential election and the economic meltdown. The former will not have an impact on almond sales. The latter certainly could. How much is anyone’s guess.

Prices have weakened during the past 2 months. BSU5% went as low as \$1.50 per pound from origin and \$1.45 per pound from the second hand. During the past ten days we have seen a resurgence in prices, driven primarily by Middle Eastern and Asian demand. We think that this shipment figure will further pull the overall market up. How much BSU5% will come up is uncertain, but it seems that Europe is not covered for the January – August period. European importers and traders have been trying to buy BSU5% at \$1.50 per pound for that stretch but it seems that even the most aggressive (or least disciplined, depending on your perspective) California sellers have not sold any considerable tonnage at those levels for January - August. It is being reported that the second hand has, and they are banking on weakness from California so that they can cover those positions profitably.

It does seem like this year, the pricing spread between BSU5% and California / Nonpareil 27/30 AOL will be the largest it has ever been. Many markets are still trying to book Nonpareil Extra #1 27/30 at \$2.05 - \$2.10 per pound but that market is quickly stabilizing closer to \$2.20 per pound FAS. California SSR 27/30 AOL was at \$1.70 - \$1.75 per pound before these figures were released. So the usual \$0.05 - \$0.07 per pound price spread between BSU5% and Cal SSR 27/30 AOL is already at about \$0.20 - \$0.25 per pound. It could get bigger if the horror stories on sizing, especially in the Butte/Padre varieties, turn out to be true.

¹ I was using this line long before John McCain.

And now a personal digression.....

The psychological impact of the global financial crisis cannot be underestimated or over-emphasized. Investment banking no longer exists as we knew it back in August. The stock market has lost about 30% of its value since the "\$700 billion that actually cost \$840 billion that actually accomplished nothing as of date" package was introduced. A 30% loss may not be much if you are 20 or 30 years old; but if you're over 60 years old and had money in the market, it really does matter. Your life has materially changed – at least for the next few years.

We blame banks and we should for their loose, opportunistic and predatory lending practices. We should blame CEOs for their poor leadership and self-enriching and arguably immoral tactics (or is it strategies? ... someone ask McCain). But we should also blame the people who took out loans. It is politically incorrect to refer to these kinds of people as ignorant or simply stupid; but that is what they are. If you make \$40,000 per year and you bought a \$500,000 home, you qualify as stupid. You should lose your home and you should be lucky to be able to rent. There is a threshold of personal accountability that must be met in order to avail yourself of the services of a developed society. If you are not able to live up to those standards, then you are not entitled to live in a home. If you bought speculative condos in Miami and San Diego, if you signed loan documents that you did not understand, if you thought the value of your home would only (always) go up, if you took out a home loan to buy a 50 inch LCD TV or a BMW....then you need to sleep in the (rental) bed that you made. Neither candidate has the guts to say this on television, as it would be political suicide. For some odd reason, the electorate does not like to be called stupid. But stupid is what many of them are. After all, this is not the almond industry...you shouldn't be able to just screw people over and come back to do business as usual the following year!

And as I'm venting my frustrations at the economic situation into which the greed and stupidity of a myriad of people, including our inept leaders in both parties, has landed us, I would also like to take this opportunity to mention that I hate cilantro.

The last three paragraphs admittedly have no redeeming value to you, but have been very cathartic for me. Thanks for your indulgence.

"Genius may have its limitations, but stupidity is not thus handicapped." Elizabeth Hubbard (1856-1915)

Best regards,
DERCO FOODS