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September 2013 Almond Position Report

Our Government May Be Closed, But California is Still Shipping Almonds

September 2013 shipments are 177 million pounds. This is 13.6% higher than the September 2012 shipments of 155.8 million pounds.

2013 Almond Supply

Carry-in from the 2012 crop:	317 million pounds
2013 crop forecast:	1.85 billion pounds
Less 3% loss / exempt:	55 million pounds
Less Shipments to date:	325 million pounds
Less commitments:	555 million pounds
Remaining unsold supply:	1.232 billion pounds

"On account of being a democracy and run by the people, we are the only nation in the world that has to keep a government four years, no matter what it does." Will Rogers (1879 - 1935)

Shipments & Receipts

"A government that robs Peter to pay Paul can always depend on the support of Paul." George Bernard Shaw (1856 - 1950)

Seller's Perspective: First things first: so who is that jackass again who drew that cartoon last month with those hard-working tree nut growers headed over a waterfall, while some Chinese parrot was squawking, all because prices were supposedly 'too high'? Believe it's that fella with the funny name from some foreign country...Lithuania or some other place there in the Middle East.... Argo or something of the sort, isn't it? Whaddaya expect? With eyebrows like that, it's a wonder any blood goes to that poor boy's brain at all.

Second, please look up the definition of "perfect storm."¹ Shipments are up 13.6% for September and 10% season-to-date...and it gets worse....read on.

Buyer's Perspective: Well we can all agree that the Lithuanian boy blew the cartoon. But who really takes that stuff seriously...certainly not any multi-millionaire growers in California?! And in any case, don't get carried away with this perfect storm scenario. Receipts are up nearly 20%. This crop size is going to surprise everyone. 1.85 billion will be the floor, not the ceiling. And remember that the prices at which business was done for shipment during September were very different than the prices today. Are there really a lot more people who must buy between now and December or can many buyers simply do without?

Commitments

"There's no trick to being a humorist when you have the whole government working for you. " Will Rogers (1879 - 1935)

¹ Heck, we'll do it for you. A 'perfect storm' is a critical situation created by a powerful concurrence of factors. Hint: if you're an uncovered buyer, you're in the middle of one now. Put on your raincoat, grab a life vest and batten down the hatches!

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Seller's Perspective: Export commitments up 30% compared to last season. Domestic commitments are down 11%. Overall commitments are up 10%.

Buyer's Perspective: Uncommitted inventory is up nearly 15%.

Domestic Shipments

"The marvel of all history is the patience with which men and women submit to burdens unnecessarily laid upon them by their governments." William H. Borah

Seller's Perspective: New record at 49.6 million pounds, shattering the previous record set in September 2011 of 42.5 million pounds.

Buyer's Perspective: [insert your version of a helpless sigh here]

Export Shipments

"The best minds are not in government. If any were, business would hire them away."
Ronald Reagan (1911 - 2004)

Seller's Perspective: Up 7.5%. What's scary in this scenario (oh...not for us....sorry....for *buyers*) is that India is down 32% for the month of September and down 22% year to date. The UAE is down 30%. So just to put this export shipment total and the strong export commitments into context: September was a huge new record *without* significant Indian inshell Nonpareil participation. So there goes the theory that you cannot have a strong September without India buying inshell NP. I wonder what next August's activity from India is going to look like. Our guess – less nonchalant, to say the least. Change your mobile phone numbers while you can!

On a more serious note, exports are only going to continue to grow in the coming months and years. There may be micro price-based adjustments from month to month, but the trend is inescapable. A Brookings Institution study has set forth a scenario in which, by the year 2015 (and for the first time in 300 years), the Asian middle class will be equal in number to the American and European middle class combined.² The study further notes that by 2021, "there could be more than 2 billion Asians in middle class households. In China alone, there could be over 670 million middle class consumers, compared with only around 150 million [in 2010]." The findings of this study are supported by a joint report issued by Ernst & Yong / SKOLKOVO Institute for Emerging Market Studies, which notes that the Chinese middle class will reach 1 billion people by 2030 and the Indian middle class could reach 475 million people by this time.

We are in an era where natural resources and food are going to dramatically increase in importance. Those involved in commodity production are likely to thrive for the foreseeable future, provided they have sufficient natural resources (i.e., water) to adequately farm. Granted, that's a big and loaded "provided." It's quite possible that fights over water are going to make wars over oil look quaint in comparison.

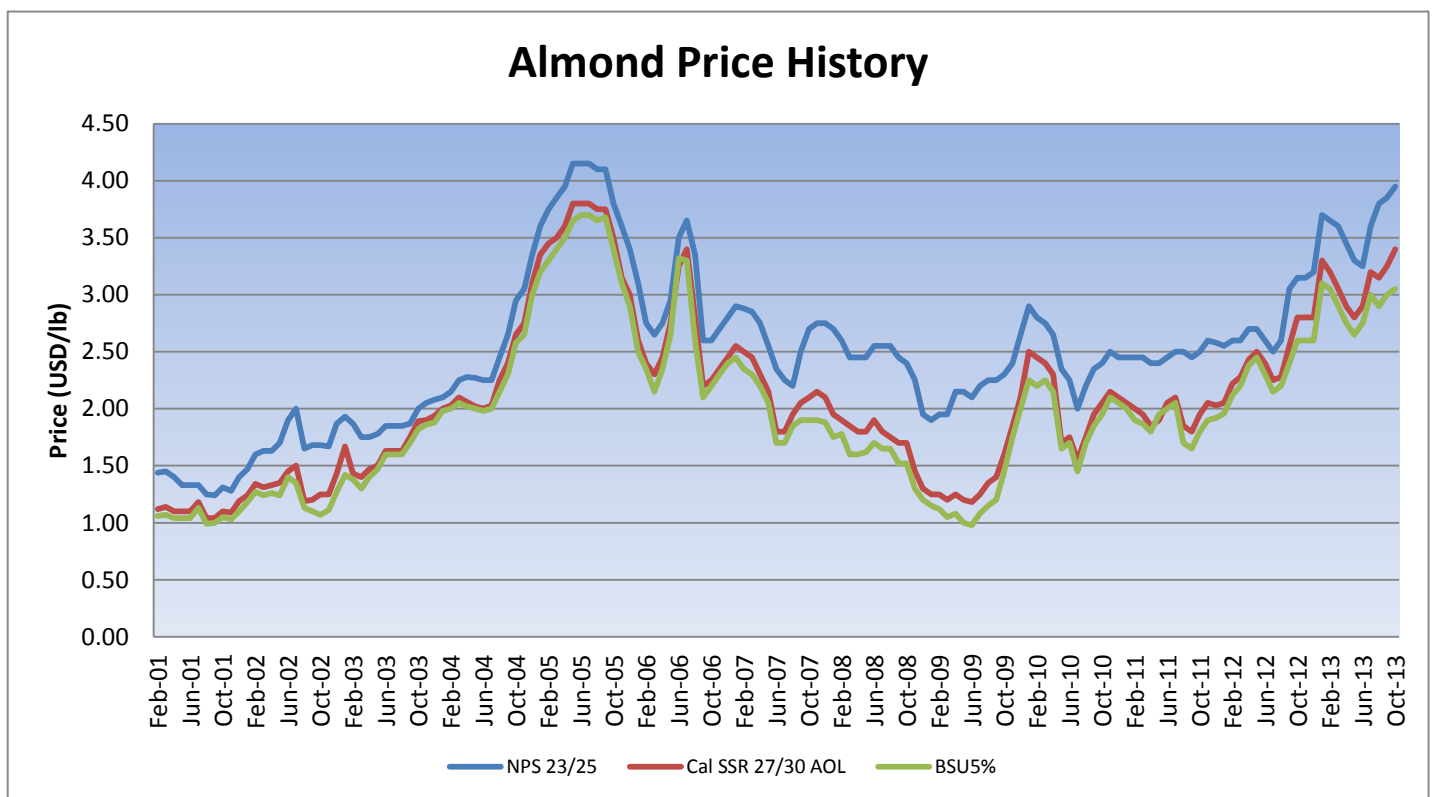
² The New Global Middle Class: A Cross-Over from West to East; Wolfensohn Center for Development at Brookings; Homi Kharas and Geoffrey Gertz (2010).

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Buyer's Perspective: We agree with you. But in this same Brookings Institution study, they define the global middle class as "those households with daily expenditures between \$10 and \$100 per person in purchasing power parity terms."³ So how many retail packs of NPX 23/25 can the average middle class mother buy for her kids in China at today's prices? Remember, China and India are not amorphous concepts. They are real countries with real people in them. These people have to make rational economic purchasing decisions every day. Almonds are fabulous, but they are not an essential foodstuff for someone who has \$10 to spend per day. At over \$4 per pound, some people are going to do without. If enough people do without, prices will fall. If this volume is absorbed by other countries, then California will not care. We will see.

Prices

"So they [the Government] go on in strange paradox, decided only to be undecided, resolved to be irresolute, adamant for drift, solid for fluidity, all-powerful to be impotent. " Sir Winston Churchill (1874 – 1965)



³ Sorry; no humor here. Just referring to the same study above. I think that this footnote should say "Ibid" or something similar. Sister Barbara is not happy. May she rest in peace.

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Seller's Perspective: Current prices are simply a function of supply and demand. With what we are seeing in the fields, sizing is poor, pollinators are down, and we think that 1.85 billion pounds is the maximum we will see for the 2013 crop. With ongoing concerns over water, we are going to market this crop over 18 months, not 12 months. If we are wrong, we will take lower prices at the end of this season. Until then, we have a commodity that is in demand and we are not going to discount it until there is an objective reason to do so.

Let's keep it simple for the slower among us:

- Average monthly shipments the last 3 seasons between October – July: 152 million pounds
- Available almonds to sell this season assuming minimal 300 million pound carry-out: 1.487 billion pounds
- Monthly shipments needed between October 2013 to July 2014 to reach that carry-out: 148.7 million pounds.
- 152 million pounds is more than 148.7 million pounds.

Keep waiting for the price correction. We'll keep the light on for you.

Buyer's Perspective: Size hoarders!⁴

Just for the record, the 10-year average for October-July shipments: 113 million pounds. That's less than 148.7 million pounds.

Currency

"Whenever you have an efficient government you have a dictatorship." Harry S Truman (1884 - 1972)

\$1 = €0.770 (October 2012) ; \$1 = €0.736 (October 2013) (Euro)

\$1 = ¥6.27 (October 2012); \$1 = ¥6.12 (October 2013) (Chinese Yuan)

\$1 = ₹53.06 (October 2012); \$1 = ₹61.8 (October 2013) (Indian Rupee)

\$1 = ¥78.98 (October 2012); \$1 = ¥97.3 (October 2013) (Japanese Yen)

\$1 = ₩1106 (October 2012); \$1 = ₩1073 (October 2013) (Korean Won)

Conclusion

"Government is too big and too important to be left to the politicians." Chester Bowles (1901 - 1986)

IF.....

If you're a grower, it's wonderful to be in the tree nut business.

If you're a processor with a majority handle that's in the call pool, you've been enjoying a relaxing few months.

If you're a processor with a majority handle that's in a season pool, enjoy it because next year you'll be in a call pool.

⁴ We admit it – cheap, childish and ineffective. We should just keep our mouths shut and wait for the miraculous NPX 23/25 offers during April. They will coincide with the Easter celebrations and the resurrection of Jesus. It will be a second (and smaller) miracle – "The Appearance of the Large Kernel." We look forward to it every Spring.

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If you're the ~~sales manager~~ nut allocator for a processor, know that people want your job.⁵

If you're a trader, and you've been long, it's wonderful to be in the tree nut business.

If you're a trader and you're short, it's been nice knowing you.

If you're a broker – take a number.⁶

If you're a buyer and have been in this industry for more than a decade, you are either short or in disbelief or both.

If you're a buyer and have been in this industry for under a decade, you are making lots of money and taking market share from the guy who's been in the industry for over a decade.

If your sentences these days start with "the historic price spread between BSU5 and Cal SSR 27/30 was....." or "I remember when...." you should consider implementing that succession plan you've been working on.

If you're a second-hand trader in Europe and....wait....what's a second-hand trader in Europe?

If a cartoon in an almond report last month upset you, stop for a moment and consider that a cartoon in an almond report last month upset you.

If you're still reading this report and thinking things about the author that could not be said in mixed company, stop reading this report.

If you're still reading this report and laughing both at yourself and at others, come over for dinner.

"In our civilization, and under our republican form of government, intelligence is so highly honored that it is rewarded by exemption from the cares of office." Ambrose Bierce (1842 - 1914)

Best regards,
DERCO FOODS

⁵ This is an attractive position because it requires writing "off the market" in response to an email asking for an offer. The challenge is that this same phrase needs to be re-written (or in the case of efficient sales people), cut and pasted, multiple times in a day. For the more accomplished, there also has to be a tinge of helplessness insinuated in the reply, essentially passing on the buck to the grower who just does not want to sell, though you would love to. Whew...with that done, proceed to collect pay check!..... Do you sense the bitterness and jealousy? It's palpable, isn't it? Where do we submit applications?

⁶ And if you're now a broker who in your previous job used to make fun of brokers, life's a bitch, isn't it?