

September 2015 Almond Position Report

Free Cartoons Inside

"Hypocrisy is the homage which vice pays to virtue." Francois de La Rochefoucauld (1613 - 1680)

September 2015 shipments are 142.9 million pounds. This is down 12.3% from the September 2014 shipments of 163 million pounds.

2015 Almond Supply

Carry-in from the 2014 crop:	376 million pounds
2015 crop forecasted supply:	1.8 billion pounds (not likely to be met)
Less 2% loss / exempt:	36 million pounds
Less commitments:	440 million pounds
Total Supply:	1.7 billion pounds

Shipments & Receipts

Seller's Perspective: September was a weaker shipment month as expected, but it was nowhere near as bad as many were predicting. Receipts are down 1.82% after an early and quick harvest during which we had the most hulling and shelling capacity ever at our disposal. Where many hullers would run into January, this year everyone is expected to be finished in November. We are now confident that this crop will not make 1.8 billion pounds. See our additional thoughts below to find out why we are now bullish.

Buyer's Perspective: "Nowhere near as bad as many were predicting?" Seriously? The worst export performance since September 2007? We thought that California had not yet approved the use of recreational marijuana but we must have missed some important news.

Commitments

Seller's Perspective: Commitments are up nearly 14% (total of 440 million pounds), reaffirming what we have been saying all along that October and November shipments are going to be good. Very little product has been offered for January onwards, so the bulk of the commitments are for the next few months. Domestic commitments are up 11% (total of 214 million pounds) and export commitments are up over 16% (total of 226 million pounds).

Buyer's Perspective: Do they count as committed shipments if they are not going to be paid for upon arrival? Just wondering.....

Domestic Shipments

Seller's Perspective: A new record at 50.6 million pounds. Just when you think that we can't love this exceptional country any more than we already do, the American people give us another big reason to do so. First we have the illustrious list of Republican presidential candidates over which to salivate and now this number. We are awash in red, white and blue greatness.

Buyer's Perspective: Your domestic market is your life jacket. Treat it kindly. If it tears, the export seas are dark, deep and shark infested. We bet no one will send a search party looking for you after what you've done to prices in recent years.

Export Shipments

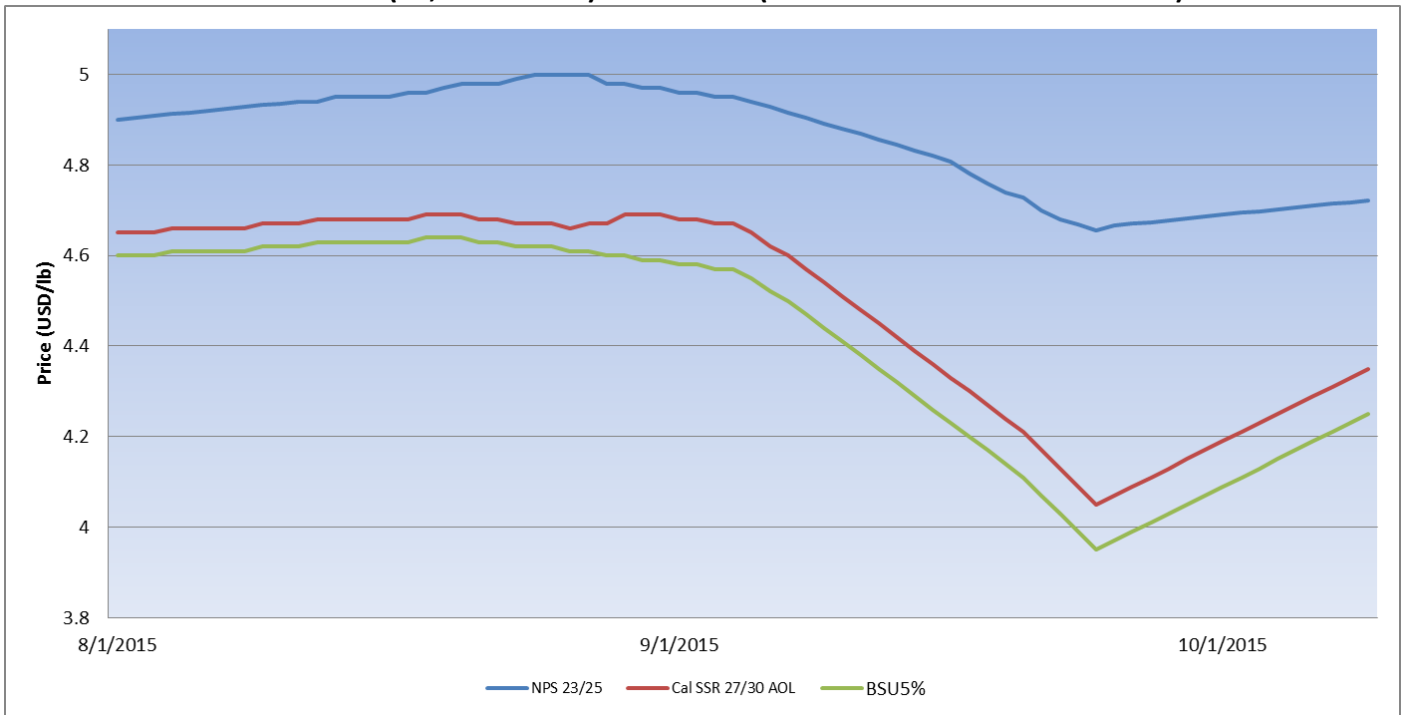
Seller's Perspective: Did anyone see that controversial call on Monday Night Football this week? I'm telling you, Detroit got robbed....uh, what was the question again?

Buyer's Perspective: Did we mention that this was the worst export performance for the month of September since 2007? That was 8 years ago. China/HK down -33%; Vietnam -46%; India up 7% (-16% for the season); Western Europe -7% (-8% for the season); Total Europe -9%; Middle East -53% (with UAE -64%; Turkey -58%; Saudi Arabia +164%).

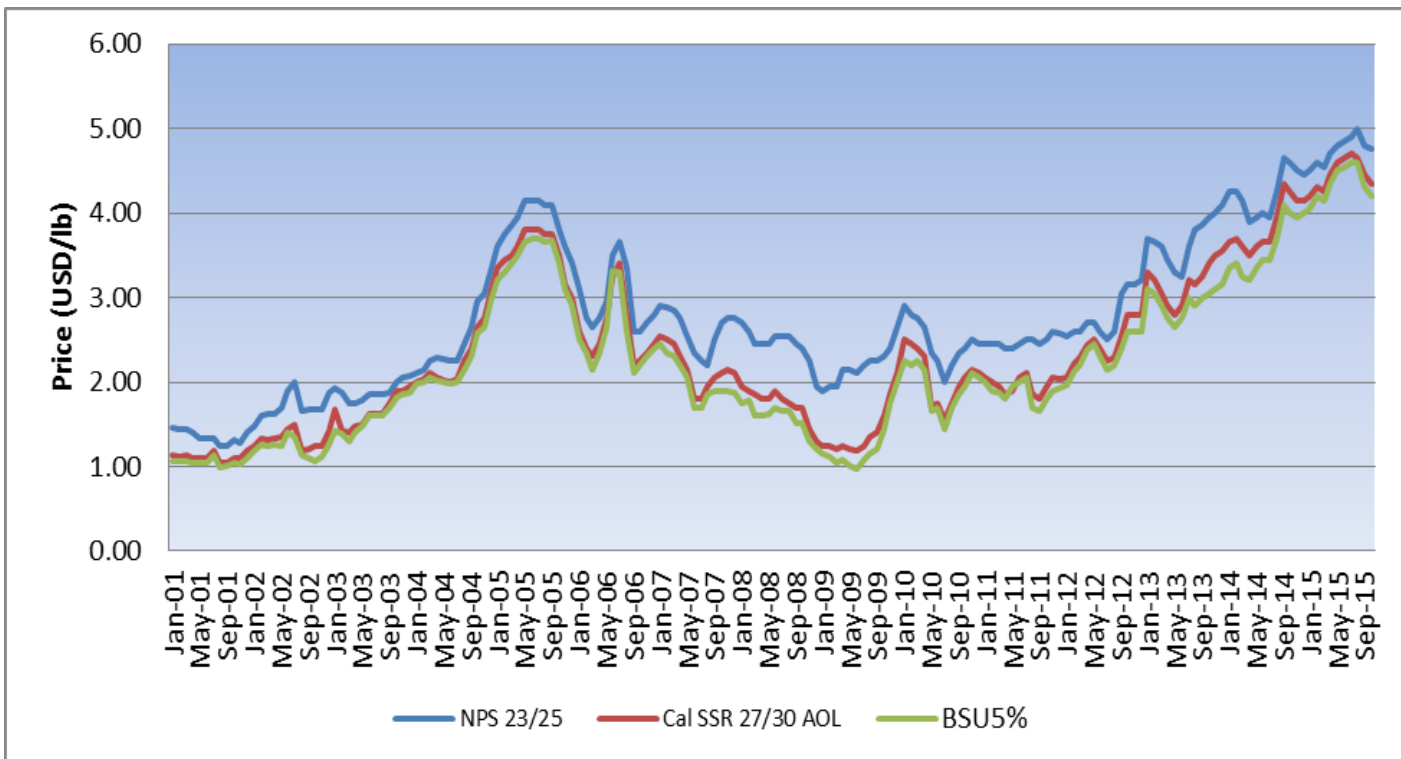
We're not normally big fans of charts, but for this month, we decided to be big fans of charts. They are colorful, take up space, make us look more intelligent and capable than we really are, and show statistics that would otherwise be unbearable in a slightly more tolerable (and revealing) format. If you're not into charts and don't care about prices, annual demand and currency performance, just skip the next 3 pages and go straight to the conclusion. That is, if you're even reading this. Most of you may have just gone to the cartoons and deleted this report by now. If that's what you did, good for you. Time is too precious to read this kind of crap anyway. For all the other nerds, enjoy the charts. Kelly Mulville and Neil Zacky worked hard on them for your viewing pleasure.

[For formatting purposes, we have left the space below blank. Feel free to use this space to calculate your losses on your shipments to the Middle East....and as the space below is not likely enough, remember, you can always use the back of the page. Be creative!]

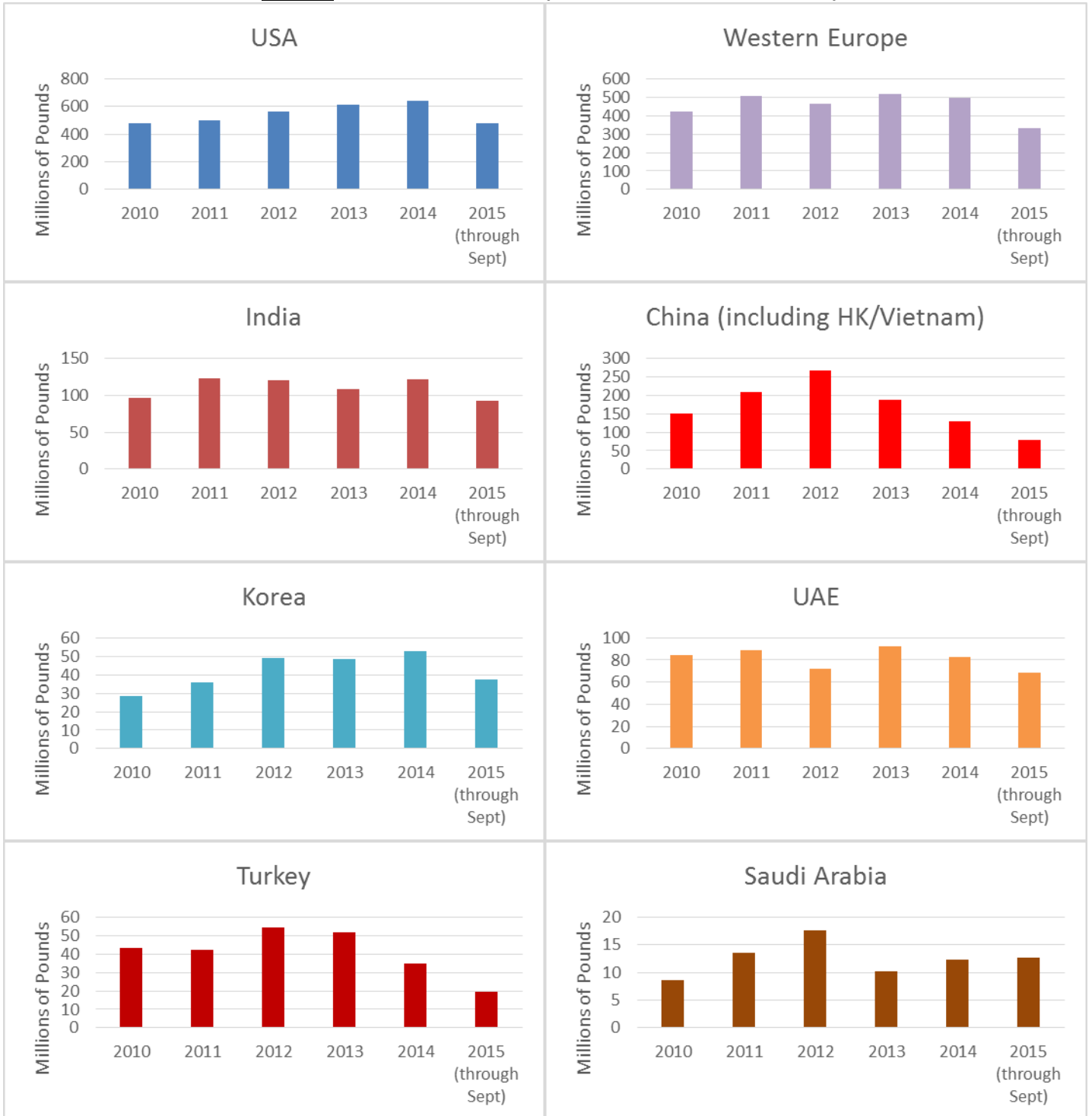
3-Month (ok, 2 ¼ Month) Price Chart (aka the "California Swan Dive")



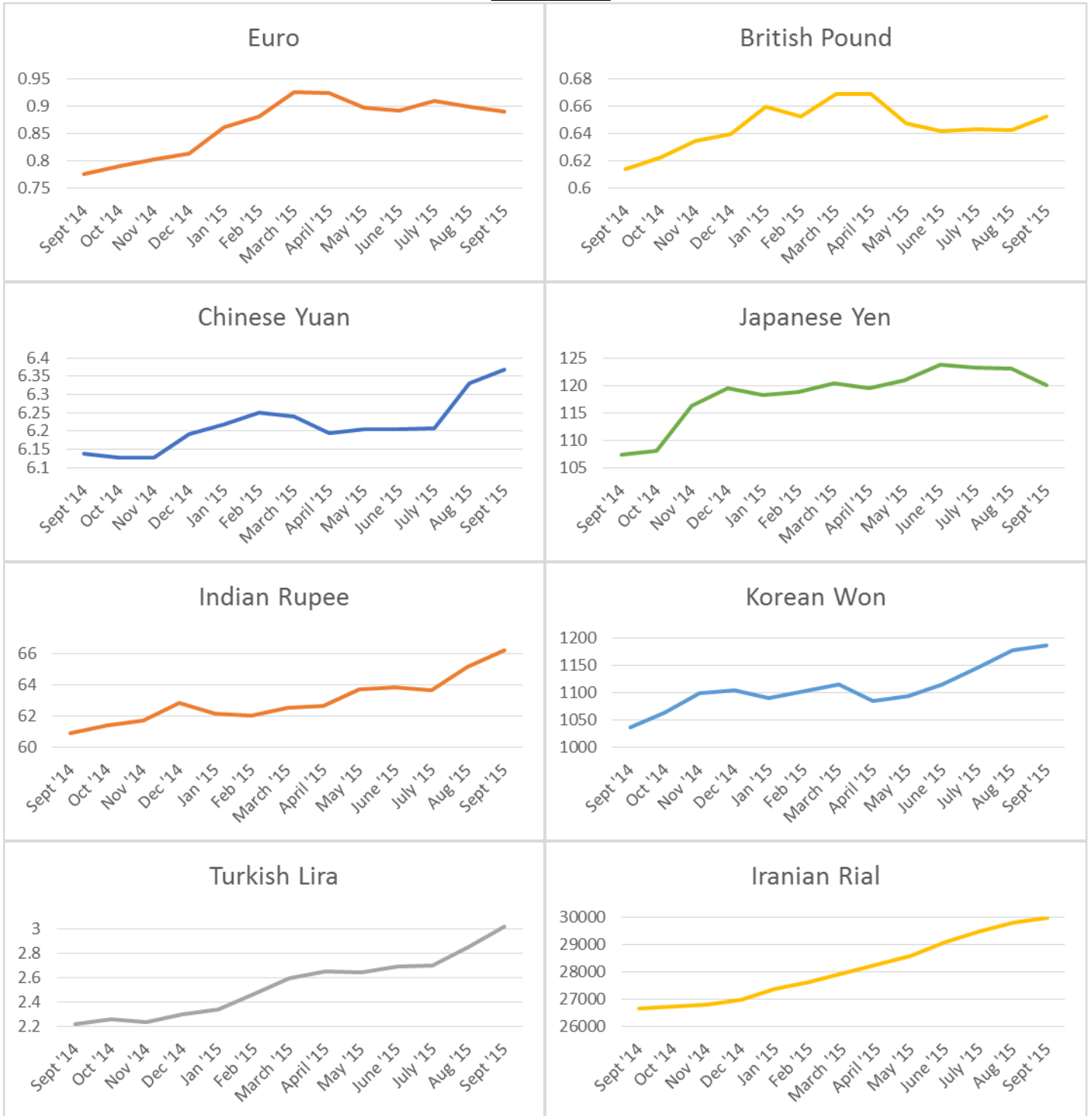
15-Year Price Chart



Annual Demand Since 2010 (Calendar Year; not seasonal)



1 USD =.....



CONCLUSION

"I thoroughly disapprove of duels. If a man should challenge me, I would take him kindly and forgivingly by the hand and lead him to a quiet place and kill him." Mark Twain (1835 - 1910)

September was a poor shipment month as expected. Global demand seemed to just evaporate in August and early September. As a result, the industry experienced a price correction (or over-correction, based on your perspective). The roughly two week 'panic' period was filled with finger-pointing and denial in California. Yet many more almond industry members participated in helping to push the market down than would care admit it. Cries of "the crop will not reach 1.8 billion" were usually accompanied by "but my growers are looking at all bids right now." What had been a mostly uninterrupted run of several years of grower unity and patience withered in the face of the international silence. Many heavily unsold growers decided to enter the market at the same time and urged their processors to take lower and lower bids day after day. During this correction, the market hemorrhaged about \$0.30 - \$0.50 per pound depending on the item. Since that time, and during the past 10 days, the market has recovered about half of that loss.

Here we need to address global demand and we really would not be doing this topic justice if we lumped everyone in the same boat....though the boat is a leaky and crappy one no matter which part of the world we are in right now.....

EUROPE

"There are many methods for predicting the future. For example, you can read horoscopes, tea leaves, tarot cards, or crystal balls. Collectively, these methods are known as 'nutty methods.' Or you can put well-researched facts into sophisticated computer models, more commonly referred to as 'a complete waste of time.'" Scott Adams

European buyers are the globally most sophisticated players in falling markets because most have been around since before 2008 and know what to do (they remember a market that used to move in two directions!). The newer, developing markets for the most part don't possess this savoir-faire. They just go quiet and into the predictable, vacillating "wait and see" mode. Europeans, on the other hand, actively "help" prices to correct in the right (downward) direction. Importers in Europe have the unique ability to 'overemphasize' both Spanish almond price corrections and their own covered positions while simultaneously downplaying demand. They have not been able to use these skill sets in any meaningful way for the past 7 years. But for a few weeks at the end of August and especially through Mid-September, European prowess was on full display....as was California's pants-dropping vaudeville act. It felt eerie....distantly familiar like memories of a tooth ache....in that 2008 Echalié and Alonso Mediterraneo sort of way.

But you know the market has over-corrected downward when European demand for both prompt shipments as well as for shipments for the first and second quarters of 2016 arrives. Buyers who thought the market was over-priced would not be trying to book now for 3-6 months down the road, but that is exactly what is happening. Most California sellers, who are convinced that the current prices are too cheap, are not actively pursuing any business past December at this time anyway. This is making for interesting discussions on both sides of the Atlantic.

INDIA

“Keep five yards from a carriage, ten yards from a horse, and a hundred yards from an elephant; but the distance one should keep from a wicked man cannot be measured.” Indian Proverb

India has been around a lot longer than the United States. California is not going to teach Indians how to do too many things when it comes to trade. Indians have their own traditions and cultural idiosyncrasies. So why does the Indian local market trade at a \$0.30 per pound discount to the replacement cost of product? You just don't ask this question. Period. If you ask some importers today what they're waiting for, they'll tell you that they're waiting for prices to go to \$3.00 per pound for inshell Nonpareil. They're convinced that the upward move to \$3.40 per pound FAS will be short-lived and will fizzle because both Indian and Chinese demand will remain lackluster for the foreseeable future. For those who would argue, they point to the very recent inshell NP price drop from \$3.75 per pound to \$3.25 per pound. So what's the right price in India? In a rising market, of course it's yesterday's price. In a falling market, about \$0.30 per pound below where it is today. When the purchasing starts, however, it starts with thundering unison. Who would want the Indian market to behave in any other way? This predictable behavior is the trading equivalent of comfort food. During the past week the Indian market has awoken. What will happen now considering the good September shipments? There will undoubtedly be a push to drive origin prices lower, but whether California sellers will accept to sell under \$3.40 per pound FAS remains to be seen. The fact that the Nonpareil crop in California seems to indeed be short may give growers the resolve to be patient. And a little patience is likely to go a long way in helping the market to recover.

CHINA/HONG KONG/VIETNAM....

“My pessimism extends to the point of even suspecting the sincerity of the pessimists. “

Jean Rostand (1894 - 1977)

This region is subdued. Too many losses on too many commodities by too many importers. Jail. Fines. Travel restrictions. Inventory build-ups (depending on item). Weakening currency. Bad economy. Even worse stock market. Lack of confidence. Lack of desire. Fear. Pessimism....But we still think that demand for almonds will come in a big push just in time for shipments to arrive before Chinese New Year. We are seeing clear signs of this already during the past 10 days. Chinese and HK importers are starting to realize that below-market bids are no longer being taken on 2015 crop and that California is slowly moving prices higher.

UNITED ARAB EMIRATES

“Criminals do not die by the hands of the law. They die by the hands of other men.”

George Bernard Shaw (1856 - 1950)

The UAE makes China/Hong Kong/Vietnam look good – and that's no easy feat. In the UAE, if your client is still in the country, you're half way home (no pun intended). During a two week stretch, a number of companies took advantage of the weekend to just skip town with both their banks' and their clients' cash. They escaped, presumably back to India. Talk about making good use of your days off. This is turning out to be the new business model in Dubai and banks don't seem to like it too much. The companies that are actually trying to run serious businesses are being penalized not only by their clients who have fled, but also by banks, who are severely curtailing their lending.

It's been a drastic swing of the pendulum, from carefree to Draconian lending practices in a matter of days. The result is almond inventory build-ups in Jebel Ali....a build up from which California growers have been shielded so far, thanks mostly to reputable title-taking exporters who are taking the losses. That 2% sure don't seem like a huge expense now that you have dozens of loads of NPX priced \$0.30 or more per pound above market on their way to the Middle East, does it?

Bottom Line:

There is an intense disconnect that continues between California growers and overseas importers. On one hand, buyers receive messages from growers/packers that read "I'm waiting for the inshell NP market to recover to \$3.60 per pound before participating;" or "You're about \$0.30 per pound too low from my selling expectations. I'll wait for the market to reach my price ideas before offering more." On the other hand, we see a melting export market where buyers are cash strapped, fearful, lack confidence and lack the desire to take risks – especially following California's September 'swan dive.'

Time will tell how this entire season plays out, but so far, it's off to a bad start. The California bravado has certainly lost its luster and does not have anywhere near the same resonance as in seasons past. An overseas friend recently commented: "The crop may be 1.7 billion, but if demand is reduced to 1.5 billion, who really cares?" California growers seem to have realized during the past month that freefalling prices don't encourage sales. Quite the contrary. A well-timed vacation on the part of sellers, though difficult to execute during harvest, is exactly what is (was) needed. We saw proof of this during the past two weeks. No real fundamentals changed – there were just fewer sellers who were much more confident (or at least put on a good act). This resulted in prices for BSU5% going from a low of \$3.95 per pound to about \$4.20 per pound today.

With crop receipts down nearly 2% compared to last season, with likely more demand in most markets than is being truly conveyed (with the exception of the Middle East where conditions will be more difficult for a few months), and with October and November shipments which are expected to be very good – or at least good enough for the crop we have to sell - we would not short this market now. If this crop does not make 1.8 billion pounds, we have likely seen the pricing bottom for this season. Remember that current prices are approximately where they were last year at this same time. And last season, California shipped 1.812 billion pounds. If El Nino comes, we will love the rain (and hopefully the snow), but we will get warmer and wetter than usual temperatures which are not good for the prospects of the 2016 almond crop. If El Nino does not come, and if this drought continues, then \$5 NPX 23/25 may seem like a great deal again very soon. With all that said, if the crop surprises and ends up being much over 1.8 billion pounds....then, again, please let us know if you're hiring!

"Let bravery be thy choice, but not bravado." Menander (342 BC - 292 BC)

Enjoy the cartoons.

Best Regards,

DERCO FOODS



M. A.
SEPTEMBER

BUT THE NONPAREILS ARE SHORT



SEPTEMBER

ALMOND PRICES

RIPON

\$4 A POUND