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October 2005 Almond Position Report

October 2005 shipments were 111.9 million pounds. This is down about 13.8% from the October 2004 shipments of 129.8 million pounds.

Carry-in from last year: 137.7 million pounds

Crop receipts to date: 665 million pounds

Less 4% loss / exempt: (26.6 million pounds)

Total Supply: 776 million pounds

Less shipments to date: (250.9 million pounds)

Supply Remaining: 525.2 million pounds

Receipts

Seller's Perspective: Since the 1998/1999 season, we have received an average of 74.5% of the total crop through October. Assuming that this average holds true for this year, we will have a crop in 2005/2006 of about 892 million pounds. This is essentially the same as the final Huller and Sheller Survey, which put the crop at 890 million pounds (Nonpareil down 19.9% from last year and other varieties down 5.8%). We still think that the number will be closer to 850 million pounds but in any case feel that the supply and demand situation are in balance.

Buyer's Perspective: The percentage of the crop received through October varies from 68.7% to 81.2%. This could mean a crop that ranges anywhere from 819 million pounds to 967 million pounds. Depending on your location in the state and your particular orchards, you can probably make a somewhat plausible argument for one extreme or the other. But it's most likely that the crop is around 900 million pounds and that the Nonpareils are not as bad as expected. We heard so many complaints from packers in the Bakersfield area saying that they were having difficulty making early BSU5% shipments because the huller-shellers were still working on Nonpareils as late as 2 weeks ago. They had not yet started working on the Butte/Padres and this was putting pressure on getting October shipments out in time.

Inventory & Commitments

Seller's Perspective: We have 4.2% less almonds available to sell than we did at the same time last year.

Buyer's Perspective: Your export commitments are down 34.5% and your domestic commitments are down 17%. Overall, you have 24.5% fewer almonds sold forward than you did this time last year.

Shipments

Seller's Perspective: This was the eighth largest shipping month in history. The fifth largest October in history - it falls between the shipments of October 2000 and October 2001. This shows that without a few players manipulating the market, there is enough momentum at the higher prices to effectively market the 2005 crop.



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Buyer's Perspective: Nice try. During the 2000/2001 season which you mention, California shipped 740 million pounds. The average price for BSU5% was \$1.10 / lb. During the 2001/2002 season, California shipped 821 million pounds. The average price for BSU5% was \$1.18 / lb. So far this season California is off 22% from last season and the average price of BSU5 is \$3.55 / lb. Glad you guys are excited about this bullish number. Let's put it in context: stay on this course and you will be off 22% from last year's shipments of 984 million pounds. That would mean you ship 767 million pounds against projected receipts (let's go with the estimate and take the 4% loss/exempt figure) of 844.8 million pounds and a carry-in of 137.7 million pounds. That will leave you with a carry-out going into the 2006/2007 crop of 215.5 million pounds. Pray for rain in February. Lots of rain.

Domestic Market

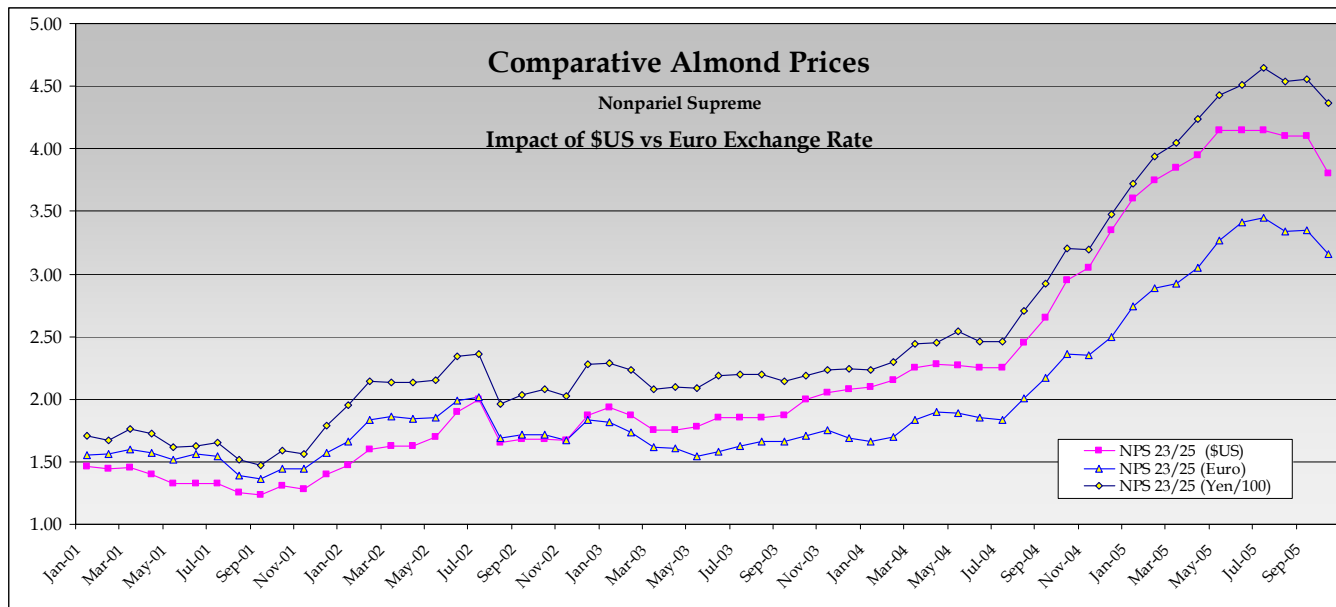
Seller's Perspective: Domestic shipments are down a mere 2% from last October. The domestic market shows resilience and an acceptance of the higher prices which reflect the true value of almonds.

Buyer's Perspective: Shelled is down nearly 13% and manufactured is down 7%. For the season, total domestic shipments are down 10%. Not as bad as exports, but not confidence inspiring figures considering the domestic market has been your perennial fall-back argument for higher and higher prices.

Pricing

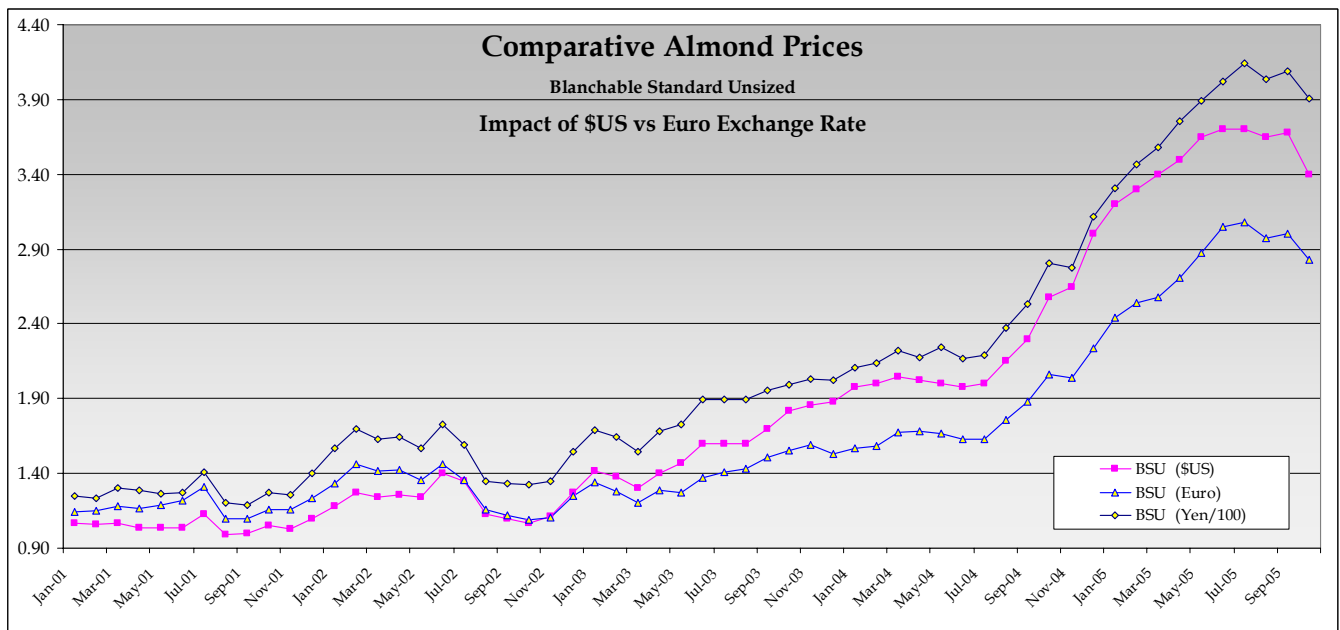
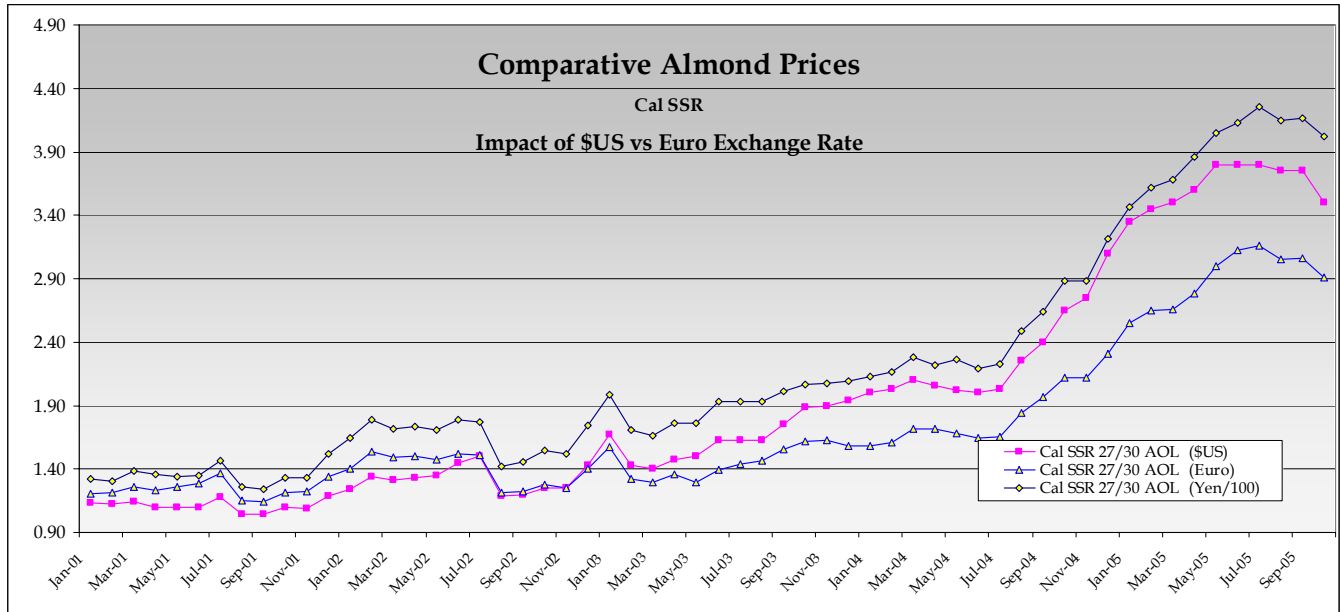
Seller's Perspective: We see this shipment figure as proof that the sky is not falling, as some would lead you to believe. We are going to market our crops in a responsible manner. It's a long time between now and August. There's no need to get nervous and give product away. The shipments of 111.9 million pounds will give this market traction and prevent further declines.

Buyer's Perspective: Let's discuss what we will pay for your almonds later. We're enjoying a glass of wine right now and cooling ourselves from the breeze created by the plummeting prices. Grower payments in December, you say? Pass the Brie and don't bother us with trivial matters.





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Growers

Seller's Perspective: As packers, many of us have to admit that growers had become a bit arrogant. Some were being offered \$3.90 per pound in the field for Nonpareils not too long ago and they were trying to get \$3.92 from us. Two cents at these prices, do you believe it? The reality that shipments are slowing down will make it a bit easier for us to work as well.

Grower's Perspective: What do you mean I can't get \$3.90 for my Nonpareils? What do you mean there has been a "market correction"? You mean, prices of almonds can fall? Are you serious? What about the health message, the increased demand, the developing markets, the Chinese, the Russians, the



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Czechs, the Spanish....even the Spanish aren't buying? How am I going to finance that \$18,000 per acre orchard I just bought?

Buyer's Perspective: Don't worry about your orchards. Many of us have been looking to buy almond orchards in California for the past several years but there has been very little available.....

Exports

Seller's Perspective: Exports are down 18%. If you ignore the September shipment figures that were skewed downward because of the hurricanes and the late crop, this is where we want and need to be with the smaller crop that we have this year.

Buyer's Perspective: India is down from 29.9 million pounds on inshell to 18.9 million pounds. Dubai, a gateway to the Mid East markets, is down from 9.4 million pounds on shelled to 1.8 million pounds. Russia is down from 4.1 million pounds to 2.9 million pounds. Spain is down from 35.5 million pounds to 22 million pounds. Do you need more examples?

What People Want to Say but Won't

Seller's Perspective: Damn those traders! They did this to this market. They were short, they targeted a few packers, broke the line and caused this premature and unnecessary decline. Now we have to try to bring prices back up.

Buyer's Perspective: The CAEA should meet more often. It's good for our business. We've been paying higher and higher prices since virtually August 2002. We've been waiting for this price correction for 4 years now. Viva the solidarity at origin!

Conclusion

This shipment figure will be seen by a few as a bullish figure; by others as a non-event; and by many as bearish. 111.9 million pounds is not an embarrassing figure by any means, but it is the weakest October since the 2000 season. The past two Octobers set lofty benchmarks. 144.9 million pounds in 2003 and 129.8 million pounds in 2004 were the two most prolific shipping months ever. So holding 111.9 million pounds against those figures may not be fair. At the same time, prices have risen so much in recent months that considerations of "fairness" have been thrown out the door. And "fairness" is not an economic principle.

During the past month, we saw some traders skillfully use the weak September shipments to bring the market down. Whether or not this decrease in prices will increase shipments remains to be seen. We would have likely shipped 111 million pounds this October whether or not the market had fallen. One thing is for sure, California did not have the unity at origin that it thought it had. Ranks were broken quickly and most growers and packers started looking out for themselves, as is natural.

It's no secret that when prices begin to fall and show a clear weakening trend, buyers are afraid to cover meaningful volume. They buy hand-to-mouth for prompt shipment. This is not necessarily because the prices are too high; it's because buyers don't have confidence that their purchases are going to be



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protected. And with the events of the past month, they are right to feel this way. Many packers undersold their clients the very next day if not the very next hour. Again, this is market reality - but we cannot ignore the fact that it's a double edged sword. A packer wants his customers to buy now and he wants them to buy a lot, but the packer does not have the confidence in the market or in his competitors to hold the line. He is also under grower pressure to sell. So the next day, when another buyer comes at \$0.05 per pound less, he takes the deal. This is the vicious cycle. It will stop only when growers and packers feel that the market has corrected enough that subsequent lower sales are no longer warranted. This will only happen when people become more comfortably sold than they are now. As long as the grower wants to sell "now," packers will take lower and lower bids.

Another significant factor to consider - most of the sales being done in a falling market will not even make it back for a packer's consideration. The business will be sold short. This will magnify the perceived lack of demand and pit growers and packers against each other in a desire to be the first to take any business that is presented. Better to sell today at \$0.10 per pound below market than next week at \$0.20 per pound below market.

The October shipment figures were the most anticipated monthly shipment figures in some time. Now that we have the number, everyone wants to know where we go from here. The second hand will undoubtedly translate 111.9 million pounds as a bearish figure and will convince California growers and packers that buyers are not yet ready to come to the table. This despite the fact that many buyers were willing to come to the table when prices were higher than they are now. If California tries to stem the tide of falling prices by not offering as readily as it has been, then the vacuum of hesitation from California may be filled by a second hand market that still expects more weakening. This may create a self-fulfilling prophecy and when California lowers prices, the second hand will lower them some more.

On the other hand, some traders may be weary of their short positions in view of this bigger than expected October number. They may start covering some of their positions from origin. This could push prices up a bit, at least in the short term.

Whether the crop is 820, 850, 900 or 920 million pounds, California must realize that the almonds we have now have to last through next July and potentially through a good part of August. If everyone wants to be 80% sold by Christmas, no one will be 80% sold by Christmas. But one thing is certain, that approach will ensure that prices continue to fall further.

Don't know what you 'got, 'till it's gone.

Best regards,
DERCO FOODS