

### **October 2007 Almond Position Report**

October 2007 shipments were 159.948 million pounds. This is up just over 6% from the October 2006 shipments of 150.378 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: (376.6 million pounds)

Less estimated carry out: (200 million pounds)

Estimated Remaining Supply: 847 million pounds

#### **Shipments**

Seller's Perspective: Another new record. Year to date shipments are about 18% ahead of last year. Let the good times roll.

Buyer's Perspective: A new record to be sure.....but not quite that astonishing figure that was being talked about for the past two weeks. So much for the "170 million pounds or more" we were hearing out of California. Maybe some of you will be more motivated to offer now that you are comfortable that there will be enough almonds left in California to ship in November?

Last year, between November and July, you shipped an average of 82.9 million pounds. Assuming the accuracy of the objective estimate (which we think is too low), and considering a 200 million pound carry-out as giving you "the liquidity" you claim you need for a smooth transition into the 2008 crop, you need to ship an average of 94 million pounds during that same period this season. So you need to see an average shipment increase of 13% per month to meet this target. Wouldn't that mean that a 6% increase - during what is supposed to be one of your strongest shipping months - is not really good enough? Records are great, but small records when you need big ones seem to be moral victories at best, don't they?

#### **Receipts**

Seller's Perspective: The receipts would seem to put us on target to reach the 1.33 billion pound estimate.

Buyer's Perspective: Think so? Could it be or is that the understatement of the year? Let's do the math! 997 million pounds received through October 31 (compared to 721 million pounds last year at this time). The average year-to-date receipts during the past 5 seasons for this period is 71.1%. So if we are on target to hit the average, this crop would be 1.4 billion pounds. That's more than the estimate. If we take the highest percentage of receipts – 75.4% - this crop would be 1.322 billion pounds; right at the estimate. If we take the lowest percentage of receipts at 64.6% (last season), then this crop is 1.54 billion pounds. Pick the scenario that works for you; either way, shipments better pick up or you are going to be sitting on more inventory than you want.

Seller's Rebuttal: How about looking at the year-to-date shipment figure for this same 5 year period? Through October 31, California has shipped an average of 30.1% of the seasonal total. Using this average, we are on pace to ship 1.25 billion pounds, which would leave a carry-out of only 174 million pounds. This is an extremely manageable amount when considering the potential size of this crop and the undeniable annual increase in global demand. Things don't seem as dire to us as they do to you – could it be that you are short and have more buying to do?

### **Commitments**

**Seller's Perspective:** 411 million pounds of committed shipments versus 280 million pounds last year. That's a 47% increase! So coming back to how much new business we need to put on the books between now and next August....To meet the 13% monthly shipment increase, we only have to sell 48 million pounds of new almonds per month between November 07 – July 08. We will meet and exceed this level as we think that (1) November shipments are going to be very strong and continue the net record pace; (2) there is still much, much more coverage needed for the January – July 08 period; (3) Ramadan is coming in September next year and all the almonds to meet that demand are going to come from the 2007 crop. What is that going to do to the premium grades and sizes?

**Buyer's Perspective:** Your commitments better be higher – otherwise you can turn upside down really fast in this market. The supply wave behind you is big and the nonchalant marketing and arrogant pricing attitudes you are taking may come back to haunt you before the season is over. Remember the price crash that began in October 2005 when the dismal September shipments were released? You are one non-record breaking month away from getting a lot of nervous growers jumping on the “these prices aren't that bad....I want to sell now” bandwagon. And we all know how quickly that bandwagon fills up. Growers go from machismo to panic faster than it takes the port of Rotterdam to reject a newly landed container for aflatoxin.

### **Domestic**

**Seller's Perspective:** Not a new record at 41.2 million pounds, but just under the record set last October of 43.9 million pounds. This is still the second highest October shipment total ever and it keeps our year to date domestic shipments 6% ahead of last year.

**Buyer's Perspective:** Not a new record? Call the Almond Board, there must be a mistake. Domestic shipments are always a record. Isn't the old saying “Nothing is certain but death, taxes, and record domestic almond shipments”? This is a disconcerting trend: domestic shipments going down just when you need to be setting new records.

### **Export**

**Seller's Perspective:** A new export record of 118.6 million pounds, eclipsing the previous record of 112 million pounds set during October 2003. Western Europe up 15%; Eastern Europe up 25%; The Middle East up 82%; Asia up 34%; Africa up 9%. South America, New Zealand and Australia are down – but their combined purchases are about what Norway buys. So we're not panicking just yet. And Costa Rica's imports have still not registered. Hey, we always keep an Ace up our sleeves for when that tough shipment month comes.

**Buyer's Perspective:** Good export figures...for now.

2670 West Shaw Lane, Fresno, California 93711 U.S.A.  
Telephone (559) 435-2664 • Fax (559) 435-8520 • [www.dercofoods.com](http://www.dercofoods.com) • e-mail: [derco@dercofoods.com](mailto:derco@dercofoods.com)

### **Water**

**Seller's Perspective:** During the last few years, more of us growers have shifted from annually planted fruits and vegetables to more profitable permanent crops, like tree nuts. A lack of water puts a lot of pressure on us as we struggle to ensure that we can keep our trees alive.<sup>1</sup>

A recent court opinion limited the pumping of water from the Sacramento-San Joaquin River Delta to protect an endangered tiny fish species known as the "Delta Smelt." Can you believe it? Just look at these photos below....we value this tiny fish more than we value this Hummer? Seriously? Is there any reason left in our judicial system? These pictures are not even to scale! The Delta Smelt is much smaller than it appears in the photo – the Hummer, needless to say, much bigger.



**Buyer's Perspective:** We're with you on this one. What's another species going extinct when there are still so many kinds of more attractive and better tasting fish in this world to eat anyway? These eco-chain endangerment arguments ring hollow. Didn't our creator put these animals on our planet so that we could do with them as we wish? Screw the Delta Smelt. Keep the water flowing, the crops big and the prices low.

### **Prices & Other Nuts**

**Seller's Perspective:** Cry all you want about prices not being where you want them to be. The fact is that you are still getting a great value in almonds with BSU5% around \$2.00 per pound and NPS 25/27 around \$2.55 per pound. Walnuts are at or above \$4.00 per pound. Hazelnuts in Oregon are over \$4.00 per pound. The Turkish government seems to be ready to do anything and everything in its on-going attempts to artificially inflate the Turkish hazelnut market (and will likely jail anyone who speaks out against it!). Pecans are near or above \$4.00 per pound. So where's the better value on anything as versatile as almonds?

**Buyer's Perspective:** The price difference between BSU5% and NPS 20/22 is now \$1.00 per pound; between BSU5% and NPS 27/30 it's \$0.45 per pound. If you think this is sustainable, not much we can say now. But we know as well as you do that your sizing has improved in the past several weeks. 20/22 may not be overflowing, but 23/25 is available. Asking for an \$0.80 per pound premium for 23/25 over BSU5% is going to come back to haunt you. Just wait.

### **Currency**

The US Dollar broke the psychological €1 = \$1.45 level a few days ago. Now most people agree that \$1.50 is next to fall. The US economy continues to be hobbled by the sub-prime mortgage lending debacle (novel lesson: don't lend money to people who can't pay you back). The Federal Reserve Chairman, Ben Bernanke, after consulting with the Oracles at Delphi, just noted that business growth in the USA will slow noticeably in the coming months. The European Central Bank and Mr. Trichet left interest rates unchanged in the EU – walking a fine line between controlling inflation and keeping the exchange rate gap from growing larger.

<sup>1</sup> Jacob Adelman, "California Farmers Scramble to Sustain Crops After Water Cuts", *Mercury News*, November 2, 2007.

**Conclusion****Shipping, Logistics & Sanity**

It is not ridiculous to maintain (as some growers and processors argue) that the October figures could have arguably been even larger if California shippers were able to get equipment and actually “ship” their almonds out in time. Anyone who has tried to export a container during the past two months is seeing first hand what a disaster the global shipping industry has become. Big promises by attractive representatives who visit you in your office and compliment you on your espresso....quickly followed by incompetent back office work and inept and detached management to whom a “sense of urgency” is the working title of a new Steven Seagal movie. This mélange of ineptitude has resulted in cancelled bookings, late notifications of rolled containers, no equipment availability, damaged equipment, liability waivers at every level and a “carry the container on your back and swim across the Atlantic if you don’t like it” customer service mentality. As global business increases and trade lane imbalances grow, this problem is likely to get much worse before it improves. Lots of people crying about it – but tough do anything substantive and meaningful, at least in the short term.

The barriers to entry into the shipping industry are so significant that independent, entrepreneurial alternatives are stifled. As a result, California shippers wait like sheep at the door of their “service” representatives hoping that they are going to honor their bookings and send a container to be loaded. Hey, things have gotten so bad that we are happy when they actually advise us in advance that they are going to roll our containers due to their over-bookings (a concept which is staggering in the automated 21<sup>st</sup> century). Otherwise, we often find out that they simply can’t seem to count. We must be missing something because to us, this concept is simple: look at how many containers your ship can hold and compare to how many have you contracted. Hint: the contracted amount should be equal or lesser to the ship’s capacity. When I offer to drive people somewhere, I limit my passengers to 4. In case there are 5, we can squeeze. With 6, someone has to go in the trunk. You would think a multi-billion dollar industry would have a bit more resources to allocate to this issue – but why spend the money to be better when you can be as bad as your competitors and still be profitable?

One interesting definition of leadership states: “A leader is someone who disappoints his followers at a rate that they can tolerate.” Seems shipping lines are taking this approach, but as they have a captive clientele, they are able to get away with things that would put others who are in a more competitive industry out of business. If there were better viable options, their indifference would simply not be tolerated. But hot air balloon shipping has not caught on yet. We are working on it!

**I Am Right, The Market is Wrong**

During and immediately following the INC last May, when the subjective estimate was released, consensus seemed to be that BSU5% should be below \$1.65 per pound in order to have a chance to move this record crop. Then there was a lot of talk about BSU5% being a good value somewhere below \$1.75 per pound and eventually still “reasonable” below \$1.85 per pound. Today, there are buyers and limited sellers of BSU5% at \$1.95 per pound for January – June 2008. But back in May 2007, the \$1 was equal to €1.35. The average for November so far is \$1 = €1.45. A 7.5% decrease in the value of the US Dollar in 6 months. June shipments were up 2.5%; July shipments were up 36%; August shipments were up 61%; September shipments were up 10%; October shipments are up 6%. In such an environment, how could anyone expect a grower to lower prices? Some argue that doing so is in the best interest of the industry and will assure that at the end of the season we have a reasonable carry-out. But would it be economically rational behavior on an organizational level?

Newsflash: We are dealing with a market that is difficult to interpret. Accurately gauging global demand is a challenging task. It’s even more difficult to gauge at what average prices the bulk of contracts during any given period of time have been concluded. Apart from the increasing (and arguably exceeding) reliance on these

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monthly position reports in dictating buying and selling strategy, it's interesting to see just how many people seem to be drawing a line in the sand and taking hard positions on where the prices "should" be. This appears, at least to us, to be happening more and more on both buying and selling sides. Yet so many variables go into determining where prices "should" be that virtually anyone's (well...almost anyone's) opinion has some merit at some level.

Those who have been able to adapt to the changing landscape and not take developing events that contradicted their own opinions personally, have thrived and will continue to do so. Those who have what some refer to as "old think" – ingrained beliefs such as "this is not fair" or "these prices are too high / too low" - based on past paradigms, are in for a bumpy ride.

As Martin Zweig (the famous investor and financial analyst) put it: "I measure what's going on, and I adapt to it. I try to get my ego out of the way. The market is smarter than I am so I bend."

Bend away....

Best regards,  
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