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October 2008 Almond Position Report – “YES WE CAN.....?????”

October 2008 shipments were 157.575 million pounds. This is down about 1.5% from the October 2007 shipments of 159.95 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:	391.4 million pounds
Remaining supply:	1.29 billion pounds

Shipments

Seller's Perspective: Do “almost records” count? Well, they should. The record for October shipments was 159.95 million pounds set last year. This year with all the shipping challenges and the well documented global economic problems, we think that 157.5 million pounds was a very good number.

Buyer's Perspective: We'll give you the “almost record.” For sure, this is a very impressive figure – in a vacuum. California has a crop of at least 1.5 billion pounds. We (and you) think that it will be bigger than 1.5 billion pounds. Let's wait for the November receipts and then do a quick analysis of just how big. For now, what matters is that those small Butte/Padres are really starting to add up, aren't they? Just ask your local bin manufacturers – you know, the ones whose lakeside homes you are financing (since the bank won't). You need to be shipping much more than “almost records” if you want to be anything more than “almost profitable” this year.

Commitments

Seller's Perspective: Commitment figures are not reliable. They are not accurately reported within the industry and we don't really look at them.

Buyer's Perspective: ?????!!!¹ Is that because your uncommitted inventory is up 39% over last year?

Domestic

Seller's Perspective: Shipments are up 5% over last October.

Buyer's Perspective: And the people rejoiced.

Export

Seller's Perspective: Shipments are down from last October, but this decline is mostly attributable to the shipments to Western Europe (down 12% year to date). Eastern Europe is up 32%, the Middle East is up 26% and Asia is up 28%.

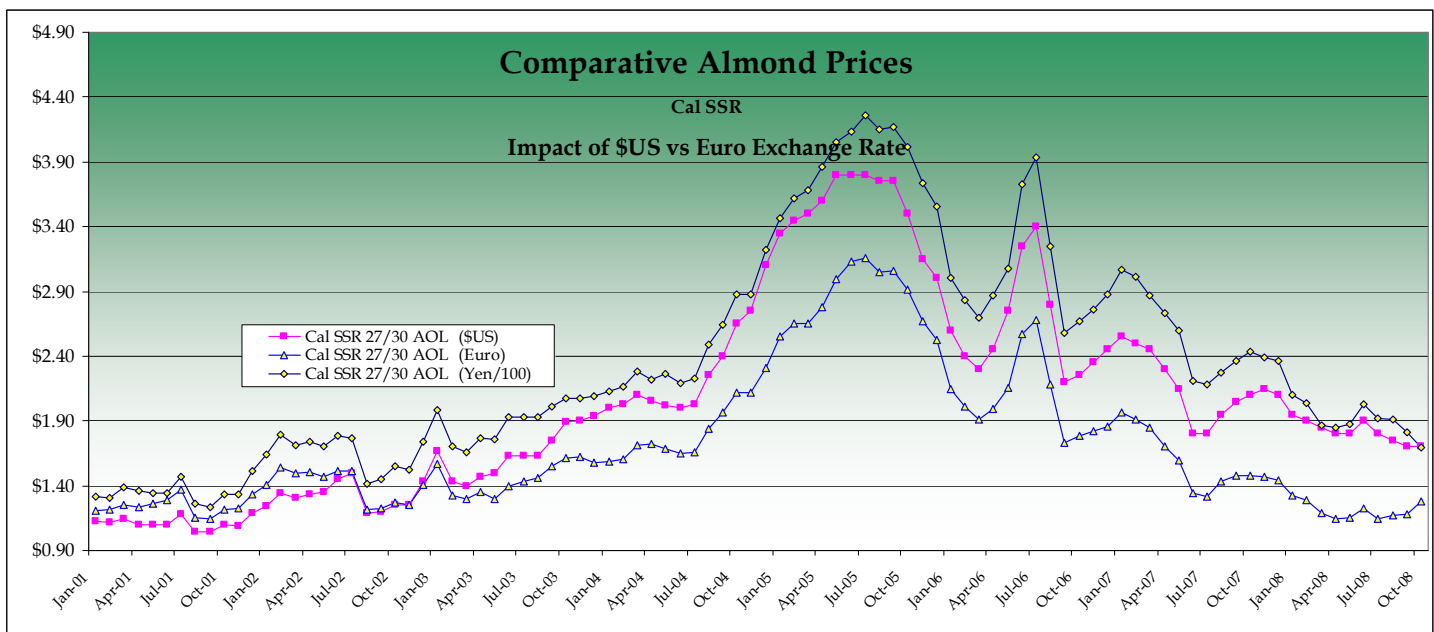
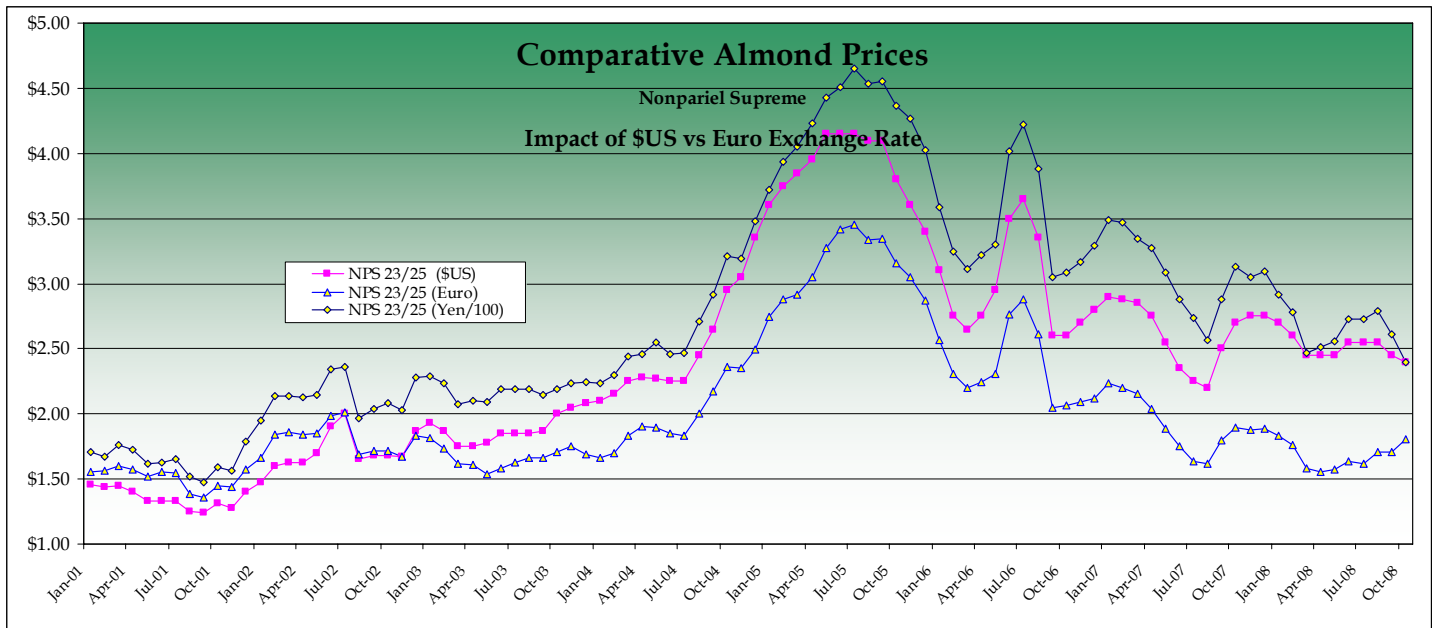
Buyer's Perspective: Total export shipments are down 3.5%. Your largest market is down 12%. And the most dire indicator of all....Costa Rica is flat.

¹ “?????!!!” is a common international symbol used to refer to a feeling of disbelief or utter confusion. In this context, it is also meant to be humorous and ironic, since sellers have relied heavily on the commitment figure in past reports to further a bullish agenda. Readers for whom English is a first language can pronounce “?????!!!” as the ubiquitous “what the f*#^?”

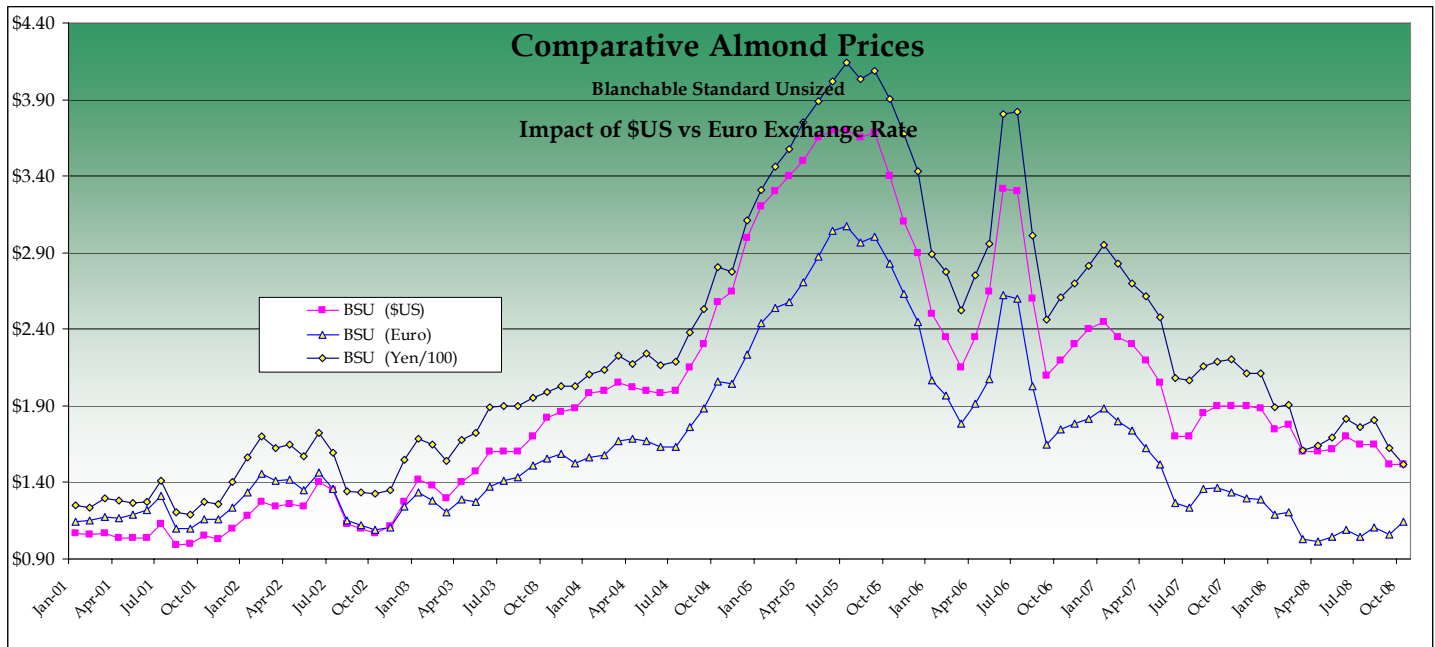
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Prices

Here is an update of pricing and the effects of the currency exchange:



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Conclusion

To categorize global economic sentiment as “bearish” may be a gross understatement. There is an international malaise that is hard to deny. This “unscientific” discomfort is permeating through most economies and businesses. That portends poorly for commodity prices. Access to credit is tight. People are being conservative in all their decision making, which of course includes all purchases. Nothing but the immediate and the indispensable is being considered.

The almond market, like most commodity markets during the past few months, has been under pressure. A big crop, coming in quickly, coupled with lethargic European demand, has resulted in lower prices. BSU5%, which was trading at \$1.70 per pound in June is now at \$1.50 per pound from origin, with second hand offering at as much as \$0.15 per pound lower. The fact that the crop is coming predominantly in the varieties and sizes most suitable to Europe (small sized California/Butte/Padre and BSU5% material), while European demand is down, is having a disproportionate impact on pricing. The price spread between 30/32 AOS and 27/30 AOL has become significant. The price spread between BSU5% and NPS 20/22 is well over \$1 per pound now.

In order for this trend to be reversed or to be held in check, the October 2008 shipments were going to have to be significantly bigger than October 2007. That was most likely an unfair expectation (from both a logistical as well as a production capacity point of view), but nevertheless, it was what California had to deal with. This expectation was due to the strength and momentum of shipments during the past few years. Yes, they should be taken in a larger context; but the simple fact is that they will not be taken in larger context. California is not entirely at fault. But it would be disingenuous for growers, who withheld offers and raised prices in years past as shipment figures set new monthly records, to now claim that shipment figures don't matter. Just last year buyers wanted October – June offers and none were to be had. Today, growers would jump to offer on October – June requests, but none are to be had.

The important question now is: what will reverse this declining trend? Demand is unlikely to explode from any one region. Europeans are digesting higher priced contracts and can get most of what they need on the spot market. They may have to pay a bit more, but they won't risk the price fluctuations while the product is in transit from California. Moreover, most varieties and sizes are plentiful. Unless you are exclusively a user of

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Nonpareil Extra #1 18/20, you can buy what you need. The Chinese market is covered now for Chinese New Year. We don't expect big demand to come from China until the first quarter of 2009. The Middle East is buying selectively. Ramadan was disappointing in sales and many companies are still sitting on almond inventories. The Indian almond market is weak and local importers are discounting lots to sell what they have received and what is on the water.

So what incentive do buyers have to book big tonnage for spread shipments?

- The economy certainly is not in the favor of any commodity sellers. Almonds are no exception. The outlook is bleak, every day the news seems more pessimistic. Credit is tight. Sales are down. Consumption is down. Unemployment is up and likely to get much worse. And this is global, not just in the US. When the Chinese have to inject over \$500 billion into their economy, you know that times are tough.
- The fact that almond prices are "attractive" is often mentioned. Sadly, this is not an objective criterion that figures in the equation. That is a relevant term and the much revered (and misunderstood) "cost of production" is as important in a falling market as it is in a rising market: basically, it's not important.² The price is the price as determined by market forces. Those who have to sell below their cost of production (because of cash flow, storage limitations, more pessimistic outlooks) will do so. Those who do not will roll the dice and wait.
- The fact that "the trees are tired and cannot produce another big crop" is another often-used reason in forecasting higher prices in months ahead. But just look back at the past several years and see how long this excuse has been in play. Though we cannot discount this possibility, buyers certainly don't believe the argument and hence it really will not have any meaningful impact on prices until the proof can be seen on the trees. That's at least 5 months away.
- A wet bloom could arguably lead to smaller production in 2009. Yet we would venture to say that most people in California would prefer a wet bloom to a dry one, given the dire water shortages California is facing. With the widespread plantings throughout the Central Valley, it's likely that even a rainy February and March would produce enough "dry and sunny patches" to allow the bees to pollinate and produce a reasonably good crop.³
- The most serious dynamic that can change buyers' current bearish mental frames is a possible water shortage. If this winter is a dry one – and it very well could be – then prices February onward could increase substantially. We are not qualified to comment on what another dry winter will do to the viability of almond trees, or to the price of water to keep those trees producing at previous levels, but it's safe to say that almond prices would go up under this scenario.

It's at times like these, when the market's future seems so certain and predictable, that crazy things tend to happen. Right now, everyone wants to go short. "Sell what you can, cover it later." That's the prevailing wisdom. Well, lots of people who are now bankrupt jumped on similar trains just before the roof fell in.

² For a tutorial on selling below the cost of production, see your local General Motors dealer.

³ We are the first to admit that fortunes have been made and lost based on the interpretation of "reasonably good crop." The fact that we don't bet heavily one way or another on this definition is a primary reason why we are not on a yacht in the Mediterranean and instead still coming to work and writing these reports.



INTERNATIONAL DIVISION

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Remember the words of Arthur Schopenhauer: "Every person takes the limits of their own field of vision for the limits of the world."

If you think you're certain...don't be.

Best regards,
DERCO FOODS