

## **October 2010 Almond Position Report**

October 2010 shipments are 189 million pounds. This is up over 12% from the October 2009 shipments of 168 million pounds.

### **Analysis**

Carry-in from the 2009 crop:	321 million pounds
Estimate for 2010 crop:	1.65 billion pounds
Less 3% loss / exempt:	(49 million pounds)
Less Shipments to date:	465 million pounds
Remaining supply:	1.457 billion pounds

### **Shipments & Receipts**

**Seller's Perspective:** Not offering. Call us when the market is up \$0.05 per pound.

**Buyer's Perspective:** Thank you. We would not expect anything less. With the crop receipts down about 9% compared to last year (more likely an indication of the lateness of the crop than anything else) and with such strong shipments, the short-term market will be bullish.

### **Domestic**

**Seller's Perspective:** Not offering. Call us when the market is up \$0.10 per pound.

**Buyer's Perspective:** Largest domestic shipping month ever at 49 million pounds. You have every reason to feel proud.

### **Export**

**Seller's Perspective:** Not offering. Call us when the market is up \$0.15 per pound.

**Buyer's Perspective:** Largest export shipping month ever at 140 million pounds. You should remember that we are the reason you are shipping such large quantities. We are an important part of the chain, not your adversary. If you do not sell to us when we need to buy, how can we grow our markets? Sell into strength, friends. Let your clients make some money. It's good long term business.

### **Commitments**

The veracity of the commitment figure is akin to the new generation of "firm bids" which we are increasingly seeing in this industry. They are sent out as circulars and "subject to first response." The problem is, these bids are not presented in an open forum, where the participants who would be willing to confirm or counter the bid can see what other potential sellers are doing.

A seller who is considering taking the bid cannot see if someone else has or has not already responded. Only the person presenting the firm bid to buy has this information. Therefore, it is really not a bid of any sort. It's a desire to buy, couched in more "committed-sounding" terminology, and designed to increase the likelihood of generating a firm offer. It's clever to the extent that it manipulates the emotions of naïve sellers....but it's not a bid.

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As for the commitments compared to last season...Domestic up over 2% and export up 1.3%. Uncommitted inventory is down 47% compared to last season. All this once again paints a bullish short-term picture.<sup>1</sup>

### Currency

August \$1 = €1.29

September \$1 = €1.31

October \$1 = €1.39

So far the November average is \$1 = €1.398.

- Republicans have taken over control of the House of Representatives. Based on the platforms on which Republicans and many quasi-Republican "Tea Party" candidates campaigned, job creation and federal government size reduction are the two top items on the agenda. A weak US Dollar would seem to be an important piece of the puzzle to help make US products more competitive in overseas markets.
- There is a Group of 20 meeting this week in Seoul, South Korea, to discuss currencies, trade and how best to nurture a healthy world economy. There is concern from Asia, S. America and other parts of the world that the US Federal Reserve's decision last week to pump money into the US financial system by purchasing \$600 billion in Treasuries will weaken the USD and result in capital going to emerging markets that "threaten asset-price bubbles."<sup>2</sup>

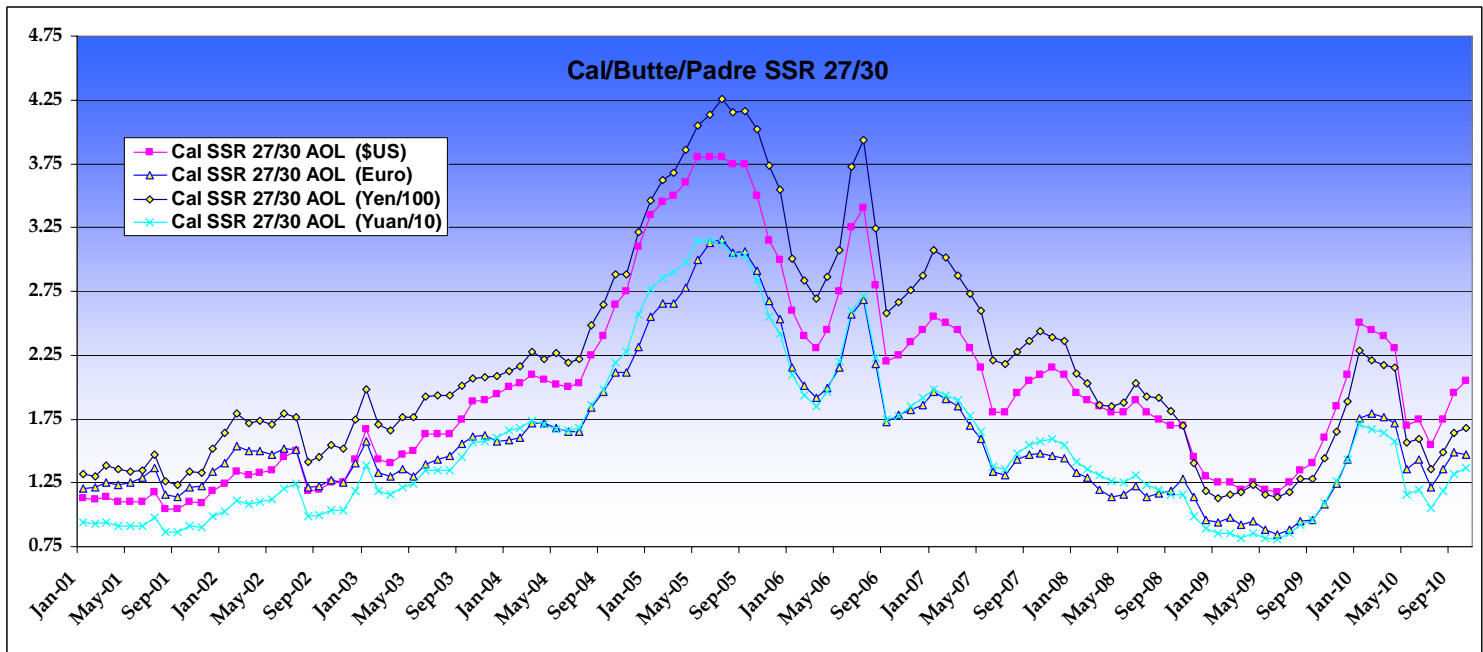
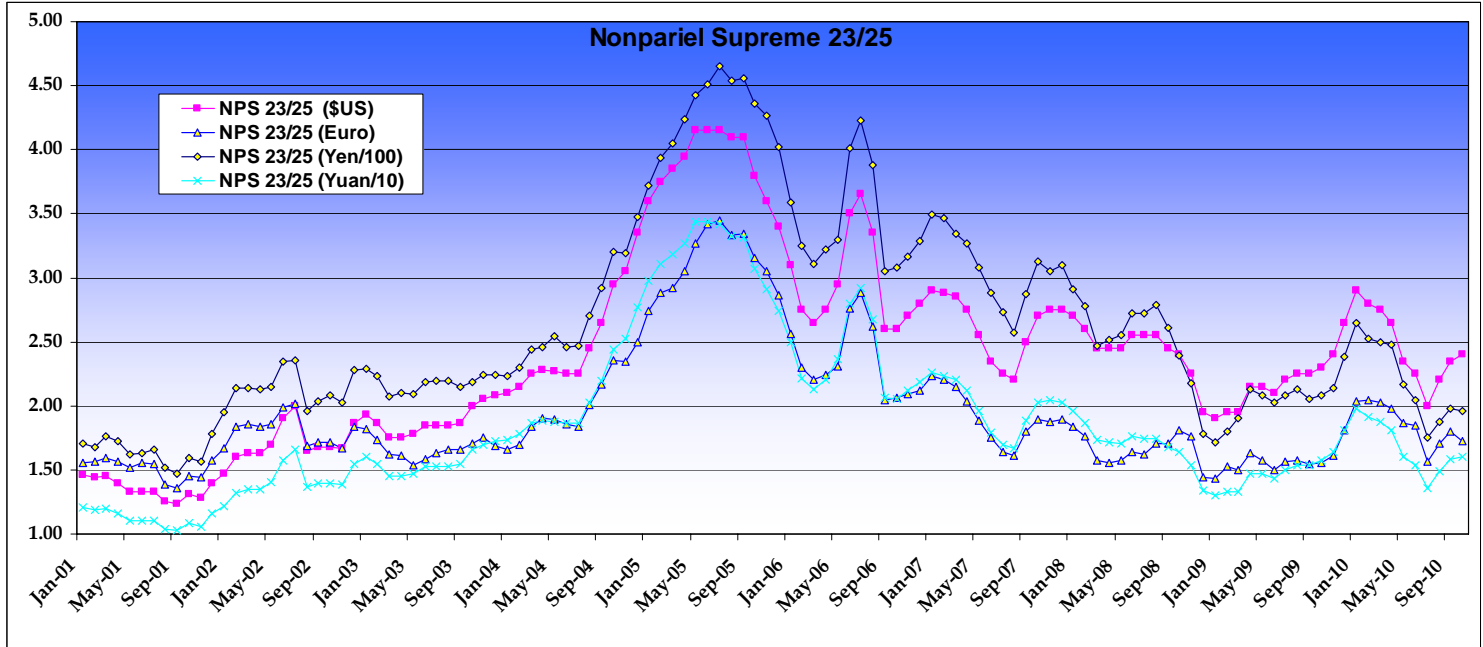
Everyone knows that the best way to start a war is by threatening asset-price bubbles. There are many kinds of bubbles that are fun to pop, but if you know anything at all about economic fundamentals, you know that popping asset-price bubbles does not result in fun for the bubble-poppee (though for the bubble-popper, it could admittedly be a little short-term fun). More on bubble-popping later.

- In recent days the Euro has weakened a bit against the USD (it is at \$1.366 at the time of this writing). There are worries in Europe that some European governments (most notably Ireland at this time) will struggle to pay their national debt.
- The US is continuing to put pressure on China to allow the Yuan to strengthen against the USD. This will be very good for agricultural exports to China, but not so good for China's export-based economy. You have to love the US government's balls in this instance. Call on China to buy US Treasuries, then ask them to strengthen their currency so that the value of their investment is worth less. The Chinese may be many things, but they are not dumb. Without other types of concessions from the US / West, how is this policy going to fly? Rand Paul knows. Don't worry.

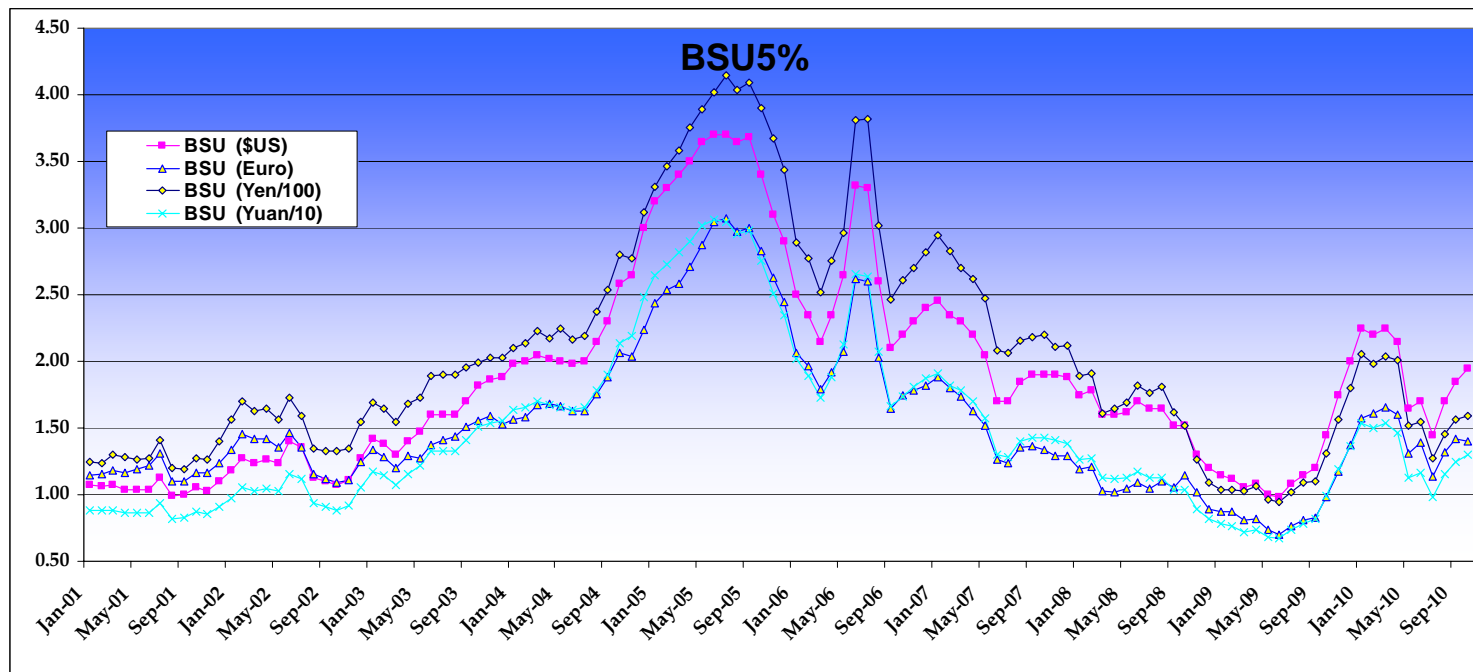
<sup>1</sup> Many people (mostly buyers) feel that the almond industry should mandate that a full physical inventory be carried out every 2-3 years, in which every handler is audited to see what he is really holding in his warehouses. Until that happens, many buyers overseas (especially European conspiracy theorists) are going to continue to insist that our "committed inventory" and especially "carry-out" figures are manipulated to help achieve a hidden seller-biased agenda. G. Gordon Liddy and Oliver Stone have assured me that this is the case.

<sup>2</sup>Allison Bennett – [www.bloomberg.com](http://www.bloomberg.com) ; Nov. 8, 2010.

## Prices



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### Walnut Envy<sup>3</sup>

We've all heard of the "other" kind of envy...but walnut envy is certainly becoming a factor this year. Many almond growers in California also grow walnuts. They are seeing how high walnut prices have gone and some are struggling to understand why almonds are trading between \$1.90 - \$2.60 per pound when the cheapest walnuts are now over \$3.00 per pound, and with walnut halves over \$4.00 per pound. Furthermore, walnuts are easier to grow and have multiple international competitive sources (China is a larger producer than California), while almonds really do not have such competition.

Almond growers who do not grow walnuts are jealous of all the visitors and attention the walnut guys are getting. We keep hearing them around town wondering: "Why aren't the clients from Turkey visiting me multiple times and refusing to fly home before I offer them some almonds? Why is it only the walnut guys that are getting the Turkish love?"<sup>4</sup> The jealousy could turn ugly. Don't tell Freud.

### Conclusion

Everyone in California this week was holding off selling and "waiting for the number." This mentality is driving buyers nuts. So now we have the number. And, though not always the case, this time it actually was worth the wait – certainly for sellers. It is going to be tough to talk down prices in the short term – especially with California expecting another big figure for November.

The one very valid point that buyers have is that the overall shipment figure for this season is very unlikely to be more than 1.60 billion pounds. This would be an increase of about 9% over last season's 1.47 billion pounds shipped. A more realistic figure would be 1.55 billion pounds (a 6% increase over last season). So If NASS is right, and the crop is 1.65 billion pounds:

<sup>3</sup> You can substitute "pistachio" for "walnut" in the above paragraph.....heck, you can even substitute "Oregon hazelnuts" this year, though for hazelnuts the biggest reason behind the price increase is a poor crop.

<sup>4</sup> Not to be confused with [Turkish Delight](#)

- If we ship 1.55 billion pounds, the carry-out into the 2011 season will be 370 million pounds
- If we ship 1.60 billion pounds, the carry-out into the 2011 season will be 320 million pounds

In neither case are we short any almonds, but these are certainly manageable figures which would not warrant massive price reductions during the course of this season. The buyer perspective, however, is that with shipments on fire between September – January, the bulk of markets will be very well covered. This will result in several months of lethargic shipments – a repeat of last season. And if we know anything about California growers, it's that several months of lethargic shipments = panic. No one admits to being the panicker.....instead, the panic in April will be couched as "I have some growers that really want to move some [insert product you are long on here]." This is poor code for "I should have taken that bid back in November at \$0.25 per pound higher." Front-loaded strong shipments will also bolster the position of reselling markets like Dubai and Hong Kong, which will undercut California's price. Both of those markets are ahead of last year's purchasing pace – and both were already prolific resellers last season. Not a good omen for the California grower banking on making more money by holding until after bloom.

Now for the flip side of the argument....all the above assumes that NASS's estimate of 1.65 billion is right. That may end up being a big assumption. The crop is late. The weather has been bad. Harvest has been delayed. All true. But how much of the 9% shortage in receipts compared to last season (when the total crop was 1.405 billion pounds) is due to the above factors and how much may be due to the fact that the crop is not going to make the 1.65 billion estimate? California has a lot of ground to make up....year-to-date receipts are behind last season by around 87 million pounds. This amount + 435 million pounds will get us to last year's number. Then another 245 million pounds on top of that needs to come in to make the 1.65 billion pound estimate. So the big question is: are there another 772 million pounds of stockpiled almonds in California now waiting to be processed? Most growers will tell you "no."

The scope of the 1.65 billion pounds certainly shocked buyers and sellers alike...and it also *hurt* buyers and sellers alike. The pain caused to sellers is obvious: the market dropped \$0.50 per pound within a couple of days...and though there was a full recovery, the amount of money lost during the fall and recovery period was massive. It hurt buyers in two ways. First, some saw 1.65 billion and shorted the market. Bad move. Really bad move. Second, and more insidiously damaging...it paralyzed many people who would have otherwise bought at lower levels. This is especially true in Europe, where the fundamental global commodity consumption shift has not sunk in, and where there is still denial about the speed at which the rest of the almond consuming world is growing. Buyers did not think prices were "high" – they thought prices were "wrong" because of the projected size of the crop.

If the receipts do not improve dramatically by next month's report, I would not want to be a NASS representative sitting at the bar of the Double Tree Hotel in Modesto during the annual Almond Conference. Only ending up in the outside fountain may be the most optimistic outcome.

"The trick is to make sure you don't die waiting for prosperity to come." Lee Iacocca.

Best regards,  
**DERCO FOODS**