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### **December 2005 Almond Position Report**

December 2005 shipments were 76.316 million pounds. This is down about 14.4% from the December 2004 shipments of 89.178 million pounds.

Carry-in from last year: 137.7 million pounds

Crop receipts to date: 882 million pounds

**Less 4% loss / exempt: (35 million pounds)**

Total Supply: 984 million pounds

**Less shipments to date: (417 million pounds)**

Supply Remaining: 568 million pounds

#### **Receipts**

**Seller's Perspective:** Receipts were higher than most of us expected. It seems that the increased huller/sheller capacity did not result in a higher percentage of the crop being received earlier in the season. We have now met the CASS estimate of 880 million pounds and historically through December, we are about 98% received. This means that the crop will likely finish at around 900 million pounds.

**Buyer's Perspective:** We cannot say that California has a "misinformation" agenda. But we feel that a lot of the information that came out of California this year was wrong. We heard so many times from so many places that this crop was not going to make 800 million pounds and that the nuts were drier and lighter. We heard that hullers and shellers were finished receiving product back in November. No one knew where the almonds to make an 880 million pound crop would come from. During this time, prices were being pushed higher and higher. Alas, the CASS estimate was accurate, your numbers were not.

#### **Shipments**

**Seller's Perspective:** We are down only 14% compared to last December. European industry is not covered for most of 2006 and the inventories that were growing in the Middle East have been mostly sold off. Buyers all over the world have been digesting their inventories and are now restarting their purchases. Buyers were ready to cover when BSU5% was \$3.50. They are ecstatic over prices now, but just want them to stabilize so they regain the confidence to purchase in large quantities. You will see shipments rebound in dramatic fashion during the next 6 months.

**Buyer's Perspective:** Shipments are off by 14% this month and 19% so far for the season. Every major export market is down. The crop is going to be 900 million pounds and you are going to have a total marketable supply of about 1 billion pounds. Last year, you had a total supply of 1.08 billion pounds. After all the crying about the poor crop, you have only 80 million pounds less this year. Last season you shipped 984 million pounds. Assuming you stay on the present course and ship 19% less for the season, you will have shipped 800 million pounds and have a carry out going into next season of 200 million pounds. How is this bullish?

#### **Domestic Market**

**Seller's Perspective:** The domestic market is still promising, though not as vibrant as it was last year at this time. The health message continues to filter down to consumers and we are confident that domestic consumption will grow in the months and years ahead.



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**Buyer's Perspective:** "Not as vibrant" must be Californian for "dead." Your anchor market is off 20%.

#### Market Prices

**Seller's Perspective:** The average prices for December 2005 were roughly the same as the prices back in December 2004. Prices now are considerably lower than the December averages. Anyone who says that we need even lower prices to stimulate demand is being disingenuous. Stability is what will stimulate demand now. We are past the point where people are saying "prices are too high" or "we cannot pass on these prices to our consumers." We are now at the point where people are saying "we have no confidence in California." If buyers believed that we could hold these prices for a while, they would place orders that would easily move the balance of this crop.

**Buyer's Perspective:** There is no such thing as "prices are too low" or "prices are too high." You cannot continue to blame a few traders for the ills of the market. If those traders did not believe that they were going to get eventual support from California, they would not have the audacity to continue to anticipate declines and be a week or two ahead of the market. At some point, the traders pushing things lower will find themselves short without the cover they were expecting. Question is, are we there yet?

#### Spanish Crop

**Seller's Perspective:** We understand that Spain is 80% or better sold. Also, the Spanish Crop was not the 70,000 tons some were saying, but closer to 50,000 tons. Spain sold the majority of their crop under the high California price umbrella and now, when Spain needs to buy, California is lowering prices to points that the Spanish cannot believe. The Spanish almond industry did not realize what a friend it had in California.

**Buyer's Perspective:** Every time California would put out an offer, Spain would be selling a bit cheaper. California did not realize that Europe was not using that much less almonds - Europe was just using more Spanish almonds that were available. Spanish almonds were (1) priced a bit more attractively at the start of the season; (2) deliveries could be made more promptly early in the season; and (3) Spanish sellers were motivated to sell while California was playing its "the crop is not 800 million pounds" song. This shift away from California at the very start of the season took the steam out of the market. It opened the door for those who wanted to lower the market. They finally had the hard data - weak shipments and respectable receipts figures - to support their efforts. Prices have been falling ever since.

#### Currency

The US Dollar is once again trading above \$1.20 to 1 Euro. The December average was \$1.186 and the January average has been \$1.204 for the first 10 days of the month. What will happen as we near the end of interest rate increases in the USA no one knows for sure. Conventional wisdom would say that with higher interest rates, more people will want to hold US Dollars which will strengthen the Dollar against the Euro and other currencies. Pockets of economic concern and marginal economic news out of Europe and the USA will continue to make this a guessing game. So far in early 2006, the exchange rate favors California shippers.



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### Conclusion

California has about 570 million pounds of inventory. Let's say 600 million pounds so that we account for another 3% of receipts. Taking out 100 million pounds of carry-out will leave California with 500 million pounds to ship between January and July (and maybe first half August). The majority of those in the industry would agree that it can move 500 million pounds in 7 or 8 months at these prices without further lowering prices. Prices have fallen around \$1.20 / lb since September yet lower and lower offers continue to appear in the market. This has an undoubted dampening effect on buyers' appetites to build inventory. It results in hand-to-mouth business which results in a lower committed shipments figure at origin. This is the vicious cycle that is pushing things lower. When will the cycle be broken? When growers gain a comfort level in the percentage of their crop that they have sold and when packers generate enough cash to reduce some of the short-term financial pressure they are under.

During the past few weeks, the market has fallen another \$0.50 / lb - this drop was not accounted for in the December shipment figures. Prices so far in January are between \$0.50 - \$0.70 / lb lower than they were in January 2005 and are about where they were back in November 2004. California may take heart that shipments were off by only 14% despite this instability in the market. Industrial buyers are also starting to appear for March - August shipments. Sellers may take this as a sign to start holding the line and not taking the next bid that comes along. Don't forget, the weather has been unusually warm in Central California and if bloom starts early, the risk of frost is magnified.....yes, it's almost time for bloom speculation!

Rumors persist around packers who overpaid in the field and are now renegotiating contracts with growers. Information continues to filter throughout the industry about defaults in Singapore, UAE, India, China, Russia, the Baltic states, Italy and Spain. Some names are mentioned, but most of the information comes in the form of "It's not my buyer and thankfully I'm not involved, but I heard that-----is not picking up documents." This type of information certainly is not instilling confidence in the market.

If you're short, we wish you a happy 2006. If you're long, we wish you a healthy one.

Best regards,  
DERCO FOODS

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