

December 2006 Almond Position Report

December 2006 shipments were 94.192 million pounds. This is up about 23% from the December 2005 shipments of 76.316 million pounds.

Carry-in from the 2005 crop year: 112 million pounds
Receipts through December 31, 2006: 1.055 billion pounds
Less 3% loss / exempt: (31.66 million pounds)
Total Supply: 1.135 billion pounds
Less shipments to date: (525 million pounds)
Less estimated carry out: (120 million pounds)
Available Supply: 490 million pounds

Shipments and Commitments

Seller's Perspective: We want to be gentle with you this month as you digest this information. Last month many of you felt that our comments were too bullish and one-sided. As we travel down the almond tree lined road of life together, we want to tread more carefully. So we will quietly and gingerly set forth the facts: (1) Overall record December shipments, eclipsing the previous record of 93.6 million pounds set in 2003; (2) New domestic record shipments for December; (3) Third highest export shipments for the month of December; (4) Committed domestic shipments that are 43% above last year; (5) Committed export shipments that are 32% above last year; (6) Uncommitted inventory that is 7% below last year, leaving only about 30% of the crop left to sell.

Hey, not all the news is bad for you – prices still have \$1.25 / lb to rise before they break a record!

Buyer's Perspective: Yes, all true...but assume that you do not want more than a 120 million pound carry-out. That leaves you with 490 million pounds to ship between now and July. We will ignore the committed shipment figure because we are not at all impressed with the reliability of this number and we do not know if it is a committed shipment to a warehouse or to an actual buyer.

Between January and July for the years 2000 through 2006, monthly shipments averaged 62.3 million pounds. The highest monthly average was for the 2004 season at 74.7 million pounds. The lowest monthly average was in the 2000 season, 47.8 million pounds (unlikely to recur). So if we ship the average 62.3 million pounds, that will give us a grand total of 961 million pounds for the season (August 1 2006 – July 31 2007). We will carry-out about 175 million pounds. We realize that if shipments stay on the current pace (26% ahead of last year), then monthly shipments will average 89 million pounds. This will not happen as carry-out would be zero. So, as usual, the million dollar question is: at what price will demand drop off? You guys in California have a history of overshooting your target and you will unlikely do so again.

Receipts

Seller's Perspective: 1.055 billion pounds through December, when we are historically 97% received. Assuming another 3-5% in receipts, that would put us at no more than 1.1 billion pounds for the year. Overall, we now see that the estimates released by both CASS and the AHPA were very accurate.

Buyer's Perspective: No surprises here. If anything, we still believe that the final figure will be close to 1.1 billion pounds – but that seems unlikely to have a material impact on pricing at this time. If bloom is very good and if shipments slow down a bit, the effect of the extra 50 million pounds could become more magnified.

Domestic

Seller's Perspective: Americans love almonds. Spread the news. Going back to June 2006, 5 of the past 7 months have set domestic shipment records.

Buyer's Perspective: This is encouraging news for you, your waistlines and your hearts. As crops get larger in the coming years, you certainly have a vested interest in moving more and more tonnage domestically.

Export

Seller's Perspective: 4 of the past 8 months have set shipment records. This has happened despite great cynicism on the part of buyers who thought that the market would peak by November and that prices would fall in anticipation of a good 2007 crop. Few expected that December shipments would be so strong.

Buyer's Perspective: Shipments are admittedly strong, but we are covered for the time being and will be happy to wait and watch bloom. Most likely this is what you will be doing anyway.

Prices

Seller's Perspective: As you may have guessed, prices will be going up. You should have booked the BV5% at \$2.40 / lb when you had the chance. But you were hoping for \$2.20 / lb. You may see that level for the 2008 season, so stay strong!

Buyer's Perspective: Take a look at the price histories going back 7 seasons.

For the months of January through July, for the years 2000 through 2006, the average prices were:

Nonpareil Supreme 23/25	\$2.25 / lb
California/Butte/Padre SSR 27/30 AOL	\$1.94 / lb
Blanchable Varieties 5%	\$1.86 / lb

Current (pre-December shipment figure) levels were around:

Nonpareil Supreme 23/25	\$2.85 - \$2.90 / lb
California/Butte/Padre SSR 27/30 AOL	\$2.45 - \$2.50 / lb
Blanchable Varieties 5%	\$2.40 - \$2.45 / lb

This analysis admittedly does not account for currency, which has played a significant factor, especially as the USD weakened against the Euro between January 2003 and hit its lowest monthly average of €1 = \$1.34 in December 2004. (see chart below)

Nevertheless, if we can ship around 1 billion pounds this season and maintain or exceed the current price levels, then all of us around the world are going to have to revisit what we think we know about the almond market. If, however, the next few months show weakening shipments – then prices could well come down closer to historic levels as we enter the 2007 season. This will most likely be the easiest way for California to market what will soon be very large crops in excess of 1.2 billion pounds.

Currency

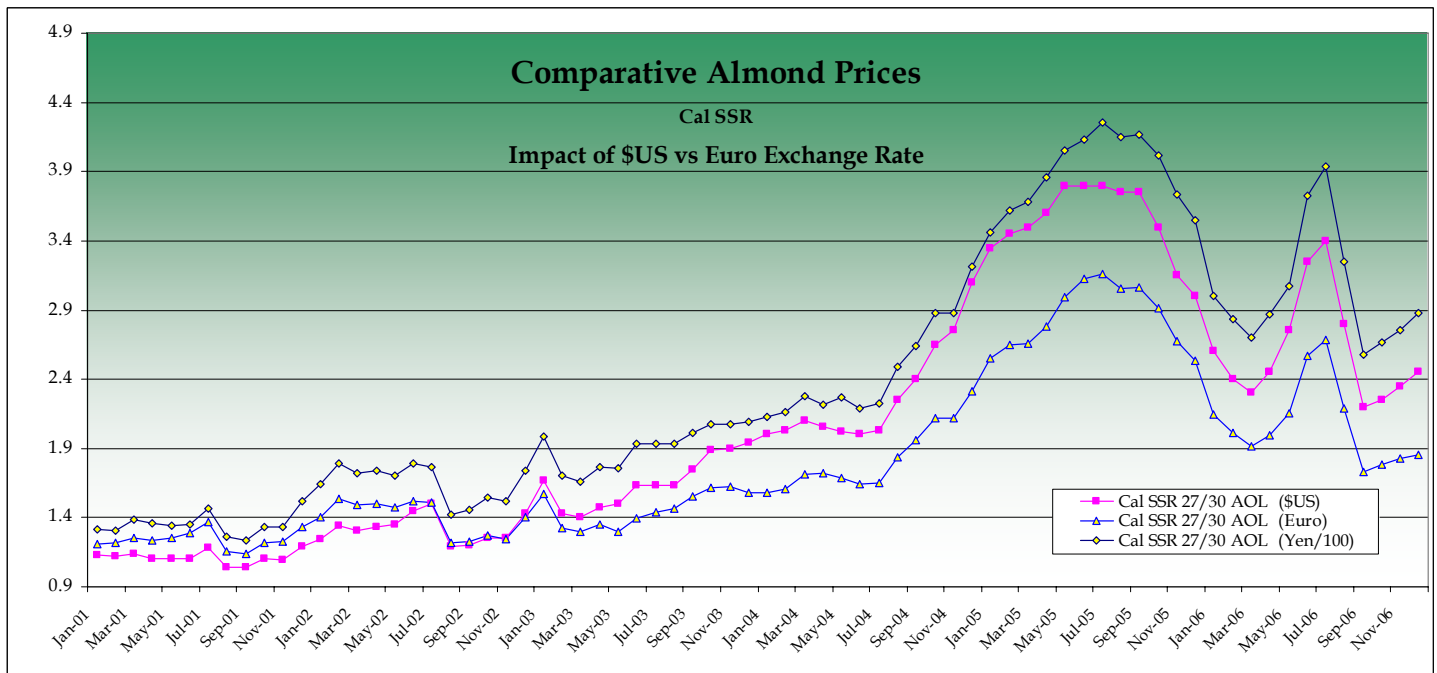
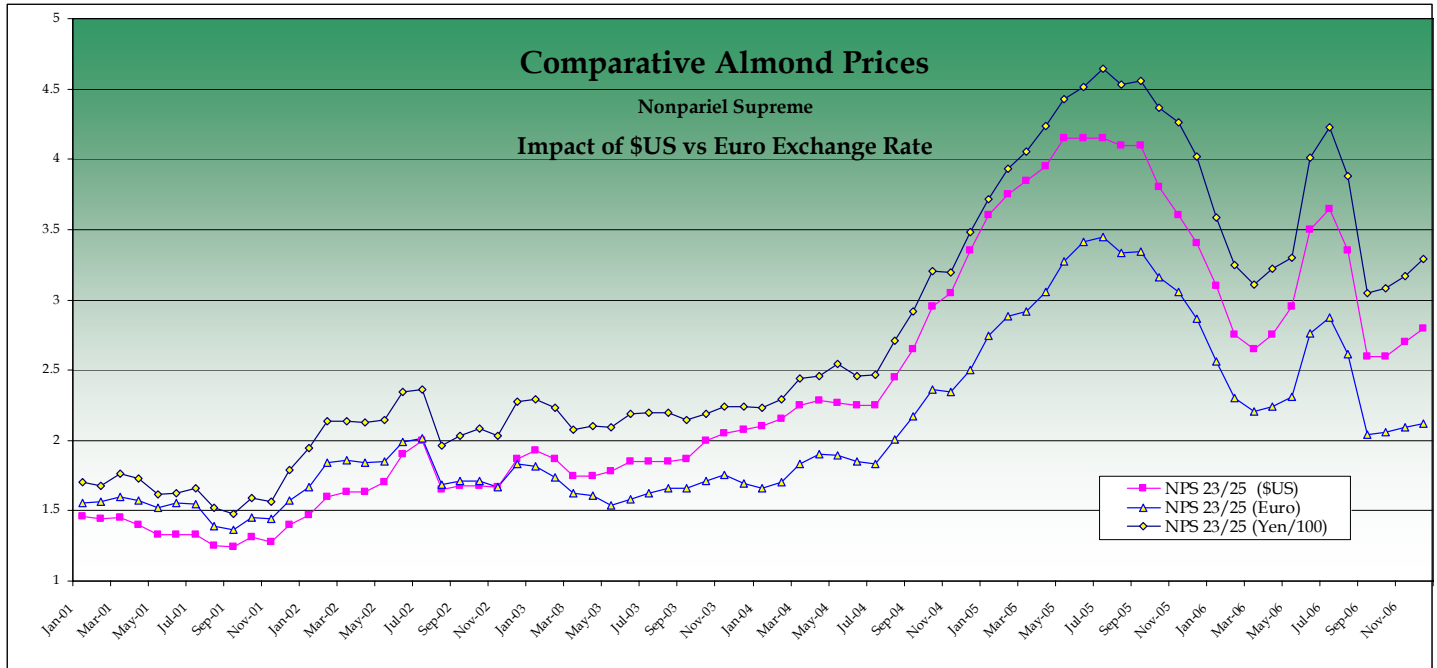
Today the Euro is at a nearly two-month low against the USD – trading just below €1 = \$1.30. The December average was €1 = \$1.32. The European Central Bank meets this week and is expected to keep its key interest rate unchanged at 3.5%. But experts expect an increase in the rate by March.

\$1 = ¥119.57

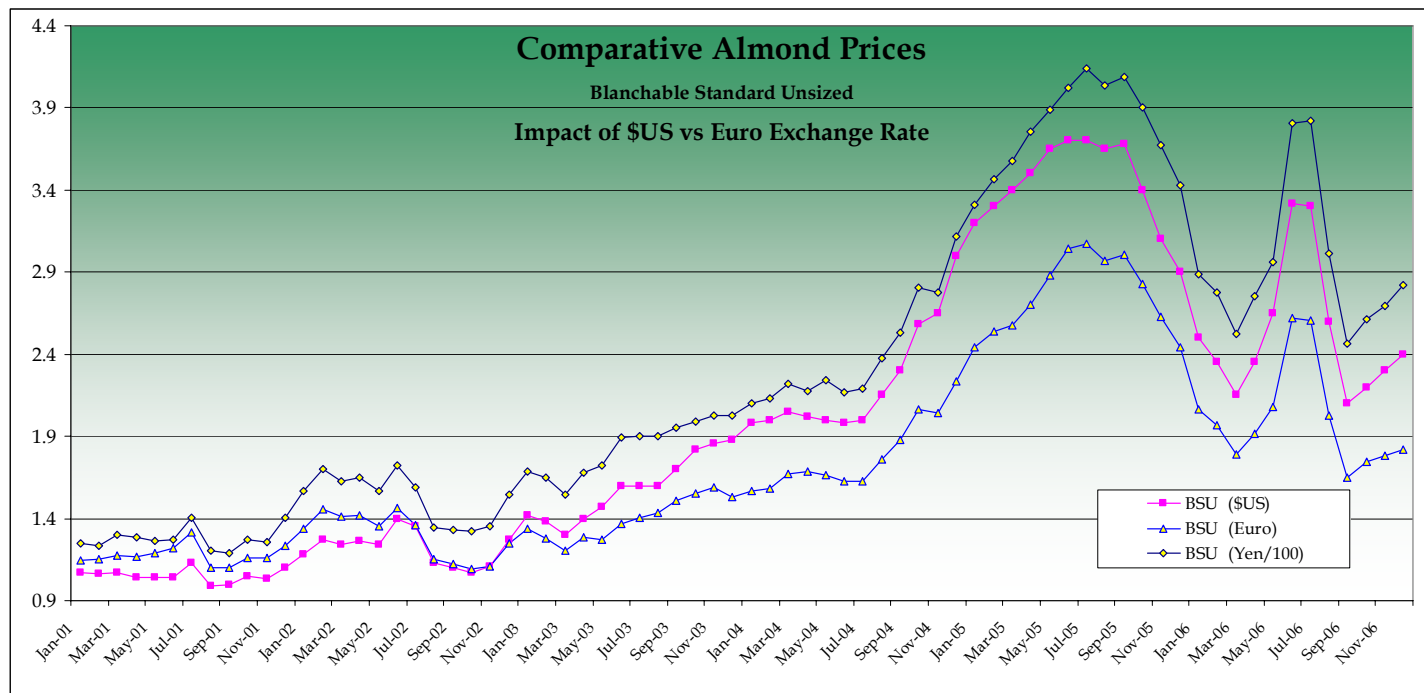
\$1 = £0.517

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Below are the prices of almonds updated through December that include the effects of currency.



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Conclusion

These shipment figures are impressive, no matter what your perspective. As a good friend put it this morning, the remainder of this crop is likely to be “allocated” not “sold.” At least in the short term, this is most probably going to be the growers’ mentality. With only about 30% of the crop left to sell and seven months remaining in this season, it seems that achieving a 120 million pound carry-out is not going to be difficult.

This is not to say that price does not matter. Price always matters. But the bigger challenges in the short term may come from tangential sources – with issues like aflatoxin potentially affecting the liquidity of the market. As many of you have heard by now, the EU Food & Veterinary Office (FVO) concluded a visit to the USA in September. The report that they issued could have significant impacts on California almond shipments to Europe. The FVO report calls into question the efficacy and subsequent validity of the existing US protocol regarding aflatoxin testing. By next week, we may know whether or not all shipments to Europe are going to be subject to inspection. If some of you are interested to learn more about this issue and have not received our report from earlier this week, please let us know.

It is often difficult for people who have been part of an industry for many years to acknowledge fundamental shifts within that industry. Sometimes you are too close to see a tree for a forest. But the impact of globalization, especially in regards to higher per capita incomes in many parts of the world, along with a growing desire to eat healthier foods, is being felt. These factors coupled with the virtually instantaneous transmission of information have catapulted almonds to a new status. It is becoming more and more apparent that global consumers have developed a taste for almonds. When competing nuts are not much cheaper (as is the case currently, with most nuts trading at very healthy levels), almonds are still favored as a nut of choice.

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The health impact of almonds is now well published and more good news about the heart-healthiness of almonds seems to be reaching consumers each day. The versatility of the nut in a wide array of cooking and confectionary applications, and the relatively clean and simple snacking options are helping push almonds and almond products to the forefront of consumers' awareness and to the top of their shopping lists.

It remains to be seen how quickly the California almond industry will be able to increase global demand in expectation of increasingly large crops in the immediate future. No matter the final outcome, hopefully the journey will be fun for all those of us who make a living working with almonds. As Alex Noble put it: "Success is not a place at which one arrives, but rather the spirit with which one undertakes and continues the journey."

Best Regards,
DERCO FOODS