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December 2007 Almond Position Report

December 2007 shipments were 94.535 million pounds. This is up about 0.4% from the December 2006 shipments of 94 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: (600 million pounds)

Less estimated carry out: (200 million pounds)

Estimated Remaining Supply: 620 million pounds

Shipments

Seller's Perspective: *(Say the following without tears in your eyes or a cracking voice. That worked for Hillary, but it's unlikely to work for you):* This is a very good number. It's a new record!! *(Pause, smile, show teeth.)* Shipments remain strong – up 14% over last year. It's difficult to ship more during a short holiday month where most facilities are closed for at least one if not two weeks. *(Look strong, chin up, and smile damn it, smile!)*

Buyer's Perspective: This new dizzying record and the current situation remind us of the Turkish saying: "Geuruken keuy ghulawooz istemez." "You do not need a guide to go to a village that you can see." And we certainly don't need a guide to show us where this market is headed, do we?

How happy you must be for essentially matching last year's shipment figure when you needed to be up by 10 - 15%. Last season between January – July 2007 California shipped a total of 540 million pounds or an average of 77 million pounds per month. If December is the beginning of a trend, and if January – July 2008 mirrors the 2007 numbers for the same period, then the final shipment total for the season at the end of July will be around 1.14 billion pounds. That would leave a carry-out in the 2008 season of 280 million pounds! We know, we know, bigger crops need proportionally bigger carry-outs. Seriously though, getting back to our bids.....

Receipts

Seller's Perspective: Receipts through December 31st are 1.314 billion pounds. During the past 5 seasons, we have received an average of 96% of the crop through the end of December. We are on target to hit or slightly exceed the CASS estimate of 1.33 billion pounds.

Buyer's Perspective: We agree.

Commitments

Seller's Perspective: Domestic commitments are up 34%. Domestic customers have locked in good prices and it is clear from the fact that 161 million pounds are committed for the US market that domestic shipments are going to stay strong. Export commitments are up 1%, which leads us to believe that there is a lot more buying to do and that buyers are just waiting for possibly lower prices.

Buyer's Perspective: Uncommitted inventory is up 44% over last year (about 154 million pounds more). Last we heard, some growers were clamoring to put some prompt sales on the books in order to generate some quick cash. It is unlikely that this new "record shipment figure" is going to put their minds at ease about the direction of this market. Not to worry – if they can't generate more January sales, just tell them to "hang tight" and "show solidarity." January is the beginning of a new year with new hope. Remember Goethe who said "In

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all things it is better to hope than to despair.” Keep your prices firm, the packer down the street will help you move those small Californias in the summer at a good price, we’re sure of it.

Domestic

Seller's Perspective: Domestic shipments remain respectable.

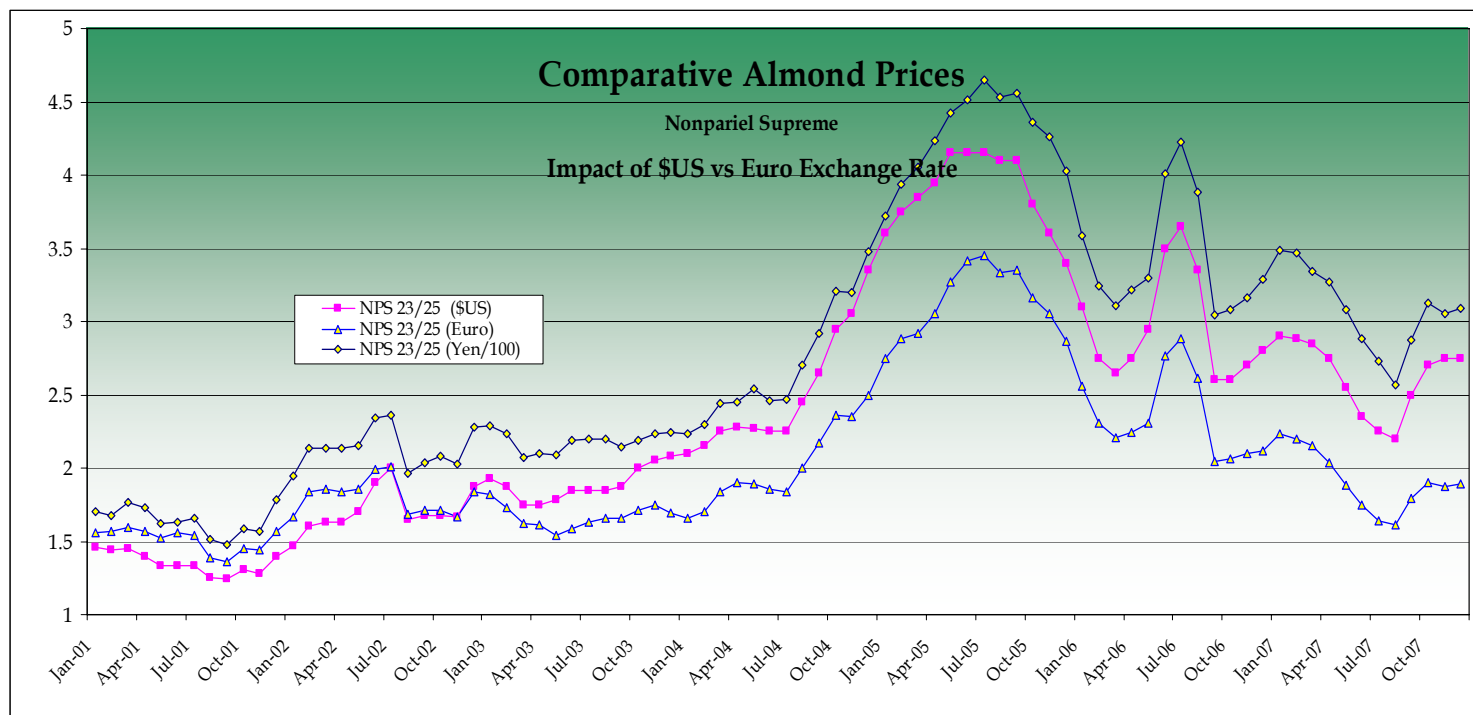
Buyer's Perspective: Certainly would agree if your definition of respectable means “the 4th highest total in the past 6 years.” But “respectable” doesn’t get you any Hummers (it’s a capital H....we mean the car, the car...no need to consult your urban dictionary).

Export

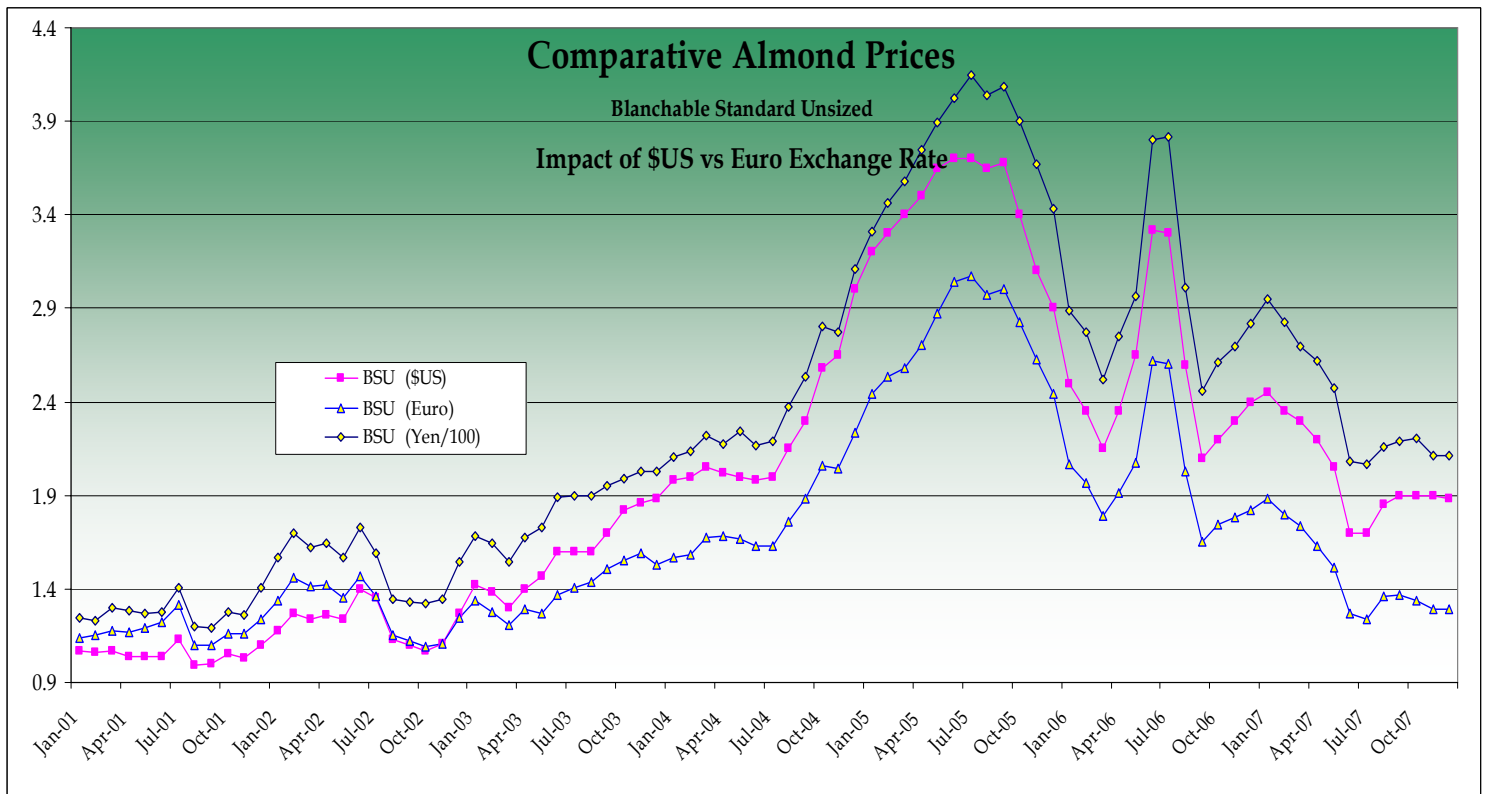
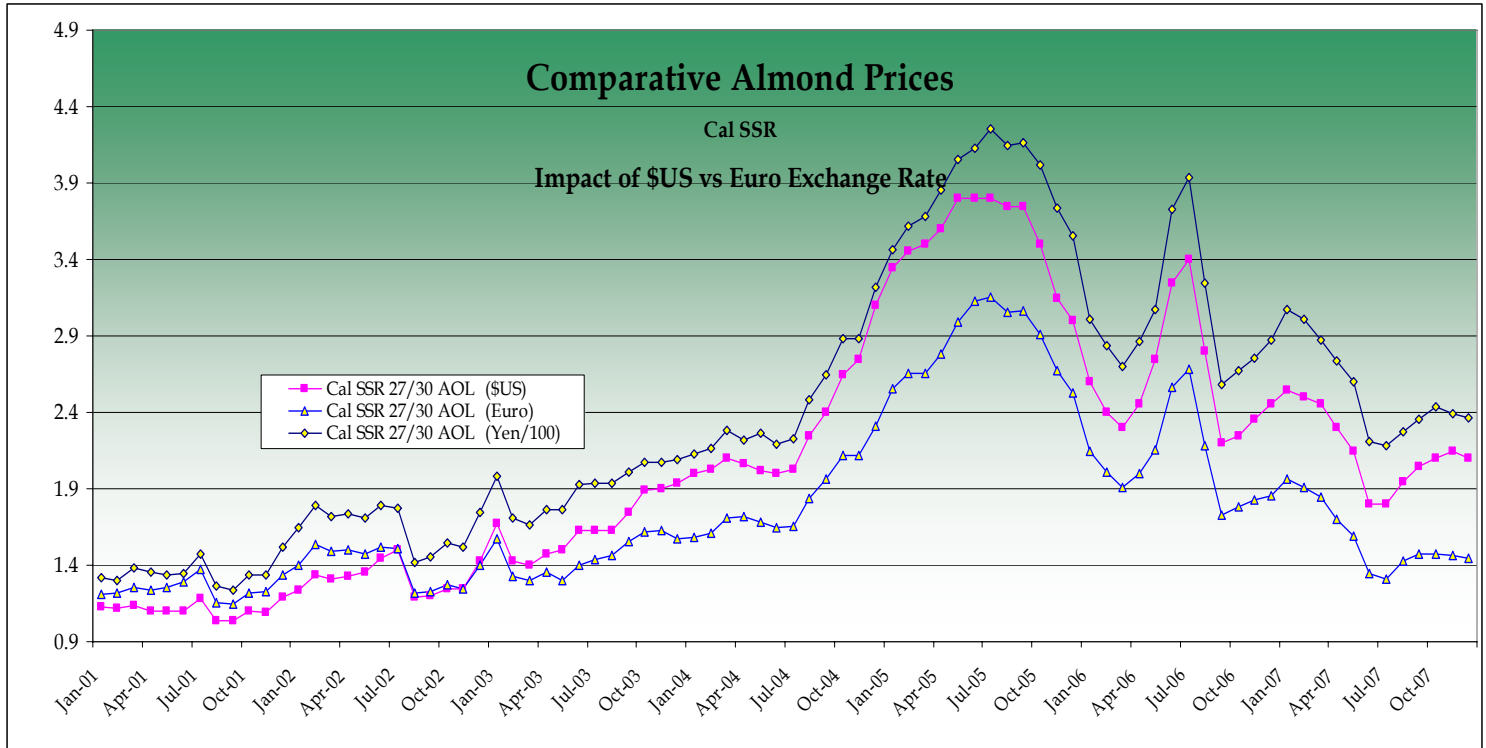
Seller's Perspective: A new export record at 70.5 million pounds shipped in December. This surpasses the previous record of 66 million pounds set in December 2003. Exports are up 9% over last December. Exports to Western Europe are up 19%; Eastern Europe up 20%; Middle East up 54%; Asia up 15%. This is continued proof that global demand is strong and that current levels are attractive to buyers around the world.

Buyer's Perspective: Export numbers were solid. Buyers are covered for the time being and are more than happy to watch the bloom right along with California. This is the traditional time of year where we wait to see who blinks first and engage in some mental sparring (though we find it unfair at times to engage in a battle of wits with some who are unarmed!).

Currency & Prices



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Conclusion

This was a somewhat disappointing figure for California. Excuses will be made for the number, but this season's price increases have been based on increased demand and the belief that this increased demand would be sustainable and translate into record shipments all season. Granted, a record was set in December, but it was not the kind of record for which the people in California were hoping.

Last season (August 2006 – July 2007) we shipped 1.066 billion pounds. The total availability (carry-in and new crop) in 2006 was 1.2 billion pounds. So as a percentage, 89% of the crop was shipped. This season the total availability is going to be around 1.42 billion pounds. As mentioned earlier in this report, if the remaining shipments in the 2007 season stay on the 2006 season pace, we will ship a total of 1.14 billion pounds or 80% of the availability. This will result in 280 million pounds carried out to the 2008 season. Assuming a crop next year that is the same size as this year's crop (for argument's sake let's offset new bearing acreage against tired trees, old orchards that are removed, lack of water, etc.), there will be a total supply of 1.57 billion pounds. That's a lot of nuts.

With that said, it is important to note that we are still 14% ahead of last year's shipment totals and December was a record month after all. This is certainly not an indication of an ominous trend. The key will depend on grower and packer resolve. Will growers and packers hold the line or get anxious and want to be the first and fastest out of the gate? If they fundamentally believe that almonds are attractively priced at these levels and that discounting will not stimulate sales, they should hold prices. Look at the price charts above for the full effect of currency. Do you think much more BSU5% will be sold to Europe at \$1.65 per pound than at \$1.85 per pound, especially when there are no real prospects for the US Dollar strengthening anytime soon? The individual grower and packer answers to this question will frame their selling strategy.

From the information we have received, it seems that many parts of the world have considerably more buying to do. One of the big factors that will determine the pricing direction for the coming weeks is how many growers need to generate prompt cash, and how much tonnage those growers control. Those who do decide to sell a lot now will rationalize that after all, these are still great prices for a crop this size...and they would be right. Those who can afford to wait will likely do so, watching January shipments and bloom before crafting their strategy for the remainder of the season. "After all," they will argue, "there are still 7 months left in this season and we are not interested in anticipatory discounting; we are still on pace to move this crop." Again, they would be right, for now.

A lot of what happens in the future is self-fulfilling prophecy. If California growers wake up tomorrow and decide that this market is going to fall, it will. We can make educated guesses about what will happen in the future, but guesses in the long run are ultimately all that they are.

As the famous economist John Kenneth Galbraith said: "The only function of economic forecasting is to make astrology look respectable." Same goes for trying to forecast the almond market, even though we all do it (and some think they do it better than everyone else).

Best Regards,
DERCO FOODS