

January Almond Position Report

January 2010 shipments are 122 million pounds. This is up about 32% from the January 2009 shipments of 92.6 million pounds.

Analysis

Carry-in from the 2008 crop year:	413 million pounds
Estimated 2009 Crop Receipts:	1.36 billion pounds
Less 3% loss / exempt:	(40 million pounds)
Total available supply:	1.735 billion pounds
Less shipments to date:	841 million pounds
Remaining supply:	894 million pounds

Shipments

Seller's Perspective: Another massive shipment record month....and some fellow sellers think that prices should come down? Really? Maybe the following facts will give some of the "my phone has not rang this week so I need to drop prices by \$0.10 per pound" friends some comfort and courage:

- Shipments this January compared to last are up 32% (and January 2009 was the second biggest January ever).
- Shipments season-to-date are up 20% compared to last year.
- We have 523 million pounds of uncommitted inventory remaining, 22% less than last year at this time.
- Taking out a 200 million pound carry-out, that leaves 323 million pounds – or 54 million pounds per month between now and the new crop in September for new sales.
- Not considering the carry-out (assuming every pound of almonds can be sold), we are 70% sold as an industry. Taking a 200 million pound carry-out into consideration, we are 81% sold with 6 months left to go. Not bad.

Buyer's Perspective: OK – good shipment month. But where's the worry? February shipments will be flat at best. We know your phones have not been ringing with new orders. So taking your numbers above:

- You can still ship 115 million pounds per month and maintain this magical 200 million pound carry-out.
- You've averaged 83 million pounds a month for the February – July period since 2003.
- Why exactly do you think prices are going to go up?

Seller's Rebuttal: If looking at the past 6 years mattered, you would be right. Sadly, that is not the benchmark. Instead, note that last season the average shipment number between February and July was 115 million pounds a month. If we stay on pace to ship 20% more, this would mean that our carry-out would be 66 million pounds. This will not and cannot happen. Prices are going up.

Receipts

Seller's Perspective: Receipts are 1.362 billion pounds, confirming the accuracy of the CASS estimate (within 1% of actual) and amazingly, our unjustified optimism in giving a subjective estimate last May of 1.45 billion pounds. Maybe if we had been more accurate, standards would not have dropped to \$0.90 per pound? Ahhh, hindsight.

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Buyer's Perspective: This was the 9th year in a row that the objective estimate was more accurate than the subjective. You stopped the Almond Huller's and Processors' Association's (AHPA) estimates from being published, so why do you maintain the subjective estimate in May?

Domestic

Seller's Perspective: 34 million pounds of beautiful American almonds sold to beautiful American people. A new beautiful record breaking the previous one of 29 million pounds set during the 2007 season.

Buyer's Perspective: Beautiful indeed.

Export

Seller's Perspective: 88 million pounds of beautiful American almonds sold to "almost as beautiful as American" people overseas.¹ A new beautiful record.

Buyer's Perspective: You are much too gracious, beautiful Americans.

Currency

If you're not into dead crosses and golden crosses, skip this section. Otherwise, you should note that on Tuesday, February 9th, the Euro's 50-day moving average (\$1.4324) dropped below its 200-day moving average (\$1.4351), creating a dead-cross pattern.² Armageddon is near! Judgment Day is upon us! No, not quite. It just means that if you're a currency trader, you're likely going to feel bearish about the Euro and thus short it. In fact, the net shorts on the Euro on February 2nd were 43,741....the most since the Euro's debut in 1999. A lot of this negativity is being driven by the concern of "sovereign credit risk" which is an elegant way of saying that most people think that Spain, Portugal and especially Greece are headed into the tank because of their budget shortfalls.³ Well, for all those Spaniards, Portuguese and Greeks....we officially welcome you to life in California! Unlike the French and the Germans, we take care of our bankrupt brothers and sisters here!

Bloom

Bloom weather and new crop size speculation will fill the air for the next 2 months. "El Nino." "La Nina." "Las Mujeres de Luis Miguel"....never mind, that's not a weather pattern.

Mark Twain said it best: "Everyone is always complaining about the weather, but no one ever does anything about it."

¹ No offense to all non-Americans, but it's understood and accepted (at least in the Mid West and in the Mid West of California...also known as the San Joaquin Valley) that this is the best country in the world and by definition, the people who live in the best country of the world are also the most beautiful. Iceland may win the superficial, "facial-symmetry-by-computer-imaging" beauty contests, but they didn't even have the cash to prop up their failed banks.....please....go catch a fish, Iceland. Bail out! Bail out! USA! USA! Beautiful! Beautiful!

² If you are like me, then maybe you thought that the "dead cross" was a video game or had something to do with a satanic cult. But a "dead cross" refers to the phenomenon that occurs when the short term moving average of a currency breaks downward below the curve of the longer term moving average, indicating the end of the up trend (and the start of the down trend). Conversely, a "golden cross" emerges when the short term moving average breaks upward beyond the curve of the longer term moving average, indicating the end of a down trend. By the way, I like white cake with coconut frosting.....oh...just wanted to see if you're still reading and/or awake.

³ Greece's economy makes up 2.7% of the EU's \$13 trillion economy. Their budget deficit in 2009 was 12.7% of GDP – more than four times the EU limit. Help Greece balance it's budget. Go rent [Shirley Valentine](#) on DVD and let it inspire you to move to Greece and open a Taverna. Great weather, great people, lots of strikes (days off) and terrific food. No downside. Tell a friend but move quickly, Jean-Claude Trichet does not have much time.

For the next week, the weather forecasts we have seen indicate that it will be dry and mostly in the 65°F (18°C) range. There is a greater chance of rain for the week of February 22nd. Most forecasters are predicting a continuing El Nino pattern through the spring, with higher than normal levels of rain. How this will impact bloom remains to be seen. Let's all remember that California now has a growing area of over 800,000 acres. That's 1,250 square miles or 3,237 square kilometers (20 times the size of Liechtenstein). There will be some almonds next year for sure. If the weather is not so good, it will be 1.35 billion pounds and if the weather is very good, it could be 1.80 billion pounds.⁴

Prices

The price of other nuts from the US are certainly continuing to provide a nice umbrella for California almonds, and helping to minimize the impact of the very big price jump we have seen from the market lows during May – July 2009.

Pistachios, if available, are over \$4.00 per pound for raw 21/25. Walnut halves are over \$4.50 per pound. Pecan halves are over \$5.00 per pound. So the biggest sizes of Nonpareil Extra #1 at over \$3.00 per pound do not seem so offensive. Almonds are the still the best value around.

Conclusion

The average price of all the almond sales Derco concluded between August and December 2009 was \$1.89 per pound.⁵ The average price of all our concluded and forward sales between January and July 2010 is \$2.50 per pound. To use the double-negative structure that my English teacher, Sister Barbara, abhorred when I was in school....That's not an insignificant difference.

Anyone who bought almonds during the past 6 months bought right. Many people are now taking their profits, by liquidating their positions in some cases below the cost of replacement from origin. Some people are still long but many are also short – having been caught off-guard by the strength of the November – January shipments and the ensuing price spikes.

The Chinese government is once again forcing banks to reduce lending (second announcement by China within a month). Chinese leaders want to avoid speculative investment bubbles and are trying to contain fast growth. Will this have an impact on almond imports? How will Chinese New Year sales go? With imports to China/Hong Kong up 103% compared to last season and Vietnam up another 548%....the Chinese have a lot of almonds to consume.

With that said, China was a reseller during the past month. Some Hong Kong companies were offering inshell and shelled almonds at \$0.05 - \$0.20 per pound below California prices. India purchased quite a bit of inshell almonds from China. India also bought almonds from Australia (reports vary between 2,000 – 3,000 tons of inshell), though Australian prices have been equal to or higher than California prices and Australian sources

⁴ 1.6 billion sounds like a good, factually unsupported number and that's what we're going to assume until the May subjective comes out. You heard it here first. We're not placing any bets on our number. So if you want to come and visit with us while you're in California, you are the most welcome. But don't ask for our opinion on the bloom – it's 1.6 billion pounds. Just come and enjoy the espresso, stress free, since you already know the crop size.

⁵ We are not suffering from any delusions of grandeur. We realize that our sales are only *our* sales and nothing more. However, we ship to enough markets and handle a wide enough variety & grade of almonds that we think these figures are not entirely devoid of statistical substance. It may not be the Holy Grail, but it's not a Nuby Gripper Sippy Cup, either.

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remain bullish on the market. Nevertheless, shipments of California almonds to India are still down 11% season-to-date.

Where do we go from here?

Huge number this month to be sure. Sellers who are comfortable with their remaining inventory will go quiet for a while. This is the most effective way to raise prices. Others who need to move product could use this as an umbrella and sell what they can for prompt shipments, maybe still at discounts compared to the market in general.

Buyers are going to come back and claim that they still have inventory, and they may take solace in the fact that there are enough almonds to sell – at least theoretically - to continue to maintain this pace of 20% shipment increases over last year. That is likely to be a short-lived fiction.

Our expectations are that February will be an uninspiring shipment month. The January price jump took the air out of demand for February. Buyers decided to sell what they have first, then restock their inventories. If we are going to see a period of weakness the remainder of this season, it is likely to happen in the next 60 days. Europe is cleaning out stocks and picking up spot and afloat goods. Dubai has enough inventory for now, having bought heavily between November and January (shipments in January to Dubai are up 55% over last year). However, the Middle East has not bought forward and will need to replenish well before Ramadan. Likewise, despite some protestations to the contrary, Europe needs cover at least May forward, if not April forward...and there is less BSU5% material to sell this year.

In the longer term for this season, our expectation is that the market will stay firm. There simply is not enough grower pressure for any large scale panic selling. The industry leaders will remain steadfast. The fundamentals would support patience on the selling side. Everyone will be watching bloom, which will definitely impact new crop prices. But how much impact will it have on this season's prices, with the industry so comfortably sold and with half the season still to go?

Despite all the above, we will be the first to say that in the longer term, good things don't happen when almond prices get above \$3.00 per pound. There is not much science behind this statement.⁶ But there is a lot of spilled blood. We are stocking up on O+. You should do the same.

"Idealism is what precedes experience. Cynicism is what follows." David Wolf.

Best regards,
DERCO FOODS

⁶ NPS has been over \$3.00 per pound in 2 distinct time periods during the past twenty years. The first was sporadically between August 1995 – July 1996. This was followed by a massive correction of over \$0.60 per pound in one month. The second was the extended bullish period we had between November 2004 – January 2006. That was followed by another massive correction. We had the joy of holding accounts receivables during both those periods. It is the kind of joy that is best not relived – like the day you brought home your new 1976 Chevrolet Nova.