

**January 2012 Almond Position Report**

January 2012 shipments are 153 million pounds. This is up 28% from the January 2011 shipments of 119 million pounds.

**Analysis**

Carry-in from the 2010 crop:	254 million pounds
2011 crop estimate:	1.95 billion pounds
Less 3% loss / exempt:	58 million pounds
Less Shipments to date:	1.021 billion pounds
Less Commitments to date:	441 million pounds
Remaining Unsold Supply:	685 million pounds

**Shipments**

Seller's Perspective: Incredible!

Buyer's Perspective: Incroyable! Nányǐ Zhixin! Lahyousahddikou! Avisvasaniya! Mid-eul su! Unglaublich! Neveroyatnyǐ! Increíble! Inanilmaz! Anhavatali! Ongelooflik! Apístefti! Incredibile! Shinjirarenai! Niewiarygodny!

**Domestic**

Seller's Perspective: New record – up 2.5% at 38 million pounds.

Buyer's Perspective: The domestic market remains a backbone to this industry. Bravo American consumer!

**Export**

Seller's Perspective: New record – up nearly 40% at 115.66 million pounds. Shattering the previous record set in January 2010 of 88 million pounds. China was the reason. Up 548%. China took 21.4 million more pounds this January compared to January 2011. This represents 70% of the overall monthly shipment increase.

Other markets did OK for the month of January, but seem poised to take more tonnage in the coming months, especially India (down 12%) and the United Arab Emirates (down 30%). Western Europe had a good showing for the month (Germany up 40%; Netherlands up 24%; Italy up 6%). Spain was up only 1%. Year to date, Western Europe is up 3% and Europe as a whole is up 5%.

Buyer's Perspective: Nothing to add.

**Committed Inventory**

Seller's Perspective: Domestic commitments up 14%; export commitments up 46%; total commitments up 28%.

Buyer's Perspective: Impressive and admittedly an indication that February will be another strong shipment month. Of course we know that, because we are the ones doing the buying.

**Rain**

.....California is not getting any this winter. Statewide snow pack is under 40% of normal. This is bad news for everyone who lives in California. Fortunately, last winter was a very good one and reservoirs were filled after the drought years of 2007 – 2010. Though the industry will be quick to magnify the severity of this season's drought, experts seem to agree that this will become a really serious problem for the 2013 season, if next winter is equally dry. This year many seem to think that there will be enough water to irrigate orchards, though government water allocations will decrease compared to last year. <sup>1</sup>

**Bloom & New Crop Outlook**

Bloom is just starting, with some Neplus in early stages. Growers already know the 2012 crop will be short. Buyers already know that it will be at least as good as last year. As usual, during the next few months buyers and sellers will engage in (mostly) good-natured sparring. The advantage at this time is clearly in California's hands. January shipments were great. February shipments will be at least "very good." There has not been much rain. Consequently, there are not many points, other than the weakness of the global economy, that buyers can make to argue for lower pricing.

We have not yet met one grower in California who thinks that the 2012 Nonpareil crop can be as good as it was in 2011. This of course can mean one of several things: (1) we don't know many growers in California; (2) California growers are not particularly good at predicting a specific variety's production potential 6 months prior to the earliest harvest; (3) the 2012 crop will be smaller than the 2011 crop. For now most people are putting their money on #3, and this, in part, explains the price increases we have seen during the past month. With Nonpareil making up about 40% of the total crop, the importance of this variety going through an "off" season cannot be underestimated.

**Here is a reasonable supply / demand scenario moving forward:**

Total availability for 2011 season:	2.145 billion pounds
Projected total shipments for 2011 season:	1.85 billion pounds
Carry-out into 2012 season:	295 million pounds
Projected crop in 2012 season:	1.90 billion pounds
Projected total availability in 2012 season:	2.195 billion pounds

From a California perspective, very similar numbers to last year and not much to worry about. From a buyer's perspective, numbers that are unlikely to create massive price increases. There are still a lot of almonds to buy and sell. We advise moderation in the price increases (which are inevitably) to come. Those who are new in the business may not remember what a \$1 per pound correction in 90 days feels like. Trust us, it doesn't

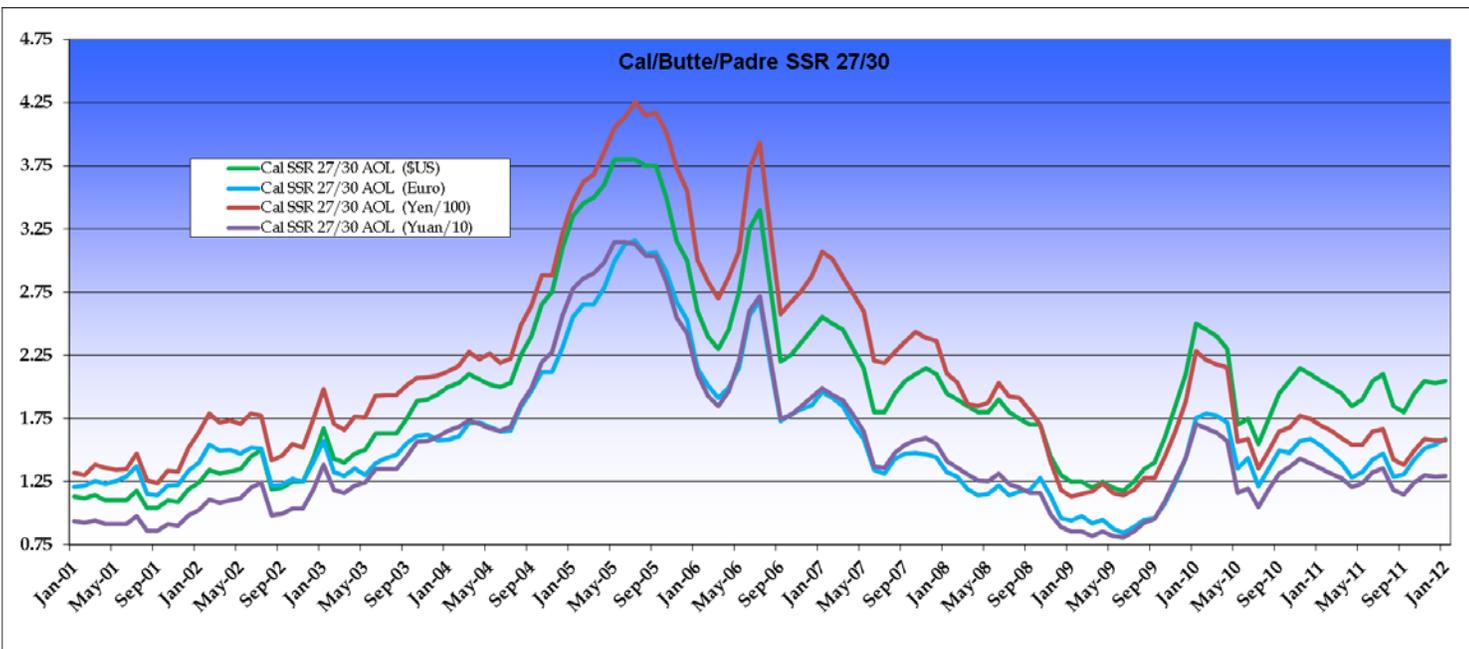
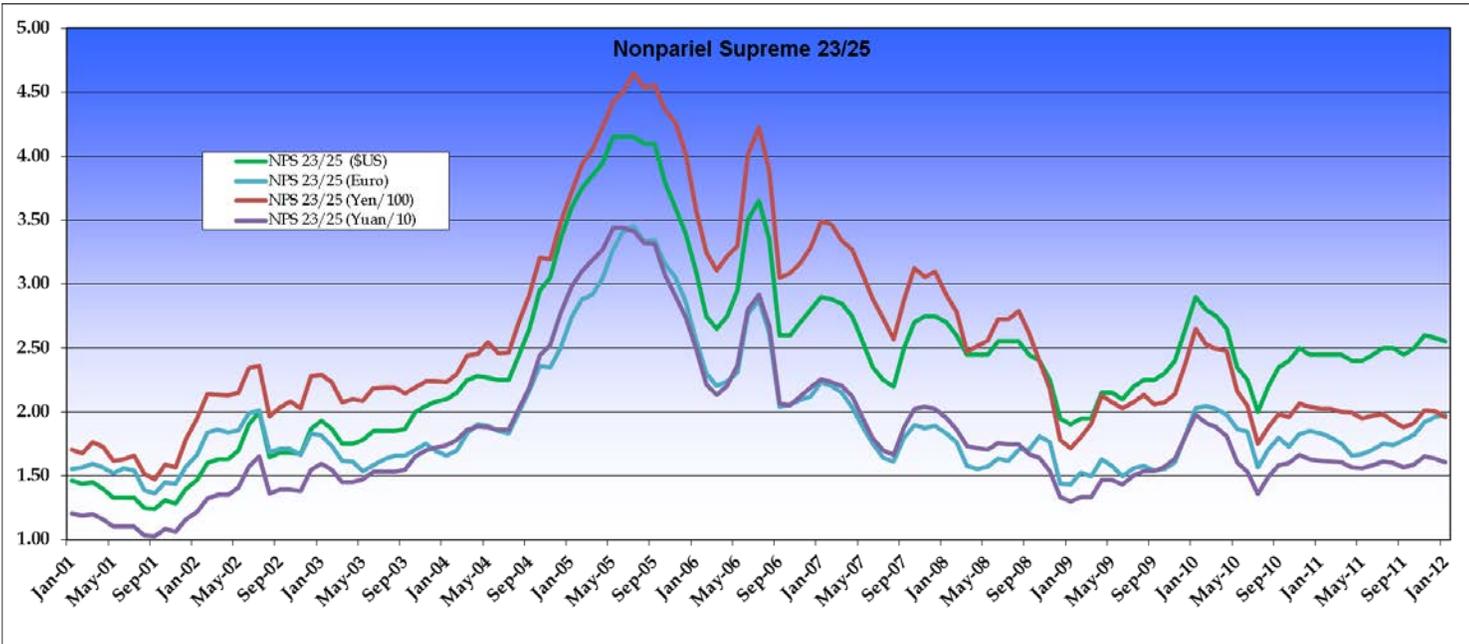
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<sup>1</sup>Drinking water for 25 million people and irrigating 1 million acres of farmland aside, the real travesty is that the skiing season in California has been devastated. And no one can bring that back. Do people realize how much a new pair of Carradan skis and Apex boots cost? And all that money spent so they can just hang in a closet? Where are our priorities, people?

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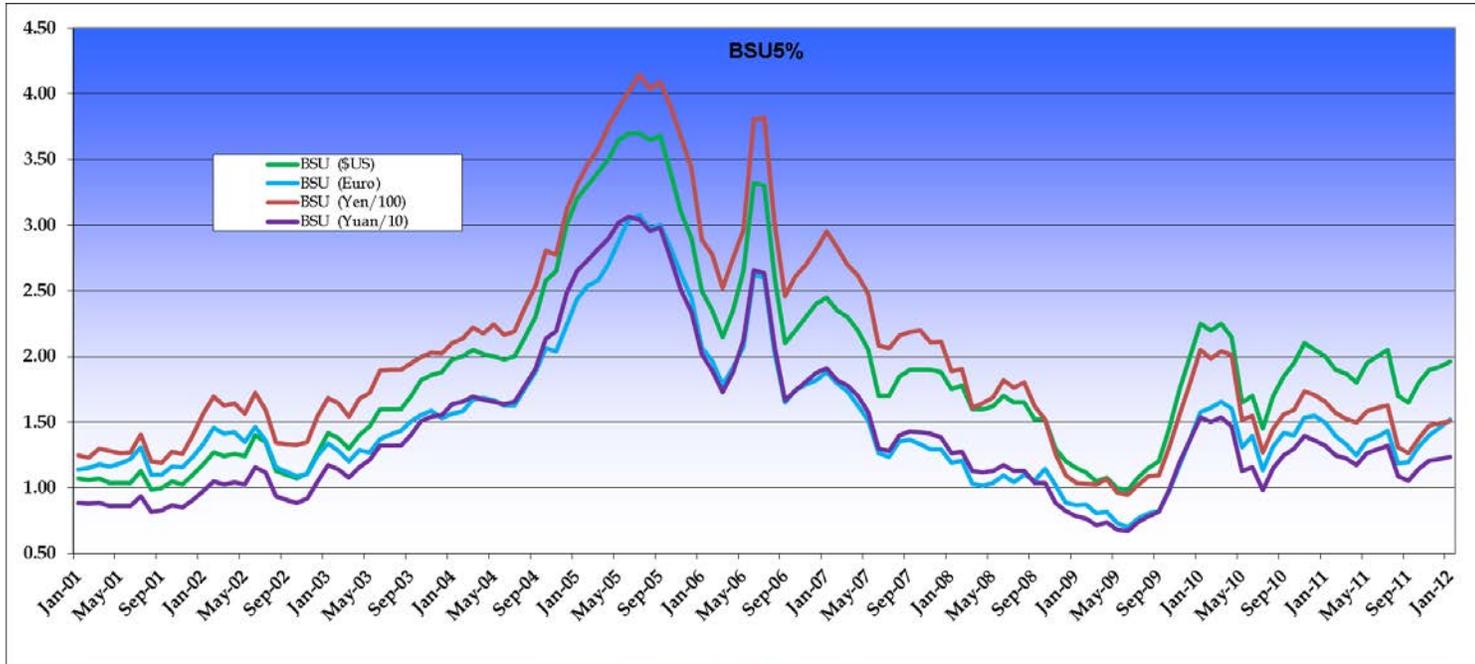
feel good. Allowing customers to make money down the chain in their respective markets is the surest way to keep demand (and your receivables)<sup>2</sup> healthy.

### Prices



<sup>2</sup> By "your" in this context we really mean "our."

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## Conclusion

The almond market is putting up these impressive shipment numbers and seeing an increase in prices despite a difficult global economic environment. “It takes a licking and keeps on ticking” should have been the almond industry’s slogan, not Timex’s.

Iran’s currency, the Rial, witnessed massive depreciation during the past several months. Historically, the Rial has hovered around 9,000 IRR to 1 USD. By the end of January, the Rial had dropped to 24,000 IRR to 1 USD. This was due to a convergence of factors: threats to close the Strait of Hormuz; the progression of the Iranian nuclear program; and the resulting US / European sanctions. There are virtually no US Dollars left in Iran. Hardship of the Iranian people aside...let’s talk about what really matters - Iranian importers are unable to get US Dollars to pay for their almond imports from Dubai and this is inconvenient for the cash flow of many exporters in California.....or so they tell me.....This is one reason why shipments to Dubai are down 30% in January 2012 compared to January 2011.<sup>3</sup>

Iran is not the only trouble spot. The US is crawling out of recession and is in the midst of a bitter Republican nomination campaign where our choices are a handsome waffler, a converted womanizer who wants to colonize outer space, a guy who thinks Jesse Helms was too liberal, and a guy who wants to abolish the Federal Reserve. Syria is melting down right under the watchful eye of China, Russia and the USA.

<sup>3</sup> More cynical people may mention that the Ahmadinejad regime has withdrawn a lot of hard currency to help its party control the upcoming parliamentary elections...but we are not those kinds of cynics. He may not own a razor or a tie, but “GQ” Mahmoud is the reason for the season...he puts the “ruse” in Nowruz.

Greece has already melted faster than a flaming Saganaki...though the latest news from Greece that a package of austerity reforms has been agreed upon is relatively encouraging. The Spanish economy is a mess, with over 22% unemployment. People continue to question the viability of the Euro. China is facing food inflation and increasingly difficult domestic economic, political and ethnic challenges. But not all hope is lost. Costa Rica is doing great....and you know what they say...."as goes the Costa Rican economy, so go the fortunes of the world..."<sup>4</sup>

So amidst this turmoil, how is the almond market doing so well? The reasons discussed in the past continue to be validated:

- Other nuts are much more expensive. This factor has served as a great "umbrella" for almonds.
- The global middle class (relative terms) is increasing. More people are eating healthy and more people are indulging in quality foods. Look no further than the key emerging markets of China and India for proof.
- California almond production holds a dominant global position. With more than 80% of all almonds grown in California, the leverage in California's hands is considerable.
- We are now seeing a multi-polar world in regards to almond demand. In addition to steadily growing domestic demand, California has developed multiple export outlets that all take significant tonnage. These added outlets have given California sellers the luxury of being more confident and more patient marketers. This, in turn, has directly contributed to the clout that they now wield in global nut markets.

We have seen this phenomenon from the start of the season...During the late spring and summer of 2011, there was little inshell left in the market. Indian and Chinese customers who needed to replenish their stocks booked all the remaining current crop at a premium, and then also bought a good portion of the early inshell shipments. This helped prices to firm during the crop transition period of August – September. Then the Chinese kernel market erupted. Next came another wave of buying from India and the Middle East. During this time, Europe was maintaining a steady "hand-to-mouth" shipment pace. Shortly after the start of 2012, it became clear that California was not going to drop prices and European buyers came in all at once looking for industrial material. In just the past few weeks, BSU5% went from \$1.85 per pound to over \$2.05 per pound. And most recently, the scale of demand from China (post- Chinese New Year), and renewed buying from Dubai, pushed up the prices of the higher grades, though less dramatically.

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<sup>4</sup> Pura Vida!!

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Current market conditions will take a lot of pressure off sellers in the coming few months and help prevent the “spring panic” that some California growers have been prone to experience in recent years. Most processors are well sold and will be inclined to hold the markets stable to firm through the summer. In the meantime, most markets have more buying to do – but with today’s massive shipment number to China (25.3 million pounds), how much more will go to that destination in the short term has now become a wildcard. And when China is a wildcard, everything becomes a wildcard.

“If I had no sense of humor, I would long ago have committed suicide.” Mahatma Gandhi (1869 – 1948).

Best Regards,  
**DERCO FOODS**

**For those of you going to Dubai for Gulfood, we look forward to visiting with you there.**

