

February 2011 Almond Position Report¹

February 2011 shipments are 115.681 million pounds. This is essentially the same as the February 2010 shipments of 115.502 million pounds.

Analysis

Carry-in from the 2009 crop:	321 million pounds
Estimate for 2010 crop:	1.65 billion pounds
Less 3% loss / exempt:	49 million pounds
Less Shipments to date:	1.035 billion pounds
Remaining supply:	847 million pounds

Bloom

Seller's Perspective: Rainy days, up. Windy days, up. Sunny days, down. Bee flight hours, down. It was 26 degrees in some places. We heard it was 24 degrees somewhere. Not sure where, but somewhere. There was snow reported in the Twin Peaks area of San Francisco....do you know how many almond trees there are in the Twin Peaks area of San Francisco? Probably at least a few. Perfect weather to set the perfect crop – no longer possible. True, we don't know what these temperatures do at undetermined durations and in undetermined locations to almond blossoms, but it can't be good. We saw photos of brown blossoms. They were dead; and there were at least 4 blossoms in the photo. The crop will be 1.55 billion pounds if we're lucky. We've already contacted our crop insurance carriers. Now we're looking for Al Gore, so we can kick his globally-warmed ass.

Buyer's Perspective: 760,000 bearing acres. Densely planted young orchards. Productive 3rd leaf trees. Bullshit about bee flight hours, snow and blossom fairies. Oh, and by the way, we would like all sellers to go back and re-read the e-mails they sent out after NASS came out with the 1.65 billion objective estimate in July. With all due respect to California almond growers, you don't know jack about bloom or forecasting a crop. Stick to panicking when we don't buy almonds for 2 weeks. That's what you do best. The 2011 crop will be 1.7 billion pounds. You heard it here first.

Shipments & Receipts

Seller's Perspective: Receipts are now over 1.6 billion pounds, with many in agreement that it will come very close to 1.65 billion pounds. We didn't see this 1.6 billion + pound crop coming.

Buyer's Perspective: Wait, wait....let's see if that qualifies as the understatement of the decade. PLEASE PEOPLE....Regardless of whether or not you saw it, you sold us on the fact that it was 1.55 billion on the high side. Good for you. Not this year.

Domestic

Seller's Perspective: A very strong number at 32 million pounds. The third highest February ever.

Buyer's Perspective: "Very strong" and "third highest"....nice. This is not the Boy Scouts' Pinewood Derby trophy presentation. It's the first month in the last 11 that's not a record. It's ok. You can say it.

¹ No, no, no....don't even start with the Brett Favre comparisons. And certainly don't be waiting for any text message photos. There is just too much info swirling around the bloom and we thought that a Fair & Balanced perspective would be fun to see. Speaking of Fair & Balanced, if anyone has Megyn Kelly's telephone number, drop us a line.

Export

Seller's Perspective: A new export record at 83 million pounds, breaking the record set last February of 81 million pounds. A note of thanks to China – importing 277% more almonds compared to last February – with inshell shipments up from 1.2 million to 7.4 million pounds, and shelled shipments up from 2.1 million to 5 million pounds. We never thought that we could love a Communist landlord so much. Don't tell Charlie Daniels, but what this world needs is not a few more rednecks, but a few more middle class Chinese.²

Buyer's Perspective: China indeed saved the day. Don't look to Europe, which is down 10% for the month of February and down 9% for the season so far. If European sentiment was the sole barometer, California would be paying to have the privilege of sending it's almonds to Felixstowe, Hamburg & Le Havre. The Middle East is up 20% for the season, but down 48% for the month of February.....Seems that political upheaval, social unrest and shooting your own citizens is not conducive to the increased consumption of almonds. Who would have thought?

Conclusion

We get worried about blanket bloom statements when they are followed by “my orchards didn't see those really low temperatures, but I heard Bill's across the way there did.” We have a world of respect for California farmers and the incredible job that they do producing California's almonds. Without them, we would not have a business to run or a report to write (once in a while). When it comes to growing things, no one is better. But when it comes to mentality and psychology, a grower in California is the same as a grower anywhere else in the world. The product he grows is the best in the world and it is always underpriced. Buyers everywhere don't want to pay “what the product is worth.” We think that this means covering the cost of production and financing a comfortable lifestyle. Because alternatively, and in the realm of street economics, the worth of something is determined by what someone else is willing to pay for it. Growers in California and everywhere else don't want to sell in a rising market because they may leave a nickel on the table. That would be fine if they had the unity and fortitude to hold the line and call buyers' bluffs when the market slowed down. But they don't. They want to be the first to sell when the market takes a downturn.³ Welcome to the world of Call Pool, where every grower thinks he's Warren Buffett, and every processor has to “see if my growers are in the mood to sell.”

We comment on all this because bloom drama never ceases to amaze. It takes place every season, and the knowledgeable and the ignorant alike share their opinions and photos via mass mailings and alerts. The bottom line: we have averaged 1977 pounds per acre since the 2002 season. This past season is going to either result in over 2,200 pounds per acre, or an under-reporting of bearing acreage. Irrespective of which it is, we now know that the final 2010 crop size is going to be very close to the 1.65 billion pounds that 95% of California growers said would not happen. For the coming season, it is fair to say that we will not have the perfect crop. The north of the state, which comprises roughly 15% of the total production, was affected by the rain and cold temperatures. This fact is hard to dispute. But last season was not a great bloom either, and look how things turned out. So 20,000 more net bearing acres and similar to slightly worse bloom conditions....and you get a 1.7 billion pound crop (barring a frost event during the next 2 months).

² [A few more rednecks](#); Charlie Daniels Band; [Simple Man](#). 1989.

³ We define “downturn” loosely here as: “A few days without much buying activity followed by a 40 ton paper trade, legitimized through a European broker making 1% on the deal who has an expansive e-mail address book, and publicized to the global almond industry by 9 am California time.” For most growers in California, this is enough to run for the hills....

Outlook Moving Forward

- China is going to continue to be a huge and increasing consumer of all nuts, especially inshell almonds. China will buy more between now and new crop and will be back with a vengeance to cover 2012 Chinese New Year needs.
- India needs more inshell Nonpareil for this season. Many of the larger Indian importers want to replenish their stocks, which are running low. Hong Kong does not have product to offer, and there are buyers in China now for any inventory still in Hong Kong. The Australian crop has not impressed Indian importers in either size or quality. It seems safe to say that there will be a lot more demand from India for California product between now and the new crop.
- European consumption seems to have truly fallen off. So Europe is doing what it does best: convincing California that it has too many almonds and that \$2.00 per pound for BSU5% is too high....but \$4.40 per pound for Chandler 40% halves is ok....! Remember, it's all about supply and demand. Of course California, after a couple of weeks of weather related bravado and being "withdrawn," is back to its old self. A few sunny days during bloom and....well, you know the drill. Bend ov....
- The Middle East remains the exciting spot. Between Tunisia, Egypt, Libya and Iran....no one knows what is going to happen next. The good news is that geographically illiterate American students now know (at a higher percentage than ever before) that Libya is not in South America. The bad news is that many Libyans wish it was. The market in Dubai still has some stocks, but other than a few well-publicized quasi-defaults, there is more to buy between now and Ramadan. Give the importers confidence that they will get their money out of Iranian buyers, and watch the orders come. Absent reassurances of political stability, it's going to be hand-to-mouth in that region...*right* hand to mouth, of course.

Long term, everyone who is in the almond industry is going to do well. We are all lucky to be in this business. As for the short term, California needs, at some point, to come to grips with the fact that next season's *demand* will be 1.65 billion pounds (if supply permits), and that a 350 million pound (or so) carry-out from a 1.65 billion pound crop is not something over which to freak out. Until that happens, we are all going to have a fun ride. After all, what would we do without mutual momentary lapses of reason?

"Retirement kills more people than hard work ever did." Malcolm S. Forbes.

Best regards,
DERCO FOODS