

March 2006 Almond Position Report

March 2006 shipments were 81.355 million pounds. This is up about 8% from the March 2005 shipments of 75.286 million pounds.

Carry-in from last year: 137.7 million pounds
Crop receipts to date: 909 million pounds
Less 4% loss / exempt: (36 million pounds)
Total Supply: 1.01 billion pounds
Less shipments to date: (623.6 million pounds)
Supply Remaining: 387 million pounds

Shipments and Commitments

Seller's Perspective: Not bad at all. Shipments are up 8% over last March, driven by exports, which are up about 15%. It looks like prices finally reached the levels to jump-start shipments. Committed shipments are up 3.5% from the same time last year and uncommitted inventory is only 6% higher than last year. Things are looking sunny again for California (no pun intended).

Buyer's Perspective: The frost panic you created earlier in the month did not hurt your prompt shipments, either. Domestic shipments are down 6% for the month and over 12% for the year. Export shipments, even after your good performance, are down by nearly 17% year to date. You are going to have to repeat this performance every month through the summer to catch up to last year.

Shipments year to date are down by more than 15%. Let's look at the following possible scenarios:

- If shipments for the rest of the season stay up 8%: total shipped - 890 million pounds; carry out - 120 million pounds
- If shipments for the rest of the season match last year's figures: total shipped - 870 million pounds; carry out - 140 million pounds
- If shipments remain down 15% (tracking the season's performance to date): total shipped - 833 million pounds; carry out - 177 million pounds

Please don't forget the "1 or 2" loads that you each have stuck "overseas" (that's code for "in Italy"). To reflect inventory figures more accurately, shouldn't you probably deduct a few of those shipments out of the export figures? Unless of course the object is to ship, but not actually sell, product.

Demand

Seller's Perspective: There is a lot of demand yet to come to market. The hand-to-mouth mentality that we have seen will quickly vanish if California sellers can set and hold a price floor. March was the first time in 14 months in which shipments were higher in comparison to the same period in the previous year. We have hit the price floor and turned the shipment corner. Uncommitted inventory is already at virtually the same level as last season (213 million pounds; up only 6% from last year despite net shipments being down by over 8%).

2670 West Shaw Lane, Fresno, California 93711 U.S.A.
 Telephone (559) 435-2664 • Fax (559) 435-8520 • www.dercofoods.com • e-mail: derco@dercofoods.com

Buyer's Perspective: No one will argue that there is no demand. The question is: how much demand and at what levels? There is still a lot of substantive information to come in the months ahead. Let's see how the 2006 crop develops, what the May and June estimates have in store, and what the carry-out will be heading into the new crop. Keep in mind that the 2006 crop is trading at a discount and that we do not want to be holding inventory going into August / September. We doubt that you will want to hold inventory either.

Lastly, which of the buyers have contributed to the rising market? Have they been end users or have they been importers and traders covering short positions? Most likely you've sold to the latter group, who are going to in turn pass this product along to the final user. Industrial buying participation during the most recent jumps in the market has been curiously limited.

Couple this information with the homeless product overseas and your committed shipment figure of 173.5 million pounds (3.5% higher than last year at this time) looks much less imposing. It will last longer than you think, with little incentive to buy current crop unless current/new crop levels equalize sooner than August.

Spain

Seller's Perspective: This past season Spain sold early, Spain sold a lot and Spain sold cheap. They will not do it again. They admittedly took some of the early shipment positions away from California, but in the process they helped to collapse the market at origin and ended up selling a lot of their crop much cheaper than they had to. This year, they will be more circumspect when selling and try to maximize their return. This is now the second good crop in a row that Spain will have and the exhilaration of last year - which was the first real crop in three years - has diminished. We expect Spain to take a sober marketing approach in the coming season.

Buyer's Perspective: This past season Spain sold early, Spain sold a lot and Spain sold cheap. They will do it again. The Spanish are expecting a good crop barring a late frost. They are also aware of the potential crop that California can have in 2007. If the 2006 crop turns out to be a good one (1 billion pounds or more), despite frost and seemingly endless rains, who will argue against a bad 2007 crop? What would have to happen, with more than 600,000 bearing acres in California, to create a bad enough crop in 2007 where prices would move up? How much would demand have to increase to create a manageable carryout? Spanish growers will not want to be holding much inventory past January of next year. They know that buyers around the world will be watching the 2007 crop – which could be massive – closely.

Export Markets

Seller's Perspective: Nice recovery, if we may say so.

	Aug 05 - Feb 06 v. Aug 04 - Feb 05	Aug 05 - Mar 06 v. Aug 04 - Mar 05	Net Gain / (Loss)
North America:	-16.5%	-12.2%	4.3%
South America:	+35.6%	+50.5%	14.9%
Western Europe:	-19%	-16.3%	2.7%
Eastern Europe:	-17.2%	-19.9%	(2.7%)
Middle East:	-25.3%	-12.5%	15.5%
Asia:	-26.8%	-23.5%	3.3%
New Zealand:	-7%	-15.9%	(8.9%)
Australia:	+27.6%	+25.2%	(2.4%)
Africa:	+18.4%	+31.2%	12.8%
Others:	+38.3%	+29.8%	(8.5%)

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Buyer's Perspective: Nice chart. Western Europe, the Middle East and Asia make up approximately 58%, 7% and 22% of your total exports respectively. They are down an average of 17% year to date. Look at the big picture before you get too giddy or confident. Remember what your arrogance has cost you.

Currency

The March average was \$1.20 = 1 Euro. So far for April, it's \$1.22 = 1 Euro. This trend favors California shippers, as the weaker dollar helps to absorb some of the price increases at origin. Currency will continue to be a factor – especially as European buyers decide whether or not (and when) to take positions for new crop.

Weather

Seller's Perspective: It's raining a lot. Could cause fungus. Could cause brown rot. Could cause other things that we're not sure about yet. We know that it's the wettest March we've had. The last really wet March we had was in 1989 and we averaged 1,189 pounds per acre, the third lowest yield in 19 years. This can't be good.

Buyer's Perspective: Don't buy your scuba gear just yet or switch to catfish farming in your orchards. The rain is just about over. You have mostly sunny days projected for the next two weeks and after that the temperatures will go up even more, the birds will start singing, and people will forget the rain. The rain and your mini-frost event salvaged an otherwise disastrous market for you. You whine about it outwardly, but we know you were secretly delighted.

2006 Crop

Seller's Perspective: Everyone has an opinion on the crop. Some people's opinions just seem to carry more clout than others'. Last year, the Nonpareils were bad. Not real bad – but still down over 20%. This year, we think early varieties have been seriously damaged by the frost and we think that this rain could cause problems. But if you ask most of us, we will still tell you that there is a good crop on the trees. We don't feel comfortable giving you a number, but if you back us into a corner, we will tell you that "confidentially" we believe it's over a billion pounds.

Buyer's Perspective: Even the usually pessimistic people are being at least "neutral" this year in their assessment of the 2006 crop. The reports of the frost damage were at least initially exaggerated. We flew over and asked you to show us the damage. During our "field trips" the damage got smaller with each passing day.

The most pessimistic among you are clinging to: "yes, bee flight hours were admittedly double or more in most counties, but they were not *vibrant* hours." Come on, you need to do better. Tell us about the big fear of June drop, of the inconsistent sizing of the nuts, of how they are just barely clinging on to the branches and falling off with the slightest touch...make it juicier than the bees. We've been there, done that.

We do not think that it is unreasonable to say that the upper potential of this crop would have been 1.2 billion pounds. Looking at the last 5 seasons, the average yield per acre has been 1,770 pounds per acre (1570 pounds per acre in 2001; 2000 pounds per acre in 2002; 1890 pounds per acre in 2003; 1840 pounds per acre in 2004; 1550 pounds per acre in 2005). Using this average and applying it against the 580,000 estimated bearing acres, we get a crop of 1.026 billion pounds. Could it be lower, say 970 million pounds? Of course it could. Is 30 million pounds less than 1 billion reason to see the market go up \$0.30 per pound in one day? Apparently so. Will we base our buying decisions on that?...Well, some of us already did. Most industrial buyers abstained and continue to believe that the 2006 crop will be a very good one. We will now wait to see what the May subjective and the June objective estimates have in store. Then we can make more informed new crop buying decisions.

Prices

Seller's Perspective: "Greedy Sellers; Greedy Growers." How many times did we hear that phrase over the past 3 years? How many of you said no to BSU5% at \$1.50 per pound thinking prices were headed to \$1.25 per pound? Most of you. Even though, as a good friend and big buyer overseas noted that at \$1.50, the Euro equivalent would be 1.20 per pound. Not a bad price. But you still wanted to push things lower. You criticize us for not setting a floor to this almond market and for letting prices drop precipitously. But you are ready to pay \$0.30 per pound more in one day - based on one report (for which we are grateful). That's calm and steady. When is the seminar on discipline? We want to sign up.

Buyer's Perspective: You can call it greed, we call it lack of confidence. You guys talk the talk, but don't have anywhere near the unity needed to hold a falling market. Thank your call pools for that. When we knew that some people were buying at \$1.45 per pound and others bidding \$1.40 per pound, why would we have jumped to cover our requirements for next season? What is going to happen between now and new crop to push prices up? As noted above, even if you stay on this increased shipment pace, you are still going to have a healthy carry-out. On top of that there is the very real potential for 1 billion pounds or more from California....and you all know it better than we do. Let's not forget Spain, who could well add 110 – 130 million pounds to the mix. \$1.50 per pound could still look good to you in a few weeks. Give it some time.

Shipment Scenarios

Let's assume that shipments recover and exceed last year, leaving us with a carry out of 120 million pounds. Here are some possible scenarios:

Scenario #1

Carry-in: 120 million pounds
2006 Crop: 950 million pounds
Less 4% loss / exempt: (38 million pounds)
Total Supply: 1.032 billion pounds

Scenario #2

Carry-in: 120 million pounds
2006 Crop: 1 billion pounds
Less 4% loss / exempt: (40 million pounds)
Total Supply: 1.08 billion pounds

Scenario #3

Carry-in: 120 million pounds
2006 Crop: 1.1 billion pounds
Less 4% loss / exempt: (44 million pounds)
Total Supply: 1.176 billion pounds

During the past 4 seasons (2001 – 2004), California has shipped an average of 950 million pounds. This year (2005 season), it is likely that shipments will be between 850 - 890 million pounds (resulting in a carry-out of 120 – 160 million pounds).

The highest shipping season was between August 2003 and July 2004, when California sold 1.024 billion pounds. The crop was 1.03 billion pounds and the carry-in was 160 million pounds for that season. Prices averaged \$1.80 per pound for BSU5% and \$2.10 per pound for NPS 23/25 AOL. Spain was not a factor in that year; California was the only game in town.....not so this year.

Defaults

We all survive based on the integrity of our trading partners. We cannot make people act honorably. But we must ensure that those who choose to extend themselves beyond their ability (or desire) to fulfill their obligations are not able to continue working in our industry. Otherwise, we are sending a clear message that there are no consequences to unethical behavior. This is not only a license for the defaulters to continue their reckless and damaging behavior, it is also an insult to companies in this industry that are meeting their obligations regardless of market conditions.

Please take note of the following default:

Item: Nonpareil Supreme 23/25 AOL
Quantity: 80 Tons
Defaulter: Mr. Shabbir Abidali
Indo-Mediterranean Commodities, Ltd.

Last known address and contact information:

Serendib House
67A Boston Manor Road
Brentford TW8 9JQ, England UK
Telephone: 44.208.568.6561
Facsimile: 44.208.847.2093
Mobile Phone: 44.780.223.3221
E-mail: shabbir@indomed.co.uk
Website: www.indomed.co.uk

Mr. Shabbir refused to take four contracts he had with Derco. He agreed to a buy-back and then failed to fulfill his agreement.

Indo-Mediterranean Commodities has filed for voluntary liquidation.

Mr. Shabbir is now a director of a new company, Serendib Investments Limited, formed on February 15, 2006. The company number is 05709970.

Conclusion

You can call the almond market many things, but you can't call it boring.

During the past year, we have seen all-time highs and (currency-adjusted) near all-time lows. We have seen violent price swings and a feeling of “malaise” on the part of both buyers and sellers. There has been a dearth of information in the market and in the absence of strong leadership, the market has followed, with arguably “irrational exuberance” what little information has been disseminated. There seems to be disbelief at information coming from California and vastly disparate interpretations of the same information between rational people.

Irrespective of perspective:

- March shipments were robust and surprised many. We had the second biggest March in history – only behind March 2004 at 81.987 million pounds.
- Not too many people are upset at higher prices. Buyers overseas are struggling with receivables. Shippers in California are struggling with receivables. There is “surprise” inventory around the world, but mostly in Europe. Higher prices help all of the above.
- People don't seem to believe the 580,000 bearing acre figure. They think that it is 600,000 acres or more. They also don't know why this figure was adjusted upward in January and not at its usual time with the release of the estimate.
- We don't know the crop size. The range in play is 900 million to 1.2 billion. But this is not a range, it's virtually the size of the entire 1995 crop. Very few think that the 2006 crop will be less than the 2005 crop. Most are considerably more optimistic.
- Warehouses around the world are not overflowing, but few people seem to want to cover more than what they need. Despite the recent price fluctuations, the larger, sober players in the industry believe that the market is still unsettled and that there is more downward than upward potential.
- Spain is likely to have a good crop in excess of 100 million pounds.
- The possibility of a massive 2007 crop will be hanging over the second half of the 2006 crop much like the Sword of Damocles. It will likely reduce the willingness on the part of buyers to commit to any significant purchases past January 2007.
- The next important marker is the subjective estimate in May.

Don't forget to take your antacid tablets and remember the words of Jane Wagner: “Reality is the leading cause of stress amongst those in touch with it.”

Best regards,
DERCO FOODS