

### **March 2007 Almond Position Report**

March 2007 shipments were 70.562 million pounds. This is down about 13% from the March 2006 shipments of 81.355 million pounds.

Carry-in from the 2005 crop year: 112 million pounds  
Receipts through March 30, 2007: 1.107 billion pounds  
**Less 3% loss / exempt: (33.2 million pounds)**  
Total Supply: 1.18 billion pounds  
**Less shipments to date: (753.9 million pounds)**  
**Less estimated carry out: (120 million pounds)**  
Available Supply: 306 million pounds

### **Shipments**

Seller's Perspective: A smaller shipping month than we anticipated – but right at the average of the past 5 seasons. Shipments are still up 21% over last year and a seasonal record (754 million pounds) for August 1 – March 31.

Buyer's Perspective: Last month you were up 17% and speaking in foreign languages. This month you are down 13% and all you can muster is two sentences? Your March shipments are the weakest they have been since the 64 million pounds shipped in March 2003. So much for the streak of record shipments and for the chorus of “we will easily ship 1.05 billion pounds” we have been hearing for so long now.

Last year you shipped about 290 million pounds between April and July. If you ship the same amount, you will have shipped just over 1.04 billion pounds and have a carry-out of 142 million pounds. That's not bad. But if you stay on this pace and ship 13% less, total shipments will be just over 1 billion pounds and your carry out will be 180 million pounds. Not so sexy heading into what many expect to be the biggest crop ever.

### **Receipts**

Seller's Perspective: Nothing noteworthy here.

Buyer's Perspective: Last month receipts were 1 billion pounds; this month they are 1.07 billion. We think 7 million more pounds added in March is noteworthy.

### **Commitments**

Seller's Perspective: Still a very strong 183.6 million pounds out of a total available supply of 432 million pounds. Commitments are up about 6% over last year at this time.

Buyer's Perspective: These commitments are not at all awe inspiring. Domestic commitments are significantly ahead of last year (about 53% higher); but export commitments are down 21%. Uncommitted inventory is now nearly 17% higher than last year at this time whereas only last month you were nearly 8% lower than the 2005 season. That's a big unfavorable swing in only 1 month and points to the lack of new business shipped in March.

**Domestic**

Seller's Perspective: "O beautiful for spacious skies, For amber waves of grain...." Sorry, we were singing *America the Beautiful* in honor of the 7<sup>th</sup> consecutive domestic record shipment month. Yes, SEVENTH!! The domestic market, which does not benefit from the weak US Dollar is doing beautifully. Join us in song, you know the words..."For purple mountain majesties, Above the [almond] fruited plain...."

Buyer's Perspective: That is impressive – both the record and your singing. Now if you can triple domestic consumption, you won't have to worry about the fading export market. "America! America! God shed his grace on thee!"

**Export**

Seller's Perspective: We expected a decline in exports as spot goods and afloat inventories were being offered by the second hand at cheaper levels than origin. Most of this product has been consumed and now buyers are going to come to origin for their needs. We have already seen increased buying interest from most regions of the world during the past few weeks. We are confident that the strength of April shipments will surprise many people.

Buyer's Perspective: You expected a decline but did you expect one that would be nearly 25%? Does that qualify as a decline or should it more accurately be characterized as a collapse? Doesn't the availability of all the afloat and spot product tell you that all those months you thought you had strong shipments (and increasing prices), you were only moving your inventory from California to Europe and Hong Kong? The nuts were not being consumed, there were simply being stored at an offsite facility! We can buy Carmels cheaper from Hong Kong traders than from packers in the San Joaquin Valley.

**New Crop in Spain**

Seller's Perspective: If Spain has a great crop: 70,000 metric tons (154 million pounds). If Spain has a terrible crop: 20,000 metric tons (44 million pounds). Worrying about the 100 million pound variation coming from Spain when we are likely to have the largest crop in our history does not seem to be the best expenditure of our time.

Buyer's Perspective: Viva nuestros amigos arrogantes de California!

**New Crop in California**

Seller's Perspective: Will be big.

Buyer's Perspective: Will be bigger than that.

**Currency**

The average for the month of March was €1 = \$1.324. This compares with \$1.299 in January and \$1.308 in February. Today the exchange is €1 = \$1.34. The Euro is rising vis à vis the USD because there is ongoing concern about the US economy. The weak housing market, the emerging insolvency of many sub-prime mortgage lenders (companies that give home mortgages to consumers with poor credit histories), and concern about an ever-growing trade imbalance are keeping the USD down. Some analysts predict that the slide will continue and that the exchange with the Euro will hit \$1.40.

**Prices**

Seller's Perspective: The resilience of prices will surprise many. Just as they declined the past few months on record shipment figures, you will see that ultimately the March shipments will not materially affect pricing from origin. First, April shipments are going to surprise a lot of people. Second, the remaining inventory simply is not worrisome – it is manageable. Third, there is a long way to go between now and new crop and many buyers simply cannot wait for the new crop. They may continue to go hand-to-mouth, but they need to buy. This will translate into solid shipment months and steady to firm pricing through summer.

Buyer's Perspective: It's admittedly tough to know what pricing is going to do. With the various contradictory and vociferous interests all active in the market, psychology and momentum seem to be more important than fundamentals. We will still put our money on a falling market and take our chances of being wrong. If we are wrong, we will pay more when we need to ship. If we are right, waiting will be in our best interest. The fatter the trees get in your valley and the more the branches start to sag under the weight of the new crop nuts, the more growers will be calling you to sell their remaining inventory. Who is going to want to hold that last high priced lot once new crop is upon us? Not your grower!

**VASP**

It is now virtually certain (pending a final vote in May by the Standing Committee on the Food Chain and Animal Health - SCFAH) that the following will apply for almonds shipped on or after September 1, 2007:

(A) 5% of shipments destined to the European Union covered by a Voluntary Aflatoxin Sampling Plan (VASP) certificate will be tested for Aflatoxin;

(B) 100% of non-VASP covered shipments destined to the EU will be tested for Aflatoxin.

The almond industry in California and the almond importers in Europe have yet to fully come to terms with the logistical challenges that this inspection protocol is going to create.

California is going to have to ensure that enough laboratories are certified to conduct the Aflatoxin testing. Many more California packers are also going to have to sign up for the VASP program or their almonds are going to be subjected to 100% testing.

Europe is going to have to deal with both the added costs imposed by this increased testing, as well as with the fact that landed containers are going to be unavailable for use until the inspections are completed. As with most new government driven initiatives, theoretical bureaucratic exuberance and stark commercial realities will collide. Businesspeople are often able to navigate through governmental regulations with more flexibility and savvy than they are given credit. But at least initially, this new testing protocol is likely to be burdensome. So stay tuned to see how this will play out in the European ports, with clearance issues, payment delays, and the accompanying cacophony of complaints from all parties on both sides of the Atlantic.

**Conclusion**

This is now the time of year where the crop prognosticators are in the spotlight. In our almond industry, we are lucky to have the full range of talent (or lack thereof) in this regard. Some have a strong track record and base their analyses and estimates on the best available objective criteria. Others take a 30 minute drive, look at two orchards, and share their insights with the world. This leads to some entertaining “extreme” opinions:

Version 1: “The crop looks bad. The Nonpareils are down over last year. There are not as many producing acres as we are being led to believe. The bees were a disappointment. How many strong crops can these tired trees produce? This crop may or may not make 1 billion pounds.”

Version 2: “The limbs are breaking and the nuts aren’t even fully formed yet! There are at least 650,000 acres in production. The average yield per acre is going to be 2200 lbs. Have you seen the new plantings – how dense they are? There is a guy on the West Side whose Butte/Padre orchards were producing 4000 pounds an acre...and that was during an off year! Heck, this crop will be looking at 1.4 billion pounds in the rear-view mirror.”

A friend recently made the following point. He said: “Can you tell if a crop is 5% more than the previous year just by looking - without counting the nuts on the same branches in the same orchards at the same time of year? Probably not. So when virtually everyone is saying that a crop certainly looks larger than last year’s crop, shouldn’t it be at least 10% or more larger than the previous crop? If you agree with that, where would that put the bottom of the 2007 crop – 1.2 billion pounds?”

The thoughtful individuals and organizations in this industry will take in all the information and draw their own conclusions. In the meantime, there will not be a shortage of noise and opinions.

Just remember what Mark Twain said: “Sane and intelligent human beings are like all other human beings, and carefully and cautiously and diligently conceal their private real opinions from the world and give out fictitious ones in their stead for general consumption.”

Happy opinion-sorting to all of you.

Best Regards,  
DERCO FOODS