

March 2015 Almond Position Report
Top Ten Lists Inside

March 2015 shipments are 190 million pounds. This is 25% higher than the March 2014 shipments of 151 million pounds.

2014 Almond Supply

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|------------------------------|----------------------|
| Carry-in from the 2013 crop: | 350 million pounds |
| Estimated 2014 crop size: | 1.862 billion pounds |
| Less 3% loss / exempt: | 55 million pounds |
| Less shipments to date: | 1.248 billion pounds |
| Less commitments: | 349 million pounds |
| Remaining unsold supply: | 560 million pounds |

Shipments & Receipts

Seller's Perspective: An incredible shipment number. Despite higher prices, we just had our biggest March ever, breaking the previous record of 172 million pounds set back in March 2012. Oh what we could be doing if we only had water to work with.....Let's cut to the chase: last year between April – July we shipped 566 million pounds. If we match that performance, the carry-out going into the 2015 season will be 345 million pounds.

Buyer's Perspective: A big March without a doubt. You guys really needed it. After all, this was the first month this season that saw a gain compared to last season. Until this March, every single month had been down, with 3 months being down double-digits. So what percentage of these shipments should have gone out in February (or maybe even January)? The slow unclogging of the port congestion undoubtedly helped to give March shipments a boost. For the season, shipments are down nearly 9% compared to last season (1.248 billion pounds v. 1.370 billion pounds last season). If you stay on that seasonally adjusted -9% pace, and assume that March shipments were an aberration, then you're looking at a carry-out of closer to 395 million pounds. Arguably still manageable.....shit. Forget everything we just said. Do you have BSU5 at \$4.20 for a good long-term customer?

Commitments

Seller's Perspective: Domestic commitments are down 7.7% while export commitments are up about 5%. Overall commitments are down about 1% compared to last season at this time (349 million pounds v. 353 million pounds). About 94 million pounds of new business was done in March.

Buyer's Perspective: Still believe these numbers, do you?

Domestic Shipments

Seller's Perspective: Down 1.3% at 56 million pounds. The record was last March, at 57 million pounds. This was still the second best March ever. The domestic market is in good shape and continues to be the backbone of the industry.

Buyer's Perspective: Pretty confident. Guess you guys aren't too worried about the impact of all those articles circulating that claim it takes 1 gallon of water to make 1 almond. Hope you're right.

Export Shipments

Seller's Perspective: A massive new record at nearly 134 million pounds, shattering the previous record of 124 million pounds set in March 2012. Every major region, with the exception of Eastern Europe, was up. China/Hong Kong was up 149%, but we would bet that little of that business was done recently. See below for more on China/HK/Vietnam. South Korea was up 79%. India was up 60%, to 12.2 million pounds. Western Europe erupted, increasing 29% (over 12 million pounds compared to last March) after being down for most of the season. With the exception of Greece, Portugal, Switzerland and Sweden, every other major Western European country was up. Eastern Europe was down 61%, but on nominal volume. Shipments to Russia are missed. The Middle East was up 95%, with the UAE leading the way, up 110% at nearly 14 million pounds. Turkey was up 175% and Saudi Arabia was up 136%. Lebanon and Kuwait were up 241% and 479% respectively. But Qatar was the star, up 817%.¹

Buyer's Perspective: March exports were phenomenal – but the figures were likely inflated due to the congestion at the ports. This admittedly negatively skewed the export numbers of the past few months.

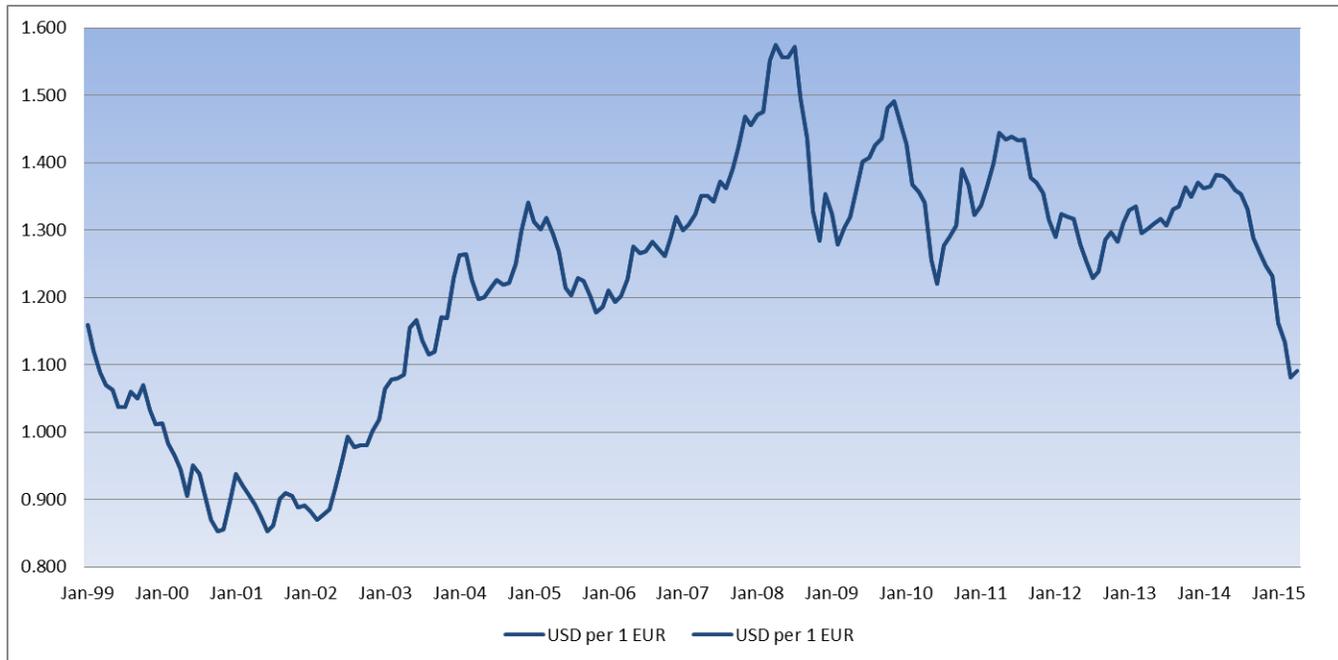
New Crop Supply Outlook

The anticipated GLM / Terra Nova Trading 2015 Crop Estimate was released this week, projecting a crop of 1.88 billion pounds. This falls in line with the initial speculation heard within the industry of a 2015 crop ranging between 1.75 – 2 billion pounds. Bloom weather was perfect, but with the water situation and doubt about the strength of the Nonpareil crop, we are once again looking at a crop that will under-perform its potential. If the coming months continue to validate this supply scenario, then it is going to mean another year of tight supply with not much liquidity.

¹ Whoever shipped there likely was not familiar with the draconian legalization requirements...or is getting familiar with them now. Let's see what happens to Qatari shipments next month....Regardless, Qatar had to do something with all the attention in the media recently going to Yemen. And anyone who knows anything about the Middle East knows that Doha will not take a back seat to Sana'a....ever. Every Qatari knows that Salta can't hold a candle to Harees....And which country was it that legitimately obtained the rights to the 2022 World Cup? Exactly.

Euro

Below is what the Euro has done against the USD from inception through April 9, 2015. The Euro's weakness of the last year, which has made almonds so much more expensive to European importers, is clear.



Water

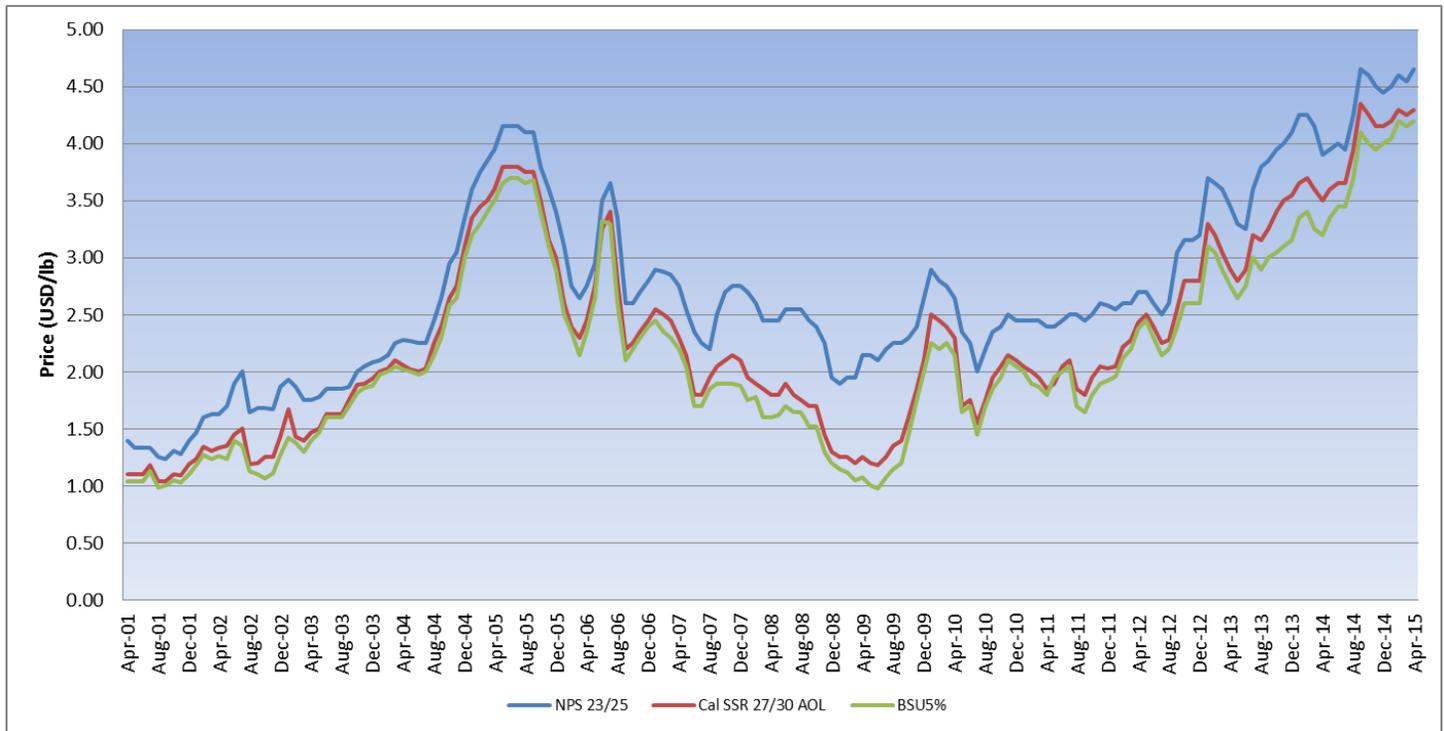
“He who laughs has not yet heard the bad news.” Bertolt Brecht (1898 - 1956)

The water situation in California is an unmitigated disaster. This has now become prominently featured national news. If you are interested in learning more, and want to read some diverging opinions (mostly about the cause, not the impact), see the following articles.

1. [California Drought Tests History of Endless Growth](#)
2. [How Water Cuts Could Affect Every Community in California](#)
3. [An Engineered Drought](#)
4. [8 Facts about Almonds, Agriculture and the Drought](#)

Prices

Here is the updated 15 year price chart showing prices between April 2001 – April 2015:



Prices have firmed by about \$0.10 per pound during the past month. This has been in response to (1) the serious concern about the water shortage and the impact it will have on next season’s crop and (2) on the (now proven) belief that March was going to be a strong shipment month. Selling interest has been limited and buyers, who feel that they are constantly chasing the market, have become increasingly frustrated.

Small sizes in Nonpareil Extra #1 are difficult to find. Most processors have a greater availability of Carmel Types in sizes 23/25 AOL. The usual price spread between BSU5 and small Cal/Butte/Padre SSRs has virtually disappeared. Standards and small Cals are now trading in a very tight range. Demand for current crop inshell Nonpareil has been strong, especially in India. Demand for new crop, mostly for inshell Nonpareil again from India, has been strong. There has been limited selling interest and the market for inshell NP has increased about \$0.20 per pound since February.

China/Hong Kong/Vietnam

Rumors have been rampant the past few months about the crackdown in China. One of the largest importers of tree nuts (mainly inshell almonds and inshell pistachios) was arrested in January and his facilities closed down. The complete fallout from that ongoing case is still unclear. More recently (in March), a freight forwarder who was bringing in almonds under a false classification was also arrested, as were some of the importers that worked with him. The combination of these two events has brought the trade in China to a virtual standstill. As a result of this disruption, Hong Kong traders have become resellers of California tree nuts at below California prices. Unable to sell to the mainland, they have targeted other destinations, with the

majority of offers going to the Middle East. This disruption has also created cash flow difficulties for US processors and exporters who did not have the necessary financing to manage the payment delays or defaults that occurred in this region.

At some point, Chinese tree nut importers are going to have to create a sustainable and legitimate industry. The road to legitimacy is surely fraught with peril....but continuing on the current path no longer seems viable. China is simply too large and important of a market to try to fly under the radar. In the articulate words of the 44th Vice President of the United States, Dan Quayle: "Illegitimacy is something we should talk about in terms of not having it."

Conclusion²

There are a lot of things happening in the world that impact the almond business. There is a weak Euro, a 'more than usual' chaotic Middle East and North Africa, negotiations with Iran, embargoes in Russia, economic scandals in South America, ongoing port congestion and shipment delays on the West Coast.....the list goes on. And despite the fact that these are all important topics, as far as the California almond market is concerned, they really don't matter. On its face, that sounds like a brash statement – but if you live in California, you know exactly why it's true.

As long as there is no rain or snow, every other discussion topic about the market becomes secondary or even tertiary in importance. Once growers are worried about keeping their trees alive, it is understandably difficult to get them to worry about much else. Even questions regarding the proper depreciation of Range Rovers as 'heavy farm trucks' take a back seat to the water topic. Yes, it's THAT important.

For now, California almonds are not being marketed – they are being allocated. Beggars with the best payment track records and most easy to work with staff get the biggest crumbs. In case you didn't know, it is an honor to be given the privilege to pay \$187,000 for a container of BSU5 (may be \$200,000 soon!). Australia (with a very good new crop) and Spain (with a promising new crop – estimated at 120-130 million pounds - similar to last season) are the beneficiaries of the higher prices, which are providing nice umbrellas under which they are selling quite profitably.

In California, it is clear that water has hijacked the conversation. Water is the end game.

"It is with our passions, as it is with fire and water; they are good servants but bad masters." Aesop (620 BC - 560 BC)

Best Regards,
DERCO FOODS

² We keep this conclusion brief. We are reeling from the news that not only did Tiger Woods fall out of the top 100 in world rankings, but, more importantly, Derco failed to make Calconut's March 27th list of first quarter suppliers. Not that any introduction is needed, but you know, this is the email which is now lovingly referred to in most export circles as "The Definitive Study on Unsolicited Indiscretion" or TDSUI, for short. Hopefully, the smartphone app will follow soon and we can track our progress or lack thereof in real time. A man can dream.

TOP TEN THINGS OVERHEARD said by ILWU members during the ILWU – PMA West Coast Port Labor Negotiations³

10. Is the pizza here yet?
9. What's all this "congestion" business McKenna keeps talking about? For Christ's sake someone get him some Claritin so the guy can get some relief and shut up already.
8. That chassis does not look road ready....look [slashes tire]you have a flat!
7. We are entitled to great wages, health benefits and job security for our progeny *ad infinitum*.... Our attorneys told us to ask for that last bit...we personally don't like Japanese cars.
6. What's that you say? The port of Dar Es Salaam is more efficient than the port of Oakland? We hadn't noticed. Pass the doughnuts and stop talking – can't you see Judge Judy is on?
5. All this talk about our lack of automation has us confused and frankly, frustrated. Are people not seeing how many Commodore 64s we have in our offices? Summer Games II anyone?
4. Did you hear that a longshoreman in Uzbekistan was injured yesterday? I guess we're not working in Oakland today. Just too dangerous until we check to ensure that there are no Markhors running wild in the terminals. Have you seen those horns?
3. Savannah is 50% more efficient than Oakland. God damned Savannah, Savannah, Savannah!....That's all we hear! People forget that it's in Georgia. Do you realize how many more distractions we have here in the Bay Area? From the restaurants to the sports teams, the outdoor activities, the shopping – and all those gay people looking to get married? With all this going on, it's a wonder we work at all!
- 2.⁴ Brothers and Sisters.... F#\$% the economy, F#\$% growers, F#\$% importers, F#\$% exporters, F#\$% the ag industry, F#\$% those shipping Christmas trees, fresh fruit and fresh vegetables. F#\$% anyone who does not agree with us. Just repeat these words: There is no F#\$%ing congestion; we want to F#\$%ing work; the PMA is F#\$%ing Satan, run by F#\$%ing international types with F#\$%ing fancy college degrees – a bunch of F#\$%ing intellectuals. We are NOT F#\$%ing overcompensated; there are LOTS of F#\$%ing high school graduates in the US making six figures and F#\$% if I'll ever agree to a co-pay. Oh, and if we can't unilaterally fire an arbitrator....well then we'll F#\$% him too. F#\$%!!! Thank you, dear Brothers and Sisters. Stay strong, united and irrational! [The Actual Speech](#)
1. Because we can, bitch.

³ This entire section is done in jest. We are trying to have fun with both sides, in an attempt to bring some levity to what was otherwise a brutal shipping season for everyone involved in any kind of trade on the West Coast of the United States. In case anyone out there still does not know what the initials stand for: **ILWU** = International Longshore and Warehouse Union; **PMA** = Pacific Maritime Association.

⁴ For those who want more bang for their buck, and a more accurate rendition of what the statements would have likely been, please feel free to substitute the actual "F" word (or even the "F" word with a maternal affiliation) for "F#\$%." With quite a few elegant international clients and friends of ours potentially reading this list (or as the ILWU would likely categorize them "intellectual foreigners"), it was determined that the uncensored version, though more accurate, could be seen as a bit too crass even by the author's own admittedly low standards. So we are giving you, the reader, the flexibility to spice up #2 as you see fit. Consider this a participatory "Fill In The Blank" opportunity.

TOP TEN THINGS OVERHEARD said by PMA members during the ILWU – PMA West Coast Port Labor Negotiations

10. *[Jim Mckenna overheard in the men's room]* Anyone have some extra Summer's Eve cleansing wash, preferably in Delicate Blossom or Island Splash?
9. I just hate it when they talk like sailors.
8. Remember how well the Munich Conference worked in 1938? Ok, good, so then we are all in agreement: Appeasement, appeasement, appeasement. I just hate fighting - all those loud voices, flared nostrils, bulging muscles, clenched fists....wait, what were we talking about?
7. Let's make sure the meeting table looks nice. Who's bringing the centerpiece and who's responsible for the finger foods? Remember, nothing says 'appeasement' like cream cheese and cucumber sandwiches with a touch of dill.
6. Those ILWU fellows are so brawny and tough, and they use the F-word in such a myriad of creative ways: verb, noun, adjective...and sometimes all three in the same sentence! The creativity is simply breathtaking.
5. Look at it from their point of view...after all, why shouldn't the out of touch and baseless expectations of the few outweigh the tangible needs of a nation?
4. There's nothing to worry about, a competent federal negotiator is on his way, and I understand we're having a strawberry spinach salad with goat cheese for lunch. Things are looking up, Maurice!
3. Listen to me....we need to roll-over now, so that we can live to roll-over again in another 5 years.
2. These guys work in a dangerous environment: there are cranes, containers, trucks...and don't forget the bright Bay Area sunshine.....and one never knows how much SPF is enough. Oh, and those new protective spray lotions, you know, I heard somewhere that they are carcinogenic. So considering all this, surely they deserve to have the best health care plan in America and not pay for it.
1. "The PMA: Protracted Negotiations Without The Results." [The PMA Negotiation Handbook Video](#) ⁵

⁵ Not really. The PMA likely has a much better negotiation video. The link above is from the Fox series Married With Children (1987-1997), Season 4, Episode 9 'Oh What a Feeling.' Creators Michael G. Moyer and Ron Leavitt.