

April 2008 Almond Position Report and 2008 Crop Subjective Estimate

April 2008 shipments were 95.58 million pounds. This is up about 34% from the April 2007 shipments of 71.1 million pounds.

The subjective estimate for the 2008 almond crop released by the National Agricultural Statistics Service (NASS) is 1.46 billion pounds (2,210 pounds per acre on 660,000 bearing acres). This is based on the opinion of growers surveyed. This is not an objective analysis. The objective estimate will be released on June 30.

Analysis

Carry-in from the 2006 crop year:	134 million pounds / 60,782 MTs
2007 crop receipts:	1.38 billion pounds / 625,963 MTs
Less 3% loss / exempt:	(41 million pounds) / (18,597 MTs)
Total Supply:	1.470 billion pounds / 666,787 MTs
Less shipments to date:	(970 million pounds) / (439,989 MTs)
Less estimated carry out:	(235 million pounds) / (106,595 MTs)
Estimated Remaining Supply:	265 million pounds / 120,203 MTs

This is an incredible performance for the month of April and will certainly work to offset the larger than expected subjective estimate. Record shattering export shipments. Record domestic shipments.

Does the subjective estimate have any value?

Not really. In the past 8 seasons, the subjective estimate has been more accurate than the objective estimate only one time. That was back in the 2000 season. But interestingly, in every one of the instances since the 2000 season, the subjective and objective estimates have been either **both** under or **both** over the actual receipts number. They have both been over the actual receipts twice (2001 and 2004 seasons). They have both been under the actual receipts 6 times (2000, 2002, 2003, 2005, 2006, 2007). Since 2000 they have not once been on opposite sides of the actual receipts.

During the past 8 seasons, the subjective estimates, as compared to actual receipts, have overestimated the crop by as much as 10% and underestimated the crop by as much as 13%. The closest they have been is within 3% of the actual receipts. So applying the widest margins of error on either side, the 1.46 billion pound estimate can be as big as 1.65 billion pounds or as small as 1.31 billion pounds.

If you are now sure that the market is going to go down, think about.....

1. What other tree nuts are cheaper and in as much global demand? Walnuts are over \$4.00 per pound this year and likely to be well over \$3.00 per pound for next year. Pistachios, with the frost in Iran seriously damaging the 2008 crop, are likely to be over \$3.00 per pound. Pecans are heading into a short crop in 2008 with shelled prices well over \$4.00 per pound. Cashews are over \$3.00 per pound if you can get your contract shipped. The macadamia market is expected to remain firm. Hazelnuts are the only wild card. With the Turkish government essentially ensuring that hazelnuts are no longer a commodity whose prices are based on supply and demand, but rather on the government's interventionist policies, who can predict anything? The information received is that the TMO is trying to sell 2005 – 2007 crop and is not planning on intervening in the market next season. Current crop prices are around \$2.90 per pound FOB and new crop is offered at \$2.45 per pound.
2. Demand for almonds is growing at about 15% a year (17.6% for the 2007 season v. 2006 season). No one market is able to completely define the California Almond Industry's success or failure. In years past, two weeks of silence from Europe would portend falling prices at origin. Now, when the

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Europeans decide to wait, California has other options and is increasingly happy to sell NO VASP¹ required almonds to other markets. Granted, no market takes more BSU5% than Europe, but California does produce other grades and when those are taken in enough volumes, traders who are trying to call California's bluff are put in a more precarious position.

3. There is an increasing middle class in the world. For sure, the scope of global poverty remains a tragedy. But it is difficult to argue against the fact that, on the basis of raw numbers alone, there is a growing middle class all over the world. If you doubt this, visit India or China and see for yourself. You will see lots of poverty, but you will also see an incredibly upward mobile segment of the population. This middle class wants to indulge in some luxury foodstuffs. Almonds are healthy, known, and reasonably priced. A perfect treat for many in developing economies.
4. China is going to be a huge consumer of almonds this year. The Chinese love to eat nuts. In regards to tree nuts, pistachios are far and away the leading consumed nut in China. But for 2008, with the frost in Iran, prices of pistachios are going to be significantly higher than almonds. They already are. The only thing holding China back now from booking more product from the 2008 crop is the fear of price instability. Once there is more clarity in the direction of the market, China will jump in with both feet. They will also take as much inshell as California is willing to sell – the limiting factor being that China does not like to buy based on meat yield...whereas India does....and the latter fits in better with the California growers' sales objectives.
5. India will continue to be a huge consumer of inshell almonds. India has taken 63 million pounds of inshell through April 2008 (as compared to 48.9 million pounds through April 2007). This growth in imports is almost certain to continue at prices which will on average be lower than last season.
6. Some experts are saying that the US Federal Reserve is going to start raising interest rates this summer. If that happens, we will see further strengthening of the USD. Today it is \$1.54 against the Euro, down from \$1.60 just a few weeks ago. It is unclear what this strengthening will mean to the market as the USD is still quite weak. The Chinese Yuan, an often forgotten currency, has strengthened by about 10% against the USD in the past year. This is a significant development.
7. The availability of good quality Nonpareil remaining from the current crop is dwindling. Ramadan starts on September 1, 2008, and new crop will not make it in time. Look for premiums to continue to be paid on Nonpareil from those who cannot afford to wait for the new crop. The Middle East is anxiously looking for Nonpareil Supreme or Extra #1 in all sizes for shipment through July.
8. Shipping and logistics issues have become a global nightmare. In our estimation, this segment of international trade will be the biggest challenge of the 2008 almond season....more so than the particular levels of demand from various markets or the pricing strategy from California. The lack of containers, vessel space, deteriorating customer service, port strikes, slowdowns and other union-backed delays are becoming seemingly inevitable. Consequently, we expect more and more clients to ship early and just warehouse at destination in order to ensure that they have access to the product when they need it. Otherwise, look for a bullish spot market that may surprise many.

¹ For those of you lucky enough to not know what a VASP is, it is a certificate that refers to the Voluntary Aflatoxin Sampling Plan. It is required for shipments going to the European Union.

9. The cost of production is high: chemicals are expensive; water is expensive and not in as abundant supply this year as earlier thought; labor is expensive; bees are even more expensive and dying². You have heard these arguments before, but they are legitimate and serious considerations. If you don't believe us, try buying some Potash (a fertilizer, 80% of which is now imported by the US; prices have been skyrocketing; availability difficult to secure). Good luck. Buyers will be surprised by how resilient growers will be before they let the prices fall below their cost of production...especially when they know that the demand exists to move a very big portion of the crop.
10. The Nonpareils are bad, real bad. (Actually, if you believe the 1.46 billion pound estimate, this can't be true and serious growers are saying they are not off by more than 3% - 5%).

If you still think the market is going to go up

Then you don't believe the estimate or you are confident that California can continue to ship 15 – 20% more almonds in the coming season. This is quite plausible.

Here are the numbers as we see them unfolding:

Projected 2007 shipments:	1.235 billion pounds / 560,192 MTs
Estimated current crop carry-out:	235 million pounds / 106,595 MTs
New crop subjective:	1.46 billion pounds / 662,251 MTs
Less 3% loss/exempt:	(44 million pounds) / (19,958 MTs)
Total available supply 2008:	1.65 billion pounds / 748,435 MTs
Less global demand in 2008:³	(1.42 billion pounds) / (644,107 MTs)
Carry-out into the 2009 season:	230 million pounds / 104,327 MTs

CONCLUSION

Extremely strong April shipments. A larger than expected subjective estimate. Where do we go from here?

Time and time again, California has demonstrated that it can market these "unmarketable" crops. There is a proven track record. Today buying interest for BSU5% is at \$1.55 per pound. The minute origin starts to support that level, it will drop to \$1.50 per pound. There is no floor that will be set unless California sets it. If California does not believe that €1.07 for BSU5% (the Euro equivalent today of \$1.65 per pound) is a low enough price, then California cannot complain if the market falls below this level. Stability, stability and stability is what will move this crop. The prices are already attractive. **Guarantee a buyer downside protection on a \$1.65 per pound BSU5% seasonal contract and look at the tonnage that will be booked.** That is your answer.

Buyers are going to dismiss the April shipments and focus on the new crop expected tonnage. Prices will come under pressure from buyers, especially in Europe, who will test California's resolve. The degree of discipline at origin, not what buyers are going to say, will determine where the market goes. Logic would dictate that having the cheapest and most versatile tree nut around, coupled with a wonderful health message, are good enough to market this crop effectively and that further discounting is not necessary. Soon we will see if logic carries the day or if the fear of being the one grower holding the inventory will lead to market deterioration and to the "lemmings jumping off the cliff" mentality.

² A survey of bee health released on May 6th shows that 36.1% of commercially managed bee hives were lost in the last year. Juliana Barbassa, Associated Press Writer, May 7, 2008.

³ Assumes a 15% increase over 2007 season estimated shipments of 1.235 billion pounds. This seems quite reasonable looking back at shipments in years where supply was ample.

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The happiest people looking at the prospects of the 2008 season may not be buyers of almonds, but processors who are tired of growers who “want to wait.” The combination of a wonderful April demonstrating robust global demand coupled with what seems to be an abundant supply may be the impetus needed to bring growers to the table now in greater numbers. Hopefully the time for waiting is over.

We are confident that looking at these recent figures, growers will realize in short order that “the trick is to make sure you don't die waiting for prosperity to come.” Lee Iacocca.

Best Regards,
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