

April 2009 Almond Position Report
Plus: Annual INC Bonus Section

April 2009 shipments were 111.78 million pounds. This is up about 17% from the April 2008 shipments of 95.58 million pounds.

Analysis

Carry-in from the 2007 crop year:	231 million pounds
2008 Crop Receipts:	1.614 billion pounds
Less 3% loss / exempt:	(48 million pounds)
Total available supply:	1.797 billion pounds
Less shipments to date:	1.030 billion pounds
Remaining supply:	766 million pounds

Shipments

Seller's Perspective: Up 17% during the worst economic times since the Great Depression. Not bad.

Buyer's Perspective: Up 17% true. And this is good. Sadly for you, receipts are up from 1.606 billion in March to 1.614 in April. That's 8 million pounds. So taking this into consideration, on a net basis you are up only about 8%. Not bad, but you need more.

Seller's Rebuttal: Net shipments for the month of April are up 96% since 2002. This is a doubling of the overall shipments in 7 years. If someone was to tell you this in 2002, you would have referred them to a mental asylum. So who is to say that by April 2016 (or sooner) this figure cannot be 200 million pounds?

Export

Seller's Perspective: Exports are up 27% over last April. To put the strength of the export market into perspective, April 2009 shipments are up 94% over April 2007 shipments – just 2 years ago. April 2009 shipments are up 132% over April 2002 shipments. This is astounding, and with Western Europe down 10%, it shows the increasing importance of the developing markets.

Buyer's Perspective: An impressive performance.

Domestic

Seller's Perspective: Down about 3% from last year; but still the second best April in domestic shipment history. After the stellar shipments in March, a slight drop off was expected. The strength of domestic shipments is still amazing considering the current economic condition of the US. Those who argued that the snack, confectionary and bakery markets would remain resilient during the downturn are being proven correct.

Buyer's Perspective: Down is down and not helpful when you need up, up, up.

Commitments

Seller's Perspective: Domestic commitments are up 41% and export commitments are up 53%. Uncommitted inventory is at 405 million pounds. Not bad.

Buyer's Perspective: Add the unsold or undigested loads in Europe, and consider that an important percentage of the committed inventory is going to be shipped after August 1 (the start of the new marketing

season), and the above is nothing but a feel good number. You don't know what it means any more than we do.

Spanish Crop

The Spanish are expecting a healthy 75,000 – 80,000 metric tons (165 – 176 million pounds) for 2009, plus a considerable carry-in from the 2008 crop. The 2009 forecast is about double last year's production in Spain. However prices for unselected Valencias are unlikely to threaten California's BSU5% which is at around \$1.10 per pound for current crop and \$1.15 - \$1.20 per pound for new crop. The Spanish seem to have a better grasp of resisting sales which are below their cost of production – and their unselected Valencias are currently trading at prices that are higher than Carmel Supreme 20/22 in California.

Water

We're not talking about it as much, but the situation in California is still dire. At some point, the global almond consuming community is going to realize that this is not a concoction on the part of California growers. We are using more water than we are getting. The current water consumption trends are not indefinitely sustainable. This is a fact.¹

Global Financial Health

This could qualify as an oxymoron these days...but "Global Financial Illness" is not as nice a heading. We always opt for glamour here. Remember, it's not how you feel, it's how you look.²

The U.S. government is trying to put a positive spin on the current domestic financial situation. But the statistics remain grim:

- Job losses were *only* 539,000 in April. But the reality is that unemployment is at the highest levels in the US since 1983 – at 8.9%. 5.7 million jobs have been lost since the beginning of 2008.
- Housing is the largest industry in the US. Housing starts are down 77% since the peak in 2006.
- Auto sales are down 44% since the peak in February 2007. Chrysler is in bankruptcy; GMAC (the nation's largest lender for auto purchases) is in big trouble; General Motors is knocking on the bankruptcy door.
- Banks remain in difficulty. The stress test results are in and the finding is that the top banks need to raise \$74.6 billion in capital. Bank of America needs to raise \$33.9 billion; Citigroup \$5.5 billion; GMAC \$11.5 billion; Wells Fargo \$13.7 billion. How can they do so quickly without cutting back on lending?
- Consumer credit has decreased sharply. In the third quarter of 2007, banks loaned \$44 billion in net new loans (non-mortgage). In the third quarter of 2008, the amount loaned was \$8.7 billion. A

¹ California's increasing water deficit is almost as scientifically provable as the fact that the earth is more than 5,000 years old and that we did not co-inhabit the earth with dinosaurs. No, there was no saddle on that Tyrannosaurus Rex. But as these concepts still seem difficult for many Americans to grasp, we have to be more understanding of our international friends who doubt the dropping levels of our underground water tables. Ignorant is ignorant, and fair is fair.

² Billy Crystal – "You Look Marvelous"; 1985. "Just looking into your eyes, darling, I can tell that you have the legs of a dancer." If you are trying to find a connection between this quote and the almond market, there is none. I have just always loved this quote and decided to include it in this almond report since I do not have any other literary outlets with a readership greater than two.

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reduction of 80%. In the fourth quarter of 2008 – there was a net *pull out* of \$19.5 billion in credit. In the first quarter of 2009, there was another pull out of \$12.2 billion.³

- The US trade deficit has widened in March for the first time since July – by \$27.6 billion.

...And today €1 = \$1.37. No need to wonder why.

2009 CROP SUBJECTIVE ESTIMATE.....is 1.45 billion pounds. So much for the stressed out trees and production Armageddon. This estimate is down about 10% from last year's crop, but the 150 million more pounds than expected has "shocked" and "amazed" many buyers. It is as though at 1.7 billion pounds to sell, BSU5% is readily worth \$1.15 per pound, but with 1.85 billion pounds to sell, this becomes an unthinkable high price and standards simply can no longer be sold....All this feigned anxiety in Europe despite a Euro trading well above \$1.30, and an industry consensus that the coming season is going to have larger nuts that will not be as enthusiastically diverted to the anemic, second hand influenced and unprofitable standards market.

The Subjective Estimate has been off the actual receipts by an average of 8% (over or under) in the past 9 years. So that means that this crop could be anywhere from 1.334 to 1.566 billion pounds. It's been well-chronicled already by others that in only 2 out of the last 8 seasons the subjective estimate has been more accurate than the objective estimate. This year's subjective estimate is virtually identical to last year (1.45 billion in 2009 v. 1.46 billion in 2008). Is 1.45 billion pounds this season considered a "small" crop? And if that is the case, is it likely to get smaller, as the saying goes?⁴ Interpret as you will.

Bearing acreage

The 2008 California Almond Acreage Report was released on May 1st. We are told by the higher powers that we have 710,000 bearing acres. That means that we are looking at 2,042 pounds per acre on a statewide average in 2009 if the subjective estimate is close.

Here are the numbers as we think they may unfold:

Analysis

Carry-in from the 2008 crop year:	450 million pounds
2009 Crop Receipts:	1.450 billion pounds
Less 3% loss / exempt:	(44 million pounds)
Total available supply:	1.856 billion pounds
Less projected shipments:	1.450 billion pounds ⁵
Remaining supply:	406 million pounds

This would seem like a scenario for stability.....sure...let's all think happy thoughts.

³ Weiss, Martin. (May 2009). Five Economic Storms Raging Now! [Money and Markets](#).

⁴ For those of you who are unfamiliar with the statistically insignificant but well-circulated theory, here it is: "Big crops get bigger and small crops get smaller." There is no definition of "big" or "small," which allows this theory to be proven right by whoever is doing the theorizing. This is our kind of theory. Because, like everyone else in this business, we are never wrong. We just have to work a bit harder to make the facts fit our interpretation of "right."

⁵ We are assuming 1.35 billion pounds will ship this season; that we will have an increase of 7-8% for 2009 - coming mostly from Asia and the Middle East. We expect Europe will remain flat unless there is quick economic recovery, in which case at current low standard prices (not even factoring currency), demand can jump in Europe as well.

Conclusion

Last month when we were looking forward to today, we were hoping for more clarity. In all honesty, we did not get much clarity. We have very strong shipments, regardless of your point of view. And we have ample supply, regardless of your point of view. Logic would dictate stability. Lucky for us, we are in the almond business, where logic is often suspended in favor of emotional overreaction, commercial piracy and ethical depravity.⁶

So what do we think is going to happen? Here you go:⁷

- The inshell market will remain firm through the summer. There is virtually nothing left of the 2008 crop. The strength of pricing for the 2009 crop will depend on: (a) how soon the crop can be harvested and shipped to catch Diwali (in India, October 17); (b) how much demand will increase from China (inshell shipments have tripled there year to date); (c) how many processors will decide that they want to play the inshell game too – as the returns (at least this year) have dwarfed the shelled market and everyone now wants a piece of the inshell action. The number of new sellers will reduce the profitability of inshell.
- Nonpareil Extra and Nonpareil Supreme should hold current levels if sellers have the discipline to realize that demand from the Middle East is unlikely to be strong early in the season because Ramadan starts on August 21. Everything for this Ramadan will come from the 2008 crop and that is why the shipments of NP / Carmel have been strong between March through today. Nevertheless, we all know that California loves to drop its pants early, and drop they will again unless they realize that Ramadan will indeed come again – and that in 2010 it will come on August 11th. So California only needs to wait until January or February 2010 for demand from the Middle East to come in earnest. As for China, we fully expect continued growth of the Nonpareil market. Now if you're holding Nonpareil Select Sheller Run, hope you like selling to Russia...(or use a better huller/sheller and take quality of output over speed).
- Carmel/Carmel Types will do well in the Middle East and in China, especially if (a) the Nonpareil crop is as bad as some people have been claiming, and (b) if the Nonpareil market starts trading at what buyers consider to be unreasonable premiums over Carmels. Just as we have seen huge demand for Carmel/Carmel Type supreme from the above two markets emerge this season, the same scenario has the potential to repeat itself for the 2009 season.
- Butte/Padre will remain the pivotal varieties that determine the extent the bulk of the carry-out. Potentially over-planted and limited in sales mostly to the domestic and European markets, they are the high-yielding, great standard-making, albatross around your neck varieties. If what you have to sell is Butte/Padre SSR 34/36 AOS, what you are selling is standards...and you are selling product into a buyer's market. Get in line (behind the big boys who cover industry quietly), and don't expect good returns. Europeans all know there is no shortage of standards, so you can try to bluff and act like we're running out..... but it won't work. Until the glut is gone, expect standards to sell at the lower tier of this three-tier market. There is one bright spot, which has been illustrated recently: when California stopped the BSU5% price decline at \$0.95 per pound, they actually started selling product at \$1.05 - \$1.08 per pound.....the demand always comes on the rebound, never during the freefall. California, as the old country saying goes, you may want to "wear these words like an earring on your ear" so you don't forget.

⁶ Ok, ok, ok...we know that this holds true for every industry, not just almonds...but it sounded good for a couple of seconds, didn't it?

⁷ Caveat Emptor: remember once again that we thought the bottom of the BSU5% market was \$1.50 per pound and we would have gone long at that price but for the fact that it only stayed at \$1.50 for a day before heading down to \$1.40, then \$1.30, then \$1.20, then...well you get the gist. If you trade based on this information, do not complain to us when you go out of business.

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Next up, the objective estimate on June 30.

“No matter how rich you become, how famous or powerful, when you die the size of your funeral will still pretty much depend on the weather.” Michael Pritchard.

(see bonus section below)

Best regards,
DERCO FOODS

Back by no demand whatsoever.....

Top Ten Things That Will Be Overheard at the INC in Monaco ⁸

10. I don't have any BSU5% loads stuck in Italy, Spain or Greece. I was really lucky this year....I only had one small domestic buyer default on me....nothing serious. ⁹
9. I am from Turkey and I'm looking for inshell Chandlers. I want thin shell, uniform size, extra light color and downward price protection.
8. I am from Greece and my credit is good.
7. I am from Italy and.....[the other party walks away before they can hear the rest]
6. I am from California and I process walnuts. I'm not sure that I sold you anything, but do you want to renegotiate anyway?
5. Come get me. I live in [insert Mediterranean country here]!! It was easier for Theseus to slay the Minotaur than it would be for you to actually recover anything from me!
4. My accounts receivables are strong. I have been paid on most of my 2007 crop shipments.
3. INC registration: \$2,300.
Ocean view suite at the Fairmont: \$1,240 a night.
Martini at the bar: \$20.
Leaving your containers at the port then hugging you at the welcoming cocktail reception: Priceless! ¹⁰
2. Spanish banks. Qué Lástima.
1. Buy from Derco. They supply their own lubricant to make your work that much easier!

⁸ These are meant to be humorous. If any one of these scenarios seems to fit you as a reader, rest assured that it is purely coincidental. Especially if you are from Spain, Greece or Italy. Sincerely...purely coincidental.

⁹ First, this is a lie. Second, there is nothing wrong in having BSU5% loads in any of these countries. When you fly there to renegotiate your contracts, you will see that they all have a rich heritage, good food, beautiful beaches, historic architecture....and the demurrage is much lower than in Hong Kong. It's win-win all the way, baby.

¹⁰ For those of you who live in the US: Yes, I know - This is a blatant rip-off of the popular MasterCard advertisements. For those of you who live overseas, you have no idea what this means anyway, so no disclaimers are necessary.