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May 2009 Almond Position Report

May 2009 shipments were 119 million pounds. This is up about 35% from the May 2008 shipments of 88.5 million pounds.

Analysis

Carry-in from the 2007 crop year:	231 million pounds
2008 Crop Receipts:	1.612 billion pounds
Less 3% loss / exempt:	(48 million pounds)
Total available supply:	1.795 billion pounds
Less shipments to date:	1.149 billion pounds
Remaining supply:	645 million pounds

Shipments

Seller's Perspective: Year to date shipments are up 8.5%. Shipments since January 2009 are up an average of 26% per month. This is beyond spectacular. What global recession?

Buyer's Perspective: A good performance. At what prices were these contracts done? NPS 27/30 at \$1.60 per pound? NPS 23/25 at \$1.80 per pound? Those were the prices in January and February for shipments March through July. Obviously many people in the Middle East and Asia took advantage. Perhaps a strong argument that lower prices do indeed stimulate interest?

Export

Seller's Perspective: Exports are up over 42%. The growth continues to come from developing markets. Europe is down about 10%, while the Middle East is up 62%, Asia is up 37% and Africa is up 142%. Europe is still a formidable and vitally important market, accounting for 46% of exports. But the Middle East, Asia and Africa now account for over 47% of exports. Costa Rica is making progress too...watch out.

Buyer's Perspective: Definitely a changing landscape, which is needed to help California market these massive crops. I know you guys don't want us to mention this, but there are a few unsold loads of BSU5% in Europe. You may have a friend who has a few. We have a very close friend who has some.¹

Domestic

Seller's Perspective: Domestic shipments are up 18%. A new record at 33 million pounds.

Buyer's Perspective: Just to keep your previous exuberance in check, please note that your domestic monthly shipments for the month of May are 10 million pounds more than the season-to-date totals of all the shipments to Africa. Maybe you should not throw around African almond import statistics with so much bravado. Up 142%. Good for Africa. Take out Algeria and Egypt and the typical American housewife uses more almonds than the rest of Africa.²

¹ Ok, we don't really have a "friend." They are our almonds. In our defense, they had a home when we shipped them. They were orphaned in transit....But we emphatically deny the use of Viagra. Those pills we ordered were indeed for our friend.

² No need to check this statistic with the Almond Board of California. This is not true. It is exaggeration for effect. The rest of Africa admittedly uses more almonds than the typical American housewife, who as we all know, does not cook or bake anymore. Ok, this is not entirely true either. My mother-in-law is a very good cook and uses almonds regularly. Be she is an immigrant and her husband is deceased. Would she qualify as an American housewife? I digress once again.

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Commitments

Seller's Perspective: Committed inventory is up around 25% compared to last season.

Buyer's Perspective: Uncommitted inventory is up over 91% compared to last season. Thank you for flying United. Be careful while opening the overhead bins as contents may have shifted during the flight.

Currency

The US Dollar is getting weaker against the Euro. The average for the month of February was 1.278; for March 1.304; for April 1.319; for May 1.363...and so far in June, 1.41. This trend favors California almond exports. Whether or not there is even further weakness in the USD and if the \$1.45 and \$1.50 levels can be tested remains to be seen.

Defaults

They have been mounting steadily since January 2009. Mostly in Europe. Mostly by industrial grade almond buyers. Mostly by people who bought more than they could pay for, with the usual heartfelt excuses.³ Names to follow in later issues. The question is what the industry is going to do about this when the legal systems in the majority of the most problematic countries are clogged, opaque and inefficient.

Conclusion

Through May we have shipped 1.149 billion pounds. If June and July of this year are simply flat – the same as last year – the total figure shipped will be 1.350 billion, which will leave us with a carry-out going into the 2009 season on August 1st of 445 million pounds. This figure could be closer to 425 million pounds if either June or July show some increases.

Good Catholics know that Purgatory is Heaven's waiting room.⁴ The length of your stay depends on the ambiguous virtuousity of your terrestrial life. It is an elegant (if guilt and fear-inspiring) word that encapsulates the concept of "being in limbo."⁵

May is our purgatory month in the almond business. We have exceptionally strong shipments but we don't know what the objective estimate is going to be. The objective matters every year, but this year it has special meaning because we are virtually assured a 425 million pound plus carry-out into the 2009 season. If the objective is over 1.45 billion, prices will likely stay flat or weaken, because no buyer is going to believe that California can bluff for higher prices at the start of the season. It is not that 425 – 450 million pounds is a staggering percentage of the overall crop. It is not. But from a practical point of view, 450 million pounds is a lot of almonds. Many holding 2008 inventory are simply not going to be able to store the nuts they already have and make room for a 1.45 billion pound new crop. The unglamorous reality of having to make space may result in the discounting of 2008 crop and possibly discounting of 2009 crop as well...depending on the peculiarities of harvest timing between August – October.

³ 1) My clients are slow in paying me. 2) What Fax? 3) I did not think my credit would be cut back so sharply or I would not have bought the multiple luxury cars last summer on my line of credit. 4) It's expensive to go to the INC and pay €70 for breakfast – I can't pay you and live a life of luxury. 5) Do you think that living in London is cheap? 6) The real estate in southern Spain just isn't what it used to be. Etc. etc. etc.

⁴ I have gone to 14 years of Catholic school and for that reason I do not qualify as a good Catholic.

⁵ Limbo: not knowing the result or next stage of something and powerless to influence it. Also known as the daily existence of an almond trader.

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There is no question that the Middle East has played a huge role in these strong shipment numbers during the past several months. Ramadan inventories were being built up. This is why the premiums for Nonpareil and Carmel (in Supreme and Extra #1) have gone up, whereas the SSR grades and BSU5% have remained mostly unchanged or even gone lower. Back in January, BSU5% was trading at around \$1.10 - \$1.15 per pound on an FAS basis. Today, it is trading at \$1.00 - \$1.05 per pound with reported second hand trades at \$0.95 per pound. In contrast, back in January, Nonpareil Supreme 23/25 was trading at \$1.80 per pound FAS basis and today it is around \$2.10 - \$2.15 per pound. This is not a massive increase in 4 months, but if you consider that BSU5% got weaker during the same time period, it shows clearly from where the demand has been coming.

At the risk of beating a dead horse, which we enjoy doing as much as the next guy.....Through January 2009, Western Europe was down 12% season to date and Eastern Europe was down 6%. The Middle East was up 16% season to date and Asia was up 26%. Through May 2009, Western Europe is down 9% and Eastern Europe is down 12%. Not much change, whereas the Middle East is up 62% and Asia is up 37%. The growth has not come from Europe, despite BSU5% prices falling to what many ineloquently refer to as "stupid" prices.⁶

It is important for California to remember the dynamic we have seen since January. Next year Ramadan comes even earlier (August 11th). California needs to have confidence in its ability to sell 1.35 – 1.45 billion pounds of almonds (barring big price increases) on a seasonal basis. It needs to do its best to "unlearn" this massive emphasis on monthly shipments (which California itself created a few years ago when prices were going up consistently and California would not sell forward contracts to European industry).

If sellers don't look at the coming season with a wider lens, it may well result in more unpleasant prices for growers. The unpleasantness for industrial grade prices is virtually already assured. There are going to be more standards than demand for standards. But there is hope for the rest.

"The young man who has not wept is a savage, and the old man who will not laugh is a fool." George Santayana, (1863 - 1952), *Dialogues in Limbo* (1925). If you have been in the almond industry for more than 10 years, it is likely you do not qualify as either savage or fool.

Best regards,
DERCO FOODS

⁶ We readily include ourselves in this category, though we fully understand supply/demand dynamics. When you have loads stranded overseas, \$1.00 per pound is a "stupid" price. When you are short, it is the "right" price. C'est la vie. We are slowly getting over it and advise you do the same.