

May 2010 Almond Position Report¹

May 2010 shipments are 91.972 million pounds. This is down about 23% from the May 2009 shipments of 119.391 million pounds.

Analysis

Carry-in from the 2008 crop year:	413 million pounds
2009 Crop Receipts:	1.405 billion pounds
Less 3% loss / exempt:	(42 million pounds)
Total available supply:	1.777 billion pounds
Less shipments to date:	1.261 billion pounds
Remaining supply:	515 million pounds

Shipments

Seller's Perspective: It's easy to over-dramatize a 23% drop in shipments. Two quick points to note: (1) The previous record before the May 2009 staggering shipment total of 119 million pounds was 88.5 million pounds set in May 2008. May 2010 at 91.9 million pounds is still the second strongest May shipment in history. (2) The shipments early last season were weak (October 2008 – January 2009 were all lower than the same month in the previous year). Buying activity resumed in February 2009, as the market was crashing. Shipments recovered and the overall total for the 2008 season was 1.389 billion pounds. But we have already reached 1.261 billion pounds with 2 months left in the 2009 season. We expect total shipments to be around 1.45 billion pounds by July 31st. This will be an increase of about 5% over last season.

Buyer's Perspective: Good, valid points. We can't disagree. But the fact is that we look at the overall scenario and we see shipments down 23% in an environment where California is already unsteady. If you were in our shoes, would you buy now? You have to give us a reason to buy, and when all you can do is drop prices lower, then all we can do is wait longer. We look back at the reports from your industry from a few months ago – virtually every one expressing astonishment at shipments and saying how prices must go up to slow things down. Well, things slowed down, but prices went down too. That's what happens when people buy too much too soon. We think the current prices are fair, but if you're going to offer us even lower prices, why argue?

Domestic

Seller's Perspective: A fantastic new record at 39.25 million pounds; up nearly 19% compared to last May which was also a new record at 33 million pounds.

Buyer's Perspective: If only exports weren't down by nearly the same amount as your domestic shipments.

Export

Seller's Perspective: 52.7 million pounds, down 39% from the record set last May of 86 million pounds. Markets are digesting what they have bought.

¹ Yes, right off the get-go, another disclaimer. This one is necessary. This report has the potential to offend everyone on every continent of this globe (though some will certainly be offended to greater degrees). If you are in the almond business, a buyer, a seller, religious by any measure, or a shameless defaulter who does not know when to go into a different industry...you are sure to be offended. So if you're not in the mood to laugh (or cry), just delete this message or throw out the copy you just printed in the trash and save yourself the grief. Please don't send us complaints or mails expressing horror, disbelief, shock, disapproval, annoyance, or "you went too far this time." We have no time to read them. We are busy with "Unintended Long Positions" to resell. If you can take a joke, and if your life has more meaning than the nuts you buy or sell, please read on. And remember, whatever your problem, it could be worse...you could be an Australian almond exporter holding contracts to the UAE and India.

Buyer's Perspective: Digesting, indeed. With some heartburn.

Objective Estimate Delayed

The objective estimate is delayed from June 30 to July 8. The weather has been cool and the trees are running late. They are experiencing "extremely late maturity" according to the National Agricultural Statistics Service (NASS). This is NASS jargon for: "Everyone is going to say that the crop will be 2-3 weeks late until harvest, which will really end up being about 5 days later than usual when all is said and done. But, in the meantime, the August inshell Nonpareil sales will carry a better premium." We readily admit that this is too cynical a view. Let's wait until July 8th and give the "nuts-per-tree-limb counters" a chance to ply their trade. In all fairness, they do a reasonably good job.

Currency & Finance

All those who had lost faith in the US Dollar, shame on you. The Greenback is back and he's back in style.

November 2009:	€1 = \$1.49
December 2009:	€1 = \$1.46
January 2010:	€1 = \$1.42
February 2010:	€1 = \$1.36
March 2010:	€1 = \$1.35
April 2010:	€1 = \$1.34
May 2010:	€1 = \$1.25
June 2010:	€1 = \$1.20 (partial month)

Sell lots of almonds to Europe? Look at the bright side. You can now go to Germany and pick up your BMW for a 30% discount. Or if you have more afloat and spot positions than you intended, you can get an even better deal on an Opel right now – have you seen the Corsa Color Race? You can get it for about €15,000. That's less than what you're losing per load on your defaults from the UK!. Who said there's no silver lining to this dark cloud? Parity to follow.

Prices

"Prices are falling like bird shit...so tell one of your girls to call me back so that we can put some business on the books before they fall any further." A domestic broker actually sent this exact fax to Derco about 23 years ago. We kept a copy, printed on thermal paper. It's not quite Shakespearean prose, but it sums up the current situation nicely.

The almond market is down about \$0.60 per pound from the highs we saw after the January shipment report was released. Seems like a long time ago, doesn't it? Well, rest assured, the market will go up again. And when it does, it could well correct with a vengeance. Until that time, buyers are "watching the market" intently so that they can identify the bottom after they have missed it.

CajaSur and the Catholic Church ²

So CajaSur, a bank controlled by the Roman Catholic Church, was taken over in May by the Spanish Central Bank in order to avoid collapse. It seems CajaSur was lending "freely" to Spanish real estate companies who were building with reckless abandon. Mario Puzo would be jealous of this plot – but it's 100% non-fiction! It's not quite The Godfather Part III. It's better. Replace Father Fernando Cruz Conde, third-most-senior director

²Freely borrowed from...Minder, Raphael. "Failure Highlights Woes Facing Spanish Banking." *The New York Times*. Web: June 3, 2010, 4:22 pm

2670 West Shaw Lane, Fresno, California 93711 U.S.A.
Telephone (559) 435-2664 • Fax (559) 435-8520 • www.dercofoods.com • e-mail: derco@dercofoods.com

of CajaSur, with Michael Corleone. Then replace CajaSur with Immobiliare. Then pretend that Sophia Coppola can act....ok..too much of a stretch....?³

Have you ever been in a position where the bank says they never got the documents but your CajaSur client in Spain nevertheless cleared the container and got the almonds? Sure you have – it's a rhetorical question. You can hear the laughter in Almeida, Spain....Aaahh to be sitting on the shores of the Mediterranean, sipping a Carajillo with Diego & Sergio.

On the brighter side, it was refreshing to see the Catholic Church leaving the boys behind to chase the real estate. Even if it was only a short-lived affair.⁴

EVERYONE GIVE A WARM WELCOME TO.....

The Sheikh of Style, the Guru of Grace, the Baron de Baskan, the One, the Only - Mr. Shabbir Abidali!!!

That's right, ladies and gentlemen, after a short absence from the almond world, Mr. Abidali, formerly of Indo Mediterranean Commodities infamy, is back and wants to work with YOU! And he's got DEMAND! Sadly, he still owes Derco a little money – and countless unreturned phone calls. But what's a little etiquette faux pas and a hundred thousand dollars between friends? Exactly!

So when you ink your new deal with the King of Carmel, the Beacon of Butte, the Prince of Padre, the Maven of Monterey, the Nonpareil of Nonpareil, the Unblanchable Standard of Blanchable Standard - just be sure to remember...He is a *very* pious man and is often in the mosque deep in prayer. No mobile phones allowed! So any time you try to reach him to ask about what may soon become your very own abandoned containers, you're going to have to go through a power higher than your nearest cel phone tower.

Good luck, Mr. Shabbir – and please keep us in your prayers!⁵

Conclusion

The lure of "working direct" with many people around the world is certainly strong for California growers and packers. In fact, some companies have even incorporated this concept right into their company names. So as you are trying to figure out how to pronounce that Turkish company's name while you are speaking to your lawyer about your legal options in Istanbul....remember, the draw of the excitement is probably worth that \$100k you're never going to see. And hey, look at the bright side: you saved 2%!! After all, working with people right here in California who pay their bills and don't ask for a \$0.50 per pound discount (when you are volunteering that same discount because you don't know how to handle your receivables overseas) is boring. And who wants boring when you can sell to someone with "Gida Sanayi ve Ticaret" in their name? Sexy!

³Michael Corleone and I have something in common. He is referring to the "Business" and I am referring to the "Almond Business" or to be more precise, "Unintended Long Positions" when he says: "Every time I try to get out, they pull me back in!!" The Godfather Part III: Coppola, 1990.

⁴ For the devout Catholics who have been offended by my blasphemy, don't worry – I am sure that you will take solace knowing that my destiny will be one of eternal flesh melting and teeth gnashing. Wait, wouldn't it be even more hellish to be eternally long in an endlessly falling market? Maybe it's best to ask some traders that question. They will actually know the answer...and the NPX 18/20 is the special this week at \$2.70 per pound FOB Hong Kong for prompt. Only while supplies last...forever!

⁵ Ask God to please send us \$101,955.00 plus 4 years and 4 months of interest! We are sure that God remembers that On January 12, 2006, you agreed to pay us this amount, due no later than February 15, 2006. In case God has forgotten (in an unlikely momentary lapse of Omniscience), we have the E-mail exchange available upon request to remind Him.

The marketing challenge the almond industry faced this year was in the euphoria experienced watching shipments increase month after month, and not realizing that many markets had overbought. This came to a sudden halt when we reached February and demand virtually stopped. It's not that the various global markets can't consume what they bought; it's just that they can't consume it at the same pace as their purchases. This created a glut, which created inventory that was unexpectedly difficult to move for those who were taking long positions and counting on an ever-increasing market. And so here we are.

Reasons market will continue to fall:

- Shipments lagging behind
- Euro weakness
- Well documented European economic woes
- Rumors of high-profile defaults
- Too late to buy for Ramadan – the Middle East never really came back to California. Dubai decided to show their love to Australia instead. Sadly, the relationship seems to be on rocky ground.
- Still some inventory in Dubai with Australian product committed through summer months
- Still some inventory in Hong Kong (though this is running low)
- No unity in California – still weak sellers with product to move (cash needs and storage limitations)
- No buyer confidence.
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Reasons market will turn around:

- Almonds are a cheap tree nut alternative when looking at pistachios, walnuts, pecans, cashews
- The new crop is potentially delayed a few weeks.
- There has been considerable activity on spot and afloat loads. Inventory levels in Europe are low to manageable (depending on who is doing the narrating). Eventually, this demand will shift back to California.
- Seasonal supply is in reasonable balance with demand – assuming a crop of 1.55 billion pounds and a 300 million pound carry-out, California will have a total supply of 1.8 billion pounds (3% loss/exempt removed) for the 2010 season. This is about 30 million pounds more than what was available last season.
- Demand will not decrease if the supply is available. There is virtually certain demand for 1.45 – 1.50 billion pounds. This is what we will get assuming there is no growth next season (which has not happened in the last 10 years when supply has been available).
- Some larger growers are still convinced that the crop will not make 1.55 billion pounds (they are mostly in the central San Joaquin area, where the crop, especially the Nonpareil, seems the weakest). They are trying to hold prices firm.

Buyers are saying that last year at this time BSU5% was \$1.00 per pound....why should \$1.70 per pound be the bottom this year? That's a legitimate point. Differences could be argued as: (A) Global economic climate is much better than where it was one year ago. Maybe not specifically in Europe, but overall, much better. (B) Last year's defaults were more prolific than anything we have seen yet this year and they happened on almonds that had already arrived or were afloat. This is more difficult to manage than defaults on unshipped product. These defaults created an immediate glut of product, which further depressed the market. (C) 1.45 – 1.50 billion pounds of demand is proven and eminently achievable (though admittedly the price levels to achieve this are open for debate).

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No buyers are saying that the current prices are too expensive. Rather, they are saying that their individual markets have lower priced inventory which is being sold at below replacement cost. Or they are saying that they have no confidence in the market. The solution to both those points is seller resilience and silence. Much easier said than done. The \$1.70 levels will be tested shortly. It's a level at which we know there is buying interest in Europe. But only if California stays firm at \$1.75....

"The one serious conviction that a man should have is that nothing is to be taken too seriously." Nicholas Butler. (1862-1947)

Best regards,
DERCO FOODS