

June 2006 Almond Position Report

June 2006 shipments were 80.377 million pounds. This is up about 21% from the June 2005 shipments of 66.1 million pounds. This represents the highest ever shipment figure for June (previously 73.9 million pounds in June 2002).

Carry-in from last year: 137.7 million pounds
Crop receipts to date: 911 million pounds
Less 4% loss / exempt: (36 million pounds)
Total Supply: 1.012 billion pounds
Less shipments to date: (854 million pounds)
Supply Remaining: 158 million pounds

The objective estimate for the 2006 crop year was released on July 6th: 1.05 billion pounds on 580,000 acres.

Assuming that July 2006 shipments stay on pace with July 2005 (54.8 million pounds), here is what next year's supply situation may look like:

Carry-in from the 2005 crop year: 100 million pounds
Objective 2006 crop estimate: 1.05 billion pounds
Less 4% loss / exempt: (42 million pounds)
Total Supply: 1.108 billion pounds

Comments on the estimate

The prevailing sentiment in California is that CASS does a thorough and conscientious job in estimating the crop. They have no agenda and have a vested interest to put forth an accurate estimate.

Some people were commenting that the crop would be smaller than the consensus of 1 – 1.1 billion pounds because of the higher nut count per tree which would indicate lighter weight nuts. CASS seems to have taken this fact into account. They indicate that the nut set per tree is up 23%, but that the kernel weight is down 12%.

The inclement weather that we had during bloom and into spring was a concern to others who felt the crop would be smaller. CASS also addressed this point and noted that though some areas were "spotty," production was "strong overall."

A lot of discussion has revolved around whether or not the acreage figure is accurate. A minority believe that the actual acreage is less than the reported 580,000 acres. The majority feels that 580,000 is too low and that using 600,000 acres would be more indicative of the actual situation in California. Industry members have also commented that the production of third-leaf trees will be significant this year and that this figure is not accounted for in the 1.05 billion estimate. Regardless, 1.05 billion pounds is the number we all have to work with until harvest is well under way.

So as most people are on vacation or getting ready to go on vacation, what are some noteworthy factors to consider?

During the last 30 days.....

- It has been difficult to pinpoint the market. Offers have varied widely and wildly. Buying interest has been limited and sporadic. 20 tons has on many occasions set the “market price.”
- Growers have been holding out for higher prices. Those who said they would be sellers at \$2.00 per pound retreated from this position once field prices reached this level.
- Many growers have been influenced by some very attractive field prices being circulated in the market. It has not been confirmed whether or not these prices were actually paid – or paid for any considerable tonnage. But the mere fact of this information floating throughout the market has had a “paralyzing” effect on many growers. They have hesitated in committing their crops through their usual channels in fear of missing out on higher returns elsewhere.
- Buyers have been watching the World Cup or have gone on vacation. Most seem to be covered for what is now being universally called the “difficult transition” period of August - September. Those who are not will pay a premium.
- Middle Eastern buyers are still looking for Nonpareil Extra #1, Nonpareil Supreme and Carmel Supreme in sizes 23/25 or larger. But they are increasingly hesitant to pay \$3.65 per pound or more when September positions have been offered at around \$1.00 per pound less. Those who have not found stocks seem to be resigned to the fact that new crop will not make it in time for Ramadan. They don’t want to risk holding high priced inventory once the holiday demand has passed and attention turns to the 2007 bloom.
- Independent packers have sold a lot of inshell Nonpareil to India already. India has also replenished stocks with Australian almonds. How much more buying India will do at prevailing levels remains to be seen.
- Shipments continue to be strong. March, April, May and June shipments of this year have been higher than the same time last year. May and June have been record shipment months. Exports have been the catalyst for this increase in shipments during the past 4 months. The domestic market has been flat in recent months and is down about 9% year to date.
- No one wants to be the buyer of that last high-priced current crop container....but someone is going to be.

Almond market corrections during the past 12 years

Everyone keeps talking about a price correction. So we thought that we would take the time to apply some numbers to all the talk to see if there are any patterns that emerge. The following analysis is not meant to be exhaustive or comprehensive. It is an attempt to bring a bit of clarity to a multi-faceted, complex and ever-changing market and landscape.

During the past twelve seasons, the statistics that we have reviewed indicate that there have been about nine significant downward price corrections. Eight of these corrections occurred between the months of August – November. Three were in August; one in September; three in October; one in November. For the purposes of the analysis below, all prices quoted are for NPS 23/25 AOL FAS California port (they are approximate figures).

- 1995 October Subjective estimate was 430 million pounds; objective estimate was 310 million pounds; actual receipts were 366 million pounds. The market went from a high of around \$3.20 per pound in September 1995 to \$2.50 per pound by March 1996.
- 1996 August Subjective estimate was 520 million pounds; objective estimate was 530 million pounds; actual receipts were 507 million pounds. The crop in 1996 was significantly larger than the previous year (366 million pounds in 1995). Prices for NPS 23/25 AOL went from a high of \$3.10 in June 1996 to \$2.45 per pound in just 2 months (but recovered for the rest of the season)
- 1997 August Subjective estimate was 710 million pounds; objective estimate was 680 million pounds; actual receipts were 757 million pounds. 1997 was a more dramatic repeat of 1996. From a high of around \$3.00 per pound in June/July, prices plunged to \$2.05 per pound in August.
- 1998 November Subjective estimate was 550 million pounds; objective estimate was 540 million pounds; actual receipts were 517 million pounds. From a high of \$2.30 per pound in August, starting in November prices started to drop and ended up as low as \$1.30 in April of 1999.
- 1999 September Subjective estimate was 760 million pounds; objective estimate was 830 million pounds; actual receipts were 830 million pounds. The carry-in was 92 million pounds (17% of the previous year's total supply). The price in August of 1999 was \$1.50 and in September it dropped to \$1.20 per pound. Prices recovered slowly throughout the season and peaked at around \$1.75 per pound in April.
- 2000 October Subjective estimate was 675 million pounds; objective estimate was 640 million pounds; actual receipts were 698 million pounds. The carry-in was 175 million pounds (21% of the previous year's total supply). The price correction was a year-long, steady decline which started in October at around \$1.60 per pound and dropped all the way to \$1.25 per pound by September 2001.
- 2002 August Subjective estimate was 940 million pounds; objective estimate was 980 million pounds; actual receipts were 1.083 billion pounds. The carry-in was 81 million pounds (9.8% of the previous year's supply). The price in July was \$2.00 per pound and dropped to \$1.65 per pound in August. From that time onward, the market rose steadily with very minor corrections through October 2005.
- 2005 October Subjective estimate was 850 million pounds; objective estimate was 880 million pounds; actual receipts were 910 million pounds. The carry-in was 137 million pounds (13.7% of the previous year's supply). The market peaked in June/July of 2005 at \$4.20 per pound. In October, it dropped to \$3.80 per pound and went as low as \$2.50 per pound in March.

Correction for 2006?

How are the variables shaping up for 2006? The subjective estimate was 1.02 billion pounds; the objective estimate is 1.05 billion pounds. We will not know the actual receipts with a degree of certainty until early December. Assuming that we carry-out about 100 million pounds from the 2005 crop, that would reflect 11% of the previous year's supply. This is not a high carry out looking at the past eight years, but it's not the lowest,

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

either. Current crop prices are around \$3.60 per pound for NPS 23/25 AOL and new crop is trading at \$1 per pound less. It seems that we are looking at a textbook case of what happens when we head into a bigger new crop while current crop prices are high to account for the lower inventory.

The question that everyone is asking is whether or not the market for new crop will settle at \$2.60 per pound, or strengthen / weaken from that point forward. We have not found statistical support for one argument or the other. In certain instances, a correction has been followed by a continuous, prolonged decline. In other years, the correction has set the floor for the season and prices have gone up incrementally.

Additional considerations for this year include: (1) what currency will do; (2) how much of an impact the Spanish crop will have; (3) the collapse of the Turkish hazelnut market; (4) the prospect of a big 2007 crop; and (5) what traders and the second hand will do as they realize that their days to easily create big price swings may be nearing an end. Once crops get big enough and carry-outs become unwieldy, it will be difficult to convince buyers or sellers to move dramatically in one direction or another.

Conclusion

We have the second largest objective estimate ever. Against this strong supply figure, we are seeing very strong demand. The last four months of shipments have been stellar without a doubt. But when were the contracts for shipment during these recent months concluded and at what prices? Was business for the summer months concluded back when prices were more moderate or did buyers pay higher prices for big tonnage as the market moved up? How many sellers had the discipline to hold back their inventory and benefit from the higher prices? From the few offers in the market, the answer would seem to be "not many."

A random sampling of Derco's June almond shipments indicate that 88% of our contracts for this period were concluded in the month of April or before. Only 12% of our contracts were over \$2.50 per pound (for any variety / size). The average price of all our shipments was \$2.30 per pound. We do not assume to be a reflection of the entire almond market in any way, shape or form – but our reality in this instance may be a reflection of other companies' sales as well. This statistic may lend credence to what many of the largest buyers in the world are repeatedly saying: almond prices are elastic. In fact, they are more elastic than many people are willing to accept. Price corrections do not happen instantaneously because this is not a perfectly efficient market. Higher and lower prices tend to linger until the full force of the demand correction (up or down) is felt. We have seen this when the market fell below \$1.00 per pound for BSU5% back in 1999 and when BSU5% went as high as \$3.80 per pound in the summer of 2005.

Now the stakes are getting higher as harvest is likely around 45 days away. If you've got current crop, you have to move it. If you need current crop, you have to buy it. What will happen in the next few weeks will depend on who is in the most dire position. As far as new crop, the price correction for September onwards is already a foregone conclusion. Demand will determine whether the market will move up or down from the levels being quoted today for new crop.

Kenneth Chang said that "a market is the combined behavior of thousands of people responding to information, misinformation and whim." Who knows this better than those of us in the almond business?

Best Regards,
DERCO FOODS