

June 2007 Almond Position Report

June 2007 shipments were 82.287 million pounds. This is up about 2.5% from the June 2006 shipments of 80.377 million pounds.

Analysis of current (2006 crop)

Carry-in from the 2005 crop year: 112 million pounds
Receipts through June 30, 2007: 1.113 billion pounds
Less 3% loss / exempt: (33.4 million pounds)
Total Supply: 1.192 billion pounds
Less shipments to date: (984 million pounds)
Less estimated carry out: (150 million pounds)
Remaining Supply: 58 million pounds

It's July. Most of you are on a beach and not really making much of an effort to download this .pdf document onto your hand held devices. So for those of you have the misfortune of being in your offices and who opened this message, we feel your pain.

Shipments

Seller's Perspective: 82 million pounds and a new record for June, surpassing the old record of 80 million pounds set last June. So far this season we have shipped 984 million pounds, a new record. This is proof that at the current levels, demand is quite strong and that further discounting is not warranted. We will ship 1.05 billion pounds this year.

Buyer's Perspective: A good number but not a surprise. The current crop market went up the past few weeks by over \$0.10 per pound in anticipation of this figure. In the meantime, in order to get to this record shipment figure, prices dropped over \$0.50 per pound since March. We are certain that a huge portion of the June shipments were done very recently – and all for prompt shipments.

You are getting excited about potentially hitting shipments of 1.05 billion pounds. We are happy for you and that's certainly a noteworthy accomplishment for this season. Hopefully you will see the improved shipments of the past few months, spurred by lower prices, as good indications of where the market needs to be in order to move record tonnage. Raise your prices and you may have good shipments for a while, but good shipments are not enough any more. Record crops demand record shipments. These monthly numbers are going to have to be higher by 10-20% next year, not by 2.5%.

Commitments

Seller's Perspective: 111.4 million pounds of current crop committed. Don't ask us through when – we think it's through August. We're not really sure either. The season ends in July. New crop starts in August. If you're confused, raise your hand...(our hand is up).

Buyer's Perspective: Who will volunteer to teach a seminar on committed / uncommitted inventory and the reason for the prominent position it holds on each month's Almond Industry Position Report? If you find a competent instructor, sign us up!

Domestic

Seller's Perspective: Do we even need to say it anymore? Can't you just guess? Yes, yes, another month and another domestic record. We're good – but we're humble. No gloating here, not by us. When you're so good, you don't have to gloat. All we need to do is look into your eyes – and we see our reflections - we can see how good we are. No need to gloat. Not in California – the land of the humble, understated, elegant grower. Remember where the root for the word "HUMILITY" comes from: Hummer + Ability. We got both.

Buyer's Perspective: Ninth record domestic shipment month accompanied by such modesty. A sight to behold.

Export

Seller's Perspective: The record was 52.6 million pounds set in June 2003. We missed that by 2.44 million pounds. Close enough as far as we are concerned.

Buyer's Perspective: Shelled and manufactured exports were down. Inshell shipments saved you in June – they were nearly double the figures of June 2006. Still, even though 50 million pounds is a good number (third highest June), it's not good enough. Next year if all you have is 50 million pounds in June, you will be in trouble. It's time to start expecting more out of export shipments. The domestic market mule can only carry you so far.

NEW 2007 CROP ANALYSIS

Carry in to 2007 crop: 140 million pounds
2007 crop objective estimate: 1.33 billion pounds
Less 3% loss/exempt: (40 million pounds)
Total Supply: 1.43 billion pounds

Seller's Perspective: "This is an expansion opportunity. We expect California to price its almonds attractively vis à vis other nuts, and to move prices up in a measured manner through the course of the season in order to ensure buyer confidence and stimulate demand. This will have the tangential effect of encouraging growth in developing markets while helping to introduce nutritious and fun to eat California almonds to new markets." © ¹

Buyer's Perspective: So now, even the Nepalese yak traders and the Yanomamo Indians in Brazil know that California is going to have the largest crop in history, accompanied by probably the largest shipments in history. It will also have the largest carry out in history. Of course any reputable almond packer would tell you that this is a good thing for sellers and that prices are going to go up!

Currency

The US Dollar today is at \$1.37 = €1; a new record low for the USD (the last record low was \$1.368 on April 27th of this year). The Dollar was at \$1.342 for the month of June and so far this month is averaging \$1.361. To see just how far the USD has fallen in 7 years – back in October 2000, €1 = \$0.82. Against the Yen, \$1 = ¥122.36.

There is continuing concern in the US over inflation, a housing and mortgage crisis, and the escalating cost of the war in Iraq and the toll it is taking on the US debt. The consensus among economists is that the USD will hit and break the \$1.40 to €1 barrier by the start of 2008.

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US interest rates have remained unchanged for 1 year now. The Bank of England raised rates to 5.75% last week, the highest rate in 6 years. The European Central Bank is expected to increase rates to 4.25% in September. Of course higher interest rates help strengthen a currency by giving better returns on fixed income investments.

Prices

Seller's Perspective: Traders are short. Importers are short. There is a lot of cover yet to be had. As former US Senator and presidential candidate Bob Dole used to say: "I know it, you know it and the American people know it." After all, if we were in your shoes, we would have sold short too! Who in their right minds (other than growers who have no choice) would go long entering the largest crop in history? Problem is, you shorted too cheap. Better book BSU5% at \$1.65 per pound while you still can. Hey, we know there will be 250 – 300 million pounds carried out. We've accepted that fact. But almond marketing is a journey, not a destination. Remember, in August, it's all new crop baby! All new crop!

Buyer's Perspective: You have never seen what 1.33 billion pounds looks like in stockpiles. We would guess that those would look like very big hills. Four-wheel-drive-need-your-Hummer-to-get-over type of hills. You will see soon enough. We will be waiting. And we don't need all of you to panic – just a few reasonably sized growers. That's all we ask. And it will happen. Help us out - just call your grower friends who have not sold a pound of new crop yet....and tell them how good June shipments were and to wait some more. Let them wait for the first "marginal" shipment month and then have them all enter the market with orders to their packers to "Sell, Sell, Sell!!!" We really love it when they do that.

Conclusion

The market analysis for the 2007 crop has been done by several people in the industry in a very elegant and comprehensive manner. The gist is: lack of supply is no longer a serious concern for the coming few years. Barring a state-wide freeze or other climatic disaster, there will be more supply than demand in the foreseeable future.

First - to give those in California a shot of confidence – just look at what this industry has done in the last 12 years. The entire crop in 1995 was 366 million pounds – yes, the entire crop. California shipped 372 million pounds between September – November of this past season. Not bad. Through the 2002 season, the biggest crop in California was 850 million pounds. That's just 5 years ago. The California almond industry since that time has handled billion pound crops impressively – perhaps even surprising itself. Global population is growing, per capita income is increasing in many key markets, and demand for healthy foods, snacks & ingredients will only continue to grow around the world. The future for almonds is bright as long as they remain competitively priced and as long as the health benefits continue to filter down to more consumers.

As for this coming season, we do not think that optimistic supply scenarios are going to add value to any analysis. Everyone in the world is saying that we have more almonds to sell than there is demand. So arguing over whether the total marketable crop is 1.40 or 1.45 billion pounds is not going to affect much of anything. There does not seem to be a reasonable way for California to increase prices under the current supply and demand scenario unless a pessimistic model for the 2008 crop is factored into the picture. How can you raise the price of something which buyers know is not going to run out? Nonpareil Extra #1 16/18 may run out – but NPS 27/30 AOL or BSU5%? Out of a 1.33 billion pound crop? Doubtful. Scarcity, or the perception of scarcity, makes things more expensive. Record shipments are certainly encouraging, but they need to be taken in context with a mammoth crop that will be harvested in a few weeks. Record shipments can no longer be seen as a vehicle by which to raise prices. They are now more a necessity by which to avoid price erosion.

So here is a pessimistic supply scenario coupled with an optimistic shipment scenario to ponder:

- We end up with 1.43 billion pounds of marketable almonds for the 2007 season.
- We ship 1.20 billion pounds (an ambitious 15% increase in one season – but can happen as we saw a 20% increase in shipments between the 2001 and 2002 seasons and we are on track to ship 15% more this season as compared to last).
- We carry out “only” 230 million pounds.
- We have a poor crop of 1.05 billion pounds in 2008 (due to bad weather during bloom 2008, the inability of mature trees to produce another record crop and the inability of the new 55,000 acres coming on line to make up for the difference). This would be about 1550 pounds per acre – the worst since 2000.
- That leaves us with 1.25 billion pounds to market in 2008

Under this scenario, and if shipments through bloom (February-March 2008) are on record pace, then prices would go up. But doesn't this confirm that barring a statewide weather disaster, there is going to be more supply than demand no matter what happens in the coming 3-4 years? After all, we expect to have 720,000 bearing acres in 2009 and 760,000 acres in 2010. How many trees will be pulled in the coming two seasons and how many more bees will die between now and next March to offset that potential production?

We are not advocating for lower prices – on the contrary – we think that nearly all the variables that would have led to a market collapse are already known. Now the direction of the market will be based on how individual actors handle the information available to all. Will growers come to the market at the same time? Will big stockpiles outside of hullers scare sellers? Will the strength of demand and shipments continue to surprise buyers who are short and waiting for more attractive pricing to cover their positions?

Barring poor August or September shipment figures (which seems unlikely from the activity that we have seen in the market), this new crop will be greeted with substantial and arguably sustainable optimism. It is now up to **California growers** to decide how much they want to get for the 1.1 – 1.2 billion pounds that they hope to sell next year. No buyer is going to tell you the price is too low. If the price tomorrow is set at \$1.50 per pound for BSU5%, someone is going to try to buy at \$1.45 per pound. This is human nature – yet this basic concept often gets lost in the shuffle.

Bottom Line: Everyone knows that we need record shipments to keep this market going. As long as California stays on a healthy record shipment pace next season, we should not see any dramatic market shifts. If we fall significantly off a record pace, those who are short will work mercilessly to push prices down. They will have all the “why” arguments in their pockets, ready to be pulled out at a moment's notice.

One thing is sure: panic price drops and machismo price increases will both sink the ship....and remember that both halves of the ship tend to sink together.

Remember, California: “Slow and steady wins the race.” Aesop.

Best regards,
DERCO FOODS