

**July 2005 and Year End 2004/2005 Almond Position Report**

July 2005 shipments were 54.808 million pounds. This is down about 25% from the July 2004 shipments of 74.422 million pounds.

Carry-in from last year: 148.9 million pounds  
Crop receipts: 998.038 million pounds  
Less 4% loss / exempt (39.9 million pounds)  
Total Supply: 1.107 billion pounds  
Less shipments for the 2004/2005 season: (984.078 million pounds)  
Carry-out into the 2005/2006 season: 122.9 million lbs

**Scenario for 2005/2006**

Carry-in: 122.9 million pounds  
Crop estimate: 880 million pounds  
Less 4% loss/exempt: (35.2 million pounds)  
Total Supply: 967.7 million pounds

**Market Analysis**

**Seller's Perspective:** We shipped 984 million pounds at record returns. Shipments for this past season as compared to the 2003/2004 campaign are down by less than 4%. This was despite a year spent mostly defending higher prices in the face of disbelief, annoyance, jealousy and frustration on the part of many buyers. The domestic market was strong all year, setting shipment records for 9 of the 12 shipment months and ending the season up over 6% (about 20 million pounds). The health message was put out in full force with more television and print exposure lauding the benefits of eating almonds than ever before.

Exports for the year were down by 59.6 million pounds - or about 8%. Where did this shortfall come from? You would think that the vociferous buyer complaints would signal crashing demand in many markets. In fact, the correction in most markets is small - and where percentage declines seem big, they are primarily from markets that did not import big quantities to begin with. The bulk of the reduced demand came from a handful of countries:

France down 4.1 million pounds (9.6%)  
Japan down 7.7 million pounds (12.7%)  
Spain down 28.2 million pounds (21.3%)  
Belgium down 5.1 million pounds (23.1%)  
China down 6.4 million pounds (27.2%)  
Saudi Arabia down 3.5 million pounds (50.3%)  
Algeria down 2.1 million pounds (68%)

These 7 markets accounted for 57.1 million pounds of the 59.6 million pound drop in export shipments.

Looking ahead, we are carrying into the next crop 122.9 million pounds as opposed to the 148.9 million pounds that we carried in last season. The objective estimate for the 2005/2006 season (880 million

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pounds) is 118 million pounds less than the actual receipts this year (998 million pounds). Overall, we are going to have 139 million pounds less to sell this year that we did last year. Even after adjusting for a better Spanish crop, we will have less product to sell.

July is a historically slow shipment month. Despite a drop in shipments, July 2005 was still the third best July ever. Last year, the upward trend in the market was clear by this time and people were rushing to place their orders. This year, we are at admittedly higher levels and there is a more cautious attitude among buyers. But cautiousness should not be mistaken for lost demand. Buyers still need to buy - they just don't want to be the first ones making big commitments. Within the next several weeks, the waiting game is going to become more costly - and decisions are going to have to be made. When you all enter the market, as we believe you will, prices could even firm more for early shipments. We have cash in hand and a smaller crop on our trees. We like our odds.

**Buyer's Perspective:** Domestic shipments were strong throughout the past season, but a big percentage of that business was done at much lower price levels. All regional export markets were down for the year and for July, exports were down by an astonishing 37%. Take away your domestic crutch and you have nothing on which to prop these inflated prices. You've been saying that you need to slow shipments down by 15%. You better be praying that those big domestic accounts really need all those almonds and that they are ready to sign year-long contracts. Otherwise, if the domestic market follows the export trend, welcome to your over-correction.

The stars that were clearly aligned in your favor for the past 3 seasons are no longer so. The Euro has weakened against the Dollar; other nut prices are moderating; demand is falling; Spain has a decent crop and is selling aggressively; buyers are looking for ways to reduce or substitute almonds. Many have already either dropped almonds or greatly reduced their consumption. Few would argue that almonds are under-priced but many people are saying that they are over-priced.

You are giving too much importance to the technical fact that there will be less almonds available to sell. You don't realize that you have reduced demand much more than you intended. Just wait for the next few shipment reports and by the time that you realize you have shot yourself in the foot, it will be too late. Here is why: growers will get nervous as they always do. Arrogance will give way to fear, as it always does. Coffee shop bravado will turn into real life obligations. Instead of grower neighbors getting a nickle more for their almonds, they will be getting a dime less. They will make the call on their call pools all around the same time. On the other side, you will have the frustrated packer who has had to deal with grower ego and "what have you done for me lately" attitude for 3 years. The packer will be hesitant to buy significant tonnage. Why ensure a golden return to the grower and jeopardize his ability to sell forward? This "delay" in passing orders forward will play itself out through the chain. Inventories will pile up; anxiety will build; prices will fall. We will go hand-to-mouth and wait for bloom in February. Barring a frost or the extermination of your bee hives by the dreaded mites, you will have a 1.2 billion pound crop or better. We will wait some more. Your recent orchard purchases at \$15,000 an acre will not be looking so good. But we're thinking of you....and we care. We may even consider buying some orchards in a couple of years at \$6,000 an acre. Let us know if you hear of any for sale.

Top Ten Things to Look Forward to for the 2005/2006 Season

**10. Indian purchases of inshell in August and September.** India bought 10.3 million pounds of inshell almonds last August (2004). A lot of the business was done around the \$1.65 - \$1.85 per pound level. On an average 70% meat yield, that was about \$2.35 - \$2.65 per pound shelled equivalent. Today, inshell Nonpareil offers for min. 70% yield are between \$2.90 - \$3.00 per pound....that's \$4.15 - \$4.30 per pound shelled basis. Quite a difference. Some of the increase in Indian inshell shipments last August can be attributed to the fact that the crop was a bit earlier last year as opposed to 2003. But if you look at August + September together, India took 14 million pounds of inshell in August+September 2003 but 21.8 million pounds in August+September 2004. If India does not buy as aggressively soon, this will leave more early product in growers' warehouses which could put downward pressure on prices by October, if not sooner.

**9. U.S. Dollar.** If it stays weak, that will be a big boost for California in export markets. In the very least, it will help to maintain the "status quo" in pricing. If not, it will simply make almonds more expensive in real terms. You can balk at the importance of currency, but you would be doing so at your own risk. Will the recent weakening of the Dollar hold or is the Dollar headed to near parity against the Euro within the next 12 months? And what are the Chinese doing with the Yuan? Will it matter short term?

**8. Actual Crop Size.** Talk to most people in the San Joaquin Valley north of Fresno and they will tell you that the crop is 850 million pounds or less. Some feel that it is 825 million pounds or less. Growers south of Fresno feel that it could be over 900 million pounds and maybe as high as 950 million pounds. If either one of these extremes is true, there could be an impact....especially if initial receipts point clearly one way or another. If the receipts become clear around December, as they often do, and if the crop comes in less than anticipated, the impact will be less significant. By that time, people will be in the "let's wait for bloom mode."

**7. Psychology.** In your gut, do you think that prices are going to stay firm or drop? What are the majority of your colleagues saying and doing? What is your bank telling you? If you had a gun to your head and had to go long or short, which would you do? What's the overall feeling? An underestimated, unscientific and damn important factor.

**6. Spain.** Currently selling at \$0.15 - \$0.30 per pound below California, how much longer will the Spanish do this? Once the cash-poor growers sell enough, will they look at the almond market as a whole and take greater advantage of the price umbrella that California has provided or will they just continue along their current path? How much less will Spain import this year. Spain bought 132 million pounds of shelled California almonds in 2003/2004 and 102 million pounds this past season. With a real crop for the first time in three years, how much will this drop and where will California make it up?

**5. Financing.** A container of almonds costs roughly \$165,000. Most companies' turnover of almonds exponentially outpaces their ability to finance at such levels. An importer who is paying CAD for a mere 15 containers of almonds arriving in October has to come up with \$2.5 million (Last year, the same importer needed about \$1.3 million, or half as much cash). If he does not have the money, document pickup gets delayed. Sellers get nervous. Anxiety builds. Rumors start.

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4. **Defaults.** This eventuality seems inevitable for the coming season. It could start early or could come late...but chances are defaults are going to be a topic of discussion in the almond industry this year. The smooth defaulters will focus on technicalities. They will comb through documents looking for insignificant discrepancies. The Nonpareil 27/30 straight count with the USDA certificate of 26.9 or 30.2 will result in a "We just can't use the product. Sorry." Price will of course have nothing to do with it. It never does. The more brash ones will just not answer the phone or e-mails, leave the documents at the bank, and save their money so that they can attend the International Tree Nut Council meeting next May. As long as we are in an industry where there is someone willing to sell again to a defaulter (and there always is, in every industry), we will all have to deal with this reality.

3. **Price of Other Nuts.** Hazelnuts at \$10,000 per metric ton? Probably not for much longer. What is going to happen to the nuts other than almonds? Still too early to know. Within a couple of months that picture will be more clear. It may or may not be too late to impact almonds.

2. **Bloom.** There are compelling arguments made by intelligent people on both sides of the aisle that support both a firm or weakening market in the short term. The arguments for a strong market become less compelling after October and even more so after January. Once the Christmas rush is over, buyers are going to wait for bloom. Chances are that Sellers are not. Most Sellers want to be sold out by then. Seems this is what they call "disparate interests."

1. **Demand.** This factor is king. Are domestic confectioners, European marzipan and torrone makers, Asian retailers and bakeries, and Middle Eastern roasting houses covered? If not, are they planning on covering - and how much? Can some of them do without almonds? We will soon find out. If phones don't ring and AOL doesn't remind you that "You've Got Mail" - nothing else matters. There is a lot of posturing taking place on both Sellers' and Buyers' sides. But it's tough to posture in September and October. Either you ship or you don't. Isn't this what those with a more limited (or colorful) vocabulary call the time to "put up or shut up?"

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