

July 2011 Almond Position Report

July 2011 shipments are 109.6 million pounds. This is down 2% from the July 2010 shipments of 112 million pounds.

Recap of 2010 Season

Carry-in from the 2009 crop:	321 million pounds
Receipts for 2010 crop:	1.628 billion pounds
Less 3% loss / exempt:	48.8 million pounds
Less Shipments to date:	1.667 billion pounds
Carry-out into 2011 season:	233 million pounds
Commitments from this crop:	130 million pounds (leaving 102 million unsold pounds)

“The world is full of people whose notion of a satisfactory future is, in fact, a return to the idealized past.”¹

Whether we like to admit it or not, the commodity business is undergoing a global demand revolution. This is not a fad. There are more people on the planet who can afford to eat a little better, and many of them are treating themselves and their families to healthier, tastier food options as often as they are able. Look no further than the nuts business. Ten years ago if someone had told you that California would have a 1.628 billion pound crop, and that it would essentially be “oversold,” you would have committed him to Bellevue. Well, shipments for the 2010 season were 1.667 billion pounds: that’s the entire 2010 crop, plus a healthy chunk of the 2009 carry-in. Impressive.

Now the 2010 season is over and the new one is under way. Before tackling the new season, let’s take a Chris Bermanesque 60-second look at the highlights of the 2010 season:

- A 1.65 billion pound NASS estimate in July which was widely ridiculed, and which turned out to be 98.5% accurate.
- A prompt, expected, undisciplined and industry-wide panic which followed the estimate, leading to a price correction which minted millionaires in China and helped instantly boost sales of Audi Q7s, Porsche Cayennes, BMW 750 iLs and Mercedes Benz S550s in Guangdong province. Thank you cards flooded in from China, appreciative of the sub-\$2 per pound Nonpareil business and urging a return to this kind of generosity.
- An equally prompt, upward price correction which had prices back up to pre-objective estimate levels within 30 days.
- A steady market for virtually the entire season, which saw monthly price averages for BSU5% range from around \$1.45 per pound (July 2010) to \$2.10 per pound (July 2011).
- Domestic shipments for the season up nearly 9%; export shipments for the season up over 15%; total shipments up over 13%.
- A virtually non-existent carry-out.
- Overwhelmingly positive media coverage for almonds.
- Growing global awareness of the health benefits of eating almonds.
- Almond growers who are reminded daily of the annoying fact that walnut, pistachio, and pecan growers are getting higher returns...and that a Vietnamese cashew exporter will renege on a \$4 per pound contract to get \$4.50 per pound.

¹ Robertson Davies, "A Voice from the Attic", 1960

WHAT WILL THE 2011 SEASON BRING?

Well, other than the guarantee that most Asian and Middle Eastern buyers will not check the time in California before calling or texting...let's see....

Similar to last season, the objective estimate this July was another surprise at 1.95 billion pounds. As members of the industry, we had convinced ourselves that the actual number would be around 1.85 billion pounds.²

This season, when the 1.95 billion pound crop was announced, buyers licked their chops. The market was poised to tank again. Hong Kong traders who had been shorting the crop got giddy, and sold more product without cover into the Middle East, China and India. Immediately after the 1.95 number was out, we saw offers from Hong Kong for Nonpareil Extra #1 27/30 in the \$2 per pound range to destinations like Dubai. This notion of "wishful anticipation" was expressed comically, if not eloquently, in the movie Ruthless People, where Danny Devito's character (Sam Stone) is explaining why he got married:

Her father was very, very rich, and very, very sick. The doctors assured me he'd be dead any minute. There wasn't a second to lose! I rushed right out and married the boss's daughter. He was so sick, it was like the Angel of Death was sitting in the room with him, watching the clock. They pulled the plug on him... he wheezed and shook for about an hour... and then... he stabilized. The son-of-a-bitch just got older and sicker.....[and] I had to live with that squealing, corpulent little toad all these years. God, I hate that woman. I - I - I hate the way she licks stamps! I hate her furniture! And I hate that little sound she makes when she sleeps.

Careless assumptions often lead to poor results....Well, the market dropped a bit and for a very short time, on very limited volume. Buyers in all overseas markets were convinced that California would not hold the line. They decided to wait. The following week, the June shipment report came out: 135 million pounds, up 38%, uncommitted inventory of 161 million pounds, down 36% from last year....and that was the end of the weakness. California sellers realized that they did not need to discount a (current) crop that was essentially already sold, and felt that it was too early to take low bids on new crop. Enough initial new crop volume had been done to give sellers some confidence that demand would be there if California could show some solidarity.

People went on vacation. The days went by. Mainstream buyers around the world were saying that the new crop was still months ahead, that there was time, and that prices would surely come down.

Sellers started seeing a bit of a different story. They saw continued strong demand on current crop, with dwindling inventory and buyers that were ready to pay higher and higher prices for immediate shipment. Indian importers needed prompt inshell shipments – they had not gotten anywhere near what they needed from Australia. Europe needed immediate BSU5% shipments. The Middle East was running low on inventory and looking for NPX and Carmel/Monterey supreme...but California had very little left in inventory. So the current crop took on a life of its own. Instead of the current prices falling to the lower new crop levels, the opposite happened.

² As an aside, we must say that we have no idea how some people who never leave their offices, or don't even live in California, have gotten so good at guessing the size of a crop that is planted with differing degrees of density, farmed with differing levels of competence, and spread out over the size of a small country. Some people take the time to drive the state and make educated estimates based on their best objective analysis. Others hear a few baseless comments on the phone, made by someone who has as much knowledge about estimating crops as I do about using power tools. They then promptly email this information out to a few hundred global contacts. The problem is that both the relatively sophisticated estimates and the total drivel are put on somewhat equal footing and given the same amount of attention. This is the power of email. So it's always entertaining to watch the initial disbelief that follows any NASS estimate which falls out of the mainstream "guesstimate" range. End of digression.

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Many almond importers still did not commit in earnest to the new crop. They remain confident, or perhaps fearful, that this market will fall and that California's bravado will be buried under the weight of the incoming record almond crop. Other buyers, either out of naiveté, self-proclaimed prescience, or simply because they are more in tune with grass-roots demand in their local markets, started to buy earlier on. Inshell Nonpareil at \$1.65 did not seem so bad to many companies in China. While India was waiting for "5 cents less," several companies in China started buying more. Slowly, California processors started getting more and more comfortable on their sold position.

Around this same time, the prices of the other commodities started becoming more publicized. Inshell walnut prices, driven primarily by Chinese and Turkish demand, "unofficially" opened at much higher levels than expected. Early Jumbo/Large Hartley sales were at \$1.40 - \$1.45 and Jumbo/Large Howard and Chandler between \$1.45 - \$1.55 per pound...today those prices are higher by \$0.10 per pound or more. On a meat basis, walnuts are considerably more expensive than inshell almonds. Field prices for Eastern varieties of pecans are rumored to open at around \$3 per pound. Cashew prices have risen to over \$4.50 per pound. Inshell pistachios are close to \$4 per pound. The Turkish hazelnut crop seems to be short and 2011 crop hazelnut prices are likely to be firm.....so what is left? Almonds seem to be the best value.

Some of the earliest orchards have started shaking and within a month, the entire state will be under way. The overarching sentiment right now in California among stewards of the almond industry is that the fate of the pricing of this crop is more in their communal control than at any time in recent memory. Coming off a season that saw demand increased by 13%, many are privately saying "I hope we don't f*%# this one up." They are getting ready to blame the first processor who did not invest in enough storage capacity, and who is going to get nervous when the new crop tsunami starts coming in. They know that there are some sellers who, if they don't make a sale for 2 days, assume that the world has permanently lost interest in eating almonds, panic, and drop prices. This is exactly what buyers are waiting for, and if past seasons are any kind of barometer, their patience may pay off. In fact, some buyers feel that dismal August shipments (which will likely materialize because, considering the lateness of the crop and the low current crop inventory situation, there is nothing to sell), coupled with a bit more bad global economic news, may be all that is needed to bring the almond market down.

So where are we now? Inshell Nonpareil for September is hovering around \$1.85 per pound FAS basis. Many processors are nearly full for September shipments. There is lots of demand for Nonpareil Extra #1 18/20 – 20/22 with limited offers. Growers are concerned that with the large Nonpareil crop, the sizing will not be there. Again, many processors are very comfortably sold for September and are waiting for harvest to make spot September sales at what they feel will be premium levels.

From what we are seeing and hearing, India, China and the Middle East all need to buy more almonds for the critical new crop September-November window. European industry, despite its dramatic surge in imports during April through June of this season, still needs September – November cover. Increasingly, some California processors and shippers are pondering why they should sell Butte/Padre SSR 30/32 at \$1.80 per pound when they can sell inshell and get the meat equivalent of \$2.10 per pound. Some of the obvious answers: (1) there is not enough inshell demand to move the Butte/Padre crop; (2) seeking territorial balance seems prudent; (3) most European firms tend to be reliable and committed to the industry....and (4) that generally it would be a big mistake to take Europe for granted. Many European countries still have AAA credit ratings....remember what that was like?

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Trying to explain the global paradigm shift on demand for commodities to people who are entrenched in their thinking reminds me of the poster I had on my bedroom wall as a kid. It was next to the one of Paulina Porizkova wearing what would generously be referred to as a “bikini”:³

We the willing, led by the unknowing, have done the impossible for the ungrateful. We have done so much, for so long, with so little, that we are now qualified to do almost anything with nothing. Mother Teresa (1910 – 1997)⁴

Most buyers seem to be resigned to the fact that, if they did not yet buy, they missed the bottom of the market for at least the start of the season. Like Madeline Kahn famously said in *History of the World Part I*: “The servant waits, while the master bates.” Wait too long, and miss the boat.

There are going to be a lot of traders and visitors coming to California in the next 2 months, trying to buy something that has either already been sold, or that is higher in price than they expected. So the question they now ask is... “When will this market drop?” Our answer is the same – and it’s a basketball analogy: California is making a living shooting from the 3-point line. When the shots are going in, you keep winning. But when your shooters go cold, and you don’t have an inside game, you’re screwed. The minute that a new crop shipment month is considerably off last season, coupled with an indication that forward commitments are not strong, that’s when the correction will come. Some argue that this correction may come as early as October. In our opinion (which, by the way, is well publicized as often being tragically, and we’re talking Greek-tragedy-on-the-Antigone-scale, wrong) the correction will likely not to happen until December (when the November report comes out), if it happens at all in a big way this season. If BSU5% stays under \$2 per pound, we expect to see a stable season. Most everyone will be happy with that.

Remember, “The most dangerous strategy is to jump a chasm in two leaps.” Benjamin Disraeli (1804 – 1881).

Wish you all a safe and successful season,
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³ The day Paulina married Ric Ocasek gave me hope that someday I could have a girlfriend too...and maybe even a cute one. If you have teenage sons who are suffering from self-confidence issues, just Google “Paulina Porizkova Ric Ocasek.” Show them the photos. Instant confidence will follow.

⁴ Yes, I had a semi-nude Paulina Porizkova poster inches away from a Mother Teresa poster. Now you are getting a feel of the angst that was me at 15. Your pity and/or sympathy, both of which would have been welcome 26 years ago, are too late for me now.