

July 2012 Almond Position Report and 2011 Season End Summary

July 2012 shipments are 119 million pounds. This is up 9% from the July 2011 shipments of 109 million pounds.

Analysis of the 2011 Almond Season

Carry-in from the 2010 crop:	254 million pounds
2011 crop receipts:	2.02 billion pounds
Less 3% loss / exempt:	60.6 million pounds
Less Shipments for 2011 season:	1.898 billion pounds (13.86% increase v. 2010 season)
Carry-out into the 2012 season:	315 million pound (24% increase v. 2010 season)
Uncommitted inventory:	151 million pounds (48.4% increase v. 2010 season)

2012 Almond Supply

Carry-in from the 2011 crop:	315 million pounds
2012 crop forecasted supply:	2.1 billion pounds
Less 3% loss / exempt:	63 million pounds
Total Supply:	2.352 billion pounds (compared to 2.213 billion pounds last season)

Buyers' thoughts heading into 2012 crop year (*speaking to the California almond industry*)

We are bombarded with nothing but bad news every day.

- High profile currency devaluations in Brazil, India, Russia, Iran....
- Instability in the Middle East: civil war in Syria, the threat of war in Iran, uneasiness in the “new democracies” of North Africa.....¹
- Economic crises created by stagnating growth, drop in real estate prices, bad loans by banks, government spending exceeding revenues, high unemployment...and that’s just in Fresno, California – not Europe!
- “Unusually uncertain” economic outlook in the United States²
- The ongoing economic sagas of Portugal, Italy, Ireland, Greece and Spain
- Importing / customs challenges in China
- ~~Buy Greek yoghurt and bananas~~ (sorry, wrong list)

¹ Most reporters in the Middle East are now reporting about events in the region from Beirut, Lebanon... Here is a photo of Beirut taken by the New York Times not that long ago...just back in 2006 [Safe Beirut](#). This is now considered to be the safest spot in the region...Relativity reigns supreme in the Middle East!

² Ben Bernanke, Chairman of the Federal Reserve – July 21, 2012

The last time that things were looking so bad was in 2008...and we're not talking about Ellen DeGeneres marrying Portia de Rossi or Barack Obama getting elected president. We remember what happened to the market back then. In August of 2008, NPS 23/25 was trading at \$2.55 per pound. In October, the global economic crisis hit. By January 2009 (5 months later), NPS 23/25 was trading at \$1.90 per pound and by June 2009, BSU5% was at \$0.98 per pound. We remember and we don't want to be burned again. It's easy for you to tell us that the prices of all other nuts are higher...but the prices of all the other nuts can come down, too. Do you want us to feel confident in the stability of hazelnut, cashew or walnut pricing?

You have a big crop. Spin it any way you want – 2.1 billion pounds is the largest crop in history. You are going to have a total supply of 2.35 billion pounds. We get nervous for you just thinking of all those nuts you have to sell. You are the least sold from the new crop that you have been in years. Harvest has started. In a few days, as the nuts start to reach your processing facilities, we think that you will become more “aggressive” in your pricing. Those warehouses that are empty today will be full very quickly.

During the 2011 season you sold about 1.9 billion pounds. That was a great accomplishment. But you sold a big chunk of this tonnage at prices that were \$0.40 per pound lower than current prices on the industrial grades and \$0.15 per pound lower on Nonpareil. This does not even account for the fact that many of our currencies have devalued considerably during the past 12 months against the USD. In August – September of 2011, BSU5% was trading at \$1.75 - \$1.80 per pound. It was not until February 2012 that BSU5% prices reached and surpassed \$2.00 per pound. How many millions of pounds were sold during that time to help push the shipment numbers up? And this year you are starting the season with BSU5% at \$2.15 per pound and think that you will move the same tonnage?

Good luck. We will wait and take our chances. We just don't have the confidence and neither do our internal markets. With any kind of hiccup in Asian or Middle Eastern markets, you are dead in the water. Those two regions accounted for 55% of total exports. In Europe, we were up 2% for the season. We brought you to the dance, but we're certainly not taking you home.

“It is only prudent never to place complete confidence in that by which we have even once been deceived.”
Rene Descartes (1596-1650)

Sellers' thoughts heading into 2012 crop year *(speaking to global almond buyers)*

The economic news is not great these days. We concede that point. But it wasn't great last year, either. In fact, economic news has not been good since 2008. Once the shock of the “economic collapse” of 2008 passed, the commodities markets recovered. By December 2009, BSU5% was trading at \$2.00 per pound again...this was just 14 months after the onset of the crisis, and we are sure you would agree that 2009 was not exactly the most awe-inspiring economic year in history.

We are simply tired of hearing the same stories about how the world is coming to an end³ and how no one is going to buy almonds again. How many years in a row are we going to listen to reasons why prices need to come down? Why is the right price level always “last year’s” price level? Wherever prices are, they are always too high for you. What you must admit is that you are not worried about the current level of prices. You are worried about prices falling after you buy. Current crop inshell pistachios are well over \$4.00 per pound...there are buyers...and virtually no inventory available. Just a few years ago, a pistachio price of over \$3 per pound was unthinkable. Now, \$3 per pound has become a pricing floor and 2012 crop inshell pistachios are opening closer to \$4 per pound than \$3 per pound. This is admittedly because the US pistachio industry is more concentrated, with far fewer processors than there are in the almond industry.⁴ This makes the pistachio industry leader’s determination more effective.⁵ Nevertheless, there is a lesson to be learned by our industry about the values of patience and determination.

You are also correct that we are the least sold as an industry at this time that we have been in several years. What does that mean to us? Simple. It means that you have lots of buying to do, and that you are likely going to wait for the last possible moment, come in all at the same time, and push prices higher. We don’t know what statistics you are looking at, but here is what we know about shipments:

- 2006 season: 1.066 billion pounds
- 2007 season: 1.261 billion pounds
- 2008 season: 1.389 billion pounds
- 2009 season: 1.471 billion pounds
- 2010 season: 1.667 billion pounds
- 2011 season: 1.898 billion pounds

The above numbers are proven fact, not emotional prognostication. You may argue that this demand growth is going to slow down dramatically or disappear entirely. We don’t believe it for a minute. Just a few months ago all we heard from you was “Sure, shipments so far are good, but last year between March – July (2011) shipments were incredible. There is no way you will repeat that at current prices and in the current economic environment.” Well, you know what, we just did – in fact, shipments between March – July 2012 were higher than the same time period in 2011 by 95 million pounds or 15%.

Greece, the poster child of troubled economies, is up 2%. Greece! The other European countries are a mixed bag. The bad news is already factored into the European markets. Europe has not had good economic news in over 5 years. China (including Hong Kong and Vietnam) took 253 million pounds. For the 2010 season, this figure was 170 million pounds. That’s 48% growth for an economy that is “slowing down.” India took 119

³ Figuratively speaking; we are not referring to The Rapture here. That is a discussion for another day. And some of us are not yet packed for that trip (or would likely be left behind were it to happen now).

⁴ The fact that Iran has had several consecutive poor crops has also helped...but we’d like to gloss over that now because it does not help our argument.

⁵ For the “reading-between-the-lines” impaired among you, the “pistachio industry leader’s” reference is to Paramount.

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million pounds, up 12% for a market whose “currency is melting.” The Mid East took 200 million pounds, up 23% for a region that is “in turmoil.” Big double-digit growth all around these “troubled” areas. Overseas markets are not going to stop buying almonds. They will complain, but they will all keep buying, as long as we maintain a steady course in California. As for the domestic market – even more so.

Our industry knows that demand is growing steadily. Prices remain reasonable. The product is healthy. All the news on almonds is positive and spreading quickly throughout the world. The global middle class, despite all the bad news, is still growing on relative terms. If Nonpareil prices were \$0.15 per pound lower, China and India would each buy a few thousand tons in a day. So are we arguing over \$0.15 per pound? That is going to stop you from buying almonds and running your businesses? Or are you going to shift to Turkish hazelnuts? Please...there is so much confidence in that origin that companies looking for reliable hazelnut supply are planting their own hazelnut orchards in South America!

The burden of proof that demand is going to slow down is squarely on your shoulders. We know that we will move 2 billion pounds this coming season, and so do you....”Sell crazy someplace else, we’re all stocked up here.”⁶

Conclusion

Confidence. Give buyers reason to believe that prices will hold and that will be the pricing bottom. Otherwise, this season will be one of hand-to-mouth demand, with buyers and sellers alike living and dying by the monthly position numbers. The almond industry has surprised all doubters...if we were betting people, we wouldn’t bet against demand continuing to grow, despite all the bad news. We are firm believers that business people always find a way to make things work – despite the stupidity and all the barriers put up by their respective governments.

“You can't connect the dots looking forward, you can only connect them looking backwards. So you have to trust that the dots will somehow connect in your future. You have to trust in something: your gut, destiny, life, karma, whatever. Because believing that the dots will connect down the road will give you the confidence to follow your heart, even when it leads you off the well worn path.” Steve Jobs (1955-2011)

Best Regards,
DERCO FOODS

⁶ As Good as It Gets (James L. Brooks; 1997)