

August 2010 Almond Position Report

August 2010 shipments are 125.5 million pounds. This is up 1.4% from the now previous record August 2009 shipments of 123 million pounds.

Analysis

Carry-in from the 2009 crop:	321 million pounds ¹
Estimate for 2010 crop:	1.65 billion pounds
Less 3% loss / exempt:	(49 million pounds)
Less Shipments to date:	(125 million pounds)
Remaining supply:	1.79 billion pounds

Shipments & Receipts

Seller's Perspective: Because the receipts are late, it's difficult to make any meaningful comments about crop size, commitments, etc. For now, it seems that we are just going to have to be satisfied with the fact that August shipments were a new RECORD!!

Buyer's Perspective: What the report today proves is that the crop was late compared to last year and that shipments were at the same level as last year. Let's not get too giddy on a 1.4% increase. You need to do a lot better than that to move this crop and end up with a manageable carry-out. The shipments were strong despite the fact that (1) BSU5 prices were higher this August by \$0.50 per pound compared to August 2009 and (2) Cal SSR prices were higher this August by \$0.35 per pound versus August 2009. Nonpareil prices in August 2010 were actually *lower* by \$0.20 per pound, but September 2010 prices for Nonpareil have surpassed September 2009 by \$0.10 per pound already. What this means to us is that you are pushing prices up too fast. You may have a run for a few more weeks, but soon you are going to squelch demand as only you can do. Then you will bemoan the fact that you shot yourselves in the foot...and we will be buying \$1.85 NPS 23/25 again by spring. It's the Circle of Life. It's human nature.

Domestic

Seller's Perspective: The market, the market, the domestic market's on fire! Heck, so is the roof! 45.77 beautiful pounds of healthy almonds sold (17% increase and new record) to the largest single market in the world. Americans love their almonds and with nothing but positive news about their health benefits and versatility, this trend is only going to increase. The domestic market has given the export market a very strong platform from which to operate.

Buyer's Perspective: Well you've dated yourself with the weak reference to the Rock Master Scott & The Dynamic Three song from 1984. Other than that, it's difficult to argue against the strength of the domestic market. All we would say is that domestic buyers representing the larger companies are savvy and many of them use almonds as an ingredient in products that have a reasonably set price on the retail level. So when these smart buyers who handle large tonnage see a chance to lock in larger margins when ingredient prices fall, they just lock them in. That's what many did when the prices fell sharply in July. So how much did they buy forward and how much more do they need to buy for this season?

¹ The carry-out from 2009 is adjusted up 15 million pounds since the Loss & Exempt figure was actually 1.92% of the 2009 crop instead of the forecasted 3%. As sellers, we just want to gloss over this fact. As buyers, shouldn't we be saying that this effectively makes August shipments 110 million pounds (we recognize the flawed logic on a micro level...but on a total supply basis, you get it, right)?

Export

Seller's Perspective: Despite the fact that exports were down 5.8% compared to last August, total shipments for the month nevertheless set a record. What is very noteworthy here is that overall European shipments are down 25% compared to last August. The major importing markets within Europe are all down: France down 24%; Germany down 36%; Italy down 36%; Spain down 17%; Netherlands down 3%; United Kingdom down 10%; Russia (close enough to Europe) down 46%. Looking at Asia, India is down 10%. Japan is down 39%.

There may be economic problems around the world, but no reasonably established markets are going to be down such high percentages for the entire season. This means that September shipments will be massive – and this conclusion is corroborated already by the forecasts of most processors and exporters who confirm that their September positions are very strong. So no chance for any real weakening until mid-November (when the October shipments will be released).

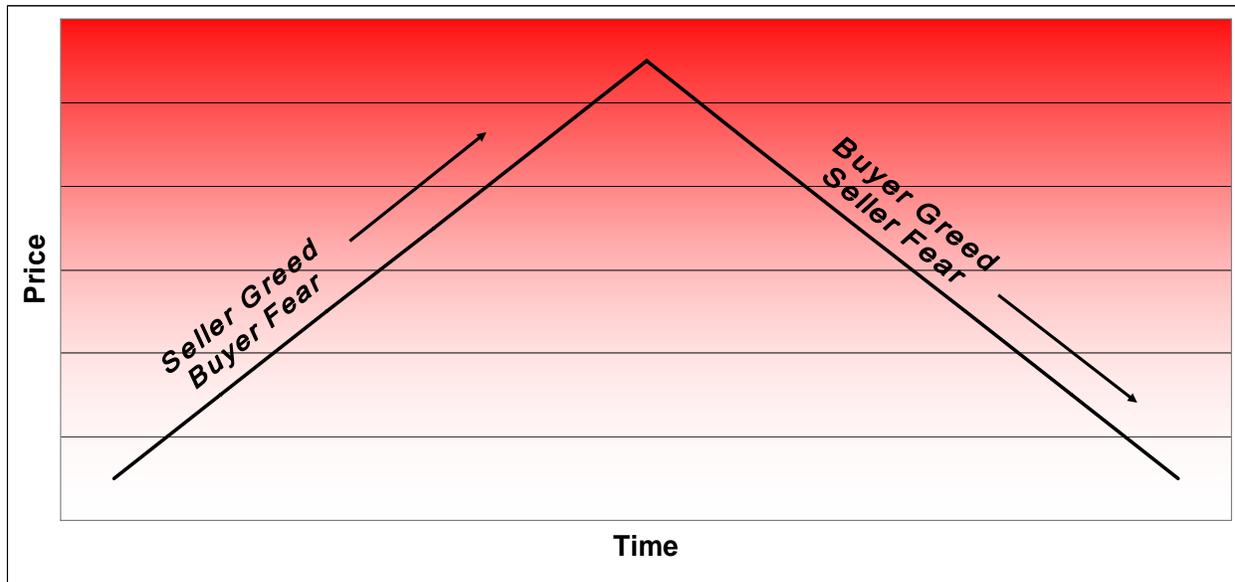
We think that BSU and Cal SSR will see the biggest push in prices. This is because they have lagged in price increases behind the Nonpareil variety. Nonpareils have gone up much faster as a result of two main factors. First, there has been a concerted campaign (on our part: growers & processors) publicizing the Nonpareil crop shortage and NASS's (purportedly) inept estimate. Second, the price of inshell Nonpareil (before the August shipment report) was at the kernel equivalent of \$2.60 per pound FAS basis. As a result, many of us growers and processors who are not marketing our crops as inshell are annoyed that shelled NP almonds are \$0.20 - \$0.30 per pound cheaper. Combine the two and...Voilà! The shortage of Nonpareil offers that we are all seeing. So either inshell prices are going to come down, or shelled prices are going to go up.

One month ago, the price difference between BSU5% and Nonpareil was no more than \$0.40 / lb. Today, for October shipment, it is \$0.55 per pound or more (and rising). Unless Europe really does not need to buy for October - December (which we do not believe), then the BSU and Cal SSR prices for this period, which have been lagging behind September levels by \$0.05 - \$0.10 per pound, should equalize very shortly. European buyers are gambling that global demand will slow down by the time they have to buy for the latter positions. For January shipment and onwards, this is a gamble perhaps worth making. But for October – December, it seems like a dangerous bluff to us.

Buyer's Perspective: Not so fast on all exports being down....Pakistan is up 1639%. It's veritable almond shipment pandemonium in Pakistan! What flood?? And Costa Rica will break into the mix at any moment. The Costa Ricans are known for their slow starts and strong finishes – but you knew that already. Also China just happens to be up 70% and the Middle East is up 37% over last August. So what's the message being sent to the global markets here? Is it as clear a bullish signal moving forward as you claim? Or have these markets bought enough? Last year the established Hong Kong traders and Chinese processors underestimated the impact of all the new, smaller players. These new "companies" entered the market and caused an almond glut after Chinese New Year that took 5 months for the Chinese (and re-export) market to digest. This year the fact that the INC was held in Beijing has created a honeymoon period for many new buyers in China/HK and sellers in California. As a result, won't this "overbuying" be amplified? We think so.

Human Nature ²

In last month's report we said that this market's direction was going to be based on who flinched first: buyers or sellers. Well, the Round 1 victory goes to the sellers. Buyers did a good job of bluffing their way into July...and had some tremendous buying opportunities after the July 8 estimate. But as is always the case, thanks to the predictability of human nature, the writing of what was going to happen was on the wall (not "Off the Wall," for those of you still enamored with Michael Jackson).



The chart above highlights what motivates people.³ When sellers can get more, they want more. Most of them are bright people who know that the higher it goes, the faster it will correct. But that does not prevent them from thinking that they will be the ones making the most sales at the peak. Of course they will not be....On the buyer side, they complain about the sellers pushing the prices up a few pennies after every sale, but they will get their turn. February 2010 – mid July 2010 was a buyer's market. No matter what the offered price, someone was selling cheaper. It is likely that in hindsight, mid-July 2010 through the end of November 2010 will prove to have been a seller's market. What happens during the rest of the season will depend on how strong shipments have been, how much has been consumed, how much is in the hands of the trade, what the other tree nuts (which are mostly now all higher priced than almonds) will do, and what the prospects are for bloom with a potential La Nina year ahead. Ever present is also the over-arching reality that there is a limit to what will be sold in a single season. See the conclusion section for a more detailed discussion on total seasonal sales.

² "If they say, why, why? Tell 'em that is human nature." "Human Nature" ; Michael Jackson – *Thriller* (1982). Click on the link for some background music as you read on. [Human Nature](#)

³ I came up with this chart while in the shower. I have no doubts whatsoever that there are a hundred similar "originals" on the internet somewhere, but I can assure you that I did not use the internet or an old economics textbook to come up with this chart. I have very few pleasures in my life, and coming up with a Fear/Greed chart is one of them. Please do not burst my bubble by accusing me of plagiarism, a lack of creativity, etc. I feel great about this chart. It looks important, there are arrows, X and Y axes (not often you get to use the plural of "axis" in an almond report) and other very "economics" seeming touches. Let a tired man enjoy his shower-created chart in peace. If anything, send me some compliments. The compliments do not have to be sincere. Insincere compliments are welcome if they are veiled by sincerity. Perception is everything and I wear thick glasses.

EUROPE

\$1.30 was too high, \$1.40 was too high, \$1.50 was too high, \$1.60 was too high, \$1.70 was too high, \$1.80 was too high....and now any seller who has BSU5% for September at \$1.90 is a hero. This is because between February and July, no one in Europe bought much of anything. The afloat loads were consumed. The spot loads were consumed. And everyone realized at the same time that there were no almonds left in Europe. In the meantime, Spanish almond prices soared, and California was in prime position to capitalize on a rising market to move the rest of its 2009 crop. Sure, some people are shipping Cal SSR 23/25 AOL in BSU5% orders...but the market for BSU5% is now higher by \$0.15 per pound than it was on July 7, the day before the 1.65 billion estimate which caused the market to crash \$0.50 per pound in 2-3 days. So sellers are happy to get \$1.90 per pound. And seeing the fact that Europe is down 25% for August is only going to make sellers more bullish.

INDIA

The inshell Nonpareil market moved from \$1.55 per pound FAS in mid July (70% meat yield basis) to \$1.82 - \$1.88 per pound FAS as of Friday, September 10. That's about \$0.30 per pound in 7 weeks. Demand has been very healthy, if not irrationally exuberant. The continued demand for inshell Nonpareil from India will be an important factor in determining the price of Nonpareil kernels.

CHINA

The Chinese market has been active for the past month (and the numbers certainly show it). An interesting dynamic is developing in China. Mainland processors are not chasing the market as much as Hong Kong traders are. The mainland importers have been weary of the price increases, but whatever they don't buy, the traders in Hong Kong are booking. This is pushing prices higher. It is also setting the stage for a serious re-selling market to develop in Hong Kong, very similar to what we saw last season.⁴

MIDDLE EAST

Sales have been strong (with the exception of Jordan). Ramadan is now over. It is difficult to know how much more buying this region has to do in the short term. But stretch the horizon out for several months and there is no doubt that the Middle East will be back for a lot more Nonpareil and higher quality Carmel/Californias. Those who need to come to the market now are going to encounter Nonpareil selling resistance from California. Depending on the tonnage demanded, this may give the Nonpareil market yet another upwards push....and some cynics may say, an upward push closer to the precipice.

Hey, under this Middle East section, at least we are talking about almond prices and not about burning Korans. As my mother used to say in Armenian, "shad godoshavor esher gan ays ashkhareen metch." There are many horned jackasses in this world.⁵

⁴ We are still not sure how Hong Kong resellers are getting legalized documents from the Egyptian consulate in the USA (a requirement for export) for shipments that have arrived in Hong Kong. If anyone knows the answer, and if it does not include "Photoshop," please let us know. And if it does include Photoshop, send us a tutorial link on how to do it for god's sake!

⁵ For those of you not familiar with jackasses, I can assure you that they do not have horns (see photos for proof).



Thus the expression is meant to highlight someone's extreme stupidity through the means of a funny exaggeration (in this case, the stupidity of "pastor" Terry Jones). But after having to give this explanation in a footnote, I am realizing that the saying has ceased to be funny – though it still qualifies as an exaggeration. I think that this is what they mean when they say "lost in translation." Luckily, Armenian remains a very important & globally relevant and influential language. See me for grammar textbooks available at good prices.

Conclusion

There is a significant number of growers and processors who still do not believe that this crop will make 1.65 billion pounds or anything close. Some in this camp even feel that the crop is under 1.5 billion pounds. And they are putting their almonds where perhaps their mouths should be – in storage. They are happy to wait. At some point, they are all going to come to the market at the same time. Whether the crop is 1.55 billion or 1.65 billion, there are still lots of almonds to sell. There is nothing wrong with selling into strength and letting your clients make money. In fact, that's often a very good long-term strategy.

This rapidly increasing market is eventually going to create a significant reselling community. First, we will see it from Hong Kong. When big buyers come through California on a secret mission to buy anything offered, it quickly stops becoming secret. Of course no one can corner the almond market, but they can surely make enough noise to exaggerate the demand and spook sellers into thinking that they can get a lot more for their almonds later. These buyers are soon going to have a lot of unsold inventory for which they are going to have to find a home. In the near future we will see Hong Kong underselling all those in California who are waiting for much higher prices.

Lastly, there is a cap as to how many almonds we will sell in one season. In our opinion, the maximum almonds that will be sold from the 2010 crop is 1.6 billion pounds (2009 season was 1.47 billion pounds). This will leave a manageable carry-out of around 300 million pounds *if the estimate of 1.65 billion is accurate*. So the important question seems to be how these 1.6 billion pounds will be distributed throughout the season. In a perfect world, prices would go up a little, shipments would be slight records over the previous month, and we would witness a gradual price increase over the entire season, coupled with evenly-spread shipments. Of course this only happens in textbooks (or in the 2004 season!). In reality, we see peaks and valleys. And with more and more players on both the buying and selling side, these peaks and valleys are becoming more pronounced and dramatic.

We are currently climbing a peak. The valley will come when the major markets have bought enough. Your guess as to when we are going to revert from seller greed and buyer fear to seller fear and buyer greed is as good as ours. But we can bet you that those who have not sold any of their new crop yet will be leading the downhill charge. After all, unless global consumption (not shipments) is going to grow by more than 10% this year, nothing will be different from last season. Huge shipments early on will push prices up and create the same post-holiday inventory glut.

There is no calamity greater than lavish desires.
There is no greater guilt than discontentment.
And there is no greater disaster than greed.
Lao-tzu (604 BC - 531 BC)

Best regards,
DERCO FOODS