

October 2011 Almond Position Report

October 2011 shipments are 219.5 million pounds. This is up 16% from the October 2010 shipments of 189 million pounds.

Analysis

Carry-in from the 2010 crop:	254 million pounds
2011 crop estimate:	1.95 billion pounds
Less 3% loss / exempt:	58 million pounds
Less Shipments to date:	497 million pounds
Less Commitments to date:	612 million pounds
Remaining Unsold Supply:	1.037 billion pounds

Shipments

Seller's Perspective: We shipped....219.5.....Million pounds..... In *744 hours*. That's the most almonds shipped in any month in the history of the almond industry.

Buyer's Perspective: This is a big number for sure. But the one thing we can say is that it would have been impossible for California to market this big number any better. NIKE's marketing team is jealous of the California almond industry's marketing job. We have known for 60 days now that this was going to be a record. Not just any record, but the greatest record of all-time. In the history of record-keeping of records, going back to the Lascaux cave drawings of 15000 B.C., this record beats them all....

So this may be an inopportune time to bring up this small matter, but have you been watching the world economic news lately? Here is a summary of all recent economic events in the form of an equation, and what it means to us as almond buyers:

[(Germany + France) + [(USA)*0] + China³] - [(Greece + Italy) - ½ (Ireland + Spain + Portugal + Belgium)] ≤ the risk of building inventory.

So based on the above, what exactly would you like us to come and do now? Buy our entire season's requirements at current levels?It's not going to happen. 1.95 billion + is still a real crop. We will buy as we need. If prices are higher when we come to market, so be it. We're just not convinced that prices can go much higher under current economic conditions.

Domestic

Seller's Perspective: Do all the "elitist" math you want. Domestic shipments are 51.6 million pounds; up 5.5% compared to October 2010, which was the last record at 49 million pounds.

Buyer's Perspective: The Almond Board of California is doing a good job marketing almonds in the US. Can't argue with the continuous strength of shipments in America.

Export

Seller's Perspective: Export shipments this October were nearly 168 million pounds, smashing the previous record, set last October, by 19.8%. Shipments to Asian markets were strong, up 30% overall. China/Hong Kong were up 28% (44.5 million pounds); Vietnam up 851% (4 million pounds); South Korea up 43% (4.8 million pounds); India is up 20% (10.8 million pounds).

Noteworthy to add in this section that Western Europe is up 14% this October compared to October 2010 (though the UK is down 44% and France is down 1%). But season to date, Western Europe is only up 1%...we expect that to change, as it does every year, despite always-present good excuses to the contrary.

The Middle East is up 7% this October; but down 1% season to date. We expect that to change also. The Middle Eastern region doesn't engage in much forward buying. That area has much more buying to do, and we are seeing palpable signs of growing interest already.

Buyer's Perspective: We don't expect shipments in Europe to do anything this year. You will be lucky if Europe buys the same amount. The Euro has slid from €1 = \$1.43 in August to €1 = \$1.37 for the first week of November (and it's at \$1.36 at the time of this writing, November 10). More on European troubles below....

As for China/HK/Vietnam – that buying is done. Hope you have the patience to wait until March (or maybe even April) for the next wave of demand.

In the Middle East, you have general turmoil coupled with the continued troubles with Iran. All it's going to take is for an "altercation" between Israel and Iran...and there goes that market/region for a while. We wouldn't pin our hopes on the Mid East this year.

Committed Inventory

Seller's Perspective: Domestic commitments up 24%; export commitments up 42%; 612 million pounds from this crop already committed.....coupled with uncommitted inventory down 53%. Huge numbers which portend very strong shipments in the months ahead.

Buyer's Perspective: The minute shipments fall behind, the reality of the sheer magnitude of this crop will sink in. At that time, your weakest links – the ones without all the cash and all the storage room – will be exposed, and then we will see who has the fortitude to stop selling and to carry the inventory forward. Someone should do it, but it shouldn't be you, right? Right.

Global Economy & Other Headaches

"Maybe it would be better to acknowledge, like the Greeks, that a lot of behavior we call addiction is really a love of pleasure that carries the force of habit. We become addicted mostly because of the central issue in all self-control problems, which is the disproportionate value we place on short-term rewards." *Daniel Akst (2011).*

2670 West Shaw Lane, Fresno, California 93711 U.S.A.
Telephone (559) 435-2664 • Fax (559) 435-8520 • www.dercofoods.com • e-mail: derco@dercofoods.com

Those of you who take the trouble to read through this report are all well-versed in global economic matters. So there is no need here to pile on the Greeks (no pun intended), Italians, Portuguese, Spanish, Irish.....the Germans and French are already doing a good job of that. Heck, we don't even know who to pile on anymore. Is it the Greeks who pose the most serious problem? Many people say that it is in fact Italy, Europe's third largest economy and the world's third largest bond issuer, whose defaults would have much greater impact.¹ And now some experts are worried about France losing its AAA rating. The three largest French banks hold nearly 45% of the Italian debt. And people are still bringing children into this world?²

Papandreou & Berlusconi (not to be mistaken for the design house of Dolce & Gabana) ~~are~~ were the leaders of Greece and Italy. Now that they are gone, we don't even know who to vilify; and that's never any fun. We love blaming one person for the ills of an entire nation. It diminishes our own responsibility for our personal consumption habits, geographic ignorance, self-absorption, political and environmental apathy, etc. etc.³

No matter how you slice it, which country you worry about, and which leaders you think are capable or inept, the stark reality is that Europe is facing some painful times ahead – and by “times” we mean “years,” not “months.” All good things must come to an end, and when you can't print more of your own currency, the end comes sooner rather than later. Note to the USA. Learn Chinese while you still can.

Here in California our hearts go out for those who are going to have to face austerity measures. We, personally, don't believe in austerity. We believe in issuing municipal, state and federal bonds...and in theory, we believe in eventually paying them off. But of course what we really care about is how any of this “foreigner austerity” might impact us (i.e.: what all this is going to do to the price of almonds). Many importers in Europe are worried that this economic situation has the potential to materially impact the consumption of nuts in their markets. This seems to be a very legitimate concern, though industry experts maintain that snacking and baking go up in difficult economic times and that items like nuts are the least affected by recessionary periods.

Though actual tonnage shipped over the course of a season may remain stable, there is little doubt that purchasing patterns are altered to ensure that only minimal inventory is carried on hand. The trend in such times becomes “just-in-time” inventory management. We are seeing this phenomenon now in Europe – where buyers are happy to pay a premium and buy afloat and spot goods, rather than pay slightly lower levels to buy forward from origin. This type of buyer behavior requires more seller discipline. A seller has to believe that the phone will ring tomorrow, and that an order will be placed....And that the fact that his books are wide open for January onwards is a good sign, and an indication of much more buying to do, rather than an ominous sign that almond consumption has been abandoned forever....

¹ A European economist recently called the Greek financial problems a “pimple” on the financial world compared to the impact an Italian default would have. He was not trying to be funny.

² Some people are bringing 20...[I'm Not Kidding](#)

³ Of course, as good Evangelical Christians... Republicans here in the breadbasket of California – in the San Joaquin Valley – we don't call it “Apathy.” We call it “Preparation for the Rapture.”

Some Volunteered Friendly Advice to California Nut Processors⁴

By now you are all thoroughly depressed about the lousy state of our world. You are cashing out of the stock market, buying gold, ammunition, canned food and eyeing your neighbor's vegetable garden as a possible takeover target....You're even going so far as to enroll in [Ashton Kutcher's Survivalist School](#).

About now is the right time for a digression.....It's the 21st century. Three year olds walk up to Blackberries, swipe their fingers across the screen, and upon nothing happening, promptly proclaim that your phone is broken. If you listened to cassettes, you are in your 30s or 40s. If you listened to records....you likely don't understand the meaning of the second line of this paragraph. So, in the 21st century why, as a nut processor, who has millions of dollars invested in electronic processing equipment, are you still using hand-written weight certificates? Do you know the value of a hand-written weight certificate? It's a trick question. A hand-written weight certificate has no value. To a buyer overseas, it might as well have been filled in by your three year old, with crayons, on the back of an Applebee's kids' coloring sheet. Oh, and by the way, many of the handwritten certs often look like they have been....

After doing all the work to put a good product in the sack / carton, don't you want to also be certain of how much was packed, and to be able to stand behind a certificate that has a modicum of legitimacy? With this in mind, and as a public service, we are providing those handlers who are still using hand-written weight certificates with a user-friendly link where you can buy a printer, connect it to your scale, and print a professional looking document: [Help Me Buy A Printer!](#)

And for those processors who are gracious enough to pack product for Derco, we will pay for 50% of the cost of the printer....and we're not kidding. Send us a copy of the invoice and we'll send you a check for 50% of the cost of the printer.⁵

Please...do yourselves and your clients a favor, and come to the realization that hand-written, often scratched-out and re-written, third-grade-looking weight certificates are subject to so much ridicule, scrutiny and doubt, that they are the written equivalent of someone telling you: "Not sure how many sacks were loaded, but I'm pretty sure it must of [sic] been around 45,000 lbs...I'm pretty sure we packed it all." A tough position to defend.

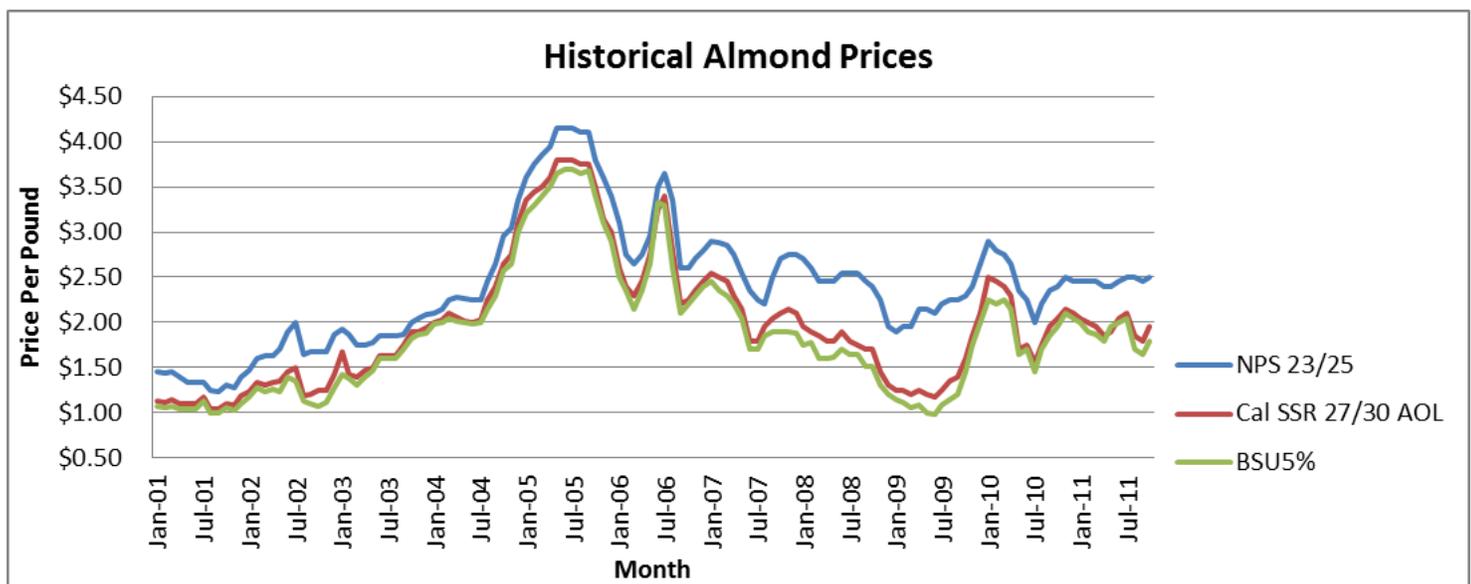
⁴ This is meant to be taken with a sense of humor. If you take this section too seriously, it means that our comments have hit too close to home and you really need to click on the link in paragraph 3 and make the purchase.

⁵ Our offer does not extend to shipping & handling costs. Those remain 100% for buyer's account. Offer good until December 31, 2011. While supplies last.

Conclusion

Seller's Perspective:

- Shipments for October were tremendous.
- Shipments for November will be another record.
- Economic news is admittedly not good, but people will still eat – and when they shop, they will look for bargains. Almonds, in whatever form, are a small and healthy luxury that many people can afford. And they can buy a lot more almonds with their limited budget than any other tree nut.
- Let the other nuts worry about the economy – almonds are priced right. Demand will come. This market will be stable for the foreseeable future. Chart below is pricing from January 2001-October 2011, which shows that even just looking at almonds (without a comparison to other nuts), prices are moderate.



Buyer's Perspective:

- Chinese demand is over for several months.
- Indian demand will come and go in unpredictable emotional waves.
- Middle Eastern demand will not be enough to carry any shipment month.
- European demand is present, but will not manifest itself all at one time. With the main items that Europe buys being readily available in this crop, importers in Europe are not in a rush to cover.
- We will take it one step at a time. If California suppliers can take it one step at a time too, we will have a healthy market. Otherwise, California will discount and our patience will pay off. Remember, the holidays are coming and we are focused on processing and selling what we already bought. We don't have to be patient – we are busy. California has to be patient.

“The rule is perfect: in all matters of opinion, our adversaries are insane.” *Mark Twain (1835 – 1910)*

Best Regards,
DERCO FOODS