

November 2007 Almond Position Report

November 2007 shipments were 129.524 million pounds. This is up just over 16% from the November 2006 shipments of 111.467 million pounds.

Analysis

Carry-in from the 2006 crop year: 133.9 million pounds

Objective 2007 crop estimate: 1.33 billion pounds

Less 3% loss / exempt: (39.9 million pounds)

Total Supply: 1.42 billion pounds

Less shipments to date: (506 million pounds)

Less estimated carry out: (200 million pounds)

Estimated Remaining Supply: 714 million pounds

Shipments

Seller's Perspective: Verily we say unto thee....All ye nay sayers repent! Repent we tell you, for thee are headed to the fiery and cavernous depths of "being caught short." A realm filled with anxiety, gnashing of teeth, screaming for cover, and wanting of prompt shipments. Thou too often hast doubted the strength of the mighty California grower and lo, the price you will now pay will be dear.... dearer than thou wouldst desire. More dear than the second hand doth offer. Thus says the November shipment report. Thus it is written, thus it shall be. [And there was much rejoicing in the streets (of the San Joaquin Valley)]

Buyer's Perspective: Damn you, California! Just when we thought prices were falling, you're poised to bring them back up!

Receipts

Seller's Perspective: 1.231 billion pounds received through November 30. The average percentage of the total crop received by handlers (through November) for the past 5 years is 88.4%. If this number holds true, this crop will come in around 1.39 billion pounds. The CASS estimate was 1.33 billion pounds. We think that the crop will not hit 1.4 billion pounds. This crop came in earlier than the 5 year average and the percentage received is most likely over 90%.

Buyer's Perspective: This crop will be 1.4 billion pounds. Bet on it. Just accept that fact and base your carry-out calculations on this figure. Accounting for the loss/exempt figure plus the carry-in from last year, California will have a total supply of 1.49 billion pounds. The average monthly shipment total for December – July last year was 79 million pounds. Assuming you ship this same amount each month between December and July, you will have shipped a total of 1.138 billion pounds for the season, which would result in a carry out of 350 million pounds. Oops...too much. OK, let's try for shipments that are 17% higher (based on year to date performance) than last year. That would make total shipments between December and July 739 million pounds, leaving a carry-out of 245 million pounds. That's your best-case scenario. And we know very well that none of you wants to be the one holding this amount.

Commitments

Seller's Perspective: 345.6 million pounds of committed shipments compared to 260 million pounds last year at this time. This is the best "there is no demand" market we have seen. Keep the no demand coming. Add to this fact that year-to-date shipments are at a record 506 million pounds and the supply situation does not seem so overwhelming, does it?

Buyer's Perspective: Your uncommitted inventory is up 43% over last year. That's all we have right now. We are thinking of other bearish comments. We need more time. More time.

Domestic

Seller's Perspective: Did you hear that we set a new domestic shipment record with 41.8 million beautiful pounds of almonds sold in the USA? The last record was 35.17 million pounds set last year. That's an increase of nearly 19%, but statistics of this type are for the petty. We're just happy to be in a healthy industry and to have you as our friends and customers.

Buyer's Perspective: ~~We are so \$#@%^&* tired of your domestic market gloating. We get it we get we get it. Mother@#\$\$^%\$. We reciprocate your warm sentiments and wish you all a wonderful holiday season. It will be our pleasure to pay more for our new almond purchases. If anyone deserves it, it's our humble and gracious friends in California.~~

Export

Seller's Perspective: Did you hear that we set a new export shipment record with 87.7 million beautiful pounds of nuts sold around the world? The last record was 81 million pounds set in November 2002. The shipments this past November beat this record by 8% and are higher than the November 2006 shipments by 15%. But statistics of this type are for the petty. We're just happy to be in a healthy industry and to have you as our friends and customers.

Buyer's Perspective: ~~You lucky bastards with nine lives; wait until your shipments fall off. We are going to have you for lunch. We reciprocate your warm sentiments and wish you all a wonderful holiday season. It will be our pleasure to pay more for our new almond purchases. If anyone deserves it, it's our humble and gracious friends in California.~~

Water

This was one of the important topics addressed at the annual Almond Board Conference held in Modesto this month. As discussed briefly in last month's report, a recent U.S. District court opinion, aiming to protect an endangered small fish known as the Delta Smelt, will reduce the water drawn from the Sacramento Delta by cutting back on the amount of pumping. The effects of the ruling are far-reaching, and will impact the water supply of the San Francisco Bay Area, the San Joaquin Valley, and Southern California. This could cause potentially serious problems for agriculture in our region.

Several major metropolitan areas may have to resort to water rationing and relying on their water reserves. This would create more catastrophic issues should the region be faced with a prolonged drought or other natural disaster. The ruling has elevated the water issue in California to a critical level and it can no longer be dismissed as bullish grower talk aimed at raising the price of next year's almond crop. If the water shortages materialize, high almond prices will be relatively low on the list of topics being discussed.

The summary: unless California takes preventative and proactive steps to increase its water storage capacity and related infrastructure at certain strategic geographic points within the state, we are all going to be in sad shape.¹ As in all sad situations, the extent of sadness will vary. In regards to almonds, those on the west side of the San Joaquin Valley, who rely more heavily on the water from the Sacramento Delta than others, may be in the saddest shape of all. This developing scenario reminds us of the Hugh Elliott quote: "You can always tell you're in trouble when the good option involves a prosthetic leg."

¹ Federal officials have just reached an agreement with California, Arizona and Nevada regarding water allocation. This agreement will set forth how these three states will share in the challenges of water shortages stemming from low river and reservoir levels. You know the stakes are high when the federal government and multiple states agree to anything.

Currency

The USD is still weak against the Euro. For the past few weeks it has been hovering around €1 = \$1.47. The Federal Reserve has just cut interest rates in the US by 0.25%. Many currency experts claim that this rate cut has already been factored into the weak USD and they don't expect a further weakening of the US Dollar based on this information alone.

Conclusion

Many of us in the almond industry care so much about these monthly shipment figures and base so many of our commercial activities on them that we have become Position Report Addicts (PRAs). PRAs have a sad existence. They anxiously wait for the next report to come out. Then devour the information looking for statistics that will reinforce their long or short position. If the information is readily supportive – Eureka! Joy abounds. If not, no worries....creative statistical manipulation will save the day.

So for those PRAs, here is a bit of information that will be sure to pique your interest. According to the price histories we maintain in our office, there has only been one almond market price decline that began in November. There have been price declines that started earlier and *continued* through November – but only one that *started* in November. That one instance was in 1998.² During this same 17 year period, we are not aware of one instance of a price decline that has started in December. The November shipment numbers just released are unlikely to break this streak.

Though some buyers will do their best to downplay this strong shipment number, they will likely have their hands full when dealing with growers. Most growers who see the November position report in California are going to wonder why exactly they should lower their prices. Counter arguments at this time are likely to fall on deaf ears. But as always, the growers will probably over-react, either withdraw from the market entirely, or raise prices too much. C'est la vie. We get on this same carousel every year.

Most buyers will argue that unless we are 92.5% received (a figure which is unlikely but not impossible to fathom), it seems that we will exceed the CASS estimate of 1.33 billion pounds. So a slightly bigger crop could dampen the bullishness in California. This remains to be seen.

Now as much as at any time this season people will want to know where this market is headed. Europeans had been saying (at least until this number was released) that the market is dead, that there is no demand, etc....and that it's a holiday anyway on Thursday so no one is going to work the rest of this week.³ In India customers are trying to decide if it's worth paying a \$0.25 per pound premium over the shelled market to buy-up the limited remaining inventory of inshell Nonpareil. They will likely all decide on the same day and move prices accordingly. The Middle Eastern traders are just coming off a buying binge and will digest what they bought before they buy more...and if your rock bottom price is not rock bottom enough for them, then they will wait. But with this number, they may not wait so long. The Chinese are trying to find a way to get the product into China – damn the free trade agreement with Vietnam!

²This does not account for some temporary price variability. If you are confused, don't worry. Just nod, say "hmm....what an interesting statistic" and keep reading. Remember what Stephen Tagg said: "There are five kinds of lies: lies, damned lies, statistics, politicians quoting statistics, and novelists quoting politicians on statistics." You don't want to know where along that sequence Mr. Tagg would likely put this almond report.

³ This is a guess. We don't really know if Thursday is a holiday in Europe. But we're comfortable taking a bet that we can find one bank holiday, or in the very least a patron saint for whom at least someone in Corsica is staying home. Apologies to any Corsicans offended. Please don't issue a vendetta, we have enough problems with our shipping lines and water shortages here.

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

The South Americans? Well they are 2 months from Carnival. Who has time to think about almonds when you have parade floats and gem-encrusted fio-dental bikinis to design?

And the guys in California? Well, their Christmas gifts probably just got bigger.

Happy Holidays,
DERCO FOODS

Holiday Bonus ⁴

The Seller's Almond Calendar

January: First half of the month, you're still on Christmas vacation - skiing in Lake Tahoe or fishing in Mexico. Second half of the month, wait for bloom. You cannot offer product under any circumstances because the uncertainty of bloom and the likelihood of either El Niño or La Niña is overwhelming.

February: Talk about the bee shortage; the unmanageable cost of getting hives; the uncertainty of keeping them alive; make a few negative comments about how the bud set looks worse than last year (irrespective of what it actually looks like).

March: If it rains too much, complain about diseases. If it rains too little, complain about drought. If the rain is just right, find somewhere in the state where the weather is going to be below freezing and send that weather link to everyone you know. This tactic works especially well if almonds are actually grown in that freezing region. Don't forget to include on your e-mail list the guy in Kazakhstan that wanted to load in the same container 50 cartons of almonds, some dried cherries, whole apricots, apple rings, maraschino cherries and fresh garlic. After all, you don't want the Kazakhs to think that the almond crop may be a good one. Those kinds of subversive rumors lead to a falling market in the CIS countries....and we all know the CIS countries are the Costa Ricas of central Asia.

April: Wait for the May subjective estimate. If the market has been going up, don't offer anything other than prompt shipments. Sound worried in general and comment on how busy your processing schedule is. If the market has been falling, drop your prices by as much as is necessary for that one UK second hand trader to book a few hundred tons for shipment through August. Realize 2 minutes after the sale that you dropped your prices too much, leaving serious money on the table. Promise yourself that you won't sell again until the objective estimate in June. Finalize your INC (International Tree Nut Council) travel plans.

May: Tell everyone you know why you think the subjective estimate is too high. Then go to the INC conference with your spouse. Attend the opening night cocktail reception and one of the following workshops to appease your guilt. Spend the rest of the time taking tours, shopping and repeatedly sampling all local drinks. After the conference, visit a neighboring country – you earned it after that arduous 3 day conference. Convince yourself that you would have been this successful (rich) had you been in any other line of work because you're just that talented. Justify the business class ticket home; heck, almonds is tough business.

June: Wait for the objective estimate at the end of the month. If the market has been going up, don't offer anything other than prompt shipments. If the market has been falling, drop your prices by as much as is

⁴ It pains us to have to qualify that all the material below is intended for a laugh only. Nevertheless, we feel compelled to do so. If you are easily offended and you think we are talking about you (we probably are), or if you are looking for something with redeeming value to read, this is not for you. If you can take a joke, read on.

necessary for that one UK second hand trader to book another few hundred tons for shipment through December. Realize 2 minutes after the sale that you dropped your prices too much, leaving serious money on the table. Also realize that you had promised yourself back in April that you were not a seller until after the objective estimate was out. Then remember that you have not said anything about “making sure we have enough almonds for the transition period.” There, you feel better now.

July: Take another vacation; this time somewhere around California. Everyone knows the INC trip was for business. Now you need to relax and get ready for harvest. Go to your beach house or rent a cabin. Make sure motor sports of some sort are involved.

August: Tell everyone you know that the crop looks later than last year – at best the same as last year – but certainly not early. Make a few comments about how the serious damage looks worse this year than last. That unexpected July heat really hurt. And the doubles – oh those doubles. But the Butte/Padres look good. Of course it's too early to know, because you have a neighbor whose Butte/Padres are off. But not yours; they're better than last year.

Take the calls from India. Tell them why you can't ship second week of August. Take the calls from India. Tell them you will try to ship third week of August but you need the full month to be safe. Go home and go to bed. Take the calls from India. Tell them that you need to speak with the production manager the following morning but that you're sure that you can only ship 3 loads of inshell Nonpareil next week....and that you can't predict the meat yield on the Sonoras that are contracted for October.

September: Complain about the nut size (certainly too big or too small). If too big, what are you going to do for your confectionary customers? What about Hershey's? What about Japan? You know they only like 25/27 and 27/30. If too small, what will the Middle East do? Tragedy upon tragedy. How can you win? How can you tolerate the angst this business causes? Sell what big nuts you have to your competitor.

October: Comment on the crop size again. Complain about the rain that caught the Carmels in the field. Complain about the fact that with this rain you can't get into the fields to bring out the rest of the nuts. Call your clients and tell them the nuts are wet; they need time to dry – and this is likely going to delay their shipment and cause more chipping and scratching at the huller level. Try to renegotiate that Supreme to an SSR giving a discount that you yourself would not accept as the buyer. By this time, Nonpareil shipments are in full swing, but you can't get vessel space. Send irate messages to your shipping representatives and anxiously await their response letter that closes with “We are sorry for any inconvenience [our utter ineptness and lack of concern for your shipment] may have caused. Please note that effective next month, we are imposing a GRI of \$100/20 and \$200/40 on our service to all destinations. Thank you for your business.”

November: Talk about receipts and the certain inaccuracy of the CASS estimate. It is absolutely obligatory to also guess at this point how many hullers are still going at full speed and when they are expected to slow down or finish. Without this point, you cannot make an accurate guess as to how many almonds are yet to be received. This is crucial. The world awaits your prognostication.

December: Attend the annual Almond Board Conference. Call your clients and tell them that it's a short shipping month and that they better send their shipping instructions. If the market is rising, add some bravado and tough language. If it's falling, be gracious and supportive. Tell them that if they can't tell you this week, then you are OK rolling to the first half of January. Sound sincere in the fact that your factory is running at full capacity and that you just can't take another December order....then wait for the right bid. Miraculously create the processing space and be a hero. Enjoy your Christmas celebration.

The Buyer's Almond Calendar

January: Vacation

February: Come back from vacation. Go to California for “work” – to see the bloom for yourself. Advise people that you are “in town” and that you are going to visit them. Show up 15 minutes later. Tell them why they are wrong about their opinion of bloom in their own orchards. Tell them what you think the market is going to do. Present a low bid to see if you can get lucky and buy a load that will pay for your trip. Have the next processor take you to the same steak restaurant you went to the night before.

March: See last month's comments...after all, not everyone comes to California in February. Some like to see more flowers on the trees so that they can really be accurate in their crop size estimates. For those who stay home, watch bloom web-cams on your favorite almond-junkie website. Take the great pleasure of calling California growers at 7 am to tell them that there is no cold weather forecast and that the rest of the week is going to be sunny. Tell them you hear there is little risk of an April frost in Spain and that the Spanish crop is doing well. You must mention that prices in Spain are falling. No one in California really knows this stuff anyway. Follow this information up quickly with a low bid. Act like you're doing the seller a favor in even bringing him the bid.

April: Talk about the May subjective estimate and try to lower/raise market based on no substantive information. Report the same 20 ton paper-trade to 30 different packers and exporters. It's important to sound concerned about the trends you are seeing. You don't want prices to fall – but how can they not under this scenario? (Plug in any scenario you want, the key is just to sound sincere.)

May: Analyze the subjective estimate and comment on why it is too high or too low. Make your vacation plans. You only get 8 weeks this summer, so time is tight. Before you leave, book those last few loads that you really don't need – but that you're just taking “to ensure a smooth transition.” Tell everyone you're fully covered through December.

June: Analyze the objective estimate and comment on why it is too high or too low and why prices must come down. Buy a few loads as discreetly as you can. Repeat to yourself until you fall asleep: “California will lower prices, I should wait before I buy my new crop needs.” No one in this business counts sheep anymore, do they?

July: Go on vacation.

August: Stay on vacation unless you live in India. If you live in India, you are already one month late. Have you booked your inshell Nonpareil? Is that other importer going to get his almonds 3 days before you? How can that be? Is he shipping with APL? Review the handler list to make sure that there are no growers you have missed. Call them all again just to be sure. Tell them all not to mention that you called.

September: If you're in the Middle East, ask about your new crop Nonpareil shipments. If the market has fallen since the time you placed your order, no matter what the shipper tells you about the status of your shipment (even if they say they shipped it in August), it is obligatory to say “this is too late for my needs.” Try to renegotiate. If you're in India, you must also complain about the delays in your shipments and tell every packer that your other packers have already shipped you 3 loads. This way you set the ground work for complaining about what you really want to complain about - the meat yield on your parcels that is certainly lower than what the USDA says. If you're in Asia, pray that your “import channels” are well lubricated. If you are in Europe, talk about how slow the market has been and how it looks like this season fewer people are

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

going to buy almonds for the holiday season because the weather is just too hot for people to eat almonds. Act worried while buying more. Pretend to ignore currency advantages “which don’t really matter.”

October: If the market is falling, try to get your October shipments shipped in September. If the market is rising, try to get your October shipments shipped in September. This is a key month. If you want prices to fall for the rest of the season, this is your best chance. You must use the panoply of skills that you have and every shred of influence you think you possess to talk the market down. Remember, half-truths are not lies, they are half-truths. If you are unsuccessful, resort to the “in November we will see a downturn” refrain. Talk about how much was already shipped and how this pace is not sustainable.

November: If market has not fallen, you’ve missed your chance (see the discussion on market price corrections in November in the conclusion section above). Now it’s time to position yourself for the pre- and post-bloom hype. It is crucial to comment on how well-covered industry seems to be “through the first two quarters.” As an importer, forgetting to say this in November is a fatal mistake.

December: Complain about the delays in getting your goods. If your inventory is full, arrange for a few additional aflatoxin tests after the product has cleared customs. How else can you send a load back and gain some time until a replacement is furnished? Complain about all the VASP challenges while passing on all repatriation related invoices to the shipper. Go on vacation. Only 3 weeks this time. Back to business by third week of January! How time flies!