

December 2008 Almond Position Report

December 2008 shipments were 93.6 million pounds. This is down about 1% from the December 2007 shipments of 94.5 million pounds.

Analysis

Carry-in from the 2007 crop year:	231 million pounds
2008 Objective Estimate:	1.5 billion pounds
Less 3% loss / exempt:	(45 million pounds)
Total available supply:	1.686 billion pounds
Less shipments to date:	603 million pounds
Remaining supply:	1.08 billion pounds

Receipts

Seller's Perspective: Since the 2003 season, we have received on average 96% of the almond crop through December 31. Applying that average to receipts so far (of 1.486 billion pounds) would indicate that the 2008 crop will be around 1.548 billion pounds. This is in line with the CASS estimate and not big enough of a difference to have a material impact on the way the crop is marketed.

Buyer's Perspective: That was a good one. We didn't realize that what you are doing is "marketing" this crop. Calling what California sellers are doing now to be "marketing" the almond crop, is like saying that homeless people on the streets of San Francisco are "negotiating" for the alms they are receiving. Marketing....great.

Shipments

Seller's Perspective: Since the 2003 season, we have shipped on average 49.3% of our crop through November 30. Applying that average to our shipments so far would indicate that we are going to ship around 1.22 billion pounds through July 31, 2009. We think that this shipment percentage does not adequately reflect what we will actually ship this season. At these price levels, there is a lot of interest for California almonds from both established as well as developing markets. We see very strong shipments in the spring and summer months ahead. If we can ship the third highest total for December (missing a record by only 900,000 pounds – or about 20 containers) during the worst economic crisis that the world has seen since the Great Depression in the 1930s, how well are we going to do once consumer confidence slowly recovers? Furthermore, how many food items that have the diverse applications of almonds (not only tree nuts) are as attractively priced? None. The future for this commodity is bright and I think we all know it.

Buyer's Perspective: Please set aside your feel-good hopes and do the math. We will help you:

Carry-in from 2007:	.231
Projected receipts in 2008:	1.548
Less 3% loss/exempt:	.046
Less projected shipments:	1.22
Estimated carry-out into 2009:	.513

That's 513 million pounds. Let's round it down to 500 million pounds for the sake of simplicity. And you are still talking about potentially poor bloom conditions, drought, etc.? And you are doing it with a straight face? That is conjecture. Fact is – if you don't increase shipments dramatically between now and August 1, even a crop in 2009 that is down 35% will result in a total availability of 1.5 billion pounds again. You can try to worry us about a supply shortage – but we think that your time is better spent on refinancing your almond operations. How do \$0.75 per pound standards pay for the \$18,000 per acre purchases you made a few years ago? They don't.

Commitments

Seller's Perspective: Committed inventory is up 15% over last year.

Buyer's Perspective: Yes, but unfortunately, uncommitted inventory is also up – but by 42% over last year.

Pricing

Seller's Perspective: Prices have gotten too low on limited trading, anxiety, pessimism and lack of discipline. These are the lowest levels we have seen on NPS 23/25 since 2003 and the lowest on BSU5% since 2002.

Buyer's Perspective: We really don't disagree. We don't think that any serious buyer is going to say "we cannot afford to buy almonds at this price." But you are doing nothing to give us confidence. You talk the talk, then take any bid. If you are so confident and bullish about this commodity, then why are some among you offering BSU5% through all of 2009 at \$1.20 per pound? When your actions are not congruent with your words, you only fool yourself. What do you say to a buyer who says that we are waiting for \$1.00 / lb standards? Do you bring up the water shortage?

Export

Seller's Perspective: Exports are down because of Western Europe, the largest single export region for California almonds, which has taken 11% less almonds so far this season. However, there are many bright spots. Eastern Europe, the Middle East, Asia and Africa are all up. Western Europe has taken 198 million pounds so far this year. These other markets together have taken 127 million pounds. China has posted huge numbers. Other important markets like India are behind last season – and we actually see this as encouraging news for the coming months. Emotional markets like India have reacted to falling prices in California and to weaker domestic currencies (the Rupee was at 42 INR to 1 USD around August and nearly hit 50 INR to 1 USD in November). As inventories start to run low, there will be much more demand coming from these markets during the first half of 2009. Lastly, the needs for Ramadan 2009 (starting third week of August 2009) will be met exclusively from the 2008 crop.

Buyer's Perspective: We told you last month that export shipments would take a hit; and they did – down nearly 7% from last December's totals. We cannot say that they will not improve. But will they improve enough to matter? Not if you don't show more discipline at origin and instill buyer confidence.

Domestic

Seller's Perspective: A much better showing than last month; up about 16% from last December. Domestic buyers saw the value of almonds and decided that this is a good time to secure some of their needs. Something to be said for those who argue that snack consumption goes up during difficult economic times as more people eat at home. You laughed last month at the disappointing domestic shipment figures, but you must admit that this is a surprising and healthy rebound. It also shows the error in putting too much credence in one month's shipment figures. We must start looking at longer term trends. As the supply situation is now enough to guarantee the availability of most items throughout the season, buyers are going to take advantage and buy consistently throughout the year. They are no longer forced into the heavy seasonal buying they had to do in years past, when carry-outs were limited and most of the holiday needs had to come from the new crop and ship within a finite window (September – first half November). This also limits the impact of shipping challenges (container shortages, vessel delays).

Buyer's Perspective: You are right about the domestic market. This was a good showing. The second best December ever, missing a record by 1.6 million pounds. You may also be right about the more balanced buying approach. This year's patterns will go a long way toward confirming this theory. Let's see.

Conclusion

Few, if any, in the almond industry want to see prices fall further. Buyers and sellers alike want to see stability and some firming. There is little incentive to book forward business when the likelihood is that if you wait, you can buy it cheaper just before shipment. Just ask the walnut guys – who did such a stellar job of handling the marketing of their crop this year.

The global economic situation is bad – and not likely to get better anytime soon. But more than the actual impact of the bad economy – the “expected” impact on the economy is what seems to be frightening people the most and having the most impact on demand.

What can possibly happen to change the current dynamic we are in of lackluster demand, growing inventories in the hands of processors, the need on the part of some growers to generate cash, and the fear that “I will be the last one holding the bag if I don’t sell my inventory now.” Here are some possible scenarios, the convergence of which could create a bullish market:

- A few rainy days during the Nonpareil bloom
- A potentially weaker US Dollar in months ahead.
- A convergence of short-selling cover. It’s no secret that exporters, traders and importers are all more inclined to go short than long under such market conditions. But market conditions always change. Always.¹ At some point this will turn and at the first real signs of the market turning, there can be a crush of demand as people want to maximize their profit on their short sales – or if they were too aggressive, to minimize their losses on those sales.
- A psychological shift from within California. This will come if enough large growers and processors decide that their product is worth more than \$0.75 per pound in the field, which is almost what BSU5% sales are returning now. The need for most countries in the world to buy more product, and the flurry of activity we have seen since the beginning of January may give growers the courage they need.

Remember, “The bravest thing you can do when you are not brave is to profess courage and act accordingly.” Cora Harris. This is an elegant way of saying: “grow a pair and act tough even if you don’t feel tough.” We have said this countless times before, but it bears repeating: if you don’t value what you have to sell, no one else is going to value it for you. Believe it or not, you have motivated counterparts all over the world. Virtually every buyer of almonds wants to see some unity at origin and they want to see prices come back up. They want California growers to give them a reason to believe that BSU5% will not be \$0.75 per pound in March and that Nonpareil 23/25 will not be \$1.50 per pound.

So here is the million dollar question as we see it: Is unity possible in an environment where the outlook for the foreseeable future is for more supply than demand and where the penalty for being the last one holding 2008 crop could be a potentially devastating one? If it is not, and as we are quickly approaching bloom, then in addition to your Nonpareil buds, sprout some balls too and protect your buyers’ earlier sales!

Best regards,
DERCO FOODS

¹ Many of you are thinking: “sure, but it won’t happen anytime soon.” Please be careful, it usually happens when most people don’t think it’s going to happen. And it usually takes down companies that are “too big to fail” in a spectacular ball of fire. For anyone who has been in this business more than a few years, you know the names well.