

# STRATAMARKETS ALMOND REPORT

## GLOBAL MARKET PRICES, ANALYSIS AND NEWS

### MARKET HIGHLIGHTS

- A worsening short-term coronavirus outlook diminishes global demand as almond prices fall across the complex.
- Benchmark STDS lose 5 cents on the week; NPIS drops 3 cents.
- Buyers in India and China remain inactive; demand from China seen returning after Chinese New Year celebrations next month.

### ANALYSIS AND NEWS HIGHLIGHTS

- Creators of a new water trading product say it could help California almond growers manage water costs as those expenses become increasingly uncertain.
- CME Group tells Stratamarkets that companies have used the contract to trade the equivalent of 1,440 acre-feet of water to-date.
- “We’re not trading it quite yet – we’re definitely considering trading it,” an almond grower says.

### WEEKLY PRICE ASSESSMENTS, US FAS, \$/lb

ASSESSMENT PERIOD: JAN 19 - JAN 26  
WEEKLY MARKET CLOSE (WMC) DATE: JAN 26

ITEM	LOW	HIGH	WMC	WEEKLY CHANGE (WC)
STDS	1.94	1.98	1.96	-0.05

#### NONPAREIL

NPIS	1.67	1.69	1.68	-0.03
NPX 30/32	2.06	2.08	2.07	0.00
NPX 27/30	2.11	2.13	2.12	-0.05
NPX 25/27	2.22	2.24	2.23	+0.01
NPX 23/25	2.52	2.54	2.53	-0.09
NPX 20/22	2.98	3.00	2.99	-0.19
NPS 23/25	2.43	2.45	2.44	-0.11

#### CALIFORNIA

CAL SSR 30/32	2.01	2.03	2.02	-0.01
CAL SSR 27/30	2.02	2.04	2.03	-0.04

#### BUTTE PADRE

BP SSR 36/40	2.03	2.05	2.04	-0.05
BP SSR 30/32	2.06	2.08	2.07	0.00
BP SSR 27/30	2.07	2.09	2.08	-0.03

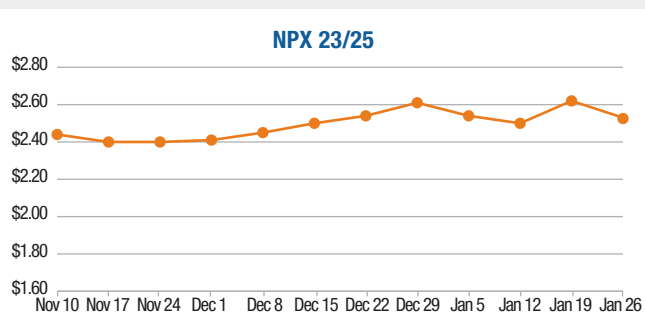
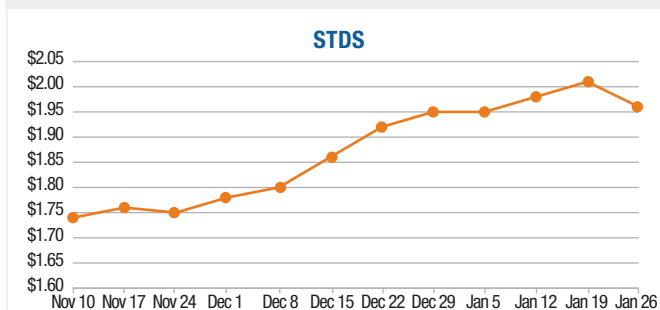
#### CARMEL TYPE

CAR SUP 27/30	2.04	2.06	2.05	-0.06
CAR SUP 23/25	2.08	2.10	2.09	-0.05

#### INDEPENDENCE

IIS	1.49	1.51	1.50	-0.03
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### WMC PRICES, US FAS, \$/lb



## WEEKLY MARKET RECAP

### Prices Fall as Demand Falters

A deteriorating short-term coronavirus outlook dampened demand in the U.S. FAS market during the week ending January 26, dragging almond prices lower.

Prices fell for 13 of 16 assessed items. Benchmarks STDS lost 5 cents on the week; NPIS shed 3 cents. NPX 20/22 registered the sharpest drop, falling 19 cents on the week. The only items that held were BP SSR 30/32 and NPX 30/32, which ended flat; and NPX 25/27, which climbed 1 cent.

A coronavirus flare-up posed problems for buyers in multiple regions and contributed to the price retreat.

In China, new lockdowns are making it challenging to get almond containers into ports, said a broker in California with clients in China. A buyer in the U.K. said talk of a new strain there has further weakened almond demand in the hotel, restaurant, and café sector, which was already under pressure. A broker in Europe said headlines there about travel bans and travel restrictions are making buyers pause.

"I have a lot of offers from California, but I don't have a lot of demand," the broker said on Tuesday.

Prices softened gradually throughout the week. A fire at California packing and manufacturing facility prompted sellers to raise offers for a brief period.

Stronger selling interest also contributed to last week's fall. One U.K.-based trader said he saw deeper selling interest last week compared with previous weeks, which surprised him given the strength of the position report released earlier this month.

"I've never seen such a good position report being ignored," the trader said. "It just seems like demand isn't there."

Other market participants said they noticed the opposite. A U.S.-based trader said offers were few and far between for her. A call pool packer, meanwhile, said growers in his pool were reluctant to sell.

"Growers seem to be sitting on their thumbs," he said. "It just doesn't seem like California is in a hurry to sell."

### Demand shrivels in most parts of the world

Buyers in the Middle East appeared to be the most active last week. Elsewhere, demand ran thin.

Demand for NPIS continued to soften in India. The item was seen bid at \$1.65/lb FAS on a 70% sliding scale with offers 5 cents higher for prompt shipment amid light

### FOUR-WEEK ROLLING AVERAGE, US FAS, \$/lb

ITEM	WMC	WC
STDS	1.98	0.00
<b>NONPAREIL</b>		
NPIS	1.71	-0.01
NPX 30/32	2.07	0.00
NPX 27/30	2.14	-0.01
NPX 25/27	2.22	0.00
NPX 23/25	2.55	-0.02
NPX 20/22	3.04	-0.02
NPS 23/25	2.47	-0.02
<b>CALIFORNIA</b>		
CAL SSR 30/32	2.04	0.00
CAL SSR 27/30	2.05	0.00
<b>BUTTE PADRE</b>		
BP SSR 36/40	2.07	0.00
BP SSR 30/32	2.08	0.00
BP SSR 27/30	2.10	0.00
<b>CARMEL TYPE</b>		
CAR SUP 27/30	2.08	+0.01
CAR SUP 23/25	2.12	-0.03
<b>INDEPENDENCE</b>		
IIS	1.53	-0.02

## STRATAMARKETS

### PRICE ASSESSMENT GUIDE

Stratamarkets utilizes a transparent procedure for gathering price information and producing our price assessments. We created and maintain a document, the *Stratamarkets Price Assessment Guide*, to explain this procedure. The document also explains item abbreviations and the market locations, timing, and trading terms and conditions that our price assessments reflect. To request a copy, please send an email to [hello@stratamarkets.com](mailto:hello@stratamarkets.com).

Weekly Market Recap cont'd...

trading activity. A packer in California said Australia began to offer inshell almonds into the market in India at California-equivalent prices.

IIS was assessed at an 18-cent discount to NPIS. It typically trades at a 10-cent discount to NPIS. An importer in India said IIS supplies there are unusually high after importers over-purchased in November when prices were low.

"The Independence inshell in the domestic market is a disaster," the importer said, referring to the low prices for IIS in India. "When importers saw the cheap prices, they all bought huge quantities."

The importer added that if almond sales were heavy on Tuesday, which marked the country's annual Republic Day holiday, almond demand from India in the U.S. FAS market could ratchet up quickly.

"If not, demand won't come back until March," he said.

Buyers in China remained quiet with Chinese New Year purchasing finished. Buyers there do not want new shipments to arrive until the end of February or March. A packer in California said he expects China demand to return soon after Chinese New Year next month.

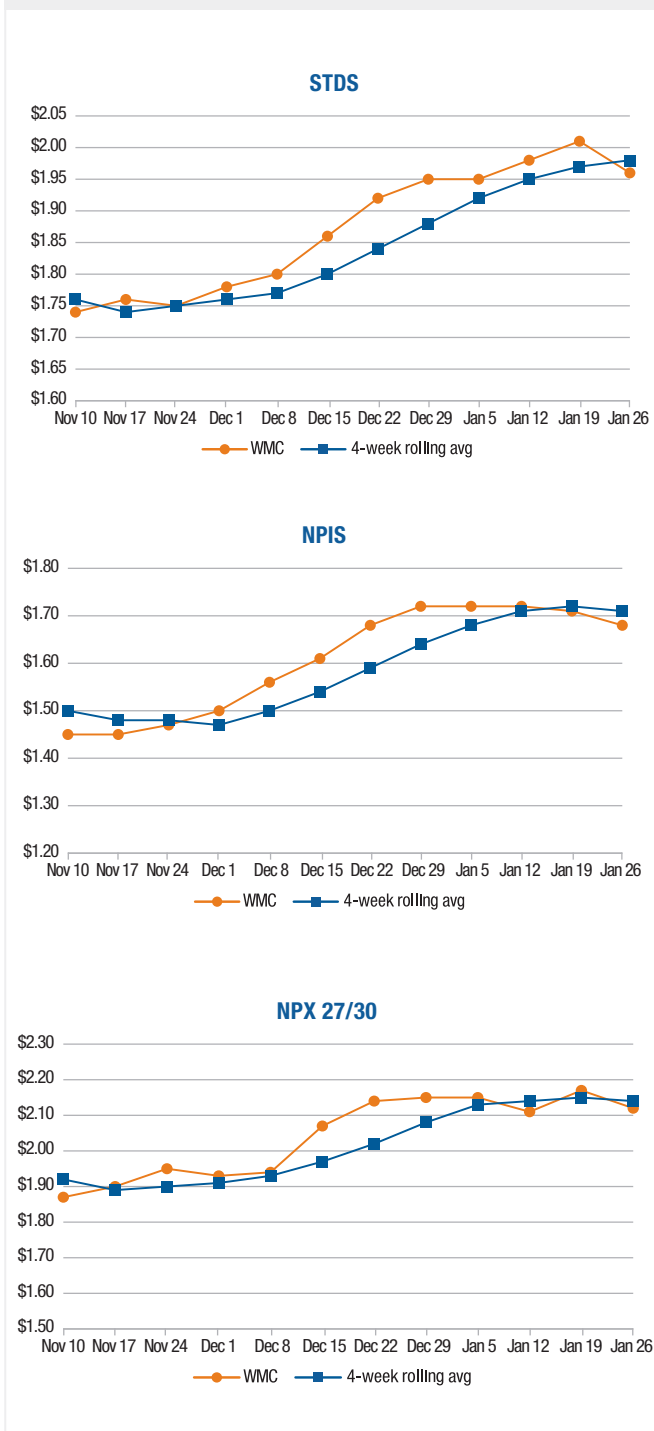
"It's dead for now," the packer said. "But once Chinese New Year is over, they anticipate that their stocks will be empty, and they'll come back and buy more."

In Europe, trading companies sparked most of the buying activity, but not enough to support prices for STDS. Nougat manufacturers remained dormant. A broker in Europe said this month has been his slowest month for business in recent memory.

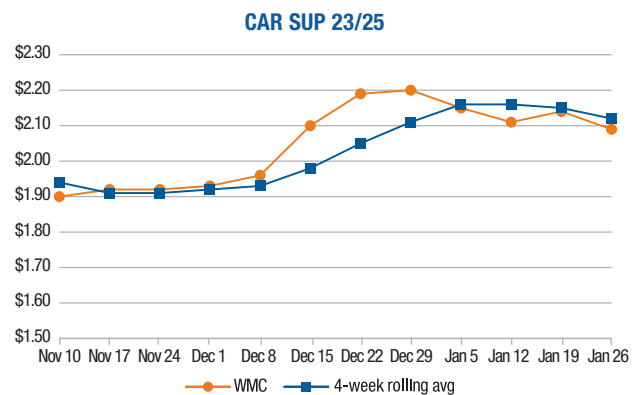
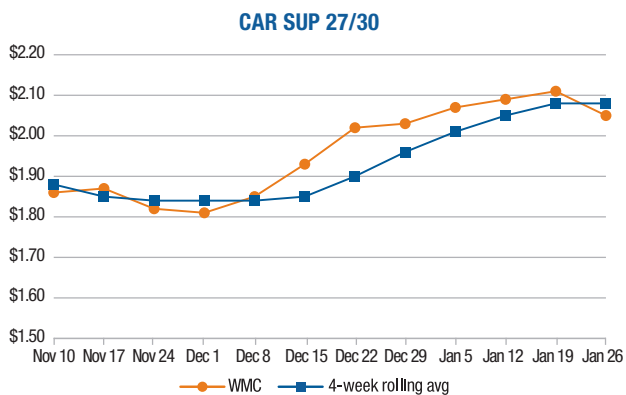
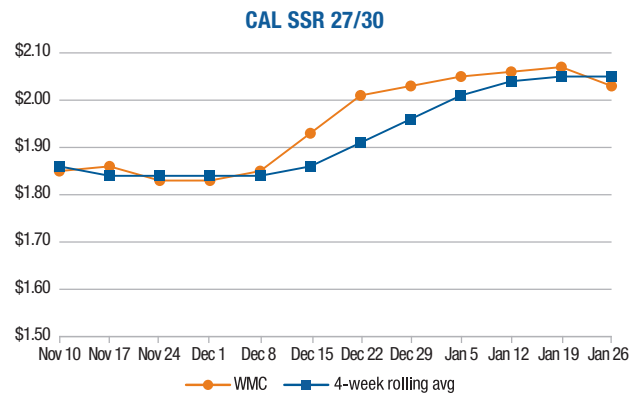
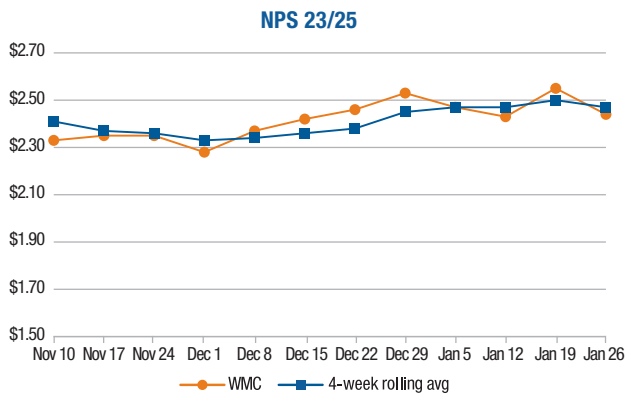
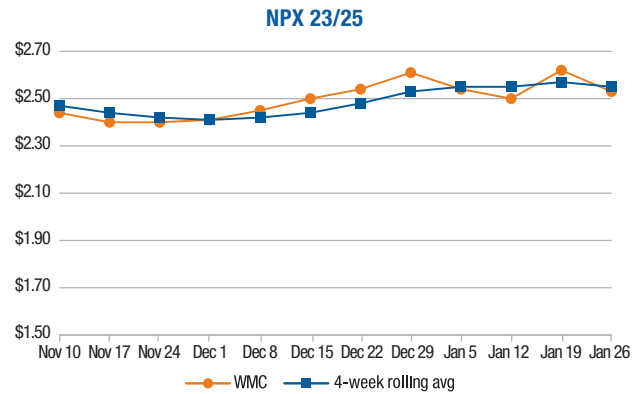
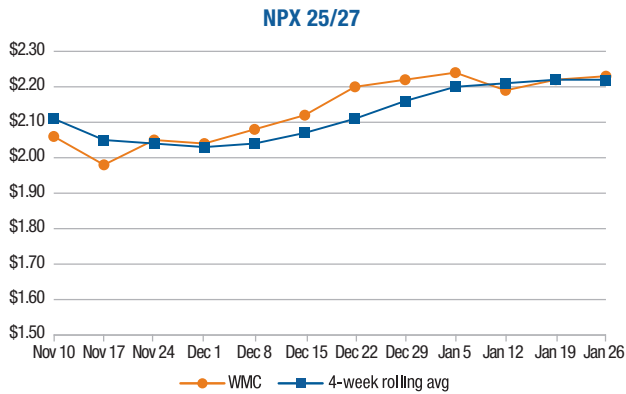
Now halfway through the 2020-2021 crop year, there was an uptick last week in buying interest for new crop almonds, with bids for multiple items seen for Q4 shipment.

A trade for STDS for Q4 shipment was heard but not verified at \$2.02/lb FAS, which would put the new crop price premium to prompt at 6 cents.

WMC VS 4-WEEK ROLLING AVERAGE, US FAS, \$/lb



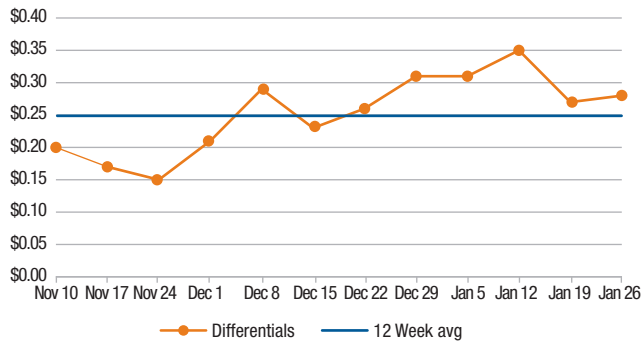
WMC VS 4-WEEK ROLLING AVERAGE, US FAS, \$/lb



FORWARD PRICES FOR STDS, US FAS, \$/lb

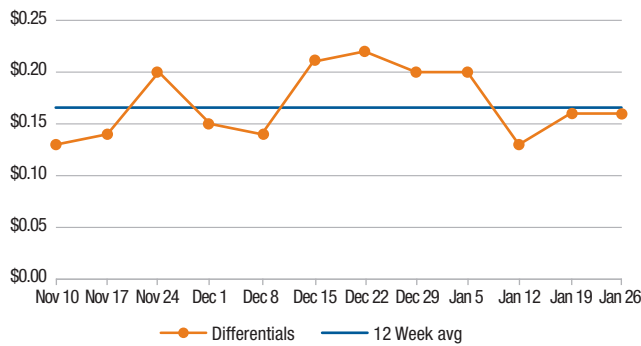
PROMPT	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR
	Q2 2021			Q3 2021			Q4 2021			Q1 2022		
\$1.96	\$1.98			\$2.00			\$2.02			\$2.04		

**NPIS 70% KERNEL DIFFERENTIAL TO NPX 27/30, US FAS, \$/lb**

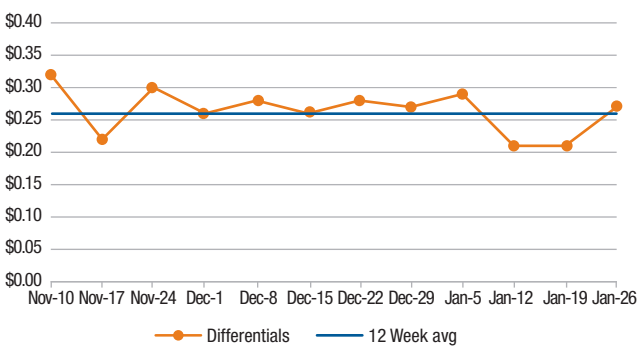


**PRICE DIFFERENTIALS TO STDS, US FAS, \$/lb**

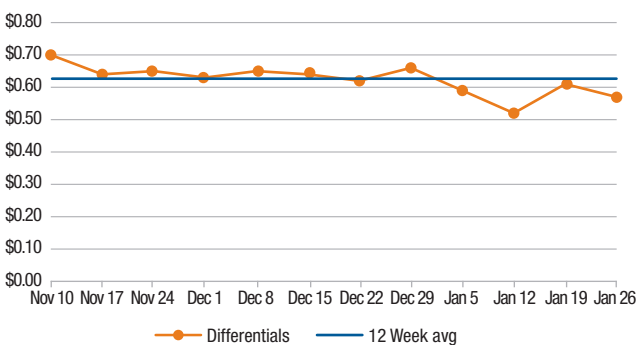
**NPX 27/30**



**NPX 25/27**



**NPX 23/25**



**MONTHLY PRICES, US FAS, \$/lb**

ITEM	OCT	NOV	DEC	CURRENT MONTH AVERAGE
STDS	1.80	1.75	1.86	1.98

**NONPAREIL**

NPIS	1.54	1.48	1.61	1.71
NPX 30/32	1.99	1.84	1.94	2.07
NPX 27/30	2.04	1.90	2.05	2.14
NPX 25/27	2.17	2.04	2.13	2.22
NPX 23/25	2.53	2.42	2.50	2.55
NPX 20/22	2.90	2.72	2.93	3.04
NPS 23/25	2.50	2.36	2.41	2.47

**CALIFORNIA**

CAL SSR 30/32	1.89	1.83	1.92	2.04
CAL SSR 27/30	1.91	1.84	1.93	2.05

**BUTTE PADRE**

BP SSR 36/40	1.87	1.82	1.93	2.07
BP SSR 30/32	1.90	1.84	1.95	2.08
BP SSR 27/30	1.91	1.85	1.96	2.10

**CARMEL TYPE**

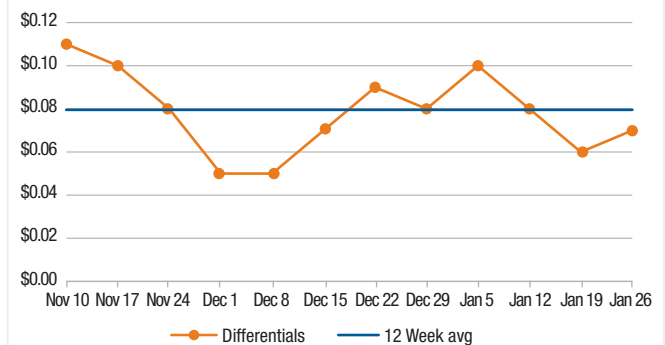
CAR SUP 23/25	1.96	1.84	1.93	2.08
CAR SUP 25/27	2.08	1.91	2.08	2.12

**INDEPENDENCE**

IIS	1.50	1.39	1.48	1.53
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**PRICE DIFFERENTIALS TO STDS, US FAS, \$/lb**

**CAL SSR 27/30**



## ANALYSIS AND NEWS

### Can the Market Help Almond Growers Manage Water Costs?

The creators of a new water trading contract are positioning it as a novel tool for managing water costs – an issue of increasing importance for California almond growers. But growers are taking a watchful approach to the new exchange-listed financial product.

Since the CME Group and Nasdaq launched the Nasdaq Veles California Water Index futures contract last month, companies have used it to trade the equivalent of 1,440 acre-feet, or 469 million gallons, of water, Matt Sutherland, a CME Group spokesman, said on Monday.

Sutherland declined to confirm if California almond growers were using the contract, citing company policy against disclosing client information. However, at least one almond grower said he's monitoring the contract to determine if it could bring value to his company.

"We're not trading it quite yet – we're definitely considering trading it," said Josh Guggenheim, director of acquisitions for Gold Leaf Farming, a Modesto-based company that grows almonds, pistachios, and dates.

To explain how the contract could benefit almond growers, Tim McCourt, a managing director at Chicago-based CME Group, used the hypothetical example of a grower that needs to buy water in June.

To start, assume it's January, and the grower buys a contract for \$500 that will settle in June. Since the contract settles financially – meaning counterparties to the contract do not make or take physical delivery of water – the grower must still buy water in the spot market.

Assume that the price of water in the spot market increases from \$500 to \$600 per acre-foot in the months after January. The grower now needs water and must pay \$600 in the spot market to buy it. However, the contract the grower purchased at \$500 per acre-foot is now worth \$600 per acre-foot. The grower can sell the contract and make \$100, offsetting the higher price the grower pays for water in the spot market.

Suppose the weather brings heavy rain during this hypothetical period, and the price of water in the physical market falls. In this case, the value of the futures contract will likely fall, and the grower will lose money on the contract. However, the grower will pay less for water in the physical market, offsetting the loss on the futures contract. "Because of the way the mechanics work, you can use that to lock in the price per acre-foot, therefore that can smooth out costs of production," McCourt said.

At any time of the year, participants can buy contracts that settle during the next month and the month after. They can

also trade quarterly contracts that settle in March, June, September, and December.

The contract settles on the Nasdaq Veles California Water Index. The index tracks water entitlement transactions in California's surface water market and four groundwater basins: The Central, Chino, Main San Gabriel, and Mojave Alto Subarea basins.

Boise, Idaho-based WestWater Research Inc., a consultancy that has been tracking water contract trades for more than 20 years, provides the transactional data used to calculate the index.

#### Water cost uncertainty

While it's unclear if almond growers will use the contract to hedge water costs, it is clear that managing water costs is increasingly important for growers.

The most recent University of California at Davis almond production cost study, in 2019, puts water costs at about 13% of total operating costs for growers in the north and central areas of the state's almond production region. In the south, which accounts for about half of the state's almond production, the study puts water costs at 38% of total operating costs, said Franz Niederholzer, a farm advisor at the University of California Cooperative Extension for Colusa, Sutter, and Yuba counties.

Water districts distribute surface water to growers, but growers use groundwater as a backstop during dry years. The Sustainable Groundwater Management Act (SGMA) will reduce access to groundwater from some basins. The state law requires governments and water agencies to stop excessive pumping from basins.

Given this backdrop, Alan Boyce, executive chairman of Bakersfield-based Materra Farming, which grows pistachios, thinks the futures contract could be useful for growers. Still, he plans to wait until trading volumes increase before deciding if he'll use it. He'd like to see enough liquidity to be sure he can trade out of a position.

"I'm hoping the forward contracts start getting a little more liquid," Boyce said.

While Boyce is monitoring liquidity, Guggenheim at Gold Leaf Farming is watching the correlation between water prices at the index and the Central Valley Project (CVP), the market where Guggenheim buys water.

"The worst things we could do is hedge our risk and then have this tool not protect us," Guggenheim said.

With increasing uncertainty over how much growers will need to pay to grow almonds, and constant uncertainty over how much they'll get paid for their almonds in the global marketplace, it's no wonder growers are taking a studied approach.

## WMC ASSESSMENT RATIONALE

### STDS

A prompt-shipment trade was verified at \$1.96/lb FAS at the end of the January 19 to January 26 assessment period, with a bid left standing at \$1.94/lb FAS. A prompt-shipment trade was also verified at \$1.98/lb FAS at the start of the period.

### NONPAREIL

#### NPIS

At the close of the assessment period, the item was seen bid at \$1.65/lb FAS and offered at \$1.70/lb FAS on a 70% sliding scale for prompt shipment. A trade was heard but not verified at \$1.66/lb FAS on a 70% sliding scale.

#### NPX 30/32

An offer was verified at \$2.10/lb FAS for prompt shipment. The market-clearing price was seen 3 cents lower than the offer. A verified trade for pasteurized NPX 30/32 at \$2.20/lb EXW for prompt shipment was deemed off-market and did not influence the assessment.

#### NPX 27/30

Multiple offers were verified from \$2.10/lb FAS to \$2.15/lb FAS for prompt shipment. A trade for NPX 27/30 K spec was verified at \$2.22/lb FAS for March to May shipment. The assessment was determined by subtracting 10 cents from the trade to account for K spec price premium to USDA grade.

#### NPX 25/27

Three trades were verified for NPX 25/27 J and K spec at \$2.30/lb, 2.33/lb FAS, and \$2.35/lb FAS. The assessment was determined by identifying the average of those trades minus 10 cents to account for the J and K spec price premiums to USDA grade.

#### NPX 23/25

Three offers were verified at \$2.54/lb FAS for prompt shipment. A trade was heard but not verified at \$2.55/lb FAS for prompt shipment. The market-clearing price was seen 1 cent lower than the offers.

#### NPX 20/22

The most competitive offer was verified at \$3.00/lb FAS for March to May shipment. The market-clearing price was seen 1 cent lower than the offer. Two additional offers were verified at \$3.07/lb and \$3.08/lb CNF to the United Arab Emirates for March shipment. No trades or bids were verified.

#### NPS 23/25

The most competitive offer was verified at \$2.45/lb FAS for prompt shipment. The market-clearing price was seen 1 cent lower than the offer. No trades were verified.

### CALIFORNIA

#### CAL SSR 30/32

At the close of the assessment period, the item was bid at \$2.01/lb and offered at \$2.05/lb FAS for prompt shipment. No trades were verified.

#### CAL SSR 27/30

The assessment was determined by adding 1 cent to the NPX 30/32 assessment to account for the price premium for the larger-size item. No trades or bids were verified. A verified offer at \$2.12/lb FAS for March and April shipment was deemed off market and did not influence the assessment.

### BUTTE PADRE

#### BP SSR 36/40

At the close of the assessment period, the item was bid at \$2.03/lb and offered at

\$2.05/lb FAS for prompt shipment. No trades were verified.

#### BP SSR 30/32

No trades, bids, or offers were verified. The assessment was determined by adding 3 cents to the BP SSR 36/40 assessment to account for the price premium for the larger-size item.

#### BP SSR 27/30

No trades, bids, or offers were verified. The assessment was based on the item's 1 cent premium to BP SSR 30/32 seen last week.

### CARMEL TYPE

#### CAR SUP 27/30

No trades, bids, or offers were verified. Multiple offers for a similar item, CAR SSR 27/30, were verified, with the most competitive offer seen at \$2.01/lb FAS for February shipment. The assessment was determined by adding 4 cents to that offer to account for the Superior-grade price premium to Select Sheller Run.

#### CAR SUP 23/25

Multiple offers were verified at \$2.10/lb FAS for February and March shipment. The market-clearing price was seen 1 cent below the offer level. No trades or bids were verified.

### INDEPENDENCE

#### IIS

No trades, bids, or offers were verified. The assessment was based on the item's 18 cent discount to NPIS seen last week.



# STRATAMARKETS

## Stratamarkets Almond Report

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