Tera Nova
TRADING INC.

“An important part of hedging against risk is quite simply keeping assets safe." — Hendrith Vanlon Smith Jr

“Greed blinds us to risk, dulls our judgment, and fuels the kind of arrogance that markets eventually punish.” -Unknown

What a wild eight days it’s been! And growers are sure wishing they listened to the above quotes!

It’s hard to overstate the dramatic shift we’ve seen in the market since the position report and objective estimate were released on the 10th. We witnessed a price correction of roughly $0.50 overnight, the largest one-day drop we can recall in modern times. While many growers don’t believe the estimate, it’s the official number we have to work with for now. That leaves California facing a massive uphill battle.

So... what now?

There’s a silver lining: the lack of commitments before the correction and the swift price drop has triggered demand from a market we haven’t seen in years—China. Prices finally reached levels attractive enough for importers to buy for Chinese New Year, choosing California over alternatives like Australia, and even competing against cheap cashews from Vietnam. We’ve seen the strongest Chinese demand in about three years. This tight shipment window needed, September to early October, is critical for product to arrive in time for the holiday, and the demand has come on strong and fast. It’s a much-needed development following the objective estimate.

The Middle East has followed a similar pattern, buying large volumes at these more attractive prices to restock for Ramadan, which also aligns with demand for September and October shipments.

The rest of the world? Many buyers and sellers remain in wait-and-see mode, still shell-shocked by the sudden changes.

As we look ahead, we want to emphasize the urgent need for proper risk management.

Over the past 24 months, risk management across the industry, on both the buying and selling sides, has been consistently poor. A widespread failure to implement effective hedging strategies has left market participants exposed and contributed to the extreme volatility we've all experienced. It has become a pattern, and it is one we must break.

With the objective estimate suggesting a 3.0 billion pound crop, it's understandable that many buyers fear a return to the lows we've seen in recent years. And yes, acknowledging that possibility is a critical part of risk management. But we must also consider what happens if the estimate is wrong.

Too many people want to live in a world of absolutes, and that is not a realistic approach—especially when it comes to predicting crop sizes. We've published what we believe the crop to be in our annual estimate, but we all know the Sisyphean task that guessing California's crop has become (hence our money-back guarantee). We use our estimate, along with both the subjective and objective estimates, as tools to manage our risk and hedge accordingly. Instead of buyers complaining about the objective estimate last year and growers this year, perhaps everyone begins to use it as it is intended; a helpful tool for proper marketing and purchasing decisions.

So can we see recent price lows again?

The simple answer is yes, but not immediately—and hopefully not at all.

As mentioned above, two major markets—China and the Middle East—are currently buying heavily. That's a positive signal for California. While we at Terra Nova have been urging growers to sell into that demand, many are holding back, unwilling to sell at below-cost prices. They want to see the crop proven smaller than the estimate before letting go. Most sellers today are positioning around 2.8 to 2.9 billion (with a small amount below that), but not 3.0. Growers will not accept 3.0 until receipts confirm it, if they ever do.

What does this mean for buyers?

The drop to historical lows likely won't happen right away. As California takes a more cautious marketing approach and elastic markets like India, the Middle East, and China continue pulling at these price levels, growers' instincts will likely be to pull back from the market. They shouldn't—but it seems likely that they will. As they do, prices could stabilize (as we're already seeing toward the end of this week) and possibly see a slight increase.

Are growers out of the woods?

Absolutely not. But buyers must understand: growers are gambling. Their livelihoods depend on getting the bet right. As a buyer, you need to account for that in your risk strategy.

If growers hold back for a couple of months and Nonpareil yields come in light, they will be even more reluctant to sell. If the crop looks more like 2.6 to 2.8 billion, buyers will again find themselves on the back foot and prices could rebound. Hedging for Q4 demand might be a smart move for this reason alone. Yes, there is downside risk, but there is also upside potential.

We're not saying we're extremely bullish, or that the crop should be assumed to be 2.6. But we do want buyers to understand the risks so they can make informed decisions. Run your scenarios based on a 2.6 to 3.1 billion pound range. We're also telling growers the other side of the story, but that is a tough battle, as the truth can be a death knell for some.

There's no question: California must sell more almonds in a shorter window than ever before. But, as history shows, that is easier said than done.

The most stable way out of this mess is simple in theory:

- Sellers: Support the real buying interest we're seeing now to give buyers confidence moving forward.
- Buyers: Do not try to "catch the bottom."
- Everyone: Build strong commitments and shipments now to cushion against any surprises in crop size, whether up or down, by December.

Whether anyone will follow this path is another matter. Many buyers privately admit they hope the crop is 2.8 and that California markets as if it's 3.0. That would mean a short-term dip for growers, but a much healthier industry by the New Year.

Maybe that's a pipe dream. Our industry seems to crave volatility (and this past week certainly drove that point home), as buyers call for $1.50 standards and growers hold out for Nonpareil at $2.85.

With California approaching new crop in a fog of indecision and shell shock, there are good deals to be had on select items from the remaining 2024 crop inventory, although inventory is getting tighter by the day. Most notably, large Independence and different sizes of Nonpareil kernels seem to be available at decent discounts to new crop.

We welcome your thoughts, disagreements, or questions.

Trades with us last couple of days on a NET basis

NPX 23/25 AOL $2.62 FAS Sep

NPX 23/25 AOL $2.57 FAS Aug

NPX 25/27 AOL $2.55 FAS Sep

NPX 27/30 AOL $2.50 FAS Sep

BV Std 5 $2.30 FAS Aug - Mar

Indep Extra 27/30 AOL $2.43 Sep

Indep Extra 27/30 AOL $2.33 Aug

Indep Extra 25/27 AOL $2.35 Aug

Cal SSR 25/27 AOL $2.40 FAS Oct - Dec

Cal SSR Low FM 30/32 AOL $2.45 FAS Oct - Dec

Carmel type Sup 27/30 AOL $2.47 FAS Dec - Jan