

Nature's Finest Foods, Ltd.



Specializing in the marketing of tree nuts!

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# ***ANATOMY OF A MARKET CRASH***

## **AN OVERVIEW OF THE 2012/2013 PECAN MARKET**



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# ASSUMPTIONS

- ❖ US Crop Year: Oct 1 to Sept 30
  - ❖ Data directly relates to Crop Year (2011 data refers to the 2011 crop)
- ❖ FAS Crop Year: Aug 1 to July 31
  - ❖ FAS data relates to the year it is published and not the crop year (i.e. 2011 FAS data refers to the 2010 crop)
- ❖ Data on these slides correlate to crop year and not publication date



# ***CONTRIBUTING FACTORS***

- ❖ Price
- ❖ Weather
- ❖ South Africa
- ❖ China
- ❖ Competing Nuts
- ❖ Timing



# *PRICE*

- ❖ July 2011 – Market Peaks @ Historical Highs
  - ❖ Large Improved inshell - \$6.25/point
  - ❖ Fancy Jr. Mammoth Halves - \$7.80 to \$8.00/lb
  - ❖ Fancy Medium Pieces - \$7.00 to \$7.50/lb
- ❖ January 2012
  - ❖ Fancy Jr. Mammoth Halves - \$6.65/lb FOB
  - ❖ Fancy Medium Pieces - \$6.30/lb FOB





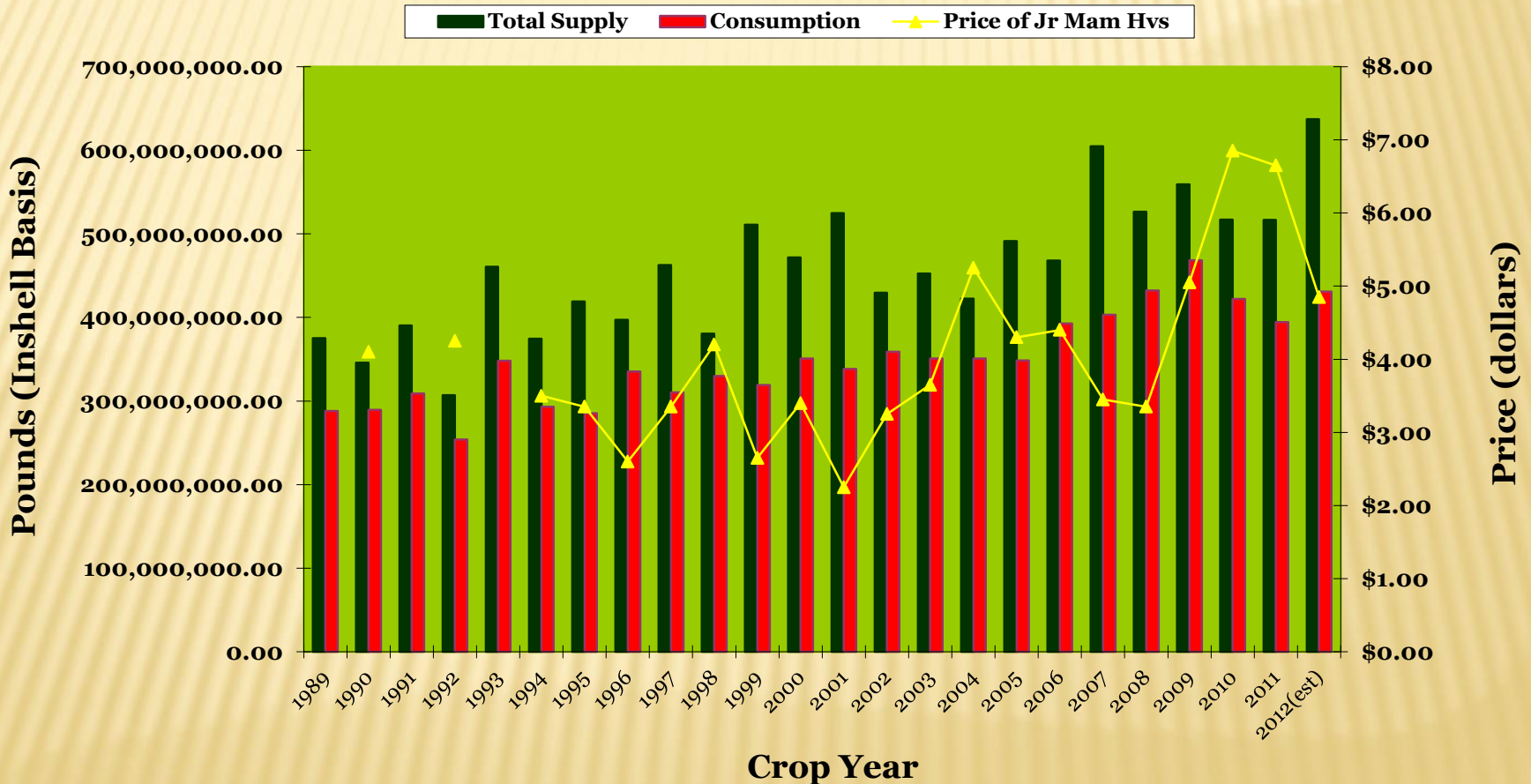
# *PRICE*

## ❖ January 2013

- ❖ Large Improved inshell - \$2.50/point
- ❖ Fancy Jr. Mammoth Halves - \$4.95/lb to \$5.25/lb
- ❖ Fancy Medium Pieces - \$3.25 to \$3.60/lb



# TOTAL SUPPLY VS. CONSUMPTION AND PRICE



Note: Jr. Mammoth Price is approximate contract price in January of each crop year (i.e. 2011 crop year Jr. Mammoth price recorded in Jan 2012)



# ***WEATHER***

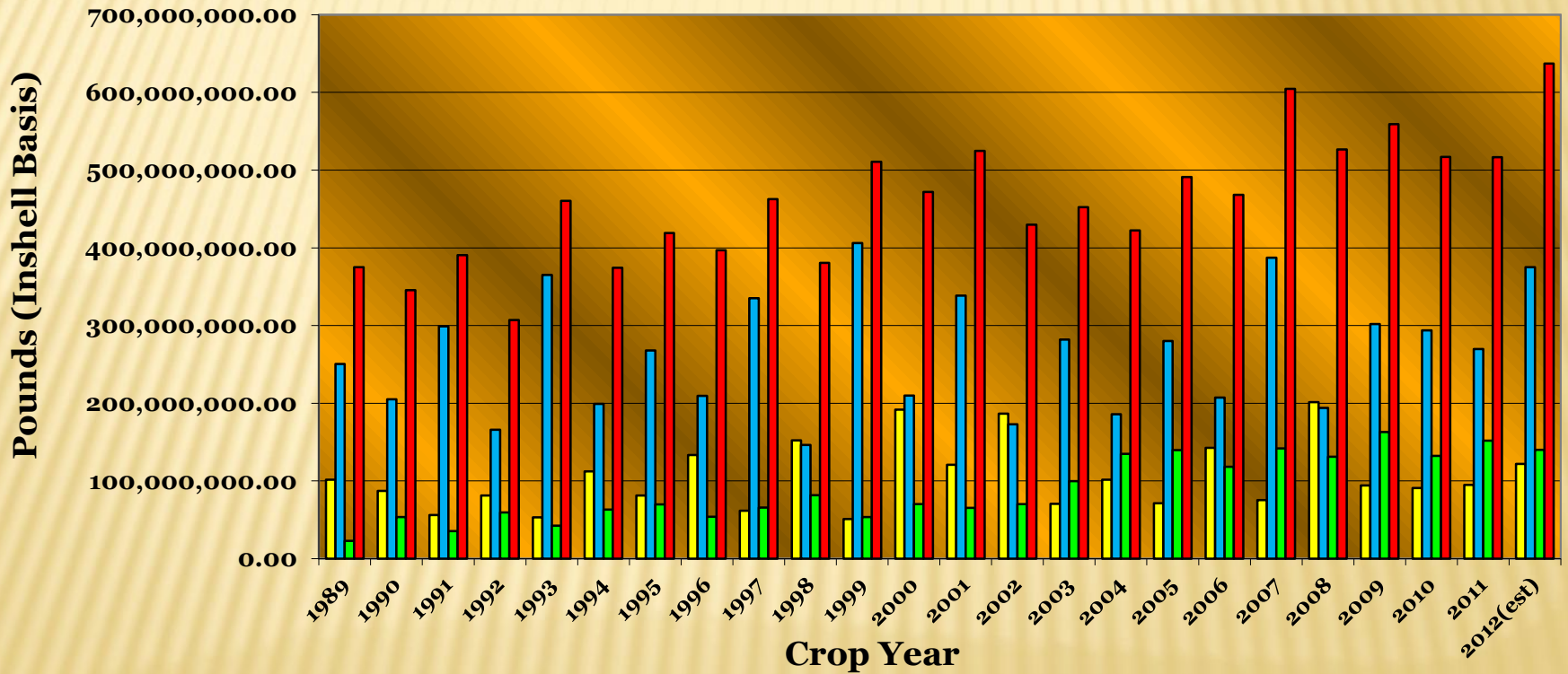
- ❖ 2011 – Texas and neighboring states go almost 11 months with no rain
- ❖ Due to drought, most expect 2011 crop to be significantly smaller than 2010
- ❖ Under normal circumstances, the shelling of improved varieties yields 70 to 80% halves





# WEATHER

■ Carry-In   
 ■ US Crop   
 ■ Mexican Imports   
 ■ Total Supply





# ***WEATHER***

- ❖ Due to the 2011 drought, 2012 shelling of improved varieties yielded only 45 to 55% halves
- ❖ Result: Shellers had to shell twice as many inshell pecans to yield the same number of halves resulting in the generation of almost twice as many pieces with no customer base to absorb them



# ***SOUTH AFRICA***

- ❖ By 2020, South African pecan industry projects that their crop will approach 80 to 100 million pounds
- ❖ April/May 2011 – South Africa projects 19 million pound crop and sells 80% or better to China.
- ❖ Weather at harvest destroys half of the crop causing South Africa to default on almost 9 million pounds of contracts to China





# ***SOUTH AFRICA***

- ❖ April/May 2012 – South Africa projects 22 million pound crop and sells 80% or better to China.
- ❖ Contracts are delivered as contracted
- ❖ Result: Chinese have plenty of pecans for the 2012 Autumn festival. As such, they do not need to press the early US inshell market



# CHINA

- ❖ Most of the increase in US Pecan exports can be attributed to increased consumption in China
- ❖ Almost 100% of exports to China are in the form of inshell. It is the only major buyer of inshell in the world. Further, they only purchase the biggest and highest yielding inshell nuts: nuts that yield Mammoth, Jr. Mammoth and Jumbo Halves when shelled



# CHINA

- ❖ Due to supply limitations, the increase in exports came at the expense of every other market, particularly the US domestic market
- ❖ While most Western economies are consumer driven, China is still primarily trader driven
- ❖ Traders will buy as long as they can make money.





# CHINA

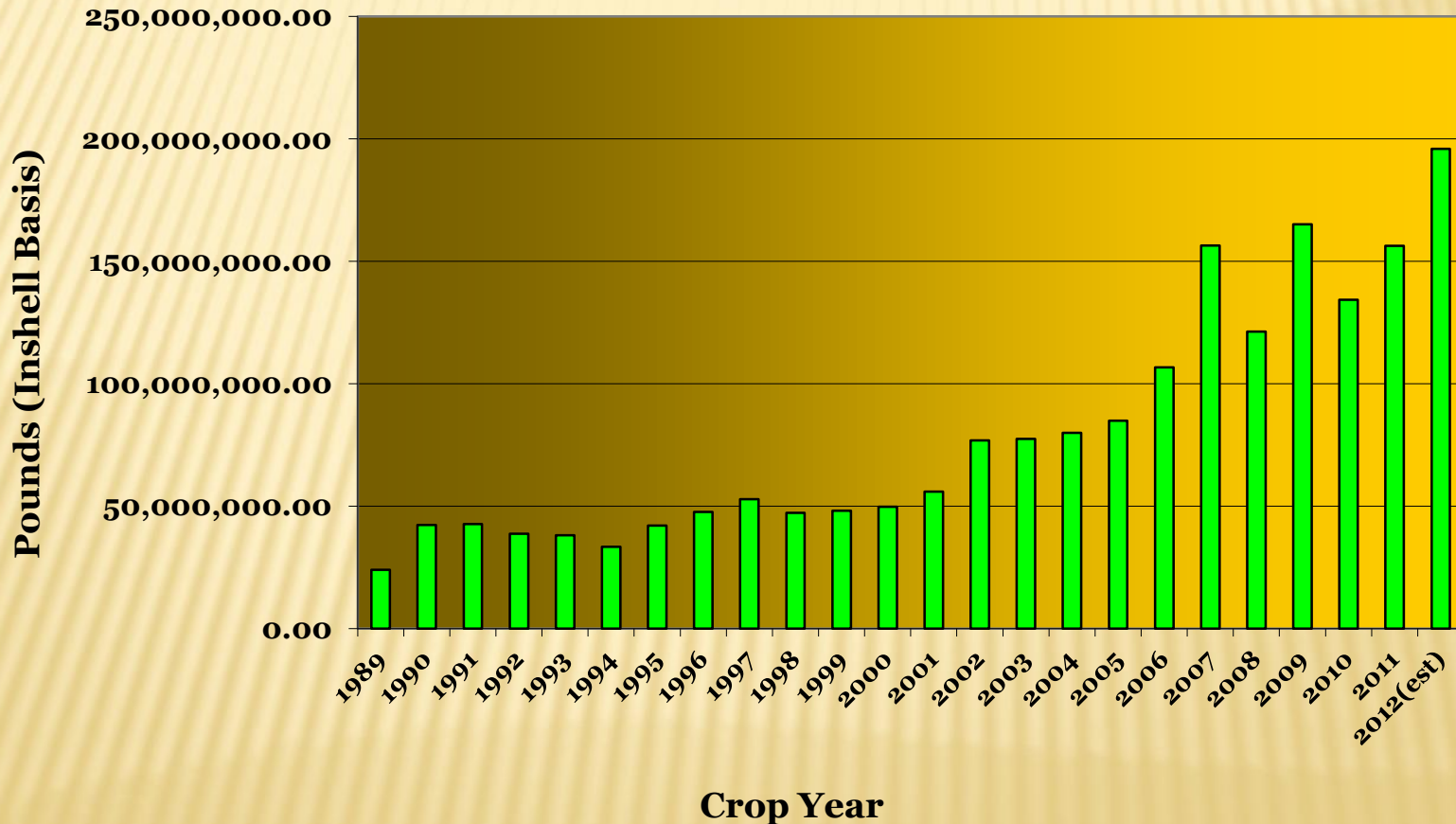
- ❖ July 2011: with inshell prices averaging \$3.25/lb. and wholesale meat prices approaching \$8.00/lb., traders could not make any money and pulled out of the market
- ❖ Result: When China pulled out of the inshell market, there were no markets for the Shelling industry to turn to as the business had been lost

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# PECAN EXPORTS

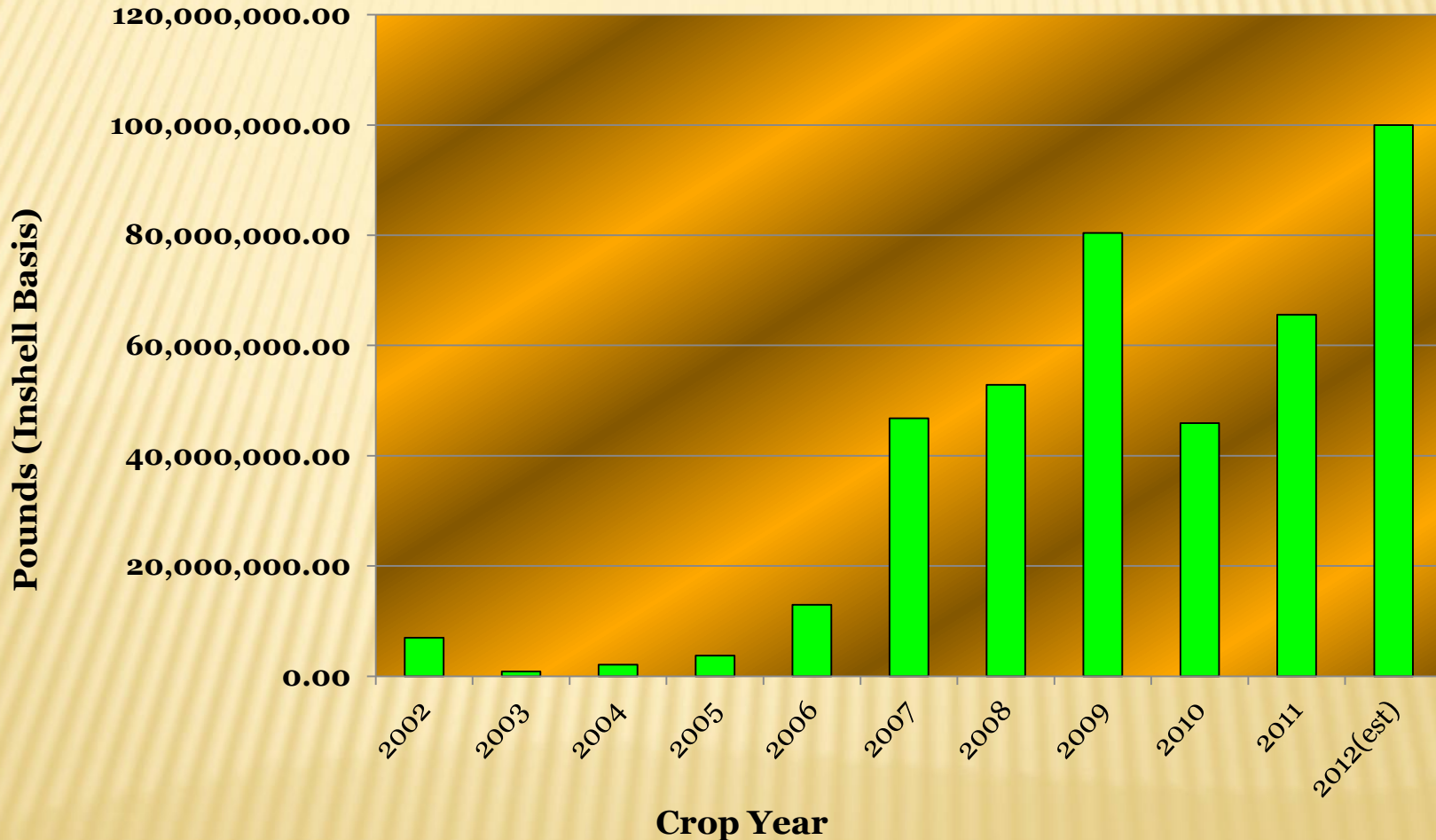


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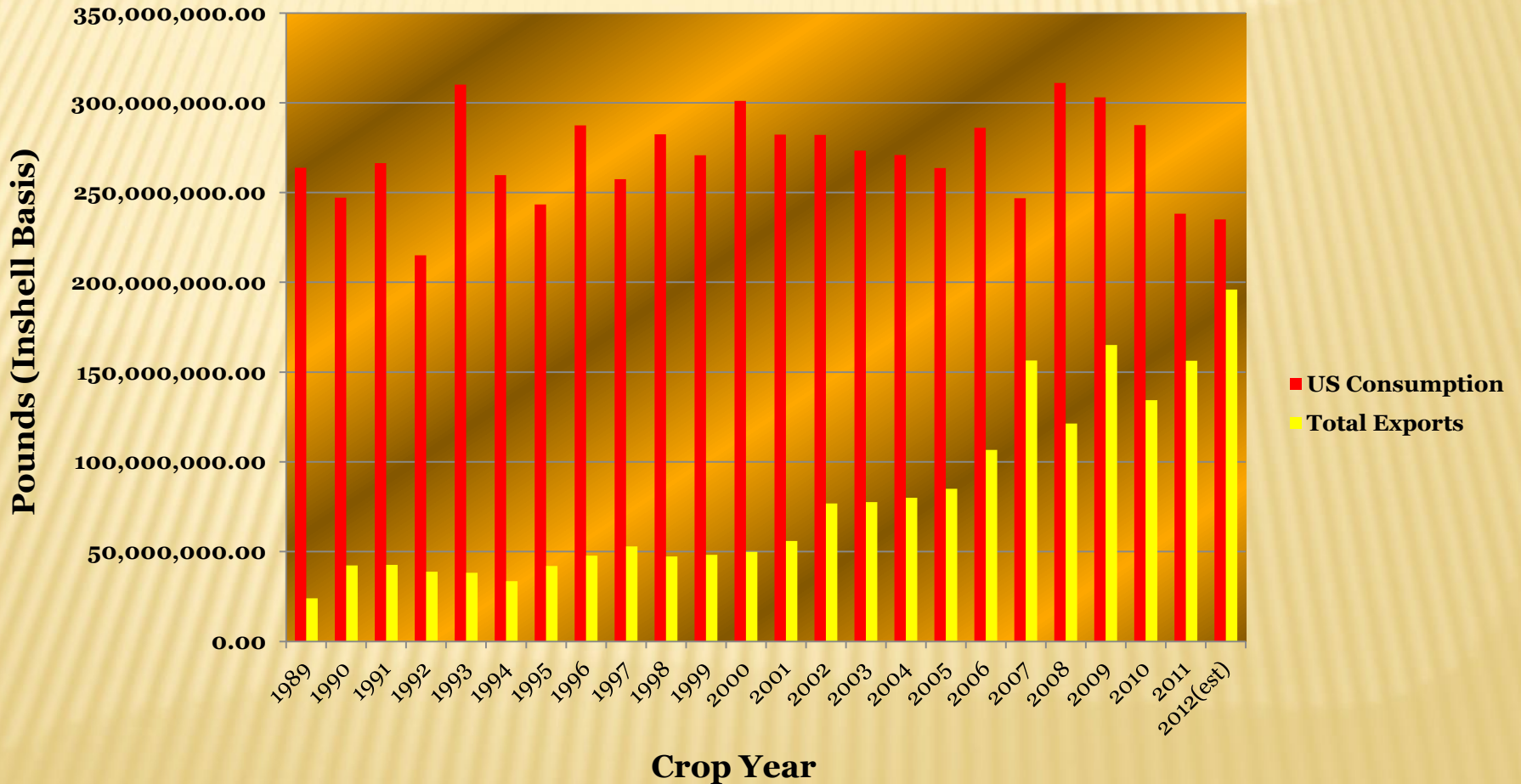
# TOTAL PECAN EXPORTS TO CHINA (INCL: CHINA, HONG KONG & VIET NAM)





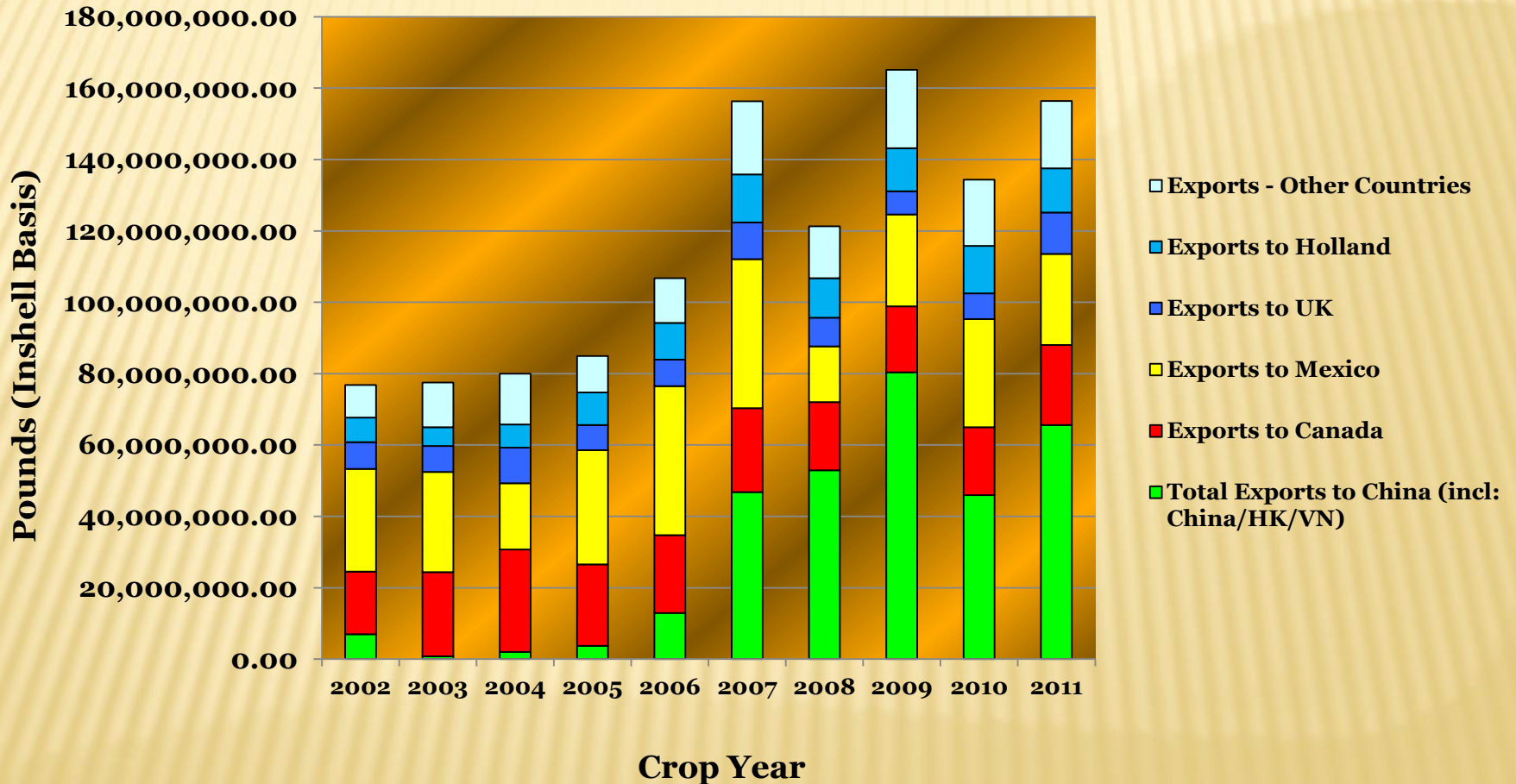


# US PECAN CONSUMPTION VS. TOTAL PECAN EXPORTS





# PECAN EXPORTS BY COUNTRY





# COMPETING NUTS

- ❖ Pecans and Walnuts are direct competitors. Pecans also compete indirectly with Almonds, Pistachios, Cashews and Macadamias
- ❖ July 2011: Pecans are the most expensive nut; higher than walnuts, almonds, pistachios, cashews and macadamias.
- ❖ Since 1979, except for 2007 and 2013, Pecans have traditionally been more expensive than Walnuts





# ***COMPETING NUTS***

- ❖ Pecan consumption increased 30 million pounds in 2007
- ❖ January 2013: Pecans are the least expensive nut; lower than walnuts, almonds, pistachios, cashews and macadamias.



# ***TIMING***

- ❖ January 2011: Contracted Pecan prices reach new record high
- ❖ Chinese continue to pull out of US Market (started in Fall 2010)
- ❖ April/May 2011: Weather at harvest destroys half of the crop causing South Africa to default on almost 9 million pounds of contracts to China



# ***TIMING***

- ❖ 2011 – Texas and neighboring states go almost 11 months with no rain
- ❖ Jan-July 2011: FAS publishes data showing exports up significantly even with the higher prices. Data turns out to be incorrect as FAS has overstated all export and import data by average of 85%





# ***TIMING***

- ❖ July 2011: Pecans hit record high and are the most expensive nut; higher than walnuts, almonds, pistachios, cashews and macadamias.
- ❖ July 2011, with inshell prices averaging \$3.25/lb. and wholesale meat prices approaching \$8.00/lb., Chinese traders pull out of the US market



# ***TIMING***

- ❖ October 2011: Pecan harvest is at least two weeks late. Combined with early Chinese New Year, Chinese buyers have limited purchasing window
- ❖ January 2012: Pecans contract at second highest price ever forcing many domestic and foreign buyers to switch to cheaper alternatives. Some domestic buyers drop pecans all together.



# ***TIMING***

- ❖ 2012: Shellers must shell twice as many inshell pecans to yield the same number of halves resulting in the generation of almost twice as many pieces with no customer base to absorb them
- ❖ April/May 2012 – South Africa projects 22 million pound crop and sells 80% or better to China. Product is delivered as contracted





# ***TIMING***

- ❖ September 2012: Shellers must write down 122 million pounds of inventory, the bulk of which is in hard to sell pieces, resulting in the loss of 70 to \$120 million
- ❖ October 2012: Harvest starts very early, both in US and Mexico. Combined with late Chinese New Year, Chinese traders have plenty of time to buy product
- ❖ January 2013: Market hits four year low

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***THOSE WHO FAIL TO LEARN  
FROM HISTORY ARE DESTINED  
TO REPEAT IT***



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