The Rice Advocate

US Rice Producers Association

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Current Rice Crop Conditions in Western Hemisphere Similar to 1997-98

Unusual High Rainfall in Some Places, Severe Drought in Others

While rice farmers say no two years are alike, it has been stated several times over recently that the current climatic conditions in the Western Hemisphere are reminding people of the 1997-1998 version of El Niño . Twelve years ago weather-inflicted damage on rice crops forced Colombia, Brazil and other countries to import large amounts of rice.

According to the USDA's Economic Research Service, Brazil imported 634,000 tons of U.S. rice during 1998 in order to meet domestic consumption demand when supplies from neighboring Uruguay and Argentina were not sufficient. Are current conditions indicating a possible similar situation? Accurate statistics, quality analysis and good sound forecasting have become increasing difficult, but one thing is certain, weather condi-

(Continued on page 2)

Flooded fields in Brazil
Picture by Lisiane Forsin

Guatemala Relies on US Rice Imports to Meet Local Demand

Left to Right:
Jose Antonio Pivaral, Luis Mazariegos, and Dwight Roberts

During a visit to Guatemala this week Dwight Roberts, President & CEO for the USRPA, visited the offices of ARROZGUA, the Guatemala Rice Association, to meet with Jose Antonio Pivaral and Luis Mazariegos to discuss a number of domestic rice market and promotional program issues. Despite drier than normal conditions for local farmers, Guatemala produced 30,000 tons of paddy rice during 2009, an increase of 8.23% from 2008 according to ARROZGUA. More than 90% of Guatemala's production is non-irrigated or upland rice. While per capita consumption has increased to 14 pounds (a low rate due to competition from a corn based diet) the neighboring countries of El Salvador and Honduras consume up to 45 pounds per year. Paddy imports from the United States total 70-80,000 tons in order to meet consumer demand. With effective promotional activities, coordination between the USRPA and ARROZGUA and improvements in the country's economy, overall rice consumption is expected to rise. Dwight also met with Alvaro Padilla, Director of ARROZGUA's board of directors and Gustavo Orellana, the manager of technical and quality control services.

Inside this issue:

Current Rice Crop Conditions - Continued

(Continued from page 1)

tions have caused serious damage to rice production in key areas of the Western Hemisphere.

We all know that the entire production of the Western Hemisphere last year was 37.4 million metric tons with the USA producing 9.9 mmt and Brazil 12.6 mmt. This means that well over one-third of the rice produced in all of the Americas comes from the upper Mississippi River Delta and in Southern Brazil and its Mercosur neighbors Uruguay and Argentina. Both of these two key areas have been hit harder by excessive rains than anywhere else in the Hemisphere. Rainfall in the upper Mississippi Delta reached record levels and in 15 to 20 days during November important areas of the Brazilian state of Rio Grande do Sul where 50% of Brazil's rice is produced received the equivalent of one-third of its annual rainfall. The entire region went from severe drought to managing excessive flooding during the peak of planting the spring rice crop. Similar weather patterns in both Uruguay and Argentina narrowed the ideal planting window there also.

So what are the real numbers? Estimates from governments, rice trade organizations and experienced private rice commodity analysts put production reductions at 8% to 20%. Bottom line: If you factor in exports from Mercosur to the EU, Middle East, Africa, etc., and take a conservative approach to the production forecasts and it's not hard to envision that Brazil will have import requirements that could range from 500,000 to 1,000,000 tons from OUTSIDE of Mercosur.

Will that mean Asian milled rice or US paddy?

Brazilian rice supply and use (thousand tons, paddy rice basis)

	beggining stock	production	imports	consumption	exports	ending stocks	stock/consumption	days of consumption
2001/2002	2.598,8	10.536,0	951,6	11.950,0	24,4	2.112,0	18%	65
2002/2003	2.112,0	10.776,1	737,3	12.000,0	47,6	1.577,8	13%	48
2003/2004	1.577,8	10.517,0	1.601,6	12.250,0	23,5	1.422,9	12%	42
2004/2005	1.422,9	12.960,4	1.097,3	12.660,0	92,2	2.728,4	22%	79
2005/2006	2.728,4	13.355,2	728,2	12.900,0	379,7	3.532,1	27%	100
2006/2007	3.532,1	11.971,7	827,8	13.000,0	452,3	2.879,3	22%	81
2007/2008	2.879,3	11.315,9	1.069,6	12.930,0	313,1	2.021,7	16%	57
2008/2009	2.021,7	12.059,6	589,9	12.800,0	789,9	1.081,3	8%	31
2009/2010	1.081,3	12.602,6	900,0	12.850,0	750,0	983,9	8%	28
2010/2011	983,9	12.016,3	1.000,0	12.850,0	500,0	650,2	5%	18

Source: CONAB (Brazil Ministry of Agriculture)

General Market Update

A lot went on this week, starting with Wednesday's USDA announcement of increases in the World Market Price: long grain was raised by $1.13 and medium/short grain moved up by $1.14. It looks like the strength in Asian pricing is being noticed by Washington. Export sales for the week posted on Thursday were a good, solid 100,200 metric tons. Both paddy and milled long grain headlined the report with the big destinations being Nicaragua and Mexico for the paddy and Haiti for the milled. Saudi Arabia was also on the list for a nice sized parcel of long grain parboiled milled. On the medium/short grain side of the ledger, Japan bought 13,400 tons of milled from California. Exports of 94,800 metric tons were a weekly high for the year and included large shipments to Mexico, several Central American countries, and Japan. Rough rice sales and shipments continue to be healthy, as does milled from California to Japan, and there is optimism on the long grain milled with unconfirmed reports of around 120,000 tons being bought by Iraq. It always seems to take "forever" to get any Iraq business completely confirmed, but there is widespread belief in the trade that it either has been or soon will be booked and on its way. There is also some talk of Iraq needing to buy more in the near future, but it is a very tough market to nail down, much less rely on with any certainty.

Paddy prices are quoted at a $6.75 premium in Texas with a 50 cent discount for hybrids, and South Louisiana is reporting prices of $23 per bbl with both basis fob farm. Quotes in the Delta are reported at the $6.50 per bu level fob farm, and movement everywhere is said to be slow, no doubt due to the Holidays. Asian prices maintain a strong level in Thailand with 100% Grade B quoted today at $605 per metric ton fob vessel and parboiled quoted at $615 per ton same basis. Vietnamese quotes have eased to just below $500 per ton in the wake of the Philippine sales at much higher levels, but actually buying at the lower levels might prove difficult. After confirming well over a million tons of purchases from Viet Nam in the last several days, the Philippines said they were finished buying. Since that announcement, however, they have reportedly bought an additional 62,000 tons and are rumored to need still another 400,000 tons.

(Continued on page 4)

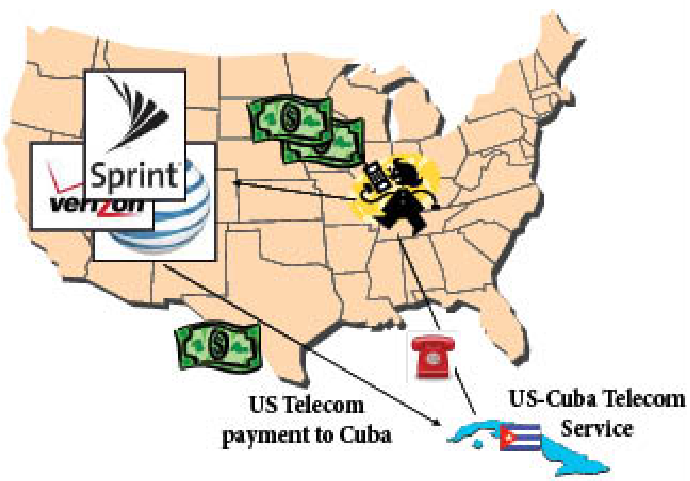
Stop Discrimination Against US Farmers

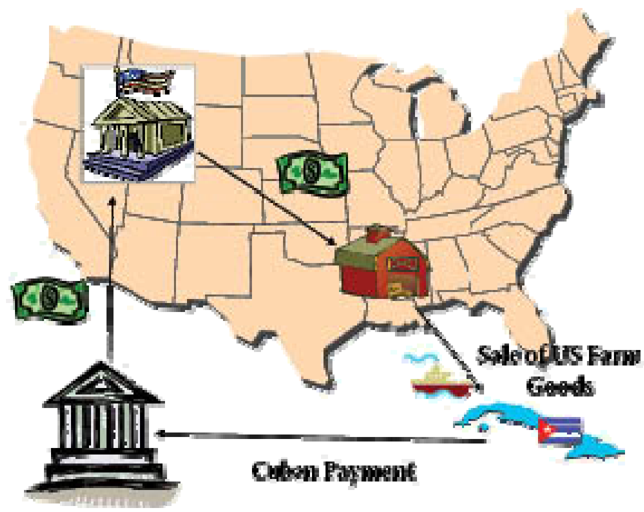
Big US Telecom Companies May Pay Cuba Directly

US law authorizes telecommunications service providers to make service related payments directly to Cuba. In fact, 8 US companies make payments totaling hundreds of millions of dollars directly to Cuba. According to published reports, these payments totaled $150 million in 2007 and $120 million in 2008, and will likely increase since the Obama Administration broadened the services that US telecom firms may provide to Cuba.

Small US Farmers Must Pay for Foreign Bank Participation

Current US law discriminates against American farmers and agricultural exporters. It prohibits Cuban buyers from directly paying US sellers for their purchases. Even safe and secure payments by bank letters of credit are required to be routed through third country banks. . This requirement unnecessarily drives up the cost of US exports and discourages US sales, with no benefit but to fatten the profits of foreign banks.





Congress Should Allow Direct Payments to US Ag Sellers by Cuban Buyers

Congress should address this disparity in the treatment of US farmers and multinational telecom providers. Over the past 8 years the Cubans have purchased almost $4 BILLION in US food and farm goods. While the US and global banking systems nearly collapsed, Cuban buyers have continued to maintain a stellar record of payments for their US agriculture purchases. If US multinationals can make payments directly to Cuba, then why should US farmers be disadvantaged? Congress should change the law to allow US farmers and their exporters to be paid directly by Cuban buyers.

CORNERSTONE GOVERNMENT AFFAIRS

US Rice Producers association

<u>The Rice Advocate</u> is now accepting letters to the editor. If you have a topic you would like to address, please email your submission to rice_advocate@usriceproducers.com with “Letter to the Editor” as the subject. Letters should be 200 words or less and address a specific issue. Submissions will not be published unless signed by the original author. USRPA reserves the right to edit all letters.

General Market Update - Continued

(Continued from page 2)

India has yet to buy anything, but it is making only positive public statements about its upcoming crop prospects. After acknowledging up to a 19 million ton shortfall in its current crop, India is now "predicting" regaining 2 million tons in the next crop. This looks like an attempt to blunt surging international rice prices, but the fundamentals will eventually rule whatever they may be. It is still possible that India's rice situation and the politics attached to that situation are more serious than what can be observed on the surface, and we continue to see this as a dangerous time to be short rice in any form. It will be interesting to see how things develop as 2010 gets underway.

The fur flew fast and furiously on the futures this week. Being quite extended to the upside without having had a good correction along the way, and in the wake of the Indian announcement of better than expected production in its next crop, rice futures took a hard fall of more than a dollar between the Wednesday and Thursday sessions this week. This big tumble came as a total shock to the market which was the desired effect of buyers who want to cool prices down a bit. Although it is nearly impossible to know for sure, it does not seem that funds were the major sellers with open interest still high and volume appearing to be mostly rolling from Jan to Mar. Volume this week was again very heavy averaging nearly 2,800 contracts per day, and open interest dropped from Monday's 17,750 to 17,136 on Thursday. This week's range was very wide, running on the continuation chart from a high of 15.985 made on Monday to a low of 14.675 seen in the overnight trade leading to Thursday. Someone commented that this was the biggest 2-day price difference he could recall, and that may be correct or certainly close to it. Friday's settlements left Jan up 14.5 cents at 14.945 and Mar up 15 cents at 15.23. Big volatility should and can be expected in this market. The macro figures of millions of tons in the international trade are being tossed around almost casually, but these are earth shaking amounts. Market reactions, both up and down, can be expected to be earth shaking as well. Trading this will require a strong heart and a strong pocketbook. As mentioned last week, this holiday season could see some further wide swings.

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Upcoming Events

January 7-9, 2010	Missouri Governor's Conference on Agriculture
January 11-13, 2010	13th Annual NCS Cotton & Rice Conference—Tunica, MS
January 19, 2010	Louisiana Independent Rice Producers Assn Annual Meeting & Market Update, Welsh, LA
January 19-20, 2010	37th Annual Delta Ag Expo, Cleveland, Mississippi
January 20, 2010	Western Rice Belt Conference, El Campo, TX
February 3, 20010	59th Annual Texas Rice Producers Council, El Campo, TX
February 7-10, 2010	USRPA Board of Directors meeting, Washington, DC
February 10, 2010	Arkansas State University Agribusiness Conf., Jonesboro, AR
February 16, 2010	Fort Bend County Rice Meeting, Jack Wendt's Farm
February 18, 2010	Mississippi Rice Council Annual Meeting
February 22 - 25, 2010	Rice Technical Working Group, Biloxi, Mississippi
March 22-26, 2010	Africa Rice Congress, Bamako, Maili
April 21-22, 2010	Rice Americas Conference, Cartagena, Columbia

USDA Reports Next Week

Weather-Crop Summary	Tuesday, Dec. 22, 12:00 pm
Agricultural Income and Finance Outlook (ERS)	Tuesday, Dec. 22, 4:00 pm
U.S. Export Sales (FAS)	Thursday, Dec. 24, 8:30 am

All USDA reports are available by visiting http://www.usda.gov/wps/portal/?navid=AGENCY_REPORTS=RT.

Additional Resources

- Research, forecasts and observations updates related to el El Nino: http://www.elnino.noaa.gov/
- For economic analysis on agricultural efficiency, efficacy, and equity issues: http://www.ers.usda.gov/
- AgFax - Editor: Owen Taylor: http://www.agfax.com/
- USRPA News & Rice Advocate Archives: http://www.usriceproducers.com/news