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## **Rice Market Report- April 7, 2008**

Rice prices around the world are continuing to go up. *Rice is the most talked about commodity these days.* We are seeing major interest by worldwide media about increasing rice prices and its implications on consumers around the world.

We have seen dramatic increases in rice prices. The US long grain rice prices have almost doubled during the last 12 months. Asian rice prices have doubled in the last 4-5 months. Since September 2007, we have seen approximately 60% increase in US long grain rice prices. On Friday, April 4, 2008, Chicago Board Of Trade (CBOT) rice futures have yet again hit all time highs. Spot prices are going up daily in the US and around the world.

What are the reasons? Like all other commodities rice prices are determined by supply and demand.

*On the supply side,* we have seen steady decrease in production around the world. In 2000 the world rice inventories were at 200 million mt. Today, we are looking at 70 million mt.

Urban sprawl in developing and rice producing nations such as India, China, Thailand, Vietnam and USA has taken away farm land that used to produce rice.

Cost of growing rice has been increasing due to high oil prices. Rice production is heavily dependent on fertilizer. This is encouraging some farmer to switch to other less expensive crops.

Western world's willingness to subsidize ethanol and bio-diesel production, partly to lessen dependency on Middle Eastern oil and to be greener is causing major shift to plant corn and soy beans. High prices offered to farmers to grow corn and soybeans are taking away acres from rice.

Drought in Australia nearly wiped out the entire rice production there.

Finally, government export bans and restrictions to control local population anger against rising food prices are fueling the frenzy. Today, there is an outright ban in Egypt, in India for all non-basmati types of rice and restrictions in Vietnam. Thailand which is the largest rice exporter in the world followed has withdrawn from the market due to heavy hoarding by farmers. Today, USA which is the 3<sup>rd</sup> largest exporter of rice in the world is the only source that has some limited supplies for export.

*On demand side*, we are looking at increasing world populations and the rise of middle class in developing nations. As the middle class emerges in nations like India and China, they want to consume more meat products instead of traditional grain and pulse crops. It takes a lot more grain to produce meat than to feed people with grains. Demand for feed for meat production is taking away acres from rice.

Lack of investment on agricultural infrastructure around the world over the last 20 years is finally catching up with us.

Major rice consuming nations like Indonesia, Bangladesh, Philippines and African countries are desperately trying to secure rice supplies and driving the price up.

### **The US Market**

The US long grain rice prices are continuing to go up daily. The market is very strong. Prices for nearby shipments (April ONLY) have gone up by US\$ 3.50 per 100 lbs during the last few weeks alone. ***Price indications for shipments May/June/July (with no firm offers) are US\$ 2.00-3.00 per 100 lbs higher than the current levels.*** This is mainly based on the Chicago Board of Trade (CBOT) futures, depleting stocks and growers' expectations for higher prices.

California medium grain (calrose) rice market turned very bullish after Egypt banned all rice exports. Egypt is a major medium grain exporter. As such, the market is extremely firm. There is very little, if any, unsold rice left in California. Demand is huge. Turkey, a major medium grain rough rice buyer, is still trying to buy more rice from California. Export prices are US\$ 3.00-5.00/cwt higher than the domestic prices. Expect price increases very soon...

In conclusion, we ran out of words to describe the market. The only advice we can give is that "Don't be short".

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