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Rice Market Report- September 22, 2008

There have been some major developments with respect to the long grain rice crop over the last few days. ***And it is not good news!*** Prices are up and the long grain rice market has turned bullish. California calrose market is unchanged since our last report.

Long Grain Rice

We had reported on our last report that there was a lot of uncertainty surrounding the long grain rice crop due to weather problems. Unfortunately, hurricane Ike has hit the Louisiana, Texas and Arkansas rice crops hard. The most affected areas were Louisiana and Arkansas. By the time Texas was hit, much of the rice crop was harvested. The problem in Texas is that they will not have a second rice crop. Also, most of the mills were out of commission due to some (not major) hurricane damage. The mills will come on-line over the next few weeks.

We have just come back from a crop tour in Arkansas. ***We saw 2 major problems:*** 1. Rice plant which usually stands tall is lying down on the ground due to the strong winds created by the hurricanes. Harvesting this rice will be difficult and slow. There will be some yield losses. The general agreement among the field experts is that there will be a 10% loss as a result, 2. The new hybrid long grain rice varieties that were planted are “*shattering*”. This is a new phenomenon for rice. Shattering is described as “the rice falling off the plant on to the ground”. The growers can not harvest this rice. We have attached the photos from the fields for your review. Experts are puzzled as to why this is happening. Growers are very unhappy with the hybrid varieties which make up to 40% of the crop. The losses can amount to 10-20%. The exact results will not be known for a while.

Because of the weather damage, we will likely see a smaller long grain rice crop compared to last year. As a result, sellers are hesitant to book long term contracts. Spot prices for long grain and parboiled rice prices have jumped up US\$ 1.00 per 100 lbs for shipments in September and October. Mills are not offering any long term contracts until the full extent of the damage is known. Price indications, not firm offers, for November onwards are up by another US\$ 1.00 per 100 lbs. Market has already traded at these higher levels.

Chicago Board of Trade (CBOT) long grain rice futures have reacted to the yield losses by going up over the last few days. Attached is the CBOT rough rice futures chart for your review.

Calrose Rice

In California, prices are unchanged for the new crop rice. Growers have started harvesting the new crop. About 10% of the crop is harvested. Based on our recent crop tour, the quality seems good and the early yields are average.

Our view of the market has not changed. It will be very tough to predict calrose prices this year. We can see large increases or decreases. In our opinion, it is 50/50. Our recommendation to our customers is to buy hand to mouth until the signals are clearer.

Again, some mills are talking about price increases at new crop and others talking about leaving prices as they are now.

The situations in Egypt, China and Australia have not changed.

The latest talk in California is ***water, water, water***. The rice growers can sell their water rights to the municipalities in Southern California and make a lot of money instead of growing rice.

As we mentioned before, we need good snow pack and rains over the winter in California. Until the water situation is fully known, mills will be defensive and not sell at aggressive prices.

International Markets

There is not much different to report from international markets.

Conclusion

Our view for long grain and parboiled rice has turned bullish due to the recent weather problems.

Our view for calrose rice has not changed. Market is firm now. It can get firmer or softer.

Please feel free to contact us should you have any questions or requests.

A & BB Rice Inc.

Ali Bilgen

LONG GRAIN HYBRID RICE PLANTS / SHATTERING



Example of fallen/shattered rice kernels on the ground



Example of fallen/shattered rice kernels on the ground



An example of rice plant that is missing the kernels due to shattering