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Rice Market Report- October 16, 2008

We waited a little longer to publish our rice market report hoping that the markets would settle down and we could see things more clearly. It seems that the volatility in the rice market will continue in the foreseeable future. So here we go...

There is no doubt that we are in a long term recession, financial markets around the world are in chaos, international trade is slowing down and people are very worried about their future and their economy. How is this going to affect the rice markets?

First of all, the Chicago Board of Trade (CBOT) long grain rough rice futures have tumbled down like all other agricultural commodities. The declines have come mainly as a result of major sell off by speculators to cash out of earlier positions and not based on fundamentals. The CBOT future prices and cash prices (what mills pay the growers) do not have much in common these days. In other words, the cash prices have not declined to the same degree as the CBOT futures.

The global financial crisis will affect companies' ability to finance their day to day operation and their purchases. High commodity prices and lack of credit have put tremendous strain on companies. This is the time to do business with solid companies with proven track record. We may see some casualties.

Consumers will start cutting back on their purchases and the overall demand may decrease in certain market segments. We are concerned about the foodservice industry.

We will go through a wild ride in the rice markets. There are many differing opinions as to where the rice market should go from here. Some argue that the rice fundamentals (i.e. supply and demand numbers) are very strong and that the market should maintain a bullish tone. Others argue that there is enough rice supply around the world and that the new economic realities will push prices down. The only thing we can say is that ***the rice market will be volatile....very volatile!!!***

The reality is that right now we are in a standstill. No one really knows where this market will go. Buyers are waiting for cheaper prices. Sellers are reluctant to sell at the cheaper bids.

Our position is that we will focus on fundamentals and not get caught up in the frenzy. Let's review the specific market classes.

Long Grain Rice

Long grain rice prices are steady to slightly soft. We feel that we will have less long grain rice than last year due to decreased field yields. While USDA has projected that the long grain crop is 9% more than last year, we feel that the supply will be 3 to 6% less. Expect USDA to revise its numbers soon...

We feel that the overall demand for long grain rice is good. We do not see a decline in demand.

We expect a lot of volatility in long grain rice prices in the near future. Once the dust settles, we think that the market will remain strong.

Our current recommendation is to buy hand to mouth and don't expect any sharp drops.

Calrose Rice

In California, prices are unchanged. Market is still firm. Mills are waiting for the Japanese buying to resume. Domestic sales are steady. A big concern is that the widening price difference between long grain and medium grain may affect the demand for calrose rice. However, we still feel that the market will remain firm in the near future or at least until we hear some news from Egypt and China. Like we said before, it will be very tough to predict calrose prices this year. We can see large increases or decreases. It all depends on if and when Egypt will re-open its doors for exports, what Chinese export policy will be in 2009 and if we will have enough water in California to plant the 2009/2010 crop.

Our recommendation to our customers is to buy hand to mouth until early 2009.

International Markets

Asian prices have softened a little. Asian exports are still on pace. No major changes.

Conclusion

Our view for long grain and parboiled rice is *steady to slightly soft*. Our view for calrose rice is *steady to slightly firm*. Expect lots of volatility...Buy hand to mouth for a while.

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

A & BB Rice Inc.

Ali Bilgen