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Rice Market Report- February 26, 2009

There has not been much to report over the past few weeks. Long grain rice market continues to be soft and medium grain (calrose) market continues to be firm.

Long Grain Rice

Long grain rice market is soft. Prices are down further. The lack of export demand is keeping many mills in the South at 50% capacity. The only hope for US long grain is the opening up of the Cuban market. President Obama has promised to lift some of the restrictions to do business with Cuba. If this happens, US long grain rice can be sold to Cuba. This will definitely give support to the market. We will have to watch this development carefully. US exporters are hoping to get business from Iraq as well. However, this may be long shot at best. While it is true that US prices are more competitive than ever compared to the Asian prices, the US is still at disadvantage on delivered basis.

Again, there is not much positive news in the market to force long grain rice prices up. We expect that prices will remain soft for the foreseeable future.

The Chicago Board of Trade (CBOT) long grain rough rice futures have rebounded a little during the past few days after trading near the lows set in early February. Attached is the CBOT March rough rice futures chart for your review.

Our recommendation to buy hand to mouth has not changed.

Calrose Rice

The situation in California has not changed much. Market is very firm. Domestic prices are up around US\$ 2.00-3.00/cwt.

Export demand is still very strong.

The major news relating to the calrose market was the announcement by Egypt that the export ban is lifted. While this is welcomed news, the restrictions make the Egyptian exports not all that competitive. Basically, the exporters have to sell the same amount rice they want to export to the domestic government rice program to get export permits and pay 1000 EGP per mt (currently at US\$ 178.00/mt) export tax.

Current prices from Egypt do not make a lot of sense for the North American buyers considering the quality, logistical and payment issues. However, some of the Middle Eastern countries will buy the Egyptian rice. This should take some pressure off the California market.

The most important issue in California is lack of water. While it has been raining over the past few weeks in California, water reservoirs are still well below the normal levels. The concern is that the new crop which will be planted in the Spring may be cut back by 15-20%. We feel that while this is a possibility, any grower that can get water will plant rice in California given the high prices. Simply put, California will be a “weather market” for the next 2 month.

Our concern over the specialty rice varieties continue. High calrose prices will force growers to stop planting specialty variety rices such as short grain sweet rice, new variety rice (premium sushi rice) and organic rice unless premiums are supported by end-users.

We feel that it is still very tough to predict calrose prices for the balance of this year. As we mentioned before, if and when the market collapses, decreases can be big. For now, prices are firm...

Our recommendation to our buyers has not changed. Continue buying hand to mouth.

Conclusion

Our view for long grain and parboiled rice is *soft*. Our view for calrose rice is *firm*.

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

A & BB Rice Inc.

Ali Bilgen