

► Is Rice A Commodity Or Something Else?

Presented by Milo Hamilton

President and Founder, Firstgrain, Inc.

In 2015, the price for rice in Arkansas will hinge on global events in rice, not just your bid on the Mississippi River or from your local rice merchant or miller. I expect that rice acreage will increase in 2015 and exports should remain strong for the next two years. For better or for worse, the rice farm program and the \$14.00 reference price will nearly guarantee expanding rice production into 2016. Rice may not give profits to the farmer but he may lose less than other row crops in 2015.

Rice is indeed a commodity that is grown as a business in the USA by farmers. But US long grain rice is small potatoes in the world of rice. Its rice futures contract is a unique addition to the business of growing rice in the USA. We need to find ways to make the US rice futures contract more liquid and useable as a hedging mechanism. In my talk I explore options to improve the contract and expand world price discovery in rice.

In that regard, I plan to give a keynote speech on my new book, “When Rice Shakes the World,” at the 4TH INTERNATIONAL RICE CONGRESS 27 OCTOBER – 1 NOVEMBER 2014 in BANGKOK, THAILAND. My book’s title is “When Rice Shakes the World.” It is questionable whether rice in Asia is a commodity now or rather a social welfare program for very poor rice farmers. The key to a robust US rice industry resides in Asia and how it manages its rice trade and export pricing in the next five years.

Unlike soybeans or corn, the center of rice trading is not Arkansas or Iowa, it is the Far East and to a lesser extent South America. It is a fact of life that the US rice price is more complicated than the corn or bean price because the US does not form the bigger price trends much of the time. The US rice price is made outside the US at this point in time, with growing rice acreage in the US. As the acreage increase, the US price must come together with the Asian rice price and its dynamics. I suspect that the US price will trade between the Brazil price and the Asian price for rice in 2015-2016.

For the previous two years (2011 to May 2014), other than stealing some business from the US in Mexico and Central America, Asia did not mean much to price forecasting of US long grain rice. Now Asia is critical to price projections in 2015. That is why I am making a trek to Thailand to get the straight story on some very confusing rice market conditions. My economic staff has made several trips to Latin America, Asia and in particular China in the last year.

As for the Western Hemisphere there are two centers to trading: Rio Grande do Sul and its port, Porto Alegre, and New Orleans. What has mattered to a rice farmer in the Delta is the supply of exportable rice in South America and the United States. In the next two years, the US must trade at or below the price in South America, unless the El Nino cuts production this winter.

The price in the US will be driven by the amount of long grain acreage grown in the South. When the acreage goes higher than two million acres, generally the price must be at or below the price in South America. From 2011 to the summer of 2014, the price did not need to attract exports to the United States. The combination of high prices, lower quality due to commingled varieties and drought in 2010 cut a big

hole in export demand into Latin America. That demand is beginning to come back to the US gulf due to higher quality more identity-preserved rice and also much cheaper prices. As of late October, long grain export demand is up about 30% versus last marketing year, for example.

When you ask what will the rice price do in 2015, you must ask yourself what is happening in South America, China, India, Thailand and Vietnam. Life because of increasing rice acreage just got a lot more complicated, I am sorry to tell you but that is the rice market truth.



FIRSTGRAIN