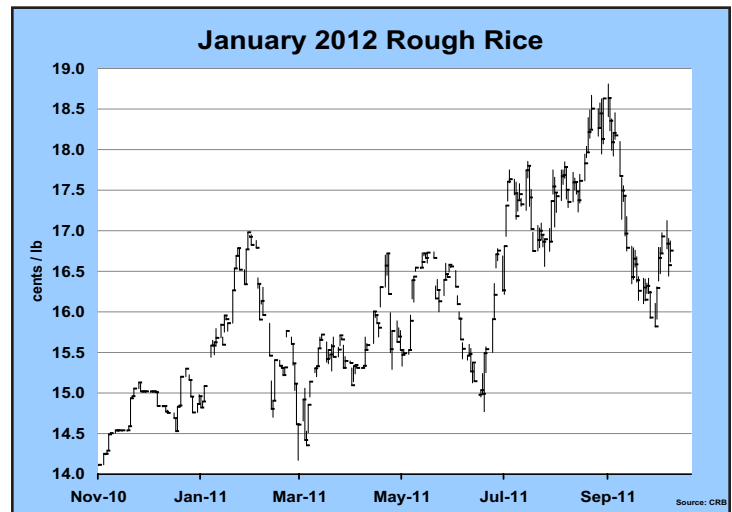


Rice Rebound?

October 21, 2011

The rice market has mostly followed the other grain markets in recent months, but the price pattern has been closer to the corn market than to the wheat market. While corn moved down to its summer lows on the recent break, rice market managed to hold well above its late June lows. In other words, rice has exhibited a better bull trend than corn, and while wheat has remained in a general downtrend with a series of lower highs and lower lows, rice has been in a steady uptrend this year with a series of higher highs and higher lows. The October flooding situation in Thailand and surrounding countries could be a real game-changer for the rice market and may hold it in an uptrend into early 2012.

As of this writing, international trade houses and government officials in Thailand were attempting to access the flood damage. It is possible that the market's initial reaction may have been overstated, but for now it seems to be behaving a bit timidly given the potential loss of production from the world's two largest exporters. (Vietnam has been affected as well.) Thailand has seen its worst flooding in a half of a century with at least 320 deaths and damage to industrialized areas exceeding \$3.3 billion. Because rice is grown in low lying areas, extensive flooding damage to the crop is likely. Not only did the country see two-thirds of its rice fields under water, many of its cities were flooded to the rooftops, and warehouses holding rice for export were underwater as well. This just adds to the impact of the crop losses.



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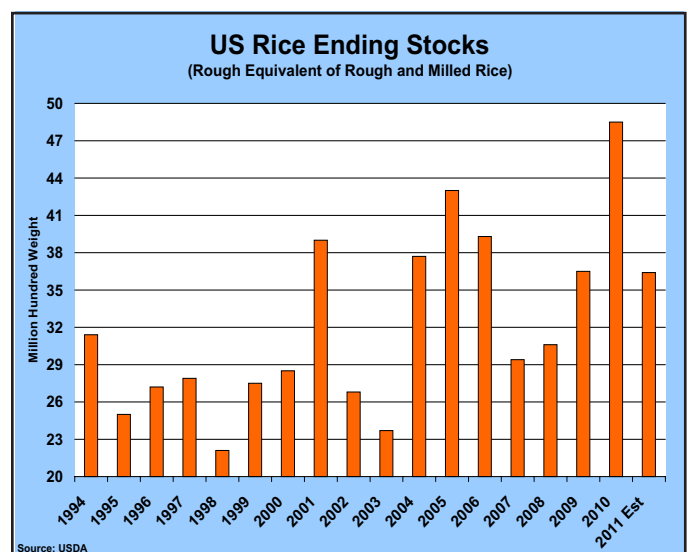
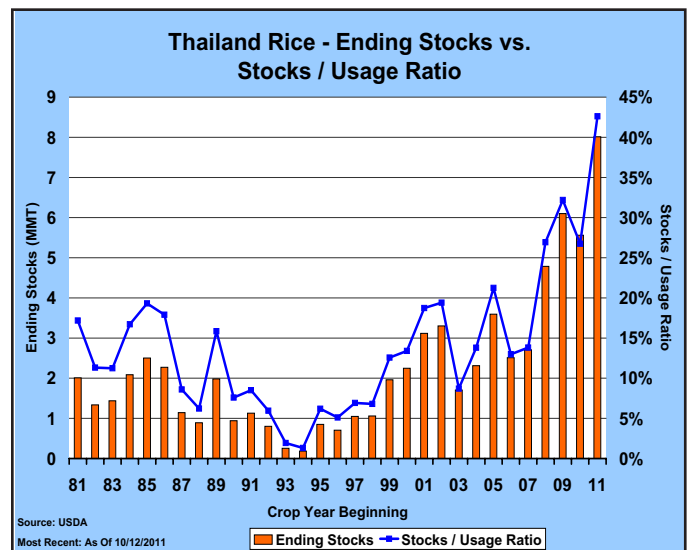
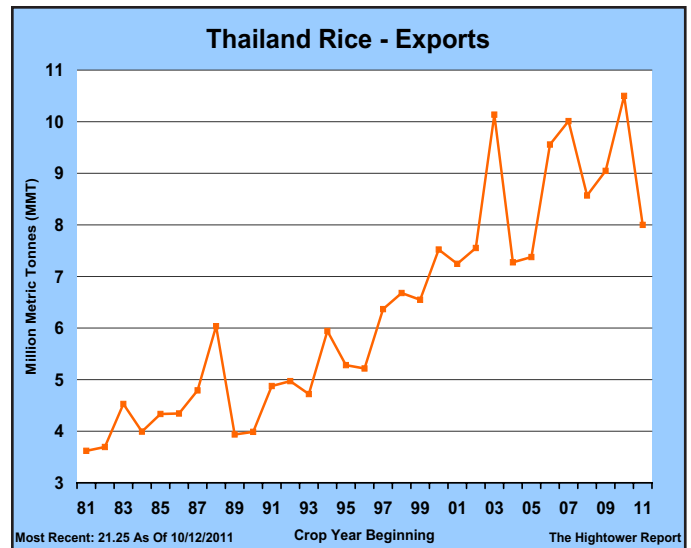
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Thailand is the world's largest rice exporter. Initial crop loss estimates were around 3.5 million tonnes of paddy rice, which is equivalent to 2 million tonnes of milled rice. This represents roughly 10% of the Thailand's production. Prior to the floods, Thailand's exports were projected at 8 million tonnes for the 2011/12 season. There are reports that up to 35 rice warehouses and mills were impacted, and some even destroyed, by the floods. This could push losses to 6 million tonnes. If 6-8 million tonnes of rice need to be replaced on the world export market, global prices are likely to increase dramatically. Before the flooding issues were well known, Thailand was expected to be the world's largest exporter at 8 million tonnes, followed by Vietnam, Pakistan, India and the US. Total world exports were projected at 33 million tonnes.

The global market might have been able to easily absorb the Thailand situation if the losses in supply were limited to the crop damage, but the losses to warehouses stocks and the difficulties with production from other key producers could result in a substantial tightening of the global supply.

Vietnam is the world's second largest exporter of rice, and floods had an impact on production there as well. The new crop will not be harvested until February. Pakistan also saw flooding issues, and traders suspect their forecast to supply 3.75 million tonnes on the world market may be too high. The Philippines, a net importer whose imports were expected to be near 2.2 million tonnes, may have to import more due to production losses from flood damage that some traders believe could have reached 1 million tonnes. Indonesia has seen import orders from Thailand cancelled, and traders will be looking for replacements if Thailand is unable to make commitments in the future. India has lifted its export ban on rice that had been in place since 2007. It could be a strong provider of rice for the region, but this remains an uncertainty.

A quick look at the world and US ending stocks and supply charts would not suggest much of a tightening in available supply, but considering that 52% of the world's production comes from India and China and that stocks from these countries are not easily available on the world market, any further crop issues for this season could begin to cause an increased sense of urgency on the part of end-user buyers. The October USDA world supply/demand report showed world ending stocks at a nine year high of 101.4 million tonnes. Of this total, 66.75 million tonnes sit in India and China, but again, only a small percentage of this production is available for export. Exports from these two are expected to reach 5.1 million tonnes.

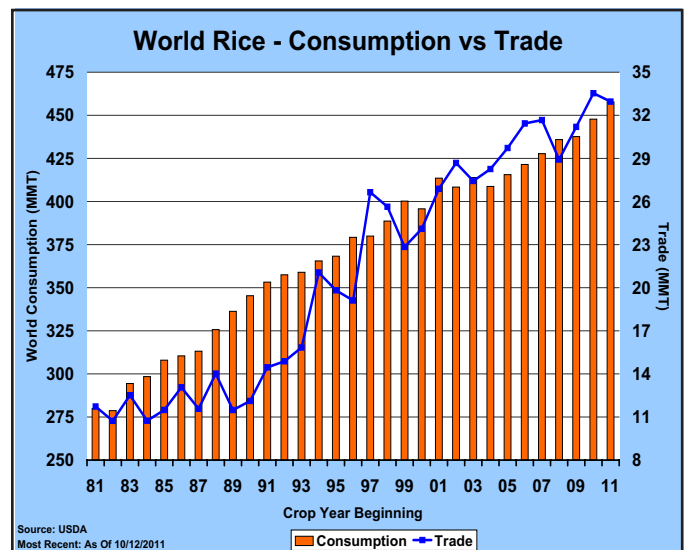
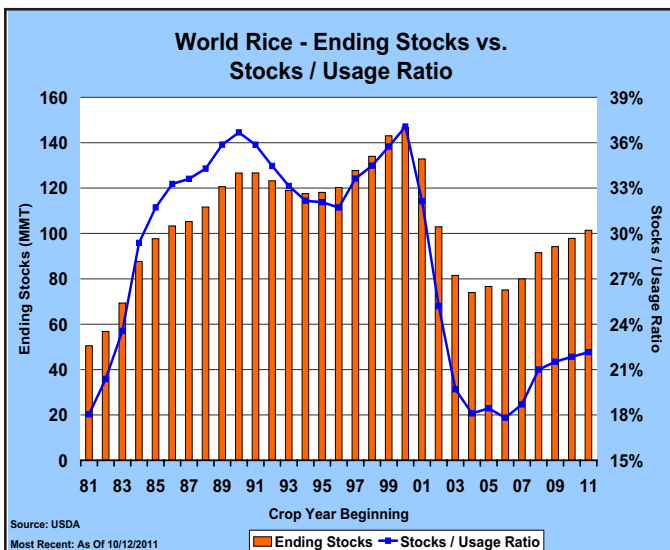
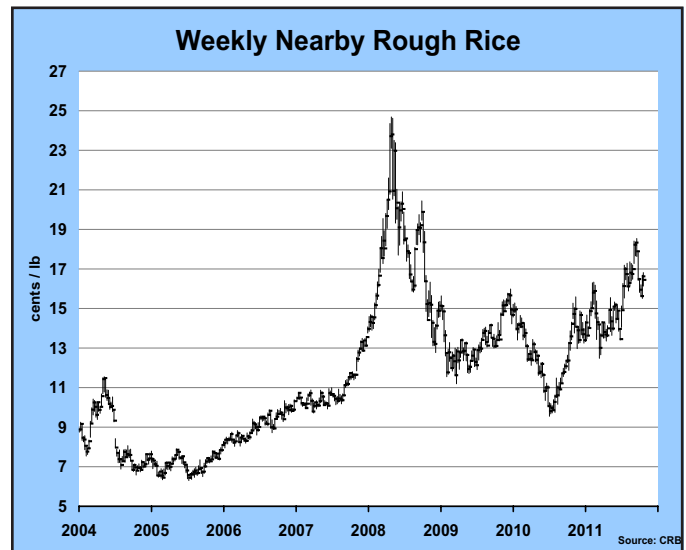
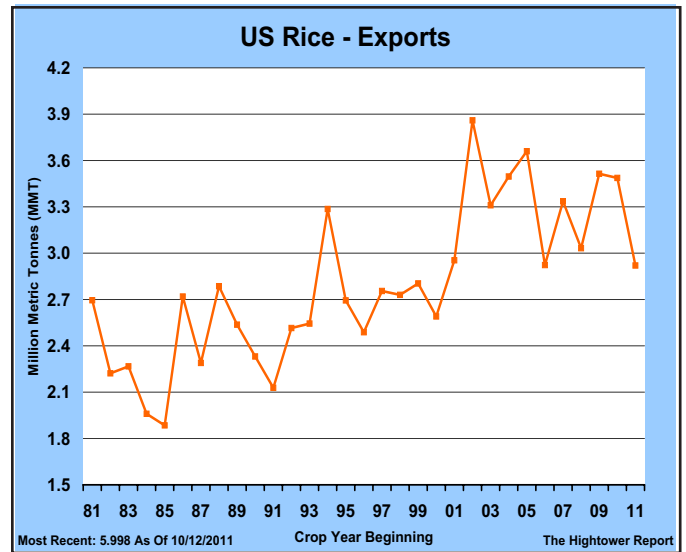


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While the US is a relatively small producer compared to some of the other giant, it ranks as the 5th-largest world exporter. In the October report, the USDA adjusted US ending stocks lower to 36.4 million hundredweight, down from 38.3 million in September and 48.5 million two years ago. The possibility that problems in Thailand could eventually spark increased interest in US exports has traders already looking for US ending stocks to tighten further in the November report. Exports were pegged at 91 million hundredweight in the October report, which was close to an 11-year low. This is equivalent to 4.12 million tonnes. Given the recent developments, we believe that exports could increase to 4.75 million tonnes or to 104.7 million hundredweight. This alone would push US ending stocks back to around 22.7 million hundredweight.

Many traders also expect to see revisions lower in US harvested area for this year, as the USDA may find that more acreage was lost to severe floods in the US. This could pull ending stocks to a relatively tight level.

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