Market Shadows, Gray Trade & Uncertainties

World Rice Prices Are More Complicated than "Supply & Demand"

by

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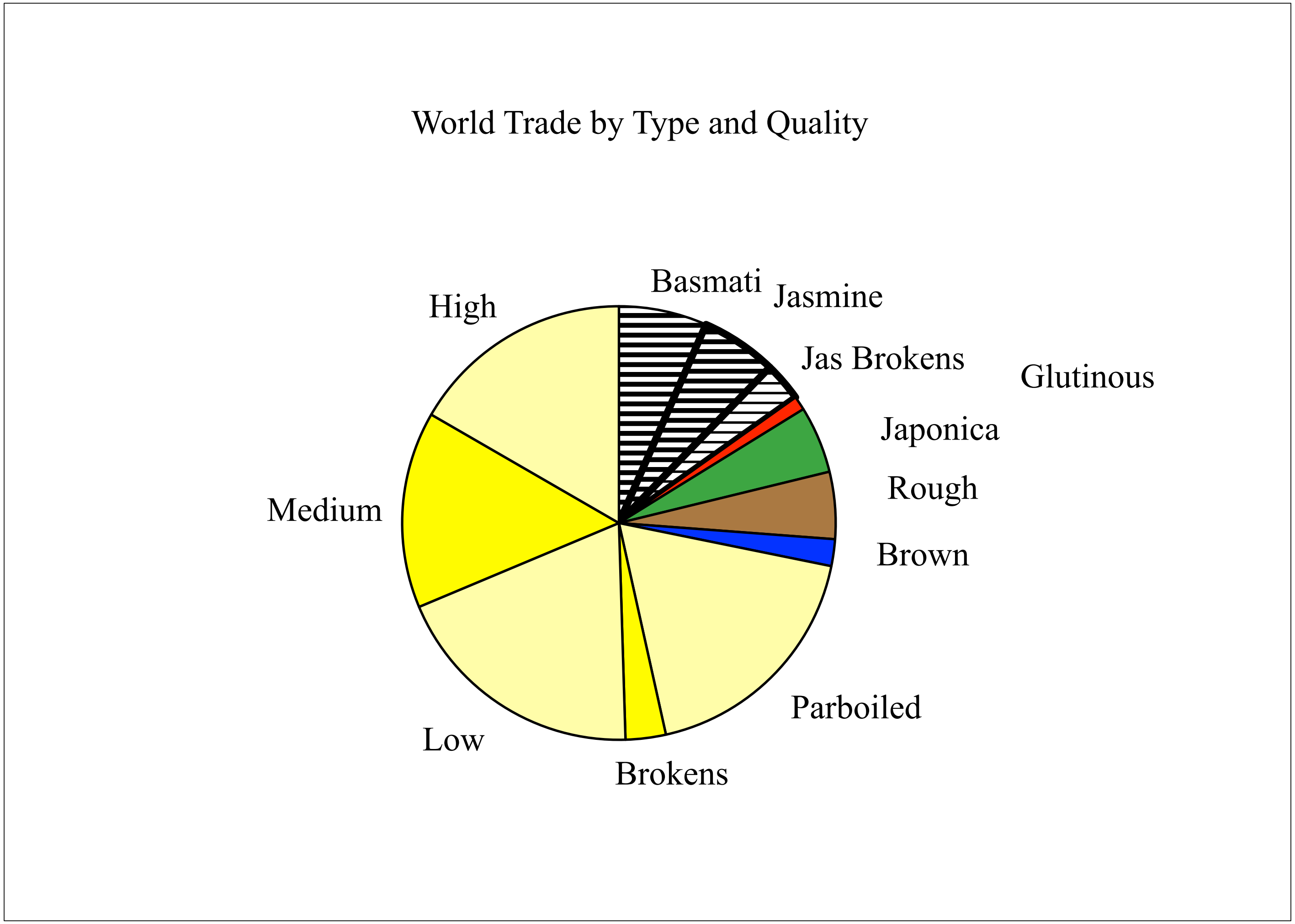
Rice is not…

Rice is not…

- Wheat
- Corn
- Soybeans

Rice is not Rice is not Rice



Rice Supply & Demand

Beginning Stocks + Production + Imports

=

Domestic Use (Seed + Feed +Losses + Consumption)
+ Exports + Ending Stocks

=

Total Supply/Demand → Prices

Milling Rates ?

FX Rates ?

Freight Costs ?

Long Run Price Drivers

Demand

- Population (slowing)
- Income growth
- Dietary Changes
  - Urbanization
  - “Westernization”
  - Supply

Supply

- Land
- Fertilizer
- Seed Technology
- Water Control
- Mechanization & Scale
- Government Policies

Short Run Drivers

- Weather
- Changes in Stocks
- Panicked Buying & Speculation
- Trade Policies
- Foreign Exchange Rates
- Freight Costs

SUPPLY-DEMAND ELEMENTS - RELIABILITY

•Domestic Consumption	Typically residual, least reliable
•Stocks	Often incomplete or non-existent
•Production	Seldom detailed by type
•Trade	Problems with lags & accuracy

Stocks – Who or What to Believe?

ENDING STOCKS, 2010/11 (MMT)

	FAO	USDA	Dif	Comment
Global	141.1	98.7	42.4	Skewed by China, 43% (USDA) to 54% (FAO) of total
China	75.4	42.6	32.8	State secret; major USDA revisions 2001 & 2006
India	21.5	23.5	-2.0	FCI stocks 20.4 MMT
Indonesia	5.3	6.2	- .9	
Philippines	3.0	2.5	.5	
Thailand	5.8	5.6	.2	
Vietnam	2.7	1.9	.8	
Pakistan	.3	.5	- .3	

Asian Rice Import Markets (TMT)

Market	Avg	2012	Comment
Total	8,739	9,450	
Japan, S. Korea, Taiwan	1,194	1,445	Primarily Japonica markets; WTO-mandated imports
China	426	1,500	Mostly 5% & 15%, approx 10% fragrant
N. Korea	86	100	Low quality rice & aid
Hong Kong	389	415	Fragrant & high quality rice
Singapore	316	350	Fragrant & high quality rice
Indonesia	1,499	1,500	Mostly 15%, some 5% & brokens - white & glutinous
Malaysia	1,023	1,085	Mostly 5% but also 15% & fragrant,
Philippines	1,867	1,500	Mostly 25%, but also 15% & 5%
Papua New Guinea	143	160	Prefers Japonica, otherwise 5%
Bangladesh	763	400	Low quality parboiled or white rice
Sri Lanka	81	30	Basmati & low quality rice

Note: Average is 2009-11; 2012 is forecast as of September

Source: USDA

Trades vs Sales

- Only Thailand, Vietnam & U.S. require sales to be registered with government
- Thai & Viet sales are supposed to be confidential, but…
- Thai registrations usually made just before execution & include bogus details
- Visibility of vessels – break bulk, liner vessels & containers

Just where is that rice going?

Vietnam's Gray Trade (TMT)									
	Declared Exports			Recorded Imports from Vietnam			Difference		
	2009	2010	2011	2009	2010	2011	2009	2010	2011
Singapore	334	562	385	40	81	96	293	481	289
Taiwan	207	351	82	26	24	29	181	327	54
China	20	124	309	3	56	234	17	68	76
Hong Kong	44	131	149	21	66	93	23	65	56
subtotal							513	941	474
Indonesia	18	693	1,887	21	467	1,775	-3	226	112
Malaysia	614	403	530	861	591	551	-247	-188	-20
Philippines	1,701	1,466	978	1,754	1,758	814	-53	-292	165
Total	2,937	3,730	4,321	2,726	3,044	3,590	211	686	730

Source: Vietnam's General Department of Customs & World Trade Atlas

AND THIS RICE?

Market Shadows - India & Pakistan (TMT)			
	2009	2010	2011
India-U.A.E.			
Basmati	572	385	1,058
Non-Basmati	11	1	114
subtotal	583	386	1,172
Pakistan-U.A.E.			
Basmati	197	256	219
Non-Basmati	124	174	117
subtotal	321	430	336
Total	903	816	1,508

Note: U.A.E. has population of 5.3 million (July 2012 est)

Market shadows in Africa

Market Shadows - Smuggling into Nigeria (TMT)					
via	2009	2009	2010	2011	2012 1/
Cotonou (Benin)	766	692	554	197	398
Douala (Cameroon)	44	79	46	39	50
Lome (Togo)	10	9	2	4	1
Total	819	781	602	240	448
As % Nigerian imports	45	39	27	9	17

1/ Through September

Market Shadows - Interior African Markets	
Coastal	Interior
Senegal	Mali
Ivory Coast	Mali
	Burkina Faso
Ghana	Burkina Faso
	Niger
Togo	Burkina Faso
	Niger
Benin	Niger

How to gauge border trade?

China's Gray Trade, Jan-Aug '12 (TMT)	
ex-Vietnam	
Declared Exports	1,530
Recorded Imports	1,156
Difference	373
ex-Burma	
Border Trade	175
Declared Exports	8
Recorded Imports	1
Difference	182

Cambodia's Gray Trade, 2011/12 (MMT)		
Exports to Vietnam	1.6-1.7	paddy
Exports to Thailand	.5-.6	paddy
	.2-.3	rice
Transit Vietnam to Thailand	.4-.5	rice

KEY RICE POLICY CHANGES 2011/12

Thailand	Restores paddy pledging 50-67% over market
India	Ends export ban on non-Basmati rice
Nigeria	Import duties doubled -> 50% July & again '13?
Philippines	Relies primarily on private sector imports
Ivory Coast	Import Duties Suspended August-October
Indonesia	Delays import purchases

A couple of slight problems…

"Rice is not like either wine or oil. Unlike oil, which does not lose its value when it is not pumped (‘produced’), rice is a renewable good... Rice is also not like wine whose vintage improves with age. Hold rice stocks too long and your outlets will be limited to animal feed or starch."

- 2001

"Rice is coming out of the woodwork. Prime Minister Thaksin,...apparently believes that world rice export prices can be elevated by the formation of a rice exporters' cartel. While his government has unsuccessfully pushed this policy for several years now, Thaksin believes he can pull it off if only he devotes enough energy to the project (or finds the right minister to pull it off). We continue to believe that it is a fool's errand given the nature of the world market, quality problems arising from storing the rice for any length of time, and the relatively short cropping cycles... Thailand and Vietnam, however, are 'tigers,' not 'water buffalo' that can pull together. On top of centuries of rivalry, the two rice economies have different price structures and divergent interests. In the world rice market, the low cost producer is in the perennial position of trying to grab market share from the more established, high cost producer."

- 2005

The Thai Rice Mountain

THAILAND: Production & Quantities Pledged (MMT)			
Crop Year	Crop	Pledged	As %
Avg '90/91-'94/95	19.4	1.6	8
Avg '95/96-'99/00	23.0	0.8	4
Avg '00/01-'04/05	28.0	4.4	15
Avg '05/06-'09/10	31.0	5.4	17
2008-09	31.7	11.5	36
2009-10 1/	31.5	0.1	*
2010-11 1/	32.5	*	0
2011-12	31.6	21.5	68

1/ Years where the mortgage scheme was replaced by the price guarantee scheme. Only 5,547 tons pledged.

THAILAND: Paddy Mortgage Price (Baht/ton)			
	Wet Season		Dry Season
	Fgrt 100%	White 100%	White 100%
2000-01	6,495	5,280	0
2001-02	6,500	5,330	4,975
2002-03	6,800	5,330	4,975
2003-04	7,000	5,330	5,900
2004-05	10,000	6,600	6,700
2005-06	10,000	7,100	7,100
2006-07	9,000	6,500	6,600
2007-08	9,300	6,700	14,000
2008-09	15,000	12,000	12,000
2009-10 1/	15,300	10,000	10,000
2010-11 1/	15,300	11,000	11,000
2011-12	20,000	15,000	15,000

1/ Years where the mortgage scheme was replaced by the price guarantee scheme.

Two Tier Market

January-June Exports (TMT)

	2011	2012	Dif
Thailand	6,316	3,440	-2,877
Argentina	301	228	-73
Brazil	132	271	139
Parguay	104	136	32
Uruguay	344	449	104
U.S.	1,743	1,765	22
Subtotal	8,941	6,289	-2,652
Burma	419	329	-90
China	259	198	-61
India	1,380	5,514	4,134
Pakistan	1,894	1,862	-32
Vietnam	3,915	3,414	-501
Subtotal	7,867	11,317	3,450

January-September Exports (TMT)

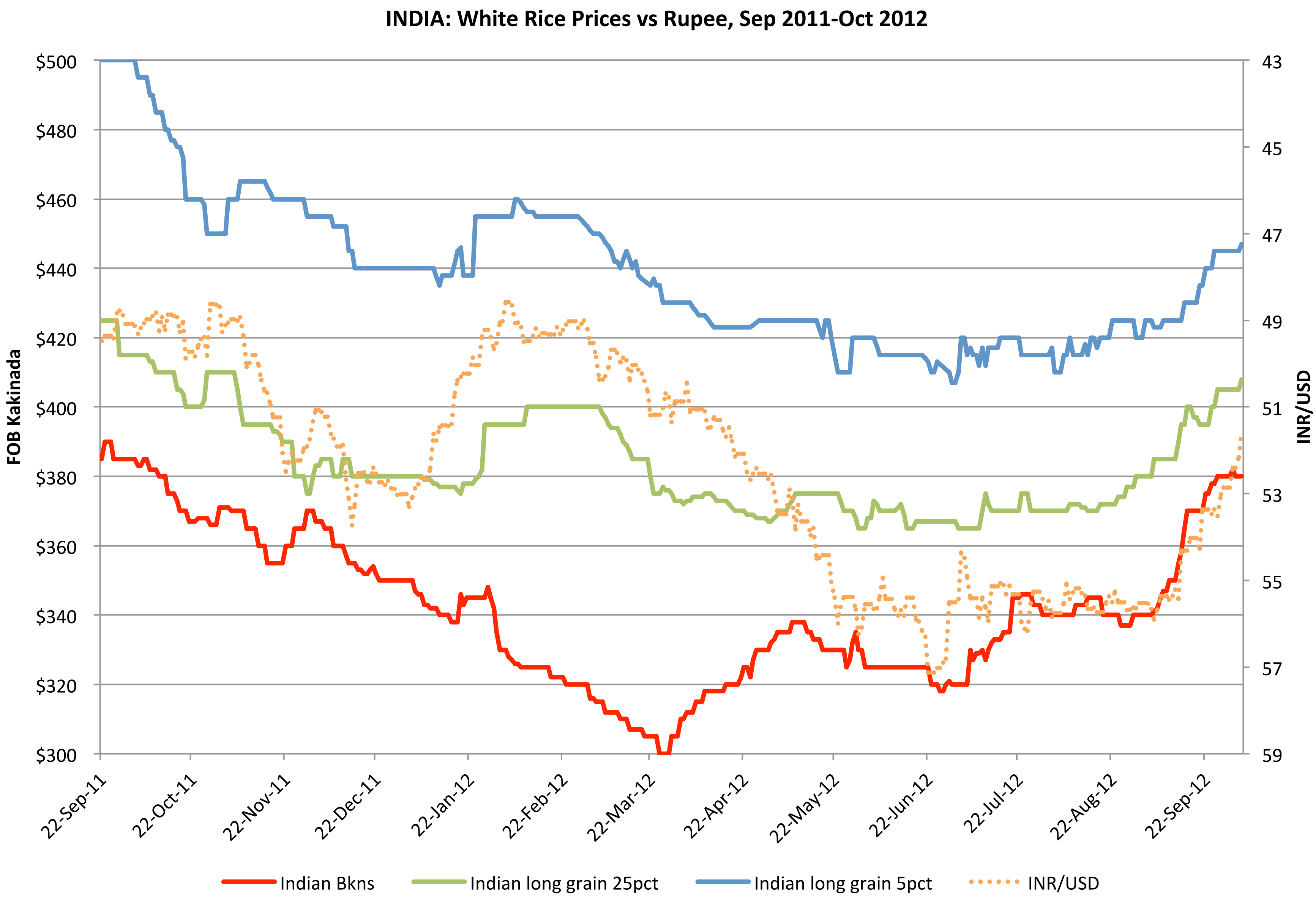
	2011	2012	Dif
Thailand	9,071	5,017	-4,054
India	2,190	7,774	5,584
Vietnam	5,879	5,857	-22

Export Prices, FOB ($/ton)

Year	Month	5%						Brokens					
		Thai	Viet	India	Price Spread			Thai	Viet	India	Price Spread		
				IR 64	Thai:		Viet:	A 1 S			Thai:		Viet:
					Viet	India	India				Viet	India	India
2011	June	515	465	NA	50	NA	NA	430	420	NA	10	NA	NA
	September	600	568	480	32	120	88	490	465	385	25	105	80
	December	555	460	440	20	115	20	530	390	350	40	180	40
2012	March	535	436	430	6	105	6	535	340	305	35	230	35
	June	590	408	430	-22	160	-22	530	345	320	25	210	25
	September	550	449	445	4	105	4	535	395	380	15	155	15

Note: End of month

Source: LiveRiceIndex ,except Indian brokens which are exporter quotes



INDIA: White Rice Prices vs Rupee, Sep 2011-Oct 2012
FOB Kakinada
INR/USD
$500
$480
$460
$440
$420
$400
$380
$360
$340
$320
$300
43
45
47
49
51
53
55
57
59
22-Sep-11
22-Oct-11
22-Nov-11
22-Dec-11
22-Jan-12
22-Feb-12
22-Mar-12
22-Apr-12
22-May-12
22-Jun-12
22-Jul-12
22-Aug-12
22-Sep-12
Indian Bkns
Indian long grain 25pct
Indian long grain 5pct
INR/USD

India's Rice Mountain

Trying to Satisfy 2 Constituencies

INDIA: Government's Rice Procurement & PDS Operation (per ton)

	Support	Gov't Economic Cost		PDS Issue Price 2/			Food Subsidy 3/	
Oct-Sep	Price 1/			APL	BPL	AAY	(Billion)	
	Rp	Rp	$	Rs	Rs	Rs	Rp	$
2005-06	5,700	13,397	304	7,950	5,650	2,000	231	5.2
2006-07	6,200	13,912	308	7,950	5,650	2,000	240	5.3
2007-08	7,450	15,499	385	7,950	5,650	2,000	313	7.8
2008-09	9,000	17,407	377	7,950	5,650	2,000	438	9.5
2009-10	10,000	18,201	384	7,950	5,650	2,000	582	12.3
2010-11	10,000	19,831	435	7,950	5,650	2,000	638	14.0
2011-12 4/	10,800	21,842	454	7,950	5,650	2,000	728	15.1
2012-13 4/	12,500	25,500	507	7,950	5,650	2,000	750	14.9

PDS - Public Distribution System

APL - Above Poverty Line

BPL - Below Poverty Line

AAY- Antyodaya Anna Yojana (Poorest of the Poor)

1/ Common Rice
2/ Unchanged since 2002
3/ Includes other foodstuffs; Apr-Mar
4/ Food Subsidy from official budget estimate. Economic costs 2011/12 from FIC & 2012/13 from USDA

India’s Rice Mountain (cont’d)

India: Government Rice Supply & Demand (MMT)

	1-Oct Stocks	Procurement	Releases	End Stocks	Min. Norm
Avg '04/05-'08/09	6.1	28.0	25.6	7.9	5.6
2007-08	5.5	28.7	18.9	7.9	5.2
2008-09	7.9	34.1	34.1	15.3	7.2
2009-10	15.3	32.0	42.5	18.4	7.2
2010-11	18.4	34.2	46.7	20.4	7.2
2011-12 1/	20.4	37.0	34.0	23.4	7.2
2012-13 2/	23.4	40.0			

1/ Procurement is USDA estimate

2/ Procurement is official target

VIETNAM’ S “DIRECTED RICE ECONOMY”

- Minimum Export Prices
- “Reserving” Markets
- Price Support Buying
- Periodic Bans on New Sales

China’s Prices Reach Tipping Point

CHINA: Early Rice Support Price (per ton)		
	$	Rmb
2009	264	1,800
2010	275	1,860
2011	319	2,040
2012	380	2,400
2013	443	2,800

CHINA: Imports (TMT)	
Avg '05-09	474
2009	333
2010	364
2011	578
2012 January-August	1,156

PHILIPPINES: Imports - Theory vs Reality

Government Announces 500 TMT Imports

Date	Qty	
	TMT	
19-Mar	190	Tender for importers, max 10 TMT ea.
20-Mar		NFA announces 19 sellers
26-Mar	190	Tender for farmer organizations & coops, max 2 TMT ea.
28-Mar		NFA announces 95 groups to be awarded
28-May	100	NFA tender
30-May	20	NFA tender
Total	500	

Reality

Date	Qty	
	TMT	
21-Mar	500	Reported single contract negotiated
April	80	Second contract negotiated
July	100	Third contract negotiated
Sept	175	Fourth contract negotiated
Total	855	

Note: Vietnam exported 864,598 tons January-August; likely includes 187,000 tons MAV (minimum access volume)