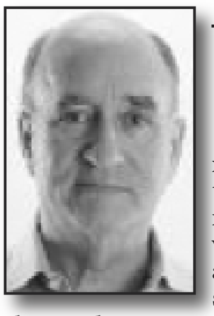
"Indian Rice And Chinese Beans"



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Folks ask me quite often why rice is so cheap and beans are so expensive right now. It reminds me of the questions I received back in the fall of 2007 about why was rice so cheap and wheat and crude oil was so expensive. I get a lot of questions about why rice marches to its own drummer. I tell folks that the rice market is a little slow on the draw. It was in 2007; it may also be so in 2011.

It is quite clear why beans are expensive. China is buying soybeans, a little bit to a lot more each year. The world is having trouble producing enough beans to keep up with the Chinese demand. So that explains why beans are so expensive and are looking for more acreage in the South, perhaps at the expense of rice acreage. In addition there is the increase in ethanol use for feed grains and bio diesel projects across the globe with various levels of success.

If the bean market is made in China, the rice market is probably made in India. India is the country with supposedly huge stocks hanging over the market. It has replaced Thailand, which has more or less flushed out its stocks from government hands into the private sector. You cannot blame China for the weak rice prices. Rough rice prices in China are over $15 per cwt for long grain and under $10.00 in India. If rough rice prices in India were more like $15.00 that could have been non-bearish factor in this market.

Did you hear such things that I am telling in this article from any of your rice market advisors?

Unlike China, India resells the rice it buys internally to the poor at huge discounts to the open market prices. Then in addition, India massively subsidizes the cost of growing its rice. It gives the water away more or less for very little, cuts the cost of fertilizer and fuel. If India removed is extensive input subsidies to farmers, the price of rice in that country would rise and production may well decline. That of course is not yet the case but could be some day.

While China is nurturing long grain rice futures and encouraging the birth of medium grain rice futures, the Indian government has shut down all futures trading in rice. It believes the cause of higher rice prices is rice futures, except of course when the price goes down. Perhaps the Indian government should advise the US Congressmen who blame high oil and food prices on "speculators." A representative of a large grain firm said recently and more accurately that long speculative positions give them someone to sell their short hedges too. Farmers and their advisors should be in favor of speculative participation in grain futures. They are the farmer's friend.

The one factor helping to keep a lid on world grain demand is India with its huge subsidies for its food grain production and its lack of meat demand. Unlike China, India is largely a non-meat market. However, chicken demand is increasing rapidly. With food inflation running at nearly 20 percent in both China and India, do not expect much food grain exports from either country. In fact, China is now importing a little wheat and unknown amounts of rice. That would of course make sense since rice is way over $8.00 per bushel cheaper in Asia than soybeans.

You can measure grain demand in another way. Back in 1997-2001 a study indicated that the US imports about 18 percent of its annual water needs from outside the country, Japan imports about 65 percent of its needs, China a little over 5 percent but India only imports less than 2 percent of its water needs. Most of those external imports are agricultural products. The majority of China's external source of water is soybeans and industrial products. The concept here is that a ton of grains equals "virtual water". When a country does not have enough water to feed itself, it imports grains to fill the gap. That imported grain is more or less virtual water for that importing country. When you are short of water, you can tell folks to leave your country, tell them to stay and starve to death or you can fill the water gap with grain imports. The biggest driver of migration these days is not civll strife but water problems. The good news for a rice farmer in the US is that this situation can only get worse, unless someone invents a way to grow rice without water. Right now 21 percent of all the water used in the world goes to rice production.

Here is the question that haunts me. What if China increases its imports of externally sourced water for its economy to something closer to Japan? What if India increases its imports to the level of China? In that case India would increase its agricultural imports at least five fold. In next decade, China will become more like Japan; it is already the second largest world economy. India will become more like China and you will hear a giant grain demand sucking sound out of Asia, perhaps to the benefit of all those folks asking me over and over again: Why is rice so cheap to beans?

There is an old Zen saying, "When you boil your rice know that the water is your life." Bean water is worth more to China than rice water to India, apparently. That is why the rice price does not amount to a hill of beans right now. Δ

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