

# How The World Rough Rice Markets Really Work

## Part 2 Of A 3 Part Series.



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In my last article (Part one), I told you that the US rice farmer is competing in the US in a commodity world of different row crop alternatives but in Asia, he competes with subsistence growers. Most of the rice in the world is consumed within 50 miles of where it is produced. Only about 7 percent of world rice consumption is traded internationally. The same figure for wheat is 20 percent, for cotton, 30 percent, and 37 percent for soybeans.

The only grain that approaches rice is corn, where 10 percent trades internationally but remember that corn is a feed and a bio-fuel grain not a food grain. Corn trades on many exchanges around the world, rice effectively on only one: Chicago. In the US if the corn crop fails, the world trembles. In the US if our rice crop is down by 40 percent it hardly budges the dial on world rice prices. We have not had a corn crop failure since 1988 by the way. We got one in rice in 2010, the worst in the last century by our reckoning.

In addition, I can show you why Chicago rice futures is really not a Mississippi River contract but rather an Americas contract. If you do not understand this point, you do not really understand the US rice futures contract. It is not all-American, it is all-of the countries of the Americas! Don't just ask what the Arkansas price is going to do, ask what the Brazil rice price is going to do as well and ask that question every day.

To put it bluntly, if a corn crop fails, animals get slaughtered. If a rice crop fails, people die of hunger. That is a big difference to you and me as humans and to politicians.

Did you know that a rice growing area about the size of France feeds three billion rice eaters? Lots of soybeans go half way around the world before they are crushed and consumed. Rice is processed and consumed mostly within an hour's drive of where it is grown. US farmers are not growing things to eat; they are growing things to convert into money. In the US a farm is a business. In Asia, rice farming and the water that grows it is almost their life.

Competing against subsistence farmers is not a problem for a Delta rice grower, if the country is China. Did you know that the price there is \$18 per cwt. for cash long grain rough rice? In fact, Chinese buyers have come through Arkansas recently and that country very recently has bought rice from South America for

the first time in history. All big buys begin with the first container shipped.

Your problem is not China. Can you not grow rice for \$18 per cwt.? If you cannot, you should get out of rice in 2012.

At Firstgrain, we watch rough rice prices across the globe everyday. Most brokers and analysts just talk about milled rice prices because they do not have a clue what the price of rough rice is in Rio Grande do Sul, Chiang Mai or any where else for that matter.

The world is full of rice watchers and rice analysts that only cover 7 percent of the rice market. You cannot talk about rice without talking about rough rice. What wheat analyst would you listen to if all they talked about were the international price of wheat flour? Now to me that is a very good question.

For me, all rice trends start with rough rice not milled rice and I have bought hundreds of millions of dollars of rough rice and milled rice over the last three decades.

It takes a lot of time and effort to watch global rough price trends; you cannot just turn on your DTN and pick up a phone or call your local broker. If you want a market edge, do not take that easy way out.

No, your rough rice problem is not in China, which in 2012 might actually buy your rough rice, if recent rumors pan out. Your worst price nightmare is India, I will explain in my next article why this is so.

If you want to know more about how rough rice trades in other societies that directly impact the price you will get in Arkansas, drop me an email line at [milo@firstgrain.com](mailto:milo@firstgrain.com). I also will be speaking in Tunica in February at the Tillage Conference by the way. This is the second of three articles on how the rough rice markets of the world really work. Δ

*Be sure to read Part Three in next week's issue.*

Milo Hamilton is President and Co-founder of the rice market advisory service, The Firstgrain Rice Market Strategist. He has extensive background buying and selling rice from 1981-1999. He established Firstgrain, Inc. in 2000. He has clients from farmers to rice processors, brokers and traders to international concerns involved in human and pet food rice products. With his business partner, Kevin Ries, Milo publishes the online service, [www.firstgrain.com](http://www.firstgrain.com) that is read by buyers and sellers around the world. His company, Firstgrain, Inc. is focused on rice and believes that "every individual is a market force." The name, Firstgrain, comes from a Chinese proverb, "The precious things are not pearls and jade but the five grains, of which rice is first." His email address is: [milo@firstgrain.com](mailto:milo@firstgrain.com).



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