

How The World Rough Rice Markets Really Work

Part 3 Of A 3 Part Series

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In part one of this series, I reviewed how the world rough rice markets work. In part two, I talked more about China and the role of rice in the economic life of Asia and the Americas. In this

third part, I want to talk about what is suffocating the world rice price, namely, India.

If the US is again to expand its export sales in the world market in the years ahead, it must contend with South American rice and Asian rice. There is a big cut this year in South American rice production for reasons similar to why the US rice acreage is down and dropping still: weather and better prices for corn and beans. As I said in my second article on world rough markets, US and South American rice is driven by relative commodity values not the need to eat rice.

In Asia, farming is often an extension of overall food security policy, particularly in two key countries, India and China. These two countries alone produce and consume over 50 percent of the world's rice and are the majority of the three billion folks who eat rice. China wants its rough rice price higher and higher to send more and more money to the rural farmers so they won't come to the cities or riot in the small towns. Right now, China is the friend of the Delta rice farmer. India is not.

What may be most important is that in countries where rice is critical to the society, rice receives a huge amount of flat out input subsidies and/or export subsidies. It may take level land to grow rice but the world market is not a level playing field. For example, the country of India spends more on subsidizing its fertilizer price than it spends on its military. This is why Asian export prices continue to leak lower in a world of \$100 per barrel crude that is threatened by Iran. Indian rough rice prices are averaging about \$8.50 per cwt. and the poor there can get even that cheap rice for a huge discount to that low price.

Once India allowed the export of regular rice in 2011, it gave exporters a virtual license to sell rice super cheap from India. We hear that Indian exporters are making a good living buying dirt cheap rice and exporting it to other countries. In the Southern state of Kerala, rice is actually even cheaper than dirt. The river sand in that area to build 3,000 square foot homes trades at four times the price of rice there. If you did not have to pay for water, its lifting cost and someone out of the kindness of their heart gave you cheap fertilizer and free electricity, what would your rice production cost be?

You want some more Indian facts? About 70 percent of India's energy production comes from electricity generated from coal. About 40 percent of India's electricity production goes to waste and farmers get their electricity there for free. India has huge coal reserves but imports of coal there could zoom to 300 million MT per

year by 2016. In 2010 they imported 50 million MT. Tribal problems, regulation and environmental law keeps India from mining its own coal resources.

India has big problems. India is a place of contradictions. It boasts of some of the most innovative and cost competitive private businesses in the world and yet it loses about 30 percent of all its agricultural production each year due to dilapidated infrastructure and vermin. Even more than the US, India is using up its ground water rapidly.

So the question you probably never even asked until you read this article is this: where will the price of world rice be in six months? Will it be \$8.50 per cwt. (India) or \$18.00 per cwt. (China)? No other grain market in the world has to face that question. If India is the answer, then rice acreage will shrink rapidly. If China is the answer we will be growing rice in Minnesota and I do not mean wild rice.

What could change the current market situation? If politicians decide to feed the poor in India then their export boondoggle comes to an abrupt stop. It is a strange country where there are huge stocks of rice and huge unfilled demand with no money to pay for the rice.

Anyone who makes world rice price projections based on India deserves what he gets. There is no other major grain exporter where the grain they export could be fed to the nation's poor and they would have nothing left over. Just such an idea is floating around the capital prior to the June elections. If you feed people they love you. It is even better to get votes than giving mortgages to folks who could never pay them back.

India is a bit of mystery to me. It has great economic potential, widespread business acumen. It enjoys agricultural abundance, yet also rapid depletion of existing food stocks each year and wide spread malnutrition as well as total mismanagement of its water (an American vice as well) and horrible misuse of its power grids.

I hope I have raised your curiosity about the rice market from its state of despair. If you were curious about all this, just contact me at milo@firstgrain.com and I would love to discuss my rough rice hunches about where we are headed. We can also talk face to face at the Tunisia meeting in February at the Tillage Conference. I will be there. Δ

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 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.

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