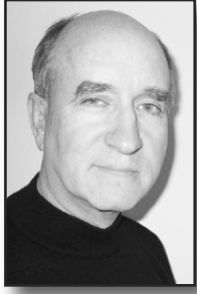


The Year Of The Rice Rat

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We are on the edge of another year and we are near the end of a decade that began with people fearing the lights would turn out along with the computers on January 1, 2000. That anticipated nightmare, the millennium bug, never happened. It is what we do

not see that surprises us. The lights of freedom did dim a bit with the vicious attack the following year on 9/11, and we discovered that a band of fanatics could disrupt our lives on US soil. I expect more surprises as the years pass and we hope to guide your rice price expectations through the shoals of surprise wind and currents and turns in the river of the market.

An ancient greek, Heraclitus, said that you never step into the same river twice, new waters are ever flowing in upon you. In the main he was right but I do point out that rivers still have water, rivers still have banks, rivers have seasons of ice and spring floods and rivers go somewhere either into the sea or in the case of the Rio Grande and a river or two now in China, into the soil. In fact, the disappearance of rivers in China is one of the reasons rice prices are firm out there.

We hope we have kept you focused through the bearish white noise that we saw in 2007 propagated by those who see things not so clearly or by those who want to buy rice and sell it later on. I have been a rice bull since October 2005, which is a very long time. Sorry but that is how I see it. I call it like I see it and I really do not care if others agree or disagree. We tell it like we see it as do the others on our website, www.firstgrain.com. If you are a member of the Arkansas Rice Growers Association, drop by our booth in Tunica on 21-22 January and we will give you an opportunity to test drive our rice market service. If you are not a member and live in another state, then come by anyway I would love to meet you, not to argue but to learn.

In case you did not know it, this is the year of the Rice Rat. In Chinese lore, the rat is a symbol of prosperity. In this year it is prosperity to the rice farmer, not just in Arkansas or Mississippi but in Asia as well. There are several hundred million of them in Asia. Did you know that rice farming may well be the number one small business on the planet? Small is size but big in number of families doing it for a living or more specifically a subsistence.

The New Year for rice will start in February not on 1 January 2008 and the New Year for rice will clearly state that the price setters have price stamps and they will be dialing up the price on the shelves at will. Take it or leave it. I also do not believe that price changes are over with for rice in Asia. This year was the Year of the Pig and those who were short rice got slaughtered trying to talk the market down. In fact, 2008 is the Year of the Rat. The Rat will be rice buyers and the commodity funds. In 2008, rice may well be a seller's market, at least in Asia where all price trend rivers begin.

Another name for the Chinese New Year is Wu Zhi. These names recur every 60 years, we are into the 9th year of the 60 year cycle, which would make 1999 the first year of this cycle. Technically the low in the deflated price of rice occurred in October 2002 and the price of rice relative to wheat just hit a major low in Sep-

tember 2007, the lowest price of rice to wheat in at least 93 years at nearly a \$5.00 per bushel discount of rice to wheat. Normally rice tops out in bull markets at a \$2.00 per bushel premium to wheat. The 60 year Chinese cycle is close enough for government work. I doubt in the next 60 years the price of rice will ever go as low as it did in September 2007. During the industrial revolution the price of wheat went up from mid-1700s until the early 1800s almost non stop.

Is not the addition of 1.5 billion people to the market economy in the last 10 years with money in their wallets to buy food not comparable to the Industrial Revolution in impact? Food prices go up when incomes go up. Yields are flat, water is very tight and there is no more land in Asia to grow grains. In the good old days my international trader friends would say, "the price of rice is too high, they will all buy wheat and switch to muffins." Muffins made of wheat are not all that cheap now in Beijing or Haiti.

The above paragraph is a sample of part of what we cover in our other, more intensive service, The Rice Market Strategist. If I were to say that there is grounds to argue that \$13.00 rice is more like \$5.50 wheat and that rice is more in a bottoming than a topping zone, wouldn't you think that could impact your income expectations in the next few years? Last year was not the year of the Pig it was the year of wheat. This year is not the year of the rat, it is the year of rice rat. In India rats eat about 25 percent of the rice. The minimum price in India is now \$500 per MT. It is going to get a lot more expensive to feed all those nice rice rats in India, where no one kills rats or eats a lot of meat. Get my drift?

Take your acreage and multiply it by one or two dollars per bushel. What can you afford to pay to catch the better part of \$2.00 per bushel moves in the price of rice? This is not a forecast. It is a question. Questions are much more profitable than forecasts. Every broker has a chart and a forecast for you. Do not ask what to do; ask what to look for. When the student is ready, his teacher will appear.

We should be grateful for 2007. It brought us electronic trading, which eliminates the nightmare of FAST markets. It brought us another one dollar a bushel for rice. It brought us a growing price storm in the rice price in Asia. It brought us a number of rich alternatives to grow in 2008 besides rice. Rice is sort of tied to a Bean Star until the crop is planted.

It is more blessed to be a benefactor than a beneficiary. For 50 years, US farmers have been largely beneficiaries of the largesse from DC. In the next 51 years, I believe that farmers will survive by managing their own market risk and they will become benefactors, not beneficiaries. It is always better to give than be doled out to. See you in 2008 and on through to 7 February and the year of the rat.

Do you have your market rats under your control? If not, consider buying some marketing rat killer. A rice rat on the loose can eat through your profits in your rice in a hurry. It is not about rice production, only rice marketing builds real wealth. You cannot control the rice price but you can control your emotional reactions to it and that is called a marketing plan. It can be worth more than a combine or two to your bottom line. Δ

Milo Hamilton writes rice market commentary for the website, www.firstgrain.com. You can click on it for a free seven-day trial.