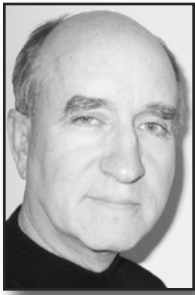


The Rice Market Is In The Water Business

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I tell my clients that they are not in the rice business exactly. They are in the water business. I have an especially gifted farmer-client who may hedge his rice crop more than once during a marketing year. I say why not? That may fly in the face of your view of rice futures and options. But then I serve people who want to make money. As the coach of the Miami Dolphins once said, "I look for an edge, any edge but I am always looking for an edge." He was a great winner.

Meanwhile I meet farmers who say such incredible things as this, "I do not worry about marketing my rice, that is something I cannot control." Or "I do not use futures or options, those markets are too dangerous. I stick to selling cash rice only." Or "I let someone else determine the price I get, I am too busy to pay attention to the rice market." My clients are eating up those farmers, farm by farm. I do not say that with any joy. I wish I could reach all producers with sound marketing advice. Every time a farm goes bankrupt, I see a farm family walk away empty handed and it hurts my heart to be honest. I cannot reach those who want to be paid for their rice but refuse to pay for market advice on that rice production.

That fellow who may hedge his rice more than once during the marketing year told me this one day. I was sitting in his beautiful home, "Milo," he said to me, "rice production did not buy this house, rice marketing did." He buys and sells rice farms as a full-time hobby. He bought a large rice farm on the east side of the Mississippi and I congratulated him by saying, "Congratulations on the rice farm you bought." He corrected me, "I did not buy a rice farm. I bought water."

That phrase, "I bought water" trickled down into my brain. We are not in the rice business, my friends; we are in the water business. I was talking to a very successful investor that has lots of farmland and trades many different markets and does his homework well. He said to me recently, "I was buying farm land in Arkansas in 2006, when everyone said it is too expensive. I bought it because there was no price for water bid into the price I paid." He likes land in areas where there is a legal tradition and water can be bought for free.

Did you know that a year ago India had a lot

of rice? Now it is hurting to make its rice ends meet. They had a bad monsoon and a lot of their rice land is not irrigated. But it has another problem that is not so evident aside from bad weather. India has consumed in the Northwest of India about three Lake Meads worth of water to keep the rice production rising. How much water is in Lake Mead? Lake Mead is the largest water reservoir in the US. It takes two years of uninterrupted flow from the Colorado River to fill one Lake Mead. So in order to pile up rice stocks India has used up, permanently six years of uninterrupted flow of water from the Colorado River. When politicians try to do something about the collapse of their aquifers, they are voted out of office. The main goal of a politician is to get re-elected so no one dares do anything until it is too late and too dry. The future is not about global warming but about global drying.

There are two ways to get water if you have gotten rid of it in your area. One is to bring it in from somewhere else or else to import "virtual water". Virtual water is what rice farmers grow, namely grain. Rice takes twice the water as other rain-fed grain crops; so just import rice and you can reduce water usage. Did I not just tell you when you grow rice you are exporting water from your locality to somewhere else that would rather do something else with its local aquifers? Does this give you a new perspective on what you are doing for a living? It should.

The world rice market is on a collision course with water shortages. When it happens, Delta rice ground will be better than gold, you can eat rice not gold. That is why the Chinese wisely concluded, "The precious things are not pearls or jade but the five grains of which rice is first." Rice is the First Grain. Δ

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