

What If It Does Not Pay You To Grow Rice?

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Soybeans, corn and even wheat have nudged values above the cost of production, at least on the futures markets recently. So what about rice? It is hard to imagine that \$4.25 per bushel rice will produce anything but financial heartache, unless you make 250 bushels

per acre rice on all your rice ground and your milling yields are spectacular. That is unlikely to happen this year. I am not going to tell you what my outlook for the rice price is; but I am going to give you some free advice about negotiating a below cost of production year in rice. So read on.

First of all, let me make something clear. There are folks that are telling us that farmers were stupid to plant rice this year. What were they ever thinking? Well, for one thing, some farmers have a commitment to rice because of the costs sunk in their land. But more importantly, rice did better than corn or soybeans last year with 100 year rains in Arkansas. This year we have record heat in Arkansas. Farmers were not stupid, they were taking the low risk route in terms of field yields, in my opinion. They were being good stewards of their land and dealing with climate change.

Secondly, it is important to have a marketing plan even if you have to sell your rice at a loss. Consider breaking your selling up into chunks and sell slow or fast at harvest. At the July lows in this market, why would you sell any rice at all? That is a very good question. I would not personally sell any rice in July. I was telling my clients that July would be the low not the high for the marketing year for a number of reasons.

Thirdly, and by far most importantly, do not give up on thinking about the market just because every buyer and farmer you talk to is bearish. Large US rice crops do not make for a bearish US rice price, all it does is attached the US price to the Asian rough rice price. Do you watch world rough rice prices? I do, everyday; my clients expect that of me along with understanding the Asian market. That is why I am speaking at a rice conference in Asia in October. Do your rice market advisors go to Asia a lot? If not, tell them to, pronto. The US price has a "Made in Asia" tag on it right now? Did anyone tell you that?

You should take comfort in the fact that everyone is bearish at times and you should tread softly when everyone to include your neighbor is bullish. I believe in market gratitude, which means this: hold whenever every one in your neighborhood is bearish and sell a bit when everyone in your neighborhood is bullish. I do not mean that everyone else is wrong on the market but after trading rice for 30 years and only trading rice, I have come to the conclusion that the only truth of the market is this: when all of us are bearish, the price can rise and when all of us are bullish the price can go lower. In these times when few buyers have money, if everyone is bearish and the market turns, you discover that everyone was short or hand to mouth. That covering alone should drive prices higher. Thank the market by selling some of your rice.

Market gratitude is action, not a funny, inner feeling.

Fourthly, do not fall in love with the bear argument and keep on your mental toes. A bear market or a market below cost of production is

a great time to improve your marketing ability by taking a course in futures and options and how to replace cash with futures at an opportune time. Do not wallow in price depression as most folks tend to do. Pity parties leach money out of your wallet.

Let me ask you this: would you stop farming rice because Mother Nature hailed out your crop or her heat roasted your rice yields? Then why do you give up on improving your rice marketing ability if Father Market gives you a low price? If you are going to continue to farm, face it, you will have rice price risk. You can dump your marketing problem on someone else of course; but then you get what they want for your rice. You are the best owner of what is in your rice wallet.

If you lived in a culture that ate rice instead of hamburgers and the Federal Government wanted that rice price low, then the rice price could stay low for a long period of time. But in the US rice is a cash crop and if it goes low, so will rice acreage and the following season should have higher prices. If other row crops stay high this fall, there will be a giant sucking sound on rice acreage by next March. Does that not make some sense? The rice price must amount to a hill of beans prices or it will not get grown.

If prices are low and there are not good prices to harvest, take time to improve your marketing by learning about futures and options for rice. So far in 2010, the price has dropped by \$2.00 per bushel and has risen, at least on futures by \$1.00 per bushel up until now. On 1000 acres of rice that is a risk of about market \$600,000 dollars if you get 200 bushels per acre. If you only get 150 bushels per acre that is "only" \$450,000. If you let someone else price your rice, you get what they want for it. If you have on farm storage and price the rice yourself, you turn from a rice dumper into a rice marketer.

I will give you one small hint. Not only did I recommend my clients not sell in July, I also reminded them that US rice is the cheapest rough rice in the entire world with world rice production slipping quickly down hill. The US price were it located in KMart, it would have a blue light special blinking over it today.

If the person or persons you rely upon do not know the trends in paddy markets around the world, why are you listening to their advice? Would you sell your wheat based on someone who did not have a clue what the price was in the Black Sea or France? I would not do so. Price has no value without some kind of reference. Nothing is high or low but relative value makes it so.

If you want more ideas about marketing your rice, contact me at milo@firstgrain.com or 512 345 0497. 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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