

**Rice Graphics and Commentary**

**April 18, 2008**

**By**

**Bobby Coats**

**Extension Agricultural Policy Analyst and Professor**

**University of Arkansas Cooperative Extension Service**

Why are rice prices so high and why are rice consumers from parts of the Caribbean, to Asia, to Africa angry and/or even rioting over rising rice prices?

**Part 1: An extended bull market in commodities**

Until proven otherwise I continue my assumption that we are building a foundation for an extended global bull market in commodities. Said differently a huge expanding global economy with an expanding appetite for commodities is in the making.

Global demand for commodities is growing and with this demand global investors and speculators find commodities an increasingly attractive investment. This is especially true of rice.

Now consider that rice globally has been significantly undervalued for the past seven plus years. Now consider world rice stocks are dangerously low and world demand continues to rise with the global bull market for commodities in the making. The consequence: explosive price strength is one outcome and secondly, many of the world's poor consumers, who spend a large part of their income on food, are facing devastating economic hardship. They become angry with riots being one consequence.

The poor have become casualties of the some of the global economy's negative problems. Credit problems, currency issues, and resulting inflation are good examples.

**Part 2: A case for strong demand for commodities**

A case for strong demand for commodities: Despite the global economy's negatives there is more right than wrong economically and politically in the world. There are 3-billion plus Asians and others whose increasing standard of living will grow the global economy and demand for commodities beyond most if not all expectations.

We must understand that countries have, do, and will protect their agricultural sector – hence their food, and especially rice. One only discusses the degree of protection. Keep in mind a country's ability to engineer adequate protection of their food sector while meeting or attempting to embrace expanding global trade commitments is difficult. Protectionism up to this point has limited rice price strength. Now governments are limited in their ability to manage price, due to tight global rice stocks, dollar weakness, continued global growth, inflation, and the emergence of a bull market in commodities with heavy speculative activity.

In a world filled with risk and uncertainty rice has real value to governments and individuals. The world is and always will be volatile, dangerous, and unpredictable, so food security is high on most country's priority list of security concerns. Think not? Then try discussing open trade in rice with developing countries China and India, or for that matter developed countries Japan and South Korea.

In general commodity prices for the past three decades have been moving sideways in a channel. Over the decades rice prices would revisit previous lows and highs. Rice prices were reasonably predictable. U.S. rice producers remained profitable by increasing their efficiency, productivity and/or somehow keeping their per unit costs competitive. For many U.S. producers a key factor in keeping per unit costs competitive required they subsidize their operations with off-farm income.

Part 3: Consider the following about rice

In the past one has wondered if U.S. commercial rice and cotton farms, or other row crop farms, had a viable future, due to the global economy's inconsistent growth of the past 20 years, protectionism, and what at least seems a willingness of U.S. trade negotiators to trade away parts of the ag sector for the good of all.

Globalization or the movement toward increasingly open markets and free trade over the past two decades has yielded global economic activity that ranges from extremely strong to deeply recessionary with accompanying strong to weak commodity prices. The last deeply recessionary period was the late 1990's through the early 2002.

In 2001 U.S. farm market rice prices were selling for around the same price producers received in the 1950's, which is why the 2002 farm bill extended the traditional farm bill safety net.

On rice consider the following:

- One cannot overstate rice's importance in feeding the world's population.
- Rice is one of the most protected commodities in the world. Only some who have never been hungry will wonder why.
- Global rice demand continues to increase with consumption exceeding production in 5 of the last 7 years. The good news is that global rice production has exceeded global rice consumption in 2 out of the current 3 marketing periods.
- A major global weather problem has not occurred in over a decade. Given tight global supplies of rice and other food and feed commodities then a significant global weather problem in the near future could become more than a little problematic.
- Rice prices must now reach a level that grows global supply to more sustainable levels needed to meet the demands of a global consumer with increasing food demands.
  - These rising rice prices though alarming to many of the world's consumers especially the very poor in emerging markets and developing countries are required to assure the needed future global supply of rice.
  - Our U.S. rice producers 2008 cost of production will be about twice their 2002 costs.
  - Inflationary costs will continue to increase their cost of production.
  - 2008 should see most U.S. rice producers' cash flowing but prior to 2008 half to two-thirds of our producers struggled with cash flow issues.
  - A review of the past decade shows our rice producers and row crop producers in general have been dealing with accelerated change and levels of risk exposure that they have never experienced on their operations.
- The dollar's weakness is a plus for U.S. exports but is also a factor in rising global rice prices. I expect the dollar to continue to weaken.
- Today's world rice supplies are adequate, but extremely tight. The 2007/08 marketing period ending stocks at 77.2 million tons will exceed the previous three marketing periods so I expect global rice stocks to build with these improving rice prices.

Part 4: On the question of what worries me about tight rice supplies?

On the question of what worries me about tight rice supplies? First, my immediate concern is if consumers in poor countries started hoarding rice because they fear a rice shortage, or individuals hoard for profit beyond the present experiences. Then an engineered shortage might spiral out of control causing major economic and

political consequences. Second, I worry about a catastrophic weather event occurring before the rice supply demand balance improves. Third, all countries should be concerned about their food security but increased food protectionism and reduced global food trade would be a real negative for the global consumer.

Will the expected new farm bill do anything to reduce rising rice prices and rice price volatility?

Will the expected new farm bill do anything to reduce rising rice prices and rice price volatility? The expected new farm bill will increase rice producers' dependence on the market and significantly reduce their safety net. Given the explosive dynamics of the current domestic and global economic setting of the past 4 to 6 months and our increased understanding of these economic events, then the current proposed new farm bill will provide a safety net that is significantly less supportive than the previous farm bill for rice farmers. Inflationary costs and a reduced safety net will be problematic for rice producers, especially the bottom 2/3rds of our rice producers.

Part 6: Is there a bubble in commodities?

Is there a bubble in commodities? Absolutely not. This is the beginning not the end of the global bull market in commodities. When the average investors are heavily invested in commodities, and then let's talk about a bubble, say ten plus years from now.

This emerging bull market in commodities will be dangerous. Commodities will not participate equally, so fundamentals and future expectations surrounding each commodity bare continuous monitoring. Expect price volatility, expect corrections, almost no reasonable situation should be unexpected. Individuals should always seek professional assistance.

Part 7: What can be said about the outlook for U.S. long grain rice prices?

What can be said about the outlook for U.S. long grain rice prices?

U.S. long grain 2007/08 estimated ending stocks have only been lower twice since 1982. They were lower in 1995 and 2003.

USDA's Prospective Planting Report shows in 2008 U.S. all rice acreage of 2.77 million acres, which is slightly higher than the 2007 acreage of 2.76 million acres. The report shows 2008 U.S. long grain rice planted acreage at 2.07 million acres, which compares to 2007 acreage of 2.063 million acres.

Global supply is one issue of concern and global rice prices is another.

Many of the Asian countries are harvesting new crop rice, so global rice supply is expected to improve and remain at record levels. Global rice stocks are expected to improve but remain dangerously low. Remember, dangerously low global stocks have been the norm over the past 5 marketing periods.

Global rice supply then appears adequate, but will availability to needed countries and individual consumers become a bigger issue? Probably not, at least I anticipate global governments will take steps to limit severe supply availability problems.

If one assumes the global economy shakes off current economic weakness issues and regains trend economic growth, then the market would have to provide the U.S. and global rice producer a price adequate to cover the inflationary cost of production increases experienced since 2002.

The trend in U.S. rice prices remains up. Let me reiterate this emerging bull market in commodities will be dangerous for a number of reasons. Expect price volatility, expect corrections, almost no reasonable situation should be unexpected. Individuals should always seek professional assistance.