

VALLIS COMMODITIES LIMITED

HIGHLIGHTS FROM THE WORLD RICE CONFERENCE 2016

1. INTRODUCTION

- 1.1 Dudley Smith attended the 8th World Rice Conference in Thailand from 16th to 18th November 2016. The conference was held in the Le Meridien Hotel, Chiang Mai in Thailand.
- 1.2 The conference comprised centrally held presentations and reception drinks gatherings in the evenings. It was attended by approximately 700 delegates.
- 1.3 Jeremy Zwinger and V Subramanian (Subra) from [The Rice Trader](#) magazine ran the conference between them and presented speakers.
- 1.4 The first day of the conference comprised a workshop, which was a presentation of extremely detailed statistics concerning the rice trade. The main conclusions from this workshop were: market signals indicate that rice prices continue to soften, and the 2 primary drivers for rice markets are the weather and politics.

2. SCOPE AND CONTENT

- 2.1 This short report covers the following:
 - 2.1.1 Background.
 - 2.1.2 Market Overview.
 - 2.1.3 Market Analysis.
 - 2.1.4 Selected Presentation Synopses.
 - 2.1.5 Summary.
- 2.2 The report intended as an overview of the conference and is not a summary of all the presentations given.

3. MARKET OVERVIEW

- 3.1 Thailand has been influencing market by selling old stock. Stockpiles have been reduced from 8 MMT to 5 MMT.
- 3.2 Demand for rice in Africa is generally down, and while this applies to broken and white rice, this is offset somewhat by higher demand for fragrant rice.
- 3.3 Demand in Nigeria has been hit by government policy (high tariffs on imports) and a direct correlation to the price of oil (or more accurately the country's revenues from oil). Nigeria demand is still met by imports routed through other countries, principally Benin.
- 3.4 In the Middle East, the trend has been for countries to consume their stocks rather than buying more. Again the price of oil is a major factor in reduced demand.
- 3.5 Production in India is up, but exports are stable at 10 to 11 MMT. Africa is a key market for Indian Rice.

- 3.6 Africa is also a key market for Pakistan, but the price of Pakistan rice is not considered competitive even though production is stable.
- 3.7 Vietnamese production is down due to drought during the first crop of the year. The second crop is due to be a good one (see comments on La Niña weather phenomenon).
- 3.8 China is a key market for Vietnam, but its prices are considered uncompetitive and the moment.
- 3.9 China is able to influence the market significantly with large purchases to feed its huge demand. Also, China (and other importing states) are getting much smarter in deal making and spreading their contracts around so that trends are harder to detect.
- 3.10 The withdrawal of large denomination rupee notes (1,000 and 500) by the Indian government is causing significant problems in the lower levels of the country's agricultural economy. In many rural areas of India, conventional banking services are simply not available.

4. MARKET ANALYSIS

- 4.1 It was noted that stocks-to-use ratio is a good measure of supply and demand interrelationships in rice trading (and other commodities, of course). This ratio indicates the level of stock carried over against the total use of the commodity. Being a ratio, it allows meaningful comparisons over time.
- 4.2 The role of politics in rice prices was emphasized. In particular the following aspects are most influential:
 - 4.2.1 Many countries have the policy of self-sufficiency in food production (particularly as rice is a staple) and this drives tariffs and duties, distorting normal market forces. The inexorable rise in populations will continue to drive demand for rice, but in many countries population increases are outstripping growth in domestic rice production.
 - 4.2.2 The vote-winning policy of cheap food for all is risky because it is the farmers who suffer, which drives down yields because they become less able or inclined to invest in good practice (quality seeds, fertilizer, irrigation, mechanization). This is especially so when juxtaposed with the quest for self-sufficiency.
 - 4.2.3 A large percentage of rice trading is conducted on G2G (government to government basis) and bureaucracy and the imposition of tariffs clearly play a significant role.
 - 4.2.4 The ASEAN (Association of South East Asian Nations (Brunei Darussalam, Myanmar, Cambodia, Indonesia, Laos, Malaysia, Philippines, Singapore, Thailand, Vietnam)) is significant as the bloc contains both net exporters and net importers of rice.
- 4.3 The price of rice is so low that farmers in the US are selling at a loss of \$100 per tonne. Some farmers have left crops in the ground.
- 4.4 The prices of rice, wheat and corn are highly correlated, however the price of rice is roughly half of its peak compared to wheat and corn being down by one third. Wheat and corn are often not for human consumption in their natural state: much processing is involved or they are used as animal feed.
- 4.5 Foreign Exchange volatility has a large influence on rice prices. 90% of rice trades are in dollars. The current strong dollar means that the supply of dollars is down and that depresses prices.
- 4.6 The downward pressure on prices means that many deals are being renegotiated whilst vessels are already at sea. This is tough for traders and introduces uncertainty.
- 4.7 The rice market is generally gloomy and it appears that pessimism is outweighing facts. Q1 of 2016 was the best in global rice production ever.
- 4.8 The up and down trade cycle for foodstuffs historically takes about 16 years to complete. The cycle has followed the US presidential terms for the last few. An upward trend throughout Bush's

tenure followed by the reverse during Obama's term. Some of President Elect Trump's stated policies were considered significant: renegotiation of treaties (for example NAFTA and the Trans-Pacific Partnership) and a more US-centric policy focus.

- 4.9 Shawn Hackett, a US analyst of [Hackett Financial Advisors](#) gave a specific presentation on his forecast for rice prices 6 to 12 months from now. He described how the sun is entering a Grand Solar Cycle Minimum with a direct result that earth will experience a drastic reduction in radiation from the sun resulting in a drop in sea temperatures and greater volatility in weather cycles than usual. His conclusion was that demand would outstrip supply resulting in a bullish market for rice (and other agricultural produce, no doubt). He then showed a vast array of data from which he concluded that he was confident that the low price for rice had been reached and so the market would turn bullish.
- 4.10 Summary. The general view seemed that the bottom of the market has been reached or would be soon and that an upturn in the market would take place next year.

5. SHIPPING

- 5.1 Richard Watts of [HR Maritime](#) gave an interesting talk on shipping and recent trends. The main themes were:
 - 5.1.1 "Money made in trading is often lost in operations."
 - 5.1.2 Shipment of rice has a reputational problem:
 - 5.1.2.1 Shippers: many have had bad experiences.
 - 5.1.2.2 P&I Clubs advise against carrying rice.
 - 5.1.2.3 Insurance is tired of paying "rice claims".
- 5.2 The speaker then gave a good compare and contrast between container shipping and break-bulk. The case for one or the other is certainly not clear cut, however, increasingly rice is being transported in containers. The audience was adjured to relook at the Incoterms used in contracts when using containers for shipping.
- 5.3 Richard Watts has made a number of U-Tube short briefings on commodities, which are available through his website - link above.

6. FORTIFIED RICE

- 6.1 An presenter from [DSM](#) called Judith Smit gave a talk on "fortification of rice". She described a process whereby rice is milled to flour and then nutrients in the form of minerals and vitamins are added to it. The flour mixture is then reformed into rice grains using extruding machines. Ms Smit described the resultant grains as being like "vitamin pills" that are then added back to the main "real" rice stock at a concentration of about 10kg per tonne.
- 6.2 The finished fortified rice is then much more nutritious. This means that children get more from their education and they and adults, are healthier. It is generally accepted that investment in nutrition in this way can yield returns of up to 30%. Only 1% of the world's rice is fortified. The process has is apparently adding 1% to the retail cost of the rice. Amongst others, the Bill Gates Foundation is starting to back this idea.

7. NON-TRADITIONAL FINANCE

- 7.1 The Responsibility gave an interesting presentation on non-traditional financing for the rice trade. The main conclusions that the speakers drew were:
 - 7.1.1 Understand your business cash cycles - particularly relevant to agriculture - short = good and long = bad.
 - 7.1.2 Pick finance structures that meet cash needs.

7.1.3 Get financing from a range of sources - traditional (bank) and non-traditional (funds).

7.1.4 Choose partners who can grow your business.

7.2 Responsibility is still appointing Collateral Managers to reduce risk on deals in Africa.

8. RICE DEMAND IN WEST AFRICA

8.1 Frédéric Lançom of [Cirad Agricultural Research](#) gave a talk on rice demand in West Africa. The highlights were:

8.1.1 West Africa has been the fastest growing rice market for the last 6 years growing at a rate of 5 to 6 % per annum.

8.1.2 It is a competitive market with all major exporters marketing there.

8.1.3 40% of the rice consumed in West Africa is imported.

8.1.4 All countries are trying to increase self-sufficiency, but populations in West Africa are rising at rate of 2 to 3% per year, which coupled with a changing preference for rice in the diet is driving demand.

8.1.5 The traditional rice eating countries to the west of West Africa are not necessarily demanding significantly more rice but they are after better quality rice.

8.1.6 The increase in rice consumption is directly related to rising standards of living. Rice is preferred to more traditional staples in the east of West Africa. Ivory Coast is the most notable example where standards of living have risen significantly and driven a rise in rice consumption.

8.1.7 The depressed world price for rice has been offset by local currency depreciation in non-CFA countries, most notably Ghana and Nigeria where the Cedi and Naira have lost value rapidly. The CFA is pegged to the Euro, so remains relatively stable.

9. CONCLUSION

9.1 The 2016 World Rice Conference was a well-organized and worthwhile activity which conveyed a huge amount of detailed information on the global rice trade. This report only give a flavour of the material covered.