

THE FARM & TRADE REPORT

May 19, 2014

#371-256

COMMODITY BUYER & CONSULTANT FOR AG PRODUCTION, RISK MANAGEMENT & TRADE



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Quote of the Week: Psalm 51:10-12 "Create in me a clean heart, O God, and renew a right spirit within me. Cast me not away from your presence, and take not your Holy Spirit from me. Restore to me the joy of your salvation, and uphold me with a willing spirit."

Grower Market Discussions & Meetings: Talk on overall market conditions, current prices, and general direction

VIP! OPEN MEETING FOR ALL GROWERS / BANKERS IN CALIFORNIA

Next Grower Meeting, WEDNESDAY June 25th, 2014 – Colusa Golf Course

2224 HWY 20, Colusa CA, at 11:30am – Lunch Served – No buyers or buyer representatives

GROWER NOTE: We have interest in 2014/15 Calrose rice at **+** cwt over loan, please call us!

SELLER INDICATION:

\$23.00 - \$50.00/cwt over loan

Indication: ▲▲— UP/UP/FLAT

BUYERS INDICATION:

\$15.00 - \$23.00/cwt over loan

Indication: ▲▲— UP/UP/FLAT

KNOWN MARKET TRADES:

\$22.00 - \$23.00/cwt over loan

Indication: ▲▲— UP/UP/FLAT

*Note the above price is based on information at print and may change depending on market conditions.

KEY MARKET HIGHLIGHTS: CA ACRES LOOK DOWN TOWARDS 400,000, PERHAPS LOWER

- California Calrose Rice brings home coveted "World's Best Rice" award
- The question of CA price and acres remains unknown... this is pushing growers to water sales and insurance
- Farm and Trade / CRE Trading Floor show last sales at \$22/cwt over for 2013/14 crop... slow trading now
- Australian down 25% in 2014 with poor growing conditions, while drought conditions put 2015 in question.
- Turkey buys unprecedented +200 TMT of California rice at highest price of the year. Also drought concerns.
- CA water has major problems brewing as extreme drought conditions add to very low reservoir storage.
- AgriFin: Get Cash, Keep Control... An amazing success story !

Farm & Trade, Inc

++ \$23 IN 2013 ↑

Profitable Industry - Better Communities

CALIFORNIA RICE 2013/14



**California
Rice
Exchange**

www.calricex.com

KEY UPDATES: Water transfers showing great benefits to industry... Positive change is not easy for all parties!

Water, Rice and more Water... As we review the last year, Farm And Trade Inc. worked hard to bring strong pricing for rice and also in the new project of water. Looking back, we involved ourselves with the California water market for a couple of very important reasons. First and foremost, we saw a way to enhance California rice growers and industry's income through water transfers that directly increased the price for the rice that could be produced. Secondly we saw a market with a real lack of competition as there was only one consortium / cartel that controlled the price of water transfers, and did it with some tactile support from DWR. With a lot of hard work and the leadership from F&T, along with key water districts like Biggs West Gridley (BWG) and buyers in the South who wanted to go around the existing system, we were very successful in accomplishing both goals. In many ways, we give those players the real credit as ideas are just ideas without leaders moving in the right direction. To be sure, there are many unsung heroes and a few hidden villains in the story, who tried to retain control of water's status quo. In fact as we have said in our open F&T meetings throughout the year and to many players in person, we would work for free just for the benefit of the industry to help accomplish the key goal of adding profits and competition to our industry. Obviously, one would love to be rewarded for their efforts, and taking the water offers from \$200s to \$500-\$600 per ac ft was a great result, but it is the overall direction and strength of the industry has been our key concern. We were very happy for the success brought to the valley and how this puts the industry in a place for a VERY successful year. Our team and others were quietly working hard for you...

To highlight this point, we were pleasantly surprised as we sat in the ACWA conference sessions a few weeks ago, where key players from MET talking to other key water southern districts players readily blamed "the broker" / BWG for pushing up the water price and changing the dynamics. To them this was not a pleasant thing and those powers certainly do not want change, even though it brought them more water. For our Northern CA industry, this was a major functional change and a key to success for the coming year. In fact, one can only imagine what the CA rice industry dynamics would look like if the growers had not generously fallowed about 100,000 acres for water transfers. From the growers/players in Southern CA area who have been needing water but not getting through the "normal channels" to our local area that saw a significant financial gain, this has been largely a win-win for most players. We simply believe that growers wanting to sell water to players in the South or locally, is a good philosophy to support and both sides of the equation are much better off.

From this, we want to turn a bit of angle to the present situation. There continues to be adjustments in the rice and water industry to the above changes. While positive, change is often difficult for some. As our staff has been going to most water districts meetings, we have seen a large discrepancy in how some districts boards, district managers, and even their lawyers are reacting to change, along with questions of why things are being done. We would have to highlight the recent few meetings at GCID, as a prime example. GCID growers have been widely asking why the fee the district is taking from the water sale was \$150 per acre foot, which at the normal 3.3 ac ft conversion is about \$500 per acre. To put this number in perspective, this is much more than most players get for land rent. The flip side to this is those on the East side like Biggs West Gridley were taking \$50 per acre foot for costs and other West Side Districts were \$75/acre foot (like we saw in the 108 meeting we attended). To put in simple terms, **GCID is triple the fee of East side and double that of other district in the same region.** Seeing this, it is easy to see growers in the water sale (or any party) would want to know the why this was done and what was the money going to be used for. This is a logical and a professional concern any business person would ask. The districts are the administrator of the grower rights and districts boards are elected officials serving their grower constituents (and following Brown Act procedures). The answer up to this point was a bit of an odd twist with board saying, in open public meeting, they are the ones who have the water rights. One player even told us after the meeting they could take ALL of the money from the land owners in the transfer if they deemed fit. This thought alone should send red flags, as it questions landowner rights / values. Although repeatedly asked by growers, the answer of where the money (over \$3 million dollars) would be used for has also not been answered, other than a "it will be used on what it will be used on," quote. For a second, that almost sounded like we were talking about Congress. Obviously, this has heightened the emotion on the grower level and emotion can be a hindrance when making logical decisions. Like many things, good communication often stops issues and we are firm believers in the truth being talked about openly and something we expect from elected officials. With the water sales having such a positive effect on those selling water and also those that have chosen to grow rice, these are questions that need answering.

In the end, there is a secret that people have held in this water system. That is many big needs are not being met and there are those that clearly want to restrict trade to those player that are not getting water. This was highlighted by a water district manager telling us recently that he and his board would have to be leave **before any grower to grower transactions would be allowed**. As transfers have helped us all so much, one only has to ask why this would be? As we want to help the industry facilitate transfers, with it being an obvious benefit, this is a major concern for future direction.

KEY UPDATES: As CA Drought Loom, production unknown with growers taking water sales and insurance!

As stated in the last F&T report, USDA shows CA acres at lowest point since 1993, at just 450,000 acres:

USDA estimated that California acres would be just 450,000, which would be the lowest acres since 1993 (or rather the lowest in 21 years) and this seems to be the best case scenario, which we will discuss below. Since this estimate came out in the March 31st prospective plantings report, USDA followed it up with the first estimate of the crop in the May WASDE report. Below is this USDA report that shows what this means to the CA and U.S. medium grain market with their estimated acres.

(Rough Equivalent million cwt)										
	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14 Est		2014/15 Proj.	
							APR	MAY	APR	MAY
Area Planted (mil. ac.)	0.70	0.63	0.84	0.80	0.88	-	-	-	-	-
Area Harvested (mil. ac.)	0.70	0.63	0.84	0.79	0.88	0.70	0.7	0.7	-	-
Yield (pounds/acre)	7,924	8,063	8,010	7,580	7,812	7,912	8,272.0	8,272.0	-	-
Production (mil. cwt)	55.2	50.5	67.1	59.8	68.6	55.4	58.0	58.0	NA	52.0
Beginning Stocks	10.0	9.1	8.0	12.0	10.1	14.7	12.2	12.2	NA	9.7
Imports	6.5	5.6	2.3	3.5	3.0	2.1	3.5	3.5	NA	3.0
Total Supply	70.8	61.9	78.6	73.1	81.7	72.2	73.7	73.7	NA	64.7
Exports	25.7	26.9	34.0	34.6	34.2	31.0	32.0	31.0	NA	30.0
Domestic Use	36.1	27.0	32.5	28.3	32.8	29.0	33.0	33.0	NA	27.0
Ending Stocks	9.1	8.0	12.0	10.1	14.7	12.2	8.7	9.7	NA	7.7

To make the numbers work (or rather the Magic Pen math), USDA dropped domestic use by 5 million cwts and exports by 1 million cwts. The issue here is that first, the CA situation is worst hit and so the numbers do not clearly show the situation as even here the ending stocks are one of the lowest on record for the overall medium grain complex. The simple summary is that you would have one of the lowest crops in California (lowest since 1993) and overall it would be rather tight. The offset of this is that there is a rebound in the Southern long and medium grain (probably more like 250,000 acres versus the 225k USDA estimated), but a question of how close the California premium Calrose (who won the “Best Rice in the World” award at the World Rice Conference this year) compares to the rest of the complex. Our analysts continue to see Calrose more like Basmati or Fragrant rice, and therefore there will be higher demand for this premium product. It really could be a tale of two totally different products, like we are seeing in Asian and other markets.

The secondary question is with no real price action in the last 3 months, as players have waited to see what happens in the production game; what will the planted acres be? The general guess has been that with reduction in water allocations and water sales, planted acres will be around 400,000 acres. The issue of the variability in water that is going to push some players out of production and also have them take the preventative planting insurance. This makes us really wonder if even 400,000 acres is too large a number for the CA estimate. A 30% reduction would be 385,000 acres, which seems about right; although in about 3-4 weeks the reality will be fully known, rather than speculating. This would mean a production of about 31-33 million cwts from California (obviously this will depend on yield) or a drop of about 12-14 million cwts from the normal California crop. How will this demand be rationed is not so clear, as this would be the smallest crop we have seen. In addition to this, there is also the question of what will year end stocks be as the players work to try to build back some inventory in for the 2015/16 season. We also continue to hear about problems in the Middle East rice crops which could complicate the equation, although we expect that much of the Southern material will find its way to that region. To look further ahead, there are other questions like pricing for next year, what happens as we start to deplete our reservoirs, will all promised water allocations be delivered, what happens to the situation next year as the reservoirs are going to be depleted, and much, much more. So, there are as many questions as answers today and yet this lack of clarity is greatly affecting things...



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- Politics regarding Farm Bill & Global Trade Agreements
- Water as a Commodity
- Investment Opportunity & Finance
- Major Rice Trends
- Weather Regarding Market Direction & its Effects on Crops
- America's Rice compared to Asia—Quality and Price



Mark your calendar now
Additional details coming soon!

For Exhibitor/Sponsorship opportunities: info@trtamericas.com

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