

THE FARM & TRADE REPORT

August 05, 2014

#372-257

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



Jeremy.Zwinger@FarmAndTrade.com

Phone: (530) 345-4140

Fax: (530) 345-4747

www.FarmAndTrade.com

Pat.Daddow@FarmAndTrade.com

Mark.Chesini@FarmAndTrade.com

Peggy.Hutsell@FarmAndTrade.com

9287 Midway, Suite 2B, Durham CA 95938



Quote of the Week: Galatians 6:9 "Let us not lose heart in doing good, for in due time we will reap if we do not grow weary."

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 – WED. August 13th, 2014 – Colusa Golf Course – 2224 HWY 20, Colusa CA at 11:30am – Pizza Lunch Served – No buyers or buyer representative please

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

SELLER INDICATION: \$22.00 - \$50.00/cwt over loan Indication: ▲▲— UP/UP/FLAT

BUYERS INDICATION: \$17.00 - \$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... crop looks to be very short.
- 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. They are also having their own 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

++ \$123 IN 2013 ↑

Profitable Industry - Better Communities

CALIFORNIA RICE 2013/14




California Rice Exchange

www.calricex.com

KEY UPDATES: Tightest Local & Global Supply in Recent History... Price Looks Up Toward Record!

USDA predicts CA acres at lowest point since 1993, as CA industry calls it tighter to “around” 400,000 !

It has been a bit of time since we talked about the direction of the CA rice industry and supplies have continued to retract from what many had expected. In fact, the CA acres are the lowest in recent history (1993 or before) and the drought is having dramatic effects on the industry. There are also fears that there will not be enough rice to mill and market from the 2015 crop, unless major rains fill the reservoirs. Reports from the Southern U.S. rice states indicate that medium grain acres are only about 235,000, which is well below most estimates. **Several players indicate that with some of the global issues occurring (Australia, Turkey and others) this is one of the tightest supplies for the overall global Japonica market ever seen.** Taken all together, the question is not if the market is tight, but how exceptionally tight the market really is, along with how players in CA will plan for probable supply shortfalls in 2015 and potentially 2016. There have been players that are trying to talk down price potential, which could mean they are still short old crop (data indicates someone is short) or just trying to buy in before true price potential is known. We also have some real concern that planted acres and harvested acres will be different, especially as several growers are reporting to have water shut off on already planted fields. Clearly, fundamentals are strongly indicating prices should push towards or over the record levels we saw in 2008. Even at these levels, one could say prices are undervalued as buyers who are first in will get the best deal. With water sales pushing to the \$30/cwt over level, the bar has been set very, very high.

To show little math: To start, the lateness of the planted crop and the over 40 million cwts used by May 1 are indicating basically no real carry in as we move to new crop. This is a bit unexpected and a scary reality. The 400,000 acres that the CA industry is using as the crop estimate would roughly equal about 32 million cwts. **If you take the normal or even rationed MA business away from this you are left with only 14-15 million cwts out of CA for every other export market and ALL domestic sales.** This is how crazy tight the industry is and generally this is not understood on many international or domestic levels. Add this to the point that there is massive uncertainty what the crop in 2015/16 will be, as water is very much unknown; you have a summary of what California will go through. It is clear that the reservoirs will be nearly, if not empty towards the end of the rice growing season (see graphs on next page). This puts the excessive pressure on rain to refill our reservoirs. Like happened to the Australians in 2008 (NO crop), you have major issues when your reservoirs are emptied and it takes many years to fully come back. The recovery could take a bit of time and be a true adjustment.

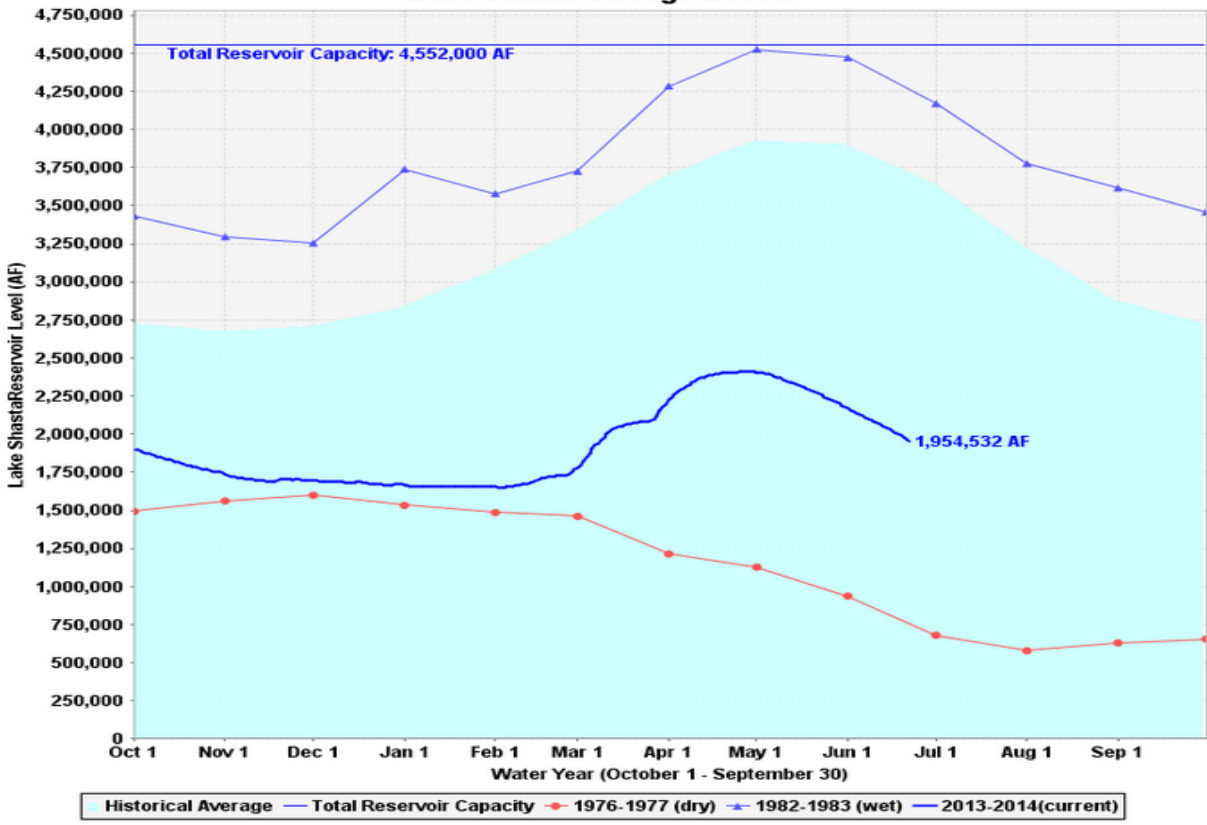
Calrose Is A Premium Variety: For a long time, many players looked at the CA industry more like a commodity rather than the premium product it is. As was shown this year when California Calrose won the “**World’s Best Rice**” at the World Rice Conference, beating out many other global premium rice varieties. This includes the basmati market, which is selling from \$1,300 to \$1,600 per ton depending on purity and this compares to the roughly \$400 for normal Indica / long grain type varieties (1/3 value). The basmati market also trades about 5 million tons per year, which is double the volume of Japonica exported. Moving to the next logical step and looking at the prices needed to decrease demand; this is where many get misaligned on the idea of price elasticity. When you have a premium product (whether real-estate or rice), you have very little change in demand when price moves and customers often continue to buy at much higher prices than is expected. In fact, you have a very tough time rationing more than 7%-10% of demand as economics shows that price is then not an effective tool in decreasing demand. Timing of purchase becomes the key variable, which makes the dynamic fascinating as the domestic market often gets shorted with export players getting supplies earlier.

Lastly, one could really compare the current year to two different periods. One was in 2007-2008 where price hit the current record and the second in 1993, when prices that year set an earlier record.

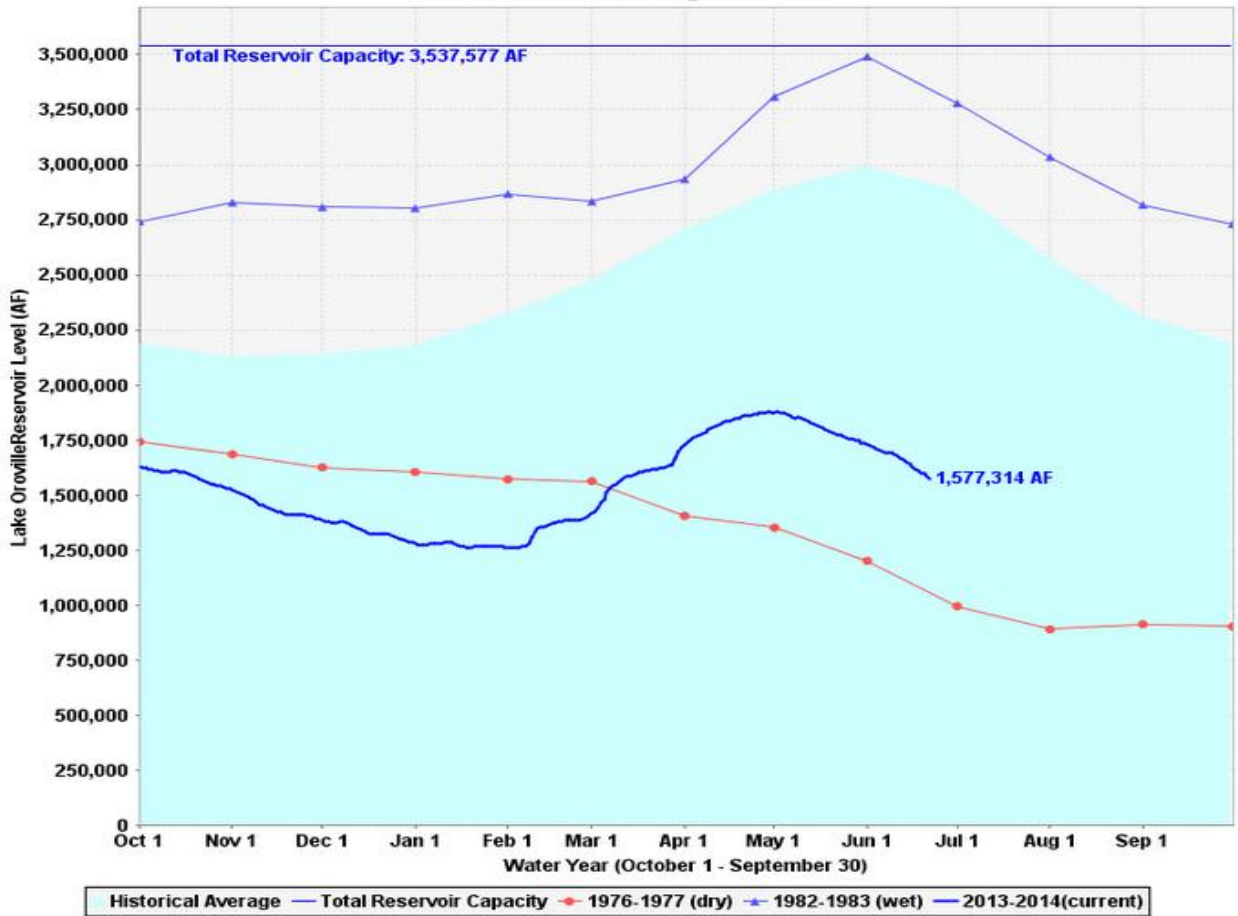
*Obviously demand since 1993 has increased significantly and data is showing that you will need to ration about 20% of all medium grain demand in the coming year.

*** WE had much more paddy supply overall in 2007 entering 2008, when we set record prices, than the current period.**

Lake Shasta Storage Levels



Lake Oroville Storage Levels





Annual TRT

Grain & Rice Americas

20 - 22 Aug. 2014, Panama City, Panama

SPEAKERS AND TOPICS:

Mark Zenuk: Former President ADM Global Oilseed Business Unit
Managing Director of NGP Global Agribusiness Partners:
“Investments in Agriculture and Grains - Why We Invest”

Kevin Kaufman: Former Senior VP for Louis Dreyfus Corporation and
Retired BNSF Railway Group VP for Agricultural Products:
“Developments in World Logistics Impacting Grain/Rice Trade”

Dr. Bill Wilson: Distinguished Professor, North Dakota State University:
“Making Good Risk Decisions in Volatile Market and Weather Times”

Dr. S. Elwynn Taylor: Economist / Climatology, Iowa State University:
“El Nino in 2014 and The Global Grain Market”

Eugene Massa: Former Mill Owner / Attorney, GM of Biggs-West Gridley,
Water District CA, U.S.:
“Water - The Next Gold Rush & Effects on Ag”

Panama Canal Authority (Keynote):
“Panama Canal Expansion & Future Effects on Commodities”

Mike Krueger: Owner/President Money Farm, Global Market Analyst:
“Commodity Futures: How To Manage This Wild Market Ride”

V. Subramanian: Vice President, The Rice Trader, Singapore:
“Rice Price and Key Determinant to Future Trends in Trade”

Jeremy Zwinger: President and CEO, The Rice Trader/ Farm & Trade, U.S.:
“Global Market Outlook- Concerns and Where Are The Hot Markets”

Register Now: www.trtamericas.com

info@trtamericas.com