

THE FARM & TRADE REPORT

November 12, 2014

#372-260

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



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Quote of the Week: 2 Thessalonians 1:3, "We ought always to give thanks to God for you, brethren, as is only fitting, because your faith is greatly enlarged, and the love of each one of you toward one another grows ever greater; and the love all of you have for one another is increasing."

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. December 17th, 2014 – Farm & Trade – 9287 Midway, Suite 2B, Durham CA at 11:30am – BBQ 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: \$20.00 - \$50.00/cwt over loan Indication: ▲▲— UP/UP/FLAT

BUYERS INDICATION: \$19.00 - \$21.00/cwt over loan Indication: ▲▲— UP/UP/FLAT

KNOWN MARKET TRADES: \$20.00 - \$21.00/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. Premium markets take notice!
- California rice acres very short – smallest crop since 1992/93 – Prior to Japan MA markets opening.
- Farm and Trade / CRE Trading Floor **BREAKS 2 million** cwt setting record... Prices look upwards
- We just finished helping facilitate the first water trades for 2015 at \$600 per acre, +\$1800 per acre!
- Worldwide medium grain production down +1 MMT – California and Australia down +25% this year.
- The 2015/16 market is big question as California, Australia, Turkey and others stay under drought watch.
- Extreme drought continues in California. Water supply for agriculture in 2015 is very, very questionable.
- AgriFin IS NOW PAYING **\$11/CWT OVER** LOAN UPFRONT; grower retains control of selling!



KEY UPDATES: 2015 WATER SALES AT \$600 AF, +\$1800/ACRE ++\$30 / CWT OVER!!!

There are many CRITICAL things happening in the California market and let us get right into discussing them.

California Water: The first and most interesting development on the water front is a very early **\$600 per acre foot water sale** our group was involved helping to facilitate. If you compute this back to per acre return and use the 3.3 per acre foot rule, this is \$1960 per acre and with the water districts taking the expected .3 for management, it equates to \$1800 per acre with no production risk to the grower. While the computation varies based on a producers cost structure, this is well **over ++\$30/cwt over loan** and significantly beats record rice industry returns. This is a record pricing for water in the North Valley and an indication of the tight water times the drought has brought.

One has to remember that these water sales only occur if the market is at 100% water allocation and therefore this is a nice balance between hoping there is water, while yet protecting local production and economies. Frankly, those who honestly analyzed the numbers from last year would show a massive gain to the local economy based on water sales occurring and this is one of the key reason we support this activity. We encourage all growers to have their water districts contact us, as we believe this is very positive for the industry and encourages California rice to stay the high value industry it is. We still have some volumes to book at this level and believe now is the ideal timing.

Looking at the current hydrology, clearly our California reservoirs are at scary levels with Oroville having one of the lowest storage in history at just above 910,000 acre feet (compared to a normal of 2,131,256 AF on this date). This is just 26% of normal and it will take some extremely intense rains, probably over several years, for the California water situation to get back to comfortable levels. This is scary scenario and talks of 50% rice production levels are rather rampant. There is even, hard to believe, talk of 0% water allocation for Ag, which is more an indication of the fear of a dry year and inexperience for all players in this dry of situation. While only God controls the weather, the lack of supply risk here is immense and clearly not be managed by some. Supply risk is truly exceptional...

The Tale of Two Markets: Premium Vs Low Quality: The industry leadership has done an excellent job in California on keeping and developing quality, which should be greatly commended. The developments happening in the South show much the opposite direction. On one end you have a market that is high quality (Calrose) with many generations of self-funding research and on the other end you have a market that has taken the lower quality, go for yield with poor quality hybrid varieties approach (southern long and medium grain). The Southern U.S. industry, in the face of what leadership should be logically supporting, continues to largely ignore their quality issue with the higher yielding hybrid varieties also bringing high chalk and breakage that is often seen globally in the hybrid markets. While some are surprised that Asia continues to take market share and customers continue to say Asian rice is of better quality along with cheaper price, we have been predicting this scenario for many years. This is an economic problem seen in many markets for many years. Like the California nut industry has well shown us, high value and premium products win the equation. We believe a great thanks is in order to the prior California generation for setting up one of the highest quality seed development programs and most amazing warehouse systems in the world. This is what led to Calrose winning World's Best Rice in 2013, which was an amazing accomplishment.

CA crop And Pricing: Recent USDA Certified acres report (Oct) show that we are following that 25% to 30% reduction expected on the year and we will have an update later this week to our clients when new data comes out. Acres are going to be around 400,000 in the end (lowest since 1993) and we see great difficulty in California maintaining this production in 2015. This is going to be mixture of water sales and/or reductions to water allocations. This and global markets taken together, we continue to see record pricing, as one should expect in this situation.

Australia: Industry players are still calling this year's crop in Australia at 840 TMT and the next crop harvested in May of 2015 at just 650 TMT of paddy. This is VERY supportive for high prices in the premium high end Japonica market for Calrose. Interestingly, the acreage has dropped here on water allocations and this alone shows the close similarities of what is happening in California. Clearly, California and Australia dominate the high end exports.

Egypt: This is interesting in that the players who thought there would be no lifting and lifting of export ban were both right. The ban is lifted but at an effective legal price Ex-Alexandria is \$980/ton. With this being much lower quality than the U.S. or Australia, this price will not really work in the market. The high quality (specialty) Japonica rice is and will remain in exceptionally short supply. **We see very strong to record Calrose prices ahead!**

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