

THE FARM & TRADE REPORT

Feb 2, 2015

#372-261

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



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Quote of the Week: Proverbs 11:2-5, "But all things that are exposed are made manifest by the light, for whatever makes manifest is light. Therefore He says: Awake, you who sleep, arise from the dead, and Christ will give you light. See then that you walk circumspectly, not as fools but as wise, redeeming the time, because the days are evil."

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. February 11th, 2015 – Harvest Room – 1475 Tharp Road, Yuba City CA at 11:30am – 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: \$19.00 - \$50.00/cwt over loan Indication: ▲▲— UP/UP/FLAT

BUYERS INDICATION: \$16.00 - \$20.00/cwt over loan Indication: ▲▲— UP/UP/FLAT

KNOWN MARKET TRADES: \$17.00 - \$22.00/cwt over loan Indication: ▲▲— UP/UP/FLAT

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

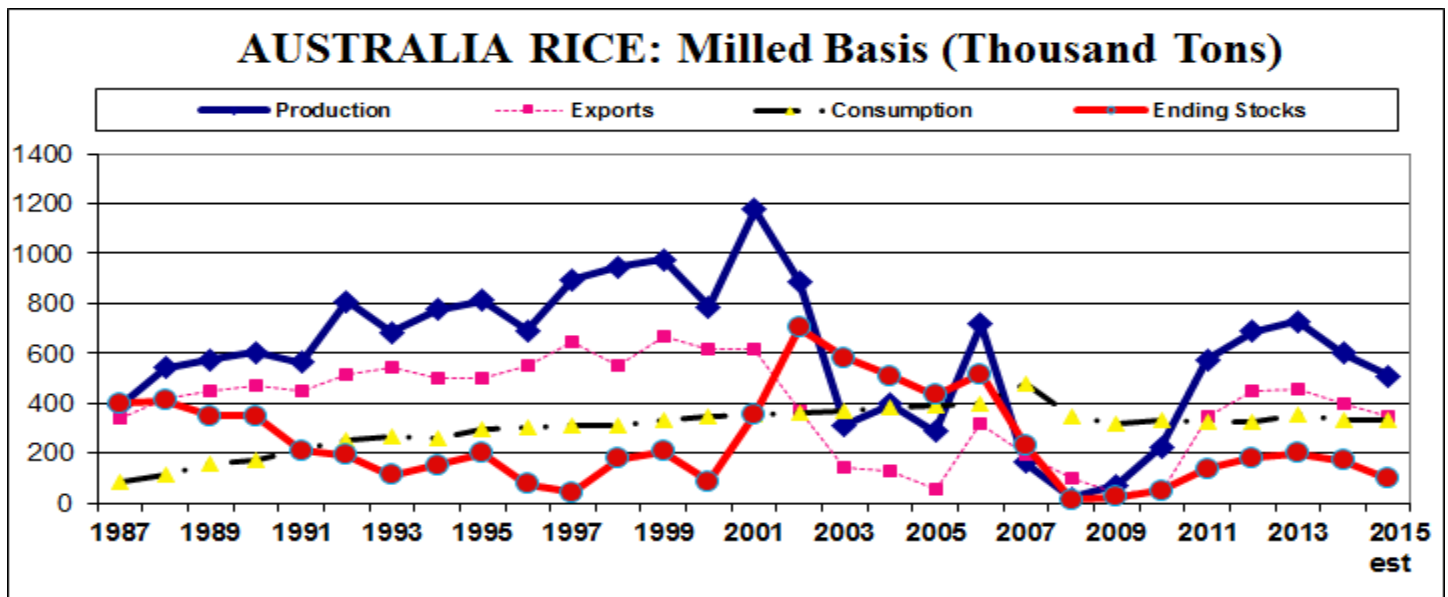
KEY MARKET HIGHLIGHTS: CA ACRES DOWN TOWARDS 400,000, PERHAPS LOWER

- CA rains come, but an inch every other day needed through rainy season to get decent Calrose production
- **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
- Australian 2015 (May harvest) crop estimated down 15% from last year's crop which was down 25%.
- 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: MARKET REMAINS BULLISH AS AUSTRALIA CROP IS OFF BY 15% ON DRY CONDITIONS AND ON CALIFORNIA DROUGHT CONCERNS WITH NO RAIN IN JANUARY!!

AUSTRALIAN CROP UPDATE: As we have been predicting for several months, the crop in Australia was just estimated to be down by another 15% in 2015, after dropping significantly last year. The Australian crop is harvested each year in the Apr-Jun timeframe and with this lower crop, they will be dipping into their strategic stock position just to meet their most critical customer's needs. To put this in perspective, there were several interviews wherein SunRice stated that their core demand is 800-900 TMT of milled rice, while the 2015 production is just over 500 TMT of milled rice. This brings shortfall to at least 300 TMT of milled rice, which is close to equal what Japan buys from California each year. To go more in-depth, the Australians are also facing water shortages and reduced water allocations, much like we have in California. In fact, the weather in Australia has moved into a sphere of concern that matches the 2010 type level, which could mean that a drought conditions could return in this key high end Japonica producer. This is a key fundamental (bullish) supply piece for the industry as we move forward.



CROP UPDATE: The final USDA certified acreage numbers continue to show California is off by about 30% to just below 400,000 acres. This is would take acres to the smallest point since 1993 and would combined with the above graph on Australia to show how tight the high end Japonica market truly is. Frankly, we could be in one of the tightest fundamental situations in recent times which is not being clearly seen in the overall market. Looking to the 2015 crop for California, the rains continue to be a significant factor. As we are writing this report, snowpack is off by a massive level (-75%) to be just 25% of normal, while overall precipitation so far this year is down by 20%. It has been an interesting year, with a below average start, a strong December, zero rains in January, and mixed predictions for Feb to March. Last year there were roughly 22 inches of rain between Feb 1 and April 1 in the key 8 station index, which is what was got the rice to be able to grow the 400,000 acres. It could get very interesting...

SOUTHERN RICE: We just wanted to put another pre-plant warning out to our friends in the South to not grow (either long or short grain rice) unless you have a firm contract from a reliable party with resources. The long grain supply is high with low quality and the medium grain (Jupiter) just does not meet the same requirements as Calrose. One might as well compare Calrose to long grain as to Southern Medium grain, which has much different properties and more comparable to lower quality Egyptian rice. Some players have come and illogically tried to explain that the solution to the Southern quality issue (brought on by high chalk) is to do more medium grain. This is a risky endeavor as the same quality issues seen in long grain are mirrored in the Southern lower quality medium grain. For our buyer or grower friends, we would not speculate here as the markets for this lower quality are not developed. We continue to see California quality product sell out and the South hurting from lack of leadership to defend its quality in markets. It is also important to reiterate that the low quality of the southern rice, brought on by chalkiness largely seen in hybrid varieties, is causing massive issues in loss of U.S. market share, as we and many others long predicted.