

THE FARM & TRADE REPORT

December 16, 2015

#379-279

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

David.Steffenson@FarmAndTrade.com

9287 Midway, Suite 2B, Durham CA 95938



Quote of the Week: Luke 2:11-12 “For unto you is born this day in the City of David a Savior, who is Christ the Lord. And this shall be a sign unto you: Ye shall find the Babe wrapped in swaddling clothes, lying in a manger.”

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 January 13, 2016 - Durham Office

9287 Midway, Durham CA, at 11:30am – Lunch Served – No buyers or buyer representatives

GROWER NOTE: We have interest in 2015/16 Calrose rice at **+** cwt over loan, please call us!

SELLER INDICATION:

\$14.00 - \$50.00/cwt over loan

Indication: ▲▲— UP/UP/FLAT

BUYERS INDICATION:

\$12.00 - \$13.50/cwt over loan

Indication: ▲▲— UP/UP/FLAT

KNOWN MARKET TRADES:

\$12.50 - \$13.50/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: CALIFORNIA CALROSE WINS 2015 WORLD'S BEST RICE!!!

- NorCal Rain only 80% of normal; early dry season causes real concern as key Reservoirs Draining!
- Australian 2016 crop in major question on very low water reserves... looks like 2010 levels or less today.
- China market will open to California in short period... this is a great potential!
- USDA estimates CA acres will be off from last year at about 400,000. Supply roughly 36 million cwts.
- USDA predicts Oct 1 paddy carry in at just 8.1 million cwts, which indicates tighter supply than expected.
- Global rice stocks are estimated at the tightest point since 2007/08, indicating a change in underlying balance.
- Worldwide medium grain production down +1 MMT – California and Australia down +30% this year.



KEY UPDATES: CALIFORNIA AND AUSTRALIA IN DROUGHT... CALROSE WINS AWARD!

BLESSINGS TO YOU ALL: As we write this last F&T of the year, we just wanted to take the time to wish all of you a merry Christmas holiday season and blessed New Year. While last year had many challenges and personal losses for many, there were also so many great blessings to be thankful for. One of these is California winning **World's Best Rice**, which is an amazing honor on many levels for the industry. Our hope is the coming year will bring success on all levels for the millers, growers, marketers, warehouses, and even our own team. May it be a year of great strategy and progress, where the overall industry is united for a better future! May God bless us all, in all we do...

QUICK MARKET UPDATE: In the simplest of terms, the market dynamics can be summarized by sluggish market action against what would seem are some rather intense bullish fundamentals. The question really comes down to; will the coming year bring higher prices on the tightest global stocks since the historic 2007/08 price run and Australia having its 3rd worst crop in recent history (going back many, many decades) at a time that California is also in drought? On the other hand, will the sluggish market action and reliance on the use of pool rice in the early market keep prices checked for the time being? The market does seem tight, and supply risk appears much higher than is being talked about. Still, as a good friend on the buyer side likes to say, it can be fundamentally bullish to the nth degree, but the market has to care about the risk and see opportunity. Like most things, there are many opinions and time will tell.

1. Australian Supplies: The Australian crop is dismal on low water supplies (enhanced by water trading) and we are really surprised this factor has not gotten more press. Just saying the coming crop is the 3rd lowest in history does not do the situation justice, as you have a real issue of low stocks and California also having major drought issues at the same time for the first time in history. Looking at the situation in the graph below (electronic version), you also have stocks that are much lower than the 2007 crop year and exports in 2016 are expected to drop by off by 60% on the year. It is a mirror of the 2007-2009 extreme situation, but only with less stocks in the country. Does this matter... the answer is very much so. The crop is already locked in at low plantings, but with the caveat that harvest is not until May in Australia so it will take a few months to build up to this issue. It is a very, very important fact to be analytically fair, as high end Japonica exports will basically be left to California in the coming year. If one looked at this alone (in a vacuum), it would indicate record prices, but there are other factors to take into consideration as well.

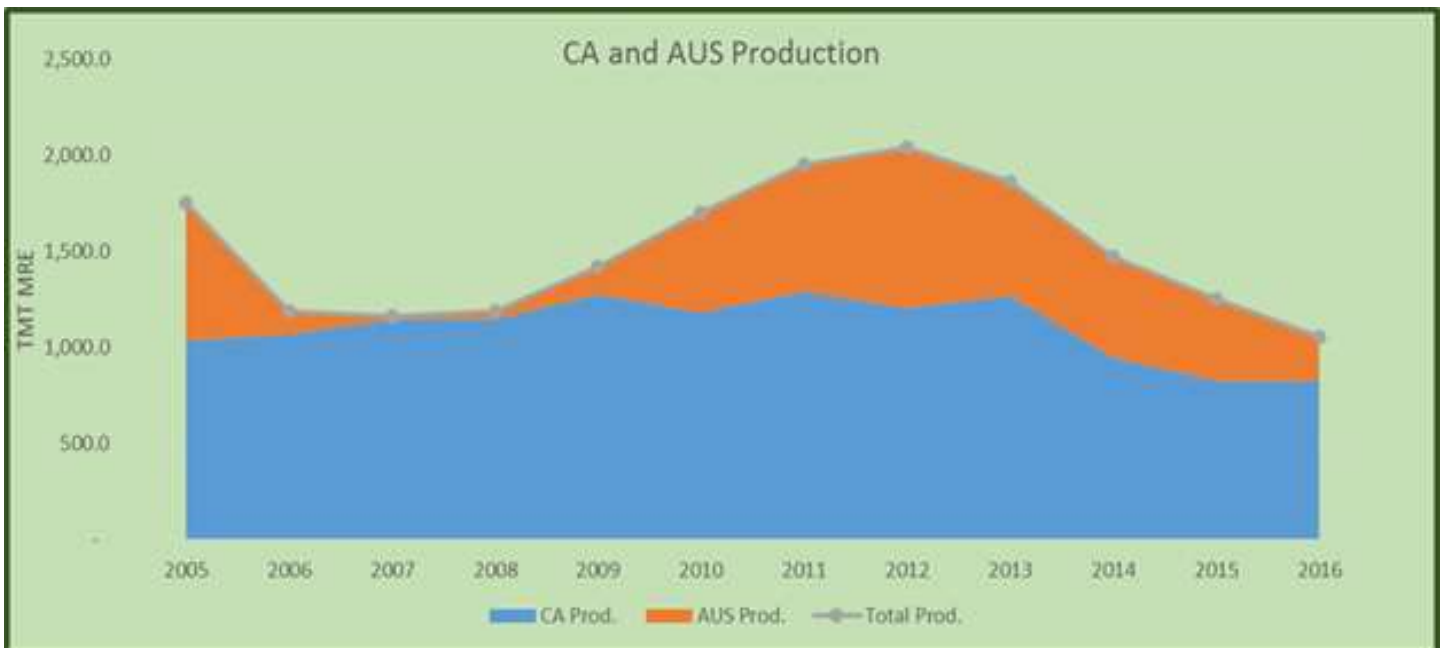
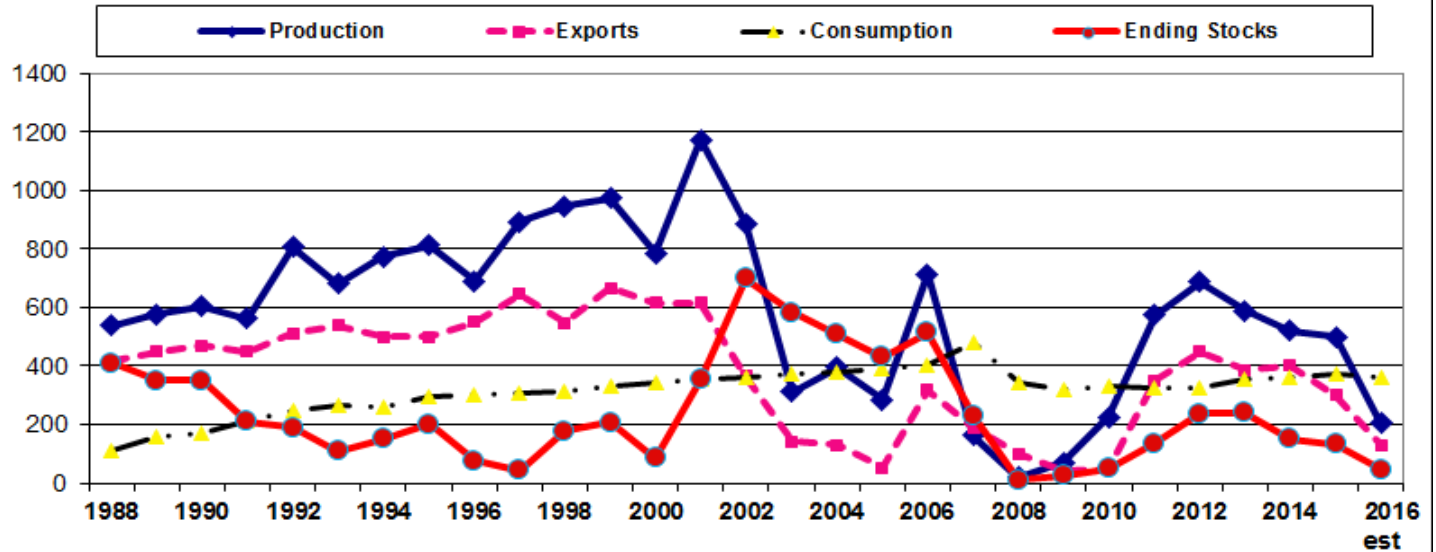
2. Current sales: The general feel in the market is that the market is sluggish. Mills say their schedules are busy with bookings well out, but also have this feeling of needing more business. If you look at USDA's export sales report, medium grain exports are up 57% on the year, brown is up 196%, but paddy sales are off 66%... which probably has us up a total (MRE) of about 30%-40% (see graph). Still, the market is not "feeling this" so it needs to be tempered against the reality of the emotional belief in the market and perhaps even some data lag which is not showing up. There is a really interesting thought here as some surmised that demand is down, but with production off by 25%, you logically need to follow the same retraction to be in balance. The question is if it more or less of a retraction.

3. California Supply: A more interesting question comes as you have decent stock levels but a crop that is well off any normal year and this is after major previous decreases. We see the market struggling against the dichotomy of this thought and we feel there are points on both sides. Buyers want to see the demand and growers see how tight supplies are in the drought. This is keeping price ideas in the market at a standstill as growers want \$14-\$15 and buyers offer around \$12. Buyers are just using pool rice to sell and figuring that it will all work out. The Australian situation and drought complicate this, but again the market has to care about the risk and see opportunity or little change happens. Today, the water situation is more intense than currently talked about in California. Both major northern dams are at the lowest point in recent history with Lake Oroville at just 43% of normal. Rainfall is about 80% of normal so far, which is telling but also too early to tell the full story. Only God knows and controls the weather, so we just need to watch developments.

4. The Dollar: It is causing a few issues on sales on valuation. The dynamics are that the dollar should increase on interest rate increases, but we feel the debt load on the dollar will contradict normal theory. A key piece to watch.

5. Watch out for El Nino, Global Rice Stocks, and India: Obviously, we are seeing El Nino affect the global food balance and this is mostly seen in rice so far. USDA now has the global stock to use ratio at the lowest since 2006/07 at 18.2%. This is a massive issue as it indicates overall rice supplies are rather tight, but the overall grains are in a bit better shape. Along with this, watch India as they are the largest exporter (about 25% of global rice trade) and the crop is so bad rumors of export bans have been coming out, which is a real possibility over the next few years.

AUSTRALIA RICE: Milled Basis (Thousand Tons)



U.S. RICE DEMAND COUNTER (Exports & Sales)

Dec 04 - Dec 11 2015 (MARKETING YEAR 08/01 -07/31)

(1,000 TONS)	SALES (unshipped)		EXPORTS		TOTAL DEMAND		% Chg	'15/16 CWTs
	2015/16	2014/15	2015/16	2014/15	2015/16	2014/15		
Rough: Long Grain	182.9	199.0	573.5	478.4	756.4	677.4	11.66%	16,675,761
Rough: Medium, Short Grain	0.0	136.2	57.0	29.9	57.0	166.1	-65.68%	1,256,635
Brown: Long Grain	9.4	0.1	5.7	4.6	15.1	4.7	221.28%	332,898
Brown: Medium, Short Grain	14.3	3.1	29.5	11.7	43.8	14.8	195.95%	965,624
Milled: Long Grain	105.5	213.5	354.2	276.3	459.7	489.8	-6.15%	10,134,647
Milled: Medium, Short Grain	169.8	113.6	250.0	153.7	419.8	267.3	57.05%	9,255,003
TOTAL	481.9	665.5	1,269.9	954.6	1,751.8	1,620.1	8.13%	38,620,568
	-27.59%		33.03%		8.13%			