

THE FARM & TRADE REPORT

March 2, 2016

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



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Quote of the Week: Jeremiah 29:11: “For I know the plans I have for you,” declares the LORD, “plans to prosper you and not to harm you, plans to give you hope and a future.”

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 April 6, 2016 – F&T Durham Office

9287 Midway, Durham CA, at **11:30 a.m.** – 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: \$12.00 - \$50.00/cwt over loan Indication: ▲▲— UP/UP/FLAT

BUYERS INDICATION: \$11.00 - \$12.00/cwt over loan Indication: ▲▲— UP/UP/FLAT

KNOWN MARKET TRADES: \$11.50 - \$17.00/cwt over loan Indication: ▲▲— UP/UP/FLAT

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

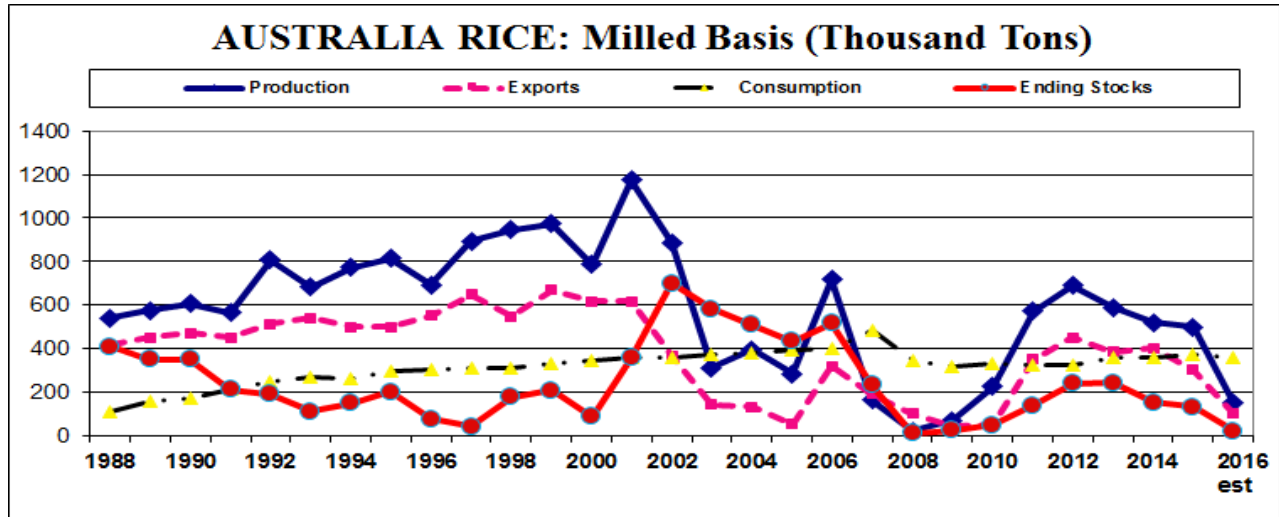
KEY MARKET HIGHLIGHTS: CALIFORNIA CALROSE WINS 2015 WORLD'S BEST RICE!!!

- NorCal Rain only 100% of normal; Water Sales at \$550/per acre-foot will pressure market.
- Australian 2016 crop in major question on very low water reserves... Multi-year issue with only 200 TMT.
- 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 Dec 1 California rice paddy stocks at 38.3 million cwts, the lowest since 2008.
- 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.
- Planting indications for South Medium Grain (really a short long grain) are for major decreases in 2016.
- AgriFin IS NOW PAYING **\$7.25/CWT OVER** LOAN UPFRONT; grower retains control of selling!



KEY UPDATES: GLOBAL MG SUPPLIES VERY TIGHT, AS MARKET RELAXES...

QUICK MARKET UPDATE: In 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 is if the coming year brings higher prices on the tightest global stocks since the historic 2007/08 price run as Australia is having its 3rd worst crop in recent history (going back many, many decades) and at a time that California is still in a questionable weather pattern, with early water sales numbers at \$550 per ac ft. (\$1,650 per acre to the grower). The lack of water in Australia indicates another several year problem and without major stocks like in 2006, our perception is there is a massive short in the market, whether parties want to admit this or not is another story. China opening up is also an interesting sideline. 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 some like 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 key topic in everyone's mind should be the major issue brewing in Australia and I am not sure one could make an argument of any factor coming close to this event. With this in mind, 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 above, 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 and a frightening long term outlook. 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 Apr-May in Australia so full reality will take time to set in. 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. **AMAZINGLY**, either the Australians will continue to cover in California in a quiet fashion, like has been occurring, or at some point the Californian market will realize there are markets to gain on Australian weakness, especially at these current prices. This is an opportunity moment for all...

2. California Supply & Direction: A more interesting question comes as Dec 1 stock levels were the lowest since 2008 at 38.3 million cwts. With known usage to Mar 1, you are probably sitting at a rather tight 22 million cwts left in California. The reality of tighter supplies is elusive and for many players at this time. Looking to new crop, things are not clear as you are having water sales indicated at \$550 per acre foot (\$1,650 per acre to the grower) and in the current environment, you are going to see massive numbers of growers wanting to sell with a complete attitude shift from last year. In fact, with current rice prices well below the breakeven price for the average grower, you are going to see massive grower pressure to increase the amount a district can sell, as they are going to be put to a decision of selling water or being forced to grow at a loss with bankers telling many they will not get funding without major change. This is a very volatile situation and what will happen is not exactly clear. Growers also cannot hold forever and buyers are using pool rice to try to wait out offering. This could be detrimental as the long term core of the industry is being massively hurt and it is becoming more difficult to see how the California industry recovers in the short run.

Australia – Water Storage and Supply 29 Feb 2016

Australia

