

THE FARM & TRADE REPORT

November 18, 2015

#379-278

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



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Quote of the Week: Philippians 4:8. "Finally, brethren, whatsoever things are true, whatsoever things are honest, whatsoever things are just, whatsoever things are pure, whatsoever things are lovely, whatsoever things are of good report, and if there be any virtue and if there be any praise, think on these things."

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 December 16, 2015 - 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:

\$15.00 - \$50.00/cwt over loan

Indication: ▲▲— UP/UP/FLAT

BUYERS INDICATION:

\$14.00 - \$16.00/cwt over loan

Indication: ▲▲— UP/UP/FLAT

KNOWN MARKET TRADES:

\$14.50 - \$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 is only 2/3 of normal, as early dry season causes real concern as key Reservoirs Draining!
- Australian 2016 crop is a 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 8.3 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.
- AgriFin IS NOW PAYING **\$7.25/CWT OVER** LOAN UPFRONT; grower retains control of selling!



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

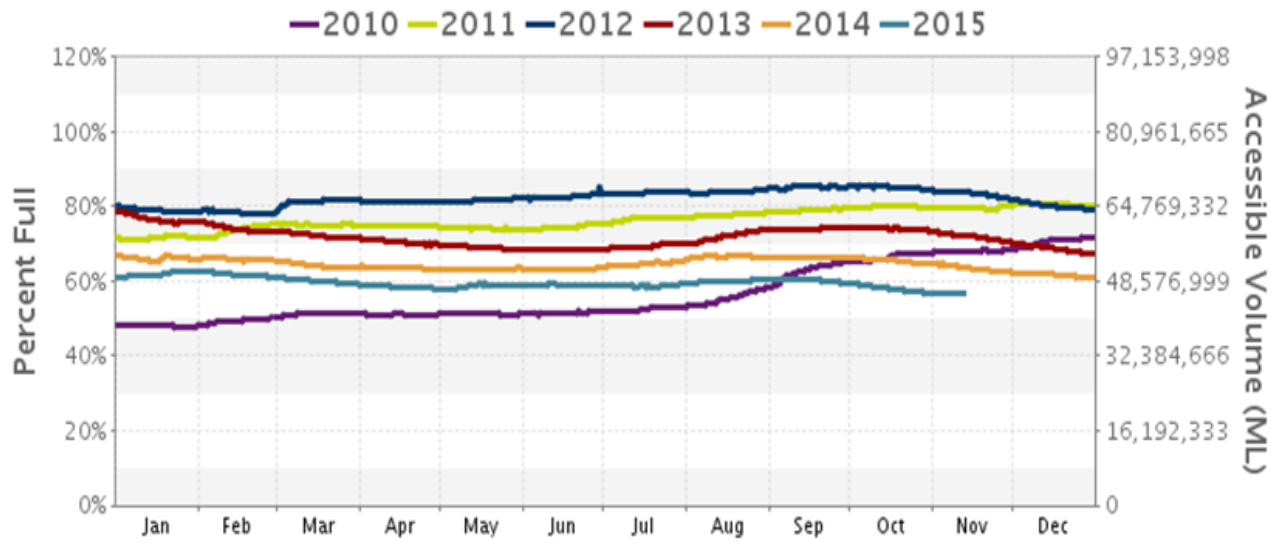
QUICK MARKET UPDATE: As is always the case, we continue to believe in the great value our California product brings to the table and we have a bright future, even in the midst of the challenges the drought brings to the forefront. On this key note, we are just back from the World Rice Conference, where over 500 global trade professionals gathered to talk about the market and do a bit of networking. The overall feel was that the global rice market should increase in value over the coming months and the 7-8 year down cycle has probably hit bottom. To be fair, the U.S. dollar is a concern for many, as it is effecting the overall posted values and the general belief that the dollar strength should ease in the coming period, although there are some that see this strength continuing. As we stated previously, California's Calrose took home the 2015 World's Best Rice award, which is a great honor, especially as it is the first time in history the award was not held in Asia. The success in California appears to be manifold including (1) 101 years of self-funded / taxed variety research to improve quality; (2) California has a very high end milling industry; (3) the growers in the state are highly mechanized and very efficient in their operations; (4) the warehouse system in California is one of the most professional and standardized globally. With this in mind, the award was earned by multi-generational diligent efforts on many industry levels and we give our congratulations to California for this great honor.

With prices of like qualities of higher end rice at much higher prices, it indicates that California Calrose is probably significantly undervalued at present, although being undervalued does not necessarily mean that prices will run immediately. This is made even more the case, as Australia is again experiencing a major drought, taking supplies massively down in the crop just being planted. The Australian water situation has turned so dramatic that reservoirs are at levels seen in 2009, when only 90 TMT were produced. We expect the crop to be significantly down on the year (more towards 2010 production) and exports to drop down by about half, as the small crop and lower strategic stocks come together to cause issues. It strikes us that this is probably a bigger issue than is getting press at the current moment and made worse by the global stocks situation falling to levels not seen since 2007/08 in the coming marketing year. The California weather is also a concern as we are just 66% of normal rainfall with Nov-Dec looking rather dry at this point. After several years of dryness and key reservoirs sitting close to dead pool levels, the risk is high as there are going to be many demands for the water in the coming period.

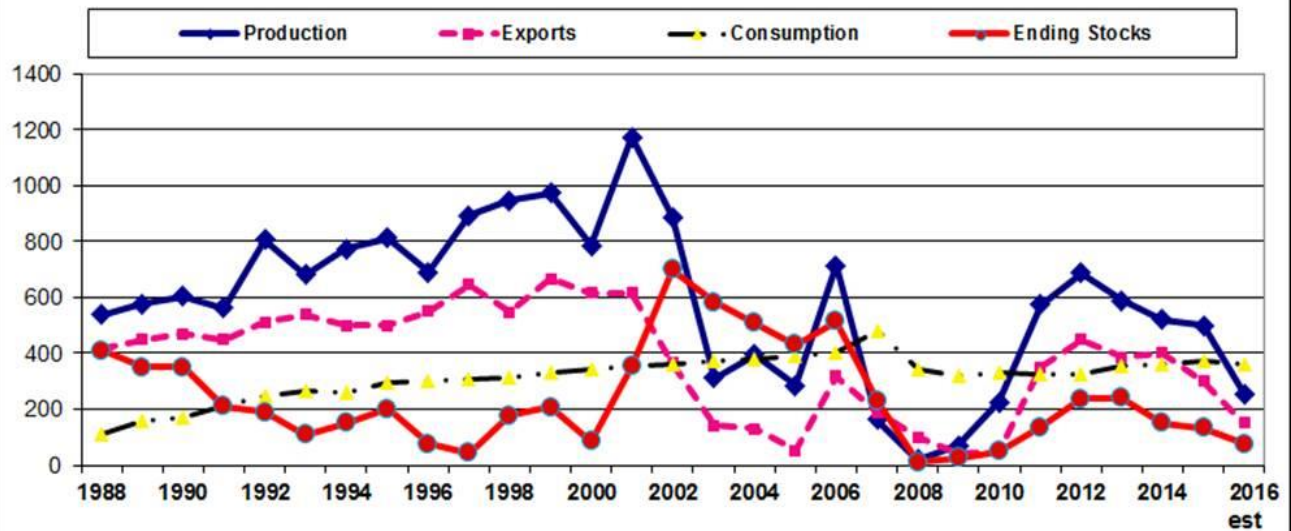
In fact, this is the first time in history both **Australia and California are experiencing drought conditions at the same time**, which is really an amazing statement. One could have just stated this point in most years and the direction would have been very clear. However, the reality is that the last Japan tender was bid lower, as buyers use pool rice with low, \$12 guarantees. So while the fundamentals point to significantly higher prices, the ability to use pool rice to offer has kept the normal market check and balance equation from being used. It is this reason why we are rather against this type of marketing, as it hurts both the grower and in time, hurts the industry / marketer. Even saying this, market misalignments can only occur in the short run, as demand and better returns from other sources (water, nuts, or anything else) will shift the equation. You will see a change and the question is more of when, than if. When this market moves, it is likely going to move very quickly, and volatility will probably be the name of the game. One could make the case that this is a weather driven market, but the rains today will not really have an effect on supply until October of 2016, as the Australian weather and water allocations are already known factors. As stated, the fundamentals are tight, but the market is not focused on fundamentals at this point. Those who sell early/cheaply could find they have undervalued their inventory significantly, as some did last year. Below are some key things to consider:

- Rough rice stocks as of Oct. 1, 2015 were 8.31 million cwt, which includes some new crop harvest. This is technically up 10% from the total on Oct. 1, 2014 which was 7.54 cwt. However, the data shows that unshipped sales as of Oct 2 of this year were 185.6 TMT of milled medium grain rice for the U.S. and last year as of Oct 4, 2014, unshipped sales were 83.2 TMT, almost all of which represent sales to Japan. The difference between this year's unshipped sales versus last year at the start of Oct represents approximately 3.75 million cwt, meaning there was much less unsold rice available in the rough rice stocks on Oct 1 this year as compared to last year. Total usage was about 39 million cwts from Sep to Sep, with only a 37 million cwts crop, overall supplies also logically decreased.
- Additionally, global ending stocks for 2015/16 are projected as the lowest since 2007/08, and the stocks to use ratio is 18.7%, the lowest since 2006/07. This should provide support for world rice prices during the current year.
- California and Australia are both in drought for the first time in recent history. This El Nino is one of the strongest recorded. Weather and supply risk remain large, but the market is slow to react and then will be quick to re-correct.

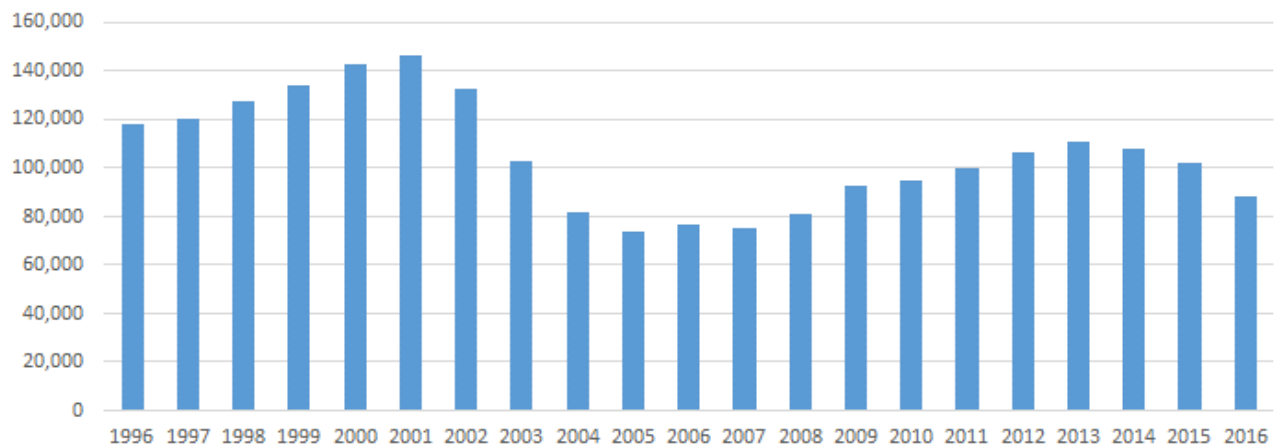
Australia



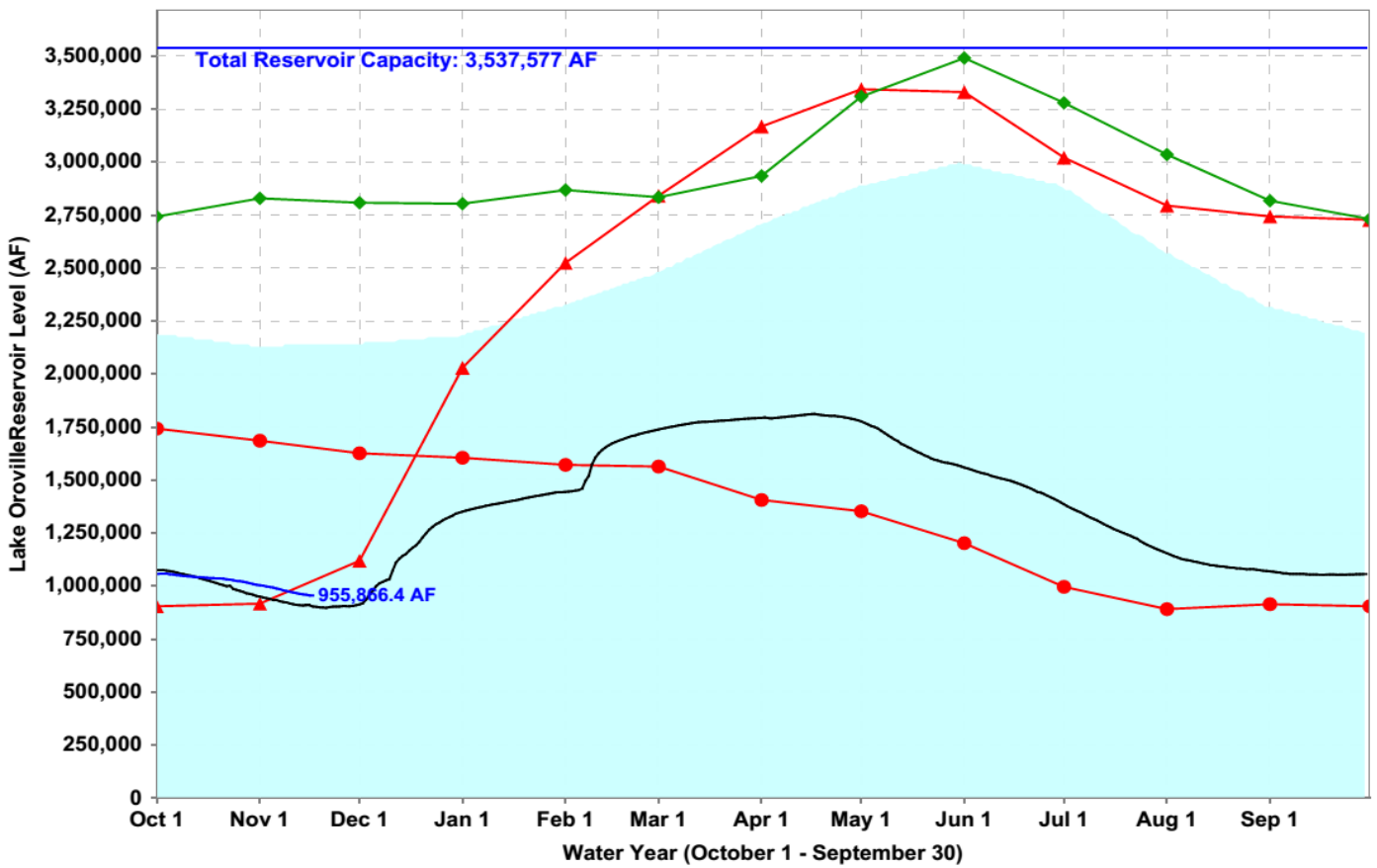
AUSTRALIA RICE: Milled Basis (Thousand Tons)



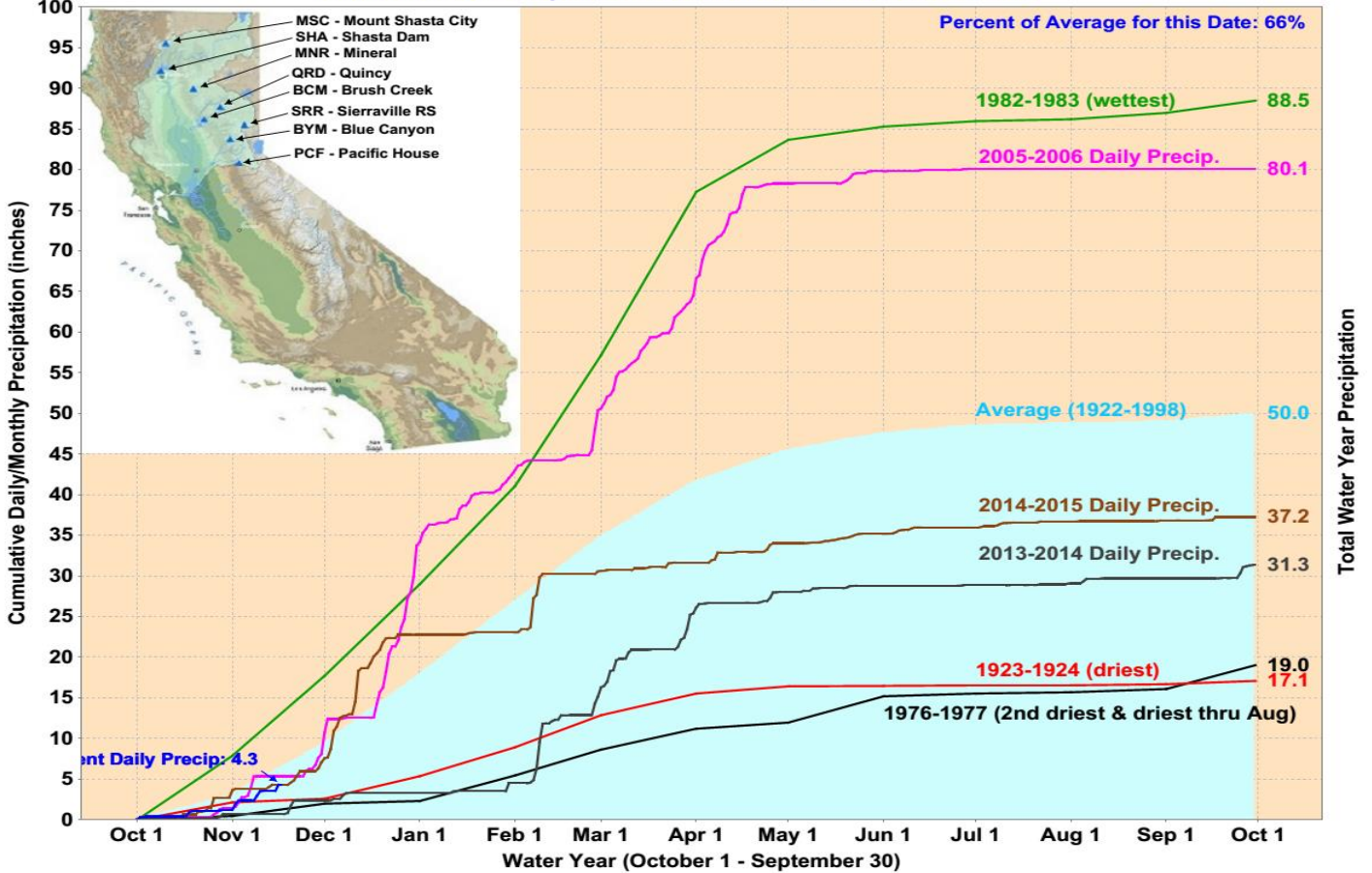
WORLD ENDING STOCKS Rice, Milled (MT)



Lake Oroville Levels: Various Past Water Years and Current Water Year, Ending At Midnight November 17, 2015



Northern Sierra Precipitation: 8-Station Index, November 17, 2015





Above: Top 3 Finalists of World's Best Rice Award. **Below:** World's Best Rice Award.





Above: Greg Van Dyke accepting World's Best Rice Award. **Below:** Jeremy Zwinger, CEO, presenting award.

