

LONDON RICE BROKERS' ASSOCIATION

No. 4855

CIRCULAR

4 St. Georges Yard
Farnham
Surrey, GU9 7LW

Secretary: A Richner
Treasurer: M French

Tel: 01252 741400
Fax: 01252 727677

Established 1870

E-mail: lrba@lrba.co.uk
Website: www.lrba.co.uk

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The global rice market has seen unprecedented price increases in recent months with governments in many countries becoming more and more alarmed for either or both of the following reasons. The first being concerns about food security and the second being the inflationary pressure of higher food prices where rice is a staple. Many have reacted to try and take control of the situation.

It is impossible to pinpoint any one reason for the runaway market. It seems to be a combination of a large number of factors, starting with production lower in some key areas triggering hoarding all through the supply chain. Shortage of supply then increased demand as buyers sought to ensure supply. Once this starts in one country it takes no time to spread throughout other supplying nations. The whole situation has not been helped by the buying strategy of some countries, in particular the Philippines. There are signs of a change in that area and this may bring the international long grain market to a crossroads. With the expectation that the Philippines will withdraw from the international commercial trade, will other buyers step up to the mark and pay the high prices currently prevailing? If a suitable candidate does appear, we can expect the market to continue in a similar vein to that which we have seen over the past few months but if not then it will not be long before those in the supply chain holding stocks will become nervous and look more aggressively for buyers. It is still extremely difficult to find offers of rice, even for small quantities. There is no doubt that in many countries there is plenty of rice, the problem is finding someone who is willing to sell the stocks they have when replacement is so difficult.

BANGLADESH:-

After lengthy negotiations, the government of Bangladesh finally reached an agreement to purchase 400,000 MTS from India at a price of US\$ 430 PMT, quality and terms are unknown. The first shipments totalling 100,000 MTS are to be made as quickly as possible and a Letter of Credit is already in place. The balance will be shipped over the following two months, all supplied by four Indian state-owned companies.

CHINA:-

Exports from China for the first quarter of the year total 600,483 MTS, Africa and Papua New Guinea being the most important recipients. March exports were substantial at 255,400 MTS, probably as buyers rushed to lift cargoes in expectation of export restrictions. Increasing prices are a slight worry but given the country reportedly has stockpiles of 40 to 50 million MTS, the government of China claims to have little concern about shortages given current stocks.

EGYPT:-

Since the ban on 1st April, the price of paddy has come down by over US\$100 PMT, bringing down the price of milled rice in the domestic market to a more comfortable level for the government. Paddy traders are still sitting on stocks and supply is tight for mills. There is growing speculation that, in fact, estimates of production from last year's crop may have been calculated on rather over-ambitious field yield estimates.

In the middle of the month, there were rumours that the Egyptian government would allow some concessions to supply Jordan, Syria and Turkey through government-to-government deals. The immediate effect was an increase in the price of paddy. It seems now that the Egyptian President has announced that there will be no government sales as the Egyptian consumer takes first priority.

EUROPE:-

Planting is now well underway throughout most European countries and conditions are favourable. In some areas we would expect to see an increased area planted but seed supply has been an issue. In Southern Spain late rain in the plain has saved the day as water shortage was becoming a real problem.

There has been a fair degree of activity in the last month as buyers have been searching for supply, especially with Egypt out of the market, there have been numerous enquiries from it's traditional buyers. The price of paddy has climbed sharply but buying has continued so stocks are now running low. Mills are busy and it is becoming more and more difficult to find supply.

INDIA:-

During the month, there has been a lot of speculation about government grain stocks, changes in Minimum Export Prices and even a possible lifting of the export ban. One report suggested that government grain stocks are at around 277 million MTS following excellent harvests of both wheat and rice, which is well over the 90 million MTS minimum stock requirement. There are reports that this massive increase in government stocks is causing storage problems. The general impression given is that India could afford to recommence rice exports without any risk to domestic supplies but this action would open the country up to influence from the international market and could result in a significant increase in local prices and unacceptable food inflation.

On 29th April, amongst a package of measures to try to keep food inflation under control, the Indian government announced that it wished to impose an export duty of US\$200 PMT on Basmati rice whilst, at the same time, reducing the Minimum Export Price to US\$1000 PMT. The ban on exports of non-Basmati rice would remain in place. The details of this policy have not yet been published but will surely face significant opposition from exporters of Basmati, who often commit to very long-term contracts. It may also give a major advantage to Pakistan Basmati in the future. We await the detail of this new measure with interest.

During the second part of April, a number of vessels arrived in Kakinada to load rice under various concession agreements, mainly to East and West Africa and it is believed that a number of other governments have approached India for concessions, which are under consideration.

INDONESIA:-

The Deputy Minister for Agriculture this month predicted that production in Indonesia would reach just over 32 million MTS this year, whilst domestic consumption is forecast at 31.45 million MTS. Prices in Indonesia have historically been higher than in most of Asia, due to stringent import tariffs and government subsidies to farmers. However, in the last few months, prices have only increased slightly, certainly much less than in the rest of the region. Concerned that this might spark a wave of exports from the country, the Trade Ministry banned exports of Indonesian rice.

The country's supply situation is best described as precarious. Despite government moves to improve yields by encouraging better crop husbandry, production is still only slightly above domestic requirements and current buffer stocks are below 2 million MTS.

NORTH KOREA:-

Early in the month it was reported that North Korean officials have approached China for the supply of up to 500,000 MTS of rice rather than South Korea because of a breakdown in diplomatic relations. Apparently there has been no response from China, whilst South Korea has said it would ship the usual amounts of rice and fertilizer if asked to do so.

PAKISTAN:-

Once again, Pakistan was successful in selling some quantities in the Philippines tender held on 17th April. A total quantity of 25,000 MTS of 25% broken was offered with the potential for a further 23,873 MTS where Pakistan was mentioned as one of a number of optional origins. Prices ranged from US\$872.50 to US\$1090 PMT (with optional origin the highest offer was at US\$1220 PMT) and, not surprisingly, the news of the awards created a lot of excitement.

During the month there have been various reports threatening government action to ban or restrict exports but nothing came of them until this week. The Rice Exporters Association of Pakistan announced that there would be neither a ban nor a duty on rice exports. However the following Minimum Export Prices will be applied with immediate effect on the following qualities of rice.

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|-----------------------|--------------------|
| 1) Super Basmati rice | US\$ 1,500 PMT FOB |
| 2) Basmati rice | US\$ 1,300 PMT FOB |
| 3) Long Grain rice | US\$ 1,000 PMT FOB |
| 4) Irri-6 rice | US\$ 750 PMT FOB |

Leaving aside the Philippines, the market has been trading at a more reasonable level, with a quantity of 25% sold at about US\$700 PMT FOB vessel, whilst in containers price indications have remained between US\$690 and US\$700 PMT. But there is little activity and containers are in very short supply, as shipments slow to a trickle. Interestingly, we hear reports that the quality of rice is not so good as millers have the upper hand and exporters cannot afford to reject deliveries, which they are lucky to receive. We are concerned this short-term attitude may harm the perception of Pakistan rice in the country's traditional markets and down-value it for the longer term.

The following prices for Pakistan are basis FOB Karachi, in 50 kg polypropylene bags, for May 2008 shipment.

5% broken	N/A	15% broken	N/A
10% broken	N/A	25% broken	US\$ 700 PMT

SOUTH AMERICA:

As in other continents, there have been unprecedented price increases, as demand has moved from Thailand and Vietnam to other origins. The harvest in Argentina yielded well this year and is expected to produce just over 800,000 MTS of milled rice. Domestic demand will take care of about 315,000 MTS with the balance being exported. Given the record high prices, it wouldn't be surprising to see planted area for the next crop increase.

The Brazilian harvest, although slightly late in some regions, is also yielding close to record production. The government of Brazil has, for some time, had the ambition to increase exports and these seem likely to be realised this year, as there has been substantial demand. However, rice is a staple food in Brazil and, as prices have virtually doubled, the government will have to ensure domestic supply is secure. Last week there were rumours that exports would be banned but in fact it seems that the government will only restrict sales to certain areas, specifically requests from some African and Latin American countries.

The harvest in Uruguay started late this year amid fears that the weather could impact on the quality of the crop. These fears seem to have been unfounded as yields and quality have been excellent. Exporters have been slow to offer, as supply in the local market has been difficult. Farmers and millers, seeing prices going up elsewhere in the world, have been reluctant to sell. Prices at the moment seem to be in the US\$900 to US\$1000 PMT for long grain rice in the region.

SRI LANKA:-

With production not living up to expectations in Sri Lanka due to heavy rains in the east and south which destroyed some crop, the government approached a number of countries at the beginning of April in an attempt to purchase 100,000 MTS of rice. It is reported that the government of Myanmar agreed to provide this quantity for prompt shipment in order to help the Sri Lankan government control prices in the local market.

THE PHILIPPINES:-

The results of recent tenders are covered under other country headings. Recent comments from the Agriculture Secretary show that there are signs that the whole process of holding tenders for the country's requirements may be reviewed. There is concern is that the tenders have been driving up international prices. The problem is that at the moment the NFA is governed by procurement rules that do not allow much flexibility. So far 1.5 million MTS has been purchased through tender out of an authorised 2.1 million MTS.

THAILAND:-

Early in April there were many reports suggesting that Thailand may take steps to reduce or even ban exports of rice. These reports were flatly denied by the Ministry of Foreign Trade, who said they were confident that Thailand had ample supplies for both domestic consumption and exports.

The main focus in April was on the Philippines tender, held on the 17th, for 500,000 MTS for May/June shipment. Thailand offered 160,000 MTS of 25% broken plus a further 20,876 MTS as part of the portion with optional origin Thailand/Pakistan/USA. They also offered 35,000 MTS of 5% broken. The full quantity was by far the largest share of the total 323,875 MTS offered. The price range for 25% broken was US\$1060 to US\$1196.92 PMT (with optional origin the highest offer was at US\$1220 PMT). For 5% broken the price was between US\$1109.45 and US\$1175.00 PMT. The Philippines awarded all offers made. Once again, prices rose sharply with the results of this tender and the news that the Philippines will be holding another tender on 5th May, although the terms of this tender are significantly different, requiring a sovereign guarantee to accompany any offers.

Over the past ten days, we have seen a slight increase in availability and easing of prices. We believe this is due to some profit-taking throughout the supply chain. It was noticeable that a number of exporters were a little surprised that their offers were not immediately snapped up by hungry buyers and this helped to inject a little more rationality into the market as it became evident that many destination markets are selling rice at substantial below today's replacement value.

For the first time this year there is a feeling that perhaps the Thai market is running out of steam and that current price levels are unsustainable without future purchases by the Philippines, although this will depend on whether any substantial buyer is found to take over from the Philippines as it is generally thought that Thai rice will not be offered in the next Philippines tender because of the requirement for a sovereign guarantee.

Exports for the month of March 2008 totalled 1,205,448 MTS of which 282,214 MTS were Hom Mali rice and 28,421 MTS were Pathumthani rice. Cumulative exports for the year to date as of the end of March 2008 were of 3,317,792 MTS, of which 885,638 MTS were Hom Mali rice and 78,092 MTS were Pathumthani rice.

Price ideas for Thailand basis FOB in 50 Kg polypropylene bags for May 2008 shipment are:

100% grade B	US\$ 960 PMT	5% broken	US\$ 950 PMT
PB 100%	US\$ 840 PMT	PB 5%	US\$ 835 PMT
PB 10%	US\$ 830 PMT	PB 15%	US\$ 825 PMT
PB 100% Sortexed	US\$1050 PMT	PB 5% Sortexed	N/A
Fragrant 100% new	US\$1180 PMT	Glutinous Sanpathong	US\$ 855 PMT
Fragrant A1 super	US\$ 810 PMT	Glutinous brokens A1 super	US\$ 675 PMT

USA:-

Planting of this year's crop is well underway in the most southerly states, but in Arkansas it is a long way behind as heavy rain has caused severe delays. Barge traffic on the Mississippi has also been disrupted. The long grain market has continued to firm throughout the whole month, driven on by a futures market that set new records on an almost daily basis. Just in the last few days, futures have started to fall but most observers consider this to be a long overdue correction that will not be reflected in the cash market as milled rice prices have not really kept pace with the paddy market, which is still some way below the futures. The most notable sale earlier this month was to the Philippines, in a recent tender for Iraq it is thought that Thai rice was bought in favour of U.S. and South American.

Planting in California is just getting underway and here too the market has seen some fundamental changes. Price briefly lagged behind the long grain market but this month saw a short sharp period of price increases, the ban in Egypt providing a catalyst. Most mills are busy and many suppliers have withdrawn for the time being to consider inventories and potential demand for the rest of the year.

Quotations for May 2008 are as follows:

US long grain 2/4	US\$ 43.00 per 100 lbs FAS Gulf Port
US long grain 5/20	US\$ 42.00 per 100 lbs FAS Gulf Port
Californian medium grain ¼	US\$ 960 PMT FOB container

VIETNAM:-

In the run-up to the 11th March tender for the Philippines, the Vietnamese government stopped the registration of new commercial contracts. This position has not changed and in fact the "ban" has been extended until June. If anything, supplies have become tighter and the government more nervous, this has not been helped by the increasing rate of inflation in the country, largely triggered by increasing food costs. On a number of contracts, it has been made very clear that no extension of shipment will be given and some purchases may be lost if vessels are not placed in time.

Vietnam took part in the Philippines tender on 17th April but, in a more modest way, only offering 80,000 MTS of 25% broken at a price of US\$1200 PMT, leaving the majority of the tender open to other origins. However, this may be because the government is confident that the Philippines will not be negotiating for the balance of their requirements through the outstanding MOU. The most recent tender to be called by the Philippines for 5th May requires a sovereign guarantee from anyone offering and, as such, it is generally believed this will be limited to Vietnam. If this is the case and the bulk of the business does go to Vietnam, we do not expect there to be much rice left for new sales to other destinations for the balance of the crop year.

JACKSON SON & CO (LONDON) LTD
 4 St Georges Yard
 Farnham
 Surrey GU9 7LW
 Tel: +44 1252 741400
 Fax: +44 1252 727677
 E-mail: rice@jackson.co.uk

MARIUS BRUN ET FILS
 3 Rue Yvan Audouard
 Boite Postale 80111
 F-13631 Arles / France
 Tel: +33 (0) 490 963 646
 Fax: +33 (0) 490 935 074
 E-mail: contact@brunrice.com

SCHEPENS & CO SA
 Jan Blockxstraat 1
 B-2018 Antwerp / Belgium
 Tel: +32 3 259 1760
 Fax: +32 3 259 1761
 E-mail: rice@schepens.be
 www.schepens.be

Chairman – J.P. Brun, Marius Brun et fils