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THE RICE TRADER

- RICE MARKET RESEARCH AND ANALYSIS
- RICE INDUSTRY CONFERENCES
- RICE MARKET NETWORKS
- BUSINESS INVESTMENTS THROUGH

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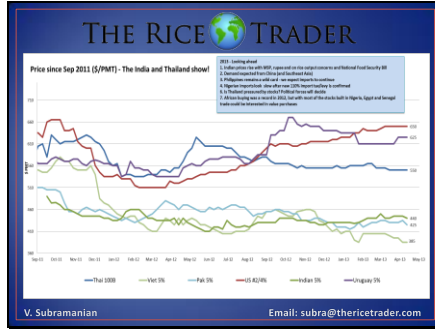
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Is rice a commodity?

- Of estimated 34-36 MMT of world trade:
 - 6 MMT parboiled rice (\$440-600 PMT)
 - 4 MMT basmati (\$700-1600 PMT)
 - 3 MMT Hom Mali and Jasmine Rice (\$500-1170 PMT)
 - 2.5 MMT Japonica trades
 - 2 TMT white broken (\$330-50 PMT)
 - 1 TMT of fragrant broken (\$570-80 PMT)
 - 500 TMT glutinous rice (\$900 PMT)
- And break the rest (14-16 MMT) into 100B, WR 5%, WR 10%, WR 15%, WR 25%, even WR 35% - Dominated by Africa
- Example, Iraq buys 1.2 MMT WR 3%; Indonesia bought 3.1 MMT in 2010/11 of WR 5%, WR 10% and WR 15%; Cuba buys mostly WR 15%; Malaysia mostly WR 5%; while Saudi Arabia buys mostly basmati rice; Japan buys Japonica and 100B

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Looking at prices, it is clear that India, Pakistan, and Vietnam form the lower range of prices, and the competition is mainly felt in the lower-grade markets. Indian prices have risen lately due to supply concerns and a stronger Indian rupee; hence, from a competitive position, Vietnam holds the edge—at least when we compare WR 5% prices among the three origins mentioned. It is important to note that India does not have access to Chinese demand. However, although Indian prices look more uncompetitive even for Africa sales, India is expected to continue to figure in Africa-related markets that have quickly welcomed back India's return to non-basmati rice exports (there is more competition possible with Pakistan as Indian prices look higher). Perhaps, the big concern will come in Aug when India is expected to debate the food security bill, which, together with the monsoon's performance, will drive the sales in the second half of the year.

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INDIA

- Monsoon – currently expected to be normal, some press suggests 110 MMT crop (milled for 2013/14) – we feel it is too early, watch starts in May
- Indian rupee is a major concern and almost the sole price driver for much of 2011 and 2012
- MSP up to 1250 per 100Kg (16% higher), Higher minimum support price = higher prices (or does it?)
- Food Security Bill remains a key focus – nearly 70 MMT to be bought by government and sold at subsidized rates – big question is on efficiency and leakages that could end up allowing India to offer exports at below local MSP based levels. Local market price developments are expected to see a strong political influence on market/export decision
- Food security bill is a factor for 2014, not 2013 – but with Food Corporation of India buying 40 MMT of rice in 2012/13 – leakages could still prove vital to India's competitiveness in global markets.
- **Current competitive advantage – Parboiled rice (PB 5% \$425 PMT) & Broken (from \$315 PMT)**

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THAILAND

- Rice Pledging scheme since Oct 2011; 15000 Baht PMT for white paddy and 20000 Baht PMT for jasmine paddy
- 1.4-1.6 MMT of milled rice stocks and expected to grow to 18-20 paddy if we base on current agreement to buy 7 MMT more in current scheme
- Huge need for G2G sales or a weather shock at a key destination market
- Could government be forced? Real issues, but so far government seems resilient
- Exporter stocks held by Thailand could also be a ceiling for markets if prices rise
- Dependent so far on Nigeria sales (2012), while 2013 sees focus on Iraq, Japan and Korea tenders and some old crop sales to high value markets like Cameroon, Mozambique and Angola
- Border trades involving Cambodia (limited in 2013) and Vietnam (broken are bought to meet milling ratio of scheme).
- **Mush depends on stock releases – supposed to be 500 TMT in April, but no news so far, and up to 2 MMT for 2013 – which is still a pale comparison to 18-20 MMT potentially held at the end of 2013 in stocks.**

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VIETNAM

- High inventory of nearly 1.8 MMT, limited G2G (no Indonesia, less Philippines, no Bangladesh, but new – Haiti, and better Cuban sales)
- Cross Border trades with Cambodia-Thailand and China can impact local prices
- Competition for African and now even Asian markets (Indonesia, Bangladesh, Malaysia and China in particular) from India and Pakistan
- Weak Vietnamese economy implies high cost of carry and a push to sell stocks – less power to hold and can also limit government's ability to protect farmers
- Promise of VND 5000 per Kg for paddy, can be a political motivator
- **POTENTIAL: Huge Gains seen in Jasmine, Glutinous, Fragrant broken have all exceeded in performance**
- **Prices are weak – 3.8 MMT exportable surplus from W-S crop, plus 800 TMT or exportable ending stocks, and June harvests pressure price as commercial buying (Africa) is slow**
- **Sentiment driven, especially at the Very sensitive to news from Indonesia and Philippines (and now China)**

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PAKISTAN

- 2012 - Moves away from West African sales towards more Asian sales
- 2013 - African interest is back as Chinese demand looks to have moved to Vietnam
- Strong sales of low grades (WR 25%, and broken) has left low grade and broken prices up (\$370 PMT for WR 25%) and likely to face competition from Myanmar (WR 25% 345-50 PMT) and Vietnam (WR 5% \$385 PMT)
- Basmati has lost ground to India - most dip seen in brown rice exports, but Indian removal of MEP for basmati was a major factor together with India's success in selling basmati to Iran and Iraq
- Probably the closest market to offer rice under free trade conditions - very market driven
- East Africa and Afghanistan remains a key destinations
- Competition in parboiled rice has seen Pak move to higher grades in light of Indian competition - strong focus on parboiled rice sales to Middle East
- **China will reveal Pak price trends - which suggest soft markets due to Pakistan's inability to compete.**

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MYANMAR

- Key Asian export origin, Myanmar has shipped 1.3 MMT in 2012, but this number has nearly 700 TMT of border trades with China
- 2013 looks similar - export focus on WR 25% (emata) and rising exports of broken to Europe and more investments into parboiled rice
- Myanmar has a porous border with China and proximity to Bangladesh - China is a big influence in 2012 like in many parts of Asia
- African sales remains a key component, but new sales to Russia, Middle East, some Malaysian and Philippines sales and recent MOU with Indonesia shows intent on growing markets
- Bridesmaid to other origins, often labeled as cheapest origin, and traded at a discount to most major origin - example Emata 25%
- Monsoon dependent - both in production, export availability and in monthly export trends (when exports slow during monsoon months)
- Consistency of quality (or inconsistency) remains a bugbear for export quality developments

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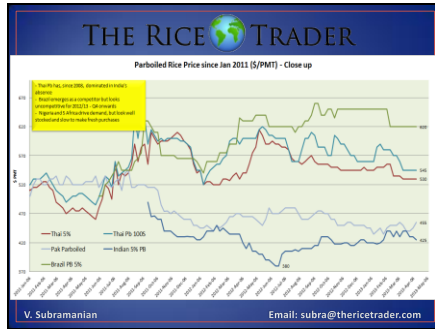
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CAMBODIA

- Key markets with influence on fortunes of Thai and Viet rice markets
- Exports from ports mostly high grade fragrant rice (200-250 TMT)
- Large movements of cargo via border due to more profitable and less bureaucratic cross border sales (lower costs to sell via border than via ports)
- Even now trader to Viet cargo to Vietnam via Cambodian road routes due to price arbitrage opportunity between Thai-Cambodia-Viet markets
- Border movements have a significant impact on world rice compared to port related export activities
- Production and development prospects are some of the best in Asia
- Internal Logistics and Bureaucracy (cost of paper work) can be a major hindrance in developing the formal export routes and trade
- Clear opportunities seen in marketing of fragrant rice
- Lack of price transparency or the lack of a competitive indicative price can also hinder sales opportunities and marketability of Cambodian rice

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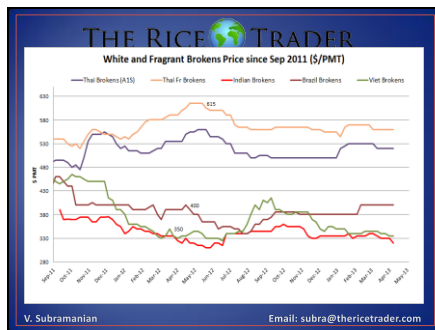
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Parboiled rice price trends have been influenced mainly by Nigeria's 110% tax on milled and brown rice imports. Since the government imposed the higher tax, minimal purchases have been seen, although we also noticed that more exports of parboiled rice are seen moving to Benin and Cameroon.

We do expect a depressed parboiled rice price for the next two quarters and, with Brazil expected to enter the fray soon, much will depend on Brazil's PEP scheme and the sales volumes that can be achieved. India remains the main exporter, as it offers the best prices (even though values have risen in the last week or so).

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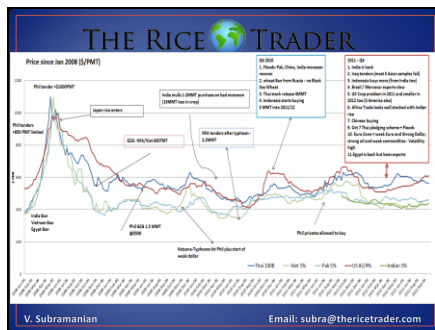


Looking at broken, we can see India, Pakistan, and even Vietnam compete in terms of price. While Brazil sits relatively high at a largely indicative price of \$400 PMT, we expect that this Brazilian or South American offer will improve as the South American harvests progress. As South America reveals more arrivals and more availability, one can expect a potentially competitive price that will take into account Asian competition, as well as South America's freight advantage when it comes to shipping to Africa. Thai broken reveal a lack of availability caused by the outdated milling yield calculation applied by the Thai government when it comes to the percentage of broken that will come from milling (17% compared to the current 11-13%). This has literally

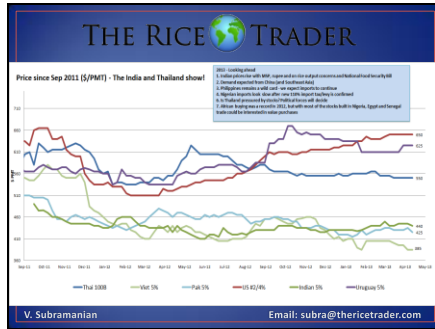
prevented Thailand from competing in the brokens markets. Also, Thai brokens' massive price premiums compared with Viet, India, Pak, and South American brokens prices make Thai white brokens (A1S) uncompetitive. India, Pakistan and Vietnam are the current flavour, with price advantages, but with markets saturated with stocks, there is limited demand in 2013 compared to 2014, though a few companies continue to take more cargoes to destinations like Senegal, Sierra Leone, Mauritania and the Gambia.

Fragrant brokens are more of a reflection of Thai Hom Mali and Pathumthani prices that have narrowed, with Hom Mali prices sitting at \$1,150 PMT, while Pathumthani prices are just under \$1,000 PMT. This has led to higher fragrant broken prices.

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This is an old chart that looks at the 2008 situation up to Sep 2012, so we still have in the picture a view of India's re-entry to exports and how this has left an impact on the markets – in terms of competitive advantage.



Looking at prices, it is clear that India, Pakistan, and Vietnam form the lower range of prices, and the competition is mainly felt in the lower-grade markets. Indian prices have risen lately due to supply concerns and a stronger Indian rupee; hence, from a competitive position, Vietnam holds the edge—at least when we compare WR 5% prices among the three origins mentioned. It is important to note that India does not have access to Chinese demand. However, although Indian prices look more uncompetitive even for Africa sales, India is expected to continue to figure in Africa-related markets that have quickly welcomed back India's return to non-basmati rice exports (there is more competition possible with Pakistan as Indian prices look higher). Perhaps, the big concern will come in Aug when India is expected to debate the food security bill, which, together with the monsoon's performance, will drive the sales in the second half of the year.

On the top-end or premium markets, we see Thailand's 100B look relatively cheap at \$565 PMT—this probably explains Thailand's success in the Japanese tenders. The lower prices from Uruguay and South America, in general, however, do not bode well for Thailand, especially after Iraq awarded South America with a total of 60 TMT of sales last week despite the fact that the offers were about \$140 PMT higher than Thailand's offer of \$553 PMT. Thailand's lack of old crop availability could also allow South American competition to creep into some markets in Africa. The reality of these premium markets seem highly

dependent on South America's ability to compete in Africa and the Americas, while all eyes remain focused on Thailand for some stock releases, which Thai exporters must surely need to revive Thailand's flagging rice exports.

The Food and Agriculture Organization estimates Thai rice stocks at 18.2 MMT, while the Thai local market estimates the stocks at 17 MMT. Both of these numbers suggest record levels of stocks, as well as some concerns as to just where these stocks will be stored. Considering the millers' concerns and efforts to possibly hold stocks near the airport and at military areas, the pressure looks certain. The problem is, most of this talk of stock releases seem to come from external sources and not from any Thai government sources. The wait goes on; but any stock release will be crucial in the price discovery process in the months ahead.

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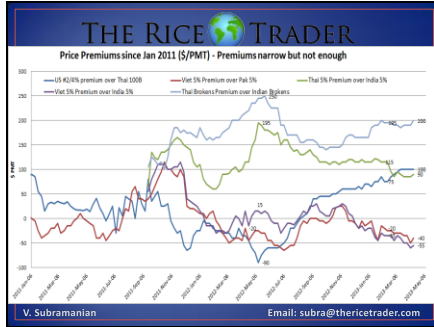


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The Road Ahead

- Key Concerns:
 - The weather – a US crop recovery foreseeable – look at all grains and not choice between rice and other foods
 - Indonesia – interesting always the year before elections (2014)
 - Philippines – Wild card as we have conflicting reports on trade versus data collected - the grey trade and politics behind rice will always excite
 - China remains very important in demand while global grains remains tight
 - Global economic conditions / Currency markets
 - Thailand, pledging scheme and stocks (releases)
 - African demand – Nigeria and the West African crop will be important; for the moment high inventories have seen demand slow, and buyers are even moving from India to Vietnam due to large price differences – Price and competitive advantage will be key.

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Premiums are more difficult to measure, as little has changed since the end of the year. The U.S. #2/4% premium over the Thai 100B sits at \$100 (up from 75 PMT in Dec), while the Thai premium over Indian WR 5% has narrowed to \$100 from \$115 PMT. Thai broken's premium over Indian broken's is up at \$200 PMT compared to \$195 PMT at the end of the year. Indian broken's remain the most competitive in the market despite Viet, Pak, and South American competition, and continues to dominate the sales volumes, though many buyers have also favoured Pak, Vie or S American broken's for quality and consistency reasons. Thailand has, in fact, become a border trade buyer of Viet broken's to partly make up for the shortfall when it comes to meeting the Thai government's milling yield calculations under the pledging scheme (17% broken's compared to a reality of 11-13% broken's). Vietnam is the most competitive in high-grade white rice (WR 5%) with a \$40 PMT and \$55 PMT discount when compared to Pak and Indian offers, respectively.

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