

## 1BN) Rice Hoard Offers World Respite as Food Costs Surge: Commodities

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By Luzi Ann Javier and Supunnabul Suwannakij

Aug. 7 (Bloomberg) -- At a time when droughts are driving corn and soybeans to all-time highs, farmers are set to reap a record rice crop and Thailand is building the biggest stockpile in at least five decades, helping avoid a global food crisis.

The largest exporting nation bought 11 million metric tons as of July, enough to supply the six biggest importers, Commerce Ministry data show. As corn farmers from the U.S. to Ukraine endure drought, paddy fields will yield 1.1 million tons more milled grain, the U.S. Department of Agriculture predicts.

Benchmark 5-percent Thai white rice will drop 14 percent to \$480 a ton by Dec. 31, according to the median of 10 estimates from traders and analysts surveyed by Bloomberg.

Shipments of the staple for half the world will expand 2.6 percent to a record in 2012-2013, the USDA predicts. Those exports combined with Thailand's stockpiles, which may be cut to clear space for the next harvest, are a buffer against grain reserves seen at the lowest in at least five years. Cheaper rice may contain global food costs the United Nations predicts will rebound, ending a retreat to a 21-month low in June.

"Rice is the only bright spot which is keeping us away from a global food crisis," said Abdolreza Abbassian, a senior economist at the UN's Food & Agriculture Organization in Rome.

"The corn situation is very worrisome, while with wheat, the overall supply situation is still adequate."

### Chicago Board

Rough-rice futures rose 7.2 percent to \$15.935 per 100 pounds on the Chicago Board of Trade this year, trailing corn's

24 percent surge, the 32 percent rally in soybeans and wheat's

39 percent advance to a four-year high. The MSCI All-Country World Index of equities climbed 7.2 percent, while Treasuries returned 2.4 percent, a Bank of America Corp. index shows.

Thailand's reserves expanded after Prime Minister Yingluck Shinawatra began a policy in October of buying from farmers at above-market rates to boost rural incomes. Stockpiles may reach 12.1 million tons in 2012-2013, according to the USDA. The country may need to sell some inventory before the next crop is gathered in October and November, said Concepcion Calpe, a senior economist at the FAO. Thailand was the biggest shipper in the year to December with 10.6 million tons, or 30 percent of world trade, according to the International Grains Council.

Global production will expand 0.2 percent to 465.1 million tons in 2012-2013, a third consecutive record, as output reaches all-time highs in countries from China to Thailand to Vietnam, the USDA estimates. World reserves may touch 102 million tons by the end of the season, the most in at least five years, according to the London-based IGC.

### Grain Reserves

That compares with an 11 percent drop in corn stockpiles and a 7.6 percent contraction in wheat inventories, the IGC said in a report July 26. Combined grain reserves will decline 7.9 percent to 337 million tons, the lowest since at least 2009.

The dry weather that's destroying corn, wheat and soybean crops and driving prices higher may extend to rice. The monsoon in India, which accounts for more than 70 percent of rainfall in the second-largest rice grower, has been 18 percent below the 50-year average since June 1, according to the India Meteorological Department. Farm Minister Sharad Pawar said the country may be facing a drought that's worse than in 1972, the Indian Express reported, citing his comments on Aug. 4.

The shortage of rain is similar to 2002, when India's rice output fell 23 percent, Espirito Santo Investment Bank Research said in a July 30 report. The government may restrict exports of the grain as well as wheat, sugar and cotton to ensure domestic supply, according to Espirito Santo. The USDA is predicting a 3.3 percent decline in the country's production to 100 million tons, and Food Minister K.V. Thomas said July 26 the government will refrain from banning shipments of food grains for now.

### Climate Prediction

It is increasingly likely that the El Nino weather pattern, which can bring dry weather to parts of Asia, will develop this quarter, the U.S. Climate Prediction Center said July 30. That may curb the availability of water for irrigation used in the Philippines and Indonesia. Harvests contracted in both countries in 2009-2010, the last time El Nino occurred.

The FAO said yesterday that India's crop will shrink this year after the monsoon faltered even as the worldwide harvest expands to a record, according to a quarterly market analysis. There's a growing probability of an El Nino, the FAO said.

Higher prices for other grains may spur more rice buying, with consumption already forecast by the USDA to increase 1.6 percent to a record next year. Slower economic growth may do little to curb consumption, which has only retreated seven times in the past half century. The global economy will expand 3.5 percent this year, from 3.9 percent in 2011, the International Monetary Fund predicted last month.

### Worst Drought

Global food-import costs will reach \$1.24 trillion this year, 5 percent below last year's record, the FAO forecast in May before grains rallied as the U.S. endured its worst drought since 1956. The group's index of 55 food items is 15 percent below the record reached in February 2011. Surging prices triggered more than 60 riots worldwide from 2007 to 2009, the U.S. State Department estimates.

Thailand plans to sell stockpiles through the yearend for export and local use, Commerce Minister Boonsong Teriyapirom said Aug. 1. The government has spent almost 258 billion baht (\$8.2 billion) on the program, the state-run Bank for Agriculture & Agricultural Cooperatives said July 17. Boonsong said yesterday the government plans to extend purchases for another year and buy as much as 18 million tons of rough rice, while also targeting exports to other countries.

While the strategy raised farmer incomes in Thailand, it has made the grain less attractive in export markets. Thai prices would need to drop by at least \$100 a ton to compete with Vietnam and India, said Rakesh Singh, a New Delhi-based trader at Emmsons International Ltd. Thai exports may gain 23 percent to 8 million tons in 2012-2013, according to USDA data.

"We're sitting on a ticking time bomb," said Jac Luyendijk, the chief executive officer at Swiss Agri Trading SA, which handles about 600,000 tons of rice a year. "If India keeps on exporting and Thailand releases more stocks than we anticipate, over the next three to five months we could see prices drop below \$400."

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