

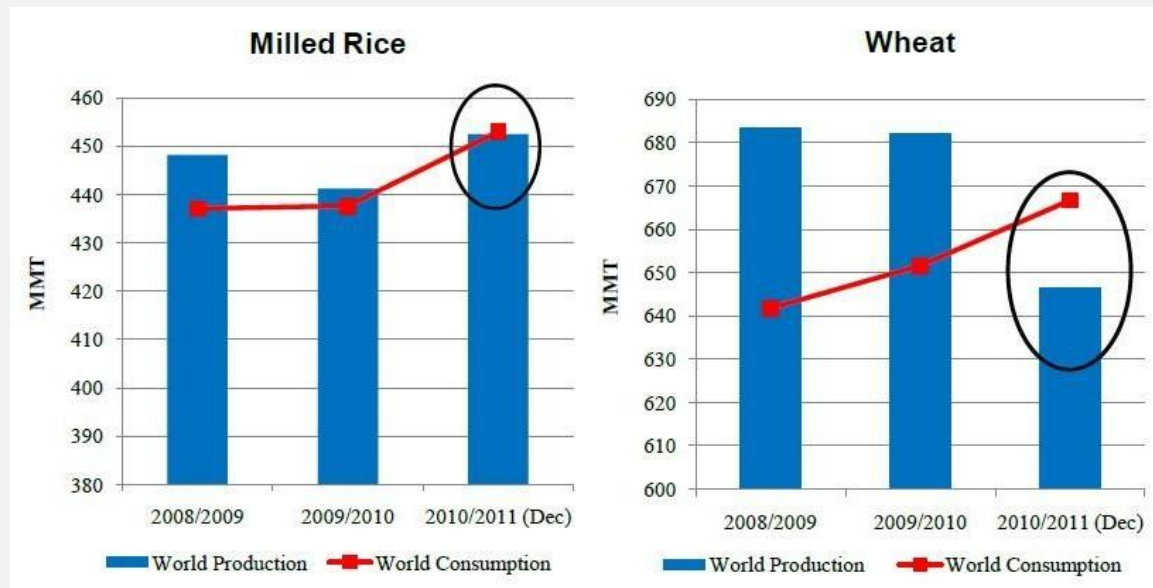


The organized Resources for Marketing

Weekly Report

16.12.2010

USDA: Abundant Global Rice Supplies Contrast With a Tight Wheat Supply Situation



Both rice and wheat prices continue their upward surge despite the appearance of different global supply and demand conditions. In the case of rice, the price surge would appear to be stronger than warranted with global production expected to meet consumption as a result of record supplies. Global stocks, and stocks outside China, are both forecast to be large, and perhaps more importantly, carry-in stocks held by major exporters are the largest in 10 years. Lower prices would normally be associated with this surplus scenario. However, there are a number of other market/policy factors supporting the higher prices. The weakening dollar is a factor in the higher rice prices, as well cross-price elasticity between wheat and rice as both are food grains. U.S. milling quality problems are limiting supplies of high-quality rice. Vietnam's tight supplies and high



minimum export price have temporarily constrained new sales until the next crop supplies are available. Furthermore, despite huge stocks, India's continuing export ban on non-basmati rice limits supplies available to the world, and Pakistan's short 2010/11 crop will help support prices.

In the case of wheat, the gap between global production and consumption supports rising prices. Smaller supplies and falling stocks in most major exporters, along with Russia's export, ban have fueled the price surge. Also driving wheat prices higher are tighter supplies of high-quality milling wheat with sharp reductions in grain quality this year in Germany, Canada, and Australia, all normally major suppliers. For wheat, as with rice, there are a number of market and policy factors affecting prices.

UK wheat exports running at twice year-ago levels

The rocketing pace of UK wheat exports has, after just four months of 2010-11, put them within 10% of matching government expectations for the full year, despite a small slowdown in October.

UK wheat exports in October were, at 324,182 tonnes, more than 70,000 tonnes lower than those shipped the month before, official data on Tuesday showed.

However, the slowdown was insufficient to prevent shipments topping 1.19m tonnes for the July-to-October period, more than twice the pace recorded for the first four months of 2009-10.

Furthermore, it left them not far below the 1.30m tonnes the UK farming and environment ministry, Defra, has pencilled in as the exportable surplus for the whole crop year.



'Particularly brisk'

Indeed, the data come amid growing expectations that the strong pace of UK wheat exports, which has helped drive prices to a two-year high, will mean the country is forced to buy back supplies from abroad in the first half of calendar 2011.

A report from US Department of Agriculture staff across Europe released late on Monday flagged that while European Union wheat exports overall had made a "very strong start" to 2010-11, those from France and the UK had been "particularly" brisk.

"How long this pace can continue is the subject of much discussion among market sources," the USDA attaches said.

"However, the focus is not just on exports," the report added, noting that relatively expensive EU prices and a lack of high quality grain in some countries had fostered an increase in wheat imports, notably of US origin.

Tuesday's data showed UK wheat imports hitting 146,000 tonnes in October, more than three times the September rate.

UK wheat exports, so far in 2010-11

October: 324,182 tonnes

September: 397,926 tonnes

August: 202,228 tonnes

July: 226,036 tonnes

July-to-October: 1.19m tonnes, (+104%)



Top buyers

For exports, Spain in October resumed its historic place as the main destination for UK wheat shipments, taking 85,687 tonnes, ahead of the Netherlands, which received 52,819 tonnes.

However, exports to North Africa were also strong, with Algeria taking 23,750 tonnes, and Tunisia buying in 27,500 tonnes.

Indeed, UK exports to destinations outside the European Union have been particularly strong, topping 176,000 tonnes in the July-to-October period, more than the 150,666 tonnes achieved during the whole of 2009-10.

Many importers have been scrambling for supplies to replace those lost to Russia's grain import ban, following drought, and to the quotas imposed by neighbouring Ukraine.

Significant export destinations so far in 2010-11, (year-on-year change)

Netherlands: 328,897 tonnes, (+358%)

Spain: 271,928 tonnes, (-9.9%)

Germany: 110,135 tonnes, (3,027 tonnes year ago)

Vietnam: 58,314 tonnes, (zero this time last year)

Thailand: 55,000 tonnes, (zero this time last year)



Ukraine Winter Grain Area Lower

Drought across the Ukraine through late summer and Autumn has caused a reduction in winter grain area planted for harvest 2011. Total winter grain area is forecast at 8.199Mha by analysts UkrAgroCoinsult, down from 8.619Mha planted a year ago. The area of winter wheat planted is estimated at 6.65Mha, down from 6.7Mha planted for harvest in 2010.

The crop is now entering dormancy over winter and conditions of the crop emerging from winter dormancy in the spring will be critical in the potential for yields to form in early summer.

Pakistani rice export crosses 1.5 million tons mark

The rice exports from Pakistan has crossed 1.5 million tons worth \$.0.82 billion in the current fiscal year during the period from July 01, July 2010 to December 12, 2010, as compared to 1.38 million tons worth \$.0.63 billion exported in the same period last year.

Irfan Shaikh, Chairman Rice Exporters Association of Pakistan (REAP) has said that despite disastrous floods, the country's rice exports continued its momentum with healthy increase. "This all was done due to tremendous efforts of local rice exporters, who explored new markets and increased their share in the existence markets", he added.

He refuted the earlier rumours soon after the disastrous flood, which were spread through out the country that rice crops have been extremely damaged and that the country may face food starvation and said facts and figures are showing that Pakistan has been



maintaining the earlier trend. "We are very hopeful that the export of rice from Pakistan will achieve our targets", he added.

In this regard, he expressed gratitude to the Ministry of Commerce, Trade Development Authority of Pakistan and especially to all the REAP members who have been working day and night and put their untiring efforts to made it possible for generating the valuable foreign exchange for the country.

Jordan Buys 150,000 Tons U.S. Wheat

Jordan's Ministry of Industry and Trade has bought 150,000 metric tons of U.S. hard red winter wheat for delivery in January and February at a total cost of \$55.17 million, a grain official said Wednesday.

The official said the purchases were from Louis Dreyfus and comprised 100,000 tons for delivery in January at \$368/ton cost and freight, and another 50,000 tons for delivery in the second half of February at \$367.50/ton cost and freight. The wheat was bought following a tender which closed Wednesday.

Last time the kingdom bought wheat was Sept. 22, when it bought 200,000 tons of German and optional origin at \$352/ton cost and freight.

Jordan usually buys cheaper Black Sea wheat, but drought has forced the kingdom to start buying more expensive wheat from Europe and the U.S., analysts said.

Jordan consumes some 720,000 tons of wheat a year.