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EL NIÑO TAKES TOLL ON US RICE FARMERS – AND POINTS TO EVEN HIGHER PRICES

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Sep 27, 2015 // TheGuardian.com

Blame El Niño. The weather phenomenon is causing havoc for US rice farmers and a sharp price spike in the world's most important staple food may foreshadow possibly higher prices in Asia in the coming months.

While other commodities have hit recent lows, US rice futures prices are up nearly 40%, to about \$12.90 per hundredweight, their highest level since August 2014. In sharp contrast, soybean and cotton prices are at their lowest level since early 2009, while sugar prices are just off their lowest levels since 2008. And matters are likely to get worse.

The latest El Niño pattern is cheering some in drought-ridden California where it promises some much needed rain and snow. But it caused planting delays this spring in the Mississippi Delta – Arkansas, Mississippi and Louisiana – and Texas, the main US rice-growing regions. During the growing season, perpetually cloudy days and warm nights, caused by another weather system, created the worst

conditions for rice production, said Shawn Hackett, president of Hackett Financial Advisors, an agricultural advisory firm. He noted harvests in Arkansas and Texas are likely to be about 15 to 20% below average. “The crop is an unmitigated disaster,” he said.

So far the price rally is limited to US rice prices, as Asian prices are still reflecting a large overhang in supplies, largely because of the former Thai government stockpiling rice – as much as a three-year supply, said Jack Scoville, vice-president at Price Futures Group, under a vote-buying scheme. All that rice caused prices to crater, so in the past few years farmers haven’t planted as much. Demand, though hasn’t changed, and a lot of the stocks that were built up are quickly vanishing.

And El Niño made its mark in south-east Asia, too, causing harvest shortfalls because of weather extremes such as floods in Burma and droughts in Thailand. Earlier this month the US Department of Agriculture reduced its forecast for global rice production because of lower harvests in several key countries. This is the first year-to-year decrease in global rice production since 2009-10, they said.

The world is quickly eating through big supplies created in the past few years. USDA’s forecast for the 2015-16 growing season estimates globally there will be 90.85m tonnes (metric tons) of rice available after accounting for supply and demand. While that seems plentiful, it’s down from 101.8m tonnes last year and 107.4m tonnes the year before. Bill Nelson, senior economist at Doane Advisory Service, said the average global inventory over the past 25 to 30 years is typically 100m tonnes or more, and that the last time the world had such small reserves was in 2007, when prices eventually hit record highs.

El Niño is expected to strengthen and peak later this year, but the impact of the weather anomaly could still be felt for four or five months afterward, possibly as late as early February, said Dale Molher, expert senior meteorologist at Accuweather.com

That could spell trouble for farmers in south-east Asian countries such as Thailand, Vietnam, Malaysia and Indonesia who will face these ongoing dry conditions as they prepare to plant again soon. Because of less rain earlier in the year, reservoir levels are down, meaning less water to irrigate crops, Hackett said. As it is, the Thai government is restricting how much farmers can plant because of the drought.

The low Asian rice prices may not last as the combination of this summer’s harvest shortfalls, farmers possibly planting less and forecasts for detrimental weather will have future ramifications.

“El Niño is still going to be a major force as we move forward. Most of the effects are really yet to come. Production will be impacted, but no one knows how much,” Scoville said.

Currently, the price for high-quality Thai rice, a global benchmark, is around \$350 a tonne. Comparatively, the US price, calculated in tonne, is \$550. Normally US and Thai prices have only about a \$60 to \$70 difference, Hackett said.

Hackett and Scoville said there are signs Asian buyers are concerned about future supply which may boost prices there. The Philippines is importing rice because of harvest shortfalls, and Indonesia may import rice for the same reason, they said. In August, Burma put an export ban in place because of low supplies.

“So far the Asian price has been stable to weak because of the Thai [situation] and India had a pretty good crop. But I think the worm is going to turn over there ... sooner than later,” Scoville said, who said prices could start to move by the end of the year.

Hackett said Thai prices could rise to \$500 or \$600 a tonne, perhaps by spring.

It is important to keep an eye out on rice prices because rice is one of the three main cereal crops, along with wheat and corn. Those three crops make up two-thirds of what the world eats, according to the FAO. How much of an impact rising rice prices will have on consumers is unknown. Luckily for eaters, no one is forecasting a return to the sharply higher price seen in 2007 and 2008 when riots broke out over record high rice prices. Back then, supplies of all staple food crops such as rice, wheat and corn were low and prices high, so there was no alternative for buyers.

But we’re not likely to see riots this time around, as countries like the Philippines are seeking to add to their wares. This year, Nelson said, although rice supplies are tight, wheat supplies are at record levels and prices are low, so he said people most affected by high prices could gravitate to buying wheat-based foods. Still, high rice prices can affect the poorest of the poor.

The global economic situation now is also different than 2007-08, Hackett said.

“We’re not necessarily going to see that kind of a wild, unbridled spike ... because we’re dealing with a deflationary commodity environment. But having said that, higher prices will be seen in medium term,” he said.