Rice Market Monitor

Issue No. 2 - May 1998

CONTENTS

Contact or enquiries

S. Mbabaali
Commodity Specialist
Basic Foodstuffs Service
Commodities and Trade Division

Facsimile: ++(396)5705-4495
Telephone: ++(396)5705-5006
E-mail: Shakib.Mbabaali@fao.org

HIGHLIGHTS

- According to FAO's latest forecast, global paddy output in 1998 could reach 567 million tonnes, only 4 million tonnes, or less than one percent lower than the previous year's revised record level. This forecast is still tentative and critically hinges on a timely and normal development of the Asian monsoon.

- Paddy output in South America is expected to be lower than the previous year due to El Niño weather-related problems.

- Global rice trade in 1998 has been raised, from the last report, by 500 000 tonnes to a new high of about 22.1 million tonnes, up 3.1 million tonnes from the revised 1997 trade and more than 1 million tonnes above the 1995 record. The upward revision is largely attributed to the continued unfavourable growing conditions in several of the major importing countries.

- International rice prices continue to strengthen due to strong import demand and concerns about export availabilities.

GLOBAL VIEW

The 1998 world paddy production is forecast to decline slightly

The bulk of this season's rice crop is still to be planted in many parts of Asia pending the arrival of monsoon rains. However, planting of paddy for the 1998 season is underway in some of the northern hemisphere countries. In the Southern Hemisphere and around the equatorial belt, the 1998 main paddy crop season is nearing completion. Lower production is expected in many of these countries as the season has been plagued with El Nino-related weather problems. FAO's forecast for global paddy output in 1998 is put at 567 million tonnes, 4 million tonnes, or less than one percent lower than the previous year's revised record level. This forecast is still tentative and critically hinges on a timely and normal development of the Asian monsoon.

Asia – Mixed outlook for the 1998 paddy season

Southern hemisphere

In *Indonesia*, harvesting of the main-season rice crop is almost complete, after being delayed by several weeks due to the late start of the season precipitated by El Niño related drought. A recent FAO/WFP Crop and Food Supply Assessment Mission to the country forecast the 1998 paddy harvest at 47.5 million tonnes, 3.6 percent below last year's already reduced production. Over 90 percent of the decrease is attributed to the reduction in planted area as a result of delayed onset of rains. The decline in output combined with the financial crisis has seriously undermined the food security situation of the population. In *Malaysia*, the production outlook for 1998 has also been affected by the lingering drought and a 5 percent decline in output to 2 million tonnes is expected from 1997. In *Sri Lanka*, harvesting of the Maha (main) paddy crop is nearing completion and, following generally favourable growing conditions and an expansion in area, output may rise. The availability of ample water supplies in the irrigation reservoirs is anticipated to benefit the Yala season. Overall, total paddy output is projected to expand by 27 percent from the previous year to 2.8 million tonnes.

Northern hemisphere

In *China* (Mainland), planting of the 1998 early rice, the first and smallest of the three crops, is at an advanced stage. However, some replanting might be required in the drought-affected southern provinces, in particular in the south-western province of Sichuan, which accounts for over 10 percent of the country's total rice production. At this stage of crop development, it is too early to gauge with any accuracy the potential quantity of paddy that the country could produce in 1998. However, government efforts to raise output remain vigorous and it is reported that area devoted to higher-yielding hybrid rice will be increased by 160 000 hectares in 1998 to over 400 000 hectares.

The *Philippines* is another country where drought is being blamed for a lower paddy production forecast for the second consecutive year. Harvesting of the secondary crop is almost complete and preliminary indications suggest a drop in output from the previous year following a lack of adequate water for irrigation which had depressed plantings. Moreover, planting of the main season crop, which is underway at present, is hampered by persistent drought conditions. In *Vietnam*, most of the winter-spring crop, which accounts for about 40 percent of total rice production, has been harvested and indications are that yields have not been affected notably by the El Niño-related drought that has prevailed for several weeks. However, the dry conditions have given rise to concern about the fate of the summer-autumn crop, which makes up close to one quarter of total output. Although the planting phase has not yet been completed, thousands of hectares of early-planted rice fields have been already reported as destroyed. Overall, the 1998 paddy production is expected to drop slightly from the previous year's level to 27 million tonnes but the final outcome will largely depend on how soon the rains come and on the performance of the 10th month crop, which starts in June and accounts for over 35 percent of Vietnam's total rice output. In *Thailand*, harvesting of the second-season paddy crop is nearing completion and output is expected to be about 4.4 million tonnes, slightly more than originally forecast by the government, as high prices encouraged many farmers to increase land under paddy despite warnings of a potential shortage of irrigation water. Preparation for the main-season crop is underway and the government's preliminary forecast for the total 1998 paddy production is about 23 million tonnes, up by 4 percent from the 1997 estimate. However, the eventual size of the harvest hinges heavily on the performance of the main-season crop, which depends solely on irrigation. Prospects are currently rather uncertain, given the low level of rainfall received thus far, and the declining water levels in reservoirs.

In *Bangladesh*, the Aus crop, the first and smallest of the three paddy crops, is now being planted. In the past, the Aus crop accounted for up to 20 percent of Bangladesh's total rice output but its share has been declining over time as the country has shifted emphasis to the irrigated Boro crop. Overall, paddy output in 1998 is forecast to expand by 2 percent from the previous year to about 28.4 million tonnes. In the *Democratic People's Republic of Korea*, prospects for the paddy crop in 1998, the season of which is due to begin in May, depend considerably on the availability of irrigation water and the provision of essential inputs, such as seeds, fertilizers and appropriate farm technology. Water levels in a large number of irrigation reservoirs remain inadequate as a result of last year's drought and the reduced snowfall this year. In the *Republic of Korea*, planting of paddy started in April but rice is expected to lose some area to more profitable cash crops. In recognition of a possible area reduction, the government has set the 1998 paddy output target at 6.7 million tonnes, 11 percent lower than the previous year.

In *Japan*, about 960 000 hectares will be diverted out of rice under the Area Land Diversion Programme, or 176 000 hectares more than the previous year. Accordingly, paddy output is projected to decline by about 10 percent to 11.3 million tonnes. The beginning of the 1998 paddy season in *India*, *Pakistan* and *Myanmar* awaits the arrival of the monsoon rains.

Africa – The 1998 paddy season is getting underway in North and West Africa and nearing completion in Southern Africa

North Africa - In *Egypt*, the main rice producer in the sub-region, the planting of rice has started. However, there are no indications on the seeding intentions for the 1998 season, a decision that is largely dependent on the availability of irrigation water.

West Africa - Planting of the 1998 paddy crop is underway in several countries of West Africa although uncertainties exist as to the area to be put under rice in a number of those countries. In *Nigeria*, the most important rice producer in western Africa, planted area is expected to increase by about 200 000 hectares from 1997. However, a shortage of fertilisers, pesticides and other farm inputs is expected to lead to reduced yields and the government is tentatively forecasting a 12 percent reduction from the 1997 revised production to 3.4 million tonnes.

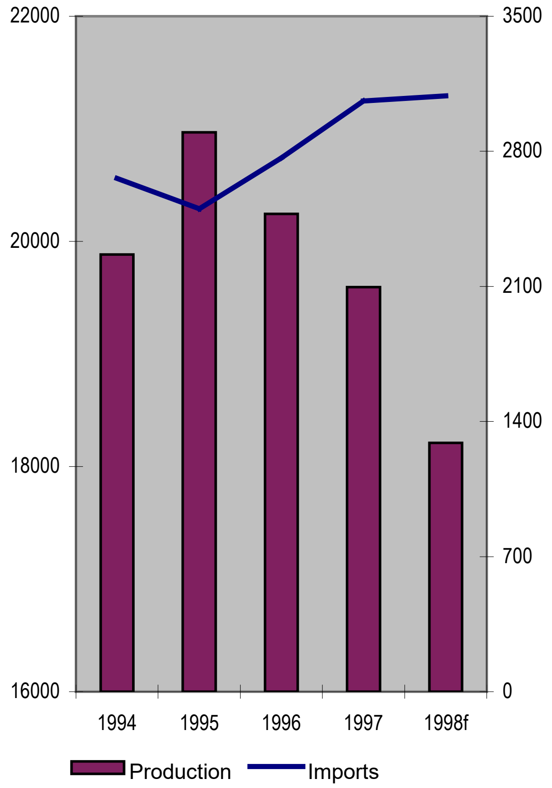
Southern Africa - The 1998 paddy season is well advanced in *Madagascar*, the main rice producing country in the sub-region, but the volume eventually harvested is quite uncertain given the persistence of swarms of locusts. The infestation is, reportedly, the worst in 40 years and control operations have been largely inadequate due to insufficient availabilities of pesticides. Paddy production is provisionally forecast at 2.2 million tonnes, a 15 percent drop from 1997. In *Mozambique*, harvesting is under way in some parts of the country. Growing conditions have been generally favourable and output is expected to increase slightly to a new high of about 190 000 tonnes, compared to the previous record of 180 000 tonnes in 1997.

South America – Paddy output estimated lower due to El Niño weather-related problems

Adverse weather conditions during planting and harvesting in several countries in South America are anticipated to have a negative impact on the region's 1998 paddy crop season. In particular, paddy output in *Brazil*, the largest producer and consumer in the region, is currently projected to fall to 9 million tonnes, the lowest in eight years. The reduction would reflect abnormally wet conditions at planting time, especially in the largest producing state of Rio Grande do Sul, and heavy rains during most of March which have delayed harvesting progress. Similarly, the floods have adversely affected the rice crop in *Argentina*. It is estimated that out of the 239 000 hectares planted to rice, only 204 000 hectares would be harvested, which has induced the Government to revise its original crop forecast from 1.2 million to 1.1 million tonnes.

Harvesting in *Uruguay* is nearing completion but, as in Argentina, the rice crop was damaged by floods and output in 1998 is expected to fall by about 10 percent to 900 000 tonnes. Flood related problems are also behind *Ecuador's* expected contraction in output. Following a reported decline in harvested area of 24 percent, production in 1998 is anticipated to fall to 800 000 tonnes, or 20 percent less than the weather reduced 1997 crop.

Rice Production and Imports in Latin America



In *Guyana*, the drought that has persisted for the last several months led to an estimated 35 percent reduction in area planted to rice. Accordingly, paddy output is forecast to fall to about 340 000 tonnes in 1998, compared to the 538 000 tonnes produced in 1997. By contrast, harvesting in *Bolivia* is progressing well and the government has forecast a 31 percent increase in the 1998 production to 318 400 tonnes, reflecting both an expansion in area and improvement in yields.

Developed countries - Little change in output

In the *United States*, planting of the 1998 paddy crop is underway and USDA's reports on prospective rice planting intentions indicate a modest increase of about 1 percent from the previous year to 1.24 million hectares. Farmers in California, Louisiana and Missouri intend to plant more than in 1997, reflecting favourable rice prices relative to alternative crops, while the rice area in Mississippi and Arkansas are likely to remain unchanged. By contrast, area planted to rice in Texas is expected to continue its downward trend, reflecting the relatively high production costs in the state. Total output in the United States is forecast to increase by about 2 percent from 1997 to 8.3 million tonnes.

In the *EC*, planting of the 1998 paddy crop is in progress and the paddy area is tentatively forecast at about 400 000 hectares, virtually the same as in the previous year. Production is also expected to be around last year's level of about 2.7 million tonnes. For 1998, the intervention price for paddy has been reduced by about 5 percent from the previous year to 315.9 ECUs per tonne.

In *Australia*, harvesting of the rice crop is nearing completion. Paddy output in 1998 is forecast at 1.2 million tonnes, down by 14 percent from the previous year as area planted to rice declined by 16 percent from 1997 to about 140 000 hectares, largely due to a substantial reduction in water allocation in New South Wales.

RICE TRADE

New record projected for 1998

The forecast for global rice trade in 1998 has been raised, from the last report, by 500 000 tonnes to a new high of about 22.1 million tonnes, up by 3.1 million tonnes from the revised 1997 estimate and more than 1 million tonnes above the 1995 record. The upward revision is largely attributed to the continued unfavourable growing conditions in several of the major importing countries which are boosting their import requirements.

In particular, imports of the Philippines have been raised by 250 000 tonnes to 1.2 million tonnes, based on contracted amounts to-date, most of which should be supplied by Thailand, Viet Nam and China (Mainland). In comparison, the Philippines purchased a total of 900 000 tones of rice in 1997. Import forecasts for the EC, Malaysia, Algeria, Madagascar and the Gambia were also raised by an aggregate of 250 000 tonnes from previous expectations.

No major changes from the earlier report have been made to the other countries' import forecasts. Indonesia's import requirements are forecast to rise by 2.5 million tonnes to a record 3.5 million tonnes in 1998 from the 1 million tonnes estimated for 1997. Some of its import needs should be supplied under preferential terms. The Government of Japan, in particular, has announced its intention to lend 500 000 tonnes of rice to Indonesia which the country is to return, at a future date, in kind or to reimburse in cash. Under the announced arrangements, the Government of Japan will cover the difference in value between the high-priced Japanese rice and the cheaper rice to be paid back by Indonesia. In addition, Japan will provide Indonesia with a financial grant that would enable it to purchase an additional 100 000 tonnes of rice from the international market. Elsewhere, Latin American countries are confirmed to remain large importers in 1998, given the prospects for lower paddy output due to weather-related damages. Brazil, one of the world's largest importers is expected to purchase 1.2 million tonnes, 10 percent more than last year. A greater share of its imports is likely to originate from sources other than Argentina and Uruguay, its traditional suppliers, since adverse weather conditions in those countries have limited their ability to export. Other notable importers in the region include Colombia and Peru which are anticipated to buy 250 000 tonnes each.

On the export side, shipments by several countries are now expected to be larger than originally anticipated. Sales by the United states were raised by 300 000 tonnes from the previous report to 3 million tonnes, the highest in three years, in line with increased production in 1997 and expectations of an even larger crop in 1998. Although India's rice is generally less price competitive than that from Viet Nam and Pakistan, its export forecast for 1998 was raised by 200 000 tonnes from the previous report to 2.2 million tonnes, up by 12 percent from 1997. The upward adjustment is attributed to the good 1997 paddy season and favourable world prices. Shipments by Japan are projected to reach 600 000 tonnes, or 100 000 tonnes more than earlier anticipated, largely reflecting the preferential sale to Indonesia. This would be up significantly from the 114 000 tonnes that Japan shipped in 1997. The export forecast for Egypt was also adjusted upwards by over 100 000 tonnes from the previous report to a record 480 000 tonnes. Bumper harvests over the last few years have enabled Egypt to almost treble export shipments from 1995 to 1997. By contrast, the projected export volume by Viet Nam was lowered by 200 000 tonnes to 3.8 million tonnes, which would still be an all-time high for that country. The reduction was triggered by an emerging uncertainty surrounding the availability of exportable supplies for the rest of the season. Shipments out of Viet Nam during the first four months of the year are estimated at about 2 million tonnes, more than double the amount that was exported during the first four months of 1997. The temporary freeze on new export sales that was imposed by the Government in April is still in place. The decision was prompted by the Government's desire to ensure domestic price stability and food security in the midst of drought conditions in different parts of the country. The expected shipments from Thailand, the world's leading rice exporter, are forecast at 5.6 million tonnes, unchanged from previous anticipations and compared to the 1997 level of 5.3 million tonnes. Exports out of Thailand for the first four months of the year are estimated at about 2.4 million tonnes, compared to 1.5 million tonnes during the same time in 1997.

INTERNATIONAL RICE PRICES

Continued strengthening due to high import demand and concerns about the availability of export supplies

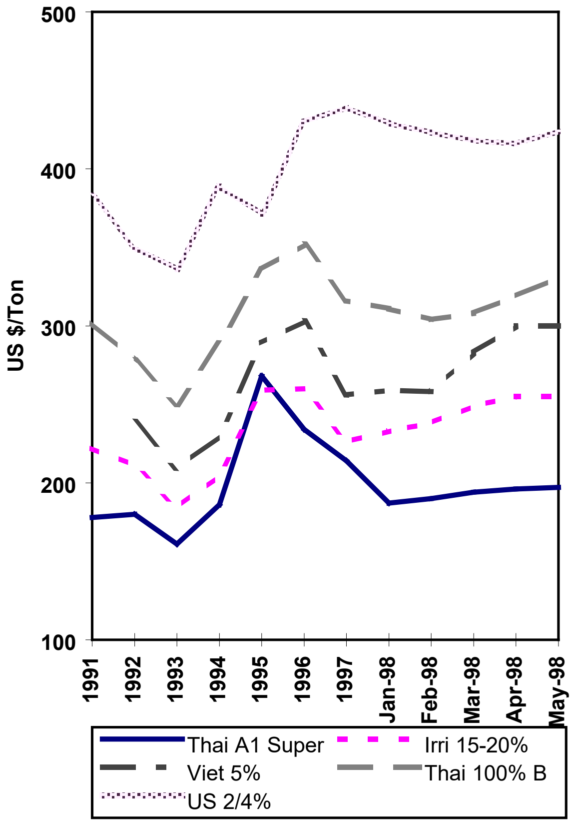
International rice prices from most origins continued on an upward trend through April and May. As a result, the FAO Export Price Index for Rice (1982-84=100), which has been on the rise since December last year, averaged 128 points in May, up from 127 points in April and 125 points in March.

WORLD PRICE INDICES FOR RICE				
		FAO Indices		
		Total	Quality	
			High	Low
January-December Averages		1982-84 = 100		
1991		115	117	109
1992		110	111	103
1993		100	102	92
1994		114	118	104
1995		129	124	146
1996		136	136	136
1997		127	129	117
	May	128	132	116
	June	130	132	121
	July	130	132	121
	August	125	127	121
	September	123	124	119
	October	121	123	114
	November	118	121	112
	December	122	123	119
1998	January	124	126	115
	February	124	127	115
	March	125	126	120
	April	127	128	123
	May	128	130	123

Source: FAO
N.B.-The FAO indices are calculated using the Laspeyre formula. In this table, two groups representing "High" and "Low" quality rice are shown.
- The Rice Export Price Index is calculated for 15 export prices.

The increase in prices is partly attributable to the relative strengthening of the Thai baht against the United States dollar and concerns about the availability of exportable supplies, especially in Vietnam and Pakistan, particularly in light of large purchases by Indonesia and the Philippines.

EXPORT PRICES FOR RICE



Price quotes for Thai 100B averaged US$ 331 per tonne in May, up by US$ 12 per tonne from the April average but still lower than US$ 335 per tonne recorded in May 1997. Prices of fully broken rice (Thai A1 Super) also increased slightly from their April average to US$ 197 per tonne. In the United States, news about weather-related problems being experienced in the South and Central American countries, which are traditionally its main customers, have supported prices. Quotes for United States No. 2/4 percent broken rice averaged US$ 424 per tonne in May, up by US$ 8 per tonne from the April average but down from US$ 445 per tonne in May 1997.

EXPORT PRICES FOR RICE (f.o.b. US$/ton)						
Type	Effective Date	Quote	1 week ago	1 month ago	1 year ago	Average (82-84)
Thai 100B	29/05/98	342	330	336	325	236
Thai 35%	29/05/98	250	247	255	248	213
Thai A1 Super	29/05/98	194	194	205	213	174
Viet 5%	29/05/98	...	...	300	230	n.a.
India 25%	29/05/98	...	240	240	270	n.a.
Pak 15-20%	29/05/98	...	...	...	225	220
US 2/4% Long	29/05/98	429	429	418	445	393

Source: International rice brokers, rice merchants and national sources.
... not available
n.a. not applicable

The price premium enjoyed by the United States No. 2/4 percent over the Thai 100 B has narrowed considerably from an overall average of US$ 123 per tonne during 1997 to US$ 93 per tonne in May 1998. Export prices from India and Pakistan have also remained firm due to increased import demand.

In the next few weeks, rice export prices are expected to be influenced by the development of the imminent monsoon in Asia due to arrive. In addition, the market is expected to react to Viet Nam’s decision regarding the lifting or maintenance of the temporary freeze on export sales.

ENDING STOCKS IN 1998

Projected to decline slightly

FAO's forecast for global rice stocks at the end of the marketing seasons in 1998 remains almost unchanged from the previous report at 54 million tonnes, or 5 percent lower than their opening levels. All of the projected decline would be in the developing countries, especially Indonesia, the Philippines and Brazil, where El Niño-related weather problems affected the 1997 and/or 1998 paddy output. A reduction in stocks is also expected in India and Pakistan due to the anticipated increase in exports. By contrast, stocks in China (Mainland) are forecast to expand for the second consecutive year following the gathering of bumper harvests in recent years.