



Rice Producers of California
P.O. Box 942, Colusa, CA 95932

RPC Monthly Newsletter

Hot cash market and little rain in sight...

Cash Market

The medium grain market has been red hot since the beginning of 2014, and the primary driver is the record drought we are experiencing in CA. However, there are more factors at play that are impacting our market; as Producers, we need to be educated and aware of what is driving our market so we can be ahead of the curve.

Drought

There is no precedence for the drought we are experiencing this year. The water boards and elected officials are in uncharted territory, and all anyone knows for certain is that miracle rains will still not bring us back to "normal" in the coming months. With every major reservoir at 40% or below capacity, and snow pack less than that, the declared State of Emergency puts all agricultural producers at risk. Estimates for rice cutbacks range anywhere from 25% to 60%, placing acres as low as 215,000 or as high as 405,000 acres next year. While it is difficult to imagine a

50% reduction in planted acres in CA, it is important to remember that in this uncharted territory, it is a possibility. The next eight weeks will provide all the answers, and in the meantime, Producers are servicing all of their wells and not forward-contracting any rice unless they are 100% positive they will get water.

Farm Bill

The biggest issue with the Farm Bill directly impacting CA Rice Producers is the ending of direct payments. This has been no secret, so the decision at hand is choosing between the revenue protection program (Ag Risk Coverage or ARC) or the price protection program (Price Loss Coverage or PLC). If no decision is made by a Producer, the farm will default into PLC in 2015, which provides a floor of \$16.10/cwt. All Producers on a farm must agree on a program unanimously, so many decisions will have to be made in the coming weeks.

Increased MG Acres in the South

The secret is out that there will be a drastic water cut in CA, and rice producers in the South are weighing their options when it comes to planting MG or LG acres. Generally, Southern producers do not like to plant MG rice without a forward contract, but they are looking at the impending drought situation and many see that planting on spec this year could be a good idea. It will

be extremely difficult for the South to double its acreage due to the attractive high yielding hybrids, which many producers will not stray from. That said, a 60-65% increase is extremely feasible and would place southern medium grain plantings in the vicinity of 250,000 acres. The difference is that MG rice in the South only yields about 74cwt/acre



Lake Oroville at 36% capacity

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on average, so there would be about 6.2 million cwt added to the balance sheet. Overall, this hypothetical situation will not severely impact the price equation, and still results in positive fundamentals for price.

Australia's Smaller Crop

Last year, Australia had its largest crop in 10 years. This year, however, it will begin harvesting in 4-6 weeks, and the crop will be about 20% below last year's. Australia has core markets it will want to protect, and with a smaller crop, the motivation will not be to slash price, but rather to maintain market share and make a good return. There may be a pause in the market as global buyers evaluate how having a new supply from Australia will change prices, but overall, the market should remain strong even through the Australian harvest because of the lack of rain in CA.

Egyptian Export Ban

While an Egyptian export ban is not breaking news, it continues to provide strong support for a stable MG market. Given impending water conservation efforts in Egypt, long-term cuts in Egyptian MG rice production are inevitable and will play favorably to

MG producers worldwide. Egypt has purchased enough rice through its food security program to last until spring; if Egypt chooses to issue more export licenses and sell the rice it is sitting on, it will happen shortly. That supply will be released into the world market in close proximity to the Australian harvest, and could impede US exports for a period of time as the market adjusts.

In Summary...

CA is, without a doubt, in new territory. The global supply of medium grain rice is being threatened on a large scale by drought. Australia is saying the same thing about our industry what we were saying about theirs in 2007/08. It is next to impossible that we will entirely shut down operations as was the case in Australia, but the reality of not having enough water to share among agriculture, conservationists, and human consumption is becoming increasingly apparent.

The cash market is active, and as Producers, we must stand united. There are multiple factors at play, each carrying its own element of risk. RPC is committed to informing its membership so we can manage that risk effectively, together.

Join or Renew your RPC Membership now and receive:

- ✓ This *Exclusive* RPC Newsletter.
- ✓ Great networking opportunities with other Rice Producers.
- ✓ Discounts to Industry Events.
- ✓ Representation in Washington and in Sacramento.

Postage Paid Envelope enclosed—join now!

Producer/Associate	\$150	Membership
Silver Sponsor	\$250	Name on RPC Website
Gold Sponsor	\$500	Web link and recognition in every newsletter

Don't forget Insurance!

Be sure to talk to your Crop Insurer about the following important items:

1. Update your 2013 production
2. Make sure all units are correct for past production
3. Make sure all individuals on the policy are correct
4. Mark your calendar—Price for this year's policy will be set on Feb. 14.
5. And last but not least, if you plant, make sure you have enough water!

Send your membership to Rice Producers of CA at PO Box 942, Colusa, CA 95932