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## Rice Prices Are Steaming, With Many Implications

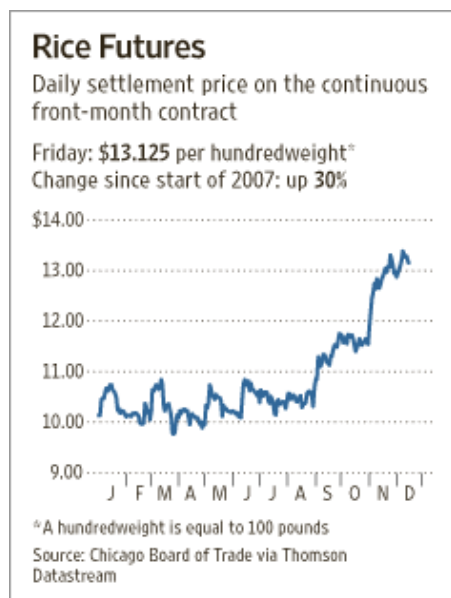
Developing World Is Vulnerable  
 To Expected Food-Cost Inflation;  
 Hedge Funds Get Into the Act

By **LAUREN ETTER**  
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The global commodities boom that has lifted prices of everything from gasoline to gold is now elevating rice -- a staple food for half of the world -- to its highest level in nearly 20 years.

Rice's surge has complex consequences for the global economy. Used in everything from sushi to burritos to Rice Krispies, the ubiquitous grain is suffering poor harvests and tight supplies in some of the biggest rice-exporting and rice-consuming nations, just as demand grows in places like India and the Philippines.

The higher price is a boon for some farmers and investors. But at the same time, it is expected to contribute to a protracted bout of food-price inflation for the foreseeable future, which could widen the rift between the world's haves and have-nots.



"At the end of the day, the fight will be between the industrialized world and the developing world," says Michael Lewis, managing director at Deutsche Bank.

A particular humanitarian concern is that the world's poorest consumers, many dependent on rice, often have little or no voice. "When they suffer food shortages, they starve in silence," says Joachim von Braun, director general at the International Food Policy Research Institute.

Soaring prices are drawing myriad investors into the market. On the Chicago Board of Trade, the number of bets outstanding on rice futures contracts recently reached a high -- a basic sign that more traders see a chance to make money on rising prices.

Nontraditional players, such as hedge funds, are now trading in rice, according to Fred Seamon, associate director of commodity research at the CBOT, and new exchange-traded investment products aimed at individual investors are also being rolled out. Two months ago, Jim Rogers, founder of the Rogers International Commodities Index, launched the Rogers Agricultural Exchange Traded Note.

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While prices for other commodities like oil have been flirting with records in recent months, in inflation-adjusted terms, agriculture commodities still have room to rise before reaching that point. For example, the price of wheat will have to increase by 106% before it reaches its record high in real terms, according to Mr. Lewis at Deutsche Bank.

#### CRACKLING GAINS

- **The News:** Futures prices for rice are at 20-year highs, which may have implications for the global economy.
- **Background:** Most commodity prices have been booming world-wide.
- **What's Next:** There could be general food-price inflation, increasing the gap between rich and poor nations. Many of the poorest consumers depend on rice.

As rice prices rise, food aid for developing countries is becoming scarcer. And the international price for broken rice, an affordable grade favored in many African countries, has increased 40% since last year, according to the United Nations Food and Agriculture Organization.

On the CBOT Friday, rice futures contracts settled at \$13.1250 per 100 pounds, down 5.5 cents. That is up from \$9.87 a year ago and just shy of the previous record price of \$13.40, set in January 1988 when rice was traded at the Mid-America Exchange.

While prices like these aren't at record levels in inflation-adjusted terms, they nevertheless threaten to exacerbate poverty in large areas of the world.

#### Senegal Riot

One risk is that, in some cases, rising prices lead to food shortages and social unrest. Indeed, in November a riot that broke out in Senegal was in part attributed to higher prices for rice, a staple there. Protesters, throwing rocks and burning tires, were met with police firing tear gas.

The story of rice echoes that of nearly all commodities, whether petroleum, copper or wheat. Prices for many commodities are surging thanks to booming demand from emerging economies like China. It is having broad ripple effects: Steel prices make it costlier to construct buildings; the rising cost of oil helps to drive up the cost of world shipping rates.

Rising oil prices also make it costlier to grow and ship rice and other grains -- which, in turn, drives up food prices.

#### Human Impact

Agricultural commodities, of course, tend to have a more direct human impact than, say, oil or steel. Grains have been trading at or near historic highs partly because of a combination of growing demand for biofuels -- such as ethanol made from grain -- as well as a rising global population, which means more mouths to feed in the developing world.

In addition, the weaker dollar has helped to boost global rice prices, as most rice is traded in dollars. In Thailand, the world's largest rice exporter, the price of long-grain rice has increased nearly 20% since last year, according to Nathan Childs, senior economist at the Department of Agriculture.

All these factors have depleted global grain stocks to levels not seen in decades. Wheat stocks are at their lowest level in 60 years. Rice stocks are at 24-year lows.

Complicating matters: Historically, rice has been a thinly traded market. Only about 7% of global rice production is traded on the world market, according to Mr. Childs. This means that, in the event of a supply shock, rice importers have to scour the globe for available supplies,

driving up the price even further. For comparison, about 16% of other grains, like wheat and corn, are traded globally.

#### **Permanent Trend**

Increased demand and tightening supplies are likely to persist. The Agriculture Department estimates that food prices will increase about 4.5% this year over last, compared with a 2.4% annual increase last year. In the developing world, food prices have increased about 9% over last year, according to the International Monetary Fund.

Higher food costs tend to hit people in poor countries harder than those in developed countries as households in developing countries spend a larger percentage of their income on food. In the U.S., food makes up about 18% of the overall consumer-price-index basket, compared with as much as 40% in some emerging economies, according to a report by Deutsche Bank.

For countries that rely on donations or aid to feed the hungry, higher prices can mean less food. At the United Nations World Food Program, rice is the third-most-frequently purchased commodity, and it supplies more than 70% of caloric intake in poor countries like Cambodia.

"If prices go up we'll be getting less of that particular commodity," says WFP spokeswoman Jennifer Parmelee. She says the price of procuring food has increased 50% over the past five years.

Since 2000, global rice consumption has increased 7.5%, while production increased about 5.4%. As supplies run short, the risk for the world market is that big rice exporters start keeping the food for themselves rather than selling it on the market, further driving up prices.

In July, Vietnam -- the world's second-largest rice exporter after Thailand -- said it would restrict rice exports in order to meet domestic needs first. India, another large exporter, announced similar export restrictions in October.

The U.S. accounts for only about 1.5% to 2% of global rice production, but it is the fourth-largest exporter, behind Thailand, Vietnam and India.

This year, U.S. rice acreage was 3% smaller than last year because of strong prices for competing crops, like corn and soybeans. However the crop is estimated to be 2% bigger because of higher yields. U.S. exports are expected to be nearly 20% higher than last year.

**Write to** Lauren Etter at [lauren.etter@wsj.com](mailto:lauren.etter@wsj.com)<sup>1</sup>

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