



Rice Futures

In this report we will tackle the Rice Future market fundamentals and the factor the effect the Rice Future prices, also we will explain its production cycles, contract details and the correlation with inflation. Lastly we will mention its future price forecast.

Overview

Rice is the second largest globally traded commodity after corn and a staple food item of Asia and part of the Pacific. Over 90 percent of the world’s rice is produced and consumed in the Asia-Pacific Region.

Rice is referred to the seeds of the rice plant *Oryza Sativa*, which is cultivated in high water lands.

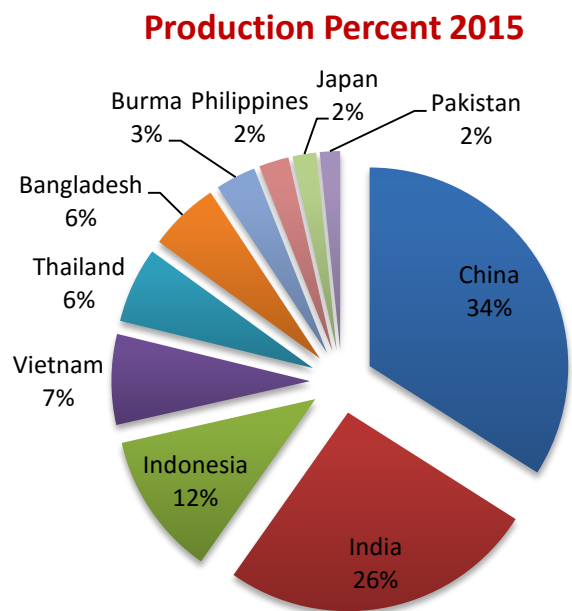
The Rough Rice (unmilled) futures are traded on the Chicago board of trade and the CME group Globex electronic trading platform.

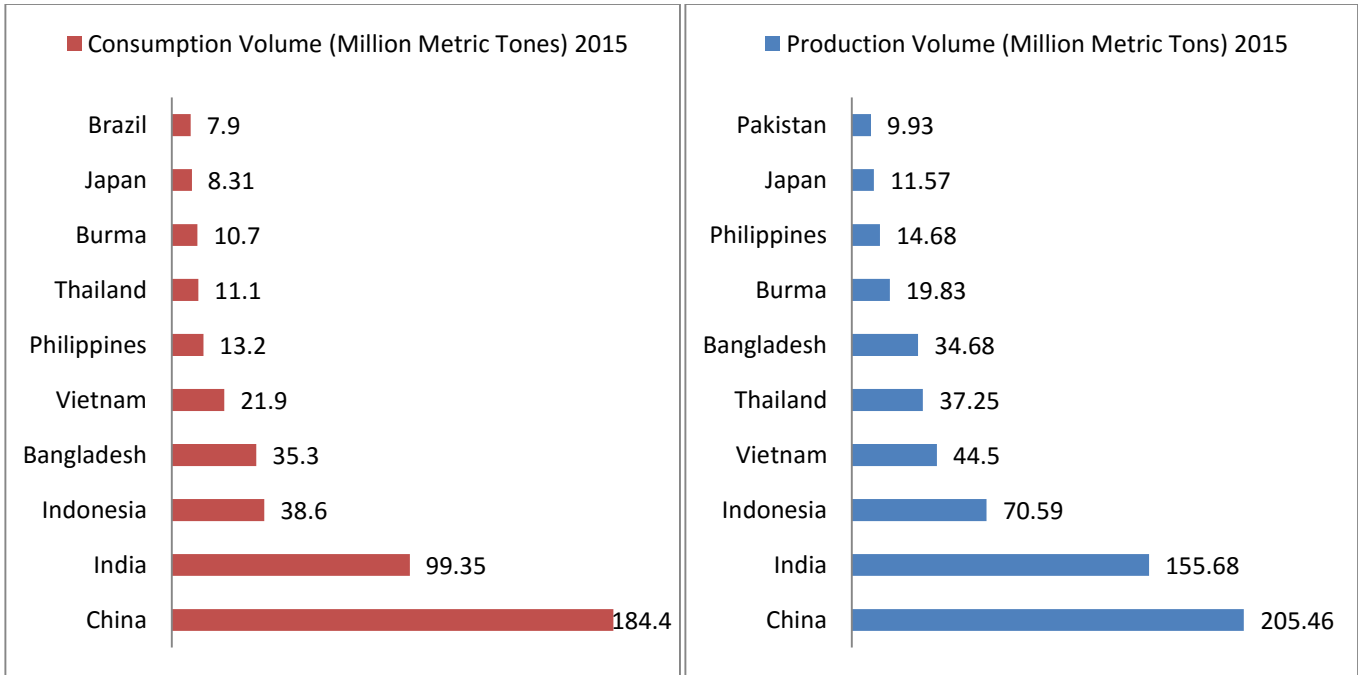
Rice Production Cycle

- Pre-Planting: Includes choosing the seeds, developing a cropping calendar and the preparing the rice field for planting.
- Growth: Include the planting method used, adding water, fertilizer and removing weeds.
- Post Production: includes drying, storage and milling after harvesting.

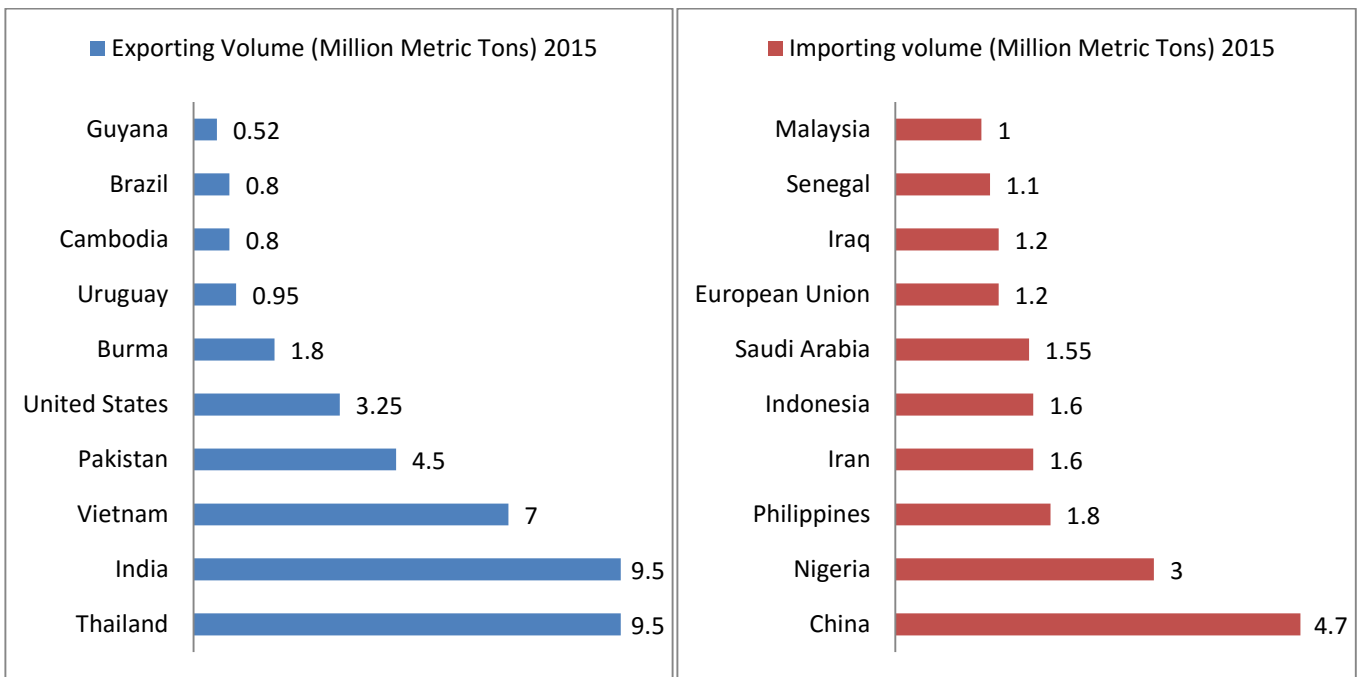
Rice Market Fundamentals

As the following charts illustrate that the most populated countries make the majority of the rice market and the most two most populated countries in the world China and India (35.99% of the global population) consistence of 60% of the global market thus the rice prices are extremely sensitive to their demand and supply.



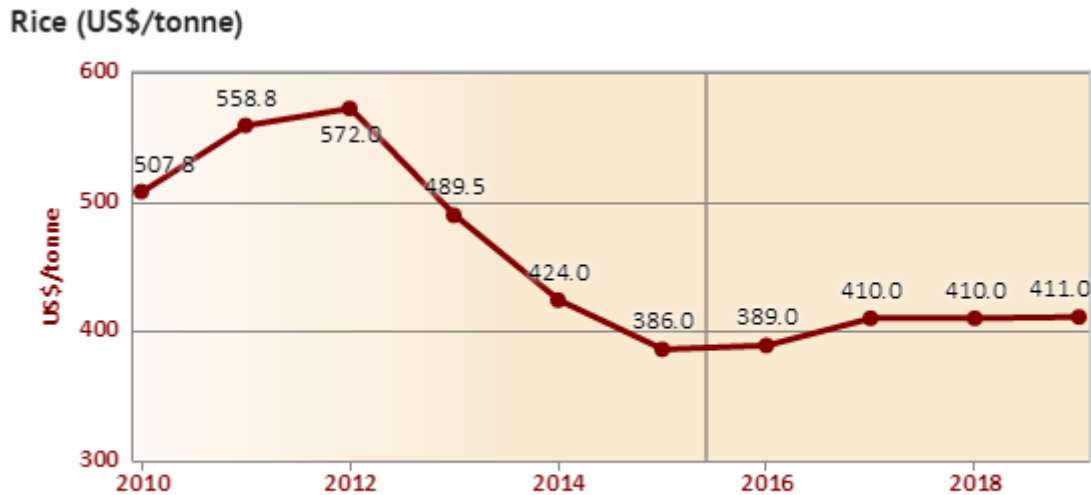


China and India are both the largest consumers and producers of rice in the world also India is standing as the biggest exporter with Thailand, even though china produces 89% of its consumption it's the world's largest rice importer due some losses in production and storage to satisfy its demand.



Rice Futures price Forecast

According to the Economist Intelligence Unit the Rice future price forecast indicates that the price will rise during the year 2016 then it will remain stable until the end of 2019, after the steep decline between the years 2012 and 2015.



Source: [EIU Economic and Commodity Forecast, December 2015](#)

Rice Futures and Inflation

Regarding inflation the rice prices are almost not correlated with inflation numbers for the major producers, meaning that it can't be traded as a hedge for inflation, thus rough rice prices isn't effect much with the increase in inflation as much of the change in demand and supply.

The following are the correlation numbers between the periods of 2010 and 2015:

- China/CPI Correlation: 0.18
- India/CPI Correlation: 0.04

Rice Future Contract Details

- Rice Futures trading months are January (F), March (H), May (K), July (N), September (U) and November (X) (Every two months).
- Rice futures contract size is 2000 (cwt.)
- The tick size for each contract is 5\$ (0.25 cent per each cwt.) and the daily price limit is 1000\$ per contracts (0.5cents per cwt.)
- Rice futures symbol ZR or RR (Rough Rice)

Major Factors That Affect the Prices of Rice

- Inventories: Due the huge importance of rice all over the world, rice inventories influence rice prices significantly therefore and dip in rice inventories may spread fear push the demand and price up.
- Global Demand: Most of the populous nations depends on rice as their major source of food, according to information provided by FAOSTAT the consumption of rice increased by 40%, moreover rice is being used in the industry of biofuel
- Demand in China and India: these countries are the largest producers and consumers as well , which any increase or decrease in these countries consumption will have a significant effect on the price
- Climate Change: Rice cultivation has an intense water requirement this mean that any unfavorable weather conditions would put pressures on supplies thus the price.
- Fuel and Fertilizer Costs: Rice cultivation require considerable amount of soil fertilization in order to maximize the farm production by that the cost of fertilizers is a key factor in the pricing of rice.
- Legislations: Such as export ban which would lead to a higher rice prices and the fear of rice shortage in the world market.
- Demand of the Biofuel Sector: in the recent years, the use of bio-fuel has resin working as a substitute for Oil, raising the demand of the rice which is used in the biofuel industry.

Rice is a commodity mainly trade for consumption more than speculation through future contracts available on the odd months around the year, also the rice market is dominated by two counties China and India which count for 60% of the market, the main reasons the effect the Rice prices are the global supply and demand rather than inflation.

Moreover the Rice Future prices are expected to increase during the year 2016 till the end of 2017 which then will remain afterward until the end for 2019.



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Sources

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