

Surging Grain Prices To Fuel Asian Inflation

SPECIAL PDF REPORT

JULY 2011



Farmers plant saplings in a rice field at Rajpur village, located in the western Indian state of Gujarat July 10, 2011. REUTERS/Amit Dave

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REUTERS™

Dwindling global rice surplus prompts price surge fears

By Apornrath Phoonphongphiphat and Ho Binh Minh

BANGKOK/HANOI, July 15 (Reuters) - A significant rice surplus is forecast to shrink by the end of the decade if more farmland in top exporting nations is put to industrial use and weather conditions worsen, keeping prices high as a growing world population boosts demand.

Ample supply may insulate Asia's main staple for at least two more years from price surges that have hit other grains, but costlier rice would feed food inflation worries, stirring fears of a repeat of the 2007/08 global food crisis that led to riots in some developing nations.

An estimated excess of 2 million tonnes of rice over the next three years is seen diving 90 percent to 200,000 tonnes by the end of the decade, under normal weather patterns, the Food and Agriculture Organisation (FAO) says.

The UN food agency and the Organisation for Economic Co-operation and Development (OECD) see prices staying at the high levels persisting since 2007/08. Thai benchmark rice prices have jumped at least 40 percent in the last five years.

"We foresee world rice prices remaining above the levels prevailing prior to 2006," said Concepcion Calpe, a senior FAO economist, adding higher production costs due to competition for land, water, energy, fertiliser and labour backed that forecast.

That could worsen in the next decade if top exporters Thailand and Vietnam switch more land to other uses, water and labour shortages intensify and moves to improve yields prove ineffective.

Traders and analysts agree with the FAO projection of a precarious supply-demand balance and say a supply shock, or any aggressive moves by the incoming Thai government to intervene in the market, could drive up prices.

A plan by the Puea Thai Party to buy rice from farmers at 15,000 baht a tonne could push export prices to as much as \$870, but is not expected to stimulate output as the government is limited to buying a quarter of total production.

Thai white rice - 4 weeks technical outlook:

(<http://link.reuters.com/tyh62s>)

CBOT rough rice - 4 weeks technical outlook:

(<http://link.reuters.com/vyh62s>)

SELF-SUFFICIENT, BUT FOR HOW LONG?

China is also increasingly exposed to extreme weather such as prolonged drought followed by flooding in rice-growing areas, driving it to buy more farm products, including rice, from neighbouring Vietnam.

Supply concerns have also led major rice importers Indonesia and the Philippines to push up domestic production of the grain. The Philippines, the world's biggest rice buyer in recent years, aims to import less than 500,000 tonnes in 2012, well below the record of 2.45 million tonnes last year.

(Continued on page 3)



Farmers harvest rice on a paddy field in Ngoc Nu village, outside Hanoi June 10, 2011. Soaring food prices, civil unrest and worries about weather have spurred a global race to create more productive crops that can thrive in a warmer - and more prosperous - world. REUTERS/Kham

"The Philippines hopes to be self-sufficient in rice by 2013 and is looking into the possibility of exporting rice after 2013," said Agriculture Secretary Proceso Alcala. To get there, his ministry has targeted record output of 17.4 million tonnes of paddy rice this year and 19.2 million in 2012.

Indonesia aims for record paddy output in 2011 and to raise annual production by 5 percent by opening up 2 million hectares of land up to 2014.

"I think they are achievable, both for the Philippines and Indonesia. I think achieving self-sufficiency is one thing, maintaining self-sufficiency is more difficult," said Samarendu Mohanty, a senior economist at the Manila-based International Rice Research Institute (IRRI).

But unpredictable weather around the southeast Pacific Ocean, such as the La Nina weather pattern last year, can easily defeat the plans, Mohanty said. "They can be self-sufficient as long as the weather is good."

The market doubts if Indonesia can reach its goals. It is looking to import more rice in the second half, after around 1 million tonnes in the first half, to make up for below-target stock procurement, traders and officials said, a move that will again expose it to price jumps of the kind seen early this year.

FOOD INFLATION WORRIES

Rising benchmark oil prices, which hit a peak of \$147 a barrel in 2008, led to higher rice prices by encouraging farmers to switch from food to biofuel crops.

A food panic ensued after India halted rice exports to secure supplies at home, while Vietnam banned new export contracts from March to June 2008 to meet local demand, leading to global tightness that tripled prices that year.

But this week, India has agreed to allow exports of 1 million tonnes of common rice from bulging stockpiles.

In 2006 before the panic set in, Thai benchmark 100 percent B grade white rice traded around \$380 a tonne, free on board. In April 2008, it hit a record of \$1,080 a tonne, after a move to support domestic rice prices in Thailand similar to the one proposed by the incoming government.

Current rice prices are still considered firm around \$550, and the FAO said grains would stay at high levels historically. Surging wheat, corn and soybean prices drove the FAO food index to a record in February.

OUTPUT RESPONSE

High rice prices have led Thailand and Vietnam to encourage farmers to produce more, through higher yields, but analysts said they were unlikely to push output much higher in the next few years.

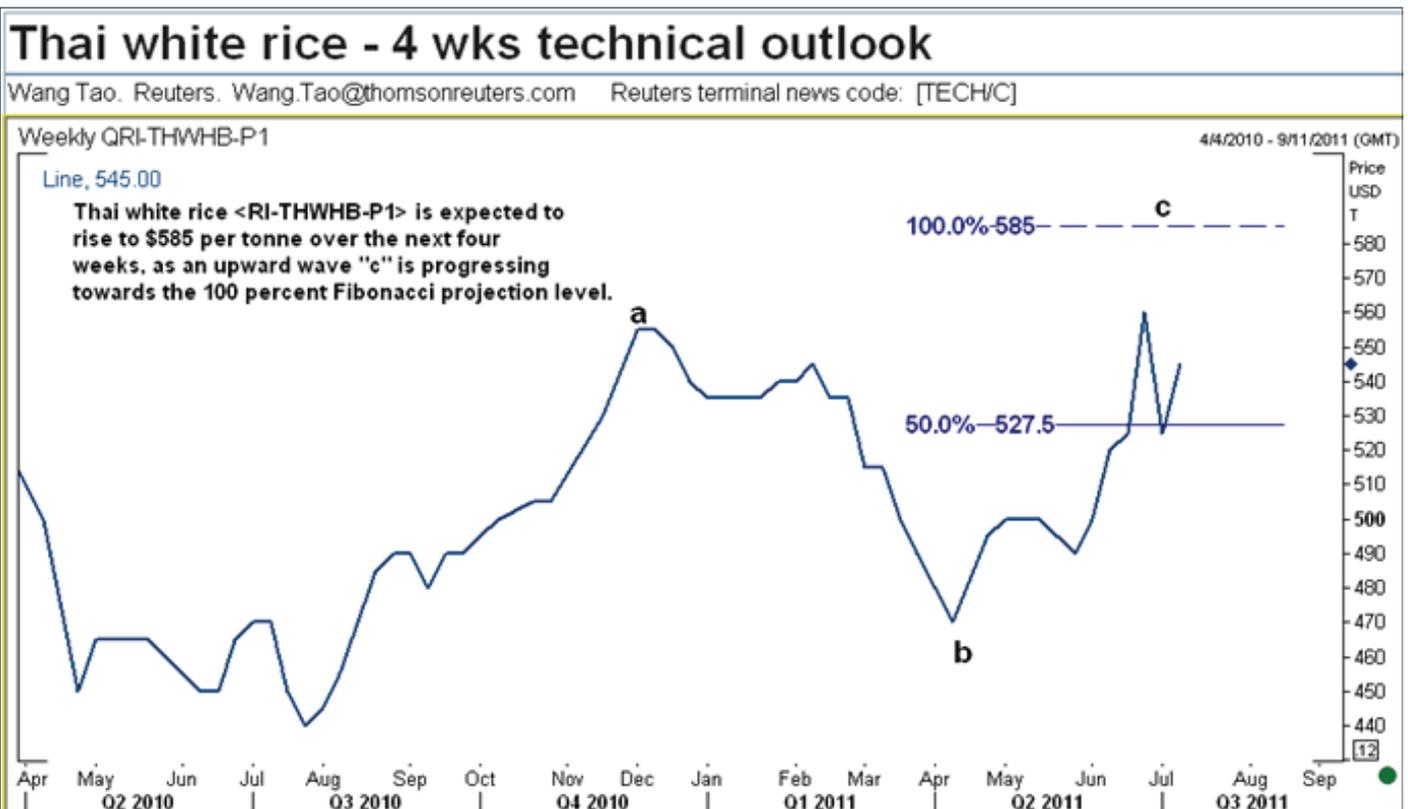
Top exporter Thailand has 9.1 million hectares (22.5 million acres) for rice and, because of a land shortage, is banking on a new hybrid strain to help lift annual output by percent to 35 million tonnes of paddy by 2015, said Prasert Gosalvitra, director-general of the rice department.

"We need to maintain rice areas at this level and do all we can to increase yields to maintain our capacity to feed our people and be the number one exporter," Prasert said.

Second-biggest exporter Vietnam has 7.0 million hectares under rice cultivation, its agriculture ministry said. Urbanisation and industrialisation could shrink that, requiring better farming techniques to boost yields if it aims to produce 44 million tonnes a year, from 40 million now.

"It's possible to reach 44 million to 45 million tonnes per year if fields are consolidated and intensive farming is undertaken," said Bui Chi Buu, director of the Institute of Agricultural Science for Southern Vietnam.

(Continued on page 4)



Australia wheat exports set to jump 9 pct to record

By Bruce Hextall

SYDNEY, June 15 (Reuters) - Australia's wheat exports are set to jump nearly 9 percent to a record in the year to September 2012, the government's chief commodities forecaster said on Wednesday, with favourable weather in what is usually the world's fourth-biggest shipper.

The 2011-12 crop has several months before harvest at the end of the year so any harsh weather, which has in previous years led to sharp reductions in Australian crop forecasts, could alter the outlook.

In its first forecast for the marketing year to Sept. 30, 2012, the Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES) put exports at 20.11 million tonnes, up from a forecast 18.470 million tonnes in 2010-11.

U.S. wheat futures on the Chicago Board of Trade had made some small gains ahead of the official Australian data, but they were quick to dissolve.

"It's a big export number so you could construe that it led to a slightly softer tone this morning," said Brett Cooper, senior manager, markets at FCStone Australia.

By 0108 GMT, the front-month July contract was flat at \$7.31 per bushel after dropping 2 percent on Tuesday. The December contract was also softer.

Graphic of wheat forecasts by region:

(<http://link.reuters.com/pyg22s>)

Previous Australian forecasts have had to be revised sharply downwards because of harsh weather. In 2007/08 an initial forecast of 24.98 million tonnes turned into a harvest of 13.08 million tonnes because of a severe drought.

The 2010-11 Australian wheat crop was a record, but around half was downgraded to feed quality due to heavy rains during harvest.

"If we have a good quality crop coming up I think there is certainly demand for high quality milling wheat around the world," said Cooper.

The global market is generally bearish on wheat as supplies are adequate, despite production setbacks with the U.S. winter wheat crop because of drought and dry weather affecting crops in western Europe.

Abah Ofon, agricultural commodities analyst with Standard Chartered Bank in Singapore, said ABARES' export forecast would add to the negative tone.

"It is going to put some bearish pressure on the market as it does amount to additional supplies coming into the global market," he said.

ABARES' estimate for 2011/12 Australian exports was around 18 percent higher than a forecast made by the U.S. Department of Agriculture last week.

WEATHER FAVOURABLE

ABARES Deputy Executive Director, Paul Morris, said that good soil moisture in the eastern states and favourable grain and oilseed prices had encouraged Australian producers to increase winter crop plantings this year.

Of the major winter crops, the area sown to wheat is forecast to increase by 7 percent to 14.3 million hectares in 2011-12.

But the area sown is likely to come at a higher costs, because a mouse plague in eastern Australia has forced farmers to spend money buying bait.

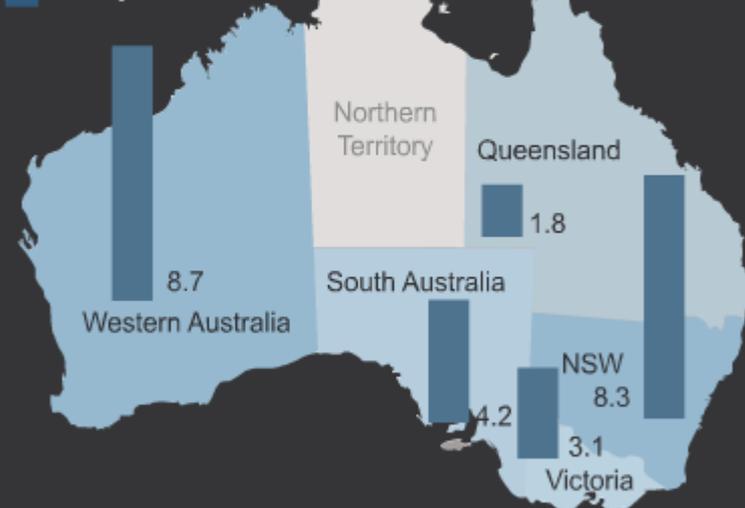
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Australia wheat production by region

Click on regions to see production

Forecasts - mln tonnes

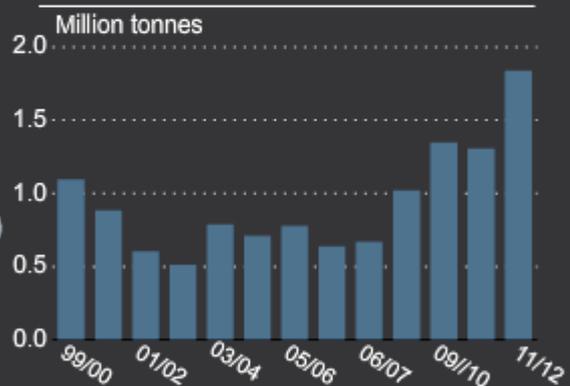
■ 2011/12



Australia crop forecasts

Total forecast crop million tonnes	2010/11	2011/12
	26.3	26.2

Queensland



* Forecast

Source: Australian Bureau of Agricultural and Resource Economics, Australia Crop Forecasters

15/06/10

REUTERS

"It has got the potential to cost us a lot of money if it does get out of hand," said Chris Groves, a grain farmer in New South Wales state. Groves is currently finishing sowing 800 hectares of winter grains, about half of which is wheat. "We've planted crops on a good profile of moisture and everything is germinating as we would expect," said Groves.

ABARES forecast Western Australian wheat production at 8.7 million tonnes in 2011/12, provided there are sufficient winter rains. Last year the state harvested only 4.7 million tonnes following a prolonged drought.

COTTON

The country's cotton farmers are also riding high, due to full irrigation dams and historically high prices. Cotton production could rise to a record 1.106 million tonnes in 2011/12, up from 898,000 tonnes in 2010-11, according to ABARES.

The agency did not provide cotton export figures. Australia, the world's third-largest exporter of the fibre, ships most of its cotton to China, Thailand and other Southeast Asian countries.

Asia rice production, trade and policies

July 15 (Reuters) - Top rice exporters Thailand and Vietnam face competing claims for land, water and labour shortages, as well as unpredictable weather, factors seen supporting high rice price for years as a global surplus narrows.

Here is a summary of rice production/stockpile, export/import data and forecasts in Asia.

THAILAND

Thailand forecast record shipments this year, but traders said promises made to farmers before the July 3 election could push up prices before the main harvest starts in November when any new support schemes would come into effect.

Thailand's paddy output of 31.8 million tonnes this year, above normal production, equates to around 19 million tonnes of milled rice for domestic consumption and export in 2011.

Government rice stocks have halved to 1 million tonnes following gradual sales in late 2010.

VIETNAM

Vietnam rice farmers normally do not switch to other crops as the grain is a staple food in the country of 87 million people and among the top cash earners. Output may jump to 44-45 million tonnes by 2015 if production is reorganised, a top researcher said. Vietnam is expected to export 7.3 million tonnes in the current crop year, with stocks now around 760,000 tonnes.

Five percent broken rice prices now stand around \$505-\$510 a tonne, free-on-board (FOB), down around 6 percent from the end of 2010.

PHILIPPINES

The world's top rice buyer in 2010 with a record volume of 2.45 million tonnes, the Philippines expects to cut 2012's imports to less than 500,000 tonnes on a domestic output forecast of 19.2 million tonnes.

(Continued on page 6)



A worker holds up a handful of rice grains at a rice mill in Bekasi, Indonesia's West Java province July 1, 2011. Indonesia sees higher unmilled rice output in 2011 and a bigger surplus of the staple food as it expands production areas, government officials said on Friday. REUTERS/Beawiharta



A farmer holds paddy seedlings in Bekasi, Indonesia's West Java province July 1, 2011. Indonesia sees higher unmilled rice output in 2011 and a bigger surplus of the staple food as it expands production areas, government officials said on Friday. REUTERS/Beawiharta

It aims to become self sufficient in the staple by 2013 when production could reach 21.1 million tonnes.

The country's rice inventory as of April 1 was 3.08 million tonnes, 11.1 percent more than the year-earlier stocks, enough to cover domestic consumption for 91 days.

The Philippines usually buys rice from Vietnam and Thailand. An agreement with Vietnam to ensure rice supplies during emergencies had been extended for another three years to 2013.

INDONESIA

Indonesia aims to raise rice output by 5 percent annually, and cut consumption by 1.5 percent a year to create a 10 million-tonne surplus in the next five to 10 years. Indonesia may import rice from Vietnam or Thailand this year through a government agreement that allows buying of up to 2 million tonnes.

It surprised markets in January by buying 820,000 tonnes -- nearly five times as much as expected. Rice imports are a delicate subject, sometimes triggering protests by farmers who fear imports could depress prices.

Indonesia has barred rice imports by private traders since early 2004 to prevent smuggling. Rice imports for price stabilisation, disasters, and shortages can only be done a month before and two months after the main harvest.

Only state procurement agency Bulog is allowed to carry out imports and maintain grain stocks for the government.

CHINA

China, the world's top rice consumer and producer, was a net exporter in 2008, 2009 and 2010. Its early-season crop in key growing regions has faced a drought this year, which could hit

grains output though domestic wheat stocks will act as a cushion and keep import volumes low.

It has become a net rice importer in the first four months of 2011, with total imports at 212,062 tonnes, of which imports from Thailand and Vietnam have increased. .

The USDA projects China's 2011/12 beginning stocks of rice (milled) at 40.5 million tonnes as compared with 38.55 million tonnes during 2009/10.

China mainly imports Thai fragrant rice to meet demand for its special favourite variety, and is short of Japonica rice, but none of the rest of the world can provide the volumes needed.

China is the largest producer of Japonica rice.

INDIA

India has agreed to allow 1 million tonnes of common rice exports and an unspecified amount of wheat, government sources said on July 11, having lifted a ban since 2008.

The government has also allowed some exports to neighbour countries, such as Bangladesh, through diplomatic deals.

India's rice stocks hit 27.8 million tonnes on May 1, exceeding a target of 12.2 million tonnes due to bumper harvest and export curbs.

PAKISTAN

Pakistan's rice exports fell to about 3.7 million tonnes in the 2010/11 fiscal year that ended June 30, from 4.6 million tonnes in the year before after devastating summer floods, according to provisional data by Rice Exporters Association of Pakistan.

(Continued on page 7)

Pakistan sold about 2.6 million tonnes of non-basmati rice and 1.1 million tonnes of basmati. REAP's vice chairman Taufeeq Ahmed Khan told Reuters on Thursday that Pakistan will likely export up to 4.5 million tonnes of rice in the 2011/12 financial year on expectations of a bumper crop which is projected to be between 6 million to 6.5 million tonnes. Traders say the country has a carryover stocks of over 1 million tonnes.

BANGLADESH

The world's fourth-largest rice producer, reaps 33 million tonnes a year but often imports large volumes to overcome shortages caused by natural disasters like floods and drought. Bangladesh, once self-sufficient in rice, has become a big importer recently, including government deals with Vietnam and Thailand. The government's grain imports are likely to drop to 800,000

tonnes in the coming fiscal year, beginning in July, from nearly 1.4 million tonnes in the current fiscal year. Bangladesh has reserves of 750,000 tonnes of rice and wheat and plans to increase stocks to 3 million tonnes a year by 2020.

Bangladesh usually exports a small quantity of aromatic rice but is likely to continue a ban on this variety. Rice is the main staple food for the country's more than 150 million people.

MALAYSIA

Malaysia will continue to maintain a rice stockpile of 292,000 tonnes, equivalent to 45 days consumption for its 28 million people. It is among major buyers of Vietnamese rice this year.

Malaysia will also focus on increasing yields as there is a shortage of agricultural land.

Global food inflation to return after brief respite

By Julie Ingwersen

CHICAGO, July 14 (Reuters) - Red-hot food inflation that has vexed policy makers around the world seemed to take a breather last month, when corn and wheat prices tumbled on reports that crop shortages were easing.

The sell-off was also driven by global economic worries that prompted funds to exit grains in droves.

But prices are climbing again, and have already made up half of June's losses. The sell-off masked an unnerving reality: The world remains just one Midwest heat wave or global crop disaster away from another damaging price run-up that could revive concerns over food security.

With grain supplies still tight and worldwide demand growing quickly, food price inflation looks set to remain high and even worsen in the years ahead. It will likely take years of near-perfect crops to replenish global stockpiles of corn and wheat, the staples of the world food system, and minimize the risk of price spikes.

"The bottom line remains that on a worldwide basis, the interest for these commodities, grains in particular, has evolved over the last five to seven years such that we need big crops all the time," said Bruce Scherr, chief executive of Informa Economics.

Stockpiles of corn in the United States, the No. 1 producer, are forecast to drop to 16-year lows -- 870 million bushels -- by summer 2012. As a percentage of use, that would be the second-tightest since the Dust Bowl devastated crops in the 1930s.

(Continued on page 8)



A farmer leads her cows on a rice paddy field in Boi Khe village outside Hanoi May 19, 2011. REUTERS/Kham

This time around, crops are historically large, but demand is also surging due to Chinese consumers and U.S. ethanol producers.

As for wheat, the USDA projects world inventories will improve by June 2012 to reach 182 million tonnes, up from their 26-year low of roughly 126 million in 2007/2008 during the last run-up in prices. But growing demand, notably from the livestock sector, will keep prices high, as will a scarcity of high-protein, high-quality milling wheat.

It all adds up to pressures ahead. The United Nations' Food and Agriculture Organization said this month that in 2011/12, improving crops should push world food prices down from a year ago -- but not dramatically.

"The upward pressure on some of these food prices has maybe been tempered for the minute," said Bill Lapp, president of Advanced Economic Solutions, a commodity analytical firm based in Omaha, Nebraska. "But I don't think it has gone away."

Graphic:

Corn, wheat rebound: (<http://r.reuters.com/qam62s>)

CFTC graphics package: (<http://r.reuters.com/buv87r>)

STRONG CORN FUNDAMENTALS

U.S. corn futures at the Chicago Board of Trade set a record high near \$8 a bushel on June 10, then plunged 23 percent in the next three weeks. CBOT corn fell 15.8 percent during June, its biggest monthly drop in two years.

Most of the sell-off came the last day of the month after the U.S. Department of Agriculture stunned the trade by reporting much larger U.S. corn plantings and old-crop stocks than analysts had expected.

But over the past week and a half, prices have recouped half those losses on forecasts for hot weather that threaten to crimp the crop, which already faced widespread planting delays due to heavy spring flooding.

"We do have more breathing room for corn and soybeans and wheat than we had, relative to expectations," Scherr said.

"But we've got a whole long summer in front of us. We need solid yields on these larger acreages to make sure we have ample crops, because ample need crops are needed to meet these growing demands," Scherr said.

Patrick Westhoff, director of the Food and Agricultural Policy Research Institute at the University of Missouri, concurred, recalling how late-summer heat trimmed U.S. corn yields in 2010, dashing hopes for a bumper harvest.

"Last year at this time, we had not seen the big run-up in corn prices yet. We were still expecting a near-record crop. and that is not where we ended up," Westhoff said.

"It's just a reminder that things can always surprise you," Westhoff said.

CHINA A WILD CARD

On the demand side, China remains a wild card for the corn market. In 2010 China became a net importer of corn for the first time in several years, and the country is expected to import up to 5 million tonnes of corn in 2011, the U.S. Grains Council said last month.

"Unlike in 2008, (Chinese) corn stocks have been drawn down appreciably. On any kind of a break in the market, they are

going to be buyers to restock those reserves," said Rich Feltes, vice president for research with R.J. O'Brien.

"I would say a late-2008 plummet in commodity prices is not likely for that reason," Feltes said.

China bought as much as 1.6 million tonnes of new-crop U.S. corn in recent deals as CBOT prices slumped. Talk that more business could be in the works helped lift futures off the late-June lows.

"We don't expect Chicago corn or soy prices to fall further by a big margin. Even with a good weather later, U.S. soy supply could have the tightest stocks in years," said Shi Yan, chief analyst with Xinhua Futures.

Federal mandates that require growing use of ethanol in U.S. fuel will also underpin demand. USDA this month projected that for the first time, ethanol plants in 2010/11 would consume more corn than cattle, hogs and poultry.

WHEAT

CBOT wheat staged an even bigger slide than corn, falling 37 percent in nearly five months after hitting a 2-1/2 year high in February. Its 25 percent fall in June was the biggest monthly loss since 1974. But it too has rebounded abruptly.

Wheat suffered a similar investor exodus as corn and other commodities in the second quarter of 2011, when the Reuters-Jefferies CRB commodity index staged its biggest drop since the collapse of Lehman Brothers triggered a global market meltdown.

While the USDA expects global wheat production for 2011/12 to rise 2 percent to 662.42 million tonnes, the third-highest on record, consumption is rising almost as fast.

"You look at the wheat balance sheet on a world basis, and consider that last five or six years, we've increased wheat consumption by 10 million tonnes per year, while prices were rising," Informa's Scherr said.

"What that tells you is you've got people with incomes around the world who are demanding these commodities as part of what I call a broad base of infrastructure expansion."

Big Asian rice buys raise spectre of scramble for supply

By Jason Szep

BANGKOK, Jan 28 (Reuters) - Fresh demand for rice in two big Asian countries is sending a worrying signal the region's main staple may join a surge in prices for other grains, worsening Asia's spiralling food inflation.

Asian rice traders say aggressive buying in heavily populated Indonesia and Bangladesh could spread, pushing up world rice prices even though bumper crops in Thailand and Vietnam should mean ample supplies.

"This is only the start of the panic buying," said Ker Chung Yang, commodities analyst at Singapore-based Phillip Futures, referring to Bangladesh's recent tripling of its rice import target and Indonesia's purchase this week of 820,000 tonnes of Thai rice, nearly five times the volume initially sought.

"I expect we'll have more countries coming in and buying grain."

(Continued on page 9)

Still, analysts see little risk of a 2008-like food crisis, when rice prices rose above \$1,000 a tonne, double their current level.

Vietnam's rising supply and lower imports from the Philippines, the world's top importer last year, could mean rice continues to defy a broader trend of fast-rising global prices for wheat, soybeans and other foods.

Thailand's benchmark 100 percent B grade white rice was offered at \$540 per tonne on Friday, unchanged so far this year after falling 13 percent last year. In comparison U.S. wheat and corn futures have risen by more than half since the start of last year.

A sustained rise in the price of rice, a staple in the diets of nearly half the world's population, would squeeze the budgets of millions of Asians living near the poverty line, raising the risk of unrest in a reprise of the 2008 food security crisis.

For a four-week rice technical outlook:

(<http://graphics.thomsonreuters.com/WT/20112701161524.jpg>)

For a graphic on rising prices:

(<http://link.reuters.com/zyz67r>)

The aggressive purchase by Indonesia, a country of 230 million people, seems aimed more at bringing down 20-month high inflation, a view reinforced after the country followed up on Friday by scrapping import duties on rice, soybeans and wheat.

"The Indonesian buying is a classic example of countries doubling their imports of rice in a very short span of time," said one Singapore-based trading manager with an international trading company. "The way Indonesia has bought smells of food security fears rather than genuine demand."

Indonesia bought 820,000 tonnes of Thai rice, more than four

times the 170,000 tonnes it initially tendered for.

In Bangladesh, an impoverished country of 150 million people and South Asia's biggest rice buyer, traders reported panic buying and hoarding following a 50 percent rise in local rice prices over the past year. This month it tripled its import target to 900,000 tonnes for the year to June 30 to cool prices.

"There is panic buying among consumers and a sense of insecurity as millers and middlemen hold back rice expecting better profits," said Badrul Hasan, director for procurement at the Directorate General of Food, the state grain buyer.

FEARS OF UNREST

World leaders meeting in Davos said on Thursday that soaring food prices risked stoking more unrest and even war, but top executives there rejected calls for curbs on commodity speculation.

The U.N. food agency has said food prices hit a record high in December, surpassing levels in 2008 that sparked riots. But while weather shocks are disrupting supplies, there has been no repeat of the leap in energy and fertiliser prices or of the widespread hoarding of three years ago.

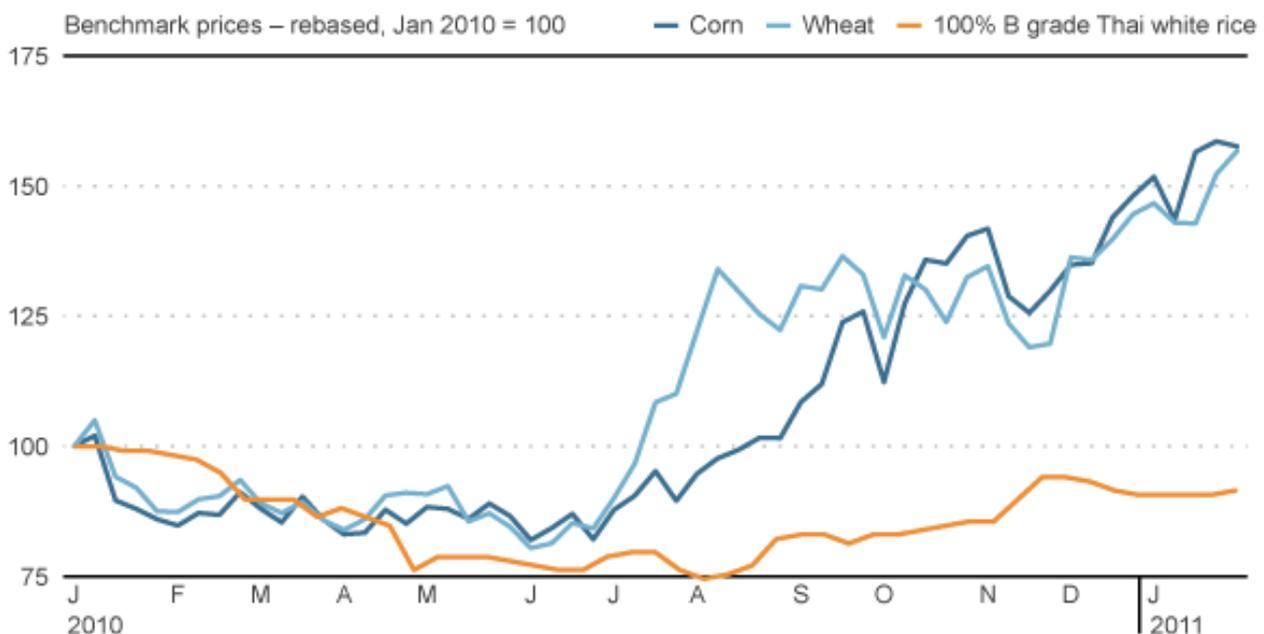
Most experts doubt Asia is on track for a spike in rice prices of the magnitude of 2008 when governments made desperate attempts to secure supplies amid widespread unrest.

"It is not the baseline scenario but it is one of the risk scenarios that we face," said Leif Eskesen, chief economist for India and Southeast Asia at HSBC.

He said, however, there was a chance of sustained higher food prices, including for rice, because of a resurgence of demand in developing regions such as Southeast Asia, where ultra-low interest rates have caused millions to splash out in department stores and spend more on food.

(Continued on page 10)

Corn, wheat prices rise as rice remains steady



Sources: Chicago Board of Trade, Thomson Reuters

REUTERS

"Some of these food prices are remaining elevated and part of that is because demand has been quite strong," said Eskesen.

"The broader message is even if they stay elevated for two to four months, they can start to spill over to inflation expectations. And that is really the main concern as we see it here, that that is starting to happen," he said.

U.S. wheat futures touched a 29-month high on Thursday as buyers scrambled for supplies amid harsh weather in major producing countries like Australia and Russia.

AMPLE SUPPLIES

Whether rice follows other food prices higher is no sure bet.

Vietnam, the world's second-largest exporter after Thailand, was forecast to enjoy a bumper next crop, while the Philippines, the top buyer, has said it would halve imports in 2011.

But traders said food security fears could trump fundamentals. Thailand expects rice prices to steadily rise, said Korbsook Iamsuree, the head of the Thai Rice Exporters Association.

"Food prices have gone up but rice hasn't really gone up substantially, but that is the trend," she told Reuters. "We expect rice prices to go up this year."

With elections in Nigeria, usually the world's second-largest rice importer, there could be some urgency to stock up on rice to ensure stable food prices.

"Factors are pointing towards the possibility of a rally in rice prices," said another Singapore-based commodity trader.

"It will not be due to supply constraints but it will essentially be food security fears and the general food complex moving up."

COLUMN-Is Yingluck bad luck for rice buyers?: Clyde Russell

--Clyde Russell is a Reuters market analyst. The views expressed are his own.--

By Clyde Russell

SINGAPORE, July 7 (Reuters) - Could food inflation in Asia be stoked by the promise to double the price paid to Thai rice farmers by the country's newly elected populist government?

The answer is yes for the short term and probably not for the longer term as the generous subsidies planned by the incoming Thai government led by Yingluck Shinawatra are likely to collide with some harsh economic realities.

Certainly the cost of rice has moved higher in the aftermath of the electoral triumph of the Puea Thai Party, which is strongly linked to ousted ex-premier Thaksin Shinawatra, the older brother of new leader Yingluck.

Benchmark 100 percent B grade white rice jumped to \$545 a tonne after Sunday's vote, up 3.8 percent from before the poll delivered a clear majority to Puea Thai.

There are fears that if the new government quickly implements its policies, the price of rice from the world's biggest exporter of Asia's staple food will rise to as high as \$870 a tonne.

This would be a 67 percent jump from before the vote, and given that Thailand's 10 million tonnes per year of annual exports accounts for a third of the global total, you don't have to be an economist to see the potential for an inflationary impact.

A jump in the price of rice will mean food costs will rise across Asia just as the costs of other grains such as corn and wheat moderate.

The election of Yingluck may even constitute a "black swan" event for food inflation, something unanticipated that has a dramatic impact on the market.

OK, what's outlined above is the worst case scenario for rice in Asia.

While there is no doubt that the new Thai government will act to pay more to rice farmers, the chances are that over the longer term the cost of the subsidies will either prove unsustainable or be borne by the government, not Asia's rice consumers.

Let's look at some numbers. The government aims to pay rice farmers 15,000 baht (\$495) per tonne, double the domestic market price of 7,000-8,000 baht.

The government hopes that much of the cost of this subsidy will be paid by the buyers of Thai rice in the international market.

Let's assume the full cost of the additional payment to farmers, about \$250 a tonne, is passed successfully onto buyers, then yes, the scheme won't cost the government anything.

But how likely is it that the full cost can be passed on?

Not very. Already rice traders are moving to source from other exporters such as Vietnam and Pakistan.

While it is unlikely that the entire Thai export volume can be sourced from other places, some traders estimate Thai exports could drop from around 10 million tonnes a year to as low as 5 million.

What this means for international rice buyers is that they will pay more for rice in the short term, but probably not as much as the entire cost of the Thai subsidy.

It is also good news for farmers in Vietnam, the number two rice exporter, as well as other major shippers such as Pakistan, India and Cambodia as the value of their crops increase.

It is universally bad news for big buyers such as the Philippines, Nigeria and Iran and presents their governments with challenges to source enough food and control prices.

It may also lead some producing countries to act to hoard rice and limit exports as the global rice market tightens.

But while the global rice market is disrupted, what's going to happen in Thailand itself?

Well, presumably the farmers will be very happy with their additional cash, and will produce even more rice.

Assuming Thai exports do decline, what this means is rice will keep piling up in warehouses, and it shouldn't take too long for storage space to become very limited.

What then becomes likely is that Thailand will be forced to export at whatever the market price is, meaning the government is compelled to sell rice at a loss.

(Continued on page 11)

Assuming 10 million tonnes of annual exports, and a rise in the export price of rice equal to half of the \$250 a tonne subsidy, this means the cost to the government of about \$1.25 billion a year.

This equates to roughly 10 percent of the planned deficit for the next fiscal year that starts in October, which places a question mark over whether the new Thai government can actually afford to subsidise the export price of rice.

Of course, the new leaders will push the view that the government won't have to subsidise the export price, but that seems unrealistic.

As international buyers go elsewhere and mountains of rice build up in Thailand, they will face the reality that intervening in markets never comes for free.

Indonesia's Bulog may import rice from six countries

JAKARTA, July 14 (Reuters) - Indonesia's state procurement agency Bulog could import rice from six countries which have a surplus of the staple, CEO Sutarto Alimoeso said on Thursday.

"We are exploring all possibilities that include importing rice from India, Pakistan, Thailand, Vietnam, Cambodia and Myanmar. We are hoping to import from those countries through a government-to-government scheme," Alimoeso told reporters at parliament.

"Earlier this year, the ambassador to Pakistan visited Bulog's office to offer rice and we did talk about a possibility to sign an MoU with our government."

Jakarta has said that Southeast Asia's largest economy would import rice in the second half to maintain Bulog's stockpile at 1.5 million tonnes to 2.0 million tonnes. This is a reversal from its initial position when a farm ministry official said in late May that Indonesia expected higher paddy output of 70.6 million tonnes in 2011, leading to greater surplus and no need for further imports this year.

Pakistan is likely to export up to 4.5 million tonnes of rice in the 2011/12 fiscal year on an expected bumper crop, traders said on Thursday, adding to an amply supplied market.

Earlier this week, India agreed to allow 1 million tonnes of common rice exports and an unspecified amount of wheat, as it weighs managing millions of tonnes of grains in stockpiles against fighting persistently high inflation. India's move on rice exports helped hold Thai prices down this week but they stayed firm versus prices in Vietnam, which may enable Hanoi to export a record volume this year, traders said.

The benchmark 100 percent B grade Thai white rice, which has jumped nearly 4 percent from last month because of hoarding due to speculation about aggressive intervention by the incoming government, was steady from last week at \$550 a tonne. Indonesia mainly buys rice from Vietnam and Thailand and signed a Memorandum of Understanding (MoU) with both countries last year to secure 1 million tonnes from each.

"We can't rely on one or two countries only. But the thing about Thailand and Vietnam is that their governments have signed an MoU with our government," said Alimoeso. Indonesia is the world's third-largest rice grower and has been striving unsuccessfully for self-sufficiency for years, with demand rising among the world's fourth largest population.

(Continued on page 12)



A man carrying a sack of rice walks to board a taxi boat heading for the village of Kendari in Indonesia's southeast Sulawesi province July 13, 2011. Taxi boats are the main form of transportation for local residents, linking the different villages on different islets in the province. REUTERS/Yusuf Ahmad

Indonesia Bulog gets green-light to import more rice

By Yayat Supriatna

JAKARTA, July 6 (Reuters) - Indonesia may import more rice this year to keep healthy stock levels after earlier saying it has enough of the food staple to avoid overseas purchases, and is awaiting a trade ministry permit to determine volumes, government officials said.

State procurement agency Bulog has been permitted to import more rice this year, an official said, while the trade minister said the move is aimed at keeping rice stocks at a safe level and did not indicate a shortfall.

"It was a government decision to allow Bulog to import rice," said the official from the procurement agency, who declined to be named. "But until now, we have not gotten an import permit from the trade ministry."

"We still need to have an import permit from the trade ministry to realise the government decision."

In late May, an Indonesian farm ministry official said the country saw higher paddy output of 70.6 million tonnes in 2011, leading to greater surplus and no need for further imports this year, as the world's third-largest rice grower strives for self-sufficiency.

Bulog CEO Sutarto Alimoeso told Reuters in response to the green-light given for more imports, that the agency is analysing whether to import rice from Vietnam.

Last week, traders and a Vietnamese state-run newspaper said Indonesia has been in talks to import between 400,000 and 600,000 tonnes of rice from Vietnam to capitalise on lower prices, with shipment possible in the third quarter of this year. Traders had said high prices in Indonesia prompted the move to import more.

Trade Minister Mari Pangestu later told Reuters Indonesia has not yet determined the rice import volume, as it is evaluating the situation and awaiting output numbers.

"We do import just to maintain and keep rice stock at a safe level for the people," Pangestu said. "But, it does not mean that our stock is in shortage."

"Our rice stock is still enough now for our consumption... People do not need to worry," she added. "Import is also needed to anticipate the lowering stock at the end of the year when there is no crop to harvest."

Last week, officials said Indonesia would produce more unmilled rice this year and see a bigger surplus of the grain as it expands production areas. Unmilled rice production was seen at 68.06 million tonnes in 2011, 2.4 percent higher than last year and up slightly from a forecast earlier this year for 67.31 million in 2011.

Pangestu also said Indonesia had a bilateral government-to-government agreement with Vietnam and Thailand in rice trade.

Traders in Vietnam said last week that an Indonesian team had held talks with Vinafood 2, Vietnam's top rice exporter.

Vietnamese rice prices have strengthened in the past week thanks to potential new demand as buyers shun away from increased prices in Thailand, traders said on Wednesday.

Domestic prices rising have also shelved a Vietnam Food Association plan to buy 1 million tonnes of milled grain for a three-month stockpile.

The benchmark Thai 100 percent B grade white rice was at \$545 per tonne, unchanged from Monday, and was up from last week's \$525 a tonne.

BULOG RULES

Indonesia, Southeast Asia's largest economy, has had a ban on rice imports by private traders in place since early 2004, in an effort to combat smuggling that squeezed local prices, particularly during the harvest period.

It did not import rice in 2008-2009, but resumed purchases last year and surprised markets early this year by buying around 1 million tonnes, or five times as much rice as expected, in a move to boost stockpiles and help moderate food prices.

High food prices could still hit growth in Indonesia and policy-makers fear they could spark social unrest, so improving self-sufficiency has become a top policy priority towards cooling food inflation.

The country's July monthly inflation may be above 0.55 percent -- picking up from June, when inflation slowed to a 12-month low of 5.54 percent year-on-year -- due to higher food prices as the fasting month of Ramadan nears.

Rice imports for price stabilisation, disasters, and shortages can only be done a month before and two months after the main harvest and only state procurement agency Bulog is allowed to carry out imports.

The main harvest runs from March to May/June, followed by a smaller one in August-September.

Bulog, also in charge of maintaining grain stocks for the government, undertakes market operations such as selling when rice prices are too high or buying from farmers when they dip below specific levels.

Pakistan to export up to 4.5 MT of rice in FY11/12-trade

By Augustine Anthony

ISLAMABAD, July 14 (Reuters) - Pakistan is likely to export up to 4.5 million tonnes of rice in the 2011/12 fiscal year on an expected bumper crop, traders said on Thursday, adding to an amply supplied rice market.

The world's fifth largest exporter of rice, Pakistan's rice exports fell to about 3.7 million tonnes in the fiscal year to June 2011, from 4.6 million in the year before, after it was lashed by devastating floods in summer 2010.

But farmers and traders are expecting a bumper crop of 6 million to 6.5 million tonnes this year. Harvesting of non-basmati rice begins in late September and basmati a month later.

"So far things are going in the right direction and we are expecting a bumper crop ... We should be able to export between 4 million and 4.5 million tonnes this year," Taufeeq Ahmed Khan, vice chairman of the Rice Exporters' Association of Pakistan (REAP), told Reuters.

(Continued on page 13)

The country also has a carryover stock of more than one million tonnes, according to traders. Annual consumption is about 2.3 million tonnes.

Pakistani rice will enter a market already well-supplied by Vietnam, which is expected to export up to 7.3 million tonnes; India, which is lifting an export ban in place since 2008 and Thailand, which expects to export more than 10 million tonnes. Khan expected "decent prices" for this year on expectations of Thailand, the world's largest rice exporter, boosting its prices.

"Thailand has increased their prices and chances are that with the new government there, prices will go up further," he said.

Thai prices have started rising in recent weeks with the new government in Bangkok, which promised higher prices to farmers.

On Wednesday, the benchmark 100 percent B grade Thai white rice, which has jumped nearly 4 percent from last month because of hoarding on speculation about aggressive intervention by the incoming government, was steady from last week at \$550 per tonne.

Vietnam's 5 percent broken rice stood at \$505-\$510 a tonne on Wednesday, which was up from \$495 last week but still well below the same grade of Thai rice, offered at \$530.

Pakistani traders see enough market for their grains. Pakistani basmati goes mainly to the Middle East, Europe and the United States. Non-basmati is sold all over the world.

In 2010/11, Pakistan sold about 2.6 million tonnes of non-basmati rice and 1.1 million tonnes of basmati, according to REAP's provisional data.

Rice is Pakistan's third biggest crop after wheat and cotton, and accounts for about 8 percent of Pakistani exports. It contributes about 1.6 percent to the country's gross domestic product.

Vietnam able to export up to 7.3 mln T rice in 2011

By Ho Binh Minh

HANOI, July 13 (Reuters) - Vietnam, the world's second-largest rice exporter after Thailand, is capable of shipping between 7.0 million and 7.3 million tonnes of the grain this year, after a record volume in 2010, the Agriculture Ministry said.

A higher supply in Vietnam, plus India lifting a rice export ban in place since 2008 and Thailand raising its annual export forecast to more than 10 million tonnes for 2011 could help keep Asian prices in check.

Vietnam could export more rice as the national paddy output would rise 2.2 percent from 2010 to 40.78 million tonnes, Deputy Agriculture Minister Bui Ba Bong said in a document sent to the ministries of trade and finance and the Vietnam Food Association.

The Southeast Asian country exported 6.83 million tonnes of rice in 2010.

The volume available for export this year is in line with earlier agriculture ministry's shipment forecast of between 7.1-7.4 million tonnes.

(Continued on page 14)



Australian farmer Ben West checks on his wheat crop at his farm in Condobolin, 285 miles (489 km) west of Sydney July 5, 2011. REUTERS/Daniel Munoz...

The Agriculture Ministry recommended trade ministry and rice industry officials to regulate Vietnam's annual rice export this year based on the new production data, it said in the document issued on Tuesday.

"This is good news for the rice market and prices could soften," a trader at a foreign company in Ho Chi Minh City said, reacting to the Agriculture Ministry's move.

An export price increase of Vietnamese grain since late last week despite an ongoing major crop harvest in the Mekong Delta food basket, came to a halt on Wednesday after India agreed to allow 1 million tonnes of common rice exports.

Graphic India's rice output (<http://link.reuters.com/wah99r>)

Vietnamese rice exporters and foreign buyers are waiting to see market reactions to India's ban lifting before making new deals, leaving the market quiet in Vietnam on Wednesday, traders said.

HARVEST PEAKING

The summer-autumn rice crop harvest is to peak soon in the Mekong Delta.

Its yield and output are expected to rise, and along with better production in the rest of the southern region, the regional output could get an additional 550,000 tonnes of paddy, the Agriculture Ministry said in the document.

Vietnam's 5 percent broken rice stood at \$505-\$510 a tonne on Wednesday, unchanged so far this week but up from \$495 last Wednesday, while the 25 percent broken rice stood unchanged at \$460 a tonne, free-on-board (FOB) basis.

Vietnamese exporters have signed contracts to ship a combined 5.26 million tonnes of rice so far this year, industry reports said.

January-June's rice export rose 15.9 percent from a year ago to 4.02 million tonnes, government statistics show. Another 700,00 tonnes were expected to be loaded in July, up from 650,000 tonnes in June estimated loading.

Vietnam supplies a fifth of global rice trade, with top buyers in the first half including Indonesia, the Philippines, Malaysia, Cuba, Singapore and China, the Agriculture Ministry said.

Thailand aims for 15 pct rice output increase by 2015

By Apornrath Phoonphongphiphat

BANGKOK, June 20 (Reuters) - Thailand, the world's biggest rice exporter, planned to increase annual production by 15 percent to 35 million tonnes of paddy by 2015 to meet rising global demand, a senior Agriculture Ministry official said on Monday.

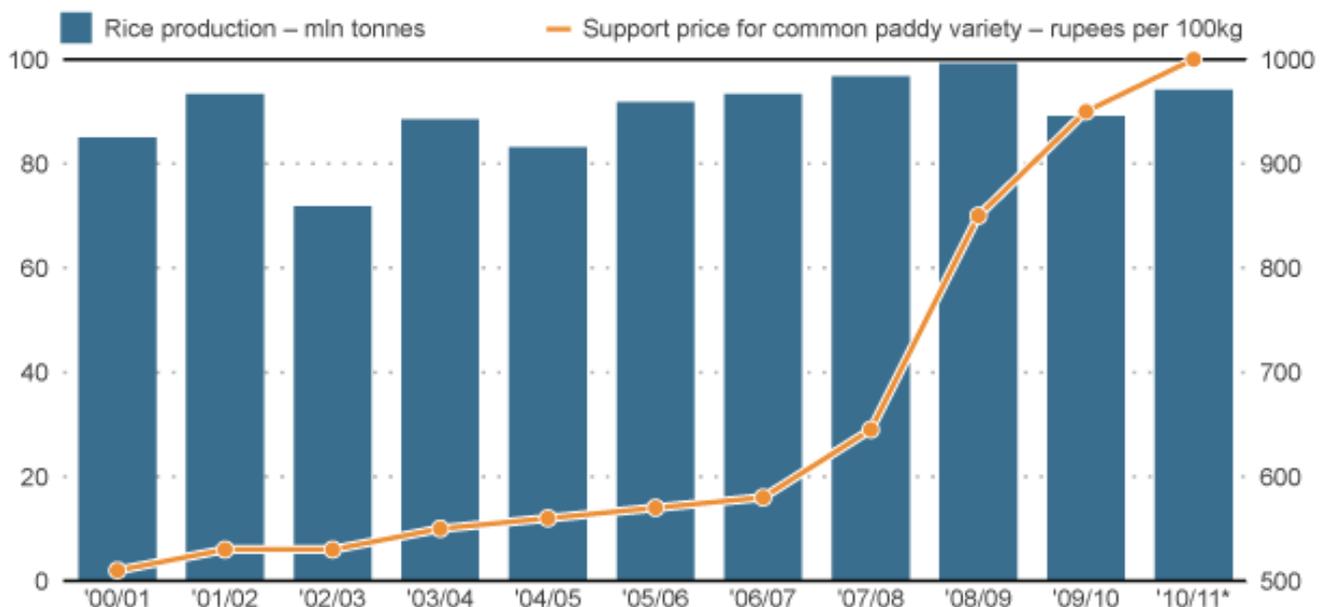
The country currently produces around 30 million tonnes of rice annually, equivalent to about 18 million tonnes of milled rice. Domestic consumption is around 8 million tonnes and the rest are for export.

"We succeeded in developing a new hybrid rice strain which produces higher yield and we planned to distribute it to farmers in the next crop year, production would rise significantly by 15 percent in 2015," Prasert Gosalvitra, director-general of Thailand's Rice Department told Reuters.

The country needs to develop the new rice strain because it has limited land for rice farming, he said in an interview on the sidelines of Thailand Rice Convention 2011. "It's because of urbanisation, industrialisation as well as crop switching that limited land for rice farming," he said, referring to the country's overall 9.1 million hectares of rice farmland.

(Continued on page 15)

India's rice production, prices



*Production data is provisional. Source: India farm ministry.



The PT06001H new hybrid rice strain could produce higher yield of 900-1,200 kg per rai (0.16 hectares), compared to the current average of 468 kg per rai.

"And with this rising rice production, I can guarantee right now that we will have 8-10 million tonnes for exports every year from now on," Prasert said.

RISKS TO PRODUCTION

Thailand exported 8.7 million tonnes of the staple grain in 2010 and aimed to export 9.0-9.5 million tonnes this year, about a third of global rice trade.

He said that global rice demand was expected to remain strong in the coming years along with the rising world population, while supply in major rice producing countries was likely to be reduced by harsh weather conditions.

Global rice prices have lagged the rise in other food grains this year, though loading demand and concerns over possible aggressive intervention by the next Thai government drove up Thai rice prices in the past week. But prices are unlikely to hit records seen in 2008 in Asia, especially with countries such as Vietnam trying to grab market share.

The G20 group of large economies will monitor world supply of key grains to help prevent speculation from pushing up food prices, a draft statement of a ministerial meeting this week showed. Food prices have eased in recent weeks in Asia, after a series of state-initiated measures such as offloading state grain reserves into the market, curbs on speculators and policy tightening.

Prasert said Thailand still needed to overcome difficulties facing rice production.

"There are the problems of pests and climate change that we have to take into account," he said. "But, I don't think the two risks could disrupt the plan to increase production because we can manage them."

The Agriculture Ministry has limited the spread of grasshoppers within 20,000 rai, down from 2 million rai in the past year, he added.

Rice prices seen stable into 2012 - IRRI

By Erik dela Cruz

MANILA, May 24 (Reuters) - World rice prices should remain stable around current levels into 2012 on improved output due to sufficient rainfall and plentiful stocks to meet demand, the Manila-based International Rice Research Institute (IRRI) said on Tuesday.

Total 2011/12 global rice output was forecast to meet the projected demand of 460 million tonnes given favourable weather, senior IRRI economist Samarendu Mohanty said.

"Overall it looks like the harvest will be good and prices should be stable," he told Reuters in a phone interview. "If we have normal weather... then we should be able to produce 460 million tonnes (of milled rice) for 2011-2012."

The United Nations Food and Agriculture Organisation (FAO) has forecast world rice production to reach 480 million tonnes in 2011, up 3 percent from last year on improved weather conditions.

Mohanty estimated current global rice inventory to be 25 million tonnes above levels seen two years ago, when the price of

the staple hit record highs of \$1,080 a tonne in April 2008.

The benchmark Thai 100 percent B white rice fell by around 10 percent from around \$548-\$550 in January this year and was pegged at \$500 per tonne this week.

"So if you take into account that we have a comfortable amount of stocks and assume that we produce a good amount of rice, then prices should stay low," he said, ruling out the possibility of prices rising back to record levels seen in 2008 when there was unease over shrinking food supplies.

Bumper crops in top exporters Thailand and Vietnam prevented rice from joining a surge in prices of other grains early this year, helping tame food inflation.

However, Mohanty said both Thailand and Vietnam face the risk of declining output over the medium term as more land is used for cash crops and some are converted to industrial use.

A shortage of farm labour and uncertain weather would also lead to falling production, he added.

SHRINKING ACREAGE

Shrinking rice acreage was "definitely a major concern" because he said that for the last 40 years, the expansion in rice area has contributed one quarter of the production growth.

"So if you assume that in the future the rice land may not expand and even decline... then the yield should be much higher to compensate for that," Mohanty said.

"We are looking at somewhere between 1.2 to 1.5 percent yield growth, so we need to produce 7 to 10 million tonnes of additional milled rice every year to feed the world, assuming there will be a steady decline in rice area."

The Philippines and Indonesia, two of the world's major rice importers, could achieve their self-sufficiency goals in the grain in the next few years, but rice exports from these countries may not be possible yet, he said.

"I think that (self sufficiency) is achievable both for the Philippines and Indonesia. (But) I think achieving self sufficiency is one thing, maintaining self sufficiency is more difficult," he said.

The Philippines, the world's top rice buyer before slashing its purchases to just a third of the 2010 record volume of 2.45 million tonnes, aims to become self sufficient in the national staple by 2013.

The Southeast Asian country, a key buyer of Vietnamese rice, expects to further bring down its imports next year to not more than 500,000 tonnes, from record volumes of 2.45 million tonnes in 2010 when output fell due to extremely dry weather.

Mohanty said the Philippines was moving in the right direction in trying to achieve its self sufficiency ambition, citing the government's focus in investing in irrigation and agricultural infrastructure.

He said Indonesia had been self-sufficient in rice for a few years in the past and could become self sufficient again as long as the weather is favourable.

Indonesia said it has reserved 570,000 hectares (1.4 million acres) of land to produce an extra 2.0 million tonnes of rice, aimed at reducing the likelihood of it importing any more rice this year and plans to build a new food estate for growing rice and rearing cattle in Aceh province.

(Continued on page 16)

Indonesia has also targeted to raise rice production by 5 percent annually, as it seeks to improve food security, and plans to cut rice consumption by 1.5 percent a year, by encouraging food diversification in a bid to create a 10 million-tonne rice surplus in the next five to 10 years.

But the Philippines and Indonesia are unlikely to become major rice exporters in the near term, Mohanty said.

"I think the target right now is achieving self sufficiency and that's a more realistic target than becoming a net exporter, which is a little difficult," he said, citing the erratic weather conditions in these countries.

Sacred cows predict bountiful Thai rice crop, but risks loom

By Apornrath Phoonphongphiphat

BANGKOK, May 13 (Reuters) - Outside the gilded pagodas of Bangkok's Grand Palace, sacred oxen ploughed a symbolic furrow in the dusty ground on Friday and then tucked into grass and liqueur off banana-leaf platters, an ancient ritual signifying a bountiful harvest ahead.

But the world's biggest rice exporter needs more than sacred bulls to overcome looming risks from growing competition from neighbouring Vietnam and Cambodia, possible election-year changes to rice subsidies and falling global rice prices, say industry officials and traders.

Thailand's Buddhist ploughing ceremony, overseen by Crown Prince Maha Vajiralongkorn and broadcast live on television, marks the end of the dry season and is meant to herald an auspicious start to the rice-planting season.

Offered a range of dishes, the Thai bulls chose grass, signifying adequate rains and a bountiful harvest in the country of 67 million people, a third of whom depend on agriculture.

They also lapped up alcohol, indicating strong foreign trade and communication, and turned up their noses at bowls of rice, maize, green beans, sesame seeds and water, as officials scattered symbolic seeds to mark the start of the season.

"This year, the country will have good rain which will bring about ample water supply and good crops as well as smooth international trade," Sumitra Tanaseneewat, the Ministry of Agriculture's deputy permanent secretary, told the Crown Prince.

While last year the oxen got it right and Thailand enjoyed a strong crop of 22.5 million tonnes of paddy, production this year looks nearly unchanged with the Ministry of Agriculture forecasting output of 23 million tonnes from the major crop grown in May and harvested in November.

That was in line with traders' view that the country could have a surplus of 8 million to 10 million tonnes for exports.

LOOMING RISKS

But there are clear risks ahead, including competition from emerging rice-exporting countries, a strong baht currency against the U.S. dollar and an uncertain policy environment as Thailand prepares for July 3 parliamentary elections.

Chookiat Ophaswongse, honorary president of Thai Rice Exporters Association, said Thailand is facing threats to its export dominance from the world's second-biggest exporter, Vietnam, and from fast-developing Cambodia.

(Continued on page 17)



Women wearing traditional dress carry bags of rice made from woven "Pandanus" over their heads as they perform a traditional dance called "Tor Tor" in Medan, North Sumatra July 9, 2011. REUTERS/Y.T. Haryono

"Cambodia has said clearly it will become a major exporter in a few years and I believe it is possible because Cambodia has potential to do so. It has several rice varieties as well as lower costs of production," Chookiat said. The Cambodian government has not publicly released rice production data. But traders in Thailand and Vietnam estimate Cambodia production at about 9 million tonnes of paddy with domestic consumption at 5 million and exports at 4 million.

"The cost of production of Cambodian rice is very low compared to us, which means they could produce more rice at cheap competitive prices," said a Thai trader said, adding that Cambodian prices were about 30 percent below Thai prices.

Even authoritarian Myanmar appears to be muscling in. It exported 445,000 tonnes last year, supported by demand from the Middle East, traders said.

The price of Thai rice, Asia's benchmark, has declined 8 percent this year to \$500 a tonne on weak overseas demand and Vietnam's new crop, according to the Thai Rice Exporters Association. The price hit a record \$1,080 a tonne in May 2008.

Thai 100 percent grade-B white rice was offered unchanged at \$500 per tonne on Friday.

Although demand is soft, exporters are still selling at uncompetitive prices to offset losses from a strong Thai baht, which rose 3.3 percent against the dollar between January and April, due mostly to inflows of global capital into Thailand.

Traders also expressed concern over whether government policies on rice would change after the elections, leading to higher costs and uncompetitive prices. The Thai government has earned valuable political currency by subsidising farmers

in the vote-rich north and northeast regions through a rice intervention scheme.

The now decades-old rice subsidy scheme helps the government build support among Thailand's 20 million farmers by buying grain at inflated prices to drain the market of supply and prop up prices. Sometimes they are given to prevent farmers from protesting when prices of rice and other commodities fall.

Under the intervention plan, the government buys paddy from farmers at 11,000 baht (\$364) a tonne, above market prices of around 8,000 baht and equivalent to \$470 for milled rice, free on board. Export prices are then set at a premium to that level.

The Puea Thai Party, the latest incarnation of ousted former premier Thaksin Shinawatra's Thai Rak Thai Party, which won an unprecedented two election landslides in 2001 and 2005, has promised to raise the intervention level.

In late April, the party told farmers it would intervene at 15,000 baht per tonne if it was voted into power -- a level that would bring Thai export prices to nearly \$600 per tonne, well above Vietnamese prices of about \$485 per tonne.

Thailand produces about 19 million tonnes of milled rice a year, half of which is for domestic consumption. The Commerce Ministry has forecast exports to rise 9.2 percent this year to as much as 9.5 million tonnes, or about a third of global trade.

Vietnam was expected to ship 6.5 million tonnes, the Vietnam Food Association said.

(Continued on page 18)



A farmer holds paddy seedlings in Bekasi, Indonesia's West Java province July 1, 2011. Indonesia sees higher unmilled rice output in 2011 and a bigger surplus of the staple food as it expands production areas, government officials said on Friday. REUTERS/Beawiharta

India panel allows rice, wheat exports, okays food bill

By Mayank Bhardwaj and Ratnajyoti Dutta

NEW DELHI, July 11 (Reuters) - India has agreed to allow 1 million tonnes of common rice exports and an unspecified amount of wheat, government sources said on Monday, as it weighs managing millions of tonnes of grains stockpiles with fighting persistently high inflation.

The sources said after a meeting of a panel of ministers that the exact quantity of wheat exports will be decided later. Sources had told Reuters it could be one million tonnes also. India has banned wheat exports since 2007 to ensure local supplies.

"The (panel) in principle decided to export wheat but the quantity ... has to be decided keeping in mind many things," one of the sources said.

The sources also said the panel had approved a draft law that guarantees further subsidised grains to millions of India's poor. The Food Security Bill is seen as a popular step and a potential vote winner but one that could strain public finances.

The amounts of exports would be unlikely to have a major impact on global markets, where the United States is the biggest wheat exporter at some 24 million tonnes last season and Thailand is the largest rice exporter at 8.5 million tonnes in 2010.

The Food Security bill, an election promise from the ruling Congress party, has to be ratified by parliament to become law. It would need about 61 million tonnes of grains a year, the bulk of which would be wheat and rice.

The finance ministry and the planning commission, which charts India's economic development, have sought to contain the number of beneficiaries for the grains, mindful of its impact on plans to cut the fiscal deficit to 4.6 percent in 2011/12.

India's decisions on exports also have to weigh concerns about stubbornly high food inflation, currently above 7 percent, against leaving stores to rot when global prices are near record highs.

Graphic on wheat output: (<http://link.reuters.com/tut88r>)

Graphic rice output: (<http://link.reuters.com/wah99r>)

The world's second-biggest grower of wheat and rice produced a record grain output in the 2010/11 crop year, and its rice and wheat stocks were at 64 million tonnes on July 1, more than double a target of 27 million tonnes.

Analysts said the quantities were small in comparison with global trade but that there might be more to come.

"For Russia we're talking about possible export volumes of 10-15 million tonnes, in India two million is the maximum, so Russia is more important," said Carsten Fritsch, commodity analyst with Commerzbank on the wheat exports.

(Continued on page 19)



A man makes a stone grinder at his shop in Faisalabad, Punjab province, June 28, 2011. Many in villages use it on commercial basis for crushing wheat and lentils. REUTERS/Fayyaz Hussain

"It is interesting that they will export for the first time in four years or so ... It ... suggests they have abundant domestic supplies. Maybe they will decide to release further wheat from stockpiles going forward," he added.

RICE PRICES

Indian rice supply could ease Thai rice prices, which rose last week on speculation over higher intervention prices under an incoming government, in the short term.

"India is not considered a key market for rice, so it may cause a knee jerk reaction but we don't expect a big impact," said Ker Chung Yang, an analyst at Phillip Futures in Singapore, speaking before the announcement was made.

The benchmark 100 percent B grade Thai white rice is currently around \$545 per tonne, exporters said, up 3.8 percent from a previous \$525.

Indian traders welcomed the move.

"The decision was long overdue. Exports will help farmers," said Vijay Setia, president of the All India Rice Exporters Association.

Traders said India could sell rice to neighbours like Bangladesh and African countries.

The sources said the panel also decided to allow half a million tonnes each of common rice and wheat exports in government-to-government deals. An additional 300,000 tonnes of rice would be sold to neighbouring Bangladesh.

Monday's approvals also included allowing exports of 650,000 tonnes of wheat products.

Indonesia wheat ample, India seen as last resort

By Lewa Pardomuan and Yayat Supriatna

JAKARTA, July 13 (Reuters) - Indonesia has ample wheat for the festive season and will seek Indian supply only as a last resort, the head of an industry group said on Wednesday, dampening hopes that the major Asian buyer would take up exports from India.

Indonesia's wheat grain inventory is estimated at 1.5 million tonnes, enough for three months of consumption that includes the high-demand period during the Ramadan fasting month in August and Eid al-Fitr festivities, said Ratna Sari Loppies, executive director of the Indonesian Wheat Flour Mills Association.

"There's no supply problem ahead of Ramadan. Stocks are OK," Loppies told Reuters, adding that imports are expected to rise by 9 percent this year to 6 million tonnes versus 2010 and up to 10 million tonnes in 10 years.

"Imports from India may be possible, but it's not a priority because of quality concerns. As far as I know, Indian wheat is not very good," Loppies said.

She added that most companies have signed long-term contracts. "So it's not easy (to shift to Indian imports)," she said.

India has agreed to allow 1 million tonnes of common rice exports and an unspecified amount of wheat, government sources said on Monday, as it weighs managing millions of tonnes of grain stockpiles with fighting persistently high inflation.

(Continued on page 20)



A farmer spreads fertilizer in a paddy field at Traouri village, located in the northern Indian state of Haryana July 5, 2011. India, the world's second-biggest rice and wheat producer, harvested a record 235.9 million tonnes of grains in 2010/11, according to a news report on Monday. REUTERS/Ajay Verma

The head of India's grains exporters group dismissed criticisms over the quality of its wheat.

"When India was exporting wheat, we sold about 10 million tonnes to the Middle East, Africa and some neighbours like Sri Lanka. We did not get to hear a single complaint about the quality," said D. P. Singh, president of the All India Grain Exporters Association.

"Here I'm not talking about a few cargoes, I'm talking about 10 million tonnes. There were no quality issues at all."

U.S. wheat futures ticked lower on Wednesday after a strong rally, with September wheat falling 1-1/2 cents to \$6.70-1/2 a bushel.

The move by India, the world's second-biggest wheat producer, will pile pressure on the benchmark futures, which have fallen more than 14 percent since the start of June, dragged down by prospects of larger-than expected Black Sea supplies.

Graphic of Indonesia wheat consumption growth vs

Japan: (<http://link.reuters.com/zyf42s>)

Graphic on top wheat importers/exporters:

(<http://link.reuters.com/peq77r>)

Interactive on wheat forecasts:

(<http://link.reuters.com/pyq22s>)

Australian wheat production:

(<http://link.reuters.com/dyf32s>)

WHEAT DEMAND GROWTH

Indonesia, which relies entirely on imports for its wheat, gets around 60 percent of supplies from Australia, with Canada and the United States accounting for about 30 percent.

Loppies expected Indonesia's wheat grain imports to rise to around 6.0 million tonnes in 2011 from 5.5 million tonnes last year on growing demand in the world's most populous Muslim nation.

"This is due to growth in the biscuit industry, which is using wheat as raw material," said Loppies. "Demand for noodle is also high. We are seeing demand coming mostly from the rural areas."

Southeast Asia's largest economy is set to overtake Japan this year as the top wheat importer in Asia, as higher incomes also spur demand for fast food, helping to support world prices.

Indonesia has 15 flour mills, up from just four in 2000, and millers have installed capacity of 8 million tonnes.

"I think in the next 10 years, we will be needing 10 million tonnes of wheat grain, but our installed capacity will already be ready in the next 10 years," she said.

"I think in the next five years, we can already reach 7 million tonnes," she said, referring to Indonesia's import demand.

Listed firms that could gain from any rise in Indonesian wheat consumption include Indofood Sukses Makmur, Singapore's Wilmar International and Malaysia's PPB Group.

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farmer carries a sack of wheat in Zouping county, Shandong province May 30, 2011. China, the world's top wheat producer, is likely to reap a bumper wheat harvest in 2011 despite drought earlier this year in most of its wheat-growing areas in the north, the agriculture ministry said. Picture taken May 30, 2011. REUTERS/China Daily

India's monsoon 19 pct below normal, concerns over rice

By Ratnajyoti Dutta

NEW DELHI, July 14 (Reuters) - India's crucial monsoon rains were 19 percent below normal in the week to July 13, a slight pick up from a quarter below average in the previous week, but the fall off in rains is raising concerns particularly over rice production.

The rains had been expected to slow in the first two weeks of July, the key month for planting, and are still forecast to be only slightly below normal for the entire June to September season with a pick-up seen in most areas next week.

"Rains will be weak over southern India next week, but could be healthy over central, northwest and the eastern region," a source in the weather office said.

The June to September monsoon rains water 60 percent of India, one of the world's biggest consumers and producers of grains and cooking oils.

The country is the world's second-biggest producer of rice after China and has just agreed to allow one million tonnes of exports as stocks mount up after several bumper harvests.

Summer-sown rice contributes about 85 percent of the total rice crop and is grown in West Bengal, Orissa, Andhra Pradesh and Punjab. All these states had shortfalls in rain last week ranging from 3 to 65 percent of

long-term average .

"There is still concern over the rice crop in growing areas due to less rains," said L.S. Rathore, head of the farm weather division of the Indian weather office.

Rice and wheat are key staples for the country of 1.2 billion people and the government buys huge quantities of both to give subsidised food to about 30 percent of the population.

Poor harvests can push up prices of foods and spur inflation, which is already worrying the government and central bank at over 9 percent.

"Rains in the next two to three weeks will be crucial as the planted crops enter the germination stage," Rathore said.

He added crops could withstand lower rains once the initial planting phase is over, but need rains at regular intervals for healthy growth after germination.

Planting of soybean, the main summer season oilseed crop, was lagging in Maharashtra, the second biggest producer, as rains were 21 percent below normal in the growing areas , but rains were good in the top producer Madhya Pradesh, a central state.

"(Lower rains) will have a negative impact on sowing of kharif (summer) oilseeds and cotton ... prices have started to move up and will continue to do so," said Chowda Reddy, senior analyst with JRG Wealth Management.

Domestic soybean futures on the National Commodity and Derivatives Exchange (NCDEX) have risen nearly 3 percent from mid-June.

The country's water reservoirs were 30 percent full on July 14 versus 17 percent a year ago. Reservoir supplies are largely important for winter-sown crops such as wheat and rapeseed.

The lull in the monsoon witnessed for the past two weeks has brought overall rains in the season so far to four percent below normal, the weather office said.

Last year, rainfall was 24 percent below normal in the week to July 14 after a weak start in June, but rains picked up in the remaining period of the four-month monsoon and ended as normal.

India misses the bus with wheat export decision

By Mayank Bhardwaj and Naveen Thukral

NEW DELHI/SINGAPORE, July 13 (Reuters) - India's plan to sell wheat after a four-year ban will find few takers as re-sumption of Russian exports is likely to flood the market with cheaper grain, already a nightmare for top suppliers the United States and Australia.

New Delhi's move will only add pressure to benchmark U.S. wheat futures , which have slid more than 14 percent since the start of June, dragged down by prospects of Black Sea supplies that are larger than expected.

India, the world's second-largest wheat producer, on Monday allowed 1 million tonnes of common rice exports for the first time since 2008 and lifted a four-year old ban on wheat sales, as it tries to balance the management of burdensome grain stocks against its fight on stubbornly high inflation.

The timing of the South Asian nation's decision is unfortunate, coming just as Russia -- typically the world's third largest exporter -- this month started selling cargoes following a year of drought.

Analysts said that would make it almost impossible for Indian wheat to find a home, particularly as the Indian wheat will cost around \$300 per tonne against the roughly \$244 cost of its Black Sea competitor.

"There is going to be too much of grain coming in from the Black sea so cheaply," said Adam Davis, a senior commodity analyst at Melbourne-based fund Merricks Capital.

"They are going to struggle to find buyers at these values."

Exporters from Russia and Ukraine have secured several tenders since the past week, selling more than 400,000 tonnes of wheat to Jordan, Egypt and Tunisia.

On Wednesday, traders reported the sale of 75,000 tonnes of feed wheat to the Philippines, which is expected to be the first Black Sea sale into Asia since last year's drought cut supplies.

Graphics on India's wheat output:

(<http://link.reuters.com/tut88r>)

Graphic India's rice output:

(<http://link.reuters.com/wah99r>)

Graphic on Russia's wheat, barley and maize crops:

(<http://r.reuters.com/pyj79r>)

Graphic on world's top wheat importers/exporters:

(<http://link.reuters.com/ceh62s>)

Graphic of world/US wheat stocks:

(<http://r.reuters.com/vaf32s>)

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PRICES HOLD THE KEY

Russia is offering competitive prices. Egypt, the world's biggest wheat importer, bought 180,000 tonnes of Russian wheat last week at \$243.50-\$244.50 a tonne, free on board, which analysts said was around \$40 lower than offers from Europe and the United States.

This compares with Indian wheat, which will not cost less than \$295 to \$300 a tonne.

"India has missed the bus as we are not competitive now," said Amit Takkar, president of Emmsons International, a commodities trading company based in New Delhi.

"At current rates, wheat exports will not be viable without a subsidy and a subsidy is unlikely, so it is out of the question."

India banned overseas shipments in 2007 to bolster domestic supplies after bad weather curbed output, forcing the country to import wheat at sky high prices. But reserves have surged since, with bumper production for five straight years.

Wheat production is forecast at a record 84.27 million tonnes in 2011, after an all-time high output of 80.80 million tonnes in the previous year.

Brimming silos have forced the government to store some wheat under tarpaulin, exposing the grain to rot and decay in a country where an estimated 450 million people live in poverty.

At the beginning of this month, India's wheat stocks at government warehouses were 37.1 million tonnes, well over its target of 17.1 million. Rice inventory was 26.8 million tonnes against a target of 9.8 million tonnes.

Neighbouring Pakistan moved nimbly earlier this year to take advantage of a global supply squeeze resulting from Russia's absence from the market.

Asia's third-largest wheat producer, Pakistan resumed wheat exports in January for the first time in three years and sold nearly 1.8 million tonnes of wheat by June, before being

knocked out of the wheat market by fierce competition from Russia.

"The timing of Pakistan's move was beneficial for them," said Darren Cooper, a senior economist at the International Grains Council in London.

"At the moment because of the relaxation of export restrictions in Black Sea, it is not the right time for India to be competitive in the market."

Despite its overflowing grain bins, India kept curbs on wheat exports as Prime Minister Manmohan Singh's government struggled to rein in high food inflation, a major headache for the fractious ruling coalition led by his Congress party.

Food inflation peaked at around 20 percent at the end of 2009 and stayed mostly in the high double digits before starting to ease from March this year.

RICE PLAN PRAGMATIC

In the rice market, India is expected to play a more meaningful role of softening prices if more supplies come to market.

Although the rice market is amply supplied, Thai prices have started rising in recent weeks with the new government in Bangkok widely expected to push through a promise to guarantee higher prices to farmers.

"I think the timing of India's announcement is quite interesting," IGC's Cooper said. "If Thailand does embark on that policy and remove itself from the market for a few months, this is good time for India to export with the stocks it has."

Benchmark 100 percent B grade Thai white rice has jumped nearly 4 percent from last month because of hoarding due to speculation about aggressive intervention by the incoming government. Traders in Bangkok said relaxation of a ban on Indian rice exports helped hold Thai prices down this week on hopes of New Delhi allowing more exports.

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A labourer works on a heap of wheat inside a grain-sorting unit at Sanand in the western Indian state of Gujarat April 7, 2011. India's food price index rose 9.18 percent in the year to March 26, government data on Thursday showed. REUTERS/Amit Dave

"One million tonnes is not so big as to have a huge impact right now, but what we fear is that India will allow another one or two million tonnes after this lot," said Chookiat Ophaswongse, a honorary president of the Thai Rice Exporters Association.

Emerging fast-food nation Indonesia props up wheat market

By Michael Taylor

JAKARTA, June 28 (Reuters) - Indonesia will be crowned top Asian wheat importer this year, as higher incomes turn South-east Asia's largest economy into a fast-food nation and help to keep global prices on the boil.

As affluent Indonesians turn away from rice, their country is vying with Japan to be Asia's leading wheat buyer, while the latter battles economic crisis in the wake of a devastating earthquake and an ageing population boosts protein in its diet.

"We are coming up on a par with, or even more than, Japan," said Franciscus Welirang, chairman of the Indonesian Wheat Flour Mills Association, known as Aptindo. "It could be this year that we overtake."

With Indonesia's imports of the staple set to rise more than 10 percent this year and 3 percent a year in the period to 2015, the trend could even carry Indonesia to second place among the ranks of the world's largest importers this year.

Listed firms that could gain from any rise in Indonesian wheat consumption include Indofood Sukses Makmur, Singapore's Wilmar International and Malaysia's PPB Group.

Indonesia, which relies entirely on imports for its wheat, gets around 60 percent of supplies from Australia, with Canada and the United States accounting for about 30 percent.

Western Australian wheat suppliers will benefit from the trend and continue to dominate Indonesian demand, analysts say, as geographic proximity and consumers' preference for premium and standard white wheat head off competition from mainly soft white and hard red wheat producers in the U.S. and Canada.

Premium wheat from Western Australia, used to make bread and noodles, is also a favourite of East Asian countries, such as Vietnam and Taiwan.

Graphic of Indonesia wheat consumption growth vs

(Japan: <http://link.reuters.com/zyf42s>)

Graphic on top wheat importers/exporters:

(<http://link.reuters.com/peq77r>)

Three-month wheat technical outlook:

(<http://link.reuters.com/xyf42s>)

USDA attache report: <http://r.reuters.com/jaz98r>

Interactive on wheat forecasts:

(<http://link.reuters.com/pyq22s>)

Australian wheat production:

(<http://link.reuters.com/dyf32s>)

SMALL GLOBAL DEFICIT

Global wheat output is set to show a small deficit this year,

with stocks meeting any shortfall as output hits around 663 million to 673 million tonnes, analysts say.

The surge in Indonesian imports for the rest of this year coincides with a recent plunge in global wheat prices on improving crop weather in the West while Australian exports could jump nearly 9 percent to a record in 2011-12.

"In such a finely balanced market, any change in supply or demand will have an outsized impact on prices," said Deepak Gopinath, director at Trusted Sources Research. "The continued rapid growth of Southeast Asian wheat imports will be bullish for wheat prices over the medium term."

That growth will help moderate the price drop seen for the coming months, after wheat prices hit 2-1/2 year peaks near \$9.00 a bushel in February on tight supplies and robust demand from Middle East and North African importers.

By 0628 GMT, the front-month July contract wheat futures on the Chicago Board of Trade was flat at \$6.24 a bushel, after posting its fourth-straight week of losses last week to around the lowest in a year. A Reuters technical analysis showed CBOT wheat would fall to \$4.02-1/4 per bushel over the next three months.

Southeast Asia now accounts for about 12 percent of global wheat imports, up from 9 percent in 2009. While wheat imports by neighbouring Vietnam, Thailand and Malaysia have held under 3 million tonnes over the past decade, Indonesian intake has almost doubled.

This is due in part to a wheat consumption push by the Indonesian government, an effort to avoid an over-reliance on the staple diet rice of which it is not a major exporter like many of its neighbours.

"Asia is a new market and one of the big issues in terms of food security," said Jonathan Barratt, managing director of Commodity Broking Services in Sydney.

"We're looking for increased production but it is not meeting the new demand from emerging economies -- that's the problem because it's moving outside traditional food sources."

FAST FOOD CHAINS

Behind Indonesia's rapidly rising wheat imports stands a booming economy, set to rise about 6.5 percent this year, boosted by domestic consumption and mineral exports.

Appetites are changing, with bread-based breakfast favoured by the upper middle classes and noodles preferred by the middle classes, a shift away from the previous breakfast staple, rice.

Such changes are easy to spot on a walk through the smog-filled streets of Indonesia's capital, Jakarta, where new fast food outlets and billboards for the likes of McDonalds, Dunkin' Donuts, Pizza Hut and KFC, have mushroomed.

McDonalds' Indonesian licensee says the hamburger chain now has 117 restaurants in the country versus 98 at the end of 2009.

"The increasing westernisation of diets throughout Southeast Asia over the past couple of years, has certainly driven feed wheat demand," said Michael Creed, an agribusiness economist for National Australia Bank.

About 60 percent of Indonesian wheat imports are now used to make noodles, with 20 percent consumed by bakeries.

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Aptindo Indonesia recently forecast wheat imports would grow 10 percent this year to 5.1 million tonnes.

According to forecasts by the United States Department of Agriculture (USDA), Indonesia is already ahead in Asia in the trade year July 2010 to June 2011, with wheat and flour imports at 6.1 million tonnes compared to 5.5 million tonnes in Japan.

USDA data showed 2009/2010 imports for Indonesia and Japan at 5.36 million tonnes and 5.5 million tonnes respectively. It adds that Indonesian wheat consumption is estimated to rise to 5.8 million tonnes in 2010/2011, versus 5.25 million in 2009/10.

A combination of ageing population, rising incomes leading to consumers favouring less starch and more high protein foods, are all helping to push Japan's wheat consumption lower, analysts say.

Analysts say Indonesian wheat imports are seen rising about 3 percent annually in three to five years, with huge scope for further growth, given that its annual consumption of wheat per capita of 18 kg puts the country among the world's lowest.

"There is a potential market to grow," said a consultant at U.S. Wheat Associates. Indonesia will import 700,000 tonnes of wheat flour this year, said Aptindo, 60 percent from Turkey.

The USDA forecast that Indonesia will rank third among global importers in 2010/2011, behind Egypt and Brazil.

"Indonesia are a fairly large importer," said Creed, who sees Indonesia overtaking Brazil. "There is not exactly a huge amount of arable land in Indonesia... Brazil does have a capacity to increase productivity."

But as tastes widen beyond rice, any negative impact on the traditional staple grain is limited due to Indonesia's ambitious aims to be self-sufficient in rice production.

"The Indonesian government's goal is to maintain rice self-sufficiency at all costs," said Copinath. "That means encouraging Indonesians to substitute wheat for rice as much as possible to slow the growth in rice consumption."

China increases import of Vietnam's agro-products

By Ho Binh Minh

HANOI, June 30 (Reuters) - China has stepped up buying farm products from Vietnam, including coffee, rice and rubber as it grapples with harsh crop weather, but higher prices could stoke inflation in the Southeast Asian nation, government data and state media said.

Rising Chinese imports of Vietnamese agricultural produce, which has seen robust growth in the past decade, will continue at least through the rest of this year, based trade ministry forecasts. Trade between the old rivals which fought a brief but intense border war in 1979 has jumped so far this year despite strained ties since late May because of a flare-up in a long-standing disagreement over sovereignty in the South China Sea.

Exports to China extended strong growth into June, which would push up prices of Vietnamese commodities, Vietnam's trade ministry officials were quoted by the Saigon Economic Times newspaper as saying in an online report

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Farmers transport wheat crop on camels at Pipalgaon village on the outskirts of the northern Indian city of Allahabad March 18, 2011. REUTERS/Jitendra Prakash

(www.thesaigontimes.vn).

Vietnam's inflation topped 20 percent in June, its highest annual rate since November 2008, the government said.

Growth expected to hit 9.5 percent in the world's second-largest economy for the first half, is stirring demand for agricultural products, while a drought followed by recent heavy rains hit grains output in key growing regions, though China has played down its impact.

China imported more than 100,000 tonnes of white sugar from Vietnam between Jan. 1 and June 15, or around 10 percent of the exporter's total output this year, the report released late on Wednesday said. Vietnam's exports to China between January and June soared 56.6 percent from a year ago to \$4.5 billion, the government's General Statistics Office said in its monthly report.

Exports from Vietnam to China last year jumped 49 percent to \$7.3 billion, far beyond average annual growth of 16.5 percent in the 2005-2010 period, and revenues are forecast to rise another 27 percent to \$9.3 billion this year, Hanoi's trade ministry has said.

COFFEE EXPORT NEARLY DOUBLES

Vietnamese coffee export to China nearly doubled to 16,800 tonnes in the first five months of this year from 9,900 tonnes in the same period last year, data from Vietnam's Agriculture Ministry showed.

China and Russia, where coffee consumption has been rising, have been identified as potential growth drivers for the export business of Vietnam, the world's second-largest coffee producer after Brazil.

Students returning from abroad and frequent international travellers will keep China's coffee consumption at 15-20 percent annual growth by patronising new domestic outlets selling high-priced versions of the brew, industry watchers said.

China is the top buyer of Vietnam's rubber, having imported 144,000 tonnes of the commodity between January and May, up 23 percent from a year ago and representing 60 percent of Vietnam's total rubber export in the period, the Agriculture Ministry said in its six-month report.

"Many rice cargoes have gone from here to the north in recent weeks, probably to China via land border trade," said a rice trader in Ho Chi Minh City, lying next to the Mekong Delta food basket.

He said data of land border trade -- using cash payment and via small lots of delivery -- were not available, so while sales believed to be bound for China have been strong, there were no official records.

In official trading, involving payment via banks and deliveries by ships, Vietnam sold 191,000 tonnes of rice from January to May this year, the agriculture ministry said, compared with no official import by China in the same period of 2010.

China is also listed among the 10 biggest importers of Vietnam's tea, timber and furniture, vegetable, shrimp and fish, cashew nuts as well as cassava and cassava chips, the agriculture ministry's report showed.

Vietnam's export of cassava and cassava products to China is forecast to rise to \$800 million for the whole of 2011, after \$509 million has been generated in the first five months and more than \$440 million in the whole of last year, forecasts by a trade ministry official and farm ministry data showed.

Japan rice futures could help farmers hedge post-quake

By Chikako Mogi

TOKYO, June 24 (Reuters) - A trial listing of rice futures in Japan could be well timed as the country's farmers face growing uncertainty over the potential impact from the March 11 earthquake and tsunami on this year's output.

Also adding to the need for a hedging tool, a recent reform allows farmers to choose whether to comply with the government's policy of curbing rice output in exchange for subsidies, while distribution channels have diversified and a central agricultural cooperatives group is losing its power.

"There is no market now that sets a benchmark price for rice, but a futures market will offer a tool on which producers, distributors and end-users can base their business decisions," Ryo Kimura, chairman at Rice Millers and Distributors Cooperative, told Reuters.

Two domestic commodities exchanges -- the Tokyo Grain Exchange and the Kansai Commodities Exchange -- have applied for an experimental two-year listing of rice futures, the first since the state took over production and distribution in the run-up to World War 2.

Government approval seems likely after Farm Minister Michihiko Kano said on Friday that it was difficult not to approve, as it is a trial, and that he would decide early next week.

Exchange officials say they need a three-day weekend to prepare, so the earliest start for listing would be July 19.

The ministry rejected a similar attempt five years ago due to worries that futures trading could lead to price swings and disturb a system under which it kept the price steady by controlling output.

BENCHMARK NEEDED

The so-called "actual price" for rice is generally set on a one-on-one basis with the central agricultural cooperatives group, Zen-noh, which handles about 40 percent of some 8.5 million tonnes of rice distributed in Japan.

Wholesalers buy at the price Zen-noh sets while their selling price is determined by prices of rice sold at supermarkets, which have stayed depressed due to Japan's persistent deflation.

That in turn has squeezed profits at wholesalers and also dampened incentives for farmers.

"A futures market offers a fair benchmark which helps farmers plan costs and stabilise their business," Tokyo Grain Exchange President Yoshiaki Watanabe told Reuters.

"Subsidies for those complying with paddy reduction are based on the average cost of rice output across Japan, which does not reflect different production risks at each region. This gap exposes rice growers to the impact of even a small change in prices," he said.

POST-QUAKE UNCERTAINTY

The March 11 earthquake also favours rice futures as a hedge as volatility is expected to rise when the rice harvest begins in the autumn.

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For two weeks after the quake, rice virtually disappeared from shops even in Tokyo areas, which are about 200 kilometers away from the radiation leaks from a crippled nuclear plant in Fukushima in northeast Japan.

Wholesalers had been reducing stocks for cost efficiency, resulting in a shortage of rice when demand surged. This pushed a key brand up by about 30 percent, Kimura said.

"If there is a futures market, we can have inventories. We can buy and sell to limit the damage in case prices rise in the future above where we have fixed to sell," he said.

The impact of potential radiation contamination from areas near the nuclear plant at the time of harvest is unclear, fueling speculation that supplies may be tight and prices higher.

Due to such speculation, the government has so far bought less than 40 percent of the 200,000 tonnes it targets to buy annually for its rice reserves. The government typically ends auctions before the harvest.

In May, the farm ministry estimated rice supplies to be just below 10 million tonnes in fiscal 2011/12, enough to meet demand forecast at 8 million tonnes.

SPECULATION NOT WORRY

Market players say there is little chance that speculative money will disrupt the trial listing of rice futures.

Rice is produced and consumed domestically and is independent of a global benchmark set in Thailand, leaving very little incentive for speculation, said Shinichi Shogenji, professor and agriculture expert at Nagoya University.

"Rice circulates entirely within Japan and since it is shut from a global market, there is nothing to speculate on," he said.

Shogenji expressed concern over the risk of the government trying to manipulate prices through its reserve system or other means and that a clear and transparent rule should be set to prevent such potential behaviour.

Japan's commodities exchanges have long been suffering from plunging trading volumes and some market players have pinned hope that a new product listing could raise investor interest.

An official at a major Japanese trading firm said it sees business opportunities for risk management when more types of commodities are closely linked to market prices.

Chino said a vast variety of rice types and a wide-ranging area of harvest across Japan offers plenty of opportunities for arbitrage within the different types of Japanese grown rice.

"Volatility for prices for each type may differ and that may offer investors a mix that results in better fund performance," he said.

Tokyo exchange eyes rice listing in Aug or September

TOKYO, July 11 (Reuters) - Tokyo Grain Exchange has given up the idea of a trial listing of rice futures this month and is now considering starting it in August or September instead, a source familiar with the matter said on Monday.

(Continued on page 27)



A farmer holds paddy seedlings in Bekasi, Indonesia's West Java province July 1, 2011. Indonesia sees higher unmilled rice output in 2011 and a bigger surplus of the staple food as it expands production areas, government officials said on Friday. REUTERS/Beawiharta

The exchange had been due to test trading systems over the coming long weekend to prepare for the launch of rice futures trading next Tuesday, July 19, the source said.

Next Monday is a public holiday.

There is no decision yet on the starting date for trial listing of rice futures, but the circumstances suggest it will not take place this month, the source told Reuters.

Exchange officials have said they need a three-day weekend to prepare trading systems, so the earliest start of listing would have been July 19, after the farm ministry gave approval for the trial listing on July 1, paving the way for the first resumption of such trade since before World War Two.

The source said the exchange was now exploring the possibility of conducting test runs of the system and mock trading over a normal two-day weekend. The next three-day weekend is Sept. 17-19.

"The exchange has said previously a three-day weekend was necessary for system preparation, but it is now considering a new schedule including whether the system testing can be done over a regular weekend," the source said. "That means trading can start either August or September," he said.

The Tokyo Grain Exchange and the much smaller Kansai Commodities Exchange in western Japan have both won approval for experimental two-year listings of rice futures.

An official at the Kansai exchange said it plans to announce a trading schedule at its board meeting on July 19.

While the Kansai official said there was still a possibility that trading will start this month, there were many outstanding issues such as securing warehouses for rice for delivery and which month should be selected as the starting contract.

Trading in rice futures began in Dojima, Osaka, in 1730 and rice was traded at the Tokyo Rice Exchange, the predecessor of the grain exchange, until 1939.

The farm ministry rejected a similar attempt five years ago amid worries that futures trading could lead to price swings and disturb the government system under which prices were kept steady by curbing output.

But recent reforms have given more flexibility to farmers and have reduced such concerns.

A trial listing of rice futures in Japan could be welcomed by the country's farmers, who face growing uncertainty over the potential impact of the March 11 earthquake and tsunami on this year's output.

Russia seen widening food supply sources in Vietnam rice deal

By Apornrath Phoonphongphiphat and Ho Binh Minh

HANOI/BANGKOK, May 23 (Reuters) - A Vietnamese company has signed a deal to sell 100,000 tonnes of rice that will ultimately go to the Russian army, an official at the firm said on Monday, as Moscow looks increasingly to Southeast Asia to widen food supply sources following drought last year.

The volume is small compared with the 6.5 million to 7.4 million tonnes that Vietnam, the world's second-largest rice exporter after Thailand, could ship this year.

But it reflects strong demand from Russia after severe

drought last year hit food crops, and traders said it could stop prices in Vietnam from falling. Demand from elsewhere is thin at the moment and a new harvest starts next month.

"We are double-checking domestic supplies now to meet the demand," said the official at the Khang Thong group in Ho Chi Minh City. Khang Thong has been building a rice warehouse in the Mekong Delta to facilitate supply of the grain to the Russian army, state-run media reported last December.

It signed the contract with Russia's Komfitreid group on May 11 and the rice would be delivered between now and the end of 2011, said the official, who declined to be identified. He also declined to provide details of the export grades or specific loading schedules.

Russia and Vietnam, close Cold War allies, have been trying to develop bilateral ties beyond their tight cooperation in the oil and gas business. The two aim to raise their trade value to \$3 billion next year and \$10 billion by 2020 from \$1.83 billion in 2009.

Russia has imported around 300,000 tonnes of rice per year in the past few years. It mostly buys from India and Pakistan, but it has also bought small amounts from Thailand and Vietnam, the world's top two exporters, in recent years.

It bought 77,500 tonnes of Vietnamese rice between January to November 2010, little changed from 84,500 tonnes for the whole year of 2009, according to Agriculture Ministry data.

It imported 132,000 tonnes from Thailand in 2008. But the figure dropped sharply to around 50,000 tonnes in 2009 and 2010 when Thai prices became uncompetitive, forcing Russia to turn to cheaper sources.

For food price graphic: (<http://link.reuters.com/zyz67r>)

THAILAND TO SELL MORE

Thai authorities also expect more demand from Russia.

"I expect demand of up to 500,000 tonnes of rice from Russia. I still believe that Russia will buy more and we hope to sell a certain amount to Russia not only through the government channel but also private channels," said Niphond Wongtrangan, a government adviser, referring to demand in 2011.

The severe drought in Russia last summer cut its grain output by a third to 61 million tonnes. It imposed a ban on grain exports from Aug. 15, 2010 to July 1, 2011, and officials have said the ban may be extended until 2012.

Russian grain stocks stood at 23.5 million tonnes as of May 1, down 18.8 percent year-on-year, according to preliminary data from official state statistics service Rosstat obtained by Reuters on May 19.

Russia officially plans to harvest 85-90 million tonnes of grain this year. The crop was 97 million tonnes in 2009 and 108 million in 2008.

Thai Commerce Minister Porntiva Nakasai was due to visit Russia in the next few weeks to close a deal to collect a 20-year-old rice debt of \$36 million and was likely to discuss further rice deals, Niphond said.

Vietnam is expected to export a total 3 million tonnes of rice in the January-May period, state-run media quoted the industry and trade ministry on Monday as saying.

That would represent a rise of nearly 3 percent from the same period last year, based on government data.

(Continued on page 28)

Russian wheat to ease Asia's tight feed supply

By Naveen Thukral

SINGAPORE, May 31 (Reuters) - Russia's move to lift a ban on grain exports will ease tight feed supplies in Asia, but concerns over harsh weather in top exporters the United States and Europe will keep buyers worried about high-protein wheat production.

Additional volumes of lower-quality wheat from the Black Sea region flowing into Asia will heat up the competition for Australian and South American suppliers, a relief to animal feed producers suffering from record-high corn prices.

Russian wheat entering the market after a gap of almost a year is expected to weigh on Chicago Board of Trade prices, which fell 3 percent to a one-week low on Tuesday, although is unlikely to pressure the Minneapolis spring wheat futures.

"It opens up the possibility that grains will flow from Russian ports to Asia and it certainly provides a short-term element of competition for other exporters," said Luke Mathews, commodity strategist at Commonwealth Bank of Australia.

"The key factor remains crop production. There are significant worries over German, French and U.S. wheat crops and most importantly we have started to get heightened concerns around dryness in parts of the former Soviet Union."

Russia, formerly the world's third-largest wheat exporter, plans to lift its grain export ban from July 1, imposed since last August after the worst drought in over a century devastated crops.

The nation may export up to 20 million tonnes of grain from this year's crop if the harvest reaches 85-90 million tonnes, according to the Russian Grain Union industry lobby.

Chart showing Chicago, Minneapolis wheat spreads:

(<http://link.reuters.com/gav79r>)

Graphic on world's top wheat importers/exporters:

(<http://link.reuters.com/peq77r>)

Graphic on Russia's wheat, barley and maize crops

(<http://r.reuters.com/pyj79r>)

Graphic on Australian wheat production/exports:

(<http://link.reuters.com/tan97r>)

Graphic on Pakistan's wheat production, consumption:

(<http://link.reuters.com/qav79r>)

FEED MAKERS EYES RUSSIAN CARGOES

Asia's price-sensitive animal feed makers are likely to be one of the biggest beneficiaries of Moscow's decision to end the grain export ban.

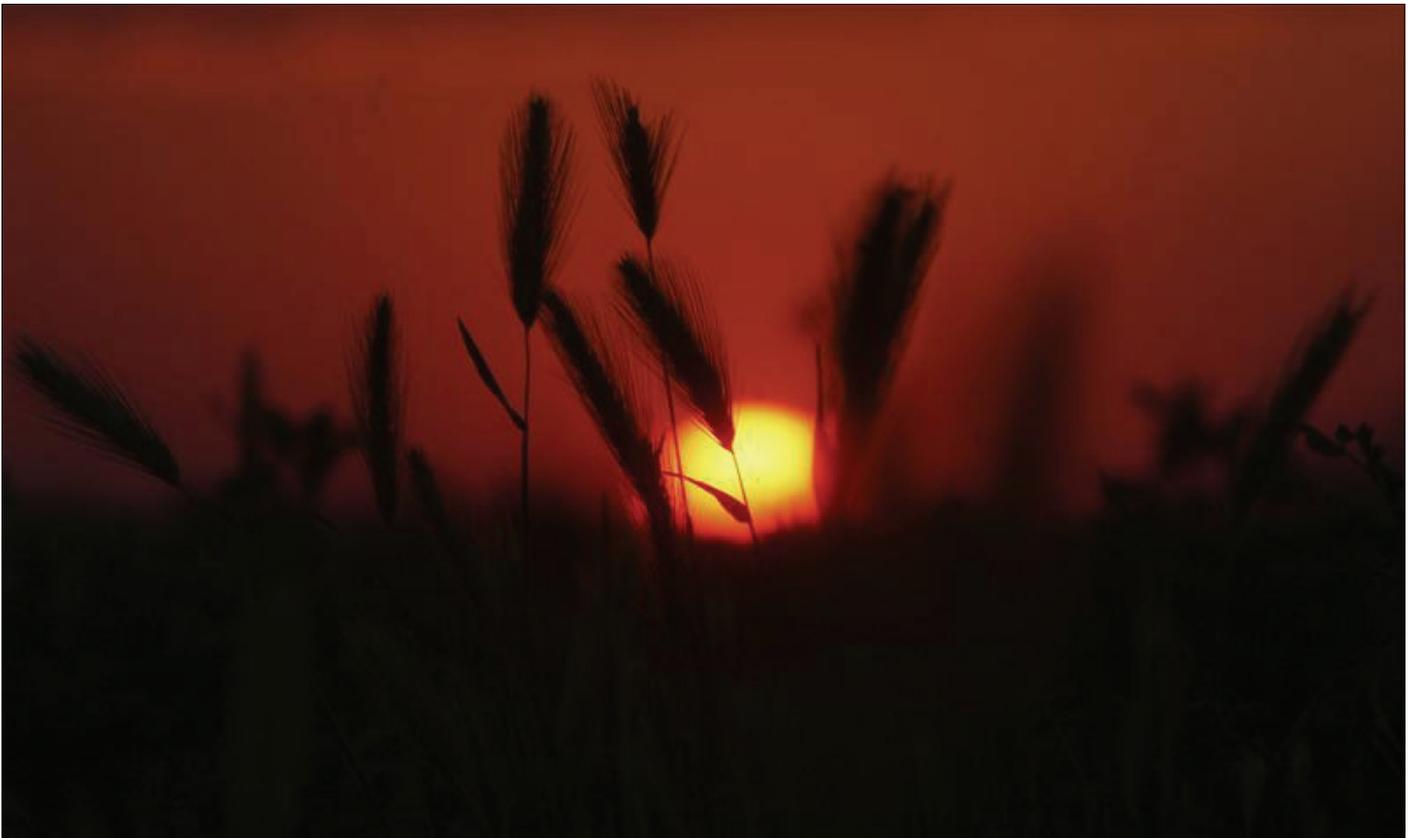
Traders and analysts estimate Asia is expected to see between two and three million tonnes of Russian wheat imports in the second half of the year for feed as well as milling industries.

Japan, the world's top corn importer, and South Korea at No. 3 position, are expected to switch to Russian feed-grade wheat to replenish tight supplies. Bangladesh, Taiwan and the Philippines are likely to be other customers.

"Buyers have started enquiring about Russian wheat prices after the announcement over the weekend," said one trader with an international grains trading company in Singapore.

"It will mainly go into the feed market but also countries like Bangladesh will use it for milling."

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A view shows a winter wheat crops field during sunset in the town of Mozdok in North Ossetia June 8, 2011. Picture taken June 8, 2011. REUTERS/Kazbek Basayev

The price of corn, against which feed wheat competes, jumped to a record high of \$7.83-3/4 a bushel in April, up nearly 1-1/2 times from June 2010 lows, buoyed by excessive rains delaying U.S. plantings and old-crop supplies forecast to fall to the lowest in 15 years.

Asia imports more than 25 million tonnes of wheat a year, with top regional buyers Indonesia, Japan and South Korea taking some 15 million tonnes. Smaller buyers such as Bangladesh, Vietnam, Thailand, the Philippines and Malaysia take the rest.

The return of Russian grains comes in addition to cheaper supplies from Pakistan, which are giving tough competition to Australian cargoes.

Australian wheat sales have slowed in the past few weeks as a strengthening domestic currency has lifted prices for overseas buyers, while Pakistan has dumped some one-and-a-half million tonnes into the global market since it resumed overseas sales.

Analysts expect Russia's grain exports will also help offset an expected decline in supply from drought-hit Europe.

"They will sell wheat in Asia and also offset, partly, the deficit in feed grains which is going to exist in Europe," said Adam Davis, a senior commodity analyst at Merricks Capital in Melbourne. "That's probably a bigger story."

Still, analysts expect only limited quantities of wheat shipments from Russia this year as the country is not expected to go overboard with exports after a severe drought.

"I don't believe that we are going to see flooding of the global grain market with Russian supplies," said Mathews.

"Russia needs to undertake a significant stock-building programme over the next 12 months to rectify the situation caused by the devastating drought of 2010."

Unfriendly crop weather is expected to take the centre stage for U.S. grain markets as farmers struggle to boost output.

Wet weather is stalling spring wheat plantings in the U.S. and dryness is deteriorating crops in Europe.

The winter wheat crop in the United States, the world's top exporter, is expected to be the smallest in five years due to a drought in the southern Plains.

And there are concerns over the U.S. spring wheat crop as incessant rains have delayed seedings in North Dakota, the top spring wheat state, with just 34 percent planted versus the five-year average of 85 percent.

The spread between spring-wheat futures on the Minneapolis exchange and soft red winter wheat on CBOT jumped to around a 2 year top this week and analysts see no reduction in the premium for high-quality wheat.

"The high-protein wheat supply and demand is going to remain reasonably tight," said Davis.

"It is not a one-year thing, it's a multi-year event and it is going to take time to readjust the supply and demand scenario."

Australia wheat production estimate too optimistic-farmers

By Bruce Hextall

PARKES, Australia, July 8 (Reuters) - An Australian government forecast of a near record 2011/12 wheat crop could be too optimistic because it did not take into account risks that lie ahead before the harvest starts in October, farmers interviewed during a crop tour this week said.

According to farmers in the top eastern grain growing state of New South Wales, the actual harvest by the world's fourth largest wheat exporter, could be impacted by anything from weather to an explosion in the mice population that causes crops to be devoured.

"They've based their forecasts on record acres being planted but yields could be lower because of a few risks ahead," farmer Jock Coupeland told Reuters.

Coupeland who farms 3,351 hectares west of Condobolin in the mid-west of New South Wales, including wheat and cotton, there is still a risk that yields could be hit by dry hot Southern Hemisphere spring weather or a late frost, making estimates unreliable at this point in time.

There is also the danger of a mice plague breaking out as the weather warms up in September, threatening crops ahead of the November to December harvest in the state's mid-west.

Last month the Australian Bureau of Agricultural and Resource Economics (ABARES) estimated the seeded wheat area would rise 7 percent to a record 14.3 million hectares in 2011/12.

Assuming average seasonal conditions the country's production could reach 26.2 million tonnes, just short of the record 26.3 million tonnes harvested in 2010/11, said ABARES.

ABARES will issue its next forecast in September.

"Those figures are too high - there's no doubt about that ... in our area we're probably a month behind last year so I don't think we will get the yields that we got last year," said Coupeland.

"With wheat it just has to run its course. That's if your management is up to scratch, you've got the weeds out and you sow on time."

Last financial year Coupeland's property grossed over A\$3 million, half income from high protein wheat and half from cotton. He produced 16,000 tonnes of grain, about 70 percent of which was wheat.

"Wet weather last year produced a record yield of close to 4 tonnes per hectare but we wouldn't expect to repeat that this year," he said.

Coupeland said variable costs such as fertilizer added up to about A\$240 per hectare and if his farm managed 2 tonnes per hectares that equalled about A\$200 per hectare as a gross profit.

"That's a fairly slim margin because of input costs so we have to get that yield about 2 tonnes per hectare to make some money out of it," he said.

High cotton prices have encouraged Coupeland to plant more area with the fibre at the expense of wheat this year.

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In the north-west of New South Wales, a lack of rain has dried top soil in the high yielding wheat belt.

"The subsoil moisture is good but we really need rain as soon as possible to get the crops fully established," said Brian Johnston, a farmer in the north-west.

Johnston planted 607 hectares with durum wheat, used to produce pasta, three weeks ago. As the top soil is drying out fast, crops are struggling as they emerge.

Grant Orr, a 26-year-old grain farmer in the Parkes district of central New South Wales, also thinks the government's estimate could be on the high side.

"It all depends on what happens from here ... for us 2.5 tonnes per hectare to 3 hectares is what you would be hoping for at this stage but it all depends on the weather," said Orr.

He said the critical time was September if temperatures turned higher, drying out soil as crops matured.

"September can really make or break it. Last year we grew a really good crop because it was wet all year but every year is different," Orr said.

There is also the risk of late frosts at the start of spring.

"Last year we stripped 5 tonnes per hectare so we had 3,000 tonnes which was an exceptional year," he said.

Orr said his father, who had been on the farm for 50 years, had never seen a crop that size.

Parkes district farmer Wayne Dunford, 60, said yields were unlikely to match last year when some wheat crops on his farm produced 4.5 tonnes per year.

"We got a one-off crop last year but it could take one frost or hot weather to wipe a crop out - that remains a risk this year," said Dunford.

Dunford, who also runs cattle and sheep on his properties, said wheat presented greater risk than livestock, as weather had more impact. "How big you think the harvest will be depends on the glasses you are wearing," he said.

Q+A-Australia wheat crop 2011/12 outlook

SYDNEY, June 28 (Reuters) - Australia, the world's fourth largest wheat exporter, expects one of its best wheat crops in decades and record exports, but significant risks remain before the harvest gets into full swing in November.

WHAT IS THE PRODUCTION FORECAST?

The 2011/12 crop is seen at a 26.2 million tonnes, broadly in line with the 26.3-million-tonne record in 2010/11, according to the government's chief commodity forecaster, the Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES).

But more importantly, it predicted much higher quality, after excessive rains forced much of last harvest's crop to be downgraded to feed wheat. Grain farmers are finishing planting winter crops such as wheat and barley and adequate sub-soil moisture in eastern Australia is supportive. In Western Australia, recent rain has lifted hopes of a better harvest after the worst drought on record cut production to around 4.7 million tonnes in 2010/11 from 8.2 million a year earlier.

HOW MUCH IS AUSTRALIA EXPECTED TO EXPORT?

ABARES lifted its 2011/12 export forecast by 22 percent to 20.1 million tonnes on the outlook for better quality. Such a jump, and the prospect of smaller crops in the Northern Hemisphere, could make Australia the third biggest exporter in 2011/12.

(Continued on page 31)



A wheat crop is fumigated at a farm near Condobolin, 285 miles (489 km) west of Sydney July 5, 2011. An Australian government forecast of a near record 2011/12 wheat crop could be too optimistic because it did not take into account risks that lie ahead before the harvest starts in October, farmers interviewed during a crop tour said. REUTERS/Daniel Munoz

WHAT ARE THE MAIN RISKS?

Easing margins, the prospect of dry weather, the return of the La Nina weather phenomenon and mice are the biggest threats.

"With prices at A\$170 per tonne (for feed wheat) and costs of production at around A\$100 it is quite attractive but as the northern hemisphere harvest progresses and the weather improves, the weather premium is being taken off the table," Neil Burgess, a senior commodities analyst at Westpac.

"If things like the situation in Greece gets worse, and prices fall below US\$6 per bushel farmers might not put so much in," he said. Wheat futures have tumbled in recent weeks due to supply pressures as the northern hemisphere harvest gets underway. On Tuesday, the July contract traded at \$6.25 per bushel, well below levels above \$8 seen in late May.

The crop is also facing the risk of drier-than-normal weather over parts of the southwest and southeast, where most of the country's wheat is grown. Then there is the threat from an exploding population of mice in some key wheat growing areas. An extended wet period over eastern and southern Australia has promoted plant growth, creating extremely favourable conditions for mice to thrive.

The plague threatens to be the worst since 1993 when hundreds of thousands of hectares of crops were devoured across South Australia, Victoria and Western Australia states. A potential mice plague could hit at least 20 percent of the crop, according to Australian Crop Forecasters

Even if the crop clears all hurdles, there is a threat that the La Nina weather phenomenon, which brought excessive rain during the last harvest, could return. La Nina typically last up to 12 months but some episodes may last longer.

ARE AUSTRALIAN WHEAT YIELDS KEEPING PACE?

Australian yields are not increasing as fast as average global yields, even though Australia's total production has been increasing. Price volatility as the industry struggles to realise economies of scale is limiting yields, according to Grain Growers Australia Ltd, the largest grains industry organisation representing producers in the country

WHAT ARE THE PROSPECTS FOR AUSTRALIA WHEAT?

The wheat supply balance is not so tight, except for high protein grades, although for many farmers prices would really have to plummet to take wheat out of the system, Burgess added.

Still, global supply and demand may be tightening and Australian wheat can be substituted by wheat from other countries, contributing to volatile prices for Australian wheat, Grain Growers Australia said.

Australia wheat exports set to jump 9 pct to record

By Bruce Hextall

SYDNEY, June 15 (Reuters) - Australia's wheat exports are set to jump nearly 9 percent to a record in the year to September 2012, the government's chief commodities forecaster said on Wednesday, with favourable weather in what is usually the world's fourth-biggest shipper.

The 2011-12 crop has several months before harvest at the end of the year so any harsh weather, which has in previous years led to sharp reductions in Australian crop forecasts, could alter the outlook.

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A wheat crop grows at a farm near Parkes, 221 miles (357 km) west of Sydney July 7, 2011. REUTERS/Daniel Munoz

In its first forecast for the marketing year to Sept. 30, 2012, the Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES) put exports at 20.11 million tonnes, up from a forecast 18.470 million tonnes in 2010-11.

U.S. wheat futures on the Chicago Board of Trade had made some small gains ahead of the official Australian data, but they were quick to dissolve.

"It's a big export number so you could construe that it led to a slightly softer tone this morning," said Brett Cooper, senior manager, markets at FCStone Australia.

By 0108 GMT, the front-month July contract was flat at \$7.31 per bushel after dropping 2 percent on Tuesday. The December contract was also softer.

Graphic of wheat forecasts by region:

(<http://link.reuters.com/pyg22s>)

Previous Australian forecasts have had to be revised sharply downwards because of harsh weather. In 2007/08 an initial forecast of 24.98 million tonnes turned into a harvest of 13.08 million tonnes because of a severe drought.

The 2010-11 Australian wheat crop was a record, but around half was downgraded to feed quality due to heavy rains during harvest.

"If we have a good quality crop coming up I think there is certainly demand for high quality milling wheat around the world," said Cooper.

The global market is generally bearish on wheat as supplies are adequate, despite production setbacks with the U.S. winter wheat crop because of drought and dry weather affecting crops in western Europe. Abah Ofon, agricultural commodities analyst with Standard Chartered Bank in Singapore, said ABARES' export forecast would add to the negative tone.

"It is going to put some bearish pressure on the market as it does amount to additional supplies coming into the global market," he said.

ABARES' estimate for 2011/12 Australian exports was around 18 percent higher than a forecast made by the U.S. Department of Agriculture last week.

WEATHER FAVOURABLE

ABARES Deputy Executive Director, Paul Morris, said that good soil moisture in the eastern states and favourable grain and oilseed prices had encouraged Australian producers to increase winter crop plantings this year.

Of the major winter crops, the area sown to wheat is forecast to increase by 7 percent to 14.3 million hectares in 2011-12.

But the area sown is likely to come at a higher costs, because a mouse plague in eastern Australia has forced farmers to spend money buying bait.

"It has got the potential to cost us a lot of money if it does get out of hand," said Chris Groves, a grain farmer in New South Wales state. Groves is currently finishing sowing 800 hectares of winter grains, about half of which is wheat.

"We've planted crops on a good profile of moisture and everything is germinating as we would expect," said Groves.

ABARES forecast Western Australian wheat production at 8.7 million tonnes in 2011/12, provided there are sufficient winter rains. Last year the state harvested only 4.7 million tonnes following a prolonged drought.

COTTON

The country's cotton farmers are also riding high, due to full irrigation dams and historically high prices.

Cotton production could rise to a record 1.106 million tonnes in 2011/12, up from 898,000 tonnes in 2010-11, according to ABARES.

The agency did not provide cotton export figures. Australia, the world's third-largest exporter of the fibre, ships most of its cotton to China, Thailand and other Southeast Asian countries.



Abandoned utes are seen at a wheat farm near Parkes, 221 miles (357 km) west of Sydney July 7, 2011. REUTERS/Daniel Munoz

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