

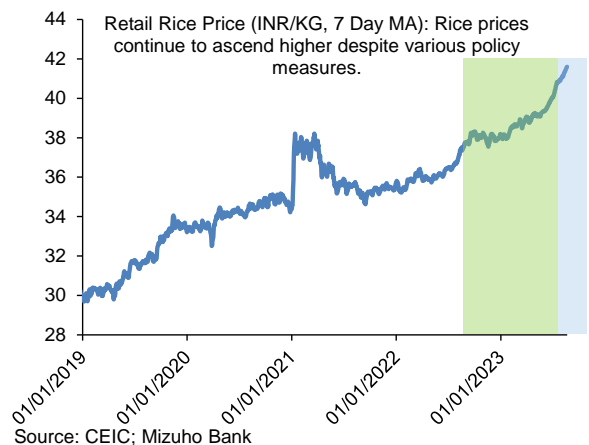
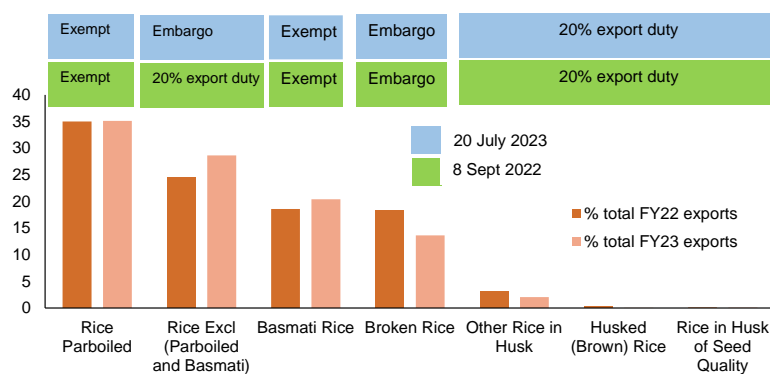
EM-Asia: The Price of Rice

In a Nutshell:

- India, on 20 July 2023, announced an embargo on exports of non-basmati white rice. This follows from their **decision in September 2022** to place an embargo on broken rice and export duties on other grades which **failed to quell the ascendancy of retail rice prices**.
- While the ineffectiveness of export duties in 2022 is unsurprising given **price inelastic rice demand**, the **implementation of the embargo last month has also not dented soaring rice prices**.
- **Shortage fears and speculative hoarding** may be the accomplice to the **underlying closure of more lucrative export opportunities** which inevitably **asserts a shifting of burdens to local consumers**.
- Critically, the **hefty ban continues to send ripples globally**. While major rice exporters Vietnam and Thailand may look poised to capitalise, the reality is that **higher revenues are likely to accrue from higher prices** rather than volumes gains given lagged rice cycles.
- What's more, any attempts to capture lucrative near term export revenues by **reallocating domestic supplies raises longer term risks of crimped supplies** colliding with **plausible El-Niño threats**. **Reduced local supply may inadvertently lift food inflation**.
- Major rice importers such as the Philippines and India's major rice export destinations in Africa will suffer from the brunt of escalating rice prices. While humanitarian channels allowing government to government negotiations alleviate catastrophic hunger crisis, it does not negate adverse price effects.

India: Halting Rice Prices

% of total Duties implement in Sept 2022 were insufficient to dampen the surge in non-basmati white rice exports



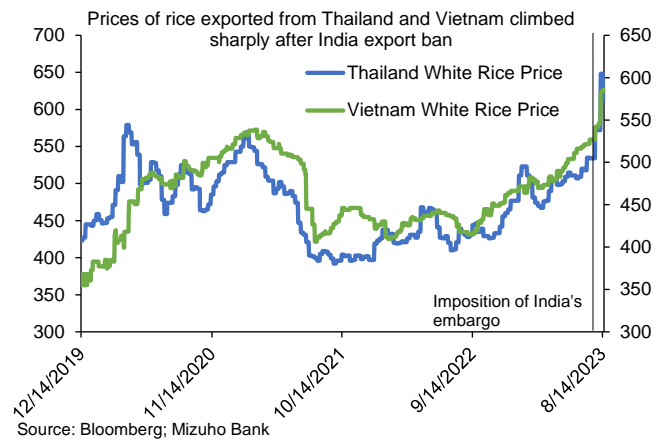
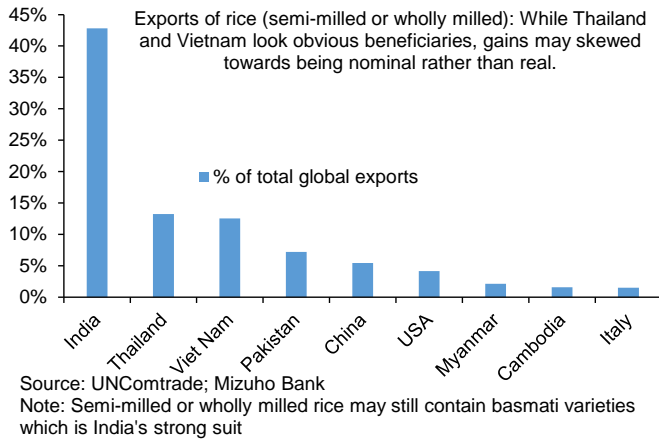
India, on 20 July announced an **embargo on exports of non-basmati white rice**. This follows from their previous decision in September 2022 to place an **embargo on broken rice and export duties on other grades** (with basmati and parboiled rice being exempted). (See LHS Chart above). With rice importers **willing to pay the prices**, the **earlier duties have failed to dent demand** and domestic prices continued ascending. (See RHS Chart above) In fact, simply given that necessity of rice implying price inelastic demand, any expectations of policy efficacy appear to be misplaced or will require outsized export duties.

As such, opting for a **broader and stringent quantity based** measure to ensure **domestic sufficiency** was par for the course. That said, **retail prices have continued to escalate** after the implementation. While there is a case to be made that the **counterfactual** under the absence of the ban could be a steeper increase, the

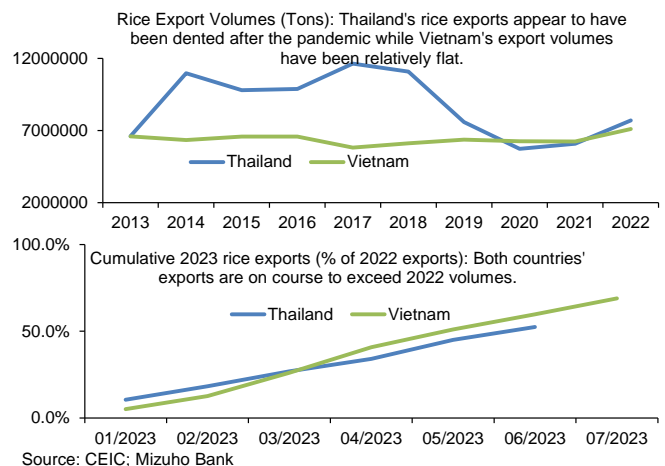
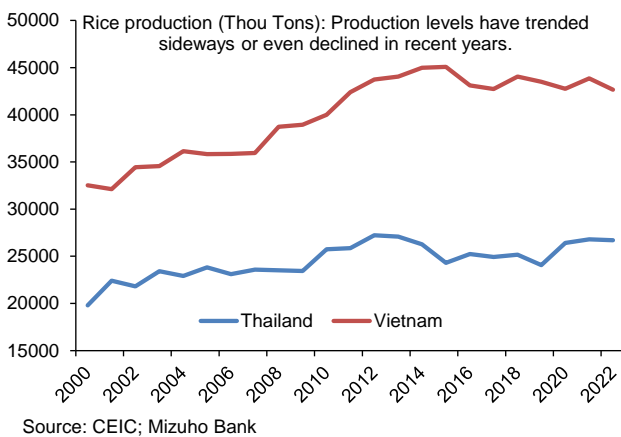
diminished opportunities from likely more lucrative export channels could imply greater extraction from domestic consumers.

Admittedly, domestic concerns had been rising with **excessive rain** damaging crops in northern states such as Punjab and **deficient** rains delaying or reducing crop sowing in states such as West Bengal and Andhra Pradesh. Pipeline threats from El-Nino effects are also key drivers of India’s embargo. Nonetheless, while self-sufficiency is an important and valid consideration, the **global ramifications of this export ban has ignited worries of global food protectionism creating an adverse feedback loops of escalating food prices vulnerable to further shocks.**

Vietnam and Thailand: Price Winners?



Admittedly, with India’s export embargo, **Thailand and Vietnam look set to enjoy windfall gains as rice export prices in both countries have risen sharply since then.** That said, the consequent adverse impact on inflation within their domestic markets cannot be easily dismissed as the export and domestic price gap widens. What’s more, these export revenues will **not make a significant dent on their current account positions** or **revive their dismal growth** (Q2 GDP YoY% - Thailand: 1.8%; Vietnam: 4.1%) as manufacturing demand falters.

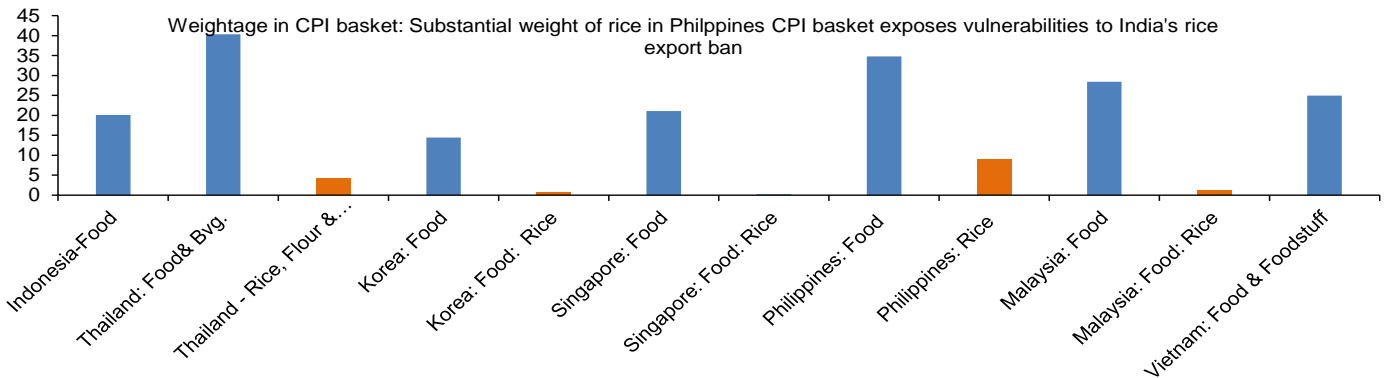


While almost a quarter of India’s rice exports may indeed be curtailed, **Thailand and Vietnam may not be able to grab much of the market share** given the **rice production have stagnated in recent years.** Given that cycles of rice production dictate that **attempts to ramp up in production will be inevitably lagged** and unfortunately subjected to nature’s tyranny, substantial volume gains elude.

On the rice exports front, recent historical trends appear rather flat. That said, **export volumes this year are likely to expand from 2022.** Nonetheless, if domestic supplies are re-allocated for exports given the much more lucrative margins, the reduced local supply may inadvertently lift food inflation even in **Vietnam and**

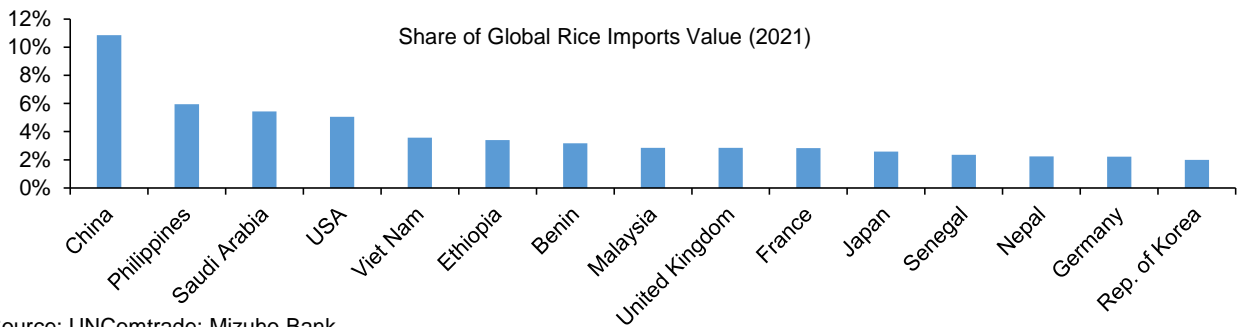
Thailand given the substantial weight of food in the CPI basket. Which means that some of the exporters' gains may come at the expense of domestic inflation pain. But unmitigated inflation risks lie elsewhere.

Bearing the Brunt



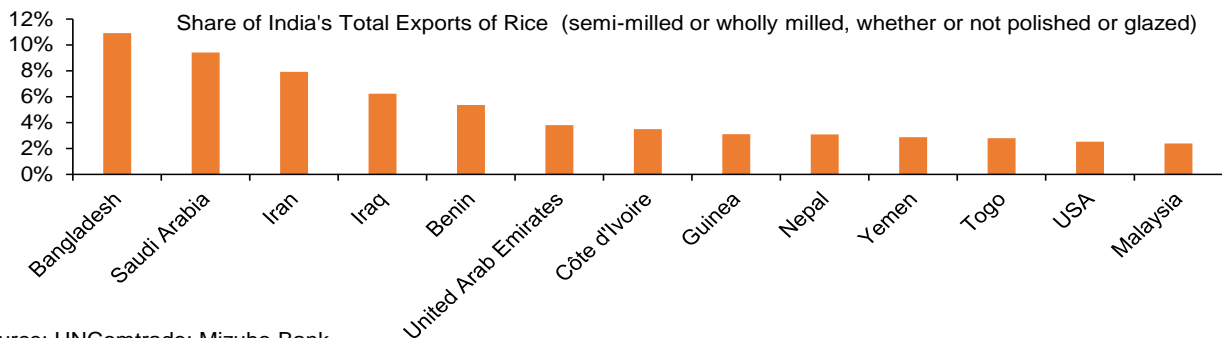
Source: CEIC; Mizuho Bank
 Note: Rice CPI weight data available only for some countries.

Point being, surging rice prices threaten **resurgent inflation across other regional peers** in EM-Asia (without the benefit of income offset) with the extent dependent of the weight of rice and food in the CPI basket as well as import dependence. **Philippines being one of the largest rice importers globally** will not only incurred **higher import expenditures** but also suffer from imported inflationary pressures given the sheer weight of rice in the CPI basket. The indirect pass-through to food services will also be significant considering the on-going services sector recovery. As such, **EM-Asia central banks such as the RBI and the BSP may be put in a more difficult position facing sharper trade-offs.**



Source: UNComtrade; Mizuho Bank

India's major rice export destinations in Africa (Chart below) will suffer from the brunt of escalating rice prices. While diplomatic exemptions have been made to allow for humanitarian needs by **allowing government to government negotiations to alleviate catastrophic hunger crisis, it does not negate adverse price effects.** Thus far, governments from Singapore, Indonesia, Philippines as well as Bhutan and Nepal had been in negotiations.



Source: UNComtrade; Mizuho Bank

Looking ahead, given that export **duties** on parboil rice while possible is likely highly **ineffective** as seen from recent experience while **embargoes** on another 30% of India will be **outright damaging** globally, these **measures remain of a speculative nature.**

Important Information

This publication has been prepared by Mizuho Bank, Ltd. (“Mizuho”) and represents the views of the author. It has not been prepared by an independent research department and it has not been prepared in accordance with legal requirements in any country or jurisdiction designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

Disclaimer

Unless otherwise stated, all views or opinions herein are solely those of the author(s) as of the date of this publication and are not to be relied upon as authoritative or taken in substitution for the exercise of judgement by any recipient, and are subject to change without notice. This publication has been prepared by Mizuho solely from publicly available information. Information contained herein and the data underlying it have been obtained from, or based upon, sources believed by us to be reliable, but no assurance can be given that the information, data or any computations based thereon are accurate or complete. This publication provides general background information only. It is information in summary form and does not purport to be complete. This publication has been prepared for information purposes only and is not intended by Mizuho or its affiliates to constitute investment, legal, accounting, tax or other advice of any kind and all recipients of this publication are advised to contact independent advisors in order to evaluate the publication, including, without limitation, the suitability of any security, commodity, futures contract or instrument or related derivative (hereinafter, a “financial instrument”), product or strategy herein described. This publication is not intended to be relied upon as advice to investors or potential investors and does not take into account investment objectives, financial situation or needs of any particular investor. It is not intended for persons who are Retail Clients within the meaning of the United Kingdom’s Financial Conduct Authority rules nor for persons who are restricted in accordance with US, Japanese, Singapore or any other applicable securities laws.

This publication has been prepared for information purposes only and is not intended by Mizuho to market any financial instrument, product or service or serve as a recommendation to take or refrain from taking any particular course of action or participate in any trading or other strategy. This publication is not an offer to buy or sell or a solicitation of any offer to buy or sell any security or any of the assets, businesses or undertakings described herein, or any other financial instrument, nor is it an offer to participate in any trading or other strategy, nor a disclosure document under applicable laws, rules, regulations or guidelines. Nothing contained herein is in any way intended by Mizuho or its affiliates to offer, solicit and/or market any financial instrument, product or service, or to act as any inducement to enter into any contract or commitment whatsoever. Neither the author, Mizuho nor any affiliate accepts any liability whatsoever with respect to the use of this publication or its contents or for any errors or omissions herein.

Mizuho and its affiliates, connected companies, employees or clients may take the other side of any order by you, enter into transactions contrary to any recommendations contained herein or have positions or make markets or act as principal or agent in transactions in any securities mentioned herein or derivative transactions relating thereto or perform or seek financial or advisory services for the issuers of those securities or financial instruments.

All of the information contained in this publication is subject to further modification without prior notice and any and all opinions, forecasts, projections or forward-looking statements contained herein shall not be relied upon as facts nor relied upon as any indication of future results. Opinions stated in this publication are subject to change without notice. Future results may materially vary from such opinions, forecasts, projections or forward-looking statements. The information contained in this publication may not be current due to, among other things, changes in the financial markets or economic environment. Mizuho has no obligation to update any information contained in this publication. Past performance is not indicative of future performance.

This is a strictly privileged and confidential publication. This publication contains information addressed only to a specific individual and is not intended for distribution to, or use by, any person other than the named addressee or any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation. Save with Mizuho’s prior written consent, you may not disclose, divulge, reproduce or furnish any information contained herein to any other party. Please notify the sender immediately if you have mistakenly received this publication.

Singapore: Mizuho is licensed as a bank under the Banking Act (Chapter 19) of Singapore, and is regulated by the Monetary Authority of Singapore.

Japan: Mizuho is authorised and regulated by the Financial Services Agency of Japan.

United Kingdom / European Economic Area: In the UK, Mizuho is authorised by the Prudential Regulation Authority and subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of MHBK’s regulation by the Prudential Regulation Authority are available upon request. This publication may also be distributed by Mizuho International plc (“MHI”). MHI is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

United States: This publication is not a “research report” as defined in Commodity Futures Trading Commission (“CFTC”) Regulations 1.71 and 23.605. The content of publications distributed by Mizuho Securities USA Inc. (“MSUSA”) is the responsibility of MSUSA. The content of publications distributed directly to US customers by Mizuho is the responsibility of Mizuho. US investors must effect any order for a security that is the subject of this report through MSUSA.

© 2014 Mizuho Bank Ltd