

Mizuho Flash: EM Asia

MIZUHO

Economics & Strategy | Asia ex-Japan

September 12, 2022

Lavanya Venkateswaran, Market Economist

Tan Boon Heng, Market Economist

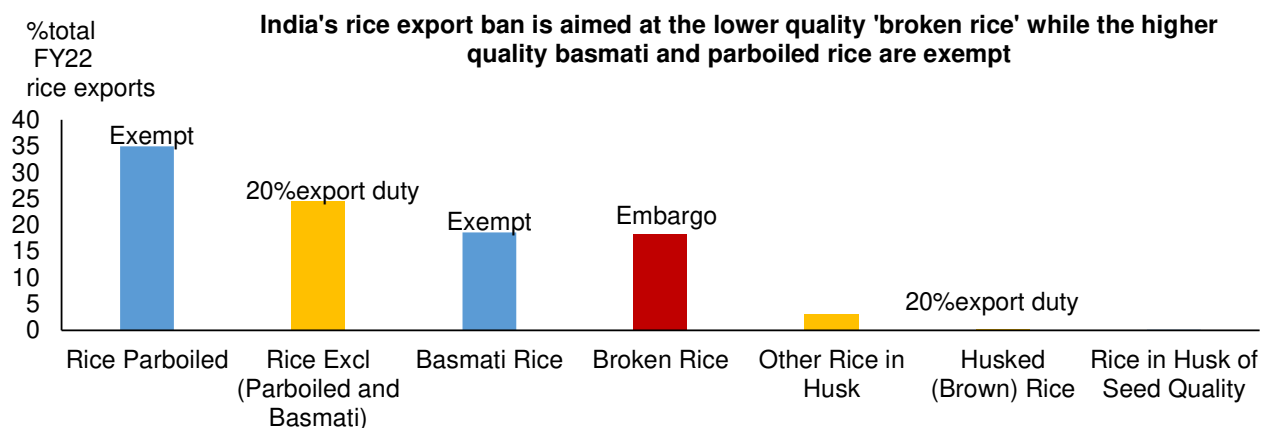
Sticky Rice Concerns

In a nutshell: India has, effective 9 September, placed an embargo on 'broken rice' exports and levied a 20% export duty on other grades of rice (with the exception of basmati and parboiled rice). The aim is increase domestic supply and reduce retail rice prices. However, the objective may not be achieved, if a similar wheat export ban (that came into effect on 13 May) is anything to go by.

Importantly, this ban is likely to be off global significance. Thailand and Vietnam will directly stand to benefit from substitution effects as well as higher global rice prices. By the same token, countries reliant on Indian exports such as certain African and Middle-eastern countries will be hard hit by the ban. **The Philippines and to a lesser extent, Malaysia, will be indirectly hurt** by the ban as these major rice importers will have to pay more for rice, while **enduring higher imported and food inflation**. Central banks in these countries will face tougher trade-offs.

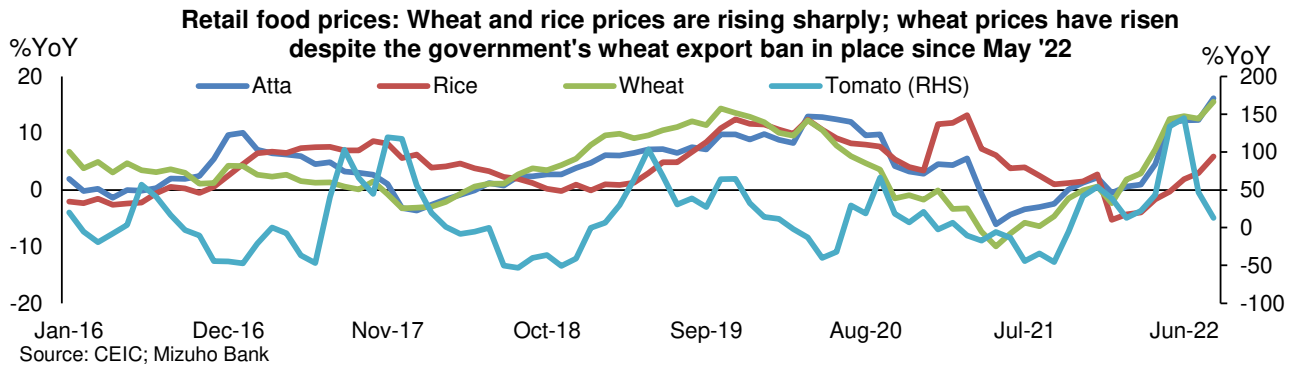
India Bans 'Broken Rice' Exports; Duty Imposed On Others

The government has imposed export restrictions on different grades of rice in a bid to alleviate domestic supply concerns. 'Broken rice' faces a complete embargo from 9 September while 20% export duty will be imposed on other grades of rice. Parboiled and basmati rice exports have been excluded from this ban (Figure 1). *It seems like the ban is designed to have a limited impact on higher quality basmati and parboiled rice grades while curtailing lower quality rice exports.*



Source: CEIC; Mizuho Bank. Note: Based on HS 10 digit export volumes.

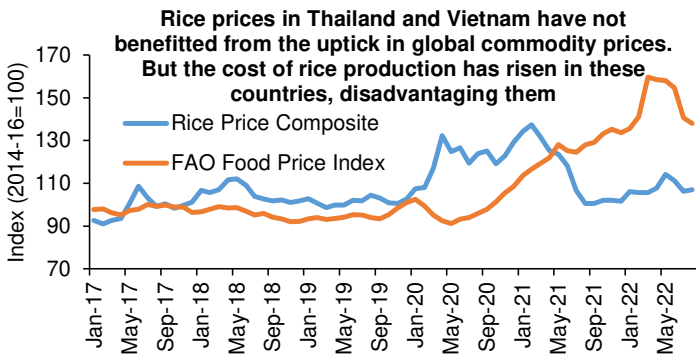
The motivation behind the ban stems from supply concerns. Below average rainfall in the key rice producing states of West Bengal, Bihar and Uttar Pradesh has led to supply concerns, which are being compounded by rising retail rice prices that pre-date the rice export ban. Frankly, it remains to be seen if this ban will have a perceptible impact on domestic prices. A similar ban on wheat exports, which has been in place since 13 May 2022, has had limited success in controlling domestic wheat prices. Wheat prices have risen by 15.5% YoY in August from 12.6% in July, taking the average price increase to 13.4% since the price ban.



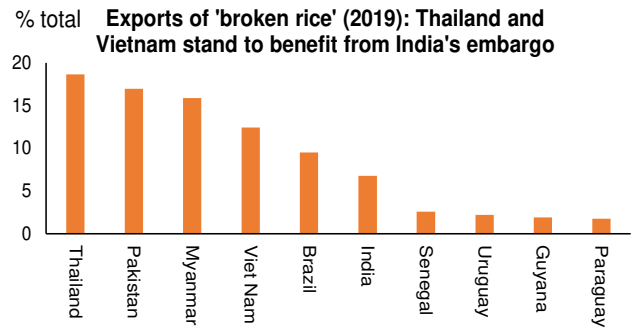
Counter-factual arguments around the extent of the price rise absent the export ban may be valid, but to a limited degree. Protectionist measures, to a large degree, tend to be counter-productive. Bans, like the ones India imposed on rice and wheat, will limit global supplies and put additional pressure on prices. **To that end, the Reserve Bank of India might not be entirely convinced by the governments' action on curtailing retail rice prices.** It will, in all likelihood, remain hawkish and on guard about inflationary pressures at its 30 September meeting. We expect it **will continue with upsized hikes of around 35-50bp.**

The Big Beneficiaries: Thailand and Vietnam

Outside of India, the timing of this rice ban is fortuitous for Thailand and Vietnam. Both countries have been in discussion with each other for some time now to try and boost their rice prices, which despite the boost to the global commodity prices, have remained low¹.



Note: Rice Price Composite (Average of Thailand Rice: 5%, 25%, A.1 grades and Vietnam: 5%). Source: FAO, UNComtrade, Mizuho Bank



Source: UNComtrade; Mizuho Bank

Importantly, these countries directly stand to benefit from substitution effects from the 'broken rice' embargo. Pre-pandemic (2019), Thailand was the biggest exporter of this grade of rice followed by Pakistan, Myanmar and Vietnam². Similarly, these two countries also stand to benefit as India's overall rice exports become more expensive. In 2019, Thailand

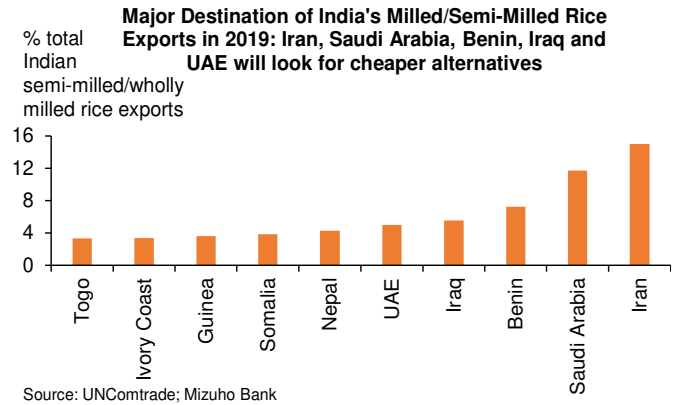
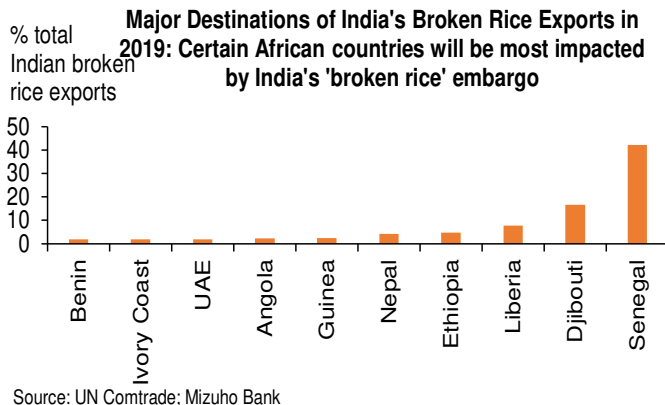
¹ Thailand to push for fairer rice prices, Bangkok Post, 4 September 2022.

² Admittedly, 'broken rice' is not India's strong suit in terms of rice exports (by volume). Its advantage is more in terms of 'semi-milled or wholly milled' rice, which includes basmati and parboiled rice and are excluded from the ban.

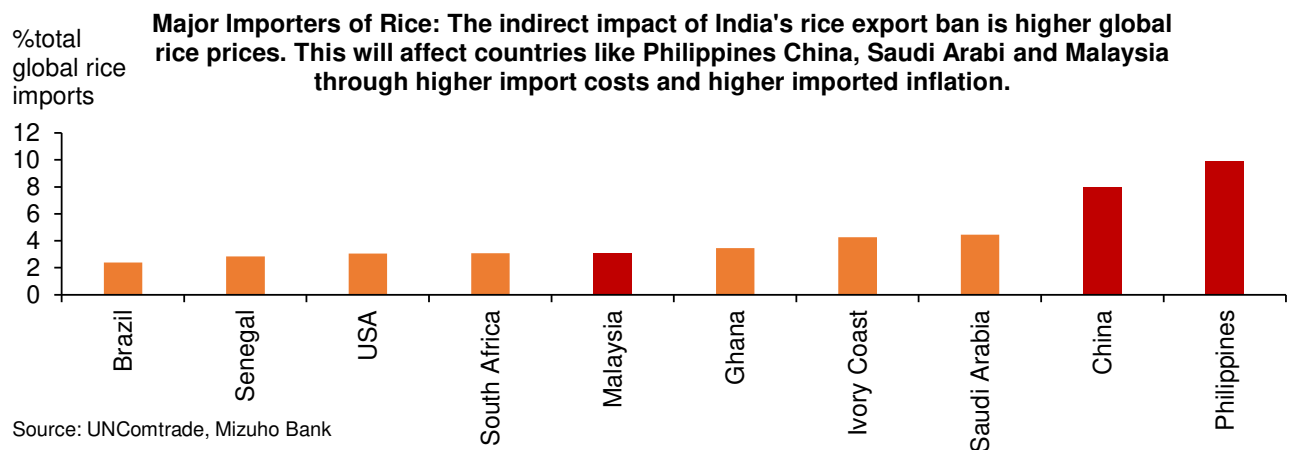
Vietnam exported the second and third largest quantities of ‘semi-milled or wholly milled’ rice after India.

The Big Losers: Certain African countries & Middle-Eastern countries

It goes without saying that rice importers will be hurt by India’s latest protectionist curve ball. The direct impact will be on countries reliant on Indian rice including certain African and Middle-Eastern countries. The African countries of Senegal, Djibouti, Liberia and Ethiopia will be most hurt by the embargo on ‘broken rice’ while the prospects of more expensive rice imports might push countries such as Iran, Saudi Arabia, Benin and Iraq to look for cheaper alternatives



The indirect impact of India’s ban will be felt by large importing countries such as the Philippines, China and Malaysia. Higher global rice prices on the back of reduced supply from India will impact these large rice importers and with it, will lead to higher imported inflation. **With China dealing with its own unique predicament** (see Mizuho Chart Speak - Can CNY Defy the Dollar (Bull)?) and relatively more contained inflationary pressures, **the Philippines and Malaysia will likely be the hardest hit by India’s rice ban. For central banks in both countries, this implies an unfettered path of tighter monetary policy and higher policy rates, worsening the associated growth-inflation trade-offs.**



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