

**Philequity Corner (May 19, 2008)**  
**By Valentino Sy**

**Rice Reprise**

From the 3,000 level at the start of April, the PSEi slipped to near 2,700 towards May even as other Asian markets headed northward. The culprit: rice export restrictions, food riots and panic buying of rice were the headlines when the Philippine market dropped the most. It exposed the vulnerability of the Philippines to rice and commodity inflation.

**Much ado about nothing**

But, is there real cause for worry? Despite being touted as the world's largest rice importer, historically, the Philippines has been fairly self-sufficient, with imports averaging less than 10% of gross supply from 1990 to 2007. As the table below shows, the last time imports spiked to over 20% was in 1998, when bad weather contributed to an unusually low harvest.

<b>PHILIPPINE MILLED RICE SUPPLY (Unit: Thousand Metric Tons)</b>							
	<b>Beginning Stock</b>	<b>% of Gross Supply</b>	<b>Production</b>	<b>% of Gross Supply</b>	<b>Imports</b>	<b>% of Gross Supply</b>	<b>Gross Supply</b>
<b>1990</b>	1,690	20.1%	6,095	72.6%	606	7.2%	8,391
<b>1991</b>	1,899	23.1%	6,326	76.9%	0	0.0%	8,225
<b>1992</b>	2,120	26.2%	5,970	73.8%	1	0.0%	8,091
<b>1993</b>	1,673	20.8%	6,170	76.7%	202	2.5%	8,045
<b>1994</b>	1,444	17.3%	6,892	82.7%	0	0.0%	8,336
<b>1995</b>	1,498	17.3%	6,894	79.6%	264	3.0%	8,656
<b>1996</b>	1,422	14.7%	7,379	76.3%	867	9.0%	9,668
<b>1997</b>	1,793	18.1%	7,370	74.6%	722	7.3%	9,885
<b>1998</b>	1,979	20.3%	5,595	57.4%	2,171	22.3%	9,745
<b>1999</b>	2,279	21.1%	7,708	71.2%	834	7.7%	10,821
<b>2000</b>	2,365	21.3%	8,103	73.0%	639	5.8%	11,107
<b>2001</b>	2,166	18.9%	8,472	74.0%	808	7.1%	11,446
<b>2002</b>	2,271	18.7%	8,679	71.5%	1,196	9.8%	12,146
<b>2003</b>	2,448	20.1%	8,829	72.6%	886	7.3%	12,163
<b>2004</b>	2,362	18.4%	9,481	73.8%	1,001	7.8%	12,844
<b>2005</b>	2,051	15.3%	9,550	71.1%	1,822	13.6%	13,423
<b>2006</b>	2,094	15.1%	10,024	72.5%	1,716	12.4%	13,834
<b>2007</b>	2,253	15.3%	10,600	72.1%	1,850	12.6%	14,703
<b>2008</b>	2,756	17.0%	11,353	70.0%	2,100	13.0%	16,209

*Sources: CountrySTAT Philippines (1990-2006 data)*  
*US Department of Agriculture (2007 production, consumption data)*  
*Philequity Research estimates; news articles (2007, 2008 estimates [italicized])*

Recently, the country's Department of Agriculture (DA) reported that around 3.748 million metric tons (MMT) of palay (unmilled rice) has been produced for the first quarter. This translates to a minimal growth of only 1.9% because the longer cold spell delayed harvesting activity. Still, the DA expects the first semester production figure to reach 7.1 MMT, and is targeting production of more than 10 MMT by the last quarter.

## Domestic Demand Situation

On the demand side, annual per capita consumption has grown by an average of less than 2% from 1991 to 2007. So far, we see no reason for consumption to jump to alarming levels, even if some quarters point to a “runaway” (at only 2.04% yearly?) population growth as among the major factors to blame the rice crisis on.

Assuming that the per capita consumption growth trend continues, and barring any domestic *force majeure* that could affect supply, we could still end the year with enough stocks – even if we lessen our target rice imports for the period.

<b>PHILIPPINE MILLED RICE UTILIZATION (Unit: Thousand Metric Tons)</b>					
	End Stock	Total Net Food		Per Capita kg/yr	
		Disposable	% Growth		% Growth
<b>1990</b>	1,899	5,689		92.5	
<b>1991</b>	2,120	5,263	-7.5%	83.7	-9.5%
<b>1992</b>	1,673	5,599	6.4%	87.1	4.1%
<b>1993</b>	1,444	5,792	3.4%	88.5	1.6%
<b>1994</b>	1,498	5,935	2.5%	86.5	-2.3%
<b>1995</b>	1,422	6,326	6.6%	92.6	7.0%
<b>1996</b>	1,793	6,906	9.2%	98.7	6.7%
<b>1997</b>	1,979	6,944	0.6%	97.1	-1.7%
<b>1998</b>	2,279	6,723	-3.2%	91.9	-5.3%
<b>1999</b>	2,365	7,451	10.8%	99.7	8.5%
<b>2000</b>	2,166	7,892	5.9%	103.2	3.5%
<b>2001</b>	2,271	8,086	2.5%	103.8	0.6%
<b>2002</b>	2,448	8,589	6.2%	108.0	4.1%
<b>2003</b>	2,362	8,677	1.0%	107.0	-0.9%
<b>2004</b>	2,051	9,596	10.6%	116.1	8.5%
<b>2005</b>	2,094	10,126	5.5%	118.8	2.3%
<b>2006</b>	2,253	10,324	2.0%	118.7	-0.1%
<b>2007</b>	2,756	10,634	3.0%	120.1	1.1%
<b>2008</b>	3,830	11,006	3.5%	121.8	1.5%
<b>Average (1991 to 2007)</b>			<b>3.9%</b>		<b>1.7%</b>

Sources: CountrySTAT Philippines (1990-2006 data)

US Department of Agriculture (2007 production, consumption data)

Philequity Research estimates; news articles (2007, 2008 estimates [italicized])

### On its way down?

Rice futures prices reached record highs of almost US\$25/cwt (hundredweight) on April 23, several days after some exporters (e.g., Vietnam, China and India) announced cuts in overseas sales to prioritize their own domestic demand. Prices remained high in early May when a cyclone devastated around 20% of Myanmar’s rice fields. But prices fell 14% last week to US\$19.79/cwt (May 16) – the biggest weekly drop since July 2, 2004 – after Pakistan announced resumption of exports and Japan, in an extremely rare deal, said that it is willing to export some stockpiles to the Philippines.

Likewise, other soft commodities such as wheat, sugar, soybean and corn have registered significant declines from their year-highs.

	Price High	Date	Curren Price	% Decline
Wheat (USD/bu)	12.45	3/12/2008	7.75	-37.8%
Sugar #11 (USD/lb)	15.18	3/3/2008	11.13	-26.7%
Rough Rice (USD/cwt)	24.82	4/23/2008	20.07	-19.2%
Soybean (USD/bu)	15.98	3/3/2008	13.78	-13.8%
Corn (USD/bu)	6.30	5/8/2008	5.91	-6.2%

Source: Bloomberg

### Agricultural Cycle

The recent jump in grain prices (particularly rice) is probably being caused by a multiple of factors, but very depressed price levels in 2004/2005 may have played a major role in discouraging farm output. It often takes a year to raise agricultural supply and therefore spot prices are always determined by today's demand and last year's supply. This is the reason why agricultural prices oscillate wildly from time to time.

If history is any guide, very high grain prices will encourage a rapid increase in plantation. If so, the risk is not a continued rise in prices, but a glut of excess grain supply as soon as next year.

### Barking up the wrong tree

While rice accounts for 9.4% of the CPI basket, a more serious inflation threat comes from sustained high fuel and energy costs. In "isolation" these items weigh only 2.4% and 3.8% respectively on the CPI; but clearly, these weights are understated since fuel and energy price effects are reflected among other items in the index basket – including rice (e.g., cost of transport, milling, processing).

Moreover, unlike rice, oil is a non-renewable resource with no immediate substitutes in view. It also takes years or even decades to discover new supplies of oil. As we mentioned in last week's article ("*Superspike in Oil*", May 12, 2008), the government should start looking for long-term energy solutions – soon.

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