

“Projected drop in global rice production and tight export availability from main exporters likely to pose pressure on global rice prices in 2016/17 season. Moreover, Strong government control on rice importation might support higher prices in Tanzanian market”

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Executive summary

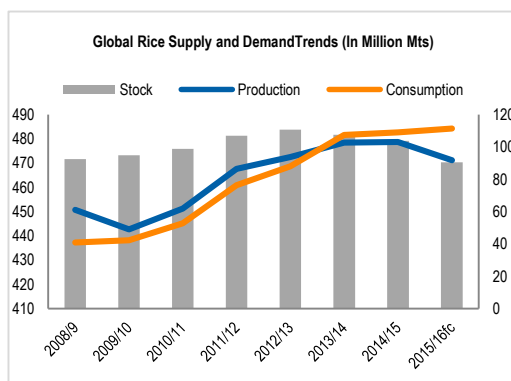
Global rice prices are expected to rise in 2016/17 season following tight export availability from main exporting countries. The global rice output is projected to decline by 1.6% in 2016/17 to 471.1Mill Mts. Concerning Africa, production is forecasted at 18.8Million Mts, down by 1.1% due to inadequate precipitation in South African region and Egyptian state efforts to limit area under paddy. In Tanzania, preference for locally produced rice coupled with strict government policies on cheap imports likely to support higher prices in 2016/17.

Global Rice Market Fundamentals

Global rice consumption grows¹ at 2.04% surpassing the production by 0.6%. Moreover, in 2016/17season consumption is forecasted at 484.2Million Mts, up by 0.3% YoY due to increase in buying interest in China. Regarding global production, a drop of 1.6% to 471.1 Million Mts is likely to happen following El-Niño events in some Asia rice producing countries. (USDA, IGC and NMB Analysis). See figure 01 & 02 below

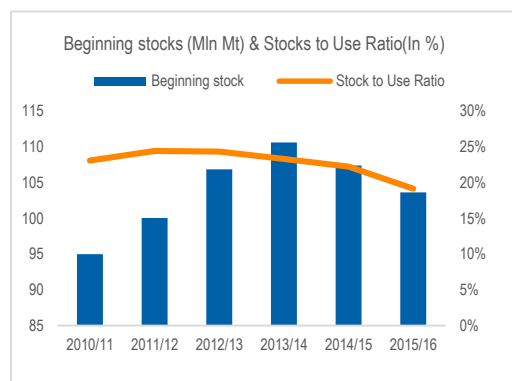
With demand expected to outpace production, the global stock- to -use ratio is estimated to be 19.1% which is 13.9% lower than previous season. According to Food and Agricultural Organization (FAO) of United Nations, slower start to the planting season in Asia region was the reason for low estimates. This could positively affect the prices for 2016/17season.

Fig 01: Global Rice production, consumption and stocks (In Million Mt)



Source: USDA, IGC & NMB Analysis (2016)

Fig 02: Beginning stocks (Mn Mt) and stocks to use ratio



Global Rice² Price Trend

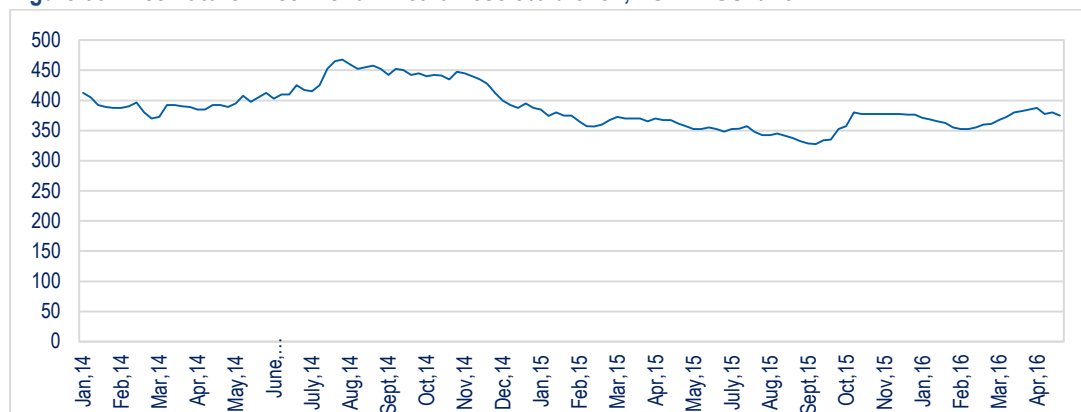
In 2015/16 season, global average prices were down by 13.2% when compared to its preceding season largely driven by low import demand and ample supplies. 2016 Q1, average prices rose by 2.1% when compared to 2015 prices but still lower than anticipated levels due to unresponsive demand. However, for the remaining quarters, prices will be corrected form low levels due to tight export availabilities from major exporting countries³. See figure 03 below

¹ Five year Compounded Annual Growth Rate(CAGR)

² Rice, Vietnamese 5% broken, FOB Ho Chi Minh City

³ India, Pakistan, Thailand, United States and Viet Nam

Figure 03: Rice Future Price Trend –Vietnamese 5% broken, FOB in USD/Mt



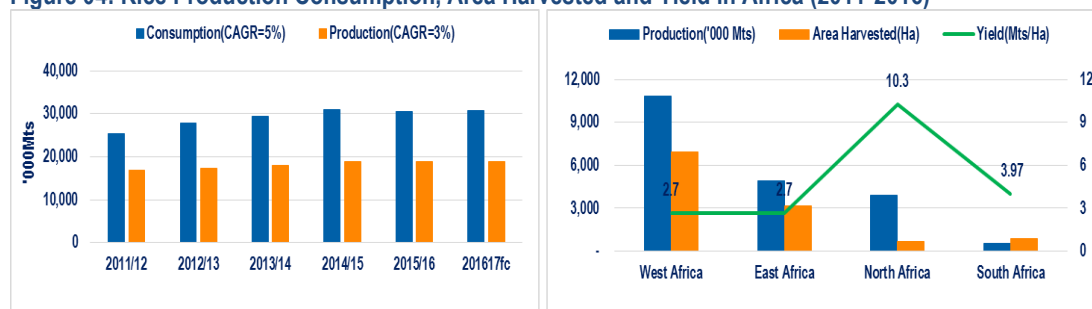
Source: Agra net (2016)

Africa Rice Market Fundamentals

Africa produced 19 Million Mts of rice in 2015/16 season, which marks an increase by 1% when compared to 2014/15. For 2016/17 season, production is projected to drop by 1.1% to 18.8 Million Mts, due to inadequate precipitation in South Africa and Egyptian state efforts to limit area under paddy (FAO, USDA and NMB Analysis). Yet, low yields (about 2.7 Mts/Ha) for East and West African crop affects regional output despite paddy campaigns and distinctive governments' attention to the sector. See figure 04

For the past five years, Africa consumption recorded a Compound Annual Growth Rate (CAGR) of 4.8%. Further, United States Department of Agriculture (USDA) forecasts 30.7 Million Mts to be consumed in 2016/17 season, 0.3% higher than previous season. Overall regional rice production covers only 62% of supply, to fill its demand Africa imports mostly from Asian region. Following projected drop in global rice production and export ban by Egyptian government (the leading rice exporter in Africa) it is likely that Africa welcomes 2016/17 season with tight supplies of rice.

Figure 04: Rice Production Consumption, Area Harvested and Yield in Africa (2011-2016)



Source: FAO, USDA & NMB Analysis (2016)

Tanzanian Market Outlook

Tanzania produce an average of 1.7 Million Mts per year. For the past three years we observe continuous growth in rice production with 19.6% CAGR. As per discussion with Rice Council of Tanzania-Board Chairman Mr. Julius Wambura despite of competition from low cost producing countries, there is an increasing market share for Tanzania rice in Zambia, Malawi, Uganda and Kenya mostly brought by its aroma.

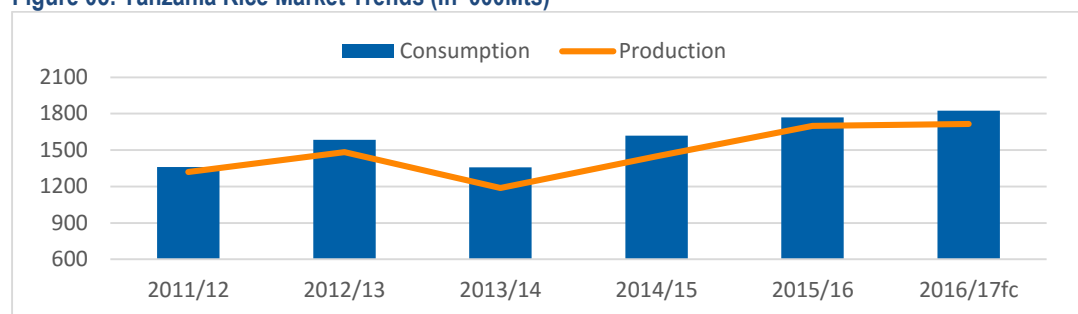
On the other hand, consumption records continuous growth since its recovery in 2013/14 season due to aromatic preference and increased usage in social functions and festival seasons. USDA forecasts 2016/17 consumption in Tanzania to be 1.82 Million Mts, a growth of 3.2% YoY. See figure 05 below

In 2016/17 season, a slight growth in Tanzania rice production is expected (0.9%) following favorable weather in most parts of Lake Zone⁴. Conversely, heavy rains which delayed planting activities in Morogoro region pose negative effect on production from this region. In effect, Kilombero Plantation Limited (KPL)-the largest rice estate

⁴ Confirmed by Musoma Foods Managing Director, Said Mikigagi through telephone interview

in East Africa was able to plant only 2,700Ha instead on 3,600Ha in fear of crop destruction. We do not foresee severe rice shortage in Tanzanian Southern Highlands.

Figure 05: Tanzania Rice Market Trends (In '000Mts)



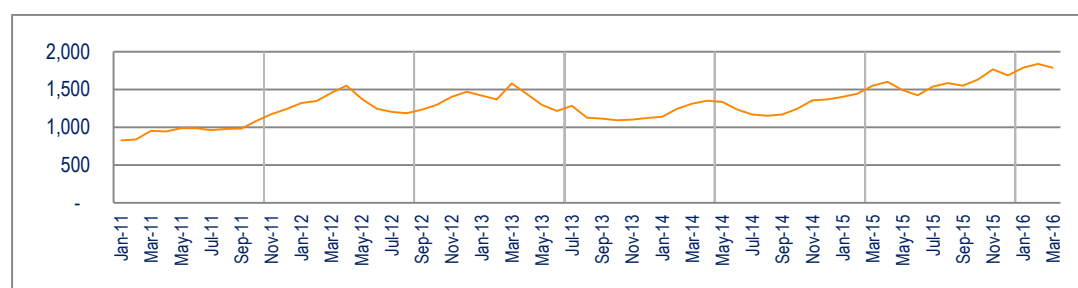
Source: USDA and NMB Analysis (2016)

Tanzania Rice Price Trend

Monthly rice average prices recorded a five year CAGR of 19.6% while falling in a range of Tshs. 996/Kg to Tshs1,255/Kg except for 2012/13 season where prices settled at an average of Tshs. 1,340/Kg; 34.5% higher than 2011/12 due to high inflation (MOIT, BOT and NMB Analysis). Bank of Tanzania (BOT) data shows that for the past five years inflation recorded its highest in 2012 at 16.1%, up by 27.4% when compared to 2011.

In 2015/16 season average prices fell by 0.6% YoY due to continuous rice smuggling and increase in production to 1.7Million Mts (EAGC and NMB Analysis). For the first quarter of 2016 prices were up by 6.5% QoQ as new stocks were not readily available in the market. The current government control on rice importation may support upward price movement at least for the short term.

Figure 06: Average Monthly Rice Prices, 2011-2016 (In TZS/Kg)



Source: EAGC, MOIT& NMB Analysis (2016)

The Outlook

Tight export availability from Egypt, India, Vietnam, Pakistan, United States and Thailand coupled with forecasted 1.6% drop in global rice production in 2016/17 season due to strong El Niño events in some rice producing countries in Asia modestly supports high global prices for 2016/17 season.

Given shrinking stocks availability in exporting countries, the market looks particularly open to sudden demand flows, which could boost price upwards, though modestly.

Despite the fact that most African countries put emphasis on self-sufficiency rice policy, inadequate precipitation in South Africa and Egyptian government efforts to reduce area under paddy might cause 1.1% drop in regional rice production. Importation of 11.9Million Mts is forecasted to meet regional demand.

Regarding our local market, in Q2 & Q3 of 2016 prices are expected to drop following the arrival of new crop. However, high per unit cost of production puts pressure on the local rice retail prices hence less competitive to cheap imported origins. Government control of cheap rice origins and smuggling will likely support positive price development.