

Asia Chart of the Week

What's cookin' with rice?

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Asia

Broader price pressures are, thankfully, easing in much of the region. However, something else has been bubbling up of late that may pose headaches for central bankers: food prices have started to climb in several places, led in large part by a surge in the cost of rice. This matters hugely for Asia, being the key staple for much of the region's cuisine. It also matters because unlike the prices of, say, tomatoes and onions, which tend to normalise quickly after a spike because of short harvest cycles, rice prices can stay elevated for much longer. The memory of the 2008 Asian food price scare sits deep: back then, rising rice prices in some economies quickly spilled over into other markets as consumers and governments across the region scrambled to secure supplies. It also lifted the prices of other staples, such as wheat, as buyers shifted to alternatives. Thus, as the world's largest exporter of rice, India, started to curb shipments recently, it is of little surprise that prices have climbed, with one benchmark up nearly 50 per cent over the past year, reaching a decade high. This comes at a time when stocks in many markets have declined and the world has become more dependent on rice being shipped across borders. From sushi to curry...things are bound to get a lil' pricier.

I am not superstitious, but I am a little stitious.

Michael Scott

Our first chart tells the story well enough. The red line shows export prices for rice from Thailand, a global benchmark. Note the spike in 2008 when prices briefly soared above USD1,000 per tonne. Then things settled for a while. However, over the course of this year, prices again jumped, from around USD450 per tonne to over USD600 per tonne – an almost 50% rise y-o-y (black line) ... the biggest surge since, well, 2008.

Why the latest spike? Blame the weather. Erratic rains and drought in many parts of the world have disrupted supply. In recent weeks, India, by far the largest exporter, imposed curbs on shipments to keep a lid on local price pressures. For some categories, like non-basmati white milled rice and broken rice, India suspended shipments altogether. Other types of rice are now subject to elevated export duties or minimum export prices.

Chart 1: Benchmark Thai rice export prices



Source: IMF, Bloomberg, HSBC

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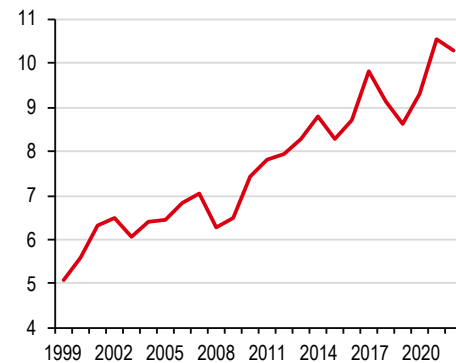
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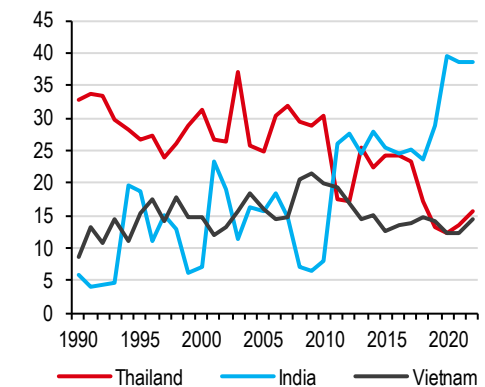
To consider how disruptive such curbs can be for the global rice market, consider Chart 2. This shows global rice imports as a share of global consumption. Over the last 25 years or so, the share roughly doubled, and is up around 4ppts since the 2008 food price scare alone. This means that disruption in one economy could have much bigger spill-overs into others than in the past.

Chart 2: Global rice imports as a share of global consumption, %



Source: USDA, HSBC

Chart 3: Share of global rice exports, %



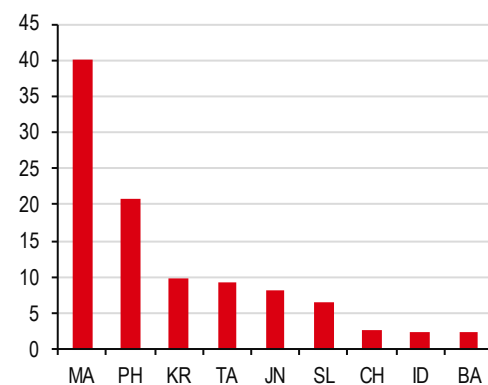
Source: USDA, HSBC

Meanwhile, as Chart 3 shows, India's market share of global rice exports has jumped in recent years to almost 40% of global shipments, replacing Thailand as the world's pre-eminent exporter. In fact, India exported more rice last year than Thailand and Vietnam combined, the number two and three ranked global exporters, respectively. No wonder, then, that recent shipment curbs sent ripples through global rice markets.

But, how sensitive are rice prices in other economies to tighter global supply? Net importers of the stuff are inevitably the most exposed. Chart 4 shows imports as a share of local consumption. On this measure, Malaysia and the Philippines are most reliant on imports, followed by Korea and Taiwan (Hong Kong and Singapore import all their rice, though given their purchasing power can readily secure supply, if needed).

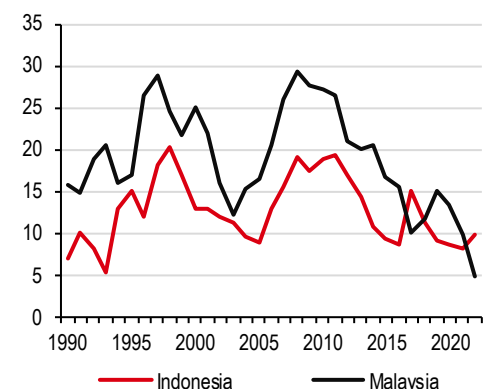
However, other economies are exposed, too. Take Indonesia, the world's third largest producer, though a slight net importer. Here, erratic weather of late also risks lowering harvests at a time when stocks of rice, relative to consumption, are already at multi-year lows (Chart 5).

Chart 4: Imports as a share of domestic consumption (5-year average to 2022), %



Source: USDA, HSBC. NB: CH refers to mainland China.

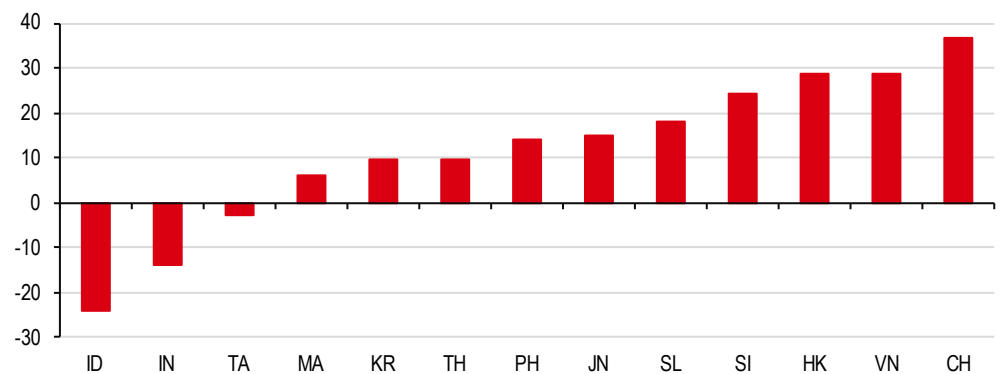
Chart 5: Rice stock-to-use ratio



Source: USDA, HSBC

On this measure, and given its large reliance on imports for overall consumption, Malaysia may also need to step up its global purchases at a time of tightening supply. In fact, Bernas, Malaysia's national rice bureau and sole rice importer, raised local prices by 36% at the start of the month.

Chart 6: Correlation between Thai rice export prices and local food CPIs (% y-o-y basis), %



Source: Bloomberg, CEIC, HSBC. NB: CH refers to mainland China.

But it's not just large net importers that are exposed. In many economies, there is a remarkably high correlation between global rice prices and local food. That's because in many places, even if only a small share of total consumption is traded, global developments still affect the pricing of rice locally. Take Vietnam, for instance: it is a major exporter, but higher global prices still push up the cost of food locally as farmers divert their product to overseas markets.

In a few places, the correlation is negative or surprisingly weak, including in Malaysia. But that is often because of the presence of price controls, subsidies, and trade restrictions. All of these may blunt the impact of rice price changes on food CPIs, but they aren't costless either: requiring vast funds or foregone profits and export revenues to keep local prices in check.

Go easy on the curry.

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