Mizuho Flash: EM Asia

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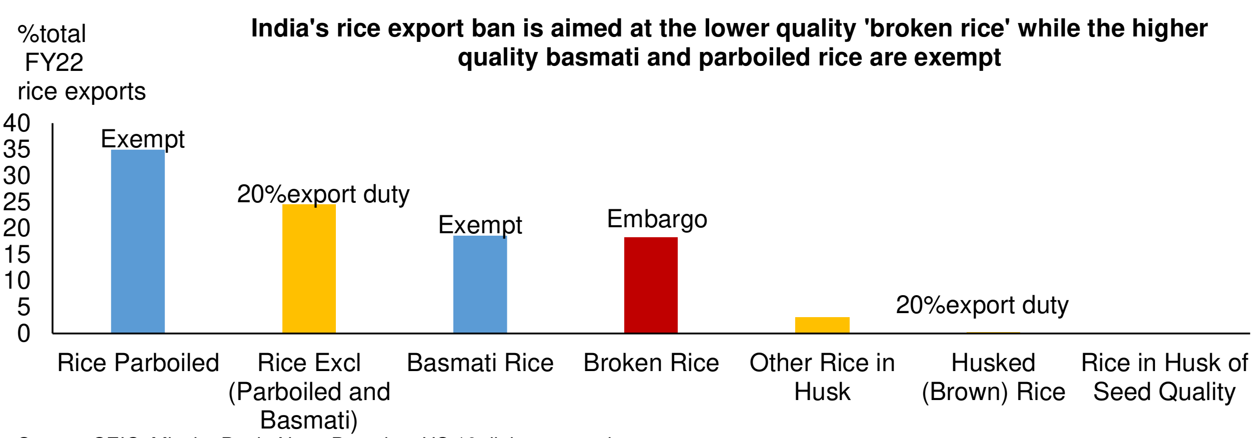
Sticky Rice Concerns

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.

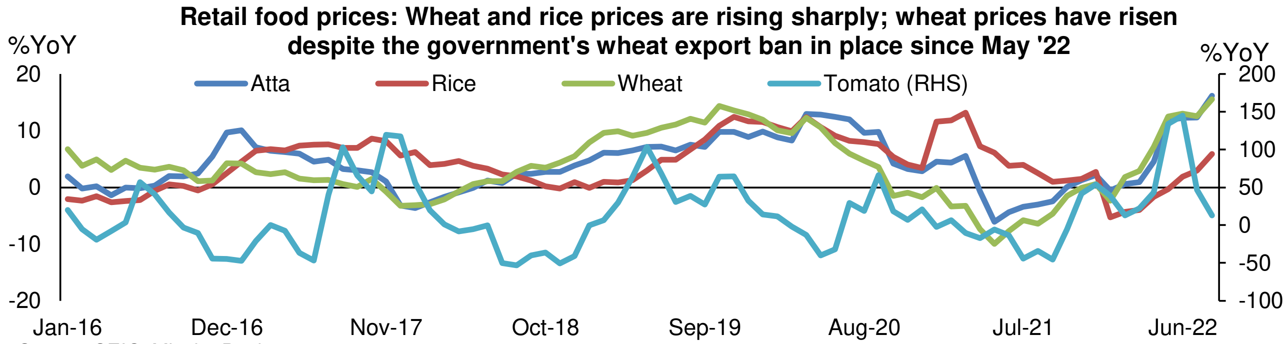
India Bans 'Broken Rice' Exports; Duty Imposed On Others

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.

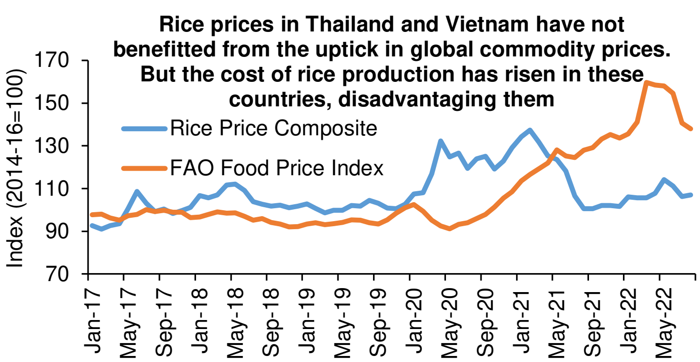


Source: CEIC; Mizuho Bank

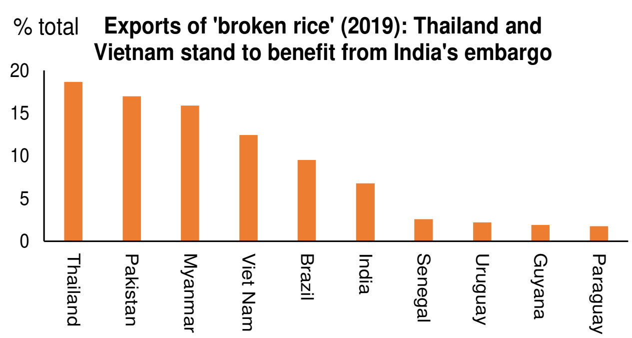
Counter-factual arguments around the extent of the price rise absent the export ban may be valid, **but to a limited degree.** Protectionist measures, to a large degree, tend to be counter-productive. Bans, like the ones India imposed on rice and wheat, will limit global supplies and put additional pressure 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 low[1].



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 Vietnam[2]. Similarly, these two countries also stand to benefit as India's overall rice exports become more expensive. In 2019, Thailand

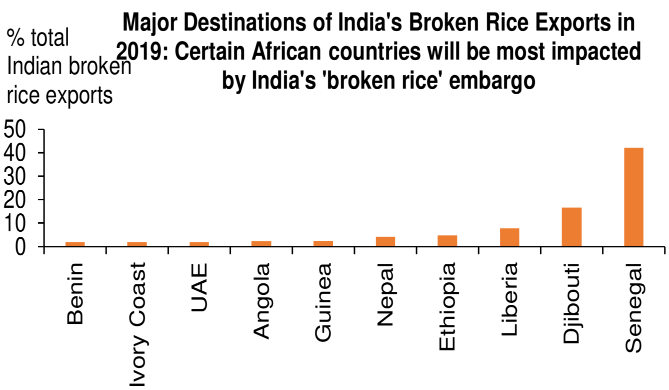
[1] Thailand to push for fairer rice prices, Bangkok Post, 4 September 2022.

[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.

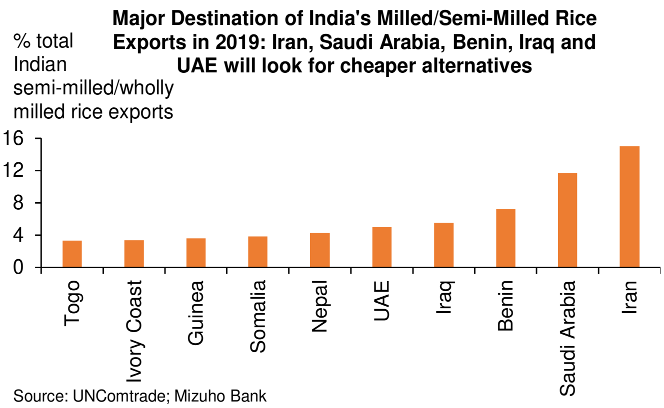
Vietnam exported the second and third largest quantities of 'semi-milled or wholly milled' rice after India.

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

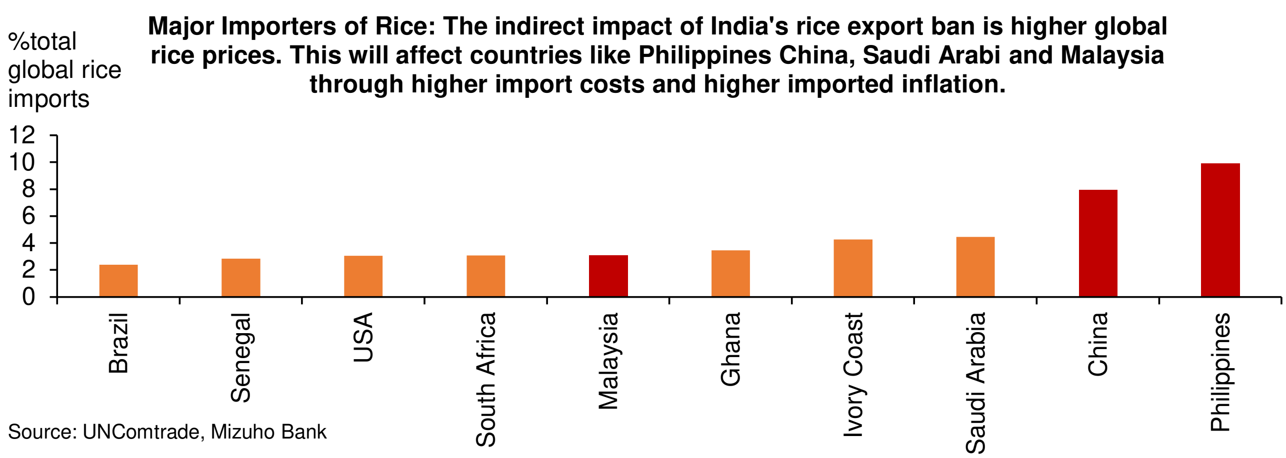


Source: UN Comtrade; Mizuho Bank



Source: UNComtrade; Mizuho Bank

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.**



Source: UNComtrade, Mizuho Bank