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Your quarterly insights from Grower Services

# Grower Update



## Securing Premium Global Markets for Australian Rice

Looking back on the past year, there's been much activity across SunRice to build on the commercial resilience developed in the business over the past five years and advance initiatives both at home and internationally to add value to premium Australian-grown rice and drive strong grower returns. I'm pleased to report here on some of those initiatives and David Keldie, SunRice's GM, Global Consumer Markets, will update you on some exciting marketing and innovation activities also in this update.

Over the past 12 months, SunRice has been proactively engaging with our customers in Japanese and Korean markets to better educate them on our vertically integrated supply chain and the unique benefits that this can offer our business partners around the globe. We have hosted a range of customers on 'paddy to plate' tours of our Riverina operations, RRAPL and to visit rice growers on their properties. This initiative has been welcomed by our customers and the feedback has been extremely positive. More pleasingly, this activity is now yielding real and tangible results, which will benefit our growers and the SunRice business more broadly.

We have often highlighted to you the global 'Sushi Revolution' that is driving increased demand for varieties used in Japanese cuisine, and I recently experienced first-hand how we are benefitting from this trend. In November, SunRice signed a two-year agreement to supply Sumitomo with Australian short grain rice (Opus and YRK5). I travelled to Tokyo with David Keldie and Rupert Dyer (Business Development

Manager, International) to sign the agreement, which can only strengthen our relationship with Sumitomo, one of Japan's leading trading houses and with whom SunRice has been doing business for 25 years. Sumitomo will market and distribute this rice to their customers in Japan, which include leading national restaurant chains, retail outlets and other wholesalers.

This agreement fully aligns with SunRice's strategy of targeting and marketing Australian grown rice to discerning consumers around the world (and when it comes to rice the Japanese are #1), especially in markets willing to pay a premium for our high-quality product. This deal will also form the foundation for future growth in this category both inside and outside Japan.

However, this deal, and other similar deals that I am confident we will succeed in winning in the future, can only be as strong and successful as the quality of our rice, and the quality of our rice starts with the skills of our growers, which represent the first step in our supply chain (the 'paddy' in the 'paddy to plate').

Growers can take much pride and confidence from SunRice's efforts in marketing and selling quality Australian rice to markets such as Japan, which can only benefit the returns received at the farm gate for those willing to step up and grow premium varieties.

### Crop update

No doubt the deluge in early December was a mixed blessing, especially for those of you who were racing to strip

your winter crops.

It was welcome news though for this year's rice crop following the great conditions we enjoyed for planting. We are forecasting the 2018 crop to be approximately 600,000 tonnes. While this is down on last year due to reduced water allocation, we're still very pleased with the uptake and I'd like to thank everyone growing rice this year for your ongoing support.

I hope you, like me, are excited by the initiatives reported here and the work our dedicated team at SunRice are doing to expand the global reach of Australian grown rice and rice products to ensure strong returns for our growers.

On behalf of the SunRice Board, I would like to wish you all a safe and happy festive season.

**Laurie Arthur**  
Chairman



# Marketing and Innovation Update

### *'Bringing short grain rice to market' video*

As part of our marketing efforts, we have just released an excellent four-minute mini-feature film, the first of a series of video crop updates, showcasing to our Japanese and Korean wholesale customers first-hand the progress of the rice we are growing for them. The series follows the journey of Finely grower John Hawkins and the first chapter on planting can be [viewed here](#) and by clicking on the crop image below.



### *Value-adding Riverina-grown rice one bite at a time*

A bit closer to home, in late November we launched our latest value-added healthy snacking innovation – adult sized Rice Cake Bites.



Made from 100% Riverina-grown wholegrain brown rice and processed in our Leeton manufacturing facility, we're forecasting sales of around two million packets per year through Coles, Woolworths and Metcash stores across Australia, with plans to take them global.

Developed to provide consumers with a guilt-free, gluten-free, on-the-go snack option, the Rice Cake Bites further demonstrate SunRice's strength as an Australian agribusiness with a fully integrated supply chain to leverage global consumer food trends to innovate and add value to the Riverina rice crop, another key element of our refreshed strategy.

In the Riverina, we now manufacture a range of value-add products, from the new Rice Cake Bites and other healthy option products to microwave rice and ready-made meals.

Our innovation is driven by extensive consumer insights and identification of global macro-trends, such as demand for healthy eating and snacking options, food safety, meal convenience and the 'sushi' revolution.

We developed the Rice Cake Bites following research to understand what Australian consumers desire in a 'better-for-you' savoury snack.



Due to our fully-integrated supply chain and the strong reputation of SunRice's branded products, we are perfectly placed to tap into these trends and expand sales across Australia and internationally.

### *Expanding our global snacking footprint*

A great example of this, in September we launched Brown Rice Chips into the first of our existing Asian markets, Singapore.

Before launching, we completed consumer research in Singapore, Hong Kong and Malaysia to understand which products from our existing portfolio met the needs / wants of local consumers. The research showed:

- Snacking is an integral part of Asian culture;
- The perception of health and nutrition varies in each market, with a huge trend in Singapore towards leading an active lifestyle and eating healthier meals and snacks; and
- Brown Rice Chips performed well in

each market, however the strongest market was Singapore, with 88% of consumers claiming they would purchase.

Given the strong results for Singapore we prioritised it as our first Asian launch market. While our core rice Kangaroo brand has been in market in Singapore for about 40 years, the Brown Rice Chips are the first SunRice branded product to be launched there.

To raise awareness of our Chips, as well as to build SunRice brand recognition, our marketing team worked closely with DKSH, one of the world's largest snacking distributors, to launch with prominent in-store displays, as well as a media campaign covering social media, traditional media and sampling.



*In Singapore, if Grandma 'Ah Ma' approves, it must be good!*

Our Brown Rice Chips are proving popular in Singapore, especially the Sweet Chilli and Wild Rice varieties, and in the first year we are on track to meet our annual sales forecast of almost 770,000 packets.

We look forward to providing you with further marketing and innovation updates and demonstrating the value this activity is adding to Australian grown rice.

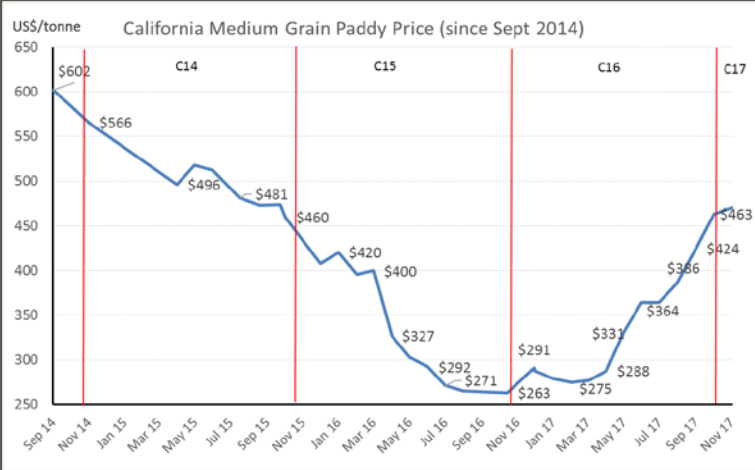
**David Keldie**  
GM, Global Consumer Markets





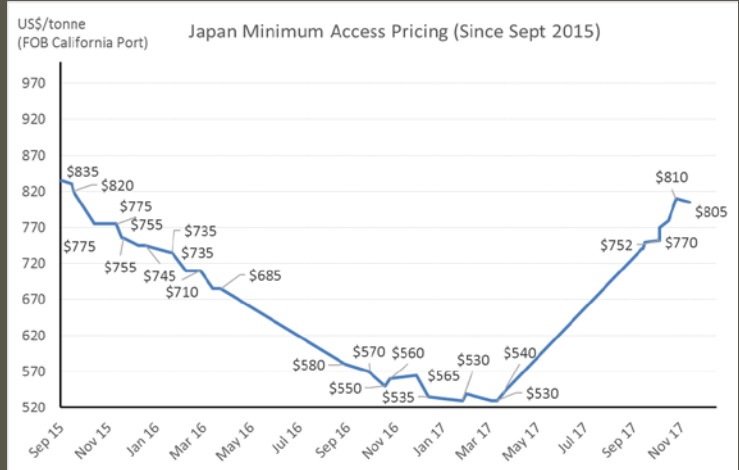
### 3. Grower Update Paddy Price Indicators

#### Global Pricing – Medium Grain and Japan Pricing



Please note: storage and drying costs are deducted from this price. Source: SunRice Estimates

The USA Calrose price has risen in recent months due to supply concerns driven by a delayed Californian harvest and lower than expected field yields.



Source: SunRice Estimates

In Japan, Minimum Access (MA) prices peaked at \$810 per metric tonne, then eased to \$805/mt in late November. 30,000mt of Korean MA was also awarded to California in November reflecting a Japan MA basis equivalent of \$805 to \$810/mt.

#### Water Commentary

California commenced the new water year on 1 October. As of late November, the 2017/18 water year rainfall totals are running 137% of average and 23% for the water year. A series of storms have been forecasted for December, which would keep Northern California on an average to slightly above average pace, albeit much too early to draw water year conclusions.

Reservoir levels are running 59% to 132% of normal. There have been heavy releases from the Oroville Reservoir due to the main spillway damage that occurred in winter 2016. The first phase of repairs was completed in November 2017, with the second phase scheduled for the summer months of 2018. As a precaution to prevent heavy main spillway releases the reservoir level has been deliberately drawn down to 59%. The current plan is to manage reservoir releases via the dam's hydro power generation scheme and minimise, if not prevent completely, main spillway usage for the current water year.

#### Foreign Exchange

The AUD/USD has weakened since September 2017 in line with general USD strength. While the market doubts President Trump's ability to push through promised reforms, corporate tax reform is still on the agenda, which is bringing some support for the USD. North Korean tensions continue and a military response against North Korea would most likely see a safe-haven USD rally. Conversely, it is an unwanted distraction and the longer the threats continue, the less likely Trump will deliver on further economic and tax reform in the near future.

The market anticipates that the US Federal Open Markets Committee (FOMC) will increase interest rates in December by 0.25%. Nine out of 16 FOMC members expect at least three further rate increases in 2018, however the risk for this is clearly on the downside with several market commentators only expecting one rate increase. The latter would be viewed as a USD negative.

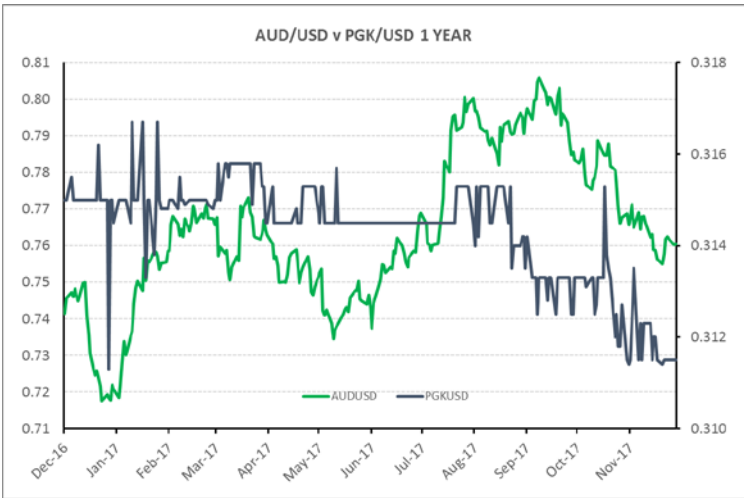
Recent CPI and wage data in Australia support a no rate change for up to 12 months, whilst some commentators are expecting no rate changes for over two years. With US interest rates likely to outpace any rises in Australian rates, the positive gap in the Australian interest rate spread to the US is expected to become negative, which will be a strong headwind for the AUD/USD.

Data as of 11:59:59 PM on Nov 26, 2017

Sacramento Region Summary			
Precip: 8-Station Index			
Season to Date	137%	% Avg year	23%
Northern Sierra Snow Water Content			
% to Date	n/a	% Apr 1	n/a
Reservoir Storage			
Reservoir	%Hist.Avg.	%Capacity	*Encrch
Shasta	119%	70%	-130
Oroville	59%	35%	-1738
New Bullards	132%	73%	-95
Folsom	125%	80%	14

\* Encroachment to regulated storage level

Source: US National Drought Mitigation Center



Source: Bloomberg

Conversely, commodity prices are at nine-month highs and whilst continuing, should prevent any material weakness in the AUD/USD.

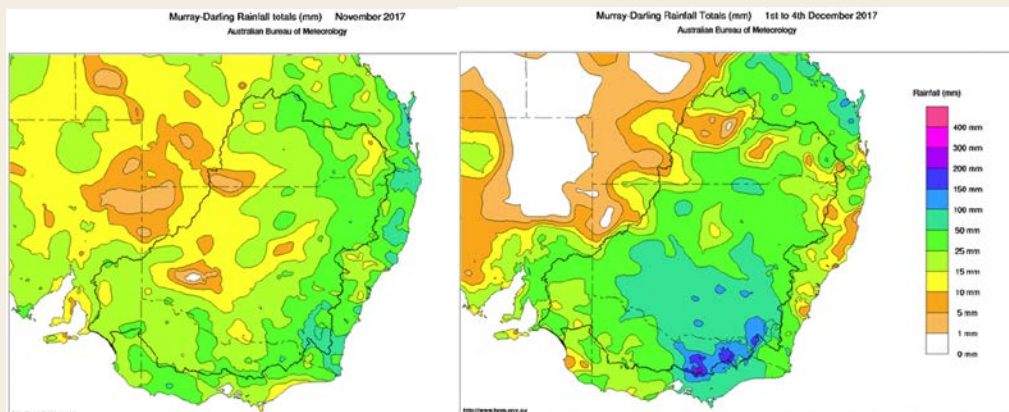
In Papua New Guinea, the Kina (PGK) has weakened slightly as the supply of foreign currency has fallen. A one-off 20-25% Kina depreciation is still a constant risk, however the government appears resolved for it not to happen and a very gradual depreciation seems the most likely option for now.

## 4. Grower Update Seasonal Outlook

### Current Conditions

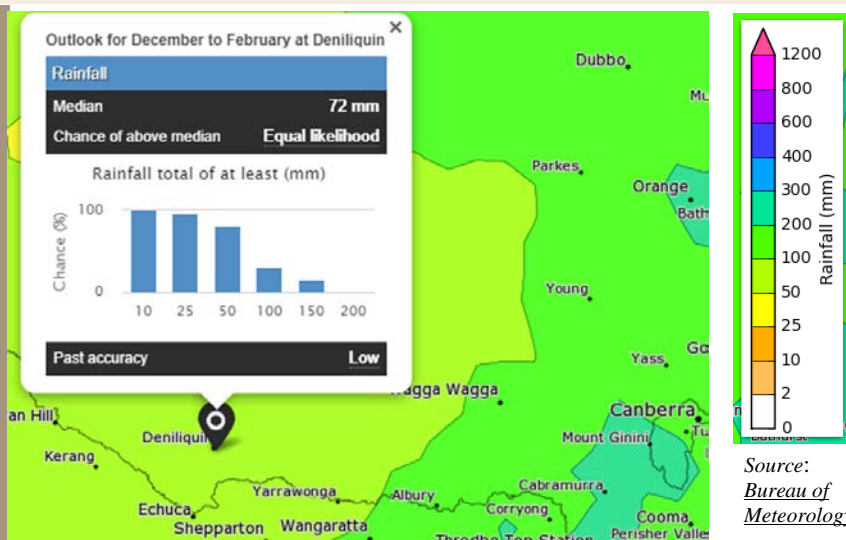
- Following a reasonably dry spring, it's been a wetter than expected start to summer, with record rainfall in the first week of December across much of the Riverina. Northern Riverina areas received up to 90mm in two days, while 50 to 80mm fell across the Southern Riverina.

Source: [Bureau of Meteorology](http://www.bom.gov.au)



### Three-Month Rain Forecast

- The BoM's seasonal outlook for summer (December to February) indicates that above average rainfall conditions are expected over the eastern part of the NSW Murray and Murrumbidgee catchments. The rest of the catchments are still expected to experience average rainfall conditions. Summer daytime temperatures are expected to be average, with above average overnight temperatures.
- On 5 December, the BoM confirmed a La Niña event for 2017/18, though climate models suggest it will be weak and short-lived, persisting until early autumn 2018. La Niña typically brings above average rainfall to eastern Australia during late spring and summer. However, sea surface temperature patterns are not currently typical of La Niña, reducing the likelihood of widespread summer rainfall. La Niña can also increase the chance of prolonged warm spells.



Source: [Bureau of Meteorology](http://www.bom.gov.au)

### C2017 Payment Schedule (Traditional Pool \$/Tonne)

	Reiziq / YRM 70	Sherpa	Langi	Opus/ YRK5	Illabong	Topaz	Koshi	Organic Premium	Bio-Dynamic Premium
<b>1st payment (Paid)</b>	180.00	168.00	213.00	192.00	180.00	252.00	258.00	100.00	100.00
<b>2nd payment (Paid)</b>	56.00	53.00	61.00	58.00	56.00	70.00	70.00	50.00	50.00
<b>Supplementary payment (Paid)</b>	15.00	15.00	15.00	15.00	15.00	15.00	15.00	-	-
<b>3rd payment (27 Feb 2018)</b>	22.00	20.00	26.00	23.00	22.00	30.00	31.00	50.00	50.00
<b>4th payment (24 April 2018)</b>	24.00	23.00	29.00	26.00	24.00	34.00	35.00	35.00	35.00
<b>5th payment (22 May 2018)</b>	15.00	14.00	18.00	16.00	15.00	21.00	22.00	40.00	40.00
<b>Final payment (24 Jul 2018)</b>	23.00	22.00	28.00	25.00	23.00	33.00	34.00	-	-
<b>Total</b>	<b>335.00</b>	<b>315.00</b>	<b>390.00</b>	<b>355.00</b>	<b>335.00</b>	<b>455.00</b>	<b>465.00</b>	<b>275.00</b>	<b>275.00</b>

These estimates and dates have been prepared using the information available at the time of publishing. Please be aware that the estimates could be affected by a number of factors, including prevailing market conditions, foreign exchange rates, crop quality and unforeseen events. Therefore, the forecast payment schedule should be regarded as an estimate only and the final crop return will depend on the actual conditions that have prevailed throughout the entire crop year.

As announced, we have provided guidance around \$335 - \$365/tonne (Reiziq) for C17 paddy pricing. The C2017 payment schedule is structured around a paddy price of \$335/tonne. The combination of fixed pricing, forward contracting, varietal premiums and the traditional pool now available to growers means that there is an increasingly diverse range and alternatives available to price paddy and a corresponding range of returns across contract types and varieties. As announced in April, to provide a more accurate indication of the actual prices that are available across the range of varietal and contracting alternatives, we have developed a Paddy Price Index that represents the range of weighted prices from all options across each season. When combining the varietal premiums and other fixed price options available in C17, the current C17 Paddy Price Index range is \$345.57 - \$373.13.



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