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China Auctions Record Volumes Corn in MY2018-19

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Grain and Feed

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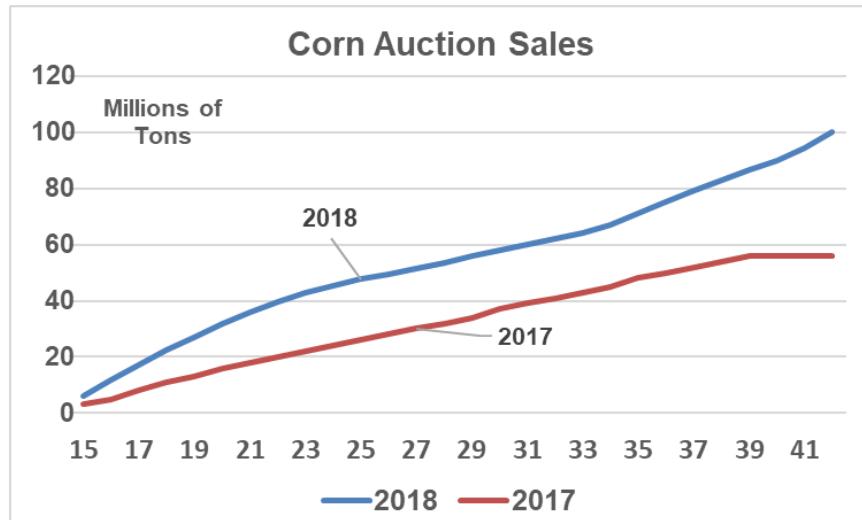
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Report Highlights:

From January 2018 to late October 2018, China auctioned more than 100 million tons of corn from its state-owned inventories, or about 43 million tons more than over the same period in 2017, and up more than 75 percent year-on-year. As marketing year (MY) 2018/19 progressed, the turnover rate of auction sales as a share of total volumes on offer at state-administered auctions also rose, indicating widespread market expectations that domestic corn prices would rise.

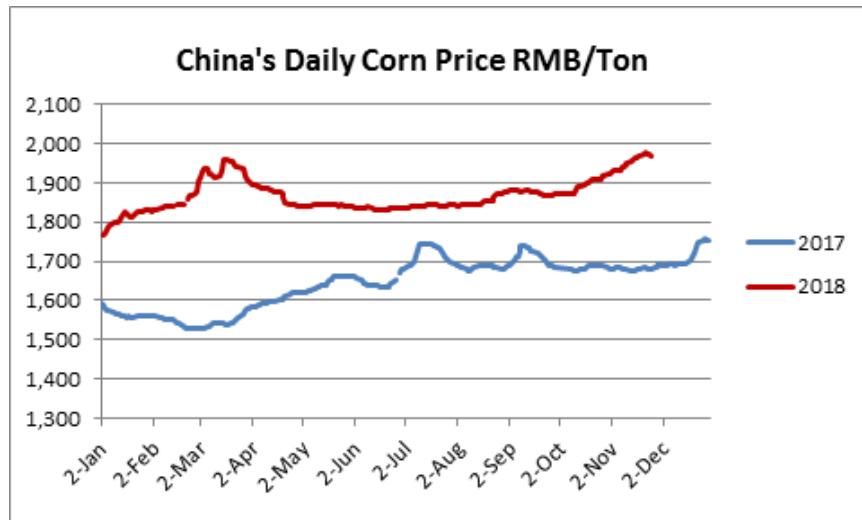
Overview

China's corn auction sales concluded at a record on October 26, 2018 after marketing more than 100 million tons of corn from April to October 2018, or about 43 million tons more than over the same period in 2017. China's National Grain Trade Center reports that over the 28 weeks from April 12 to October 26, 2018 nearly 220 million tons of state-owned inventories of corn were offered for auction.



The major buyers of corn lots at state-administered auctions are state-owned enterprises. Much of the sales are considered primarily an accounting exercise. Although the sales volumes are massive, as of the time of this writing, there are no significant reports from industry or media about the handling and physical transfer of major volumes of corn inventories from state-administered storage facilities to corn processors and fuel ethanol producers.

High Prices are Driving Auction Sales Volumes Higher



As additional volumes of corn flooded the domestic market from April to October 2018, domestic spot prices did not dive as result of the supply-shock caused by more than 100 million tons of corn being released from state-owned inventories into domestic markets. Instead, prices steadily crept higher and

even accelerated as the harvest period approached, due to the following reasons:

- Weather-related MY2018/19 corn harvest delays
- Expectations for Higher Prices Delay MY2018/19 Marketing Sales
- Available MY2018/19 corn supplies fall short of commercial demand for volume and quality
- China's feed demand for high-quality feed outpaces available domestic supplies
- Additional restrictions on market access for imports

MY2018/19 Corn Harvest Delays Raised Auction Sales Volumes

Corn processors and feed users regularly rely on state-owned auction sales to cover end of season demand. In MY2018/19, crop development was delayed by several weeks throughout North East China, resulting in higher than normal auction sales volumes.

Expectations for Higher Prices Delay MY2018/19 Marketing Sales

Industry sources report that many corn growers have delayed sales of their MY2018/19 corn harvest, holding out for expectations of higher prices. Increased planting costs, primarily for land rents, diesel fuel, and crop chemicals, are projected to lower planting intentions and drive corn prices higher in MY2019/20. In response, speculators, including corn growers, have bid up nearby MY2018/19 corn prices in anticipation of an arbitrage opportunity to carry old-crop corn forward, and market the MY2018/19 crop at higher prices in MY2019/20.

Lingering Market Concerns about Old-Crop Corn Quality from State-Owned Inventories

Over the past two marketing years, overall corn quality in North East China in MY2017/18 and MY2018/19 was rated as fair to excellent. In the North China Plain, corn crop quality was rated as fair in MY2018/19, slightly higher than MY2017/18, and. See GAIN Reports CH18076, [CH18060](#) and [CH18003](#) for additional information about crop quality.

Due to the timing and behavior of domestic price movements during the auction sale period, Post analysis concludes that auctioned state-owned inventories are either not currently available in the physical market for feed milling and industrial processing, or that there is lingering uncertainty about the quality of recently auctioned lots of corn procured from MY2013/2014 to MY2015/2016. In MY2013/14, Post reported that corn quality was unsuitable for livestock feed consumption. See GAIN reports [CH14049](#), [CH15014](#), and [CH15020](#) for additional information. For more information about the current Chinese grain and feed supply and demand, please see the latest FAS-Beijing Grain and Feed Update GAIN Report.