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## **China - Peoples Republic of**

### **Grain and Feed Update**

#### **Government Cut to Corn Prices Reshapes Feed Market**

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**Report Highlights:**

The massive surge in imports of cheaper alternative feed ingredients has significantly impacted feed demand for corn in recent years according to official statistics and industry analysts. Post has therefore sharply reduced corn “feed and residual” use for MY 2013/14 through 2015/16. Combined with another record corn crop, post forecasts MY2015/16 ending stocks will reach 117 million tons. The government’s recent 10 percent cut in the corn support price should spur domestic corn consumption and reduce demand for imported alternative feed ingredients, such as sorghum. MY2015/16 corn and wheat production are still forecast at a record 225 million tons and 130 million tons respectively. Even after the price cut, domestic corn, wheat and rice prices remain far above international prices.

**Post:**

Beijing

## **Executive Summary:**

Corn feed and residual is revised lower for MY2013/14, MY2014/15, and MY2015/16 in recognition of the massive surge in imported sorghum, barley, and distillers dried grains with solubles (DDGS).<sup>1</sup> Combined imports of these three commodities reached 25.6 million tons in MY2014/15 as feed mills searched for alternatives to high priced domestic corn. Interviews with experts across the country reveal that this search was more successful than previously reported. Post has therefore raised the MY2015/16 forecast for ending stocks by over 26 million tons to 117 million tons. This estimate is closer to industry estimates, some of which are as high as 170 million tons.

In response to the increasingly untenable stock situation, the government announced a 10 percent cut in the floor price for corn in September 2015. This is the first time the government has cut the floor price for corn since it was put in place in 2008. The government is also becoming stricter on quality requirements for state purchases, and farmers who can't meet these standards have to sell their corn on the market at a discount. The cut in prices has left farmers struggling to pay high land rents that were set based on the old floor price. The government, faced with increasingly massive corn stocks and rising imports, felt compelled to act despite the impact on farmers. The lower corn prices should help corn feed use recover in MY2015/16 and reduce imports of sorghum and other alternative feed ingredients. As a result, forecast MY2015/16 sorghum imports are lowered four million tons to seven million tons.

Despite the reduced support price, corn remains an attractive option for most growers when compared to alternative crops. Corn, wheat, and rice acreage are all expected to stay relatively stable this planting season. Forecast MY2015/16 corn and wheat production are unchanged at 225 million tons and 130 million tons respectively. Forecast MY2015/16 rice production is lowered slightly to 144.2 million tons on slightly worse expected yields due to weather patterns.

## **Wheat**

### **Production**

MY2015/16 wheat production forecast is unchanged at 130 million tons as government support for

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<sup>1</sup> Feed and residual is equal to total supply minus all other uses and ending stocks. It includes losses and unexplained disappearances and uses.

wheat remains strong. MY 2014/15 estimated wheat production is also unchanged at 126 million tons.

On October 12<sup>th</sup>, 2015, the State Administration of Grain announced that the 2016 wheat floor price will remain unchanged at RMB 2,360 per metric ton (roughly twice the MY2015/16 forecast season average price in the United States). This broke a long series of annual increases in the floor price for wheat. Wheat planting is expected to remain strong as the floor price for corn, a competing crop in parts of northern China, was cut by more than ten percent. Farmers often receive prices below the floor price if their product does not meet increasingly strict quality standards, or if they sell their crop outside the set procurement window. The government procurement window varies by province, but generally runs between May 15 and September 30. The average wheat market price dropped to RMB 2,160 right after the government procurement period finished in 2015 as wheat producers competed to sell their crop to processors and dealers. Limits on time and quality for state purchases are gradually making China's wheat price more subject to market forces.

## **Imports**

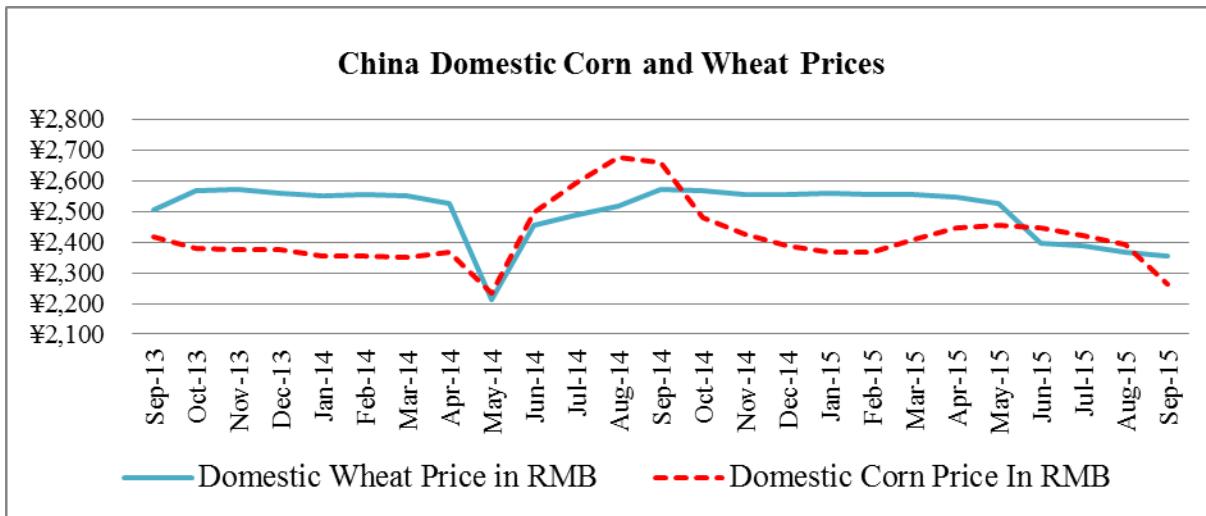
Forecast MY2015/16 wheat imports are lowered 500,000 tons to two million tons. High domestic production and tight controls on tariff rate quota (TRQ) allotments have limited imports. Estimated MY 2014/15 imports are revised down slightly to 1.89 million tons based on import statistics.

Improving living standards and evolving consumer preferences have increased demand for high quality wheat. Growth in the bakery industry remains strong, driving up demand for specialty flour. Most domestic wheat producers focus on selling in bulk to state reserves rather than satisfying demand for specialty wheat. This has resulted in consistent demand for imported high quality wheat.

## **Consumption**

Total wheat consumption in MY 2015/16 is forecast at 117 million tons, up 500,000 tons, as higher industrial use offsets continued declines in feed use. Wheat feed and residual is forecast to drop to 14 million tons as the recent cut to corn prices is expected to speed up the substitution of corn for wheat in animal feed. Forecast MY 2015/16 food, seed and industrial (FSI) consumption is raised 1.5 million tons to 103 million tons due to increased government subsidies for wheat processors using government stocks.

Estimated MY2014/15 feed and residual is revised down one million tons to 16 million tons on continued weakness in wheat feed use. Domestic wheat prices have generally staid above corn prices since October 2014, limiting demand for feed wheat (see below). MY2014/15 FSI is also revised down 0.5 million tons due to the economic slowdown and weaker the expiration of government subsidies for wheat processors in some provinces. Provincial governments pay subsidies to wheat processors ranging from RMB 10 to 30 per metric ton depending on the province and the processors size and capacity. In addition to direct subsidies, some processors are also able to receive tax credits or loans from local governments. According to industry reports, over half of wheat processors would operate at a loss without these subsidies.



Source: China JCI Consulting and Global Trade Atlas

Flour production has been contracting in recent years according to government statistics, and competition between processors has been intense. In 2014, flour processors in China on average made less than RMB 20 per metric ton on flour. While large flour processors have generally been able to stay profitable by taking advantage of economies of scale, many small and medium sized companies have struggled with losses and face possible closure. This is expected to drive increased consolidation in this sector.

## Stock

MY2015/16 wheat stocks are forecast at 92.25 million tons on higher production and weakening feed consumption. MY 2014/15 wheat stocks are estimated at 76.25 million tons, up 1.68 million tons due to continued weakness in wheat feeding. Wheat stocks are believed to have grown rapidly following record production in recent years.

## Corn

### Production

Forecast MY2015/16 corn production is unchanged at a record 225 million tons. Estimated MY2014/15 production is revised up 1.3 million tons to 217 million tons due to slight higher yields and increased acreage. Farmers have aggressively expanded corn production in response to corn support prices that are roughly double the U.S. corn price and subsidy reforms that made cotton and soybeans less profitable. The support policies have also had the side effect of encouraging heavy utilization of chemical fertilizers and discouraging crop rotations.

High prices have boosted production and suppressed demand, resulting in excess stocks. The government responded to this challenge by announcing on September 18, 2015 that it will cut the support price for corn to RMB 2,000 per metric ton.<sup>2</sup> This is the first time the floor price for corn has

<sup>2</sup> This year the corn support price is the same for each province in the northeast. In previous years it varied slightly by province. The 2015/16 corn support price of 2000 yuan represents a cut of RMB 220

been reduced since it was first instituted in 2008 at RMB 1,500 per ton. In MY2014/15 the support price reached a historical peak of RMB 2,250. The lower floor price is having a significant impact on farmers and will reportedly cause some farmers to operate at a loss, particularly small farmers and farmers who rented land based on the higher support price.

The State Administration of Grain has also tightened quality requirements for state purchases. Industry experts expect the State Administration of Grain to purchase at most 40 to 50 million tons of corn during the MY 2015/16 procurement period running from November 1, 2015 to April 30, 2016. This is roughly half of what they purchased last year. Corn that cannot be sold to the government has to be discounted and sold directly to local mills or dealers at a market driven price. High corn supplies and tighter quality controls pushed the market price for corn in October 2015 down to RMB 1,760 per ton in some locations.

While corn growers are frustrated by the lowered floor price, corn remains an attractive option for most growers when compared to alternative crops. The return on corn is still roughly RMB 1,600 per hectare higher than for soybeans even after the corn price was cut. As a result, corn acreage is not expected to go down in MY 2015/16.

### **Consumption**

High domestic corn prices in recent years have caused feed mills to search aggressively for alternative feed ingredients. This has led to a surge in imports of sorghum, barley, DDGS, and other alternative feed ingredients over the last three years. As a result, corn feed consumption has fallen in recent years as reported by the China National Grain and Oils Information Center (CNGOIC) under the State Administration of Grain (see below). These statistics do not include wastage or losses (residual). Industry reports also support lower corn feed use.

CNGOIC Estimates	MY12/13	MY13/14	MY14/15	MY15/16
Corn feed use (million tons)	112.5	111.5	100	106
Percent change		-1%	-10%	6%

In order to better reflect the drop in corn feed use, feed and residual is revised lower for three marketing years. MY 2013/14 corn feed and residual is revised down four million tons to 150 million tons; MY 2014/15 feed and residual is revised down 17 million tons to 140 million tons, and; forecast MY2015/16 feed and residual is revised down eight million tons to 149 million tons (see below). The forecast recovery in feed and residual in MY2015/16 is a result of falling domestic corn prices. The Chinese swine industry, helped by lower corn prices and higher pork prices, is also forecast to recover slightly in MY 2015/16 despite the economic slowdown.

Corn Feed and Residual Revision	2013/14	2014/15	2015/16 (Forecast)
USDA Official Feed and Residual	154,000	157,000	157,000
Adjustment	-4,000	-17,000	-8,000
<b>Adjusted Feed and Residual</b>	<b>150,000</b>	<b>140,000</b>	<b>149,000</b>

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per ton (9.9 percent) in Heilongjiang, RMB 240 (10.7 percent) in Jilin, and RMB 260 per ton (11.5 percent) in Liaoning and Inner Mongolia.

The Chinese government, in an attempt to meet self-sufficiency targets, has intervened extensively in grain production, pricing and trade. The main method the government has used to maintain grain production is through a floor price, which is designed to ensure farmer's income by supporting grain prices when the market prices drop below a certain level (floor). The government had, until this year, steadily increased the floor prices for corn and wheat every year despite falling international prices. This policy has resulted in excess production and growing imports over the past five years.

Corn imports have been restricted by measures limiting the issuance and use of tariff-rate quotas and by China's slow biotechnology approval process. Faced with limited access to imported corn and high domestic corn prices, feed mills chose to instead import alternative feed grains. Combined imports of barley, sorghum, and DDGS skyrocketed from 5.6 million tons in MY2012/13 to 25.6 million tons in MY2014/15 (see below). Domestic industry analysts report that these imports have had a major impact on the feed corn market.

<b>Alternative feed Import</b>	<b>MY2012/13</b>	<b>MY2013/14</b>	<b>MY2014/15</b>	<b>MY2015/16 (Forecast)</b>
Sorghum	630	4,160	10,162	7,000
Barley	2,183	4,890	9,859	6,500
DDGS	2,832	6,648	5,612	5,000
<b>Total</b>	<b>5,645</b>	<b>15,698</b>	<b>25,633</b>	<b>18,500</b>

Industrial use is revised higher for MY2015/16 and MY2014/15 as the government is increasing subsidies to corn processors to dispose of excess corn stocks. As a result, forecast MY2015/16 FSI consumption is raised two million tons to 64 million tons and estimated MY2014/15 FSI is raised two million tons to 62 million tons. Provinces in the northeast have issued new policies that further raise increase the amount and duration of subsidies to corn processors in order to help dispose of excess reserves. Jilin, Heilongjiang, and Inner Mongolia have raised the direct cash subsidy to processors to \$25 to \$55 per ton from the existing subsidy of \$24 to \$32 dollar per ton if the corn is purchased from state grain auctions. The eligible period was also extended to December 31, 2015 from October 31, 2015. Industry experts expect the program to be extended again next year.

## Imports

Forecast MY2015/16 corn imports are unchanged at 3 million tons, only slightly higher than the private-sector TRQ allotment. MY 2014/15 imports are estimated at 5.7 million tons, also unchanged, three quarters of which came from Ukraine. Falling corn prices and excess domestic stocks are expected to limit corn imports next year.

## Stocks

The historical revisions to feed and residual statistics discussed above have led post to raise the MY2015/16 ending stocks forecast by 26.34 million tons to 116.95 million tons. There are no public official statistics on stocks. Some industry estimates of ending stocks are as high as 170 million tons. However, there are also widespread reports that a portion of current corn stocks suffer from significant mold damage. There are also reports of some unofficial sales or withdrawals from state reserves, although it's unclear how widespread this was. MY 2014/15 ending stocks and MY2013/14 endings stocks are revised upward to 102 million tons and 81.3 million tons respectively, also due to historical revisions in feed and residual.

While stocks are forecast to continue to rise in MY2015/16, the speed of the increase is expected to slow. Stocks may plateau or begin to gradually fall in MY2016/17 if the government allows corn prices to continue to fall and sustains subsidies for corn consumption. The government has been increasing investments in storage capacity to deal with the high stock levels, although storage capacity remains tight. This has caused the government to limit reserve purchases by more strictly enforcing quality requirements, which has in turn caused corn prices to fall more rapidly.

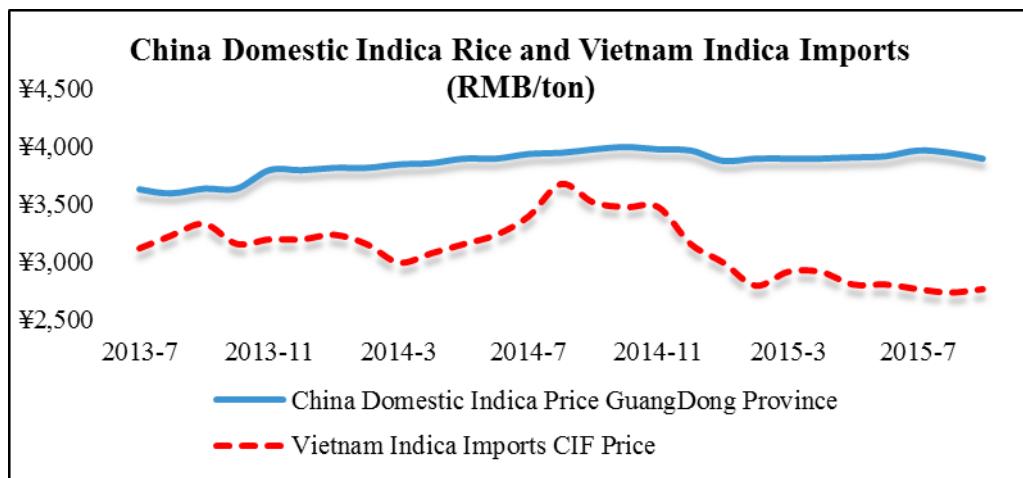
## Rice

### Production

Forecast MY2015/16 rough rice production is revised slightly lower to 206 million tons due to less optimistic yield projections. Industry analysts expect rice yields to be negatively impacted by El Nino weather, with the potential for both droughts and flooding in rice growing regions in southern and central China. Estimated MY 2014/15 rice production is unchanged at 206.4 million tons. The government is paying RMB 2,700 per metric ton for indica rice and RMB 3,100 per metric ton for japonica rice in 2015, unchanged from 2014. The 2015 government procurement period starts October 10, 2015 and ends February 29, 2016.

### Imports

Forecast MY 2015/16 imports are unchanged at 4.7 million tons. Imports are expected to remain competitive due to domestic prices in China (see chart below). MY2014/15 imports are estimated unchanged at 4.3 million tons based on exporter statistics. Vietnam and Thailand are still the main exporters of rice to China due to their competitive prices and short distance to China. The Thai government has also been actively promoting rice exports to China. Rice imports from Pakistan also rose rapidly in 2015. The United States does not yet have market access for rice to China.



Source: China CNGOIC and China JCI Consulting

### Consumption

Forecast MY2015/16 consumption is revised slightly lower to 150 million tons. High prices, inconsistent quality of state rice reserves, and changing consumption patterns have all contributed to sluggish consumption growth. CNGOIC forecasts that industrial and feed demand will decline 9 and 4 percent respectively in MY2015/16, and that food demand will decline by 2 percent. MY 2014/15 consumption is also revised down 1.4 million tons to 147 million tons for the reasons mentioned above. High prices and mixed quality resulted in lower feed use in MY2014/15. The poor quality of state reserves has also meant that the government has had trouble finding buyers for state reserves when competitively priced imported rice is available on the market.

## **Stocks**

Forecast MY2015/16 and MY2014/15 ending stocks are revised up 1.4 million tons and 1.1 million tons respectively on lower consumption. State silos have struggled to find buyers due to high prices and inconsistent quality, making it difficult for them to unload stocks. Despite these challenges, there are no reports or indications that the State Administration of Grain plans to reduce prices in upcoming auctions.

## **Sorghum**

### **Production**

MY2015/16 sorghum production is forecast unchanged at 2.6 million tons, as the drop in corn prices is expected to help stabilize sorghum acreage. MY2014/15 sorghum production is revised down slightly to 2.5 million tons, down 0.1 million tons from USDA estimate due to heavy competition from imports. Sorghum production receives little government support, making it less attractive to farmers. Sorghum production is concentrated in the northeast and Inner Mongolia.

### **Imports**

MY2015/16 sorghum imports are forecast to fall to seven million tons. Falling corn prices are expected to sharply reduce demand for alternative feed ingredients, including sorghum barley, and DDGS. Estimated MY2014/15 sorghum imports are unchanged at 10 million tons.

Sorghum is not subject to TRQ restrictions and does not face biotechnology related trade barriers, making it possible to trade relatively freely. However, the government added sorghum, barley, tapioca and DDGS into its Automatic Import License (AIL) Catalogue effective September 1, 2015. All importers who import these four commodities must renew their automatic import license if they have one. For the importers who do not have an AIL, the application process is becoming more complicated and time consuming. The majority of importers renewed their licenses by the end of October 2015.

Large amounts of sorghum and barley shipments have arrived in Chinese ports as new crop contracts are fulfilled, causing both barley and sorghum imports to reach one million metric tons respectively in September 2015 alone. Many importers are holding very high levels of stocks and are struggling to cope with the rapid drop in corn prices. Chinese feed buyer are carefully watching the market and slowing down their procurements schedule for the next year, waiting to see if corn prices fall farther.



Source: China CNGOIC and Global trade Atlas

### Consumption

MY 2015/16 consumption is forecast sharply lower at seven million tons as feed use drops in the face of falling corn prices. Food and industrial consumption is expected to remain flat due to weak demand for traditional sorghum based spirits (bai jiu). Biofuel producers currently favor importing cassava over sorghum as a feedstock, limiting growth in industrial consumption.

### Stocks

Forecast MY 2015/16 ending stocks are revised up 100,000 metric tons to 626,000 metric tons as feed demand slows due to falling corn prices. Estimated MY2014/15 ending stocks are revised down 100,000 metric tons to 251,000 tons as feed mills quickly consumed relatively cheap sorghum prior to the fall in corn prices.

### Distillers Dried Grains with Solubles (DDGS)

Chinese media, such as Sina Finance, China Feed Info and China livestock forum, have reported that Chinese ethanol producers are rumored to have recently petitioned the Ministry of Commerce for anti-dumping (AD) and countervailing duties (CVD) against U.S. DDGS. As of this time the Ministry of Commerce has not issued any official announcement regarding any such potential case and the U.S. Embassy has not received any notification from the Ministry of Commerce regarding any such potential or existing case. In China there is no specific deadline for the Ministry of Commerce to respond to an industry AD or CVD petition.

### PSD Tables

### **Wheat (1,000 tons; 1,000 Ha)**

<b>Wheat</b>	2013/2014		2014/2015		2015/2016	
<b>Market Begin Year</b>	Jul 2013		Jul 2014		Jul 2015	
<b>China</b>	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	24,117	24,117	24,064	24,064	24,150	24,150
Beginning Stocks	53,960	53,960	65,274	65,274	74,567	76,252
Production	121,930	121,930	126,170	126,170	130,000	130,000
MY Imports	6,773	6,773	1,926	1,895	2,500	2,000
TY Imports	6,773	6,773	1,926	1,895	2,500	2,000
TY Imp. from U.S.	3,965	3,900	326	326	0	350
Total Supply	182,663	182,663	193,370	193,339	207,067	208,252
MY Exports	889	889	803	587	1,000	1,000
TY Exports	889	889	803	587	1,000	1,000
Feed and Residual	16,000	16,000	17,000	16,000	15,000	14,000
FSI Consumption	100,500	100,500	101,000	100,500	101,500	103,000
Total Consumption	116,500	116,500	118,000	116,500	116,500	117,000
Ending Stocks	65,274	65,274	74,567	76,252	89,567	90,252
Total Distribution	182,663	182,663	193,370	193,339	207,067	208,252
Yield	5.0558	5.0558	5.2431	5.2431	5.3830	5.3830

### **Corn (1,000 tons; 1,000 Ha)**

<b>Corn</b>	2013/2014		2014/2015		2015/2016	
<b>Market Begin Year</b>	Oct 2013		Oct 2014		Oct 2015	
<b>China</b>	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	36,318	36,318	37,070	37,100	37,850	37,850
Beginning Stocks	67,570	67,570	77,315	81,315	81,660	102,000
Production	218,490	218,490	215,670	217,000	225,000	225,000
MY Imports	3,277	3,277	5,700	5,700	3,000	3,000
TY Imports	3,277	3,277	5,700	5,700	3,000	3,000
TY Imp. from U.S.	2,386	0	0	466	0	70
Total Supply	289,337	289,337	298,685	304,015	309,660	330,000

MY Exports	22	22	25	15	50	50
TY Exports	22	22	25	15	50	50
Feed and Residual	154,000	150,000	157,000	140,000	157,000	149,000
FSI Consumption	58,000	58,000	60,000	62,000	62,000	64,000
Total Consumption	212,000	208,000	217,000	202,000	219,000	213,000
Ending Stocks	77,315	81,315	81,660	102,000	90,610	116,950
Total Distribution	289,337	289,337	298,685	304,015	309,660	330,000
Yield	6.0160	6.0160	5.8179	5.8491	5.9400	5.9445

**Rice (1,000 tons; 1,000 Ha)**

<i>Rice, Milled</i>	2013/2014		2014/2015		2015/2016	
<i>Market Begin Year</i>	Jul 2013		Jul 2014		Jul 2015	
<i>China</i>	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	30,312	30,312	30,310	30,310	30,350	30,200
Beginning Stocks	46,826	46,826	46,811	46,811	46,800	48,200
Milled Production	142,530	142,530	144,500	144,500	145,500	144,200
Rough Production	203,614	203,614	206,429	206,429	207,857	206,000
Milling Rate (.9999)	7,000	7,000	7,000	7,000	7,000	7,000
MY Imports	4,015	4,015	4,315	4,315	4,700	4,700
TY Imports	4,168	4,168	4,500	4,500	4,700	4,700
TY Imp. from U.S.	0	0	0	0	0	0
Total Supply	193,371	193,371	195,626	195,626	197,000	197,100
MY Exports	260	260	426	426	400	400
TY Exports	393	393	400	400	400	400
Consumption and Residual	146,300	146,300	148,400	147,000	151,000	150,000
Ending Stocks	46,811	46,811	46,800	48,200	45,600	46,700
Total Distribution	193,371	193,371	195,626	195,626	197,000	197,100
Yield (Rough)	6.7173	6.7173	6.8106	6.8106	6.8487	6.8212

**Sorghum (1,000 tons; 1,000 Ha)**

<i>Sorghum</i>	2013/2014		2014/2015		2015/2016	
<i>Market Begin Year</i>	Oct 2013		Oct 2014		Oct 2015	
<i>China</i>	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	650	650	610	590	610	610
Beginning Stocks	326	326	376	376	351	251
Production	2,700	2,700	2,600	2,500	2,600	2,600
MY Imports	4,161	4,161	10,000	10,000	11,000	7,000
TY Imports	4,161	4,161	10,000	10,000	11,000	7,000
TY Imp. from U.S.	4,879	4,879	0	8,000	0	6,000
Total Supply	7,187	7,187	12,976	12,876	13,951	9,851
MY Exports	11	11	25	25	25	25
TY Exports	11	11	25	25	25	25
Feed and Residual	4,800	4,800	10,500	10,500	11,200	7,000
FSI Consumption	2,000	2,000	2,100	2,100	2,200	2,200
Total Consumption	6,800	6,800	12,600	12,600	13,400	9,200
Ending Stocks	376	376	351	251	526	626
Total Distribution	7,187	7,187	12,976	12,876	13,951	9,851
Yield	4.1538	4.1538	4.2623	4.2373	4.2623	4.2623