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GAIN Report

Global Agricultural Information Network

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China - Peoples Republic of

Grain and Feed Update - June 2015

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Report Highlights:

Forecast MY2015/16 corn production is revised slightly higher, while forecast rice and wheat production are lowered slightly. Production of all three grains is still forecast at record or near record levels, resulting in continued growth in government stocks. Wheat feed and residual is adjusted lower for the past three years, as wheat has become less competitive as a feed ingredient. Corn consumption is mixed; feed use is forecast lower but industrial consumption is raised as the government promotes industrial use of deteriorated corn stocks. MY2015/16 sorghum imports are still forecast at a record 9 million tons based on strong demand for cheaper alternative feed ingredients.

Executive Summary:

Forecast MY2015/16 wheat production is revised down two million tons to 128 million tons due to slightly lower than expected acreage growth. Total wheat consumption in MY 2015/16 is forecast at 116.5 million tons on declining feed use in recent years as wheat became more expensive than corn. Corn production in MY2015/16 is forecast at 230 million tons, up two million tons on higher acreage as corn continues to eat into cotton acreage. Forecast MY2015/16 corn consumption is revised up one million tons to 221 million tons as strong growth in industrial usage offset a decline in feed. Corn ending stocks in MY2015/16 are forecast at 93 million tons as high support prices push up production and suppress demand. Forecast MY2015/16 rough rice production is revised slightly lower to 206.4 million tons due to less optimistic yield projections. Estimated MY 2014/15 rice imports are revised down 400,000 tons to four million tons due to the delayed release of rice tariff rate quotas (TRQ) in 2015. MY2015/16 sorghum imports are still forecast at a record 9 million tons based on strong demand for cheaper alternative feed ingredients.

Wheat

Production

Forecast MY2015/16 wheat production is revised down two million tons to 128 million tons due to slightly lower than expected acreage growth. A recent MY 2015/16 seeding survey covering 110,000 producers found wheat seeding acreage was 0.7 percent higher than MY 2014/15. The acreage growth came in part at the expense of cotton, as subsidy reforms have made cotton less profitable in comparison to wheat and corn. Estimated MY 2014/15 production is unchanged at 126 million tons. According to industry reports, wheat quality improved in MY2014/15 over the prior year.

Imports

Forecast MY2015/16 wheat imports are unchanged at 1.2 million tons. This represents a 300,000 ton drop from the previous year as forecast record production is expected to depress imports. Estimated MY2014/15 wheat imports are lowered 100,000 tons to 1.4 million tons based on trade statistics and tight government restrictions on import quotas. China imported 1.086 million tons of wheat in MY2014/15 through April 2015, and industry sources expect another 200,000 tons of imports over May and June.

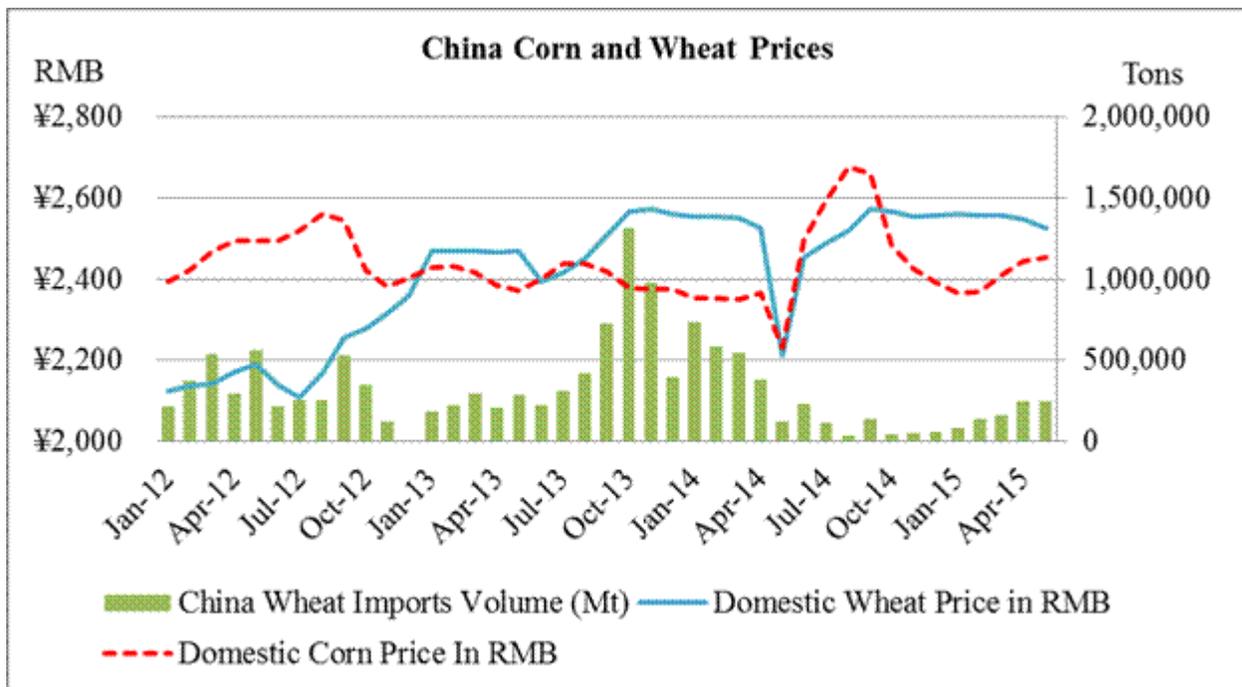
Consumption

Total wheat consumption in MY 2015/16 is forecast at 116.5 million tons on declining feed use in recent years. MY2015/16 wheat feed and residual is revised down five million tons to 15 million tons, MY2014/15 feed and residual is revised down six million tons to 17 million tons, and MY 2013/14 feed and residual is revised down five million tons to 16 million tons. Government and industry sources report that wheat feed use fell substantially in MY 2013/14 after wheat prices rose above the price of corn. The China National Grain and Oils Information Center (CNGOIC) estimates that wheat feed and residual declined 36 percent in MY 2013/14 compared to MY2013/12.

Rapidly growing corn stocks helped push corn prices downward from early MY2012/13. Meanwhile,

wheat prices soared 30 percent to a peak of RMB 2,572 in November 2013 over worries about potential wheat production losses from frost and floods in early MY2013/14 along with increases in international wheat prices. Wheat prices fell after wheat imports peaked in October 2013, but they quickly recovered. Beginning in MY2013/14, wheat prices have generally staid above the price of corn. This trend is likely to continue as the government is discussing cutting corn prices to help dispose of excess corn reserves.

According to industry reports, feed companies slashed purchases of feed grade wheat when wheat prices became uncompetitive compared to corn. The trend of lower wheat feed use was also reinforced by a surge in imported alternative feed ingredients, such as sorghum, barley and distiller's dried grains with solubles (DDGS). As a result, wheat for the most part is no longer competitive as a feed ingredient. According to recent industry reports, feed mills have abundant corn offering between 2400-2450 yuan per ton in the North Yellow River Basin while the price of wheat offerings range between 2550-2600 yuan per ton.



Source: China JCI Consulting and Global Trade Atlas

MY2015/16 food, seed and industrial (FSI) wheat consumption is forecast unchanged at 101.5 million tons. According to industry reports, flour mills are facing intensive market competition, operating at low capacities, and holding limited wheat stocks.

Stocks

MY2015/16 wheat stocks are forecast at 85.5 million tons on lower estimated feed and residual. While the Chinese government continues to treat stock levels as a state secret, wheat stocks are believed to have grown rapidly following record production in recent years.

Corn

Production

Corn production in MY2015/16 is forecast at 230 million tons, two million tons higher than previously estimated. Corn acreage is raised to 37.85million hectares as large numbers of cotton and soy farmers have switched to planting corn. Corn has a government guaranteed average floor price of RMB 2,250 a ton, and is now favored by many farmers as a more reliable income source. Unusually low temperatures in the North-East in early May have delayed planting in some areas and slightly lowered emergence rates. However, after quick reseeded, most production regions recovered to normal emergence rates by the middle of May.

The popularity of corn has resulted in higher rent prices for farm acreage in major corn producing areas such as Heilongjiang, where rents are reported to be up 20 percent over last year. Overall land and labor costs increased 4 to 6 percent this year according to an industry survey, while seed costs increased 5 to 7 percent; Fertilizer costs are stable.

North-East territory Corn Seeding Acreage (1,000 Ha)

	2015 Acreage	2014 Acreage	Percent change
Heilongjiang	651.42	609.4	+6%
JiLing	312.9	315.7	-1%
LiaoNing	213.48	213.48	0%

Source: Yumi.com.cn

Consumption

Forecast MY2015/16 corn consumption is revised up one million tons to 221 million tons as strong growth in industrial usage offset a decline in feed usage. Provincial governments in the North East have tried to dispose of excess and deteriorating corn stocks by subsidizing industrial usage, paying corn processors 24 to 32 dollars a ton. This new temporary policy is valid until the end of 2015. Industrial use is raised substantially for MY2014/15 and MY2015/16 as a result of these subsidies and government pressure to find ways to dispose of deteriorated corn stocks. As a result, estimated FSI consumption for MY 2014/15 and MY2015/16 is raised to 65 million tons and 66 million tons respectively.

Forecast MY2015/16 and MY2014/15 feed and residual is revised downward to 155 million tons and 150 million tons respectively due to increased usage of alternative feed ingredients such as sorghum, DDGS and barley. High domestic corn prices, tight restrictions on corn imports, and the poor quality of some domestic corn stocks has discouraged corn feed use. CNGOIC estimates that corn feed use fell by almost six percent in MY2014/15 compared to the year before.

Imports

Forecast MY2015/16 corn imports are unchanged at 3 million tons, as are MY 2014/15 imports. This amount is roughly equal to the TRQ allocated to the private sector for corn. The government, faced with record corn stocks, is expected to continue to tightly restrict corn imports and is unlikely to approve any large purchases using public sector quotas. The government has put pressure on private importers by demanding that they first buy corn from state reserves before receiving import quotas. However, high domestic prices and demand for good quality corn is likely to provide a floor for imports

at or slightly below three million tons.

Stocks

Ending stocks in MY2015/16 are forecast at 93 million tons as high support prices push up production and suppress demand. The rapid increase in corn stocks has strained grain storage capacity, and large amounts of grain are being kept in inadequate or antiquated storage facilities. On June 15, 2015 the government announced a plan to build fifty million tons of new grain storage facilities and to repair 60 percent of “old and dangerous” grain storage facilities by the end of this year.

Rice

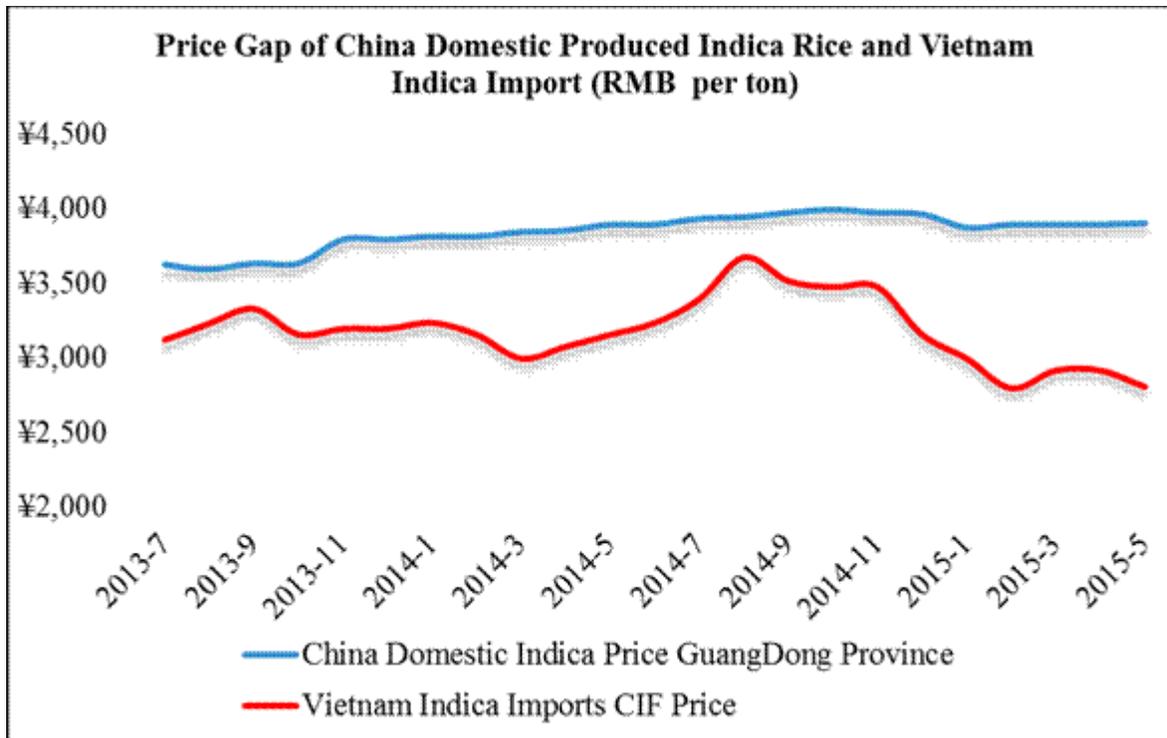
Production

Forecast MY2015/16 rough rice production is revised slightly lower to 206.4 million tons, unchanged from MY2014/15, due to less optimistic yield projections. Yields are expected to be negatively impacted by El Nino, with the potential for both droughts and flooding in rice growing regions. According to recent industry reports, there is concern that excess precipitation is hampering early rice development in southern growing regions. Cold weather in early May delayed seeding progress in northern growing regions. However, high support prices are expected to sustain continued strong production and acreage is expected to rise slightly.

Imports

Forecast MY 2015/16 imports are unchanged at 4.7 million tons, as high domestic prices continue to incentivize imports. Domestic rice prices still exceed those in most neighboring Southeast Asian countries, creating a demand for imports. Smuggling is also a challenge in southern China. The government reported that Chinese customs seized over 200,000 tons of smuggled milled rice in 2014.

Estimated MY 2014/15 imports are revised down 400,000 tons to four million tons due to the delayed release of rice TRQs in 2015. Thailand has overtaken Vietnam to retake its position as the top exporter of rice to China according to trade statistics. Premier Li Keqiang signed agreements to import rice from Burma and Thailand when he visited the countries in November and December 2014. Thailand has also adjusted its policies to encourage rice exports following its change in government.



Source: China JCI Consulting

Consumption

Forecast MY2015/16 consumption is revised down two million tons to 149 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 revised down 1.4 million tons to 147 million tons for many of the same reasons. High prices and mixed quality resulted in lower feed use in MY2014/15, and CNGOIC estimates that rice feed use dropped 10 percent that year. The poor quality of state reserves has also meant that the government has had trouble finding buyers for stockpiled rice.

Stocks

Forecast MY 2015/16 and MY 2014/15 ending stocks are revised up 1.5 million tons and one million tons respectively on lower consumption. Industry and government reports also suggest that stocks are expanding. State grain silos are trying to sell aging rice on the market to reduce stocks. However, poor quality and high prices have driven away buyers. In late April 2015, 7.87 million tons of rice from state reserves was put on auction. However, only less than 2 percent of the rice auctioned was actually sold.

Sorghum

Production

MY 2015/16 sorghum production is forecast unchanged at 2.6 million tons. Sorghum production receives little policy intervention compared to corn, wheat and rice, making it less attractive to farmers. Sorghum production is concentrated in the North-East and Inner Mongolia. The government provides transportation subsidies to corn to move it to areas of high demand in the south, but these subsidies are not provided for sorghum, making domestic sorghum even less competitive.

Imports

MY2015/16 sorghum imports forecast is a record 9 million tons based on strong demand for cheaper alternative feed ingredients. MY 2014/15 sorghum imports are estimated at 8.5 Million tons. Sorghum is not subject to TRQ restrictions and does not face biotechnology related trade barriers, making it possible to trade relatively freely. Under the China Australia Free Trade Agreement announced on June 17, 2015, the tariff on Australian sorghum will immediately drop to one percent from the current three percent rate. The tariff drop for Australia sorghum is expected to have only a minor impact on U.S sorghum exports to China as U.S sorghum is still cost competitive.

The rapid increase in sorghum imports has attracted government attention. Quarantine and inspection officials reported they intercepted multiple sorghum shipment between January and April 2015 in six ports due to detection of phoma glomerata and weeds seeds. The detections have caused concern among sorghum traders and there is the risk of more detections and interceptions in summer 2015 when many existing sorghum orders are expected to be fulfilled. However, sorghum is unlikely to suffer widespread trade disruptions like those that hit corn and DDGS trade in 2014.

Reported Interceptions of U.S. Shipments (January – April 2015)

Ports	Time	Commodity	Intercept	noxious weeds
ZhanJiang	Jan to Apr 2015	US Sorghum	37 Shipments	Johnson weeds, annual ragweed, carelessweed, Anoda cristata, winter wild-oat, False ragweed, Ambrosia trifida
Zhanjiang	Jan to Apr 2015	US DDGS	18 Shipments	No disclosure
Shenzheng	Apr-15	US Sorghum	1 Shipments	Phoma glomerata
DongGuan	Apr-15	US Sorghum	1 Shipments	Anoda cristata, winter wild-oat, Johnson weeds

Source: China JCI Consulting

Consumption

Forecast MY 2015/16 consumption is unchanged at 11.4 million tons, up 200,000 tons from MY2014/15 on higher feed demand. Food and industrial consumption is expected to remain flat due to weaker demand for traditional sorghum based spirits (bai jiu). Biofuel producers currently favor importing cassava over sorghum as a feedstock, limiting growth in industrial consumption.

PSD Tables

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

Wheat	2013/2014		2014/2015		2015/2016	
Market Begin Year	Jul 2013		Jul 2014		Jul 2015	
China	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	24,117	24,117	24,064	24,064	24,150	24,130
Beginning Stocks	53,960	53,960	60,274	65,274	62,944	73,844
Production	121,930	121,930	126,170	126,170	130,000	128,000
MY Imports	6,773	6,773	1,500	1,400	1,200	1,200
TY Imports	6,773	6,773	1,500	1,400	1,200	1,200
TY Imp. from U.S.	3,900	3,900	0	200	0	200
Total Supply	182,663	182,663	187,944	192,844	194,144	203,044
MY Exports	889	889	1,000	1,000	1,000	1,000
TY Exports	889	889	1,000	1,000	1,000	1,000
Feed and Residual	21,000	16,000	23,000	17,000	20,000	15,000
FSI Consumption	100,500	100,500	101,000	101,000	101,500	101,500
Total Consumption	121,500	116,500	124,000	118,000	121,500	116,500
Ending Stocks	60,274	65,274	62,944	73,844	71,644	85,544
Total Distribution	182,663	182,663	187,944	192,844	194,144	203,044

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

Corn	2013/2014		2014/2015		2015/2016	
Market Begin Year	Oct 2013		Oct 2014		Oct 2015	
China	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	36,318	36,318	37,070	37,070	37,700	37,850
Beginning Stocks	67,570	67,570	77,315	77,315	79,960	80,960
Production	218,490	218,490	215,670	215,670	228,000	230,000
MY Imports	3,277	3,277	3,000	3,000	3,000	3,000
TY Imports	3,277	3,277	3,000	3,000	3,000	3,000
TY Imp. from U.S.	2,386	0	0	103	0	70
Total Supply	289,337	289,337	295,985	295,985	310,960	313,960
MY Exports	22	22	25	25	50	50
TY Exports	22	22	25	25	50	50
Feed and Residual	154,000	154,000	158,000	150,000	160,000	155,000
FSI Consumption	58,000	58,000	58,000	65,000	60,000	66,000
Total Consumption	212,000	212,000	216,000	215,000	220,000	221,000
Ending Stocks	77,315	77,315	79,960	80,960	90,910	92,910
Total Distribution	289,337	289,337	295,985	295,985	310,960	313,960

Rice (1,000 tons; 1000 Ha)

Rice, Milled	2013/2014		2014/2015		2015/2016	
Market Begin Year	Jul 2013		Jul 2014		Jul 2015	
China	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	30,312	30,312	30,310	30,310	30,400	30,400
Beginning Stocks	46,826	46,826	46,811	46,811	46,911	47,911
Milled Production	142,530	142,530	144,500	144,500	146,000	144,500
Rough Production	203,614	203,614	206,429	206,429	208,571	206,429
Milling Rate (.9999)	7,000	7,000	7,000	7,000	7,000	7,000
MY Imports	4,015	4,015	4,400	4,000	4,700	4,700
TY Imports	4,168	4,168	4,500	3,940	4,700	4,700
TY Imp. from U.S.	0	0	0	0	0	0
Total Supply	193,371	193,371	195,711	195,311	197,611	197,111
MY Exports	260	260	400	400	400	400
TY Exports	393	393	400	400	400	400
Consumption and Residual	146,300	146,300	148,400	147,000	151,000	149,000
Ending Stocks	46,811	46,811	46,911	47,911	46,211	47,711
Total Distribution	193,371	193,371	195,711	195,311	197,611	197,111

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

Sorghum	2013/2014	2014/2015	2015/2016
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Market Begin Year	Oct 2013		Oct 2014		Oct 2015	
China	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	650	650	610	610	610	610
Beginning Stocks	326	326	376	376	351	251
Production	2,700	2,700	2,600	2,600	2,600	2,600
MY Imports	4,161	4,161	8,500	8,500	9,000	9,000
TY Imports	4,161	4,161	8,500	8,500	9,000	9,000
TY Imp. from U.S.	4,879	4,879	0	8,410	0	0
Total Supply	7,187	7,187	11,476	11,476	11,951	11,951
MY Exports	11	11	25	25	25	25
TY Exports	11	11	25	25	25	25
Feed and Residual	4,800	4,800	9,000	9,000	9,200	9,200
FSI Consumption	2,000	2,000	2,100	2,100	2,200	2,200
Total Consumption	6,800	6,800	11,100	11,100	11,400	11,400
Ending Stocks	376	376	351	351	526	526
Total Distribution	7,187	7,187	11,476	11,476	11,951	11,951