

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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China - Peoples Republic of

Grain and Feed Update

Grain and Feed Update

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Report Highlights:

MY 12/13 corn production, up 3 percent to 198MMT, and lower domestic prices could lead to higher corn utilization in feed in substitution for wheat. High US corn prices, however, affects corn imports and impacts US DDGS competitiveness. Termination of the anti-dumping investigation and an interest in maintaining feed quality could sustain DDGS import interest. Wheat production forecast remains unchanged with low global supplies and high world price dampening MY 12/13 wheat import forecast to 1.5MMT. Rice production forecast remains unchanged. Government support for grain production remains strong.

Post:
Beijing

Executive Summary:

Higher profit expectations influenced farmers to plant corn over soybeans, increasing corn acreage approximately 15 percent in Heilongjiang. Expanded growing area and favorable growing conditions raise MY12/13 production forecast by 3 percent to 198MMT. World corn prices exceeding domestic corn prices will soften US imports. Despite strong demand in the first eight months of 2012 and an end to the anti-dumping investigation, rising US DDGS import prices are expected to subdue DDGS import expectations.

The MY 12/13 wheat production forecast remains unchanged. NDRC announced a ten percent increase in the MY13/14 minimum floor price to RMB 2,240 per ton. MY 12/13 wheat imports are forecast to fall to 1.5MMT in response to lower global supplies and high international prices. Rice production is also forecast unchanged. The MY 12/13 government floor price for Japonica rice is expected to rise 9 percent from the previous year.

The value of government support programs for grain production remains significant, including financial awards for high grain production and subsidies in areas including education to increase yields, disease prevention and control, machinery maintenance, irrigation projects and agriculture insurance.

Author Defined:

Corn

Production

MY 2012/13 corn production is forecast at 198 MMT, up 3 percent from the previous year, due to higher acreage and favorable weather. In Heilongjiang, farmers reportedly substituted close to 15 percent of soybean acreage for corn in expectation of higher profits.

Crop conditions in the north China plain remained favorable, with low moisture and less mold damage than last year, according to the National Grain and Oil Information Center (NGOIC). Post field visits in the northeast confirmed a low rate of insect or mold damaged corn. In parts of Jilin and Liaoning, however, an August typhoon caused severe lodging and overall below normal yields.

In August, Chinese state media reported that an armyworm outbreak affected more than 50 million mu (3.4 million HA) in some north China plain and northeast provinces, but noted that overall damage was low. According to various agricultural contacts, in some areas, farmers controlled the infestation with pesticide, however, the overall eradication rate is unclear. In areas of high armyworm damage, some farmers have reportedly sought redress through agriculture insurance policies.

Feed Consumption

For MY 2012/13, feed consumption is revised up 2 MMT to 141 MMT. During harvest, domestic corn

prices dropped making it more competitive than wheat. For example, in comparison to last month, October prices for Shandong-produced corn fell by RMB 50 to 2,260 per ton. Feed mills reported that Henan and Shandong corn is now approximately RMB 100 per ton less than local wheat prices. Feed mills located in Jiangxi and Hunan provinces also reported similar price differentials. Unlike previous years, lower corn prices may increase corn feed usage instead of wheat (see Gain CH12022 for information on increased wheat substitution for corn in MY 2011/12).

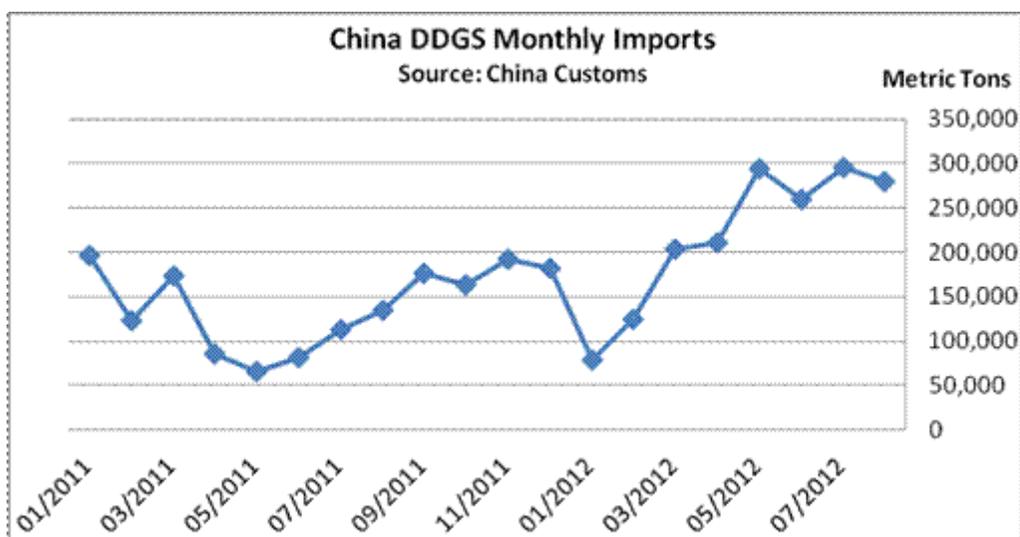
Trade

In MY 2012/13, corn imports are forecast to fall to 2 MMT on high U.S. corn prices. Many imports were contracted earlier in CY 2012 when Chinese corn was less price competitive. The U.S. No. 2 yellow corn CIF import price (for October delivery) is approximately RMB 2,850 per ton (including tariff and VAT), which is approximately RMB 300 per ton higher than current domestic corn prices in Guangdong.

DDGS Imports

From January to August 2012, Chinese DDGS imports totaled 1.75 MMT, a significant rise over last year (973,000 MT) on competitive U.S. DDGS prices. According to Chinese customs data, from January to August 2012, U.S. DDGS CIF import prices averaged between \$290-320 per ton, or RMB 100 per ton lower than domestic corn. Moreover, in June 2012 the Ministry of Trade and Commerce (MOFCOM) terminated the anti-dumping investigation on U.S. DDGS exports, which may also have incited more confidence in the trade.

Because of high U.S. corn prices, U.S. DDGS CIF import prices have risen to \$370-415 per ton (for October or November delivery). Although U.S. DDGS imports may ease due to high prices (less competitive to Chinese domestic corn), some larger feed mills may continue purchasing DDGS to maintain quality consistency.



Wheat

Production

The MY 2012/13 wheat production forecast is unchanged from the previous update. As noted in the last quarterly report (see Gain CH12052), although official Chinese government sources estimate another annual rise in Chinese wheat production, Post believes the official Chinese projection is too high. From July to September 2012, the average wheat price rose approximately 7 percent. For October, major wheat producing provincial wheat prices (Hebei, Shandong, and Henan) are even higher at RMB 2,280 per ton. As illustrated in the price graphs below, during 2010 and 2011 wheat prices did not jump after harvest (due to higher available market supplies). Interestingly, during this same time frame end-users were increasing their utilization of feed quality wheat due to high domestic corn prices. If MY 2012/13 Chinese wheat production is as high as Chinese authorities estimate, it is unclear why wheat prices are rising, especially if expectations are that more feed mills may switch to less expensive corn.

Regarding overall wheat safety and quality in feed, industry contacts believe that some distributors and middlemen may be mixing MY 2012/13 fusarium graminearum (head blight) affected wheat with fungus-free wheat so that the new crop can still be utilized (before selling it to end-users). If true, it is unclear how wide-spread this activity may be. To date, industry end-user contacts, such as feed mills and livestock producers, said they have not noted any problems with feed product quality. If toxin levels are too high, this could negatively affect livestock health and production.

In September, the National Development & Reform Commission announced that the MY 2013/14 floor price for wheat will rise by 10 percent to RMB 2,240 per ton. The government floor prices function mainly to encourage grain production and support farm incomes. In the north China plain, most winter wheat is planted in October.

Trade

In MY 2012/13, wheat imports are forecast down to 1.5 MMT because of lower global exportable supplies and higher international prices. According to trade sources, the U.S. soft red winter (SRW) CIF import price (for November delivery) is estimated at RMB 2,900 per ton (includes tariff and VAT), and is 400 RMB per ton higher than current domestic wheat prices in Guangdong.

Rice

The MY 2012/13 rice production forecast is unchanged from the previous quarterly report. Industry contacts are not aware of any pest outbreaks (as forecast by the Chinese government earlier in the summer – See Gain CH12052).

From June to September 2012, Japonica rice (unmilled) prices rose 6 percent. Industry contacts noted this rise was due to low commercial stocks (end of the marketing year and before the harvest).

Because of rising rice prices, Heilongjiang province officials auctioned Japonica rice at RMB 3,100 per ton in September 2012.

According to National Grain and Oil Information Center, from November 2011 to February 2012, to encourage rice production and support farmer incomes, the provincial government purchased more

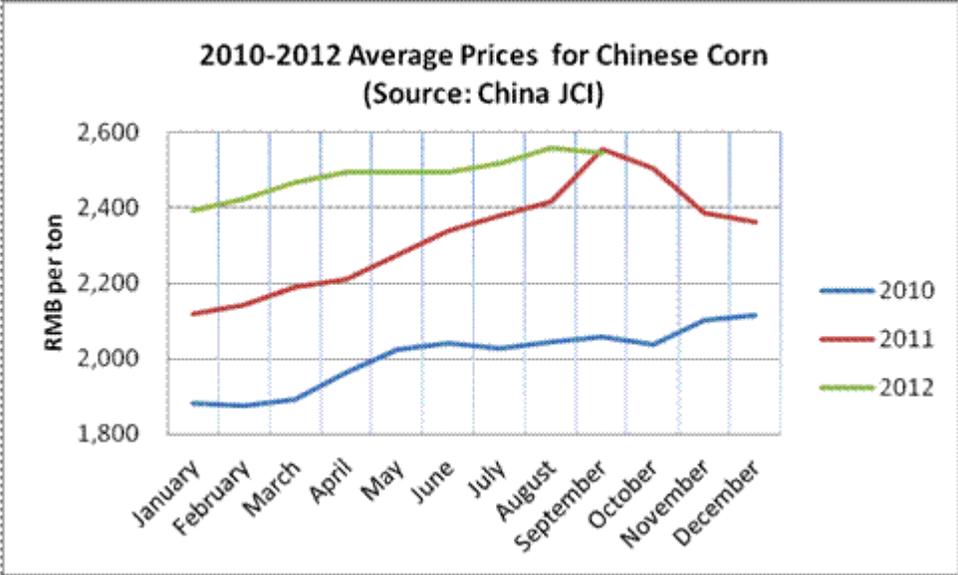
than 10 MMT of Japonica rice in Heilongjiang at RMB 2,800 per ton for temporary state reserves. This price was higher than the central government set price for Japonica of RMB 2,560 per ton in MY 11/12. Recently, NGOIC also announced that from November 2012 to March 31, 2013 the floor price for Japonica rice in Heilongjiang, Jilin, and Liaoning will be RMB 2,800 per ton. The Japonica rice harvest starts in October in Heilongjiang, which produces half of China’s Japonica rice.

Government Support for Grain Production

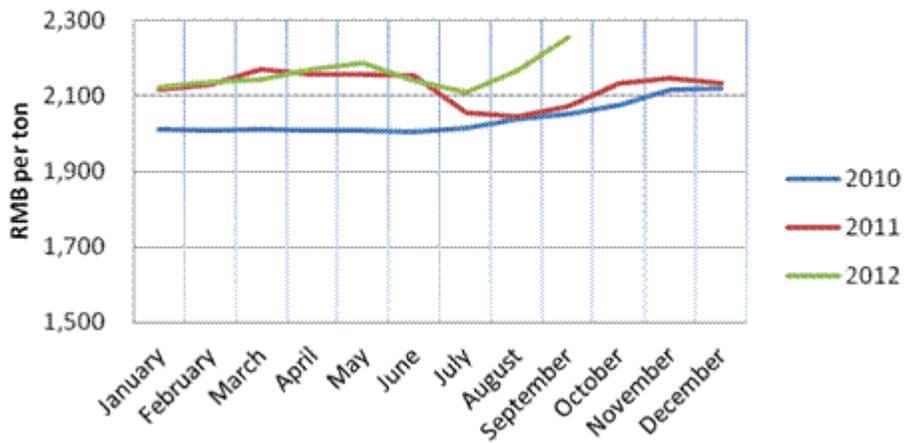
The following extension programs are funded, implemented, and/or directed under the Ministry of Agriculture (MOA). Although the investments are large, it is unclear how effective or what impact they have on Chinese agricultural production, which supports more than 100 million farmers.

According to MOA, in 2010 and 2011 it awarded grants totaling RMB 21 and 22.5 billion to over 1000 counties as a reward for high grain production. During the same time frame, the Ministry allocated RMB 1 and 1.5 billion to build grain, oilseed, and sugar demonstration farms (totaling 56 million mu (1 HA= 15 mu)) to educate farmers on how to increase yields. In 2011, RMB 500 million in subsidies supported local disease prevention/control organizations that specialize in eradicating or controlling pest infestations in corn, rice, and wheat (the subsidy covered 800 counties and was applied towards pesticide procurement, field operation equipment, machinery maintenance, and pest surveys). MOA also provided subsidies for small-scale water conservancy or irrigation projects and agricultural insurance.

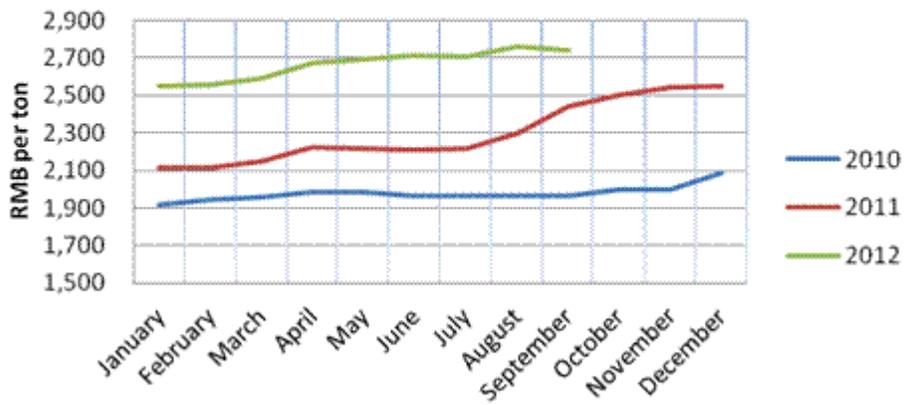
Price for corn, wheat and rice

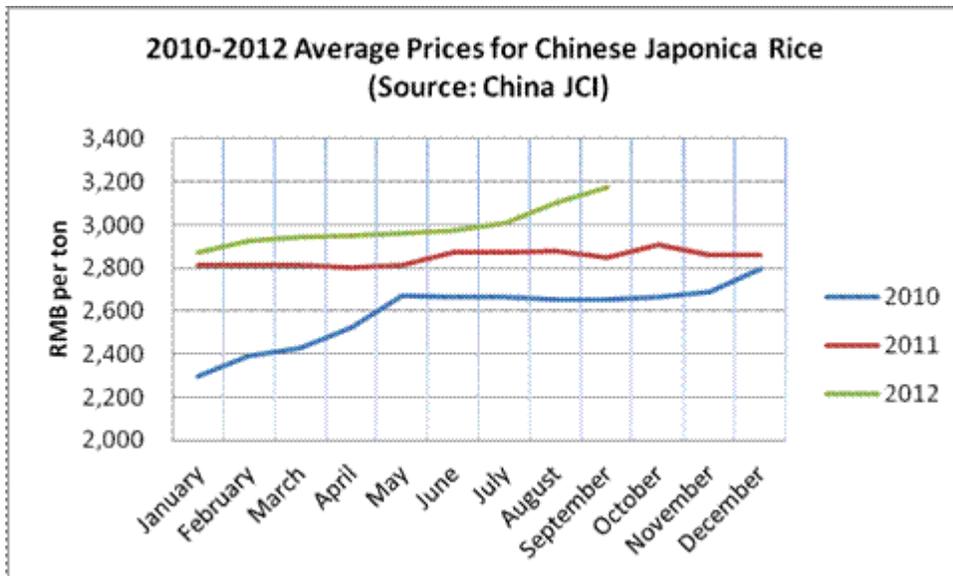


2010-2012 Average Prices for Chinese Wheat
(Source: China JCI)



2010-2012 Average prices for Chinese Early Season Indica Rice
(Source: China JCI)





PSD tables

Corn

Corn China (1000 HA) (1000 MT)	2010/2011		2011/2012		2012/2013	
	Market Year Begin: Oct 2010		Market Year Begin: Oct 2011		Market Year Begin: May 2012	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	32,500	32,500	33,400	33,542	34,300	34,300
Beginning Stocks	51,302	51,302	49,415	49,415	59,595	59,595
Production	177,245	177,245	192,780	192,780	200,000	198,000
MY Imports	979	979	5,500	5,500	2,000	2,000
TY Imports	979	979	5,500	5,500	2,000	2,000
TY Imp. from U.S.	1,028	1,028	0		0	
Total Supply	229,526	229,526	247,695	247,695	261,595	259,595
MY Exports	111	111	100	100	200	200
TY Exports	111	111	100	100	200	200
Feed and Residual	128,000	128,000	131,000	131,000	139,000	141,000
FSI Consumption	52,000	52,000	57,000	57,000	62,000	62,000
Total Consumption	180,000	180,000	188,000	188,000	201,000	203,000
Ending Stocks	49,415	49,415	59,595	59,595	60,395	56,395
Total Distribution	229,526	229,526	247,695	247,695	261,595	259,595

Wheat

Wheat China (1000 HA) (1000 MT)	2010/2011		2011/2012		2012/2013	
	Market Year Begin: Jul 2010		Market Year Begin: Jul 2011		Market Year Begin: Jul 2012	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	24,257	24,257	24,200	24,270	24,300	24,300
Beginning Stocks	54,425	54,425	59,091	59,091	58,466	58,947
Production	115,180	115,180	117,920	117,401	118,000	108,000
MY Imports	927	927	2,933	2,933	1,500	1,500
TY Imports	927	927	2,933	2,933	1,500	1,500
TY Imp. from U.S.	156	156	597	597	0	400

Total Supply	170,532	170,532	179,944	179,425	177,966	168,447
MY Exports	941	941	978	978	1,000	1,000
IY Exports	941	941	978	978	1,000	1,000
Feed and Residual	13,000	13,000	22,000	21,000	22,000	20,000
FSI Consumption	97,500	97,500	98,500	98,500	100,000	100,000
Total Consumption	110,500	110,500	120,500	119,500	122,000	120,000
Ending Stocks	59,091	59,091	58,466	58,947	54,966	47,447
Total Distribution	170,532	170,532	179,944	179,425	177,966	168,447