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China - Peoples Republic of

Oilseeds and Products Update

MY15/16 China soybean imports to hit 78 million tons

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Report Highlights:

In addition to China's growing demand for oilseed products, the low price of soybeans is expected to push China's soybean imports to exceed 76 million tons in MY14/15, up from the 70.4 million tons in the previous year. While this high growth rate is unlikely to continue, imports are expected to rise to a forecast 78 million tons in MY15/16. Post's September forecast for MY15/16 total domestic oilseed production is 3.26 million tons lower than the estimated 57 million tons in MY14/15. Lower domestic production together with growing demand for protein meal and vegetable oil will continue to encourage strong imports of oilseeds in MY15/16. Meanwhile, MY14/15 imports of vegetable oil declined in response to the increase in oilseed imports.

Executive Summary:

In addition to growing demand for oilseed products, the low price of soybeans is expected to push China's soybean imports to exceed 76 million tons in MY14/15, up from the 70.4 million tons in the previous year. While this high growth rate is unlikely to continue, imports are expected to rise to a forecast 78 million tons in MY15/16. Post's September forecast for MY15/16 total domestic oilseed production is 3.26 million tons lower than the estimated 57 million tons in MY14/15. Lower domestic production together with growing demand for protein meal and vegetable oil will continue to encourage strong imports of oilseeds in MY15/16. Meanwhile, MY14/15 imports of vegetable oil declined in response to the increase in oilseed imports. In addition, recent differences among observers over China's actual domestic rapeseed production have further complicated the overall picture of China's oilseed market.

China's oilseed production likely to be impacted by the new corn policy

Soybeans: Post forecast for MY15/16 soybean production of 11 million tons remains unchanged. In its September report, China National Grain and Oils Information Center (CNGOIC) adjusted down its forecast MY15/16 soybean production to 11 million tons. On September 19, China's State Grain Administration announced that the government will purchase 2015 corn (for state temporary reserve) in the four Northeast provinces at a price of RMB2,000 (\$317) per ton, which is RMB260 (\$41) per ton lower than the previous year. The government's purchase is scheduled to start on November 1, 2015 and run through to April 30, 2016. Industry insiders believe this price change is expected to lower corn earnings in MY15/16, and thus influence corn farmer's planting intentions for the next season.

Although soybean earnings are also expected to be lower in MY15/16, natural weather conditions in some parts of the Northeast still favor soybean over corn planting. Hence, a modest recovery in the soybean planted area in the Northeast Provinces is expected but unlikely to significantly impact China's total soybean production.

As reported in July, on several occasions, China's Ministry of Agriculture (MOA) called for an adjustment on the crop mix in the Northeast provinces in 2016. However, the lack of details in how this crop adjustment proposal will be executed indicates it will have a limited impact in boosting the soybean planted area in 2016.

Rapeseed: China's industry sources continue to support a lower domestic rapeseed production than what was officially reported. Low profit margin remains the leading factor for a shrinking rapeseed planted area. From MY 11/12 through MY14/15, China enforced a policy to support domestic rapeseed production by purchasing rapeseed at a floor price for temporary state reserves. During that time the floor price remained higher than the price for imported rapeseed.

However, starting from MY15/16, the government changed the floor price purchase policy by providing very limited direct subsidies to farmers. According to CNGOIC, the direct subsidy varies by province with RMB 450/Ha (\$75) in Jiangsu and Hubei provinces. Anhui and Sichuan provinces also released subsidy policy details. However, it remains difficult to quantify the actual per area subsidy amount.

Industry sources widely believe that as a result of the change in China's support policy rapeseed farmer's gross income per ton in MY15/16 (at about RMB3,720/ton or \$600/ton) is significantly lower

than the floor price of RMB5,100/ton (\$823/ton) farmers received during the previous year.

CNGOIC data shows that as of September 10, total purchased volume by “leading enterprises” in the 9 rapeseed-producing provinces were merely 1.49 million tons, down significantly by 1.91 million tons during the same time in the previous year. Based on its mid-September field survey in Hubei, CNGOIC estimated a low Hubei rapeseed production in MY15/16 ranging from 1 to 1.1 million tons only. This estimate is down by about 200,000 tons from the previous year based on a planted area decline of 8 to 10 percent and lower yield. Lower production reduced rapeseed supply in the market driving down purchase by the industry. Meanwhile, due to the low market prices, more farmers opted to use rapeseed in exchange for oil with local small crushers reducing the commercial sales to crushers. Additionally, farmers and traders are currently holding more rapeseed than usual in expectation of a price recovery. The survey also showed that some rapeseed was purchased by nearby provinces such as Hunan and Sichuan, implying a likely decrease in rapeseed production in these Provinces.

Rapeseed Statistics (MY11/12 to MY15/16; in ton)

Year	MY11/12	MY12/13	MY13/14	MY14/15	MY15/16
NSB production	13,426,000	14,007,000	14,458,000	14,600,000	13,880,000**
Floor price (RMB/ton)	4,600	5,000	5,100	5,100	NA
Volume purchased by state and industry	5,658,000	5,909,000	6,160,000	3,486,000	NA
Estimated rapeseed oil stocks *	2,280,000	3,780,000	5,480,000	6,380,000	6,228,000
Auctioned volume		6,600		106,400****	
Rapeseed imports	2,621,644	3,420,555	5,045,580	4,295,653***	
Rapeseed oil imports	1,036,080	1,597,958	902,225	705,957***	

Source: CNGOIC; Note:*Cumulative state temporary reserve;

**Production not including autumn harvest crop ranging from 0.8 to 1 million tons;

First 11 months of MY14/15;*Auction ended in June 2015

Cottonseed: Post forecast for MY15/16 cottonseed production of 9.54 million tons, remains unchanged from its previous report. This is 2.2 million tons lower than the previous year and is mainly attributed to changes in government’s subsidy policy.

Peanuts: Post forecast for MY15/16 peanut production of 16.7 million tons, also remains unchanged from its previous report. This forecast is up slightly from the estimated 16.5 million ton in MY14/15.

MY14/15 soybean imports likely to exceed 76 million tons

MY14/15 soybean imports continue to be strong despite a slight fall in feed production during the first months of 2015. High soybeans imports are supported by a growing domestic demand for soybean products and a large domestic crushing capacity. The current lower global soybean price also encourages Chinese importers to buy more. China’s lower supply of other meals, including rapeseed meal and cottonseed meal, coupled with high corn prices is encouraging feed mills to use more soybean meal. China continues to produce concentrate supplementary feed and feed pre-mixed with feed

additives which require the addition of protein meals before consumption. Increased use of whole soybeans as a feed ingredient, and the use of imported soybeans for food processing also continue to drive imports.

However, many industry insiders are doubtful that the average yearly growth of 8 million tons in soybean imports during MY13/14 to MY14/15 reflects actual growth in demand. The excessive soybean imports are expected to add carry-out stocks in MY14/15. However, MY15/16 imports of soybeans are expected to continue growing at a moderate rate driven by a forecast growth of protein meal consumption.

Debate over actual domestic rapeseed production impacts China's oilseed "balance sheet"

As previously reported, according to industry insiders, China's domestic rapeseed production seems to be overestimated since MY11/12 and in particular during MY12/13 to MY14/15. As indicated above, beginning in MY11/12 when the government offered higher floor prices, the combined purchased volume by the state and the industry averaged 6 million tons per year during the first three years then it went down to 3.5 million tons in MY14/15. Industry analysts argue that although some farmers continue to reserve rapeseed for home use, most of the rapeseed production should have been sold to the state given the fact that the government was offering a much higher price.

Assuming that rapeseed production has been over reported by an average of 2.5 million tons a year from MY11/12 to MY14/15, this could lead to a cumulative 10 million tons of overestimated rapeseed (or more than 3.5 million tons of vegetable oil and more than 6 million tons of rapeseed meal). This impacts the reliability of China's balance sheet for oilseeds, meals and oils from MY11/12 to MY14/15 and consequently the estimate for MY15/16. China's strong imports of rapeseed and rapeseed oil signal a possible shortage in domestic supply. Moreover, China's rapid growth of soybean imports which may not be fully justified by the growth in feed production and demand for animal products, could partly be making up for a shortage of rapeseed supply.

China's statistics on the rapeseed area, yield, and production are challenged by factors such as extremely small scale farming, low profit margins, and new support policy changes. Given these complexities, in the short term, it is not practical to expect reliable estimates based on the currently available systematic statistics. China's National Statistics Bureau is planning to conduct an agricultural census in 2016. However, the survey results may not be immediately available.

The hog-to-corn price ratio holds

Feed demand is expected to recover in the coming months. According to China's Ministry of Agriculture, the hog-to-corn price ratio has continued growing during the 35th week at 7.81:1. China's industry source indicated that the general hog profit in September declined slightly ranging from RMB400 to 600 (or \$65 to 95) per head due to increased supply of pork for the two October holidays, however, the hog-to-corn price ratio stood at 7.84:1 during the second week of September. China's industry leaders remain confident that in the foreseeable future, the demand for animal products will continue to grow due to economic growth, the increase in population and urbanization.

MY15/16 rapeseed imports forecast at 4.5 million tons

MY14/15 rapeseed import estimate remains unchanged at 4.5 million tons, down from the previous year likely due to more soybean imports at more competitive prices. Given a smaller-than-reported domestic rapeseed production and the excessive crushing capacity, MY15/16 rapeseed imports are forecast at 4.5 million tons, if rapeseed crops from major rapeseed suppliers, like Canada, do not fall significantly. Meanwhile, rapeseed oil imports are forecast to fall further.

Imports of corn and substitutes declined in August

Imports of soybeans, rapeseed, vegetable oils and soybean meal have been subject to an Automatic Import License Administration (AIL) for years. Post has not heard any complaints related to the AIL procedures for imports of these commodities. However, as indicated in our August report, effective on September 1, 2015, China expanded the group of commodities subject to AIL. Since then imports of barley, cassava, distillers' grains (DDGS), and sorghum are also subject to AIL.

China's surged imports of corn and its substitutes in recent months, particularly in July, triggered debate among observers as to the purpose of the expansion of the AIL to include these new commodities. The Global Trade Atlas shows a significant fall in the import volume of these commodities in August mainly due relatively high stocks and an anticipated policy change to a lower purchase price for the 2015 domestic corn.

China's Imports of Corn and Substitutes in July and Aug 2015 (million tons)

	DDGS	Barley	Sorghum	Cassava	Corn
July	1.1	1.28	1.1	0.92	1.1
Aug	0.79	0.78	0.55	0.63	0.61
Change	-28%	-39%	-50%	-31%	-45%

Source: The Global Trade Atlas

It is worthwhile to observe how the AIL will be implemented for the new commodities in the coming months given the excessive domestic corn stocks and by the harvest of the 2015 new crop. China's feed mills are taking advantage of low foreign prices to increase imports, replacing expensive domestic grains. DDGS has been used to substitute part of soybean meal in feed production in China.