

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

THIS REPORT CONTAINS ASSESSMENTS OF COMMODITY AND TRADE ISSUES MADE BY
USDA STAFF AND NOT NECESSARILY STATEMENTS OF OFFICIAL U.S. GOVERNMENT
POLICY

Required Report - public distribution

Date: 10/30/2014

GAIN Report Number: CH14052

China - Peoples Republic of

Oilseeds and Products Update

October Lockup Report

Approved By:

Michael Riedel

Prepared By:

Jennifer Clever and Wu Xinping

Report Highlights:

Post's October forecast for MY14/15 total oilseed production is 55.8 million tons, down by 5 percent from an estimated 58.7 million tons in MY13/14. The downward revision reflects lower peanut and cottonseed production. Despite an expected fall in feed production during 2014, total oilseed demand continues to grow at the expense of other feed ingredients. In particular, soybean imports are estimated at 70 million tons in MY13/14 and projected to grow to 73 million tons in MY14/15.

Executive Summary:

Post's October forecast for MY14/15 total oilseed production is 55.8 million tons, down by 5 percent from an estimated 58.7 million tons in MY13/14. Reductions in the planting areas and yield for peanuts and cotton lowered total oilseed production. Despite reports of a moderate recovery of the soybean planted area and yield in Heilongjiang Province, this recovery is expected to have a limited impact on total domestic oilseed production.

Total feed production is forecast to be lower than last year due to weaker consumer demand for livestock products. However, increased protein consumption in feed rations and expanding crushing capacity continue to stimulate oilseed demand and keep it on an upward trend. This is particularly the case for soybeans, as total soybean imports are estimated at 70 million tons in MY 13/14 and are projected to reach 73 million tons in MY14/15.

MY14/15 domestic oilseed production falls by 5 percent

Soybean production is estimated at 12 million tons based on a planted area of 6.75MHa, a 1.6 percent drop from the estimated production in the previous year. In late August, the Heilongjiang Provincial Agriculture Commission reported that the province's soybean planted area recovered for the first time since 2009. The recovery is stated to be in response to a government policy announced before the sowing season to subsidize soybean farmers based on a newly established target price initially set at RMB4,800/ton. The implementation details of the target price policy are expected to be published in the near future. Industry insiders expected the subsidy "based on area and production" will be paid to soybean farmers in May 2015. In its October report, the China National Grain and Oils Information Center (CNGOIC) maintained its soybean production estimate at 11.5 million tons.

Currently, soybean harvest has almost ended in major soybean-producing regions in the Northeast Provinces. The marketing (farm-gate) price ranges from RMB4,000 to 4,200 per metric tons.

Soybean yield is reportedly higher than the previous estimate. The soybean quality is rated as good due to adequate sunshine and moisture during the growing period. However, industry leaders in the Northeast Provinces note that even with the new target price, soybean profits continues to be lower than rice and corn.

Rapeseed production is forecast at 14.1 million tons, unchanged from Post's September data, but lower than USDA's October forecast at 14.7 million tons. CNGOIC's October report estimates forecast MY14/15 rapeseed production at 14.5 million tons, unchanged from its September data. According to the State Grain Administration, as of September 30, the purchase of MY14/15 summer rapeseed ended with total purchase for state reserves at 3.49 million tons, significantly lower from 6.16 million tons from last year. Although the government's stricter purchase policy might reduce the volume of state reserves, this decline indicates a smaller production than the official estimate.

Similar to soybeans, a "direct subsidy to rapeseed farmers" policy is likely to be implemented in 2015. This policy, if implemented, is expected to encourage rapeseed planting and have a positive impact on rapeseed planting area in the future. That said, as rapeseed planting uses winter idle land, this policy is not expected to have an impact on other crops.

Post's Peanut production is forecast to fall to 16 million tons for MY14/15, unchanged from September data which was adjusted down by 1 million tons from the previous report. The serious drought in leading peanut-producing provinces including Henan, Shandong and Liaoning reduced

peanut yield, while the low price in late MY13/14 lowered farmer's returns and also resulted in a reduced planted area.

CNGOIC's October report forecast MY14/15 peanut production at 16.5 million tons based on a planted area of 4.5 MHa, and an unchanged yield from the previous year. However, most Chinese industry sources believe that the fall in planting area is actually higher than the official estimate and that the peanut yield in major producing provinces was seriously impacted by drought during the months of July-August.

Cotton seed production for MY14/15 is 11.3 million tons, down 1.48 million tons from 12.78 million tons in the previous year, due to expectations of a lower cotton planted area. In late October, a leading Chinese cotton industry source raised its MY14/15 cotton production to 6.6 million tons slightly higher than post's forecast of 6.5 million tons. Regardless, additional impact on oilseed supply remains limited.

Sales of soybean reserves ended to support MY14/15 crop

The government's sale of soybean reserves ended at the end of September to support the marketing of MY14/15 new crop, and prevent downward pressure on prices as the new crop supplies enter the market. CNGOIC reported through the government sold 2.48 million tons of soybean reserve from May to September 2014. Out of the total sold, approximately 1 million tons are from the 2010 crop, and 1.49 million tons are from the 2011 crop. These soybeans are mainly for food use.

Soybean meal use increasing despite estimates indicating total feed production to fall in 2014

MY14/15 soybean crushing consumption is forecast at 73 million tons, up from the estimated 68.5 million tons in MY13/14. An expected growth in soybean meal use and continued growth in demand for oil continues to stimulate the large crushing sector. In addition, surplus soybean meal is also being exported to neighboring markets.

China Feed Industry Association estimated total feed production at 83 million tons in the first half of 2014, down 3 percent compared to the same time in 2013. Low and negative profit for swine farming since late 2013 remains a major factor slowing down feed demand. While, feed production maintained its weak recovery in the third quarter of 2014, industry sources expect only moderate growth in the fourth quarter. Thus, total feed production is likely to fall from the previous year.

However, the soybean meal inclusion rate in rations is increasing as more large scale farms come on line using modern feeding practices. In late MY13/14, lower wheat production reduced the inclusion of wheat in feed formula. This also boosted soybean meal use as farmers sought to augment the feed's protein content in the absence of wheat. The current larger global supplies and lower world prices will encourage Chinese feed mills to continue using soybean meal. Moreover, China's restriction on imports of U.S. DDGS imposed since late July is expected to cut DDGS imports significantly and thus encourage more soybean meal use.

China's GDP growth reached 7.4 percent in the first three quarters of 2014. China's National Statistics Bureau (NSB) reported that total meat production stood at 59.75 million tons, up 2 percent over the previous year. Pork production reached 39.72 million tons, up 3.3 percent over the previous year. However, industry sources believe that the growth in consumption of livestock products leveled off in 2014. A slowing economy and lingering concerns over food safety and animal disease may be causing Chinese consumers to consume less livestock products. In addition, the recent Chinese government's restriction on public spending to participate in

conferences and banquets has further reduced demand. Live hog prices continued sliding even during the mid-autumn and national day holidays. The average price in mid-October was about RMB14/Kg, down 4.2 percent from July. Due to a declining corn price, the price ratio between pork and grain in mid-October stood at about 6 to 1, still lingering below the breakeven-point for the past seven months. However, most industry insiders expect pork prices to recover and profit for swine farming to be positive in the fourth quarter. Prices for eggs, beef and milk also remained bearish in the 3rd quarter.

Animal farming faces stricter environmental threshold

Chinese industry sources report that the government raised environmental threshold for animal farming in the middle of 2014. This resulted in the closure of many swine farms in Jiangxi, Guangdong and Zhejiang Provinces in locations the government considers not appropriate for animal farming. For example, in Jiangxi province pig and poultry inventory fell by more than 1 million head. Nonetheless, the impact on feed demand is expected to be short-lived as the lost production capacity will likely be restored soon in other locations.

Trade

-MY14/15 soybean imports forecast to hit 73 million tons

Post estimates China's soybean imports for MY13/14 at 70 million tons, up from the 69 million tons in the previous report, and forecasts MY14/15 imports to reach a record 73 million tons. The MY13/14 imports are 10 million tons higher than MY12/13. The rapid import growth in MY13/14 reflects a continuing growth in the use of protein meal. In addition, good crushing margins in the first months of 2014, and excess crushing capacity led to more soybean imports in the second half of 2014. China's soybean crushing capacity continues to expand and is estimated to reach more than 140 million tons per year by the end of 2014. Utilization rate stands at less than 50 percent. Additionally, industry sources report that increases in the Chinese feed sector's use of extruded whole soybean meal also contribute to greater soybean imports. MY14/15 soybean imports are generally expected to maintain a normal growth rate as MY13/14 ending stocks remain relatively high. Demand for soybean products is expected to continue at an average growth rate. China's industry sources also raised their forecast for MY14/15 soybean imports ranging from 74 to 79 million tons.

In July 2014, the Ministry of Agriculture issued notices of a "temporary non-approval" for two soybean varieties citing low public acceptance and insufficient approvals in third markets. This is the first time the Ministry of Agriculture has cited purely non-scientific reasons for refusing to approve a biotech variety. However, this decision does not affect already approved events.

-Soybean meal exports rebounded in MY13/14

Given an excessive supply of soybean meal in the domestic market, China increased soybean meal exports in MY13/14. These exports are expected to reach 2.2 million tons, up 66 percent from the previous year. This trend is likely to continue in MY14/15. The current low-priced imported soybeans will likely stimulate China's crushing sector to increase utilization of its large crushing capacity and to meet the protein meal demands of neighboring markets.

-Rapeseed imports expected to be strong

Rapeseed imports are expected to be strong in MY13/14 as domestic rapeseed production remains lower than officially reported, and demand for lower-priced rapeseed continues. MY13/14 rapeseed imports are estimated at 4.3 million tons and are expected to stay strong in MY14/15.

Peanut trade

A lower MY14/15 peanut production forecast will likely have limited impact on the general oilseed situation. However, imports of peanut oil could increase as the use of peanut oil continues to grow with other oil consumption. Export prices for other peanut products will likely stay strong. Peanut imports into China are restricted by a high import duty.

Note: Exchange rate: \$1=RMB6.2

PSD

Oilseed, Soybean China	2012/2013		2013/2014		2014/2015	
	Market Year Begin: Oct 2012		Market Year Begin: Oct 2013		Market Year Begin: May 2014	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	8,000	7,172	7,700	6,850	7,700	6,750
Area Harvested	7,172	7,172	6,850	6,850	6,700	6,750
Beginning Stocks	15,909	15,909	12,378	12,378	13,238	14,478
Production	13,050	13,050	12,200	12,200	11,800	12,000
MY Imports	59,865	59,865	69,000	70,000	74,000	73,000
MY Imp. from U.S.	22,072	22,072	27,500	27,500	27,000	27,500
MY Imp. from EU	0	0	0	0	0	0
Total Supply	88,824	88,824	93,578	94,578	99,038	99,478
MY Exports	266	266	240	250	300	280
MY Exp. to EU	10	10	10	15	10	10
Crush	64,950	64,950	68,750	68,500	73,500	73,000
Food Use Dom. Cons.	9,450	9,450	9,600	9,550	9,700	9,650
Feed Waste Dom. Cons.	1,780	1,780	1,750	1,800	1,700	1,800
Total Dom. Cons.	76,180	76,180	80,100	79,850	84,900	84,450
Ending Stocks	12,378	12,378	13,238	14,478	13,838	14,748
Total Distribution	88,824	88,824	93,578	94,578	99,038	99,478
1000 HA, 1000 MT						

Oilseed, Rapeseed China	2012/2013		2013/2014		2014/2015	
	Market Year Begin: Oct 2012		Market Year Begin: Oct 2013		Market Year Begin: May 2014	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	0	7,432	0	7,510	0	7,510
Area Harvested	7,432	7,432	7,519	7,510	7,500	7,510
Beginning Stocks	804	804	632	632	790	290
Production	14,007	14,007	14,458	14,458	14,700	14,100
MY Imports	3,421	3,421	4,700	4,300	3,200	4,000
MY Imp. from U.S.	0	0	0	0	0	0
MY Imp. from EU	0	0	0	0	0	0
Total Supply	18,232	18,232	19,790	19,390	18,690	18,390
MY Exports	0	0	0	0	0	0
MY Exp. to EU	0	0	0	0	0	0
Crush	17,000	17,000	18,400	18,500	17,350	17,500
Food Use Dom. Cons.	0	0	0	0	0	0
Feed Waste Dom. Cons.	600	600	600	600	600	600
Total Dom. Cons.	17,600	17,600	19,000	19,100	17,950	18,100
Ending Stocks	632	632	790	290	740	290
Total Distribution	18,232	18,232	19,790	19,390	18,690	18,390

1000 HA, 1000 MT

Oilseed, Peanut China	2012/2013		2013/2014		2014/2015	
	Market Year Begin: Oct 2012		Market Year Begin: Oct 2013		Market Year Begin: May 2014	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	4,750	4,750	4,750	4,710	4,850	4,710
Area Harvested	4,639	4,750	4,710	4,710	4,700	4,680
Beginning Stocks	0	0	0	0	0	0
Production	16,692	16,692	16,972	16,972	16,500	16,000
MY Imports	27	27	15	15	100	80
MY Imp. from U.S.	0	0	0	0	0	0

MY Imp. from EU	0	0	0	0	0	0
Total Supply	16,719	16,719	16,987	16,987	16,600	16,080
MY Exports	516	516	550	600	400	450
MY Exp. to EU	200	200	200	200	200	200
Crush	8,585	8,603	8,710	8,600	8,700	8,080
Food Use Dom. Cons.	6,494	6,600	6,630	6,670	6,500	6,500
Feed Waste Dom. Cons.	1,124	1,000	1,097	1,117	1,000	1,050
Total Dom. Cons.	16,203	16,203	16,437	16,387	16,200	15,630
Ending Stocks	0	0	0	0	0	0
Total Distribution	16,719	16,719	16,987	16,987	16,600	16,080
1000 HA, 1000 MT						