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China - Peoples Republic of

Grain and Feed Update

China's Corn Processors Run on Fumes

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Report Highlights:
Winter conditions have caused historic snowfall and record-low temperatures across East China. Winter wheat remains in dormancy. The National Development and Reform Commission (NDRC) announced in September 2017 that the TRQ for corn, rice, and wheat is unchanged. The MY2017/18 PSD tables for corn and sorghum reflect tight market conditions due government demand creation programs. The MY2017/18 corn consumption estimate is raised to 242.0 million tons, up 2.0 million tons from USDA's January estimate on higher-than-expected FSI use and poor corn quality in the North China Plain. Additionally, PSD tables for wheat and rice are updated due to Belt and Road-related government deals, an uptick in food assistance, and post-harvest loss.

Post:
Beijing

Executive Summary

In October 2017, wet harvest conditions in the North China Plain and Yangtze River Delta Region damaged some maturing summer grains, delayed field work, and disrupted transport, resulting in higher levels of moisture, mold, and diminished grain quality. Weeks later, unseasonably warm weather in November and December caused some post-harvest loss.

In January 2018, meteorological reports note that 2017/18 may be the coldest winter in the past decade. Winter conditions have caused historic snowfall and record-low temperatures across East China. In Henan, Hubei, Anhui, Jiangsu, and Shandong provinces, daily low temperatures dipped to 9 to 17°F (-8 to -13°C), potentially damaging winter crop development. Frigid temperatures have led to natural gas shortages, causing urea and synthetic ammonia prices to spike 8 percent over the past month, shutting down fertilizer manufacturers. Additionally, weather and demand-driven rail congestion have idled thermal coal deliveries, delaying grain and chemical shipments.

MY2017/18 corn production is estimated at 215.9 million tons, unchanged from USDA's January estimate. The MY2017/18 corn consumption estimate are raised to 242.0 million tons, up 2.0 million tons from USDA's January estimate on higher-than-expected FSI use and poor corn quality in the North China Plain. The National Development and Reform Commission (NDRC) announced in September 2017 that the TRQ for corn remains unchanged at 7.2 million tons. As recently as 6 months ago, there was widespread industry consensus that China's state inventory liquidation program would take two to three years to return to "normal" levels. Today, industry sources report that there is no consensus about the timeline for a reduction of China's massive corn stocks to "normal" levels as estimates vary widely from 18 months to 7 years.

MY2017/18 wheat production is unchanged from USDA's January estimate at 130.0 million tons. MY2017/18 wheat consumption estimate is raised to 117.0 million tons, up 1.0 million tons from USDA's January estimate on higher-than-expected feed and FSI use. MY2017/18 imports are raised to 4.0 million, unchanged from the USDA January estimate, and up 500,000 tons from Post's September forecast on strong import demand. Post estimates MY2017/18 wheat exports at 1.0 million tons, up 200,000 tons from USDA's January estimate on rising food assistance shipments.

MY2017/18 rice production is unchanged from USDA's January estimate at 146.0 million tons. China's rice producers face falling prices, pollution impacts, and low yields. China's rice consumption continues a downward long-term trend. MY2017/18 consumption is estimated at 142.5 million tons, unchanged from USDA's January estimate. MY2017/18 rice imports are estimated at 5.4 million tons, up 150,000 tons from USDA's January estimate. MY2017/18 rice exports are estimated at 1.3 million tons unchanged from USDA's January estimate, but 500,000 tons higher than Post's September estimate on more food aid deliveries. Rice exports have reached their highest pace since MY2004/05. MY2017/18 rice stocks are estimated at 94.2 million tons on rising imports.

MY2017/18 sorghum production remains unchanged from USDA's January estimate at 3.85 million tons. MY2017/18 consumption is unchanged from USDA's January estimate at 10.2 million tons.

Policy

China’s Top Legislative Body will Consider Land Rights Reform

In November 2017, state media reported that the Standing Committee of the National People's Congress is considering reforms to China’s rural land contract laws. In the face of rapid urbanization and increasing demands to transfer rural land-use rights, the draft revision separates ownership rights and rural land rights to contract or manage property. The reforms have two elements. First, the reforms extend current land contract rights for an additional 30 years upon the expiration of current contracts. Second, the reforms allow farmers to retain contract rights over their land allotments and transfer management rights only if they choose to lease the land to others, mortgage it to banks, or exchange their land rights for shares of a cooperative. This move will address both rural cooperatives and large agricultural firms that aim to expand intensive agricultural development and consolidate rural tracts land to achieve economies of scale, and adopt new technology.

Fewer “Grower Subsidies” for Corn than Soy Distributed

Major corn producing provinces in North East China have cut subsidies for corn production; meanwhile, subsidy payments for soybean production have risen to incentivize growers to switch production from corn to other crops like soy.

Grower Subsidy Payments				
Province	**2016/17**		**2017/18**	
Crop	**Corn**	**Soybeans**	**Corn**	**Soybeans**
Heilongjiang	$350 per hectare (153.92 per mu)	$275 per hectare (119 per mu)	$303 per hectare (133.46 per mu)	$394 per hectare (173.46 per mu)
Jilin --Dunhua	N/A	N/A	$221 per hectare (97.18 per mu)	$376 per hectare (165.58 per mu)
Liaoning -- Huludao	N/A	N/A	$356 per hectare (157 per mu)	$470 per hectare (207 per mu)

MY2017/18 is the first year that China has allocated a "grower subsidy" for soybean farmers. The program was announced in late March 2017 as a market-oriented payment which links the soybean price in addition to a direct subsidy to soybean farmers. The policy abandons a three-year "target price" subsidy for soybeans.

Crop Rotation and Land Fallow Subsidy Distributed

In October 2017, Ministry of Agriculture (MOA) distributed a $393.9 million (2.6 billion RMB) subsidy to promote land rotation and fallowing farm practices shortly after the conclusion of a pilot program in MY2016/17. A total of 800,000 hectares (12 million mu) is eligible under the program.

Land Rotation Program Payments by Production Practice			
Province/Region	Area	Payment	Practice
Liaoning, Jilin, Heilongjiang, and Inner-Mongolia	670,000 hectares (10.0 million mu)	$346.00 per hectare (150 RMB per mu)	Rotation
Hebei	29,850 hectares (2.0 million mu)	$395 per hectare (171.0 RMB per mu)	Fallow
Gansu		$1,845 per hectare (800 RMB per mu)	Fallow (One Season per year)
Guizhou and Yunnan		$2,308 per hectare (1000 RMB per mu)	Fallow (Two Seasons per year)
Hunan		$3,000 per hectare (1300 RMB per mu)	Heavy Metal Remediation

In North East China, farmers have limited planting options other than corn and wheat due to weather and soil dependent factors. Therefore, planting decisions are heavily reliant on government policy programs. They are likely to switch summer corn production to soybeans, pulses, sorghum, millet, peanuts, sunflower, potatoes, or rice. Winter alternative crops to wheat production include barley, oats, and rye.

In the North China Plain, growers have more options and are likely to switch summer corn production to rapeseed, spring wheat, or rice.

Minimum Support Price (MSP) for Wheat and Rice Continues, Wheat Payments Drop

On October 25, 2017, NDRC announced that China will continue the Minimum Support Price (MSP) in China's major wheat producing regions in 2018. The NDRC also committed to reform the MSP into a market-driven and flexible program with price reforms that are progressive and specific to ensure "absolute security for staple grains." China aims to reform its temporary reserve programs for rice and wheat, as well as find a path towards relieving its large government outlays to manage the world's largest stores of corn, wheat, and rice.

The State Administration of Grain (SAG) sets the seasonal floor price and directs state-owned enterprises, processors, and banks to achieve internal target volumes and prices for procurement from the farm-level. In October 2017, the NDRC lowered the 2018 MSP for wheat (Class 3) to $354 per ton (2,300 RMB), down by $9.20 per ton (60 RMB) from MY2016/17. This is the first policy revision for wheat since the program was launched in 2004.

NDRC reported that the State Council established a lower MSP for wheat considering overall grain production cost, domestic and international market prices, and industry development.
Industry contacts report that the change is expected to have minimal impact on planting decisions as many analysts expected a reduction in government support prices. The MSP supports common wheat prices and does not directly influence pricing in other wheat classes. Government researchers, academics, and influential party members have long called for an elimination of the MSP for rice and wheat as part of ongoing structural reform efforts.

On January 23, 2018, the NDRC announced the MY2018/19 MSP for wheat and rice with no changes from the previous marketing year.

The Pace of Corn Processing Investment and Expansion Quickens

As previously reported, China's temporary reserve program and MSP for corn was eliminated in 2016 and followed by the implementation of a bevy of corn demand creation policies. Despite announcements about program success, government officials note that the overall transition for domestic support programs will take time. Government interventions continue to target internal quotas for state inventories as well as target prices to achieve goals for farm income.

From 2014 to 2017, North East China provinces including Heilongjiang, Jilin, Liaoning, and Inner Mongolia encouraged industrial processors to purchase local corn and process it through a program of incentives, including state auctions, subsidized sales of state stocks, loan guarantees, and transportation subsidies. The program has far exceeded policy-maker expectations. Corn prices have soared 18 percent from historic lows in MY2016/17 and investments continue to expand capacity.

In April 2017, China did not renew central government support for the deep corn processing program. Final support payments concluded in June 2017. At the time of this writing, a new program for MY2017/18 has not been announced. Industry sources report that the central government "primed the pump" to facilitate the development of corn starch, sweetener, and ethanol production. Government officials have tried to temper market exuberance with statements that end users and commercial traders "should not blindly expand operations…and expect rising imports."

In late September 2017, Heilongjiang province published the "Guidelines for a Deep Processing Industry Development," encouraging investors to build large-scale corn processing plants to produce industrial corn by-products other than lysine and corn starch, such as fuel ethanol, medical-grade alcohol, and bio-degradable materials.

Industry sources report that Heilongjiang province currently has about 10.0 million tons of corn processing capacity. Within the next three years, Heilongjiang province is expected to more than double annual capacity. China's central planners have already finalized a slate of approved corn processing operations scheduled to break ground in 2018. Overall, North East China is expected to complete 22 additional corn processing facilities by 2020. China's corn processing capacity expansion is limited by weather and environmental permitting requirements.

MOA Champions Integrated and Large-Scale Agribusiness Industries

In October 2017, six agencies led by MOA released the "Guiding Opinions for Promoting the Development of Agricultural Business Consortia." The document outlines the framework of a new type of agribusiness entity which is defined as "corporation + agricultural cooperative + family farm," resembling the vertical integration of assets of multinational trading companies. China has implemented supporting measures, including a comprehensive government agricultural development fund, dedicated banking and insurance services, and other agribusiness development financial instruments. Eligible projects are also subject to priority review and approval for land use applications and local permitting.

In October 2017, the Ministry of Finance and the State Administration of Grain announced that they will allocate $756 million (5.0 billion RMB) to support a new project focused on "high quality grain." The goal is to raise the grading standard of grain and oilseeds produced in China's major grain producing counties rated as "high quality" to greater than 30 percent. The measure also establishes a number of high quality grain standards. The fund will facilitate development of post-harvest handling, distribution, and marketing networks.

Ethanol Production Capacity Expands

China has broken ground on two new ethanol projects, expanding national ethanol production capacity by 25 to 33 percent by 2020. China's State Development & Investment Corporation (SDIC) is constructing an ethanol plant in Tieling, Liaoning province with a name-plate capacity of 300,000 tons, which will begin production by the end of 2018. The Tieling project is expected to consume 990,000 tons of corn per year. COFCO announced an ethanol project in Changchun, Jilin province with three stages and an annual production capacity of 600,000 tons of fuel ethanol, 50,000 tons of cellulosic ethanol, 600,000 tons of organic acid, and 150,000 tons of polylactic acid, consuming about 3.0 million tons of corn each year by 2020.

SDIC also plans to construct as many as 7 ethanol plants, including a plant in Huludao, Liaoning province with an annual capacity 5.1 to 6.3 billion liters (4.0 to 5.0 million tons) beginning production in the next three to five years. The Huludao project is expected to consume 13 to 17 million tons of corn per year.

China's major cities and provinces continue to move towards compliance with a national E10 blending mandate scheduled for implementation in 2020. On December 8, 2017 Tianjin announced a municipal E10 fuel blending mandate effective from October 1, 2018. Starting from January 1, 2020, Shandong province will fully adopt an E10 mandate.

Environmental Controls Constrain Grain Processing

Grain and feed processors across China face new stringent emissions controls to meet carbon emissions goals. In December 2017, China launched a national carbon market, or a carbon cap-and-trade system, to meet its commitments as part of the Paris Agreement. The initial phase exclusively applies to power generation. Soon afterwards, the program will extend to other heavy industries, including agricultural processors.

First-tier cities and surrounding regions have already implemented regional programs. At the local and provincial levels, depending on the air quality rating of the surrounding region, some industrial facilities, including feed millers, ethanol plants, and other processors, have been forced to lower throughput or shutdown.

Relocating Pork Production to North East China will have Global Impacts

In August 2017, MOA announced a plan to promote the development of large-scale, concentrated animal feed operations in North East China. The report titled, "Accelerating the Development of Modern Animal Husbandry in the Main Grain Producing Areas of North Eastern China" outlined a program of incentives to facilitate China's largest hog breeders, farrowing, and feeding operations to relocate to the North East China corn belt as well as new market entrants to invest in a growing industry.

China is the world's largest hog producer and pork consumer. At least eight listed companies have announced or confirmed plans to produce around 17.0 million hogs annually in coming years in North East China. Many more companies including the country's biggest pork producer, Wen's Foodstuff Group, as well as major feed millers like Haida, are building farms in North East China. Many hog breeders have established operations in North East China.

The relocation trend for China's hog producers is partly market-driven. Feed millers note that savings for fixed costs like land rents, as well as operating costs for labor, inputs, and efficiency gains will offset capital investments. Rebuilding the industry in North East China will further consolidate the industry and lead to a more vertically integrated approach to feed use, further raising feed efficiency. On the other hand, environmental permitting policies are also driving the industry to relocate. Although the transition will take many years, the effort is expected to disrupt traditional trade flows of meat and grain worldwide.

The transition will cause more separation in the feed market dynamics between North and South China. In North China, hog and poultry producers will become more or less self-sufficient; whereas, aquaculture and dairy producers in South China will depend on global markets.

Direct Purchasing of Grains by Foreign Investment Entities

Direct grain procurement by foreign investment entities (FIEs) at the farm-level is prohibited in most of China, diminishing the ability of foreign shippers to cover and hedge trading positions. Effective January 9, 2018, the State Council announced that U.S. grain traders and other foreign-owned entities will be able to directly market wheat, corn, and rice in Free Trade Zones (FTZs) of major grain producing provinces including: Guangdong, Fujian, Liaoning, Zhejiang, Henan, Hubei, Sichuan, and Shaanxi, as well as major trading centers including Shanghai, Tianjin Municipality, and Chongqing. This measure is not expected to impact China's trading environment for foreign-owned entities, because with the exception of Liaoning province, the areas affected by the measure are located away from major production areas and do not include China's largest corn producing areas in Heilongjiang and Jilin provinces. All other FTZs are oriented towards non-agriculture-related goods.

Subsidies for Grain Transportation and Storage Facilities Announced

In November 2017, NDRC announced that special funds will be allocated to fund infrastructure projects that will upgrade or build capacity for grain loading and handling facilities at ports and terminals along China's main transportation corridors, including highways, rail, and major waterways. State planners envision dedicated industrial parks with facilities for grain storage, processing, trading, and quality inspection. Currently, China's grain industry has relatively concentrated commercial storage and handling capacity. For example, grain storage facilities are primarily located in major grain producing regions or state-owned reserves for emergency management, or at the point of discharge for major ports.

North East Provinces Avoid Traffic Headaches

MY2017/18 grain deliveries are not expected to face the transportation issues that caused bottlenecks in MY2016/17. In late November 2017, Heilongjiang announced that from December 20, 2017 to April 30, 2018 trucks carrying corn would face lower highway toll fees. Jilin province also relaxed trucking rules in an effort to ease traffic congestion and transportation costs.

Separately, China's state railroad authority has consolidated their hopper car fleets into dedicated railyards and hubs. This effort partly caused delays to move grain in MY2016/17, but will prevent future delays.

"One Belt, One Road"

Under the auspices of China's Belt and Road Initiative infrastructure project, corn, wheat, and minor grains are flowing in limited volumes from Central Asian and European trading partners such as Kazakhstan, Ukraine, and Russia. Much of the trade is handled as break bulk shipments of bagged grain, facing transportation and handling infrastructure constraints.

Additionally, rail shipments from Belt and Road trading partners face higher risks for buyers and shippers due to the absence of contract dispute settlement mechanisms such as maritime law and insurance available through normal ocean freight trade routes. China's leadership has established a working group to address legal challenges to commercial disputes related to the Belt and Road Initiative.

China's President Xi has pledged that from 2017 to 2020, China would provide a total of $308 million (2.0 billion RMB) of food assistance to its partners in the Belt and Road region. Many Belt and Road initiative projects, which have been signed through Memorandums Of Understandings (MOUs) and other commitments, have been delayed, downsized, or cancelled, due to uncertainty by Belt and Road trading partners that the projects are "win-win."

2018 Import TRQs for Grains Largely Unchanged

In October 2017, the NDRC announced the 2018 tariff-rate quota (TRQ) for grain imports.

China's 2018 Tariff Rate Quota Policies for Grains					
Commodity	TRQ Volume (MT)	Private Allocation	State-Owned Enterprise	In-Quota Duty	Out-of-Quota

			Allocation		Duty
Corn	7,200,000	40%	60%	1%	65%
Wheat	9,636,000	10%	90%	1%	65%
Long Grain Rice	2,660,000	50%	50%	1%	65%
Medium-Short Grain Rice	2,660,000	50%	50%	1%	65%

Source: NDRC

On January 23, 2018, private allocations of the TRQ were announced to private traders and are unchanged from 2017.

Value Added Taxes (VAT) on Imported Agricultural Products Down to 11 percent

China assesses a VAT on the sales value of imported and domestic grain inconsistently. On December 1, 2017, China's Ministry of Finance announced that the VAT assessed on imported grains and fodders, which have been minimally processed as principal products, would be lowered to 11 percent, down from 13 percent. Imports of animal feeds, chemical fertilizers, pesticides, agricultural machinery, and agricultural plastic sheeting will also be subject to an 11 percent VAT.

The State Council announced a decision to terminate China's Provisional Business Tax Regulations and revise provisional VAT regulations with immediate effect. The general VAT rate applied to imported corn, wheat, or rice products, which have been processed, remains 17 percent.

Since 1995, depending on prevailing market prices, the VAT has been removed and reinstated several times, through a rebate or exemption. At the time of this writing, industry sources report that domestic producers are favorably exempt from the VAT on minimally processed, principal products, and processed products.

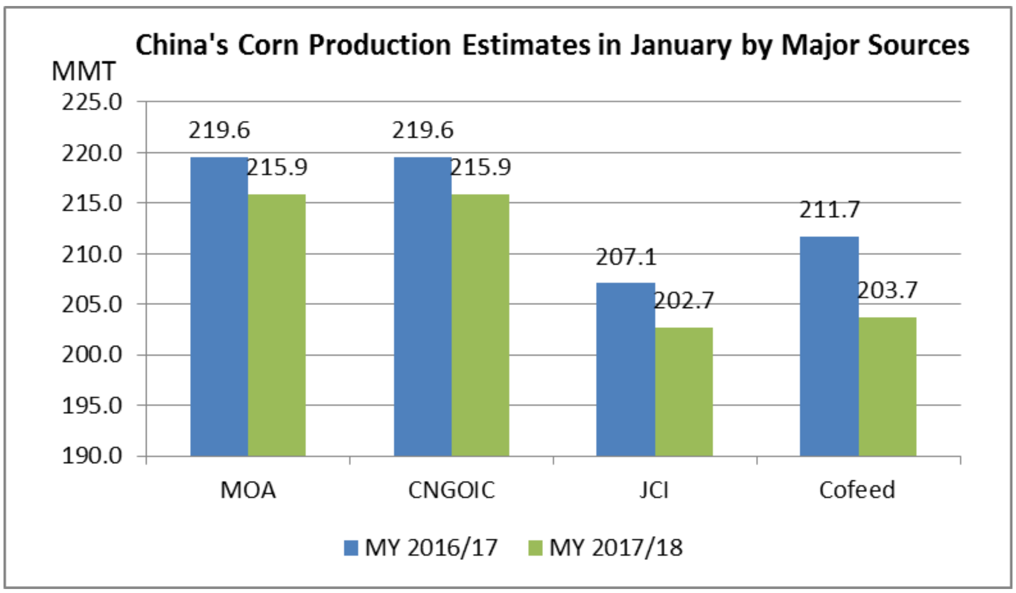
Corn

Corn	2015/2016		2016/2017		2017/2018	
Market Begin Year	Oct 2015		Oct 2016		Oct 2017	
China	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	38119	38119	36768	36768	35445	35445
Beginning Stocks	100472	100472	110774	110774	100713	100713
Production	224632	224632	219552	219552	215891	215891
MY Imports	3174	3174	2464	2464	3000	3500
TY Imports	3174	3174	2464	2464	3000	3500
TY Imp. from U.S.	321	321	809	809	0	0

Total Supply	328278	328278	332790	332790	319604	320104
MY Exports	4	4	77	77	50	50
TY Exports	4	4	77	77	50	50
Feed and Residual	153500	153500	162000	162000	166000	166000
FSI Consumption	64000	64000	70000	70000	74000	76000
Total Consumption	217500	217500	232000	232000	240000	242000
Ending Stocks	110774	110774	100713	100713	79554	78054
Total Distribution	328278	328278	332790	332790	319604	320104
Yield	5.8929	5.8929	5.9713	5.9713	6.0909	6.0909
(1000 HA) ,(1000 MT) ,(MT/HA)						

Production

MY2017/18 corn production is estimated at 215.9 million tons, unchanged from USDA's January estimate.

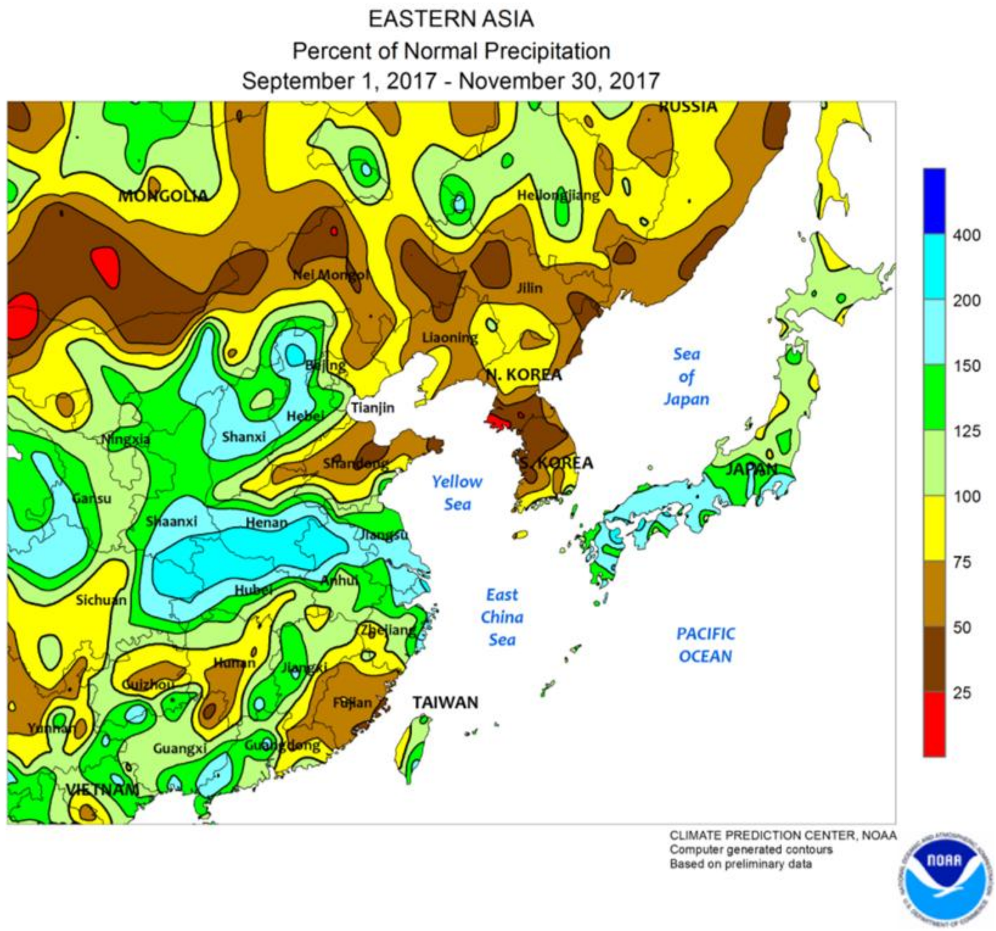


Source: MOA, CNGOIC, China JCI, and Cofeed

China's National Bureau of Statistics (NBS) estimate that MY2017/18 corn planted area was 35.5 million hectares (532.0 million mu), down 1.32 million hectares (19.8 million mu) or 3.6 percent from MY2016/17. The NBS corn production estimate was 215.9 million tons.

China completed the MY2017/18 corn harvest in late November 2017. MY2017/18 corn yields were average overall. Heilongjiang province reportedly achieved record corn yields in MY2017/18 and record corn quality. Reportedly, nearly 70 percent of the province's corn stocks in December 2017 were rated above Grade 2. According to the SAG, Grade 2 corn is rated higher than Grade 3 corn, which is average quality in China. In a normal year, typical North East corn test weights average around 670 to 680 grams per liter. In Jilin, Inner Mongolia, and Liaoning provinces, dry weather resulted in average corn quality.

In contrast, corn from the North China Plain and the Yangtze River Basin in MY2017/18 suffered from rains, which lowered crop quality before harvest, resulting in average test weights, a high incidence of mold, and excessive moisture. Typically, corn is harvested at relatively higher moisture, dried to the national level, and then stored. Chinese farmers in North East China harvest corn at 30 percent moisture. In the North China Plain, growers harvest corn when it reaches 20 percent moisture. The national standard is 14 percent moisture. In Henan and Hebei provinces, industry sources reported moisture content at harvest as high as 35 percent.



MY2016/17 corn production is estimated at 219.6 million tons, unchanged from USDA's January estimate.

Consumption

MY2017/18 consumption estimate is raised to 242.0 million tons, up 2.0 million tons from USDA's January estimate on higher-than-expected FSI use.

MY2017/18 FSI use is raised to 76.0 million tons, up 2.0 million tons from USDA's January estimate on policy and weather-driven developments.

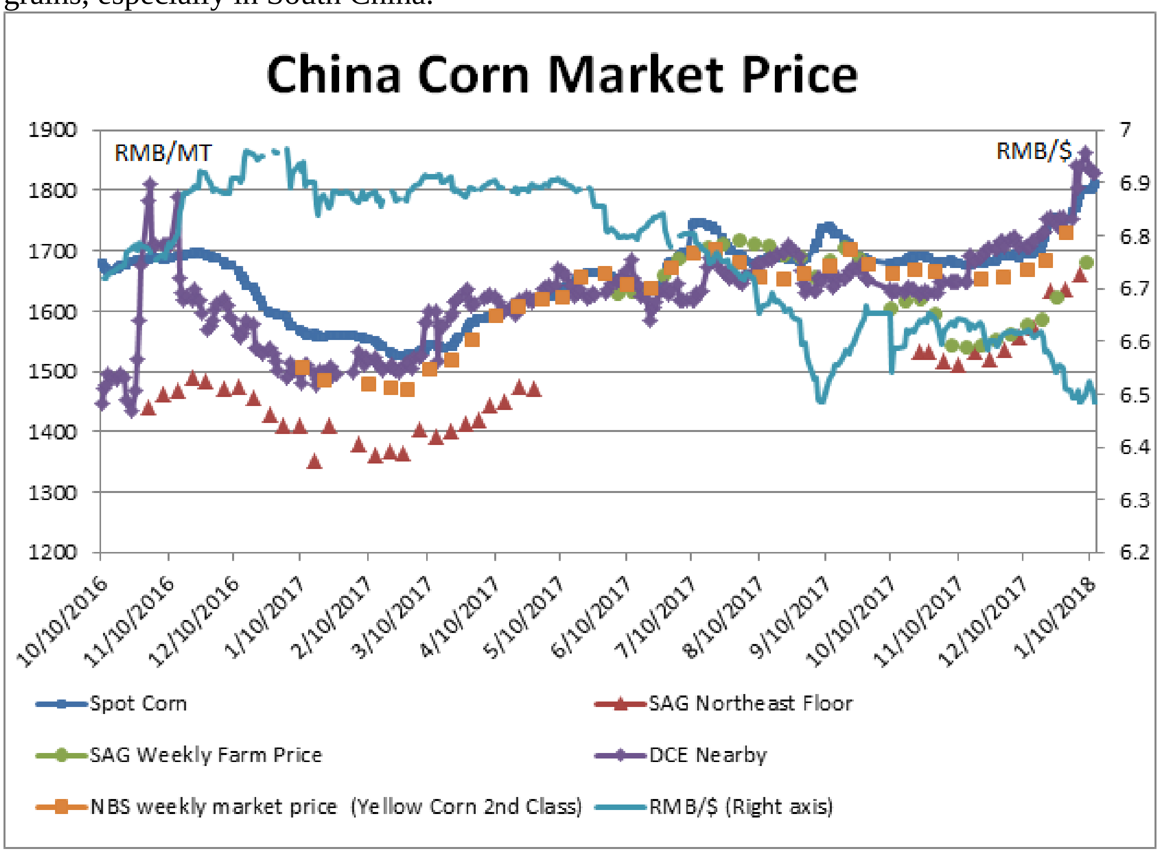
On September 13, 2017, a joint announcement by more than a dozen Chinese ministries publicized "The Implementation Plan for the Expansion of Ethanol Production and Promotion for Transportation Fuel."

China will target a national blending mandate of 10 percent ethanol (E10) in national transportation fuel stocks by 2020. By 2025, the plan calls a shift from conventional renewable fuel production to commercial-scale cellulosic fuel production.

Over the next two to three years, China's state-owned inventories are estimated to cover corn processing needs. As long as plentiful supplies of corn are available, and operating margins remain above breakeven levels, processors will continue to churn through state-owned corn stocks. Despite the lapse in consumption support payments, corn by-products continue to flood local markets and nearby export markets. Over the past year, corn starch and sweeteners prices have fallen by nearly 20 percent. As stocks rise, China is looking for new channels to dispose of corn by-products.

Without an official announcement on the deep processing subsidy in November 2017, there has been some pull-back in efforts to expand storage capacity over the past three months. Industry sources expect that with rising corn prices, policy makers will not renew the deep corn processing program or will halve payments to dampen price spikes.

After slumping in November 2017 following the harvest season, corn spot and futures prices have soared to their highest levels in two years. The jump in prices reflects market tightness for quality feed grains, especially in South China.



Sources: FAS contacts; Dalian Commodity Exchange; SAG; Pacific Exchange Rate Service; and NBS.
Note: SAG began publishing weekly corn farm procurement prices in June 5, 2017.

A significant share of MY2017/18 corn volumes from the North China Plain and Yangtze River Basin will be processed into ethanol due to mold damage. North East China corn supplies are in high demand to supply nearby processors as well as feed markets in South China.

The MY2017/18 feed use estimate is unchanged from USDA's January estimate at 166.0 million tons. The absolute rate of growth in the animal population offsets marginal gains in feed efficiency and the addition of higher rates of forage and silage products into animal rations.

MY2016/17 consumption estimate are raised to 232.0 million tons, unchanged from USDA's January estimate.

Trade

Imports

MY2017/18 corn imports are estimated at 3.5 million tons, up 500,000 tons from USDA's January estimate on competitive global prices and strong feed demand in South China. Widespread participation in the North East deep corn processing program has diminished surpluses of state-owned corn inventories, spurring import demand.

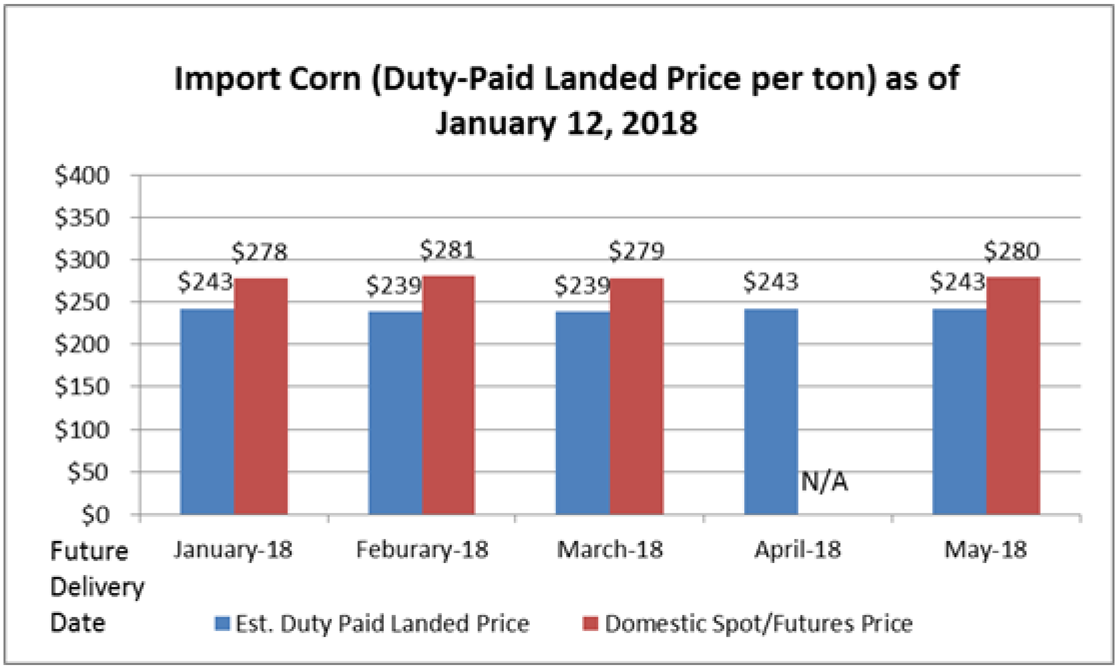
Corn imports from October to December 2017 account for 549,389 tons, a nearly three-fold increase over the same period in MY2016/17. Chinese feed users face tight market conditions, similar to 2013/14 due to policies, growing and harvesting conditions, and competitive global prices.

The 2018 TRQ volume and allocation is unchanged at 7.2 million tons from 2017. The out-of-quota duty for corn remains at 65 percent. Despite the high duty and other onerous barriers, buyers are searching for feed grains far and wide. Competitive prices and prevailing foreign exchange rates have started a flow of consignments from the United States and Ukraine.

In late December 2017, industry sources reported that more than 1.0 million tons of U.S. corn has been booked for shipment to China for expected delivery beginning in March 2018. Of the corn TRQ volume of 2.9 million tons for private allocations, industry sources report that approximately 2.5 million tons is destined for South China.

Sales from Ukraine, the leading corn exporter to China, also continue to expand. Ukraine and China still have terms outstanding from a 2013 loan agreement which included Ukrainian grain exports to China as payment.

Due to strong local demand and logistical bottlenecks, domestic feed grain supplies in North East China are not competitively priced and remain out of position for livestock feed end users in South China. Landed quotes for Dalian corn to South China are reported to be $300 per ton (1,950 RMB). In comparison, landed quotes for U.S. corn to South China (including elevation, insurance, and duties) is reported to be $245 per ton (1,600 RMB).



Source: Cofeed, JCI, and Dalian Commodity Exchange

A rally in mid-January 2018 of local prices has further widened the spread between Dalian prices and global benchmark CME corn prices. A wide price differential between local and third-country supplies should sustain regular buying and arbitrage opportunities in 2017/18.

MY2016/17 imports of dried distiller's grains with solubles (DDGS) are estimated at 743,626 tons, down 82 percent from MY2015/16, due to the imposition of anti-dumping and countervailing duties (AD/CVD) on U.S. DDGS. U.S. DDGS are preferred to local DDGS due to the reliability of U.S. DDGS quality, including color, high protein content, low rates of aflatoxin, and digestibility. Chinese feed millers report that the relative difference in quality between U.S. DDGS and Chinese supplies has narrowed as China's MY2017/18 corn quality was rated at a historically higher than previous marketing years.

In November 14, 2017, China announced to remove the VAT on distillers grains imports effective from December 20, 2017. Traders and analysts note that the removal of the VAT is a step in the right direction. However, China's AD/CVD duties continue to raise the price of U.S. DDGS above a level that the majority of end users are willing to pay.

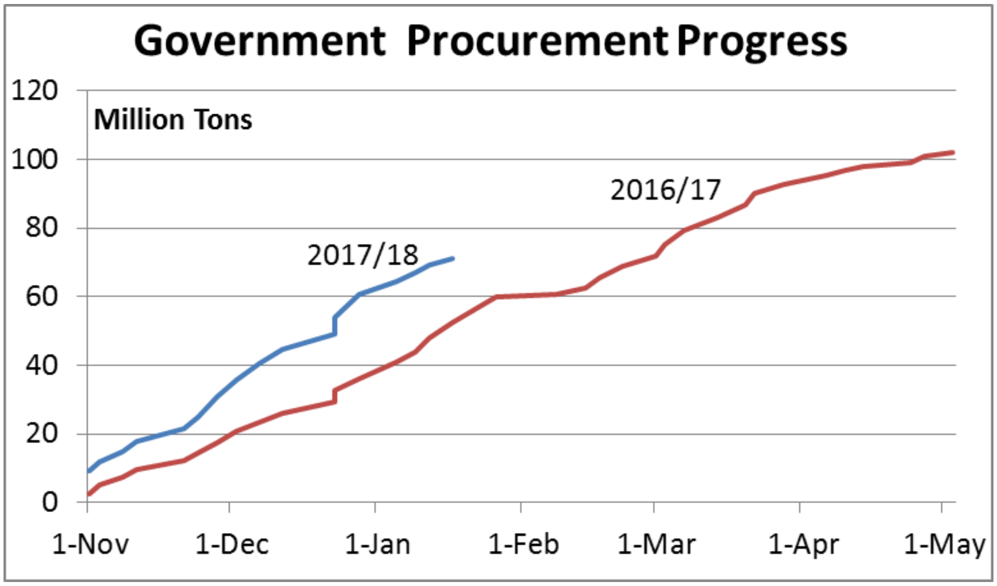
MY2016/17 corn imports are unchanged from USDA's January estimate at 2.5 million tons.

Exports

MY2017/18 corn exports are estimated at 50,000 tons, unchanged from USDA's January estimate. MY2016/17 corn exports are estimated at 77,000 tons, unchanged from USDA's January estimate.

Stocks

MY2017/18 stocks estimate at 78.0 million tons, down 1.0 million tons from USDA's January estimate due to corn demand creation policies.



Source: SinoGrain, China National Grain Portal

According to SAG, from October 1, 2017 until January 10, 2018, Shandong and 11 other major producing areas report procurement of 71.3 million tons of corn, up 14.0 million tons or 24 percent, over the same period in MY2016/17.

Since January 9, 2018, Sinograin started auctioning its inventories, signaling that a drawdown in state inventories will weigh on domestic corn prices. Industry sources report that commercial users, local brokers, and drying operations are seeking to unload excess commercial and pipeline stocks as well.

China's deep corn processing programs that incentivize corn use are primarily aimed at reducing domestic stocks first. An informal survey of grain analysts from all parts of the trade resulted in a wide range of estimates from 18 months to 7 years for the expected duration to liquidate China's excess corn stocks.

Wheat

Wheat	2015/2016		2016/2017		2017/2018	
Market Begin Year	Jul 2015		Jul 2016		Jul 2017	
China	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	24140	24140	24187	24187	24200	24200
Beginning Stocks	76105	76105	97042	97042	111049	111049
Production	130190	130190	128845	128845	130000	130000
MY Imports	3476	3476	4410	4410	4000	4000
TY Imports	3476	3476	4410	4410	4000	4000
TY Imp. from U.S.	613	613	1626	1626	0	0
Total Supply	209771	209771	230297	230297	245049	245049
MY Exports	729	729	748	748	800	1000
TY Exports	729	729	748	748	800	1000
Feed and Residual	10500	10500	16500	16500	13000	13500
FSI Consumption	101500	101500	102000	102000	103000	103500
Total Consumption	112000	112000	118500	118500	116000	117000

Ending Stocks	97042	97042	111049	111049	128249	127049
Total Distribution	209771	209771	230297	230297	245049	245049
Yield	5.3931	5.3931	5.327	5.327	5.3719	5.3719
(1000 HA) ,(1000 MT) ,(MT/HA)						

Production

MY2017/18 wheat production is unchanged from the USDA January estimate of 130.0 million tons.

In North East China, MY2017/18 wheat yield and crop quality is reportedly above average. Industry sources report that MY2017/18 wheat is one of the best wheat harvests in terms of quality in a decade. Test weights range from 750 to 780 grams per liter. Moisture levels remain close to 13 percent. China's NBS reports that high-protein wheat varieties account for nearly 30 percent of MY2017/18 wheat area.

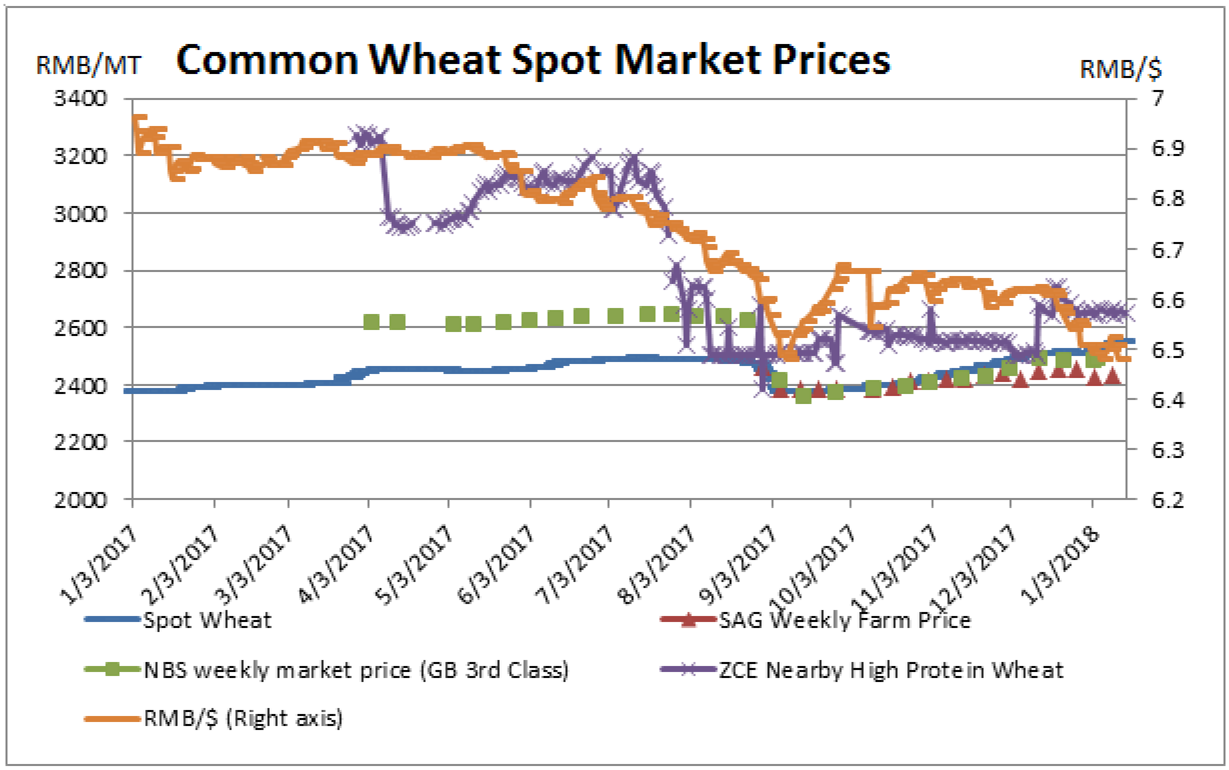
The only exceptions were in Henan and Hubei provinces, which experienced heavy rains before harvest followed by unseasonably warm temperatures after harvest, resulting in widespread incidences of scab and fusarium in the affected regions. In Jiangsu province, there were also scattered reports about heavy disease pressure.

However, the overall share of the crop from this region is small, leading to isolated impacts for the broader China wheat milling market. To provide relief to growers, the SAG lowered wheat procurement standards on wheat deliveries which did not make grade.

Consumption

MY2017/18 wheat consumption is estimated at 117.0 million tons, up 1.0 million tons from USDA's January estimate, and up 2.0 million tons from Post's September forecast on higher FSI and feed use. Wheat marketing in China is highly seasonal. Typically, wheat flour demand peaks in the winter due to Lunar New Year and storage and handling challenges in the summer.

MY2017/18 FSI use is estimated at 103.5 million tons, up 500,000 tons from USDA's January estimate. More than 85 percent of China's wheat is consumed for food, seed, and industrial (FSI) purposes. As incomes have grown in China, general interest in ready-to-eat baked goods and ingredients for home baking has also grown. Ongoing trends include the newly established home baking market, growing quick service restaurant demand, pre-mixed convenience packaging for coating flours and noodles, and continued expansion in major cities for Western style baked goods. In 2018, Western baked products are beginning to penetrate China's second and third-tier cities. Declines in noodle and steam bun demand continue to shift consumption of common wheat lower, transmitting lower prices back to growers.



Sources: Industry Sources, Zhengzhou Commodity Exchange, SAG, Pacific Exchange Rate Service, NBS

Industry sources expect prices to remain strong until next May 2018 just ahead of China's MY2018/19 harvest. China's SAG supported the minimum support price for MY2017/18 wheat through auctions which yielded high prices, ranging between $397 to $400 per ton (2,580 to 2,600 RMB). As local spot prices rose, wheat millers turned to state temporary reserve auctions to replenish commercial stocks. Auction sales of total volumes on offer recovered from seasonal lows from July to September 2017.

Wholesale Wheat Spot Prices in Major Markets (the week of January 5-11)				
Province	Common Wheat		Strong Wheat	
	--RMB per ton--	--$ per ton--	--RMB per ton--	--$ per ton--
Hebei	2,603	400	2,900	446
Shandong	2,585	398	2,780	428
Henan	2,595	399	2,880	443
Jiangsu	2,550	392		
Anhui	2,540	391		

Sources: SCI

MY2017/18 feed use is raised to 13.5 million tons, up 500,000 tons from USDA's January estimate on strong feed demand and lower wheat quality in the North China Plain and Yangtze River Basin.

Trade

Imports

MY2017/18 imports are raised to 4.0 million, unchanged from the USDA January estimate and up 500,000 tons from Post's September forecast on strong demand and relatively competitively priced imports.

China's consumption of high quality and high protein wheat products is increasing, driving imports higher. Over the past five years, CNGOIC estimates that China produced an average of around 128.0 million tons of wheat annually. Of this volume, CNGOIC estimates that high quality wheat accounts for 4.0 million tons of annual production. At this time, China's demand for high quality wheat is nearly 6.0 million tons, outpacing domestic production by about 2.0 million tons.

Competitive prices offset high duties for out-of-quota imports. As of January 11, 2018, U.S. hard red winter wheat landed prices, duty paid to South China were at $335 per ton (2,175 RMB). In comparison, domestic spot prices were at $400 per ton (2,610 RMB), nearly $75 higher than imported quotes. Nearby futures prices ranged from $380 to $400 per ton (2,480 to 2,602 RMB).

From October to December 2017, China imported 1.9 million tons, up 12 percent over the same period last year. Of this amount, industry sources report that approximately 40 percent is U.S. origin. This pace of imports far exceeds the pace in previous marketing years.

Wheat quality imported from One Belt, One Road trading partners varies by supplier. In the best case scenario, industry sources report that Central Asian origins deliver shipments equivalent to U.S. Dark Northern Spring (DNS) wheat. Rail deliveries from Belt and Road partners face significant challenges related to phytosanitary and quarantine issues related to weeds and mold spores as well as transportation bottlenecks.

China's TRQ administration policies are a major barrier to market access for private buyers of imported wheat. The TRQ has little flexibility to change in the future. TRQ allocations have been subject to corruption. After a recent crackdown during the latest anti-corruption campaign, newly appointed officials do not want to endanger themselves by changing existing TRQ allocations.

The NDRC announced in January 2018 that the TRQ for wheat remains unchanged at 9.64 million tons. Of this amount, state owned enterprises are allocated 90 percent of the TRQ, and 10 percent is allocated to private sector importers, such as individual mills. State-owned enterprises tend to purchase lower quality wheat classes, whereas private sector importers tend to use their limited allocations to import the highest valued wheat classes.

Exports

Post estimate MY2017/18 wheat exports at 1.0 million tons, up 200,000 tons from USDA's January estimate on relief shipments to North Korea, Ethiopia, Sri Lanka, and Iran and exports to neighboring nations. From July to December 2017, China exported 493,269 tons of wheat and wheat products, up 27 percent from MY2016/17.

MY2016/17 wheat export estimate remain unchanged.

Stocks

Post estimates MY2017/18 wheat stocks at 127.0 million tons, down 1.2 million tons from USDA's January estimate on higher-than-expected feed use.

SAG procurement from October 1, 2017 to December 2017 is projected as high as 70.0 million tons, resulting in tight domestic supplies of just 50.0 million tons for domestic use.

China's temporary reserve program is the primary driver for China's exceptionally large wheat carry-out, and high domestic prices. MY2016/17 and earlier wheat inventories are expected to be rotated out of state-owned stocks and processed into fuel ethanol. China will manage its growing wheat inventories through a mix of production programs, state directed inventory rotation, grain processing and disposal, and ultimately, food assistance related export programs. Industry sources project that the SAG has raised its procurement volume of MY2017/18 domestic wheat to rotate low quality stocks with relatively higher quality new crop supplies.

State Administration of Grain Auction Sale Results		
Month	Volume Sold (MT)	Average Rate of Sale
October	208,157	2.6%
November	803,788	10.0%
December	878,316	11.5%

MY2016/17 wheat stocks estimate remain unchanged.

Rice

Rice, Milled	2015/2016		2016/2017		2017/2018	
Market Begin Year	Jul 2015		Jul 2016		Jul 2017	
China	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	30210	30210	30178	30178	30176	30176
Beginning Stocks	69000	69000	78500	78500	86500	86500
Milled Production	145770	145770	144953	144953	146000	146000
Rough Production	208243	208243	207076	207076	208571	208571
Milling Rate (.9999)	7000	7000	7000	7000	7000	7000
MY Imports	4800	4800	5300	5300	5250	5400
TY Imports	4600	4600	5300	5300	5250	5400
TY Imp. from U.S.	0	0	0	0	0	0
Total Supply	219570	219570	228753	228753	237750	237900
MY Exports	271	271	805	805	1300	1300
TY Exports	368	368	1200	1200	1500	1500
Consumption and Residual	140799	140799	141448	141448	142450	142450
Ending Stocks	78500	78500	86500	86500	94000	94150
Total Distribution	219570	219570	228753	228753	237750	237900
Yield (Rough)	6.8932	6.8932	6.8618	6.8618	6.9118	6.9118
(1000 HA) ,(1000 MT) ,(MT/HA)						

Production

MY2017/18 milled rice production is estimated at 146.0 million tons, unchanged from USDA's January estimate.

China's rice producers face falling prices, pollution impacts, and low yields.

The North East China japonica rice harvest concluded in November 2017. Local sources report that production fell due to a lower milling rate. MY2017/18 japonica rice quality in Liaoning, Heilongjiang, Jiangsu provinces is rated highly. MY2017/18 japonica rice quality in Anhui and Jilin province is rated lower than MY2016/17.

MY2017/18 japonica producers in North East China, primarily in Jilin province, faced several challenges. Falling program support payments resulted in lower fertilizer use. Widespread bacterial disease and pests also lowered overall crop quality.

MY2017/18 early indica producers in North East China also faced challenges including heavy rains, which inundated crops and diminished yields and crop quality. Local programs have promoted new production practices to boost early indica rice yields and crop quality. South China rice producers have been encouraged to lower planted area through land rotation programs and complementary rice and aquaculture cropping systems.

MY2017/18 mid-late indica rice production suffered from heavy rains. Mid-late indica rice quality in Anhui, Jiangxi, Henan, Hubei, Hunan, Guangdong, Guangxi and Sichuan provinces was rated lower than MY2016/17. In Guangxi province, indica rice quality was rated higher than MY2016/17. MY2016/17 milled rice production is unchanged.

Consumption

MY2017/18 consumption is estimated at 142.5 million tons, unchanged from USDA's January estimate. China's rice consumption continues a downward trend over the long-term.

Mid-late indica and japonica rice enters local markets in November. Large state inventories overhang local markets, driving local rice prices lower.

Average Mid-Late Indica Paddy Rice Prices on January 16, 2018		
Province/Region	RMB per ton	USD per ton
Jiangxi	2,660	$409
Anhui	2,740	$422
Fujian	2,700	$415
Guangzhou	2,820	$434

Source: JCI

Average Japonica Paddy Rice Spot Prices on January 16, 2018		
Province/City/Region	RMB per ton	USD per ton
Heilongjiang	3,280	$505
Jilin	3,180	$489

Jiangxi	3,080	$474
Jiangsu	3,060	$471
Shandong	2,800	$431

Source: Cofeed and JCI

MY2016/17 milled rice consumption is unchanged.

Imports

MY2017/18 rice imports are estimated at 5.4 million tons, up 150,000 tons from USDA's January estimate and 400,000 tons higher than Post's September estimate on government-related deals.

In December 2017, China's Ministry of Finance announced a temporary tariff reduction on broken rice. Starting from July 1, 2018, Most Favored Nation rates applied to "out-of-quota" imports of broken rice (HS 10064010, long grain and HS 10064090, other) would fall from 65 percent to 10 percent.

Imports volumes have jumped to their highest level in recent years on competitive prices for global origins, higher quality, and Belt and Road policy commitments. Industry sources also report that cross-border shipments have resumed on a seasonal basis and at a significant premium.

China Customs reports that rice imports from October to November 2017 are at 606,493, up 56,493 tons, 10 percent higher than last year over the same period.

According to China Customs, the 2017 "Sword Guarding the Country's Gate" campaign netted 233 smuggling cases, among which 56 of the cases involved rice smuggling, with traders trying to avoid paying duties on imports valued at $242.1 million (1.6 billion RMB). Philippine Bureau of Customs reported that at least $1.65 million worth of goods made up mostly of smuggled rice inside 71 shipping containers were confiscated at the Port of Cebu in December 2017.

Cambodian media report that three Chinese state-owned enterprises signed two Memorandums Of Understandings (MOUs) for partnerships with local firms intended to boost the production of Cambodian paddy rice and milled rice for export. In January 2018, Myanmar and China signed a MOU, in which China agreed to triple its purchases of Cambodian rice.

MY2016/17 rice import estimate are unchanged.

Exports

MY2017/18 rice exports are estimated at 1.3 million tons unchanged from USDA's January estimate, but 500,000 tons higher than Post's September estimate on more food aid deliveries and commercial exports.

Rice Exports as Food Assistance				
Date	**Destination**	**Volume (tons)**	**Value**	**Type of Assistance**
October 2017	South Sudan	2,500		Emergency relief
October 2017	Afghanistan	4,242 (Pledged)	$1.0 million	Emergency relief

				(Oct 2017 to Mar 2018)
November 2017	Sri Lanka	2,752		Drought relief
November 2017	Guinea-Bissau	64.5 (1,290 bags)	$3.6 million (€3.0 million)	Flood and Drought relief
November 2017	Lebanon	2,764 (Pledged)		Emergency refugee relief (Sep 2017 to Mar 2018)
November 2017	Syria	5,404		Emergency relief
November 2017	Iran	Unknown	$1.0 million (Pledged)	Emergency refugee relief
November 2017	Lesotho	2,477 (Pledged)		In-kind food assistance (Jan to Dec 2017)

China is currently not a member of the United Nations, Food Assistance Convention. Since December 2013, China has provided humanitarian assistance in the form of in-kind food aid to South Sudan. Rice exports have reached their highest pace since MY2004/05.

MY2016/17 rice export estimate are unchanged.

Stocks

MY2017/18 rice stocks are estimated at 94.15 million tons, up 150,000 tons from USDA's January estimate on rising imports.

China's massive rice stocks overhang the world market. SAG is in the midst of a new effort to manage state inventories. According to the SAG, by the end of November, procurement of mid-late indica rice increased by 11 percent while the procurement of japonica rice decreased by 23 percent year-on-year, due to delays in Heilongjiang. Mid-late indica and japonica rice auctions were suspended in November 2017. Early indica rice auctions continued without change.

The SAG reports that from January 3 to November 29, 2017, 9.7 million tons of rice (MY2013/14 to MY2015/16 production) was auctioned, around 40 percent more than the same period last year. Early indica rice (MY2013/14) auction prices fell as low as $308 to $323 per ton (2,000 to 2,100 RMB), signaling that state inventories are priced to move.

Sorghum

Sorghum	2015/2016		2016/2017		2017/2018	
Market Begin Year	Oct 2015		Oct 2016		Oct 2017	
China	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	574	574	760	760	780	780
Beginning Stocks	706	706	717	717	892	892
Production	2750	2750	3800	3800	3850	3850
MY Imports	8284	8284	5209	5209	6300	6300
TY Imports	8284	8284	5209	5209	6300	6300
TY Imp. from U.S.	6243	6218	4824	4824	0	0
Total Supply	11740	11740	9726	9726	11042	11042
MY Exports	23	23	34	34	30	30
TY Exports	23	23	34	34	30	30
Feed and Residual	8800	8800	6300	6300	7600	7500

FSI Consumption	2200	2200	2500	2500	2600	2700
Total Consumption	11000	11000	8800	8800	10200	10200
Ending Stocks	717	717	892	892	812	812
Total Distribution	11740	11740	9726	9726	11042	11042
Yield	4.7909	4.7909	5	5	4.9359	4.9359
(1000 HA) ,(1000 MT) ,(MT/HA)						

Production

MY2017/18 sorghum production remains unchanged from USDA's January estimate at 3.85 million tons.

The MY2017/18 sorghum harvest concluded in November 2017. MY2017/18 sorghum harvested area is estimated higher at 780,000 hectares, up 20,000 hectares from MY2016/17. However, late monsoon rains in MY 2017/18 diminished crop quality and lowered yields. In Jilin Province, a major sorghum producing area, MY2017/18 crop quality fared worse than MY2016/17, leaving good quality sorghum in tight supply.

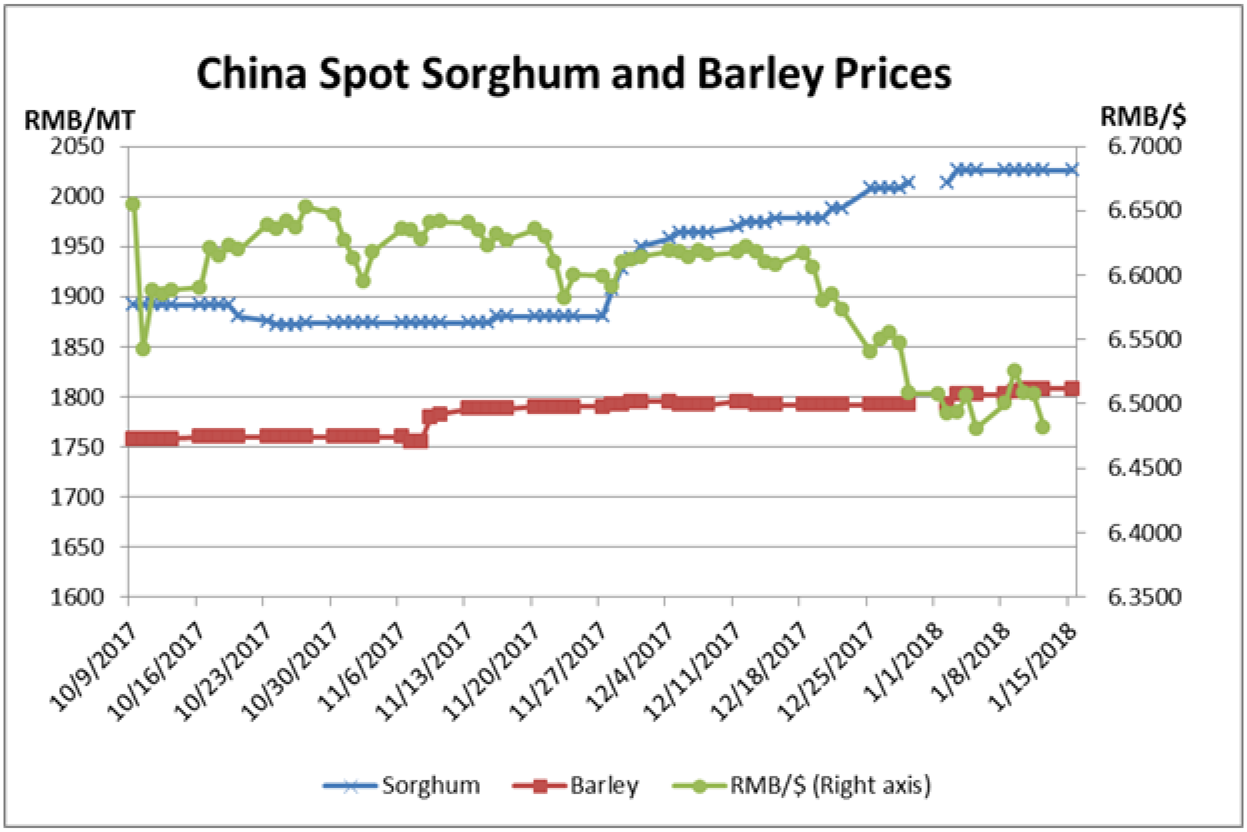
Some corn producers in North East China have switched to growing sorghum due to policy incentives and because sorghum thrives under similar agronomic conditions. Sorghum producers do not benefit from a minimum support price or a Dalian Commodity Exchange contract. Many growers rely on forward marketing contracts with nearby alcohol producers or feed mills.

Consumption

MY2017/18 consumption is estimated at 10.2 million tons, unchanged from USDA's January estimate and up 2.0 million tons from Post's September estimate. Post forecasts that higher-than-expected FSI use will offset lower feed use.

MY2017/18 feed use is estimated at 7.5 million tons, down 100,000 from USDA's January estimate as corn imports and domestic corn supplies substitute sorghum use.

Since 2013, China has been one of the world's largest buyers of imported sorghum for livestock and poultry feed use. In terms of nutrition, pricing, and feed use, sorghum imports are considered equivalent to domestically produced corn, and more favorable for feed use than other feed stuffs.



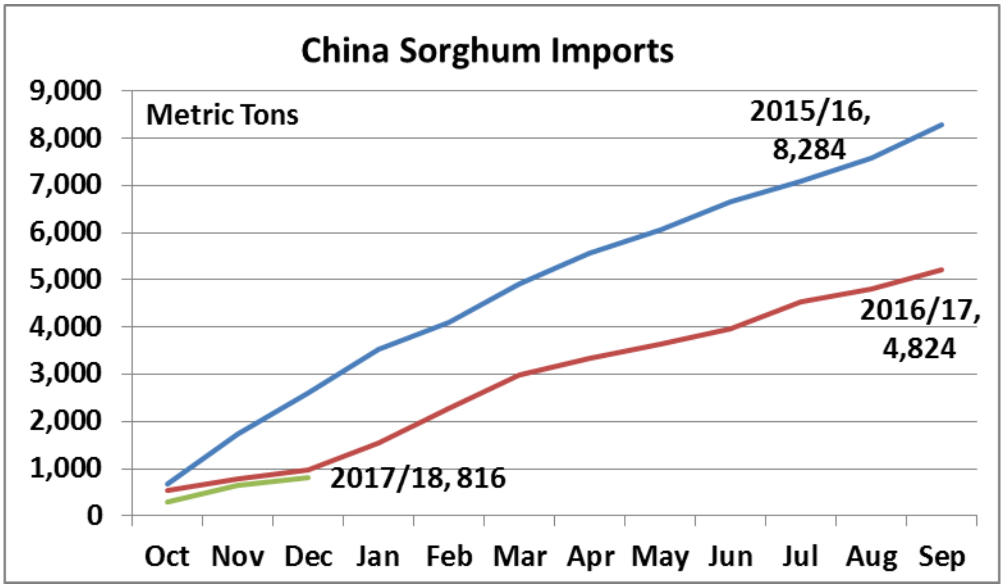
Sources: JCI; Pacific Exchange Rate Service

MY2017/18 FSI use is raised to 2.7 million tons, up 100,000 tons from USDA's January estimate on expanded liquor production. Prior to 2013, China's spirits market was the largest user of sorghum. The China Alcoholic Drinks Association projects that overall baijiu consumption growth will increase to 12 percent in 2018, up from 9 percent in 2017. The Chinese liquor industry is recovering from a government anti-corruption campaign which started in 2012 and has lowered consumption growth over the past 6 years.

Trade

Imports

MY2017/18 sorghum import estimate are unchanged at 6.3 million tons from USDA's January estimate.



Source: China Customs, GTIS/GTA

Current feed market conditions in China mirror the circumstances which set off imports of U.S. sorghum to China in MY2013/14. Sorghum traders are conservatively holding stocks expecting higher prices; meanwhile, bajiu producers and feed millers are snapping up inventories ahead of the New Year and Spring Festival holidays.

Unlike corn, sorghum imports are neither subject to tariff-rate quotas, nor have any biotech varieties. Some feed users which cannot access tariff-rate quota (TRQ) allocations for corn imports have turned to imported sorghum.

The MY2017/18 U.S. sorghum crop was larger than expected; all things being equal, at this time, U.S. imported sorghum supplies are competitively priced relative to imported DDGS and barley and have lower commercial risks than imported corn. Chinese buyers seek U.S. sorghum for its consistency and reliable quality characteristics.

U.S. sorghum (delivered and duty paid) is priced at near parity with landed prices for domestic corn at $286 per ton (1,860 RMB). MY2016/17 U.S. sorghum exports accounted for 91 percent of China's total sorghum imports, followed by Australia. Year-to-date MY2017/18 U.S. sorghum exports account for 96 percent of China's total sorghum imports.

At this time, strong import demand from China has raised the relative price of U.S. sorghum higher than corn. U.S. sorghum price quotes in South China (CIF and duty-paid) are $277 to $286 per ton (RMB 60 to120) higher than U.S. corn quotes ($268 per ton).

Note: On February 4, 2018, China self-initiated an anti-dumping and countervailing duty investigation on U.S. grain sorghum exports to China.

MY2016/17 sorghum import estimate are unchanged from USDA's January estimate at 6.3 million tons and raised 2.5 million tons from Post's September estimate on trade data.

Stocks

MY2017/18 ending stocks are estimated at 812,000 tons, unchanged from USDA's January estimate.