

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Grain and Feed

Approved By:

William Westman

Prepared By:

Chanda Beckman and Jiang Junyang

Report Highlights:

Wheat production in MY 2009/10 is estimated at 106 MMT, down six percent from the previous year and corn production in MY 2009/10 is estimated to drop nine percent from the previous year to 150 MMT. Both corn and wheat yields have been impacted by adverse weather at different growth stages. The government continued to raise the floor price for grains (wheat and rice) in MY 2009/10 to ensure a reasonable profit margin for the farmer. For MY 2010/11, the government will continue to encourage grain production.

General Information:

Wheat Situation

Government agencies estimate a bumper harvest for major grain crops in 2009

Ministry of Agriculture (MOA) Minister Sun announced in July that summer-harvest grain production reached 123.3 MMT, (or 2467 yi jin) making this the sixth consecutive year of a bumper crop. Summer harvest grains account for 23 percent of China's total grain output. According to the National Statistical Bureau (NSB), summer grains include cereals (winter wheat, barley, naked barley, oats, and rye) and pulses (broad bean, peas, and lentils). In October, MOA also forecast a bumper crop for fall harvested crops (mainly corn and late season rice). To date, NSB has not released a breakdown of data by commodity, but it is not unusual for MOA and NSB data to differ. China's official data for grain production is released by NSB.

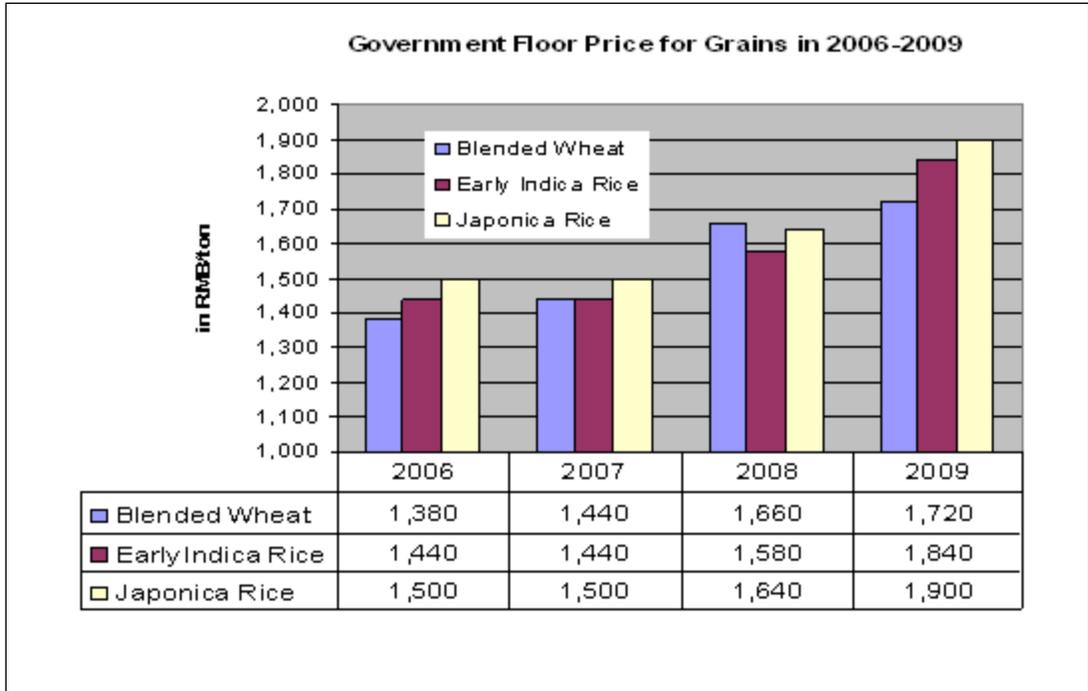
Trade sources disagree with government agencies

However, various trade sources report that wheat production has dropped by 10-20 percent in parts of major wheat producing provinces such as northern Anhui and Henan Provinces. During Post's crop tour in September in Henan and southern Hebei, most farmers interviewed reported that the winter wheat crop in 2009 is lower than the previous year by varying degrees, but all attributed the drop to lower yields. According to one trade source, four factors adversely impacted the winter wheat crop in 2009: winter drought, plant disease, hot and dry wind before harvest, and rain damage around harvest time.

The difference in estimates by government agencies and trade sources could be attributed to a central government subsidy program that is based on grain production by each individual producing province. To gain more allocation of financial aid from the central government, these provincial government authorities are occasionally tempted to overstate their grain output in a given year even if the crop was impacted by adverse weather.

Government raised grain floor price in MY 2009/10

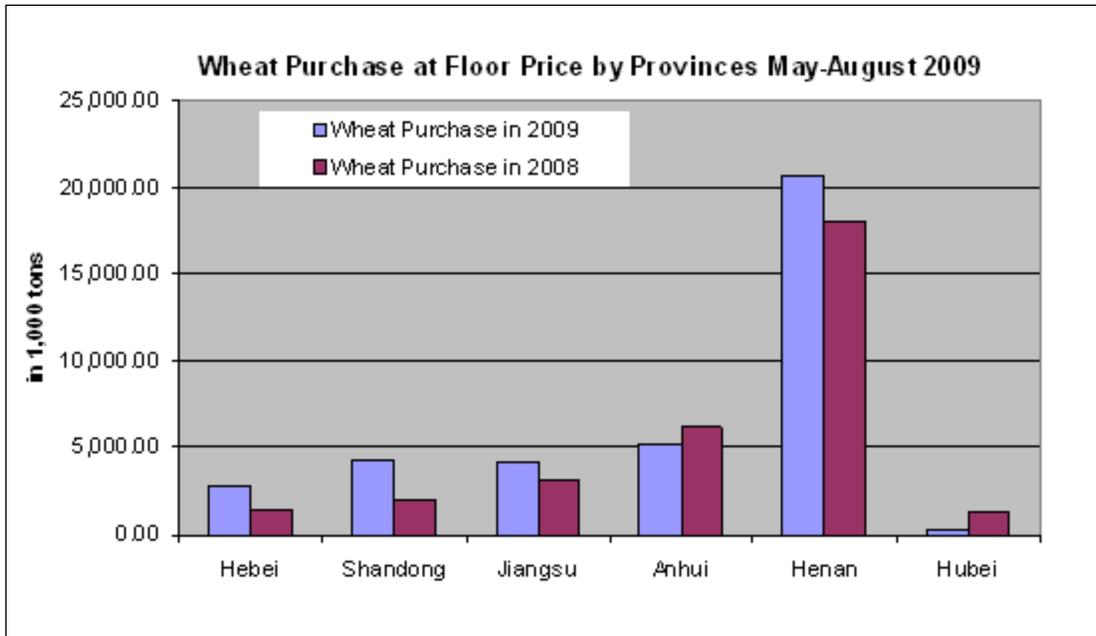
To ensure a reasonable profit margin for farmers, the government raised the floor price for wheat and rice in MY 2009/10. In MY 2010/11, the government will continue to encourage grain production. In October, the National Development and Reform Commission (NDRC) announced the government will increase the floor price for both wheat and rice in major producing provinces in 2010. According to NDRC, the floor price for different wheat varieties will be increased by \$8.79/MT (RMB 60/MT), or four percent above the 2009 level.



Source: NDRC

Wheat purchase program continues in MY 2009/10

By August 10, 2009, government wheat purchases at the floor price reached 37.64 MMT, 180,000 MT higher than the same period last year, according to National Grain & Oil Information Center. However, in Henan and Hubei Provinces, the amount of wheat purchased was lower than the previous year because some germinated wheat failed to meet quality requirements. Industry sources estimate that only about 15 percent of the wheat planted in the two provinces germinated due to excessively rainy weather during harvest. To reduce farmer losses, the government announced that wheat with a rate of less than 20 percent defective kernels will be covered by the floor purchase price. As of the end of August, the government purchased 1.29 MMT of defective wheat (mostly germinated) in five major winter wheat producing provinces including Henan, Hubei, Shandong, Anhui, and Jiangsu. The wheat was purchased at a discounted price and will be stored separately in government silage. According to industry sources, such wheat could be used for the feed and brewery sectors. The price advantage for germinated wheat also resulted in some local wheat flour mills choosing to blend germinated wheat in their flour production. If germinated wheat is used in smaller portions, the mill can still produce wheat flour with acceptable quality.



Source: NDRC

Grain stocks estimated at adequate levels, and expected to expand in MY 2009/10

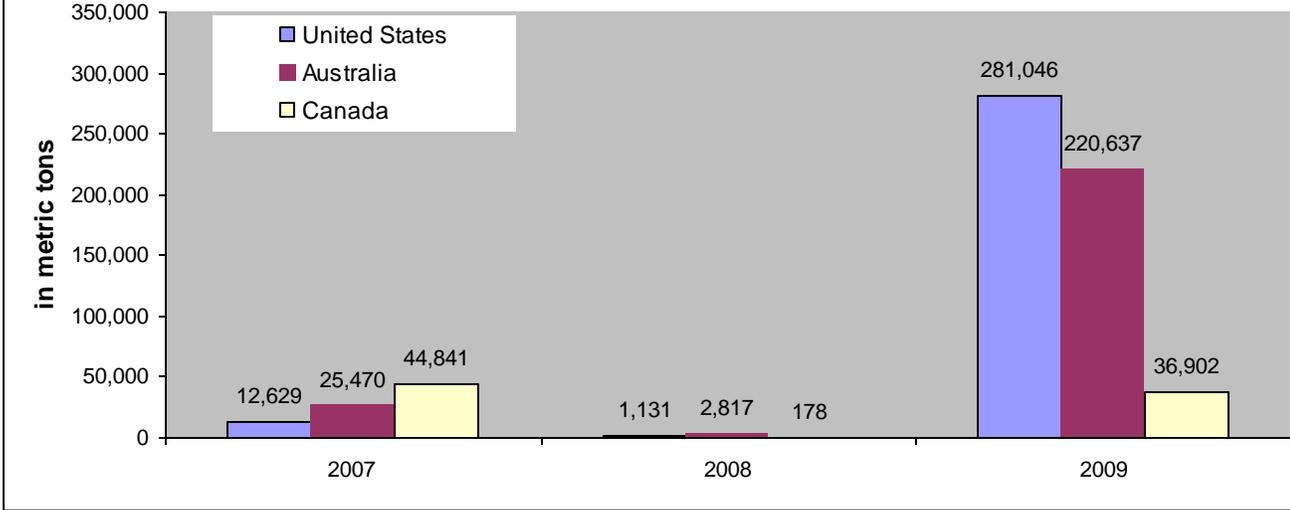
In October, an announcement by NDRC highlighted that state reserves of grains held in government silage reached 225.4 MMT by the end of March, 2009. This is based on a five-month national survey. Unfortunately, there is no official breakdown of data by commodity, however, by Chinese government definition; grains held in reserve normally include rice, wheat, corn, and soybeans. According to the announcement, more than half of these stocks are from the 2008 harvest. These grain reserves are estimated to equal about 43 percent China's total grain production in CY 2008. According to NDRC, as part of the overall economic stimulus package policy, the central government will invest more in silage construction and add an additional 15 MMT in storage capacity for grains by 2011. This massive and costly state-owned reserve highlights the government's reinforced belief that grain security is inextricably tied to economic development, social stability, and national security at a time of economic downturn.

Generally, the government does not conduct a national survey on grain reserves. However, recent state media reports indicate that more than 100,000 people received specialized training on survey methodology and later participated in a survey. The most recent national survey on record for grain reserves was conducted in 2001.

Wheat imports by private sector rise in MY 2009/10

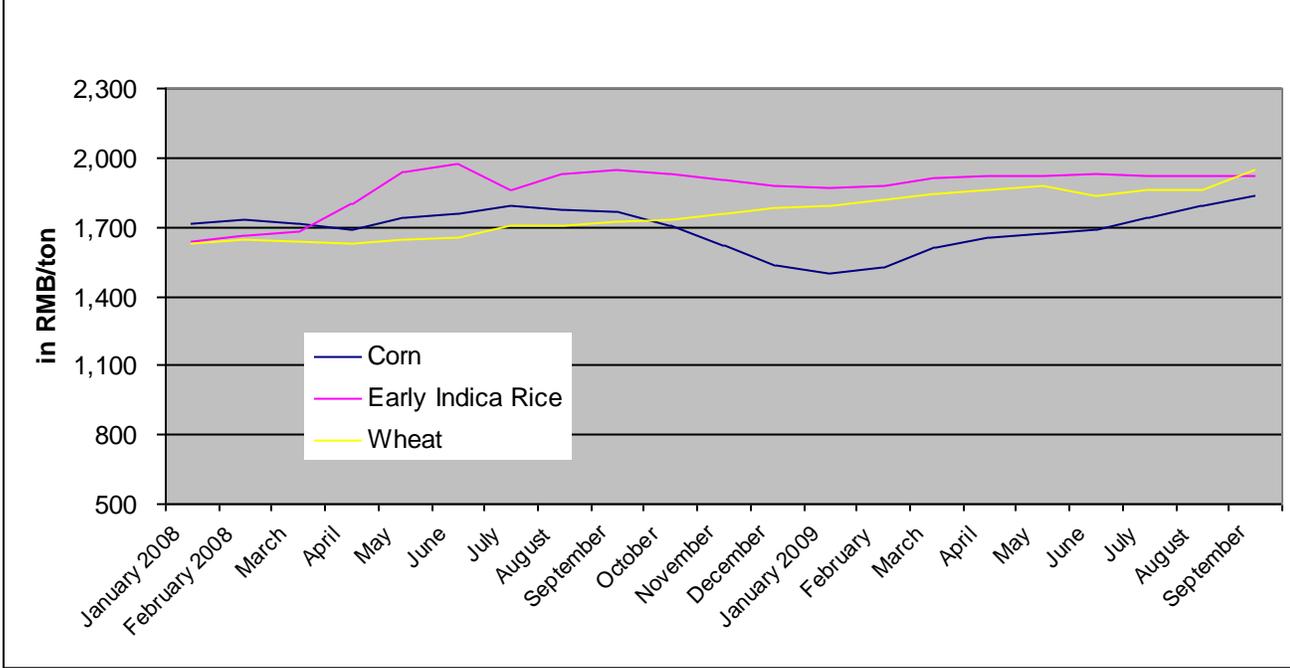
Domestic grain prices have been less volatile in 2008 and 2009 compared with international markets. Because the floor price for wheat has artificially boosted domestic wheat prices, wheat imports sometimes become price competitive in affluent, coastal cities in southern China when international grain prices fall. However, only the private sector took advantage of this price situation, with most of China's wheat imports in MY 2009/10 using private tariff rate quotas (TRQs). Since China's WTO accession, wheat imports are managed by a TRQ system. State trading accounts for 90 percent of the total TRQ (9.6 MMT), and the remaining 10 percent is reserved for private sector holding.

China Wheat Imports Jan-Sept (in metric tons)



Source: World Trade Atlas

China Grain Prices in 2008-2009



Source: JCI

Corn situation

Though government agencies report a bumper corn harvest for the sixth consecutive year, Post estimates that corn production in MY 2009/10 dropped nine percent from the previous year to 150 MMT. Based on field observations in most of the major corn producing provinces in the Northeast and the North China Plain, corn

yields were substantially impacted by adverse weather patterns such as prolonged drought during critical growth stages, or cold temperatures in July-August in some parts of the Northeast. In addition, this year saw a large spread of lodging in the North China Plain due to extreme winds just before harvest. The yield loss in each of these provinces varies, but is estimated at a range of 10-40 percent, based on Post observations and trader surveys.

Similar to wheat, the central government's incentive program encourages much overstating of China's corn output, because it allocates financial support in accordance with the reported grain output reported in an individual province.

Government subsidies for corn processing aim to reduce corn reserves in Northeast

Some of China's grain reserve silages are located in grain production regions and are classified as temporary reserves. These temporary reserves are typically disposed later in the marketing year when supplies grow tight and prices are higher. However, due to the slowdown in feed and industrial corn use, stock levels for corn in Northeast China remain high.

To reduce corn stocks, the government began offering U.S. \$22/ton (RMB 150/ton) for corn to starch, ethanol, and pharmaceutical manufactures in Northeastern provinces including Jilin, Liaoning, Heilongjiang, and Inner Mongolia. The policy was effective from August to December 2009 for plants with an annual processing capacity of 100,000 tons or above and was intended to encourage the processing sector to be more responsive to government corn auctions in the region. Due to sluggish demand in MY 2008/09, the corn processing sector is reportedly running at 30-50 percent capacity. The low profit margin for starch and ethanol discourages producers from buying at government held auctions. In MY 2008/09, the government purchased about 40 MMT of corn and held it in provisional reserves in the Northeast region. As the new crop comes onto the market, the government will be pressured to dispose of these high corn stocks.

In both March and May 2009, NDRC issued a notice to move the provisional grain reserves from production regions to the consumption regions. According to the notice, 4.68 MMT of corn was slated to move from the Northeast to southern provinces, with the government partially subsidizing transportation costs for the move. However, due to actual delivery price and quality discrepancies and bottlenecks in railway transportation in China, Northeastern corn is not always price competitive in local markets in either North or South China. Colder weather forces Northeastern corn producers to dry corn by heating, while corn produced in the North China Plain dries naturally, which generates a higher starch yield for starch manufacturing. Consequently, the auction of Northeastern corn was not well received by the processing sector. The current benchmark auction price set by the government varies by province.

Government Benchmark Auction Price for Grade 2 Corn in 2009 (in RMB/ton)			
Heilongjiang	Jilin	Liaoning	Inner Mongolia
1,530	1,550	1,570	1,570

FAS/Beijing will publish a Grain and Feed Annual report in March 2010 with additional updated information.