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GAIN Report

Global Agricultural Information Network

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China - Peoples Republic of

Grain and Feed Update – May 2012

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Report Highlights:

MY 2011/12 corn imports are unchanged at 5.5 MMT. MY 2012/13 corn imports are forecast to rise to 7 MMT on rising livestock and industrial consumption, as well as continued farm consolidation. MY 2011/12 wheat imports are estimated at 3 MMT as imported wheat, particularly from Australia, is relatively price competitive over domestic wheat for both feed and flour milling in the coastal provinces. MY 2012/13 wheat imports are expected to remain strong on continued competitive prices.

Corn

MY 2012/13, corn production is forecast to be relatively unchanged from last year. Due to lower profit margins for soybeans and cotton in the Northeast and North China Plain, farmers are expected to increase corn acreage by 2 percent. For example, an April planting intention survey by the Heilongjiang provincial agricultural department estimated that Heilongjiang corn acreage is expected to rise (on account of lower soybean acreage) 2.3 percent to 90 million mu.

MY 2011/12 corn imports are estimated at 5.5 MMT, although additional governmental purchases may be possible if imported corn prices remain competitive. Due to a lack of transparency in the TRQ allocation process, it is difficult to quantify how much corn has been imported by private or state TRQs. That being said, industry contacts believe all private TRQs held by importers/businesses on the coast have been utilized, and private TRQs held in the interior (e.g. Hebei, Hubei, Jiangxi, and Henan) would not be exercised due to a lack of price competitiveness on higher domestic transportation costs. MY 2012/13 imports are forecast at 7 MMT on expectations that strong domestic demand from the livestock and industrial sectors will keep domestic corn prices relatively higher than imported corn. Moreover, greater U.S. exportable supplies of corn may also further widen the price differential. The Chinese government is expected to continue importing to restock the strategic reserves.

For MY 2011/12, several industry sources partially attribute strong corn prices to poor quality corn in Hebei, Henan, and Shandong, which lowered available supplies. In these provinces, feed mills reported that increased toxin levels caused some of the corn to be unusable. In March 2012, the China National Grain & Oil Information Center (CNGOIC) estimated that approximately 5 MMT of corn was contaminated by toxins such as aflatoxin.

MY 2012/13 corn feed demand is expected to grow to 138 MMT as many feed mills may not be willing to further adjust their energy ratios in favor of wheat (see wheat section).

Wheat

MY 2012/13 wheat acreage and production is unchanged from the 2012 annual report. Major winter wheat producing provinces such as Henan, Hebei, Anhui, Shandong, and Jiangsu will begin harvest in June (some southern provinces have already begun harvest). Although the state media reported a drought in Hebei province, it is still too early to predict if this will adversely affect production.

MY 2011/12 wheat imports are estimated at 3 MMT as imported wheat, particularly from Australia, is relatively price competitive over domestic wheat for both feed and flour milling in the coastal provinces. MY 2012/13 wheat imports are expected to remain strong on continued competitive prices.

MY 2011/12 wheat feed demand is adjusted down to 20 MMT, as Post believes USDA's official overall annual increase is too strong (see livestock and feed section). However, a year-on-year increase is recommended because of livestock production increases and continued farm

consolidation. MY 2012/13 wheat feed demand rises slightly to 22 MMT, as many feed mills may not continue adjusting their energy ratios in favor of wheat, as it may unfavorably affect meat quality, and some livestock may be sensitive to stronger wheat flavors in compound feeds.

Rice

MY 2012/13 rice acreage and production is unchanged from the previous report. According to CNGOIC, low temperatures and excessive rain have caused some early rice in Jiangxi province to produce less tillers than in previous years. But it is still too early to project if this weather will cause lower early rice production.

MY 2011/12 and MY 2012/13 rice imports are estimated at 1 MMT due to strong demand for relatively less expensive Vietnamese and Pakistani rice. All rice imports have utilized the private TRQ. Because of adequate stock levels, it is unlikely that the Chinese government will use the state TRQ to purchase additional imported rice.

Livestock and Feed

According to industry sources, by the end of March 2012, the swine and sow inventory was up approximately 5.5 and 4 percent compared to last year, a strong recovery from the disease epidemic that reduced inventories in 2011. CY 2012 poultry production is expected to rise approximately 5 percent. Although total poultry and pork production may be increasing on an annual basis, Post believes the effects of farm consolidation and modernization is a stronger indicator of feed corn and wheat demand growth as more farms switch from lower quality feeds and concentrates to compound feeds.

Transportation and Prices

On May 20, 2012, the Ministry of Railway announced a freight rate increase of 10 percent for common cargoes (including grains). The last rail freight rate rise occurred in April 2011, and was less than 3 percent. The higher rate is expected to offset increased operational costs, which includes electricity and labor.

Higher rail rates are affecting the market price of domestic corn. According to CNGOIC, May prices for domestic corn in south China rose by approximately RMB 20 per ton. In Hunan province, NE corn is priced at RMB 2,590 per ton, a 1 percent rise on increased rail rates. Imported corn is typically shipped by trucks to end-users.

Policy

In May, the Ministry of Trade and Commerce (MOFCOM) reported that beginning on June 1, 2012 Distiller's Dry Grains with Solubles (DDGS) importers (after contracts are signed) must submit import information, such as import volume, loading, and arrival times, to the Chinese Chamber of Commerce for Food and Native Products, a subsidiary of MOFCOM. This information will be compiled and released twice a month on MOFCOM's website.

Despite record corn imports since 1996, the Chinese government is maintaining its position on

grain (corn) self sufficiency. On May 26, 2012, a recent article by the Ministry of Agriculture Minister Han Changfu stated that China plans to increase corn production through policy and technology support to meet surging domestic demand. He further noted that corn should not become the second soybean, implying that China should not become dependent on foreign suppliers to meet its corn needs.

Corn, wheat, and rice production data have been revised in accordance to the NSB Statistical

Abstract published in May 2012.

Corn

Corn China	2010/2011		2011/2012		2012/2013	
	Market Year Begin: Oct 2010		Market Year Begin: Oct 2011		Market Year Begin: May 2012	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
(1000 MT) (1000 HA)						
Area Harvested	32,500	32,500	33,400	33,400	34,000	34,000
Beginning Stocks	51,302	51,302	49,415	49,415	57,965	59,495
Production	177,24 5	177,24 5	191,75 0	192,78 0	193,00 0	192,00 0
MY Imports	979	979	5,000	5,500	7,000	7,000
TY Imports	979	979	5,000	5,500	7,000	7,000
TY Imp. from U.S.	1,028		0		0	
Total Supply	229,52 6	229,52 6	246,16 5	247,69 5	257,96 5	258,49 5
MY Exports	111	111	200	200	200	200
TY Exports	111		200	200	200	200
Feed and Residual	128,00 0	128,00 0	131,00 0	131,00 0	137,00 0	138,00 0
FSI Consumption	52,000	52,000	57,000	57,000	63,000	61,000
Total Consumption	180,00 0	180,00 0	188,00 0	188,00 0	200,00 0	199,00 0
Ending Stocks	49,415	49,415	57,965	59,495	57,765	59,295
Total Distribution	229,52 6	229,52 6	246,16 5	247,69 5	257,96 5	258,49 5

Wheat

Wheat China	2010/2011		2011/2012		2012/2013	
	Market Year Begin: Jul 2010		Market Year Begin: Jul 2011		Market Year Begin: Jul 2012	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
(1000 MT) (1000 HA)						
Area Harvested	24,257	24,257	24,200	24,200	24,250	24,300
Beginning Stocks	54,425	54,425	59,091	59,091	58,511	59,991
Production	115,180	115,180	117,920	117,400	120,000	118,000
MY Imports	927	927	3,000	3,000	2,500	2,500
TY Imports	927	927	3,000	3,000	2,500	2,500
TY Imp. from U.S.	156	156	0	0	0	
Total Supply	170,532	170,532	180,011	179,491	181,011	180,491
MY Exports	941	941	1,000	1,000	1,000	1,000
TY Exports	941	941	1,000	1,000	1,000	1,000
Feed and Residual	13,000	13,000	22,000	20,000	22,000	22,000
FSI Consumption	97,500	97,500	98,500	98,500	100,000	100,000
Total Consumption	110,500	110,500	120,500	118,500	122,000	122,000
Ending Stocks	59,091	59,091	58,511	59,991	58,011	57,491
Total Distribution	170,532	170,532	180,011	179,491	181,011	180,491
Yield	5.	4.7483	5.	4.8512	5.	4.856

Rice

Rice,Milled China	2010/2011		2011/2012		2012/2013	
(1000 MT) (1000 HA)	Market Year Begin: Jul 2010		Market Year Begin: Jul 2011		Market Year Begin: May 2012	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	29,873	29,873	29,996	29,996	30,150	30,150
Beginning Stocks	40,534	40,534	42,574	42,558	44,574	44,758
Milled Production	137,000	137,000	140,500	140,700	141,000	140,000
Rough Production	195,714	195,714	200,714	201,000	201,429	200,000
Milling Rate (.9999)	7,000	7,000	7,000	7,000	7,000	7,000
MY Imports	540	544	1,000	1,000	1,000	1,000
TY Imports	575		1,000		1,000	
TY Imp. from U.S.	0		0		0	0
Total Supply	178,074	178,078	184,074	184,258	186,574	185,758
MY Exports	500	520	500	500	600	600
TY Exports	487		500	500	600	600
Consumption and Residual	135,000	135,000	139,000	139,000	141,000	141,000
Ending Stocks	42,574	42,558	44,574	44,758	44,974	44,158
Total Distribution	178,074	178,078	184,074	184,258	186,574	185,758
Yield (Rough)	7.	6.5515	7.	6.7009	7.	6.6335