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Global Agricultural Information Network

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China - Peoples Republic of

Oilseeds and Products Update

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Report Highlights:

MY13/14 soybean production is forecast at 11.8 million tons, down slightly from the previously forecast of 12 million tons, due to lower soybean area and yield in the northeastern provinces. MY13/14 rapeseed and peanut production is forecast at 13.2 million tons and 16 million tons, unchanged from the August data. Driven by a supply gap between recovering animal husbandry feed demands and estimated falling soybean stocks, soybean imports are forecast to exceed 67.5 million tons in MY13/14, up from the estimated 60 million tons in MY12/13.

Executive Summary:

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(Note: 2013 exchange rate \$1=RMB 6.1)

MY13/14 soybean production forecast at 11.8 million tons

Soybean planted area appears to be smaller than previously estimated in all Northeastern (Heilongjiang, Liaoning, Jilin and Inner Mongolia) provinces. Several aspects appear to be influencing this downward trend. Based on crop travel to areas in Heilongjiang and Inner Mongolia in late September, MY13/14, farmers reported soybean profits substantially lower than that of alternative crops, such as corn, rice, sorghum and potatoes. Thus, in areas where climatic conditions allow farmers to choose between these options, soybeans continue to lose acreage. In the upper northern zones of Heilongjiang and Inner Mongolia, where colder temperatures and short growing days have traditionally limited substitutions, the introduction of a new corn variety, which matures early and has a shorter growing period, could facilitate additional grain encroachment on historically soybean-only acreage. Farm cooperatives, which can maximize efficiencies from land consolidation, agronomic practices and machinery usage in these regions, are increasingly profit driven which influences planting decisions away from lower-profit soybeans. In addition, local government's favor high-yield grain crops in response to the national government's call for continued increases in grain production.

The China National Grain and Oils Information Center's (CNGOIC) September report estimated MY13/14 soybean production at 12.5 million tons, down from an August estimate of 12.8 million tons. CNGOIC's estimate is based on planted area of 7 MHa and yield of 1,786Kg/Ha, both down 2.39 percent and 1.86 percent, respectively, over MY12/13. Late planting due to high moisture and cold temperatures in the northern region and further precipitation in August in parts of Heilongjiang is expected to reduce MY13/14 soybean yields in this province. In addition to the yield fall caused by excessive rainfall in Heilongjiang province, CNGOIC also estimated a low soybean yield in the Huai River and the Yangtze river regions due to high temperatures and summer drought. As of September 25, the soybean harvest was just beginning.

Rapeseed

Post's MY13/14 rapeseed production forecast of 13.2 million tons remains unchanged. Based on an analysis of China's rapeseed product imports and price changes for rapeseed products, many Chinese industry insiders believe the official domestic rapeseed production statistics have been over-estimated in the most recent two years.

Peanuts

Post's MY13/14 peanut production forecast of 16 million tons remains unchanged from our previous report. CNGOIC maintains its record estimate of 17 million tons for MY13/14 peanut production, based on planted area of 4.71 MHa (up 1.5 percent) and yield at 3,609Kg/Ha (up 0.3 percent).

Domestic soybean production trend

As reported previously, the central government is considering a change to its minimum floor price support policy for major crops. The government is considering instead making a direct subsidy to farmers to allow more market-oriented pricing. However, implementation details for a direct subsidy program among the competing crops and millions of farmers remain difficult for decision makers. It is hard to predict when the new subsidy policy be implemented. Soybeans are expected to be included in any policy changes, but, if the subsidy amount continues to favor grains, such as corn and rice, over soybeans, then the soybean area will likely stagnate or decline. Thus, any growth in production will have to come from yield improvement. This may be possible in large-scale farms in the northeastern provinces where productivity and yield gains can be achieved through standardized farming practices.

As domestic soybeans currently are mainly used for food processing and the demand continues to grow, some industry insiders forecast that the soybean area might rebound if food soybean supply becomes tight and soybean prices rise bringing profits closer to those of alternative crops.

Auction of soybean stocks continue

As reported in August (GAIN13038), the central government continues to sell soybean reserve through auction. As of September 27, a total of 1.88 million tons of reserve stock had been purchased at auction, accounting for 62 percent of the total soybeans offered. Traders have recently increased buying activity to take advantage of the lower domestic bean price compared to rising import prices. For example, the average auction price on September 12 was RMB4082/ton compared to the imported soybean price at RMB4360/ton in Guangzhou and RMB4400/ton in Qingdao. The auction is expected to continue into October before the new crop enters the market. Industry sources estimate that the current state soybean reserve stood at 4.1 million tons as of the end of September.

Consumption continues to recover

Sources indicate that China's feed production declined by 12 to 13 percent in the first half of 2013, compared to the same period in 2012, as stagnant demand for animal products and low profits in the animal husbandry sectors, stymied growth. Several animal disease related food safety incidents reduced pork and poultry consumption. Based on a survey on 160 large feed mills, total feed production was 16.07 million tons in the first six months of 2013, down 13.2 percent over the 18.5 million tons in 2012. China's Ministry of Agriculture (MOA) estimated that feed production fell 12 percent to 79.9 million tons in the first half of 2013. During a recent feed ingredient conference, China's industry leaders reported a strong recovery of feed demand in Hunan, Heilongjiang and Guangdong provinces as swine inventory and swine profits showed increasing trends. Celebrations during the October national holiday week are expected to boost consumption of animal products and demand for soybean meal use by the animal production sector.

MY13/14 soybean imports may exceed 67.5 million tons

China's soybean import growth in MY12/13 leveled at total imports close to 60 million tons, slightly higher than the 59.3 million tons in the previous year. The low growth rate is related to large imports in

MY11/12, adequate government stocks and high international prices which together reduced import demand. For MY13/14, because the carry in stocks are believed to be relatively low, if the international price remains reasonable, buyers may move to increase imports to rebuild stocks for the huge crushing sector which is estimated at 130 million tons per year (as of the end of 2013). Thus, soybean imports are expected to exceed Post's previously forecast data of 67.5 million tons in MY13/14.

Rapeseed imports from Russia

As reported in Chinese media on September 25, China's General Administration for Quality Supervision, Inspection and Quarantine (AQSIQ) approved a border city (Manzhouli) in Inner Mongolia to engage in imported rapeseed processing. The local government official indicated this is to enhance the agricultural cooperation between China and Russia, and said the construction of warehouses and crushing lines started in August 2013. China's industry leaders believe this will diversify China's rapeseed import origins (currently Canada, Australia and Mongolia are approved to export rapeseed to China) to meet the growing demand for rapeseed products. Another report said 950 tons of Russian rapeseed was imported to Erlianhaote in Inner Mongolia in March 2013.