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GAIN Report

Global Agricultural Information Network

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China - Peoples Republic of

Oilseeds and Products Update

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Report Highlights:

Post's MY13/14 soybean production forecast of 12 million tons planted on 6.8 million hectares (MHa) is unchanged from our previous report. Late planting conditions prevented substitution of soybean acreage to corn which slowed an ongoing decline in soybean planting. MY12/13 soybean imports are expected lower from the previous estimate by 3.5 million tons to 59.5 million tons as price and disease demand shocks impact consumption. Continued growth in soybean meal and edible oil demand, however, will support soybean imports forecast to reach 67.5 million tons in MY13/14.

Executive Summary:

MY13/14 total domestic oilseed production is expected to be stable. Post's MY13/14 soybean production forecast of 12 million tons planted on 6.8 million hectares is unchanged from our previous report. Late planting conditions prevented substitution of soybean acreage to corn which slowed an ongoing decline in soybean planting. Rapeseed and peanut production is forecast to maintain or show slight growth over last year. For imports, MY12/13 soybean imports are expected to fall by 3.5 million tons from the previous estimate to 59.5 million tons mainly due to a poultry disease outbreak and soybean price surge. In MY13/14, however, soybean imports are forecast to rebound to 67.5 million tons in MY13/14 in response to escalating growth in soybean meal use and edible oil consumption. A decline in domestic peanut prices makes peanut imports less price competitive.

Production

MY13/14 soybean production forecast at 12 million tons

Post's MY13/14 soybean production forecast of 12 million tons planted on 6.8 million hectares is unchanged from our previous report. Cold and wet planting conditions delayed soybean planting 10 to 15 days in the northeast provinces. Average April temperatures registered 1.9 C° lower across all major soybean-producing regions, according to China's meteorological data, with northeast provinces 4 C° below average, Jilin, 3.8 C° below and Heilongjiang 2.8 C° below average. Above-average rainfall in March and April also impacted planting in major production areas such as Heilongjiang (up 60 percent) and Inner Mongolia, Jilin and Liaoning (with April rainfall 100 percent, 60 percent and 40 percent, respectively, above average).

In late April, though, conditions improved and normal planting resumed as above average temperatures in the second half of May reduced excess soil moisture. The late May planting caused farmers in some regions to miss the planting window to substitute corn for soybean acreage which helped stabilize soybean planting area this year. In mid May, China's National Grain and Oils Information Center (CNGOIC) forecast planting area down 3.9 percent from MY12/13, significantly lower than the 14.4 percent decline in MY 12/13, and estimated MY13/14 domestic soybean production at 12.3 million tons.

Soybean price support/production policy adjustment

Following the MY12/13 crop harvest, the soybean selling price ranged from RMB4,600 to 4,750/ton (\$736-\$760/ton), which equals or exceeds the government floor price of RMB4,600/ton (\$736/ton). The government raised the MY12/13 floor price by 15 percent over the previous year to narrow the gap between soybean and corn profit levels and increase farmer's interest in planting soybeans in MY13/14. Farmers who take advantage of the government purchase program face quality conditions required for beans going into storage. For small, local crushers in the northeast operating on negative margins, domestic soybeans at a government floor price which exceeds market price are not a competitive option.

MY13/14 rapeseed production forecast at 12.7 million tons

Post forecasts MY13/14 rapeseed production at 12.7 million tons based on planted area of 7.05 MHa, both unchanged from previous reports. In mid-May, CNGOIC estimated MY13/14 rapeseed production up 0.7 percent to 14.1 million tons.

Reports from provincial agriculture offices indicate MY13/14 rapeseed production in major areas is on the rise. The China Grain and Oils Daily reported MY13/14 rapeseed area growth is at the expense of wheat which suffered from poor quality and lower profits in MY12/13. Hubei, the largest producer, is estimated to produce 2.26 million tons (up 2.3 percent) as output benefits from yield gains and higher planted area of 1.2 MHa, up from 1.17MHa in MY13/14. Sichuan rapeseed production is likely to top 2.21 million tons in MY13/14 based on increased planted area of 998,000 Ha, up 2.1 percent and 3.4 percent respectively, over the previous year. Hunan's rapeseed production is expected to rise to 1.88 million tons, up 3.5 percent, on expanded planted area of 1.26 MHa. Anhui and Jiangxi production is also expected to increase over the previous year.

MY13/14 Rapeseed Production Estimate

Production Area	Hubei	Sichuan	Hunan	Anhui	Jiangxi	National Total	Change % over MY12/13
Planted Area (MHa)	1.2	0.998	1.26	0.57	0.55	6.97 (MOA)	+ 1.7
Production (million tons)	2.26	2.21	1.88	1.34	0.79	14.1 (CNGOIC)	+ 0.7

However, some non-governmental sources question these optimistic numbers. Although the MY13/14 rapeseed yield is reportedly above average due to good weather conditions in major productions regions, such as Hunan and Sichuan, some experts criticize the planted area increases in Hubei, Sichuan and Jiangsu as being over-inflated to capture additional government subsidies. For example, one Hunan crusher argued that Hunan rapeseed planted area could be more than 40 percent lower than the official area.

Rapeseed minimum price

On May 23, 2013, the government announced a plan to purchase 5 million tons of MY13/14 rapeseed at a floor price at RMB5,100/ton (\$822/ton) to protect farmers' income and insure resources to stabilize the domestic edible oil market. In MY12/13, the government purchased 4.3 million tons at a floor price of RMB5,000/ton (\$806/ton). The government-purchased rapeseed is crushed for oil and stored in government reserves. Industry sources reported that MY13/14 rapeseed production costs in Hubei increased by about RMB300/Ha (\$97) over the previous year.

Peanut production forecast at 16 million tons in MY13/14

Post's MY13/14 peanut production is forecast at 16 million tons in response to strong profits signals in MY12/13. In mid-May, CNGOIC forecast MY13/14 peanut production at 17 million tons, significantly higher than its previous estimate for MY12/13 production at 16.2 million tons on peanut area of 4.6MHa. The higher production reflects a recovery in planted area in Henan, Shandong and Hebei supported by positive profits last year, following an area drop in MY11/12. Another industry source estimated production at 16.11 million tons, up 0.4 percent over the previous year. Consumption of peanuts for food grew 1.4 percent over the previous year to 7.4 million tons in MY12/13.

Peanut prices peak, then decline

According to Grain and Oils Daily, China's peanut price peaked at a record high in April 2012 ranging

from RMB11,000 to 12,000/ton (\$1,760 to 1,920) as farmer's held stocks in anticipation of rising prices due to strong crush demand. By late 2012, the peanut oil price was 2.1 and 2.9 times that of soybean oil and palm oil, making lower priced peanut imports plus duties a viable option. Since then, domestic peanut prices for crushing have declined to RMB10,000/ton (\$1,610) as farmer's released stocks and are currently around RMB8,500 to 9,000 (\$1,370 to \$1,451)/ton (as reported in Shandong).

Imports

MY12/13 soybean imports adjusted down to 59.5 million tons

A surge in the international price of soybeans slowed imports in late 2012. As of April, MY12/13 soybean imports stood at 29.6 million tons, 3.5 million tons lower than the previous year. MY13/14 soybean imports are forecast up 2 million tons to 67.5 million tons from our previous report if China maintains similar stock levels at the end of MY13/14.

Recently, an outbreak of avian influenza (AI) in March 2013, weakened demand as flock destruction and consumer distrust of poultry products cooled poultry feed demands.

The expected length and drop in demand, however, is hard to determine, leaving the impact on imports an important question. At the moment, Post expects a short term impact as China's high soybean stocks provide importers with flexibility to adjust the import pace. Imports for the remaining 5 months are expected to rebound if the control of the disease, which the government seems to be managing, quiets consumer concerns. Monthly arrival volume is expected to be 6 to 7 million tons in June and July.

Soybean oil imports up

Although most industry insiders believe China's soybean imports are driven by soybean meal demand growth, China's rising vegetable oil consumption also supports soybean imports, as shown by import statistics. In the first seven months of MY12/13, the net growth of soybean oil imports over the previous year stood at 154,000 tons, equivalent to almost 1 million tons of soybeans.

Higher rapeseed imports driven by edible oil demand

Rapeseed oil imports increased by 580,000 tons, including the oil converted from a net increase in rapeseed imports, over the previous year.

Peanut imports dependent on prices

Non-ASEAN country peanut imports face high import duties. Despite increased domestic production, the growing demand for peanut oil has stimulated import intentions by many peanut crushers when the price gap between the domestic and international prices is large enough to offset the 15 percent import duty and 13 percent value-added tax.

China Import Statistics				
Commodity: Peanuts Shelled W, Peanuts Shelled W				
Year To Date: January - December				
Partner Country	Quantity			
	2010	2011	2012	2013/Jan-Apr
World	14233	55083	18464	5039
India	9699	39819	14925	2440

Senegal	0	7318	1848	0
Argentina	4275	4212	1427	1558
United States	141	33	0	1003
Ethiopia	0	2398	0	0
Vietnam			56	38

Source: Global Trade Atlas

Consumption

MY12/13 soybean crushing volume down 1.5 million tons

As a result of sluggish meal demands, the current soybean crush margin remains negative, ranging from –RMB40 to 110 (or \$6.5 to \$18)/ton for imported soybeans), and –RMB240 to 550 (or \$38 to \$88)/ton, for domestic soybeans. MY12/13 soybean crush volume is adjusted down to 63 million tons, a drop of 1.5 million tons from previous estimate of 65.5 million tons.

Soy meal consumption growing 3.6 percent per year

MY12/13 soybean meal consumption is estimated to grow 3.6 percent year on year to 48.2 million tons, down 1 million tons from the previously estimated 49.2 million tons due to the AI impact on the poultry sector. This is equivalent to less than 1.5 million tons of soybeans for crushing.

Poultry meat and egg consumption is down since late March with many poultry farms (in particular those selling live birds) and some parent stock farms forced to dispose of breeding eggs and chicks due to slow demand. Based on industry sources, China's total industrialized feed production reached 196 million tons in 2012, with 54.6 million tons allocated to poultry meat production containing approximately 900,000 tons of soybean meal.

As of May 20th, total reported AI cases reached 131, with only 3 new cases in May, indicating that the situation is stabilizing. Even so, recovery of poultry product demand, especially by consumers, may take some time. According to China's Ministry of Agriculture (MOA), in mid-May, the central government appropriated RMB600 million (\$97 million) for financial compensation to cover AI damages to poultry producers. The MOA took several measures to revitalize the poultry industry: first, allowing movement of inspected/quarantined young birds nationwide; second, implementing the central government's RMB600 million financial assistance to poultry breeding farms so as to stabilize the basic poultry production capacity; third, providing preferential bank loans to flag-ship poultry slaughters and encouraging the purchase of poultry from farms; and fourth, promoting financial institutions loan support to poultry farms.

Industry sources indicated that the swine sector reported negative profits in March and April 2013 (averaging RMB180 to 250 or \$29-40/pig). Pork consumption did not show a significant recovery during the May 1 vacation, indicating the current stagnant consumption may continue in the near term. Industry insiders expect a slight rise in pork production/consumption in 2013, which should partially offset the reduction in soybean meal use for poultry. According to MOA, cultured aquatic production showed dynamic growth in the first 4 months of 2013, up 6.6 percent over the previous year to be 11.7 million tons, which should also buffer soybean imports from demand losses. Aquatic product

consumption remained robust with prices up for major cultured aquatic products including carp and shrimps.

PSD/Soybeans

Oilseed, Soybean China	2011/2012		2012/2013		2013/2014	
	Market Year Begin: Oct 2011		Market Year Begin: Oct 2012		Market Year Begin: May 2013	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	8,000	7,888	8,000	6,800	7,700	6,800
Area Harvested	7,890	7,888	7,000	6,800	6,600	6,800
Beginning Stocks	14,558	14,558	15,924	15,894	11,394	13,394
Production	14,480	14,480	12,600	12,500	12,000	12,000
MY Imports	59,231	59,231	59,000	59,500	69,000	67,500
MY Imp. from U.S.	23,056	23,056	22,000	21,000	23,000	23,000
MY Imp. from EU	0	0	0	0	0	0
Total Supply	88,269	88,269	87,524	87,894	92,394	92,894
MY Exports	275	275	300	300	300	300
MY Exp. to EU	12	12	12	15	15	15
Crush	60,970	61,000	64,650	63,000	67,350	66,600
Food Use Dom. Cons.	9,300	9,300	9,400	9,400	9,500	9,500
Feed Waste Dom. Cons.	1,800	1,800	1,780	1,800	1,780	1,800
Total Dom. Cons.	72,070	72,100	75,830	74,200	78,630	77,900
Ending Stocks	15,924	15,894	11,394	13,394	13,464	14,694
Total Distribution	88,269	88,269	87,524	87,894	92,394	92,894
1000 HA, 1000 MT						

