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China - Peoples Republic of

Oilseeds and Products Update

May Lockup Report

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Report Highlights:

MY14/15 total oilseed production is forecast at 56.8 million tons, down by 3.3 percent, primarily due to lower cottonseed production, from an estimated 58.7 million tons in MY13/14. Despite a short drop in oilseed product consumption in MY13/14 total oilseed demand is expected to continue an upward trend, particularly for soybeans, with total imports likely to exceed 67 million tons in MY13/14 and 72 million tons in MY14/15.

Post:
Beijing

Executive Summary:

MY14/15 total oilseed production is forecast at 56.8 million tons, down by 3.3 percent, primarily due to lower cottonseed production, from an estimated 58.7 million tons in MY13/14. Despite a short drop in oilseed product consumption in MY13/14 total oilseed demand is expected to continue an upward trend, particularly for soybeans, with total imports likely to exceed 67 million tons in MY13/14 and 72 million tons in MY14/15.

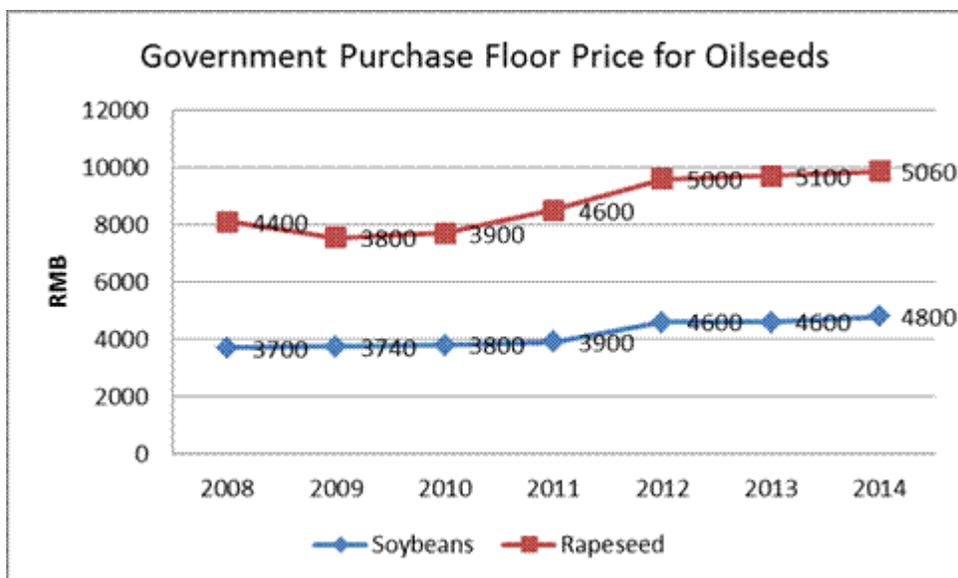
MY14/15 domestic oilseed production slightly down

Post forecasts MY14/15 total domestic oilseed production at 56.8 million tons, down 3.3 percent from the previous year, due to lower cottonseed production.

-Soybeans

Soybean production is estimated at 12 million tons based on a planted area of 6.75MHa, a 1.6 percent drop from the estimated production in the previous year. Similarly, China's National Grain and Oilseed Information Center (CNGOIC) lowered its MY14/15 soybean production forecast in May to 11.5 million tons from 12 million tons in a previous report, based on forecast planted area which dropped from 6.7 MHa to 6.4 MHa.

Higher profit margins for rice and corn will continue to erode soybean acreage in key production areas, such as the four Northeast provinces, according to CNGOIC, despite the government's "target price" of RMB4,800/ton for MY14/15 soybeans in these areas. Although this target price is RMB200/ton higher than the MY13/14 floor price, most farmers still expect that profit from soybeans will be RMB300/Mu lower than corn.



Note: The 2014 floor price for rapeseed is based on industry sources; The 2014 price for soybeans is “target price”

-Rapeseed

Post forecasts MY14/15 rapeseed production at 14.1 million tons, unchanged from Post’s March forecast, which had reflected a lower production of 14.4 million tons in MY13/14. Conversely, CNGOIC’s May report forecasts MY14/15 rapeseed production at 14.5 million tons, up 100,000 tons from the previous year mainly due to an increase in planted area of 30,000 Ha.

Although a rainy period in May in the Yangtze river region may have impacted harvesting, the MY14/15 harvest for summer rapeseed is forecast at 13.48 million tons. Planted area growth in Hubei and Chongqing is expected to produce gains of 20,000 tons and 438,000 tons, respectively.

Despite rumors that the rapeseed price support program may be adjusted to a more market-oriented policy in the future, this program is expected to continue in MY14/15. The purchase price has not yet been announced, but, due to the current low price for rapeseed oil, speculation is that the price may only fall slightly below last year’s RMB5,100/ton to RMB5,060/ton. The government’s program to purchase rapeseed (at above market prices) has reportedly built government rapeseed oil stocks to 5 million tons. Annual storage fees plus interest of government reserve stocks is estimated to exceed RMB4 billion.

-Peanuts

Peanut production in MY14/15 is forecast at 17 million tons based on planted area of 4.71 MHa, both unchanged from the previous year, as a history of favorable profits generally keeps peanut planted area stable. However, CNGOIC reports in May an expected fall in planted area by 110,000 Ha which lowers production forecast to 16.6 million tons, compared to its previous forecast 17 million tons.

-Cottonseed

MY14/15 cottonseed production is forecast at 11.3 million tons, down 1.48 million tons from 12.78 million tons in the previous year, due to lower expectations for cotton planted area. According to China Cotton Association’s April survey results, total cotton planted area, especially in the Yangtze and Yellow River regions, is forecast to fall 12.6 percent from the previous year in response to uncertainty

following a change in government payment support. The survey shows cotton area is forecast to fall 17.6 percent and 23.5 percent in the Yangtze River and the Yellow River regions, respectively, over the previous year, due to a withdrawal of government price support. Cotton farmers in the Yellow River and the Yangtze River regions are also expected to reduce cotton area in MY14/15.

Consumption expected to recover in second half of 2014

In 2013, China's feed production growth did not outpace the previous year for the first time in recent years. According to the China Feed Industry Association, production fell an estimated 1.8 percent over last year to 191 million tons while other industry sources estimated a production decline closer to 2-4 percent over the previous year. For the first quarter of 2014, MOA data shows specific industry feed production declines of 2 percent for swine, 10 percent for layers, 12 percent for broilers and 26 percent for aquaculture over last year.

This decline in feed production is attributable to several factors, including a reduction in animal product consumption following a series of publicized food safety and public health incidents, a more moderate pace of GDP growth, and a significant reduction in government outlay for meals and entertaining, which cumulatively have moderated livestock product demand and consequently the growth in feed consumption. Some industry experts forecast that, similar to other developing economies, the rapid growth of feed and animal product demand seen over the past decade may have entered a turning point in China.

In addition, low to negative profit margins in the crush industry have also been impacting production. High domestic protein meal supplies in 2013 (soy, rapeseed, DDGS and fish meal) were further increased by the processing of relatively high soybean imports in the same year which placed downward pressure on meal prices. Industry sources allege that crushing imported soybeans causes a \$100/ton loss to crushers due to the low soybean meal price. As a result, industry sources estimate that some imported soybean shipments have been trans-shipped, canceled or delayed for delivery by Chinese importers in recent months.

The prospects for 2014 seem more positive, however. The government purchase of pork for state-held reserve in a tight supply market has helped pork prices rebound and demand for pork is expected to stabilize through the summer. MOA data shows poultry and egg prices increased 17 to 20 percent in mid-May over the same period last year. According to MOA's survey data published in 2014, China's swine production operations with annual production of 1,000 head continue to increase and currently accounts for 48 percent of production.

The growth in larger scale animal production will influence the demand for appropriate feed resources. A leading source forecasts total protein meal use in MY13/14 will rise by 5.7 percent with soybean meal up 5.3 percent from the previous year. Provincial reports show feed production has been on the increase since April. For example, Guangdong feed production in the first 4 months of 2014 increased by 5 percent over the previous year.

Impact of selling of oilseed reserve remains limited

Government held soybean stocks currently exceed 5 million tons with rapeseed oil stocks at about 5.5 million tons, according to industry sources. To meet demand and reduce storage pressure before the new crop comes to market, the government offered 600,000 tons of soybeans at two open-auctions in

mid-May, from which 520,000 tons were purchased at an average price of RMB4,350/ton. Another 300,000 tons were offered at auction on May 17th.

Oilseed supply/demand outlook

-Major oilseed production forecast

At the 2014 China Ag Outlook Conference in April, China's Ministry of Agriculture provided a ten year (2013-2023) baseline forecast for China's overall oilseeds as shown in the following table and oilseed product forecasts:

	Area (MHa)			Production (million tons)			Yield(Kg/Ha)	
	2013	2023	Change%	2013	2023	Change%	2023	Change%
Soybeans	6.76	6.47	-4.3	12.2	13.03	+8.6	2,010	+13.5
Rapeseed	*	8	+5	14.4	16.46	+14.3	2,055	+8.8
Peanut	*	5.07	+6.9	17	20.14	+18.5	3,990	+10.8

*data not shown in the presentation

-Product Consumption forecast by 2023

---Per capita vegetable oil consumption is forecast up 6.3% to 20.1kg in 2023 with 20.7 Kg for urban residents and 18.6Kg for rural residents.

---Feed production by 2023 is 22.989 million tons, with an average yearly growth rate of 2.3%, significantly lower than the 6.7% annual growth rate from 2004-2013. The forecast for ruminant animal and aquaculture feed production is 12.05 million tons and 25.77 million tons, respectively in 2023, with an average yearly growth rate of 3.6% and 2.5%, respectively.

---The forecast for feed production for swine, poultry and eggs is 89.3 million tons, 58.43 million tons and 39.52 million tons in 2023, respectively.

---Feed conversion rate in 2023: swine up to 1:2.9 from 1:3.1 in 2014; poultry (meat) up to 1:2.8 from 1:2.9 in 2014; eggs up to 1:2.3 from 1:2.4 in 2014.

---Oilseed imports (2014-2023): soy imports are forecast to grow at an average yearly rate of 1.6% with total imports reaching 73.69 million tons in 2023; rapeseed imports are forecast to grow at an average yearly rate of 2.7% and reach 4.63 million tons in 2023.

---Vegetable oil imports (2014-2023) are forecast to decline at an average yearly rate of 3.5% to 4 million tons in 2023.

Trade

In response to the expected positive growth in demand for feed protein and vegetable oil and to a continuing decline in domestic soybean production, MY13/14 soybean imports are likely to exceed 67 million tons and grow to 72 million tons in MY14/15, significantly higher than the 60 million tons in MY12/13. Soybean imports for the first eight months of MY13/14 surged to 45.5 million tons, up 31 percent over the previous year.

Chinese policymakers, though, continue to discuss the costs and benefits of domestic animal production versus the importation of animal products. These discussions could have an impact on future soybean demand. While animal production is seen as a boon to rural development and farmer income by some, others argue that natural water and land resource constraints which necessitate the importation of vast amounts of protein feed sources for livestock production is not sustainable in the long run and favor importation of animal products.

Rapeseed imports, in the first seven months of MY13/14, climbed to 2.8 million tons from 2.1 million tons over the same period in the previous year.

However, during this period, soy oil imports declined by 175,000 tons and rapeseed oil imports fell by 271,000 tons, as China's crush industry continued to increase domestic oil supplies by increasing the utilization rate for soybeans and rapeseed in search of more favorable margins.

Meanwhile, due to a period of stagnant domestic demand by the animal production sector, soybean meal exports, though small, increased greatly in the first four months of 2014. Sporadic soybean meal exports will continue in response to domestic market changes for meal.

Note: Exchange rate: \$1=RMB6.2