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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) and MY13/14 soybean import forecast of 67.5 million tons remains unchanged from the previous report (CH13028). Rapeseed production is adjusted up to 13.2 million tons from the previously reported 12.7 million tons due to yield gain and slight area expansion. Peanut production forecast remains stable at 16 million tons.

Executive Summary:

Post's MY13/14 soybean production forecast of 12 million tons planted on 6.8 million hectares (MHa) is unchanged from the previous report. Rapeseed production is adjusted to 13 million tons, up slightly from the previous 12.7 million tons due to yield gains and area expansion. Peanut production is forecast stable at 16 million tons, unchanged from the previous report.

MY13/14 soybean import forecast of 67.5 million tons remains unchanged from our previous report (CH13028). Due to animal food safety incidents, soybean meal consumption growth is expected to taper and perhaps be flat in 2013.

The "minimum floor price" government support system in recent years has raised domestic prices for major agricultural products triggering call for improvement of support policy.

Production

MY13/14 soybean production forecast at 12 million tons

Despite delayed planting due to wet, cool weather, improved weather conditions in June and July, with favorable sunlight, temperature and precipitation, promoted strong growth. A July report by Heilongjiang Provincial Agricultural Commission indicated the growth of crops, including soybeans, as better than average, reporting overall "first grade plants" up 4 percentage points.

MY13/14 domestic forecasts for soybean production are ranging from 12 to 12.5 million tons, with area expansion in the northeast, compared to 11.8 million tons in MY12/13. China's National Grain and Oils Information center (CNGOIC) estimated planted area of 6.5 MHa, down 3.7 percent over the previous year. CNGOIC confirmed that the declining trend in soybean area was slowed, in particular in Heilongjiang Province, due to improved MY12/13 profits, better crop rotation and fewer alternatives as the corn planting window was limited by weather conditions.

MY13/14 rapeseed production estimated at 13.2 million tons

Post's MY13/14 rapeseed production estimate is adjusted up to 13.2 million tons from the previous 12.7 million tons due to strong harvests in Hubei and Hunan. Various official sources estimated rapeseed production increased to 2.6 million tons (up by 300,000 tons) in Hubei, and 1.9 million tons in Hunan (up 120,000 tons), respectively over the previous year.

According to the Hubei Agricultural Bureau, rapeseed planted area, energized by the government purchase support program, increased by 5 percent to 1,226,000 Ha in MY13/14. Improved agronomy technology (more direct sowing with high planting density) and favorable weather conditions promoted yields which rose 11 percent over last year in Hubei. An industry survey showed the average yield was up 4.5 percent due to favorable weather during the growing season.

Net profit increased to \$470/Ha in Jiangxi Province in MY13/14, up 22 percent year on year. Production in Sichuan also went up slightly but production for Anhui and Jiangsu fell by about 2.5

percent over the previous year based on smaller planted area due to lower rapeseed profit.

China's National Statistics Bureau (NSB) estimates MY13/14 summer harvested rapeseed production at 13.48 million tons, up by 450,000 tons from MY12/13. Based on this, CNGOIC estimates MY13/14 total rapeseed production, including an autumn crop, at 14.4 million tons.

However, this official data remains controversial among industry circles with sources continuing to provide a range of 9.4 to 13.5 million tons for MY13/14 rapeseed production. In general, industry sources believe the official data has been high in recent years, arguing strong imports of rapeseed products support a production level lower than that reported in the official data.

As reported in CH13028, the government implemented its program to purchase 5 million tons of MY13/14 rapeseed at a floor price of RMB5,100/ton (\$822/ton) as a means to protect farmers income and secure resources for reserve. Currently, the gap between the market price and government floor price is marginal. The government's total purchased volume exceeds 3.9 million tons as of July 10, up by almost 1 million tons over the previous year.

Government Purchase of Rapeseed at Floor Price (RMB/ton)*

Year	Floor Price (RMB/ton)	Rapeseed Volume (million tons)	Converted Oil Sold (million tons)	Estimated Oil Ending Stocks (million tons)
2009	3,300	4.3		2
2010	3,700	2.5	2	0.9
2011	4,600	3.4		2.1
2012	5,000	4.2		3.6
2013	5,100	5 (plan)		

Source: Industry analysis report

The impact of the government purchase program over the last five years has increasingly influenced a rise in the market price for rapeseed oil, relative to other vegetable oil prices. This impact has stimulated imports of lower priced rapeseed and rapeseed oil. As the government-purchased rapeseed is usually crushed and the oil stored, the state rapeseed oil stocks will reach a record level in MY13/14.

Peanut production forecast at 16 million tons in MY13/14

Post's forecast MY13/14 peanut production of 16 million tons is unchanged from the previous report.

Peanut farmers in major-production provinces, including Shandong and Henan, had strong profits in MY12/13 (ranging from \$1,350 to \$1,450/Ha) as estimated by industry sources. A survey by Shandong Agriculture Bureau showed MY12/13 peanut profit averaged \$1,870/Ha, up 150 percent over the previous year in this province, despite increased production costs. Recent crop travel in Shandong showed the peanut crop is in good condition. Reports of heavy rainfall in western Liaoning province in mid-July should not affect total production as yield gains in other production regions are expected to compensate for weather-related losses.

Positive profits are expected to keep MY13/14 planted area in Shandong stable at 803,000 Ha.

Technological advancement, including new varieties and more technical extension service by MOA, helped boost average yield to 4,395 kg/Ha in 2012, up 11.4 percent over 2004. Reportedly the border

area of Heilongjiang and Inner Mongolia has added peanut acreage, however, this area may be reclaimed for the government's reforestation program in this region. In addition, industry insiders report peanut area is vulnerable to comparative profits from other crops. If the current peanut price falls significantly, farmers switch to a "corn or soybeans + wheat" pattern in Shandong and Henan for higher profits when peanut prices drop.

The MY13/14 peanut price appears to be soft due to relatively high carry-in stocks but demand is expected to influence price toward a recovery at RMB9,000 to 10,000/ton after the harvest. (Note: \$1=RMB6.15 in 2013).

Consumption

Soy meal consumption growing 3.6 percent per year

Post's estimate for soybean meal consumption remains unchanged from the June report (CH13028). MY12/13 soybean meal consumption should rise 3.6 percent, year on year, to 48.2 million tons, down 1 million tons from the previously estimated 49.2 million tons (representing the equivalent of less than 1.5 million tons of soybeans for crushing) in response to lower demand following livestock-related disease incidents.

MOA data showed total meat production for the first half of 2013 totaled 39.16 million tons, a 0.2 percent decline over the same period last year, total egg production (at 12.85 million tons) and milk production (14.75 million tons) were also slightly lower than the previous year. Only pork production showed a modest increase of 1 percent to 26.14 million tons.

Weakening demand by Chinese consumers for meat products in response to food safety concerns (human affected Avian influenza cases and dead pigs in the Yangtze River) and the government's reduced representational budget see some industry experts forecasting a three to five percent decline in China's feed production in 2013 from the previous year.

An expert from China State Grain Reserve Corp estimates that protein meal demand will grow at 4 to 5 percent yearly and vegetable oil at 500,000 tons yearly over next five years. Meat and egg demand will maintain 2 percent yearly growth in the next five years. Vegetable oil imports are expected to stabilize at current level as the forecast soybean imports of 3 to 4 million tons per year (driven by protein meal demands and add more than half million tons of soy oil if crushed) meets the rising vegetable oil demand.

Aquatic production up 5.3 percent

According to MOA, aquatic production showed strong 5.3 percent growth in the first half of 2013 with total production at 25.3 million tons, supported by a 6.65 percent gain in cultured aquatic production over last year to reach 19.44 million tons. China's continued expansion in cultured aquaculture production supports the upward trend for protein meal use, including soybean meal.

Imports

MY13/14 soybean imports estimated at 67.5 million tons

A surge in the international price of soybeans slowed imports in late 2012. Soybean imports are

estimated at 48.6 million tons for the first ten months of MY12/13, down 1.2 million tons over the previous year. Soybean imports are expected to be 10.5 million tons in the final two months with total MY12/13 imports estimated at 59.5 million tons.

Post's MY13/14 soybean import forecast for this month remains unchanged at 67.5 million tons on the expectation that China will continue to purchase soybeans under appropriate supply and price conditions to maintain sufficient stock levels. Some industry sources, however, suggest a more conservative level of imports for MY13/14 of 63 to 65 million tons is appropriate given excessive domestic crush capacity of 130 to 140 million tons in 2013 with declining utilization rates further cutting crush margins (CH13024).

High duty for peanut imports hinders trade

Compared to China's huge peanut production, the current level of peanuts/product imports remains small. However, as further increases in domestic production area are limited, import growth in peanut/products to meet the domestic growing demand in next few years, is foreseeable. Import duties of 15% and VAT costs of 13%, though, are factors to consider in analyzing peanut import prospects. The United States peanuts are appreciated in China for high quality and low aflatoxin contamination. Currently peanuts from the United States are imported in bulk packaging (about 900kg/bag) of mixed kernels (without grading by size) and are used primarily by crushing plants for peanut oil.

Import of rapeseed products increased

In the first three quarters of MY12/13, rapeseed oil imports reached 1.22 million tons, up 77 percent, and rapeseed imports stood at 2.7 million tons, up by 600,000 tons, respectively over the previous year. As mentioned above, the government purchase program has resulted in high levels of state rapeseed oil stocks and stimulated imports of lower priced products.

Palm oil imports stable

To reduce the relatively high carry-in stocks, a leading industry analyst estimated China's palm oil imports at 5.88 million tons in 2013, down 4 percent over the previous year. Consumption however, continues to grow by 4 percent to reach 5.97 million tons. Palm oil production is forecast to rise for Malaysia and Indonesia up 1.7 percent (to 19.09 million tons) and 4 percent (28.18 million tons) over 2012, respectively, implying a growing supply in MY13/14.

Exports

Although world demand for peanuts has shown steady growth in recent years, China's peanut exports face competition from other suppliers such as the United States, Argentina and India. India's lower-priced peanuts compete with China's in other southeast Asian markets while US exports squeeze China's market share in European market. In the long term, however, growing domestic demand for peanuts, together with increased production costs, have impacted China's peanut competitiveness. Exports of specialty peanuts, such as the Shandong larger kernel, are expected to continue.

Long term forecast of China's agricultural product demand

Agricultural products: A recent research report by the State Development Research Center (DRC)

based on 2011 data, forecast that by 2022 consumption of edible oil would be up 15 percent, pork up 36 percent, beef and mutton up 60 percent; poultry up 54 percent; eggs up 51 percent; fresh milk up 94 percent and aquatic product up 74 percent. The forecast is based on an average GDP growth of 7.2 percent, population increase of 0.4 percent and an urbanization rate of 60.8 percent. Total meat demand will reach 107.7 million tons, a net increase of 20.9 million tons over 2011. As for soybeans, DRC forecasts that total crushing consumption will reach 100.66 million tons, making total imports in excess of 95 million tons by 2022 if domestic production for crushing remains around 5 million tons.

Vegetable oil: According to DRC research on similar markets such as Japan, Korea and Taiwan, the per capita consumption of vegetable oil is highly relevant to per capita GDP. DRC expect China's per capita vegetable oil consumption will continue to grow from the 22 Kg in 2012 (per capita GDP of \$6,100) until the per capita GDP reaches \$15,000/year. The per capita vegetable oil consumption is forecast at 25kg/year by 2020 (annual growth rate of about 3 percent) with total consumption at 35.25 million tons. Total oil demand is forecast at 39 million tons if 2.75 million tons of industry oil consumption is included. Soybean oil supply is likely to be 14.8 million and palm oil imports at 10.5 million tons by 2020.

Agricultural support policy

In analyzing China's growing demand for oilseed products, some policy advisers are studying the possibility of adjusting the relatively high import duties for land-intensive agricultural commodities (with the exception of soybeans which has a 3 percent import duty) to maintain food security.

The trend to increase state minimum purchase prices has raised prices for major domestic agricultural products (as shown in table) and food prices. This trend is expected to continue in the future pending a change in government support policy. As of this report, the purchase prices for MY13/14 soybeans and corn have not been announced but are not expected to be lower than the previous year.

Government purchase floor price keeps growing (RMB/ton)*

	Corn	Japonica rice	Wheat	Soybeans	Rapeseed
2011	1,980	2,520	1,860-1,900	4,000	4,600
2012	2,120	2,800	2,040	4,600	5,000
2013	?	3,000	2,240	?	5,100
Change percent 2013 vs 2012		9.4	9.8		2

The State Development Bank of China continues to support domestic investors to develop agricultural projects in foreign countries as these investments will supplement China's grain security by increasing world grain production generally.

Vegetable oil hygienic standards under amendments

China's National Health and Family Planning Commission (NHFPC) is reviewing and considering the consolidation of existing standards for vegetable oils.

*Note: Exchange rate: 2009--\$1=RMB6.83; 2010--\$1=RMB6.77; 2011--\$1=RMB6.5; 2012--\$1=RMB6.3; 2013--

\$1=RMB6.15