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China - Peoples Republic of

Sugar Semi-annual

Despite higher production, Chinese sugar prices expected to continue to rise

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Report Highlights:
China's MY 2016/17 sugar production is expected to rebound slightly from the 15-year low of 2015/16, as high domestic prices have encouraged expanded sugar area. Production, however, is still forecast far below previous levels, and China will remain the world's largest importer. On September 22, 2016, the China's Ministry of Commerce (MOFCOM) issued a notice announcing the initiation of a safeguard measure investigation against imported sugar. Sugar stocks are expected to continue to shrink, and sugar prices continue to rise, in MY 2016/17.

Executive Summary:

MY 2016/17 sugar production is forecasted at 9.53 million tons, up 1.3 million tons from the previous forecast, and also up from MY 2015/16. Rising domestic sugar prices resulted in an expansion of sugar area this year. However, despite this higher sugar production, sugar supplies are forecast to remain tight with prices continuing to rise and stocks continuing to shrink. The Chinese import forecast is revised down, but China is still forecast to be by far the world's largest importer, at 6.0 million tons. Meanwhile, consumption is forecast to remain flat as high prices dampen demand.

The MY 2015/16 sugar production estimate is revised up, and imports are revised significantly lower. Although sugar smuggling is reported to have been much higher MY 2015/16, according to Chinese customs data, formal imports are down nearly a quarter in the first eleven months of the marketing year.

Sugar Cane

MY 2016/17 sugar cane production is forecasted at 83.7 million tons, up 12.1 million tons from the previous forecast due to an increase in acreage caused by very attractive domestic prices, as well as better yields. Sugar cane production is, therefore, forecast to be up about 10 percent from the revised MY 2015/16 forecast. Despite the increase this year, the long-term trend of shrinking sugar area and production is expected to continue as high labor costs, low mechanization, and the profitability of producing other products limits the attractiveness of growing sugar. In order to try and halt the decline in sugar production, according to the national five-year plan, in 2016 local governments have started providing sugar cane farmers subsidies for seeds, farm machinery, mulching film and fertilizers.

Purchase Price of Sugar Cane in Major Producing Provinces				
RMB per MT (USD $1.00 = RMB 6.5)				
	Guangxi	Yunnan	Guangdong	Hainan
MY 2010/11	492	375	540-550	525
MY 2011/12	500	420	510	550
MY 2012/13	475	420	500	500
MY 2013/14	440	400	420-385	450
MY 2014/15	390-410	390-410	405-380	400
MY 2015/16	430-440	430	440-450	440-450
MY 2016/17 (Post Estimate)	470-490	460-480	490	480-490
Industry Sources				

Although there are no longer government mandated minimum purchases prices, sugar cane processors have still agreed to voluntarily honor and implement minimum prices set by local sugar industry associations. These prices are set after conducting research on local area sugar cane production costs.

Sugar Beet

The MY 2016/17 beet sugar production forecast is unchanged at 630,000 tons, the same as estimated for MY 2015/16. The MY 2016/17 sugar beet production forecast is also unchanged. The primary sugar beet production areas are in northern China, in Xinjiang, Heilongjiang and Inner Mongolia.

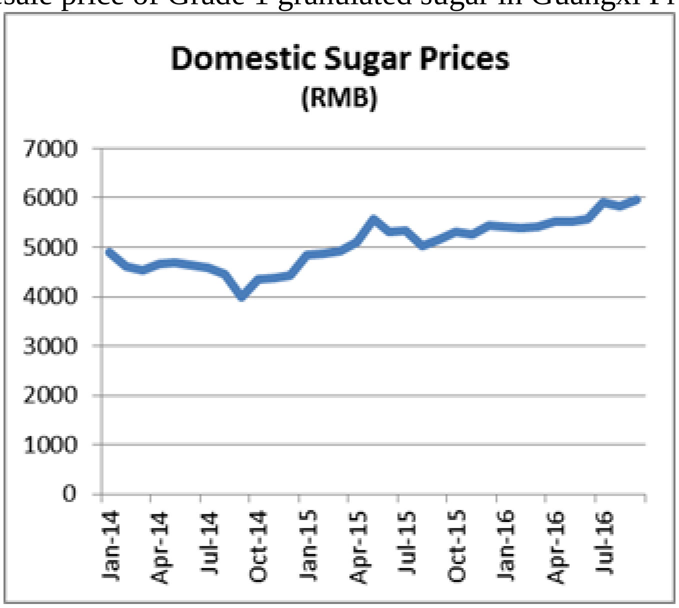
Purchase Price of Sugar Beets in Major Producing Provinces			
RMB per MT (USD $1.00 = RMB 6.5)			
	Xinjiang	Heilongjiang	Inner Mongolia
MY 10/11	353	400	390
MY 11/12	450	532	480-500
MY12/13	450	560	500
MY13/14	440	NA*	520-550
MY14/15	440	550	530-550
MY15/16	442	555	540
MY16/17 (Post estimate)	445	560	545

Industry sources

Centrifugal Sugar Production

MY 2016/17 sugar production is forecasted at 9.53 million tons, up 1.3 million tons from the previous forecast as a result of expanded sugar area. Very high domestic prices encouraged some farmers to increase their sugar plantings, and sugar cane area is forecast up 5 percent compared to MY 2015/16, with much of this increase in Guangxi province. This level is, however, still far below previous year and is 16 percent below MY 2014/15. Although sugar prices are expected to continue to remain high in the medium-term, very high production costs and competition for land will likely continue to limit much further growth in sugar production.

Wholesale price of Grade 1 granulated sugar in Guangxi Province



Source: Guangxi Sugar Market

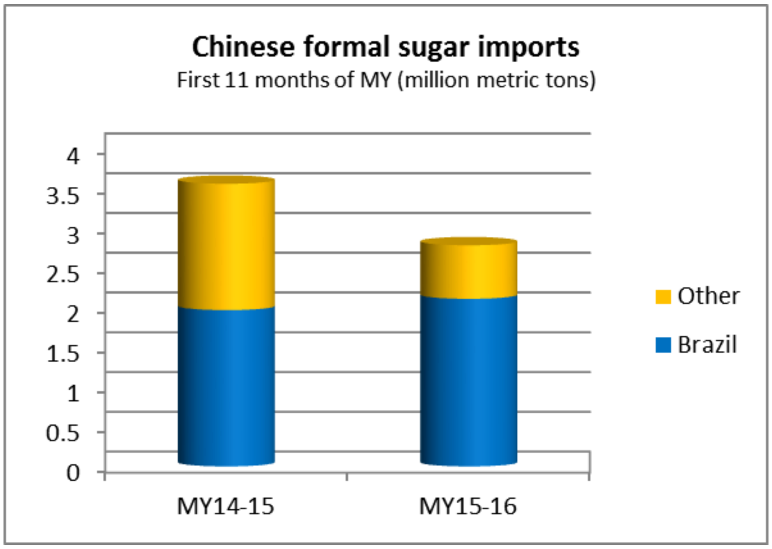
Industry sources report that following years of deep losses, this coming year because of high sugar prices sugar processors will likely break even or could become profitable. Nevertheless, some sugar processors continue to have significant financial difficulties. According to various press reports in May

of this year, Associated British Foods was considering selling its Chinese sugar business for as much as $1 billion. As the sixth largest sugar producer in China, it runs five sugar cane processing plants in Guangxi and five sugar beet plants in north China.
MY 2015/16 sugar production estimate was also revised upward as industry and government sources indicate that production did not fall as low as previously estimated.

Consumption
MY 2016/17 sugar consumption is revised slightly down to 17.5 million tons, the same as the forecast for MY 2015/16. Despite continued urbanization, China's sugar consumption has been affected by weakened demand growth from the food/beverage industries due to the slowdown in economic growth, as well as higher sugar prices. According to Chinese Ministry of Agriculture forecasts, while the average sugar price in MY 2014/15 was 4,877 Chinese yuan (approximately $740) per metric ton, in MY 2015/16 the sugar price range midpoint is estimated at 5,800 yuan (about $880) per metric ton, and in MY 2016/17 is forecast at 6,000 ($910) per metric ton.

Trade
MY 2016/17 sugar imports are revised down substantially to 6.0 million tons, 1.9 million tons below the previous forecast. This is a result of both higher domestic sugar cane production, a narrowing of domestic and global sugar price spreads which makes smuggling less attractive, as well as a strengthening of Chinese enforcement against illegal sugar trade. On September 22, 2016, the China's Ministry of Commerce (MOFCOM) issued a notice announcing the initiation of safeguard measure investigation against imported sugar with the investigation expected to be completed in six months (see policy section below for more information). Depending on the findings of the investigation, and the timing of any resulting measures, this could impact MY 2016/17 imports.

MY 2015/16 sugar imports are also revised down 700,000 metric tons to 6.0 million. Although the 1.95 million metric tons annual tariff rate quota is expected to be fully utilized, the imports with the out-of-quota tariff rate of 50 percent have fallen sharply. Chinese customs data through the first 11 months of the marketing year show much lower formal imports of sugar at only 2.8 million metric tons of imports, compared to 3.6 million metric tons during the same period the previous year. Imports from Brazil (China's largest supplier) are actually up in MY 2015/16, and all of the decline in imports is due to smaller formal shipments from suppliers such as Thailand and others. Some industry sources report that much of this trade has shifted to illegal cross border trade.



Although official imports of sugar dropped, industry analysts reported a huge surge in illegal trade, with estimates between 1.5 and 2.0 million metric tons. This is primarily because in MY 2015/16 the spread between Chinese and key supplier country sugar prices expanded dramatically, encouraging smuggling. Recently, however, this spread has narrowed and as a result many industry contacts expect smuggling to decrease in MY 2016/17.

Policy

On September 22, 2016, the China's Ministry of Commerce (MOFCOM) issued a notice announcing the initiation of safeguard measure investigation against imported sugar, which includes raw sugar and finished sugar classified under HS codes: 17011200, 17011300, 17011400, 17019100, 17019910, 17019920 and 17019990. The period of investigation is from January 1, 2011 to March 31, 2016.

Within 20 days since the notice's issuance, stakeholders can file a request for holding a public hearing on such investigation. The investigation should be completed within six months by March 22, 2017 but can be extended for two months under special circumstances.

This investigation is a response to a petition by the Guangxi Sugar Industry Association on behalf of China's domestic industry. The MOFCOM's public notice (in Chinese) pertaining to this safeguard measure investigation can be found at
http://gpj.mofcom.gov.cn/article/cs/201609/20160901398588.shtml

Stocks

The forecast for MY2016/17 ending stocks is revised down considerably. With domestic sugar prices further climbing, industry sources believe that the Chinese government will release national reserves in the coming months. Chinese Ministry of Agriculture supply and demand estimates for sugar also forecast a dramatic drawdown in ending stocks.

Tables

Production, Supply, and Demand (PSD) Tables

Table1. Centrifugal Sugar

Sugar, Centrifugal	2014/2015		2015/2016		2016/2017	
Market Begin Year	Oct-14		Oct-15		Oct-16	
China	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	8,832	8,832	7,287	7,287	4,872	4,572
Beet Sugar Production	800	800	630	630	630	630
Cane Sugar Production	10,200	10,200	7,800	8,200	7,600	8,900
Total Sugar Production	11,000	11,000	8,430	8,830	8,230	9,530
Raw Imports	4,350	4,350	6,300	5,600	7,500	5,600
Refined Imp.(Raw Val)	708	708	400	400	400	400
Total Imports	5,058	5,058	6,700	6,000	7,900	6,000
Total Supply	24,890	24,890	22,417	22,117	21,002	20,102
Raw Exports	5	5	5	5	5	5
Refined Exp.(Raw Val)	40	40	40	40	40	40
Total Exports	45	45	45	45	45	45
Human Dom. Consumption	17,558	17,558	17,500	17,500	17,800	17,500
Other Disappearance	-	-	-	-	-	-
Total Use	17,558	17,558	17,500	17,500	17,800	17,500
Ending Stocks	7,287	7,287	4,872	4,572	3,157	2,557
Total Distribution	24,890	24,890	22,417	22,117	21,002	20,102
(1000 MT)						

Table 2. Sugar Cane

Sugar Cane for Centrifugal	2014/2015		2015/2016		2016/2017	
Market Begin Year	Oct-14		Oct-15		Oct-16	
China	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	1,720	1,720	1,344	1,370	1,300	1,440
Area Harvested	1,630	1,630	1,257	1,300	1,235	1,370

Production	98,000	98,000	73,000	76,000	71,600	83,700
Total Supply	98,000	98,000	73,000	76,000	71,600	83,700
Utilization for Sugar	98,000	98,000	73,000	76,000	71,600	83,700
Utilizatn for Alcohol	-	-	-	-	-	-
Total Utilization	98,000	98,000	73,000	76,000	71,600	83,700
(1000 HA) ,(1000 MT)						

Table 3. Sugar Beets

Sugar Beets	2014/2015		2015/2016		2016/2017	
Market Begin Year	**Oct-14**		**Oct-15**		**Oct-16**	
China	**USDA Official**	**New Post**	**USDA Official**	**New Post**	**USDA Official**	**New Post**
Area Planted	190	190	145	-	145	145
Area Harvested	184	184	140	-	140	140
Production	9,300	9,300	7,000	-	7,000	7,000
Total Supply	9,300	9,300	7,000	-	7,000	7,000
Utilization for Sugar	9,300	9,300	7,000	-	7,000	7,000
Utilization for Alcohol	-	-	-	-	-	-
Total Distribution	9,300	9,300	7,000	-	7,000	7,000
(1000 HA) ,(1000 MT)						

Trade Tables

Table 4. China's Sugar Imports Total and Top 10 by Origin – MY 2015/16 in tons (note: September 2016 data is not yet available)

	Oct.-Dec./15	**Jan.-Mar./16**	**Apr.-Jun./16**	**Jul.-Aug./16**	**MY Total (not including Sep./16)**
World	**1,116,413**	**605,365**	**729,918**	**779,567**	**3,231,263**
1. Brazil	744,126	381,966	371,788	629,801	2,127,681
2. Cuba	64,300	67,000	233,700	37,938	402,938
3. Thailand	105,005	55,485	53,919	20,961	235,370

4. Australia	134,967	54,098	560	45,693	235,318
5. Korea, South	60,771	26,084	53,565	38,820	179,240
6. Guatemala	-	7,889	6,666	2,901	17,456
7. Malaysia	4,398	2,550	5,489	1,275	13,712
8. Myanmar	-	2,200	4,005	-	6,205
9. Cambodia	-	5,860	-	-	5,860
10. Others	2,846	2,233	226	2,178	7,483

Source: China Customs (note: September 2016 data is not yet available)

Table 5. China's Sugar Exports Total and Top 10 by Destination – MY 2015/16 in tons (note: September 2016 data is not yet available)

	Oct.-Dec./15	**Jan.-Mar./16**	**Apr.-Jun./16**	**Jul.-Aug./16**	**MY Total (not including Sep./16**
World	**26,427**	**44,846**	**55,007**	**20,498**	**146,778**
1. Philippines	15,495	28,703	33,438	309	77,945
2. Mongolia	1,120	5,388	9,724	5,001	21,233
3. Hong Kong	4,419	5,916	5,700	4,475	20,510
4. Korea, South	-	-	-	6,939	6,939
5. Japan	450	1,065	1,852	352	3,719
6. United States	1,263	746	1,082	492	3,583
7. Malaysia	940	623	986	694	3,243
8. Korea, North	953	416	2	801	2,172
9. Singapore	272	306	396	253	1,227
10. Others	1,515	1,683	1,827	1,182	6,207

Source: China Customs (note: September 2016 data is not yet available)