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China - Peoples Republic of

Grain and Feed Update

China Unloads Corn

Approved By:

Lisa Anderson

Prepared By:

Gene Kim

Report Highlights:

Corn future and spot prices have dropped to their lowest levels in six years. The government has facilitated the liquidation of temporary reserve stocks with various producer and processor support programs, transforming the market dynamics of China's feed complex.

Since late September 2016, milling-grade wheat prices have surged 10 to 12 percent in middle and southern China. MY 2016/17 China wheat production is forecast at 128.9 million tons, or 1.03 percent lower than the previous year on declining yields. Recent State Grain Administration market interventions have contributed to greater scarcity in the market for milling-quality wheat. Milling grade wheat prices have exceeded RMB 2,500 per ton (nearly \$10.00 per bushel), offering a valuable arbitrage opportunity for global wheat exporters.

Executive Summary

China's agriculture policy under the 13th Five Year Plan (13th FYP) was released in early November 2016. Under these new agricultural guidelines, the country will strive to ensure food security, improve the quality and efficiency farm production, and enhance China's agricultural international competitiveness by 2020.

For China, MY2016/17 is the first season that the temporary reserve policy in North East provinces and Inner Mongolia has been replaced with the new "marketized purchase" and government direct producer payments program. MY2016/17 corn production forecast is unchanged at 219.6 million tons from the USDA January forecast, as slightly higher yields offset lower harvested area. Forecast MY2016/17 corn consumption is revised up 10 million tons to 237 million tons on significantly higher feed use and policy driven FSI use. Forecast MY2016/17 corn imports are cut 1.0 million tons from the January USDA estimate to 2 million on diminishing price competitiveness for import supplies. MY2016/17 corn ending stocks are forecast lower at 95.3 million tons, down 11 million from USDA January estimates on lower production and imports and higher consumption.

MY2016/17 wheat production is forecast unchanged from the USDA January estimate at 128.9 million tons as growers benefit from government price supports. Total wheat consumption in MY 2016/17 is raised 1.0 million tons to 118.0 million tons from the USDA January forecast. MY2016/17 wheat imports are forecast up 500,000 tons to 4.0 million tons compared to the USDA January forecast. Strong demand for by mills and speculative traders has raised interest in imports as domestic milling wheat prices approach levels close to parity with imported prices, even accounting for the applied out-of-quota TRQ tariff rate of 65 percent. MY2016/17 wheat stocks are projected at 110.6 million tons, down 1.0 million tons from the USDA January forecasts as imports are raised and stocks are tighter.

Forecast MY2016/17 rough rice production is adjusted 930,000 tons higher to 207.9 million tons from the USDA January estimate on expanded planting area. Post forecasts MY 2016/17 rice harvested area up 3.0 million hectares from USDA January estimates to 33.3 million hectares as corn growers in North East China are expected to switch from planting corn to rice. Forecast MY2016/17 consumption is unchanged at 144.0 million tons. Forecast MY2016/17 rice imports are unchanged at 5.0 million tons from USDA January estimates.

MY2016/17 sorghum production is revised higher by 500,000 tons to 3.8 million tons on expanded harvested area and higher yields. Provincial government irrigation infrastructure investments in North East China are estimated to raise MY2016/17 sorghum yields to 5 tons per hectare, up 23 kg per hectare from MY2015/16. MY2016/17 consumption is forecast up 100,000 tons to 8.8 million tons on higher FSI use and slightly lower feed use. MY 2016/17 imports are forecast to fall 500,000 tons to 4.5 million tons from the USDA January estimate on lower sorghum price competitiveness in the face of falling corn prices

Policy

Agricultural Guidelines in the 13th Five Year Plan

On December 22, 2016, Agricultural Minister Han Changfu presented remarks at the National Rural Work Conference in Beijing about new agricultural guidelines in the 13th FYP. He announced that “modernization is the only way for China agriculture’s future.” He added that “efforts should be made to promote Central Government supply-side structural reform... [as well as a]...national grain safety strategy centered on increasing production and technological advances ...”

In the Agricultural Modernization Guidelines of the 13th FYP, the government concedes that Chinese agriculture has struggled to become globally competitive due to limited arable land resources, outdated technology, and rapidly rising production costs. The document signals that the Chinese Government acknowledges the limitations of its previous agricultural policy.

Under the new agricultural modernization plan for grain production, the government proposes a strategic production adjustment to reduce corn production and increase soybean production from 2016 to 2020. The specific targets in the 13th FYP include 550 million tons of grain production with annual growth of 9 percent. The agriculture production should achieve 70 percent of farming mechanization production rate and 40 percent of farmland under moderately large-scale operation by 2020.

For this major grain production adjustment about 4.67 million hectares of corn production area, or 12.4 percent, will be used for other crops. Soybean production area is expected to reach 9.4 million hectares, raised by 2.9 million hectares, or a 44 percent rise in soybean area.

Land Consolidation

China has about 124.3 million hectares of arable land, of which, more than 100 million hectares are actively farmed. China's Ministry of Land and Resources reports that since 2003 arable land reserves have fallen by 2 million hectares. However, reserves of continuous arable land have fallen by 74 percent over the past 13 years due to urbanization and land contamination. In 10 provinces including Beijing, Tianjin and Jiangsu, continuous arable land has fallen by more than 90 percent.

On November 12, 2016, Li Wei, Minister of the Development Research Center (DRC) of the State Council, announced that China aims to develop 800 million mu (133.3 million acres) of high-quality arable land and 1.0 billion mu (166.6 million acres) of contiguous arable land by 2020. A series of related program announcements outline various government initiatives to meet these goals.

On December 29, 2017, the State Council announced that the Ministry of Land and Resource and the National Development and Reform Commission (NDRC) will implement a national plan for land consolidation, land conservation, and land management to ensure food security. The 13th FYP targets the development of at least 400 million mu (26.7 million hectares) of “high-level”

farm land and the reclamation of at least 20 million mu (1.3 million hectares) through land consolidation and conservation programs on contaminated land and reclaimed marginal land.

Conservation Set-Asides

The 13th Five Year Plan builds on a June 2016 Central Government pilot program announcement to distribute \$1.5 billion renminbi (\$218 million) in conservation payments to farmers to withdraw 6.16 million mu (1.0 million hectares) of land from production to lie fallow or rotate to other crops. Approximately 1.1 million mu of arable land will be removed from production. Approximately 5.06 million mu of arable land will be rotated to other crops.

On November 12, 2016, Li Wei renewed the Central Government's commitment to expand forestry and grassland set-aside programs, withdraw land from production, and promote water and soil rehabilitation. The "Green Development" initiative, established in 2002, had low participation for more than a decade. In April 2014, the Chinese Ministry of Environmental Policy and the Ministry of Land and Resources jointly conducted a survey from April 2005 to December 2013, which reported that approximately 19 percent of arable land was found to be polluted. Shortly after the report, the Central Government renewed the Green Development initiative to boost participation and expand the total targeted area. In November 2016, new targets were reestablished including an effort to raise participation rates by 10 to 20 times from current levels by 2020 and boost the total targeted area to about 5 million hectares by 2020, up 2 million hectares more than originally planned.

Capital Investments for Irrigation Systems

Provincial governments in Heilongjiang, Jilin, and Liaoning have invested RMB 4.6 to 6.0 billion (\$672 to \$877 million) on an extensive irrigation investment program to encourage growers to switch from planting corn to planting rice and sorghum by improving available water supplies.

Development of Private Assets for Rural Farmers

Today, many rural farmers are short on cash. On October 30, the State Council announced that Chinese authorities aim to reform and redefine rights for land-use rights, contract rights, and farm operating rights. As rural migrants move to the cities, they leave behind operating rights to their farm land. The Central and Provincial Government land reform aims to confirm and register rural land ownership, contract rights, and farm operating rights, consolidate fragmented small shareholder land parcels, and establish new measures for oversight of commercial lease arrangements.

On January 2, 2017, China announced an initiative to facilitate the registration of contract and transfer rights for rural farmers to turn their assets into shares of various private enterprise ventures.

North East China and Inner Mongolia Producer Support

MY 2016/17 is the first season that the temporary reserve policy has been replaced by the new “marketized purchase” (市场收购) and government direct payments program (政府补贴). See GAIN report CH16058.

In 2007, China launched the State Grain Administration temporary corn reserve program, or the “State Grain Procurement in North East China” program. Participating provinces in the program include Liaoning, Jilin, Heilongjiang provinces, as well as in the Inner Mongolia region. This program is designed to protect farmer’s incomes, stabilize the market, and ensure national food security. However, the programs external effects include higher domestic corn production, the accumulation of massive government inventories, and a large gap between domestic and international corn prices.

The Central Government continues to provide minimum purchase price support for rice and wheat production in MY 2017/18.

For MY 2016/17, China’s Ministry of Finance authorized and allocated a 39.4 billion RMB (\$5.62 billion) direct payment corn producer support program for the North East production region, or \$370 to \$397 per hectare. Direct payments will help growers adjust to the major policy shifts in MY2016/17.

By close of January 2017, direct payments have either been disbursed or allocated to provincial governments for delivery to producers before the Chinese Lunar New Year (January 28, 2017). See below for the fund allocation chart.

MY2016/17 Direct Corn Producer Payment Chart by Province				
	Heilongjiang	Jilin	Liaoning	Inner Mongolia
Eligible Harvested Area (1,000s hectares)	5,440	3,697	2,330	3,372
First Installment (\$ millions)	\$1,670	\$1,048	\$661	\$956
Second Installment (\$ millions)	\$476	\$324	\$204	\$295
Total Producer Support (\$ millions)	\$2,146	\$1,372	\$865	\$1,251
Direct Corn Producer Payment (\$ per hectare)	\$393.95	\$370.46	\$370.46	\$370.46

Source: MOA and Post collection (Exchange rate USD/CNY = 6.94)

In late November 2016, provincial governments in North East China announced that they will implement partial supplements to the Central Government’s processor subsidy at the close of the MY 2016/17 harvest.

MY2016/17 corn harvested area is forecast at 36.76 million hectares, unchanged from the USDA January estimate due to limited alternative planting options and short response time after the floor price cancellation announcement made right before the corn seeding season in late March 2016.

North East China corn processors producing starch and ethanol are eligible to receive RMB 100 to RMB 300 per ton processor subsidies for procuring local corn inventories held by the State Grain Administration. Each province administers program period and payment schedule for their processor subsidy program individually. The overall North East China processor subsidy period starts on November 1, 2016 and ends on April 30, 2017. See below for fund allocation details.

	Heilongjiang	Jilin	Liaoning	Inner Mongolia
Total Outlays for Direct Corn Producer Payments (\$ millions)	\$38.47	\$12.25	\$17.29	\$7.78
Corn Processor Subsidy (\$ per ton)	\$14.41	\$28.82	\$43.23	\$28.82

Sources: Provincial Governments (Exchange rate USD/CNY = 6.94)

In early November 2016, state media reported that Chinese authorities have established a loan-guarantee credit facility for corn processors in the North East provinces of Jilin, Heilongjiang, Liaoning, and Inner Mongolia to purchase corn. The loan-guarantee fund will backstop loans provided by the Agricultural Development Bank of China, the Ministry of Finance, China Banking Regulatory Commission and the State Grain Administration

The State Grain Administration has offered RMB 65 per ton (\$9.05) for flour millers to process government inventories of wheat. However, industry sources report that the government has inconsistently paid millers the processor subsidy. Although there have been no official announcements, the industry does not have confidence that the State Grain Administration processor subsidy will be administered in MY2016/17 due to budgetary shortfalls.

Marketization with Chinese Characteristics

Even though the Central Government has signaled a move towards a market-oriented corn policy, reforms will not take effect immediately. Officials will continue to administer Local, Provincial, and Central Government interventions in the near-term. Despite the elimination of the temporary reserve policy in North East Provinces, the State Grain Administration continues to post average farm gate prices for state procurement. Other government market interventions also continue. For example, State-Owned Enterprises (SOEs), including SinoGrain, China National Cereals, Oils and Foodstuffs Corporation (COFCO), Chinatex Corporation, and the newly founded Aviation Industry Corporation of China International Cereal Trading Corporation (AVIC) are principle buyers of temporary grain reserve auction sales.

Based on NDRC's "Notice of Publication of the Minimum Purchase Price for Wheat and Rice in 2017" published in October 2016, the floor price for wheat and rice in MY 2017/18 will remain unchanged from the MY 2016/17 level.

The wheat floor price will remain at 2,360 RMB per ton (\$345). The early Indica rice price will remain at RMB 2,660 per ton (\$389) and Japonica at RMB 3,100 per ton (\$453). The Central Government maintains that it will continue to provide direct wheat producer payments of at least RMB 125 per mu (\$112 per acre), unchanged from last year.

Transportation Regulations Offset by Payments, Relaxed Enforcement, and Rebates

In North East China, overloaded grain trucks have a long history of causing highway traffic and safety issues. To regulate truck traffic, the Government of China's Ministry of Communications implemented new highway regulations in North East China in September 2016. Trucks faced greater scrutiny for inspections and overloaded trucks faced higher penalties of RMB 1,000 to 1,800. The new regulations reportedly raised on-road freight rates by 20 to 30 percent and caused delayed deliveries for shippers and end-users across North East China.

Industry sources report that the Central Government may soon introduce a one-time payment of RMB 140 or \$10.17 to offset the additional freight costs incurred by trucking regulations.

In late December 2016, Jilin and Heilongjiang Provinces announced that trucks hauling corn will be exempted from new regulations or pay lower fees. Furthermore, trucks exceeding weight limits by less than one ton would be exempted from penalties.

Wheat

Production

MY2016/17 wheat production is forecast unchanged from the USDA January estimate at 128.85 million tons on strong government price support. MY2016/17 wheat production is down 1.34 million tons, or 1.03 percent, from MY 2015/16 on lower yields. MY2016/17 is the first year that China's wheat production has fallen after 12 consecutive years of wheat production growth, an historic feat in agricultural production.

Higher than normal precipitation at the end of the growing season from April to July 2016 significantly downgraded crop quality and yields across several East China wheat-growing provinces including, Henan, Shandong, Jiangsu, Hubei and Anhui. A September 2016 State Grain Administration survey reported that the rate of sprouted, unsound, and musty kernels rose to a national average of 7.1 percent, 1.6 percentage points higher than the 2015 crop season. Industry sources have suggested that potentially more than 10 percent of grain may be spoiled. Industry sources report that as much as 24 percent or higher of the crop may be out-of-condition in Jiangsu, Anhui, Henan, and Hubei.

MY 2015/16 wheat production is estimated unchanged at 130.19 million from USDA January estimates.

Consumption

Total wheat consumption in MY 2016/17 is raised 1.0 million tons to 118.0 million tons from the USDA January forecast on a surge of 1.0 million to 16.0 million for feed and residual use.

MY2016/17 feed use is forecast at 16.0 million tons, 1.0 million tons higher than the January 2017 USDA estimate. Industry sources report lower quality MY2016/17 wheat supplies, causing a shortage of standard, milling-grade wheat in China's central and southern production regions and in the short-term higher rates of feed use. The fundamental wheat supply structure is unchanged. With rapidly dropping corn prices, feed use of wheat will subside by March 2017.

Forecast MY 2016/17 wheat food, seed and industrial (FSI) consumption is unchanged at 102 million tons from USDA's January forecast.

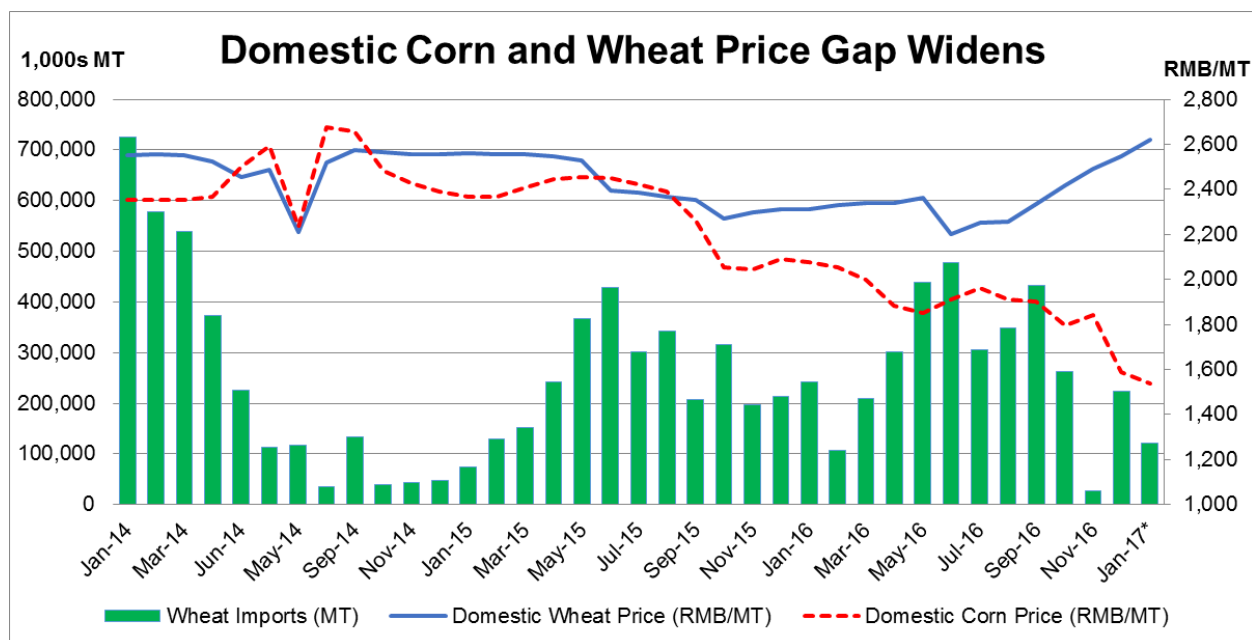
At the start of harvest, Sino Grain initially procured the highest-quality wheat supplies. Remaining supplies on the open market are below average grade. Industry sources report that the State Grain Administration lowered tolerances for quality specifications to provide relief in the most severely affected provinces. Quotes of sprouted wheat sold to feed mills ranged from RMB 1,510 per ton to 1,630 per ton (\$227 to \$245), depending on grade.

In early January 2016, industry sources reported that milling-grade wheat delivery prices in affected areas have jumped 10 to 12 percent from September 2016 on speculative buying and higher truck freight costs. January 2017 domestic wheat spot prices soared to between RMB 2,450 and RMB 2,640 (\$9.75 to \$10.35 per bushel).

Wheat Spot Prices in Major Production Provinces in December 2016					
	Hebei	Shandong	Henan	Jiangsu	Anhui
Price (RMB per ton)	2,640	2,640	2,580	2,540	2,520
Price (\$ per bushel)	\$10.35	\$10.35	\$10.12	\$9.96	\$9.93

Source: Post calculations and industry sources

In South China, price elasticities for milling wheat are even higher. In Guangzhou, wheat mill delivery prices have reached as high as about RMB 2,600 per ton (\$11.37 per bushel).



Source: China JCI Consulting and Global Trade Atlas

Notes: January 2017 import volumes based on U.S. Export Sales Reports to date.

MY2015/16 feed and residual use is revised higher to 11.0 million tons, up 500,000 tons from the USDA January estimate on higher feed use of old-crop wheat supplies starting in June 2016 as out-of-condition wheat is competitively priced lower than corn.

MY2015/16 wheat FSI use is estimated at 101.5 million tons, unchanged from the previous USDA forecast.

Imports

MY2016/17 wheat imports are forecast at 4.0 million tons, up 500,000 tons than the USDA January forecast.

On October 15, 2016, the NDRC announced the 2017 TRQ for wheat at 9.6 million tons, unchanged from 2016.

Strong demand for by mills and speculative traders has raised interest in imports, even accounting for the applied out-of-quota TRQ tariff rate of 65 percent. While U.S. wheat prices continue to decline, the Chinese domestic wheat market remains bullish, creating an arbitrage opportunity.

Even with the high out-of-quota tariff, U.S.-origin Soft Red Wheat (SRW) quotes to South China ports are becoming more competitively priced at RMB 2,850 (\$11.16 per bushel), while Australian new crop wheat quotes at RMB 2,700 per ton (\$10.64 per bushel). The industry reports that Canadian wheat consignments have been booked for delivery to Chinese ports in next few months.

According to China Customs, China imported 1.4 million tons of wheat from July 2016 to November 2016. The share of U.S wheat accounted for 38.6 percent of China's MY 2016/17 wheat imports to date. Meanwhile, Australia and Canada's share of imports were 32.9 percent and 21.2 percent, respectively.

Stocks

MY2016/17 wheat stocks are projected at 110.6 million tons, down 1.0 million tons from the USDA January forecasts as imports are raised and stocks are tighter. Industry sources report that private and producer wheat inventories are low.

Although the State Grain Administration expanded wheat procurement volumes in 2016/17, overall stocks are forecast lower. Government procurement is not expected to materially change holdings for overall national pipeline stocks. At the close of the 2016/17 wheat procurement campaign on September 30, 2016, the State Grain Administration reported that total procurement reached 75.8 million tons, about 9.5 million tons higher than last year. In 2016/17, about 81 percent of State Grain Administration wheat stocks originated from four of the most weather-affected provinces: Jiangsu, Hubei, Henan, and Anhui.

MY2015/16 wheat stocks are estimated at 96.5 million tons, down 500,000 tons from USDA January estimates on higher feed usage.

Corn

Production

MY2016/17 corn production is forecast unchanged at 219.6 million tons from the USDA January forecast on slightly higher yield offset by lower acreage.

MY2016/17 corn harvested area is forecast to fall to 36.8 million hectares, down 3.6 percent or 1.36 million hectares from MY 2015/16 as North East corn producers convert 1.4 million hectares of corn area to other crops and forage.

Estimated MY2015/16 production is unchanged at 224.6 million tons.

Consumption

Forecast MY2016/17 corn consumption is revised up 15 million tons to 242 million tons on higher feed and FSI use.

MY2016/17 feed and residual use is forecast to rise to 162 million tons, up 5 million tons from USDA's January estimate, on plentiful and competitively priced domestic supplies and higher demand. Industry sources forecast that pork production will continue growing at about three percent in MY2016/17.

Estimated MY 2015/16 feed and residual use remains unchanged from USDA's January estimate of 153.5 million tons.

MY 2016/17 FSI consumption is forecast higher at 75 million tons, up 7 million tons from USDA January estimates due to government processors support programs (See Policy section).

Estimated MY 2015/16 FSI use is unchanged from USDA's January estimate of 64 million tons.

At the time of this report, Post estimates that domestic farm-gate prices have dropped to their lowest levels in six years. In some North East provinces, corn prices have declined to RMB 1,120 per ton (\$163). In the spot market, rural farmers in North East China have no nearby storage available and are under heavy pressure to recover planting costs and sell grain at significant discounts.

Industry analysts forecast that futures quotes on the Dalian Exchange for early 2017 delivery will tumble to as low as RMB 1,400 per ton (\$201). As of January 2017, corn futures contracts have dropped to RMB 1,580 per ton (\$231), a 14 percent decline from November 2016, the point at which the Chinese Renminbi began to depreciate against the U.S Dollar.

Imports

Forecast MY2016/17 corn imports are cut 1.0 million tons from the January USDA estimate to 2 million on diminishing price competitiveness for import supplies.

2017 corn import tariff-rate quotas (TRQ) are at 7.2 million tons, unchanged from 2016 with non-state trade importers accounting for 40 percent of total quota allocations.

The price gap between U.S. corn and domestic corn delivered to South China ports is narrowing and domestic corn prices delivered to South China ports have fallen to a new low. Industry sources report that January 2017 U.S. corn quotes (delivered CIF, after duty) to South China ports are RMB 1,450 to 1,630 per ton (\$212 to \$238). In Qinghuang Dao port, a major corn delivery point in South China, delivered corn quotes are at RMB 1,450 (\$212).

MY2015/16 import estimates are unchanged from USDA January estimates at 3.2 million tons. Imports from Ukraine accounted for about 2.7 million tons, or 84 percent of total corn imports. China imported about 240,000 tons, or about eight percent from the United States.

Exports

Forecast MY2016/17 corn exports are unchanged at 20,000 tons from the USDA January estimate. Based on recent trade data, North Korea is the sole buyer of corn from China with very small volumes.

Although domestic corn prices have spiraled downward towards international benchmark prices, industry sources report that the quality of Chinese domestic corn supplies remains far behind international contract specifications.

Stocks

MY2016/17 corn ending stocks are forecast lower at 95.3 million tons, down 11 million from USDA January estimates on lower production and imports and higher consumption.

MY2015/16 stocks are estimated at 110.7 million tons, unchanged from USDA's January's number.

Rice

Production

Forecast MY2016/17 rough rice production is at 207.86 million tons, adjusted up 930,000 tons from the USDA January estimate on expanded harvested area.

Post forecasts MY2016/17 rice harvested area up 3.0 million hectares from USDA January estimates to 33 million hectares as corn growers in North East China are expected to switch from planting corn to rice. In December 2016, CNGOIC raised MY2016/17 estimated rice harvested area at 30.5 million hectares, up 0.75 percent from MY2015/16.

Post estimates that expanded rice harvested area in North East China will offset weather-related yield losses in South China. CNGOIC reports that forecast MY2016/17 rice yields in these provinces are estimated slightly lower due to weather damage.

Estimated MY 2015/16 rough rice production is unchanged at 208.0 million tons from the USDA January estimates.

Consumption

Forecast MY2016/17 consumption is unchanged at 144.0 million tons based on average feed use and FSI use. Rice feed usage remains low due to diminished price competitiveness in the face of plummeting corn prices. As Chinese consumption of meat and dairy continues to rise, consumption of rice, wheat, and other staple grains will continue to fall.

MY2015/16 consumption is estimated unchanged at 144.0 million tons.

Imports

Forecast MY2016/17 rice imports are unchanged at 5.0 million tons from USDA January estimates.

Vietnam and Thailand remain leading exporters of rice to China due to their competitive prices and freight advantage. Rice imports will continue to be profitable if South East Asian countries offer the prices below China's floor price of RMB 2,660 per ton (\$389). The average CIF rice price from South East Asia to China is RMB 2,432 per ton (\$350).

Industry sources disclose that about 2.0 million tons of rice entered China in calendar year 2015. Although the Central Government has responded with targeted crackdowns on smuggling, significant rice processing capacity in South China will continue to draw illegal imports from neighboring countries.

On December 3, 2016, COFCO and Thailand's Ministry of Commerce announced the conclusion of a one-million-ton rice import contract priced at RMB 2,400 per ton (\$351) for delivery in 2017. The transaction supports China's "Belt and Road" initiative and is linked to a second program agreement between the NDRC and Thailand for the completion of a Thai high-speed rail network.

MY2015/16 rice imports are estimated unchanged at 4.8 million tons.

Stocks

Forecast MY2016/17 ending stocks are revised to 70.0 million tons, up 650,000 tons from January USDA estimates on higher production.

Estimated MY 2015/16 rough rice stocks are unchanged at 63.7 million tons from the USDA January estimate.

Sorghum

Production

MY2016/17 sorghum production is raised to 3.8 million tons, up 500,000 tons from the January USDA estimate on expanded harvested area and higher yields. Provincial government irrigation infrastructure investments in North East China are estimated to improve raise MY2016/17 sorghum yields to 5 tons per hectare, up 23 kg per hectare from MY2015/16.

MY2016/17 sorghum harvested area is forecast to rise 100,000 hectares to 760,000 hectares. Returns on sorghum planting are higher than returns on planting for other crops. Based on industry estimates, the average net margin on sorghum production in North East China is RMB 280 to 370 per mu (\$270 to \$318 per acre) compared to an average net margin on corn, including a direct producer payment of RMB 140 to 320 per mu (\$135 to \$309 per acre). As producers lose confidence in the corn market, more growers will switch to sorghum in 2017/18.

MY2015/16 sorghum production is estimated at 2.8 million tons unchanged from the USDA January estimate.

Consumption

MY2016/17 consumption is forecast to increase 100,000 tons to 8.8 million tons as higher FSI use offsets by lower feed use.

Feed consumption is revised down 300,000 tons to 6.3 million tons.

FSI use is revised up 400,000 tons to 2.5 million tons on recovering demand from the liquor industry. According to the Chinese Alcoholic Beverage Association, Chinese liquor producers in 2016 have raised production volumes. FSI use for distillation into traditional liquor will continue to rise in next year. MY2016/17 sorghum use for fuel ethanol is forecast at 500,000 tons, up 50,000 tons from MY2015/16.

MY2015/16 consumption is estimated at 11.0 million tons, unchanged from the USDA January estimate.

Imports

MY 2016/17 imports are forecast to fall 500,000 tons to 4.5 million tons from the USDA January estimate due to diminished price competitiveness in the face of falling corn prices.

Industry sources forecast sorghum imports to fall 10 percent in MY2016/17.

After the final determination was announced on January 11, 2017 in China's anti-dumping and countervailing duties case against the United States, the feed market for alternative feeds will shift away from U.S. DDGS and more towards domestically produced corn, sorghum, and DDGS.

U.S sorghum is gradually losing its price advantage to Chinese domestic corn. In the past few years, the price gap between U.S sorghum and Chinese corn was about \$55 to \$75 per ton. Today, U.S. sorghum delivered to Chinese ports in January is quoted at CIF \$208 per ton, which is near parity with domestic corn quotes delivered to South China ports at RMB 1,450 per ton (\$208).

MY2015/16 import is estimated at 8.3 million tons, unchanged from the USDA January estimate.

Stocks

Forecast MY2016/17 ending stocks are revised down 100,000 tons to 207,000 on rising production and lower feed use.

Estimated MY2015/16 ending stocks are unchanged at 717,000 tons.

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