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China - Peoples Republic of

Grain and Feed Annual

Grain Prices Reflect Political Risks - Outweighing Animal Disease Impacts

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Report Highlights:
Persistent dry weather and lingering uncertainty about prices at harvest are likely to delay planting of the MY2019/20 corn crop for the second consecutive year in North East China and the North China Plain. China has employed various trade measures against the United States, Canada, and Australia, driving processing and input costs for grain end-users higher. China's total corn demand in MY2019/20 is forecast to reach a new record as processors continue to binge on state-owned inventories. However, capacity expansion has quickly outpaced demand for processed corn products. African Swine Fever's impacts on China's feed sector are forecast to stabilize in late 2019, weakening feed demand in MY2018/19 and recovering in MY2019/20. Wheat production is nearly unchanged compared to last year and stocks are forecast higher in MY2019/20 due to weak demand.

Executive Summary:

Seasonal Outlook

Field work is mostly complete in North East China and the North China Plain, the principal growing regions for corn, wheat, and rice. These regions typically start planting summer crops in mid-to-late April. China Ministry of Water resources officials forecast a dry growing season and a higher risk of extreme weather events across North China during the summer growing season in 2019. Heilongjiang provincial meteorological officials forecast slightly higher temperatures. In Western Liaoning and Jilin province low soil moisture has raised concern among producers who are preparing to plant their crops in the coming weeks.

For much of the South China region, the spring planting season begins in March and early April. Overcast and rainy weather have delayed field work and planting for early indica rice. In Jiangxi province, local officials report that new agricultural practices have moved early planting dates forward to mid-March, about 10 to 20 days earlier than before.

MY2019/20 Grain for Feed Use Situation and Outlook

This report presents the first outlook for China's grain and feed, and Production, Supply and Demand (PS&D) forecasts for the Marketing Year (MY) 2019/20. Unless stated otherwise, data in this report are based on the views of the Foreign Agricultural Service, Office of Agricultural Affairs in China and are not official USDA data.

China's 2019 No. 1 Central Document has signaled that China will shift its overall agricultural policy to promote greater soybean production, meanwhile maintaining self-sufficiency for wheat and rice production. Government subsidies for planting and crop rotation favor soybeans in the battle for hectares in North East China. However, planting intentions in MY2019/20 remain unclear as many farmers wait for outcomes from trade discussions between the United States and China, and anticipated changes to China's domestic support and trade policies. In this environment, many producers are delaying their planting decisions as late as possible and preparing to plant either corn or soybeans.

MY2019/20 corn production is forecast at 255 MMT, down 2.3 MMT from MY2018/19 as soybean area expands. Corn imports are forecast to rise due to expanded market access. Post projects that MY2019/20 imports are primarily intended for feed use or stockholding. Uncertainty about the precise volume of China's domestic corn stocks lingers.

MY2019/20 Grain for Food Use Situation and Outlook

MY2019/20 wheat production is forecast at 131.5 MMT, slightly higher than MY2018/19 on higher yields. MY2019/20 rough rice production is forecast at 207.1 MMT, down 5 MMT from USDA's April estimates for MY2018/19, on slightly lower harvested area and lower yields.

To manage trade policy uncertainty, grain end users have shifted their buying patterns to alternative origins, revised the formulation of their products, and lowered their throughput volumes.

Chinese demand for higher grades of wheat and rice continues to grow as high- and middle-income consumers in first-tier cities continue to shift to greater consumption of convenient and healthy foods. Meanwhile, consumption of common wheat and rice are beginning to show signs of stabilizing as overall weakening economic conditions, and inflationary pressures in major cities, pressure lower-income consumers to either "downgrade consumption" by reverting to consumption of "staple foods" such as instant noodles, or move to smaller cities where rice consumption is higher.

MY2019/20 total wheat consumption is forecast slightly lower at 124 MMT, down 1 MMT from USDA's April estimate for MY2018/19, on lower feed use. MY2019/20 wheat imports are forecast at 3.5 MMT, unchanged from USDA's April estimates for MY2018/19. MY2019/20 rice consumption is forecast at 145 MMT, unchanged from USDA's April estimate.

Recent revisions to wheat and rice standards are expected to improve China's management of temporary reserve stocks by lowering overall procurement volumes, and start a restructuring process to liquidate massive government stocks which overhang the domestic and global wheat and rice markets.

MY2019/20 Grain for Industrial Use Situation and Outlook

MY2019/20 corn FSI use is forecast at 90 MMT, up 5 MMT from USDA's April estimate for MY2018/19, on expanded corn processing capacity for starch, sweeteners, and ethanol.

African Swine Fever will have Long-Lasting Impact on China's Animal Feed Sector

Since 2015, China's central government has used environmental policy measures to direct hog production into grain production areas in North East China and further away from major population centers. The emergence of African Swine Fever will prompt further consolidation of China's hog sector to meet heightened government biosecurity requirements. This will require the overall feed sector to consolidate and integrate vertically, by investing in larger-scale grain handling, storage, and milling infrastructure in China's North East Corn Belt. In South China, feed mills will shift from manufacturing hog feed formulations for small hog production operations to producing aquaculture and poultry feed (See FAS GAIN report CH19012 for more information). This will increase the efficiency of feed use in the hog sector.

Swine Population Changes Do Not Directly Translate into Feed Demand Changes

By the end of 2019, China's total swine inventory will be down 13 percent to 374 million head. Pork production will decrease by 5 percent to 51.4 MMT, with the reduced supply only slightly offset by weakened demand. The overall hog supply is forecast to fall 8 percent to 1.0 billion head on a sharp decline in the sow population. Due to stark regional differences between several affected regions, it is difficult to project the rate of recovery for China's hog industry. For example, live hog prices between North and South China depend on the ASF situation in these regions. In normal circumstances, swine industry restructuring and adoption of new genetics takes about 30 months. However, China's ASF situation is unprecedented in complexity, scale, and scope.

China's cattle and dairy herd numbers are projected to decline as small producers continue to face challenges accessing investment capital, managing rising feed costs, and complying with strict environmental regulations. In 2019, the cattle sector is projected to fall 3 percent to about 91 million head. The dairy sector is projected to fall nearly 5 percent from 2018 to about 6.3 million head in 2019. Aquaculture production growth remains stagnant, due to heightened enforcement of environmental and water conservation regulations (See GAIN report CH18067 for more information). Higher poultry prices are projected to incentivize expanded feed demand for poultry production before China's swine sector recovers.

Commodities:
Corn
Wheat
Rice, Milled
Sorghum
Barley

Policy:
Expanded Soybean Area and "Stable" Grain Production

Over the past 5 years, China's Central Planners have repeatedly cited that they will protect a "red line" to conserve at least 124 million hectares (1.86 billion mu) for national "staple grain" production of wheat, corn, and rice. They envision a "sickle shaped" grain belt that stretches from North East China to the North China Plain, encircling the Bohai basin. This area of highly productive land will remain protected from encroaching urbanization, soil and water degradation, and livestock grazing. In the 2019 "Number 1 Central Document," China's leadership further decreed that of the 124 million hectares of land area dedicated to grain production at least 50 million hectares (800 million mu) must be dedicated for the production wheat and rice. Meanwhile, the Ministry of Agriculture and Rural Affairs announced that it is targeting an expansion in soybean and oilseed area by at least 330,000 hectares (5 million mu) in its 2019 Crops Production Plan.

Government Grower Incentives Favor Soybeans in the Battle for Hectares in North East China

In March 2019, the Heilongjiang Daily, the official provincial newspaper in the China's top corn and soybean producing region, reports that provincial officials will raise subsidy payments for corn growers, and maintain soybean subsidies at high levels for a second consecutive year. The 2019 soybean subsidy of $670 per hectare (300 RMB per mu) is unchanged from 2018, and the 2019 corn subsidy is implied to be at least $223 per hectare (100 RMB per mu), up by more than $120 per hectare from 2018 payment levels. Additionally, industry sources report that input subsidies in Heilongjiang province will further boost MY2018/19 soybean margins by nearly $400 per hectare (2,662 RMB) higher than corn.

North East China Provinces Silent about Processor Subsidies in 2019

Since 2016, provincial officials in Heilongjiang, Jilin, Liaoning, and Inner Mongolia have offered livestock feed millers and industrial processors subsidies to promote corn use, to support prices, and to

demonstrate the government commitment to continuing the structural supply-side reform. The subsidy announcements for the upcoming growing season are normally publicized in October and November before farmers begin planting. To date, the MY2019/20 announcement has not been announced. Many industry sources do not expect China's "Deep Corn Processing Subsidies" to continue.

The Hand that Gives Market Access…

China continues to expand market access for additional origins to import corn. On February 19, General Administration of China Customs (GACC) granted market access to Uruguay to ship corn and barley to China beginning in February 2019.

Countries with Bilateral Phytosanitary Protocols with China and Permitted to Export Grains to China (new additions in italics)

Wheat	Australia, Canada, France (except for the Rhone-Alps region), Kazakhstan, Hungary, United Kingdom, United States, Serbia, Mongolia, Russia
Corn	Thailand, United States, Peru, Laos, Argentina, Russia, Ukraine, Bulgaria, Brazil, Cambodia, South Africa, Hungary, Kazakhstan, *Uruguay*
Barley	Australia, Canada, Denmark, France, Argentina, Mongolia, Ukraine, Finland, United Kingdom, Uruguay, Kazakhstan, *Uruguay*
Sorghum	Argentina, United States, Australia, and Myanmar
Paddy Rice	Russia
Milled Rice	Cambodia, India (both Basmati and Non-Basmati) Japan, Laos, Myanmar, Pakistan, Thailand, Uruguay, Vietnam, Taiwan, United States
Source: China Customs	

…Also Takes

Over the past 5 years, the Chinese barley market has expanded rapidly and now accounts for almost 70 percent of Australia's total barley exports. On November 20, 2018, China's Ministry of Commerce (MOFCOM) launched an antidumping and countervailing duties investigation alleging that China's domestic market has been injured by Australian exports of barley below the cost of production. The investigation is expected to last between 12 to 18 months, and may result in additional antidumping and countervailing duties on Australian barley exports to China. (See GAIN report AS1901 for more information).

CORN

Corn	2017/2018		2018/2019		2019/2020	
Market Begin Year	Oct 2017		Oct 2018		Oct 2019	
China	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post

Area Harvested	42399	42399	42129	41900	0	41600
Beginning Stocks	223017	223017	222525	222525	0	204475
Production	259071	259071	257330	256000	0	255000
MY Imports	3456	3456	5000	5000	0	5000
TY Imports	3456	3456	5000	5000	0	5000
TY Imp. from U.S.	308	308	0	0	0	0
Total Supply	485544	485544	484855	483525	0	464475
MY Exports	19	19	50	50	0	50
TY Exports	19	19	50	50	0	50
Feed and Residual	187000	187000	198000	194000	0	192000
FSI Consumption	76000	76000	82000	85000	0	90000
Total Consumption	263000	263000	280000	279000	0	282000
Ending Stocks	222525	222525	204805	204475	0	182425
Total Distribution	485544	485544	484855	483525	0	464475
Yield	6.1103	6.1103	6.1081	6.1098	0	6.1298
(1000 HA), (1000 MT), (MT/HA)						

MY2019/20 corn production is currently forecast to reach 255 MMT, falling a mere 2.3 MMT from USDA's April estimates for MY2018/19, and if realized, the fifth largest Chinese corn crop on record.

MY2019/20 harvested corn area is forecast at 41.6 million hectares, shrinking by 500,000 hectares, as growers seeking higher margins and lower price risk switch to planting soybeans.
In Heilongjiang province, where side-by-side soybean and corn production is most prevalent, about one-quarter of the province's arable land is operated by the Heilongjiang State Farm, a state-owned enterprise. As a result, where suitable, growers on government-owned tracts will plant more soybeans in MY2019/20 as promoted by Central Government policies. As of the writing of this report, provincial subsidies for soybeans in this region are projected to net higher margins than corn with lower political and trade risk.

Post projects that independent corn producers will continue planting corn in MY2019/20. Over the past three harvests, China's "Deep Corn Processing" subsidies have supported high prices, enabling independent producers to accumulate healthy balance sheets. Many are willing to accept risks associated with China's unpredictable domestic and trade policies, uncertainty about the outcome of U.S.-China bilateral trade discussions, and ongoing market developments related to ASF, in hopes of selling their corn harvest in October 2019 with another year of high prices (see Policy section for more information).

MY2018/19 corn production is estimated at 256 MMT, down 1.3 MMT from USDA's April estimate. The MY2018/19 corn crop weathered drought, floods, and high temperatures, resulting in lower-than-expected production. After three consecutive years of strong income growth, China's corn producers are in a strong financial position heading into the MY2019/20 planting season (See GAIN Reports CH19002 and CH18076 for more information).

Relative Margins in MY2018/19	**Corn**	**Soybean**	**Difference**
Implied Input Costs (excluding labor and land cost, per hectare)	$839 5,624 RMB	$451 3,025 RMB	$388 2,599 RMB
Standard Price (per ton)	$239 1,600 RMB	$507 3,400 RMB	$268 1,800

			RMB
Average Yield (tons per hectare)	6.7	1.87	4.83
Total Crop Revenue (per hectare)	$ 1,600 10,720 RMB	$ 949 6,358 RMB	$ 651 4,362 RMB
Subsidies (per hectare in Heilongjiang)	$56 375 RMB	$716 4,800 RMB	$660 4,425 RMB
Total Revenues (per hectare)	$ 817 5,471 RMB	$ 1,214 8,133 RMB	$ 397 2,662RMB

Consumption

MY2019/20 corn consumption is forecast at a record high 282 MMT, up 2 MMT from USDA's April estimates for MY2018/19, on expanded corn processing more than offsetting lower feed use.

MY2019/20 FSI consumption is raised to 90 MMT, up 8 MMT from USDA's April estimates for MY2018/19 due to rapid expansion of corn use for ethanol, as well as new corn processing plants entering into service. Some local analysts forecast that the pace of corn processing expansion in China will plateau in MY2019/20 as operating margins fall, and overcapacity begins to weigh on future growth.

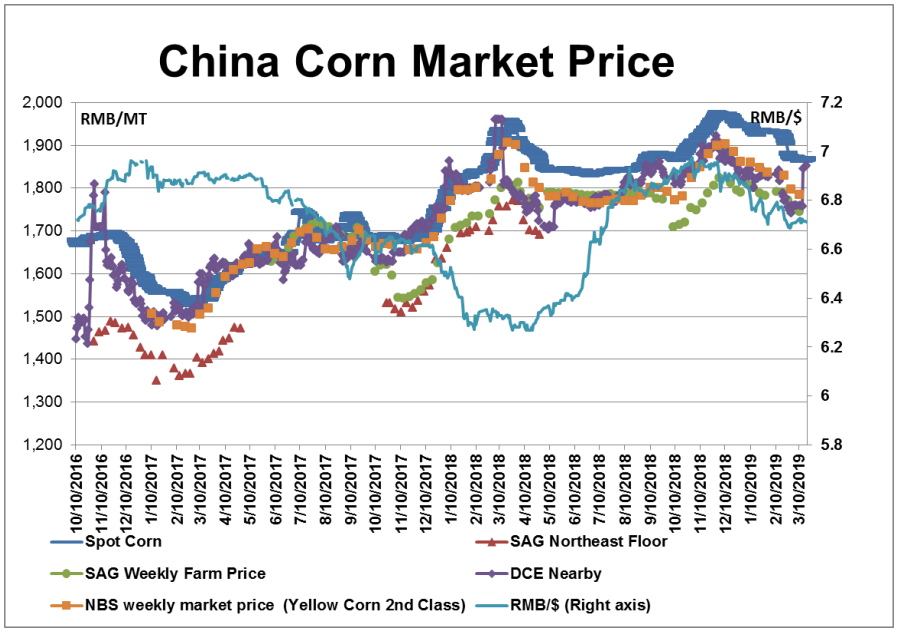
In MY2019/20 feed consumption is lowered to 192 MMT, down 6 MMT from USDA's April estimates for MY2018/19 on lower swine feed use due to ASF-related losses.

MY2018/19 corn consumption is estimated at 279 MMT, down 1 million from USDA's MY2018/19 estimates in April as higher-than-expected FSI use partly offsets lower feed use.

MY2018/19 feed use is estimated at 194 MMT, down 4 MMT, about 2 percent, from USDA's April estimates, as ASF impacts weigh on swine feed demand. Industry sources report that in South China feed demand will fall from 10 to 30 percent on slowing hog production. On a nationwide basis, expanded broiler and dairy production is projected to partly offset weakening swine feed use. Industry sources project that a recovery in feed demand for China's hog population is difficult to judge because of regional differences in the progression of the disease.

MY2018/19 FSI use is forecast at 85 MMT, up 3 MMT from USDA's April estimates for MY2018/19 on expanded corn processing capacity for starch and ethanol. Nearly all of China's growth in alcohol production capacity is attributed to corn-based fuel and potable alcohol production. In Heilongjiang province alone, corn processing capacity has expanded to 14 MMT in 2018, up 4 MMT from 2017. Consumer goods manufacturers in China are switching from products using recycled plastic to bio-based plastic sources. As a result, investments in bio-based plastic manufacturing, including corn-based polylactic acid (PLA), is a small but growing segment that continues to expand across China.

Trade Discussions and African Swine Fever Developments Sway China's Corn Market



Shortly after the conclusion of the Lunar New Year holiday in February 2019, corn futures prices on the Dalian Commodity Exchange (May 2019 delivery) fell sharply to 1,787 yuan ($266.27) per ton. Many farmers were concerned that falling feed demand, and the potential for expanded market access for corn imports would undercut their expectations for high prices, and raced to market their new-crop MY2018/19 corn in March 2019.

Sales Progress of MY2018/19 Corn Harvest (as of late March 2019)		
Province	MY2018/19	MY2017/18
	% Sold	% Sold
Heilongjiang	77%	88%
Jilin	75%	75%
Liaoning	85%	90%
Inner Mongolia	70%	n/a

Source: Industry contacts

As of late March 2019, China's corn growers sold close to 80 percent of their harvest, up by about 10 percent from February 2019. Farm-gate sales of MY2018/19 corn have quickened slightly, but still remain sluggish compared to MY2017/18.

Trade

MY2019/20 corn imports are forecast at 5 MMT, unchanged from USDA's April estimates for MY2018/19.

Although there are widely varying forecasts for China's imports of corn in MY2019/20 ranging from 5 to 50 MMT of corn, grain analysts throughout China agree that corn imports in MY2019/20 will rise from MY2018/19. China's market access policies and the outcome of U.S.-China bilateral trade discussions remain key factors in forecasting China's imports.

MY2019/20 corn exports are forecast at 50,000 tons, unchanged from USDA's April estimate for MY2018/19.

MY2018/19 corn imports and exports are both unchanged from USDA's April estimate.

Comparative Value of Corn by Origin and Destination (in early March)			
Origin	**Destination**	**$ per ton**	**RMB per ton**
China	Guangdong	$279 - $282	1,870-1,890 RMB
United States	Guangdong	$301	2,020 RMB
Ukraine (CNF)	Guangdong	$246	1,650 RMB

Source: Industry contacts

Although U.S. exportable corn supplies are plentiful, U.S. corn continues to remain uncompetitive due to additional tariffs as a result of China's retaliatory trade actions. Nevertheless, private exporters reported to USDA export sales of 300,000 tons of corn for delivery to China during the 2018/2019 marketing year. This announcement brings China's total U.S. corn commitments for MY2018/19 to the highest level since MY2014/15.
Industry sources report that Ukraine has booked about 300,000 to 400,000 tons of corn for delivery to China in March and April 2019. Trade data indicate that Ukraine has exported nearly 1 MMT to China from October 2018 to February 2019, about 2 percent behind the pace of shipments in MY2017/18.

Stocks

MY2019/20 stocks are forecast at 182.4 MMT, down 22.4 MMT from USDA's April estimate for MY2018/19, on policy-driven demand.

In late March 2019, Inner Mongolia and Jilin provinces began auction sales of provincial corn inventories. Industry sources expect that the State Administration of Grains and Reserves will delay auctioning state-owned corn inventories until late May 2019. 2019 will likely mark the complete disposal of China's excess and ageing corn stocks accumulated during the 2006 to 2016 temporary reserve program.

Although China's SAGR is winding down its state-owned inventories of corn, China continues to maintain strategic non-temporary reserves of corn. On March 13, 2019, Sinograin announced plans to procure 800,000 tons of corn as it begins rotating out old-crop supplies from its holdings, and to signal continued government support for corn prices. Industry sources speculate that China plans to procure a total of 3 MMT in MY2019/20.

Provincial procurement programs also remain active. In early March 2019, Heilongjiang province announced a reserve program to procure 300,000 tons for provincial holdings with a minimum price of $239 per ton (1,600 RMB).

MY2018/19 stocks are estimated at 204.5 MMT, down 330,000 tons from USDA's MY2018/19 estimates in April.

Although much of the MY2018/29 corn crop has been marketed, the pace of sales remains sluggish in comparison to previous years as a group of farmers expect feed prices to recover. Stockholding in Guangdong remain higher than normal. From April to October 2018, China auctioned more than 100 MMT of corn (See GAIN report CH18075 for more information). Industry sources speculate that China's state-owned temporary reserve holdings have fallen to about 80 MMT, about half remains in North East China. China's commercial pipeline stocks and on-farm inventories remain high. Despite reports of massive auction sales, physical movements of China's state-owned inventories remain unreported.

Wheat

Wheat	2017/2018		2018/2019		2019/2020	
Market Begin Year	Jul 2017		Jul 2018		Jul 2019	
China	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	24508	24508	24268	24268	0	24100
Beginning Stocks	114929	114929	131263	131263	0	139993
Production	134334	134334	131430	131430	0	131500
MY Imports	4000	4000	3500	3500	0	3500
TY Imports	4000	4000	3500	3500	0	3500
TY Imp. from U.S.	772	772	0	0	0	0
Total Supply	253263	253263	266193	266193	0	274993
MY Exports	1000	1000	1200	1200	0	1300
TY Exports	1000	1000	1200	1200	0	1300
Feed and Residual	17500	17500	20000	20000	0	18000
FSI Consumption	103500	103500	105000	105000	0	106000
Total Consumption	121000	121000	125000	125000	0	124000
Ending Stocks	131263	131263	139993	139993	0	149693
Total Distribution	253263	253263	266193	266193	0	274993
Yield	5.4812	5.4812	5.4158	5.4158	0	5.4564
(1000 HA), (1000 MT), (MT/HA)						

MY2019/20 wheat production is forecast at 131.5 MMT, slightly higher than MY2018/19 as higher yields are expected to offset lower harvested area.

MY2019/20 wheat harvested area is forecast at 24.1 million hectares, down by 168,000 hectares due to government plans to implement wide-scale crop rotation and land conservation efforts, as well as producer responses to a minimum support price policy announced in November 2018 (See GAIN report CH 18077).

Agricultural policy makers have undertaken efforts to improve the quality and yield of China's wheat production. In August 2017, the Beijing Academy of Agricultural and Forestry Sciences established a commercial-scale hybrid wheat seed production base in Henan province, which will support 330,000 hectares (5 million mu) of wheat area nationwide by the end of 2020.

The North China Plain accounts for more than 80 percent of China's national wheat production. Wheat planting in the North China Plain region was completed by November 2018. Rain and snow storms supplemented soil moisture levels in Hebei province in mid-February 2019, aiding crop development and resistance to winterkill. However, in many areas, soil moisture remains critically low. To date, wheat emergence is progressing normally. China's National Grain and Oilseed Information Center

reports that as of March 20, 2019, about 20 percent of first class wheat seedling have emerged and, about 71 percent of second-class wheat seedlings have emerged. Western regions of Xinjiang and Gansu provinces also produce wheat. In these regions, China's MARA forecasts a higher incidence of yellow rust and scab in MY2019/20.

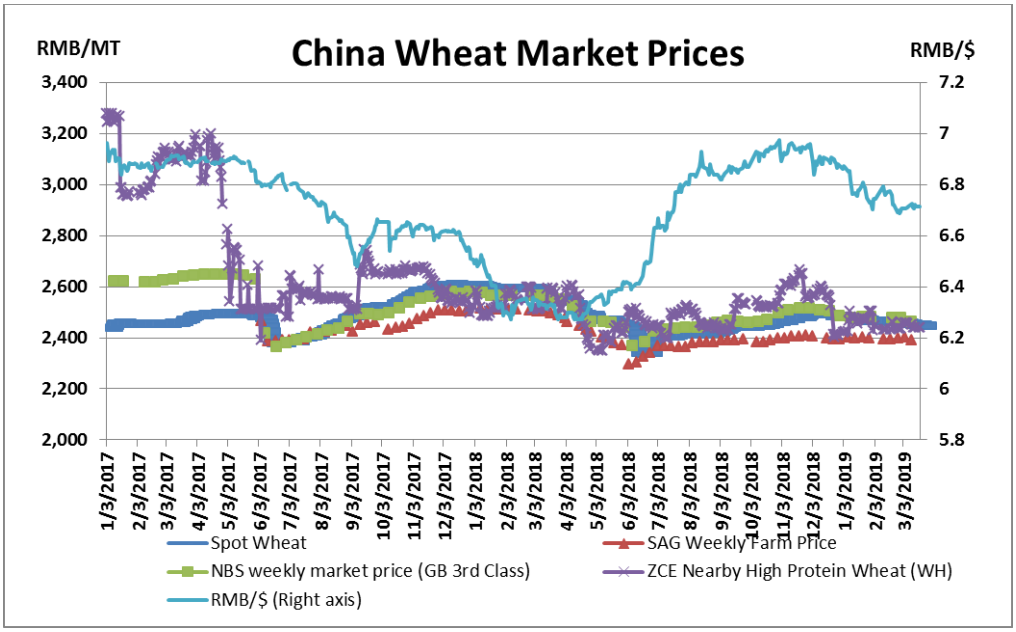
Demand

MY2019/20 total wheat consumption is forecast slightly lower at 124 MMT, down 1 MMT from USDA's April estimate for MY2018/19, on lower feed use.

MY2019/20 FSI use is forecast higher at 106 MMT, up 1 MMT from USDA's April estimate for MY2018/19 on population growth, and growing demand for Western baked products. Industry sources forecast that China's baking industry will continue to grow at a rate of about 14 percent in first-tier cities, and about 26 percent in second- and third-tier cities.

MY2019/20 feed use is forecast at 18 MMT, down 2 MMT from USDA's estimate for MY2018/19 in April assuming normal wheat quality in MY2019/20, and comparatively lower volumes of feed-quality wheat in MY2018/19.

MY2018/19 total wheat consumption is estimated to be unchanged from USDA's MY2018/19 April estimates. A higher than normal share of MY2018/19 wheat was channeled towards feed use due to poor crop quality (See report CH18039) for more information). Meanwhile, wheat millers nationwide report that feed mill demand for wheat bran and wheat middlings have fallen on weakening feed demand due ASF-related impacts, cutting milling margins.



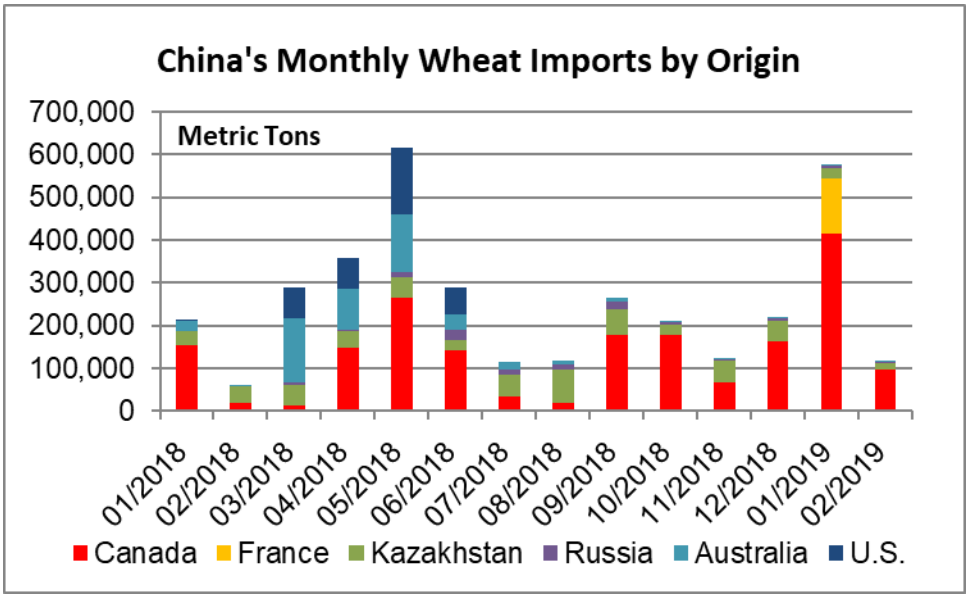
As of late March, domestic wheat prices have slumped following several policy announcements by China's SAGR to begin liquidating government-held inventories, and lower minimum support prices and reserve prices for state-owned wheat auctions (See GAIN report CH18077).

Wholesale Wheat Spot Prices in Major Markets (March 7)				
Province	**Common Wheat**		**Strong Wheat**	
	--RMB per ton--	--$ per ton--	--RMB per ton--	--$ per ton--
Hebei	2,480	$370	2,680	$400
Shandong	2,451	$366	2,630	$393
Henan	2,467	$368	2,500	$373
Jiangsu	2,465	$368	--	--
Anhui	2,470	$369	--	--
Source: SCI; Exchange rate is RMB 6.7 per $1				

Trade

MY2019/20 wheat imports are forecast at 3.5 MMT, unchanged from USDA's April estimates for MY2018/19 on continued policy uncertainty.

MY2018/19 imports are estimated at 3.5 MMT, unchanged from USDA's April estimates for MY2018/19. At this time, China's wheat millers have a limited selection of origins to supply growing demand for imported wheat product grades and classes to produce specialty products, such as low-protein cake flours and high-protein flours for pastries, bread, and pizza. The United States continues to remain uncompetitive due to additional tariffs as a result of China's retaliatory trade actions.



Source: GTIS/GTA and General Administration of China Customs

Wheat millers are managing uncertainty related to China's trade policies by buying greater volumes from Black Sea and Central Asian origins, and relying on specialty baking and pre-mix flour products which do not face TRQ restrictions.

Wheat Duty-Paid Quotes by Origin and Destination as of March 13, 2019 (Ships scheduled to arrive in May)				
Origin	**Class**	**Destination**	**$ per ton**	**RMB per ton**

United States	SRW	Guangdong	$348	RMB 2,332
China	Common Wheat	Guangdong	$367	RMB 2,460
United States	HRW	Guangdong	$368	RMB 2,468
China	Hard Wheat	Guangdong	$394	RMB 2,640
Source: Industry; Exchange rate is RMB 6.7 per $1				

From July 2018 to February 2019, China imported a mere 2.1 MMT of wheat, down by 23 percent year-on-year. Canadian wheat exports from July 2018 to February 2019 totaled more than 1 MMT, followed by Kazakhstan which shipped about 340,000 tons over the same period. Australian exports have been hampered by low exportable supplies. Industry sources report that wheat deliveries from Kazakhstan and Russia were considerably lower grades than wheat from the United States, Canada, and Australia.

Stocks

MY2019/20 ending stocks are forecast to jump to nearly 150 MMT, up 9.7 MMT from USDA's April estimates for MY2018/19, on slow demand.

On November 16, 2018, China's National Development and Reform Commission (NDRC) announced that it will lower its 2019 Minimum Support Price (MSP) for procurement purchases of domestic wheat under its temporary reserve program for the second consecutive year (See GAIN report CH18077 for more information).

Rice

Rice, Milled	2017/2018		2018/2019		2019/2020	
Market Begin Year	Jul 2017		Jul 2018		Jul 2019	
China	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	30747	30747	30189	30058	0	30000
Beginning Stocks	98500	98500	109000	109000	0	109582
Milled Production	148873	148873	148490	143582	0	145000
Rough Production	212676	212676	212129	205117	0	207143
Milling Rate (.9999)	7000	7000	7000	7000	0	7000

MY Imports	5500	5500	4500	5000	0	5000
TY Imports	4500	4500	4500	5000	0	5000
TY Imp. from U.S.	0	0	0	0	0	0
Total Supply	252873	252873	261990	257582	0	259582
MY Exports	1386	1386	2200	3000	0	3000
TY Exports	2058	2058	2500	3200	0	3200
Consumption and Residual	142487	142487	143790	145000	0	145000
Ending Stocks	109000	109000	116000	109582	0	111582
Total Distribution	252873	252873	261990	257582	0	259582
Yield (Rough)	6.917	6.917	7.0267	6.824	0	6.9048
(1000 HA), (1000 MT), (MT/HA)						

Production

MY2019/20 rough rice production is forecast at 207.1 MMT, down 5 MMT from USDA's April estimates for MY2018/19, on slightly lower harvested area and lower yields.

Compared to last year, MY2019/20 harvested area is estimated at 30 million hectares, down slightly by 189,000 hectares on government efforts to conserve water, and lower minimum support prices for government procurement.

Local authorities in Heilongjiang province are seeking to manage groundwater resources and have implemented measures to limit the irrigated rice production. They are also implementing programs to rotate producers from rice to soybean production. In March 2019, MARA announced a 2019 target to maintain overall grain production area at 2018 levels, specifically limiting the combined area of rice and wheat production to 53 million hectares (800 million mu).

On February 25, 2019, NDRC released its Minimum Support Prices (MSP) for various rice varieties in 2019. The rice MSP remains unchanged at $358 (2,400 RMB) and $376 (2,520 RMB) for third-class early indica rice and mid-late indica rice, respectively. The MSP for japonica rice remains at $388 (2,600 RMB) for MY2018/19.

Early indica rice seedlings are progressing normally in Sichuan and Yunnan provinces. Overcast skies may lower production potential elsewhere in South China.

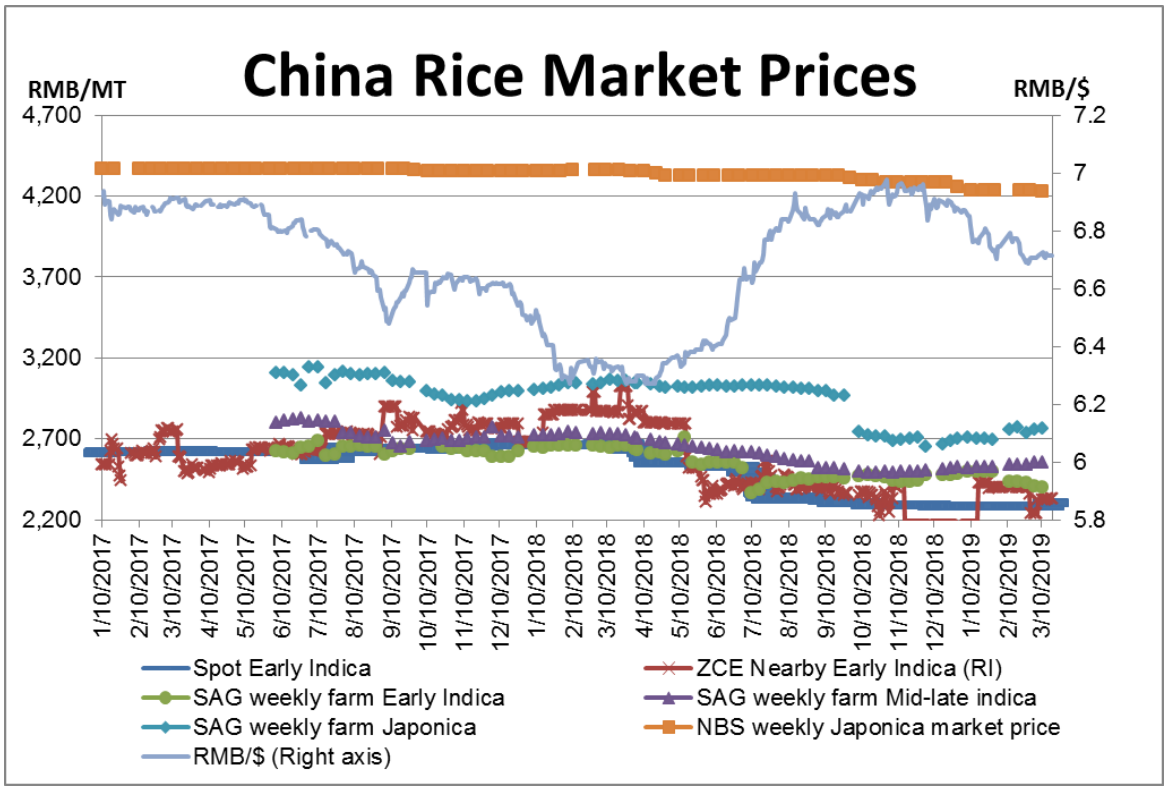
Consumption

MY2019/20 rice consumption is forecast at 145 MMT, unchanged from MY2018/19 as higher FSI use offsets lower food use.

In recent years, China's policy-makers have openly discussed how to facilitate expanded processing of rice into industrial ethanol and fuel ethanol production. In South China, less than 5 MMT of outdated,

non-edible rice is processed as a lower-priced substitute for imported cassava for industrial and fuel ethanol production.

MY2018/19 rice consumption is forecast at 145 MMT, unchanged from USDA's April estimates.



Trade

Imports

MY2019/20 rice imports are forecast at 5 MMT, up 500,000 tons from USDA's MY2018/19 forecast on low international prices.

MY2018/19 rice imports are estimated at 5 MMT, up 500,000 tons from USDA's April estimate on a widening gap between high domestic prices and the international benchmark price. From July 2018 to February 2019, China imported about 1.7 MMT of rice from primarily Pakistan and South East Asian neighbors: Thailand, Cambodia, Vietnam, Myanmar and Cambodia.

FOB Prices of Major Southeast Asian Exporters ($ per ton) - March 2019				
Date	Thai Rice FOB	Vietnam Rice FOB	Indian Rice FOB	Rough Rice MSP per ton
2/21/19	$383-$405	$340	$380-$385	Early indica $358 Mid-to-late indica $376 Japonica $388
3/1/19	$383-$398	$345	$378-$383	
3/8/19	$380-390	$355	$383-$386	
Source: SCI				

In 2016, China has implemented L/S 6166-2016, an industry standard which classifies certain varieties of short- and medium-grain rice as long-grain rice. The implementation of this technical industry standard, as well as heightened enforcement of food safety related measures, has reportedly limited imports of various rice classes from Myanmar and Vietnam.

In February 2019, government officials from Myanmar attended the 2nd China-Myanmar Economic Corridor Forum in Yunnan Province, China. As a result, the two nations negotiated expanded market access for Myanmar to export 400,000 MT of rice to China with a preferential tariff rate of 5 percent. The agreement is aimed at formalizing cross border trading in rice between the neighboring nations. China noted that following the implementation of the agreement it would heighten enforcement efforts to stem the flow of illicit rice shipments. In late March 2019, China began enforcing rice classification measures by ending all cross border trading of broken rice, and raising scrutiny on the declared classification of short- and long-grain rice across its border with Myanmar.

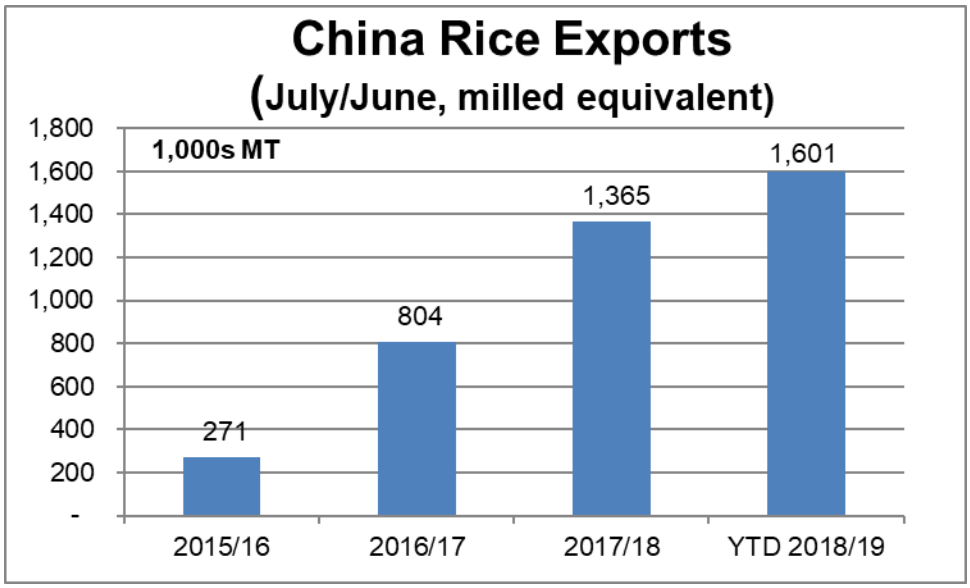
Vietnam is a major rice exporter to China. As of the time of this writing, Vietnam's rice prices are settling at lower levels due to sluggish export sales. CNGOIC reports as of March 15 Vietnamese 5 percent broken rice price is about $345 per ton delivered to South China and about $407 per ton (2,730 RMB) after duties are paid. In comparison, domestic quotes are about $550 per ton (3,690 RMB), giving traders a margin at $143 per to (960 RMB), the largest import margin since late 2017. Low Vietnamese prices are attracting Chinese buyers. In mid-March, Chinese buyers committed to importing about 100,000 tons of Vietnamese rice.

As of February 28, 2019 GACC published an updated U.S. rice exporter list, increasing the number of registered U.S. exporters from 7 to 32. (See GAIN report CH19021 for more information).

Exports

MY2019/20 exports are forecast at 3 MMT, up 800,000 tons from USDA's forecast for MY2018/19 on continuing export competitiveness in new markets.

Chinese rice is generally uncompetitive in the global market because of high prices. However, China has started to develop export markets in Africa, Latin America, and North America, including Puerto Rico. China also occasionally ships in-kind food assistance as part of humanitarian and disaster relief efforts.



Source: GTIS/GTA and General Administration of China Customs.
Note: MY2018/19 data accounts for exports from July 2018 to February 2019

MY2018/19 exports are estimated at 3.0 MMT, up 800,000 tons from USDA's April estimates on a strong pace of shipments. Trade data indicate that China is continuing to expand its rice exports globally. From July 2018 to February 2019, China exported 1.6 MMT of rice, nearly double the pace of exports over the same period last year.

On February 21, 2019, China donated about 10,000 tons of rice to South Sudan as famine relief. On the same date, Mozambique and China signed an agreement under which China pledged to provide 5,700 tons of rice to support Mozambican people affected by the natural disasters.

Stocks

MY2019/20 ending stocks are forecast at 111.6 MMT, down 4.4 MMT due to higher export volumes.

MY2018/19 rice stocks are estimated at 109.6 MMT, down 6.4 MMT on lower acreage and lower yield.

USDA estimates that China holds almost 70 percent of the world's rice stocks. Paring record state-owned inventories will require dramatic changes to China's domestic support and market access policies. To begin disposal of China's massive supply of state-owned inventories of rice, SAGR drafted a new national rice standard (See GAIN report CH19001). This measure will limit procurement of lower grade rice for the Central Government's temporary reserve program for rice, and ensure that existing state-owned inventories that do not meet food safety standards remain in commerce for industrial processing or animal feed.

From January 1 to March 12, SAGR offered a total of 7.24 MMT of state-owned inventories of early indica rice for auction, but was able to sell just 22,000 tons. Only a small amount of local reserve rice was put on auction, mills mostly purchase new crop rice for processing.

China's SAGR began auctioning mid-to-late indica rice in March 2019, two months earlier than previous years to facilitate government efforts to pare state-owned inventories. Auction sales of mid-to-late indica rice for 2019 are expected to be delayed by two months until May 2019. Auction sales dates of japonica rice have not been announced and are not known at this time.

Japonica rice MSP procurement concluded on February 28, 2019. SAGR reports that the 2019 temporary reserve program procured a total of 43.7 MMT of japonica rice, of which 27.8 MMT was procured in Heilongjiang province alone.

Sorghum

Sorghum	2017/2018		2018/2019		2019/2020	
Market Begin Year	Oct 2017		Oct 2018		Oct 2019	
China	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	675	675	720	720	0	710
Beginning Stocks	577	577	370	370	0	180
Production	3200	3200	3450	3450	0	3400
MY Imports	4436	4436	700	700	0	2000
TY Imports	4436	4436	700	700	0	2000
TY Imp. from U.S.	3922	3922	0	0	0	0
Total Supply	8213	8213	4520	4520	0	5580
MY Exports	43	43	40	40	0	60
TY Exports	43	43	40	40	0	60
Feed and Residual	5200	5200	1600	1600	0	2500
FSI Consumption	2600	2600	2700	2700	0	2700
Total Consumption	7800	7800	4300	4300	0	5200
Ending Stocks	370	370	180	180	0	320
Total Distribution	8213	8213	4520	4520	0	5580
Yield	4.7407	4.7407	4.7917	4.7917	0	4.7887
(1000 HA), (1000 MT), (MT/HA)						

Production

MY2019/20 sorghum production is estimated at 3.4 MMT, down slightly by 50,000 tons from MY2018/19 on lower harvested area.

North East China is the principle sorghum production region in China, accounting for nearly half of total production. Inner Mongolia province mainly produces sorghum for feed use. In Sichuan and Guizhou provinces, sorghum is almost exclusively grown for baijiu production, and primarily contracted early in the planting season.

In 2018, China's sorghum producers are in a less favorable financial position than they were one year ago. Unlike MY2017/18, profit margins in MY2018/19 were much thinner for China's sorghum growers. In Inner Mongolia, sorghum prices in March 2019 settled around $310 per ton (2,080 RMB, above 740g/L test weight), down about 25 percent from MY2017/18.

Larger baijiu producers in China have started to integrate vertically and invest in company-owned tracts to produce special sorghum varieties to distinguish their products in a crowded field. In 2019, the baijiu brand "Jiang Xiao Bai" is developing of a company-owned farm 6,667 hectares (100,000 mu) near

Chongqing to produce sorghum for baijiu production. The brand joins other major producers including Kweichow Moutai and Wuliangye baijiu.

Demand

MY2019/20 consumption is forecast to 5.2 MMT, up 900,000 tons from MY2018/19 as poultry and aquaculture feed users seek alternative grains to compensate for shrinking supplies in South China.

MY2019/20 FSI consumption is estimated at 2.7 MMT, unchanged from USDA's April estimates for MY2018/19 on flattening sorghum use for liquor production.

MY2018/19 consumption is forecast at 4.3 MMT, unchanged from USDA's April estimates.

MY2018/19 FSI consumption is estimated at 2.7 MMT, unchanged USDA's April estimates. The China Alcoholic Drinks Association reports that 2018 baijiu production is 8,712 million liters, down 27 percent from 2017. Although overall baijiu production fell, mid-to-high-end baijiu brands have reported strong sales, particularly among exclusive brands in the top-tier. Higher-end baijiu brands claim to use higher shares or exclusively sorghum ingredients.

Trade

MY2019/20 sorghum imports are forecast at 2 MMT, up 1.3 MMT from USDA's April estimates for MY2018/19 as sorghum feed users in South China seek imports of competitively priced sorghum.

MY2018/19 sorghum imports are estimated unchanged at 700,000 tons. Industry sources indicate that a majority of China's sorghum imports will be channeled to liquor production. Liquor production is a higher margin product than feed, and is able to absorb the additional tariffs on imports of U.S. sorghum. From October 2018 to February 2019, China imported only 30,213 tons of sorghum, nearly halving imports over the same period one year ago, reflecting diminished U.S. export competitiveness following the imposition of China's retaliatory tariffs.

In early March 2019, USDA export sales reports announced that a buyer in China has booked a delivery of 66,000 tons of U.S. sorghum. This is the first export sale of U.S. sorghum subject to the 25 percent additional tariff implemented in July 2018.

Comparative Value of Corn and Sorghum by Origin and Destination as of March 29				
Commodity	**Origin**	**Destination**	**$ per ton**	**RMB per ton**
Corn	China	Guangdong	$281	1,880 RMB
Corn	United States	Guangdong	$306 (additional 25% tariff)	2,052 RMB
Corn	Ukraine	Guangdong	$246 (CNF)	1,650 RMB

Sorghum	United States	Guangdong	$323 (landed)	2,163 RMB
Sorghum	Australia	Guangdong	$342 (landed, April)	2,293 RMB
Sorghum	Argentina	Guangdong	$285(landed, July)	1,907 RMB
Sorghum	Inner Mongolia	Guangdong	$313 (delivered)	1,870 RMB

Source: SCI and JCI

MY2019/20 sorghum exports are forecast at 60,000 tons, up 20,000 tons from MY2018/19, on greater demand in Taiwan.

Barley

Barley	2017/2018		2018/2019		2019/2020	
Market Begin Year	Oct 2017		Oct 2018		Oct 2019	
China	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	430	430	450	450	0	460
Beginning Stocks	597	597	241	241	0	91
Production	1800	1800	1850	1850	0	1900
MY Imports	8144	8144	7500	7200	0	7500
TY Imports	8144	8144	7500	7200	0	7500
TY Imp. from U.S.	0	0	0	0	0	0
Total Supply	10541	10541	9591	9291	0	9491
MY Exports	0	0	0	0	0	0
TY Exports	0	0	0	0	0	0
Feed and Residual	6500	6500	5500	5500	0	5400
FSI Consumption	3800	3800	3800	3700	0	3700
Total Consumption	10300	10300	9300	9200	0	9100
Ending Stocks	241	241	291	91	0	391
Total Distribution	10541	10541	9591	9291	0	9491
Yield	4.186	4.186	4.1111	4.1111	0	4.1304
(1000 HA), (1000 MT), (MT/HA)						

Production

MY2019/20 production is forecast to increase to 1.9 million tons, up 50,000 tons from USDA's April estimates for MY2018/19, on a slight expansion of harvested area.

Barley is mainly produced in Gansu, Jiangsu, and Inner Mongolia provinces. Xinjiang, Inner Mongolia and Qinghai provinces also produce barley. Barley competes for production area with other crops which have program subsidies and government support prices. Unlike corn, barley does not receive significant government support. Barley producers in specific areas may be eligible for general incentives for producers to switch from corn, wheat, and rice production. As a result, barley has limited prospects for significant expansion. Due to its relative bulkiness and logistical bottlenecks for transportation, domestically produced barley has fixed distribution channels to nearby markets.

Anheuser-Busch Inbev has established a strategic local sourcing program with local farmers in Gansu, Jiangsu, and Inner Mongolia provinces and the state-owned Jiangsu Farm Group to procure inputs for their products manufactured in China. The effort includes extension services, variety development, seed selection, and training, resulting in improved yields and higher farm gate prices.

The MY2018/19 production estimate is unchanged at 1.85 million tons. Production recovered from record low levels in MY2017/18 on strong demand for malting barley.

Demand

MY2019/20 consumption is forecast at 9.1 million tons, down 200,000 tons from USDA's April estimate for MY2018/19 on lower FSI use.

Barley in China is primarily used for malting, feed use, and food use – each with dedicated varieties and market dynamics. Malting barley prices in Jiangsu, Gansu, Xinjiang, and Inner Mongolia provinces are subject to international market prices.

Post forecasts MY2019/20 feed use at 5.4 million tons, down 100,000 tons from MY2018/19, due to diminished supplies. Feed consumption normally accounts for around 60 percent of total barley consumption. Domestic barley is mainly used for brewing beer and coarse grain food products.

MY2019/20 FSI use is forecast at 3.7 MMT, down 100,000 tons on tightening supplies of malting barley and weaker demand. Industry sources report that malting-grade barley prices in China are projected to rise 20 percent higher on rising trade tensions. China's major brewers raised prices in 2018 citing higher input costs.

As a result, higher prices are projected to curb demand growth. Industry sources report that 2019 beer consumption is expected to flatten. Beer demand growth in the mid-to-high end beer segment is projected to offset sluggish demand in the low-end beer segment. Industry sources report that in 2018, overall beer production is estimated at 38,122 million liters, up slightly by 0.5 percent.

Trade

MY2019/20 imports are forecast to fall to 7.5 MMT, unchanged from USDA's April estimates for MY2018/19.

Over the past two years, China imported about 8 million tons annually, mainly from Australia, Canada, Ukraine and France. Malting barley imports from Australia and Canada are principally graded as Fair Average Quality (FAQ). As of the time of this writing, China's AD/CVD investigation into Australian barley remains underway. (See Policy Section for more information).

Barley Prices on March 19

Origin	Destination	Delivery Month	CNF price ($ per ton)	Duty-paid, Landed Price (RMB per ton)	Duty-paid, Landed Price (USD per ton)
Australia	Guangdong	May	$220	1,773	$265
Canada	Jiangsu	N/A		2,161	$322
Ukraine	Guangdong	July	$254	1,975	$295
Gansu	Local	March	$343 (Spot)	2,302	
Source: Industry sources					

MY2018/19 imports are forecast to fall to 7.2 MMT, down 300,000 tons from USDA's April estimates on a slowing pace of shipments from Australia and Canada (See GAIN report CH19016 and Policy Section).

Canadian barley quotes in China rose by $6 per ton following recent Chinese border measures restricting market access for Canadian canola products.

In early 2019, GACC granted market access to Kazakhstan and Ukraine by signing Phytosanitary Protocols for barley with each government.

Stocks

Post forecasts MY2019/20 ending stocks at 391,000 tons, up 100,000 tons from USDA's April estimates for MY2018/19, on lower demand for feed.