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China - Peoples Republic of

Grain and Feed Annual

China's Iron Rice Bowl Transforms Into Government Checks

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Report Highlights:
China's agricultural policy-makers manage the dual mandate of ensuring national food security while pursuing poverty alleviation targets, which aim to raise rural incomes through domestic support programs and centrally planned marketing activities. Recent changes to the temporary reserve programs signal that minimum price supports and strategic stockpiles for wheat and rice are expected to continue in the near-term. State officials reason that full silos at home will translate into stable prices abroad.

MY2018/19 rough rice production is forecast at 204.3 million tons, down more than 2 percent from MY2017/18, on a sharp decline in harvested area. MY2018/19 corn production is forecast at 223.0 million tons, up 3 percent from MY2017/18 on expanded area. MY2018/19 wheat production is forecast at 129.0 million tons, down slightly from MY2017/18 on a policy-driven decline in harvested area.

Executive Summary

Spring weather has led to early emergence for winter crops across China. After historically low temperatures and strong winter storms, spring temperatures have jumped to unseasonably high levels and soaking rains have broken a dry spell across North East China. In South China, planting of early-season summer crops is underway. In North China, field work has started. Planting of summer crops will begin in late April and continue through June.

In China, national agricultural policies swing from risk averse to risk acceptant. At this time, China's central planners are extremely risk acceptant for new agricultural projects. Despite a lapse in China's subsidies for corn production and use, a transition from a centrally planned regime to a market-oriented value-chain has progressed further than policy-makers expected. Looking forward, China's temporary reserve program and similar reforms to corn policy are expected to shift towards reforms to government programs for wheat and rice, two commodities which have already seen historic policy changes through recent reductions in minimum support prices.

No. 1 Policy Document

On February 4, 2018, the Central Committee of the Communist Party of China (CCCPC) and the State Council unveiled its first policy document for 2018. This document, referred to as the No. 1 Document, traditionally focuses on agricultural and rural issues and is considered to be a significant policy document that outlines goals for the upcoming year. The overall message of the 2018 No. 1 Document is focused on developing intensive, domestic agriculture to further China's strategic interests under the theme of Rural Revitalization. China aims to complete agricultural and rural modernization by 2035 and develop a strong agricultural sector while raising farm incomes to "moderately prosperous levels" by 2050. (See GAIN report CH18007)

China's overall level of domestic support will continue to increase, but the government will further streamline its domestic support policies aimed at increasing agriculture competitiveness and improving product quality. In addition, the scope and level of World Trade Organization (WTO) domestic support programs classified as "Green Box" programs will be modified to improve their effectiveness. For example, direct subsidy programs to grain farmers will be modified to improve market mechanisms. Although China's minimum price support program for rice and wheat is likely to stay in place for the foreseeable future, China's government minimum support prices will be determined in response to market factors.

In an effort to reduce government-owned stockpiles of grains, especially corn, wheat, and rice, China will continue to reform its government procurement and auctions system, known as the temporary reserve program. Meanwhile, China is exploring more insurance options such as loss protection and income-based insurance programs for corn, wheat, and rice.

Crop Insurance

Winter storms in 2018 caused total agriculture-related economic losses of $847 million (5.5 billion RMB).

On January 22, 2018, the China Insurance Regulatory Commission reported that it provided coverage on $415.4 billion (2.7 trillion RMB) of agricultural insurance risk protection services to 213 million rural households in 2017, paying out total indemnities of $5.1 billion (33.4 billion RMB). On March 9, 2018, the CIRC reported that estimated agricultural insurance premium volumes in 2017 rose to $7.4 billion (RMB 47.9 billion), up 19 percent from $6.23 billion (41.8 billion) in 2016.

On March 19, 2018, CIRC announced that it aims to lower premiums on agricultural insurance by 30 percent by 2020.

Major Rice Policy Changes to Begin in MY2017/18

On February 9, 2018, National Development Reform Commission (NDRC) released the MY2017/18 Minimum Support Price (MSP) for various rice varieties in 2018, lowering the minimum support price by 10 percent. These reductions represent the largest reductions to China's MSP for rice in at least 14 years. To maintain stable planting in areas considered favorable for rice cultivation, NDRC has also announced a central government subsidy scheme tied to production. The MSP for third class early indica rice and mid-late indica were reduced $32 (200 RMB) to $381 (2,400 RMB) and $416 (2,620 RMB), respectively. The MSP for japonica rice was reduced $63 (400 RMB) to $413 (2,600 RMB) for MY2017/18. (See GAIN Report CH18003)

Grain Planting Cost Decreased in MY2017/18

A survey of grain farmers and processors by the National Bureau of Statistics (NBS) reports that in 2017, the average cost of growing grain fell to $815 per hectare (364 RMB per mu), down 2.9 percent due lower input costs for seed, fertilizer, and pesticide, as well as lower fees for production services (machinery rental fees). Agricultural chemical and seed costs fell to $570 per hectare (253 RMB per mu), down 2.8 percent. Machinery rental rates were $250 per hectare (111 RMB per mu), down 3 percent.

Average Chinese Grain Producer's Income Rises 1.7 percent

The 2017 national grain planting average income per mu is estimated at $161 per mu (1,017 RMB), after deducting production costs (except labor, land rents, and equipment depreciation).

Specifically, national average earnings per mu for planting corn is $82 per mu (517 RMB), down 9 percent from 2016; national average earnings per mu for planting rice, winter wheat and soybean are $149 per mu (939 RMB), $90 per mu (567 RMB) and $61 per mu (386 RMB), up 4.1 percent, 11.3 percent and 3.4 percent from 2016.

Relative Margins	Corn	Soybean
Implied Input Costs	$762	$445

(per hectare)	4,800 RMB	2,802 RMB
Standard Price (per ton)	$254 1,600 RMB	$540 3,400 RMB
Average Yield (tons per hectare)	6.7	1.87
Total Income (per hectare)	$1,702 10,722 RMB	$1,010 6,363 RMB
Revenues (per hectare)	$940 5,920 RMB	$565 3,558 RMB
Input Subsidy (per hectare)	$317 2,000 RMB	$413 2,600 RMB
Total Revenue (per hectare)	$1,257 7,920 RMB	$977 6,158 RMB

Source: CNGOIC

Wide-ranging Government Reorganization

On March 13, Chinese Premier Li Keqiang submitted a sweeping government reorganization plan to the National People's Congress (NPC) for approval. The plan proposes the consolidation of a State Council directed Ministry of Agriculture and Rural Affairs (MARA) to assume the functions of the Ministry of Agriculture (MOA) and the agricultural-related investment and state planning functions of the National Development and Reform Commission (NDRC), Ministry of Finance (MOF), Ministry of Land Resources (MLR), and Ministry of Water Resources (MWR). Under its new authority, MARA is responsible for implementing strategies and central policies related to agriculture; coordinating research; supporting rural development and farm welfare; and centrally managing crop production, livestock, and fisheries.

A separate ministry, the General Administration of Market Supervision, will assume food safety and anti-competition authorities, such as the General Administration of Quarantine, Inspection, and Quality (AQSIQ), the China Food and Drug Administration (CFDA), as well as anti-monopoly regulators at the NDRC and MOFCOM (Ministry of Commerce).

China also proposes a new National Grain and Material Reserve Administration to assume the responsibilities of the State Administration of Grain as well as NDRC responsibilities for implementing China's strategies for the collection, storage, rotation, and management of government reserves of staple food and fiber products. The establishment of the National Bureau of Food and Material Reserves will be managed by the NDRC. Further details concerning the government re-organization are forthcoming.

Green Agriculture Development Given Great Importance

The Chinese leadership is prioritizing sustainable agriculture production at the highest levels, which will influence future land use patterns and available planting area for grain. China seeks to challenge the United States as a competitor in agricultural productivity through changes to its agricultural management practices. China's leaders have also started to establish a framework of reforms to promote greater economies of scale for farm area as well as post-harvest handling and storage.

On September 30, 2017, the Central Committee of the Communist Party of China (CPC) and the General Office of the State Council published the "Guidelines For an Institutional System of Innovation to Push Forward Development of Green Agriculture," specifying major tasks and targets for resource conservation and environmental protection in agriculture. This is the first document published at the level of the CPC Central Committee on green agriculture, indicating that agricultural green development has been elevated as a major initiative by China's top leadership, which seeks to balance economic growth targets with environmental and sustainability targets.

China explicitly outlines sustainable development targets for agriculture through significant investments and adoption of artificial intelligence to ultimately challenge the United States in agricultural productivity. In the document, China's central planners identify targets for resource conservation and environmental protection, which include limits on pesticide and chemical use, expanding forest and wetland areas, while maintaining grain production capacity, which is considered a national security issue.

Researchers at the University of Maryland have recently reported that China exhibits one of the world's fastest transforming land patterns due to rapid urbanization, expanding suburbs, and the growth of transportation networks in China, resulting in diminished arable land area.

Based on current trends for land use in China, achieving the goals outlined in the Guidelines for Green Agriculture will be extraordinarily ambitious.

670,000 hectares (10.0 million mu) of farm area in Liaoning, Jilin, Heilongjiang and Inner-Mongolia is scheduled for rotation and eligible for subsidies of up to $339 per hectare (150 RMB/mu). Regions scheduled for fallowing include 133,000 hectares (2.0 million mu) which will be eligible for $1131 per hectare (500 RMB/mu) in Hebei, $1,809 per hectare (800 RMB/mu) for a single crop in Gansu, $2,261 per hectare (1,000 RMB/mu) for a double crop in Guizhou and Yunnan, $2,940 per hectare (1,300 RMB/mu) in heavily polluted areas in Hunan.

Land Reform Programs

According to a report delivered at the 19th National Congress of the Communist Party in October 2017, China's central and provincial governments plan to compensate and resettle farmers and villagers occupying marginal production areas. Farm land in specific areas will be rotated or fallowed, and reclaimed as forest and grassland as part of a national nature conservancy effort. In some cases, farm land will be incorporated into the National Parks Program which aims to consolidate set-asides to establish 10 new National Parks for historical preservation or wildlife conservation.

2017 Pilot Programs for Land Rotation and Fallowing included 800,000 hectares (12.0 million mu)

On February 23, MOA disclosed that in 2016 China launched pilot programs for 410,667 hectares (6.16 million mu) for land rotation and fallow. The pilot program size was expanded to 800,000 hectares (12 million mu) in 2017. The plan is to expand the program area to 1.6 million hectares (24 million mu) in 2018 and 3.33 million hectares (50 million mu) in 2020. Fallowing and land rotation are land stewardship practices that improve soil health and lower agricultural chemical runoff.

The rotation program mainly includes corn and soybeans for crop rotation. Over the past two years, MOA reports that corn production area fell by 3.33 million hectares (50 million mu), of which, 1.26 million hectares (19 million mu) was transitioned to soybean production and an additional 333,333 hectares (5 million mu) were transitioned to other feed grains. Note: China's central government refers to coarse grains, minor grains, oilseeds, and pulses as grain.

Expansion Targets for China's Crop Rotation and Fallowing Programs					
	Rotation (millions mu)	Fallow (millions mu)	Pilot Area	Fiscal Support (billions RMB)	Fiscal Support (millions $)
2016	5	1.16	9 provinces	1.436	228
2017	10	2	9 provinces	2.56	406
2018	24		15 provinces	5	794
2020	50				

Source: MOA

North East China Processor Subsidies

Over the past few years, North East China provinces including Heilongjiang, Jilin, Liaoning, and Inner Mongolia have offered subsidies to livestock feed millers and industrial processors to promote corn use, support prices, and illustrate the government commitment to continuing the structural supply-side reform. The processor subsidy programs include specific conditions for eligible program participants and incentives. Program participants are able to purchase local corn and process it through a program of incentives, including state auctions, subsidized sales of state stocks, loan guarantees, and transportation subsidies. North East China provinces normally announce subsidies for the upcoming growing season in October and November before planting begins. However, the announcements in MY2018/19 were delayed by nearly 5 months.

On March 15, the Jilin Provincial Grain Administration announced that corn deep processors and feed producers are eligible to purchase MY2017/18 corn from March 15 to April 30, 2018. The purchases must be completely processed before June 30, 2018 to qualify for a $16 per ton (100 RMB) subsidy.

On March 23, Heilongjiang officials announced a subsidy of $24 per ton (150 RMB) of corn for processing. The eligibility requirements are the same as Jilin Province's announcement above.

Based on industry comments, with nearly two-year historic high domestic corn prices, the current margins for Jilin corn starch processors and ethanol producers are estimated to be negative. Estimated losses for starch processors are $21 per ton (132 RMB). Estimated losses for ethanol producers are $24 per ton (150 RMB).

Expansion of the E10 Mandate

China is on pace to meet its goal to adopt nationwide use of 10 percent ethanol (E10) by 2020. By 2025, China plans to shift from conventional renewable fuel feedstocks to commercial scale cellulosic

feedstocks. North East China supports development of food grains for fuel ethanol production to raise farm income and dispose of outdated, low quality stocks of corn, wheat, and rice.

On September 13, 2017, the NDRC, the National Energy Administration (NEA), the Ministry of Finance and 12 other Ministries jointly announced "The implementation plan regarding the Expansion of Ethanol Production and Promotion for transportation fuel." Like corn processor subsidies, the objective of China's National E10 Blending Mandate is mainly to promote corn use, support prices, and illustrate the government commitment to continuing the structural supply-side reform. Central planners remain dedicated to limit adverse impacts to national food security and excessive volatility for market prices.

On December 8, 2017, China's state media reported that Tianjin City will implement a citywide E10 gasoline and fuel ethanol blending mandate starting on October 1, 2018. Separately, Shandong province announced that "Shandong Promotion Plans for Automotive Ethanol Gasoline" will continue a pilot program in the current eight cities. At the end of March 2018, Shandong will issue a report about the results of its ongoing pilot program. This report has not been released publicly. Starting from January 1, 2020, the province will add nine more cities to the pilot range and implement a province-wide E10 gasoline and ethanol blending mandate.

Mexico Joins a Growing List of Nations with Bilateral Phytosanitary Protocols with China

Countries Permitted to Export Grains to China (new additions in italics)	
Wheat	Australia, Canada, France (except for Rhone-Alpes), Kazakhstan, Hungary, United Kingdom, United States, Serbia, Mongolia, Russia
Corn	Thailand, United States, Peru, Laos, Argentina, Russia, Ukraine, Bulgaria, Brazil, Cambodia, South Africa, *Mexico*
Barley	Australia, Canada, Denmark, France, Argentina, Mongolia, Ukraine, Finland, United Kingdom, Uruguay
Paddy Rice	Russia
Source: AQSIQ Official Notice updated in July 2017	

Depreciation of Dollar Boosts China's Import Purchasing Power

The value of the U.S. dollar fell sharply over the past year. In March 2017, the U.S. dollar and Chinese renminbi exchange rate was $1.00 to 6.91 RMB. By March 2018, the rate dropped to $1 to 6.31 RMB, a nearly 10 percent decline in the relative exchange rate. Due to the decline, dollar-denominated soft commodities like grain have promoted Chinese imports of food and agricultural products.

China Announces an Antidumping and Countervailing Duties Investigation into U.S. sorghum

On February 4, China's Ministry of Commerce (MOFCOM) self-initiated antidumping duty and countervailing duty investigations of sorghum imports from the United States. MOFCOM cited preliminary findings that the U.S. government subsidized sorghum exports entering China under HS 10079000 and injured local Chinese producers. State Council officials asserted an investigation is a "necessary measure" to safeguard the interests of Chinese farmers.

Corn

Corn	2016/2017		2017/2018		2018/2019	
Market Begin Year	Oct 2016		Oct 2017		Oct 2018	
China	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	36768	36768	35445	35445	0	36500
Beginning Stocks	110774	110774	100713	100713	0	77054
Production	219552	219552	215891	215891	0	223000
MY Imports	2464	2464	4000	3500	0	3500
TY Imports	2464	2464	4000	3500	0	3500
TY Imp. from U.S.	809	809	0	0	0	0
Total Supply	332790	332790	320604	320104	0	303554
MY Exports	77	77	50	50	0	50
TY Exports	77	77	50	50	0	50
Feed and Residual	162000	162000	167000	167000	0	169000
FSI Consumption	70000	70000	74000	76000	0	84000
Total Consumption	232000	232000	241000	243000	0	253000
Ending Stocks	100713	100713	79554	77054	0	50504
Total Distribution	332790	332790	320604	320104	0	303554
Yield	5.9713	5.9713	6.0909	6.0909	0	6.1096
(1000 HA) ,(1000 MT) ,(MT/HA)						

Production

MY2018/19 corn production is forecast at 223.0 million tons, up 3 percent from MY2017/18 on expanded area as China's farmers respond to higher prices.

MY2018/19 harvested corn area is estimated at 36.5 million hectares. Planting intentions indicate seed sales are higher across China. Planted area may also expand to include marginal growing areas with limited water, eroded soil, and poor drainage. Liaoning province, which suffered from dry conditions in MY2017/18, recently announced that it will continue to reduce corn area by 40,000 hectares.

In North East China, higher relative margins for corn will incentivize growers to rotate back to corn planting. Industry reports indicate that MY2018/19 corn margins are estimated to be $375 per hectare more than soybeans. If input subsidies are also considered, then the relative difference in margins narrows to $280 per hectare (1,762 RMB). Heilongjiang province may see a 7-percent recovery of corn planted area.

Relative Margins	Corn	Soybean	Difference
Implied Input Costs (per hectare)	$762 4,800 RMB	$445 2,802 RMB	$317 1,997 RMB
Standard Price (per mu)	$254 1,600 RMB	$540 3,400 RMB	$286 1,800 RMB
Average Yield (tons per hectare)	6.7	1.87	4.83
Total Income (per hectare)	$1,702 10,722 RMB	$1,010 6,363 RMB	$692 4,360 RMB
Revenues (per hectare)	$940 5,920 RMB	$565 3,558 RMB	$375 2,363 RMB

Input Subsidy (per hectare)	$317 2,000 RMB	$413 2,600 RMB	($96) (605 RMB)
Total Revenue	$1,257 7,920 RMB	$977 6,158 RMB	$280 1,764 RMB

In early March 2018, Minister of Agriculture Han Changfu urged farmers not to blindly expand corn area. MOA pledged that it will monitor planting progress and continue to direct corn production to regions with favorable growing conditions.

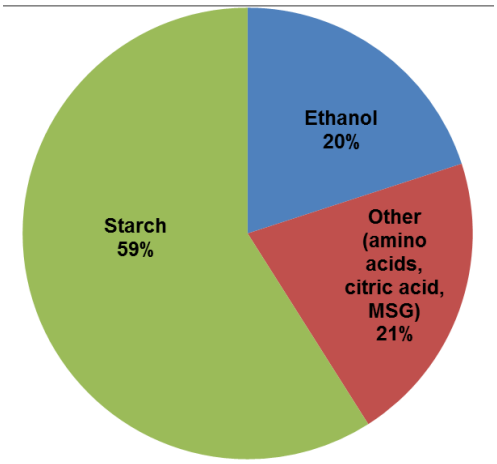
MY2017/18 corn production is estimated at 215.9 million tons, unchanged from USDA's March estimate. China's supply-side reforms and directives pushed many corn producers in China to switch to soybeans and other crops. As a result, harvested area fell 2.0 million hectares (30.0 million mu) in MY2016/17 and 1.3 million hectares (20 million mu) in MY2017/18.

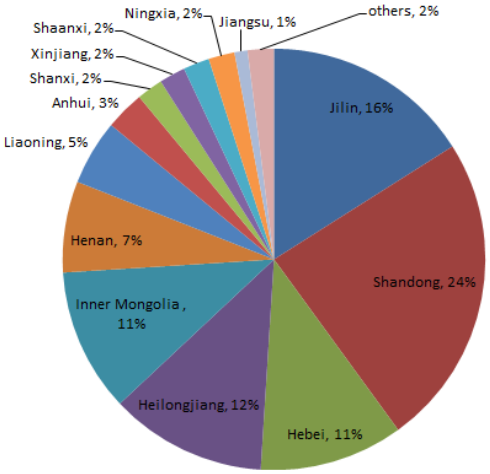
Consumption

MY2018/19 corn consumption is forecast at 253.0 million tons, up 12.0 million tons from USDA's March estimates for MY2017/18, on higher Food, Seed, and Industrial (FSI) use and feed use.

MY2018/19 FSI consumption is raised to 84.0 million tons, up 10.0 million tons to reflect ongoing rapid expansion of corn processing and corn use for ethanol.

Corn Processing by Product **MY2017/18 Provincial Corn Processing Capacity**

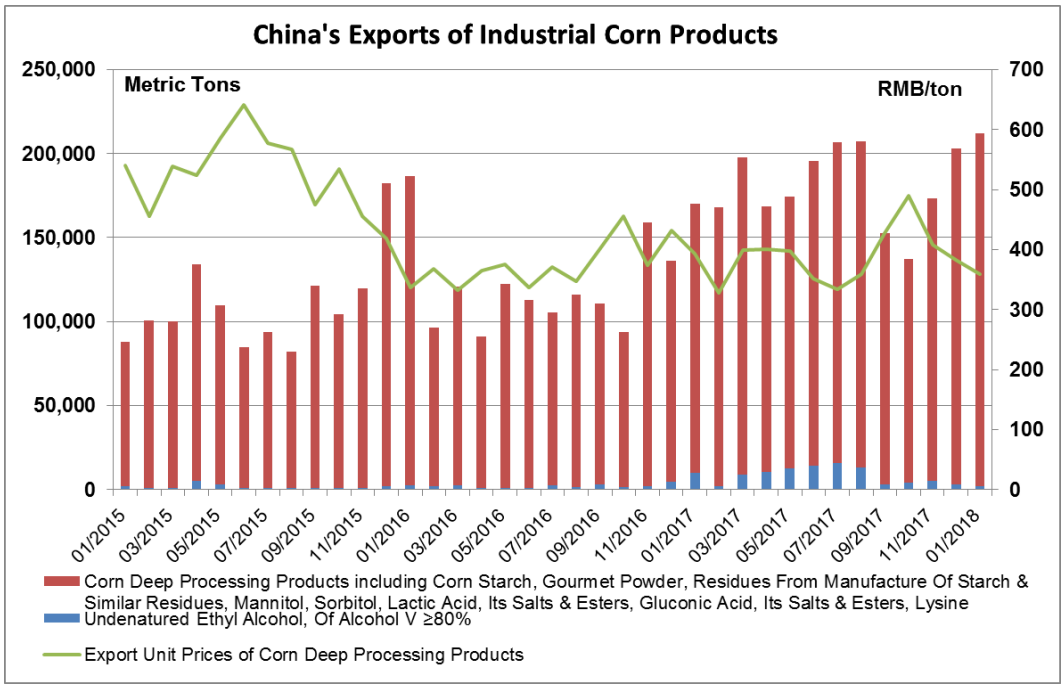




Source: USDA and Industry source

Government policies support corn processing through North East China provincial subsidies, accelerated local approvals for facility construction and upgrades, a VAT refund program for exports of corn byproducts, and investment directives under China's ethanol adoption policy.

Industry sources report that corn processing capacity is forecast to expand over the next few years, particularly in Heilongjiang, Liaoning, Jilin, and Shandong provinces. About 20 projects are currently under construction and scheduled for completion by the end of 2018. Additionally, there are 10 other projects which have not broken ground yet. When these projects begin operating at the close of 2018, industry analysts estimate an added capacity to process about 20 million tons of additional corn a year.



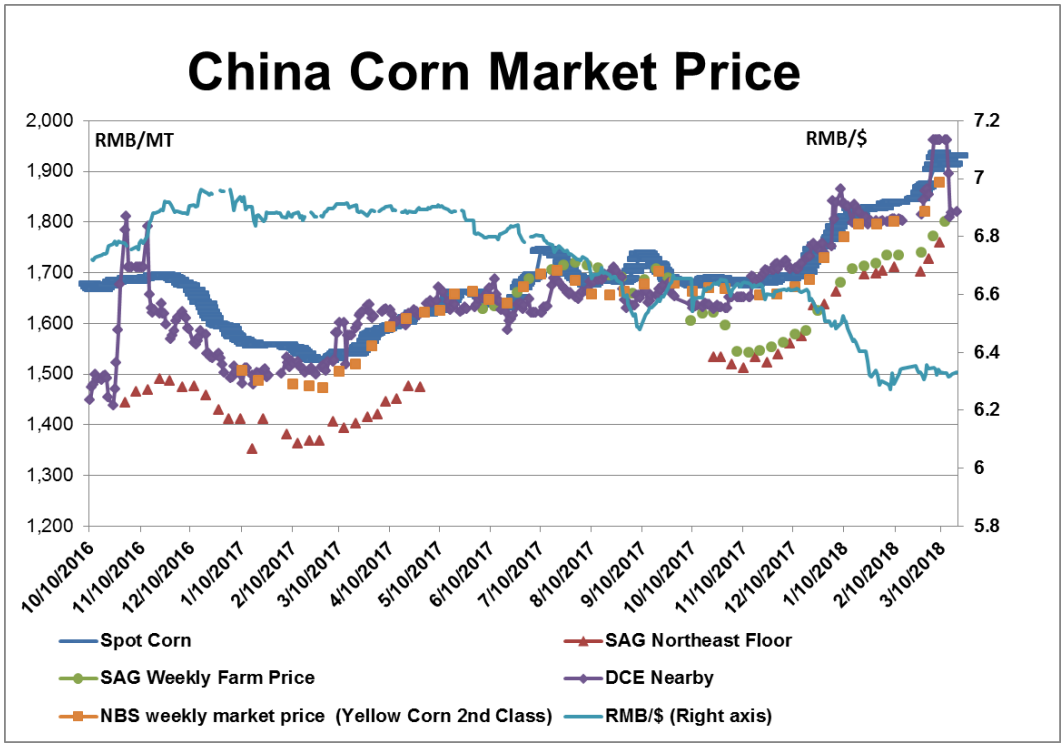
Source: Industry sources and Post estimates

MY2018/19 Feed and Residual use is raised to 169.0 million tons, up 2.0 million tons on higher hog population estimates.

China is promoting the development of large-scale, concentrated animal feed operations in North East China. Although many hog producers are barely breaking even, they continue to compete for market share. As China's livestock feed industry matures, gains in feed use efficiency are continuously offset by expanded animal populations.

China Feed Production in China by Type (million tons)				
	Total	Compound	Concentrate	Premix
2009	147.8	115	26.9	5.9
2010	162.3	130	26.5	5.8
2011	180.5	149	25.4	6.1
2012	194.9	164	24.7	6.2
2013	193.3	163	24	6.3
2014	196.9	169	21.5	6.4
2015	200.1	174	19.6	6.5
2016	209.2	184	18.3	6.9
2017*	**215**	**190**	**17.7**	**7.2**
Source: Ministry of Agriculture and CNGOIC estimates*				

MY2017/18 corn consumption is estimated at 243.0 million tons, up 2.0 million tons from USDA's March estimates on higher FSI use.



Source: various sources

Industry sources report that corn processing capacity soared to 90.0 million tons in MY2017/18, up 30 percent from MY2016/17, predominantly in North East and North China.

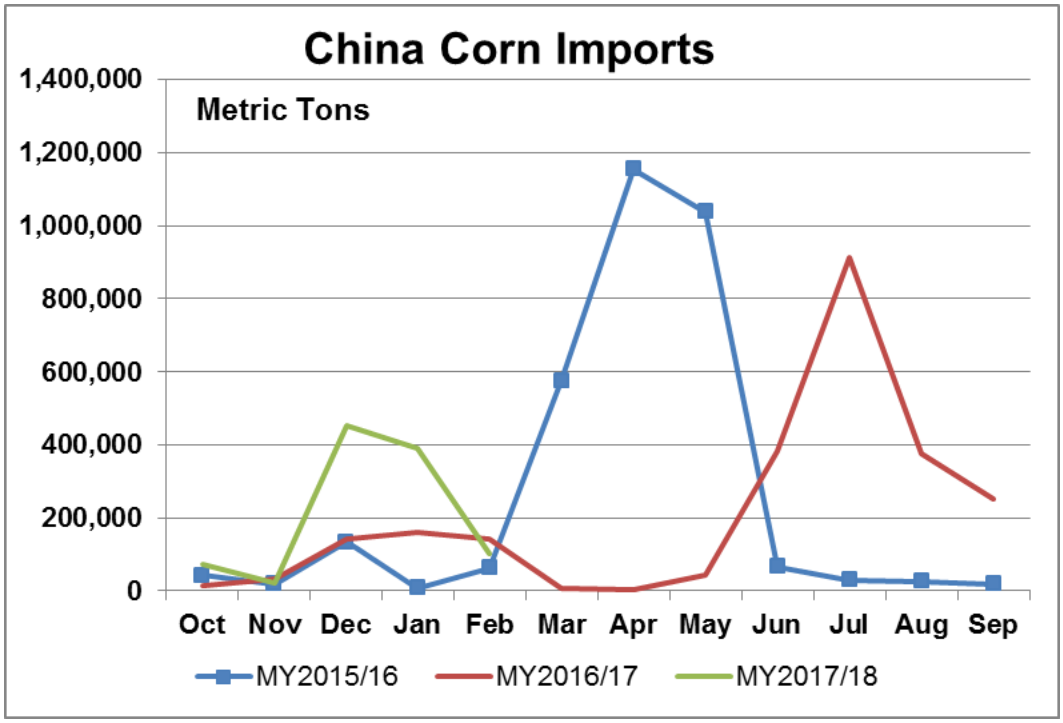
On February 4, 2018, China announced an anti-dumping and countervailing duties investigation into U.S. exports of sorghum. As a result, corn prices across China strengthened as local markets reacted to the forward market outlook for feed grains in China. In mid-March 2018, corn prices in some parts of China rose to more than $317 per ton (RMB 2,000). Additionally, strong demand for FSI use and feed use have supported prices.

Chinese dried distiller's grains with solubles (DDGS) prices have held constant at or below $317 per ton (2,000 RMB) since February 2017. Following recent trade policy developments and in correlation with local soybean meal prices, DDGS prices have jumped slightly to $321 per ton (2023 RMB).

Trade

MY2018/19 corn imports are forecast at 3.5 million tons, down 500,000 tons from MY2017/18.

As corn producing regions in North East China have expanded corn use for feed and processing, less domestic corn is moving to grain-deficit regions in the North China Plain and South China regions. The division in the markets between North and South China are growing more pronounced.



Source: China Customs

MY2017/18 corn imports are estimated at 3.5 million tons, unchanged from Post's January estimate and down 500,000 tons from USDA's March estimate.
Corn imports have surged to nearly 1.0 million tons from October 2017 to February 2018, more than double the trade volume over the same period in MY2016/17. Although U.S. corn prices have also strengthened, declines in U.S. dollar foreign exchange rates and rising domestic prices in China have

pushed corn import margins to a one year high. Industry sources report that importers have booked up to 300,000 tons of Ukrainian corn for March delivery.

Comparative Value of Corn by Origin and Destination			
Origin	**Destination**	**$ per ton**	**RMB per ton**
China	Guangdong port	$308 - $311	1,940-1,960 RMB
United States	Guangdong port	$243	1,530 RMB
Ukraine	Guangdong port	$257	1,620 RMB

Following MOA biosafety approvals for new corn traits in July 2017, corn imports have benefited from expanded market access to China. However, local corn buyers continue to face stringent requirements to apply for biosafety import permits for genetically-engineered corn imports and facility licenses to handle GE feed ingredients.

In MY2017/18, MOA raised scrutiny over biosafety certificates, resulting in significantly higher commercial risks for grains traders. In 2017, China tightened enforcement of provincial biotechnology grain handling rules, requiring end users to secure GMO processing certificates from provincial agricultural offices before taking delivery of consignments. As a result, importers seeking to comply with new provincial regulations faced delayed approvals of MOA biosafety import permits, needed for each consignment of GE feed ingredients imported into China. In March 2018, the situation changed as more feed mills have reported getting their provincial grain facility handling licenses. However, smaller feed mills have been discouraged from buying U.S. corn due to regulatory burdens and relatively small privately allocated quota volumes.

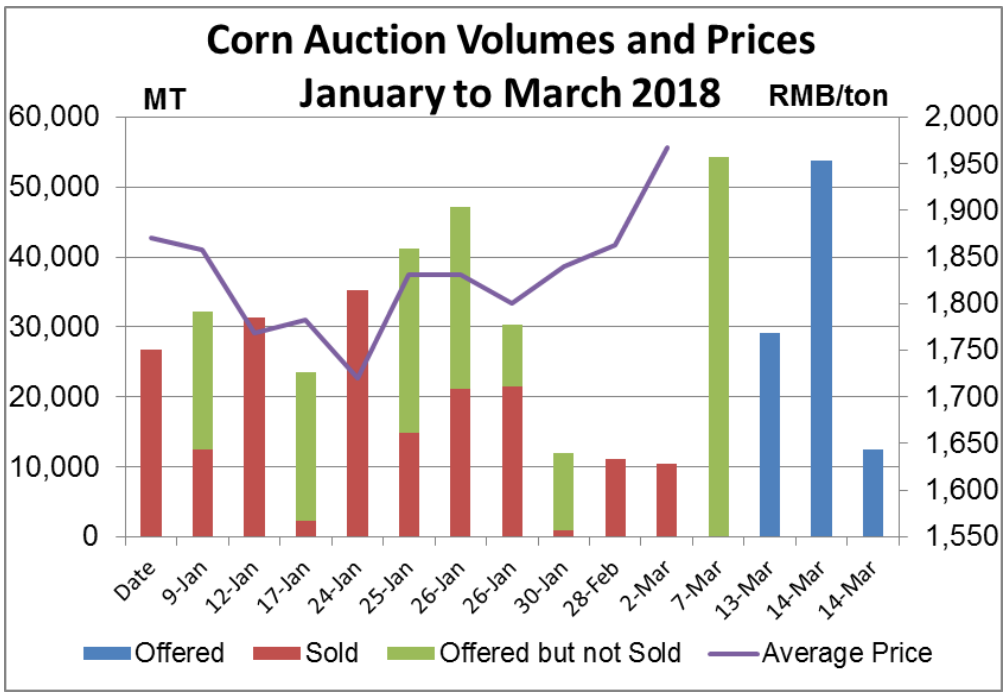
MY2018/19 corn exports are forecast at 50,000 tons, unchanged from USDA's March estimate for MY2017/18.

Stocks

MY2018/19 stocks are forecast at 50.5 million tons, nearly halved from USDA's March estimate for MY2017/18, on policy-driven consumption programs.

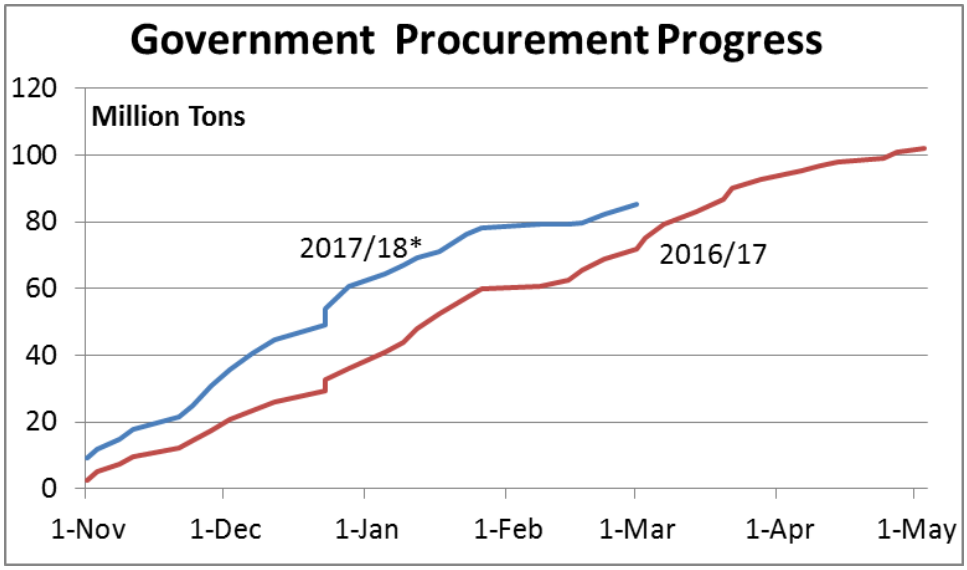
Industry sources report that China's state corn reserves may be as high as 180 million tons, including 50.0 million tons of corn in reserve for more than three years, exceeding the time limit prescribed by state grain authorities.

MY2017/18 corn stocks are estimated at 77.0 million tons, 2.5 million tons lower than USDA's March estimates, due to lower import volume and strong FSI demand.



Source: Sinograin

Corn auction sales have been relatively high and settlement prices have also risen. Market expectations that state temporary reserve auctions would begin in late March remain unrealized. It is expected that the state will auction 8.0 million tons of corn, of which 2.0 million tons will exceed grading standards for processing and ethanol production. Heilongjiang province will rotate stockholdings and release 340,000 tons onto the local market at $270 per ton (1,700 RMB). Jilin province reports that as of March 10 it holds 49.6 million tons in reserves.



Note: MY2017/18 data from November 2, 2017 until January 25, 2018 include all of North East China provinces as reported by the State Administration of Grain. From February 5 to March 15, 2018, Post included an aggregate total of 11 major producing areas, undefined except for Heilongjiang and Shandong provinces.

Wheat

Wheat	2016/2017		2017/2018		2018/2019	
Market Begin Year	Jul 2016		Jul 2017		Jul 2018	
China	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	24187	24187	23990	23990	0	23900
Beginning Stocks	97042	97042	111049	111049	0	126819
Production	128845	128845	129770	129770	0	129000
MY Imports	4410	4410	4000	4000	0	4000
TY Imports	4410	4410	4000	4000	0	4000
TY Imp. from U.S.	1626	1626	0	0	0	0
Total Supply	230297	230297	244819	244819	0	259819
MY Exports	748	748	1000	1000	0	1200
TY Exports	748	748	1000	1000	0	1200
Feed and Residual	16500	16500	13500	13500	0	13500
FSI Consumption	102000	102000	103500	103500	0	105000
Total Consumption	118500	118500	117000	117000	0	118500
Ending Stocks	111049	111049	126819	126819	0	140119
Total Distribution	230297	230297	244819	244819	0	259819
Yield	5.327	5.327	5.4093	5.4093	0	5.3975
(1000 HA) ,(1000 MT) ,(MT/HA)						

Production

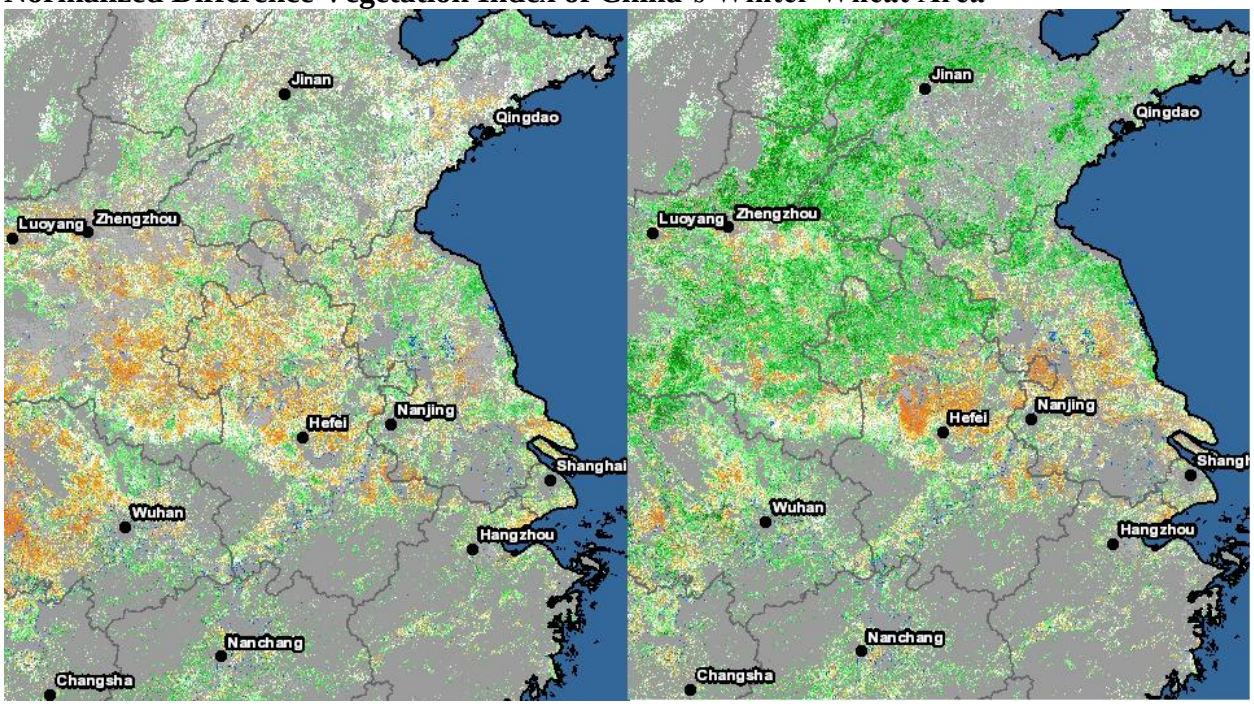
MY2018/19 wheat production is forecast at 129.0 million tons, down by 770,000 tons from MY2017/18 on policy-driven declines in harvested area.

MY2018/19 wheat harvested area is forecast at 23.9 million hectares, down by nearly 900,000 hectares due to government rotation plans and reforms to minimum support prices.

Industry sources report that China's new land rotation policies may lead to some shifts in national wheat production area. They estimate that in MY2018/19 some 2,667 hectares (40,000 mu) of wheat production on marginal land in dry regions of the North China Plain and Xinjiang province will be taken out of production and fallowed.

China's wheat growers completed planting of 92 percent of MY2018/19 winter wheat area in mid-November 2017. Wheat emergence and tillering development is proceeding normally. Snow cover across the North China Plain benefited winter wheat development for moisture retention and pest management. However, low temperatures in January and drought may have damaged wheat development. Late planted MY2018/19 winter wheat and areas without snow coverage remain vulnerable to winter kill. Damage assessments will not be complete until crop emergence in March and April.

Normalized Difference Vegetation Index of China's Winter Wheat Area



March 5, 2018 **March 5, 2017**

Source: USDA, GADAS

According to Chinese government field surveys, winter wheat growing conditions in Henan and Anhui province are below average due to extreme cold and heavy snowfall. The number of Class 1 seedlings is rated 21 percent and 43 percent lower than in MY2017/18 in Henan and Anhui provinces, respectively.

Standard wheat is a shrinking share of the market. China's wheat producers have started planting new varieties of high-protein wheat, which may seek to capture higher premiums to offset significant declines in yields. Many large scale operations that directly contract with flour mills have already shifted production to high-protein wheat varieties. Others have adopted organic wheat production practices forgoing fertilizer, pesticide, and fungicide.

Given current prices, wheat production margins remain relatively strong compared to alternative crops like barley and oats, which are not eligible for government minimum support price programs. Additionally, North East China farmers have a very tight planting window following corn harvesting in November.

In late October 2017, NDRC lowered the 2018/19 MSP for standard wheat (3rd class) to $348 per ton (2,300 RMB), down by $9.20 (60 RMB) from MY2016/17. Industry contacts report that a lower minimum support price for wheat is expected to have minimal impact on planting decisions for MY2018/19 production and current prices due to the NDRC announcement's timing after wheat planting. End users and traders report that market pricing to date has accounted for the policy shift due to market expectations for reforms. Government officials have assured wheat growers that direct payments and set-aside payments associated with land rotation and fallowing programs will offset MSP reform impacts to farm income.

China's high-protein wheat market is driven by different fundamentals than China's common wheat market. China's common wheat (Class 3 Guobiao standard wheat) market is driven by government-set prices and government auctions, which are managed in terms of auction pricing as well as the total volume of offerings. The Zhengzhou Commodity Exchange (ZCE, PM contract) offers a common wheat contract. However, due to government policies, the ZCE PM contract has a trading volume close to zero.

In contrast, China's high-protein wheat market is driven by demand from China's flour mills, which mostly rely on direct contracting for domestic high protein wheat supplies, or imported wheat consignments, which are subject to government-managed volumes of TRQ allocations. The Zhengzhou Commodity Exchange (ZCE, WH contract) offers a strong wheat contract, which includes high protein. The ZCE, WH contract has relatively high-levels of market participation. However, due to government policies, the ZCE WH contract has little correlation with global benchmark prices.

Estimated MY2017/18 production is unchanged at 129.8 million tons.

Consumption

Wheat total consumption in MY2018/19 is forecast to increase to 118.5 million tons, 1.5 million tons higher than USDA's March estimate for MY2017/18, on higher FSI use. Industry sources report that flour mills are operating at about 40% capacity nationwide.

FSI use is raised to 105.0 million tons, up 1.5 million tons from MY2017/18 on expanded ethanol production. National and local government officials recently raised requirements for inspection and sampling of Tilletia controversa smut (TCK) in wheat, as well as heightened enforcement of existing food safety regulations. As a result, old and low quality wheat stocks are being directed to produce starch and ethanol.

Over the past decade, China has experienced a long-term decline in wheat-based staple foods such as noodles and steam breads and a gradual rise consumption of animal protein products such as meat and dairy. Demand for instant noodles has declined significantly as steadily rising incomes in urban areas and the emergence of China's burgeoning food delivery industry present greater options for consumers. Domestic prices of high-quality, high protein wheat remain stable.

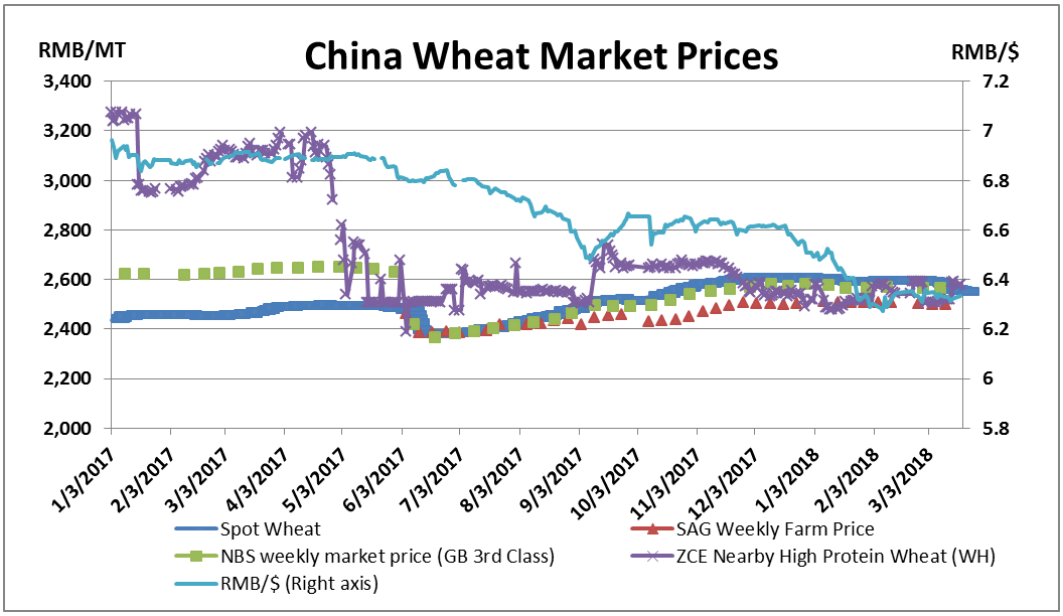
However, Chinese consumers have growing interest in specialized and pre-mix flour for pastries and baked goods as well as coatings for fried foods in the quick service restaurant industry. In East China, there is even a growing trend towards home baking. As a result, demand has grown for high protein and low protein wheat imports as well as consumer expectations for higher quality standards.

Wholesale Wheat Spot Prices in Major Markets (week of March 12-16)		
Province	Common Wheat	Strong Wheat

	--RMB per ton--	--$ per ton--	--RMB per ton--	--$ per ton--
Hebei	2,590	411	2,860	454
Shandong	2,586	410	2,720	431
Henan	2,563	407	2,710	430
Jiangsu	2,530	402		
Anhui	2,520	400		

Sources: SCI

Wheat prices continue to follow a sluggish downward long-term trend.



Source: various sources

Feed use is expected to remain flat mainly due to the high domestic wheat price. Even though Chinese feed demand is projected to rise, the domestic market will opt for cheaper corn and other alternatives.

MY2017/18 total consumption is estimated at 117.0 million tons, unchanged from USDA March estimates.

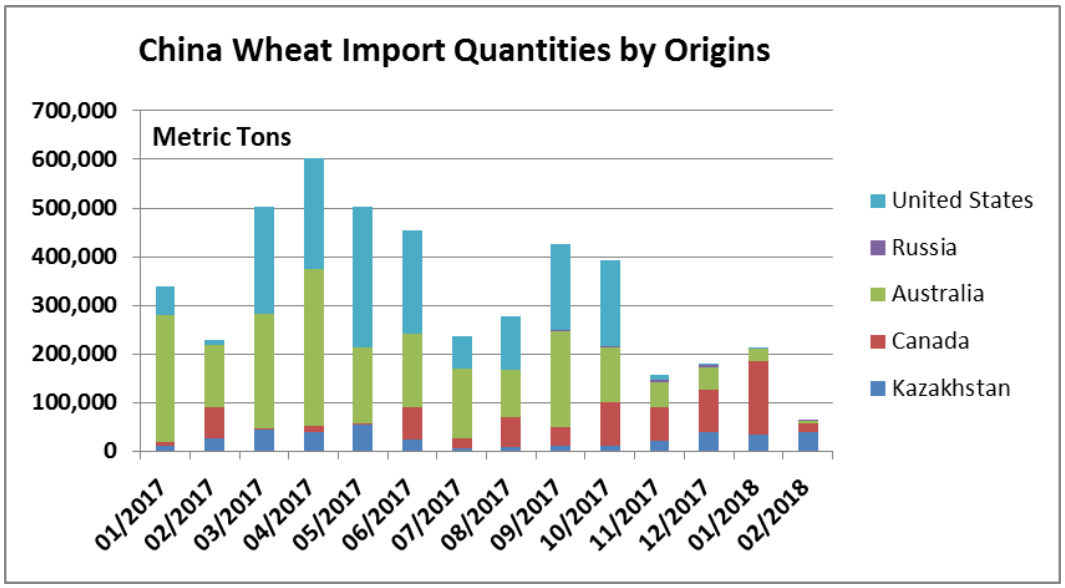
Trade

MY2018/19 wheat imports are forecast at 4.0 million tons, unchanged from USDA's March estimates for MY2017/18 on stronger demand for high-quality wheat for specialty milling and competitive prices.

MY2018/19 wheat exports are forecast at 1.2 million tons, 0.2 million tons higher than USDA's March estimates for MY2017/18, on increasing exports of wheat flour to neighboring countries. Traditional export destinations include North Korea, South Korea and Hong Kong. Exports of wheat-containing products are gathering speed. However, nearby markets such as Japan and Korea normally have specific requirements and standards for raw materials for noodles, cookies, and crackers, which are more commonly and consistently found in imported supplies of wheat rather than domestic supplies.

MY2017/18 wheat imports remain unchanged from USDA March estimates.

In February 2018, the General Administration for Quality Supervision and Inspection and Quarantine (AQSIQ) announced that a ban on imports of wheat from six Russian regions would be lifted, removing quarantine requirements implemented in 2016.



Source: China Customs

China has imported an increasing volume of wheat from Black Sea origins due to competitive prices and market proximity. Industry consensus indicates that shipments from the Black Sea do not directly compete with U.S. wheat, due to inconsistent quality. In the worst case, high levels of foreign matter and lower-than-expected protein levels have turned flour mills away from Black Sea origins.

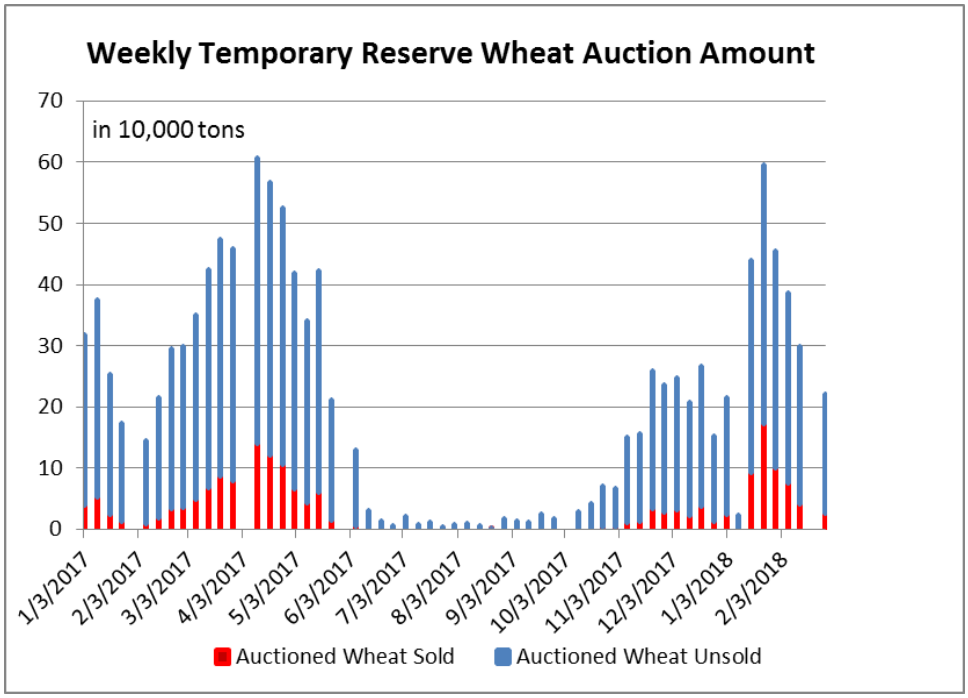
MY2017/18 wheat exports remain unchanged from USDA's March estimates.

Stocks

MY2018/19 ending stocks are forecast to jump to 140.1 million tons, up 13.3 million tons from USDA's March estimates for MY2017/18, on greater supplies and lower demand.

MY2017/18 wheat ending stocks are unchanged from USDA March estimates.

Private buyers report that rising import volumes and a combination of government set-aside programs and higher wheat quality standards will significantly drawdown government stockholdings under the temporary reserve program. Additionally, government programs to raise export volumes through in-kind food assistance and domestic FSI use will dispose of old crop stocks which cannot be marketed domestically.



Source: SCI

In February 2018, state auctions expanded in volume. On January 8, the State Grain Trading Center reported that the wheat auction floor price for MY2014/15 and MY2016/17 old-crop wheat stocks would fall to $370 to $378 per ton (2,460 to 2,410 RMB).

Rice

Rice, Milled	2016/2017		2017/2018		2018/2019	
Market Begin Year	Jul 2016		Jul 2017		Jul 2018	
China	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	30178	30178	30176	30176	0	29500
Beginning Stocks	78500	78500	86500	86500	0	93889
Milled Production	144953	144953	145989	145989	0	143000
Rough Production	207076	207076	208556	208556	0	204286
Milling Rate (.9999)	7000	7000	7000	7000	0	7000
MYImports	5300	5300	5500	5400	0	5300
TY Imports	5500	5500	5500	5400	0	5300
TY Imp. from U.S.	1	1	0	0	0	0
Total Supply	228753	228753	237989	237889	0	242189
MYExports	805	805	1300	1300	0	1500
TY Exports	1173	1173	1600	1600	0	1800
Consumption and Residual	141448	141448	142700	142700	0	145000
Ending Stocks	86500	86500	93989	93889	0	95689
Total Distribution	228753	228753	237989	237889	0	242189
Yield (Rough)	6.8618	6.8618	6.9113	6.9113	0	6.9249
(1000 HA) ,(1000 MT) ,(MT/HA)						

Production

MY2018/19 rough rice production is forecast at 204.3 million tons, down 4.3 million tons, or more than 1.7 percent, from MY2017/18, on a sharp decline in harvested area caused by government interventions.

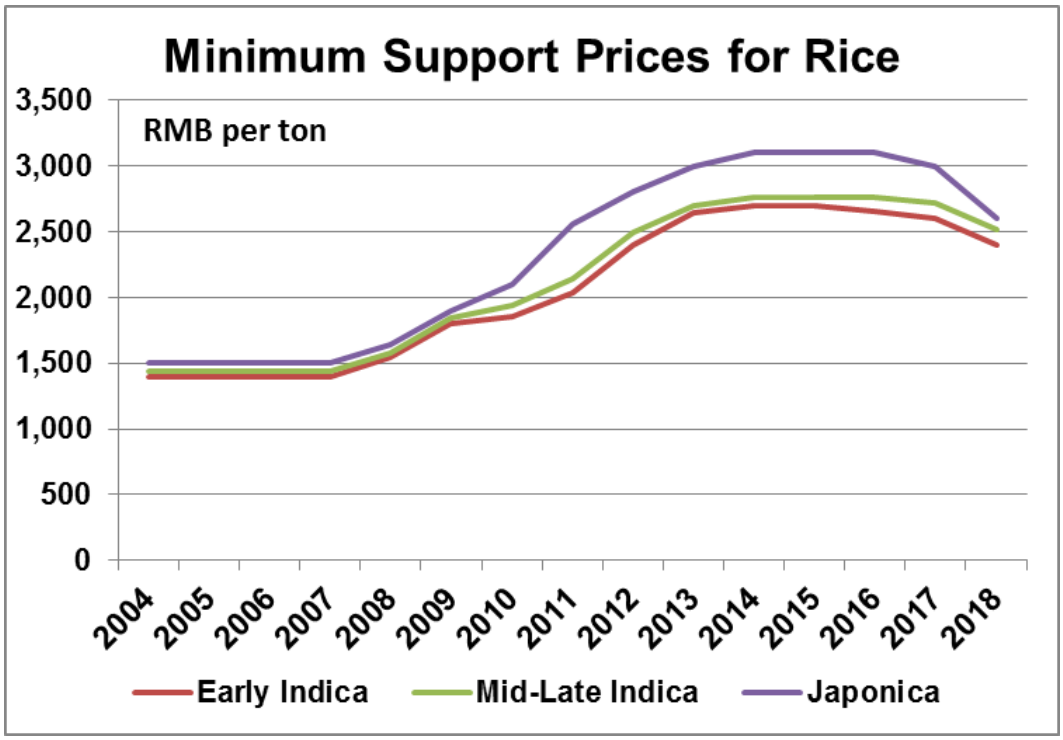
MY2018/19 harvested area is estimated at 29.5 million hectares, down 600,000 hectares on government policies and relatively lower margins for mid-to-late indica rice and japonica rice.

In China, early indica rice planting begins in March. Late indica rice planting ends in June. At this time, planting and sowing of early indica rice in South China is at its peak.

On January 18, 2018 MOA issued Key Points for Planting Industry Work in 2018. MOA announced plans to dramatically lower rice planted area by over 670,000 hectares (10 million mu), around 2.2 percent of its plantings for MY2017/18. In relative terms, a 670,000 hectare reduction of planted area is not consequential, but sends an important signal that the country will reform its rice sector.

Rice production area in North East China and the Yangtze River basin will be rotated or fallowed. In North East China, growers are encouraged to switch to corn, potato, and pulse production as they face diminishing water resources and short growing seasons to support sustainable japonica rice production. In the Yangtze River basin, growers on marginal lands, such as terraced hillsides in mountains areas, will be encouraged to switch from double-crop varieties of indica rice to single-crop varieties or vegetables. Farmers will also be supported with programs to develop off-farm income, raise value-added crops, and financial resources to start new enterprises for grain processing, e-commerce, and rural tourism.

On February 9, the NDRC released the MY2018/19 Minimum Support Price (MSP) for various rice varieties, lowering the minimum support prices by as much as 13 percent. The MSP for early indica rice and mid-late indica (Class 3) were reduced to $380 and $400 per ton (2,400 RMB and 2,520 RMB), down $32 per ton (200 RMB). The MSP for japonica rice was reduced $413 per ton (2,600 RMB) for MY2018/19, down 400 RMB.



Source: NDRC

The 13-percent reduction is the largest decline to China's MSP for rice since the introduction of the program in 2004. The reforms will have profound impacts on MY2018/19 planting intentions, affecting production, and supply and demand.

In addition to the MSP reductions, NDRC also announced that the government will provide "direct payments" to growers in major rice producing provinces to maintain stable production. The subsidy will be tied to production rather than minimum support prices for procurement to comply with WTO rules.

Lastly, MOA announced that it would also support farm income through expanded offerings of crop insurance to offset the impact of lower MSP and guarantee revenues for rice producers.

MOA projects that more than 80 percent of the total MY2018/19 planted area will be dedicated to high-quality rice and specialized rice varieties, up about 1.5 percent from 2017. In September 2017, China's "Father of Hybrid Rice" Yuan Longping announced the development of a rice variety, which can produce grain that is cadmium-free from polluted soils. He has also developed rice varieties that are tolerant of saline-alkali soil. Test results indicate yield potential ranging from 6.5 to 9.3 tons per hectare. On January 23, 2018, researchers at Huazhong Agricultural University applied and received food safety approval by the United States Food and Drug Administration for a genetically engineered rice variety called Huahui-1.

The MY2017/18 rough rice production estimate remains unchanged at 208.6 million tons.

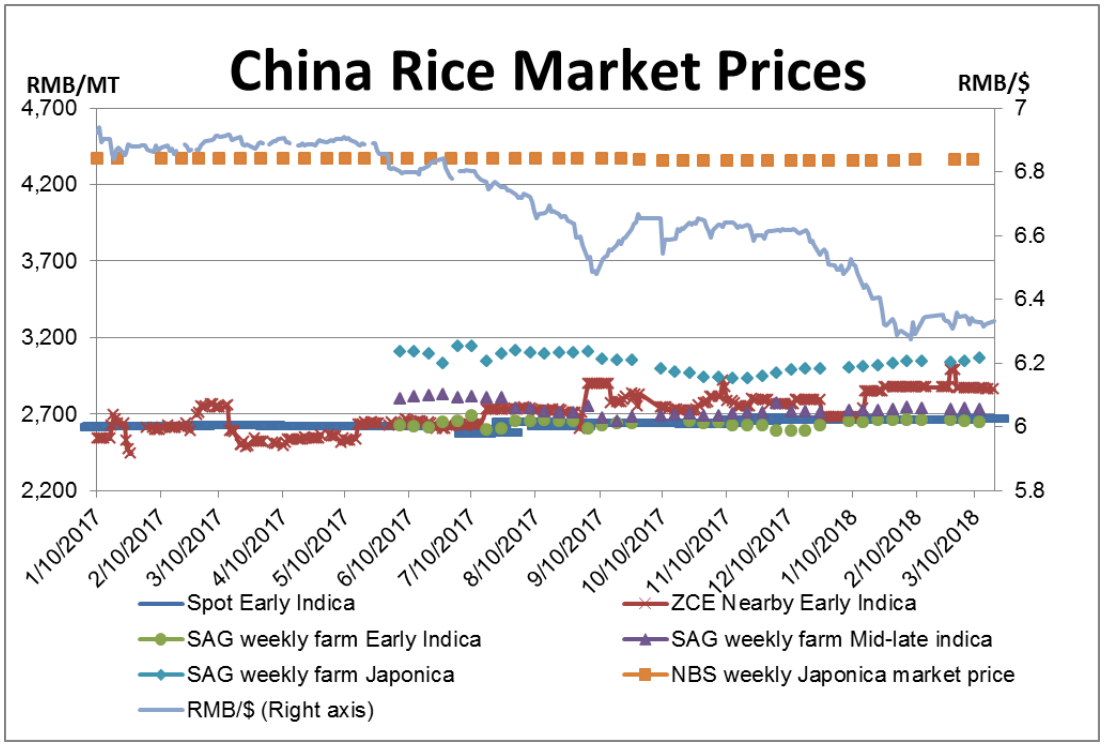
Consumption

MY2018/19 rice consumption is forecast at 145 million tons, up 2.3 million tons from MY2017/18 on higher FSI and feed use.

In general, rice is a staple food grain in China. For thousands of years, China's rulers and governments have supported rice production as a matter of food security.

However, dietary habits in China have changed dramatically in recent years. First, rising incomes and dietary changes to include more meat, dairy, and vegetables have led to lower rice consumption. Second, the recent emergence of e-commerce delivery platforms for restaurant foods has transformed the frequency of at-home and away-from home meals.

As record volumes of rice stocks weigh on government balance sheets, China's policy-makers have signaled that they will soon adopt measures to promote the processing of rice as a feedstock for industrial starch and ethanol production. Such a change would be historic and represent a categorical reversal in national food security policy and cultural associations of rice as a staple grain. As a result, old-crop government stocks may substitute corn and cassava in industrial starch processing and ethanol production.



Source: various sources

MY2018/19 feed use is unchanged from USDA's March forecast. However, as prices move downward and sizeable volumes of old-crop rice offered for government auctions, and corn prices continue to surge upward, China's feed producers may consider rice as an alternative energy source to corn in livestock rations. The termination of the MSP procurement for mid-to-late indica rice in late January and the

announcement of the new MSP for next year will pressure mid-to-late indica rice prices downward in the near term.

MY2017/18 consumption is estimated at 142.7 million tons, unchanged from USDA March estimates.

On January 23, a national survey of the MY2017/18 rice quality conducted by the State Administration of Grain's Quality Inspection Center indicates that mid-to-late indica quality declined from MY2015/16 in terms of milling rate, percentage of broken grains, and percentage of Class 1 rated samples. In contrast, japonica rice quality was reported as normal.

Imports

MY2018/19 rice imports are forecast at 5.3 million tons, down 200,000 tons from MY2017/18 on government reforms to the MSP for rice.

China's announcement of lower-than-expected MSP rice is expected to narrow the price gap between domestic and imported rice.

Since 2012, China began to import rice from South and Southeast Asia. Over the past five years, import volumes have expanded over 10 percent annually as imported rice continues to undercut local domestic rice prices, which remain high due to domestic policy programs and high costs of production.

Buying patterns in China have also changed. Historically, the Spring Festival season is a strong driver of demand for all commodities, including rice. In recent years, emerging consumer trends like e-commerce retailers have mitigated the effect of seasonal buying, especially for heavy and bulky items, like rice. Buyers can buy products more cheaply in smaller consumer packages with greater frequency. Increasingly, China is a predominantly urban nation with declining rice consumption.

Comparative FOB Prices of Major Exporters to China				
Date	Thai Rice FOB	Vietnam Rice FOB	Indian Rice FOB	China MSP Rough Rice
1/5/2018	$398-400	$390-395	$421-424	Early indica $381
2/2/2018	$443-446	$440-450	$447-451	Mid-to-late indica $400
3/6/2018	$395-400	$410-415	$419-423	Japonica $413

Sources: SCI

China has expanded the number of import origins that it buys rice. In July 19, 2017, China signed a phytosanitary protocol for U.S. rice imports. Additional cooperation will lead towards a path for U.S. market access to export rice to China.

MY2017/18 rice imports are estimated at 5.4 million tons, 100,000 tons lower than USDA's March estimates, unchanged from Post's January Update.

Exports

MY2018/19 exports are forecast at 1.5 million tons, up 200,000 tons from MY2017/18, on a strong pace of in-kind food assistance export shipments. As China's central planners develop a domestic rice disposal program, China has started liquidating inventories of abundant, aged, and low quality rice to Africa. These shipments are valued at around $300 per ton.

Rice Exports as Food Assistance				
Date	**Destination**	**Volume (metric tons)**	**Value**	**Type of Assistance**
December 12	Sri Lankan	2,752		Drought relief
February 7	Mozambique	7,000		Rain Relief
February 19	Nigeria	6,779		Humanitarian relief
March 12	Liberia	1,243		Emergency humanitarian food assistance
March 16	Cuba		$7.7 million (pledged)	Food aid
March 16	Malawi	3,270		Disaster relief (November 2017-March 2018)

MY2017/18 rice exports are estimated at 1.3 million tons, unchanged from USDA's March estimate.

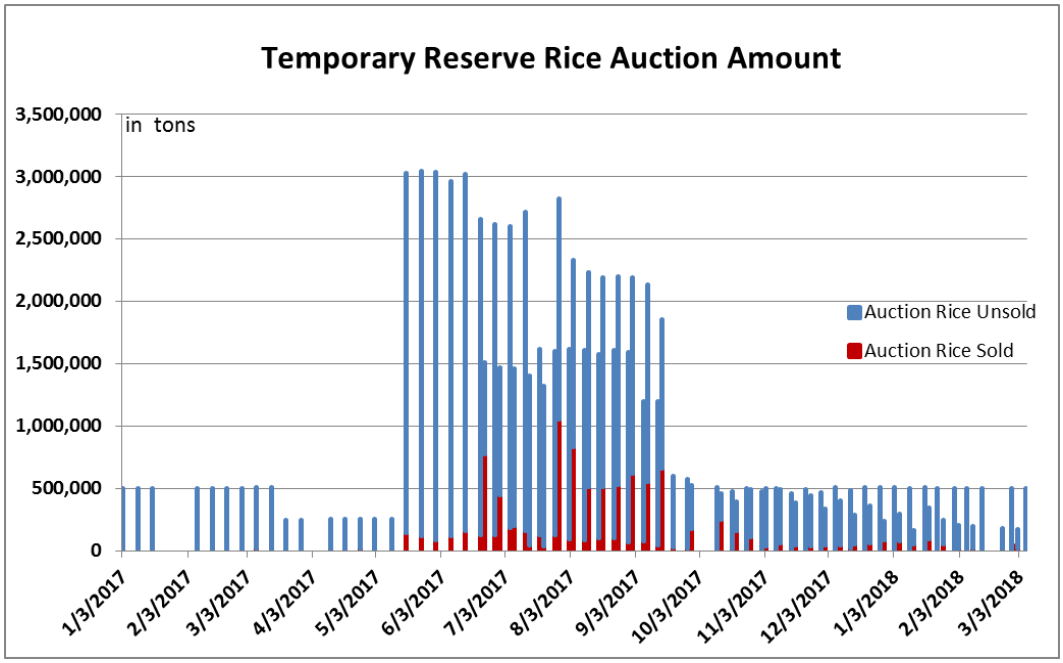
MY2017/18 rice exports have reached their highest pace since MY2004/05.

Stocks

MY2018/19 ending stocks are forecast at 95.7 million tons, up 1.8 million tons from MY2017/18 as MY2017/18 carryover volumes offset declines in production and higher demand.

The volume and pace of State Administration of Grain auctions in MY2017/18 will indicate a forward outlook for MY2018/19 rice prices.

MY2017/18 ending stocks are estimated at 93.9 million tons, unchanged from USDA's March estimates.



Source: SCI

As of February 2018, SAG statistics estimate that China's temporary reserve procurement campaign for MY2017/18 rice reached an historic volume of 88.12 million tons, up 11.26 percent from MY2016/17. This historic volume accounts for an estimated 42.3 percent of the national rice production.

China's temporary reserve procurement of mid-to-late indica rice ended on January 31, 2018. At the close of the Spring Festival, outstanding volumes of MY2017/18 rice have been depleted.

On February 28, the State Administration of Grain offered 40,000 tons of MY2013/14 old-crop rice for auction under the condition that rice millers process and sell milled rice on the open market at a fixed minimum price.

On March 21, the State Administration of Grain offered MY2013/14 and MY2014/15 rice, which exceeds standards for rice storage, including 400,000 tons of early indica, 1.0 million of japonica, and 1.0 million tons of mid-to-late indica rice.

In 2018, Mid-to-late indica rice auctions were two months earlier than previous years. Industry sources report that they expect the State Administration of Grain to continue to auction old-crop MY2014/15 rice. Industry estimates that China has 140 million tons of rice stocks. Unlike corn, rice has limited industrial channels for processing. Industry believes the future state inventory auctions will continue focusing on outdated 2014 rice, which is estimated by the industry to be 28 million tons, among which 16 million is japonica, 8 million is mid-to-late indica and 4 million early indica. The volume and pace of the auction will direct rice prices in MY2018/19.

Sorghum

Sorghum	2016/2017		2017/2018		2018/2019	
Market Begin Year	Oct 2016		Oct 2017		Oct 2018	
China	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	625	625	675	675	0	720
Beginning Stocks	717	717	577	577	0	347
Production	2985	2985	3200	3200	0	3450
MYImports	5209	5209	5600	5600	0	5700
TY Imports	5209	5209	5600	5600	0	5700
TY Imp. from U.S.	4824	4824	0	0	0	0
Total Supply	8911	8911	9377	9377	0	9497
MYExports	34	34	30	30	0	30
TY Exports	34	34	30	30	0	30
Feed and Residual	5800	5800	6300	6300	0	6300
FSI Consumption	2500	2500	2600	2700	0	2800
Total Consumption	8300	8300	8900	9000	0	9100
Ending Stocks	577	577	447	347	0	367
Total Distribution	8911	8911	9377	9377	0	9497
Yield	4.776	4.776	4.7407	4.7407	0	4.7917
(1000 HA) ,(1000 MT) ,(MT/HA)						

Production

MY2018/19 sorghum production is forecast to expand to 3.45 million tons, up 250,000 tons from MY2017/18, on expanded harvested area in response to increasing prices and higher volumes of contracting for sorghum use for baijiu production.

Corn producers in North East China are expected to switch from corn to sorghum as an alternative crop as it thrives under similar agronomic conditions. North East China is the principle sorghum production region in China, accounting for nearly half of total production. Inner Mongolia mainly produces sorghum for feed use. In other major growing areas, such as Sichuan and Guizhou provinces, sorghum is almost exclusively grown for baijiu production.

MY2017/18 sorghum production is estimated at 3.2 million tons, unchanged from USDA's March estimate.

Consumption

MY2018/19 consumption is forecast to 9.1 million tons, up 200,000 tons from MY2017/18, on rapidly recovering baijiu consumption.

MY2018/19 FSI consumption is estimated increasing to 2.8 million tons, up 200,000 tons from 2017/18 as sorghum use for baijiu production is expected to rise to meet strong demand.

Nearly all Chinese sorghum production is destined for processing into baijiu, a white distilled spirit that is a staple of Chinese banquets. Sorghum use for baijiu production is expected to rise in MY2018/19 to meet strong demand. Post projects that baijiu producers will respond to rising prices due to rising incomes and baijiu's return to national favor following a widely publicized anti-corruption campaign.

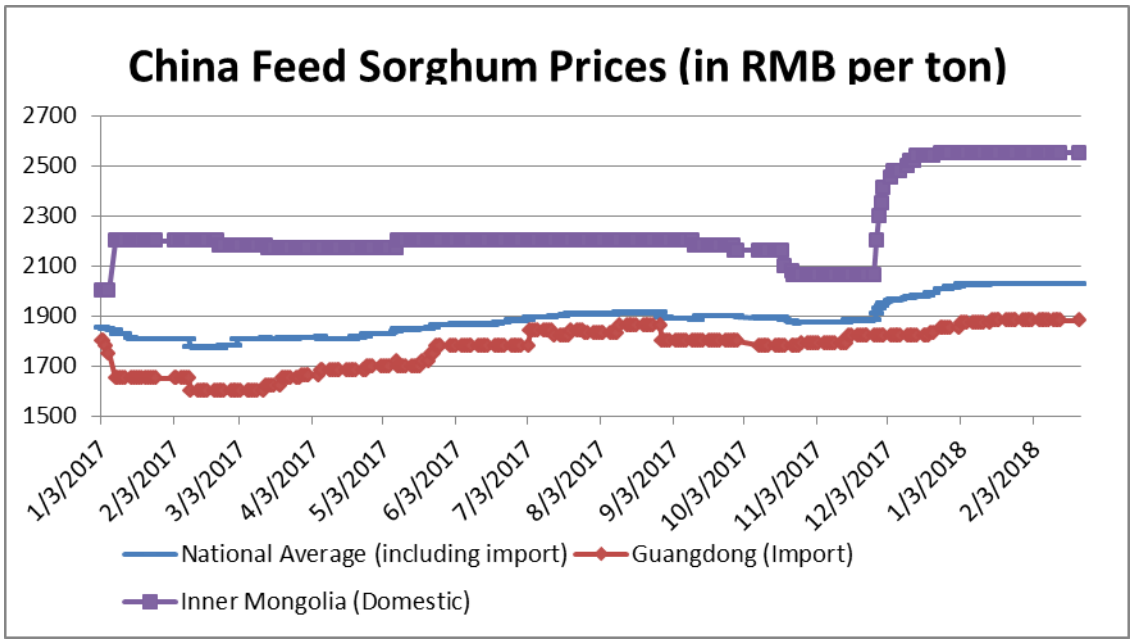
Kweichow Moutai, the world's highest valued liquor company, raised retail prices for finished products 18 percent starting on January 1, 2018 on an estimated 25 percent increase in cost of production. Kweichow Moutai also forecasts that baijiu demand will grow 10 percent in 2018. High-end baijiu producers use grains to ferment. In comparison, middle-to-low end baijiu producers have significantly lower grain-to-baijiu conversion ratios, as they tend to blend more ethanol, a cheaper alcohol substitute, into their final product.

Overall estimates of annual baijiu consumption in China vary from 5.0 to 13.6 billion liters (11.5 to 32.0 million tons).

Post's MY2018/19 feed use forecast remains unchanged at 6.3 million tons due to strong price competition.

Chinese feed millers use imported sorghum as a major component of compound feed formulations for hog and dairy producers.

The best alternative feedstuffs to sorghum with market access to China are Australian sorghum and barley, old-crop domestic wheat stocks (which are not price competitive but plentiful, and readily available), Ukrainian corn, and Canadian forage peas.



Source: JCI

MY2017/18 consumption is estimated at 9.0 million tons, up 100,000 tons from USDA's March estimates as higher feed use offsets lower FSI use.

Overall baijiu production dropped nearly 12 percent in 2017 mainly because of declining low and mid-grade baijiu production. According to industry sources, baijiu accounted for 68 percent of all retail alcohol sales in China in 2017. In 2017, baijiu demand soared by an estimated 77 percent, year-on-year, annual consumption growth, the highest rate of growth since 2011. Rapid sales of baijiu during the

Spring Festival season in 2018 led to steady increases in baijiu retail prices and netted strong margins for many producers. The majority of sales growth is concentrated among high-end baijiu brands, which have relatively higher grain-to-baijiu conversion rates than low and mid-grade baijiu spirits.

At the end of February 2018, North East sorghum prices continued to rise sharply on expectations for higher future prices. Nearby spot quotes jumped to $413 per ton (2,604 RMB), up $6 per ton (38 RMB) from January 2018 and up $56 per ton (350 RMB), or 16 percent, from February 2017.

Imports

MY2018/19 sorghum imports are forecast to 5.7 million tons, up 100,000 tons from MY2017/18.

Imported sorghum is predominately purchased as an alternative to imported and domestic corn.

U.S. sorghum is estimated to have approximately the equivalent feed value as domestic Chinese corn. Sorghum imports do not face the same TRQ restrictions or biosafety certificate requirements as corn imports to China. China produces relatively small volumes of sorghum for feed use. As a result, when global corn prices are relative higher, U.S. sorghum prices are highly competitive.

Australian sorghum imports typically arrive in China starting in April. China normally purchases between 200,000 to 500,000 tons of Australian sorghum. China uses Australian sorghum as livestock feed and to produce baijiu.

MY2017/18 sorghum imports are estimated at 5.6 million tons, unchanged from USDA's March estimates.

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 port	$308 - $311	1,940-1,960 RMB
Corn	United States	Guangdong port	$243	1,530 RMB
Corn	Ukraine	Guangdong port	$257	1,620 RMB
Sorghum	United States	Guangdong port	$295 (landed)	1,860 RMB
Sorghum	Australia	Guangdong port	$350 (landed, May)	1,890 RMB
Sorghum	Argentina	Guangdong port	$187(landed, March)	1,175 RMB
Sorghum	Inner Mongolia	Inner Mongolia	$429 (Nearby)	2,700 RMB

Source: JCI and Post

On February 4, 2018, China's MOFCOM announced that it would begin a self-initiated anti-dumping and countervailing duties (AD/CVD) investigation into U.S. sorghum exports to China (HS 10079000). MOFCOM cited preliminary findings that the U.S. government subsidized sorghum exports entering China under HS 10079000 and injured local Chinese producers. State Council officials asserted an investigation is a "necessary measure" to safeguard the interests of Chinese farmers. The timing and results of a preliminary determination are not known at this time.

Total commitments destined for China for MY2017/18 stand at 5.0 million tons (204 million bushels). China customs reports that from October 2017 to February 2018, approximately 1.9 million tons was shipped. U.S. industry reports that another 1.0 to 1.5 million tons is booked and awaiting loading.

USDA Export Sales Reports indicate that U.S. exports remain strong with China. In March 2018, U.S. exporters loaded nearly 1.0 million tons destined for China. As of this writing, these statistics imply U.S. exports to China, year-to-date, of nearly 3.8 million tons and another 500,000 to 1.0 million tons of outstanding sales. JCI reports that China has booked as much as 5.3 million tons of sorghum for MY2017/18.

As of late March, declining U.S. foreign exchange rates and a 5 to 10 percent decline in export values for U.S. sorghum, have improved U.S. price competitiveness. However, the immediate market implications of China's trade action on U.S. sorghum imports include diminished buyer's confidence and uncertainty surrounding the downside risk of potential AD/CVD duties imposed on newly arriving consignments.

Recent trade actions by China against U.S. exports have raised Australian sorghum prices. However, dry weather and stringent import requirements by China's General Administration for Quality, Inspection, and Quarantine are restricting overall import potential. Quality discounts may also undercut Australia's sorghum export potential.

Post forecasts that China will book about 500,000 tons of Australia's MY2017/18 sorghum crop, or about one-third of total Australian production, for baijiu and feed use. Additional purchases are not expected due to limited supplies.

Stocks

MY2018/19 ending stocks are forecast at 3.67 million tons, down 800,000 tons from MY2017/18.

MY2017/18 ending stocks are estimated at 3.47 million tons, down 1.0 million tons from USDA's March estimate, on greater-than-expected FSI use.

Industry sources report that with increasingly higher sorghum prices, traders are conservative to sell.

Barley

Barley	2016/2017		2017/2018		2018/2019	
Market Begin Year	Oct 2016		Oct 2017		Oct 2018	
China	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	429	429	430	430	0	450
Beginning Stocks	541	541	597	597	0	297
Production	1752	1752	1800	1800	0	1850
MYImports	8104	8104	7000	7000	0	7500
TY Imports	8104	8104	7000	7000	0	7500
TY Imp. from U.S.	0	0	0	0	0	0
Total Supply	10397	10397	9397	9397	0	9647
MYExports	0	0	0	0	0	0
TY Exports	0	0	0	0	0	0

Feed and Residual	5800	5800	5300	5300	0	5500
FSI Consumption	4000	4000	3800	3800	0	3800
Total Consumption	9800	9800	9100	9100	0	9300
Ending Stocks	597	597	297	297	0	347
Total Distribution	10397	10397	9397	9397	0	9647
Yield	4.0839	4.0839	4.186	4.186	0	4.1111
(1000 HA) ,(1000 MT) ,(MT/HA)						

Production

MY2018/19 production is forecast to increase to 1.85 million tons, up 50,000 tons from USDA's March estimates for MY2017/18, on a slight expansion of harvested area.

Barley is mainly produced in Jiangsu, Gansu and Inner Mongolia provinces. 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.

MY2017/18 barley production is estimated at 1.8 million tons, unchanged from USDA March estimates.

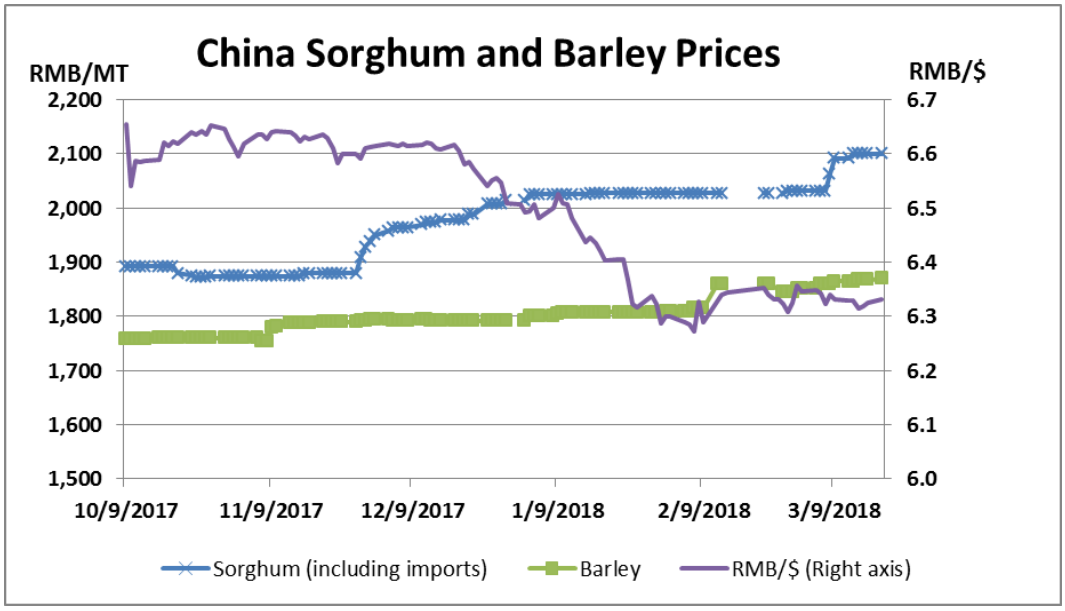
Consumption

MY2018/19 consumption is forecast at 9.3 million tons, up 200,000 tons from MY2017/18 on higher feed use.

Feed consumption accounts for around 60 percent of total barley consumption. Domestic barley is mainly used for brewing beer and coarse grain food products.

Post forecasts MY2018/19 feed use at 5.5 million tons, up 200,000 tons from MY2017/18, due to competitive prices.

National domestic barley prices have steadily risen to between $297 to $333 per ton (1,870 to 2,100 RMB) in March 2018. China's beer production peaked in 2013. Per capital beer consumption exceeds the world average. In addition, China's aging population also limits growth potential. Industry sources report that China's 2017 beer production was 44.04 billion liters, down 0.66 percent from 2016. China's beer industry is also undergoing a small, but growing trend towards higher-end beer consumption.



Source: JCI

MY2017/18 consumption remains unchanged from USDA's March estimates.

Trade

MY2018/19 barley import is forecast at 7.5 million tons, up 500,000 tons from USDA's March estimates for 2017/18, as possible AD/CVD duties on sorghum will force Chinese feed makers turn to barley as an alternative.

China's barley imports are positively correlated with Chinese corn prices. Guangdong imported more than half of the total barley imports for feed industry, inner-land imported malting barley for increasing beer demand. Guangdong is also a major importer of barley as an alternative of corn for swine feed. China predominantly imports barley from Australia for malting and feed use. In 2018, Chinese demand has pushed Australian prices to three-year high.

MY2017/18 imports remain unchanged at 5.3 million tons from USDA's March estimates.

As of mid-March 2018, imported barley prices are quoted at $303 per ton (1,910 RMB). In comparison, imported sorghum quotes hover around $429 per ton (2,700 RMB) while domestic corn prices are close to $310 per ton (1,955 RMB).

Import Barley Duty-paid Landed Price in Guangdong on March 19				
Country	Month	CNF price (USD/ton)	Duty-paid Landed Price (RMB/ton)	Duty-paid Landed Price (USD/ton)
Australia	May	265	1962	311
Ukraine	July	249	1902	302
Source: JCI				

Stocks

Post forecasts MY2018/19 ending stocks at 347,000 tons, up 50,000 tons from MY2017/18, as production and imports are expected to evenly match demand.

MY2017/18 ending stocks are unchanged from USDA's March estimates at 297,000 tons.