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## **China - Peoples Republic of**

## **Grain and Feed Update**

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**Report Highlights:**

In MY 2012/2013 Post estimate for wheat production is 108 MMT, unchanged from the last quarterly update due to head blight in major wheat producing regions such as Anhui, Hubei, Jiangsu, and Henan province. This disease may potentially affect total domestic supplies and future import levels. MY 2012/13 wheat imports are estimated at 2.5 MMT, 400,000 tons less than last year due to more competitive domestic wheat prices. For MY 2012/13 corn production is estimated at 200 MMT, up 4.2 percent rise due to an above average yield in the northeast and northern China plain. Depending on international prices, MY 2012/13 rice imports may be strong in the coming year.

**Executive Summary:**

In MY 2012/2013 Post estimate for wheat production is 108 MMT, unchanged from the last quarterly update due to head blight in major wheat producing regions such as Anhui, Hubei, Jiangsu, and Henan province. This disease may potentially affect total domestic supplies and future import levels. MY 2012/13 wheat imports are estimated at 2.5 MMT, 400,000 tons less than last year due to more competitive domestic wheat prices. For MY 2012/13 corn production is estimated at 200 MMT, up 4.2 percent rise due to an above average yield in the northeast and northern China plain. Depending on international prices, MY 2012/13 rice imports may be strong in the coming year.

**Wheat****Production**

For 2012/2013, wheat production is estimated at 108 MMT due to head blight (*Fusarium graminearum*) in major wheat producing regions such as Anhui, Hubei, Jiangsu, and Henan province (see Gain report CH12052). According to Post contacts, some of the crop still may be infected with head blight (some estimates are as high as 20 percent), as the fungus can remain on the kernels post-harvest. Because of the possibility of high vomitoxin levels, the State Administration of Grain (SAG) requested state grain companies (from the aforementioned provinces) to strictly follow domestic safety standards while purchasing wheat, although it is unclear exactly what this means or entails. That being said, sources note that Chinese regulations require that Sinograin and other state companies not treat any procured grains if it is affected by a disease. Therefore, *Fusarium* infected wheat that is saved in the state reserves will be left untreated until it is sold onto market.

Because the government holds the majority of wheat reserves, flour mills buy directly from the central government auctions. It is common practice to store new crop wheat for future auctions in later marketing years. Some private companies might contract out to local farmers, but this is not a common practice. During central government auctions, only flour mills and provincial governmental distributors are allowed to bid. Product is auctioned based on the year it was harvested, which means that the reserves theoretically separate crops years into different storage facilities. Feed mills can only buy from provincial government distributors, which procure wheat from central state auctions and local farmers. As a result, the central government has strict control over the buying and selling of wheat.

Post contacts report that this year the central government auctioned relatively more old crop wheat from previous harvests, although sales also include new crop wheat. More old crop sales may have been offered to mitigate the effects of the *Fusarium* infected MY 2012/13 wheat crop.

From August 2012 to January 2013, wheat prices have increased from RMB 2,169 per ton to RMB 2,360 per ton (see price charts at the back of the report), a 9 percent rise. Post believes this is a strong indication that wheat production and total available supplies are lower than Chinese official production estimates. Because central government wheat auctions reportedly have sold a large portion of old crop wheat reserves, purchases of the MY 2012/13 wheat crop should comprise a significantly larger proportion of the state reserve in the coming years, some of which may still be infected with head blight. Although some Post contacts believe poor quality Fusarium infected wheat could be treated to reduce vomitoxin levels, they maintain that the wheat will also likely still need to be blended with higher quality, disease-free wheat to potentially create a commercially safe and viable product (although this may largely depend on vomitoxin levels). This would require not only a strong crop for MY 2013/14, but also a disease-free crop. If MY 2013/14 production is less than expected or suffers from a similar disease outbreak, depending on how much of the MY 2012/13 wheat crop may be infected with head blight and comprise current reserve levels, there is a possibility that China may need to further increase imports in order to meet domestic demand.

A 2012 Ministry of Agriculture (MOA) report noted that wheat quality has not improved. Chinese government subsidies and/or price incentives have not motivated farmers or seed manufacturers to develop or produce higher quality wheat. There are few low or high protein wheat seed varieties, which are required to produce higher valued products such as bakery or biscuits. The MOA report believes this has led to a rise in higher quality wheat imports, and advocates for a higher domestic price for premium quality wheat to encourage increased production.

### **Consumption**

Because of higher production that resulted in relatively lower corn prices, since October 2012 many feed mills have substituted less wheat for corn in swine and poultry feed. However, corn cannot be used for all feed products, as wheat and/or wheat flour is required to produce higher quality duck and aquaculture feed pellets.

### **Imports**

MY 2012/13 wheat imports are estimated at 2.5 MMT, 400,000 tons less than last year due to more competitive

domestic wheat prices. Although some higher value U.S. wheat varieties are utilized to produce specialty bakery products, overall wheat imports are limited by the tariff rate quota (TRQ). That being said, the Chinese government could issue additional quotas (which reportedly occurred to import more Australian wheat last year).

## **Corn**

### **Production**

For MY 2012/13 corn production is estimated at 200 MMT, up 4.2 percent rise from the previous year due to an above average yield in the northeast and northern China plain. According to agricultural sources, yields in some areas were affected by factors such as army worm outbreaks, a typhoon, and drought. In the last few years, relatively high and rising corn prices (see price chart) indicate that domestic supplies are tight, and may not be offsetting increasing demand.

### **Consumption**

Chinese official 2012 data for feed production is not yet available. In 2012, industry sources estimate that national feed production rose more than 10 percent. In leading feed producing provinces such as Guangdong, feed production rose more than 15 percent to 23 MMT due to growing demand from more small to medium scaled farms in the swine, poultry, and aquaculture sectors. Industry sources believe livestock farm consolidation will continue to occur due to increasing urban demand. Due to rising labor and feed ingredient costs, smaller household farm operations are becoming less competitive. For 2012, according to the National Bureau of Statistics, meat production (including pork, beef, mutton, and poultry) rose 5.4 percent to 82 MMT.

### **Stocks**

State grain companies, which purchased US corn for state reserves in MY 2012/13, believe that US corn has a relatively higher percentage of broken kernels than domestic corn, which they think is less desirable for storage. In China, corn is stored for two years in the state reserves. These state companies further mentioned that there are strict regulations on quality requirements for reserve corn. Commercial end-users, such as feed mills, have not expressed the same concerns to Post.

### **Imports**

According to trade contacts, for CY 2012 coastal provincial end-users have utilized most of the private quotas. If

US corn prices are more competitive in the coming months, some feed mills believe that U.S. corn imports would rise in the second half of CY 2013. In early January, CY 2013 quotas reportedly have already been allocated to end-users. However, since the fall 2012 there have been no new U.S. corn imports contracts due to uncompetitive prices.

In CY 2012, China granted market access for Argentina and Ukraine corn. According to trade sources, Chinese end-users are reluctant to purchase Argentine corn due to potential issues with customs on genetically engineered varieties that may not yet be approved by Chinese authorities. Other buyers are reportedly researching the quality of Ukrainian corn, and no shipments have yet occurred.

## **Rice**

### **Imports**

Although China is the world's largest rice producer, since MY 2010/11 China became a net rice importer. MY 2011/12 rice imports reached 1.4 MMT, a record high in more than a decade. High rice imports are due to relatively higher Chinese procurement prices for domestically produced rice, which cause imported rice to be more price competitive. For example, in MY 2012/13 Vietnam and Thailand rice imports reportedly were lower than Chinese Indica prices (in CY 2012 the Chinese procurement price rose 18 percent to RMB 2,400 per ton). During this time frame, trade sources believe that the government issued additional state quotas for rice imports, although the total amount has not been made public. CY 2012 rice imports (mainly Indica rice) reached 2.3 MMT, which exceeded the private TRQ of 1.3 MMT.

For CY 2013, the government procurement price for Indica rice rose to RMB 2,640 per ton, a 10 percent rise. If Southeast Asian country prices remain competitive over domestic rice prices, in CY 2013 trade source believe that the government may issue additional quotas for rice imports.

## **PSD tables**

### **Wheat**

Wheat China	2010/2011	2011/2012	2012/2013
	Market Year Begin: Jul	Market sYear Begin: Jul	Market Year Begin: Jul

	2010		2011		2012	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	24,257	24,257	24,270	24,270	24,140	24,140
Beginning Stocks	54,425	54,425	59,091	59,091	55,946	58,946
Production	115,180	115,180	117,400	117,400	120,600	108,000
MY Imports	927	927	2,933	2,933	3,000	2,500
TY Imports	927	927	2,933	2,933	3,000	2,500
TY Imp. from U.S.	156	156	597	597	0	
Total Supply	170,532	170,532	179,424	179,424	179,546	169,446
MY Exports	941	941	978	978	1,000	1,000
TY Exports	941	941	978	978	1,000	1,000
Feed and Residual	13,000	13,000	24,000	21,000	23,000	18,000
FSI Consumption	97,500	97,500	98,500	98,500	100,000	100,000
Total Consumption	110,500	110,500	122,500	119,500	123,000	118,000
Ending Stocks	59,091	59,091	55,946	58,946	55,546	50,446
Total Distribution	170,532	170,532	179,424	179,424	179,546	169,446

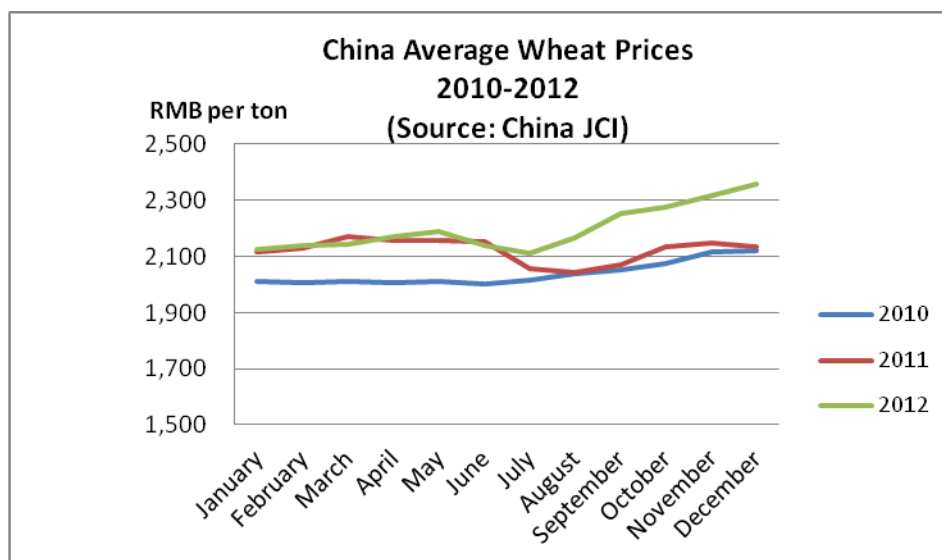
## Corn

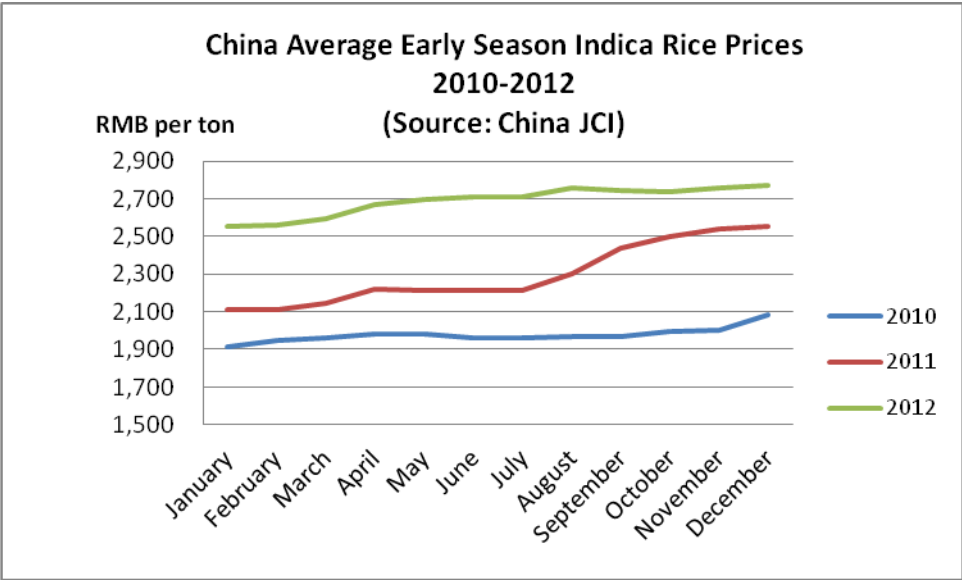
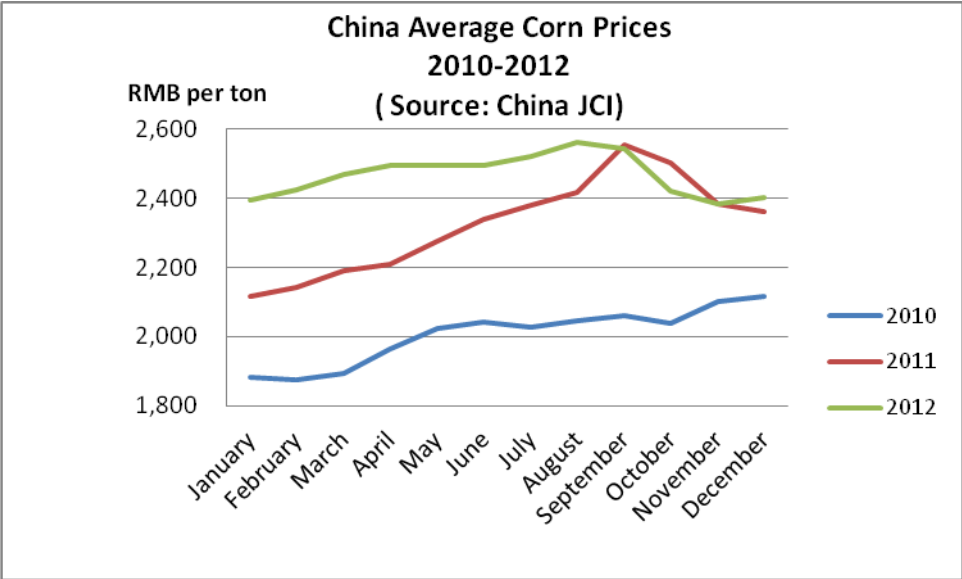
Corn China	2010/2011		2011/2012		2012/2013	
	Market Year Begin: Oct 2010		Market Year Begin: Oct 2011		Market Year Begin: May 2012	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	32,500	32,500	33,540	33,540	34,950	34,950
Beginning Stocks	51,302	51,302	49,415	49,415	59,335	59,335
Production	177,245	177,245	192,780	192,780	208,000	200,000
MY Imports	979	979	5,231	5,231	2,000	2,000
TY Imports	979	979	5,231	5,231	2,000	2,000
TY Imp. from U.S.	1,028	1,028	5,337	5,337	0	
Total Supply	229,526	229,526	247,426	247,426	269,335	261,335
MY Exports	111	111	91	91	200	50
TY Exports	111	111	91	91	200	50
Feed and Residual	128,000	128,000	131,000	131,000	145,000	144,000
FSI Consumption	52,000	52,000	57,000	57,000	64,000	64,000
Total Consumption	180,000	180,000	188,000	188,000	209,000	208,000
Ending Stocks	49,415	49,415	59,335	59,335	60,135	53,285
Total Distribution	229,526	229,526	247,426	247,426	269,335	261,335
Yield	5.	5.4537	6.	5.7478	6.	5.7225

## Rice

Rice, Milled China	2010/2011		2011/2012		2012/2013	
	Market Year Begin: Jul 2010		Market Year Begin: Jul 2011		Market Year Begin: Jul 2012	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	29,873	28,973	30,057	30,057	30,300	30,300
Beginning Stocks	40,534	40,534	42,574	42,578	45,024	44,616
Milled Production	137,000	137,000	140,700	140,700	143,000	143,000
Rough Production	195,714	195,714	201,000	201,000	204,286	204,286
Milling Rate (.9999)	7,000	7,000	7,000	7,000	7,000	7,000
MY Imports	540	544	1,790	1,402	2,400	2,400
TY Imports	575	578	2,600	2,345	2,000	2,200
TY Imp. from U.S.	0	0	0		0	0
Total Supply	178,074	178,078	185,064	184,680	190,424	190,016
MY Exports	500	500	440	464	500	300
TY Exports	487	487	260	279	500	300
Consumption and Residual	135,000	135,000	139,600	139,600	144,000	144,000
Ending Stocks	42,574	42,578	45,024	44,616	45,924	45,716
Total Distribution	178,074	178,078	185,064	184,680	190,424	190,016

## Grain Prices







### China Average Japonica Rice Prices 2010-2012

(Source: China JCI)

