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China - Peoples Republic of

Grain and Feed Update

Domestic Corn Prices Recover, Policy Reform Shifts to Rice and Wheat

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Report Highlights:
Corn prices have steadily risen reflecting overall tightness in feed-quality corn supplies, despite official reports of greater supplies, and weaker demand associated with the spread of African Swine Fever. The bulk of available commercial and government inventories of corn are intended for industrial processing. In February 2019, prices of grain and feed products are entirely dependent on market access developments. China has recently started implementing several policy programs to restructure its domestic wheat and rice sectors. Government quality and grading standards and direct producer payment subsidy reforms will be fully implemented beginning in MY2019/20. The PSD tables for feed grains (corn and sorghum) are updated for 2018/19 based on trade to date, and continued expansion of industrial processing. There are minor updates for food grains (wheat and rice) also based on trade to date.

Executive Summary: *MY2018/19 Feed Situation and Outlook*

Officially, China projects that the liquidation of excess temporary reserve stocks of corn will be complete in 2019. In September 2018, official statistical revisions reflected abundant corn supplies. In October 2018, China concluded auctions of government-owned stocks, releasing more than 100 million tons on to the open market. Throughout 2018, China reported that imports from Black Sea-origins are growing and sufficient to meet domestic demand. Government reports also indicate that delayed corn harvesting and producer expectations for higher prices are supporting high prices, and contributing to short supplies in the North China Plain and South China. On the demand side, industry sources report that weakening demand for grain and feed products intended for hog feeding is partly offset by greater demand for poultry and aquaculture feed. Livestock demand remains largely unchanged.

Corn futures and spot prices reflect a different story. Additional market access barriers for imports of corn, sorghum, barley, and dried distiller's grains with solubles (DDGS), as well as short production volumes of feed-quality corn in Jilin and Liaoning provinces have driven corn prices higher, reflecting a tight supply and demand situation for feed-quality grains.

China's State Administration of Grain and Reserves (SAGR) reports that a larger-than-average volume of wheat in Henan and Anhui provinces will be directed to animal feed use due to poor quality and recent reforms to grading standards for government procurement programs.

MY2018/19 Grain for Food Use Situation and Outlook

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.

Industry sources report that on average MY2019/20 winter wheat crop development is expected to be slightly lower than over the same period last year. In Hebei province, dryland wheat production areas have not had rain since September 2018, the lowest rainfall in nearly a decade, hampering crop development.

MY2018/19 wheat production is estimated at 131.3 million tons, unchanged from USDA's February estimate. MY2018/19 rough rice production is estimated at 205.1 million tons, down 7 million tons from USDA's February forecast. In the meantime, China has slowly opened market access to India, Japan, and now the United States for milled rice.

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. Recent declines in consumption of common wheat and rice are beginning to show signs of stabilizing as overall weakening economic conditions, and continuing inflationary pressures in major cities, pressure lower-income consumers to either "downgrade consumption" by reverting to consumption of "staple foods" including instant noodles, and move to smaller cities where rice consumption is higher.

MY2018/19 Grain for Industrial Use Situation and Outlook

The bulk of available commercial and government inventories of corn are intended for industrial processing. From February to October 2018, China auctioned more than 100 million tons of corn from state inventories onto the open market. MY2018/19 corn FSI use is estimated 85 million tons, up 3.0 million tons from USDA's February estimate. Recently implemented reforms to raise quality standards for rice are expected to raise rice use in ethanol production.

Commodities:

Corn

Wheat

Rice, Milled

Sorghum

Policy

China Revised Official Grain Production Data

In October 2018, China's 2018 Statistics Yearbook published revised data on area, yield and production estimates for selected agricultural products including corn, wheat and rice from MY2007/08 through MY2017/18. The revisions incorporate updates from China's latest agricultural census.

MY2018/19 Revised Grain Production Estimates

On December 14, the National Bureau of Statistics (NBS) published MY2018/19 estimates for grain output.

MY2018/19 China Grain Acreage, Production and Yield

	Acreage (Million Hectare)	Change from MY2017/18	Total production (million tons)	Change from MY2017/18	Yield (ton/hectare)	Change from MY2017/18
Grain	117.037	-0.8%	657.89	-0.6%	5.621	0.2%
Rice	30.189	-1.8%	212.13	-0.26%	7.027	1.6%
Wheat	24.268	-0.98%	131.43	-2.2%	5.416	-1.2%
Corn	42.129	-0.6%	257.33	-0.66%	6.108	-0.03%

Source: National Bureau of Statistics

Domestic Support

In North East China, major corn producing provinces have cut subsidies for corn production; meanwhile, subsidy payments for soybean production have been raised to incentivize growers to switch

production from corn to soy. Provincial governments began distributing direct payments for 2018 grain crop grower subsidies in mid-October 2018.

	Corn	Soybean	
Province	Grower Subsidy $/hectare (RMB/mu)	Grower Subsidy $/hectare (RMB/mu)	New planting area rotation subsidy
Liaoning	$195-215 (90-100)	$413-$435 (190-200)	N/A
Jilin	$175-260 (80-120)	$760-1,090 (350-500)	N/A
Inner Mongolia	$150-240 (70-110)	$435-$543 (200-250)	$326 (150)
Heilongjiang	$54 (25)	$695 (320)	$326 (150)
Anhui	N/A	N/A	(150)
Henan	N/A	N/A	$326 (150)

Although MY2018/19 corn grower subsidies are far lower than subsidies for soybean production, comparative margins still favor corn planting. For example, in Heilongjiang province, CNGOIC reports that corn input costs are about $1,812 per hectare (12,500 RMB) including land rent. With average yields at about 11.5 tons per hectare (766 kg per mu), corn procurement price at farm is about 1,240 RMB per ton. As a result, average profits for corn are about $310 per hectare (2,135 RMB), and about $354 per hectare (2,160 RMB) including the subsidy. In comparison, soybean production margins are negative in MY2018/19 without additional subsidies. Accounting for the subsidies, soybean production will turn profitable, but at a lower level in comparison to corn.

Direct Payments for Rice Producers

In December 2018, Heilongjiang, Liaoning, Hunan, Jiangsu, Anhui, and Guangxi provinces announced producer subsidy payments for rice growers. Each province administers the subsidy independently using central government funds. For example, subsidy payments may vary based on the scale of farm production area, irrigation water sources, and seed variety.

2019 Import TRQs for Grains Unchanged

China's 2019 Tariff Rate Quota Policies for Grains

Commodity	TRQ Volume (MT)	Private Allocation	State-Owned Enterprise Allocation	In-Quota Duty	Out-of-Quota Duty
Corn	7,200,000	40%	60%	1%	65%
Wheat	9,636,000	10%	90%	1%	65%
Long Grain Rice	2,660,000	50%	50%	1%	65%
Medium-Short Grain Rice	2,660,000	50%	50%	1%	65%

In October 2018, the NDRC announced the 2019 tariff-rate quota (TRQ) for grain imports. The TRQ allocation volumes were unchanged from 2018.

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, Mexico, Hungary, *Kazakhstan*
Barley	Australia, Canada, Denmark, France, Argentina, Mongolia, Ukraine, Finland, United Kingdom, Uruguay, *Kazakhstan*
Sorghum	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	

On November 24, the General Administration of Customs of China (GACC) approved imports of corn and barley from Kazakhstan, aiming to diversify the country's sources of grain shipments. The approval came the same week that China launched an anti-dumping probe into barley imports from Australia, its top supplier of the grain.

China continues to diversify the number of origins for import market access through formal phytosanitary protocols and Memorandums of Understanding with regional neighbors.

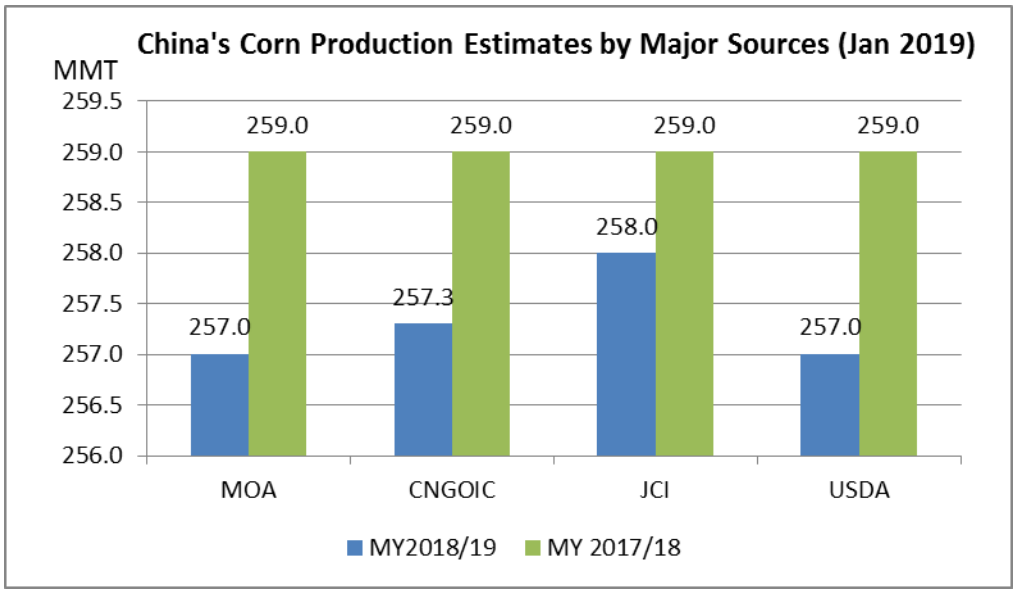
On December 27, 2018, GACC declared that U.S. rice conforms to relevant Chinese laws and posted the U.S. rice inspection and quarantine requirements that U.S. shippers must comply with to export to China.

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	44178	44178	42399	42399	42129	41900
Beginning Stocks	212017	212017	223017	223017	222525	222525
Production	263613	263613	259071	259071	257330	256000
MY Imports	2464	2464	3456	3456	5000	5000
TY Imports	2464	2464	3456	3456	5000	5000
TY Imp. from U.S.	808	808	308	308	0	0
Total Supply	478094	478094	485544	485544	484855	483525
MY Exports	77	77	19	19	50	50
TY Exports	77	77	19	19	50	50
Feed and Residual	185000	185000	187000	187000	195000	194000
FSI Consumption	70000	70000	76000	76000	82000	85000
Total Consumption	255000	255000	263000	263000	277000	279000
Ending Stocks	223017	223017	222525	222525	207805	204475
Total Distribution	478094	478094	485544	485544	484855	483525
Yield	5.9671	5.9671	6.1103	6.1103	6.1081	6.1098
(1000 HA) ,(1000 MT) ,(MT/HA)						

Production

MY2018/19 corn production is estimated at 256 million tons, down 1.3 million tons from USDA's February estimate. MY2018/19 area is down by 229,000 hectares accounting for revisions to official USDA estimates in October 2018. Rising prices following harvest indicate that MY2018/19 corn production was lower than expected and below historical trends.



China's National Bureau of Statistics (NBS) determined that MY2018/19 corn planted area was 42.1 million hectares (631.9 million mu), down 270,000 hectares (18,000 mu) or 0.6 percent from MY2017/18. NBS estimates MY2018/19 corn production at 257.3 million tons.

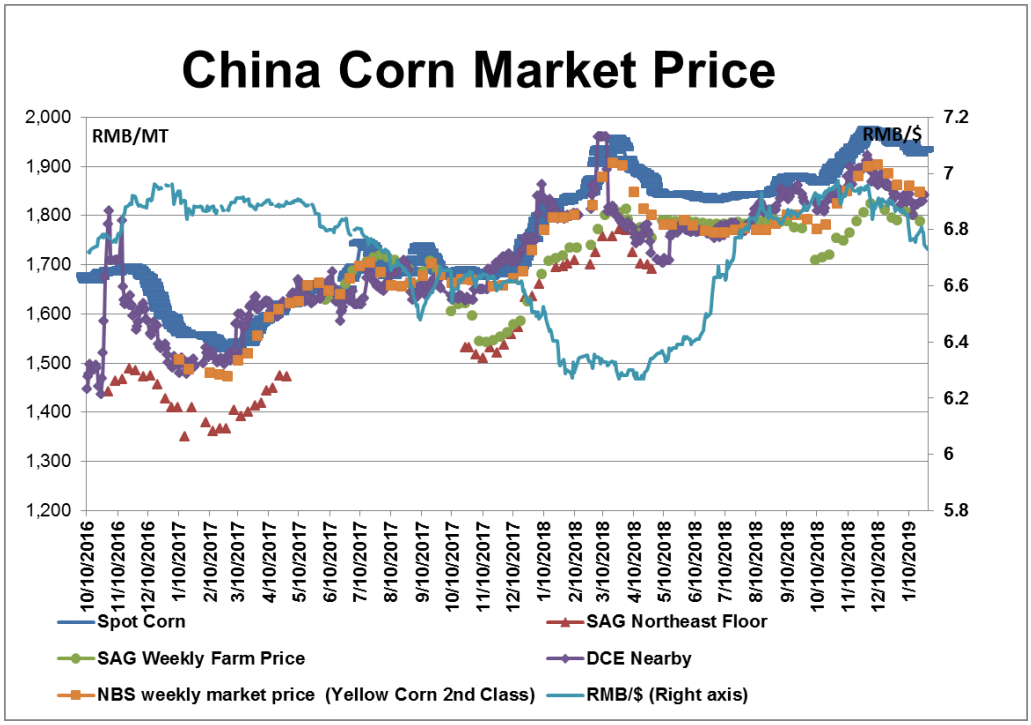
Corn growers anticipating higher prices later in the marketing year have been slow to sell the MY2018/19 crop. They expect that production costs will rise in MY2019/20 due to rising land rents and labor, and are seeking to maximize their returns. Meanwhile, corn seed sales continue a gradual decline as growers adjust to higher rates of mechanized planting and improved seed germination rates. Plant population rates in MY2019/20 are expected to remain unchanged.

Consumption

MY2018/19 consumption estimate is raised to 279 million tons, 2 million tons higher than USDA's February estimate.

Although China's national and temporary reserves have cushioned the impact of restricted trade to date, lingering questions about crop quality; market prices following the release of massive volumes of state-owned stocks; and MY2018/19 corn crop quality indicate that domestic supplies fall short of domestic demand. For more information about China's MY2018/19 corn auctions, please refer to GAIN report CN 18075.

MY2018/19 FSI use is raised to 85 million tons, up 3 million tons from USDA's February estimate on expanded corn processing into starch and ethanol. MY2018/19 corn use for all forms of ethanol is estimated at 27 million tons, up about 4 million tons from MY2017/18 on expanded fuel ethanol and alcohol production. MY2018/19 corn-use fuel ethanol is estimated to reach about 2.8 million tons. MY2018/19 corn-use for starch production is estimated at about 42 million tons, up 4 million tons from MY2017/18 on relatively high margins and strong demand for paperboard products. Demand for corn starch products is waning due to rising prices. However, corn starch margins remain competitive relative to cassava and will continue moderate growth through MY2018/19. Corn use for seed is estimated at about 1 million tons, slightly down from MY2017/18 on higher quality seed varieties and greater mechanization. MY2018/19 corn use for food is estimated at 15 million tons unchanged from MY2017/18.



In response to tight supplies, China released more than 100 million tons of corn from government-owned inventories through auction sales from April to October 2018 with little impact on rising domestic corn prices.

Throughout fall and early winter, China's farmers have been reluctant to sell in anticipation of higher prices. In early December 2018, news about developments in ongoing bilateral trade discussions weakened futures quotes. Speculators and brokers pressured farmers to begin marketing their crop. As of early January 2019, China's farmers marketed about 40 percent of the MY2018/19 corn crop. Bids at ports in North East China fell to $265 per ton (1,830 RMB), down $29 per ton (200 RMB), and bids at corn processors fell to $254 per ton (1,750 RMB), down $41 per ton (250 RMB).

MY2018/19 feed use is estimated at 194 million tons, down 1 million from USDA's February estimate. Moreover, substitution of corn in place of soybean meal in new government prescribed feed standards will partly offset falling demand for swine feeding due to the impact of African Swine Fever (ASF) on the overall hog population.

In South China, where ASF is currently causing the greatest impact, industry contacts report that feed demand has flattened. In December 2018, CNGOIC reports that corn use for swine feed dropped as small- and medium-sized producers capitalized, slaughtering more and replenishing less. The corn starch processing industry is operating at 78 percent capacity with the ethanol industry operating at 67 percent capacity.

Corn quality remains a concern among end users, as indicated by rising imports of alternative feedstuffs, greater reliance on feed additives, and rising prices. Although MY2018/19 corn quality in North East China is rated as better-than-average, the availability of corn that has high test weights, low moisture

content, and low mold damage is scarce. Overall corn quality among China's old-crop supplies is low. For more information about MY2018/19 China corn crop quality, see GAIN report CH18076.

Trade

Imports

MY2018/19 corn imports are forecast at 5 million tons, unchanged from USDA's February estimate due to short supplies of feed-quality corn and strong demand.

Corn Quotes by Origin and Destination in late December (January delivery)			
Origin	**Destination**	**$ per ton**	**RMB per ton**
China	Guangdong	$288 (spot)	RMB 1,985
United States	Guangdong	$315	RMB 2,172
Ukraine	Guangdong	$254	RMB 1,750

Source: Industry sources. Note: Foreign exchange rate is RMB 6.9 per U.S. dollar

Even accounting for a massive 100 million tons of corn sold through China's state-administered auctions in 2018, Post estimates that China will need to import an additional 500,000 tons to 1.5 million tons in MY2018/19 to compensate for lower-than-expected volumes of feed-quality corn from state-owned inventories and new-crop supplies. From October to December 2018, China imported more than 400,000 tons of corn from Ukraine, up 20 percent over the same period in MY2017/18.

MY2017/18 corn imports are estimated at 3.5 million tons, unchanged from USDA's February estimate. Ukraine accounted for more than 80 percent of China's corn imports in MY2017/18.

Exports

MY2018/19 corn exports are forecast at 50,000 tons, unchanged from USDA's February estimate.

Stocks

MY2018/19 stocks are forecast at 204.5 million tons, down 3.3 million tons from USDA's February estimate, on higher FSI demand.

SAGR data shows by December 20, 2018, provincial authorities in major corn producing regions procured 36.6 million tons, down 12.7 million tons from MY2017/18. The pace of government procurement is far slower than over the same period last year due to shorter supplies that meet newly revised grading standards and lower-than-expected corn quality. However, in the North China Plain, the procurement pace is faster than over the same period last year, especially in Hebei and Shandong provinces.

From January to late October 2018, China auctioned more than 100 million tons of corn from its state-owned inventories, or about 43 million tons more than over the same period in 2017, and up more than 75 percent year-on-year. As MY2018/19 progressed, auction sales as a share of total volumes on offer at state-administered auctions also rose, indicating widespread market support for higher prices.

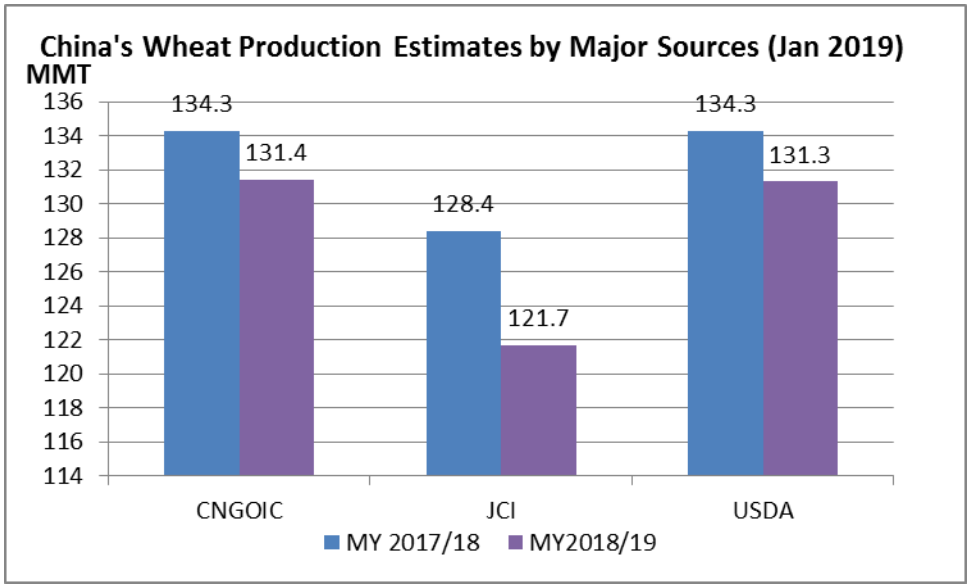
Wheat

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	24694	24694	24508	24508	24268	24268
Beginning Stocks	96996	96996	114929	114929	131263	131263
Production	133271	133271	134334	134334	131430	131430
MY Imports	4410	4410	4000	4000	3500	3500
TY Imports	4410	4410	4000	4000	3500	3500
TY Imp. from U.S.	1765	1765	772	772	0	0
Total Supply	234677	234677	253263	253263	266193	266193
MY Exports	748	748	1000	1000	1200	1200
TY Exports	748	748	1000	1000	1200	1200
Feed and Residual	17000	17000	17500	17500	20000	20000
FSI Consumption	102000	102000	103500	103500	105000	105000
Total Consumption	119000	119000	121000	121000	125000	125000
Ending Stocks	114929	114929	131263	131263	139993	139993
Total Distribution	234677	234677	253263	253263	266193	266193
Yield	5.3969	5.3969	5.4812	5.4812	5.4158	5.4158
(1000 HA) ,(1000 MT) ,(MT/HA)						

Production

MY2018/19 wheat production is estimated at 131 million tons, unchanged from USDA's February estimate.

China's SAGR reports poor crop quality in in Henan and Anhui provinces due to excessive dryness and untimely rains.



The MY2019/20 winter wheat planting is complete. Industry sources report that on average MY2019/20 winter wheat crop development is expected to be slightly lower than the same period last year. In Hebei province, some dryland wheat production areas have had no observable rainfall since September 2018, the lowest rainfall in nearly a decade, hampering crop development. Hebei province accounts for 10 percent of national production.

Winter Wheat First-Class Seeding Rate (%) in November 2018				
Region	**MY2019/20**	**MY2018/19**	**% Change**	**Five-Year Average**
Hebei	36	35	1	29
Shanxi	8	10	-2	13
Shandong	60	58	2	44
Henan	28	38	-10	31
Xinjiang	18	12	6	13
Gansu	14	17	-3	21
Shanxi	19	9	10	21

Source: Industry sources

CNGOIC estimates that China produces about 4 million tons of "high quality" wheat annually. In 2017, China introduced hybrid wheat varieties with higher yields (about 6.8 tons per hectare) as well as tolerance to drought, pests, and disease. The Ministry of Agriculture and Rural Affairs projects that planted area of hybrid wheat will expand to 67,000 hectares (1.0 million mu) by 2020.

Consumption

MY2018/19 wheat consumption is estimated at 125 million tons, unchanged from USDA's February estimate.

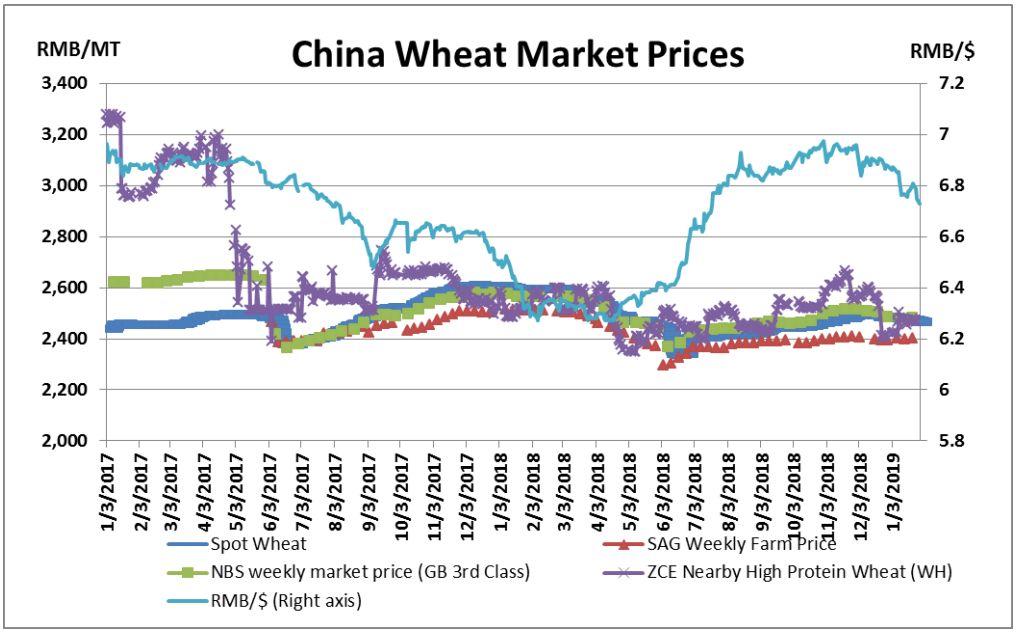
MY2018/19 feed use is estimated at 20 million tons, unchanged from USDA's February estimate as market access policies and new grain standards direct livestock producers to use low-quality wheat inventories for feed use. Industry sources report that in Anhui, Hubei, and Henan provinces wheat production and inventories that are unfit for human consumption and temporary reserve procurement programs, and will be milled into poultry feed.

MY2018/19 FSI use is estimated at 105 million tons, unchanged from USDA's February estimate. CNGOIC reports that China's flour mills are running at normal levels, close to half capacity. Industry sources report that limited availability of milling-quality wheat constrains their ability to expand production. Aged supplies procured from government auctions in MY2018/19 do not meet performance standards for milling and blending applications.

Noodles and steam buns still account for the majority of China's wheat demand. China is the world's leading market for instant noodles which are produced from soft and common wheat varieties. Demand

for instant noodles peaked in 2013, and then steadily fell incrementally until 2017 as consumers continue to shift to more healthy and convenient options. In addition to changing attitudes about food, rapid expansion of e-commerce food delivery services have also contributed to a shift in demand for instant noodles.

Consumption growth for Western and convenience foods incorporating "high quality" high protein and low protein milling wheat products continues at a slower pace. CNGOIC estimates that China consumes 6 million tons of "high quality" wheat annually, of which China has self-sufficiency for 4 million tons. Industry sources report that food service industry sales in China are stagnating.



Although China's common wheat prices fell from last year over the same period, high protein wheat prices are relatively unchanged.

Wholesale Wheat Spot Prices in Major Markets (December 27)				
Province	**Common Wheat**		**Strong Wheat**	
	--RMB per ton--	--$ per ton--	--RMB per ton--	--$ per ton--
Hebei	2,518	$365	2,700	$391
Shandong	2,471	$358	2,640	$383
Henan	2,480	$359	2,530	$367
Jiangsu	2,470	$358	--	--
Anhui	2,472	$358	--	--
Source: SCI; Exchange rate is RMB 6.9 per $1				

Trade

MY2018/19 wheat imports are forecast to contract to 3.5 million tons, unchanged from USDA's February estimate.

Imports mainly supply China's milling and baking needs. Although China's domestic wheat prices have been relatively stable, global benchmark wheat prices have risen as supply shocks ripple through markets due to challenging growing seasons and short harvests throughout the Northern Hemisphere and Australia.

In September 2018, NDRC announced that the TRQ for wheat in 2019 will remain unchanged at 9.64 million tons. State-owned enterprises will receive 90 percent of the overall quota volume allocation.

Wheat Duty-Paid Quotes by Origin and Destination as of January 2, 2019 (Ships scheduled to arrive in March)

Origin	Class	Destination	$ per ton	RMB per ton
United States	SRW	Guangdong	$388	RMB 2,680
China	Common Wheat	Guangdong	$377	RMB 2,600
United States	HRW	Guangdong	$396	RMB 2,735
China	Hard Wheat	Guangdong	$391	RMB 2,700
Kazakhstan	13.2% protein	Henan	$ 275	RMB 1,899
Russia	12% protein	Manzhouli	$ 240	RMB 1,656

Source: Industry source; Exchange rate is RMB6.9 per $1

China's imports of wheat from Black Sea origins remain predominantly maritime based. Rail shipments are subject to a number of logistical challenges, including limited quarantine and inspection capacity for breakbulk shipments, and delays due to switching railway gauges in transit.

From July to December 2018, China imported 315,400 tons of wheat from Kazakhstan, up nearly 70 percent year on year. Over the same period, China's wheat imports from Canada rose 69 percent and from Australia went down by 93 percent. In MY2017/18, China imported nearly 268,000 tons of wheat from Kazakhstan, up 350 percent year-on-year.

MY2018/19 wheat exports remain unchanged from USDA's February estimate. The Chinese government continued humanitarian assistance in the form of small shipments of wheat. In December, China donated 1,000 tons of wheat worth $724,000 for Syrian refugees in Lebanon.

Stocks

MY2018/19 wheat stocks are forecast at 140 million tons, unchanged from USDA's February estimate.

According to the SAGR, MY2018/19 wheat procurement concluded on September 30, 2018, totaling about 50.15 million tons, down 21.9 million tons from MY2017/18. Wheat procurement fell the most in Henan and Anhui provinces due to diminished crop quality and the implementation of higher grading standards (See Policy Section).

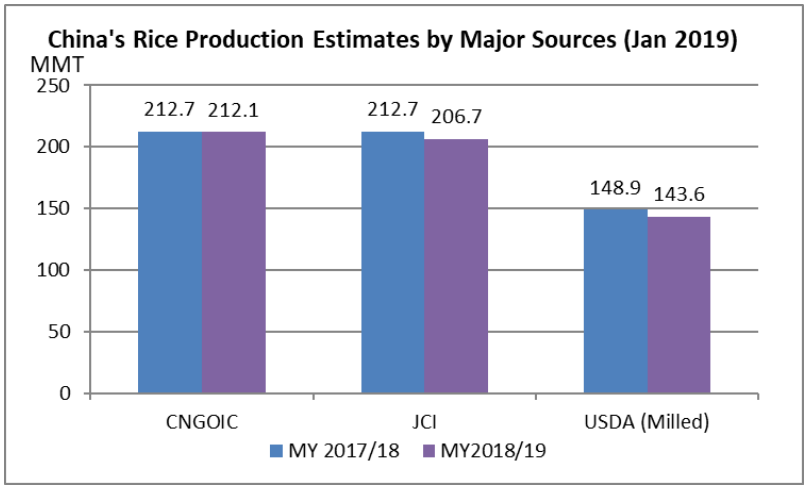
Rice

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	30746	30746	30747	30747	30189	30058
Beginning Stocks	88000	88000	98500	98500	109000	109000
Milled Production	147766	147766	148873	148873	148490	143582
Rough Production	211094	211094	212676	212676	212129	205117
Milling Rate (.9999)	7000	7000	7000	7000	7000	7000
MY Imports	5300	5300	5500	5500	4500	5000
TY Imports	5900	5900	4600	4600	4500	5000
TY Imp. from U.S.	1	1	0	0	0	0
Total Supply	241066	241066	252873	252873	261990	257582
MY Exports	805	805	1386	1386	2200	3000
TY Exports	1173	1173	2058	2058	2500	3200
Consumption and Residual	141761	141761	142487	142487	143790	145000
Ending Stocks	98500	98500	109000	109000	116000	109582
Total Distribution	241066	241066	252873	252873	261990	257582
Yield (Rough)	6.8657	6.8657	6.917	6.917	7.0267	6.824
(1000 HA) ,(1000 MT) ,(MT/HA)						

Production

MY2018/19 rough rice production is estimated at 205.1 million tons, down 7 million tons from USDA's February forecast on lower acreage.



In October 2018, NBS lowered its MY2018/19 early indica rice production estimate to 28.6 million tons, down 1.28 million tons or, about 4.3 percent year-on-year.

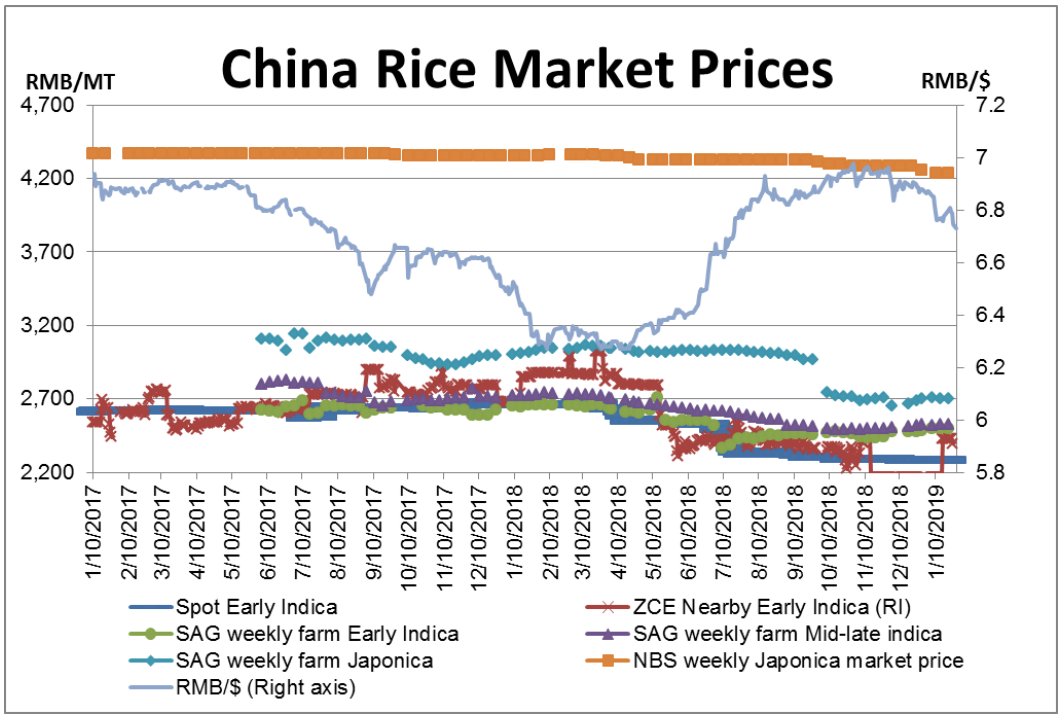
Single-cropped rice is predominantly japonica and is grown mostly in the Yangtze Valley and North East China. Japonica production accounts for about two-thirds of China's overall rice production. Heilongjiang province is China's main japonica rice production region. In recent years, expanded planted area of new varieties such as Daohuaxiang 2 have had mixed results. Although new japonica varieties reportedly yield high volumes (6.75 to 8.25 tons per hectare), are prized by consumers, and command higher prices, high input costs and lower-than-expected yields have lowered farm revenue. In MY2018/19, about 20 percent of fields surveyed in Heilongjiang suffered from lodging further diminishing producer margins.

In MY2018/19, CNGOIC reported that in Heilongjiang province high rice production costs ranging between $1,590 and $1,667 per hectare (11,000 to 11,500 RMB), pressured margins for japonica rice lower. Land rents accounted for the largest share production costs, averaging about $1,160 to $1,300 per hectare (8,000 to 9,000 RMB). With yields hovering around 8 tons per hectare, and supplementary MSP revenues of $356 to $365 per ton (2,460 to 2,520 RMB), final producer margins was about $85 to $133 per hectare (585 to 915 RMB).

Late double-cropped indica rice is grown mostly in southern provinces. In November 2018, mid-to-late indica rice producers completed the MY2018/19 harvest, and are selling their new-crop supplies to the open market at an average pace.

Consumption

MY2018/19 rice consumption is estimated at 145 million tons, up 1.2 million tons from USDA's February estimate, on higher FSI use for ethanol.



From October to December 2018, japonica and indica rice prices remained stable; however, glutinous rice prices rose due a slowing pace of imports. Bucking historic trends, MY2018/19 does not appear to reflect a spike in seasonal demand ahead of the Lunar New Year holidays. The prospects for growth in the overall rice market have dimmed as consumer demand shifts away from rice consumption. Rice processors are reportedly operating at 30 percent capacity, down 1 percentage point from MY2017/18. Millers report falling profit margins.

In October 2018, industry sources reported that some fuel ethanol plants have started to incorporate rice as a feedstock to produce ethanol, as directed by the NDRC's "Rice Destocking" Plan.

Trade

Imports

MY2018/19 rice imports are forecast at 5.0 million tons, up 500,000 tons from USDA's February forecast but down 500,000 tons from MY2017/18 on the slow pace of cross-border trade and greater enforcement of quarantine and inspection requirements.

In December 2018, MY2018/19 mid-to-late indica rice enters market, and prices are typically stable. Since July 2018, rice imports from neighboring nations in South East Asia declined due to falling domestic prices, and greater scrutiny and enforcement of quarantine and inspection requirements, particularly with respect to China's newly revised grading and quality standards.

On December 14, 2018, two Chinese companies signed a Letter of Intent with the Myanmar Shan State (Northern) Rice and Paddy Development Public Co Ltd. to purchase 15,000 tons of rice. Although the contract is a commercial consignment, the Myanmar Trade Promotion Organization continues negotiating with the Chinese government for broader market access.

On December 27, 2018 China and the United States concluded a phytosanitary agreement and registration for seven U.S. rice facilities to export japonica and indica varieties to China.

The Vietnam Food Association reports that over the first 11 months of 2018, Vietnam exported 1.3 million tons of rice to China, down 40 percent year-on-year due to stricter enforcement of phytosanitary and grading standards. According to Vietnamese traders, China recently imposed stricter standards on Vietnamese rice, including delays at border inspection stations.

Similarly, trade at the Myanmar-China border has slowed to a standstill since October 2018. Rice traders seeking to circumvent higher tariffs imposed on exports of Myanmar rice and rice products to China have led to an expansion in cross-border trade, raising border enforcement measures, and ultimately a temporary ban.

FOB Prices of Major Southeast Asian Exporters ($ per ton) - Early January 2019				
Date	Thai Rice FOB	Vietnam Rice FOB	Indian Rice FOB	Rough Rice MSP per ton
11/29/18	$380-$397	$408	$366-$370	Early indica $381
12/13/18	$385-$393	$395	$364-$368	Mid-to-late indica $400
12/28/18	$380-390	$385	$378-$384	Japonica $413
Source: SCI				

Exports

MY2018/19 exports are forecast at 3.0 million tons, up 0.8 million tons from USDA's February forecast on a strong pace of imports from new origins.

From July to December, China exported 2.3 million tons of rice, up 266 percent compared to the same period last year. Over the past two years, China has been actively exploring new export destinations, export volumes soared dramatically.

On November 21, China pledged to donate 10,000 tons of rice to the Philippines for victims recovering from Typhoon Ompong in September 2018. On December 30, China also contributed in-kind rice donations valued at $4.3 million to Jordan.

Stocks

MY2018/19 ending stocks are forecast at 109.6 million tons, down 6.4 million tons from USDA's February forecast on higher consumption and expanding exports.

By the end of November 2018, 14 major producing regions have procured 20.6 million tons of mid-to-late rice, up 600,000 million tons from MY2017/18 on expanded production of higher-quality grades of rice. Major japonica rice producing regions report procurement of 12.3 million tons of rice, down 1.9 million tons year-on-year on lower production.

From January 1 to December 27, 2018 the National Grain Trade Center reported that total auction sales of rice were 8.5 million tons (excluding auctions for industrial processors), down 1.2 million tons from MY2017/18. The National Grain Trade Center reported that the bulk of auction sales was procured in MY2015/16, but also included lots from MY2013/14 to MY 2017/18. China's rice destocking program will progress more slowly than for corn, because of regulatory requirements which limit disposal of massive state-owned inventories of rice to specific channels.

MY2017/18 rice production, consumption, trade and stocks remain unchanged from USDA February estimates.

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	720	720
Beginning Stocks	717	717	577	577	370	370
Production	2985	2985	3200	3200	3450	3450
MY Imports	5209	5209	4436	4436	1700	2000
TY Imports	5209	5209	4436	4436	1700	2000
TY Imp. from U.S.	4764	4764	3922	3922	0	0
Total Supply	8911	8911	8213	8213	5520	5820
MY Exports	34	34	43	43	20	20
TY Exports	34	34	43	43	20	20
Feed and Residual	5800	5800	5200	5200	2600	2800

FSI Consumption	2500	2500	2600	2600	2700	2700
Total Consumption	8300	8300	7800	7800	5300	5500
Ending Stocks	577	577	370	370	200	300
Total Distribution	8911	8911	8213	8213	5520	5820
Yield	4.776	4.776	4.7407	4.7407	4.7917	4.7917
(1000 HA) ,(1000 MT) ,(MT/HA)						

MY2018/19 sorghum production is estimated to be 3.45 million tons, unchanged from USDA's February estimate.

Consumption

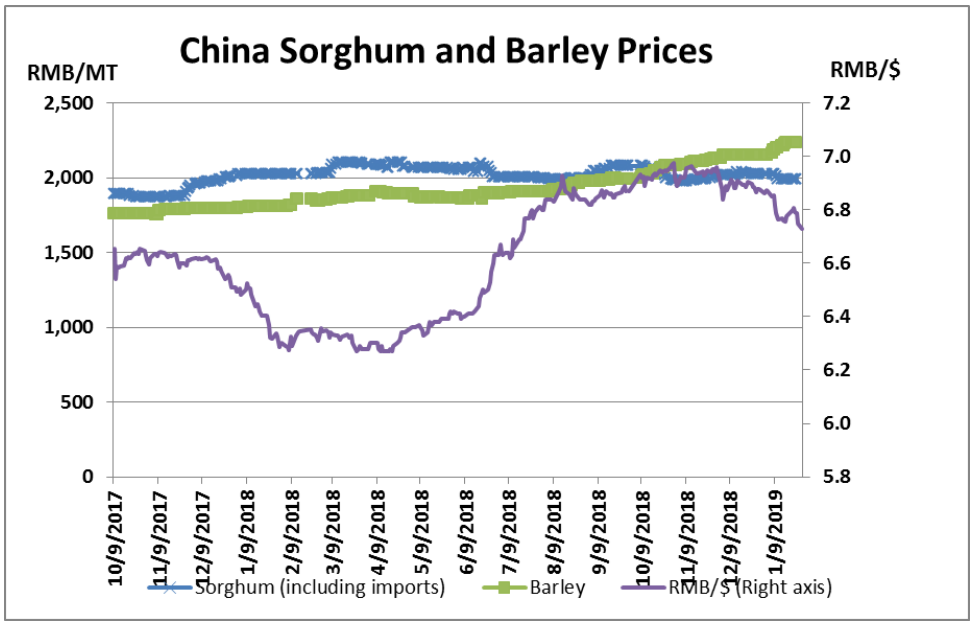
MY2018/19 consumption is estimated to 5.5 million tons, up 200,000 tons from USDA's February estimate due to strong feed demand in South China.

Sorghum in China is mainly used as feed as well as to produce vinegar and liquor.

Although overall MY2018/19 feed demand is weakening across China, a limited supply of feed-quality grains for livestock, poultry, and aquaculture production continues to support sorghum prices.

Chinese liquor producers blend a variety of grains and pulses, including sorghum, peas, wheat and rice bran, and lesser amounts of barley and corn to ferment into baijiu. Of this traditional mix of grains and pulses, sorghum accounts for 70% of raw materials. Although the recipe varies by producer, in general, about three tons of sorghum yield one ton of baijiu.

Shanxi province in Central China, and Sichuan and Guizhou provinces in Southwest China are three major production centers of baijiu production. Shanxi province consumes an estimated 600,000 tons of sorghum each year to produce baijiu. Sichuan province consumes an estimated to use 1.2 million. Guizhou province consumes an estimated 300,000 tons.



Trade

MY2018/19 sorghum imports are forecast at 2.0 million tons, up 0.3 million tons from USDA's February forecast.

Since 2013, feed users in China prefer sorghum imports for its low tannin content, making it ideal for feed use. In contrast, many local Chinese sorghum varieties have relatively higher tannin content, which is preferred for its characteristic fragrance and prized for vinegar and baijiu production.

Sorghum imports and buyers are uncertain about market access for U.S. sorghum. Despite competitive prices for U.S. sorghum, they remain cautious to contract new consignments in the current environment. As a result, local production in MY2018/19 and existing inventories are substituting for sorghum imports.

In September 2018, industry sources report that a Panamax vessel shipped about 50,000-60,000 tons of sorghum from the United States Gulf to Shanghai intended for liquor production. The consignment was assessed a total tariff rate of 27 percent accounting for an additional 25 percent tariff applied to U.S. sorghum, resulting in a landed price of $300 to $307 per ton (2,060-2,120 RMB), or slightly higher than domestic corn prices at $297 per ton (2,050 RMB) per ton.
In December 2018, U.S. sorghum shipped to Tianjin port was quoted with a landed price of about $315 per ton (2170-2180 RMB), nearly unchanged from November 2018.

Comparative Value of Corn and Sorghum by Origin and Destination as of December 9				
Commodity	**Origin (Delivery Month)**	**Destination**	**$ per ton**	**RMB per ton**
Corn	China	Guangdong	$293	2,020
Corn	United States (with tariff)	Guangdong	$308	2,126
Sorghum	United States (March, with tariff)	Huangpu	$331	2,284
Sorghum	United States (March, with tariff)	Tianjin	$344	2,374
Sorghum	United States (March, with tariff)	Nantong	$331	2,284
Sorghum	Australia (February)	Nantong port	$343	2,366
Sorghum	Australia (February)	Tianjin port	$352	2,426
Sorghum	Australia (February)	Huangpu Port	$339	2,336
Sorghum	Inner Mongolia	Inner Mongolia	$294	2,028
Source: SCI; Exchange Rate: $1=6.9 RMB				

Stocks

MY2018/19 ending stocks are forecast at 300,000 tons, up 100,000 tons from USDA's February forecast.

MY2017/18 sorghum production, consumption, trade and stocks are unchanged from USDA February estimates.