

USDA Foreign Agricultural Service

# GAIN Report

Global Agricultural Information Network

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## **China - Peoples Republic of**

### **Grain and Feed Update**

#### **Drought, Floods, and Storms Buffet China's Grain Market**

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**Report Highlights:**

Overall grain production is expected to fall in MY2018/19 due to weather-stress and a flurry of domestic support and trade policy developments. In addition to escalating trade tensions, China's leadership is swiftly reshaping the value chain and market structure for grain and feed products with long-term implications. Winterkill and torrential rains have adversely impacted significant portions of Henan and Anhui provinces, major winter wheat production areas. Dry weather in Liaoning province will impact a larger area of corn production in MY2018/19 than in MY2017/18, lowering overall yield potential.

**Post:**  
Beijing

**Commodities:**  
Corn  
Wheat  
Rice, Milled  
Sorghum

**Executive Summary:**

In 2018, China experienced a cooler and wetter spring than normal, leaving a narrow planting window for summer crops. A late frost in early April caused winterkill for winter crops emerging from dormancy and delayed the spring planting of summer crops, limiting their development.. Summer temperatures across North China have soared to near record highs. June 2018 was the second hottest June on record.

Drought has hampered crop development in much of Jilin province as well as adjacent areas in Inner Mongolia and Liaoning provinces. Irrigated areas have fared better. As of May 29, drought-affected areas in Jilin Province included a total of 208,000 hectares (3.12 million mu). According to Chinese meteorological reports, since mid-June, Inner Mongolia has received 25 percent less rainfall and experienced temperatures about 1° Celsius above than normal. Elsewhere, torrential downpours and flash flooding have caused extensive lodging and eroded soils in parts of Shandong, Henan, Shanxi, Gansu, Sichuan, Guangdong and Heilongjiang provinces, affecting about 500,000 hectares. In South and Central China, excessive rainfall has caused the opposite effect.

<b>Spring 2018 Weather Disasters and Impacts on Crop Area</b>			
<b>Province</b>	<b>Disaster</b>	<b>Hectares Affected</b>	<b>Losses</b>
Jilin	Drought	208,000	
Inner Mongolia	Drought	37 million	\$91 million
Shandong	Excessive Rain	6,800	\$29.5 million
Yunnan	Excessive Rain	3,880	
Guizhou	Excessive Rain	32,000	\$114 million
Guangxi	Excessive Rain	5,630	\$13.77 million
Guangxi	Drought	4,000	\$1.2 million
Guangdong	Typhoon Ewiniar	189,600	\$617 million
Sichuan, Gansu, Anhui, Shaanxi and Henan	Flood	660,000	
<b>Total</b>		<b>38,109,910</b>	

Sources: Newswires

Although summer rains in late May and early June brought some relief, weather-stressed winter crops and developing summer crops in certain areas are expected to end the growing season with lower yields, disease, and poor grain quality.

MY2018/19 corn production is forecast at 222 million tons, down 1.3 percent from USDA's June estimate due to unseasonably cool spring weather and drought-related declines in harvested area and yield potential. MY2018/19 corn consumption is forecast at 248 million tons, down 1 million tons from USDA's June estimate as lower feed use is partly offset by expanding FSI use. MY2018/19 corn imports are forecast at 5 million tons, unchanged from USDA's June estimate, up 1.5 million tons from Post's March Annual, as government inventories contract.

MY2018/19 wheat production is forecast at 126 million tons, down by 3 million tons from USDA's June estimate on policy and weather driven declines in area and yield. Wheat stocks are estimated at 134 million tons, 4.5 million tons lower than USDA's June estimate, and up 7.3 million tons from MY2017/18 as large carry-in volumes outpace government efforts to drawdown stocks.

MY2018/19 rough rice production is forecast at 204.3 million tons, up 1.14 million tons from USDA's June forecast on higher yield.

MY2018/19 sorghum production is forecast at 3.45 million tons, unchanged from USDA's June estimate on expanded planted area due to weather and policies.

## **Trade Policy**

### **China Lowers VAT on Agricultural Products Again**

On April 4, the Ministry of Finance and State Council Tariff Committee (SCTC) published a joint notice on Adjusting Value-Added Tax (VAT) Rates. China lowered the VAT rate applied to sales and imports of agricultural products (including grains) from 11 percent to 10 percent, effective May 1, 2018. In addition, the VAT rate for processed agricultural products (including food and fuel ethanol), was be lowered from 17 percent to 16 percent. This is the second consecutive year that China has lowered the VAT rate for agricultural products (13 percent to 11 percent in 2017). (See GAIN report [CH18022](#))

### **China Announced Deep Tariff Cuts on Certain Grain-Based Products**

On May 31, SCTC issued a notice providing specific tariff lines for the import tariff cuts on consumer goods, including grain-based processed food products, such as prepared cereals or cereal products, couscous, instant noodles, bulgur wheat, and sweet biscuits. Starting on July 1, the tariff rates on these products will be reduced with rates ranging from 15 to 30 percent to 10 percent.

### **MOFCOM Drops AD and CVD Investigations on U.S. Sorghum Imports**

On May 18, MOFCOM published Notice No. 44, announcing that it will terminate its antidumping (AD) investigation into U.S. sorghum imports, which was initiated on February 4. On April 17, MOFCOM announced a preliminary determination that U.S. sorghum exports harmed "domestic [sorghum] producers" and imposed a temporary 178.6 percent AD duty on U.S. sorghum beginning on April 18, which required a cash deposit. MOFCOM's May 18 announcement determined that AD duty deposits on imports of U.S. sorghum do not serve the "public interest," and reversed the April 17 announcement. According to MOFCOM, preliminary AD duties have harmed the livelihoods of "animal producers" and "downstream industry," raising the cost of living for consumers. The notice noted that cash deposits collected after the April 17 preliminary AD finding against U.S. sorghum will be refunded. MOFCOM's latest announcement terminates its CVD investigation on U.S. sorghum imports. (See GAIN report

[CH18029](#))

### **China Imposes Additional 25-percent Tariff on Imported U.S. Agricultural Products**

On June 16, 2018, the MOF announced a revised list of U.S. products subject to an additional 25-percent tariff in response to the U.S. 301 Investigation. The June 16 announcement expanded the number of the U.S. products subject to additional tariffs, and effectively raises the applied tariff-level in comparison to MOF's initial announcement on April 4. Several grain and grain-related products will now face additional tariffs, including durum wheat, wheat, corn, sorghum, rice, flour, groats, dried distiller's grains with and without solubles (DDGS), and fuel ethanol, effective July 6. (See GAIN reports [CH18017](#) and [CH18018](#)).

### **China Revises ASEAN Tariffs for Rice and Rice Products**

On July 1, China reclassified long-grain rice as glutinous rice. China also lowered tariffs on paddy rice, brown rice, broken rice, fine rice flour and coarse rice flour to 50%, 50%, 5%, 40% and 5%, respectively. The SCTC announcement also reclassifies long-grain rice as glutinous rice, and adds new codes for paddy rice, brown rice, broken rice as well as fine and coarse rice flour.

### **Hungary Joins a Growing List of Nations with Bilateral Phytosanitary Protocols with China**

<b>Countries Permitted to Export Grains to China (new additions in italics)</b>	
<b>Wheat</b>	Australia, Canada, France (except for the Rhone-Alps region), Kazakhstan, Hungary, United Kingdom, United States, Serbia, Mongolia, Russia
<b>Corn</b>	Thailand, United States, Peru, Laos, Argentina, Russia, Ukraine, Bulgaria, Brazil, Cambodia, South Africa, Mexico, <i>Hungary</i>
<b>Barley</b>	Australia, Canada, Denmark, France, Argentina, Mongolia, Ukraine, Finland, United Kingdom, Uruguay
<b>Paddy Rice</b>	Russia
<b>Sorghum</b>	United States, Australia, Myanmar

Source: China Customs Official Notice updated in June 2018

## CORN

Corn Market Begin Year	2016/2017		2017/2018		2018/2019	
	Oct 2016		Oct 2017		Oct 2018	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
China						
Area Harvested	36768	36768	35445	35445	36500	36200
Beginning Stocks	110774	110774	100713	100713	79554	78054
Production	219552	219552	215891	215891	225000	222000
MY Imports	2464	2464	4000	3500	5000	5000
TY Imports	2464	2464	4000	3500	5000	5000
TY Imp. from U.S.	809	809	0	0	0	0
Total Supply	332790	332790	320604	320104	309554	305054
MY Exports	77	77	50	50	50	50
TY Exports	77	77	50	50	50	50
Feed and Residual	162000	162000	167000	167000	172000	169000
FSI Consumption	70000	70000	74000	75000	77000	79000
Total Consumption	232000	232000	241000	242000	249000	248000
Ending Stocks	100713	100713	79554	78054	60504	57004
Total Distribution	332790	332790	320604	320104	309554	305054
Yield	5.9713	5.9713	6.0909	6.0909	6.1644	6.1326

(1000 HA), (1000 MT), (MT/HA)

### Production

MY2018/19 corn production is forecast at 222 million tons, down 1.3 percent from USDA's June estimate due to unseasonably cool spring weather and drought-related declines in harvested area and yield potential.

MY2018/19 harvested corn area is estimated at 36.2 million hectares, down 0.8 percent from USDA's June estimate, but still up 2.1 percent from MY2017/18 harvest area. In North East China, MY2018/19 corn planting is 100 percent complete.

Despite government directives to expand soybean planted area, the economics of producer planting decisions in North East China continue to favor corn. Many corn producers have invested for more than

a decade to build supply chains for inputs, machinery and have longstanding relationships with custom planting and harvesting services, which are equipped for corn production. In MY2018/19, corn demand creation policies raised corn prices and relative margins of corn over soybean production. Farmers are incentivized to plant corn or rotate from planting other crops.

Farmers in North East China typically start planting corn in mid-to-late April, and rarely later than early May due to dry soil conditions in late spring. May 2018 rainfall totals were sufficient to allow growers to plant late in the season. North East corn development is progressing well. As of May 17, MARA reported that over 90 percent of corn plantings nationwide have emerged in normal condition. In North East China and on the North China Plain, emergence rates were closer to 70 percent. In parts of Jilin, Liaoning, and Inner Mongolia provinces, drought conditions in late May and early June restricted planting on about 233,333 hectares (3.5 million mu) and caused emergence rates to fall to less than 50 percent of normal on about 580,000 hectares (8.7 million mu). Some industry analysts estimate that dry weather in the region will lower production by as much as 10 million tons from their May MY2018/19 forecasts, due to prevented planting and low yields. Fields that received insufficient rainfall must be replanted to pulses or sorghum. During the MY2018/19 growing season, 126 day varieties are the most popular, followed by 110+ day varieties, where average growing degree days and heat units are higher. According to Lunar Calendar references for MY2018/19, June 6 was the last date to replant and expect grain for harvest.

North East China farmers are managing rising input costs, predominantly due to rising land rents, but also higher costs for seed, fertilizer, pesticide and land rents.

<b>Planting Cost Increases</b>	<b>Heilongjiang</b>	<b>Jilin</b>	<b>Liaoning</b>	<b>Inner Mongolia</b>
	<b>percentage change</b>			
<b>Land Rent</b>	100%	100%	70%	50%
<b>Seed</b>	5%	7%	8%	7%
<b>Fertilizer</b>	5%	10%	10%	8%
<b>Pesticide</b>	9%	9%	8%	7%
<b>Machinery</b>	-	-	-	-
<b>Labor</b>	-	-	-	-
<b>Planting Cost (owned land)</b>	4%	6%	5%	5%
<b>Planting Cost (rent land)</b>	40%	40%	35%	50%
<b>Corn Planting Area Change (hectares)</b>	9%	3%	4%	-

Source: Industry Sources

A small, but growing share of corn producers in North East China have adopted no-till corn practices to conserve fuel costs and soil resources. New planting equipment enables farmers to save more than \$58 to \$62 per hectare (RMB 375 to 400).

In general, the relative margins for planting corn in North East China on self-owned land are higher than planting soybeans, even accounting for additional subsidies.

<b>Relative Margins In Heilongjiang</b>	<b>Corn as of April 4</b>	<b>New Corn as of May 4</b>	<b>Soybean as of April 4</b>	<b>New Soybean as of May 4</b>	<b>New Soybean (Additional Rotation Subsidy)</b>
Implied Input Costs (per hectare)	\$762 4,800 RMB		\$445 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)	\$318 2,000 RMB	\$238 1,500 RMB	\$413 2,600 RMB	\$476 3,000 RMB	\$833 5,250 RMB
Total Revenue (per hectare)	\$1,257 7,920 RMB	\$1,390 7,420 RMB	\$977 6,158 RMB	\$1,114 7,019 RMB	\$1,398 8,808 RMB

Source: Industry Sources; Note: exchange rate is RMB 6.30 to \$1.00

Extremely low temperatures led to shortages of natural gas from December 2017 through April 2018. According to MARA monitoring reports, the price of urea in the first half of March 2018 was \$329 per ton (2,073 RMB), up nearly 13 percent from MY2017/18 and diammonium phosphate was \$476 per ton (3,000 RMB), up 5.4 percent year-on-year. Pesticide prices also rose by about 25 percent year-on-year.

MY2017/18 corn production is estimated at 215.9 million tons, unchanged from USDA's June estimate.

### **Consumption**

MY2018/19 corn consumption is forecast at 248 million tons, down 1 million tons from USDA's June estimate as lower feed use is partly offset by expanding FSI use.

MY2018/19 FSI consumption is forecast at 79 million tons, up 2 million tons from USDA’s June estimate on the continuous expansion of industrial processing.

China’s corn processing capacity expansion is expected to continue growing. However, Post forecasts operating capacity to remain far below name plate capacity.

Tighter environment controls are expected to direct China’s corn processing industry further north and away from major urban centers in Eastern China, giving well-located, large-scale operations advantages to integrate and expand.

In MY2018/19, analysts expect between 5 and 10 million tons of additional corn processing capacity to come on line. Expanded production of corn sweeteners, corn starch, and corn-based ethanol will raise national annual processing capacity greater than 100 million tons, largely driven by policies at the provincial level to expand corn use.

MY2017/18 corn consumption is forecast at 242 million tons, up 1 million tons from USDA’s June estimate on higher-than-expected FSI use.

### Prospective Additions to Corn Processing Capacity

Company	Province	Corn Processing Capacity	Corn Use for Fuel Ethanol	Total Volume Throughput	Date Announced	Date On Line
COFCO	Jilin	5 million		5 million	April 2018	2021
COFCO	Liaoning	5 million	2 million	7 million	April 2018	2021
Beidahuang	Inner Mongolia		350,000	350,000	April 2018	
Cargill	Jilin	2 million		2 million	June 2018	2019
Total				14.35 million		

Source: Industry Sources and Post Estimates

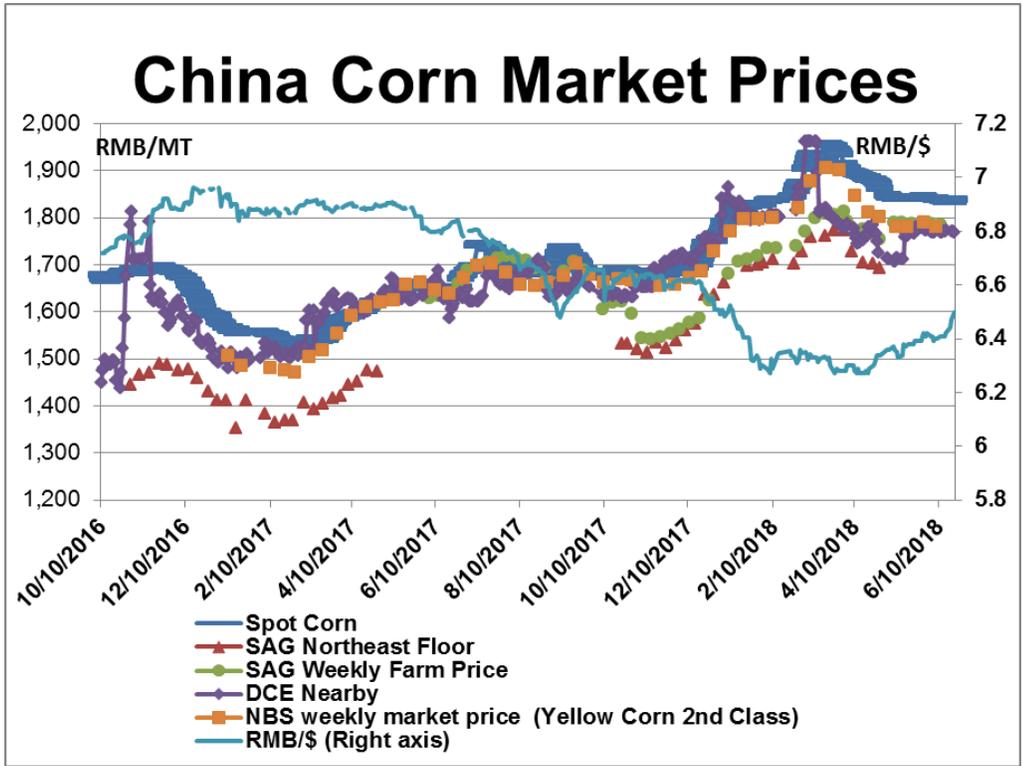
In mid-April, COFCO announced that over the next three years, it will expand its corn processing operations in Jilin province, where it aims to procure more than 5 million tons of corn for processing. Separately, in Liaoning province, COFCO aims to expand corn processing by 7 million tons, distributed between 2 million tons of corn-use for ethanol and 5 million tons for corn processing. On April 18, Beidahuang announced the construction of a 350,000-tons-per-year fuel ethanol project in Baotou, Inner Mongolia. On June 8, Cargill announced that it would more than double the capacity of its 800,000-tons-per-year corn processing plant in Songyuan, Jilin province, to 2 million tons.

China is the world's second largest producer of starch-based sweeteners. However, industry sources report that China’s corn processors face a challenging environment due to severe competition and thin margins. Many processors are struggling to manage high domestic input costs, rising tariffs for imported supplies, and upgrades to expand capacity at processing plants with the latest technology.

Corn sweetener demand in China is waning. The substitution of starch-based sweeteners for refined sugarcane-based sugar is mainly concentrated in the food and beverage industry, primarily for the baking and soft drinks segments. 95 percent of colas and sodas in China use corn sweeteners, including maltose, glucose syrup and crystalline fructose. Overall, Chinese consumers are buying fewer sugary

sodas and soft drinks. They seek low sweetener and low calorie options. According to industry sources, soda consumers in North China associate high-fructose corn syrup as more nutritious than sugarcane-derived sugar. In contrast, soda consumers in South China do not differentiate between the two sweeteners.

In contrast, ethanol consumption for food use is expanding. Corn-based alcohol is a major component for low-to-mid-level distilled spirits production in China, and a growing segment.



Source: Industry Sources

MY2017/18 FSI consumption is estimated at 75 million tons, up 1 million tons from USDA’s June estimate, and unchanged from Post’s March estimates.

According to the China Starch Industry Association, China has excessive corn processing capacity, and is currently undergoing a period of integration, consolidation, and restructuring as market players compete for market share. Industry sources report that in MY2017/18 corn processing capacity expanded to an additional 17 million tons per year, an almost 50 percent increase in national capacity. Among these facilities, corn use for ethanol accounted for about 3 million tons.

<b>Additional Chinese Corn Processing Capacity by Province*</b>	
<b>Province</b>	<b>1,000 tons per year</b>
Heilongjiang	5,900
Inner Mongolia	680
Jilin	3,600

Liaoning	300
Shandong	4,300
Hebei	1,400
Henan	400
Anhui	420
<b>Total</b>	<b>17,000</b>

\* Note: This list is incomplete.

Industry sources report that Shandong, Hebei, Jilin, Heilongjiang, Ningxia, Shanxi and Henan Provinces account for 95 percent of China’s total corn starch capacity, which totaled about 40 million tons of capacity in 2017. Separately, the China Starch Industry Association reported that corn starch production alone reached a record 25.9 million tons in 2017, a 15 percent jump from 2016. Corn starch use has rapidly expanded to support paper and packaging products for China’s e-commerce shipping industry.

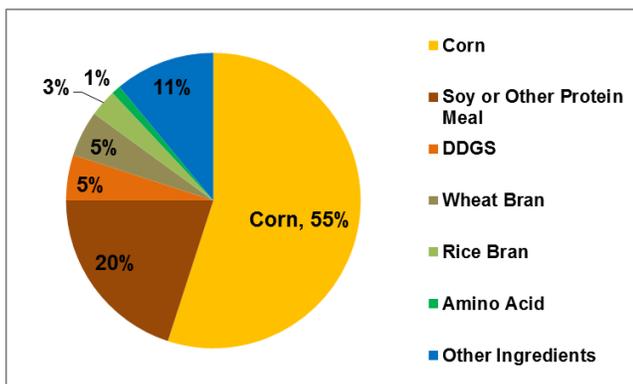
In MY2017/18, China’s corn processors operated on average at about 65 percent capacity and relied on high-priced corn supplies, relative to global prices. Nevertheless, China’s starch and ethanol producers realized favorable average returns of about \$15.60 per ton (100 RMB).

In the corn processing sector, razor thin margins are supplemented by recent VAT rebate measures and provincial subsidies based on throughput. In August 2016, China reinstated a VAT rebate on exports of corn starch, raising the VAT rebate rate from 5 to 13 percent. As a result of the applied VAT rebate on corn starch fell to 4 percent, and corn starch exports jumped by 92 percent, year-on-year, and average export prices fell by 9 percent.

Industry sources report that without provincial deep corn processing subsidies and a nationwide blending mandate China’s fuel ethanol companies would face severe losses. On May 25, Tianjin city reconfirmed a previous announcement that it was on pace to implement a citywide E10 blending mandate starting on September 30. Post forecasts that China’s ethanol industry will quickly process Tianjin an additional 1 million tons of corn use for ethanol before September 30 to comply with the new mandate.

MY2018/19 feed and residual use is forecast at 169 million tons, down 3 million tons from USDA’s June estimate, unchanged from Post’s March Annual on greater substitution of sprouted wheat for corn feed use.

Typical hog feed ration (varies by region and input prices)



Source: Industry Sources and Post Estimates

A typical feed mill's hog feed formula contains about 55 to 60 percent of corn, 18 to 20 percent of soymeal or other protein meals, 5 percent DDGS, 5 percent wheat bran, 3 percent of rice bran and less than 1 percent of amino acid. For livestock feed, as much as 65 percent is corn. Depending on prevailing market prices, sorghum, wheat, and barley are alternative feed grains.

MY2017/18 feed use is estimated to be unchanged at 167 million tons.

From March to May 2018, feed mill operation rates remained weak at around 40 percent. MARA reports that in MY2017/18, China's industrial feed output exceeded 200 million tons, making China the world's largest feed producer for seven consecutive years.

## Trade

MY2018/19 corn imports are forecast at 5 million tons, unchanged from USDA's June estimate, up 1.5 million tons from Post's March Annual, as government policies raise consumption and liquidate old-crop inventories, paving the way for China to import larger volumes.

China's Tariff Rate Quota (TRQ) administration policies will continue to restrict corn imports to 7.24 million tons. Assuming normal production, the substitution of imports with domestic supplies of corn and wheat will soon fall as China's forecast pace of corn use outpaces production and stocks.

MY2017/18 corn imports are estimated at 3.5 million tons, down 500,000 tons from USDA's June estimate and unchanged from Post's March estimate due to a steady pace of domestic auction sales and diminished buyer confidence for imported consignments.

Earlier this year, auctions of old-crop corn helped to offset rising prices from March 2018 highs, narrowing import margins. As of June 13, U.S. corn imported to South China was competitive.

<b>Corn Quotes by Origin and Destination as of June 13</b>			
<b>Origin</b>	<b>Destination</b>	<b>\$ per ton</b>	<b>RMB per ton</b>
China	Guangdong	\$289	RMB 1,850
United States	Guangdong	\$253	RMB 1,616
Ukraine	Guangdong	\$253	RMB 1,620

On June 16, China announced imposing an additional 25-percent tariff on U.S.-origin corn imports to China, effective July 6, 2018. Considering current prices, the duty-paid and landed price of U.S. corn at ports in South China will jump from around \$250 per ton (RMB 1,600) a few weeks ago to nearly \$300 per ton (RMB 1,900) today. As a result, U.S. corn imports are expected to lose competitiveness to Ukrainian and domestic supplies. Additionally, industry sources report that trade uncertainty has raised the risk premium for U.S. corn.

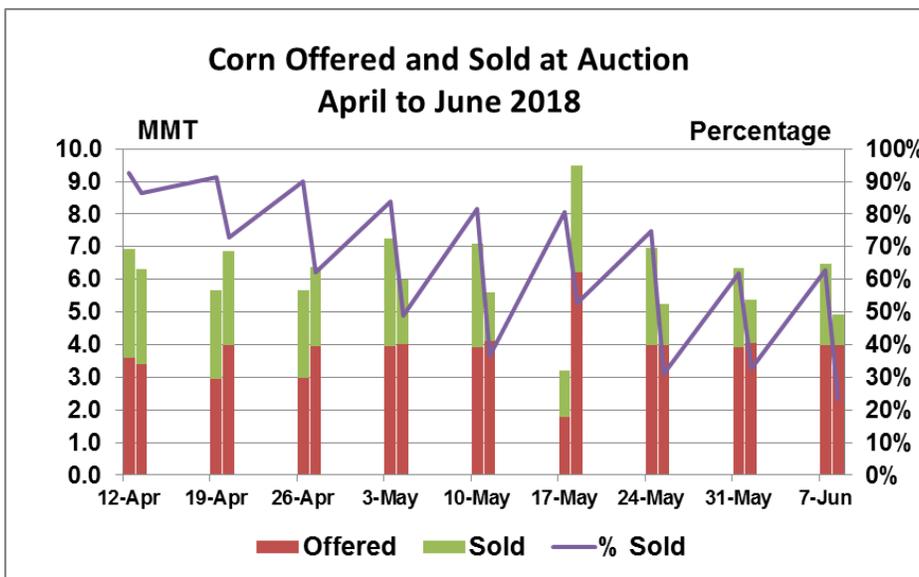
MY2018/19 corn exports are forecast at 50,000 tons, unchanged from USDA's June estimate.

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

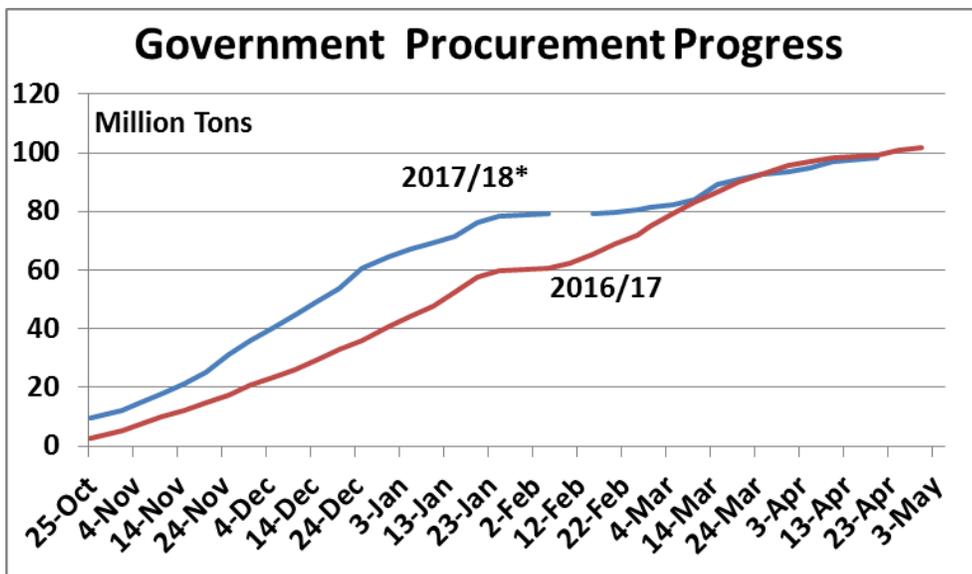
## Stocks

MY2018/19 corn ending stocks are forecast at 57 million tons, down 3.5 million from USDA’s June estimate, and up 5 million tons from Post’s March Annual estimate, as the pace of corn processing is expected to slow despite overall capacity expansion.

On April 12, China began auctioning MY2018/19 “temporary reserve” supplies of old-crop corn, signaling that a drawdown in inventories will weigh on domestic corn prices. MY2018/19 auctions began about one month sooner than in MY2016/17 and MY2017/18. MY2018/19 auction sales are on pace to surpass the three-year average. As of June 6, China has offered 18 auctions with a total volume of 62.7 million tons. To date, China has sold 43 million tons of these supplies, or about 62.5 percent of the total auction volume on offer. As expected, with restricted imported supplies, and policies to encourage both domestic and export demand, government auction sales have been strong. Industry analysts forecast that MY2018/19 auction sales will offer mostly supplies of MY2013/14 and MY2014/15 corn. Auction sales have diminished as the auction period has progressed.



MY2017/18 corn stocks are estimated at 78 million tons, 1.5 million tons lower than USDA’s June estimate, due to lower import volume and strong FSI demand.



Source: State Administration of Grain and Reserves

The State Administration of Grain and Reserves (SAGR) reports national procurement of 118.9 million tons in MY2017/18. Sinograin reports sales of 110.9 million tons. Analysts estimate that government inventories hold as much as 50 million tons from before MY2015/16.

## WHEAT

Wheat Market Begin Year	2016/2017		2017/2018		2018/2019	
	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	23900	23900
Beginning Stocks	97042	97042	111049	111049	126819	126819
Production	128845	128845	129770	129770	129000	126000
MY Imports	4410	4410	4000	4000	4000	4500
TY Imports	4410	4410	4000	4000	4000	4500
TY Imp. from U.S.	1626	1626	0	0	0	0
Total Supply	230297	230297	244819	244819	259819	257319
MY Exports	748	748	1000	1000	1200	1200
TY Exports	748	748	1000	1000	1200	1200
Feed and Residual	16500	16500	13500	13500	15000	17000
FSI Consumption	102000	102000	103500	103500	105000	105000
Total	118500	118500	117000	117000	120000	122000

<b>Consumption</b>						
<b>Ending Stocks</b>	111049	111049	126819	126819	138619	134119
<b>Total Distribution</b>	230297	230297	244819	244819	259819	257319
<b>Yield</b>	5.327	5.327	5.4093	5.4093	5.3975	5.272
(1000 HA), (1000 MT), (MT/HA)						

### ***Production***

MY2018/19 wheat production is forecast at 126 million tons, down by 3 million tons from USDA’s June estimate and Post’s March Annual estimate on policy and weather driven declines in harvested area and yield.

As of late June, the MY2018/19 winter wheat harvest is nearly complete. Industry sources report lower wheat heading and diminished quality due to winterkill, drought, disease, and sprouting. Some forecasts estimate overall production to fall as much as 20 percent.

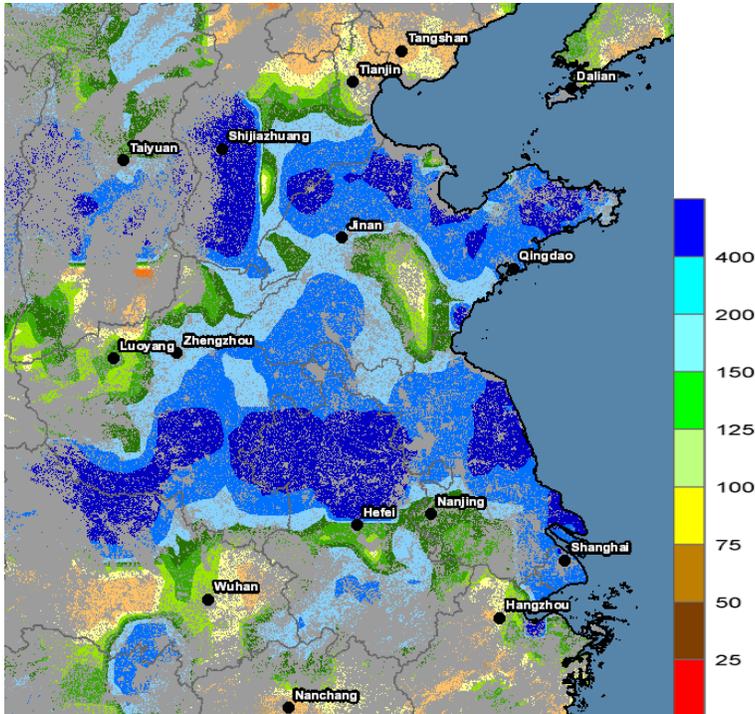
MY2018/19 wheat harvested area is forecast at 23.9 million hectares, down by nearly 90,000 hectares due to government plans to fallow or rotate land and reform the temporary reserve program.

MARA forecasts that in MY2018/19 total high-quality wheat area has expanded to account for as much as 30 percent of total wheat area. Industry sources report that a greater number of producers are adopting high-quality, strong protein wheat varieties for cultivation on the North China Plain. Low protein wheat production accounts for about 10 percent of China’s total wheat production.

From start to finish, MY2018/19 winter wheat crop experienced extreme weather stress, lowering national yields by 2 percent and causing low test weights and disease damage. In 2017, cool and wet weather delayed planting progress and caused widespread winterkill. In parts of Shandong, Hebei and north Henan provinces, emerging wheat suffered from a late spring frost and drought in April 2018, resulting in a failure to develop heads. In late May and June, about two weeks before harvest, torrential rains in parts of Henan, Anhui and Jiangsu provinces caused widespread lodging. The remaining crop suffered from high incidences of mold and sprout.

Industry sources report that in the worst cases, yield is expected to fall to 5.3 to 6.0 tons per hectare (700 to 800 jin per mu), about 30 to 33 percent below normal. In comparison, normal yields range from 7.5 to 9.0 tons per hectare (1,000 to 1,200 jin per mu).

### **Precipitation-Percent of Normal Rainfall** **Week of May 27**



Source: USDA

Henan province, China's largest wheat producer, was hit the hardest by extreme weather. Industry sources estimate that production will drop as much as 10 percent. About 20 percent of North Henan province's high-protein wheat production area suffered from a late spring frost in April during the critical emergence stage of development. South Henan province is suitable for low protein wheat production. In MY2018/19, South Henan is forecast to have lower quality grain than MY2017/18. In Anhui province MY2018/19 wheat production is forecast lower due to fewer heads and lower test weights. MY2018/19 yield are forecast at 4.5 tons per hectare (600 jin per mu), down 40 percent from an average yield of 7.5 tons per hectare (1,000 jin per mu).

A typical wheat producer on the North China Plain cultivates about 0.13 hectare (2 mu) of their own land. In MY2018/19, they face rising planting costs for seed, fertilizer, diesel fuel, and harvesting services. Land rental costs range from \$1,875 to \$2,343 per hectare annually (800 to 1,000 RMB per mu). Government subsidies, totaling about \$234 per hectare annually (100 RMB per mu), are distributed to farmers directly through electronic banking cards. Farmers in this region typically plant corn, rice, or soybeans after the wheat harvest. Industry sources report that in MY2018/19 most farmers will plant corn.

### **Torrential Rain Damage in Henan**



Left: Lodging; Center: Fusarium damage; Right: Sprouted wheat

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

### ***Consumption***

MY2018/19 wheat consumption is forecast to increase to 122 million tons, 2 million tons higher than USDA's June, and 1.5 million tons higher than Post's estimate on higher feed use.

MY2018/19 FSI use is raised to 105 million tons, unchanged from USDA's June estimate and Post's March Annual estimate. In November 2017, the General Administration of Food and Medicine announced a requirement that all mills with "wheat flour (general)" production permits refrain from adding any other food ingredients. Previously, industry sources noted that starches, whitening agents, and other additives were blended into wheat flour. As a result of this announcement, China's food use for wheat is expected to rise slightly from MY2016/17.

Industry sources report that bread consumption accounts for about 17 percent of China's total bakery sector. They estimate that double-digit growth in the bread segment of the baking sector over the past several years will continue. Although China's bread market is among the world's largest, China's per capita consumption of bread, at only 1.5 kg per year, which is far less than the 14.6 kg per capita consumed in the United States, and five-times less than Hong Kong and Japan, which have similar dietary habits as China. Industry sources report that flour use for home baking is also rising. Separately, other wheat segments continue to grow. Low protein, specialty flour use for cakes and pastries is rising. At this time, China's demand for low protein wheat far outstrips domestic supplies. Separately, wheat use for baijiu production is expanding. China remains highly reliant on imports.

Starting from mid-May, wheat from Hubei province was the first new crop to supply the market in MY2018/19. According to CNGOIC, Hubei new crop quality was good with test weights exceeding

760g/L on average. Farm prices for Hubei new crop wheat with 14 percent moisture and 770 g/L test weight, range from \$325 to \$331 per ton (2,080 to 2,120 RMB), about \$4.70 to \$7.80 per ton (30 to 50 RMB) lower than MY2017/18. Local flour mill prices range from \$344 to \$350 per ton (2,200 to 2,240 RMB).

<b>Wholesale Wheat Spot Prices in Major Markets (week of June 18-22)</b>				
<b>Province</b>	<b>Common Wheat</b>		<b>Strong Wheat</b>	
	--RMB per ton--	--\$ per ton--	--RMB per ton--	--\$ per ton--
Hebei	2,323	363	2,640	413
Shandong	2,390	373	2,550	398
Henan	2,400	375	2,570	402
Jiangsu	2,383	372	--	--
Anhui	2,367	370	--	--

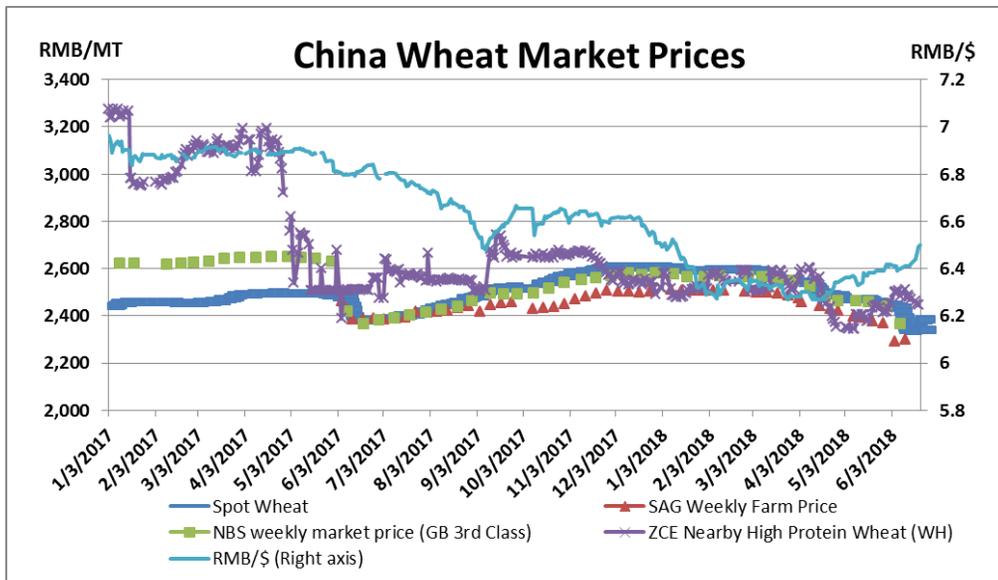
Sources: Foreign exchange rate is 6.4 RMB per \$1

In Shijiazhuang, Hebei province, wheat prices are quoted at \$363 per ton (2,323 RMB) and in Shandong prices have risen to \$373 per ton (2,390 RMB) per ton. Industry sources report that Chinese farmers expect prices to continue to rise and have deferred marketing their crop. In contrast, grain wholesalers expect that prices will weaken over the long term, as government interventions push local prices lower.

MY2018/19 feed use is raised to 17 million tons, up 2 million tons from USDA's June estimate, and up 3.5 million tons from Post's March Annual estimate, on plentiful supplies of feed-quality wheat, and greater substitution of imported feed grains.

Wheat is not commonly used as feed in China due to high prices. However, as China's hog prices fall to eight-year lows and imported feed grains are not price competitive, plentiful supplies of feed-quality wheat are attractively priced. Domestic corn prices continue to rise, and feed mills in South China are seeking to lower-priced alternatives, such as sprouted wheat, which has been marketed for feed use since late May, undercutting corn prices. Industry sources forecast that about 6 million tons of low-priced sprouted wheat will soon enter the market.

Feed mills normally use wheat to feed ducks and pigs if toxin and nutrition specifications fall within acceptable levels. Weather-related impacts and China's new food safety regulations will direct low quality domestic wheat supplies from MY2018/19 to displace domestic corn and imported sorghum and barley for feed use. In MY2016/2017, when heavy rains damaged wheat quality, as much as 10 million tons of domestic wheat was diverted to livestock feed use.



Source: Industry Sources

MY2017/18 wheat consumption is unchanged from USDA’s June estimates.

**Trade**

MY2018/19 wheat imports are forecast at 4.5 million tons, up 500,000 tons from USDA’s June estimate on greater demand for high-quality wheat for specialty milling and baking use.

Weather-related impacts will diminish domestic MY2018/19 wheat supplies for blending and milling. The outlook for MY2018/19 winter wheat quality is negative, raising domestic wheat prices further. With demand for baked goods and Western-style bread continuing to rise, wheat imports are expected to be strong for MY2018/19 as millers seek to substitute for low domestic supplies of high protein, low protein, and specialty wheat classes.

MY2017/18 wheat imports remain at 4 million tons, unchanged from USDA’s June estimate. In mid-May, industry reports estimate the duty-paid landed price of U.S. Soft Red Winter wheat in Guangzhou at \$300 per ton (1,926 RMB), less than \$101 per ton (650 RMB) for domestic wheat delivered to the same port. The duty-paid landed price of U.S. Hard Red Winter wheat is \$312 (1,995 RMB) per ton, \$141 (900 RMB) lower than local wheat prices delivered to Guangzhou.

<b>Wheat Duty-Paid Quotes by Origin and Destination as of June 13</b>				
<b>Origin</b>	<b>Class</b>	<b>Destination</b>	<b>\$ per ton</b>	<b>RMB per ton</b>
United States	SRW	Guangdong	\$300	RMB 1,926
China	Common Wheat	Guangdong	\$403	RMB 2,576
United States	HRW	Guangdong	\$312	RMB 1,995
China	Hard Wheat	Guangdong	\$452	RMB 2,895
Kazakhstan	14% protein	Henan	\$254	RMB 1,655
Russia	12% protein	Henan	\$423	RMB 2,750

Sources: Industry Sources and Post Estimates

On June 16, China announced a 25-percent additional tariff on U.S. wheat imports in response to the recent U.S. 301 announcement. The additional 25-percent tariff will raise the duty-paid cost for U.S. HRW by at least \$78 per ton (500 RMB) from \$312 per ton (1,995 RMB) to \$390 (2,495 RMB).

Trade tensions have had a chilling effect on Chinese imports of U.S. wheat, with almost no new business booked in the second quarter of 2018. Formerly steady buyers are concerned that U.S. wheat consignments are too risky to execute. Industry sources report that due to trade tensions, buyers are seeking to expand imports from Black Sea-origins. The Kazakhstan Ministry of Agriculture reports that China will expand import quota allocations of Kazak wheat to 500,000 tons in MY2018/19 and 1 million tons in MY2019/20. Separately, COFCO announced that it is prepared to expand imports from Russia from 4,000 tons in MY2017/18 to 2 million tons in MY2018/19. On April 18, China and Russia jointly announced the construction of a 650,000-per-ton inland port in Fuyuan, Heilongjiang province, the farthest easternmost point in China. The port is scheduled for completion by September 2019 and will facilitate grain handling between China and Russia.

MY2018/19 wheat exports remain unchanged from USDA's June estimate.

MY2017/18 wheat exports remain unchanged from USDA's June estimate.

### ***Stocks***

MY2018/19 wheat ending stocks are forecast to increase to 134.1 million tons, up 4.5 million tons from USDA's June estimate, on large carry-in stocks.

For wheat, the government procurement date will be postponed to June 1, compared with May 21 in 2017. SAGR will launch a price band system which the MSP price will serve as the trigger. Wheat procurement will be triggered when the market price falls below the MSP price for three consecutive days. If the procurement price rises above the MSP price, then government procurement will end. Previously, China's wheat programs were implemented without a price band.

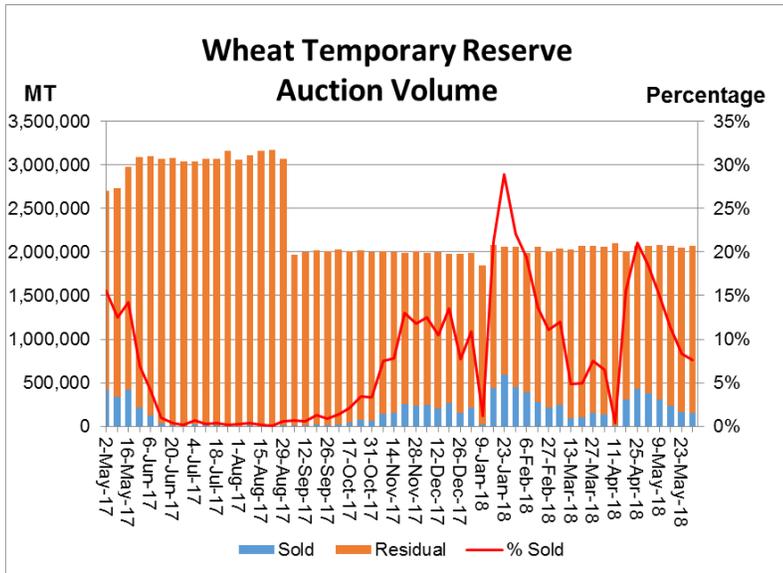
The 2018 MSP procurement raises wheat quality requirements from Class 5 (based on Chinese Standard GB1351) to Class 3. Wheat graded at or below Class 4 remains subject to local government procurement regulations. Wheat which fails to meet requirements will not enter human food channels and will be diverted to industrial processing. These policies are expected to lower prices, motivate private consignments, and expedite China's plan to liquidate government inventories.

MY2017/18 ending stocks estimates are unchanged from USDA's June report at 126.8 million tons. From March through May 2018, end users relied on government auctions to operate.

On April 12, China sold at auction all 210,000 tons of old-crop wheat on offer for the first time in MY2018/19. The auction sold MY2013/14 of white wheat and mixed wheat, including both imported and domestic lots, at an average price of \$298 per ton (1,910 RMB), about \$48 per ton (310 RMB) greater than the government procurement price, which was \$250 per ton (1,600 RMB).

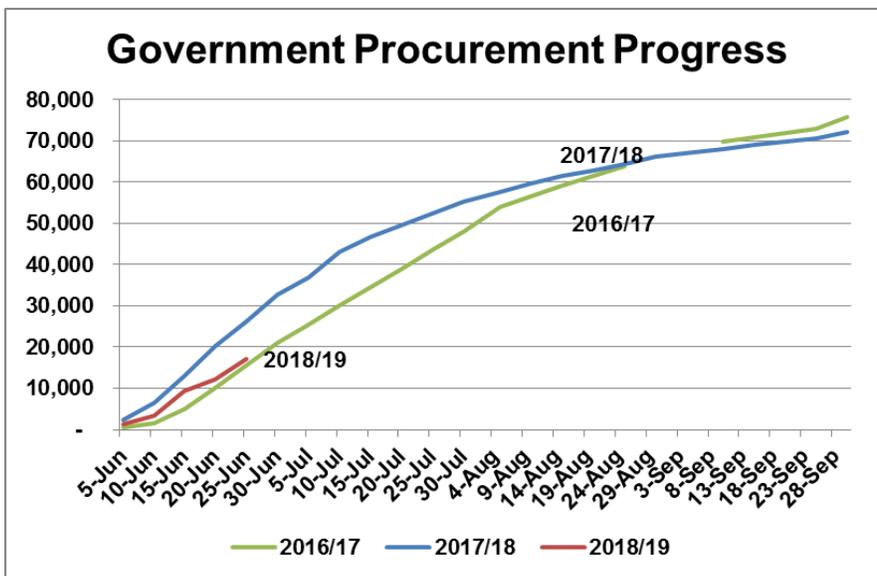
On June 18, SAGR suspended auction sales of wheat procured from MY2014/15 to MY2016/17. Based on government auction data, industry sources estimate that the volume of MY2014/15 to MY2016/17

wheat on offer totaled about 50 million tons, and an additional 74 million tons of MY2017/18 wheat remains in the state-owned inventories.



Source: State Administration of Grain and Reserves

On June 5, SAGR notified Sinograin to launch the MY2018/19 wheat MSP program in Anhui province as prices triggered implementation of the MSP program. On June 11 and 12, SAGR launched the wheat MSP procurement program in Jiangsu and Henan provinces, respectively.



Source: State Administration of Grain and Reserves

Typically, auction sales of wheat from June to September are weak. As a result, the suspension of auction sales during the summer months of MY2018/19 will have little impact on the overall wheat market. Industry sources believe that this rarely-seen move reinforces the government’s intention to transform China’s wheat market from a policy-driven structure to a market-oriented structure.

Due to limited supplies of high-quality domestic wheat, industry analysts expect that China's flour mills and traders will rush to book cargoes of milling quality wheat, leaving a limited supply for MSP procurement. In previous years, SAGR and Sinograin procurement programs crowded out private buyers from the market, limiting market access to domestic wheat supplies.

## RICE

Rice, Milled Market Begin Year	2016/2017		2017/2018		2018/2019	
	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	29500	29500
Beginning Stocks	78500	78500	86500	86500	93989	93989
Milled Production	144953	144953	145989	145989	142200	143000
Rough Production	207076	207076	208556	208556	203143	204286
Milling Rate (.9999)	7000	7000	7000	7000	7000	7000
MY Imports	5300	5300	5500	5500	5500	5500
TY Imports	5900	5900	5500	5500	5500	5500
TY Imp. from U.S.	1	1	0	0	0	0
Total Supply	228753	228753	237989	237989	241689	242489
MY Exports	805	805	1300	1300	1700	1700
TY Exports	1173	1173	1600	1600	1800	1800
Consumption and Residual	141448	141448	142700	142700	144000	145000
Ending Stocks	86500	86500	93989	93989	95989	95789
Total Distribution	228753	228753	237989	237989	241689	242489
Yield (Rough)	6.8618	6.8618	6.9113	6.9113	6.8862	6.9249

(1000 HA) ,(1000 MT) ,(MT/HA)

MY2018/19 rough rice production is forecast at 204.3 million tons, up 1.1 million tons from USDA's June forecast, on higher yield, and unchanged from Post's March Annual estimate.

MY2018/19 harvested area is estimated at 29.5 million hectares, unchanged from USDA's June forecast.

The single-crop rice planting of Japonica rice, which started in April and continued through May, is complete. Heilongjiang province's first class seedling rate is lower than last year and the five year average level. North East China's rice production is irrigated and unaffected by drought conditions.

<b>Rice Planting Progress</b>	
<b>Variety</b>	<b>Percentage Planted</b>
First class, Overall	19%
Second class, Overall	81%
First class, Single crop (Japonica)	33%
Second class, Single crop (Japonica)	66%

Rice growing conditions are normal compared with previous years.

<b>Rice Crop Progress as of Week of June 25</b>	
<b>Province or Region</b>	<b>Stage of Development</b>
Hainan	Milk - Ripening
South China	Jointing
Southwest	Tillering
North East	Transplanting

In 2018, China implemented several domestic support and land use reforms to rice production (1) to encourage production on highly productive land, (2) to spur market mechanisms, and (3) to substitute domestic supplies for imports. These policies have regional impacts that vary greatly. In mountainous regions like Southwest China where there is limited production area, local supplies will be limited. In productive regions, MSP reforms will drive local prices lower and substitute local production for imported supplies.

### **Shift to Large-Scale Production Practices**

China's rice industry expects that rice production in China will transform from primarily small-holder production to large-scale, vertically integrated production. They foresee a dramatic industry restructuring through mergers and acquisitions, and a shift away from government policy-driven planting decision-making to contract-based directed production and marketing programs, similar to existing operations for corn production in North East China. They also expect that rice production will be integrated with the rice processing industry.

According to CNGOIC statistics, Southwest and Western China are major rice deficit regions with limited land for production. China's government directives to remove production on marginal lands have lowered supplies of rice in this region.

### **Development of New Varieties**

Chinese agricultural scientist Yuan Longping has started testing newly developed saline-tolerant rice varieties in several provinces. In September 2017, test plots in Qingdao, Shandong province demonstrated yields as high as 9.3 tons per hectare, nearly one-third greater than conventional rice varieties grown in China. Jilin farmers are subsidized \$625 per hectare (4,000 RMB) to plant saline-tolerant varieties. Alibaba, a Chinese e-commerce giant, has pledged to develop a retail channel for saline-tolerant rice to quickly establish a large-scale market.

MY2017/18 rough rice production is unchanged from USDA's June estimates at 208.6 million tons.

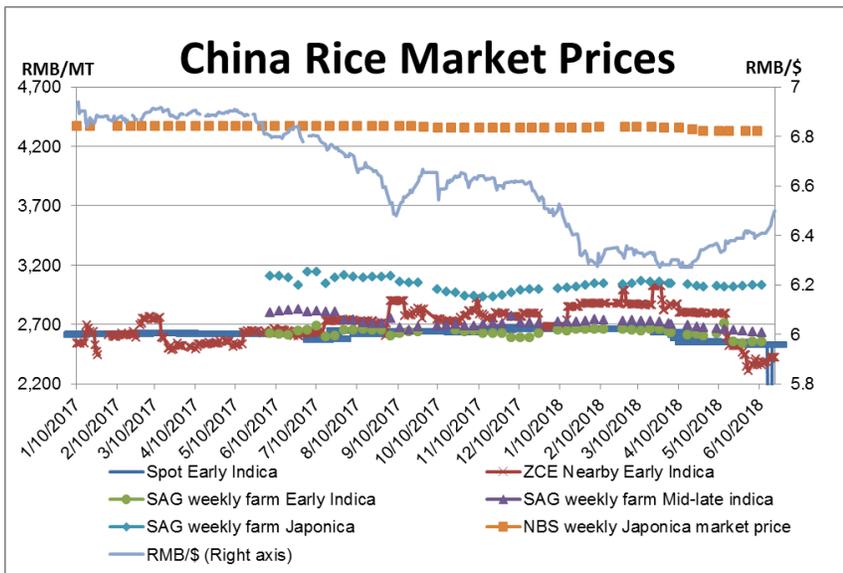
## Consumption

MY2018/19 rice consumption is forecast at 145 million tons, up 1 million tons from USDA’s June estimate, on higher FSI use, and unchanged from Post’s March Annual estimate.

In general, rice is a staple food grain in China. COFCO reports that 66 percent of China’s population consumes rice as a staple grain. Historically, rice is a price sensitive commodity that is consumed locally. As China’s expanding middle class grows, rising incomes are shifting dietary habits to focus more on quality. Consumer market segments across China’s complex mix of local preferences and socioeconomic classes are attentive to qualitative characteristics, such as labeling, convenient packaging sizes, and variety. Many consumers now purchase rice through e-commerce channels. Middle-class consumers prefer polished rice and respond to branding and marketing messages.

Soil contamination persists across China. High levels of heavy metals and industrial residues from air and water effluent runoff from coal-fired power generation, mining, and other industrial activities have led to contamination of large swaths of rice production areas. Growing awareness of food safety has led Chinese consumers to seek imports of staple grains like rice.

Early indica rice will enter the market in July. Early indica varieties of rice, which do not meet national quality standards, are commonly processed to produce vinegar, flour, noodles, drinks, rice bran oil, cosmetics, rice wine, and liquor. At the National Party Congress on October 2017, industry leaders proposed using rice as feedstock for ethanol production. Anhui Biochemical Corporation announced that it can substitute as much as 60,000 tons of per year in its ethanol plant.



MY2017/18 consumption is estimated at 142.7 million tons, unchanged from USDA June estimate.

## Trade

MY2018/19 rice imports are forecast at 5.5 million tons, unchanged from USDA’s June forecast.

China has implemented several border measures to formalize market access for rice from neighboring countries. Industry reports that internal estimates for China’s overall informal border trade includes as

much as 10 million tons of paddy rice, divided among Myanmar, Vietnam, and Thailand. China's border trade is informal and is not referenced in official statistics.

According to the Myanmar Rice Federation, after China reduced the MSP price in April and May, Myanmar's exports to China declined. Provincial Chinese officials also disrupted the business activities of local traders. On June 12, officials began freezing the Chinese bank accounts of informal rice brokers, and restricting remittance services. As a result, Chinese merchants have suspended rice imports from Myanmar indefinitely.

On June 23, MOF announced that out-of-quota tariff rates applied to glutinous rice imports from Association of South East Asian Nation (ASEAN) trade partners will rise from 5 percent to 50 percent, effective on July 1. The announcement also reclassifies long-grain rice as glutinous rice.

The General Administration of China Customs has expanded the number of countries approved to export to China. On June 9, China and India signed a phytosanitary protocol to allow imports of all varieties of rice, except premium Basmati rice. India's rice industry estimates exports to reach more than 1 million tons annually.

<b>FOB Prices of Major Southeast Asian Exporters (USD per ton)</b>				
Date	Thai Rice FOB	Vietnam Rice FOB	Indian Rice FOB	Rough Rice MSP per ton
4/24/18	\$437-\$438	\$445-\$450	\$409-\$413	Early indica \$381 Mid-to-late indica \$400 Japonica \$413
5/11/18	\$435-\$445	\$455-\$460	\$407-\$411	
5/25/18	\$435-\$438	\$460-\$465	\$394-\$398	
6/8/18	\$430-\$432	\$465-\$475	\$393-\$397	

Sources: SCI

MY2017/18 rice imports are forecast at 5.5 million tons, unchanged from USDA's June forecast, and 1 million tons higher than Post's March Annual estimate on expanded import demand.

MY2018/19 exports are forecast at 1.7 million tons, unchanged from USDA's June forecast, as China is using more channels to liquidate inventories of abundant, low quality, old-crop rice to Africa.

<b>Food Assistance Deliveries of Rice</b>		
Date	Destination	Volume (MT)
April 2	Malawi	100
May 26	South Sudan	2,048
June 13	Bangladesh	2.5

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

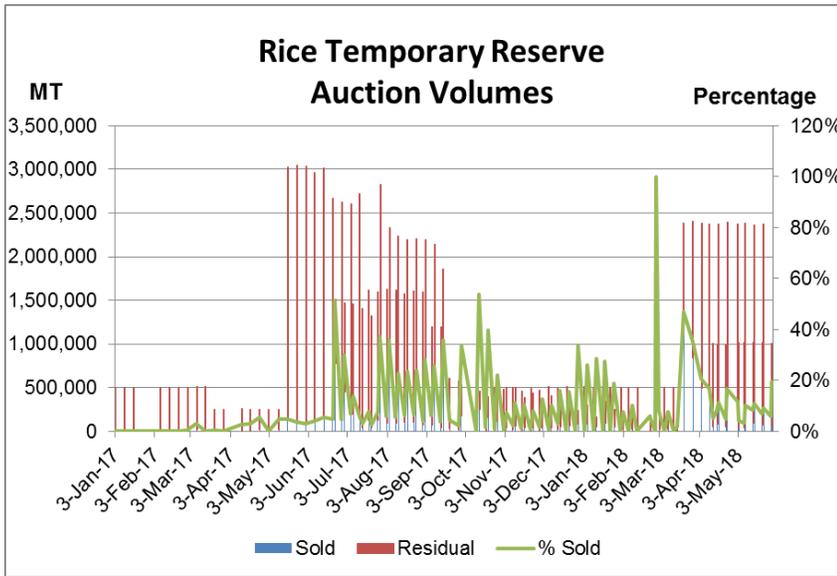
### **Stocks**

MY2018/19 ending stocks are forecast at 95.8 million tons, down 200,000 tons from USDA's June forecast, and up 100,000 tons from Post's March Annual estimate on higher imports.

For rice, the government procurement date will be launched about two weeks later than MY2017/18 to give growers additional time to market their crop. For early indica rice, procurement will launch on

August 1. For mid-to-late indica rice, procurement will launch on October 10.

The 2018 MSP procurement raises rice quality requirements from Class 5 (based on Chinese standard GB1351) to Class 3. Rice graded at or below Class 4 will remain subject to market procurement regulations administered by local governments. Rice that fails to meet requirements will not enter human food channels and will be diverted to industrial processing. Industry sources note that the new rules allow for real market demand to dictate supply, and thus ease the current price relationship where paddy prices remain strong, but milled rice prices remain weak.



On May 29, SAGR reported that 5.54 million tons of rice was sold out of the 40 million tons offered for auction. The volume sold exceeded half of the total volume auction sold in MY2017/18, indicating that the liquidation of stocks has accelerated.

Marketing Year/Vintage	Volume on Offer (MT)	Percentage of Total
MY2017/18	70,000	1%
MY2016/17	170,000	3%
MY2015/16	230,000	4%
MY2014/15	4.58 million	83%
MY2013/14	493,000	8%
<b>Total</b>	<b>5.54 million</b>	

Japonica rice accounts for 57 percent of the volume sold. Mid-to-late indica and early indica accounted for 32 percent and 11 percent, respectively. 2013/14 paddy sold price was \$305 to \$414 per ton (1,920 to 2,610 RMB). MY2015/16 to MY2017/18 paddy rice sold for \$365 to \$465 per ton (2,300 to 2,930 RMB).

MY2017/18 ending stocks are estimated at 93.9 million tons, unchanged from USDA’s June forecast, and up 100,000 tons from Post’s March Annual estimate on higher imports.

## SORGHUM

Sorghum Market Begin Year	2016/2017		2017/2018		2018/2019	
	Oct 2016		Oct 2017		Oct 2018	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
China						
Area Harvested	625	625	675	675	720	720
Beginning Stocks	717	717	577	577	447	447
Production	2985	2985	3200	3200	3450	3450
MY Imports	5209	5209	4800	4800	4700	4800
TY Imports	5209	5209	4800	4800	4700	4800
TY Imp. from U.S.	4824	4824	0	0	0	0
Total Supply	8911	8911	8577	8577	8597	8697
MY Exports	34	34	30	30	20	20
TY Exports	34	34	30	30	20	20
Feed and Residual	5800	5800	5500	5500	5400	5400
FSI Consumption	2500	2500	2600	2600	2700	2800
Total Consumption	8300	8300	8100	8100	8100	8200
Ending Stocks	577	577	447	447	477	477
Total Distribution	8911	8911	8577	8577	8597	8697
Yield	4.776	4.776	4.7407	4.7407	4.7917	4.7917

(1000 HA), (1000 MT), (MT/HA)

### Production

MY2018/19 sorghum production is forecast to expand to 3.45 million tons, unchanged from USDA's June estimate on expanded planted area due to weather and policies.

North East China is the principal sorghum production region in China, accounting for nearly half of total production. Sorghum in North East China requires lower input costs and is easier to produce than corn. In MY2018/19, many corn growers who were prevented from planting have switched to sorghum. Some of the severely drought affected parts of Inner Mongolia failed to plant any crops. Other farmers in Heilongjiang province have switched from sorghum to soybeans to collect subsidies announced in April. Corn farmers across the North China Plain are switching to sorghum to comply with policies to remove area from production.

Shanxi is located in Central China, outside of China's major grain production region along the East

Coast. Shanxi is also famous for production of Chinese liquor (baijiu) and vinegar, a direct market for local production. Generous provincial government support programs are expected to encourage farmers to double sorghum production area. Local government authorities introduced incentives for sorghum production by offering farmers free fertilizer, seed, and pesticides. Sorghum producers are eligible for machinery rebates of \$4,500 (30,000 RMB), and direct payments of \$230 per hectare (100 RMB per mu). The Shanxi government also encourages contract planting. Local government efforts to restructure the local economy are aligned with two major central government priorities: (1) to shift from coal-heat and power generation to more environmentally friendly industries, like liquor production, and (2) to shift corn production from marginal land to other crops, including sorghum.

Although domestic sorghum production has lower costs of production than corn, sorghum has fewer marketing options. The market is small, thinly traded, and predominantly contract-based, leaving producer prices and income subject to greater risk.

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

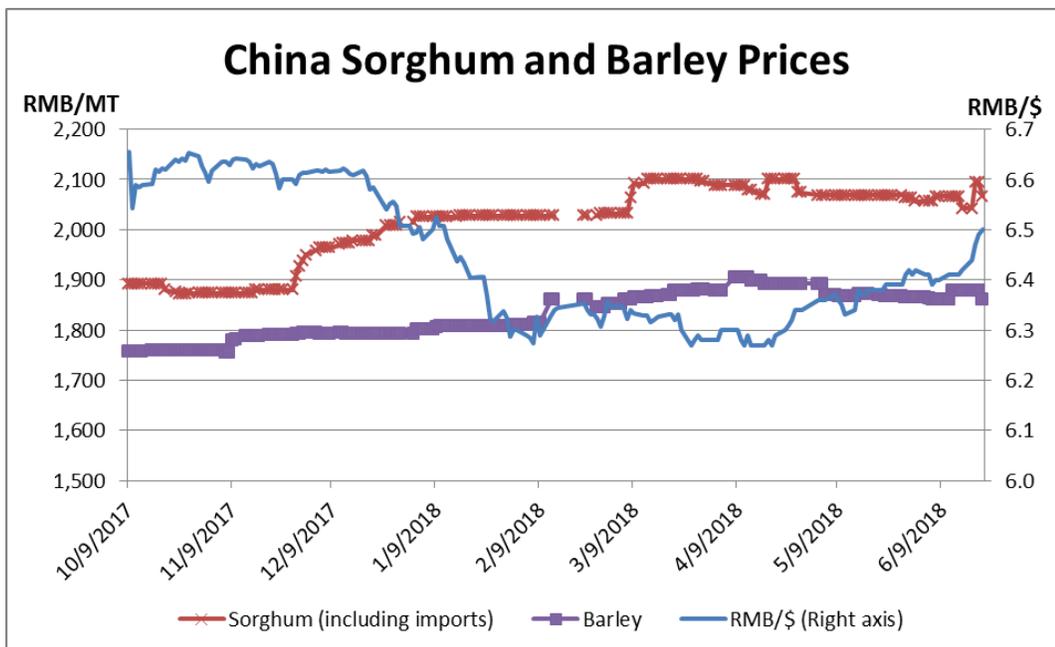
In MY2017/18, Shanxi province produced about 250,000 tons on about 666,666 hectares (1 million mu). Yields averaged about 3.75 tons per hectare (500 jin per mu).

### **Consumption**

MY2018/19 consumption is forecast to 8.2 million tons, up 100,000 tons from USDA's June estimate, on expanded FSI use, and down 900,000 tons from Post's March Annual estimate on higher tariffs applied to U.S. exports to China.

MY2018/19 FSI consumption is estimated at 2.8 million tons, up 100,000 tons from USDA's June estimate on expanded sorghum use for liquor production. In 2018/19, Shanxi province sorghum use for baijiu and vinegar production is estimated around 300,000 tons. Production is expected to double in coming years due to expanded FSI use.

Industry sources report that demand wanes during the summer months. Most baijiu processors will suspend operation from June to September. Local sorghum prices are at historic highs, further dampening local demand. Local sorghum on the North China Plain, delivered to the processor, is \$430 per ton (2,800 RMB). In comparison, imported U.S. sorghum quotes at Tianjin port are around \$308 per ton (2,000 RMB); trucking freight from Tianjin is an additional \$15 per ton (100 RMB).



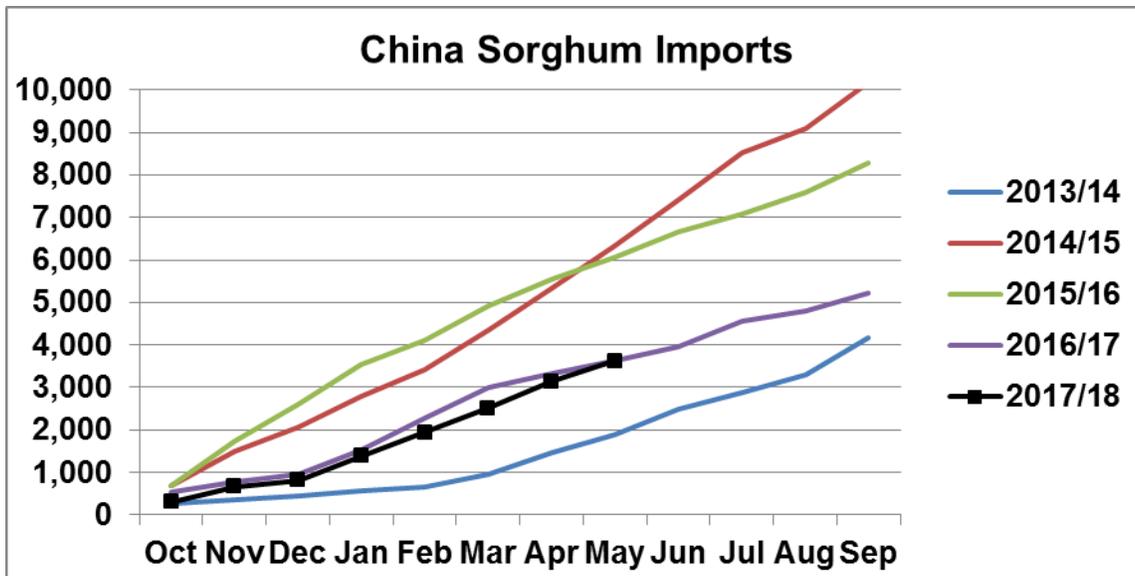
Baijiu is a traditional Chinese white spirit. Baijiu ingredients vary greatly, but generally include sorghum, peas, wheat and rice bran, barley, and corn. Sorghum accounts for between 30 and 70 percent. Alcohol yields also differ by as much as 1 to 2 percent. On average, 2.5 tons of sorghum are required to produce one ton of baijiu.

High-end vinegar and baijiu producers prefer local Chinese-grown sorghum due to its distinct flavor and the marketing value of using locally produced grain. Despite competitive pricing and greater starch content, imported sorghum is not as desirable, because its low moisture content, milling characteristics, and flavor properties are distinct from imported supplies. Demand for high-quality brands is inelastic and healthy margins are not impacted by ingredient costs. Mid-to-low end producers are more price sensitive and regularly use imported supplies.

MY2017/18 sorghum feed use is estimated at 5.5 tons, unchanged from USDA’s June estimate, but 900,000 tons lower than Post’s March estimate more price competitive corn and wheat.

### Trade

MY2018/19 sorghum imports are forecast to 4.8 million tons, unchanged from USDA’s June forecast, but 1 million tons lower than Post’s March Annual forecast.



Source: China Customs, GTIS/GTA

MY2017/18 sorghum imports are estimated at 4.8 million tons, unchanged from USDA’s June estimate, but 800,000 tons lower than Post’s March forecast due to higher import tariffs on U.S. exports to China.

China’s MFN tariff rate applied to sorghum imports is 2 percent.

Comparative Value of Corn and Sorghum by Origin and Destination as of June 20				
Commodity	Origin	Destination	\$ per ton	RMB per ton
Corn	China	Guangdong	\$280 - \$288	1,820-1,870 RMB
Corn	United States	Guangdong	\$296 (July)	1,921RMB
Sorghum	United States	Guangdong	\$298 (landed)	1,940 RMB
Sorghum	United States	Tianjin	\$308 (landed)	2,000 RMB
Sorghum	Australia	Nantong port	\$349 (landed)	2,270 RMB
Sorghum	Australia	Tianjin port	\$345 (landed)	2,240 RMB
Sorghum	Inner Mongolia	Inner Mongolia	\$437 (delivered)	2,840 RMB

Exchange rate is 6.5 RMB to \$1

On April 17, China announced a preliminary determination that U.S. sorghum exports harmed “domestic [sorghum] producers” and imposed a temporary 178.6 percent antidumping duty on U.S. sorghum beginning on April 18, which required a cash deposit. Shortly after the announcement, duty-paid, landed prices of U.S. sorghum at South China ports rose from \$300 per ton (2,000 RMB) to \$710 per ton (4,600 RMB). The investigation was terminated on May 18 and all collected deposits were returned. MOFCOM decided that its investigation harmed consumers, and the livelihoods of “livestock producers.” (See [GAIN report 18029](#))

Traders reportedly lost between \$50 to \$100 million in penalties and additional fees for breach of

contract, redirecting vessels, demurrage payments, storage at bonded warehouses, and fire sale discounts to third-country buyers. Traders scrambled to redirect more than 30 Panamax vessels to third-country destinations after the April 18 announcement. After the May 18 announcement, some redirected vessels back to China. Some Panamax vessels carrying 55,000 tons and valued at \$16 million (100 million RMB), incurred losses totaling about \$4.7 million (30 million RMB).

On June 16, China announced an additional 25-percent tariff on U.S. sorghum imports to China, effective July 6, 2018. After July 6, considering current prices, the duty-paid and landed price of U.S. sorghum at ports in South China will jump around \$300 per ton (1,950 RMB) a few weeks ago to \$360 per ton (RMB 2,340). U.S. sorghum imports to China are expected to lose competitiveness to domestic feed grains, but remain competitive for vinegar and baijiu processing. Additionally, uncertainty due to both U.S. and Chinese trade action has raised the risk premium for grain merchandisers to trade U.S. sorghum to China. (See GAIN reports [18018](#) and [18034](#))

In terms of competitiveness, China's antidumping and countervailing duties investigation on U.S. sorghum raised Australian sorghum and barley prices, further supporting local sorghum prices. Imported sorghum cargoes continue to face strict scrutiny after unloading at Chinese ports to ensure that the intended use and destination of a consignment complies with domestic regulations.

### **Stocks**

MY2018/19 ending stocks are forecast at 477,000 tons, down unchanged from USDA's June forecast. Commercial pipeline stocks account for about 25 percent of total stocks, or about 1 million tons, of which 800,000 to 900,000 tons are in North East China.

MY2017/18 ending stocks estimates are unchanged from USDA's June estimate at 4.47 million tons.