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China - Peoples Republic of

Grain and Feed Update

Growth in China Corn Demand Met by Accelerating Government Sales

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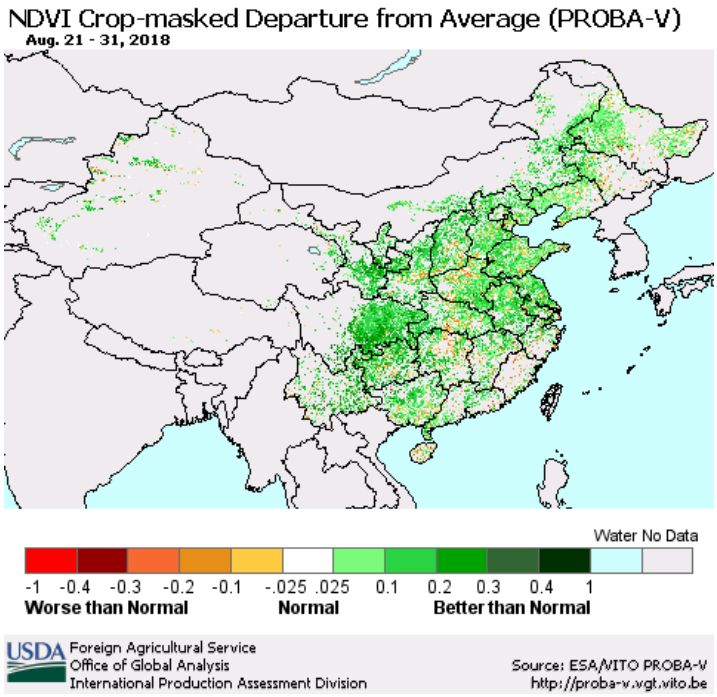
Report Highlights:
Harvest is underway for spring/summer crops. The 2018/19 corn production forecast is lowered as weather and pest-related stress reduced yield potential. China's imposition of additional tariffs against U.S. exports of sorghum is expected to lower imports and consumption. Wheat estimates are unchanged. MY2018/19 rice imports are forecast lowered as domestic rice becomes more competitively priced. Additionally, record state-owned corn auctions mitigated some upward market price movement in the second half of 2018.

Executive Summary

A challenging North East China growing season started dry in May. This expanded to include additional complications in both the Northern and Southern-half of North East China's Corn Belt due to drought, tropical-storm related flooding, excessively high temperatures, and pest pressure. Nonetheless, the percentage of corn rated fair or better in September improved relative to the previous two months.



Elsewhere, in July, temperatures rose 1 to 3°C above normal likely stressing summer grain development, even in irrigated areas.

Province	Disaster	Hectares Affected
North East China (Liaoning and Jilin)	Drought	1,000,000
Heilongjiang	July Flooding	56,200
Heilongjiang	August Flooding	355,500
Inner Mongolia	Flooding	157,000
Shandong and Henan provinces	Typhoon Rumbia	630,000
Sichuan and Gansu provinces	Flooding	37,000
Yangtze River Basin (Zhejiang, Fujian, Jiangxi)	Typhoon Ampil	49,500

Sources: China National Disaster Response Center

Policy

Depreciation of RMB relative to U.S. dollar adds further downward pressure on Importer Purchasing Power

Currency intervention by the People's Bank of China to drive foreign exchange rates lower has partly offset higher market prices for imported feed grains and feedstuffs. Over the past two months, the Chinese renminbi, RMB, has rapidly depreciated by 9.4 percent against the U.S. dollar. This development lowers the purchasing power of Chinese end-users and, in relative terms, raises the price of global benchmark prices for imported grain and feed products, which are commonly denominated in U.S. dollars. The exchange rate in March was around 6.3 RMB to $1. In July, the U.S. dollar strengthened to 6.72 RMB; and in early September, the U.S. dollar strengthened to 6.89 RMB. (See price charts for relative impacts of foreign exchange rate changes).

Restrictions for Foreign Investment in Agricultural Processing Sectors Removed

In June 2018, the National Development and Reform Committee (NDRC) and the Ministry of Commerce (MOFCOM) released the 2018 Foreign Investment Industrial Guidance Catalogue. The document announced removal of restrictions on foreign investment in the processing of corn, rice, flour, as well as oilseeds and sugar.

The investment announcement is an expansion of a pilot program, which started in some Free Trade Zones (FTZs) in 2016. The new announcement expands the provisions to areas outside of these FTZs, such as North East China, which is currently a major grain producing area, and North West China, which is a newly developing grain producing area. On May 30, 2018, the State Council also announced measures to further liberalize multinational investment (of less than $1.0 billion) in energy, resources, infrastructure, transportation, commerce, and professional services. Foreign investors will be encouraged to invest more in Central and Western China, and in specific sectors, including agriculture.

New National Standards for Corn effective February 1, 2019

On July 13, China's State Administration of Market Inspection and Regulation published a revised national standard for corn, "GB1353-2018," which enters force on February 1, 2019. The previous standard "GB 1353-2009" was published in 2009.

Grade	Previous Test Weight (g per L)	New Test Weight (g per L)
1	≥720	≥720
2	≥685	≥690
3	≥650	≥660
4	≥620	≥630
5	≥590	≥600
Below Grade	<590	<600

Source: State Administration of Market Inspection and Regulation

Test weight specifications define kernel density and mass. The new standard narrows the difference between test weight specifications for classes 1 to 2, and classes 2 to 3 from 35g per L to 30g per L. The percentage of molded kernels is segregated into a discrete specification. Previously, molded kernels were reported as a percentage of incomplete kernels. The higher test weight requirement in the new standards is expected to reduce government procurement amounts, encouraging spot market procurement, and push up corn prices in the futures market.

E10 Use by 2020

On September 13, 2017, Chinese state media made an unprecedented joint announcement by the National Development and Reform Commission (NDRC), the National Energy Administration, the Ministry of Finance and 12 other Ministries. According to the "The Implementation Plan Regarding the Expansion of Ethanol Production and Promotion for Transportation Fuel", China will achieve nationwide use of E10 (10 percent fuel ethanol and 90 percent gasoline) in transportation fuel by 2020. By 2025, China will shift to produce cellulosic ethanol by using grasses, forest waste, and crop residues. The state media noted that adopting E10 is imperative to reducing excessive corn stocks and reduce air pollution. Also, the NDRC stated that China's annual fuel ethanol use will reach 10 million metric tons by 2020 in its "Renewable energy long term development plan".

On August 22, Premier Li Keqiang reinforce the general plan to promote green energy and dispose of China's large state-owned grain inventories through the expansion of corn, wheat, and rice use for biofuels processing. He also reiterated that China will continue the government franchising system to manage the total number of licensed producers; expand market access into biofuel industry; convert idle industrial alcohol production capacity to fuel ethanol production; accelerating construction of cassava-based fuel ethanol facilities; and promote the adoption of alternative feed stocks (including cellulosic and synthetic ethanol-based fuel ethanol) pilot facilities.

For more information please see the 2018 China Biofuels Annual Report (CH18041)

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
Barley	Australia, Canada, Denmark, France, Argentina, Mongolia, Ukraine, Finland, United Kingdom, Uruguay
Sorghum	United States, Argentina, and Myanmar
Paddy Rice	Russia
Milled Rice	Laos, Myanmar, Thailand, Uruguay, Pakistan, Vietnam, Japan, Cambodia, Taiwan, India (both Basmati and *Non-Basmati)*
Source: AQSIQ	

In an effort to further developing supply, Chinese phytosanitary inspectors visited Kazakhstan in September 2018 to conduct audits on corn and barley exporters. It indicates that China is taking measures to consider granting access to ship corn and barley to China with Kazakhstan.

China has made public commitments to export to a number of destinations. These include: an unspecified volume of in-kind food assistance to Afghanistan; 6,500 tons to Sudan and South Sudan; as well as an unspecified volume of famine relief to North Korea. Despite these announcements, China has shifted in 2018, from in-kind food aid (usually wheat and rice) to a more monetary assistance which can be used to purchase locally.

Chinese Government Inspections of Grain Reserves

On July 23, China's State Council announced that it will inspect the quantity, quality, variety, and ownership of state-owned grain reserves, which are typically managed by the State Administration of Grain and Reserves (SAGR), Sinograin, and COFCO. The government will conduct spot checks in 10 provinces before January 2019. Corporations which typically hold state-owned inventories must submit reports about the status of their holdings by April 2019. Sinograin and COFCO must submit report by October 2019. The last national inspection program was conducted in 2009.

Corn

Corn	2016/2017	2017/2018	2018/2019
Market Begin Year	Oct 2016	Oct 2017	Oct 2018

China	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	36768	36768	35445	35445	36500	36200
Beginning Stocks	110774	110774	100713	100713	79554	79084
Production	219552	219552	215891	215891	225000	221000
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	305084
MY Exports	77	77	50	20	50	50
TY Exports	77	77	50	20	50	50
Feed and Residual	162000	162000	167000	167000	174000	170000
FSI Consumption	70000	70000	74000	74000	77000	79000
Total Consumption	232000	232000	241000	241000	251000	249000
Ending Stocks	100713	100713	79554	79084	58504	56034
Total Distribution	332790	332790	320604	320104	309554	305084
Yield	5.9713	5.9713	6.0909	6.0909	6.1644	6.105
(1000 HA) ,(1000 MT) ,(MT/HA)						

Production

MY2018/19 corn production is estimated at 221 million tons, down 4.0 million from USDA's September estimates due to hot and dry conditions during pollination in the southern half of the North East Corn Belt. In North East China, the majority of planted area was planted in April 2018. However, dry conditions in Liaoning and Jilin provinces delayed planting as much as 2.8 million hectares until after May 20.

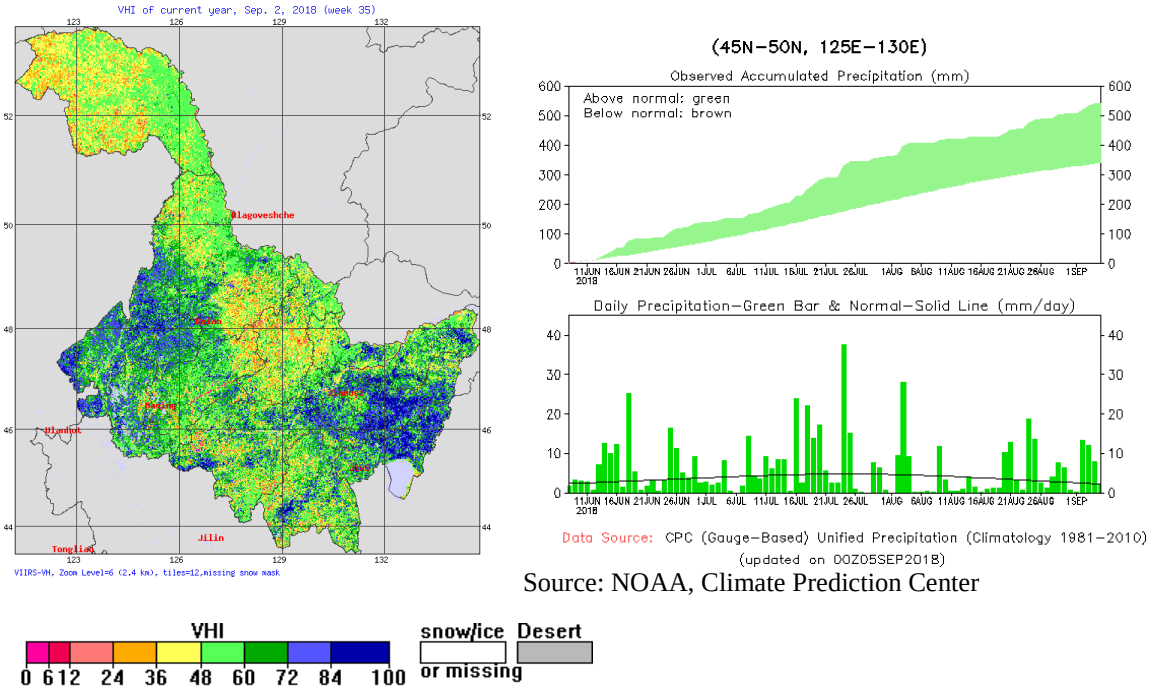
MY2018/19 corn yield is forecast higher relative to MY2017/18 due to rotation and land fallowing policies on marginal land.

Corn in North East China completed pollination from late July to early August. In August and September, corn began the ear stage of development. However, on September 12 to 13, northern Heilongjiang province experienced an early frost, potentially limiting final grain filling. As of September 26th, producers across China have started to harvest MY2018/19 corn.

Province	Stage of Development	Overall Rating	Stress Factors	Average Frost Date
Heilongjiang	Dent/Mature 5-10% harvested	Fair/Good	Armyworm, moisture, lodging	Oct 1 - 10
Jilin	Dent/Mature less than 5% harvested	Fair/Good	Late Planting, Lodging	Oct 1 - 10
Liaoning	Dent/Mature less than 5% harvested	Fair	Late Planting Dry weather High temperatures	Oct 1 - 10
Inner Mongolia	Dent/Mature	Excellent		Sep 20
North China Plain	Milk Stage/Mature	Fair	Flooding	Nov 1 - 10

In the Northern Corn Belt, primarily in Heilongjiang province, excessive rainfall caused flooding, waterlogged soils, and lodging, because of a greater number of typhoons passed through the region than

normal. The China Meteorological Administration reports that Heilongjiang province received 2.5 times more rainfall than normal from mid-July to mid-August. According to the National Oceanographic and Atmospheric Administration (NOAA), overall rainfall totals in Heilongjiang are nearly 50 percent greater than normal. Based on Vegetative Health Index (VHI), about 50 percent of the total crop area in Heilongjiang province is in good to excellent vegetative condition. Field reports indicate moderate incident of armyworms.



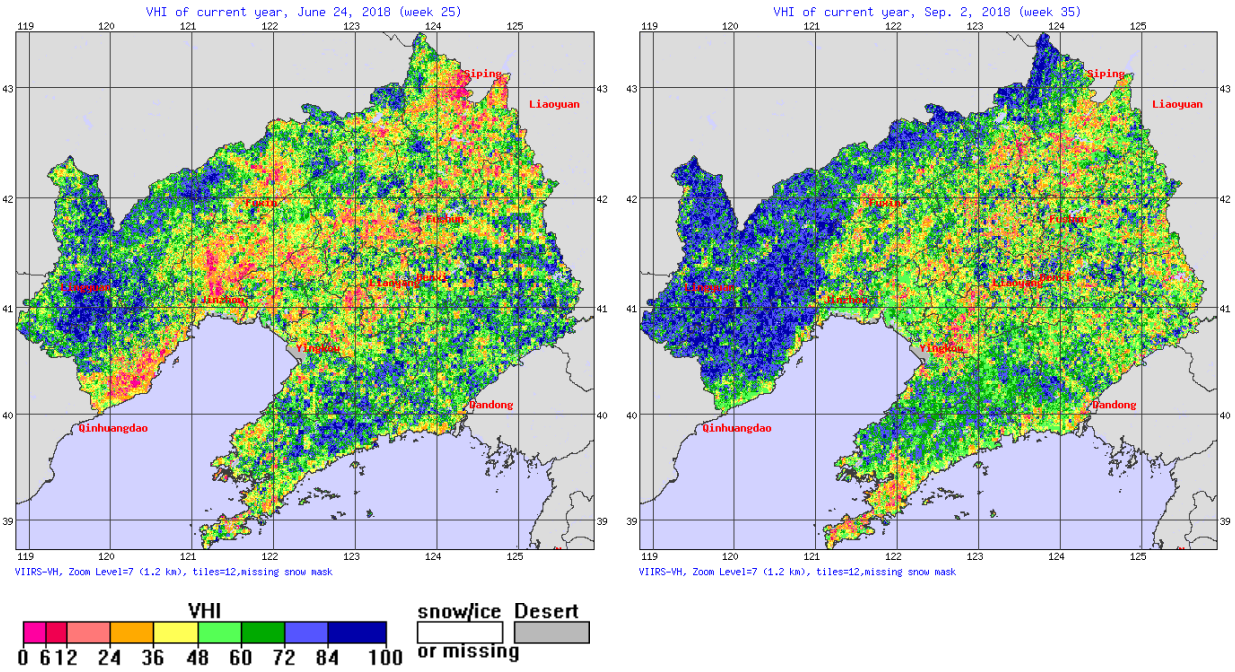
Source: NOAA, Climate Prediction Center

Source: NOAA, Center for Satellite Applications and Research

Field reports indicate that in South Heilongjiang between Daqing and Harbin, corn is in excellent condition and is in perhaps the best condition throughout the North East China.

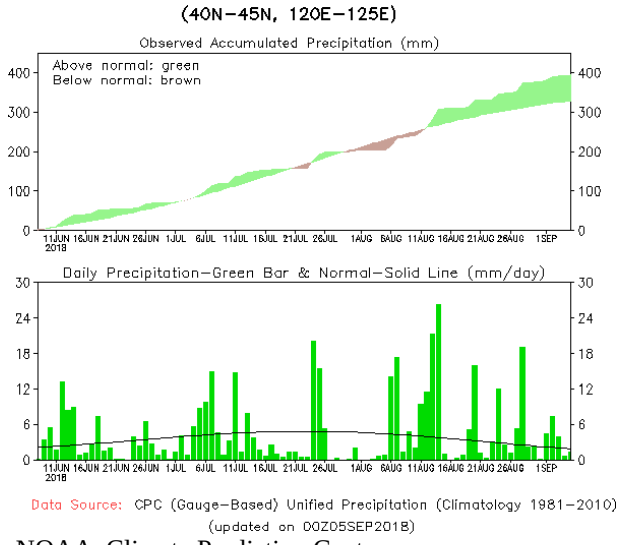
In the Southern half of China's North East Corn Belt, crops in eastern Jilin and Liaoning experienced record high temperatures and less than 75 percent of normal precipitation during the moisture-sensitive flowering period. This likely lowered yield potential. Weather-stress caused lower test weights and mold (smut). Near Bei'an, Heilongjiang province, grain filling was completed before an early frost on September 12 and 13. Industry sources report high test weight from these surrounding areas.

Late June 2018 **Early September 2018**



Source: NOAA, Center for Satellite Applications and Research

Chinese national production maps indicate drought impacted areas overlapping considerably with corn production areas in Liaoning. Based on VHI, about 50 percent of the total crop area in Liaoning province is rated in good to excellent vegetative condition. However, field reports indicate other corn fields with stunted growth and premature plant death due to cumulative weather stress.



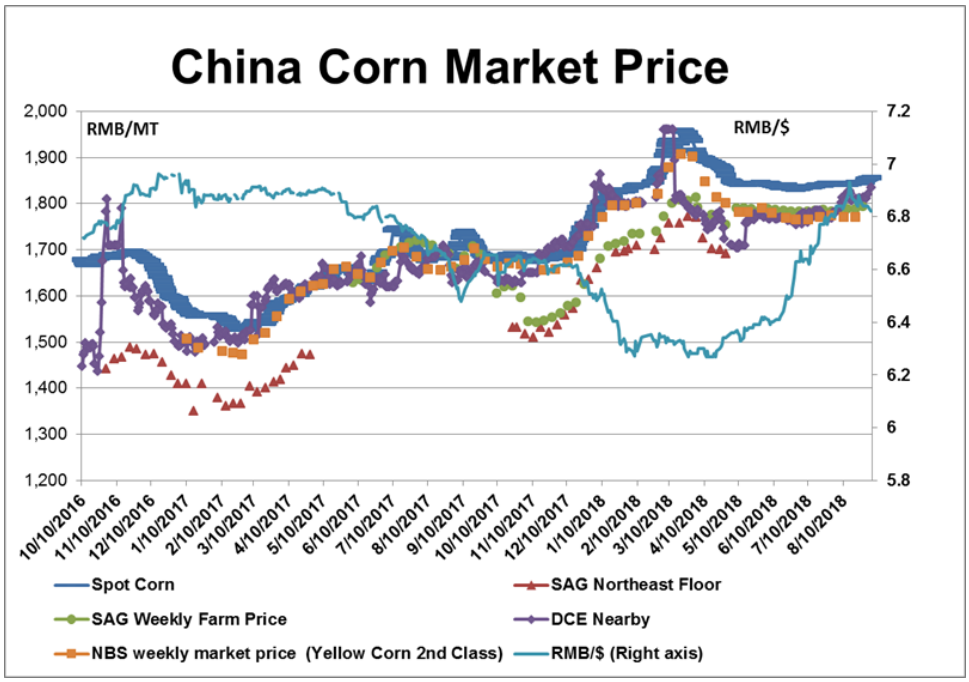
Source: NOAA, Climate Prediction Center

In the north China Plain, local contacts indicate that the corn area in Anhui and Henan province have expanded as growers have planted less soybeans. In these provinces, field reports indicate scattered incidents of lodging due to several tropical storms.

The MY2017/18 corn production estimate is unchanged at 215.9 million tons.

Consumption

MY2018/19 corn consumption is forecast at 249 million tons, down 2 million tons from USDA's September estimate on lower feed use.



Source: Post estimates

Since mid-April 2018, a steady pace of auction sales from state-owned inventories has flattened domestic prices. As of the last week of August 2018, South China began marketing MY2018/19 new-crop corn from Sichuan province at a premium over old-crop supplies of Grade 2 to 3. In North East China, local farm prices for MY2018/19 new-crop corn are quoted at $90 (RMB1300) per ton. Nevertheless, speculative buying and expectations for tightening supplies have nudged prices up. Corn quotes have ticked higher at all buying points including, on-farm, processors, and ports.

MY2018/19 Food, Seed, Industrial (FSI) use is estimated at 79 million tons, up 2 million tons from the USDA's September estimates on expanding ethanol demand.

MY2018/19 corn use for ethanol (both fuel and other industrial chemicals) is estimated at 28 million tons, up about 4 million tons from last year on expanding fuel ethanol and industrial alcohol capacity.

Post also forecasts higher demand for processed corn products like lysine and amino acids as protein substitutes for soybean meal as China shifts away from soybean meal use in animal feed.

MY2018/19 feed use is estimated at 170 million tons, down 4 million tons from USDA's September estimate, as the reduction in hog feed demand due to spread of African Swine Fever (ASF) partly offsets higher corn use in feed rations.

Hogs account for around 40 percent of China's total feed demand. Since the first ASF outbreak was

announced, a relatively small number of animals of China's commercial hog production have died or have been culled. However, the provinces with ASF cases account for approximately one-third of China's total hog production.

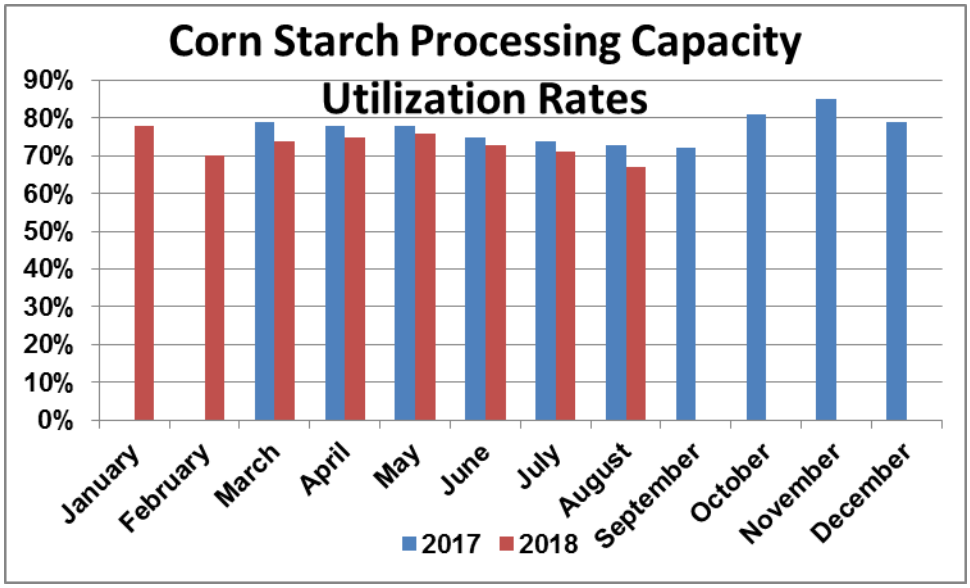
In the short-term, China's feed demand is forecast to fall by as much as 2 percent. Control measures to contain the ASF outbreak would restrict the movement of feed deliveries to hog producers, impacting overall feed use throughout the hog value-chain. However, the substitution effect cannot offset the absolute shift from the loss of a significant share of hog feeding across East China. Industry analysts report that a prolonged ASF outbreak in China that is not quickly contained could lower overall feed demand by as much as 10 percent.

Post forecast higher feed use for poultry and ruminant production as feed mills and end users will partly substitute corn and corn products for soymeal protein, and take advantage of relatively lower prices as hog feed use falls.

MY2017/18 consumption is unchanged from USDA's September estimate at 241 million tons.

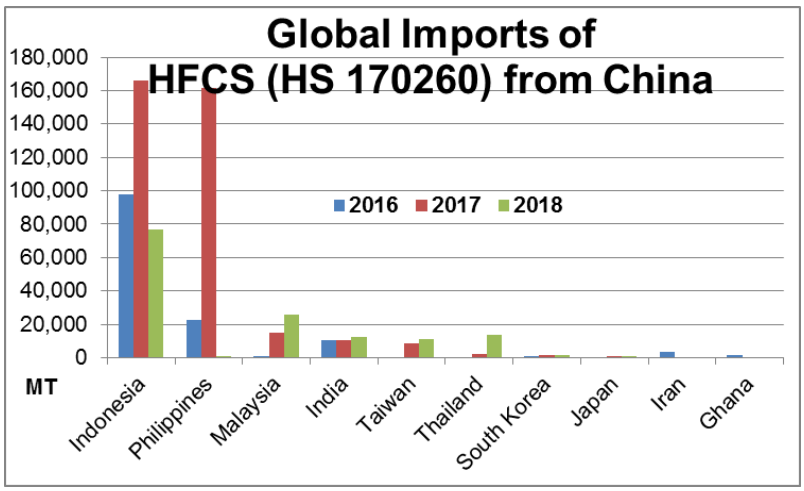
MY2017/18 FSI consumption is estimated at 74 million tons, unchanged from USDA's September estimate.

In August 2018, China's corn starch producers operated at 67 percent capacity, down by 7 percent over the same period last year.



Source: CNGOIC

Corn processing into corn sweeteners also faces overcapacity. For many years, China's corn processors exported starch-based sweetener products to neighboring Asian countries such as Indonesia and the Philippines. In December 2017, the Philippines raised the tariff on corn sweetener imports from China. As a result, a glut of corn sweeteners is driving down prices. Major soft drinks manufacturers in China report a nearly 20 percent increase in corn sweetener use due to competitive prices and abundant supplies.



China's increased tariffs on U.S. soybeans resulted in slightly higher corn and corn products inclusion in feed rations, as a partial substitute for rising soybean meal protein prices. Additionally, expanded ethanol production will yield significant volumes of competitively priced distillers' dried grains (DDGS), a relatively high protein feed ingredient. Lastly, China has abundant supplies of corn gluten meal, another high-protein corn-based substitute for soybean meal. In 2018, China dramatically lowered shipments of corn gluten meal to South Korea.

Trade

Imports

MY2018/19 corn imports are forecast at 5 million tons, unchanged from USDA's September estimate. Post forecasts that China will import about 2.0 million tons from Ukraine in MY2018/19 due to record production, plentiful exportable supplies, and existing government-to-government loan agreements.

MY2017/18 corn imports are estimated at 3.5 million tons, down 500,000 tons from USDA's September estimate due to lower feed demand, rising global benchmark feed prices, foreign exchange rates, and the additional tariffs on U.S. supplies.

On July 6, China imposed an additional 25-percent tariff on U.S.-origin corn imports. The duty-paid and landed price for November delivery U.S. corn at ports in South China reached over $303 per ton (RMB 1,880). As a result, U.S. corn imports are expected to lose competitiveness to Ukrainian and domestic supplies.

Corn Quotes by Origin and Destination (November delivery)			
Origin	**Destination**	**$ per ton**	**RMB per ton**
China	Guangdong	$274 spot	RMB 1,880
United States	Guangdong	$303	RMB 2,077
Ukraine	Guangdong	$279	RMB 1,910

Source: Industry; exchange rate is RMB 6.85 per U.S. dollar

Exports

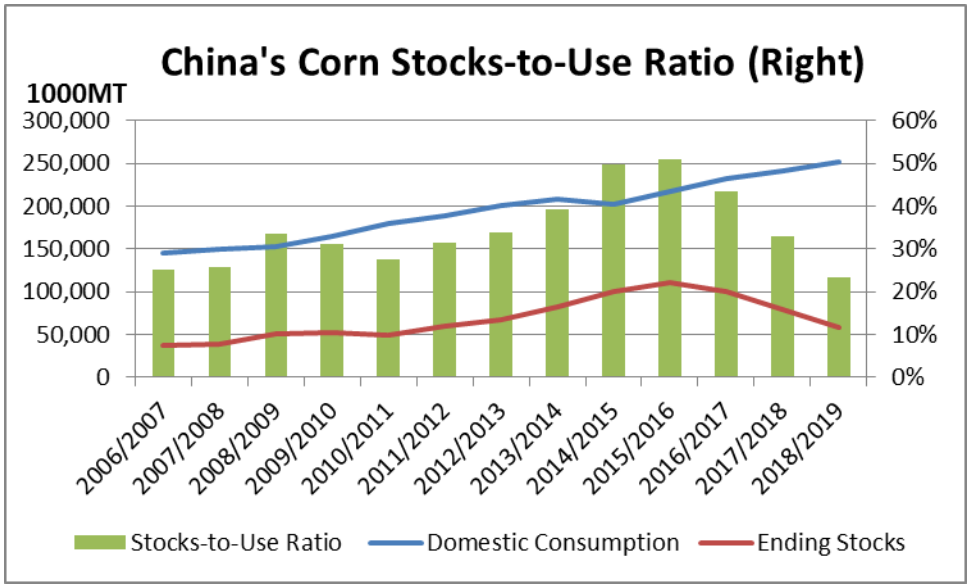
MY2018/19 ending corn exports are forecast at 50,000 tons, unchanged from USDA's September estimates.

MY2017/18 corn exports are estimated at 20,000 tons, down 30,000 tons from USDA's September estimate as strong domestic demand discourages exports.

Stocks

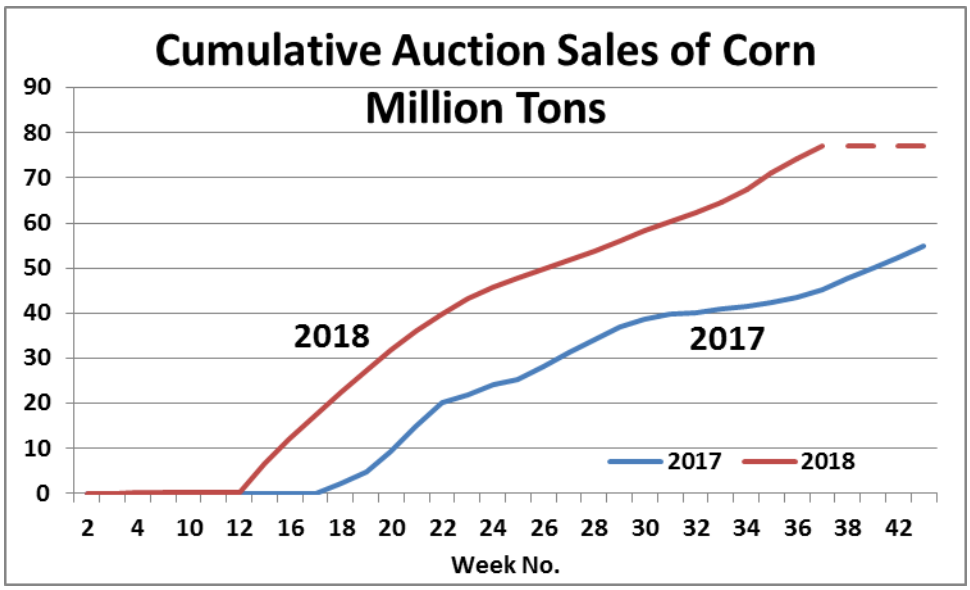
MY2018/19 stocks are forecast at 56 million tons, down 2.5 million tons from USDA's September estimate, on lower production and higher FSI demand.

MY2017/18 corn stocks are estimated at 79 million tons, 500,000 tons lower than USDA's September estimate on lower imports.



Source: USDA

Corn auction sales in 2018 began about one month earlier than 2017, and, as of early September 2018, stand at 77 million tons of corn, or about 40.7 million tons more than in 2017. Industry sources report that as of September about 50 million tons of corn sold at auction has already been transported out of government-held inventories. It is rumored that government auctions will be suspended in late September.



Source: SinoGrain and State Administration of Grain and Reserves

Over the past three years, China's State Administration of Grain and Reserves reportedly procured more than 100 million tons of corn. According to SAGR reports, the majority of grain that is currently marketed at auction is from MY2014/15, and the oldest inventories in the temporary reserve program date back to MY2013/14.

Wheat

Wheat	2016/2017		2017/2018		2018/2019	
Market Begin Year	Jul 2016		Jul 2017		Jul 2018	
China	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	24187	24187	23990	23990	23700	23700
Beginning Stocks	97042	97042	111049	111049	126819	126819
Production	128845	128845	129770	129770	128000	126000
MY Imports	4410	4410	4000	4000	4500	4500
TY Imports	4410	4410	4000	4000	4500	4500
TY Imp. from U.S.	1626	1626	0	0	0	0
Total Supply	230297	230297	244819	244819	259319	257319
MY Exports	748	748	1000	1000	1200	1200
TY Exports	748	748	1000	1000	1200	1200
Feed and Residual	16500	16500	13500	13500	17000	17000
FSI Consumption	102000	102000	103500	103500	105000	105000
Total Consumption	118500	118500	117000	117000	122000	122000
Ending Stocks	111049	111049	126819	126819	136119	134119
Total Distribution	230297	230297	244819	244819	259319	257319
Yield	5.327	5.327	5.4093	5.4093	5.4008	5.3165
(1000 HA) ,(1000 MT) ,(MT/HA)						

Production

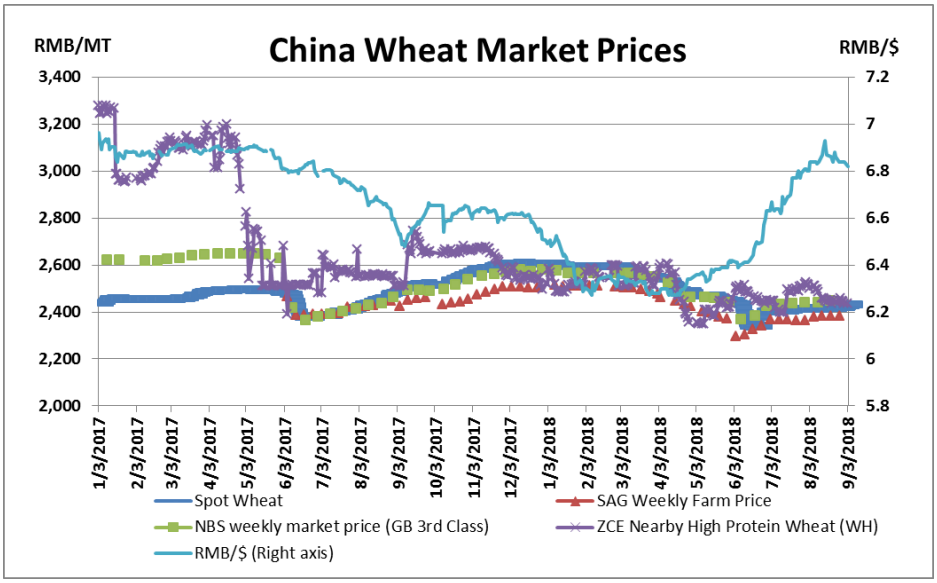
MY2018/19 wheat production is forecast at 126 million tons, down 2 million tons USDA's September estimate.

Despite expanded planted area for high-quality wheat, the MY2018/19 wheat harvest has suffered from lower yield and lower crop quality ratings due to winterkill, early spring, and excessive rains before harvest. The MY2018/19 winter wheat harvest is complete.

MY2017/18 wheat production is estimated at 129.7 million tons, unchanged from USDA's September estimate.

Consumption

MY2018/19 wheat consumption is forecast at 122 million tons, unchanged from USDA's September estimate.



Wholesale Wheat Spot Prices in Major Markets (September 20)				
Province	**Common Wheat**		**Strong Wheat**	
	--RMB per ton--	--$ per ton--	--RMB per ton--	--$ per ton--
Hebei	2,495	$364	2,700	$394
Shandong	2,490	$364	2,640	$385
Henan	2,728	$398	2,565	$374
Jiangsu	2,450	$358	--	--
Anhui	2,420	$353	--	--

Source: SCI; Exchange rate is RMB 6.85 per $1

MY2018/19 FSI use is forecast at 105 million tons, unchanged from USDA's September estimate.

July is the peak marketing month for domestic winter wheat. Farmers are typically eager to recoup their production costs. However this year, they were reluctant to sell. As a result of a challenging growing season; a delayed Minimum Support Price (MSP) procurement date; and higher MSP procurement standards, China's wheat growers are withholding sales of MY2018/19 winter wheat as they expect prices to rise. In some regions, domestic wheat prices are higher than the government MSP, resulting in a shortage of supplies for government procurement programs. Therefore, to date, new-crop wheat sales have been sluggish. Farmers have reportedly marketed between 40 and 50 percent of their MY2018/19 crop.

As of early September, wheat prices are on slight upward trend. Flour milling rates in 2018 have been generally higher than last year with the exception of August.

MY2018/19 feed use is forecast at 17 million tons, unchanged from USDA's September estimate.

Trade

MY2018/19 wheat imports are forecast at 4.5 million tons, unchanged from USDA's September estimate. Wheat imports are expected to increase to supply blending needs for China's milling and baking sector.

Industry sources report that China will buy more Black Sea wheat, as well as Canadian wheat, and lower purchases of U.S. wheat, in part, due to China's additional tariff on U.S. wheat. On July 6, China announced imposing an additional 25-percent tariff on U.S.-origin wheat imports to China. (See GAIN reports CH18017 and CH18018 for more information).

In July 2018, the Kazakh Ministry of Agriculture announced it would triple its exports of wheat to China by 2020. Kazakhstan exported 265,525 tons of wheat to China in MY2016/17. Industry sources report that Kazak hard winter wheat is stable for long-term storage but highly variable in terms of grade, qualities and standard. Nevertheless, wheat flour mills in Western China are shifting towards greater volumes of Kazakh wheat in Gansu, Ningxia, Xinjiang, Qinghai provinces.

Media reports note that Russian wheat exports are uncertain due to recent export policy announcements that Russia's global exports will be capped at 30 million tons. From January to June 2018, Russia exported 36,539 tons, up nearly 34,500 tons over the same period in 2017.

Wheat Duty-Paid Quotes by Origin and Destination as of September 5 (Ships scheduled to arrive in December)

Origin	Class	Destination	$ per ton	RMB per ton
United States	SRW	Guangdong	$370	RMB 2,537
China	Common Wheat	Guangdong	$369	RMB 2,530
United States	HRW	Guangdong	$414	RMB 2,837
China	Hard Wheat	Guangdong	$423	RMB 2,900
Kazakhstan	13.2% protein	Henan	$257	RMB 1,758
Russia	12% protein	Manzhouli	$365	RMB 2,500

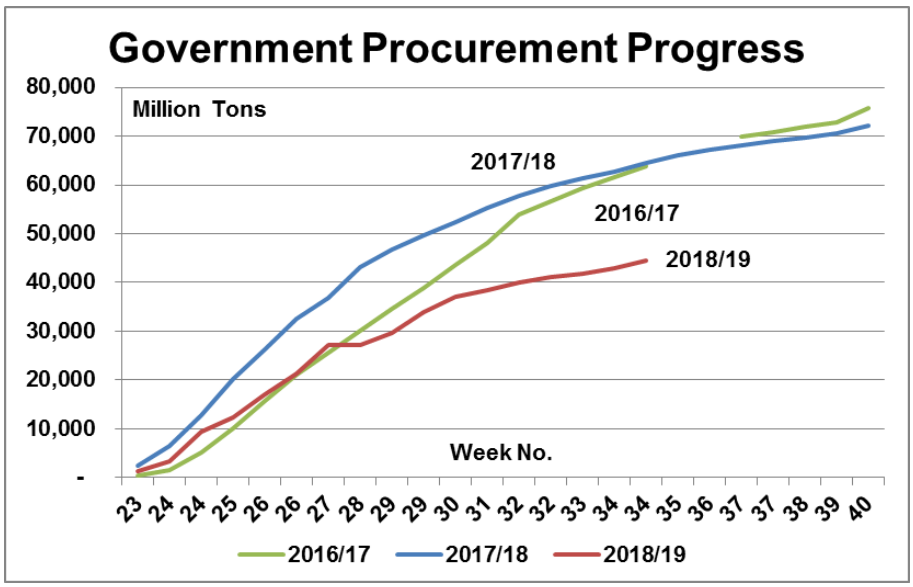
Source: industry; exchange rate is RMB6.85 per $1

MY2017/18 import estimates are increased on a higher-than-expected pace of China's imports of wheat flour from Ukraine. In MY2017/18, China imported 57,547 tons of wheat flour from Ukraine, up 77.4 percent from MY2016/17, making China's total import of flour to 124,818 tons in MY2017/18, up 235 percent year-on-year.

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

Stocks

MY2018/19 wheat stocks are forecast at 134 million tons, down 2.0 million tons from USDA's September estimate as production shortfalls and a policy shift from stockpiling to de-stocking begins to take hold. Massive government inventories continue to overhang the domestic market.



In September, SAGR data indicated that MY2018/19 wheat procurement in major production regions totaled 46.01 million tons, down 22.08 million tons from MY2017/18. Anhui, Henan and Jiangsu were the top three provinces suffering the worst impact by bad weather during the harvest season. This is indicative in the provincial production estimates in the following table.

Province	MY2017/18 (million tons)	MY2018/19 (million tons)	Difference (million tons)
Henan	12.22	1.02	11.2
Anhui	9.54	5.2	4.34
Jiangsu	3.22	1.02	2.2
Shandong	9.78	8.15	1.63
Hebei	5.52	4.19	1.33
Hubei	2.47	1.44	1.03

MY2018/19 wheat procurement progress has lagged MY2017/18 procurement due to lower overall crop quality, and expectations for higher prices. As weather challenges diminished wheat yield and quality, the volume of MY2018/19 wheat which meets new SAGR procurement specifications is expected to be lower than MY2017/18. Farmers and traders are waiting for the price of high quality wheat to rise, lowering the volume and pace of sales to date relative to past marketing years.

On June 18, SAGR suspended auction sales of wheat procured from MY2014/15 to MY2016/17. Government auctions normally resumed after the conclusion of the MSP procurement period in mid-September. Industry sources estimate total MY2018/19 government inventories at 126.8 million tons. Old-crop government inventories are estimated at 73.6 million tons, predominantly accounting for MY2014/15 to MY2017/18, and a smaller share of MY2013/14 wheat stocks. On September 17, the National Grain Trade Center announced the wheat auction will resume on September 26. Two million tons of 2014-2016 MSP wheat will be offered mainly in Henan, Anhui and Jiangsu. The resumption will increase wheat in distribution thus further stabilize supply and prices.

MY2017/18 wheat production, consumption, trade and stocks are unchanged from USDA September

estimates.

Rice

Rice, Milled	2016/2017		2017/2018		2018/2019	
Market Begin Year	Jul 2016		Jul 2017		Jul 2018	
China	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	30178	30178	30176	30176	29500	29250
Beginning Stocks	78500	78500	86500	86500	93989	93989
Milled Production	144953	144953	145989	145989	140800	141284
Rough Production	207076	207076	208556	208556	201143	201834
Milling Rate (.9999)	7000	7000	7000	7000	7000	7000
MY Imports	5300	5300	5500	5500	5500	5000
TY Imports	5900	5900	5500	5500	5500	5000
TY Imp. from U.S.	1	1	0	0	0	0
Total Supply	228753	228753	237989	237989	240289	240273
MY Exports	805	805	1300	1300	1700	1700
TY Exports	1173	1173	1600	1600	1800	1800
Consumption and Residual	141448	141448	142700	142700	143500	145000
Ending Stocks	86500	86500	93989	93989	95089	93573
Total Distribution	228753	228753	237989	237989	240289	240273
Yield (Rough)	6.8618	6.8618	6.9113	6.9113	6.8184	6.9003
(1000 HA) ,(1000 MT) ,(MT/HA)						

Production

MY2018/19 rough rice production is forecast at 201.8 million tons, up 0.7 million tons from USDA's September forecast, on higher yield, but down 0.2 million tons from Post's June estimate on lower harvested area. The harvest of single cropped rice is in progress; it started in August and continues through September.

MY2018/19 harvested area is estimated at 29.3 million hectares, down 0.2 million hectares from USDA's September forecast due to weather impact in North East.

MY2018/19 early indica rice planted in spring and harvested in early summer fell. Early rice is mainly planted in nine provincial-level regions, including Zhejiang, Anhui, Fujian, Jiangxi, Hubei, Hunan, Guangdong, Guangxi, and Hainan provinces. National Bureau of Statistics (NBS) data report that early indica rice production reached 28.6 million tons, down more than 1 million tons from 2017. MY2018/19 early indica rice planted area was 4.79 million hectares. Yield fell to 5.96 tons per hectare, down 2.7 percent.

Dry weather in South China and flooding on the North China Plain and in North East China has lowered expectations for yield estimates and quality for mid- and late-season rice production. In North East China, Japonica rice yields are lower due to dry conditions in spring. Harvested area for Japonica rice is lower due to wide spread lodging in Jilin and Heilongjiang provinces.

Single-cropped rice is predominantly Japonica and is grown mostly in the Yangtze Valley and northeastern provinces. It accounts for 66 percent of national production. According to most trade and government reports, single-crop rice yields are down sharply compared to MY2017/18. Late double-cropped rice is grown mostly in southern provinces and development currently ranges from the grain-fill

stage to full maturity. Harvesting typically starts in October and continues through November.

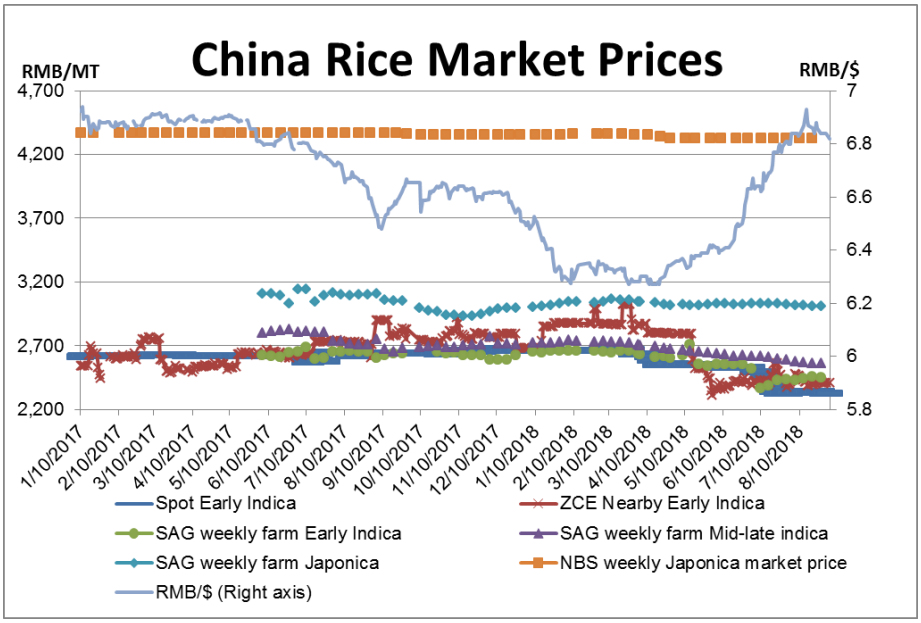
Rice Planting Progress by the end of August	
Variety	**Percentage Planted**
First class, Overall (mid-rice)	29%
Second class, Overall (mid-rice)	70%
First class, Overall (late-rice)	17%
Second class, Overall (late-rice)	83%

Rice growing conditions are normal compared with previous years. In North East China, the rice growing progress is in the stage of grain filling and matures. Harvest progress is around 10-15 percent. In South China, super typhoon Mangkhut hit Guangdong and Guangxi, badly impacting late indica rice which is in the key stage of flowering.

Consumption

MY2018/19 rice consumption is forecast at 145 million tons, up 1.5 million tons from USDA's September estimate, on higher FSI use for ethanol. Mills report that MY2018/19 rice quality is lower than average.

Japonica rice from North East China and mid-to-late indica rice from South China are expected to enter the market in late September.



Rice market prices are stable. However, prices are weak as government de-stocking measures have expanded supplies of old-crop rice. As a result, wholesale paddy and milled rice prices, especially indica rice prices have fallen 3 to 6 percent compared with same period last year.

In July, national average operating rates for rice mills dipped to 24 percent, down 3 percent from June. High temperature and rainy weather limit grain movement to market, and July is off-peak periods for state-owned rice procurement and marketing. Rice demand recovers in September ahead of the Mid-

Autumn Festival Holidays.

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.

Trade

MY2018/19 rice imports are forecast at 5.0 million tons, 500,000 tons lower than USDA's September forecast.

China continues to diversify the number of origins for import market access through formal phytosanitary protocols and Memorandums of Understanding with regional neighbors. China has previously restricted imports from India to basmati rice. Following the state visit of Indian Prime Minister Narendra Modi to China in June 2018, India and China amended a protocol on phytosanitary requirements extending market access to non-basmati rice.

FOB Prices of Major Southeast Asian Exporters (USD per ton)				
Date	Thai Rice FOB	Vietnam Rice FOB	Indian Rice FOB	Rough Rice MSP per ton
7/19/18	$380-$395	$390-$395	$386-$390	Early indica $381 Mid-to-late indica $400 Japonica $413
8/3/18	$385-$393	$385-$395	$392-$396	
8/16/18	$390-$395	$395-$400	$392-$396	
8/31/18	$393-$395	$395-$400	$386-$390	
9/11/18	$394	$395	--	

Source: SCI

On June 23, China's Ministry of Finance 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. As a result, sticky rice exports to China dropped sharply, as did the export price, from $475-485 per ton to $425-435. In August, media reports Vietnam's rice exports face greater Chinese scrutiny due to greater enforcement of plant quarantine measures.

MY2018/19 exports are forecast at 1.7 million tons, unchanged from USDA's September forecast.

In August, the United Nations adopted guidelines aimed at speeding food assistance to North Korea. Media reports note that 200,000 tons of rice and flour have already been shipped to North Korea.

The Chinese Embassy to Afghanistan announced in August that China will provide rice and flour as emergency food assistance to drought-affected areas in Afghanistan.

China has also expanded exports of medium-grain rice to the U.S. territory of Puerto Rico.

Stocks

MY2018/19 ending stocks are forecast at 93.6 million tons, down 1.5 million tons from USDA's September forecast on lower production, higher consumption and lower imports.

In August, early indica rice procurement is close to conclusion. Mid-indica rice enters market in large amount, procurement will launch on October 10.

From January 1 to August 28, the National Grain Trade Center offered 78.98 million tons of paddy rice for auction. 7.96 million tons were sold with a 10.07 percent rate of sales. South China early indica rice auction ended in August. MY2017/18 Anhui mid-to-late indica rice auction started in September.

Rice Auctioned	Average Prices per ton in USD	Average Prices per ton in RMB
MY2013/14 rice	$292 to $378	RMB2,000-2,590
MY15/16-17/18 rice	$353 to $415	RMB2,420-2,840

MY2017/18 rice production, consumption, trade and stocks are unchanged from USDA September estimates.

Sorghum

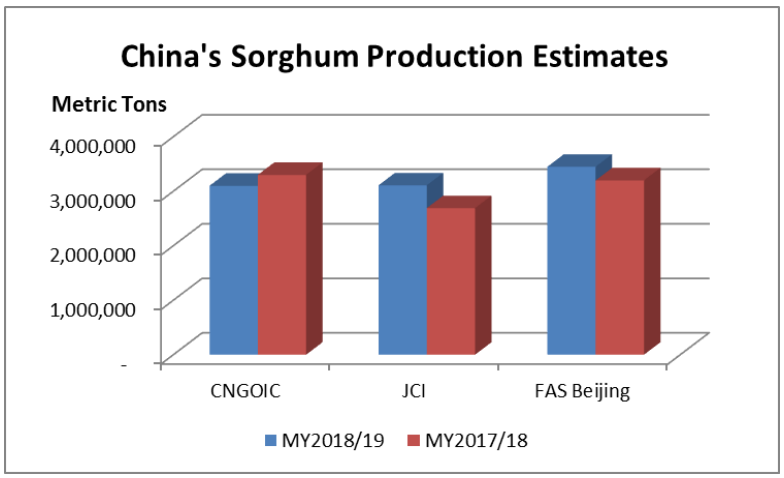
Sorghum	2016/2017		2017/2018		2018/2019	
Market Begin Year	Oct 2016		Oct 2017		Oct 2018	
China	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	625	625	675	675	720	720
Beginning Stocks	717	717	577	577	247	247
Production	2985	2985	3200	3200	3450	3450
MY Imports	5209	5209	4300	4300	2000	2000
TY Imports	5209	5209	4300	4300	2000	2000
TY Imp. from U.S.	4824	4824	0	0	0	0
Total Supply	8911	8911	8077	8077	5697	5697
MY Exports	34	34	30	30	20	20
TY Exports	34	34	30	30	20	20
Feed and Residual	5800	5800	5200	5200	2700	2700
FSI Consumption	2500	2500	2600	2600	2700	2700
Total Consumption	8300	8300	7800	7800	5400	5400
Ending Stocks	577	577	247	247	277	277
Total Distribution	8911	8911	8077	8077	5697	5697
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 September 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 planting area. Industry sources estimate that MY2018/19 sorghum planting area in North East China expanded 30 percent from MY2017/18. They also estimate MY2018/19 yield to increase by 10 to 20 percent on favorable weather.

North East China's sorghum crop will begin to mature and enter the market in late September.

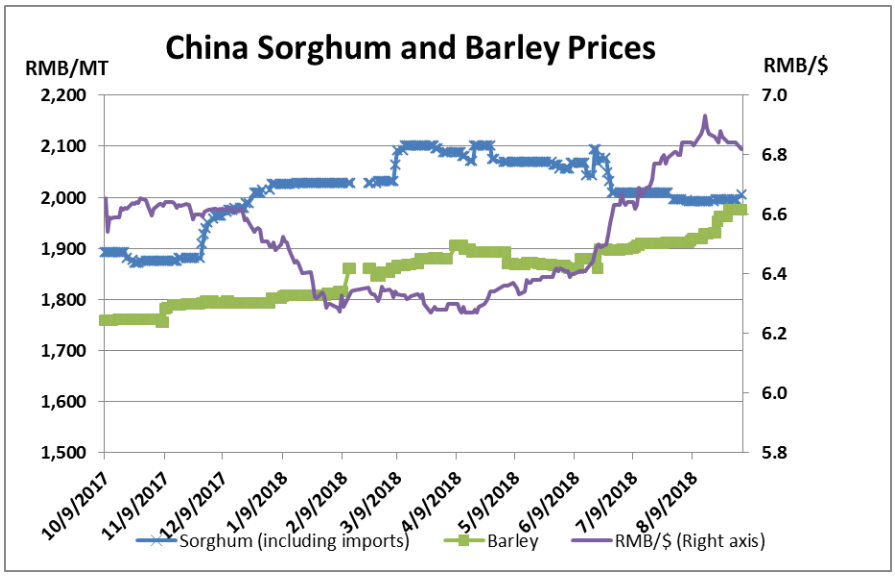


Early reports of MY2018/19 sorghum from Shandong and Hebei provinces indicate sprouting and mold issues related to excessive rainfall. Field reports from MY 2018/19, sorghum from Jilin and Heilongjiang indicate excellent crop conditions.

Consumption

MY2018/19 consumption is forecast to 5.4 million tons, unchanged USDA's September estimate, and down 2.8 million tons from Post's June estimate on lower feed use.

In late August, sorghum from the North China Plain enters into the market. At this time, liquor producers are not active. Currently, northeast sorghum price is on average $390 (RMB 2,670) per ton. Domestic feed quality sorghum price is around $300 (RMB 2,048).



Source: JCI

MY2018/19 FSI consumption is estimated at 2.7 million tons, unchanged from USDA's September estimate.

Trade

MY2018/19 sorghum imports are forecast at 2.0 million tons, unchanged from USDA's September forecast, and down 2.3 million tons from Post's June forecast due to the additional tariffs applied to China's imports of U.S. sorghum.

On June 16, China announced an additional 25-percent tariff on U.S. sorghum exports 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 jumped from around $300 per ton (1,950 RMB) to $360 per ton (RMB 2,465). As a result, U.S. sorghum exports to China are expected to lose competitiveness to domestic feed grains. Due to a reputation for consistency and quality, sorghum will remain competitive for food and beverage processing into vinegar and baijiu.

The Australia-China free trade agreement (ChAFTA) removed all tariffs on sorghum exports, thus, providing new opportunities for Australian exporters. However, lingering production and feed grain shortages in Australia will make it difficult for Chinese buyers to outbid Australian domestic demand.

Comparative Value of Corn and Sorghum by Origin and Destination as of September 17				
Commodity	**Origin**	**Destination**	**$ per ton**	**RMB per ton**
Corn	China	Guangdong	$283	1,940
Corn	United States	Guangdong	$302	2,066
Sorghum	United States	Guangdong	$304	2,080
Sorghum	United States	Tianjin	$318	2,180
Sorghum	United States	Nantong	$318	2,180
Sorghum	Australia	Nantong port	$343	2,350
Sorghum	Australia	Sheyang port	$343	2,350
Sorghum	Australia	Qingdao	$350	2,400
Sorghum	Inner Mongolia	Inner Mongolia	$360	2,480

Stocks

MY2018/19 ending stocks are forecast at 277,000 tons, unchanged from USDA's September forecast.

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