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LOCK-UP REPORT

Oilseeds and Products Update

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Report Highlights:
Post's September forecast for MY12/13 total oilseed production is adjusted down slightly to 54.5 million metric tons (MMT) on lower planted area of 25.1 million hectares (MHa) from a previous forecast of 55 MMT and 25.32 MHa, respectively. Favorable yield gains have been insufficient to overcome total production shortfalls from lower acreage for soybeans. Other oilseed production remains stable. Continued strong demand for protein meals supports a rise in MY12/13 forecast for soybean imports of 61 MMT from the estimated 58.5 MMT in MY11/12 and increased rapeseed imports as well.

Post:
Beijing

Executive Summary:

Post's September forecast for MY12/13 total oilseed production is adjusted down slightly to 54.5 MMT on planted area of 25.1 MHa from previous forecasts of 55 MMT and 25.32 MHa, respectively. Favorable yield gains have been insufficient to overcome total production shortfalls from reduced acreage. Continued strong demand for protein meals supports Post's MY12/13 forecast for soybean imports of 61 MMT from the estimated 58.5 MMT in MY11/12.

MY12/13 Soybeans production forecast down to 12.5 MMT

China National Grain and Oilseed Information Center's (CNGOIC) September forecast for MY12/13 domestic oilseed area/production remains unchanged from July and August forecasts as shown in the following table:

	July and Aug Production MMT	Sept Production MMT	Sept Area MHa
Soybean	13	**13**	7.15
Rapeseed	12.2	**12.2**	7.05
Peanut	16.2	**16.2**	4.6

A significant drop in planted area in Heilongjiang Province dampened MY12/13 soybean production forecasts to between 10 and 12.5 MMT. Disappointing soybean profits in MY11/12 influenced many northeastern farmers to substitute more profitable corn and rice crops in MY12/13. A Heilongjiang-based soybean market information center estimated that MY12/13 soybean planted area declined by 27.4 percent over the previous year, falling to 3.34 MHa from 4.6 MHa in the Northeast's four provinces.

An industry field survey in Fujing City/Heilongjiang placed soybean planted area at 18 percent in 2012, down from 33 percent in 2011 and 52 percent in 2010, while the share of combined planted area for corn and rice surged to 72 percent in 2012.

Comparison of Profit per Mu among Soybeans, Corn and Rice (RMB)

Year	2009	2010	2011	2012*
Japonic Rice	325	530	519	NA
Corn	175	240	263	533
Soybeans	107	155	122	133-200

Source: National Ag Product Cost and Profit Statistics; 1 Ha=15 Mu; * based on Heilongjiang industry source

The soybean harvest is underway with positive yields reflecting improved weather conditions in July following an earlier dry period. According to a Heilongjiang based soybean information center, although yield is expected to increase 7.4 percent over the previous year, MY12/13 Heilongjiang production is still estimated to fall to 6.83 MMT, down 23.3 percent over the 8.9 MMT in MY11/12. The soybean farm-gate price is expected to be RMB4,600 ($730)/ MT in Northeast provinces.

Soybean Production Estimates in 2011 and 2012 (4 Northeast Provinces and National)

	Northeast Total		National Total	
	2011	2012	2011	2012
Area (MHa)	4.6	3.34	8.18	6.76
Yield (MT/Ha)	1.92	2.04	1.89	1.92
Production (MMT)	8.9	6.83	15.47	12.98

Source: www.dadou.cn

5.86 MMT of MY12/13 rapeseed purchased as "reserve"

Post forecasts stable MY12/13 rapeseed production at 12.5 MMT based on planted area of 7.05 MHa with favorable weather gains offsetting slight planting area declines. As indicated in the above table, CNGOIC September estimate of MY12/13 rapeseed production remains unchanged from its August data of 12.2 MMT, but lower than its May report of 12.8 MMT.

According to China's State Grain Administration, as of September 15, the Chinese government purchased 5.86 MMT of MY12/13 rapeseed at a floor price of RMB5,000/MT (or $794) for "reserve." This volume is 691,000 MT higher than that purchased in the same period last year. Lower market prices, ranging from RMB4,700 to 4,960/MT, influenced the government non-market price purchases which supplement farmer incomes. Industry sources indicate generally the government-held rapeseed will be crushed and stored as oil reserves, given rapeseed's short storage time.

The National Bureau of Statistics (NBS) estimated 2012 summer rapeseed production at 12.92 MMT, up 460,000 MT and 3.7 percent over the previous year, making 2011's summer rapeseed production 12.46 MMT and autumn production 0.996 MMT (bringing 2011 total production 13.4 MMT as reported by NBS). The NBS 2012 summer rapeseed production implies total MY12/13 rapeseed production was close to 14 MMT, if the autumn rapeseed production remains unchanged from the previous year. An industry report dated August 29 indicated an autumn rapeseed production estimate of 900,000 MT which would place MY12/13 total rapeseed production at 13.4 MMT.

Other oilseed production

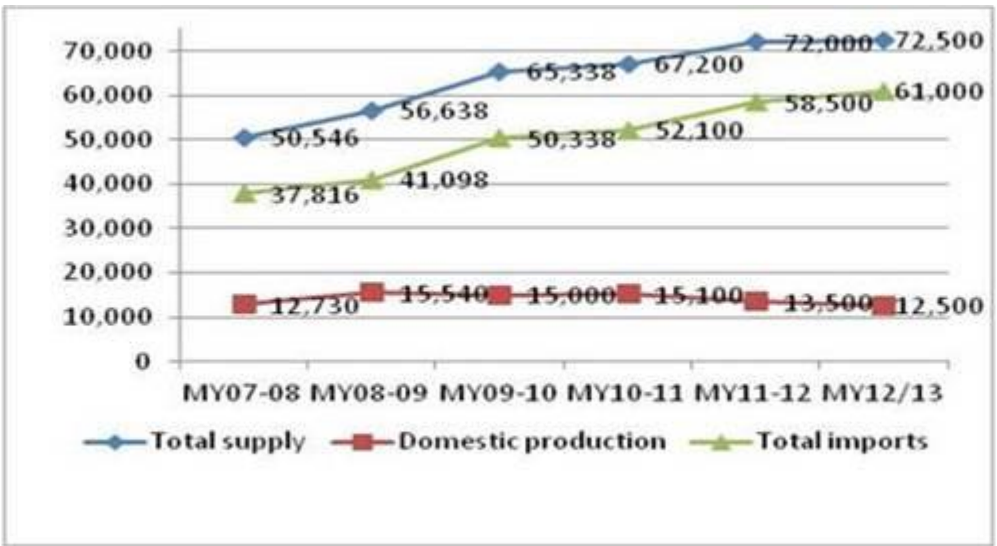
Post's September forecast for MY12/13 cottonseed production is 11.3 MMT, dipping a slight one (1) percent from the previous data reflecting yield loss in Shandong and Hebei Provinces following late summer typhoon damage.

Post's September's MY12/13 peanut production forecast is 16 MMT. CNGOIC's September forecast for MY12/13 peanut production is 16.2 MMT, unchanged from its previous data, due to expected higher yields under favorable weather conditions.

MY12/13 soybean imports forecast to be 61 MMT despite increased price

MY11/12 soybean import expectations remain consistent at 58.5 MMT. Based on Global Trade Atlas (GTA), as of the end of August, MY11/12 soybean imports reached 54.3 MMT. Higher soybean prices in September tempered import demand to 4.2 MMT.

For MY 12/13 soybean import demand, falling domestic oilseed production will likely see imports rise to 61 MMT as demand for oil and meal products continues its upward trend. China JCI, an independent agency, forecasts MY 11/12 imports of 57.5MMT and 58 MMT for MY 12/13.



Source: GTA; MY11/12 and MY12/13 by Post

Other Factors Influencing Oilseed Trade

Edible Oil Price Intervention: In mid-August, China's soy crushing industry planned to increase the edible oil retail price in response to a raw material price rise and falling profit margins. However, the central government, mindful of consumer sensitivity to edible oil prices, forbade a price adjustment in edible oil. The initial impact of this action was a rise in the meal price and variation in composition of salad oils. Overall, the impact of the government's action has been minimal for the crushing sector.

Soybean Meal Demand: Industry insiders indicate that a recent surge in soybean meal demand is partially a response by the crushing sector to regain losses from edible oil price controls and partially in response to dynamic demand for soybean meal by the animal production sector, particularly the swine sector. Soybean meal prices peaked at the end of August (up by more than

30 percent over the June) and are currently fluctuating at high levels near RMB4,300/MT.

An expanding animal-scale production is driving industrialized feed consumption and soybean meal demand. Feed industry statistics show total feed production of 111 MMT in the first eight months of 2012, up 22 percent over the same period in 2011. August total industry feed production showed strong growth to 16 MMT, up 14 percent over the same month in 2011.

Other aspects which factor into soybean imports are rapeseed product imports and the release of the state soybean reserves. As of the end of August, MY11/12 rapeseed imports reached 2.44 MMT, triple the volume over the previous year, and rapeseed oil imports reached 900,000 MT, up about 300,000 MT over the previous year.

<u>State Reserve Releases</u>: China's release of state soybean reserves reached an (estimated) accumulated volume of 2.9 MMT as of the end of September. Some industry sources estimate the government will continue to sell soybean reserves of about 400,000 MT/week in October, with total volume likely to range from 3 to 4 MMT.

The government is also reported considering the sale of about 1 MMT of state reserve vegetable oil.

Rapeseed imports are expected to grow in MY12/13

MY11/12 rapeseed imports are estimated to reach 2.6 MMT, up 300,000 MT from the previous estimate. Strong imports are expected to continue in MY12/13 as domestic demands for rapeseed products continue to rise while domestic rapeseed production remains stable. A domestic crushing industry capable of producing an estimated 50 MMT/year, with about 40 plants capacity exceeding 1,000 MT per day, is driving the need for rapeseed inventory. Currently, plant utilization rate is averaging 20 to 30 percent and Chinese industry leaders want imports to raise this low utilization rate and improve profitability.

China's partial lifting of the phyto-sanitary based ban on Canadian rapeseed imports will augment import supplies. AQSIQ's suspension of Indian oilseed meal imports, due to quality concerns, since the beginning of 2012 is also likely to push rapeseed imports to fill this meal demand gap. China imported 650,000 MT of rapeseed from India in 2011.

Vegetable oil consumption growth leveling

China's vegetable oil consumption maintained a strong annual growth of seven percent in recent years with per capita consumption estimated at 20 Kg in 2011. This amount is equivalent to, or higher than, the consumption level in similar markets like Korea and Japan. With high consumption rates and China's GDP growth expected to soften in 2013 restricting further rapid income growth, some analysts expect a leveling of China's vegetable oil consumption growth in the next few years.

Solid population growth (up 6 million every year) and urbanization (about 10 million new urban residents yearly), will support continued demand for vegetable oil, albeit at a reduced rate. MY12/13 soybean oil imports are expected to remain unchanged from the current year level. Imported oilseed demand will continue to be driven by meal use, not oil consumption, with imported oil covering any vegetable oil supply gaps.

Policy Issues

1-Top policy advisor welcomes soybean imports

Despite continuing controversy over the rapid soybean import growth in recent years, China's top agricultural and rural policy advisor advocated recently for more market-oriented strategies to address food security concerns. He conceded that the increasing supply gap for soybeans and vegetable oil is impossible to meet through restructuring the domestic crop mix. China would need to add 40 to 46 MHa of arable land to produce its current level of oilseed and vegetable oil imports.

2- AQSIQ regulations likely to impact palm oil imports

On May 14, 2012, AQSIQ published AQSIQ Shi Jian 2012 (No.229) Notice on "Further Enhancing Supervision of Vegetable Oil Import Inspection." The Notice required all importers to be responsible for the quality and safety of the imported vegetable oils. Specifically, the importers shall: ensure the imported vegetable oils meet the requirements of Chinese food safety laws and standards; provide relevant documents certifying the products meet the Chinese Food Standards; establish import and sales record and traceability system; and employ personnel familiar with Chinese quality and safety regulations. The Notice also required enhanced supervision of inspection of imported vegetable oil based on the relevant food safety regulations. Imported vegetable oils which fail to meet the Chinese food safety standards will be denied entry.

As for imported crude soybean oil subject to further refining, the Notice required the enhanced supervision of storage at an approved warehouse and be further refined by an approved refinery. The Notice will take effect on January 1, 2013.

On May 22, 2012, AQSIQ published "2012 (No.80) Decree on Requirements for Transport Containers for Importing Bulky Vegetable Oils." The Decree specified the requirements for materials used for making the containers for shipping vegetable oils, and the list of materials banned from being loaded and shipped the previous two times by containers prior to being used to ship vegetable oils. The Decree will take effect on January 1, 2013.

Preliminary analysis of these regulations indicates a limited impact on soybean oil and rapeseed oil imports although Decree (No.80) is likely to add moderate shipping costs. The (No. 229) Notice will reportedly impact palm oil imports because the current imported palm oil may not be in compliance with Chinese standards in terms of acid value. Thus, most imported palm oil will be required to be refined as edible oil before importation. This will not only add import costs but will also impact imports by the traders who do not have refining capability. Currently, palm oil import growth in the first eleven months of MY11/12 (up 3.3 percent over the previous year) seems to be normal levels.