Required Report - public distribution

Date: 7/7/2015

GAIN Report Number: CH15022

China - Peoples Republic of

Oilseeds and Products Update

Soybean Imports Expected to Pick Up in Second Half of 2015

Approved By:
Jennifer Clever
Prepared By:
Jennifer Clever and WU Xinping

Report Highlights:

Post’s June forecast for MY15/16 total domestic oilseed production is 3.26 million tons lower than the estimated 57 million tons in MY14/15. Lower domestic production together with growing demand for protein meal and vegetable oil continue to encourage strong imports of oilseeds in MY15/16. Post’s forecasts for soybean imports of 77.5 million tons, and rapeseed at 4.5 million tons remain unchanged. Driven by moderate growth in vegetable oil consumption, MY15/16 vegetable oil imports are expected to recover to 8.28 million tons, up by 5.9 percent from the previous year. However, this recovery level is below the MY13/14 peak imports of 8.57 million tons.

Executive Summary:

Post's June forecast for MY15/16 total domestic oilseed production is 3.26 million tons lower than the estimated 57 million tons in MY14/15. Lower domestic production together with growing demand for protein meal and vegetable oil continue to encourage strong imports of oilseeds in MY15/16. Post's forecasts for soybean imports of 77.5 million tons, and rapeseed at 4.5 million tons remain unchanged. Driven by moderate growth in vegetable oil consumption, MY15/16 vegetable oil imports are expected to recover to 8.28 million tons, up by 5.9 percent from the previous year. However, this recovery level is below the MY13/14 peak imports of 8.57 million tons.

MY15/16 soybean production forecast at 11 million tons

Post's forecast MY15/16 domestic soybean production is 11 million tons, unchanged from May report. A report based on a field survey by a leading industry agency (conducted during June 10-18 in Heilongjiang and Inner Mongolia) indicated a 25 percent fall in Heilongjiang's soybean planted area. Low temperature and rainy weather also delayed the sowing of soybeans for 7-10days in Heilongjiang. Based on the planted area and an average yield, the survey's forecast soybean production for Heilongjiang fell to 3.15 million tons from the 4.84 million tons in the previous year. Similarly, the production for Inner Mongolia was forecast down to 817,000 tons from the 1.1 million tons in the previous year.

The impact of government's direct subsidy program seems to be limited in retaining the soybean area due to its low rate (with no significant change in the price ratio between soy and corn) and late distribution to farmers. Soybean traders also complained that imported soybeans are increasingly chipping away at their share of the domestic market for soybean used in food processing. The survey also reported increased imports of soybeans from Russia which is estimated at 200,000 to 300,000 tons per year, out of the total 1 million tons of soybean production in far east Russia region.

Rapeseed marketing remained slow

As reported in our May update, the Chinese government decided to change its minimum purchase policy (with a floor price of RMB5100/ton in MY14/15) to a new support program for MY15/16. On June 18, the State Grain Administration published a Notice which stated the central government will appropriate funds for a purchase subsidy in seven rapeseed producing provinces (previously reported 5 only) including Hubei, Sichuan, Hunan, Anhui, Jiangsu, Henan and Guizhou. At this time, there are limited details on how the provincial governments will support their rapeseed industry. What is clear is that the total subsidy will fall. The immediate impact of this change is that MY15/16 rapeseed crop will have to enter the market and compete with imported rapeseed products. Currently in Hubei and Hunan provinces, rapeseed purchase price slipped to about $580/ton, compared to the $800/ton in the previous year. In response, the marketing of the MY15/16 crop is going slow as traders/farmers determine the best time to do business.

Soybean meal consumption expected to recover in second half of 2015

According to industry data, some feed mills reported low feed production in May and June mainly due to weak demand from the livestock sector as a result of a smaller swine inventory. As of the week of

June 24, China's National Development and Reform Commission (NDRC) monitoring data shows hog prices continued growing for the 15th consecutive week to RMB15.22/Kg ($2.45/Kg), the highest since last October. Based on the main wholesale market, corn prices averaged RMB2,460/ton ($397), rendering the pork- to-grain price ratio at 6.19 to 1, representing a good profit for swine farming. According to Ministry of Agriculture (MOA)'s mid-June report, total swine inventory continued to slide in May at 386.15 million heads, down 0.2% over April and 9.8% lower than the previous year. Total breeding sows were 39.23 million heads, down 1.2% over April and 15.5% lower than the previous year. As a result, soybean meal use declined and soybean meal price remained low. However, many industry insiders expect soybean meal use to recover in the second half of 2015 as China's swine inventory recuperates in response to rising hog prices. The reported low feed production from May to June is considered "normal" as the recovery of feed demand usually lags behind the recovery of animal production. Poultry production remained stable in general but farming profit continues to be low.

DDGS use continues to be strong

Although DDGS imports were also impacted by the low swine inventory in May and June, imports are expected to be robust in the second half of 2015 with total imports likely to reach 5 million tons. Imports in the first three months were low due to a biotech corn event not yet approved in China. DDGS is mainly used as protein ingredient replacing low protein meals such as rapeseed meal and cottonseed meal.

MY15/16 soybean imports forecast at 77.5 million tons

Soybean imports (Oct to June) were 53.7 million tons, up 1.9 million tons or 3.7% over the previous year. Soybean imports were strong in the first 4 months of MY14/15 but have leveled off since February. The low swine inventory reduced demand for soybean meal and thus lowered the soybean meal price. The resulting negative crushing margins forced crushing plants to delay the arrival of soybean shipments. The current rising price for hog appears to encourage more soybean imports in the final 3 months of MY14/15. Post's June estimate of MY14/15 soybean imports remains at 73 million tons, and forecast for MY15/16 soybean imports also remains at 77.5 million tons. The small domestic production of 11 million tons and the expected sustained growth in demand for soybean products continue to supports Post's current estimates.

Import duty for Australia rapeseed remains at 9%

On June 17, China and Australia reached free trade agreement which reduced the import duty for some Australian agricultural products coming to China. However, the import duty for Australian rapeseed and rapeseed oil remained unchanged at 9 percent. Since MY12/13, when China opened market for Australia rapeseeds, China's rapeseed imports from Australia averaged at 660,000 tons per year.