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China - Peoples Republic of

Oilseeds and Products Update

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Report Highlights:

A slight drop in planting area as farmers substitute more profitable alternative crops continues to dampen production estimates for MY 12/13 compared to last year. Total MY12/13 oilseed production is forecast at 55 million metric tons (MMT) from a planted area of 25.32 million hectares (MHa), both down 2.7 percent and 2 percent from MY11/12, respectively. Expectations are for cottonseed to fall by one MMT, soybeans to contract by 500,000MT, and rapeseed acreage, though down, to produce higher yields in response to favorable weather, thereby maintaining its production levels. MY12/13 peanut production is expected to remain stable at 16 MMT. Feed demands continue to drive soybean imports, which could reach 60MMT this year, and the lifting of phyto import restrictions and approval of new crushing plants is spurring a surge in rapeseed imports, primarily from Australia and Canada.

Total Oilseeds

A slight drop in planting area as farmers substitute more profitable alternative crops continues to dampen production estimates for MY 12/13 compared to last year. Total MY12/13 oilseed production is forecast at 55 million metric tons (MMT) from a planted area of 25.32 million hectares (MHa), both down 2.7 percent and 2 percent from MY11/12, respectively. Expectations are for cottonseed to fall by one MMT, soybeans to contract by 500,000MT, and rapeseed acreage, though down, to produce higher yields in response to favorable weather, thereby maintaining its production levels. MY12/13 peanut production is expected to remain stable at 16 MMT.

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MY12/13 Soybeans production expected to fall to 13 MMT

Soybean production in MY12/13 is forecast at 13 MMT, down from the previous year's estimated 13.5 MMT. Low soybean profits in major production areas continue to influence farmers toward alternative crops, a trend expected to carry into MY12/13.

According to China's National Grain and Oils Information Center (CNGOIC) May report, MY12/13 soybean planted area is expected to fall to 7.15 MHa from the previous year's 7.65 MHa, down 6.5 percent, with production forecast to fall to 13 MMT, down more than 7 percent over the previous year.

Heilongjiang Agriculture Commission's May report shows soybeans lost acreage to profit-leading crops. MY12/13 corn and rice planted area reached 95 million Mu (MMu; or 6.33 MHa) and 53 MMu (3.53MHa), respectively, both up 6 MMu (400,000 Ha) and 1.3 MMu (87,000 Ha), while soybean area declined to 40 MMu (2.67 MHa), down 10 MMu (667,000 Ha) over the previous year.

A soybean market consultant based in Heilongjiang expects an even more dramatic shift, forecasting MY12/13 soybean planted area will plummet to 35.5 MMu (2.37 MHa), significantly lower than the 52.2 MMu (3.48 MHa) in the previous year, while corn and rice area will increase 17 percent and 8 percent, respectively over the previous year. More specifically by region, the planted area is expected to decline significantly (down by 40 percent) in "temperature zones 2 and 3" where the climate conditions make switching to corn and rice possible (including Harbin, Jiamusi, Shuangyashan, Hegang, Yichuan and Jixi).

Other industry sources estimate Heilongjiang province added almost 1 MHa of corn and rice area in MY11/12 and lost 0.9MHa of soybean acreage, which fell to 3.46 MHa from 4.5 MHa in MY10/11.

Post adjusted its MY12/13 soybean area down to 7.4 MHa (from the previously forecast 7.7MHa) to reflect these developments. As of this report, soybean planting is finished with normal weather conditions during the planting season.

MY12/13 Rapeseed production forecast at 12.5 MMT

Post forecasts a stable production for MY12/13 rapeseed at 12.5 MMT based on planted area of 7.05 MHa. Modest yield gains due to favorable weather conditions in most production regions compensates for a slight decline in planted area. The photo shows healthy rapeseed production in Hubei (end of April).



CNGOIC estimated that MY12/13 rapeseed planted area declined by 2 percent (to 7.05 MHa) with production at 12.8 MMT, down 1.5 percent over the 13 MMT in MY11/12. The following table shows area estimates for major producing provinces (in 1,000 Ha and 1,000 MT) by CNGOIC which are generally lower than that reported by local official sources. CNGOIC's May production estimate of 12.8 MMT is slightly lower than the 13 MMT official production data for MY11/12.

	2010	2011	2012 (official estimate area change)	2012 CNGOIC (estimate area change)	2012 CNGOIC (production estimate)
Hubei	1,160	1,142	+4%	-2 to 3%	2,200 *
Sichuan	947	960	No change	No change	NA
Hunan	1,089	1,166	+3.3%	No change or slightly up	NA
Anhui	691	667	-5.7%	-5.7%	1,228 (down 8%)*
Jiangsu	460	420	-3 to 4%	-5%	NA
Jiangxi	546	521	+2.2%	+2.2%	NA
Nation	7,370	7,200	+2%	-2 to 3% (7,050)	12,800

*based on industry estimates

Many analysts agree that rapeseed production of 13 MMT for MY11/12, as reported by the National Statistics Bureau, is high. Post field trips to Hubei, Hunan and Sichuan confirmed a reduced planted area for MY12/13 as farmers explained that planting rapeseed is not as profitable, averaging about \$550/Ha based on an average selling price of RMB4,600/MT, as

compared to the higher profits from wheat and vegetables. For instance, in Hanchuan/Hubei wheat profits are estimated at \$860/Ha in MY11/12, while profits from vegetables and melon can reach several thousand dollars per hectare. A rapeseed trader estimated that profit from wheat was \$250/Ha higher than rapeseed in MY11/12 in Zhongxiang region/Hubei (while total expenses for rapeseed was \$880/Ha compared to the \$760/Ha for wheat). Industry experts report that only when the price ratio between rapeseed and wheat exceeds 2.5:1 do farmers favor rapeseed.

MY12/13 rapeseed yield is expected to be higher than the previous year due to favorable weather conditions. A field visit to Hangchuan/Hubei, Yueyang/Hunan and Wenjiang/Sichuan showed that growth and yield are rated as average to better than average compared to the previous year.

Currently, the rapeseed harvest of rapeseed is at its peak and the sales price ranges from RMB4,800 to 5,200/MT (or \$762 to \$825/MT).



[Note: Collecting rapeseed planted area/production data from thousands of households is virtually impossible for both government and industry. Farmers may make complicated planting plans using different crops (including vegetables, melon, wheat, corn, wheat, rice and grape) to maximize income and reduce risk on the limited land (including boundaries of fish pond/canal, slope of highway etc). The photo above shows rapeseed, corn and green pepper by strips in a plot, with watermelon in greenhouses in Hubei).

China's industry sources speculate that the government is likely to announce the MY12/13 rapeseed purchase policy in May. Industry insiders believe the purchase price will reach RMB5,000/MT (or \$794/MT, up from the RMB4,600/MT in the previous year) based on the increased production cost (labor and input prices) and the price ratio among crops. However, the State Grain Administration's meeting on "2012 Summer Grain and Oilseed Purchase" held on May16 ended without any specific policy announcement on rapeseed purchase.

For MY11/12, CNGOIC estimates the government purchased 2.55 MMT of that year's crop. Crushers and traders are concerned about potential risks of the government increasing the floor price while the market prices for oil and meal remain uncertain. This could portend a tentative

commercial approach to purchasing the new crop. On the other hand, some industry insiders believe traders and crushers may rush to purchase the new crop because the anticipation of reduced production, in relation to the excessive crushing capacity, may drive demand.



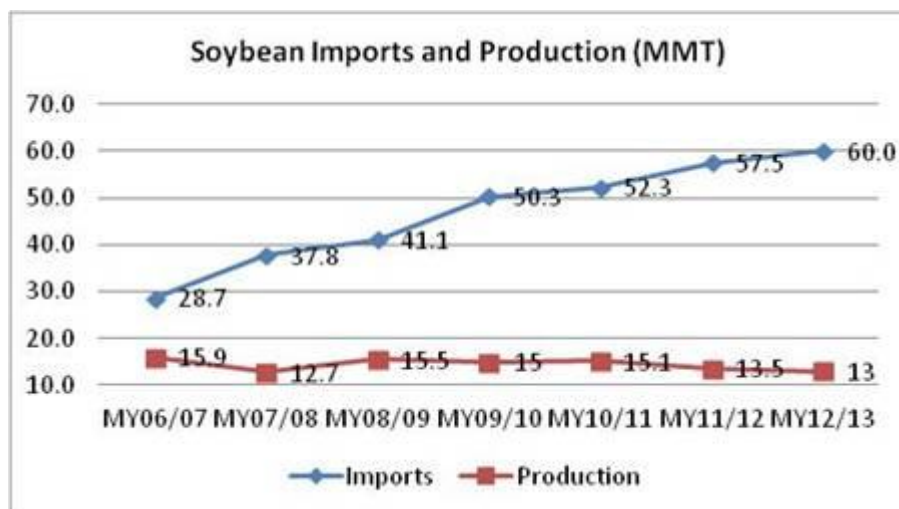
(The above photo shows a household in Deyang/Sichuan harvesting her 0.2 acre of rapeseed).

Other oilseed production

The sharp decline in MY11/12 cotton profits will cause a 10 percent decline in cotton planted area and one MMT drop in cottonseed production in MY12/13. MY12/13 peanut production is forecast to return to normal production around 16 MMT following a record high 16.2 MMT in MY11/12.

MY12/13 soybean imports likely to reach 60 MMT

MY11/12 soybean imports are estimated at 57 MMT, up from previously estimated 55.8 MMT. As of the end of April, soybean imports had reached 33.1 MMT, up 12 percent over the same period in MY10/11. CNGOIC estimates soybean imports will reach 11.7 MMT in May and June, and combined imports of 13.5 MMT from July through September, making total imports of 58 MMT in MY11/12. CNGOIC reported that the Chinese government offered 600,000MT of soybean reserve for sale at price of RMB3,800/MT through auctions on May 24. The impact on the market seems to be limited.



A review of soybean imports over the most recent six years, which shows an increase every year and a marked fluctuation every two years, with import growth significantly higher in MY07/08, MY09/10 and MY11/12, while domestic soybean production, however, shows a falling trend (ranging from 13 to 16 MMT per year) during this period. Current robust soybean imports support an import forecast of 60 MMT in MY12/13 as domestic oilseed production continues to decline.

China's feed production growth is a key factor driving soybean imports. Industry statistics show total feed production of 36.9 MMT in the first quarter of 2012, of which compound feed reached 24.2 MMT, both up 25.6 percent over the same period in 2011. The increasing scale of swine and poultry production nationwide continues to drive feed production and consumption. One of the largest animal husbandry producers based in Guangdong estimated that the group will consume 7.5 MMT of feed in 2012 as a result of expanded capacity and increased scale farming for swine and poultry. The group also plans to double the scale of the contracted poultry farms by 2015. Aquaculture feed, though relatively small in volume, maintains high growth, for instance up 40 percent in Zhanjiang, Guangdong Province in the first quarter of 2012. Government purchase of domestic and imported beans for state reserve continues to impact supply and demand as well.

Demand for oilseed products remains promising

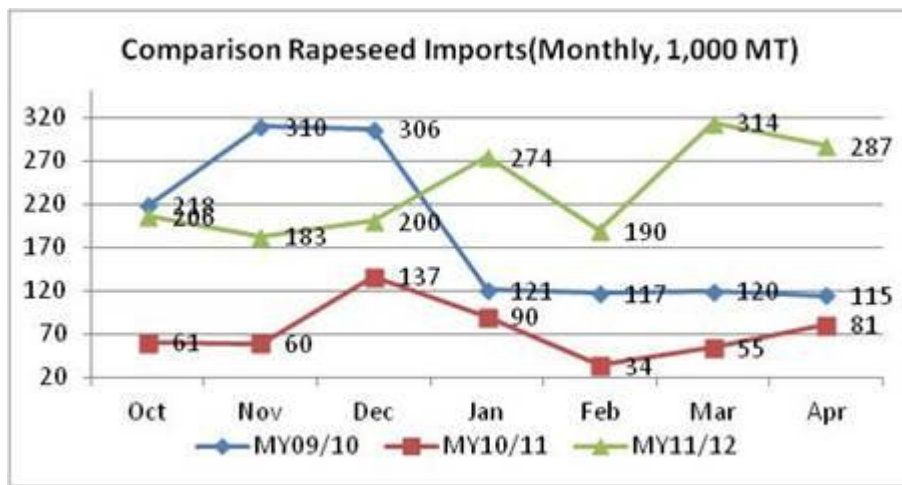
According to analysis by COFCO, China's largest agribusiness group, the per capita consumption of vegetable oil reached 19-20Kg per year and is expected to grow by 3 to 5 percent yearly (as compared to the averaged 5.7 percent yearly in recent 10 years) in the next 5 years. Feed production growth is forecast at 4 to 5 percent yearly in the next 5 years to reach 212 MMT by 2016. Domestic oilseed production growth is forecast at 2 percent yearly in the next 5 years. CNGOIC estimates that the average yearly feed production and protein meal consumption increased by 8.7 percent and 7.8 percent, respectively in recent 5 years. Based on a forecast annual growth of 5 percent, China needs an additional 3.1 MMT of protein meal per year to meet the feed industry demand, converting to a demand for an additional 4 MMT of soybeans per year.

China's Ministry of Agriculture's data show total industrialized feed production reached 169 MMT in 2011, up 4.3 percent (or a net increase of 7 MMT) over the previous year. Based on the 12th

Five Year (2011-2015) Development Plan for Feed Industry, China's total industrialized feed production is expected to reach 200 MMT by 2015, with an average yearly net increase of 7.6 MMT from 2011 to 2015.

MY12/13 rapeseed imports are expected to grow

MY12/13 rapeseed imports are forecast at 2.1 MMT, up from the estimated 2MMT in MY11/12 (up 400,000 MT from previous estimate) mainly driven by domestic demand, together with lift on import restrictions. In the beginning of 2012, the General Administration for Quality Supervision, Inspection and Quarantine (AQSIQ), China's import authority approved 18 new rapeseed crushing plants, mainly located in non-rapeseed producing regions, for use of imported rapeseed, with 7 located in rapeseed-producing provinces (Zhejiang, Jianguo and Inner Mongolia). This policy change (phyto restriction) has spurred imports from Canada and Australia. As of April 2012, rapeseed imports had already surged to 1.7 MMT, up 1 MMT and 400,000 MT, respectively, from the same period in MY10/11 and MY09/10.



AQSIQ's suspension of imports of oilseed meals from India (due to quality concerns) since the beginning of 2012 is also likely to push rapeseed imports to make up the meal demand gap (as China imported 650,000 MT of rapeseed from India in 2011).

CNGOIC estimates total rapeseed imports in 2012 will exceed 2 MMT. China's imports of rapeseed oil and meal increased in recent years (with about 700,000 MT/year and 1.2 MMT/year for oil and meal, respectively), indicating a growing supply gap of rapeseed products. CNGOIC estimates total crush capacity stands at 50 MMT with about 40 plants with daily capacity exceeding 1,000 MT.

The average utilization rate remains very low at 20 to 30 percent (or operation time ranges from 2 to 3 months) so Chinese officials hope the release on rapeseed import restrictions will spur imports and raise the utilization rate.

Rapeseed oil and meal will be listed in the Zhengzhou Commodity Exchange soon. According to Zhengzhou Commodity Exchange, the complete documents for listing rapeseed oil and meal in the Exchange were submitted to the relevant government agency for approval, and expect to be implemented in July of this year to facilitate risk management for domestic traders/crushers.

PSD Table - Soybeans

Oilseed, Soybean China	2010/2011		2011/2012		2012/2013	
	Market Year Begin: Oct 2010		Market Year Begin: Oct 2011		Market Year Begin: May 2012	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	8,500	8,520	8,000	7,650	8,000	7,400
Area Harvested	8,520	8,520	7,650	7,650	7,500	7,400
Beginning Stocks	13,259	13,259	14,558	14,058	13,758	14,258
Production	15,100	15,100	13,500	13,500	13,100	13,000
MY Imports	52,339	52,339	56,000	57,000	61,000	60,000
MY Imp. from U.S.	24,983	24,983	23,000	24,000	25,000	25,000
MY Imp. from EU	0	0	0	0	0	0
Total Supply	80,698	80,698	84,058	84,558	87,858	87,258
MY Exports	190	190	200	250	200	260
MY Exp. to EU	12	20	12	30	12	30
Crush	55,000	55,500	59,100	59,000	63,400	63,500
Food Use Dom. Cons.	9,100	9,100	9,200	9,200	9,300	9,250
Feed Waste Dom. Cons.	1,850	1,850	1,800	1,850	1,818	1,900
Total Dom. Cons.	65,950	66,450	70,100	70,050	74,518	74,650
Ending Stocks	14,558	14,058	13,758	14,258	13,140	12,348
Total Distribution	80,698	80,698	84,058	84,558	87,858	87,258
CY Imports	52,634		57,000		60,000	
CY Imp. from U.S.	22,353		23,000		25,000	
CY Exports	208		200		200	
CY Exp. to U.S.	17		18		17	
TS=TD		0		0		0

PSD Table -Rapeseed

Oilseed, Rapeseed China	2010/2011		2011/2012		2012/2013	
	Market Year Begin: Oct 2010		Market Year Begin: Oct 2011		Market Year Begin: May 2012	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	0	7,370	0	7,100	0	7,050
Area Harvested	7,370	7,370	7,100	7,100	7,000	7,050
Beginning Stocks	2,114	2,114	1,424	0	404	0
Production	13,100	13,100	13,000	12,500	13,000	12,500
MY Imports	930	930	1,800	2,000	2,100	2,100
MY Imp. from U.S.	0	0	0	0	0	0
MY Imp. from EU	0	0	0	0	0	0
Total Supply	16,144	16,144	16,224	14,500	15,504	14,600
MY Exports	0	0	0	0	0	0

MY Exp. to EU	0	0	0	0	0	0
Crush	14,170	15,594	15,350	14,050	14,920	14,150
Food Use Dom. Cons.	0	0	0	0	0	
Feed Waste Dom. Cons.	550	550	470	450	450	450
Total Dom. Cons.	14,720	16,144	15,820	14,500	15,370	14,600
Ending Stocks	1,424	0	404	0	134	
Total Distribution	16,144	16,144	16,224	14,500	15,504	14,600
CY Imports	1,262		1,500		2,000	
CY Imp. from U.S.	0		0		0	
CY Exports	0		0		0	
CY Exp. to U.S.	0		0		0	
TS=TD		0		0		0