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Report Highlights:

China's sugar production in MY20/21 is expected to mostly recover from the previous year's drought, climbing to 10.7 million metric tons (MMT). Continued government support, especially in Guangxi – the country's largest sugar producing region – will encourage existing and, possibly, new production in the future. Sugar consumption, which is not expected to immediately recover from COVID-19, is forecast at 15.2 MMT in MY20/21, down 600,000 MT from pre COVID-19 levels. Imports are projected to climb slightly to 4.2 MMT in MY20/21 due to the anticipated end of the import safeguard in May 2020.

Sugar Cane

MY20/21 (October-September) cane sugar production is forecast at 9.25 million metric tons (MMT), up 450,000 metric tons (MT) from the previous year's newly revised estimate but still slightly lower pre-drought levels. This predicted increase is mainly due to the expected return of normal weather conditions as well as stable sugarcane prices. Year-over-year plantings are expected to remain unchanged. The anticipated improvement in weather conditions, stable sugar cane prices, and government support are expected to offset the supply-side effects of reduced sugar demand resulting from COVID-19.

In April 2020, the Guangxi provincial government announced a three-year (2020-2022) action plan to modernize the region's local sugar industry, which accounts for 70 percent of China's total cane sugar production. The plan aims to raise yields to an average of 5 MT per mu (1mu=0.067ha) by mechanizing at least two-thirds of cane planting and harvesting practices. Current yields without mechanization are around 3-4 MT per mu. These anticipated yield increases, if realized, could spur higher cane sugar production levels in the future.

In order to incentivize greater mechanization, the plan will provide varying levels of support payments to cane farmers. Farmers will be paid RMB170 (~\$24) and RMB270 (~\$48) per mu for instituting mechanized seed and harvesting practices, respectively.¹ Other payments will also be made to encourage new and existing production levels, while separately providing insurance-type payments to offset farmers' losses if weather or market conditions deteriorate. State-owned mills will also receive continued support.

As part of the plan, Guangxi authorities will continue to encourage contract farming, a more market-driven approach to farming sugar, which was first instituted in MY18/19. In addition, farmers and private millers are to work together to establish co-ops.

MY2019/20 cane sugar production is estimated at 8.8 MMT, down nearly 700,000 MT from the official estimate.² This decline is mainly attributed to a forecasted drop in yields due to drought in the autumn of 2019 in both Guangxi and Yunnan - China's two largest cane sugar producing regions – together accounting for slightly more than 90 percent of China's total cane sugar production. Area planted, which was largely unaffected by COVID-19, remains unchanged from the earlier official estimate.

During the first quarter of 2020 (Jan-Mar), sugarcane prices remained relatively stable compared to other crops, such as fruit, amid the COVID-19 pandemic. Steady price

¹ Estimated exchange rate \$1=RMB7.1

² The term "official estimate" refers to the official USDA PS&D figure.

conditions were largely due to the pre-determined cane purchase prices between growers and mills. In response to this situation, many farmers now consider sugarcane a relatively safer crop in ensuring a steady income. This phenomenon may encourage new production in the future.

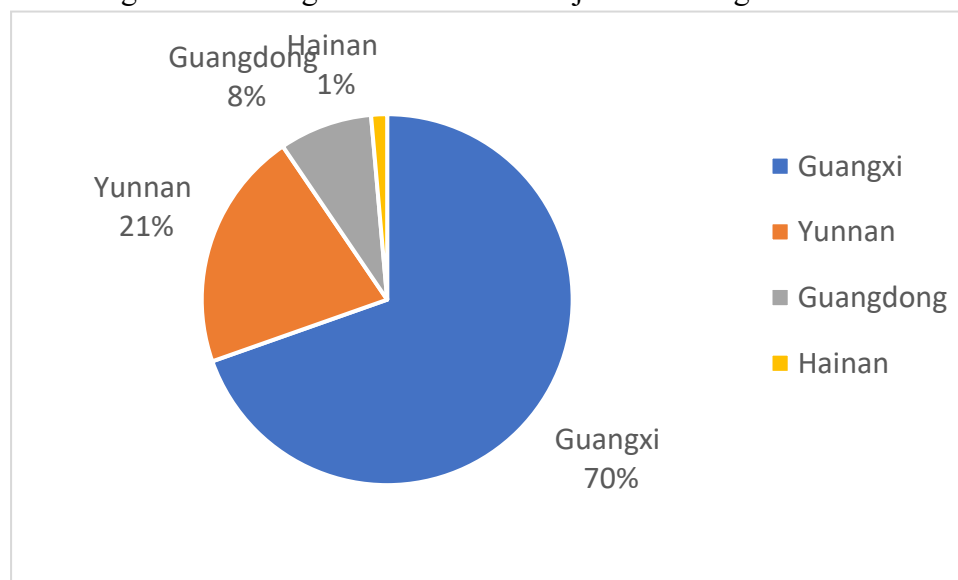
Under prevailing market conditions, in order to breakeven, mills need to sell their refined sugar at RMB5400-5,600 (~\$762-790) to recoup production and managerial costs. This breakeven point correlates to a cane purchase price of RMB490-520 (~\$69-73). In MY19/20, China’s cane sugar prices are forecast to stay above this breakeven point, thereby allowing the Guangxi milling industry to remain profitable.

Average Purchase Price of Sugar Cane in Major Producing Provinces (RMB/MT)

	Guangxi	Yunnan	Guangdong	Hainan
MY17/18	500	450	440-480	530
MY18/19	490-520	420-450	380-400	500
MY19/20	490-520	450	380-450	500
MY20/21 (estimated)	490-520	450	420	500

Source: Mutian Technology (www.msweet.com.cn) and industry news reports

Percentage of Cane Sugar Production in Major Producing Provinces



Source: China Sugar Association

Sugar Beets

MY20/21 beet sugar production is forecast at 1.45 MMT, up 50,000 MT from the previous year. The forecasted increase is based on the expectation that farmers will respond to favorable price conditions by planting new acreage in Inner Mongolia, which surpassed Xinjiang a couple years ago to become the nation's largest beet sugar producing region.

Unlike the sugarcane growing areas in the south, the sugar beet growing areas in Inner Mongolia, Xinjiang, and other parts of north China are suitable for large-scale farming with a high level of mechanization. Higher levels of mechanization result in lower labor costs, which end up making the sugar beet industry more profitable than their cane sugar counterparts. This higher profitability continues to drive the gradual expansion of beet sugar production.

In contrast to cane sugar, sugar beet purchase prices are determined and specified by contracts signed between private sugar mills and beet farmers prior to planting. In MY20/21, the estimated average purchase prices by region are expected to rise slightly or hold steady from the previous year.

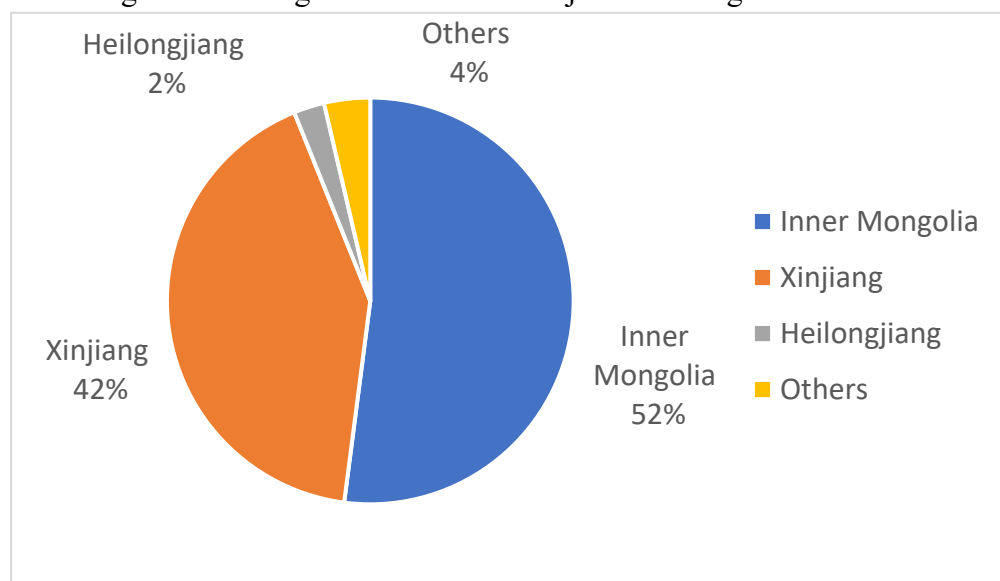
MY19/20 beet sugar production is estimated at 1.4 MMT, unchanged from the previous official estimate. According to the China Sugar Association, Inner Mongolia accounts for about half of total production at 720,000 MT, while Xinjiang takes up nearly 40 percent of production at 580,000 MT. Heilongjiang and other northern provinces make up the difference.

Average Purchase Price of Sugar Beets in Major Producing Provinces (RMB/MT)

	Inner Mongolia	Xinjiang	Heilongjiang
MY17/18	550	450	560
MY18/19	530	460	N/A
MY19/20	520	460	N/A
MY20/21 (estimated)	530	460	520

Source: Mutian Technology (www.msweet.com.cn) and industry news

Percentage of Beet Sugar Production in Major Producing Provinces



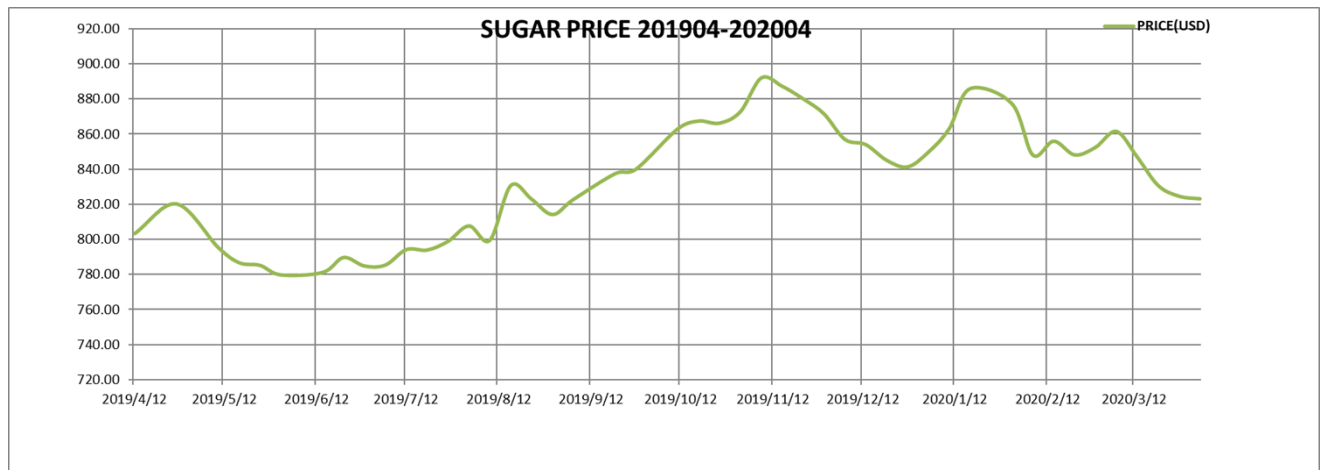
Data source: China Sugar Association

Centrifugal Sugar

MY20/21 total sugar production is forecast at 10.7 MMT, up 500,000 MT from the newly revised estimate for the preceding year. This increase is based on the expected rebound in cane sugar production in southern China and a relatively smaller projected increase in beet sugar production in northern China.

The MY19/20 total sugar production estimate is lowered nearly 700,000 MT to 10.2 MMT because of the drought last autumn in southern China's major sugar-growing regions.

The sugar price situation in MY/20/21 is difficult to predict because of the uncertainty about domestic consumption and when demand might fully recover. External variables, such as the sugar supply and demand conditions in Brazil and India, as well as the cost of oil, could also influence future sugar prices in China. Prices in MY19/20 started trending lower in mid-January in part because of COVID-19's impact on demand. This downward price pressure is expected to let up as China's economy gradually recovers from COVID-19.



Source: Data by Mutian Technology (www.msweet.com.cn) and chart by ATO Guangzhou

Note: Prices are reported on a metric ton basis

Consumption

MY20/21 sugar consumption is forecast at 15.2 MMT, unchanged from the previous year due to continued market uncertainties due to the lingering effects of COVID-19. Some industry insiders predict that consumption will start picking back up during the second half of the current calendar year, but the extent of this anticipated rebound is unknown. Post will reassess the situation and provide updated estimates in the semi-annual sugar report, if not sooner.

MY2019/20 sugar consumption is estimated at 15.2 MMT, down 600,000 MT from the previous estimate due to reduced demand resulting from the COVID-19 pandemic. Meantime, some industry experts are predicting consumption could fall as low as 14.4 MMT based on the assumption that the impact of COVID-19 could last longer.

Trade

MY20/21 sugar imports are forecast at 4.2 MMT, up 100,000 MT from the previous year based on the assumption that the additional safeguard on out-of-quota sugar imports will expire in May 2020 and not be re-imposed. MY19/20 sugar imports are estimated at 4.1 MMT, up 100,000 MT from the previous year's newly revised estimate in part because of lower levels of domestic production and the anticipated end the safeguard.

China applies a tariff-rate quota (TRQ) on imported sugar, most of which comes from Brazil, Cuba, and Thailand. The within-quota tariff is 15 percent for 1.945 MMT, which is slightly less than half of total imports. About 70 percent of the in-quota TRQ is allocated to State-Owned Enterprises (SOEs).

For the last three years, the Ministry of Commerce has imposed an additional

safeguard duty on top of the 50 percent out-of-quota rate. With the three-year safeguard set to expire on May 21, 2020, sources predict that the applied out-of-quota rate of 85 percent will revert to 50 percent. However, the Chinese government has yet to make an official announcement stating its intentions to withdraw the safeguard. The removal of the safeguard is expected to spur an uptick in imports, which are estimated to be about one-third cheaper than domestic sugar. This projected increase, however, will be tempered by lower domestic consumption.

In response to the COVID-19 situation, China has instituted stricter border controls to on incoming visitors and cargoes. One of the side effects resulting from these controls is a reduction in informal sugar imports. The anticipated removal of the safeguard measure is also expected to put downward pressure on informal sugar imports.

MY20/21 exports are forecast at 200,000 MT up slightly from the previous year's newly revised estimate. Exports, most of which is refined sugar, go to neighboring countries, including North Korea and Mongolia.

Stocks

MY20/21 ending stocks are forecast at about 3.8 MMT, down 500,000 MT from the previous year's newly revised estimate. While China does not release statistics on the sugar stock situation, industry sources predict levels to continue trending downward in order to fill the gap between domestic consumption and production.

MY19/20 ending stocks are left unchanged at 4.3 MMT.

Other sweeteners

China annually produces 11-12 MMT of starch-based sweetener products, such as high fructose corn syrup, fructose, and glucose. In calendar year (CY) 2019, higher corn prices and weak downstream demand caused the sweetener industry to pull back on production. Production will likely continue to soften due to a further weakening in demand in CY20 because of the COVID-19 uncertainties.

The national government restricts the development of the saccharine industry in order to protect the domestic sugar market and to address environmental, food safety and consumer health concerns. The government imposes controls on production and domestic sales, conducts an annual document review and site inspection, and only allows saccharine to be used as food additive.

Only three plants are licensed for saccharine production in China. These plants are monitored and inspected by the China Sugar Association (CSA) to ensure compliance with production guidelines and limits. The saccharine production quota for CY2019 was 19,000 MT, with 3,200 MT designated for domestic sale and 15,800 MT for

export. Based on CSA inspections, actual CY 2019 production was about 17,600 MT while actual domestic sales and exports totaled almost 3,000 MT and 15,000 MT, respectively.

Sugar, Centrifugal Market Begin Year	2018/2019		2019/2020		2020/2021	
	Oct 2018		Oct 2019		Oct 2020	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
China						
Beginning Stocks	6567	6567	5427	5427	0	4347
Beet Sugar Production	1320	1320	1400	1400	0	1450
Cane Sugar Production	9440	9440	9490	8800	0	9250
Total Sugar Production	10760	10760	10890	10200	0	10700
Raw Imports	3600	3600	3500	3600	0	3700
Refined Imp.(Raw Val)	500	500	500	500	0	500
Total Imports	4100	4100	4000	4100	0	4200
Total Supply	21427	21427	20317	19727	0	19247
Raw Exports	5	5	20	20	0	20
Refined Exp.(Raw Val)	195	195	150	160	0	180
Total Exports	200	200	170	180	0	200
Human Dom. Consumption	15800	15800	15800	15200	0	15200
Other Disappearance	0	0	0	0	0	0
Total Use	15800	15800	15800	15200	0	15200
Ending Stocks	5427	5427	4347	4347	0	3847
Total Distribution	21427	21427	20317	19727	0	19247

(1000 MT)

Sugar Cane for Centrifugal Market Begin Year	2018/2019		2019/2020		2020/2021	
	Oct 2018		Oct 2019		Oct 2020	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
China						
Area Planted	1560	1560	1570	1570	0	1570
Area Harvested	1485	1485	1495	1495	0	1495
Production	85800	85800	86000	86000	0	86000
Total Supply	85800	85800	86000	86000	0	86000
Utilization for Sugar	85800	85800	86000	86000	0	86000
Utilizatn for Alcohol	0	0	0	0	0	0
Total Utilization	85800	85800	86000	86000	0	86000
(1000 HA) ,(1000 MT)						

Sugar Beets Market Begin Year	2018/2019		2019/2020		2020/2021	
	Oct 2018		Oct 2019		Oct 2020	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
China						
Area Planted	225	225	235	235	0	240
Area Harvested	220	220	230	230	0	235
Production	11000	11000	12000	12000	0	12200
Total Supply	11000	11000	12000	12000	0	12200
Utilization for Sugar	11000	11000	12000	12000	0	12200
Utilizatn for Alcohol	0	0	0	0	0	0
Total Distribution	11000	11000	12000	12000	0	12200
(1000 HA) ,(1000 MT)						

China Exports to World

Commodity: 1701, Cane Or Beet Sugar And Chemically Pure Sucrose, In Solid Form

Partner	Unit	Year Ending Plus: October - September					Year to Date		
		2015	2016	2017	2018	2019	10/18- 2/19	10/19- 2/20	%Δ
World	T	59,213	154,272	124,872	183,760	191,955	91,448	87,687	-4
North Korea	T	1,931	2,188	44,726	55,985	105,344	52,356	48,161	-8
Mongolia	T	-	24,011	37,640	41,905	31,919	14,091	18,606	32
Hong Kong	T	23,530	23,024	21,413	23,582	23,455	10,749	10,088	-6
Philippines	T	15,619	77,945	1,456	17,941	10,528	6,907	4,432	-36
United States	T	4,047	4,080	5,188	4,578	5,780	1,898	1,712	-10
Japan	T	3,543	4,055	4,054	3,997	4,099	1,136	1,110	-2
Other	T	10,542	18,971	10,392	35,770	10,828	4,311	3,575	
Source: TDM									

Attachments:

No Attachments