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GAIN Report

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China - Peoples Republic of

Grain and Feed Update

Everything Must Go, State Corn Reserves Begin Liquidation

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Report Highlights:

In spite of China's economic growth slowdown, Chinese feed demand remains strong. Swine numbers are forecast to recover and poultry production is forecast slightly higher in MY2016/17 and MY2017/18. 2016 has also been a dynamic year for Chinese agricultural policy and market prices. The Central Government has abandoned price support policies for all commodities except wheat and rice.

Several new Central and Provincial Government reforms for corn and other feed grains have started liquidation of government surpluses through auctions and processor subsidies, tightened market access for cheaper imports, and ended China's long-standing price policy supports.

Post:

Beijing

Executive Summary:

In spite of China's economic growth slowdown, Chinese feed demand remains strong. Swine numbers are forecast to recover and poultry production is forecast slightly higher in MY2016/17 and MY2017/18. 2016 has also been a dynamic year for Chinese agricultural policy and market prices. The Central Government has abandoned price support policies for all commodities except wheat and rice. Several new Central and Provincial Government reforms for corn and other feed grains have started liquidation of government surpluses through auctions and processor subsidies, tightened market access for cheaper imports, and ended China's long-standing price policy supports.

On March 28, 2016, Liu Xiannan, Director of the Economy and Trade Office of the National Development and Reform Commission (NDRC), announced that the temporary reserve policy in North East provinces and Inner Mongolia will be replaced by a new mechanism of "marketized purchases" (市场收购). Based on the Chinese Agriculture Minister Han Changfu's public speech, "By 2020, corn acreage should stabilize at 500 million mu (82.3 million acres), down by 50 million mu (8.2 million acres) from 2015 level."

On September 22, 2016, China's Grain Bureau announced the "North East Corn Purchase Policy" to normalize domestic supply and demand market mechanisms.

On October 20, 2016, Han Changfu, Minister of Agriculture of the People's Republic of China released an implementing measure of the "China Agricultural Modernization Plan 2016-2020," the 13th Five Year Plan for agriculture. The document focuses on improving national agricultural productivity through scientific innovation and technology, a nationwide agricultural extension system, and the development of agricultural institutions for agricultural finance, insurance, commodity trading, and logistics, while also improving rural economic development, environmental sustainability, and farmer welfare. By 2020, the government aims to push agricultural modernization forward, guarantee national food security, enhance food safety, raise China's international agricultural competitiveness, and raise the standard of living for farmers across rural China. The 13th Five Year Plan aims to continue and improve the rice and wheat minimum purchase price policy.

Corn production in MY2016/17 is forecast up 2 million tons to 218 million tons from USDA November forecasts as higher yields more than offset lower production area. Forecast MY2016/17 corn consumption is revised up 8 million tons to 234 million tons on higher feed and Food, Seed, and Industrial (FSI) use. Forecast MY2016/17 corn imports are cut 2 million tons to 1 million tons due to diminishing price competitiveness for imported supplies as domestic and imported corn prices rapidly converge. Industry sources claim that corn imports will continue in MY2016/17, but volumes will fall to low levels. MY2016/17 corn exports are forecast unchanged at 0.03 million tons from the USDA November forecast.

MY2016/17 wheat production is forecast down 1 million tons from the USDA November estimate to 127 million tons, due to late-season rains and flooding. Total wheat consumption in MY2016/17 is revised up 5 million tons to 122 million tons based on higher feed use and post-harvest loss. Forecast MY2016/17 wheat imports are projected 0.5 million tons higher than the USDA November forecast at 4 million tons, due to tight supplies of high-quality wheat for the expanding milling-and-baking sector. On October 15, 2016, the NDRC announced the 2017 tariff-rate quota (TRQ) for wheat at 9.6 million tons,

for corn at 7.2 million tons, and for rice at 5.3 million tons, unchanged from 2015.

Forecast MY2016/17 rough rice production is lowered 1.4 million tons to 208 million tons from the USDA November forecast due to lower yields and excessive rainfall from several tropical storms. From late August to the end of September 2016, multiple strong typhoons accompanied by torrential rain and strong winds impacted one-half of the major rice growing areas in South Central China. In this region, during the storm season, second-crop rice was between the grain-filling stage of development and full maturity. The MY2016/17 consumption forecast is unchanged at 144 million tons from the USDA November estimate.

Imports of barley and sorghum for feed have fallen in the face of diminishing price competitiveness with domestic corn supplies. Imports of Dried Distiller's Grains with Solubles (DDGS) have slowed to a trickle in response to the recent announcement of anti-dumping duties and the preliminary determination of countervailing duties on U.S. DDGS exports.

Grain Policy, Subsidies, and Trade Action

On March 28, 2016, Liu Xiannan, Director of the Economy and Trade Office of the National Development and Reform Commission (NDRC), announced that the temporary reserve policy in North East provinces and Inner Mongolia will be replaced by a new mechanism of “marketized purchases” (市场收购). The temporary reserve policy will be supplanted by a series of Central Government and provincial policies to encourage domestic disposal of excess stocks through state auctions, processor subsidies, and tightening feed import regimes. Despite government assistance, many Chinese producers continue to face significantly higher production costs than the global average. Post expects that producers will begin shifting from corn production to sorghum or cash crops. In extreme cases, producers may plant crops with lower cost inputs such as soybeans and accept lower revenue.

On September 22, 2016, China’s Grain Bureau announced the “North East Corn Purchase Policy” to normalize domestic supply and demand market mechanisms. The policy will implement looser farm credit, local government loan guarantees for buyers, and improved access to drying, handling, and storage equipment. For corn growers approved by the State Council, there are about RMB 30 billion (\$4.5 billion) allocated for distribution to the North East region. The new subsidy ranges from RMB 134 to RMB 150 per mu (0.1647 acre) based on actual seeding acreage in the new production year. See the table below for the changes to the North East subsidy based on acreage.

At the local and provincial levels, North East provinces are developing new policy packages to liquidate corn stocks from state grain reserves. In the fall of 2015, Jilin, Heilongjiang, and Inner Mongolia provinces proposed transfers of direct cash subsidies ranging from \$25 to \$55 per ton to processors purchasing corn directly from state grain reserves. In early September 2016, industry experts indicated that the Central and Provincial Governments plan to allocate RMB 3 billion for this program. Eligible end-users benefiting from the subsidy include feed mills as well as corn starch, corn glucose, corn oil, and ethanol processors. Industry sources estimate the new subsidy will be slightly lower than last year at around \$25 to \$28 per ton. On October 27, 2016, Jilin province was the first in the North East region to officially announce the new processor subsidy program. The policy stipulates that processors purchasing corn from local provincial stocks between November 1, 2016 and April 30, 2016 are eligible for a \$30 per ton processor subsidy.

The Central Government will maintain support policies for producers for wheat and rice. However, these grains face the same challenges as corn. Mounting surpluses, pressure from cheaper imports, concerns about lagging productivity, and environmental deterioration are forcing China to structurally reform the agricultural subsidy model that it has developed over the past decade.

MY2016/17 New Subsidy Summary

Provinces	Total Funds Obligated (CNY Billion)	2016 new subsidy per mu	2016 new subsidy per hectare	Estimated MY2015/16 Area (1,000 Ha)	Estimated MY2016/17 Area (1,000 Ha)	Acreage Δ%
Inner Mongolia	¥6.63	¥134.66	¥817.37	3,437	3,280	-4.57%
Liaoning	¥4.58	¥136.55	¥828.87	2,375	2,235	-5.89%

Jilin	¥7.26	¥138.74	¥842.15	3,754	3,490	-7.03%
Heilongjiang	¥11.57	¥151.57	¥920.04	5,789	5,090	-12.07%
Total	¥30.04			15,355	14,095	-8.2%

Source: Post calculation based on CNGOIC and MOF data

On October 20, 2016, Han Changfu, Minister of Agriculture of the People’s Republic of China released an implementing measure of the “China Agricultural Modernization Plan 2016-2020,” the 13th Five Year Plan for agriculture. The document focuses on improving national agricultural productivity through scientific innovation and technology, a nationwide agricultural extension system, and the development of agricultural institutions for agricultural finance, insurance, commodity trading, and logistics, meanwhile also improving rural economic development, environmental sustainability, and farmer welfare. By 2020, the government aims to push agricultural modernization forward, guarantee national food security, enhance food safety, raise China’s international agricultural competitiveness, and raise the standard of living for farmers across rural China. The 13th Five Year Plan aims to continue and improve the rice and wheat minimum purchase price policy.

Central and Provincial Governments support modernization of Chinese grain production through the purchase of state-of-the-art agricultural machinery. In wealthier provinces in China, such as Zhejiang province, equipment buyers receive subsidies of up to 60 percent from the Central government and an additional 20 to 30 percent from Provincial authorities. However, due to small farm area, predominantly state-owned agricultural enterprises, custom harvesting operators, and investor-supported farming operations are the principle buyers of agricultural machinery.

As outlined in its 13th Five Year Plan, China is shifting away from its long-standing national reserve policy for corn, soybeans, and cotton. The country is instead promoting a greater set of risk management tools for its farmers and ranchers such as crop insurance, or as it is commonly referred to in China as “agricultural insurance.” Chinese government estimates that since the 1990s severe weather and disasters have caused, on average, annual economic losses of nearly \$25 billion. Since 2000, China has administered a pilot program for agricultural insurance for 15 crops ranging from staple grains, sugarcane, oilseeds, livestock, and tropical crops. Today, China administers the world’s second largest crop insurance program after the United States. According to the Chinese Insurance Regulatory Commission (CIRC), in 2015, the agricultural insurance premium volume in China was estimated at \$5.59 billion. Government sources report that in China in 2015 agricultural insurance coverage included approximately 100 million hectares and about 70 percent of all corn, wheat, and rice production.

The Central Government encourages insurance program participation through regulation, a 30 to 60 percent premium subsidy, outreach efforts, and reinsurance. Recent reforms have allowed greater flexibility for local governments to supplement program coverage by offering a greater range of policies for specialty crops, such as apples or tea, and additional premium subsidies. However, much like the early development of the U.S. Federal Crop Insurance Program, China faces many of the same issues of rate-setting, private sector cooperation, and outreach.

On September 23, 2016, China’s Ministry of Commerce (MOFCOM) announced it is imposing anti-

dumping (AD) duties on imported DDGS from the United States by requiring importers to pay cash deposits to Chinese customs of 33.8 percent.

Five days later, MOFCOM released its preliminary determination for its countervailing duty (CVD) investigation of imports of DDGS from the United States. Based on the preliminary determination, companies that participated in the sample investigation will pay preliminary duties in form of safety deposit to Chinese Customs authorities from ranging from 10 to 10.7 percent as countervailing duty combined with 33.8 percent as anti-dumping duty instead of 5 percent in the past. The 13 percent Value-Added Tax (VAT) will also apply in addition to AD import duty and the CVD import duty. These anti-dumping duties on DDGS are helping the Chinese government to manage lower volumes of alternative feed imports.

Transportation and Logistics

Industry sources and media reports suggest that Chinese authorities are considering a transportation subsidy for shipments of grain from North East China to Southern China. Recent Central Government reports also suggest that outbound grain shipments from North East China will receive priority access to facilitate grain distribution capacity.

In recent months, increased inspections scrutiny of truck tonnage has limited overland transportation capacity and raised freight rates for hauling grain from North East China.

Foreign Exchange and Market Developments

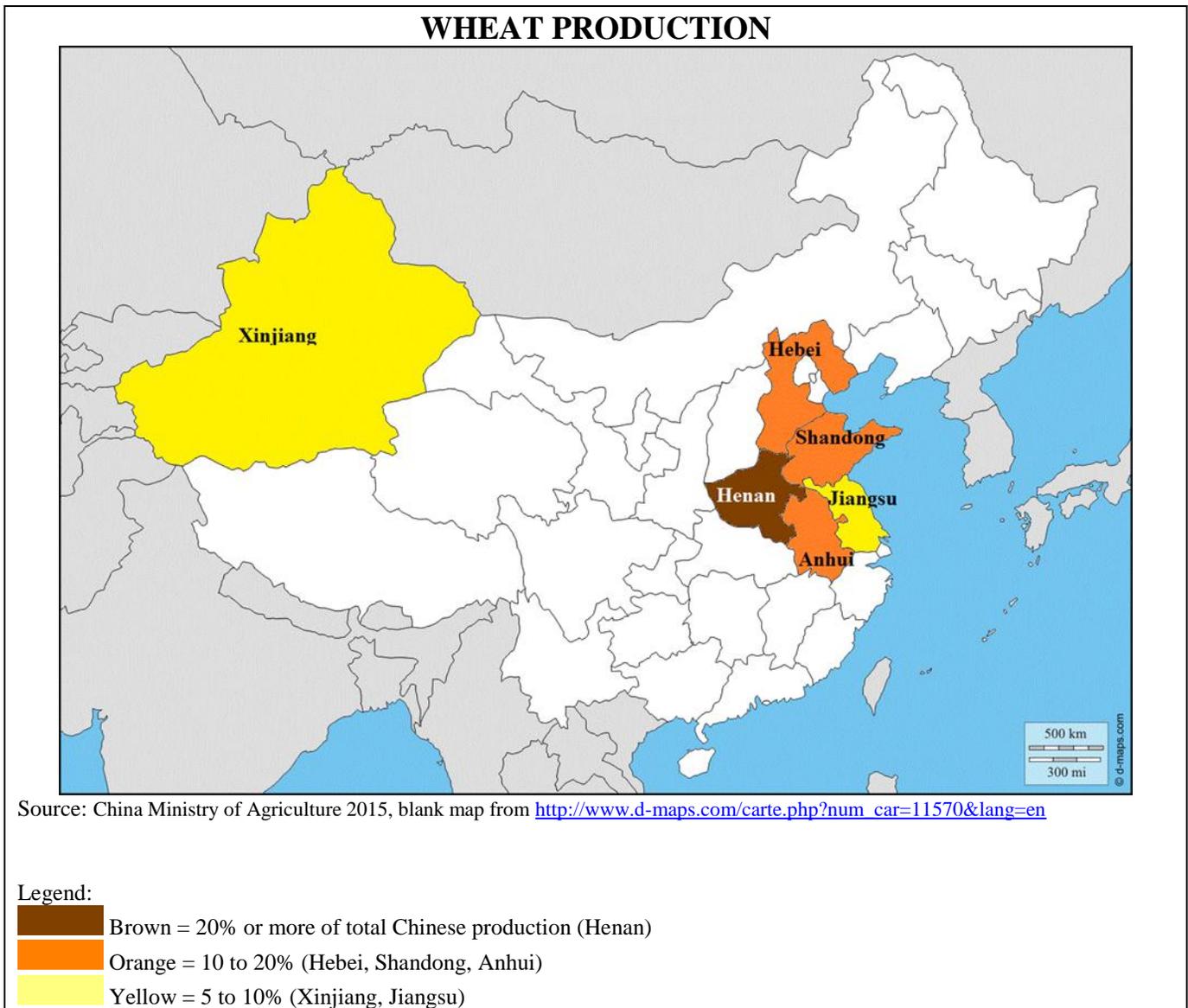
The Chinese Yuan (CNY) – U.S. Dollar (USD) exchange rate has reached its lowest point in more than eight years. The strong appreciation of the USD in recent months accelerated in November, raising commodity prices in Chinese markets for agricultural and non-agricultural commodities.

The China Securities Regulatory Commission (CSRC) has implemented new margin trading rules and transaction fees to curb excessive speculation and price manipulation. At the time that this report is published, futures markets for commodities have attracted highly leveraged speculative traders, exposing end-users and commercial hedgers to considerable risk.

The Dalian Commodity Exchange will add three delivery points for futures contracts in Suihua, Heilongjiang province; Songyuan, Jilin province; and Tongliao, Inner Mongolia, in addition to its main delivery point in Liaoning province for new crop corn future contracts settlement starting in September 2017.

Wheat

Production



MY2016/17 wheat production is forecast down 1 million tons from the USDA November estimate to 127 million tons, due to late-season rains and flooding in some major wheat producing regions. The average wheat yield for MY 2016/17 is forecast down to 5.23 MT/ha, down 41 kg per ha than USDA November estimates. Higher than normal precipitation at the end of the harvesting season from April to July 2016 downgraded crop quality and yields across East China's wheat-growing provinces including, Jiangsu, Hubei and Anhui. In beginning of September 2016, the National Grain Bureau Standard Quality Center reported that the rate of sprouted, unsound, and musty kernels rose to a national average of nearly 8 percent, compared to the 2015 national average of 5.5 percent. Industry sources report that the actual share of damaged grain may be greater than reported. Four major wheat producing provinces,

Jiangsu, Anhui, Henan, and Hubei, were seriously impacted. Industry sources report that in these four provinces as much as 24 percent of the crop may be out of condition.

MY 2015/16 wheat production is unchanged at 130.2 million tons.

Winter wheat planting is nearly complete in North East China. On November 7, the China National Grains and Oilseeds Information Center (CNGOIC) reported that MY2017/18 winter wheat production area forecast is 24.2 million hectares, nearly unchanged from last season. However, lower production yield due to wet planting conditions in Central and North East China and excessive dryness in North West China will offset expanded planted area. In recent years, scarce rainfall and depleted aquifers have limited irrigated water supplies.

Consumption

Total wheat consumption in MY2016/17 is revised up 5 million tons from USDA November estimate to 122 million tons based on higher feed use and post-harvest loss. MY2016/17 wheat feed and residual use is raised 5 million tons to 20 million on greater quantities of feed-quality wheat.

Although feed usage is forecast higher than last year, it represents a temporary spike until flood-damaged wheat supplies are exhausted. The fundamental supply and demand structure and government price floor policies for wheat remain unchanged.

Industry sources report that Jiangsu and Anhui provinces face the most serious wheat kernel sprouting issues. State Grain Procurement elevators in these two provinces report a rejection rate of about 20 percent, leaving growers in these provinces to sell their sprouted grain to nearby feed mills at significant discounts. Traders report discounts on deliveries of sprouted wheat between 20 and 24 percent.

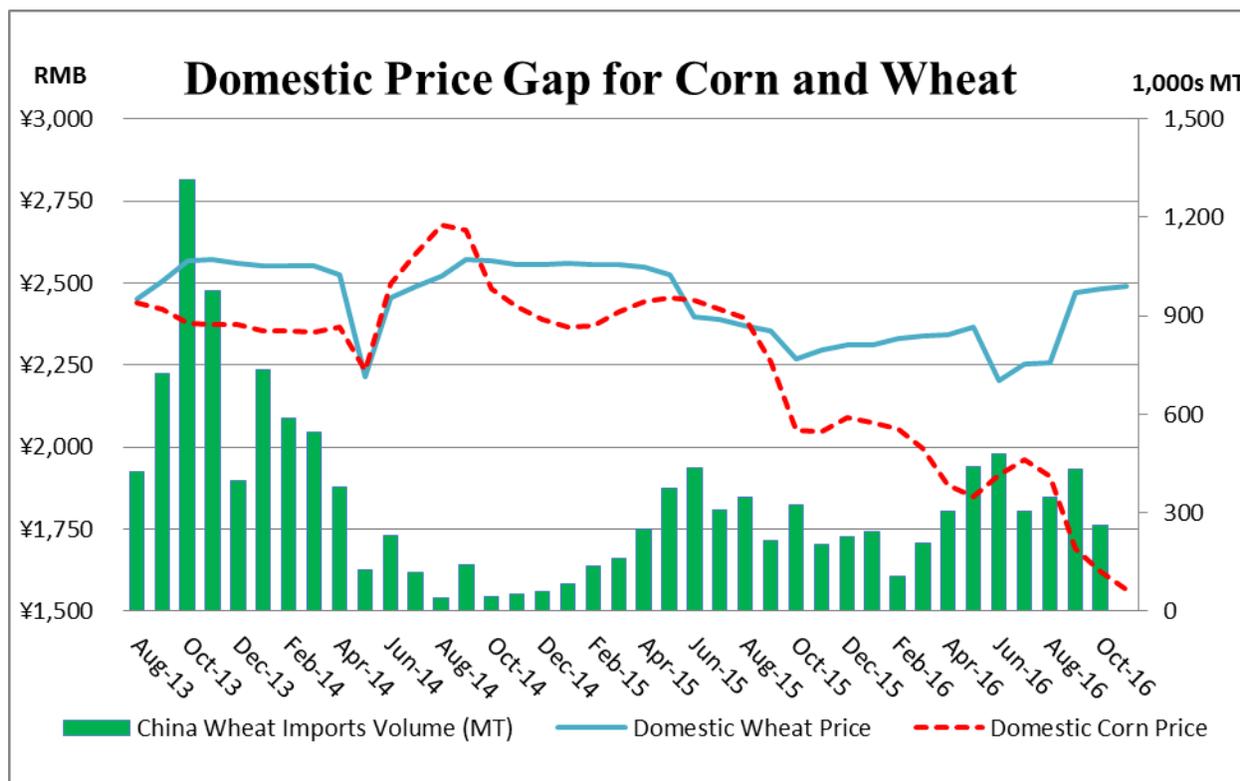
A regional shortage of high-quality wheat supplies in South China has translated into higher standard milling-quality wheat prices across China. November wholesale wheat prices jumped 3 percent from August quotes to RMB 2,490 per ton.

MY2016/17 wheat FSI use is unchanged from USDA November estimates of 102 million tons. This represents a slight increase from MY2015/16 as flood and rain damage will limit domestic supplies of standard milling-quality wheat. Expansion in the bakery sector and changes to consumer behavior continues to grow demand for high-protein wheat as middle-class Chinese households adopt Western-style bakery products into their daily diets. In 2016, the Chinese bakery sector grew at a Compound Annual Growth Rate (CAGR) of 10 percent based on industry sources. Demand for high-gluten flour is expected to reach double-digits.

MY2015/16 feed and residual use is revised up 0.5 million tons from USDA November estimates to 11 million tons reflecting expanded feed use of discounted, old-crop wheat supplies. In late June 2016, feed mills began purchasing a small share of out-of-condition wheat supplies at significant discounts relative to local corn prices. Post expects that feed mills near flooded areas following seasonal storms in 2016 will offer RMB 1,400 to 1,800 discounts to liquidate 2.5 to 3.5 million tons of sprouted or moldy wheat. All other wheat supplies will be marketed at a significant premium over corn prices.

MY2015/16 wheat FSI use is estimated at 101.5 million tons, unchanged from the previous USDA forecast.

As planting winds to a close across the North East region, average spot prices for wheat in November 2016 jumped 10 percent or RMB 235 per ton (\$34) since August 2016 to RMB 2,490 per ton (\$362).



Source: China JCI Consulting and Global Trade Atlas

Imports

Forecast MY2016/17 wheat imports are projected at 4 million tons, 0.5 million tons higher than the USDA November forecast. This represents about a 15 percent increase from MY2015/16 imports as flood and rain damage limit the availability of domestic supplies of high-quality wheat. On October 15, 2016, the NDRC announced the 2017 TRQ for wheat at 9.6 million tons, unchanged from 2016.

According to China customs trade statistics, after six months of strong wheat import volumes greater than 300,000 tons, October 2016 wheat imports fell to 262,000 tons. As of October 2016, China customs reports that MY2015/16 wheat imports at 3.35 million tons, or 130,000 tons lower than USDA November estimates.

Stocks

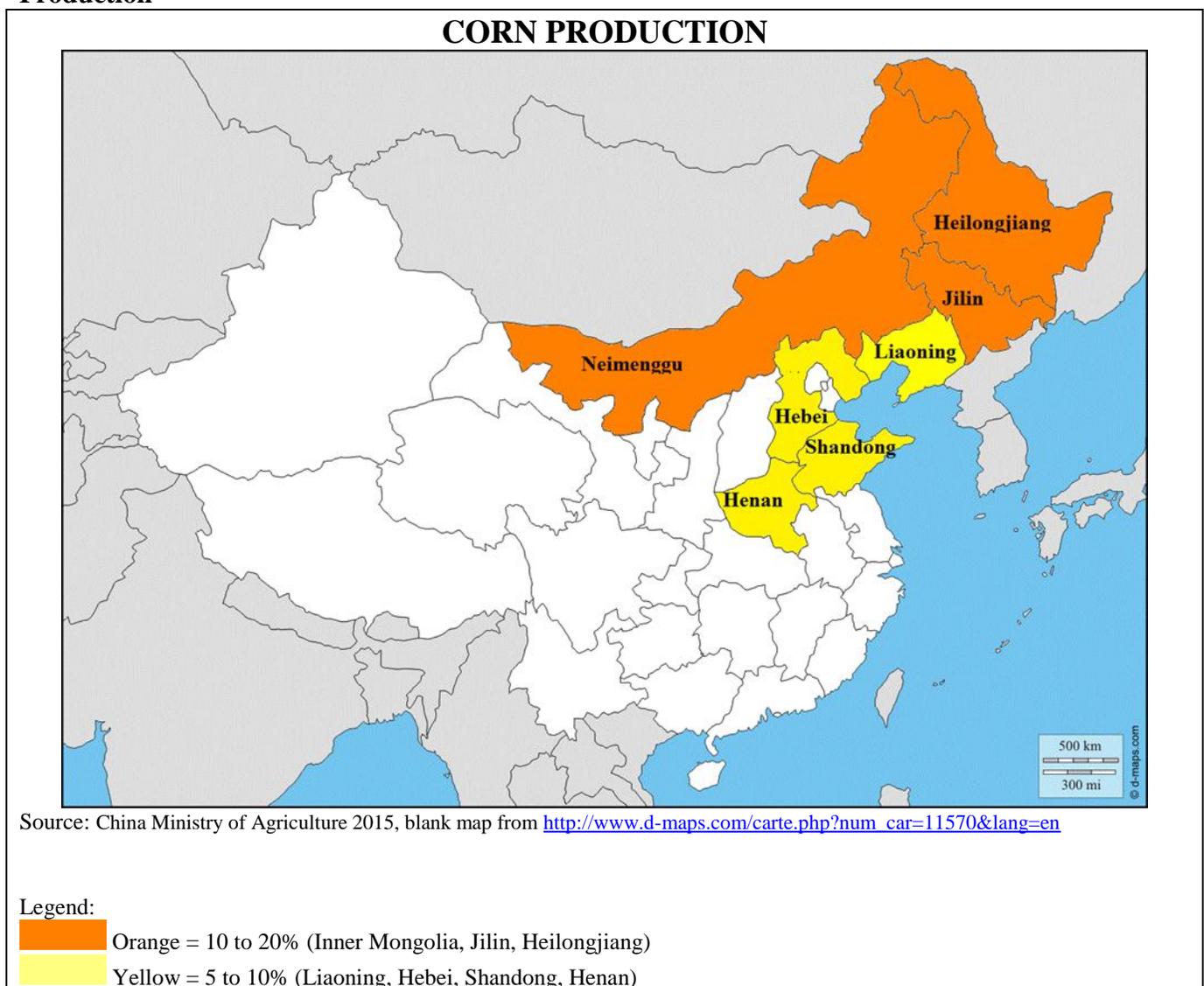
MY2016/17 wheat stocks are projected at 104.7 million tons, down 6.0 million tons from USDA forecasts on higher feed use of out-of-condition wheat supplies. MY2015/16 wheat stocks are estimated

at 96.5 million tons, down 0.5 million tons from USDA November estimates due to increased feed usage.

The State Administration of Grain has mobilized emergency funding from government resources and private sector capital to procure low-quality wheat which fails to meet NDRC criteria at the provincial-level. According to State Administration of Grain statistics, as of November 30, 2016, State Grain procurement of MY 2016/17 wheat stocks reached 29.4 million tons, or 8 million tons higher than last year.

Corn

Production



Corn production in MY2016/17 is forecast up 2 million tons to 218 million tons from USDA November forecast as higher yields offset lower production area. MY2016/17 corn harvested area is forecast at 36.3 million hectares, 300,000 hectares higher than the USDA November estimate due to limited alternative planting options in North East China. MY2016/17 corn harvested area is forecast down nearly five percent from MY2015/16 as corn producers respond to recent farm support policy changes.

The November CNGOIC report slashed national corn planted area in MY2016/17 by more than 5 percent and lowered corn planted area in the North East region by nearly 9 percent from last season. After the announcement that the national grain reserve price support program would be eliminated, some corn producers have shifted corn area into soybean or sorghum production.

Estimated MY2015/16 production is unchanged at 224.6 million tons.

Consumption

Forecast MY2016/17 corn consumption is revised up 8 million tons to 234 million tons on higher feed use, post-harvest loss, and FSI use. In spite of slower economic growth, Chinese feed demand remains strong. Swine numbers are forecast to recover and poultry production is forecast slightly higher in MY2016/17 and MY2017/18. Lower corn prices are expected to reduce demand of alternative feed ingredients such as sorghum, barley, and DDGS.

MY 2016/17 FSI consumption is forecast to expand 3 million tons higher than USDA November estimates to 70 million tons due to strong industrial use boosted by the newly implemented government processor subsidy program and higher ethanol forecast production.

MY2016/17 feed and residual use is forecast to rise 5 million tons from USDA's November estimate to 164 million tons as domestic corn prices fall and for the overall marketing year, will gain price competitiveness over alternative feeds such as DDGS and sorghum. Industry sources report that temporary reserve corn supplies are not suitable for feed use. However, new crop corn supplies are meet feed miller specification standards.

Estimated MY2015/16 corn consumption is unchanged at 217.5 million tons. Industry sources report that old-crop corn supplies sold at auction are out-of-condition and have been tested to contain high-levels of mycotoxins and may not be suitable for corn processing or feeding.

Estimated MY 2015/16 feed and residual use remains unchanged from USDA's November estimate of 153.5 million. With DDGS imports expected to drop, feed mills have begun to switch back to using domestic corn.

For the week of November 21 to 27, State Grain Administration procurement prices for corn in Inner Mongolia, Liaoning, Jilin, and Heilongjiang provinces average 1,485 RMB per ton (\$216).

On the Dalian Futures Market, nearby futures prices for January 2017 delivery are at 1,621 RMB per ton (\$235) and for March 2017 delivery at 1,562 RMB per ton (\$227). As harvesting of new crop corn is nearly complete across the North East region, 30-day average spot prices in early December 2016 are at 1,681 RMB per ton (\$244), dropping 2 percent or RMB 345 per ton (\$50) since August 2016.

Imports

Forecast MY2016/17 corn imports are cut 2 million tons to 1 million due to diminishing price competitiveness for imported corn. Under current market conditions, the average CNF price for U.S. corn landed at Chinese ports is about RMB 1,500 per ton (\$218). When domestic corn prices fall to RMB 1,400 to 1,500 per ton (\$203 to \$218), U.S. imported corn supplies will lose price competitiveness.

On October 16, 2016, the NDRC announced the 2017 TRQ for corn at 7.2 million tons, unchanged from 2016.

MY2015/16 import estimates are unchanged from USDA November estimates at 3.17 million tons.

Exports

Forecast MY2016/17 corn exports are unchanged at 20,000 MT from the USDA November estimate.

On September 30, 2016, China announced that COFCO and Beidahuang, two state-owned trading companies, were granted export permits to ship 2 million tons of corn. The announcement signaled the first export permits in over a decade and signaled potential export demand to support a domestic market with weakening prices.

Stocks

Ending stocks in MY2016/17 are forecast down 2.0 million tons to 101.8 million tons from the USDA November forecast following changes in domestic corn support policies and increased feed and FSI consumption.

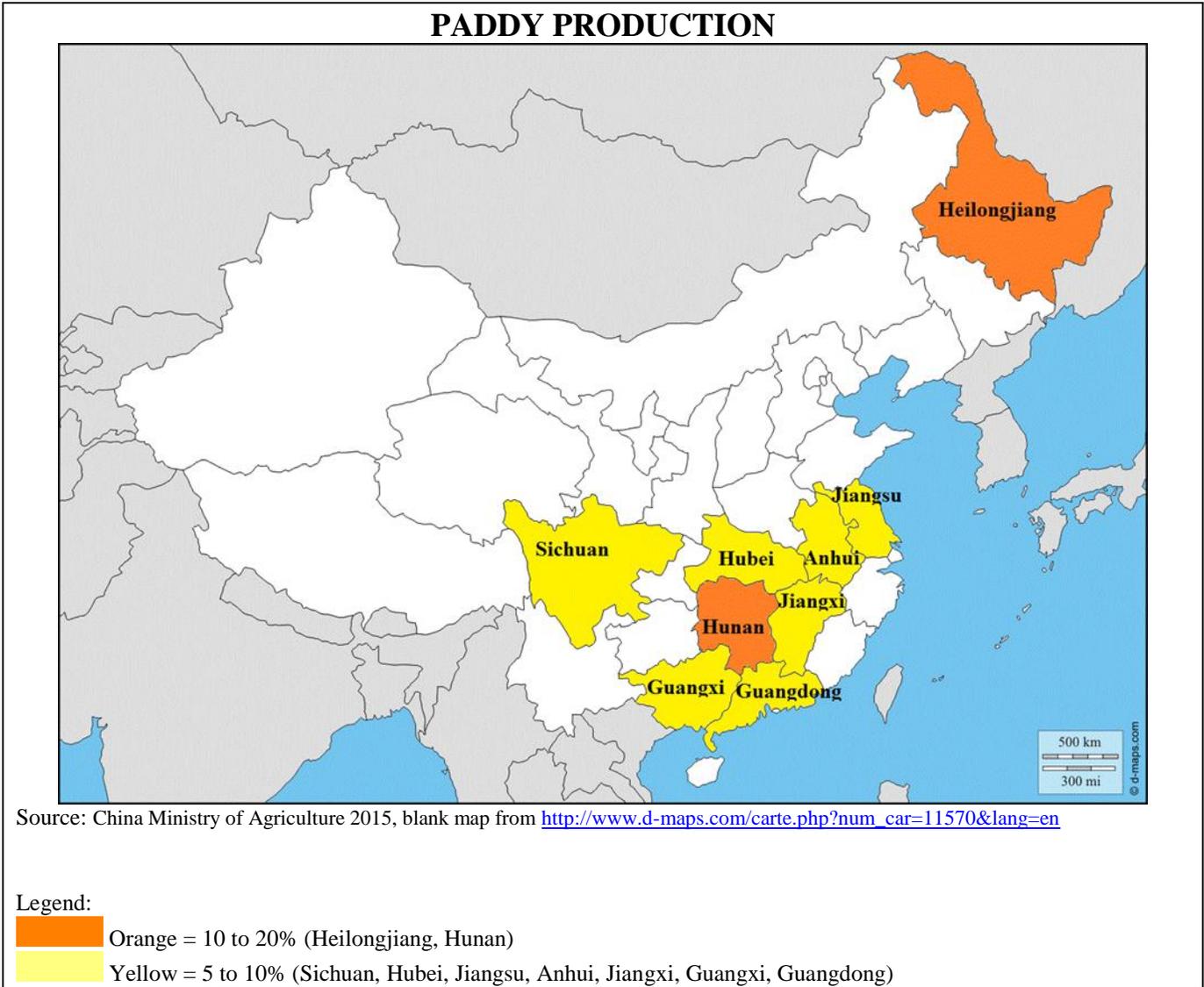
According to State Administration of Grain statistics, as of November 30, 2016, State Grain procurement of corn in MY2016/17 totaled 27.14 million tons, down 11.1 million tons from last season.

Since April 2016, government auctions have liquidated large volumes from 2013 and 2014 corn stocks. In late October 2016, China's National Grain Trade Center, an online platform for trading state-owned stockpiles, recently reported that auctions have sold 9.1 million tons closing rate of 20.80 percent during 13 national auctions.

MY2015/16 stocks are estimated at 110.7 million tons, unchanged from USDA's November estimates.

Rice

Production



Forecast MY2016/17 rough rice production is lowered 1.4 million tons to 207.9 million tons from the USDA November forecast due to excessive rainfall from several tropical storms. From late August to the end of September 2016, multiple strong typhoons accompanied by torrential rain and strong winds impacted one-half of the major rice growing areas in South Central China. In this region, during the storm season, second-crop rice was between the grain-filling stage of development and full maturity. Single-crop rice has already been harvested. Based on reports issued by the China’s Ministry of Civil Affairs, by the end of August 2016, flood damage across 11 provinces affected nearly 2.24 million hectares of cropland.

Based on industry reports, there is no sign that the State Administration of Grain will reduce prices in upcoming fall auctions for old-crop rice stocks (MY2012/13, MY2013/14, and MY2014/15).

Estimated MY 2015/16 rough rice production is unchanged at 208.2 million ton from the USDA November estimates.

Consumption

Forecast MY2016/17 consumption is unchanged at 144 million tons based on average feed use and FSI use. Uncompetitive domestic prices, inconsistent quality, and flat demand for staple grains have contributed to sluggish consumption growth. Rice feed usage will be elevated as flood-damaged rice cannot be stored or processed for milling. FSI use is raised on plentiful supplies of cheap imported rice. In MY2016/17, the November CNGOIC forecast estimates feed and industrial demand to increase 13.1 and 8.3 percent respectively, offsetting a 0.3 percent decline in food use. MY2015/16 consumption is estimated unchanged at 144 million tons.

A direct comparison of Chinese denominated quotes for 30-day average spot prices does not reflect the 8-percent rise in the U.S. Dollar and Chinese Yuan exchange rate. Although early December 2016 30-day spot prices for early-indica rice at 2,599 RMB per ton (\$377) are nearly unchanged from August 2016 quotes at RMB 2,605 per ton, in Chinese Yuan terms, there was a nearly 4 percent increase in U.S. Dollar-denominated prices.

Imports

Forecast MY2016/17 rice imports are raised 200,000 tons higher than the USDA November forecast to 5.2 million tons due to high policy-supported prices and lower-quality new-crop supplies. The average CIF rice price from South East Asia to China is RMB 2,912 per ton (\$448).

According to official Chinese Customs data, Vietnam and Thailand are the leading exporters of rice to China due to competitive prices, short distance to China, quality control, and trade servicing activities. Pakistan is the third-largest importer.

Chinese imports of rice from Myanmar have diminished significantly due to persistent quality issues and an ongoing effort by Chinese authorities to curb cross-border trade and encourage ocean bound ports of entry. Despite a 2014 agreement between the governments of Myanmar and China for the export of 100,000 tons of rice, to date, according to the Chinese Ministry of Agriculture only 30,000 tons have been delivered due to poor quality. In July 2016, Chinese import quarantine authorities rejected several consignments due to serious quality issues.

On October 16, 2016, the NDRC announced the 2017 TRQ for rice at 5.3 million tons, unchanged from 2016.

MY2015/16 rice imports are estimated unchanged at 4.8 million tons based on exporter statistics.

Stocks

Forecast MY2016/17 ending stocks are revised down 0.8 million tons to 70.1 million tons on lower production.

Rice producers in China continue to receive government producer price supports. A State Grain Administration bulletin published on February 3, 2016 reports that government subsidies remain nearly unchanged from 2015 and government prices are slightly higher in 2016/17.

State Grain procurement authorities offer RMB 2,660 per ton (\$387) for early-season indica rice, RMB 2,760 per ton (\$401) for mid-to-late season indica rice, and RMB 3,100 per ton (\$451) for japonica rice. In September and October, growers in flooded regions in Jiangxi, Hubei, and Anhui provinces were offered quality discounts of about RMB60 to 160 (\$9 to \$24) for early indica rice with procurement floor-prices ranging from RMB 2,500 to 2,600 per ton (\$375 to \$390).

The 2016 government procurement period starts on September 23, 2016 and ends on February 28, 2017. Procurement programs in eight provinces (Anhui, Sichuan, Hainan, Hubei, Heilongjiang, Liaoning, Jiangsu and Jiangxi) in South China are underway. As of November 30, 2016, according to State Administration of Grain statistics, in MY2016/17, State Grain procurement of late-indica rice totaled 19.87 million tons, up 2.33 million tons from last season. State Procurement of japonica rice totals 22.56 million tons, an increase of 2.6 million tons from last season.

Estimated MY 2015/16 rough rice stocks are unchanged from USDA November estimates 63.7 million tons. From early spring to late summer of 2016, China's National Grain Trade Center, an online platform for trading state-owned stockpiles, reported that 1.2 million tons of old-crop rice stocks (MY2011/12, MY2012/13, and MY2013/14) were auctioned from the temporary reserve onto the open market.

Sorghum

Production

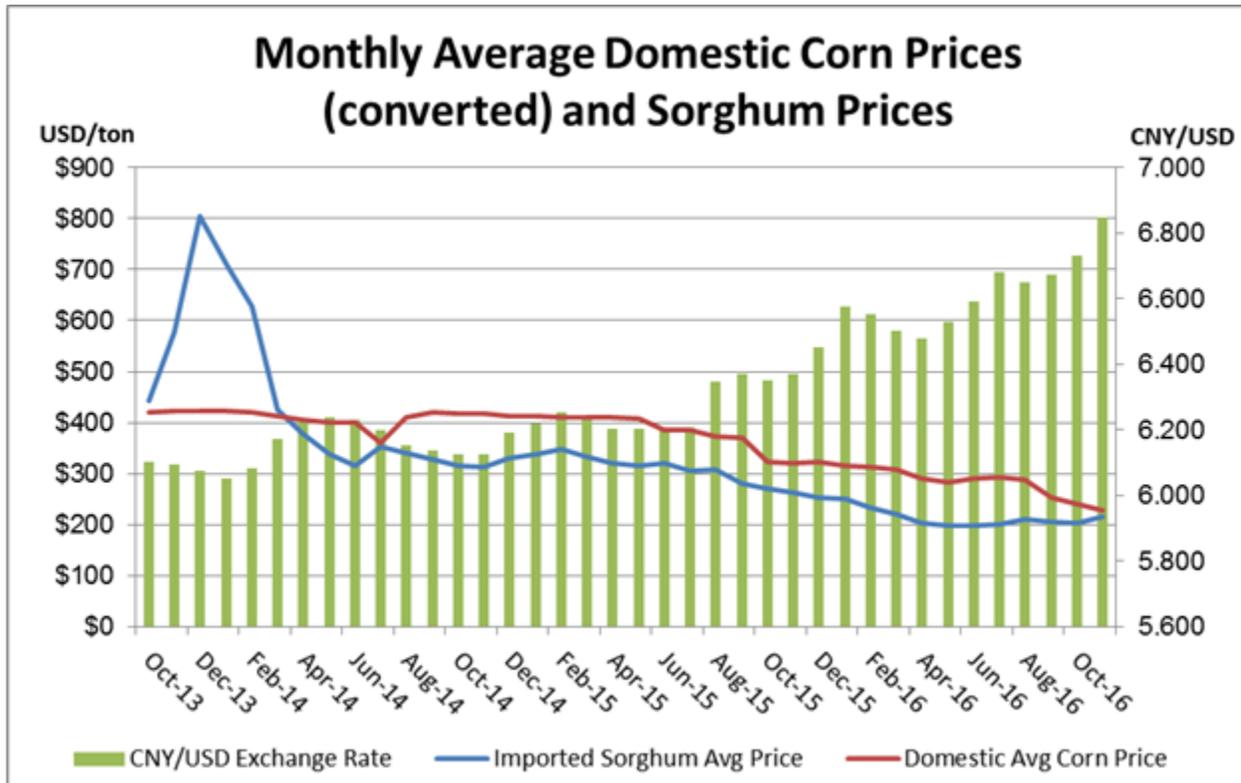


MY2016/17 sorghum production is revised higher by 100,000 tons to 3.3 million tons on greater sorghum planting area. Following the Central Government elimination of the temporary reserve program for corn, some growers have switched to grain sorghum. Sorghum production in China is concentrated in the North East region and Inner Mongolia. For growers in these regions who can no longer rely on corn support prices, sorghum production is one of the few remaining alternative crops available. The MY2016/17 harvest is nearly complete in North East China.

Imports

Sorghum imports are forecast to fall in MY2016/17. According to Post’s forecast, MY2016/17 sorghum imports are down 1.7 million tons to 3.8 million tons from USDA November estimate.

As the chart indicates below, imported sorghum prices (blue line) have followed trends for China’s domestic corn prices (red line) downward.



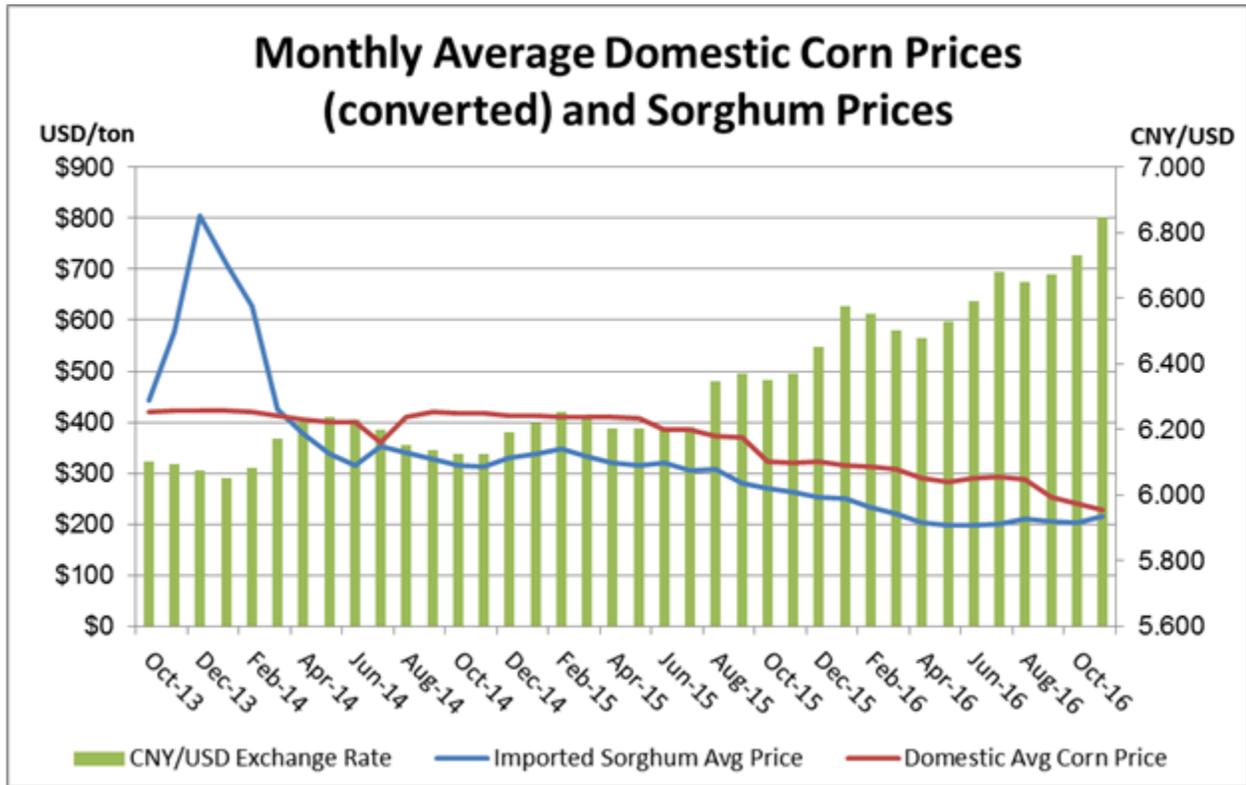
- Legend:
- Brown = 20% or more of total Chinese production (Jilin)
 - Orange = 10 to 20% (Inner Mongolia, Sichuan)
 - Yellow = 5 to 10% (Heilongjiang, Liaoning, Guizhou)

MY2016/17 sorghum production is revised higher by 100,000 tons to 3.3 million tons on greater sorghum planting area. Following the Central Government elimination of the temporary reserve program for corn, some growers have switched to grain sorghum. Sorghum production in China is concentrated in the North East region and Inner Mongolia. For growers in these regions who can no longer rely on corn support prices, sorghum production is one of the few remaining alternative crops available. The MY2016/17 harvest is nearly complete in North East China.

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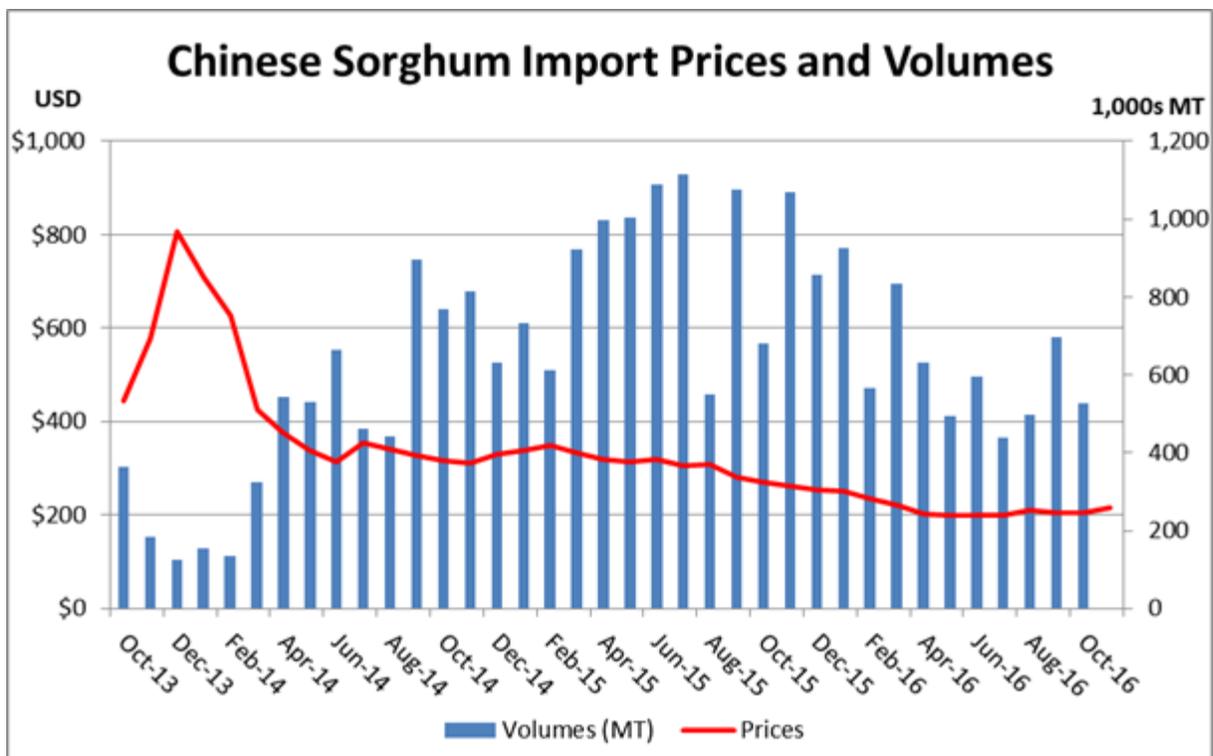


Source: Post Calculation, China CNGOIC, and China Customs Data

In the first half of 2016, traders reported that imported sorghum at the RMB 2,000 level (\$295) was profitable. Following major policy announcements and falling corn prices, sorghum prices in September 2016 gradually settled to around RMB 1,690 per ton (\$205) as sorghum traders offered discounts to liquidate inventories ahead of new crop corn from North East China.

Chinese feed buyers are carefully monitoring the market and adjusting their buying patterns for the next year. In November, domestic corn prices and imported sorghum prices reached parity, as the Chinese Yuan depreciated and Central Government interventions buoyed corn prices, prompting some Chinese feed millers and traders to return to the market for seasonal and speculative buying.

See the charts below illustrating the relationship between domestic corn and imported sorghum prices.



Source: China CNGOIC and China Customs Data

MY2015/16 sorghum imports are unchanged at 8.2 million tons due to strong late-season buying before the new marketing year for corn. In October 2016, China Customs data reported that as of September 2016, China imported approximately 8.2 million tons of sorghum in MY2015/16, or about 745,000 tons per month.

Consumption

MY2016/17 consumption is forecast sharply lower, falling 1.5 million tons from USDA November estimates to 7.8 million tons on lower feed use. Feed consumption is revised down 1.7 million tons to 5.5 million tons, due to abundant supplies of new crop corn, meanwhile FSI use is revised up 200,000 tons to 2.3 million tons due to recovering demand for traditional sorghum-based spirits (baijiu) and higher utilization for ethanol production. Industry sources report that in the North East region low-quality sorghum is used for ethanol feedstock. Post estimates that ethanol feedstock utilization will treble to 90,000 tons.

MY2015/16 consumption is estimated at 10.5 million tons, remains unchanged from the USDA October estimate.

Stocks

Forecast MY2016/17 ending stocks are revised down 100,000 tons to 257,000 metric tons on higher feed demand.

Estimated MY2015/16 ending stocks are unchanged at 967,000 tons on strong late-season buying ahead of the harvest of new crop sorghum and corn.

PSD Tables

Wheat Market Begin Year	2014/2015		2015/2016		2016/2017	
	Jul 2014		Jul 2015		Jul 2016	
China	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	24069	24069	24140	24140	24300	24300
Beginning Stocks	65274	65274	76105	76105	97042	96509
Production	126208	126208	130190	130190	128000	127000
MY Imports	1926	1926	3476	3443	3500	4000
TY Imports	1926	1926	3476	3443	3500	4000
TY Imp. from U.S.	326	326	613	613	0	500
Total Supply	193408	193408	209771	209738	228542	227509
MY Exports	803	803	729	729	800	800
TY Exports	803	803	729	729	800	800
Feed and Residual	16000	16000	10500	11000	15000	20000
FSI Consumption	100500	100500	101500	101500	102000	102000
Total Consumption	116500	116500	112000	112500	117000	122000
Ending Stocks	76105	76105	97042	96509	110742	104709
Total Distribution	193408	193408	209771	209738	228542	227509

(1000 HA) ,(1000 MT)

Corn Market Begin Year	2014/2015		2015/2016		2016/2017	
	Oct 2014		Oct 2015		Oct 2016	
China	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	37123	37123	38119	38119	36000	36300
Beginning Stocks	81323	81323	100472	106472	110774	116774
Production	215646	215646	224632	224632	216000	218000
MY Imports	5516	5516	3174	3174	3000	1000
TY Imports	5516	5516	3174	3174	3000	1000
TY Imp. from U.S.	604	0	0	0	0	30
Total Supply	302485	302485	328278	334278	329774	335774
MY Exports	13	13	4	4	20	20
TY Exports	13	13	4	4	20	20
Feed and Residual	140000	140000	153500	153500	159000	164000
FSI Consumption	62000	56000	64000	64000	67000	70000
Total Consumption	202000	196000	217500	217500	226000	234000
Ending Stocks	100472	106472	110774	116774	103754	101754
Total Distribution	302485	302485	328278	334278	329774	335774

(1000 HA) ,(1000 MT)

Rice, Milled Market Begin Year China	2014/2015		2015/2016		2016/2017	
	Jul 2014		Jul 2015		Jul 2016	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	30310	30310	30210	30200	30320	33310
Beginning Stocks	53102	53102	57436	57436	63735	63735
Milled Production	144560	144560	145770	145770	146500	145500
Rough Production	206514	206514	208243	208243	209286	207857
Milling Rate (.9999)	7000	7000	7000	7000	7000	7000
MY Imports	4700	4700	4800	4800	5000	5200
TY Imports	5150	5150	4600	5000	5000	5200
TY Imp. from U.S.	0	0	0	0	0	0
Total Supply	202362	202362	208006	208006	215235	214435
MY Exports	426	426	271	271	300	300
TY Exports	262	262	275	271	300	300
Consumption and Residual	144500	144500	144000	144000	144000	144000
Ending Stocks	57436	57436	63735	63735	70935	70135
Total Distribution	202362	202362	208006	208006	215235	214435

(1000 HA) ,(1000 MT)

Sorghum Market Begin Year China	2014/2015		2015/2016		2016/2017	
	Oct 2014		Oct 2015		Oct 2016	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	619	619	620	620	650	660
Beginning Stocks	568	568	706	706	967	967
Production	2885	2885	3000	3000	3200	3300
MY Imports	10162	10162	8284	8284	5500	3800
TY Imports	10162	10162	8284	8284	5500	3800
TY Imp. from U.S.	8711	8711	0	7601	0	2800
Total Supply	13615	13615	11990	11990	9667	8067
MY Exports	9	9	23	23	10	10
TY Exports	9	9	23	23	10	10
Feed and Residual	10700	10700	8800	8800	7200	5500
FSI Consumption	2200	2200	2200	2200	2100	2300
Total Consumption	12900	12900	11000	11000	9300	7800
Ending Stocks	706	706	967	967	357	257
Total Distribution	13615	13615	11990	11990	9667	8067

(1000 HA) ,(1000 MT)