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China's Sugar Production Continues to Rebound

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Report Highlights:

China's sugar production in marketing year (MY) 2017/18 is forecast to increase for the second consecutive year, with expanded acreage for both sugar cane and sugar beets. This increased domestic production, coupled with the safeguard measure on sugar imports, is expected to result in Chinese sugar imports continuing to fall in MY 2017/18. Although industry contacts expect global prices to weaken due to robust world supplies, restrictions on imports and high domestic production costs are expected to soften the decline in domestic prices.

Executive Summary:

China's sugar production in marketing year (MY) 2017/18 is forecast to increase for the second consecutive year, with expanded acreage for both sugar cane and sugar beets. This increased domestic production, coupled with the safeguard measure on sugar imports, is expected to result in Chinese sugar imports continuing to fall in MY 2017/18. Although industry contacts expect global prices to weaken due to robust world supplies, restrictions on imports and high domestic production costs are expected to soften the decline in domestic prices.

Cane Sugar

MY 2017/18 cane sugar production is forecast at 9.2 million, unchanged from the previous forecast, and nearly 1 MMT higher than the revised MY 2016/17 production estimate. Sugar cane acreage has expanded (although it is still far below the levels of earlier in this decade) as a result of high sugar prices in late 2016 and early 2017. These prices have also resulted in high profits for sugar processors, and allowed them to increase the purchase price to farmers (see chart below) as well as pay farmers in a timely manner. In addition to acreage increases, production weather this year has also been favorable and yields are expected to be strong. Local governments have also provided farmers with subsidies for seeds, farm machinery, plastic mulching film and fertilizers to help boost production.

The MY 2016/17 cane sugar production estimate is revised down 250,000 metric tons to 8.25 MMT in light of Chinese government production statistics as well as industry estimates.

Purchase Price of Sugar Cane in Major Producing Provinces				
RMB per MT (USD \$1.00 = RMB 6.7)				
	Guangxi	Yunnan	Guangdong	Hainan
MY 2010/11	492	375	540-550	525
MY 2011/12	500	420	510	550
MY 2012/13	475	420	500	500
MY 2013/14	440	400	385-420	450
MY 2014/15	390-410	390-410	380-405	400
MY 2015/16	430-440	430	440-450	440-450
MY 2016/17	480-500	460	480	520
MY 2017/18 (Estimated)	490	450	470	510

Source: ATO Guangzhou interviews with industry contacts

Industry contacts report that as long as purchase prices for sugar cane remain about 450 Chinese yuan (RMB) per ton, most farmers will continue to have reasonable profits and maintain or increase sugar cane acreage.

Beet Sugar

MY 2017/18 beet sugar production is forecast at a record 1.3 MMT, unchanged from the previous forecast, and 2.5 MMT above the revised MY 2016/17 estimate. High sugar prices, coupled with the ending of the corn temporary reserve program in early 2016, have encouraged farmers in regions such as Inner Mongolia to switch to growing sugar beets. In addition, the construction of new large beet sugar mills (and expansion of some existing ones) in Northern China is expected to boost demand for sugar beets.

The MY 2016/17 beet sugar production estimate is revised down slightly to 1.05 MMT in light of Chinese government production statistics as well as industry estimates.

Purchase Price of Sugar Beets in Major Producing Provinces			
RMB per MT (USD \$1.00 = RMB 6.7)			
	Xinjiang	Heilongjiang	Inner Mongolia
MY 10/11	353	400	390
MY 11/12	450	532	480-500
MY12/13	450	560	500
MY13/14	440	NA*	520-550
MY14/15	440	550	530-550
MY15/16	448	555	540
MY16/17	443	560	530-540
MY16/17 (Estimated)	440	555	525

Source: ATO Guangzhou interviews with industry contacts

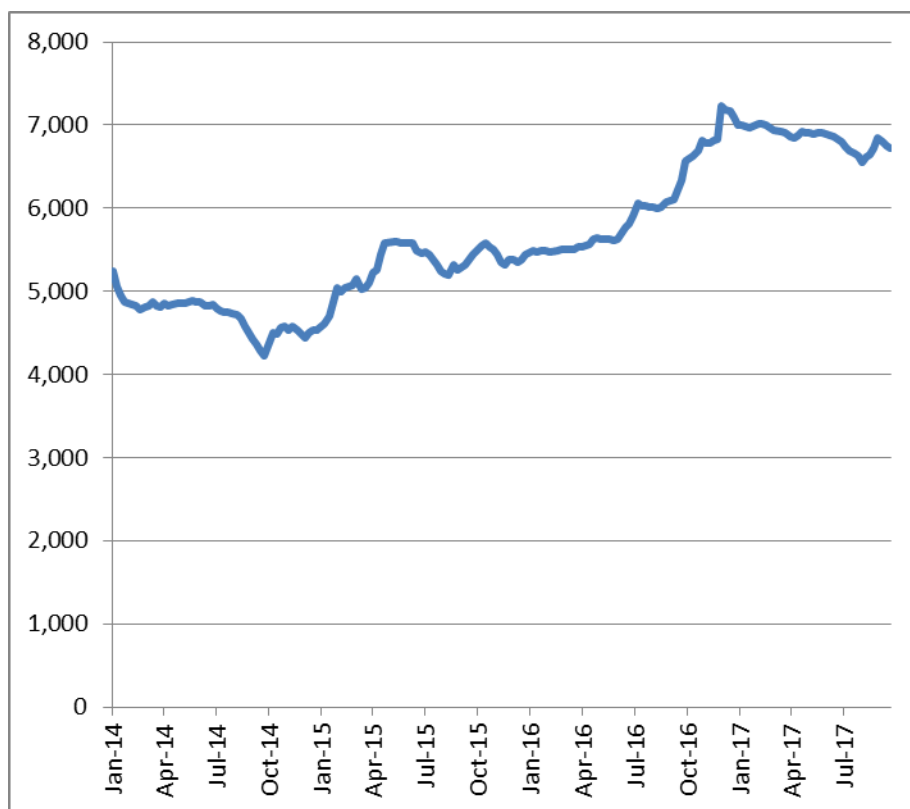
Centrifugal Sugar Production

MY 2017/18 sugar production is forecast at 10.5 million tons, unchanged from the previous forecast but 1.2 MMT above the revised MY 2016/17 estimate. Of this total, 9.2 MMT is cane sugar, and 1.3 MMT is beet sugar. Guangxi province is expected to continue to be the largest producer of sugar cane, accounting for 60 percent of cane sugar production. For sugar beets, Inner Mongolia is on pace to surpass Xinjiang as the largest producer of sugar beets in the near future.

The MY 2016/17 sugar production estimate is revised down 200,000 tons to 9.3 MMT, of which 8.25 MMT is cane sugar is and 1.05 MMT is beet sugar.

After peaking at the end of December 2016, China's sugar price has been slowly declining, falling about 7 percent by October 2017. This decline has been a result of both rising global supplies (and subsequent falling global prices), as well as the selling of government sugar stocks. However, the safeguard measure on imports has been a factor in limiting this price decline.

Chart: Wholesale price (RMB) of Grade 1 Granulated Sugar in Guangxi Province



Source: ATO Guangzhou, based on price information by Guangxi Sugar Net

According to industry contacts, the MY 2017/18 sugar price is forecast at RMB 6000 (\$923)/ton, about eight percent lower than that of 2016/17 which was approximately RMB6500 (\$1000)/ton. If realized, this price would still be far above the prices of MY 2014/15 and MY 2015/16, and industry contacts estimate that most of China's sugar mills could continue to operate with good profitability.

Consumption

MY 2017/18 consumption is forecast at 15.8 million tons, unchanged from the previous forecast and up slightly from the MY 2016/17 estimate. Moderately lower sugar prices and continued growth in the food manufacturing industry should support a small increase in consumption. However, low corn prices have helped increase demand for sugar replacements, and this could limit consumption growth.

The MY 2016/17 consumption estimate is unchanged at 15.6 MMT.

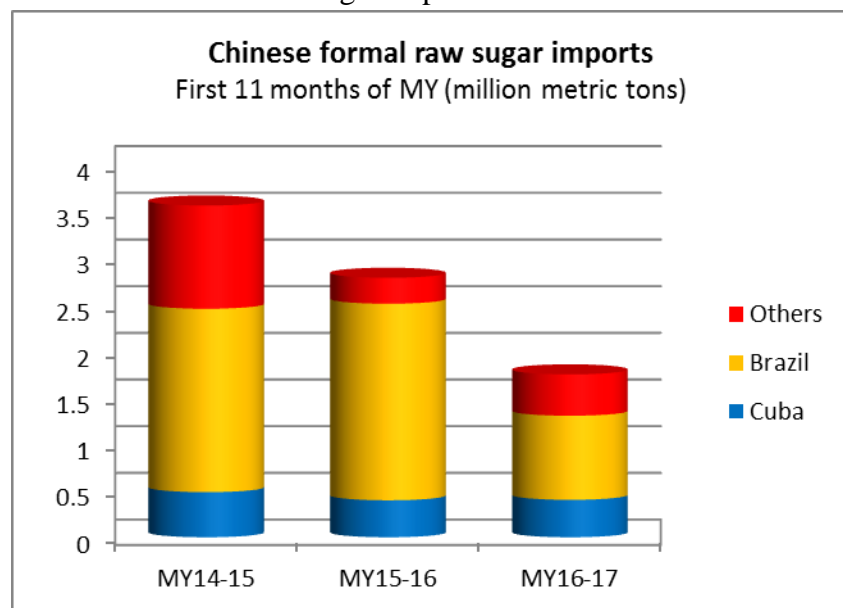
Trade

MY 2017/18 sugar imports are forecast at 4.2 MMT (including 3.8 MMT of raw sugar), unchanged from the previous forecast and 400,000 metric tons lower than the revised MY 2016/17 estimate. This reduction in imports is a result of higher domestic production, and the safeguard measure on sugar imports. In addition, many industry contacts expect illegal sugar trade to fall as a result of stricter enforcement at the borders.

On May 22, 2017, China's Ministry of Commerce (MOFCOM) announced a safeguard measure on sugar imports from major supplying countries. For out-of-quota imports, the tariff has been raised from 50 percent to 95 percent, effective May 22, 2017. For sugar imports within-quota, which is 1.945 million tons annually, the tariff remains unchanged at 15 percent. For more information on this Chinese sugar tariff, please see the USDA GAIN report [“China Raises Tariffs on Imported Sugar”](#).

The MY 2016/17 import estimate is reduced by 600,000 tons from the previous estimate to 4.6 MMT (including 4.2 MMT of raw sugar). Formal raw sugar imports have fallen sharply in recent years and in the first 11 months of MY 2016/17 formal raw sugar imports were only half the level of two years ago. Brazil and Cuba remain the largest suppliers. Imports from Cuba are based on a government-to-government agreement, and as a result they have remained steady at around 400,000 metric tons each year. Imports from Brazil and other suppliers, however, have dropped sharply.

Chart: Chinese formal sugar imports



Source: Chinese Customs Data

Industry contacts report that this decline is largely a result of the government's safeguard measure, as well as their tightening of issuing import certificates. In addition to the higher out-of-quota tariff, Chinese importers are required to obtain an “automatic import registration certificate” from the China's Ministry of Commerce (MOFCOM) prior to importation. According to industry sources, MOFCOM issued significantly fewer of these certificates in MY 2016/17.

Despite declining formal raw sugar imports, industry sources report that imports of smuggled sugar in MY 2016/17 are as high as 2 MMT. China has the highest production cost among major sugar producing countries, and because of import restrictions there is a wide price gap between the price of

domestic sugar and supplies in major exporters. This makes smuggling sugar very attractive, and the Chinese government has reportedly stepped up their efforts in combating the trade in illegal sugar imports.

Stocks

MY 2017/18 ending stocks are forecast at 6.7 MMT, down from the last forecast as a result of smaller beginning stocks. MY 2016/17 ending stocks are reduced by 800,000 tons to 7.8 MMT, as the government has been aggressive in trying to reduce its national reserves of sugar in MY 2016/17. In the past year, the Chinese government has released or announced the release of more than 1 MMT of sugar reserves. The most recent release announcement came in mid-September 2017, when the Chinese central government announced its plan to release 370,000 metric tons of national reserve sugar with a floor price of RMB 6,500 (\$1,000).

In addition to national reserves, in early September the Guangxi government announced the release of 326,000 metric tons of local sugar reserves, which was a larger amount than many in the industry expected. Industry sources believe that government officials have been aggressive in trying to sell stocks in expectations of lower prices next year as a result of higher global production.

Tables

Production, Supply, and Demand (PSD) Table

Table1. Centrifugal Sugar

Sugar, Centrifugal Market Begin Year	2015/2016		2016/2017		2017/2018	
	Oct 2015		Oct 2016		Oct 2017	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
China						
Beginning Stocks	10390	10390	9591	9591	8611	7811
Beet Sugar Production	850	850	1100	1050	1300	1300
Cane Sugar Production	8200	8200	8400	8250	9200	9200

Total Sugar Production	9050	9050	9500	9300	10500	10500
Raw Imports	5600	5600	4800	4200	3800	3800
Refined Imp.(Raw Val)	516	516	400	400	400	400
Total Imports	6116	6116	5200	4600	4200	4200
Total Supply	25556	25556	24291	23491	23311	22511
Raw Exports	4	4	5	5	5	5
Refined Exp.(Raw Val)	161	161	75	75	40	40
Total Exports	165	165	80	80	45	45
Human Dom. Consumption	15800	15800	15600	15600	15800	15800
Other Disappearance	0	0	0	0	0	0
Total Use	15800	15800	15600	15600	15800	15800
Ending Stocks	9591	9591	8611	7811	7466	6666
Total Distribution	25556	25556	24291	23491	23311	22511
(1000 MT)						

Table 2. Sugar Cane

Sugar Cane for Centrifugal Market Begin Year	2015/2016		2016/2017		2017/2018	
	Oct 2015		Oct 2016		Oct 2017	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
China						
Area Planted	1370	1370	1400	1380	1520	1520
Area Harvested	1300	1300	1330	1310	1440	1440
Production	76000	76000	77300	76500	83700	83700
Total Supply	76000	76000	77300	76500	83700	83700
Utilization for Sugar	76000	76000	77300	76500	83700	83700
Utilizatn for Alcohol	0	0	0	0	0	0
Total Utilization	76000	76000	77300	76500	83700	83700
(1000 HA) ,(1000 MT)						

Table 3. Sugar Beets

Sugar Beets Market Begin Year	2015/2016		2016/2017		2017/2018	
	Oct 2015		Oct 2016		Oct 2017	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
China						
Area Planted	145	145	180	175	205	205

Area Harvested	140	140	175	170	200	200
Production	7000	7000	9300	9000	11000	11000
Total Supply	7000	7000	9300	9000	11000	11000
Utilization for Sugar	7000	7000	9300	9000	11000	11000
Utilizatn for Alcohol	0	0	0	0	0	0
Total Distribution	7000	7000	9300	9000	11000	11000
(1000 HA) ,(1000 MT)						

Trade Tables

Table 4. China's Sugar (raw and refined) Imports by Origin – MY2016/17 (MY-Marketing Year, metric tons; September 2017 data is not yet available)

	Oct.-Dec./16	Jan.-Mar./17	Apr.-Jun./17	Jul.-Aug./17	MY Total
World	456650	893982	519758	256111	2126501
Brazil	217187	690555	598	2423	910763
Australia	96682	50244	30506	41661	219093
Korea, South	58052	27326	44089	34496	163963
Thailand	42740	77683	89452	61355	271230
Cuba	29000	36300	300795	34695	400790
Malaysia	5250	0	344	893	6487
Others	7738	11874	53974	80588	154174

Table 5. China's Sugar (raw and refined) Exports by Destination – MY2016/17 (MY-Marketing Year, metric tons, September 2017 data is not yet available)

	Oct.-Dec./16	Jan.-Mar./17	Apr.-Jun./17	Jul.-Aug./17	MY Total
World	21207	18255	23342	46422	109226
Mongolia	10136	7356	9312	7532	34336
Hong Kong	5736	5851	5228	3129	19944
Korea, North	1	325	2605	33111	36042
Japan	710	1022	1755	96	3583
United States	1326	1324	1309	596	4555
Others	3298	2381	3134	1956	10769