China Soybean Insights Monthly

October 2015

PROMAR CONSULTING

SOYBEANS

Imported Soybean Market

In early October, US soybean exports to China amounted to slightly over 10 million tons (369 million bushels). This was roughly 40% less than last year's equivalent figure.

Reasons for this decline in volume are primarily associated with slumping demand tied to the slowing growth of the Chinese economy. From mid to late October, US private exporters reported that they had exported approximately 1.7 million tons (62.7 million bushels) in 2 weeks. Market watchers estimate that as of late October, Chinese importers had already ordered 75% of November's expected demand volume, 60-70% of December's, and 80% of January's.

Currently, South American soybeans dominate China's imported soybean market. While this is a seasonal trend we see every year, Chinese buyers are paying particular attention to South American soybeans this year for 2 main reasons: the bumper Brazilian harvests and depreciation of the Brazilian Real. Market experts note that this year, **Chinese importers are likely to delay their seasonal transition to US soybeans by roughly a month.**

The ongoing Argentinian presidential election is also a point of interest for Chinese buyers. Argentina's current soybean stock is currently estimated at approximately 30 million tons (1.1 billion bushels), and its soybean export tariff is 35%. Market

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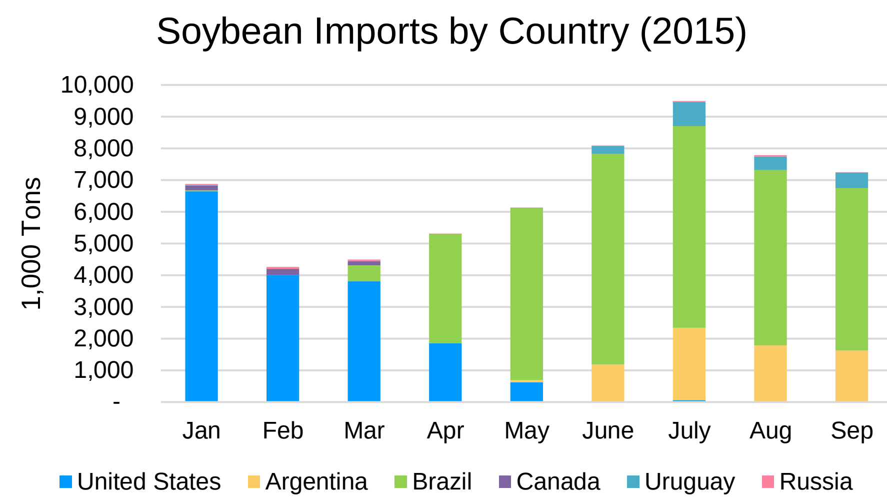
experts predict that regardless of the election's outcome, there will be a positive impact on the country's soybean- and overall agricultural- trade. The incumbent Front for Victory has promised to lower soybean export tariffs by 5% each year if they win. If opposition parties Cambiemos "Let's Change" or United for a New Argentina win, a complete overhaul and restructuring of the export tariff system is expected. In general, Argentinian farmers are more supportive of the opposition as they appear to be more committed to liberating trade.

If Argentinian trade policies change and large quantities of Argentinian soybeans become available on the international market, not only will US soybean prices take a hit, but the international soybean price will also be affected. Chinese buyers anticipate cheaper imports in this scenario.

Finally, small volumes of Russian soybeans have also been entering the Chinese market. However, since they are non-GMO, they compete with China's domestically produced soybeans (non-GMO) instead of imported soybeans from other countries (GMO). Russian soybean prices ($552/ton or $14.9/bushel) have been slightly lower than that of Chinese soybeans, causing some concern among Chinese soybean producers.



For the past 6 months, the majority of China's soybean imports were from Brazil. US soybean exports to China are expected to peak in December 2015 and January 2016.

Domestic Soybean Market

Trading of this year's harvest of China's domestically produced soybeans has already begun. In mid-October, the price for domestic soybeans was in the RMB 3,600-4,000 ($567-630/ton or $15.4-17.1/bushel) range. This was roughly RMB 800-1,000 ($126-158/ton or $3.4-4.3/bushel) lower than last year's equivalent figure, due to the fact that there was no government reserve purchase of soybeans this year.

Despite lower prices, demand for newly harvested domestic soybeans is very weak for several reasons. First, due to inclement weather, **the quality of this year's soybeans was fairly poor**, with high water content and low protein content. This rendered it unattractive to food processors, whose demand for soybeans was already relatively weak (particularly in southern provinces).

There was also weak demand for newly harvested domestic soybeans from crushers (who prefer to use imported soybeans which allow for positive profit margins). When crushers use domestic soybeans which are more expensive, they incur losses. Many small to mid-sized crushers who used to crush domestic soybeans have ceased to operate due to long-term losses. This in turn has led to lower demand for soybeans.

Although China Customs has begun to strictly monitor the flow of imported GMO soybeans (so that they do not end up in the food processing market), it has been reported that in some southern provinces, such as Guangdong, Fujian, and Guangxi, there is already a well-developed value chain where less expensive imported soybeans are being processed for food. As such, **domestic soybeans are likely to continue competing against imported GMO soybeans in the food processing sector.**

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SOYBEAN MEAL & LIVESTOCK

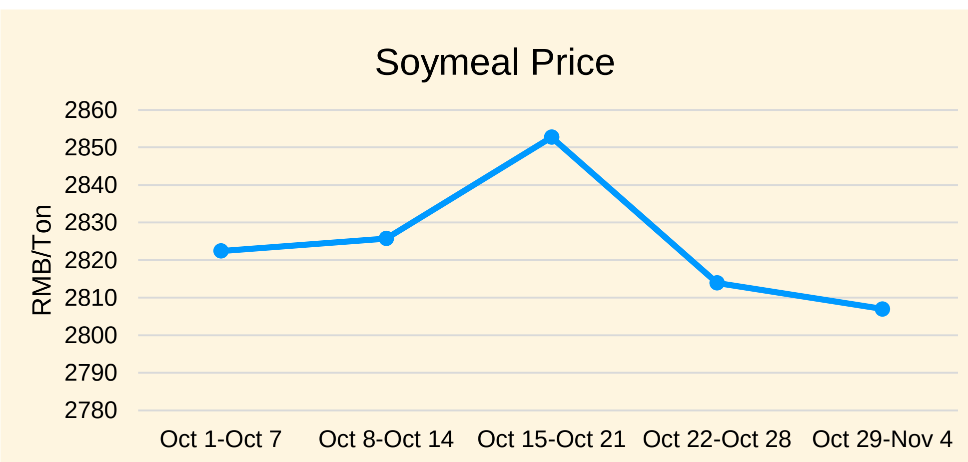
At the end of October, there was roughly 6.2 million tons (228.8 million bushels) of soybean on stock at China's ports. Given that this is 30% greater than last year's equivalent figure, ample supply is likely to keep soymeal prices from rising. Soybean import volumes for October and November are estimated at 5.5 million tons (203 million bushels) and 7.5 million tons (277 million bushels) respectively. In December, this figure is expected to reach 8 million tons (295 million bushels) - the majority being US soybeans- as imports peak during this season. The China National Grain and Oil Information Center estimate that for the 2015/16 market year, US soybean imports will total roughly 27 million tons (996 million bushels).

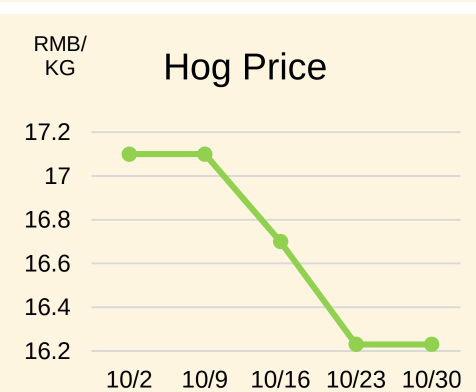
According to recent reports from the field, roughly 60% of China's crushers are operating- a relatively high rate given that the norm ranges from 45-50%. This is due to **high crushing profits, averaging RMB 100-200/ton ($15.7-31.5/ton) for imported soybeans.** From January to September, a total of 57 million tons (2.1 billion bushels) of soybeans were crushed- this is 7 million tons (258 million bushels) higher than last year's equivalent figure. Market watchers estimate that November's soybean crushing volume will add another 7 million tons to this figure. As long as crushers continue to enjoy their current level of profitability, their operation rate is expected to remain relatively high. **With abundant supply of soybeans and a high crushing rate, large quantities of soymeal are available for low prices. Domestically produced DDGS prices have also been low, at less than RMB 1,500/ton ($236/ton); this has resulted in its increased usage in feed production.** As a result, there has been a downward trend in demand for soymeal, which in turn has a depressing effect on its price.

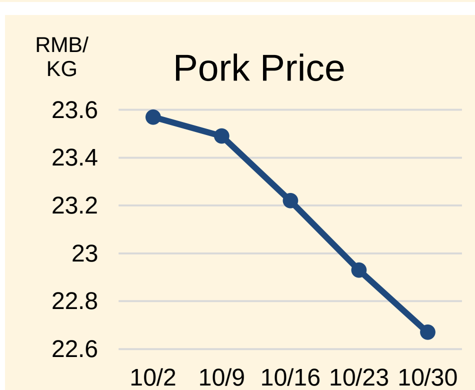
Livestock Industry Demand

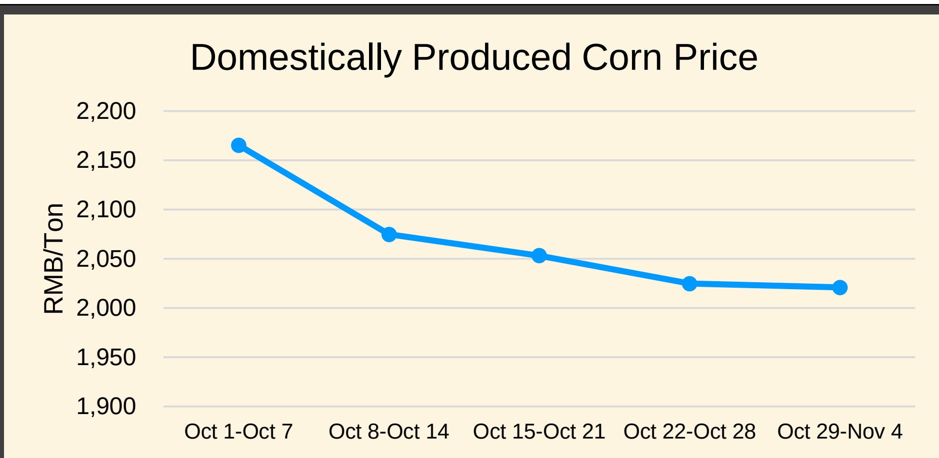
Throughout October, hog and pork prices decreased due to higher supply (i.e. higher slaughter rates to meet holiday demand). At the end of September, China's hog stock was 390 million heads and breeding sow stock was 38.5 million heads. While the number of hogs is slowly beginning to increase (e.g. 0.6% increase from the previous month), the number of sows has been decreasing for 26 months consecutively.

In November and December, hog producers tend to expand their stock to prepare for New Year's celebrations and the Chinese Spring Festival. This may help to boost soymeal demand, however, given the low baseline of hog stock, **any increase in soymeal demand/price will be limited.** In addition, soymeal demand has also recently decreased with the end of the aquaculture season in late September.









In October, domestic corn's average price dropped by more than RMB 100/ton ($15.7/ton or 40 cents/bushel). Compared to the domestic average, the price of new corn in central northern provinces such as Hebei, Henan, and Shandong was lower at approximately RMB 1,600/ton ($252/ton or $6.4/bushel). The price for government auctioned corn was higher at RMB 2,200/ton ($347/ton).

CORN & OTHER GRAINS

China's corn market has been experiencing a recession this year, with prices plunging continuously since July. Although prices were expected to tick upwards in September due to the combination of government reserve purchases and tighter supply, they continued to decrease. In October, this year's corn was harvested, resulting in increased supply and even lower prices. The average corn price dropped by more than RMB 100/ton ($15.7/ton or 40 cents/bushel), and **some industry experts estimate that prices will drop further to the RMB 1,800-1,900/ton ($284-299/ton or $7.2-7.6/bushel) range.** News from the field indicates that newly harvested corn in central northern provinces (e.g. Hebei, Henan, and Shandong) was being sold for only RMB 1,600/ton ($252/ton or $6.4/bushel), which was 20% less than last year's price.

There are several reasons for this year's low corn prices. First, over the past 2 years, the Chinese government has accumulated large reserves of corn; **industry experts estimate that there are currently approximately 160 million tons (6.3 billion bushels) in corn reserves.** At the end of the 2015/16 market year, this figure may reach 230 million tons (9.1 billion bushels). The total amount of corn supply in China is even higher when accounting for the quantity of corn stocked by farmers and traders. This excess in supply has created downward pressure on corn price.

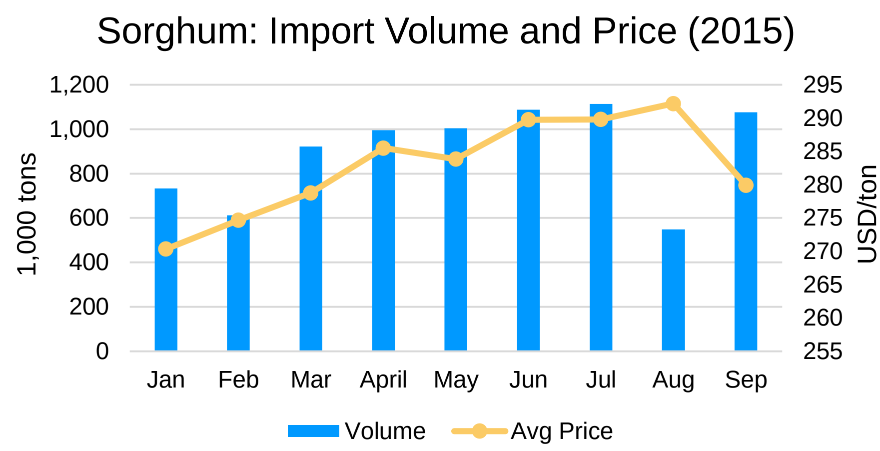
In order to reduce their burgeoning stock and support the corn starch and ethanol industry, the government of Jilin province offered RMB 350/ton ($55/ton or $1.4/bushel) in subsidies to ethanol and starch processors participating in government auction reserves. Despite this, the auction rate was nil as processors preferred to purchase newly harvested corn at a lower subsidy of RMB 250/ton ($39.4/ton or $1/bushel).

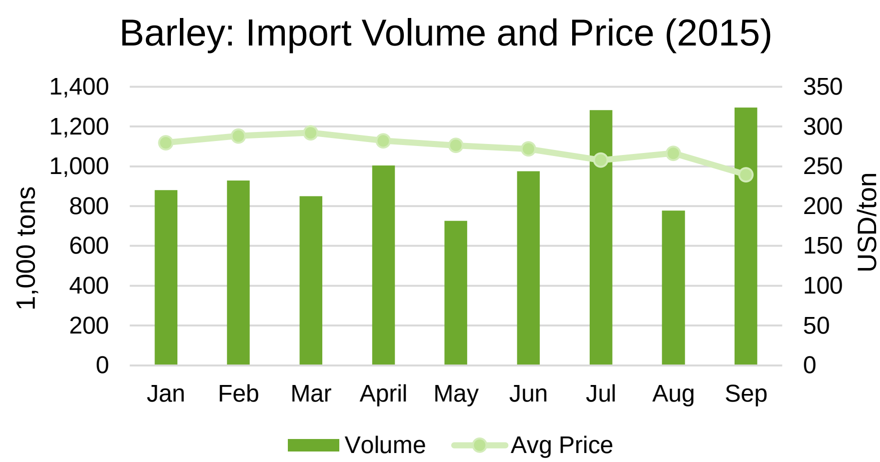
Low corn prices can also be attributed to the government's decision to lower their reserve purchasing price from last year. This year's price was set at RMB 2,000/ton ($315/ton or $8/bushel) - a fairly substantial decrease from last year's RMB 2,260/ton ($356/ton or $9/bushel). **This decrease in government purchasing price is considered to have led to a pessimistic outlook of this year's corn market, resulting in a very low starting price for newly harvested corn.**

Furthermore, large volumes of imported grains (which can substitute corn in animal feed) have been arriving at port in the past several months. Sorghum and barley imports are not restricted by quotas, and their abundance has also helped to push corn prices down. **According to feed processors, if barley is RMB 300/ton ($47.5/ton) lower and sorghum is RMB 100/ton ($15.7/ton) lower than corn price, they will switch to using these grains instead of corn.** Currently, the price of barley imported from France is approximately RMB 1,600/ton

($252/ton or $5.5/bushel) and for sorghum imported from the US, RMB 1,800/ton ($283.5/ton or $7.2/bushel). Thus, it is likely that these grains will continue to be preferred over corn, resulting in weak demand (and price) of corn.

Finally, **corn prices this year are low due to sluggish demand from the livestock industry and ethanol/starch processors.** At the end of September, heads of sows was approximately 15% less than last year's equivalent figure, and heads of hogs, 12% less. It will take time for these figures to recover, and as such, demand for corn from animal feed processors is expected to remain at relatively low levels. Moreover, ethanol/starch processors have been incurring losses this year despite government subsidies, and many have ceased operations. This has further dampened demand for corn.





INTERVIEW

China's Q4 Feed Market

This month we interview a China oilseeds market expert based in Beijing who has been in the industry for over 10 years.

Domestic compound feed prices in China have been fairly stable over the past year, however, in September they began to decrease due to plunging prices of inputs such as corn and soymeal. In late September, compound feed prices dipped below RMB 3,000/ton ($472/ton) and by the end of October, it had further decreased RMB 2,800-2,900/ton ($441-457/ton). In terms of volume, September's compound feed production totaled to roughly 21 million tons, which was 3% higher than last year's equivalent figure.

Our market expert had a slightly pessimistic outlook regarding October's feed production volume. The official figure has yet to be released, however, he estimates a less than 1% increase from September. This is due to fairly weak demand; many hogs were slaughtered for the autumn holidays and there was a seasonal decrease in the number of layer chickens. Yet, for Q4, he expects that feed production overall will increase as livestock industry consumption (particularly that of hogs and layer chickens) picks up in November and December.

At the end of October, the cost of raising one head of hog was approximately RMB 1,300/head ($205/head). Feed accounted for nearly half of this cost at RMB 600/head ($95/head). This was a 20% decrease from August, and has helped to maintain hog producers' profits despite decreasing hog and pork prices. Given fairly high profits, hog producers are raising more hogs, and their numbers have slowly been increasing. Our expert predicts that hog and pork prices may start to tick upwards from late November at the earliest.

Half of China's current hog market consists of fairly young, small to mid-sized hogs; many older, larger hogs were slaughtered in September to meet autumn holiday demand. The current small to mid-sized hogs are likely to be slaughtered early next year for New Year's and the Chinese Spring Festival. This year, there has been an increase in the amount of frozen pork imports (approximately 750 thousand tons). Yet, according to our expert, this trend is not likely to affect China's domestic hog market because imports account for less than 1% of China's pork market. Frozen pork is primarily imported from Germany, Spain, and the US.

Regarding layer chickens, our expert predicts that their numbers will remain fairly stable or slightly increase in the coming months. Although layer chicken farmers have seen a 30% drop in their profitability from last year, plunging prices of corn and soymeal have kept them from incurring losses. From market observation, it appears that layer chicken farmers were increasing their broods.

In contrast, the number of broiler chickens may decrease due to low profitability. Broiler prices are currently at their lowest level in 9 years (RMB 6.89/kg ($1.1/kg). Many broiler farmers have exited the industry due to the significant losses they have incurred.

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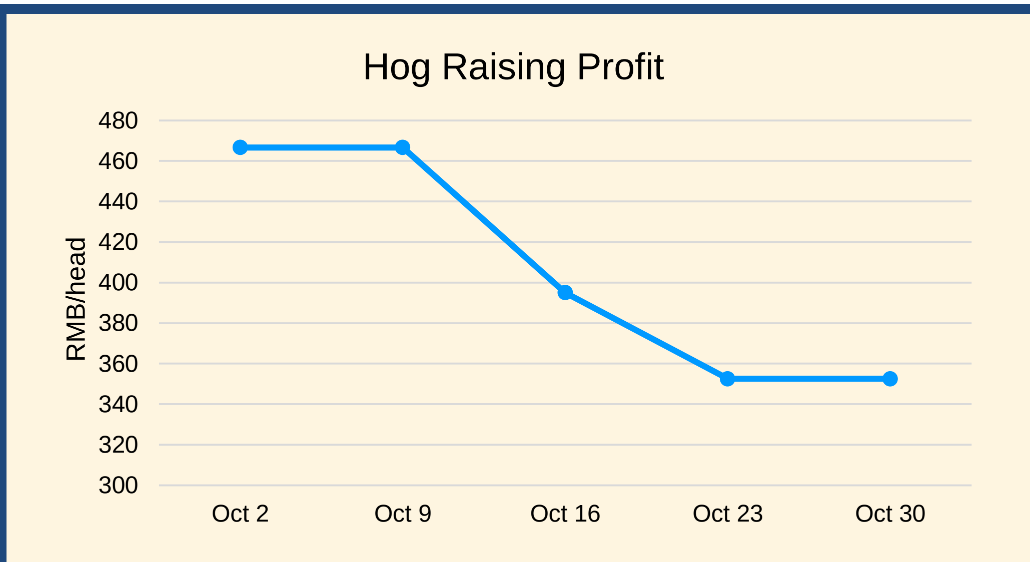

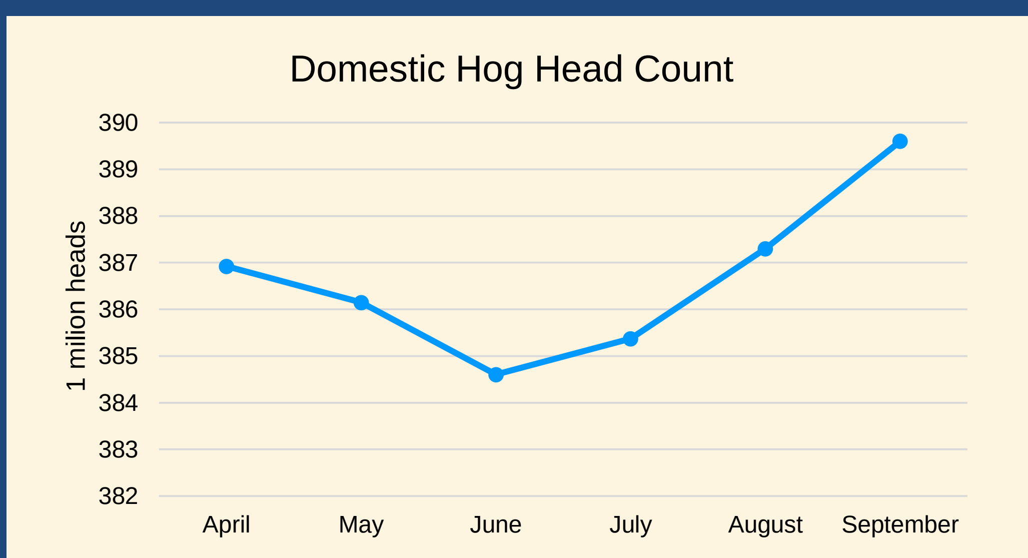

Soybean Crushing Profit and Soybean Price by Major Provinces

RMB/ton						
		Oct 2	**Oct 9**	**Oct 16**	**Oct 23**	**Oct 30**
Heilongjiang	Crushing profit	-351	-351	-351	-326	-326
	Soybean price			3560		
Dalian	Crushing profit	111	111	185	195	185
	Soybean price			3000		
Tianjin	Crushing profit	121	112	181	172	162
	Soybean price			3000		
Shandong	Crushing profit	120	120	213	179	129
	Soybean price			3000		
Jiangsu	Crushing profit	129	129	237	148	138
	Soybean price			3000		
Guangdong	Crushing profit	102	93	169	112	112
	Soybean price			3000		

Note: Heilongjiang crushes domestically produced soybeans while other locations crush imported soybeans.

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PROMAR CONSULTING

Mina Suzuki
msuzuki@promarconsulting.com

Yuan Gao
ygao@promarconsulting.com