China’s corn appetite to reshape world food markets

- China’s corn rush to redraw global food landscape
- China’s corn imports to triple in 2011/12
- China set for bountiful corn harvest despite drought
- China corn demand set for a dip? : Gavin Maguire
- Domestic wheat dulls China’s hunger for corn, for now
- China’s corn imports to surge, self-sufficiency policy hit
When China abandoned its soybean self-sufficiency quest almost 20 years ago and started importing the oilseed feeding its hunger for livestock, it almost single-handedly transformed the industry. Today, it’s poised to do the same for corn.

The world’s most populous nation is expected to triple corn purchases next crop year and, by its own admission, become a significant importer by 2015, putting more strain on global food supplies at a time when inflation is gnawing away at economic growth and the population nears seven billion.

China has become the dominant force in the global soybean market since emerging as a buyer in the early 1990s. It is now the world’s biggest importer and consumer, taking in some 55 million tonnes, or 60 percent of annual global trade.

If the soybean scenario is a precedent for corn -- and traders say all the signs point in that direction -- benchmark corn prices in the United States, the biggest producer, could in the long term exceed the $8 a bushel record set in June.

U.S. stockpiles are expected to fall to their lowest levels in 16 years in 2011/12, an ominous sign of how China’s rising imports will squeeze supply. Demand for the grain, crucial to fatten the animals that feed the world’s growing hunger for meat, shows no sign of abating.

Competition for supplies with Japan, the world’s biggest corn importer, will intensify and farmers from as far away as Argentina will start planting more acreage while the amount of corn used to make biofuels could shrink.

Driving this seismic change in the corn industry is a fifth of the world’s population, which has developed a voracious appetite for pork, poultry and eggs that China’s government is striving to make affordable. For Beijing, high food prices are a potential trigger for social unrest it wants to avoid.

“There are shifting diet patterns with growing wealth and the middle class in China together with climate change, land degradation and water scarcity,” said Monika Barthwal-Datta, who heads the food security programme at the Centre for International Security Studies at the University of Sydney.

“It means China is going to enter the market in a substantial manner and it is going to compete with other countries in the region that rely on U.S. corn.”

Grain stocks and demand are politically charged topics in the world’s second largest economy, and biggest pork consumer, which is particularly conscious about its food security.

Last year, China returned to importing corn in earnest after years of blocking foreign grain, buying a record 1.57 million tonnes, up 18 times from the previous year, because domestic production just couldn’t keep up.
China is likely to boost imports to four million tonnes in the 2011/12 crop year beginning October from an estimated 1.3 million this year, a Reuters poll showed.

Imports could be even higher, with one analyst forecasting China could ask for as much as 9 million tonnes, which would put it on par with Mexico, the world’s second biggest importer.

Corn, and to a lesser extent wheat, are mainly used as animal feed. But with strong domestic demand eating up what is forecast to be a bumper harvest, and state reserves running low, corn prices have shot up in China, stoking pork prices that in turn have helped propel overall inflation to a three-year high of 6.5 percent in July.

**RISKS TO FOOD PRICES**

The global tightness in corn supplies comes despite year-on-year bumper harvests in China and the United States, which together account for more than half of the world’s production and consumption of corn.

An analyst with the China National Grain and Oils Information Centre, a state-run think-tank, said consumption would continue to dwarf domestic supply as the scope to increase production remained limited. A bad year for farmers could boost China’s growing dependence on international markets. “If the weather is not good in some years, the deficit will be bigger,” he said.

Because of their market dominance, any changes to the food patterns in the United States or China will have big repercussions for the rest of the world, and grain prices. “Imagine if China gets slightly lesser production, it could translate into additional imports and it is exactly the same situation for the United States,” said Abdolreza Abbassian, grain analyst at the U.N. Food and Agriculture Organisation.

China is currently the world’s second biggest corn consumer.

Significant Chinese imports would bolster prices, said Luke Mathews, a commodity strategist at Commonwealth Bank of Australia in Sydney. After falling from their record high in June, prices remain largely unchanged this year, compared with almost 20 percent losses in wheat and a nearly 13 percent decline in soybeans.

“The explosion in Chinese imports from 1990 through today has certainly been a key driver in the oilseed market and we think a repeat of that in the corn market would certainly be a very supportive influence on world prices,” Mathews said.

Relentless demand has also driven China’s domestic corn prices to an all-time high this month, depleting reserves to less than one month’s supply and worrying a government desperate to control food prices, which on average jumped more than 13 percent in August.

**LARGE PIG FARMS, ETHANOL INDUSTRY**

Official fears about food inflation are largely behind China’s drive to transform the hog industry from backyard farms to large modern complexes that will require more corn to ensure steady pork supplies.

---

**China corn exports/imports from the U.S.**

Private exporters reported 1.14 million tonnes in U.S. corn sales to an undisclosed destination, widely believed to be China.
When you are a backyard farm you can replace corn with some cheap feed input like waste but you take longer to rear pigs," said Jean-Yves Chow, a senior industry analyst at Rabobank in Hong Kong. "When you turn to the industrialised model you have a feeding programme which is more based on corn and soybean meal and it is pretty much fixed."

Rabobank estimates that by 2015, nearly three-quarters of the pigs in China will be reared in commercial farms compared with 63 percent in 2010. In 2000, farms with more than 50 pigs constituted just 26 percent of the output.

Going beyond its borders, China's large corn imports could also threaten feed grain supplies for the U.S. ethanol industry, which consumes 40 percent of the country's corn output.

In drawing up its balance sheet, the U.S. Department of Agriculture has already said that corn for ethanol would drop 100 million bushels in 2011/12 to 5 billion bushels from its August forecast.

Tightening corn supplies will make for a more competitive environment and could put some plants at risk even though at this point production levels continue to run strong.

"If you see rising demand from food and feed sectors then subsidies on ethanol production in the U.S. don't make sense at all," said Datta. "Focus on biofuels from food grains is quite a dangerous one."

In the longer term, analysts say higher grain prices will provide a bigger incentive for farmers to boost corn production. Brazil and other South American nations are leading the way with investments and farm expansion.

After transforming global agriculture by quintupling their soybean production since 1980, Brazilian farmers are now on the brink of crop breakthroughs in cotton and corn, long dominated by growers in America.
China, the world's second biggest corn consumer, is likely to more than triple imports to four million tonnes in the crop year starting October as strong livestock feed demand swallows up a bumper harvest, a Reuters poll showed on Thursday.

The import forecast is about one million tonnes lower than what analysts predicted in a Reuters poll in July, which showed China's imports in 2011/12 at 5 million tonnes.

Despite expectations of a bumper harvest, Beijing's plans to release 3.7 million tonnes of corn reserves to cool red-hot prices by November are an indication of its growing appetite for the coarse grain used to fatten up pigs and poultry. China could take advantage of relatively low U.S. prices and stock up from its traditional supplier.

But as dry weather hurts the new U.S. corn crop and opening 2011/2012 stocks are seen at an eight-year low, China could look to Argentina, the No. 2 supplier, a median poll of 10 traders, analysts and millers showed.

Regardless of where it will buy from, benchmark Chicago corn futures could rally again on any news that China was in the market after fears of a recession triggered a global market rout this week. "Most (of the imports) will likely be used to build stocks. China is going to become a corn importer, a sizable corn importer, and when they make their move it will be large," said John Baize, president of John C. Baize and Associates.

"If you see what they're doing, they've been in Argentina, talking to the Argentinean government about doing agreements on shipping corn from Argentina to China," he added.

The median forecast is for China's corn imports to hit four million tonnes in 2011/2012. Estimates from 11 poll respondents ranged from a low of two million tonnes to as high as 9.5 million tonnes. The Reuters forecast represents a three-fold increase from 1.3 million tonnes seen by the U.S. Department of Agriculture in the current crop year that ends this month. According to China customs data, imports from October last year till this August have already reached over 830,000 tonnes and if last crop year's corn buying trends are any indicator, there is likely to be a bigger-than-usual purchase this October.

As China's domestic corn reserves are seen at less than one month's consumption, traders say Beijing will have to abandon its self-sufficiency policy for grains and import, as U.S. prices are still relatively low.

"The deal has already been done and China is just waiting to press the button," said one of the poll respondents with a Singaporean agribusiness firm who does business with China. Last month, China bought corn mostly from the United States at an average $328.66 a tonne CIF -- 46 percent higher than a year ago but just quarter of this year's top average price of $1,218.19 CIF a tonne contracted in March, customs data showed.

(Continued on page 6)
Corn for December on Chicago extended losses in Asian trade on Thursday to hit a fresh three-month low. The grain has gained 11.5 percent so far this year, compared with declines in soybeans.

**CONSUMPTION COULD BE MORE**

China's corn imports appear to be minuscule compared to the record 182.5 million tonne domestic harvest estimated by official think tank China National Grain and Oils Information Centre (CNGOIC) for 2011. This year's harvest is up nearly 3 percent from a year ago.

"China is not going to see tight corn supply next year as the country is on track to see a big harvest this year," said Feng Lichen, the chief analyst with China Corn who still pegged corn imports at three million tonnes.

The bumper harvest just about covers China's consumption, which is set to rise to 181.3 million tonnes on mostly animal feed demand as forecast by an executive with state trader COFCO this month.

But there are signs demand could be much more than estimated, with China releasing state corn reserves to temper food prices that jumped an annual 13.4 percent in August, driven up by the cost of eggs and the nation's favourite meat, pork.

"Imports will go up just like the soybean pattern eight years ago," said an Indonesian miller.

China turned into a soybean importer from the mid-1990s but it was only in the following decade that it became a top buyer as domestic output struggled to sate food and feed demand.

China's soybean imports have been rising at an annual pace of 4.83 million tonnes over the past five years to the current crop year, data from CGNOIC showed.

Corn cargoes could easily follow suit. Last year, China returned to importing corn in earnest after years of blocking foreign grain, citing self-sufficiency, buying a record high of 1.57 million tonnes, up 18 times from the previous year.

**China to boost domestic corn output to meet demand -govt**

BEIJING, Sept 29 (Reuters) -

China, the world's second-largest corn consumer, said it will focus on raising domestic corn production to meet fast-rising demand and is testing use of genetically modified organism (GMO) technology to boost output, a senior government official said on Thursday.

In a bid to tame booming demand, Beijing will continue to control the use of corn by industrial processors, whose soaring consumption has helped exacerbate a corn deficit that has pushed corn prices to record highs despite record corn harvests.

"We have approved one type of GMO strain and we're testing to see if they can be applied to boost production," Chen Xiaohua, a vice agricultural minister, said at a press conference.

"GMO technology is the strategic choice of the country in future."

China's rapid demand growth, mainly from its animal feed production, has led to a shortfall over the past two years as domestic production failed to meet demand.

China began to import corn from the United States last year and expects import volumes to be big this year as the government refills its low stockpiles.

"We aim to boost domestic production. In the meantime, we will also try to keep corn consumption at a reasonable level, we will stick to the policy that the industrial use should not compete with grains for people," said Chen.

"Corn consumption by industrial processors should be restricted to a reasonable level."

Corn processors have been ordered by Beijing to temporarily stop purchasing corn from farmers this year, and Beijing has also restricted expansion of the industry.

The industry has built up capacity to process more than 60 million tonnes of corn to make products, including starch, alcohol and lysine.

Chen said the country's grain harvest this year will hit a record high due to expanded acreage, but even so, domestic grain prices would continue to climb moderately, reflecting rising planting costs. Earlier, a top planning body official also expected the country's grain harvest to hit a record.

Chen would not comment on whether the government would consider changing its 95 percent self-sufficiency target for grains.

The U.S. Grains Council said last week that China could still import some 8 million tonnes of corn at the current 95 percent self-sufficiency target and the volume could jump to as much as 16 million tonnes if Beijing lowered the rate to 90 percent.

(Continued on page 7)
China set for bountiful corn harvest despite drought

By Niu Shuping and Fayen Wong

JINDA FANGZI VILLAGE, China, Sept 27 -

Bad weather in parts of China's corn growing province of Jilin may have spoiled some farmers' hopes of a rich harvest, but expanded acreage means agronomists are sticking to forecasts that China will reap one of its best harvests in years.

At the Jinda Fangzi village some 100 kilometres north of Changchun, the capital city of Jilin province, large patches of corn fields are ready for harvest but their withered leaves bear evidence of early season frost damage.

"Our crops were hit with hailstone in June and drought early in the month and that has cut our yields by as much as 25 per-cent," Sun Tongjiang, the village head, told Reuters.

Corn fields elsewhere have avoided the worst of the weather damage, according to industry sources.

Farmers across the country have planted far more acres of corn this year, thanks to government subsidies and higher prices. So even though flooding and drought have lowered yield estimates in some areas, the impending harvest could still bring a good-sized haul, analysts said.

At a corn conference last week, many industry officials predicted a bumper harvest, with some estimating this year's output would beat 2010's record at over 180 million tonnes.

"The corn plant acreage in Heilongjiang province has risen by at least 5 million mu (333,000 hectares), which will add around 2-3 million tonnes of corn this year," said Zhang Meifeng, an analyst with Jilin Corn Exchange.

"The yields may not increase much but with the larger acreage, all signs are pointing to a bumper harvest," said Zhang, who has visited three of the main corn producing provinces since mid-September.

"Official associations and private institutions have forecast total corn output to rise between 10-12 million tonnes this year from a year ago."

Fang Yan, an official with the National Development and Reform Commission, said last week that China's corn acreage has risen by nearly 1 million hectares this year. Last year's acreage was 32.5 million hectares.

With record high corn prices helping to push inflation to multi-year highs, a bumper crop would bring much-needed relief to the Chinese government, which has spent a year battling rising prices on fears that it could spark protests.

SELF-SUFFICIENCY IN DOUBT

But the increased output won't be enough to meet demand.

China, the world's second largest corn consumer, imported 1.5 million tonnes of corn last year and that number is set to more than double this year as the government replenishes its state reserves.

"We are facing serious challenges in meeting corn supply over the next five years. We need to seriously think of how to deal with the supply gap," said Li Xirong, secretary general with the China Feed Industry Association.

Li estimated China's corn consumption would reach 220 million tonnes by 2015, surpassing projected output by around 15 million tonnes.

The rise in imports has raised doubts over China's self-sufficiency policy, a pillar of the country's food security strategy. For the rest of the world, China's growing grains appetite has also fanned worries about food shortages.

GMO THE ANSWER?

With limited fertile land and scarce water, experts say China desperately needs a technological breakthrough to boost corn yields to meet fast rising demand.

Corn yields in Jilin province average around 7.5 tonnes per hectare, and just 5.5 tonnes a hectare across the country, compared with 9.6 tonnes per hectare in the United States.

Failing that, it would have to loosen its corn import quota system.

The NDRC said last week it hopes to remain self-sufficient in corn and to boost China corn production by more than 25 million tonnes by 2020.

With yields hardly rising in the past 15 years, the government may have to turn to genetically modified grains for a step change in output, analysts said.

"It is the direction China is heading … GMO will be the driving force in the future to feed the rising population," said Shawn J.McCambridge, analyst with Jefferies Bache.

(Continued on page 8)
CHICAGO, Sep 23 (Reuters) - One of the defining features of the corn market’s bullish narrative in 2011 was that China was on the prowl for additional corn supplies after domestic production struggled to keep pace with soaring demand from livestock feeders and processors.

But with Chinese domestic corn prices trading at a record premium to Chinese wheat values, it is likely that the feeding industry in China will ramp up wheat consumption at corn’s expense going forward, to potentially redraw the country’s grain demand landscape into 2012 and beyond.

**WIDENING SPREAD**

For the past several years, Chinese livestock feeders could count on ready access to corn supplies as well as a fairly consistent price relationship between corn and wheat that promoted widespread use of corn in feed rations across the country.

Indeed, since 2009, corn values in China – especially across Central areas where a majority of the country’s livestock operations are located – tended to trade at a minor discount to wheat, helping to firmly establish corn as the primary feed ingredient in livestock rations. (Graphic of China corn & wheat feed demand: [http://link.reuters.com/bev83s](http://link.reuters.com/bev83s))

However, over the past four months livestock feeders in China have had a rude awakening, with access to previously abundant corn severely interrupted as corn values soared to record highs and tight national inventories led to the occasional supply pipeline cut-off in several regions.

This resulted in corn values amassing a growing price premium to feed-grade wheat, with that premium recently hitting a record high of more than 400 yuan per ton in key feeding regions.

The combination of low corn availability and the high price premium of corn over wheat has sparked a wave of substitution across several regions in China as feedlot managers there look for ways to economically maintain animal weight-gain rates while cutting back on corn purchases.

The net effect of this substitution has yet to be fully reflected in USDA estimates of feed use in the country, but the latest USDA projections hinted it was already underway through an increase in Chinese feed demand in wheat while Chinese corn demand was kept steady. Further revisions in both those categories look likely over the remainder of the year.

(Continued on page 9)
GLOBAL INFLUENCE

One major driver behind the recent Chinese corn price rally was the sharp climb in global corn values in the wake of the 2010 U.S. corn crop shortfall, which sparked the sustained climb in corn values since last fall as a new equilibrium price was sought out that could accommodate the rising levels of demand while simultaneously spark increased production.

That price rally underwent another upward leg in 2011 as this year's U.S. corn crop encountered fresh production issues, and global concerns about a sustained shortfall in world corn inventories looks set to keep a spotlight on the corn market into 2012 and beyond.

But another factor steering Chinese corn values higher has been the steep decline in China's own corn inventories as domestic offtake outpaced domestic production. According to U.S. Department of Agriculture estimates, corn stocks in China are now below Chinese wheat stocks by the largest degree in more than three decades, and so represent a dramatic change to the grain inventory landscape that existed from 1980 to 2000 when corn stocks routinely overshadowed wheat inventories.

This shift in grain stocks levels is likely to get even more dramatic in 2012 than suggested by current USDA estimates, as actual Chinese corn inventories are widely considered to be lower than reported while wheat stocks could easily climb over the first half of next year if the upcoming winter wheat crop encounters accommodative growing weather.

TERMS OF TRADE

A final factor likely to lead to a persistent increase in Chinese feeding of wheat at the expense of corn is the trend in net trade of both commodities in recent years, which reveals that China is on the cusp of greater self-sufficiency in wheat than in corn for the first time in decades.

Traditionally, China's widespread corn production allowed the country to cater to domestic needs while also acting as a notable player on the export market. However, soaring domestic consumption has led to a sharp slide in China's corn exports over the past decade, and recently resulted in the country's first protracted stint as a net importer of corn since a brief period in the mid-1990's.

Over the same period, China's net trade status in the wheat market has started to become more balanced, thanks to greater domestic production amid fairly steady domestic demand in recent years. Large winter wheat plantings in the country this fall could lead to China's emergence as a net exporter of wheat in 2012, which would contrast strongly with its evolution into an importer of corn.

The emergence of China as a structural 'net short' in the corn market and a potential 'net long' in wheat could have far reaching repercussions for both the market price of the commodities concerned as well as the behavior of China's users of both grains. At a domestic level, the relative scarcity of corn coupled with more abundant wheat supplies will continue to steer feed users away from corn to wheat going forward.

At the same time, international market participants will likely seize on China's apparent growing reliance on corn imports by maintaining a strong hold on corn inventories until Chinese purchasers 'pay up' for the commodity in the same way they are perceived to act in the soybean market.

(Continued on page 10)
But if that occurs, the net result could be that Chinese government authorities attempt to temper domestic corn demand in a bid to be less of a hostage to the whims of the international market, while at the same time foster higher usage of more domestically abundant crops such as wheat. Such government interventions cannot be ruled out, especially with food inflation already a major concern for authorities there.

So even though bullish traders in the U.S and elsewhere routinely cite China’s growing demand for corn as a long-term reason to get long that commodity, maneuverings could already be underway within China that could see that country’s dependence on corn diminish over time.

**China corn processors, hit by tight supply, look for options**

By Niu Shuping and Ken Wills

CHANGCHUN, Sept 23 (Reuters) - China's Dacheng Industry Group, the parent of Global Bio-Chem, said it would invest in Russia to expand its business while the world's second-largest corn consumer adjusts to tight supplies of the grain at home, a company executive told Reuters.

The company, Asia's largest corn processor, together with other major domestic players, have been ordered to halt corn purchases temporarily early in the year in order to make way for state purchases to replenish government reserves.

The restriction is particularly strict this year as the government is also facing the lowest stocks in years and domestic corn prices have hit record levels, which has driven up food prices, the major driver behind the country's overall inflation.

"The corn supply is turning tighter, which is in addition to stricter restrictions by the government. Raw material supplies are now the bottleneck on our way toward further development," said Zheng Guichen, deputy general manager with the group.

The company will invest between 1.0 billion and 1.5 billion yuan ($156-235 million) to set up a plant in Russia to produce lysine using local grains, Zheng told Reuters during a corn conference in Changchun, where the company's production facilities are based.

The company processes 3.6 million tonnes of corn into downstream products, also including starch and amino acids, polyol chemicals as well as corn sweeteners.

China, the world’s second-largest corn consumer, aims to raise its corn production by more than 25 million tonnes by 2020 as part of efforts to remain self-sufficient, a senior official with the country's top planning body said on Thursday.

**LESS “GANBEI”?!**

Since 2007, Beijing has restricted expansion plans by the corn processing industry amid concerns that China would not be able to meet demand from the booming industry while also ensuring supplies for rising animal feed demand.

Corn is the major raw material of animal feed. The grain can also be processed into starch and alcohol and further to starch sugars in making glucose and syrup as well as lysine and citric acid.

(Continued on page 11)
China's corn imports to surge, self-sufficiency policy hit

By Niu Shuping and Fayen Wong

CHANGCHUN, China, Sept 22 (Reuters) -

China's much-vaunted policy of self-sufficiency in corn production is under threat from scarce water supplies and shrinking farmlands, making imports inevitable in the face of rapidly growing demand, traders and officials said on Thursday.

China is the world's second largest corn consumer and producer, and it uses the grain largely for animal feed.

But its population's growing appetite for pork and other meats is generating more demand than domestic supply can cover, and propelling food prices to record highs, a worry for a government worried about risks of social unrest.

Major grains traders at an industry conference in the northern city of Changchun said China's self-sufficiency target of 95 percent corn production looked increasingly optimistic, despite expectations of a bumper harvest this year.

Some officials held out hope of maintaining it.

"China will still try to keep its self-sufficiency in corn production, because large imports could lead to global price volatility and supply problems to other poor countries," said Fang Yan, deputy director of the National Reform and Development Commission's rural economic division.

Last year, China returned to importing corn in earnest after years of blocking foreign grain, citing self-sufficiency, buying a record high of 1.57 million tonnes, up 18 times from the previous year.

(Continued on page 12)
A decision by the State Grain Administration to sell about 3.7 million tonnes of state corn reserves by November in a bid to cool record prices and take the heat off food inflation prompted traders to speculate China would import anything between 5 million and 9 million tonnes of corn this year.

The corn market is particularly sensitive to any increase in demand as supplies are currently at 16-year lows. China's announcement helped buoy U.S. corn prices this week Monday.

**NO MORE U.S. IMPORTS FOR NOW**

Fan Zhenyu, deputy general manager with state trader COFCO's corn division, said China may become a regular importer of between 5 million and 10 million tonnes a year in the near future.

That figure could potentially jump to 20 million tonnes by 2020 if China's corn yield did not improve, he said.

"The government has pumped in a lot of money to the agriculture sector. That should boost production and tame the need for large imports," Fan added.

"Around 5-10 million tonnes of imports would be a reasonable volume which the world market can accept."

U.S. Department of Agriculture data estimates China's 2011/12 consumption to rise to 182.5 million tonnes, while production will increase to 178 million tonnes, creating a 4.5 million tonne shortfall.

A senior executive from a major state-owned trader said China had imported between 3 million and 4 million tonnes of U.S. corn since March this year, but new orders would have to wait.

"China is expecting a bumper corn harvest. So any fresh orders will have to wait until we get a clear picture of the harvest and how consumption grows in the coming year," said the executive, who declined to be identified because he was not authorised to talk to the media.

China's corn imports in August rose 42 percent from the previous month to 244,502 tonnes, customs data showed on Wednesday, bringing total imports for the marketing year ended Aug. 31 to 1.3 million tonnes.

Analysts have said China's agricultural policies, including biotechnology policies, will be crucial in determining future crop yields and crop import demand.

Fan also said China's use of wheat to replace corn in feed rations could fall in the new marketing year, as the price gap between the two grains has narrowed since August.

Around 8 million to 10 million tonnes of wheat is expected to be used as corn replacement in 2010/2011, before falling to around 4 million to 5 million tonnes.

**Domestic wheat dulls China's hunger for corn, for now**

By Naveen Thukral and Niu Shuping

SINGAPORE/BEIJING, Sept 22 (Reuters) -

China is likely to at least quadruple corn imports in the next crop year to fatten its animal feed sector and squeeze food inflation, but how much grain it buys will depend on the amount of wheat it uses for rations from its large reserves.

China's emergence as a significant importer would bolster prices at a time when corn supplies are estimated at 16-year lows, and traders say Beijing has little choice but to shop abroad due to its rapidly growing meat consumption.

Grain stocks and demand are politically charged topics in the world's second largest economy which is particularly conscious about its food security and sensitive to any factors that may trigger social unrest, especially inflation.

Corn, and to a lesser extent wheat, are mainly used to ensure China's voracious appetite for affordable pork, poultry and eggs is satisfied.

With strong domestic demand eating up what is forecast to be a bumper harvest, and state reserves running low, corn prices have shot up in China, stoking pork prices that in turn have helped propel overall inflation to a three-year high of 6.5 percent in July.

With corn reserves estimated at less than one month's consumption, traders say Beijing will have to abandon its self-sufficiency policy, take advantage of relatively low U.S. prices, and import large volumes.

It will also have to start feeding its animals more wheat, tapping into reserves that at the end of the 2011/12 crop year are seen at a copious 64 million tonnes.

"China has massive undisclosed stocks of wheat which will be helping it offset some of the deficit in corn," said Adam Davis, a senior commodity analyst at Merricks Capital in Melbourne.

"China has produced record corn crops year-on-year just to keep pace with consumption, but now there is a deficit."

China's decision this week to release 3.7 million tonnes of domestic corn stocks by November to cool prices highlighted its concerns about food inflation, which rose to over 13 percent in August despite several measures to rein it in.

(Continued on page 13)
SWITCHING TO WHEAT

The announcement by the State Grain Administration lifted U.S. corn and ignited talk that the world’s second-biggest user of the grain, and its biggest pork consumer, would soon seek U.S. and South American cargoes.

Analysts and traders say China could import anything between 5 and 9 million tonnes of corn in the crop year starting this October, most likely in February or March.

China bought 1.3 million tonnes of corn in 2010/11, according to the USDA, which is forecasting the country’s purchases in the coming year at just 2 million tonnes.

If it does buy 9 million tonnes, China would almost be on par with Mexico, the world’s largest corn importer after Japan, which the U.S. Department of Agriculture (USDA) estimated would buy 9.2 million tonnes in 2011/12.

China does not release figures related to grain stocks or consumption, but traders expect it will use an additional 15 million tonnes of wheat for the livestock industry on top of the 5 million it regularly uses.

Diverting more wheat for animal feed could be bullish for prices, as China is estimated to hold almost a third of the global surplus.

"Corn is really tight so farmers have started feeding pigs with wheat," said Haiguang Shi, a Beijing-based vice president of the Canadian Wheat Board.

“Maybe around 15 to 20 million tonnes will go into feed and it will be mostly domestic wheat as they have huge stocks.”

Livestock breeders worldwide have turned increasingly to wheat this year since U.S. corn became more expensive than wheat for the first time in 11 years in April.

The landed cost of U.S. corn in China is around $340 a tonne, including cost and freight, while Australian feed wheat can be supplied to the country at $295 a tonne, traders said.

(Continued on page 14)
U.S. corn prices have fallen around 15 percent from a record of nearly $8 a bushel in June, and the market appears to be holding its breath, waiting for China to pounce. Chicago prices recovered from a five-week low on Monday as rumours swirled about China's purchases.

"Domestic supply will remain tight, so any correction in U.S. corn prices will be a good import opportunity," said Feng Jilong of Chinese trading firm Dalian Beifang International Grain Logistics.

China's state corn stocks are estimated at just 12 million tonnes, or about one month's consumption. Beijing likes to maintain reserves equivalent to three months' consumption to be on the safe side.

Those same food security concerns are behind China's drive to maintain self-sufficiency in corn, but with demand for grain likely to continue to dwarf supply, relying on the harvest appears to be fading away.

On Thursday, an executive with a state-owned trading house said China would become a regular corn importer in the future, adding that the increase in this year's harvest -- 4.25 million tonnes -- could not meet demand growth estimated at 11.6 million tonnes from 2010.

Fan Zhenyu, deputy general manager with state trader COFCO's corn division, forecast that if demand remains steady, China will have to import nearly 20 million tonnes in 2020. Another government official, Li Xigui of the China National Grains and Oils Information Centre, said this week China would become a significant importer by 2015.

Analysts said China was effectively telling the world's top corn producers to ramp up output in the future. "This is a message to the world to grow more corn, they are trying to say, start investing in corn capacity," said Davis.

Traders say China's government does not want to see corn go the way of soybeans, where the country went from being largely self sufficient in the 1990s to the world's top importer now.

Some analysts believe China is likely to hit the market by March for a bulk of its corn purchases for 2011/12, giving it time to assess its needs after the domestic crop is harvested.

"I think even $7 a bushel is too high for China, by February or March they will have a much better idea about prices and the supply gap," said one analyst who declined to be identified.

Rising Asian demand feeds corn, soybean bulls

By Michael Taylor

Robust Asian demand will keep intact a bullish outlook for corn and soybean in the long term, although current high prices have hit a ceiling as investors steer clear of economic uncertainty in developed nations, industry officials said this week.

Rising demand for feed in emerging economies, boosted by population and economic growth, will be the key driver for soybean and corn for years to come, as consumption swings away from staple grains towards meat, participants at an industry meeting in Indonesia said.

"As incomes rise, you'll have a more diverse food basket coming from different parts of the world," said Margarita Escaler, a research fellow at the National Institute of Education in Singapore.

"You'll have increased consumption per capita for wheat, rising popularity of convenience foods and beverages. You'll also see a tendency for diets to become very similar across developed countries in Asia, towards more Westernization."

The hottest summer in more than half a century in the United States has contributed to strong corn prices in recent months, prompting some traders to speculate that corn buyers will look beyond the top supplier.

Global soybean production in 2011/12 is likely to reach about 265 million tonnes, newsletter Oil World forecasts, with the U.S. 2011/12 soybean crop likely to fall to 88.5 million tonnes from 90.6 million in 2010/11. The forecast comes at a time of growing worries about the debt and economic woes of both Europe and the United States.

"The debt problems in Europe and the U.S., as well as financial and economic uncertainties, support a more bearish scenario," Thomas Mielke of Oil World said on the near-term outlook for soybean.

Industry players also weighed the chances of China, the world's second-largest consumer, looking to import U.S. or Argentine corn.

Concerns about tight U.S. corn stocks have pushed Chicago Board of Trade corn futures to record highs recently. Front-month corn futures hit an all-time peak in June just below $8 a bushel.

"China is a wild card," said Adel Yusupov, Southeast Asia regional director at the U.S. Grains Council, adding that demand from southeast Asia was a crucial factor not to be ignored. "All our eyes are on China, and we are a little bit forgetting about the importance of Southeast Asia. Overall, in terms of world corn imports, ASEAN presents much bigger potential than China."
Ethanol demand for corn will also influence benchmark prices, as the alternative fuel industry uses about 40 percent of the U.S. corn crop for feedstock, provoking criticism from food and livestock producers who say it drives up prices.

The USDA predicts demand for corn from the livestock, ethanol and export sectors will shrink the U.S. stockpile to its smallest in 16 years by next summer. Beyond that, however, things may be set to change.

"One of the reasons why I think (crude) oil and corn will both be down next year, is that we've had this increasing use of corn for ethanol," said Paul Aho, a poultry economist at Poultry Perspective, who forecast corn prices to fall to $5 a bushel in 2012/2013, with crude at $75 a barrel.

"The only reason it's going to be up in this current crop year, is because of a bad crop. Next year, with a good crop, we're headed in the other direction - ethanol will become less supportive for corn," said Aho.

Sustainability and food security concerns are in focus, with increasing yields seen as key to meeting demand from growing Asian populations, rising middle classes and continued urbanization.

"As Asians live more and more in cities, the role of urban food security is going to be even more important -- as we saw in the 2007/2008 crisis, there were food riots," said Escaler, referring to global food protests in 2008 after the price of wheat and other farm commodities climbed steeply. But the region needs to consolidate small farms to boost yields, ease food security problems and meet rising demand. Farmers holding fewer than two hectares continue to dominate the sector in Asia, which makes up more than 87 percent of the world's 500 million small farmers, she added.

"If we've got 500 million small farmers, we've got to be able to make these farmers more entrepreneurial, and this is why the private sector plays a key role," Escaler said. "Food security cannot be addressed without the private sector."

China to release 3.7 mln tonnes corn reserves, imports expected

By Niu Shuping and Naveen Thukral

BEIJING/SINGAPORE, Sept 20 (Reuters) -

China will sell about 3.7 million tonnes of state corn reserves by November in a bid to cool record prices and take the heat off food inflation, which the government fears may fuel social unrest.

Tuesday's announcement by the State Grain Administration is likely to support corn prices, with some traders in the United States saying the world's second-biggest consumer of the grain was asking about buying up to 5 million tonnes of U.S. corn.

With state corn stocks estimated at 12 million tonnes, or less than one month's consumption, and strong domestic demand eroding what is forecast to be a bumper harvest, China is seen as likely to take advantage of weaker U.S. prices and shop abroad.

A man walks on a road past cornfields, as seen from a bunker of U.S. soldiers from Task Force "No Fear" 3rd Platoon, 2-27 Infantry "The Wolfhounds" at Outpost Bani Alai in Ghazialbad district in Kunar September 17, 2011. REUTERS/Erik De Castro

(Continued on page 16)
Analysts saw China buying up to 9 million tonnes in the year starting from October, with a government official saying the country’s imports could hit 11 million tonnes by 2015.

“With the recent slump in U.S. corn prices, we think it is a good time to import,” said Li Qiang, chief analyst with Shanghai-based consultants JC Intelligence Co. Ltd.

"Domestic supplies have dried up. Based on the current balance sheet, it is normal to buy in several batches to bring in altogether 9 million tonnes in the year starting from October," said Li.

Chicago Board of Trade corn has slid around 14 percent from an all-time high of almost $8 a bushel in June amid concerns about a global recession that would curb feed grain demand.

Corn futures bounced back on Monday after China said it would release some reserve corn, without giving details. A significant purchase by China could trigger a rally in U.S. prices given the prospect of tightening world supplies.

“It is possible that China may buy a large volume. Domestic demand is pretty strong while supplies are not sufficient. The government holds very low stocks, which need to be refilled,” said one trader with a state-owned trading house.

CHINA TO BECOME BIG CORN IMPORTER

The State Grain Administration said in a statement posted on its website that the 3.7 million tonnes of corn, equivalent to about two weeks of consumption, will be released before the end of November to “increase supply and meet market demand before new corn is available”. (www.chinagrain.gov.cn)

China mainly uses corn for animal feed. Heady domestic prices have in turn catapulted the cost of eggs and the nation’s favourite meat, pork, to record highs.

Pork prices, a key driver of inflation, rose 0.7 percent in the week ending Sept. 11, their fifth consecutive gain, to reach a record. Food inflation, which stood at 13.4 percent in August, is the primary driver of overall price increases, and cooling costs has become a priority for the government despite concerns about slowing growth in the world’s second-largest economy.

Physical corn prices have risen sharply this month, as supplies are being drained before the arrival of the new harvest in October.

Persistent rains in parts of northern China have also delayed the harvest in those areas by one to two weeks. Some traders expect the rains to limit the growth of the overall harvest to only 4-5 million tonnes as well as damage quality, making it unfit to feed piglets. “A recent spike of corn prices in south provinces have made imports favourable.

We expect government authorities would import more to rebuild stocks,” said one corn trading manager with a state-owned trading house in Jilin, the country’s largest corn area.

China does not publish state reserve figures, but traders estimate Beijing has rebuilt its corn reserves to about 12 million tonnes after years of running them down to cover its domestic deficit.

(Continued on page 17)
This reserve figure is less than China's estimated corn consumption for one month. China usually keeps three months worth of consumption in reserve for strategic reasons.

Beijing imported more than 2 million tonnes of U.S. corn for state reserves earlier in the year, and traders estimated about 600,000 tonnes have already arrived.

Last year, China returned to importing corn in earnest after years of blocking foreign grain on a policy of self-sufficiency. With feed demand rising steadily, it's likely China will continue to be a major buyer.

Li Xigui, deputy grains department head at the China National Grains and Oils Information Centre (CNGOIC), told a grains conference in Singapore that China's domestic corn shortfall will reach 11 million tonnes by 2015, from 1 million tonnes in 2010. He said there were constraints to China's corn yields -- arable land, water resources, seed technology and farming practices -- adding that China would become a significant importer in about four years time.

U.S. Department of Agriculture data estimates China's 2011/12 consumption to rise to 182.5 million tonnes, while production will increase to 178 million tonnes, creating a 4.5 million tonne shortfall.

Rising wheat supplies, China's corn imports in focus

By Naveen Thukral and Michael Taylor

SINGAPORE/JAKARTA, Sept 16 (Reuters) -

China's corn imports in the year ahead, impact of Europe's debt crisis on prices and an oversupply of wheat will take centre stage at two grains industry conferences in Asia next week.

India's move to allow rice and wheat exports for the first time in several years, which is seen adding pressure on the market, and a harsh U.S. Midwest weather threatening soybeans will also be in the spotlight at the meetings to be held in Singapore and the Indonesian resort island of Bali.

"The big issue is where do we go from here in terms of grains prices, are we going to see bearish pressure on wheat, even though corn supply is quite tight," said Abah Ofon, an analyst with Standard Chartered Bank in Singapore.

"Is the weak global economic growth going to have a sluggish impact on the grains market."

The market is sensitive to China's corn purchases which could trigger a rally in the benchmark U.S. market with prospects of tightening world supplies.

China's corn imports are likely to climb more than two-fold in 2011/12 as a dramatic surge in demand outstrips domestic output, turning the country into a consistent buyer, according to a Reuters poll.

"The key issue currently is whether corn imports in China are going to follow the trajectory of soybeans," said Ker Chung Yang, an analyst at Phillip Futures in Singapore.

"For the coming years, we expect the (Chinese corn) imports to double or even triple."

China bought 1.57 million tonnes in 2010, the most in 15 years and almost all of it came from the United States. The nation may have bought as much as 5 million tonnes of corn since March this year as it replenishes depleted reserves.

China is the world's top soybean buyer, importing nearly 60 percent of around 90 million tonnes traded across the world.

The USDA in its demand-supply report on Monday said U.S. corn yields had deteriorated even more than analysts had forecast, falling 4.9 bushels per acre to 148.1 bushels, the lowest in six years.

Chicago Board of Trade corn climbed to an all-time high of almost $8 a bushel in June on concerns over global supplies, but since then the market has eased more than 12 percent on fears that a global recession could curb feed grain demand.

BULGING WHEAT STOCKPILE

The wheat market has come under pressure with prospects of higher supplies from Black Sea producers, Australia and India, a topic which will be debated at the conferences.

"In July and early August there were a lot concerns both over supplies of corn and wheat, but now the picture is changing some what," said Standard Chartered's Ofon.

"Russia, Australia and India all have bigger surplus."

U.S. wheat prices have slid more than 6 percent so far this month, weighed down by expectations of higher world production and losing ground after climbing more than 10 percent in August when the market was buoyed by late planting of the spring crop and a drought in the southern U.S. Plains.

According to the USDA report, world wheat stocks are now forecast at 194.6 million tonnes, up 5.7 million tonnes from last month, and far above average trade guesses of 187.7 million tones, analysts said.

Australia, the world's fourth largest exporter, is forecasting its exports could reach a record high of 20.4 million tonnes in 2011/12, with the harvest also seen close to a new peak helped by better growing conditions.
Last week, India allowed unrestricted exports of two million tonnes each of wheat and common rice as stockpiles reached unmanageable levels.

Buyers have already started snapping up Indian rice, with at least 100,000 tonnes sold within days of the government move. While the country has also sold 50,000 tonnes of wheat to Bangladesh, its exports of the grain are likely to remain limited to neighbouring countries where it enjoys a freight advantage, given competition from Black Sea suppliers.

Investors are closely watching the U.S. weather for the developing soybean crop which was earlier this week forecast to suffer damages at the hands of early frost.

But the crop damage from freezing temperatures in northern sections appeared to be lighter than anticipated.

U.S. soy futures have slid nearly 7 percent from this year’s high of $14.56 a bushel hit on Aug. 31.

"Frost risk has abated and we are watching South America where the weather forecast of beans is quite dry but it is a bit early to get worried," said Adam Davis, a senior commodity analyst at Merricks Capital in Melbourne.
A farmer dries corns on a road in Vietnam’s northwestern province of Son La, 320 km (200 miles) from Hanoi, October 4, 2011. REUTERS/Kham

Editorial:

Clarence Fernandez (Senior Sub Editor, Commodities & Energy)
+65 6870 3861; clarence.fernandez@thomsonreuters.com

Richard Mably (Global Editor, Commodities & Energy)
+44-207-542-6280, richard.mably@thomsonreuters.com

Veronica Brown (Editor, Commodities and Energy, EMEA)
+44-20-7542-8065, veronica.brown@thomsonreuters.com

Jonathan Leff (Editor, Commodities & Energy, Americas)
+1-646-223-6068, jonathan.leff@thomsonreuters.com

Sambit Mohanty (Editor in Charge, Commodities & Energy, Asia), +65-6870-3084, sambit.mohanty@thomsonreuters.com

Privacy statement:
To find out more about how we may collect, use and share your personal information please read our privacy statement here.

Thomson Reuters commodities news briefs:
Inside Oil – (Asia)
Inside Oil – (Americas)
Inside Commodities
Inside Agriculture
Inside Metals
Biofuels & Renewables Weekly
Freight Monthly
India Agriculture Monthly
Oil Swaps Forward Curve Monthly
Inside Dry Freight

For more information,
Learn more about our products and services for commodities professionals, click here
Send us a sales enquiry, click here
Contact your local Thomson Reuters office, click here

Your subscription:
If you have not already registered and would like to receive future copies of the above mentioned news brief or would like to subscribe to other commodities news briefs from Thomson Reuters please click here.