

## Macro-economic Situation

The overcapacity of crushing industry has draw close attention from the central government. Soybean crushing industry has put on the “black list” of overbuilt industries together with shipbuilding, iron & steel, cement, aluminum etc. The central government is urging different departments and local governments to take the overcapacity problem seriously. No new crushing project is allowed to be launched in principle, especially for those crushers with annual capacity over 150,000 mt. The actual capacity utilization of China crushing industry is less than 50% currently.

Recently released economical data show that September banks loan volume surpasses most analysts expectations around 300 billion yuan, reaching 516.7 billion yuan. One of the main reason is the back flows of residential savings to banks.

The data also indicate that the nation’s foreign exchange reserve balance was USD2,272.60 billion as of the end of September, up by 19.26% from last year.

## Government Grains Policy

The destiny of 6 mmt of old crop local beans in the provisional state reserve was no longer discussed in the recently held top three parties meeting among China Development & Reform Commission, Finance Ministry and Sinograin. Instead of it, how to carry out new crop local beans stockpiling program was on the top of the agenda according to the instructions of the State Council. The plan of moving around 1.5 mmt of old crop reserve from major growing areas, viz the northeast, to major consuming areas, viz the south, for the purpose of giving way to the storage of new crop and purchasing about 2 mmt of new crop local beans at RMB3,500/mt initially was discussed but no final decision was made.

Meanwhile, CDRC did announce to raise the protection prices by RMB60/mt for state purchases of local wheat and rice. This movement might be a precursor of local beans state reserve to further expand this year. The government seems to continue stockpiling local grains on ideas that the more grains they hold the safer the nation would be, especially to a country like China with such a huge population and inadequate arable land.

## Domestic Livestock Market

Hog and pork market remain quite stable now after a small rally took place during the long national holidays. As our investigation goes, the retail pork prices in the north are generally quite cheaper than those in the south. This could be

attributed to more hog fever cases found in the south. Hog and pork market is expected to be well supported until the end of this year at least with government's reserve program and more consumption during the winter. The seasonally high number of pigs on farm during the fourth quarter might lend buttress to the already high soymeal prices.

## Domestic Grains Market

Inland crushers are beginning to shift their attention to local beans in their neighborhood with new crop local beans quotations ranging from RMB3,550/mt to RMB3,650/mt, much lower than those imported ones at main ports, which has recently rallied in tandem with CBOT to RMB3,850/mt. These local beans trading activities however are mainly confined to those small and medium-sized crushers as local beans can only be supplied in smaller lots and can not meet larger crushers' monthly demand and there is much inconsistency in their quality also. Normally even small crushers inland are not expected to obtain sustainable supplies of local beans beyond the end of the year except for those deeply situated in the heart of major growing areas. That is why those large-sized crushers located along the coast are still keen in pursuing spot supplies with the inventories of imported beans at main ports being depleted. Around 40,000 mt was reportedly concluded at the price as high as RMB3,880/mt between a large importer and a joint venture at Rizhao port a couple of days ago. With soymeal prices quoted around RMB3,500/mt and soybean prices around RMB6,800/mt, they might still enjoy a certain amount of crush margin albeit small. If new crop US bean shipments can not complete their loading these days and reach China coast as early as mid-November, some coastal crushers might continue scrambling for the remaining meager inventories at main ports.

More and more traders and analysts are adjusting down their estimates about new crop local beans production with some of them even 50% lower than last year for the local bean production particularly in the northeast. When looking at the crop size nationwide, most of them estimate that it would decline by 20-30% from last year.

Local corn prices are staying at much higher levels compared with a couple of weeks ago across China with those at major growing areas ports ranging from RMB1,660-1,700/mt. Traders from southern China are swarming to the northeast and Shandong province, the two most important local corn growing areas in China, to scramble for prompt shipment. This has prompted local corn farmers to hold their stock more tightly. The pretty hot cash market might give us clue about the real size of new crop China local corn this year, which might suggest a much smaller crop than official estimates.

Pls feel free to contact me if you have any question and comment.

Best regards

Wei, Dong

Tel: 86 10 65130855/65130355

Fax: 86 10 65130306

Cell: 13501227188