

Macro-economic Situation

A cluster of official macro-economic data was released yesterday. Shanghai and Shenzhen Stock market made a minor correction though as these data had been factored into the rally in anticipation of them the day before. These data are stated below,

- 1) GDP for the past three quarters reached RMB21.7817 trillion, up 7.7% from the same period last year. When looking at it on basis of quarter, GDP growth started accelerating from the first quarter's 6.1% up to this past third quarter's 8.9%. The central government is becoming much more confident that the annual GDP growth target at 8% is going to be achieved this year.
- 2) Money supplies expanded rapidly during the past three quarters with financial institutions' loan balance reached RMB39.0 trillion as of the end of September, up by RMB8.7 trillion from the beginning of this year while broader money supplies (M2) reaching RMB58.5 trillion, up RMB11.7 trillion from the outset of this year, and RMB5.2 trillion from last year.
- 3) CPI for the past three quarters declined by 1.1% from last year while PPI dropped by 6.5% from last year. However, the downtrend of CPI turned to be even in July this year compared with the month before and then started becoming upward movement, up 0.5% and 0.4% respectively in August and September. As for PPI, it had been moving up consecutively for six months by the end of last month.
- 4) Total Import & Export declined by 20.9% as of the end of September with the monthly decline percentage narrowing continually however. Anyway, this pillar of the nation's economy remains weak for the time being.
- 5) The overall fixed assets investments of the nation climbed 33.4% from last year, up to as much as RMB15.5057 trillion, with its growth rate up by 6.4% from the period last year. Fixed assets investment remains the prominent pillar of the national economy.
- 6) The total retail amount of the overall consumer goods was sharply higher during the past three quarters, up 15.1% from last year, reaching RMB8.9676. Domestic consumption has been becoming a stronger pillar of the national economy, which is out of the earlier expectations of many analysts.

Moreover, the Ministry of Human Resources & Social Insurance released their data about employment this morning. They pegged unemployment rate in urban areas as of the end of September at 4.3%, same as the previous quarter.

Signs of recovery in China economy might set the stage for strong medium and long-term demand potential for materials like copper, zinc, crude oil, iron ore, vegeoils, oilseeds etc..

Government Grains Policy

The final decision on new crop local beans stockpiling program is widely expected to be made by the government soon. The tentative quantity they are going to purchase for this program might be fixed at 2 mmt or so according to inside sources. How to fix the relevant price would be a tough job for the decision-making body. On one hand, if it is set lower than the current market their stockpiling task might not be completed; on the other hand, if it is fixed at higher level there might be slim chances for them to rotate their reserve without loss of money. Strong rumors suggest that the purchasing price for new crop reserve program would probably be raised marginally by the government however.

Surprisingly and ironically, a subsidy program for releasing old crop provisional reserve has finally been passed according to the official documents we obtained a couple of days ago. Based on this program, 1.9 mmt of old crop would be moved from the state reserve to provincial silos in the northeast and RMB210.0/mt be given to local crushers who would like to buy from the local governments' hands at RMB3,750.0/mt. This program reportedly intends to quench the thirst of local crushers in the northeastern provinces like Heilongjiang, Jilin, Liaoning and northeastern part of Inner Mongolia as they have been short of beans supplies for a couple of months since Sinograin scooped out almost all the local beans stock over there around the end of last year and the beginning of this year. Its original intention might not be fully satisfied as it seems to have been put out at the wrong time. Few crushers have showed keen interest in it so far as more new crop local beans are expected to swarm into local cash pipelines over there very soon. Farmers are waiting for government's new crop stockpiling program to set their sales strategies while crushers awaiting farmers to offer their new crop beans so that they might make comparison between government's subsidy and farmers sales prices. With current rally in domestic cash market led by CBOT, more crushers might consider locking in government's subsidized stock as farmers might become tighter holder. Anyway, less than 2 mmt of beans can only accommodate small part of local crushers' demand.

By the way, Sinograin has started moving old crop local beans around 1.5 mmt from their silos in the northeast to those in the south. Sinograin Group is setting up their own crushing and refining facilities across China with some of them already completed and ready for operating soon. They themselves are more willing to keep the provisional stock in their hands as they could either get subsidy for its storage or have enough feedstock for processing. COFCO is not happy about it as they would have to be confronted with a giant competitor who could get special support from government and sometimes do not need to care about profit or loss for political reasons.

Domestic Livestock Market

The number of pigs on farm continues rising, now reaching as high as 465.16 million heads, up 1.53% from the previous month while breeding sows around 48.4 million heads, up 0.5% from the previous month. Minor variations had been seen in the on-farm pigs number over the past three quarters. Breeding pigs percentage remains at higher level, almost 10.41% of the total on-farm pigs.

This might imply that pigs productivity stays at lower level and that there would be latent overcapacity and downward movement risk for pigs prices.

Domestic Grains Market

The first shipments of new crop US bean are reported to reach Qingdao port in Shandong Province some time in the last week of next month according to the shipping advice in the hands of a reliable forwarding company over there. Meanwhile, less and less old crop foreign beans would flow into China before that time, thus pushing domestic market higher. Imported beans prices are quoted somewhere between RMB3,850-3,900/mt at main ports in Shandong Province while new crop local beans offered around RMB3,600-3,700/mt in the heart of northeast, the most important and largest local beans growing area. Normally the freight and quality spread between local bean from the northeast and imported beans at ports to the south would be about RMB200/mt. Larger crushers along the coast still prefer imported beans rather than northeastern local beans owing to that they can not get sustainable supplies of local bean even for one month's operation and there exists much inconsistency in local beans quality. Therefore, the impact new crop local beans could bring upon the domestic market would be confined mainly to northeast or to the area as southern as bordering province like Hebei Province and northwestern part of Shandong Province. New crop local beans are not expected to pose any meaningful threat to imported beans though. If any, it would be short-lived one. Currently imported beans stock in the hands of most crushers have been declining from last month and become scarce now.

Meal market is moving up now with crushers' stock continually declining and persistently strong demand coming from feedmills now. Meals' quotations ranging from RMB3,400 to 3,650/mt from north down to the south. Whereas soyoil stock appears to abound everywhere from the ports storage to refiners' tank for the time being due to unusually higher imports during past three months. Soyoil prices have raised recently to RMB6,900-7,100/mt depending on local beans growing area or consuming area. The strength in domestic soyoil market could be attributed to that some crushers have cut down crushing pace due to feedstock shortage and local traders are anticipating higher import cost and less soyoil to be imported in upcoming months and current heavy stock is likely to be used up over time. Anyway, soyoil prices' lows at RMB6,600/mt might have been set in place now.

Please 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