

## Macro-economic Situation

The president of China central bank indicated the other day that it may not be beneficial to the health of the nation's economy especially the physical economy if interest rate is kept at a too low level and the key is to keep financial sector propelled to provide service to physical economy. At the moment, both current deposit and inter-bank borrowing rate are quite low while annual savings rate remains at 2%, so banks are under pressure to use the money in their hands as they have to pay interest rate to their customers finally. Some local analysts suspect that his comment might be a precursor to a possible moderate rise in interest rate in the near future. Others however forecast that the odds for central bank to raise interest rate in the near future are very low with CPI, an important indicator of inflation in China, remaining at comparatively low level and far below the maximum tolerance central government sets for inflation rate at 5% now. CPI growth is widely expected to accelerate in the first half of next year. Central bank might consider lifting interest rate some time in the second quarter of next year.

## Government Grains Policy

Recently released Outline for Mid and Long Term China National Grains Security Program sets a target for China local grains productivity to be met in 2020 at 550 mmt, up 50 mmt on perceptions that grains security is the paramount matter to the stabilization of whole nation and the nation is always confronted with challenges in grains productivity and foods security in the process of industrialization and urbanization as follows,

- Natural resources are limited: arable land, water and favorable weather, to name but a few, thus increasing the difficulty in keeping sustainable growth in grains production;
- Foods consumption expands persistently, keeping grains supply and demand in a tight balance in a long run;
- Comparatively low grains productivity would remain a perennial issue and needs continued supports from government.

To achieve the above target, farmland has to be maintained above 296.5 million acres with basic crop land at 257 million acres and actual grains planting acreage at 260 million acres while grains yield level has to be reached at 5.25 mt/ha on average, equivalent to 2.125 mt/acre.

## Domestic Livestock Market

Hog and chicken raisers are enjoying good margins with sales prices being boosted by snowy weather and higher feed prices in major consuming areas. It is normally a fattening stage for livestock now. Seasonally higher numbers of animals and poultry are normally kept on farm now for new year's festivals. Meal consumption is expected to be sustained at seasonally high level at this stage.

For current hog and chicken prices in RMB yuan/kg please refer to the below,

	Hog	Chicken
Northeast	12.5	7.8
Central area	12.4	7.6
East	12.4	7.6
South	11.6	7.8

## Domestic Grains Market

Based on the results of double checking with forwarding agents at main ports, the actual shipments arrivals this month may well be estimated at the level of somewhere between 2.0-2.5 mmt, much lower than the estimates by CNGOIC, China National Grains & Oils Information Centre who claims themselves to be a think tank for the central government. When looking at Shandong Province alone, where local crushing capacity accounts for nearly 40% of the whole nation's and monthly imports for 25% or so, 11 shipments are expected to arrive at local ports like Qingdao, Rizhao, Yantai and Longkou ports, where considerable numbers of crushers cluster over there, according to local forwarding companies. More shipments should have reached China before the end of this month but for the delay in their loading at the Gulf. Therefore, when looking at the whole nation's beans imports for this month, the total shipments arrivals can be calculated to be around 2.5 mmt at most. Lots of US beans that China's buyers have booked are however expected to swarm into domestic cash pipelines and replenish crushers' inventories from next month onwards. Most crushers would probably start their crushing with the throttle wide open so as to catch the higher crushing margins at present.

25,000 mt/day more crush capacity is expected to added to the current crush capacity around 55,000mt/day in Shandong Province in coming six months according to local veteran traders and crushers. This province alone, the only area in China where imported beans are allowed to be traded freely at the moment as reported in our earlier wires, would hold a share of the nation's total crushing capacity as much as 45% with monthly crushing volume reaching around 2.4 mmt.

Domestic cash soymeal market is still well supported for the time being due to tight spot supplies of beans and low crushing utilization rate at the moment but is

likely to be pressed down with most crushers gearing up their operations as quickly as possible and a slack season for meal sales and consumption looming on horizon. At unusually high meal prices which are close to beans prices for the moment, many feed mills are adopting a hand-to-mouth purchasing strategy, especially those larger ones with certain amount of inventories in hands now. However, domestic vegeoils market is expected to be well supported or rather has been set on a tack for further upward movement now in anticipation of less vegeoils shipments flowing into China during coming months and the bulk of current heavy stocks in traders' hands to be depleted over time.

Current soymeal and soyoil prices at selected major producing and consumption areas are state as follows,

	Soymeal	Change	Soyoil	Change
Northeast	3,450	+50	7,150	+100
North	3,650	+50	7,250	+50
Central areas	3,700	+40	7,350	0
South	3,720	+40	7,250	0

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

Best regards

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