

 **Macro-economic Situation**

Huge amount of hot money is reportedly warming into Hong Kong in anticipation of Renminbi's appreciation and quicker recovery of China's economy. Hong Kong local financial administration bureau estimates that about 500 billion of HK dollars have flown into Hong Kong. Based on the official report, the majority of the money has already been invested either in stock market or real estate market. Local financial official warns that big bubbles are being blown in all HK dominated assets now and would probably burst any time when US interest rate is raised and US dollar reverse its current downward movement.

The Vice Director of China Parliament's Financial Committee indicated the other day that signs of recovery in China's economy were evident and central bank should be given more authority to choose financial adjustment tools like adjusting the rate of money that commercial banks are required to deposit in central bank among others. In the meantime, she stressed that changes in tools of monetary policies did not necessarily imply any change in current policies.

However, stress was laid upon the consistency and stability of the nation's macro-economy policies in the meeting among the top leaders of the nation today. Aggressive fiscal policy and moderately comfortable monetary policy were also confirmed to be kept in place now.

 **Government Grains Policy**

Re recent rumors that China government is planning to subsidize crushers, which seem to imply that China's buying power of foreign beans might expand further, as far as I know, government did give subsidies to selected local crushers in the farthest northeast, more specifically in Heilongjiang Province, the most important local beans growing area, so that they might be encouraged to purchase needed beans supplies from the provisional state reserve and their operation might be resumed. This policy was carried out however before new crop was harvested and started to flow into the cash pipelines from mid-October onwards. Those local crushers had been thirst for local beans supplies and stayed idle for a couple of months since Sinograin, a state-owned grains company, expanded their reserve by sweeping away almost all the old crop local beans over there in the early months of this year.

China government has recently announced again to continue their provisional

reserve expansion policy for new crop local grains and beans this crop year. It is reported that they might make some adjustments in the ways they carry out the policy this time. One alternative way that is being under their consideration is to encourage local crushers in the northeast to purchase local beans as much as possible at prices that are favorable to local beans farmers by giving them certain amount of subsidies so that local farmers' interests might be protected while state silos' burden could be relieved. They are not expected to secure as much local bean as they did around the beginning of this year with new crop local beans crop probably much smaller than last year.

One thing for sure is that government will not subsidize all those coastal crushers that are using imported beans. This policy is going to apply only to those selected local crushers that specialize in processing local beans in the northeast.

COFCO is reportedly drafting an ambitious plan and strategy to foster and develop itself to be so-called "China's Cargill". A series of dazzling actions that this company took not long ago to acquire and merge with a domestic milk producing giant, a famous instant noodle producer etc are expected to be the initial part of the strategy. COFCO and Sinograin are required by the central government to extend their antennae from their respective bases to upper and lower reaches of grains and foods industries chains with the view to undertaking the responsibilities of safeguarding the nation's grains security, stabilizing domestic grains market and ensuring the safety of foods on domestic market according to reliable news sources. However some experts are warning that COFCO is taking the risk of being involved in B2C, an area where no grains or foods giant has ever tried as all the successful grains and foods conglomerates around the globe are only focusing on B2B.

Domestic Livestock Market

This past week saw a notable rise in the sales volume of pork and a moderate increase in hogs prices in a couple of major consuming areas. This situation could partly be attributed to the recent hike in vegetable prices in major cities according to some hog traders. The seasonally low marketing hogs number and seasonally strong pork demand in the winter might be the main reasons behind it. With pretty good crush margins baby hogs placements are expected to continue increasing.

A notable correction was seen in chick and broiler market while a considerable increase in chicken prices in the past week. Veteran traders are suggesting that recent snowy weather disrupted highways traffic may have contributed to this situation. However expectedly continued increase in chicken sales and prices may lend support to chick and broiler market finally. Moreover, imminent new year's festivals may also prompt chicken raisers to place more chicks.

Domestic Oilseeds & Vegeoils Market

Re China local peanut, an alliance for peanut industry's technological innovation has recently been formed among Shandong Ruhua Group, National Peanut Technology Centre, Jiangnan University and 21 peanuts processors. The initiator of this alliance, Shandong Ruhua Group, is the largest peanut crusher in the world with annual crushing capacity around 900 thousand tons. China has the largest peanut acreage in the world with annual acreage around 12.03 million acres on average, 21% of the world's total peanut acreage, and the largest peanut crop size in the world as well with annual peanut production around 14.5 mmt, 42% of the world peanut production.

Re vegeoils market, a couple of vegeoils refiners have begun to cut off their supplies to supermarkets with the view to lifting the retail prices of vegeoils. Kerry, a vegeoil processing giant in China, has handed in its application to the government for raising their retail prices. Other smaller processors are expected to follow suit very soon. With import cost increasing and quantity tapering off over time a vegeoils rally is widely expected to sweep across China. The unexpected sharp set back in futures might bring temporary pressure upon the cash market.

Seasonally high hogs and chicken on farm might give certain buttress to soymeal market for the time being. Soymeal prices are expected to be under increasing pressure with more meals flowing into pipelines and more hogs and chicken to be marketed in a month of time.

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

Best regards

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