

Macro-economic Situation

Recent rally sweeping across the prices of most agricultural products like vegetable oils, staple grains, various vegetables etc and energy products like natural gas, gasoline, electricity, water etc has ignited a hot debate about whether inflation has been set in place in China with some analysts more concerned that the inflation might intensify if its prospects were not checked in time while others downgrading the extent and dimensions of the inflation prospect and forecasting inflation rate may not exceed 3% next year, which would be within the tolerance of China's economic health, due to the overall supply over demand situation remaining in place in most sectors of the nation's economy and its impact probably outperforming the oversupplies of money.

The growth of the CPI for November that was released by China National Statistics Bureau this morning has turned into positive number for the first time from the beginning of this year viz up 0.6% compared with the same time last year, wrapping up the persistent negative numbers consecutively for the past 10 months. The national think tank suggests that deflation has thus been eliminated now but inflation has not shaped up yet with many official economists attributing the CPI's growth mainly to such factors as the whole economy's recovery and recent rally in agricultural produces and energies prices. Meanwhile, the Statistics Bureau also indicates that PPI for November declined 2.1% versus the same time last year while electricity generation increased 26.9%. Most local analysts are defining the inflation next year as a moderate one against all those newly released data.

Government Grains Policy

Our reliable inside news resources indicate that Sinograin, the only company that has been authorized to make reserve of grains, has already accumulated local beans as much as 8 mmt more and vegetable oils as much as 2 mmt more in their hands, which would be enough to manipulate the domestic market when beans and oils prices rally out of the tolerance of the central government. Beans prices over RMB4,500/mt and oils prices beyond RMB10,000/mt would absolutely draw official policy makers' attention according to some insiders. One thing for sure that Sinograin has got any order from central government to release their stock yet. Moreover, the government has accepted the applications of Wilmar and COFCO, the largest two oil processors in China, to raise their oils retailing prices across the nation. All these might suggest that government would

not get rid of their stock in the near future and would hold it in preparation to cope with something more serious like vicious inflation in the remoter future.

Domestic Livestock Market

Although hog and poultry prices are moving up significantly across the country, few signs are showing that central government would take any action to press them down for the time being. Supportive policies will continue to be carried out to protect livestock and poultry farmers according to the recent government announcement. However, meats market is expected to move down into an off season after heavy slaughter and marketing during the coming festivals.

Domestic Oilseeds & Vegeoils Market

Based on my investigation on my recent biz trip, the oil inventories of most crushers and merchandisers are declining to their historical low levels with the stock accumulated during the past couple of months depleted now and foreign vegetable oils imports beginning to taper off. This has prompted smart merchandisers at different levels of the cash pipeline to hoard oils. Normally crushing oilseeds can accommodate the bulk of meal demand but only part of oil demand in China. China needs to import over 10 million more tons of various vegetable oils to supplement her locally crushed oils every year. With palm oil expected to take back seat seasonally in the upcoming months due to cold weather in most part of the country and smaller crop of peanut, cotton seeds and local beans, China domestic market may more than ever rely on imported soybeans and soyoil. However, foreign soyoils cost might be well supported by the world's heavier dependence upon the US beans and soyoils supplies before South American soyoil flushes into international market. Therefore, China domestic oil market is likely to be well supported in tandem with overseas market in the next couple of months especially when abundant domestic stock is depleted. Meanwhile, higher oils prices might still give crushers favorable crush margins though meals prices might be under heavier pressure with more and more meals coming off their crushing lines starting from the middle of this month, thus prompting them to continue importing more foreign beans to fill up the market vacuum that would be left by less oil imports. From that perspective, it seems reasonable that China should import historically large quantities of US beans in the first half of this crop year with monthly shipments averaging 4.0 mmt or so from December through April. It also looks like China's buyers might buy more if central government would be reluctant to down pour their stock into the domestic market in the first quarter of next year.

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

Best regards

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