Macro-economic Situation

The yield rates of China central bank bills for 3 months and 91 days period were unexpectedly raised by 4.04 and 3 points respectively. This action was obviously out of most people's expectation and sent stock and futures markets sharply down the other day. Many local analysts interpret it as a strong signal that central government has started to tighten the money supplies on domestic market with the view to manage inflation expectations. Some traders forecast that central bank bills' yield rate might resume its upward movement from now on and finally would probably prompt central bank to raise interest rates more than once after it moves beyond 2% from the current 1.3684% while others are downplaying its impact on financial market by indicating that central might be more inclined to use quantitative control measures on open market or at discount window rather than raising interest rate before foreign central banks, particularly Fed, take any action to raise their interest rates, as higher interest rate might attract more hot money into China thus blowing up assets bubbles and setting off inflation here in China. Anyway monetary policy as loose as last year is unlikely to be repeated this year with evident signs of quick recovery in China's economy. How and when to phase out the current economical stimulus policies package would probably be considered by the central government though loose and easy financial and monetary policies would be kept in place by the government's account. Managed funds who are highly sensitive to any changes in government's policies might reconsider and adjust their investment portfolios on China domestic market now.

Stock index futures are expected to be officially traded on Shanghai Futures Exchange in three months according to China National Securities and Futures Administration.

Government Grains Policy

The vegetable oils stock that central government is holding in their hands has been accumulated up to be about 2.7mmt now, which is expected to be enough to manipulate the domestic market in a short run, according to insiders working with Sinograin, the only authorized state reserve operator. The top management of this state-owned grain company is however reluctant to lease their stock unless soyoil prices go beyond RMB9,500.00/mt, which is a way higher than the current levels around RMB7,700.00/mt.

All foreign beans buyers are required to make registration with the Ministry of Commerce for their shipments that arrive at each China port after January 1'10 and hand in the relevant registration certificate they obtain from the afore-said ministry to the Customs when going through the clearing formalities. Actually there is no restriction on issuing the registration certificate on the government's side. What they need to do is to have all the foreign beans shipments put on records effectively from the first day of this year so that they might keep a timely track on imported beans buying pace. This action is interpreted by some local traders as the preliminary step in preparation of a trade war with the U.S. while others downgrade it to be just a step in government's efforts to improve their statistical work by imitating USDA.

The central government announced to raise the state-owned elevators' purchasing prices of new crop rice for state reserve again. More crops' purchasing prices of state-owned elevators are said to be lifted as well and more incentives or measures are expected to be phased out soon to encourage farmers to plant more grains.

Domestic Livestock & Poultry Market

A notable correction was seen on the hog market in the northeast these two days while markets languished in other areas. Hog farmers are opting to keep their hogs on farm at current level rather than expanding them as Lunar New Year's holidays are imminent and hog sales prices remain depressed at the moment. Normally they are expected to replenish or expand their on-farm hogs stock around the middle of April according to local hog traders.

Chicken and egg markets remain quite stable with minor recovery seen in some central areas over the past couple of days. Chicken and eggs sales have been lackluster recently and is expected to remain so in typically dull period before the Spring Festival.

Domestic Soycomplex Market

Soymeal market is under heavy pressure and continuously moving down across the country with cash meal prices quoted around RMB3,580.00/mt, down RMB50.00/mt from last week, in Shandong Province, the area where cash foreign beans and products are traded most actively in China. With more and more foreign beans shipments swarming into China main ports every month from now on and more and more meals coming off crushing lines cash soymeal prices are expected to slide further down in the upcoming two months at least. However downside movement might be limited in the forward soymeal prices on DCE as COFCO and other large-scaled crushers have sold heavily on them for hedging against their physical beans positions and already pressed them down to levels that would appeal to feed mills for forward cash meals positions coverage. A few large feed mills are beginning to take hand-to-mouth strategy for spot shipments while securing five months forward shipments by buying forward futures contracts like May and September on DCE.

Soyoil market has been generally well supported above RMB7,600.00/mt all these couple of days though minor corrections were seen in between. Most wholesalers are still holding their stock tightly in anticipation of less imported arrivals and much higher prices in the near future. Hypersensitive funds' flight from DCE has pounded the soyoil futures market down to levels that is beginning to attract more bargain hunter buyers now.

China's buyers continue to buy US bean though monthly soybeans imports volume is averaged nearly 4mmt from now on until the end of April when considerable South American beans shipments are expected to reach China's shore. The number looks unusually larger compared with the same time in the past years. However this situation might imply that that smaller local oilseeds crops this crop year coupled with less vegetable oils imports in the upcoming months might have create a hollow in domestic market that needs to be filled up by much more foreign beans crushing. Meanwhile central government is phasing out various stimulus policies to boost domestic demand including raising retirement and old age pensions and pushing forward urbanization by lifting restrictions on permanent residence registration and migration between the country and the urban areas. Normally urban residents' consumption is five times those in the country according to statistical bureau.

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

Best regards

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