

 **Macro-economic Situation**

Recently released economic data show that PMI for September is up by 0.3% from last month and is the highest since last May. This is seen by many local analysts as one of the important signs of prospective economic recovery in China.

The Monetary Policy Design Committee of China central bank, the People's Bank of China, decided on its routine meeting the other day that the ongoing aggressive monetary policies would be kept in place and more loans would be released during the fourth quarter of this year. All banks would reportedly be instructed to divert their loans from industries with higher power consumption, heavier pollution and overbuilt capacity to those with more technical innovations and burgeoning strategic importance. Small and medium-sized enterprises, especially those involved in agri-biz would probably obtain more credit supports.

Daqing Oilfield, the largest oilfield in China that has been drilled consecutively for 27 years with annual production as high as 50 mmt, is reported to continue its high productivity under hi-tech support but with its annual production dwindling to 40 mmt from now on to 2020 and down to 20 mmt from then on to 2060.

 **Government Grains Policy**

China Reform and Development Commission has suppressed the proposal that a decent subsidy should be given to local crushers to purchase the auctioned beans from state reserve on the recent top three parties meeting among CRDC, Finance Ministry and Sinograin in the belief that this petition put forward by local crushers from the northeast would be favorable only to themselves and would jeopardize the interests of local beans farmers and those crushers to the south who are crushing the most part of the nations oilseeds, and in anticipation of smaller crop this fall. The rumor that we mentioned in our last week's wire and has been widely published on the websites across China, remain just a rumor now.

 **Domestic Livestock Market**

Hog market continues declining by 3-7% in different places respectively. Recent setback could be attributed mainly to pigs raisers ramping up their sales at good prices. The market however might be well supported during the forth quarter by

the combination of upcoming busier season, state reserve tightly held government and hog fever found in certain southern provinces. This scenario might set the stage for well supported meals market in the same period as well in China.

## Domestic Grains Market

Local crushers could enjoy a crush margin at RMB175.00/mt or so if they crush local bean in the northeast, while obtaining much more decent margin around RMB290.00/mt if processing imported beans. With cheaper foreign beans and perhaps new crop local bean coming on the market in a month, local crushers especially those in the northeast, the largest local bean producing area in China, remained on the sidelines in the past week when government auctioned beans from its provisional reserve. China domestic bean market has been more and more closely associated with CBOT with most crushers and even local farmers looking to Chicago to make their sales decision as local beans share on domestic market has continued shrinking. China local beans could be merchandized across the northern half of China just five years ago but now are only able to reach the area as southern as Hebei Province, a neighboring province to the northeast and are likely to end up in pure local beans only in the northeast soon simply because of the continually expanding population and improving diet of the mass.

The combination of sharp state reserve expansion in the first half of this year and the anticipation of smaller new crop corn this fall has contributed to the rally in domestic corn market so far. With corn prices lingering at pretty high level, feed mills covering their purchase positions for the upcoming months and new crop harvest progressing, corn prices are beginning to consolidate. The percent of the rally starting from the beginning of this up to recently was however still impressive, up almost 30%, though current prices remain lower compared with the same time last year.

Pls 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