

China's Corn Imports: How Much and For How Long?

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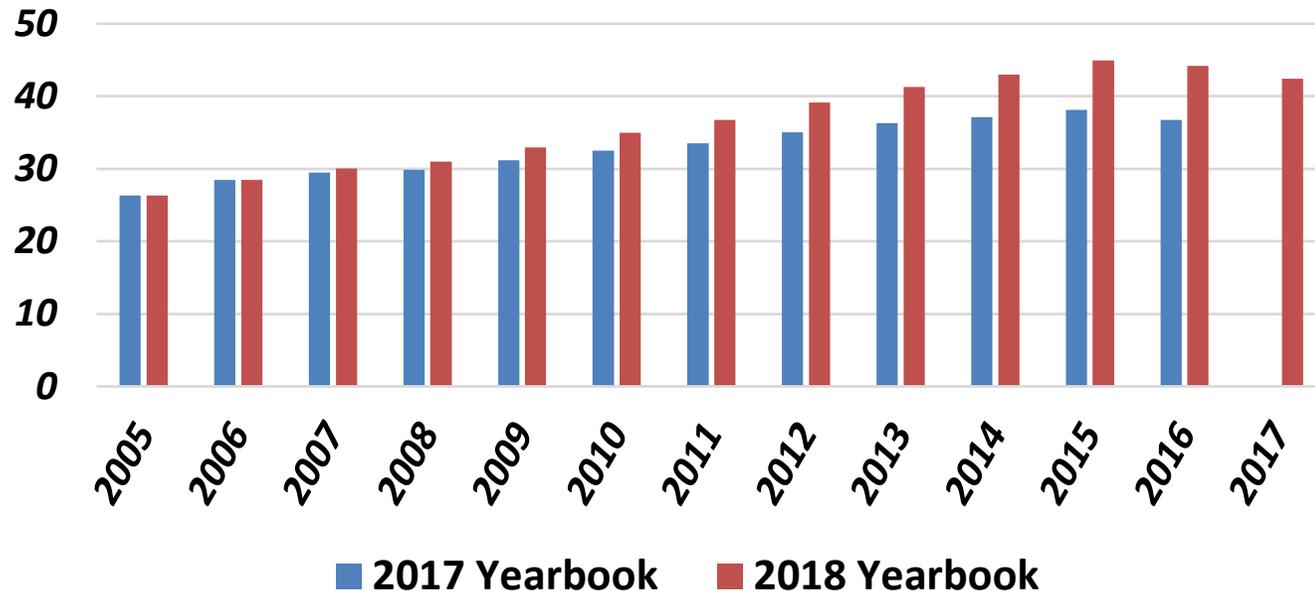
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Outline

- Why we do not really know how much corn China might buy
- Why I think there is “systemic” corn import demand in China
- Discussion of issues

2018 Official Revisions to China Corn Production

Estimates of Corn Sown Area in China:
2017 and 2018 Statistical Yearbooks (MHa)



In September, 2018, China's National Bureau of Statistics revised historical estimates of China corn sown area

**Corn sown area expansion
2006 to 2016**

**Previous: 29 percent (10.4 Mha)
Revised: 55 percent (17.8 Mha)**

**This resulted in 223 MMT more corn
on the market in years 2006-2016**

**2016 production went up 20%,
or 44 MMT**

The Production Revisions Changed Everything!

In response to the production revisions, all other public estimates revised not only production, but also consumption, mostly feed demand

Various China Corn Production and Demand Estimates for Crop Year 2017/18: Comparing Sept 2018 (before revision) to Nov 2020 (MMT)

	Production		Feed Demand		FSI Demand	
	<i>In Sept. 2018</i>	<i>In Nov. 2020</i>	<i>In Sept. 2018</i>	<i>In Nov. 2020</i>	<i>In Sept. 2018</i>	<i>In Nov. 2020</i>
<i>JCI</i>	197	258	111	171	93	91
<i>YUMI</i>	200	203	131	178	79	87
<i>NGOIC</i>	216	259	145	210	98	93
<i>USDA</i>	216	259	167	187	74	76

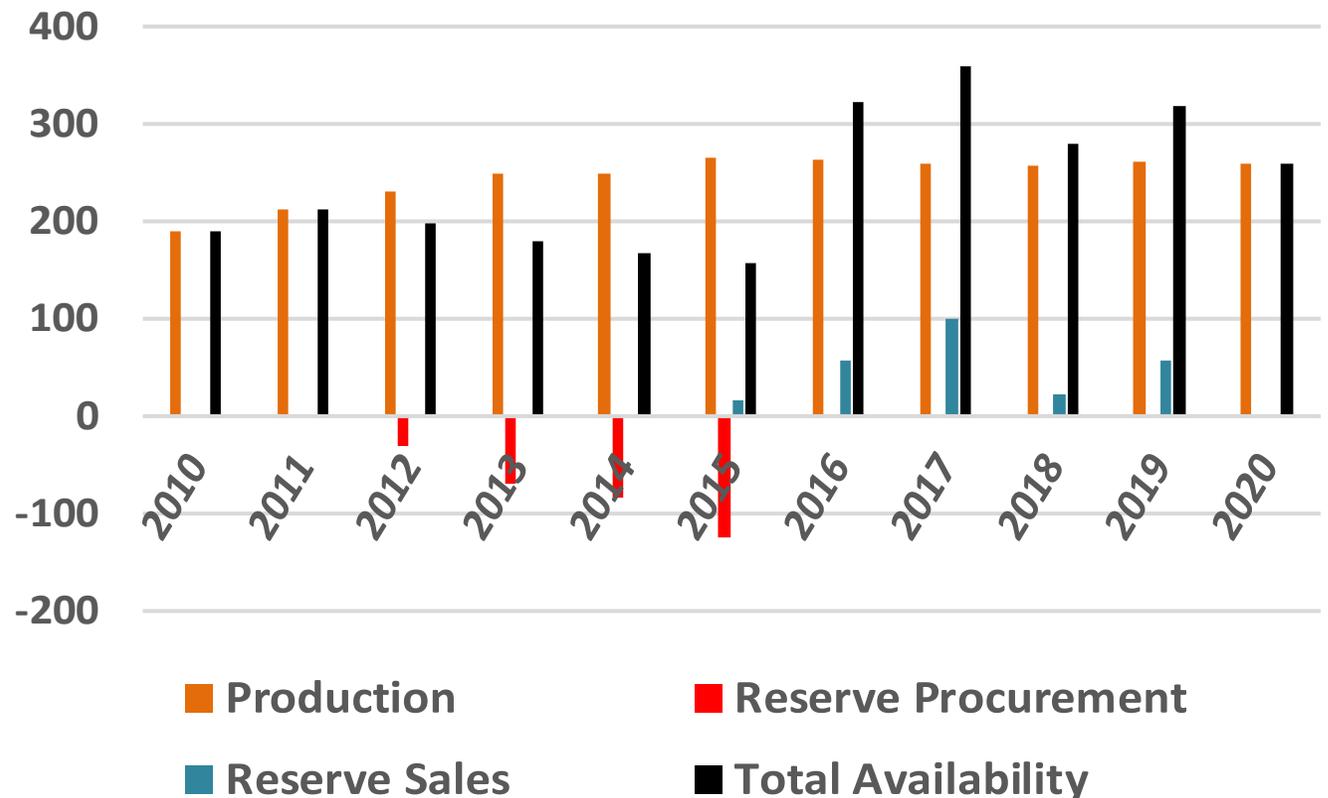
Reserve Procurement and Sales Further Confound the Situation

And then there are reserve procurement and sales on top of the above uncertainties.

Procured: 309 MMT from 2012-2015 crops

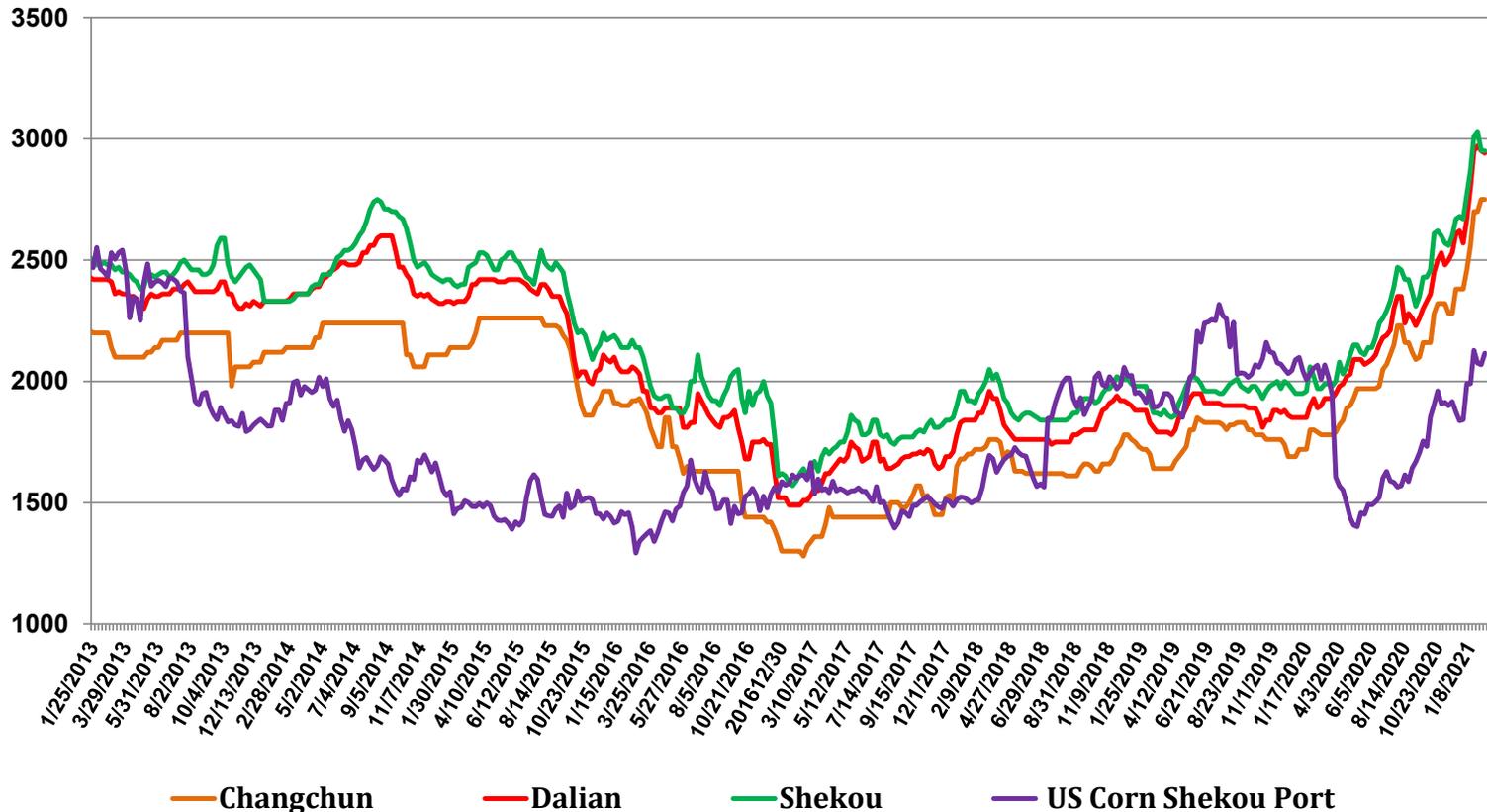
Sold: 250 MMT in years 2016-2020

China Corn Production, Reserve Procurement, Reserve Sales, and Total Availability (MMT)



Corn Price Rally

Corn Prices in Northeast and South China (RMB/MT)



Current Corn Import Margin Estimated At nearly \$130/MT

Implications/Questions

- How to control imports?
- Is this systematic or temporary?
 - Acreage expansion in 2021?
 - Wheat substitution?

ASF and Feed Grains Demand Growth

Plausible Scenarios of the Effect ASF has on Corn Feed Demand

ASF is causing hog producers to reduce some feed ingredients, particularly recycled food waste, and replace that with corn.

My estimate of recycled food waste use is 30 MMT, dry weight

Hog Feed Demand (MMT)

Corn Share

Corn Feed Demand (MMT)

	<i>Pre-ASF Swine Inventories</i>	<i>ASF-Induced 40 percent Reduction in Swine Inventories</i>	<i>Full Recovery in Swine Inventories</i>
	200	120	190
	50%	75%	75%
	100	90	142.5

China's Hog Industry Is Recovering Slowly

Hog prices and margins are declining

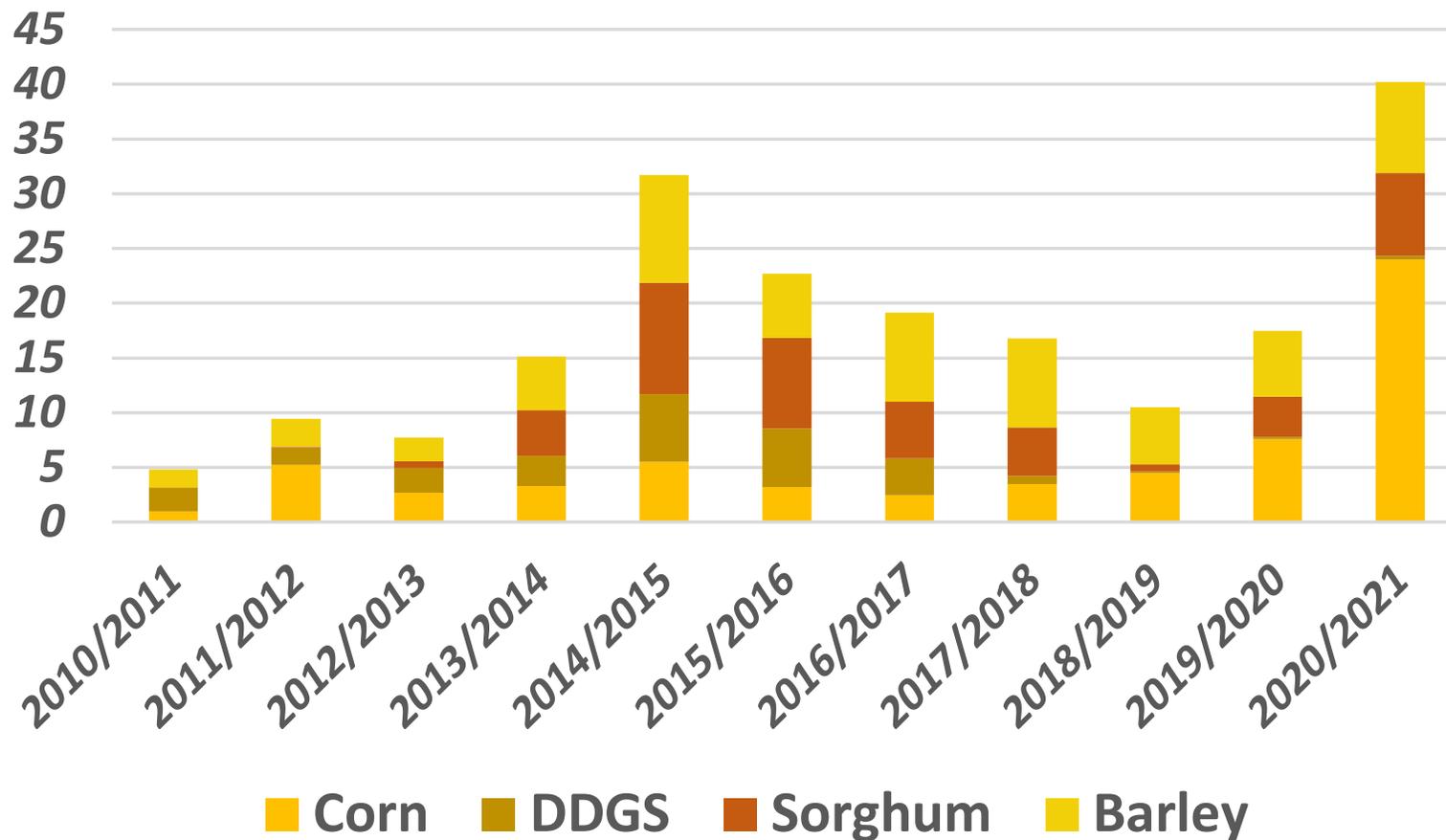
Margins for feeder operations are close to normal, causing piglet prices to soften

Many expect prices and margins will be back in the normal range by Spring 2022.

Live Hog Prices in China (RMB/kg)



What Else Can China Import?



China has been a major importer of feed grains for years

With expansion of sorghum, barley, and DDGS imports limited, all additional import demand will be met with corn

Corn imports, however, can be managed under the TRQ arrangement

TRQ and State Trading Enterprises (STEs)

China's TRQ for Corn is **7.2 MMT/year** and is divided into:

- Private (end users) – 40 percent or **2.88 MMT**
- STEs – 60 percent or **4.32 MMT**
- TRQs are allocated by calendar year, not crop marketing year

Corn Imports Beyond the 2.88 MMT Allocated to Private Enterprises are Imported by STEs

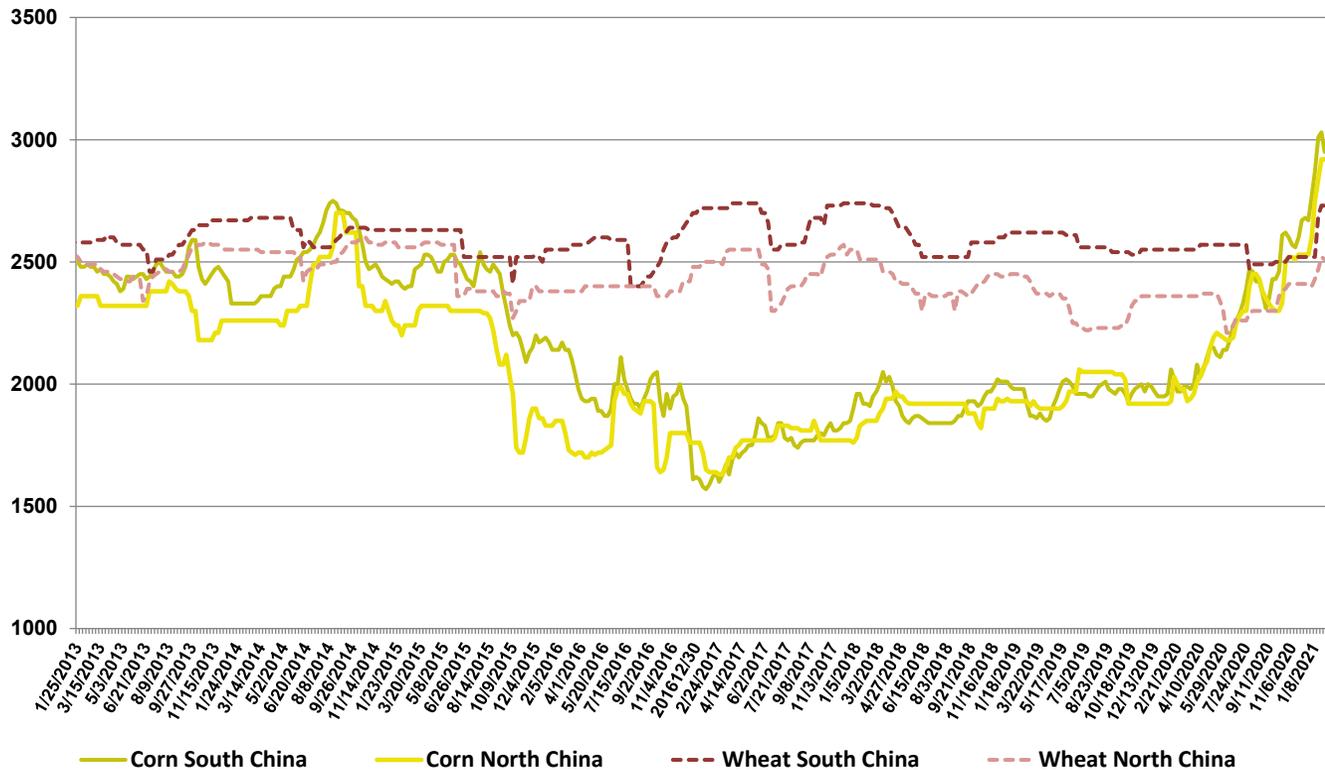
- This provides China with a fair bit of control over imports
- I do not see reforms to this system anytime soon

Sorghum, Barley, and DDGS Do Not Have TRQs

Good news is that this may result in China being more comfortable with a large corn import program

Wheat use Increasing in Feed

Corn and Wheat Prices in North and South China (RMB/MT)



Corn prices are actually pulling up wheat prices in North and South China

Wheat auctions sold over 15 MMT since Jan 1st

Wheat inclusion in feed rations could easily go over 30 MMT

And rice too!

The Future - Discussion

To what extent are this year's corn imports temporary versus systematic?

- While there were some production shocks last year, I think these imports are more driven by underlying supply and demand factors rather than production shocks in 2020
- Demand is continuing to grow as the swine industry recovers from ASF
- China will increase corn sown area this year but probably not enough to fill the gap between supply and demand
- Large amounts of wheat and rice use in feed rations will not last forever
- China will eventually adopt GMO technology in corn, but I do not expect it to be a silver bullet to increase corn yields

The Future - Discussion

What role will the U.S. play in China's future corn imports?

I think China will continue to import from the U.S. so long as prices make it attractive to do so

I expect China will also seek to import from other suppliers, mainly Brazil, in addition to the U.S. and Ukraine order to manage risks going forward

Questions?

