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

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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
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)

<table>
<thead>
<tr>
<th></th>
<th>Production</th>
<th>Feed Demand</th>
<th>FSI Demand</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>In Sept. 2018</td>
<td>In Nov. 2020</td>
<td>In Sept. 2018</td>
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<tr>
<td><strong>JCI</strong></td>
<td>197</td>
<td>258</td>
<td>111</td>
</tr>
<tr>
<td><strong>YUMI</strong></td>
<td>200</td>
<td>203</td>
<td>131</td>
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<tr>
<td><strong>NGOIC</strong></td>
<td>216</td>
<td>259</td>
<td>145</td>
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<tr>
<td><strong>USDA</strong></td>
<td>216</td>
<td>259</td>
<td>167</td>
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</tbody>
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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
Corn Price Rally

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**

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.

<table>
<thead>
<tr>
<th>Hog Feed Demand (MMT)</th>
<th>ASF-Induced 40 percent Reduction in Swine Inventories</th>
<th>Full Recovery in Swine Inventories</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-ASF Swine Inventories</td>
<td>200</td>
<td>120</td>
</tr>
<tr>
<td>Corn Share</td>
<td>50%</td>
<td>75%</td>
</tr>
<tr>
<td>Corn Feed Demand (MMT)</td>
<td>100</td>
<td>90</td>
</tr>
</tbody>
</table>
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.
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 in order to manage risks going forward.
Questions?