

China's Corn: From Surplus to Scarcity | Alroya

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April 4, 2011

, By Ranjan Bhaduri & Oisze Lam Altonaga, AlphaMetrix Alternative Investment Advisors

Unfavorable weather conditions in China have observers concerned that China's corn production could not sustain the nation's demand. The cost of Chinese corn is currently more than double the price in Chicago. As a result, China purchased 115,000 metric tons of corn from U.S. exporters this year, the largest reported transaction since 2001.

A drought in China's Northeast regions reduced the national corn output by 13 percent, creating a 7-8 million ton shortage. Moreover, current heavy rainfall in southwestern China may further reduce corn harvest by as much as 2,700 tons. Similar shortfalls have become increasingly common in China's grain markets spurring an additional purchase of 600,000 tons of U.S. corn for delivery before September 2010, according to the U.S. Grains Council.

In addition to decreased output last year, a Chinese government-issued policy last November to subsidize southern buyers to purchase northeast corn also pushed up market prices beginning earlier this year. The policy was aimed at increasing corn farmers' revenues by attracting more southern buyers to purchase corn domestically rather than importing from the United States. China's corn prices are generally 20-40 percent higher than U.S. prices due to ocean freight costs and taxes preventing imported corn from being price-competitive.

Provisional corn reserves went on the market in June 2010, the nation's most recent effort to curb skyrocketing prices. As much as 30 percent of the grain in some stockpiles have showed "significant signs of degradation" caused by mold due to high temperatures. Chinese Corn output is expected to reach 170 million tons this year, 6 million tons more than last year if there is no drought in major growing regions, said Sun Yu, a corn analyst with Galaxy Futures. The profitability of the pig farming industry, however, the largest consumer of corn, may offset the effect. China's corn consumption this year may be 150 million tons, the grain administration's Zeng said.

But China has been working hard to keep up with the demand within its own borders. Ever since it was introduced to China, corn production has expanded steadily, at some points creating a surplus. Less than a year ago, the U.S. Department of Agriculture reported that China's corn supply exceeded demand. The government has encouraged the intelligent development of the corn industry to overcome the problems that the country and its farmers face today.

Chinese Corn Production

Corn was first introduced to China in the 16th century by early European missionaries. Originally stemming from the east coast, corn is now grown in every province in China. About two thirds of Chinese corn is grown in temperate conditions in the northern and eastern coastal provinces. The rest is grown in subtropical and tropical regions.

Cold temperatures and short growing seasons limit farmers to one crop a year in northeast China. In the rest of China, corn is commonly grown as the second crop in tight annual rotations. Corn production now ranks second to rice production. While all grain prices have risen since the early 1990s, corn prices have risen faster and remained relatively higher than wheat and rice. Chinese policymakers have set minimum purchase prices for corn which have encouraged farmers to plant the crop.

Since the early 1980's, China's consumption of pork, beef, and poultry has more than tripled. Corn is primarily used as animal feed and increasingly in large scale commercial hog and poultry operations.

Xu Xiaoqing, deputy director of the Development Research Center of the State Council, says

China's farmland area will decline to 119 million hectares this year and to 109 million hectares by 2020 (compared with 128 million hectares in 2001). The drop is caused by urbanization, industrialization and a lack of water, Xu said.

Chinese Premier Wen Jiabao recently visited Poliwang village in Central China, a major wheat-producing area, urging local governments to harvest crops as soon as possible and to strengthen field management. According to Wen, a good summer harvest and stable farm produce prices are crucial for managing inflation expectations and for realizing the nation's macroeconomic targets this year. Agriculture is a cornerstone for the national economy and the nation must always attach great importance to agricultural production, Wen advises.

Amid the nation's efforts in improving sustainability, the current shortage cannot be resolved immediately. Rising imports by China is expected to prolong as reserves are being rebuilt. There is evidence that there will be an increasing global demand for corn, and it would appear to be an excellent opportunity for the U.S. to increase its supply.

The U.S. Department of Agriculture forecasts that China, consuming 19 percent of global output this year, may boost overseas purchases. The nation will probably more than double targeted imports in the year starting October 1st to 3.5 million tons from 1.5 million tons, according to Li Qiang, managing director of Shanghai JC Intelligence Co.

Email the writer: