International Agricultural Trade Report

Special Report: China's Soybean and Product Import Demand in 1998/99 is on the Rise, Yet Key Questions Remain.

November 2, 1998

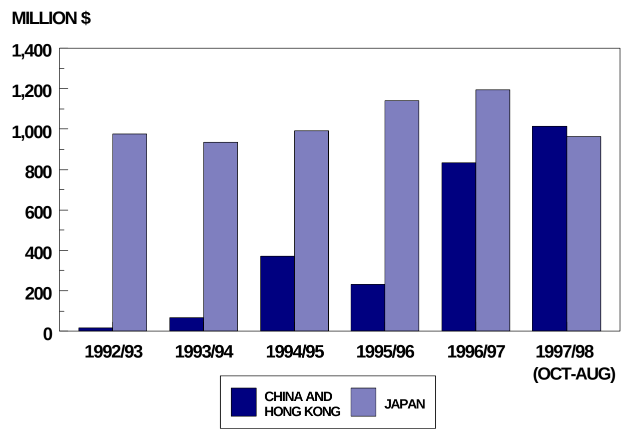
Issue

China may soon overtake Japan to become the largest market for U.S. soybeans and products. In 1997/98 (through August) the U.S. exported over 1 billion dollars worth of soybeans, meal and oil to China and Hong Kong. A reduction in China's 1998 soybean production as well as a slowdown in economic growth have raised many questions regarding China's future demand for U.S. soybeans and products. China's imports of soybeans and meal are each currently forecast to increase in 1998/99, to 3.6 (3.0) and 4.4 (4.0) million tons respectively (previous year). Is there room for this much growth while livestock production growth is slowing and regional meat import demand is stagnating? What about vegetable oil imports?

Summary: Implications for Soy Product Imports

- **Soybean imports** should remain strong in the fourth quarter of 1998. U.S. shipments of over 750,000 tons since Sept. 1 are a sign that the crush will be stepped up in coming months. **The U.S. remains most competitive in soybean trade in China and the rest of Asia, capturing 80 percent of key markets in 1997.** This share has slipped in the first half of 1998 but will recover in coming months.

CHINA AND HONG KONG ON TRACK TO BECOME LARGEST U.S. SOYBEAN AND PRODUCT MARKET



CENSUS DATA

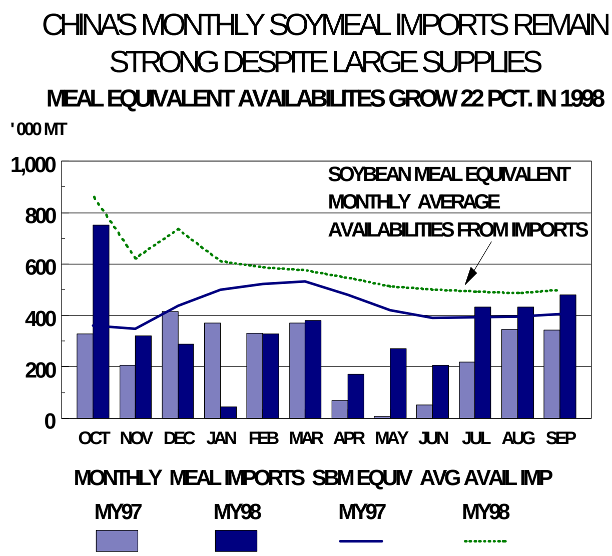
- **Soybean meal import** growth will be driven by large and inexpensive world availabilities and favorable import policies vis-a-vis soybean imports. However, meal imports will be tempered by large domestic stocks. It is also likely that many of the smaller speculative importers will continue to have difficulties opening letters of credit. Any policy change to limit soybean meal imports will favor domestic crushers and lead to further import growth for soybeans.

- **Soybean oil imports** will be limited by the amount of import quotas issued. Demand remains high, domestic vegetable oil prices are appreciating and soybean oil is the most plentiful and affordable on the world market. The crackdown on smuggling will continue to apply positive pressure on domestic prices and renew calls for the issuance of more and larger quotas.

- In summary, China's import requirements for soybeans and meal will grow in 1999, following continued positive domestic economic growth. Declining prices and competition will limit the growth in value of U.S. exports. The relative mix of imports will depend on import policy and trade financing controls. Soyoil imports have slowed as a result of the crackdown on smuggling and will therefore be limited by the amount and size of import quotas issued. Demand growth potential for vegetable oils remains strong.

Analysis

- Monthly average soybean meal supplies from soybean and meal imports grew over 20 percent in the 1997/98 period. We can assume that livestock production **did not** grow 20 percent over this period. Rather, an increase in commercial feed use, a decline in fishmeal availabilities and a subsequent increase in inclusion rates for soybean meal account for the majority of this consumption growth. We must also assume that soybean meal stocks have also increased dramatically since 1997.



- How large are soymeal stocks? While national stocks of meal might exceed two months of use, the rate of growth in stocks might be more helpful towards understanding the current situation. Currently, soymeal stocks are being drawn down from very large levels reached in the first half of 1998. Domestic meal production has slowed over the summer and feeding is expected to pick up in the fourth quarter as pork and poultry prices improve.

- What about the soybean crush? Because of a smaller domestic crop, the total soybean crush is forecast to decline this year despite a 600,000 ton forecast increase in soybean imports. Rapeseed imports forecast at 1.2 MMT for 1998/99 remain another key competitive factor. Rapeseed imports are attractive because of higher oil share and value. The oilseed crush is also dependent on vegetable oil import quotas. Currently these quotas are not enough to satisfy total demand. The only option under the current system is to import oilseeds for domestic crushing.

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