



WEEKLY OUTLOOK



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ALL EYES ON CHINA

The import/export activity and potential activity of China has become a focus of the soybean, corn, and wheat markets. The magnitude of soybean and wheat imports by China and the level of Chinese corn exports have the potential to significantly influence prices in the current environment of tight world grain stocks.

To date, most of the focus has been on the large sales of U.S. soybeans to China. Two months into the 2003-04 marketing year, exports and outstanding export sales to China totaled 218 million bushels, compared to about 84 million bushels on the same date last year. Only 54 million bushels of that total had been shipped as of October 30. In addition, outstanding sales to unknown destinations, which may include some sales to China, remained large at 100 million bushels, compared to 86 million at the same time last year. For the year, the USDA has projected Chinese soybean imports from all origins at 753 million bushels, about unchanged from imports of a year ago. That projection, however, may change in upcoming USDA reports. The rapid pace of Chinese purchases of U.S. soybeans in the face of larger South American soybean stocks, prospects for a significant increase in South American production, and rising prices has been a surprise. With the need for a large decline in the rate of consumption of U.S. soybeans, China's import purchase decisions will remain extremely important.

China has been a large net exporter of corn in recent years. Those sales totaled 130 million bushels in 1998-99, but grew to 570 million bushels in 2002-03. For the current year, the USDA has projected Chinese corn exports at only 312 million bushels due to declining supplies. So far this fall, Chinese corn exports have been large, so the market is expecting a sharp decline in such exports sometime early in 2004. There is some potential that China could emerge as an importer of corn in the near future. The market will be monitoring the activity of major importers of Chinese corn, particularly South Korea, for indications of a return of those countries to the U.S. market. For the current year to date, U.S. export sales have increased significantly for Japan, Taiwan, Egypt, and Mexico. No significant sales have been made to South Korea, but sales to unknown destinations as of October 30 were relatively large, at 81 million bushels. In addition, exporters reported a sale of 4 million bushels on November 10 to unknown destinations under the USDA daily

reporting requirements. These sales to unknown destinations fuel speculation of sales to South Korea , to other recent Chinese customers, or even to China. With export commitments of U.S. corn already running about 32 percent ahead of last year's pace, compared to the USDA's projection for a 12.5 percent increase for the year, the corn market will continue to react to export news.

China has not been a major participant in world wheat trade in recent years. In the 2001-02 marketing year, China exported an estimated 55 million bushels of wheat and imported an estimated 40 million bushels. Last year, Chinese exports were estimated at 63 million bushels and imports were estimated at 16 million bushels. For the current year, the USDA has projected a continuation of that pattern, exports of 48 million and imports of 18 million bushels. Through October 30, 2003 (the first 5 months of the 2003-04 marketing year) the USDA reported that China had imported, or purchased for import, 10.5 million bushels of U.S. wheat. Cumulative purchases a year ago totaled only 1.8 million bushels. Outstanding export sales of U.S. wheat to unknown destinations as of October 30 were reported at 30.4 million bushels, up from 8.2 million bushels on the same date last year. There continues to be speculation that China may import 70 to 100 million bushels of wheat this year. That speculation, along with dry weather in major U.S. winter wheat producing areas, has contributed to the recent \$.60 rally in wheat futures.

The trade decisions by China are not the only factors that will influence prices in coming weeks. USDA's new production forecasts for the U.S. corn and soybean crops to be released on November 12 could be important. The market is generally expecting a slightly smaller forecast for the 2003 U.S. soybean crop and a larger forecast for the corn crop. In addition, the progress of South American crops will be extremely important for demand prospects for U.S. soybeans and, to a lesser extent, U.S. corn. However, the demand side of the news will likely be dominated by China for the next several weeks.

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