COMMENTARY

FEARS OF CHINESE ECONOMIC SLOWDOWN – how is their grain and oilseed trade structure?

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After the Shanghai Composite lost 30% of its value (estimated at $3.7 trillion) in three weeks between mid-June to early-July, plus disappointing annual Gross Domestic Product (GDP) figures which projected less than expected growth of 7% (World-Bank, 2015), global commodity markets were beset by fears of a major economic slowdown in the world's second largest economy. China is an important player in the global market, and an economic slowdown would inevitably translate to declining demand for grain and oilseed commodities. The country is the second largest grain importer, accounting for 6% of the globally traded grains in 2014. Moreover, China is also a leading importer of oilseeds, accounting for 42% of oilseeds trade in 2014. Demand shifts in China can have major repercussions on price levels, and the recently observed volatility in commodity prices can partially be attributed to the emerging sentiment regarding China's future economic growth prospects. In this article, we will briefly explore the Chinese grain and oilseed trade structure, in an effort to present its significance in the global grain and oilseed markets, which in turn, also influences the South African domestic markets.

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__Chinese Grain Import Perspective__

China has been a net importer of cereal since 2008, with imports increasing significantly between 2009 and 2014, from R7.3 billion to R67 billion. Although various factors contributed to this increase, the most significant has been the growth in consumption within its feed industry, which in-turn has been driven by a high demand for protein diets spurred by the country's ever increasing (middle-class) population. Figure 1 illustrates Chinese imports and exports between 2001 and 2014.

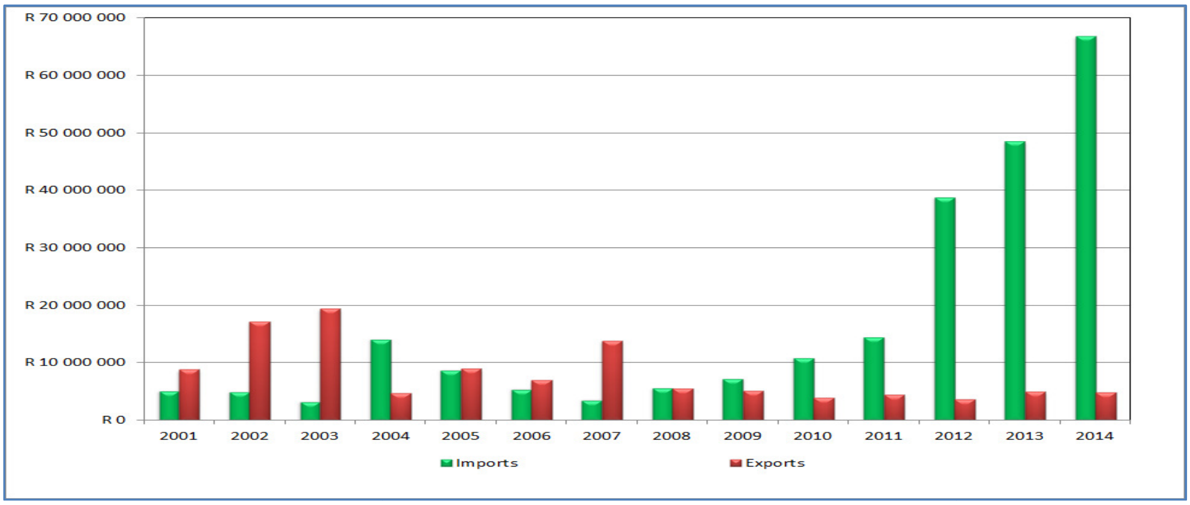

Figure 1: Chinese grain imports and exports in rand-value
Source: International Trade Centre (2015)

__Grains__ = __Maize__ (HS Code: 1005), __Wheat__ (HS Code: 1001), __Rice__ (HS Code: 1006), __Rye__ (HS Code: 1002), __Barley__ (HS Code: 1003), __Sorghum__ (HS Code: 1007), __Oats__ (HS Code: 1004) and __Buckwheat, millet and canary seed__ (HS Code: 1008)

Figure 2 above illustrates imported commodities for 2014.

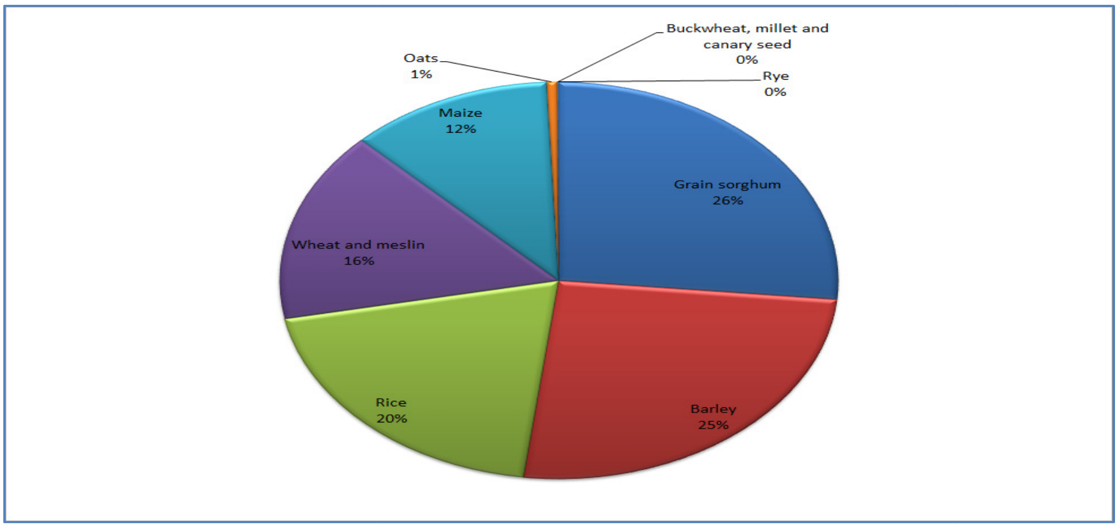

Figure 2: Chinese grain imports by rand-value in 2014

Source: International Trade Centre (2015)

In 2014, the leading grain suppliers to the Chinese market were the United States, with a share of 34%, Austria supplying 28%, Vietnam 10%, Thailand 8%, Canada 5%, Ukraine 5%, France 4%, Pakistan 3% and Kazakhstan 1%.

Within the cereal basket, grain sorghum continues to be the largest imported commodity in China, accounting for 26% (5.7 million tons) of the cereal basket in 2014. Barley was the second largest imported commodity, accounting for 25% (5.4 million tons), followed rice, accounting for 20% (2.9 million tons). Wheat (and meslin) and maize accounted for 16% (2.6 million tons) and 12% (2.5 million tons), respectively, with the remaining commodities accounting for a mere 138 362 tons (see Figure 2).

Even though China is a net importer of grains, the country has, over the past 5 years, exported an annual average of 462 311 tons of rice per year, 123 641 tons of maize, 10 818 tons of wheat and 35 343 tons of sorghum.

Chinese oilseed import perspective

Similar to its grain basket, China is also net importer of oilseeds. Between 2011 and 2014, Chinese oilseed imports have grown exponentially, from R230 billion to R497 billion. Increasing demand from both the feed industry as well as human consumption are two major drivers of this growth, which are underlined by an advancing agro-processing sector and an increasing population, respectively. Figure 3 illustrates the Chinese oilseed imports and exports trend.

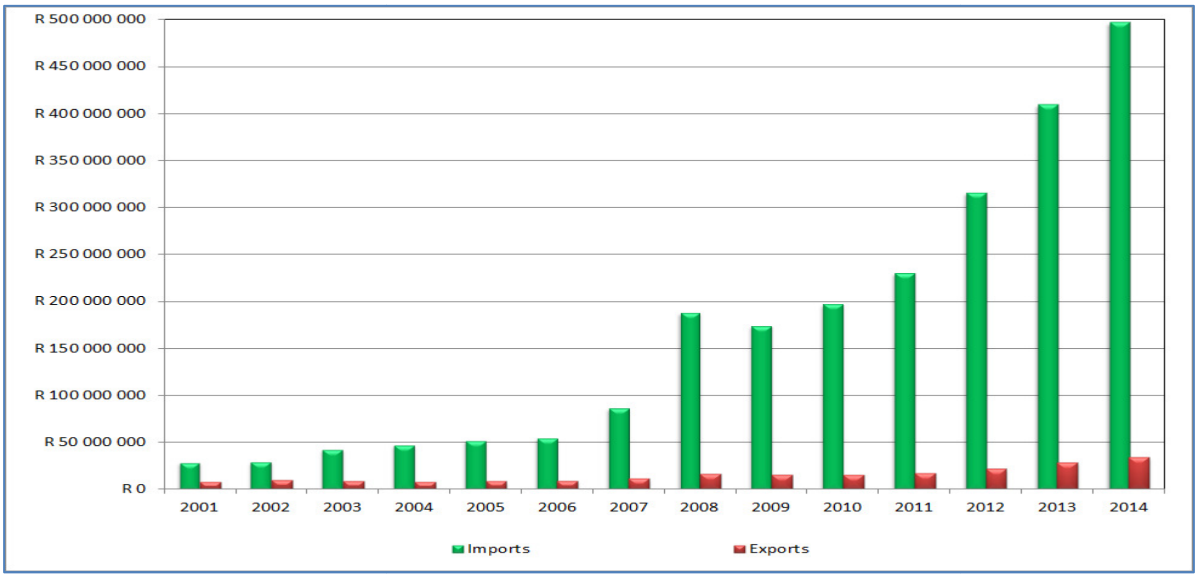

Figure 3: Chinese Oilseed Imports and Exports by Rand value

Source: International Trade Centre (2015)

*Oilseed = ***Soybean*** *(HS Code: 1201),* ***Rapeseed/Canola*** *(HS Code: 1205),* ***Locust beans*** *(HS Code: 1212),* ***Lucerne*** *(HS Code: 1214),* ***Medicinal plants*** *(HS Code: 1211),* ***Linseed*** *(HS Code: 1204),* ***Sunflowerseed*** *(HS Code: 1206),* ***Groundnuts*** *(HS Code: 1202),* ***Cereal straws*** *(HS Code: 1213),* ***Flour and Meals oil seed*** *(HS Code: 1208),* ***Copra*** *(HS Code: 1203),* ***Hop Cones*** *(HS Code: 1210) and* ***Fruit seeds*** *(HS Code: 1209)*

In 2014, the leading suppliers to the Chinese oilseed market were Brazil, with a share of 41%, followed by the United States with 37%, Argentina and Canada with 7% each and Uruguay with 3%.

Soybean is the largest imported commodity, accounting for 90% (71.4 million tons) of imported oilseeds in 2014. Figure 4 illustrates Chinese oilseed imports by product in 2014.

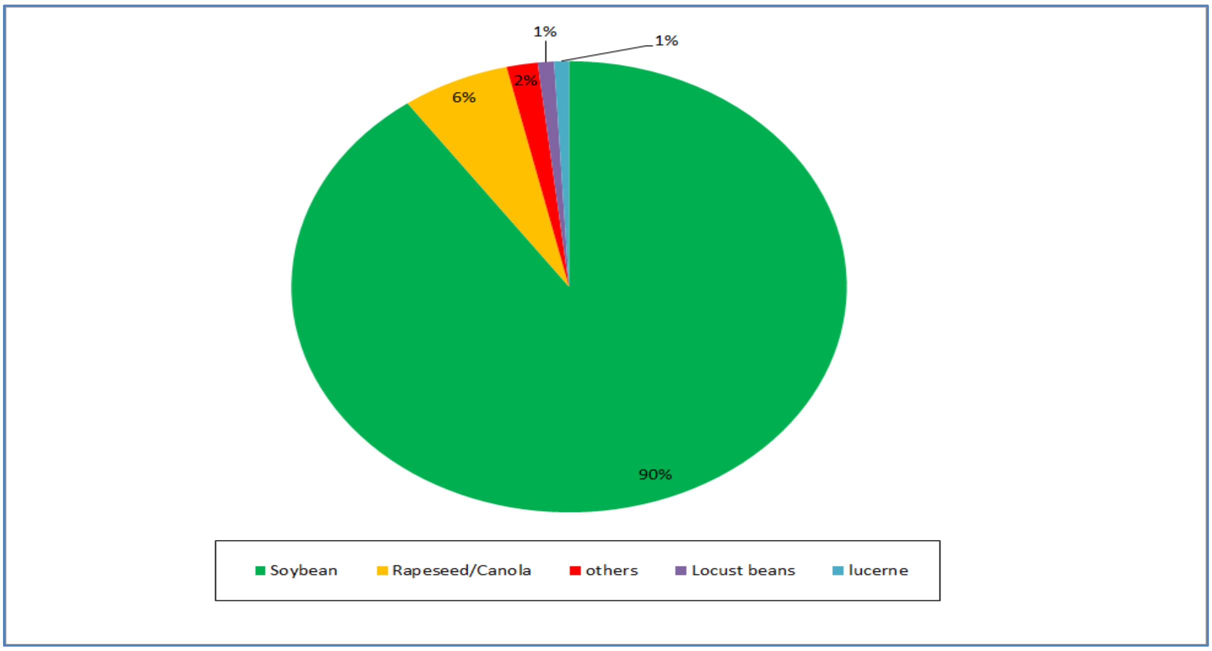

Figure 4: Chinese Oilseed imports by Rand-value in 2014

Source: International Trade Centre (2015)

Others =* ***Medicinal plants* *(HS Code: 1211),* ***Linseed*** *(HS Code: 1204),* ***Sunflowerseed*** *(HS Code: 1206),* ***Groundnuts*** *(HS Code: 1202),* ***Cereal straws*** *(HS Code: 1213),* ***Flour and Meals oil seed*** *(HS Code: 1208), Copra (HS Code: 1203),* ***Hop Cones*** *(HS Code: 1210) and* ***Fruit seeds*** *(HS Code: 1209)*

The second largest imported commodity in 2014 was canola (rapeseed), accounting for 6% (5.08 million tons) of the oilseed market. The third and fourth largest imported commodities were locust beans and lucerne, both accounting for 1% (1 348 496 tons and 1 007 446 tons, respectively). Chinese sunflowerseed imports accounted for a mere 62 385 tons, followed by groundnuts imports of 29 886 tons.

Concluding remarks

The review gave a snapshot of China's import demand for oilseed and grain markets. Given the significant share of China's import demand in the global market, market players around the world are reasonably concerned about the country's future demand, should the economic slowdown affect soft commodity consumption. A decrease in Chinese demand would inevitably add pressure on global grain and oilseed prices, which in turn, might influence South African domestic prices. Indications so far show that China's demand for soft commodities – since the turmoil induced by the stock market crash and the below-expectation economic data – has been mixed. On the one hand, Chinese 2015/16 soybean imports, are expected to increase to 79 million tons - which is higher than the 2014 estimate of 71 million tons (USDA WASDE, October 2015). On the other hand, world demand estimates points to comparatively lower 2015/16 Chinese maize imports - which are forecasted at 3 million tons, compared to the 2014/15 imports of 5.7 million tons (ibid). The 2015/16 Chinese wheat imports were forecasted at 2.5 million tons, higher than the previous season's imports of 1.93 million tons (ibid). However, the decrease in maize imports is not because of the economic slowdown, but rather due to an increase in the domestic production. It is important to note that these estimates might be revised in the following month.
