China Rapeseed

The soybean complex and palm oil might draw more public attention, but rapeseed meal is actually one of the largest futures commodity in China. Second only to the deformed steel bar, rapeseed meal had a transaction volume over 300 million lots and a turnover of USD 120 billion in 2014.

Large population and evolving food habits

Rabobank attended the China Rapeseed Industry Development Conference in Wuhan City, Hubei province in May. Rapeseed should not be discussed isolated from substitutes, weather, currency and other aspects. During the conference, several related topics were covered, including the US 2015/16 soybean outlook, the potential impact of El Niño on oilseed crops, labour disputes and logistic issues in South America, the US dollar against the Brazilian real and the Argentine peso, Argentina’s presidential election and global biodiesel consumption.

Rabobank grains and oilseed analyst Lief Chiang collected information and summarised four conference findings on rapeseed production, imports, feed, government incentives and rapeseed substitutes.

Takeaway 1: Clearing the mist over China rapeseed production

There is a general consensus in China that the domestic rapeseed production is likely to be much lower than the official data from China National statistics Bureau or Oil world. Conference speakers and analysts believe that rapeseed acreage is projected to continue to drop by a range from 10 percent to 15 percent in 2015/16 as farmers switched to planting winter wheat for higher returns, or simply left the land uncultivated. The 2015/16 domestic rapeseed production is estimated at 5.5 to 6.0 million tonnes, significantly smaller than forecast by mainstream research institutions.

Takeaway 2: Rapeseed oil imports experiencing a steep decline

In 2014/15, with tighter credit controls and bank requirements for a higher deposit for opening a letter of credit (LC), import financing has been decreasing significantly in rapeseed oil trading, from the past 50 percent of total imports to the current 20 percent. In import financing allows traders to use commodity imports to secure cheap financing to plough cash into other profitable businesses, such as private lending. In 2014/15, rapeseed oil imports should decline to 0.6 million tonnes, down about 50 percent YoY, while rapeseed import remain stable.
Takeaway 3: Rapeseed meal losing share to soymeal and DDGS in feed rations

In China, rapeseed meal is mainly used in duck feed and aqua feed. In normal years, rapeseed meal is USD 130 to USD 160 per tonne cheaper than soymeal, due to its lower protein content. However, the current price gap is only USD 80 per tonne. Feed mills and poultry pond-fish farmers have high incentives to reduce the use of rapeseed meal and use more soymeal instead.

In addition to soymeal, the imported DDGS could also replace rapeseed meal in the feed formulas. Since the genetically modified corn variety MIR162 has been approved by the Chinese government for import, it was reported that Chinese buyers have already booked a large quantity of DDGS from US.

Takeaway 4: Government procurement programme might be reformed

The Chinese Government still holds over 6 million tonnes of rapeseed oil in the state reserves, which is equal to 1.5 years of domestic consumption. The high inventory puts a heavy financial burden on the government, not to mention the huge inventory impairment caused by the plummeting price.

Under such pressures, the Central Government has incentives to reform the procurement programme in 2015/16. It might decentralise sourcing to regional governments, through subsidies to local administrations, or direct subsidies to the crushers.

On 7 and 8 May, China National Grains and Oilseeds Information Center and Zheng Commodity Exchange held the Fifth China Rapeseed Industry Development Conference to help manufacturers, institutions and individual investors to better understand industry trends and market dynamics. Rabobank would like to extend their knowledge and prospects for clients in rapeseed trading and crushing industry in China.