

March 28, 2023

China splurges on US corn...

A sharp fall in export values has sparked China into a buying spree of United States corn, taking advantage of much-improved import margins and replenishing depleted stockpiles. The flurry of purchases come despite the renewed political tensions that have dogged the relationship between the US and China in recent times.

China is notorious for swooping in and buying up commodities following significant price drops, but a combination of factors have swayed the pendulum in favour of the US this month. A halt to Brazilian supply as new crop soybeans dominate the export pathway, uncertainty about exports from rival supplier Ukraine while the grain corridor was renegotiated, a crop disaster in Argentina and improved navigation conditions along the Mississippi River all reportedly contributed to making US supply an attractive option for Chinese buyers.

The latest flash sale of 204,000 metric tonne, announced by the United States Department of Agriculture last Friday, was the eighth confirmed deal in the past nine business days. A flash sale is where 100,000 metric tonne or more of one commodity is sold in one day to one destination, or 200,000 metric tons or more of one commodity is sold to one destination during any reporting week. There had not been consecutive day flash sales of corn to China since May 2021, and prior to this month, the last corn flash to China was in August last year.

US corn sales to China totalled 2.245 million metric tonne in the week ended March 16, the third biggest weekly total on record. And since then, Chinese buyers have booked another 832,000 metric tonne. Before the splurge, 2022/23 exports of US corn were running almost 40 per cent behind the pace of the same period in 2021/22.

The US corn futures contract for May fell 7.4 per cent in the last five trading sessions of February before a small rally and then another 4.4 per cent fall in the four days to March 9. The contract hit a seven-month low in intraday trade on March 10 before the avalanche of Chinese buying commenced.

Once the Chinese buying began in earnest, US corn futures reflected the increased demand for corn by rallying 5.2 per cent from the early March low. Boosted by another flash sale, more than one-third of that increase occurred in last Friday's trade alone, with the contract closing at a three-week high.

Since the beginning of the US's 2022/23 corn marketing year in September, China's committed purchases of US corn total 7.637MMT, compared to 12.123MMT in the same period in 2021/22. China bought 14.592 million tonnes of US corn in the entire 2021/22 marketing year, approximately two-thirds of their total corn imports.

Nobody knows when the buying will slow down or how much they need to buy, but many pundits expect there is still unsatisfied Chinese corn demand to fill in the current marketing year. While old crop US supply is the main game at the moment, the final tally will depend heavily on Ukraine's export program via the Black Sea grain corridor and safrinha corn production in Brazil.

Ukraine shipped 3.21MMT of corn to China in the five months to the end of February, 37.7 per cent of total corn shipments out of Ukraine via the Black Sea grain corridor. In that period, China was far and away Ukraine's biggest corn client, but the volume was still down 24.5 per cent from 4.25MMT in the previous corresponding period.

Brazil has concluded shipping corn to China until the Safrinha harvest commences in June. A total of 2.257MMT was shipped from November to February, including just one 70,000 metric tonne cargo in February. China was the primary importer of Brazilian corn in January, surpassing traditional destinations such as Japan, Iran and Spain. Brazil shipped almost 984,000 metric tonne to China across the month, the second full month of corn trade between the two countries following Beijing's approval of Brazilian origin shipments in late November.

With a corn crop disaster playing out in Argentina, China is banking on a massive Brazilian safrinha harvest to fill the resultant global supply void. A successful second crop harvest in Brazil will likely see it fill much of China's third-quarter 2023 demand and potentially displace US corn in the fourth quarter. Chinese buyers have reportedly already purchased upwards of 1.5MMT for shipment starting in July and will happily add to that volume as offers surface.

While there have been delays to the planting of this year's safrinha crop in some areas due to a slow soybean harvest, production forecasts still have Brazil setting a new record. Specialist Brazilian agribusiness consultancy Agroconsult has called the crop 125.5MMT, down from its early season estimate of 130.9MMT. They pegged the safrinha crop at 97.2MMT against 101.3MMT in its January update. With the bigger crop comes export opportunity, and Agroconsult expects international sales to reach 51.9MMT this season, up from its earlier forecast of 50MMT. With the USDA pencilling US exports in at 47MMT, Brazil would surpass the US as the world's biggest exporter of corn in 2022/23.

Exactly how much corn China will need to import in 2022/23 is still unknown, but market consensus is currently calling it less than the 22MMT imported in the 2022/22 marketing year. The USDA's March supply and demand update inked imports at 18MMT, unchanged month-on-month. However, Rosa Wang, a Shanghai-based analyst at agricultural data provider JCI China, is forecasting imports slightly higher at 20MMT for the 2022-23 season. Recently released Chinese data put the calendar year 2022 imports at 20.62MMT, a year-on-year decrease of 27.3 per cent.

With the US the cheapest global corn origin at the moment and at least three months before export volume will be available out of Brazil, China is expected to continue buying the market dips. Chinese buyers will no doubt be keeping a close eye on new crop planting progress in the US and praying for an extension to the wet season in Brazil. A major hiccup in either geography will see the current value opportunity evaporate.

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