



Hot Spot

China's corn import surge hinting a likely adjustment in agricultural policy

Overview

China's corn imports jumped to 193.9K tons in July and 64.7K tons in June 2010, up by 148.4 times and 54.2 times on a YoY basis. Since July 2009, China has shifted from a large corn exporter to a net importer.

The recent sudden import surge can possibly be explained by the extreme weather conditions causing a decline in corn production and the widening gap of corn prices between China and the US. Such explanations are however not that convincing, as first, the size of corn production decline in 1H10 was only moderate and overall production remained high, and second, the corn price gap has been widening over the years, good at explaining a gradual increase in imports rather than a sudden rise.

Therefore, the market guess corn import surge might hint possible adjustments in China's agricultural policies on certain commodities. As most imports were from the US, the surge is likely to reflect another effort of Sino-US trade relations. If China's corn imports continue to rise as a result of possible new policy, we expect China will become reliant on corn imports to meet domestic consumption as what has happened to the soybean case. However, we believe that China will maintain a self sufficiency policy in basic crops including wheat and rice as a bottom line.

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Performance of stock or sector relative to MSCI-China over next 6 months after research publications

	Rating	Remark
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	Overweight	Relative performance over MSCI-China Index 5% ~ 20%
	Hold	Relative performance over MSCI-China Index -10% ~ 5%
	Sell	Relative performance over MSCI-China Index > -10%
	NR	Not rated
Sector rating	Outperform	Relative performance over MSCI-China Index >10%
	Neutral	Relative performance over MSCI-China Index -10% ~10%
	Underperform	Relative performance over MSCI-China Index > -10%

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