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Report Highlights:

The MY2004/2005 sugar output forecast has been revised upward to 11.24 MMT (raw value) from Post's previous forecast of 10.57 MMT as a result of higher cane acreage and better yields for both cane and beet. Despite increased output, consumption continues to outpace domestic production. Post's MY04/05 import forecast is unchanged from its April's report, staying at the same level as during the previous marketing year.

Includes PSD Changes: Yes
Includes Trade Matrix: No
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Executive Summary

The overall sugar output forecast for MY04/05 has been revised upward to 11.24 MMT (raw value) from Post's April forecast of 10.57 MMT. The sugar output estimate for MY03/04 has been revised to 10.73 MMT from April's estimate of 10.61 MMT. Because of favorable weather conditions in MY04/05, the yields for both sugar cane and sugar beet crops are expected to be higher than the previous year. Sugar consumption rises steadily and continues to outpace domestic production. Because of the expected increase in sugar output, sugar imports for MY04/05 are forecast at 1.2 MMT, staying at the same level as the previous market year.

Note: The exchange rate is fixed at RMB 8.26 per US\$1.

Sugar Cane

The sugar cane area for MY04/05 is forecast at 1.45 million HA, which is about 3 percent higher than Post's previous forecast. In the major producing provinces, including Guangxi, Yunnan, and Guangdong, sugar cane remains the most reliable income source on marginal lands unsuitable for grain or vegetables. Guangxi province remains the dominant producing province. Its sugar output accounted for nearly 60 percent of national total in MY03/04. The provincial government, however, has proposed to reduce cane planted area by about 20 percent over the next four years by encouraging farmers to shift to more profitable crops. Farmers' choices, however, are limited due to restraints, such as land fertility and a limited water supply. Industry sources and government officials agree that sugar cane acreage in Guangxi increased in 2004. Their estimates of growth, however, range between 2 and 8 percent. According to the provincial agricultural bureau, actual sugar cane acreage in 2004 reached a record high of 685,300 HA in the province.

In the major sugar cane production regions, local governments issue a guidance purchase price for sugar cane each November before the crushing season starts. As of the date of this report, local governments have not announced any guidance price as a reference for millers. In anticipation of a higher domestic sugar price in the coming market year, some millers in Guangxi already have promised farmers that the purchase price for sugar cane would be higher than RMB180/MT, or RMB10 higher than the previous marketing year. Besides promising a higher floor price, some millers also prepay some inputs, such as fertilizer, pesticides, and transportation fees for the farmers to encourage more acreage.

Industry sources in Guangxi estimate that yield in MY04/05 will be higher than recent years' average of 63 MT/HA. So far, weather conditions in the major sugar cane producing regions have been favorable for all the growth stages of the crop in Southern China.

The table below shows the guidance prices on sugar cane set by provincial governments in the southern sugar cane production region

Purchase Price on Sugar Crops in Major Production Provinces				
(RMB Per Metric Ton, USD 1.00 = RMB 8.26)				
	Guangxi	Yunnan	Guangdong	Hainan
MY00/01	206	151	200	165
MY01/02	186	139	175	170
MY02/03	160	130	140	150
MY03/04	170	145	175	150
MY04/05	180	NA	NA	NA

Sugar beet

The forecast for planted sugar beet area for MY04/05 has been revised to 220,000 Ha, 24 percent lower than Post's previous forecast made in its April annual report. According to National Statistical Bureau data, planted acreage for MY03/04 is also revised downward to 248,000 HA, which is 27 percent lower than Post's April estimate. The continued decline in sugar beet acreage in recent years is mostly attributable to increasing profits for alternative crops, such as cotton, oil seeds and vegetables in the northern production regions.

There has been no government-set guidance price for sugar beets in northern China. The sugar beet market purchase price averaged RMB210/MT in MY03/04. Industry sources expect that in MY04/05 the market sugar beet purchase price will average about RMB240/MT in three major production provinces including Xinjiang, Heilongjiang and Inner Mongolia. Sugar beet output in MY2004/2005 is forecast at 6.9 MMT, which is 15 percent lower than Post's April forecast. Industry sources estimate that the sugar beet yield in MY04/05 will be higher than the recent average of 30 MT/ha because of favorable weather in northern China this year. According to preliminary estimate by the Ministry of Agriculture, the sugar beet yield in MY03/04 dropped by 18 percent from 30 MT/ha to 25 MT/ha because of drought during the planting season and excessive rain at harvest.

Sugar

The overall sugar production forecast for MY04/05 has been revised upward to 11.24 MMT (raw value) from Post's April forecast of 10.57 MMT. The total sugar output estimate for 03/04 has been revised to 10.73 MMT from April's estimate of 10.61 MMT because cane sugar production has been revised upward to 10.09 MMT from 9.97 MMT. Beet sugar output in MY03/04 is unchanged from Post's April estimate.

Cane sugar output for MY04/05 has been revised upward to 10.56 MMT (raw value), up by 6 percent from April's forecast of 9.97 MMT. Beet sugar output for MY04/05 has been revised upward by 13 percent to 680,000 MT (raw value) from April's forecast of 600,000 MT.

Industry sources expect that favorable weather conditions in both the sugar cane and sugar beet producing regions will lead to increased yields for the both crops. Consequently, Post has revised upward the forecast for MY04/05 sugar output.

Wholesale Price of Grade One Granulated Sugar at Guangxi Sugar Exchange Market			
RMB/MT (US\$ 1.00=RMB8.26)			
Month	2002	2003	2004
January	2,858	2,280	2,548
February	2,759	2,358	2,502
March	2,707	2,439	2,666
April	2,628	2,376	2,781
May	2,813	2,310	2,839
June	2,815	2,265	2,896
July	2,744	2,140	2,870
August	2,616	2,120	2,943
September	2,652	2,247	3,185

October	2,653	2,328	
November	2,483	2,577	
December	2,331	2,598	
Yearly Average	2,671	2,337	2,803 /to date
Source: Guangxi Sugar Exchange Center			
Website: www.chinasugarmarket.com			

Consumption

Consumption of sugar has risen steadily in recent years. Consumer preference for natural sugar rather than artificial sugar is growing in both urban and rural regions. The growth rate is estimated to be above 5 percent annually. Per capita sugar consumption in China in MY04/05 is expected to exceed 8 kg.

China's soft drink output in the first six months of 2004 rose 24 percent from the same period last year to 14.23 MMT. Sugar containing drinks rose 22.6 percent to 8.22 MMT, according to China Drinks and Beverage Association.

Stocks

Ending stocks for MY03/04 are estimated at 2.31 MMT (raw value), unchanged from the previous estimate. Stocks include state reserve and provincial short-term reserve and those held by the industrial, commercial and distribution sectors. The government-held stocks function to keep the market stable. When commercial stocks are running low and market price starts to rise high near the end of the market year, government held stocks would be released.

In the second half of CY2004, the government decided to release 536,000 MT of granulated white sugar from state sugar reserves to curb the price from rising further. The floor price, according to Ministry of Commerce and National Development & Reform Commission is set at RMB 2,800/MT. According to the regulation, whenever the market price falls below the floor price (RMB2,800/MT), the government suspends auctions; in practice this has never happened. Auctions are held each month from July to September. The last or fourth auction of 2004 will be held in October before the new crushing season starts.

Saccharine

Saccharine has been the major competitor for the marketing of natural sugar. The government started strictly to control its production and domestic sale since 2002. According to the China Sugar Association, saccharine production target set by government is around 20,000 MT in 2004, of which 3,500 MT can be sold domestically. Each year, however, the final actual domestic sale of saccharine has been higher than what the government plans.

Figures from the Association show that saccharine production in the first seven months of 2004 totaled 14,098 MT, of which 10,905 MT have been exported. The final amount of domestic sale might again exceed the government target by end of CY2004.

In coming years, as the government tightens enforcement on relevant food additive regulations, misuse or overuse of saccharine in substandard food or drinks is likely to decline.

Trade

According to a longstanding trade agreement between Chinese and Cuban governments, China imported 432,000 MT of raw sugar in 13 shipments from Cuba by the end of July 2004. The last (14th) shipment (about 30,000 MT) will arrive later during this market year, according to trade source. All the raw sugar from Cuba will enter the state reserves.

Sugar imports for MY04/05 are forecast at 1.20 MMT (raw value), unchanged from Post's previous forecast. Although consumption continues to exceed domestic production, MY04/05 imports are not expected to increase significantly from MY03/04.

Customs data showed that China imported 1 MMT of sugar (raw value) during Oct03-July04 period. Total sugar imports in MY03/04 are estimated at 1.22 MMT, slightly higher than Post's previous estimate.

The Tariff Rate Quota (TRQ) for CY2004 was 1.95 MMT with a within-quota tariff of 15 percent. CY 2004's TRQ is not expected to fill. The TRQ for CY2005 and subsequent years will be unchanged from that in 2004 unless a new agreement is reached between China and other countries in the WTO's Doha Development Round.

(PSD tables follow on next page)

Tables

Production, Supply and Demand (PSD) Tables

Table 1. Centrifugal Sugar

PSD Table							
Country	China, Peoples Republic of						
Commodity	Sugar, Centrifugal						(1000 MT)
	2003	Revised	2004	Estimate	2005	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		10-2002		10-2003		10-2004	MM/YYYY
Beginning Stocks	869	869	2021	2021	2321	2311	(1000 MT)
Beet Sugar Production	1327	1327	638	638	600	680	(1000 MT)
Cane Sugar Production	10053	10053	9972	10092	9970	10560	(1000 MT)
TOTAL Sugar Production	11380	11380	10610	10730	10570	11240	(1000 MT)
Raw Imports	710	710	800	1000	850	950	(1000 MT)
Refined Imp.(Raw Val)	132	132	400	220	350	250	(1000 MT)
TOTAL Imports	842	842	1200	1220	1200	1200	(1000 MT)
TOTAL SUPPLY	13091	13091	13831	13971	14091	14751	(1000 MT)
Raw Exports	10	10	10	10	10	10	(1000 MT)
Refined Exp.(Raw Val)	110	110	50	50	40	40	(1000 MT)
TOTAL EXPORTS	120	120	60	60	50	50	(1000 MT)
Human Dom. Consumption	10950	10950	11450	11600	11965	12180	(1000 MT)
Other Disappearance	0	0	0	0	0	0	(1000 MT)
Total Disappearance	10950	10950	11450	11600	11965	12180	(1000 MT)
Ending Stocks	2021	2021	2321	2311	2076	2521	(1000 MT)
TOTAL DISTRIBUTION	13091	13091	13831	13971	14091	14751	(1000 MT)

Table 2. Sugar Cane

Country	China, Peoples Republic of						
Commodity	Sugar Cane for Centrifugal						
	2003	Revised	2004	Estimate	2005	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		10-2002		10-2003		10-2004	MM/YYYY
Area Planted	1379	1393	1406	1409	1410	1450	(1000 HA)
Area Harvested	1379	1393	1406	1409	1410	1450	(1000 HA)
Production	83985	90107	84825	90235	90750	93800	(1000 MT)
TOTAL SUPPLY	83985	90107	84825	90235	90750	93800	(1000 MT)
Utilization for Sugar	83985	90107	84825	90235	90750	93800	(1000 MT)
Utilization for Alcohol	0	0	0	0	0	0	(1000 MT)
TOTAL UTILIZATION	83985	90107	84825	90235	90750	93800	(1000 MT)

Table 3. Sugar Beet

PSD Table							
Country	China, Peoples Republic of						
Commodity	Sugar Beets						
	2003	Revised	2004	Estimate	2005	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		10-2002		10-2003		10-2004	MM/YYYY
Area Planted	422	424	413	248	290	220	(1000 HA)
Area Harvested	422	424	413	248	290	220	(1000 HA)
Production	11433	12819	11090	6182	8100	6800	(1000 MT)
TOTAL SUPPLY	11433	12819	11090	6182	8100	6800	(1000 MT)
Utilization for Sugar	11433	12819	11090	6182	8100	6800	(1000 MT)
Utilization for Alcohol	0	0	0	0	0	0	(1000 MT)
TOTAL UTILIZATION	11433	12819	11090	6182	8100	6800	(1000 MT)