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China Pork Binge Driving Iowa-Sized Soy Imports on Shortage (2)  
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(Adds China planting estimate in 20th paragraph.)

By Jeff Wilson

April 11 (Bloomberg) -- All the soybeans in Iowa won't be enough to meet the anticipated surge in China's imports over the next four years as the nation feeds a record pig herd and drives bean prices to an all-time high.

China, which doubled meat consumption in the past two decades, may boost international soybean purchases 33 percent to 66.9 million metric tons by 2014, a 16.6 million-ton increase that is more than Iowa, the largest U.S. grower, produced last year, government data show. U.S. farmers are cutting back on planting, meaning prices will rise 21 percent to \$16.80 a bushel by Dec. 31, a Bloomberg survey of 20 analysts shows.

Almost half the world's pork comes from China, which has 689 million pigs and will be responsible for all of this year's increase in global supply, the U.S. Department of Agriculture estimates. That's adding to China's dependence on raw-material imports from Brazil to Australia to the U.S., making it vulnerable to inflation that Premier Wen Jiabao has pledged to combat without derailing economic growth.

"China is building a livestock and meat industry in five years that took the United States 50 years," said Michael Swanson, the senior agricultural economist in Minneapolis for San Francisco-based Wells Fargo & Co. "U.S. farm trade with China may double in the next five years."

The 13-fold expansion in China's economy in the last two decades has meant an almost doubling in meat consumption by the country's 1.34 billion people, World Bank and government data show. While the U.S. trade gap with China widened by about 13 percent to \$23.3 billion in January, exports of U.S. farm goods are the highest ever and the Asian nation is the top customer.

#### Soybean Imports

China may increase soybean imports to 68 million tons by 2014, a 17.7 million-ton increase from last year that would exceed the purchases forecast by the USDA, according to Grant Kimberley, director of market promotion for the Iowa Soybean Association. Farmers in the state reaped 13.5 million tons in 2010. China consumes one in every four tons produced globally.

It takes about 2.8 pounds of feed to produce one pound of pork, according to the American Soybean Association. Increased meat production and demand for feed is coming at a time of near-record global food prices that contributed to protests across northern Africa and the Middle East, toppling leaders in Egypt and Tunisia. Rising prices pushed about 44 million people into poverty since June, the World Bank said in February.

## Chicago Trading

Soybeans are little changed on the Chicago Board of Trade this year and were at \$14.08 a bushel at 1:30 p.m. in Singapore, compared with a 25 percent surge in corn and a 43 percent advance in cotton. That's spurring U.S. farmers, the world's largest growers and exporters, to sow the fewest acres with soybeans in three years, the USDA estimates. When the harvest begins in September, U.S. stockpiles will be enough to cover 15 days of demand, the fewest since 1965.

China will import a record 57 million tons in the 12 months to October, more than twice the amount five years ago and 60 percent of the global total, the USDA estimates. As domestic agricultural output failed to keep pace with demand last year, China's imports jumped 34 percent to \$17.52 billion. Pork accounts for about three-quarters of Chinese meat demand, the USDA estimates.

"China will be a growing market for the next decade," said Kimberley, who farms 4,000 acres (1,619 hectares) with his father in Maxwell, Iowa, and spent 10 days in China last month with processors, importers and government officials. "Chinese people are becoming more affluent and want to eat more meat."

## Curb Inflation

Efforts to curb inflation may slow growth. The People's Bank of China raised interest rates for a fourth time in six months on April 5, before a report forecast to show consumer prices climbed 5.2 percent last month from a year earlier, the fastest pace since 2008. Food inflation reached 11 percent in February, government data show. Wen's goal is a 4 percent rate.

The government has been selling soybeans from state stockpiles after spot prices climbed 19 percent in the past year in the city of Dalian, home to the nation's largest agriculture exchange, according to data from Shanghai JC Intelligence Co., a research company and trade consultant. Wholesale pork prices in China surged 40 percent since May.

Inflation is accelerating, with the Journal of Commerce- ECRI Commodity Price Index reaching its highest in at least a quarter century on April 8. Crude traded in New York rose 34 percent in 12 months to \$112.97 a barrel, almost double its average of about \$58 over the last decade.

While growth in China will slow to 9.5 percent this year, from 10.3 percent in 2010, that will still be more than three times the pace of the U.S. and five times the speed of the euro region, according to the median estimates in Bloomberg surveys of as many as 89 economists.

## Two Decades

The average person in China will consume a record 39.3 kilograms (86.6 pounds) of pork this year, compared with 19.7 kilograms in 1990, based on estimates from the USDA and the U.S. Census Bureau. The population increased by 182 million people over two decades, the equivalent of Mexico and France. At the same time, gross domestic product jumped to more than \$5.7 trillion last year from \$390 billion in 1990, the International Monetary Fund estimates.

"Our lives have generally gotten better," said Hu Bo, a 38-year-old grain farmer near Qufu city in the province of Shandong. Hu can afford to buy pork three or four times a month.

A decade ago, the meat was eaten only on special occasions such as births, deaths or marriages, he said.

To keep pace with rising consumption, China is expanding its herds, flocks and fisheries, using more feed. The country was a net importer of corn for the first time in 14 years in 2010 and will need to buy 13 percent more soybeans this year, USDA data show. About 80 percent of processed soybeans are fed to livestock as meal, with the rest converted to vegetable oil used in food, chemical products and fuel.

#### Fish Farms

Soybean demand is increasing from fish farms in China, which already accounts for 63 percent of global output of aquaculture, according to Kimberley. Commercial fish production uses as little as 1.2 pounds of feed to get one pound of meat, compared with 2.8 pounds to produce a pound of chicken and 3.2 pounds for a pound of pork, he said.

"China will continue to import record amounts of soybeans year after year for the foreseeable future," said Douglas Carper, the principal of Omaha, Nebraska-based DEC Capital Inc., a commodity trading adviser and consultant to hedge funds. "We will need record crops every year to meet rising demand, because if we don't, the supply will be razor tight."

#### Soybean Acres

The surge in demand will not be met by an equal advance in supply. U.S. farmers told the government last month they intend to cut soybean acres by 1 percent to 76.609 million, the USDA said March 31. In Iowa, acreage may drop 4.1 percent. Chinese growers may plant 11 percent fewer acres to sow more cotton and corn, the Ministry of Agriculture said last month.

Farmers are switching because they can make more money from other crops. Corn's net revenue over soybeans was as much as \$200 an acre in the Midwest on April 8, while cotton produces a premium of as much as \$300 an acre in the South, according to Roy Huckabay, an executive vice president for the Linn Group in Chicago.

Soybean plantings may be as much as 2 million acres below the USDA estimate because other crop prices have kept surging since the survey was carried out, DEC Capital's Carper said. The USDA has overestimated soybean plantings in five of the past seven years.

"We are considering planting more corn than we planned this year because of the surge in prices," said Jim Rapp, 62, who farms about 2,600 acres near Princeton, Illinois. "We have a better chance to produce a big corn crop than we do growing soybeans."

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