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Japan

Grain and Feed Update

Grain and Feed Update October 2015

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Report Highlights:
With MAFF's strong push to use rice for feed, rice used in compound feed exceeded one million metric tons in MY2014/15 for the first time on record, at the expense of wheat and corn. Japan's aggregate food wheat consumption is expected to remain flat at 5.9 million MT in MY2015/16. Increased domestic wheat production in 2015 is forecast to result in slightly lower food wheat imports in MY2015/16, but this is expected to be offset by an increase in feed wheat imports.

Post:
Tokyo

Commodities:
Wheat

Overall Market Situation

Up-to-date feed production statistics and a detailed breakdown of feed ingredient utilization follow. In accordance with downward trends in the domestic livestock population, Japanese feed production (compound and mixed feed) dipped below the 24 million metric ton (MT) level in MY2013/14 for the first time since MY2004/05. At the current pace, feed production in MY2014/15 is expected to be 23.5 million MT, below 24 million MT for the second consecutive year. With the Ministry of Agriculture, Forestry and Fisheries (MAFF)'s strong push to use rice for feed, rice utilization in feed has increased to around five percent since December 2014, at the expense of wheat and corn. For the first 11 months of MY2014/15 (October-August), the amount of rice used in compound feed exceeded one million MT for the first time on record. This level is expected to continue for MY2015/16 as domestic production of rice for feed jumped 136 percent to 421,077 MT in 2015 from the previous year, and rice for feed is being sold to feed millers at a price equivalent to that of imported corn.

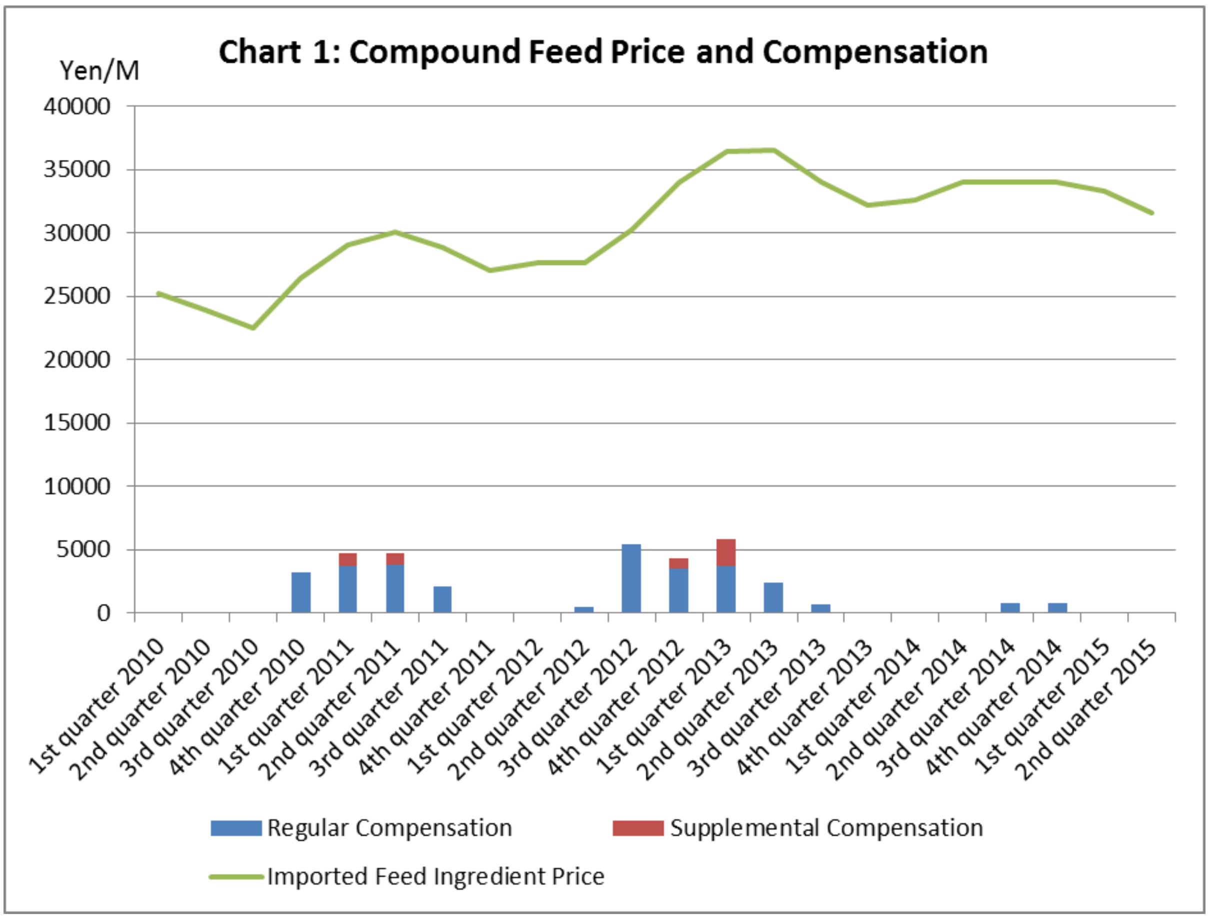
Table 1: Feed Utilization by Ingredients (Unit: MT)

MY	Corn	Sorghum	Wheat	Wheat Flour	Barley	Rice	Rye	Other Grains	DDGS	Non-grain Ingredients	TOTAL
2005/06	11,937,533	1,351,794	109,511	125,953	807,797	335,379	224,625	122,798	-	9,254,689	24,270,079
	49.19%	5.57%	0.45%	0.52%	3.33%	1.38%	0.93%	0.51%	0.00%	38.13%	100%
2006/07	11,968,822	1,207,666	95,022	128,407	841,067	501,410	203,966	135,042	-	9,368,267	24,449,669
	48.95%	4.94%	0.39%	0.53%	3.44%	2.05%	0.83%	0.55%	0.00%	38.32%	100%
2007/08	12,151,595	1,061,836	99,070	140,704	864,290	604,450	97,379	150,312	-	9,504,883	24,674,519
	49.25%	4.30%	0.40%	0.57%	3.50%	2.45%	0.39%	0.61%	0.00%	38.52%	100%
2008/09	12,032,218	1,599,366	131,179	142,216	886,989	240,408	47,756	148,571	-	9,474,483	24,703,186
	48.71%	6.47%	0.53%	0.58%	3.59%	0.97%	0.19%	0.60%	0.00%	38.35%	100%
2009/10	11,663,020	1,605,491	203,985	133,065	904,803	396,061	79,004	151,734	96,210	9,438,395	24,671,768
	47.27%	6.51%	0.83%	0.54%	3.67%	1.61%	0.32%	0.62%	0.39%	38.26%	100%
2010/11	11,287,696	1,380,159	245,857	145,289	889,928	537,274	96,697	148,573	284,154	9,239,452	24,255,079
	46.54%	5.69%	1.01%	0.60%	3.67%	2.22%	0.40%	0.61%	1.17%	38.09%	100%
2011/12	10,688,501	1,461,639	732,039	152,292	882,497	589,640	43,043	148,359	400,836	9,172,479	24,271,325
	44.04%	6.02%	3.02%	0.63%	3.64%	2.43%	0.18%	0.61%	1.65%	37.79%	100%
2012/13	10,154,181	1,856,711	942,885	176,433	910,896	397,406	15,237	154,324	443,993	8,990,056	24,042,122
	42.23%	7.72%	3.92%	0.73%	3.79%	1.65%	0.06%	0.64%	1.85%	37.39%	100%
2013/14	10,794,681	1,006,553	649,448	160,815	870,127	732,983	16,562	135,126	512,652	8,831,356	23,710,303
	45.53%	4.25%	2.74%	0.68%	3.67%	3.09%	0.07%	0.57%	2.16%	37.25%	100%
2014 Oct	938,718	89,533	38,062	14,406	75,441	93,757	1,574	12,206	50,451	779,499	2,093,647
	44.80%	4.30%	1.80%	0.70%	3.60%	4.50%	0.10%	0.58%	2.40%	37.23%	100%
Nov	859,572	84,426	33,309	13,078	65,952	91,655	1,278	11,219	48,469	709,500	1,918,458
	44.80%	4.40%	1.70%	0.70%	3.40%	4.80%	0.10%	0.58%	2.50%	36.98%	100%
Dec	958,401	88,494	34,071	15,308	72,588	108,596	1,252	13,034	56,947	819,953	2,168,644
	44.19%	4.08%	1.57%	0.71%	3.35%	5.01%	0.06%	0.60%	2.63%	37.81%	100%
2015 Jan	846,912	85,152	29,489	12,609	64,264	94,966	1,093	10,748	49,380	703,598	1,898,211
	44.62%	4.49%	1.55%	0.66%	3.39%	5.00%	0.06%	0.57%	2.60%	37.07%	100%
Feb	808,603	81,287	26,987	12,478	62,776	93,002	956	10,465	47,557	676,114	1,820,225
	44.42%	4.47%	1.48%	0.69%	3.45%	5.11%	0.05%	0.57%	2.61%	37.14%	100%
Mar	878,575	85,307	29,269	13,550	68,119	100,169	1,017	11,386	49,502	737,426	1,974,320
	44.50%	4.32%	1.48%	0.69%	3.45%	5.07%	0.05%	0.58%	2.51%	37.35%	100%
Apr	907,651	74,111	29,623	13,965	70,636	100,374	1,123	11,716	37,839	764,996	2,012,034
	45.11%	3.68%	1.47%	0.69%	3.51%	4.99%	0.06%	0.58%	1.88%	38.02%	100%
May	853,835	67,902	27,553	12,707	63,787	96,212	923	10,535	31,770	712,443	1,877,667
	45.47%	3.62%	1.47%	0.68%	3.40%	5.12%	0.05%	0.56%	1.69%	37.94%	100%
June	863,576	71,436	28,446	13,008	65,497	96,113	926	10,856	29,607	720,772	1,900,237
	45.45%	3.76%	1.50%	0.68%	3.45%	5.06%	0.05%	0.57%	1.56%	37.93%	100%
July	898,211	61,211	29,796	13,744	68,336	98,359	989	11,192	26,784	751,424	1,960,046
	45.83%	3.12%	1.52%	0.70%	3.49%	5.02%	0.05%	0.57%	1.37%	38.34%	100%
August	829,994	54,358	28,184	12,820	62,306	94,892	928	10,455	23,678	699,841	1,817,456
	45.67%	2.99%	1.55%	0.71%	3.43%	5.22%	0.05%	0.58%	1.30%	38.51%	100%
Oct 14 -	9,644,048	843,217	334,789	147,673	739,702	1,068,095	12,059	123,812	451,984	8,075,566	21,440,945
Aug-15	44.98%	3.93%	1.56%	0.69%	3.45%	4.98%	0.06%	0.58%	2.11%	37.66%	100%

MY: October-September

Source: MAFF, Feed Supply and Stabilization Organization

Japan maintains a feed price stabilization program that consists of a combination of a MAFF subsidy and an industry fund to help absorb sudden surges in compound feed prices. It is activated when the import cost of ingredients in a particular quarter exceeds the average import cost of ingredients in the previous year. Following two consecutive quarters where a compensation payment of 800 yen per metric ton was made, no compensation payment was made in the first two quarters of Japanese fiscal year (JFY) 2015 (i.e., April 2015 – September 2015). During this time, the average price of imported raw materials for compound feed decreased by 423 yen per MT - from 33,675 yen/MT to 33,252 yen/MT – in the first quarter and by 2,240 yen per MT – from 33,841 yen/MT to 31,601 yen/MT - in the second quarter, reflecting lower prices for corn and soy meal. As a result, no payment was made.



Source: MAFF

Wheat Update

Wheat	2013/2014		2014/2015		2015/2016	
Market Begin Year	Jul 2013		Jul 2014		May 2016	
Japan	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	210	210	213	213	213	213
Beginning Stocks	1543	1543	1339	1339	1504	1507
Production	812	812	849	852	800	920
MY Imports	6123	6123	5878	5878	5800	5800
TY Imports	6123	6123	5878	5878	5800	5800
TY Imp. from U.S.	2899	2967	2969	3020	0	0
Total Supply	8478	8478	8066	8069	8104	8227
MY Exports	269	269	262	262	270	270
TY Exports	269	269	262	262	270	270
Feed and Residual	700	700	400	400	400	500
FSI Consumption	6170	6170	5900	5900	5900	5900
Total Consumption	6870	6870	6300	6300	6300	6400
Ending Stocks	1339	1339	1504	1507	1534	1557
Total Distribution	8478	8478	8066	8069	8104	8227
(1000 HA) ,(1000 MT)						

Eight Percent Increase in 2015 Production Expected

The total planted area of wheat has stayed at around 210,000 hectares (ha) since 2003, of which Hokkaido, the Northern island of Japan, accounts for about 57 percent, and the remaining prefectures account for 43 percent. Paddy field accounts for nearly half the planted area, as MAFF promotes the shift of production from rice to other crops and subsidizes specific crops, including wheat produced on paddy fields. This trend is particularly evident in prefectures other than Hokkaido, where paddy fields account for 94 percent of the planted area for wheat, while 76 percent of the wheat planting area in Hokkaido is dry field. A further shift from production of rice to wheat on paddy fields is expected to be difficult, as the GOJ is actively encouraging the production of rice for feed.

In 2015, the planted area of prefectures other than Hokkaido increased slightly to 95,000 ha, mostly due to a shift from rice production. However, as a result of too many cloudy and rainy days during the grain-filling period, yield was down 11 percent, and consequently, production decreased 10 percent to 272,400 MT. The decline is expected to be more than offset by the good harvest in Hokkaido. The planted area in Hokkaido shrank a marginal one percent to122,600 ha as farmers shifted to soybeans and sugar beets due to their more attractive prices. Thanks to favorable weather, sources indicate that 2015 saw record production in Hokkaido, at 650,000 MT. Therefore, Post estimates total 2015 wheat production of 920,000 MT, the largest crop since 1990.

About 80 percent of wheat produced in Japan is used for making Japanese noodles due to its lower protein content, and 20 percent is used for making bread and Chinese noodles, which require higher protein content. Therefore, one of the main objectives of Japanese wheat breeders is to develop varieties with higher protein content in order to increase use for bread and Chinese noodles. Several varieties have been developed successfully, such as "*Yumechikara*" which has a protein content of 12 ~ 14 percent. The shift to newly developed varieties has progressed throughout Japan in recent years, encouraged by an additional subsidy payment of 2,550 yen/60kg for wheat varieties used for making bread and Chinese noodles.

Table 2: Japan's Wheat Production

	Planted Area (hectares)	Production (MT)	Yield (MT/ha)
2010	206,900	571,300	2.76
2011	211,500	746,300	3.53
2012	209,200	857,800	4.10
2013	210,200	811,700	3.86
2014	212,600	852,400	4.01
*2015	213,100	920,000	4.3

Source: MAFF
*Preliminary

Food Wheat Consumption Steady; Feed Use Expected to Increase Slightly

Table 3: Per Capita Consumption of Wheat

(Unit: kg/year)

JFY1985	JFY2000	JFY2005	JFY2010	JFY2011	JFY2012	JFY2013	*JFY2014
31.7	32.6	31.7	32.7	32.8	32.9	32.7	32.9

*Preliminary
Source: MAFF

Consumption of food wheat has been relatively flat over the last three decades at around 32 kilograms per capita, and MAFF's estimate of total food wheat demand for JFY2015 (April 2015-March 2016) is unchanged from last year at 5.71 million MT. Combined with the wheat equivalent of wheat product imports of 200,000 to 300,000 metric tons (refer to Table below), Japan's aggregate food wheat demand is expected to remain flat at 5.9 million MT in MY2015/16. Although domestic wheat accounts for only about 15 percent of Japan's food wheat demand, with stable production of new wheat varieties in recent years, demand for domestic wheat has been increasing as bread, confectionary and noodle manufacturers use domestic wheat to differentiate their products by appealing to consumers by labeling them as using "*Kokusan Komugi"* (i.e., domestically produced wheat).

According to MAFF, the production of flour has stayed at around 4.9 million MT for the last decade, while streamlining of flour millers has been progressing slowly but steadily with the closure of 20 small-scale flour millers. Production by the four large flour millers accounts for 77 percent of total flour production, and together with eight medium-sized flour millers which have the capacity of producing 30,000 MT/year or more, these 12 millers produce 87 percent of Japanese wheat flour. In 2013, the operating rates at the four large flour millers and eight medium-sized flour millers were 88.6 percent and 80.2 percent respectively. In addition to these millers, there are 47 millers with a capacity of 1,000 MT ~

30,000 MT/year and 31 millers with a capacity less than 1,000 MT/year. The operating rates of these small millers were 30.9 percent and 3.4 percent respectively. Streamlining of the industry is expected to progress further in the coming years, especially among the small-scale millers.

Abundant supplies in the EU and the Former Soviet Union may attract Japanese feed millers to increase the utilization of wheat in compound feed if the price continues to be competitive against corn, sorghum and rice (Chart 3). Post estimates overall consumption of wheat to be slightly up to 6.4 million MT in MY2015/16.

Wheat Imports

As shown in Table 6, overall wheat imports in MY2014/15 decreased by 4.2 percent from the previous year due to a 50 percent decrease in feed wheat imports, reflecting weaker demand against corn and rice for compound feed. As mentioned earlier, competitively priced feed wheat was imported from the EU and Ukraine in recent months (Chart 2), and imports from these countries are expected to continue for the remainder of MY2015/16, assuming prices remain attractive vis-a-vis corn and rice. Increased domestic production in 2015 is forecast to lower food wheat imports slightly, but this is expected to be offset by an increase in feed wheat imports in MY2015/16. Accordingly, Post forecasts overall wheat imports will remain at 5.8 million MT in MY2015/16. For the latter half of JFY2015 (October 2015 – March 2016), MAFF lowered the government’s purchase price for wheat by 5.7 percent from the previous six months to 56,640 yen/MT reflecting international prices.

Table 4: Japan’s Wheat Imports (including feed wheat)

Wheat, Group 60 (2012)
Year Ending: June Unit: MT

Partner Country	Quantity			% Share			% Change
	MY2012/13	MY2013/14	MY2014/15	MY2012/13	MY2013/14	MY2014/15	2015/2014
World	6343374	5880596	5647685	100.00	100.00	100.00	- 3.96
United States	3429955	2935006	2990593	54.07	49.91	52.95	1.89
Canada	1666426	1692096	1660459	26.27	28.77	29.40	- 1.87
Australia	1241188	918917	909316	19.57	15.63	16.10	- 1.04
United Kingdom	0	0	34320	0.00	0.00	0.61	0.00
Romania	0	46761	28520	0.00	0.80	0.50	- 39.01
Ukraine	0	267740	0	0.00	4.55	0.00	- 100.00
Other	5805	20076	24477	0.09	0.34	0.43	21.92

Table 5: Japan's Wheat Product Imports

Wheat product group,							
	Year Ending: June, Unit: MT						
Partner Country	**Quantity**			**% Share**			**% Change**
	MY2012/13	**MY2013/14**	**MY2014/15**	**MY2012/13**	**MY2013/14**	**MY2014/15**	**2015/2014**
World	185943	176920	168160	100.00	100.00	100.00	- 4.95
Italy	92540	82461	74667	49.77	46.61	44.40	- 9.45
Turkey	27305	27888	30510	14.68	15.76	18.14	9.40
United States	21873	23550	21516	11.76	13.31	12.79	- 8.64
China	18297	17591	17262	9.84	9.94	10.27	- 1.87
Thailand	6137	5855	6324	3.30	3.31	3.76	8.02
Korea South	8687	7028	5666	4.67	3.97	3.37	- 19.38
Other	11104	12546	12212	5.97	7.09	7.26	-2.66

Table 6: Total Wheat Imports (wheat and wheat products combined) (Unit: MT)

		Wheat Product	Wheat Equivalent	Wheat	TOTAL
		a	b = a x 1.368	c	b + c
World	MY2013/14	176,921	242,028	5,880,596	6,122,624
	MY2014/15	168,160	230,043	5,647,685	5,877,728
United States	MY2013/14	23,550	32,216	2,935,006	2,967,222
	MY2014/15	21,516	29,434	2,990,593	3,020,027

Table 7: Japan's Feed Wheat Imports

Wheat for Feed							
Year Ending: June Unit: MT							
Partner Country	**Quantity**			**% Share**			**% Change**
	2013	**2014**	**2015**	**2013**	**2014**	**2015**	**2015/2014**
World	964696	650155	324985	100.00	100.00	100.00	- 50.01
United States	404118	262364	170552	41.89	40.35	52.48	- 34.99
Canada	264815	59789	73283	27.45	9.20	22.55	22.57
United Kingdom	0	0	34320	0.00	0.00	10.56	0.00
Romania	0	46761	28460	0.00	7.19	8.76	- 39.14
Latvia	0	0	9941	0.00	0.00	3.06	0.00
Moldova	0	0	7122	0.00	0.00	2.19	0.00
Russia	0	2608	1307	0.00	0.40	0.40	- 49.88
Serbia	0	10893	0	0.00	1.68	0.00	- 100.00
Ukraine	0	267740	0	0.00	41.18	0.00	- 100.00
Australia	295763	0	0	30.66	0.00	0.00	0.00

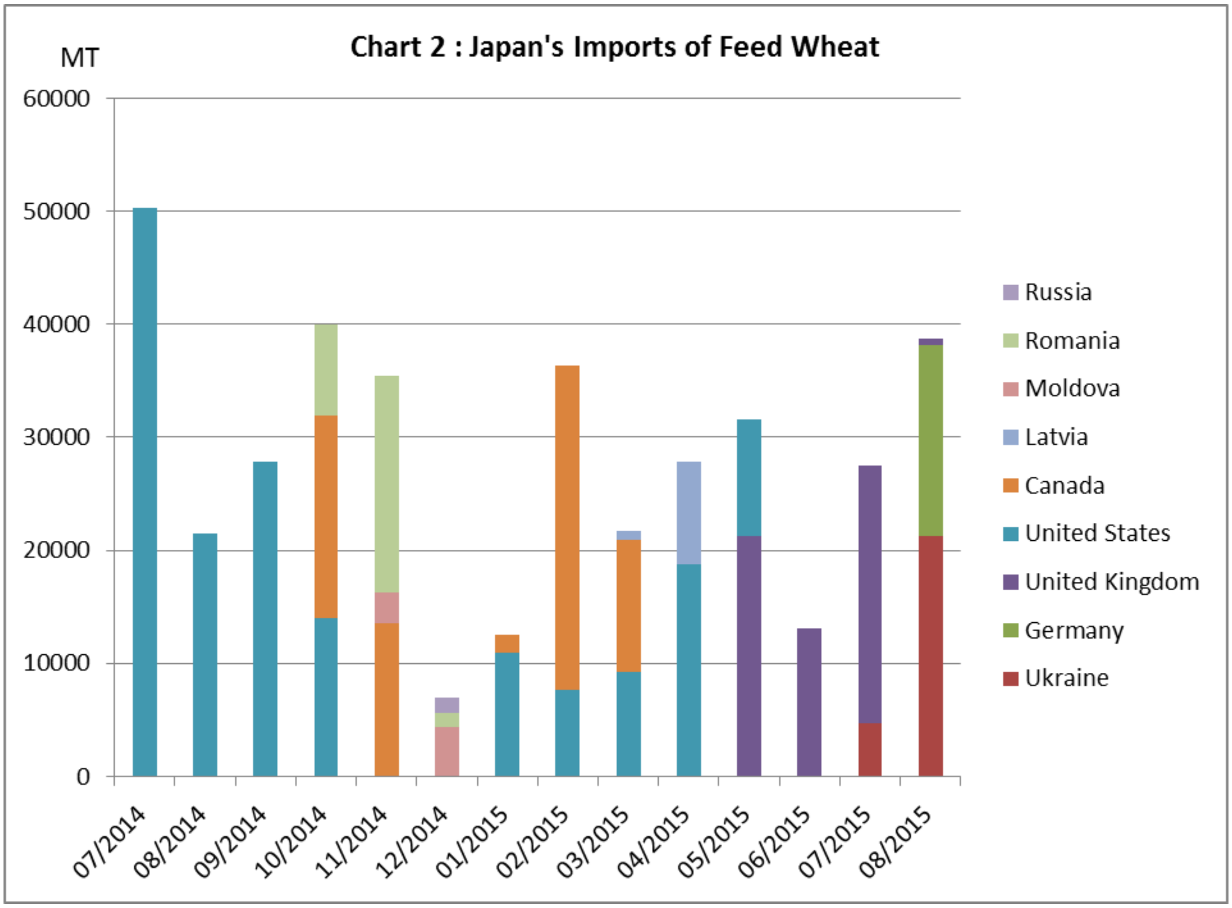


Chart 2 : Japan's Imports of Feed Wheat
MT
60000
50000
40000
30000
20000
10000
0
07/2014
08/2014
09/2014
10/2014
11/2014
12/2014
01/2015
02/2015
03/2015
04/2015
05/2015
06/2015
07/2015
08/2015
Russia
Romania
Moldova
Latvia
Canada
United States
United Kingdom
Germany
Ukraine

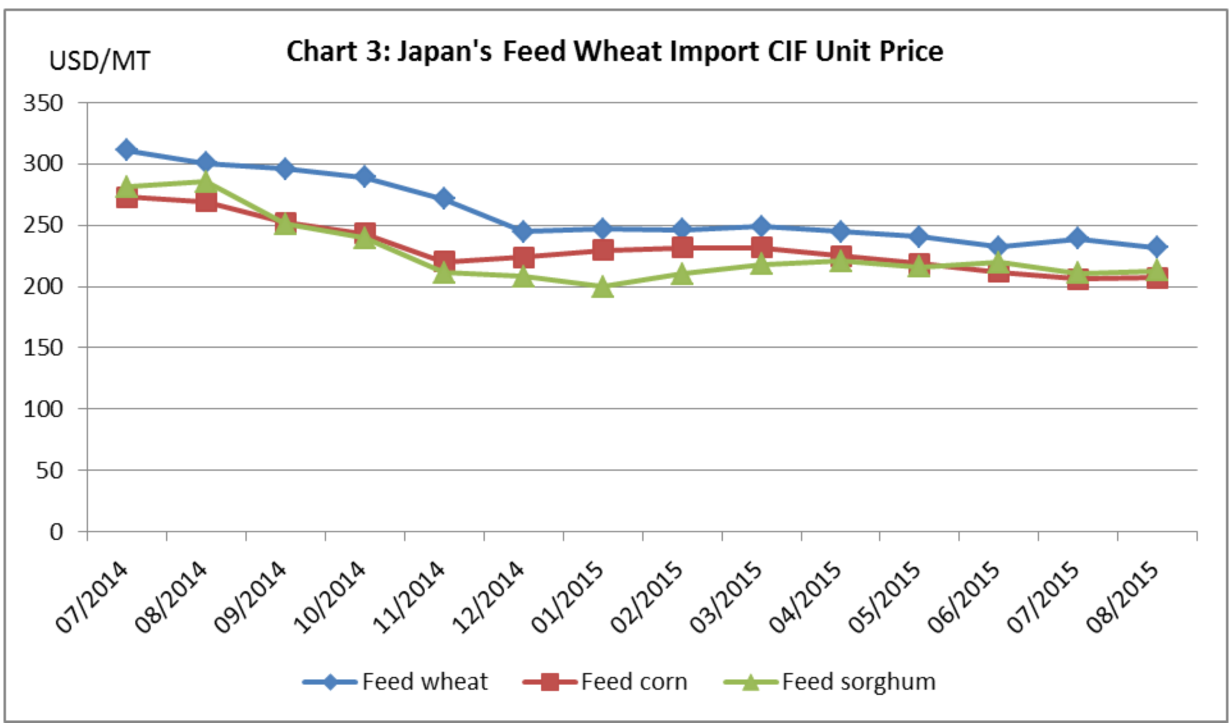


Chart 3: Japan's Feed Wheat Import CIF Unit Price
USD/MT
350
300
250
200
150
100
50
0
07/2014
08/2014
09/2014
10/2014
11/2014
12/2014
01/2015
02/2015
03/2015
04/2015
05/2015
06/2015
07/2015
08/2015
Feed wheat
Feed corn
Feed sorghum

Table 8: GOJ Resale Prices of Imported Wheat

	Yen/MT	Change from previous price
Apr 2011 - Sept 2011	56,710	18.5%
Oct 2011 - Mar 2012	57,720	1.8%
Apr 2012 - Sept 2012	48,780	-15.5%
Oct 2012 - Mar 2013	50,130	2.8%
Apr 2013 - Sept 2013	54,990	9.7%
Oct 2013 - Mar 2014	57,260	4.1%
Apr 2014 - Sept 2014	58,590	2.3%
Oct 2014 - Mar 2015	58,330	-0.4%
Apr 2015 - Sep 2015	60,070	3.0%
Oct 2015 - Mar 2016	56,640	-5.70%

Stocks

As a contingency plan, a total of 940,000 MT of imported wheat, equivalent to 2.3 months demand, is held in reserve, of which the GOJ holds 1.8 months' worth, and the remainder is held by the private sector. For JFY2015, the reserve target remains unchanged at 940,000 MT.