



EFFECTS OF EL NINO ON OIL TRADE.



5th June 2014.



El Nino/La Nina.

This weather phenomenon (ENSO) **occurs concurrently**, one causing heat wave in Australia & South East Asia while the other, excessive rainfall in the Americas.

For more detailed information, please refer to <http://www.wired.com/2014/04/el-nino-effects/>

El Niño/La Niña Years.

The following table shows the years affected by ENSO phenomenon.

Highlighted are severe & ‘double-whammy’ events.

El Niño.

Weak	Mod	Strong
• 1952-53	1951-52	1957-58
• 1953-54	1963-64	1965-66
• 1958-59	1968-69	1972-73
• 1969-70	1986-87	1982-83
• 1976-77	1991-92	1987-88
• 1977-78	1994-95	1997-98
• 2004-05	2002-03	
• 2006-07	2009-10	
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La Niña.

Weak	Mod	Strong
1950-51	1955-56	1973-74
1954-55	1970-71	1975-76
1956-57	1998-99	1988-89
1964-65	2007-08	1999-00
1971-72		2010-11
1974-75		
1983-84		
1984-85		
1995-96		
2000-01		
2005-06		
2008-09		
2011-12		

Co-relation: Price.

El Nino.

Prolong heat stress will cause a decline in palm oil output about 6 months later & **price impact is also somewhat delayed.**

La Nina.

Effects more subjective as sowing/crop development requires adequate moisture.

In cases of excessive/destructive rainfall, price impact is almost **IMMEDIATE & more pronounced** due to a sudden supply constriction.

Co-relation: Price.

Monthly FCPOc3

1/31/1982 - 1/31/2016 (KUL)

BarOHLC, FCPOc3, Trade Price
5/31/2014, 2,567, 2,630, 2,459, 2,461, -41, (-1.64%)

@ El Nino.
La Nina.

#@ 31/3/08, 4486

#@ 28/2/11, 3967 hi

#@ 31/5/98, 2562 hi

@ 31/1/84, 1460 hi

@# 31/1/88, 1101 hi. La Nina benefical

La Nina benefical

QE commences.

Re-regulation & Tapering

Price MYRT
4,200
3,900
3,600
3,300
3,000
2,700
2,400
2,100
1,800
1,500
1,200
900
600
Auto

1982 1983 1984 1985 1986 1987 1988 1989 1990 1991 1992 1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016

1980

1990

2000

2010

Co-relation: CdSBO-Olein Basis.

Basis shift depends on sequence of supply bottleneck.

⋮

El Nino events: depending on severity of supply constriction, **basis narrows, sometimes to parity** even due to close proximity of big buyers ie. China & India.



La Nina events: **basis widens, in worst case to around USD 280** on soyoil supply bottleneck esp if timely accentuated by winter demand preference.

Case study: why did basis widen from 2011 to 2012?

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Co-relation: CdSBO-Olein Basis.

Monthly BO-BRZPAR-C2, POL-MYRBD-M2

4/30/2005 - 11/30/2014 (GMT)

Line, BO-BRZPAR-C2, Last Quote(Last)

5/31/2014, 867.100

Line, POL-MYRBD-M2, Last Quote(Last)

5/31/2014, 792.500

Spread, BO-BRZPAR-C2, Last Quote(Last),POL-MYRBD-M2, Last Quote(Last), 1.0,1.0

5/31/2014, 74.600

Price
USD
MTU

Value
USD
MTU

Auto

Auto



Co-relation: Inter-month spreads.

A severe El Nino event will cause Palm Oil prices to **invert** as nearby supplies tightens.

⋮

BMD Spot-M3 has been as wide as Rm 150 invert/backwardation in such instances.



Co-relation: Inter-month spreads.

Monthly FCPOc1, FCPOc3, FCPOc2, FCPOc4

2/28/1982 - 2/29/2016 (KUL)



Co-relation: PoGo Spread.

Assuming constant Gas Oil prices, a bottleneck in palm oil supplies **will tighten the PoGo spread.**

⋮

Of late, the biodiesel demand focus has shifted significantly from the EU to Indonesia.

What is the significance?



Co-relation: PoGo Spread.

Monthly /LGOc2, FCPOc2

6/30/1982 - 1/31/2016 (LON)



El Nino 2014: Impact.

So far it has been a ‘cry wolf’ situation, **no signs of a heat wave** in Malaysia/Indonesia as yet.

However would note that Australia & the Philippines are currently registering relatively high temperatures.

The Australian Meteorological Department rates 2014 at **70% probability** for a severe El Nino event.

On record, they have been very accurate & would therefore give due diligence for both El Nino & La Nina come June/July.

El Niño 2014: Impact.

The US & South East Asian weather is considered normal at this juncture.

US spring planting is progressing well while the Malaysian Palm Oil production has been very good (+9.6% against first-half 2013) & is entering the high cycle.

The Indian monsoon seems is forecasted to be slightly delayed but still premature to be alarmed.

With sagging prices, a more likely development would be that India raises import duty on vegetable oils to protect her farmers.

El Niño 2014: Impact.

BMD & CBT Soyoil prices are currently **downtrending** (Rm 2580 & 44cents threshold resistance respectively).

We opine that **pressure remains & would continue** esp for Palm Oil as supply/stocks build up in Q3.

Therefore would think that to maintain market share, Palm Oil prices **need to be more competitive** going into Q3.

El Nino 2014: Impact.

As such we would expect:

- the **CdSBO-Olein basis to widen** perhaps to around USD 100 - 150 (from USD 70 now).
- the **PoGo Spread to widen** perhaps to around USD 200 (from USD 130 now).
- with the above development & with weak CBT Soyoil prices, now below 40 cents, **BMD prices may dip further** to below Rm 2400 esp if normal weather continues.

El Niño 2014: Impact.

However the Energy sector would again provide a safety net.

Even before reaching the 'discretionary' bio-diesel demand levels, the Indonesian mandated bio-diesel program should kick in.



We would expect Indonesians bio-diesel capacities to be well utilized for their domestic market even **before PoGo Spreads hit USD 200 under.....**

BMD Rm 2300 should be **extremely resilient** with caveat that Brent prices stay above USD 105/barrel,

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El Nino 2014: Impact.

Thereon, hopefully a timely emergence of

an El Nino

- or a La Nina

would provide a price bonus for Palm Oil



.....next year.....

