

Growing Dependence on Palm Oil in World Trade and Consumption

Plenary Lecture at the Malaysia – Russia Palm Oil Trade Fair & Seminar (POTS)
in Moscow on 16 Sept 2013

Thomas Mielke, Executive Director of ISTA Mielke, Oil World,
Global Market Research on Oilseeds, Oils and Meals,

E-mail <Thomas.Mielke@oilworld.de>



13 Sept 2013

Company Profil and Services

- **ISTA** Mielke GmbH – publisher of OIL WORLD - was founded in 1958
- **ISTA = International Statistical Agricultural Information**
- Independent, not involved in trading
- Leading private authority for global research and market analyses for oilseeds, oils & fats and oilmeals
- unbiased information on the past and current global supply, demand and price developments as well as forecasts
- Daily, weekly and monthly publications on www.oilworld.de
- Our Russian speaking analyst is ready to be of **SERVICE TO YOU**



The Outline of my Presentation

- Introductory statements on how palm oil is linked to all oilseeds and oils
- The dynamics of world supply & demand of oils & fats (edible & ined.)
- Biodiesel production has fallen short of expectations
- Success Story: Russia has turned into a net exporter of vegetable oils
- Outstanding growth in world palm oil and palmkernel oil production
- Consumers worldwide are getting more dependent on palm oil, owing to insufficient supply growth of other oils & fats
- Price Outlook



In past 25 years world oilseed production more than doubled (strong oil and meal demand)

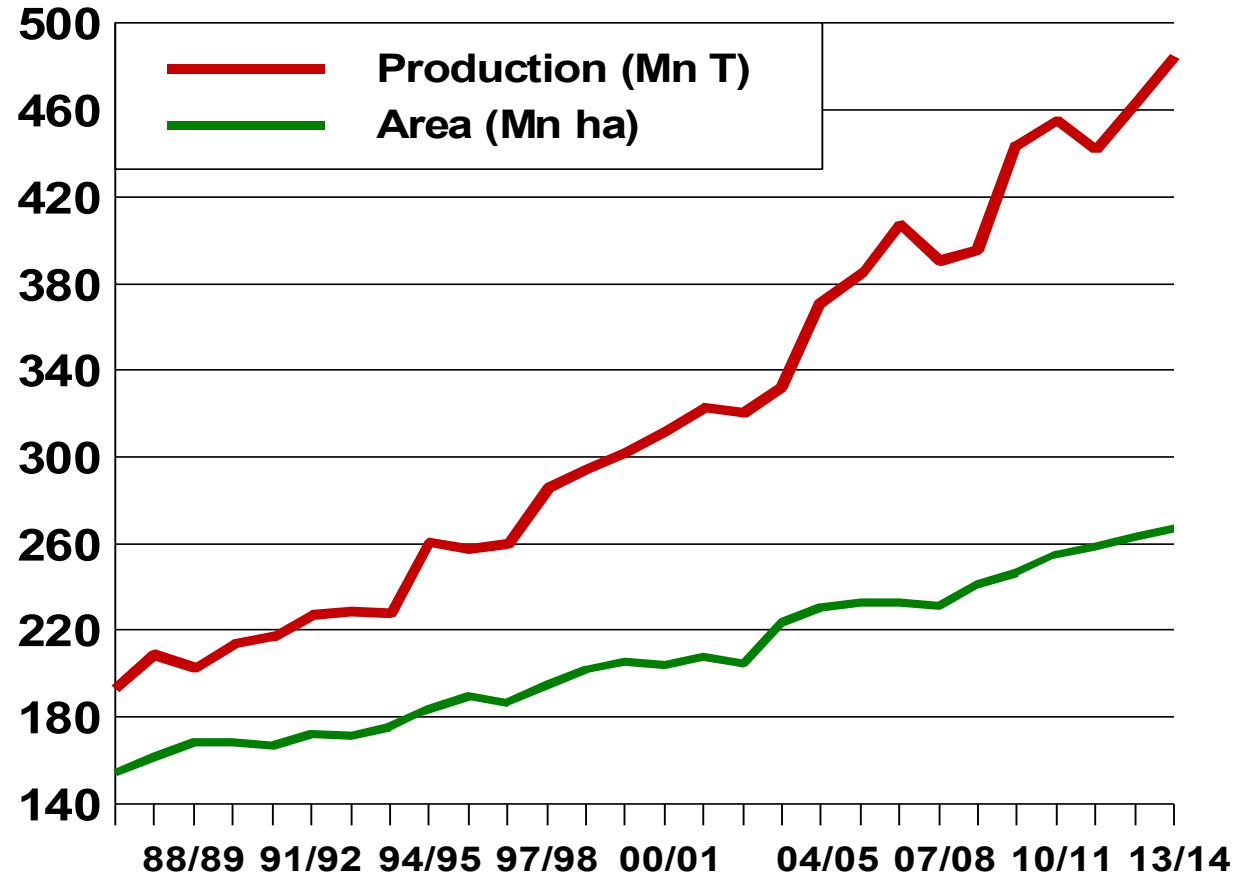
On rising acreage and yields

About half of the acreage increased came from grains. But this shift will slow down.

Agricultural land has become a limiting factor worldwide, but big potential in Russia + Brazil

Land values more than doubled in the past 6-8 years

10 Oilseeds: World Area and Production



13 Sept 2013

Significant improvement in production in most countries expected in 2013/14

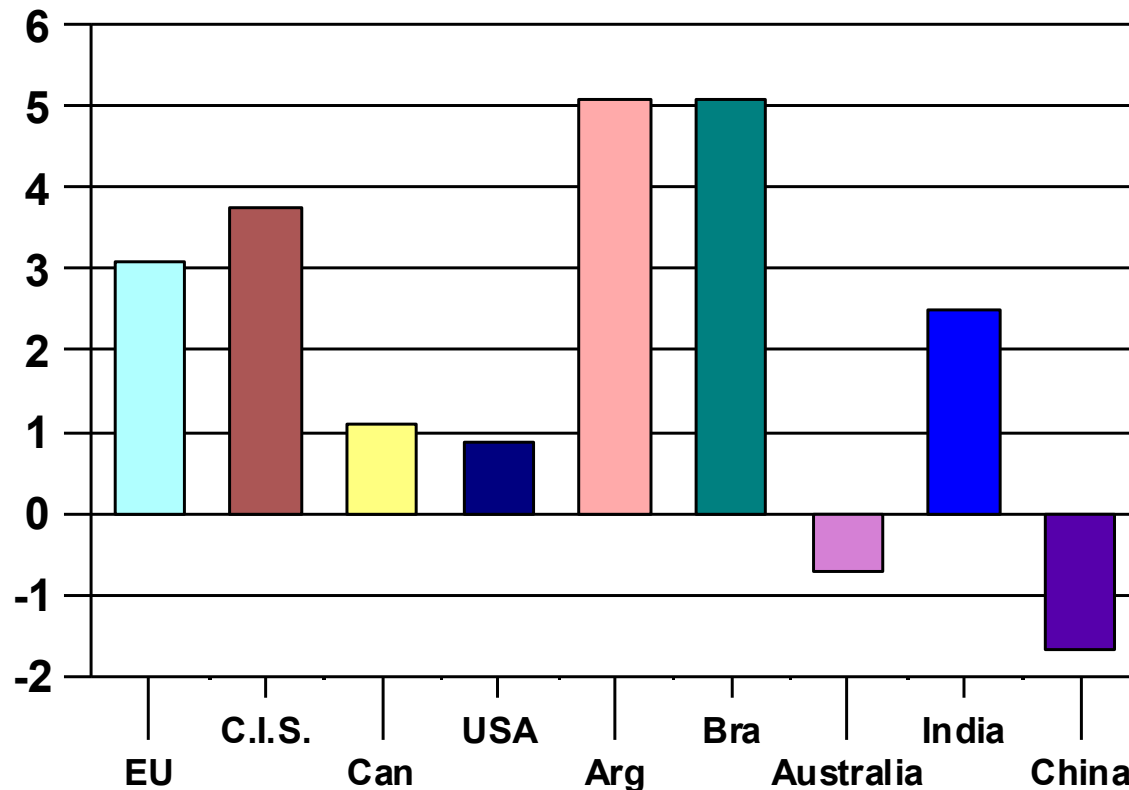
Biggest increases in Argentina, Brazil and the C.I.S.

India: Much higher oilseed output in 2013/14; slowdown of veg. oil import requirements; prices declined in advance

Major exception is China, boosting import requirements

10 Oilseeds: Estimated Production Change in 2013/14

Annual Change from 2012/13 (in Mn T)

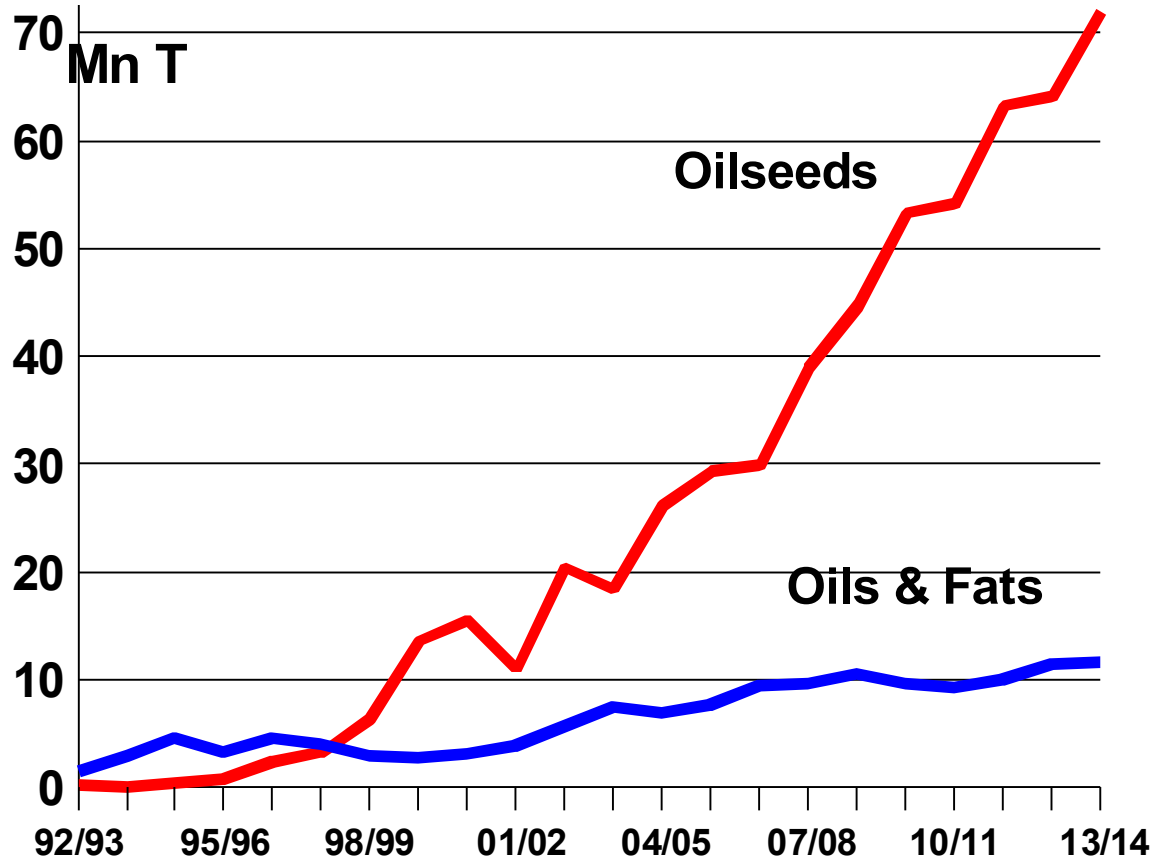


CHINA: Rapidly rising import requirements

Mainly of soybeans, but also of rapeseed and many other agricultural commodities

Following a stagnation of oilseed imports (at the expense of stocks in 12/13), big jump in imports by 8-9 Mn T is likely in 2013/14

CHINA: Imports of Oilseeds and Oils & Fats



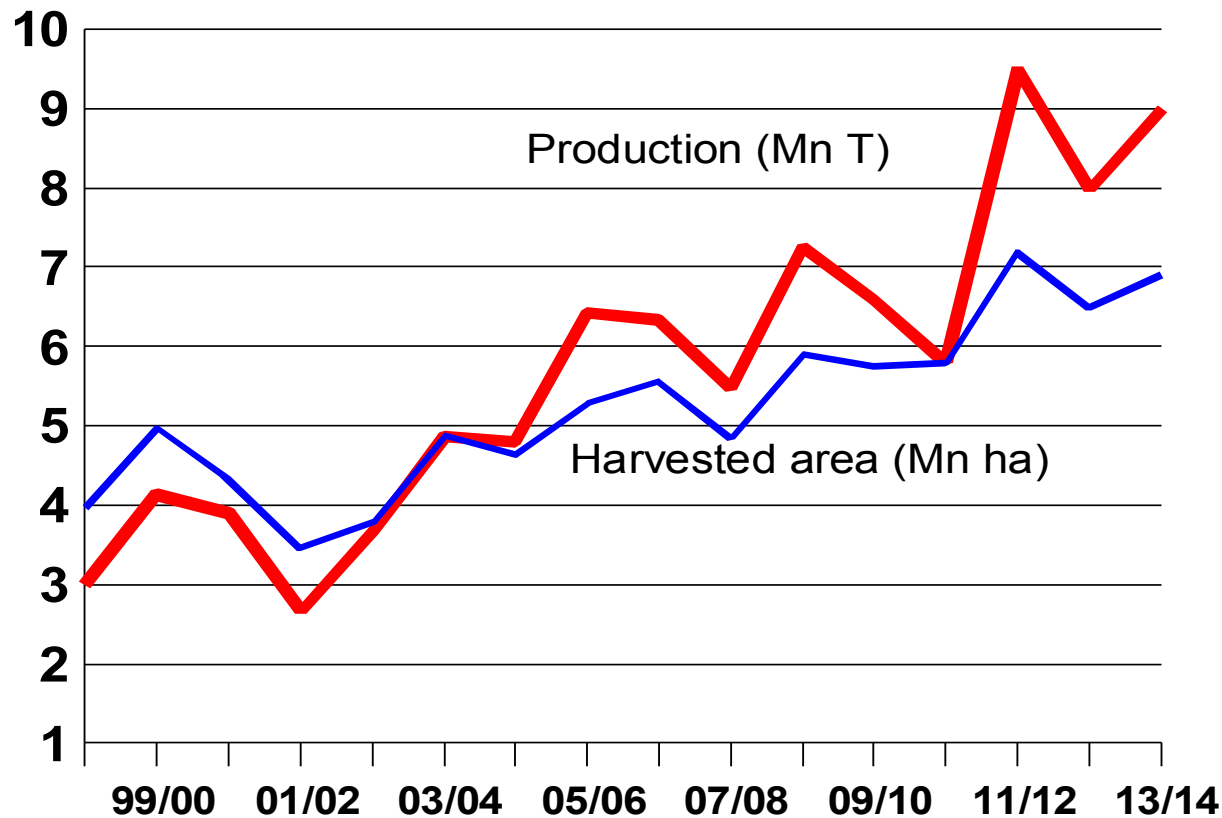
13 Sept 2013

In Russia production of sunflowerseed trebling in the past 15 years

On account of :
- higher acreage
- improved yields

Sun oil exports seen at 1.4 Mn T in 2013/14

RUSSIA: Sunflowerseed Production & Area

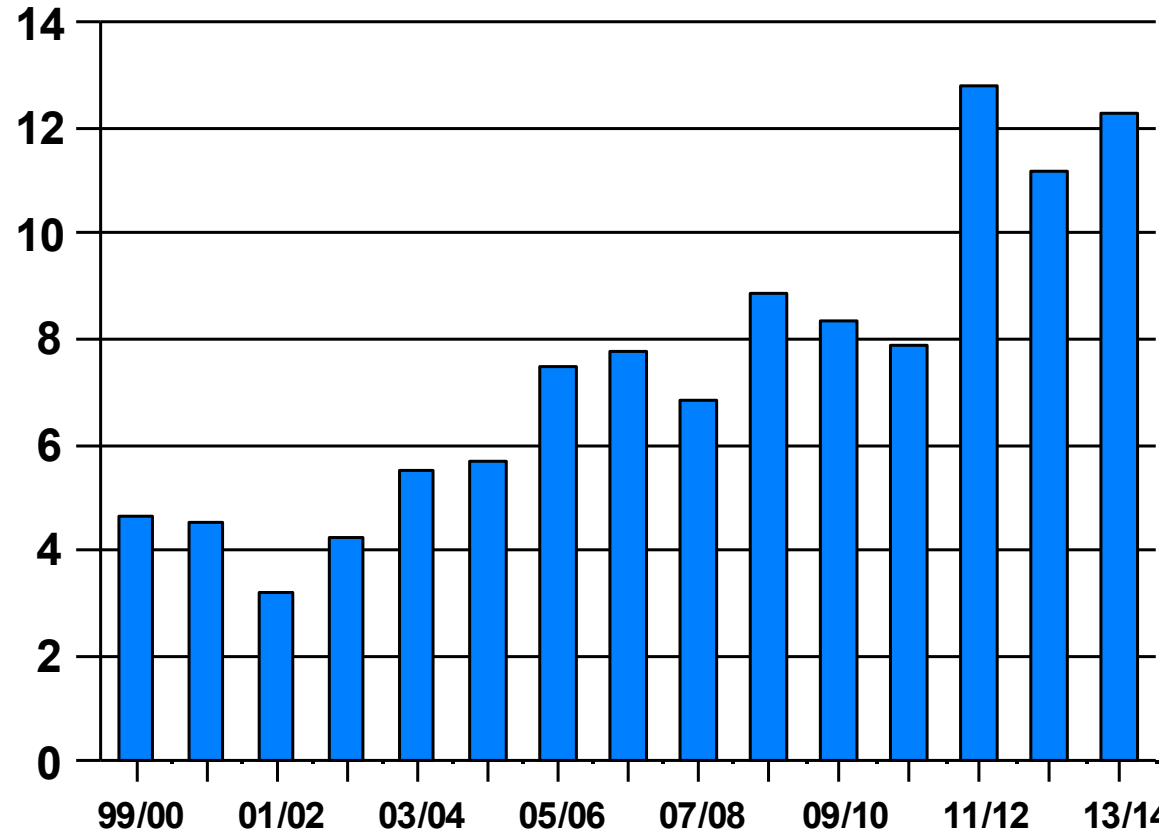


Russian oilseed production has increased from around 4 Mn T to 12 Mn T this year.

- Sunflowerseed 9.0 Mn T
- Soybeans 1.5 Mn
- Rapeseed 1.4 Mn
- Linseed 0.4 Mn

Production potential seen at 15 Mn T within the next few years

RUSSIA: Production of Oilseeds (Mn T)

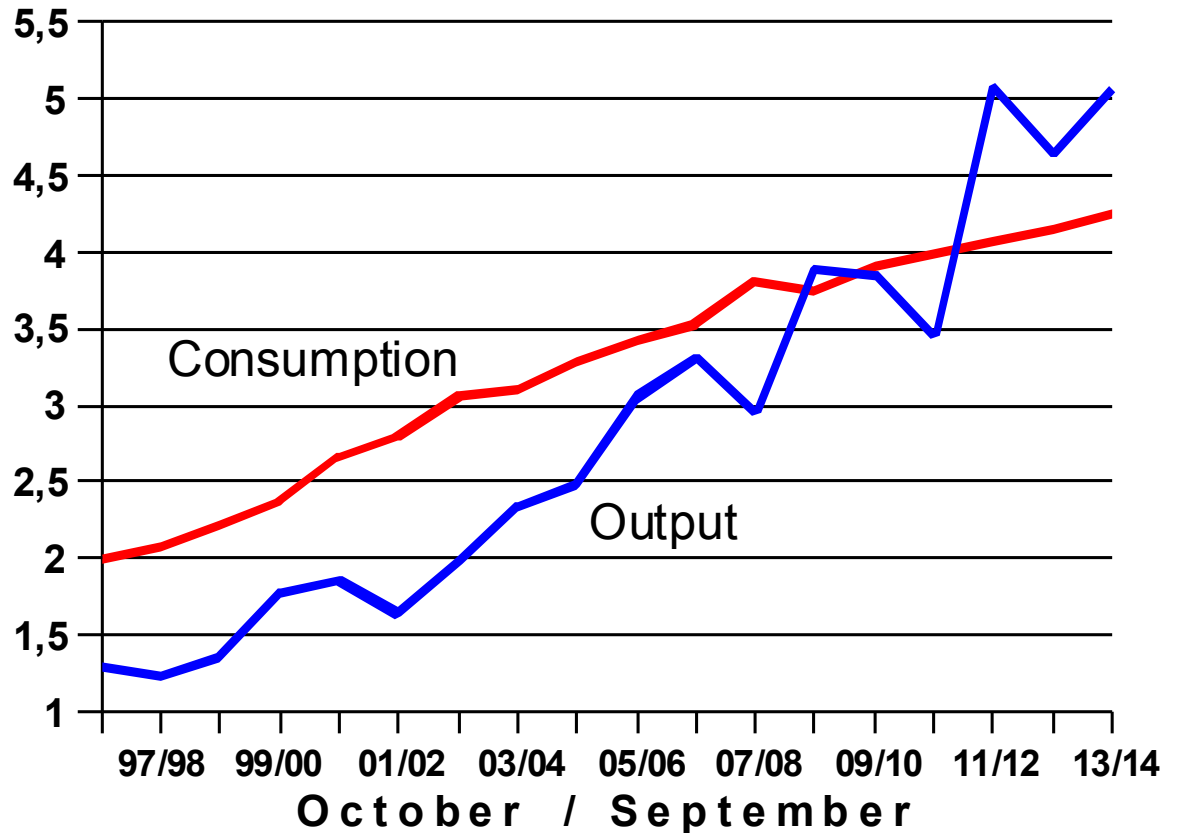


In Russia domestic production of oils & fats is now exceeding consumption.

Russia has turned from a net importer into a net exporter of oils and fats

Still, palm oil imports has continued to increase and reached a record 730 Thd T in 2012/13. More growth potential ahead.

Russia: 17 Oils & Fats Output & Consumption (Mn T)



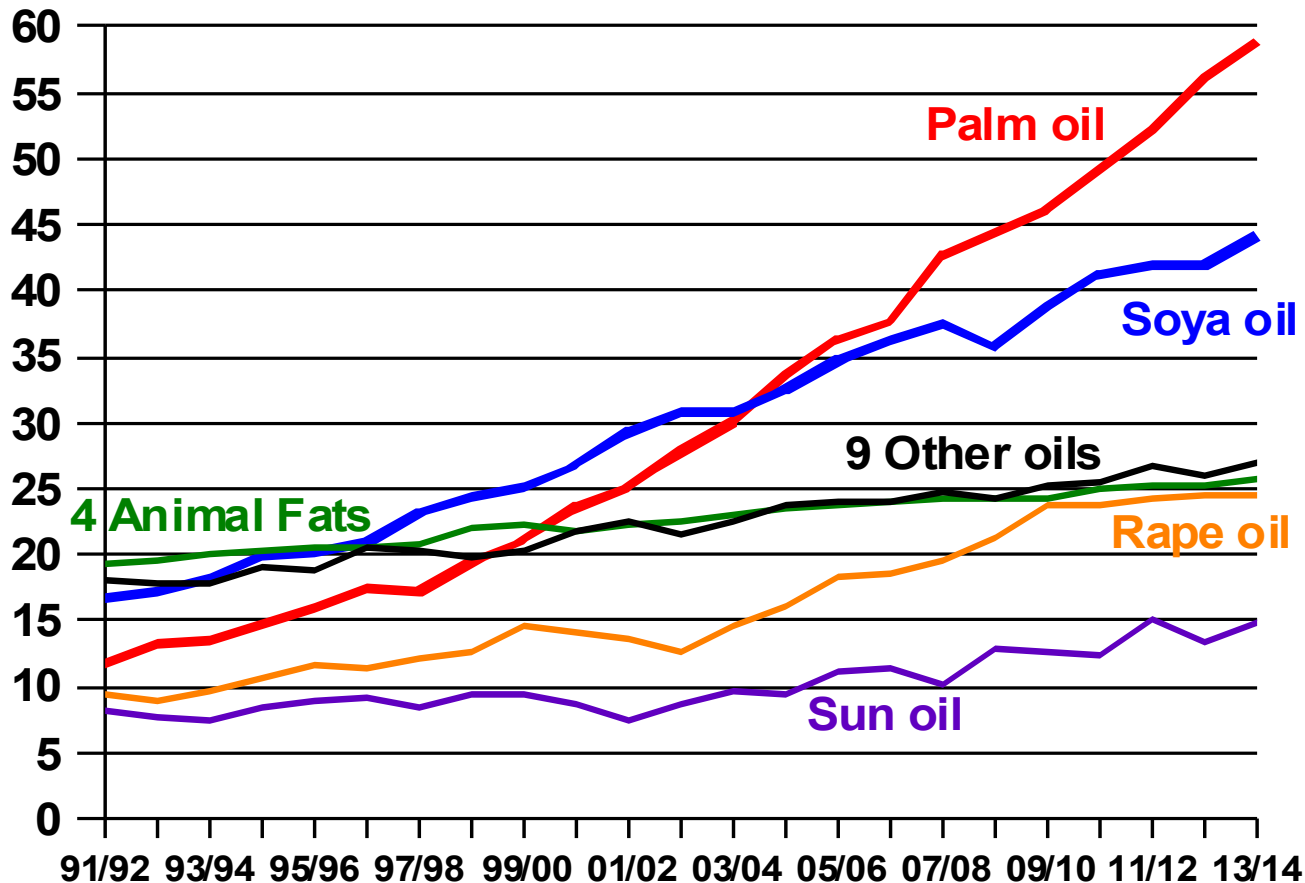
Palm oil has become the most important veg. oil worldwide

Palm oil production was boosted by more than 4 times in the past 20 years

from 14 Mn T in 1993/94

and is estimated to reach 59 Mn T in 2013/14,
Thereof: Malaysia 20 Mn T
and Indonesia 30 Mn T

17 Oils & Fats: World Production (Mn T)



13 Sept 2013

Rising Dependence on Palm Oil

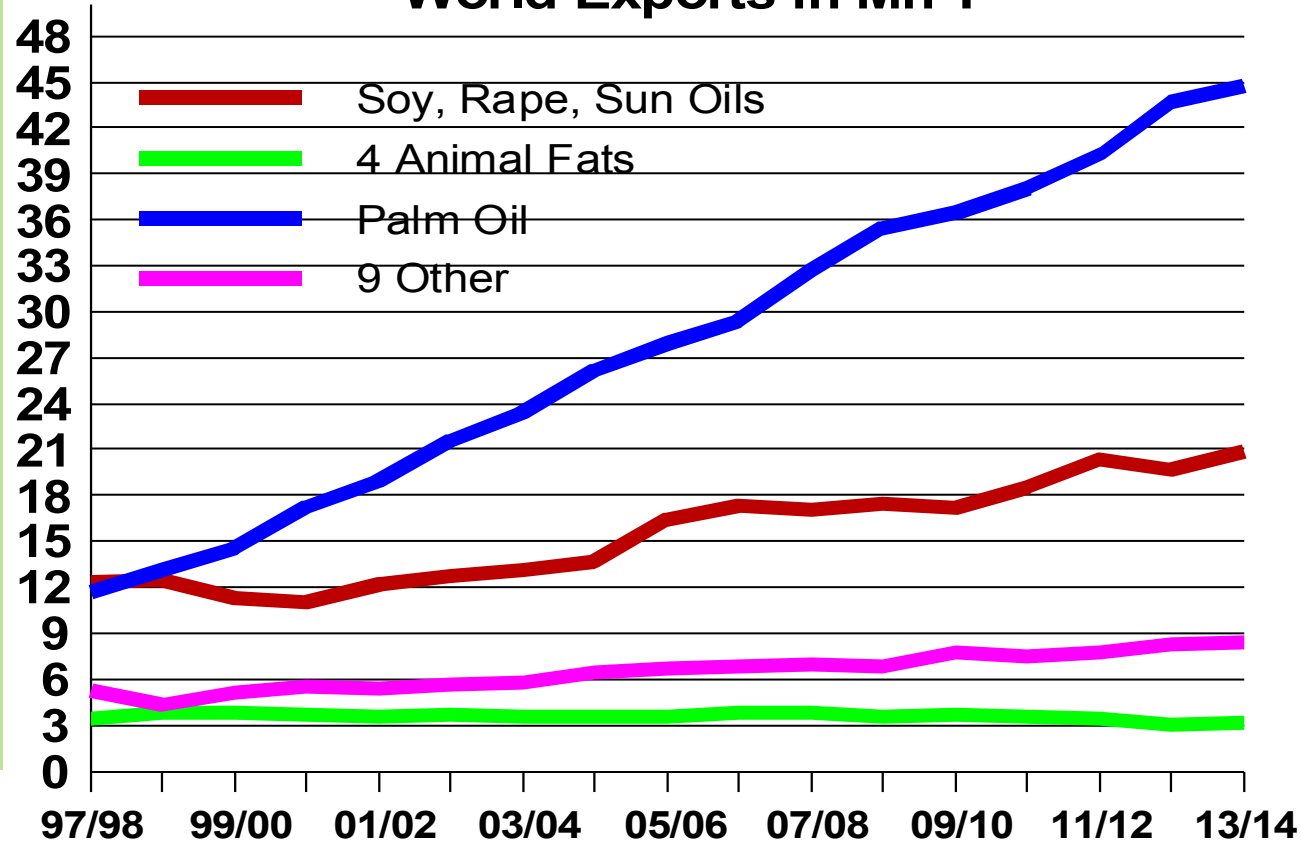
17 Oils & Fats World Exports in Mn T

1997/98 - 2012/13:

- **Palm oil** exports (blue line) almost quadrupled
- Exports of all 16 other Oils/Fats + 48%

In Oct/Sept 2013/14:

- Palm oil exports (blue line) likely to rise to 45 Mn T
- Combined exports of soya, sun & rapeseed oils (red) to recover to 21 Mn T

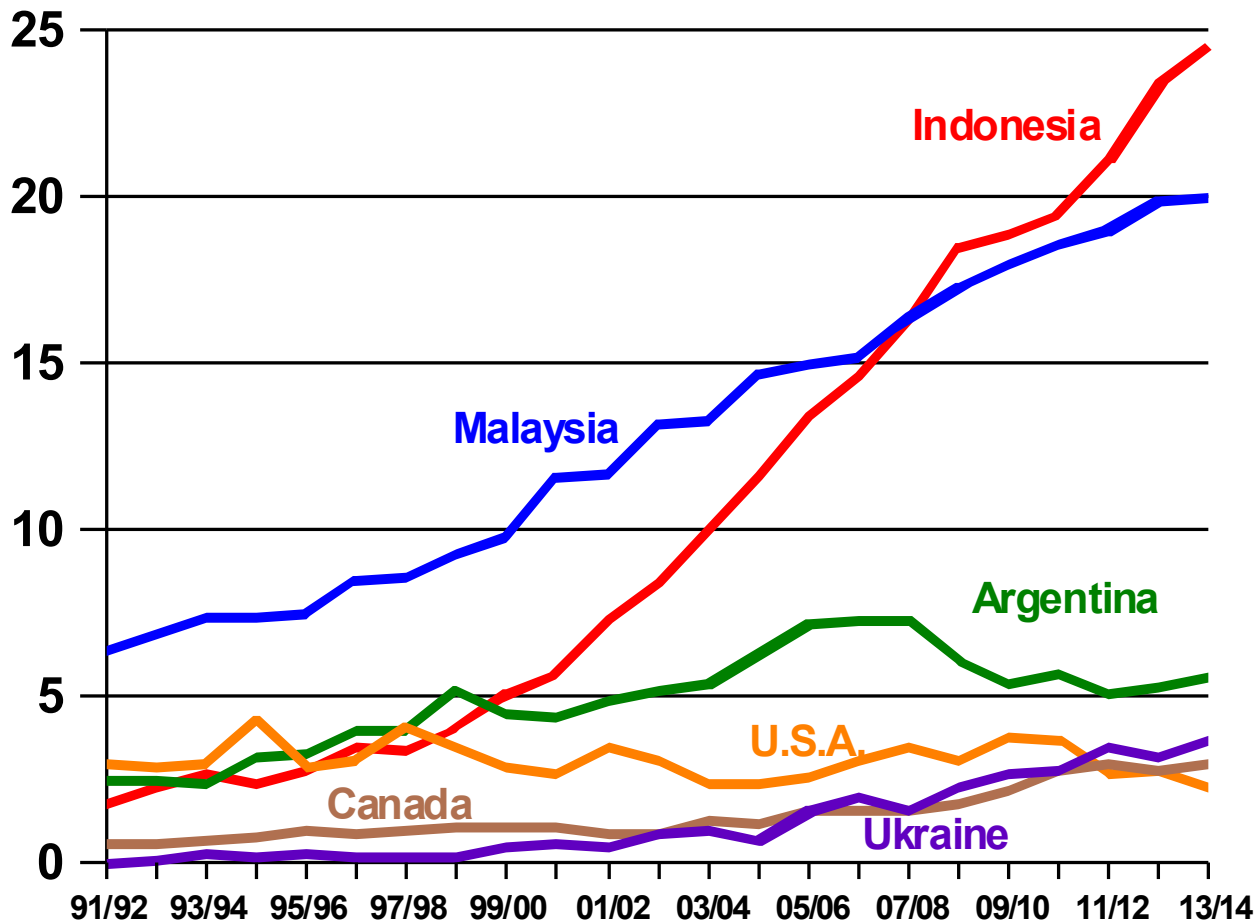


13 Sept 2013

17 Oils & Fats: Exports of Major Countries (Mn T)

Indonesia & Malaysia
have exported 43.4
Mn T of oils & fats in
2012/13,

.. thus accounting for
58% of total world
exports all oils &
fats in 2012/13.



13 Sept 2013



The Success Story of the past 30 Years

- Substantial growth in world production of palm oil
- In 1980: 4.6 Mn T or 8% of 17 oils & fats
- In 1990: 11.0 Mn T or 14%
- In 2000: 21.9 Mn T or 19%
- In 2010: 46.1 Mn T or 27% (only 6% of area)
- In 2011: 50.8 Mn T or 28% (57% of exports)
- In 2012: 53.7 Mn T (plus 5.9 Mn T of Palmkern oil)
- In 2020 at least 78 Mn T of palm oil required by consumers worldwide



Growing Dominance of Palm Oil & Palmkernel Oil Worldwide

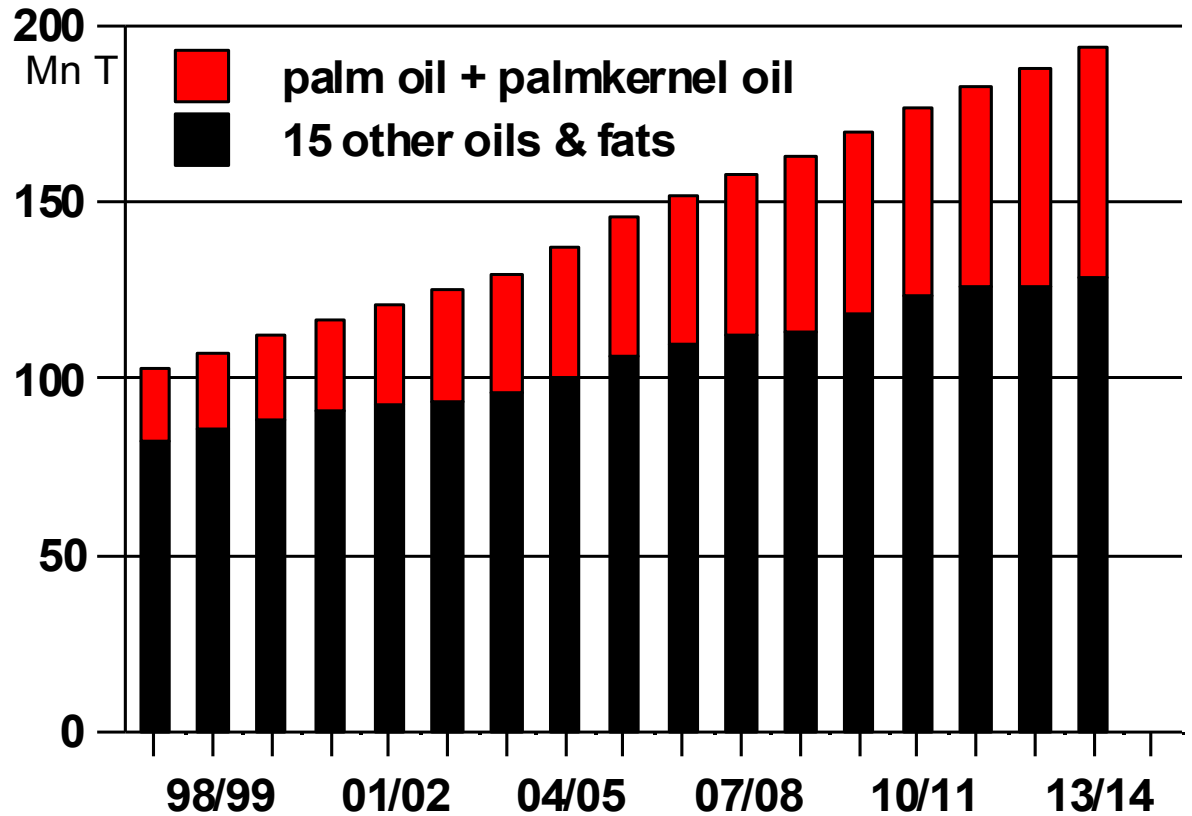
World consumption of all oils & fats more than doubled in the latest 20 years to 188 Mn T in 12/13

Palm oil and Pkernel oil: annual growth rates were more than double of those of other oils & fats.

Today both oils account worldwide for :

- 33% of consumption
- 63% of exports

World Consumption of 17 Oils & Fats



13 Sept 2013



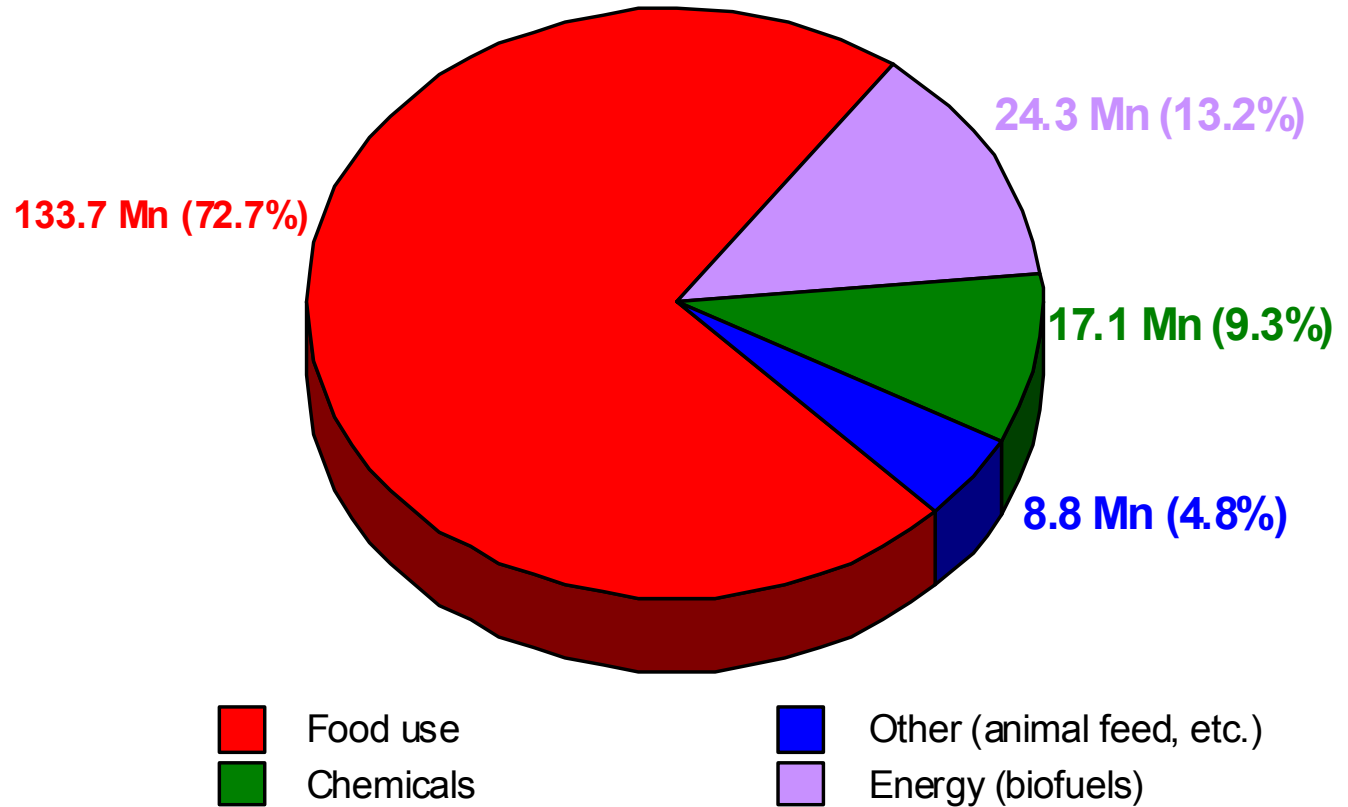
17 Oils & Fats: World Consumption, by Category

Jan/Dec 2012 total: 183.9 Mn T

World consumption of 17 oils & fats reached 183.9 Mn T in Jan/Dec 2012

Of which:

- **Food use** 133.7 Mn T
- **Biofuels** – 24.3 Mn T
- **Chemicals** – 17.1 Mn T
- **Other use** – 8.8 Mn T



Usage Breakdown of Individual Oils/Fats in 2012

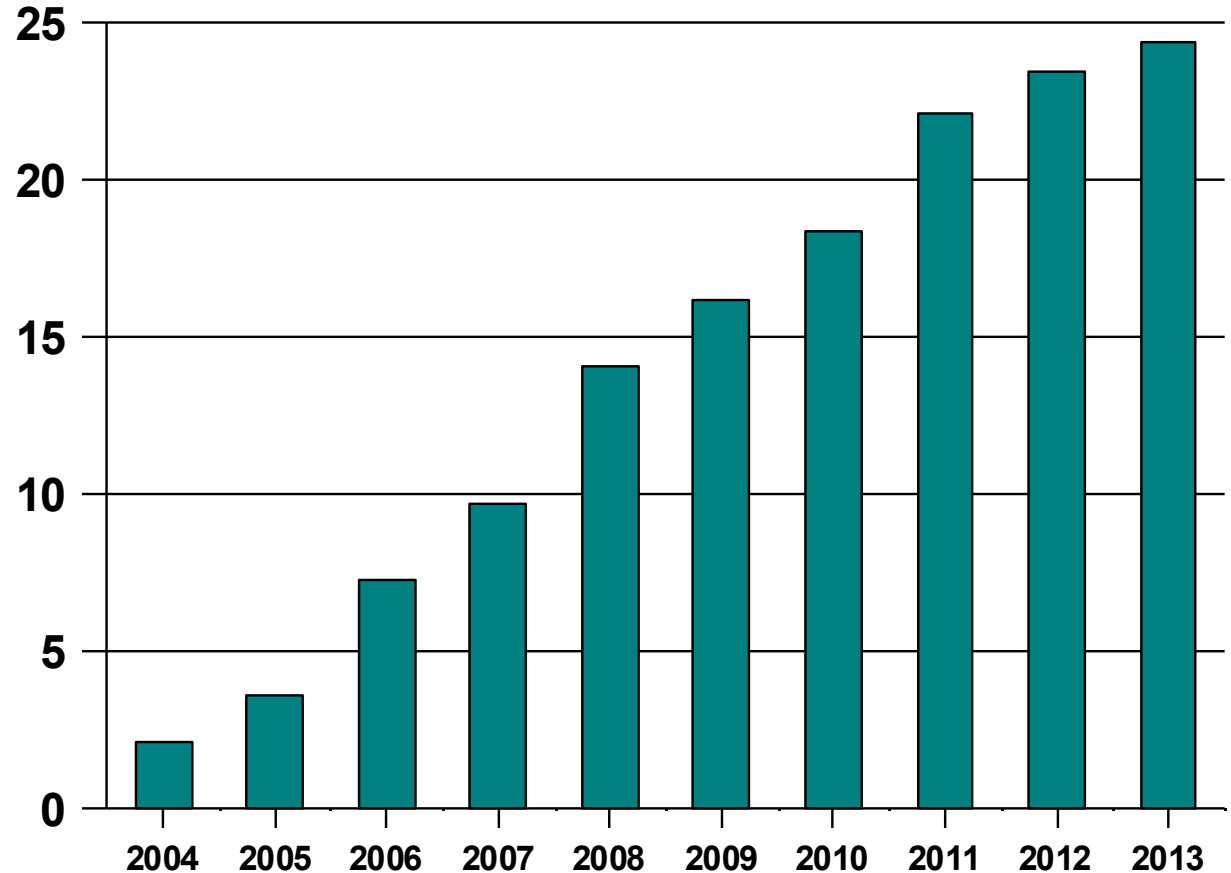
	biofuels	food	oleochemicals	other
▪ Soya oil :	17%	77%	4%	2%
▪ Palm oil :	12%	76%	8%	4%
▪ Rape oil :	27%	67%	3%	3%
▪ Sun oil :	1%	97%	1%	1%
▪ Tallow:	18%	15%	55%	12%
▪ Coconut:	5%	50%	45%	
▪ Palmk.oil :	1%	47%	50%	2%
▪ Other oils :	1% or less for biofuels			



Rising needs of feed-stock for biodiesel production require additional agricultural land

But the growth in biodiesel consumption has recently slowed

World Production of Biodiesel (Mn T)



Supply, Demand and Price Outlook 2013/14



13 Sept 2013

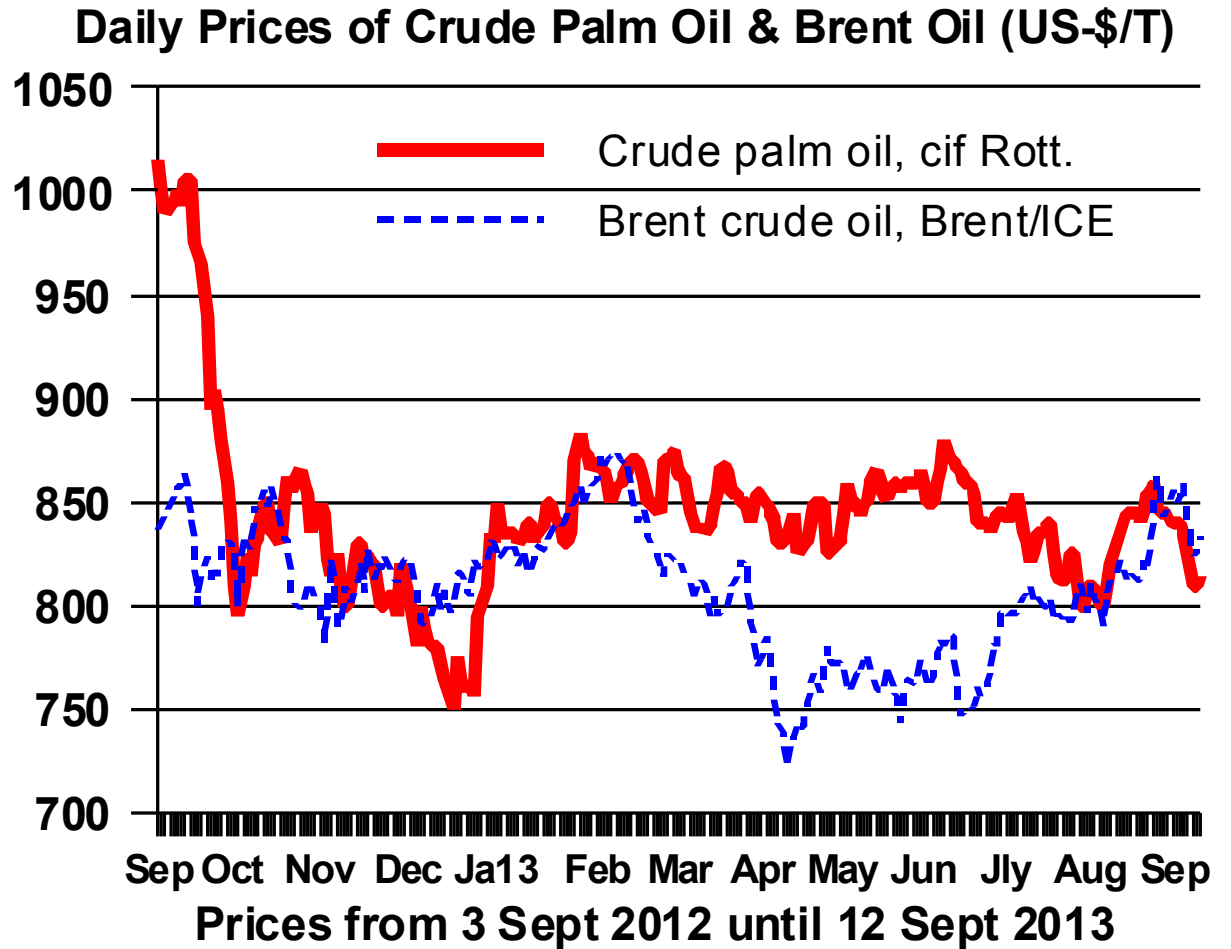
Your Information Provider - - Independent, Unbiased, Authoritative - - Since 1958 © www.oilworld.de

Energy Market Impacts:

Palm oil prices (red line) traded largely sideways in the past 7 months

Palm oil was supported by the appreciating crude mineral oil prices (blue line) and huge demand

In Europe palm oil usage for energy increased by 0.8 Mn T in 2012/13



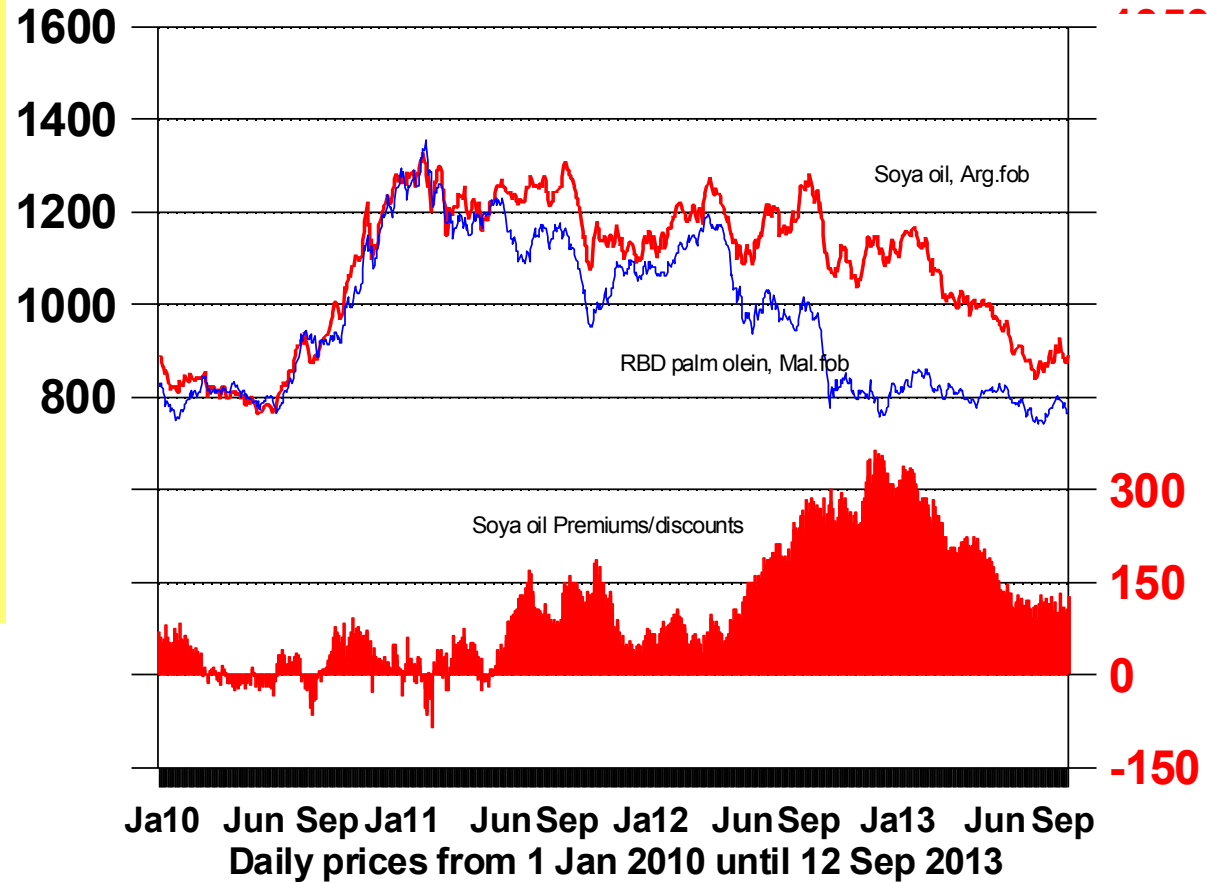
Arg. soya oil prices have come under considerable pressure

and fell to the lowest level in 32 months in August 2013 reducing the premium over palm oil to US \$ 100

For vegetable oils most the bearishness already discounted

But much greater downward potential for oilmeal prices

Daily Prices of Soya Oil & RBD Palm Olein (US-\$/T)



World stocks of palm oil reached a record 11.7 Mn T as of end-Dec 2012, thereof:

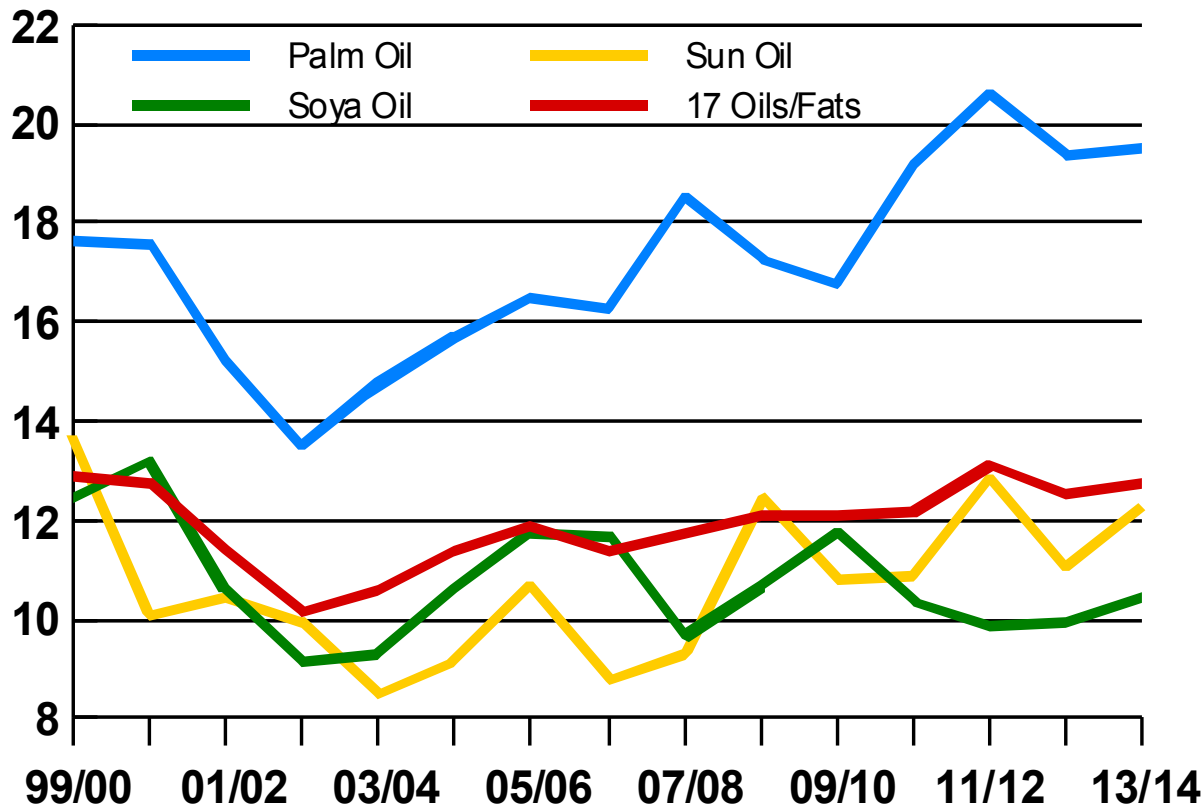
Malaysia 2.6 + Indonesia 4.0 Mn T

With consumption picking up sharply, stocks in August had declined by 2.5 Mn T in Malaysia & Indonesia combined

But palm oil stocks are now starting to rise seasonally and may recover by 2.2 Mn T from Sept until end-Dec 2013

17 OILS & FATS

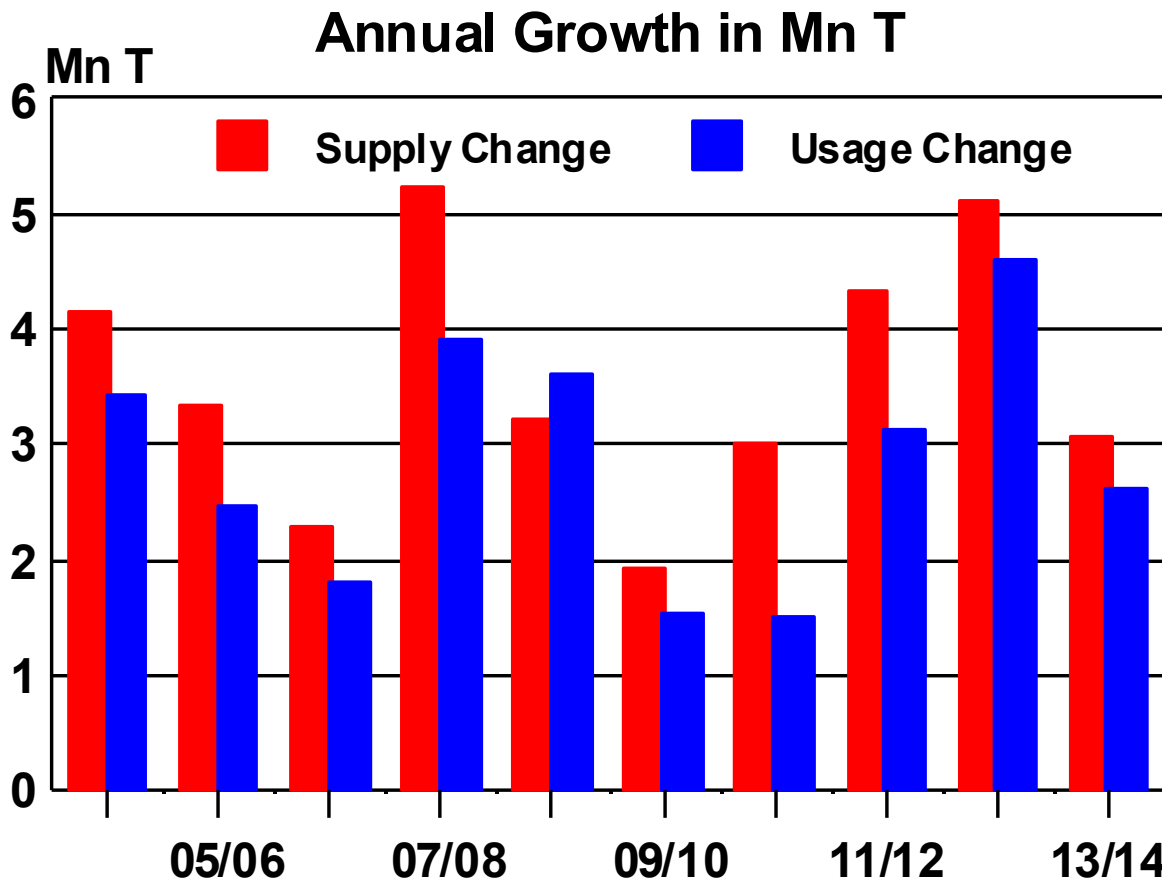
Annual Stocks / Usage Ratios (%)



The annual growth in world palm oil supplies and usage were at or near record highs in 2012/13

But will be slowing down in 2013/14

PALM OIL: World Supplies & Usage



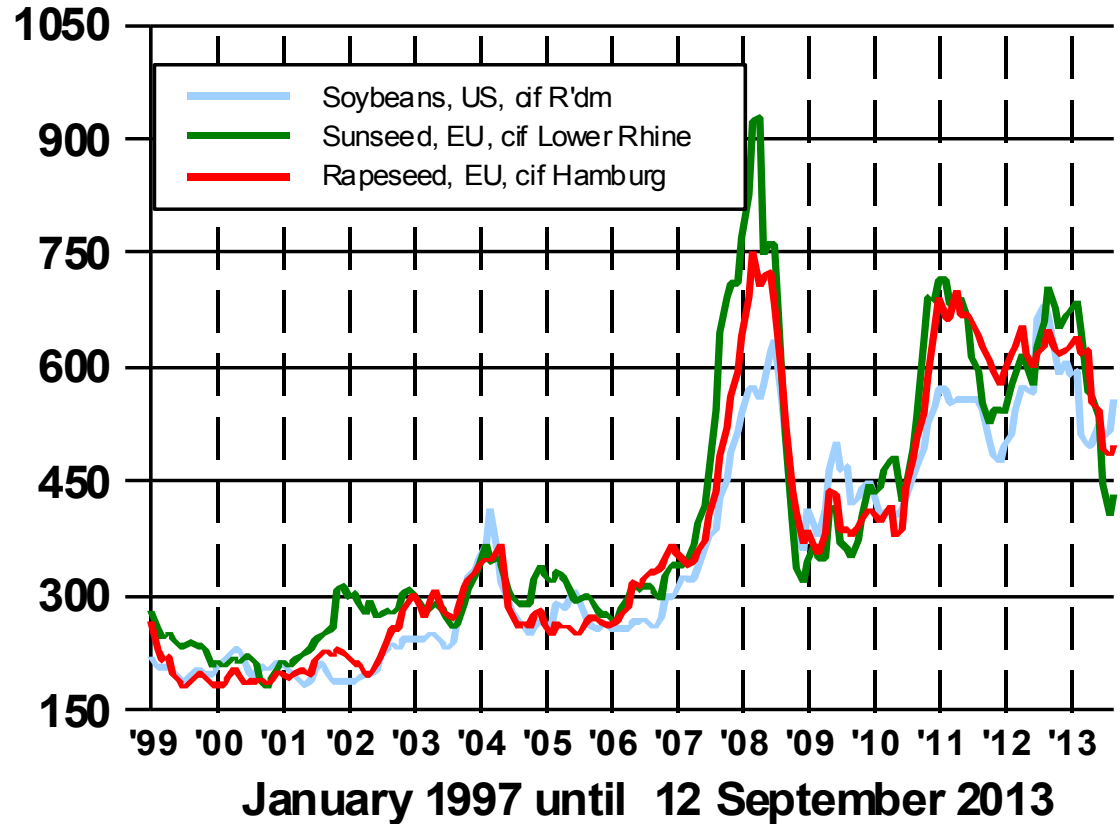
13 Sept 2013



Pressure in Sunseed and Oil

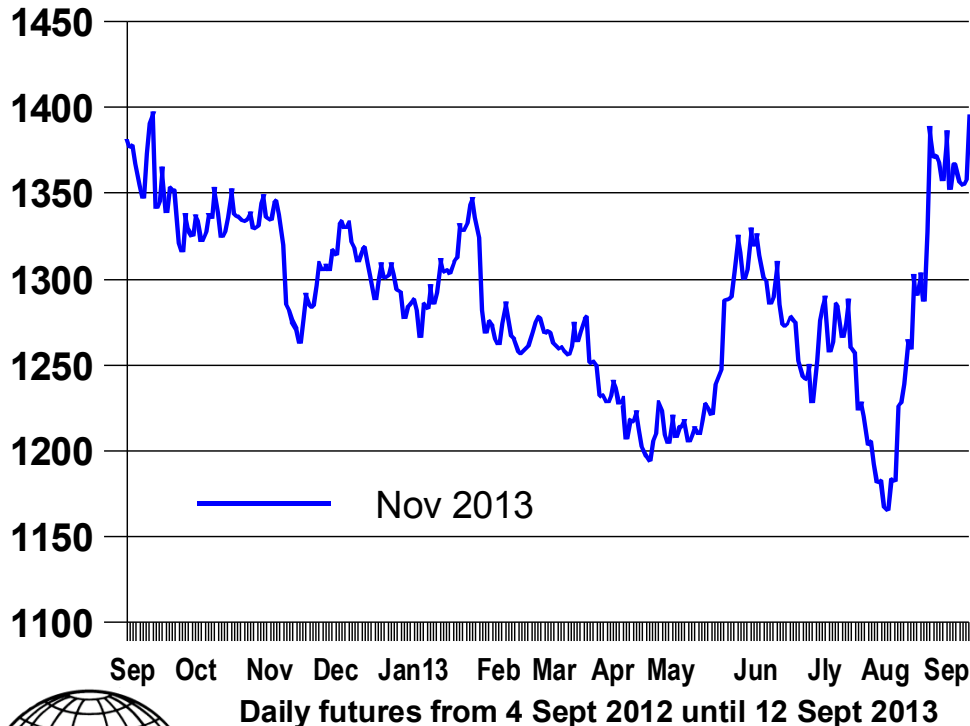
- Record or near-record crops of sunflowerseed in the European Union (8.6 Mn T) and C.I.S. (19.7 Mn) this year
- Heavy selling pressure creating price discounts
- In early Sept sunseed prices below soya & rapeseed
- Black Sea sun oil now offered at US \$ 850
- World sun oil output +1.6 Mn

Monthly Prices of 3 Oilseeds (in US-\$/T)

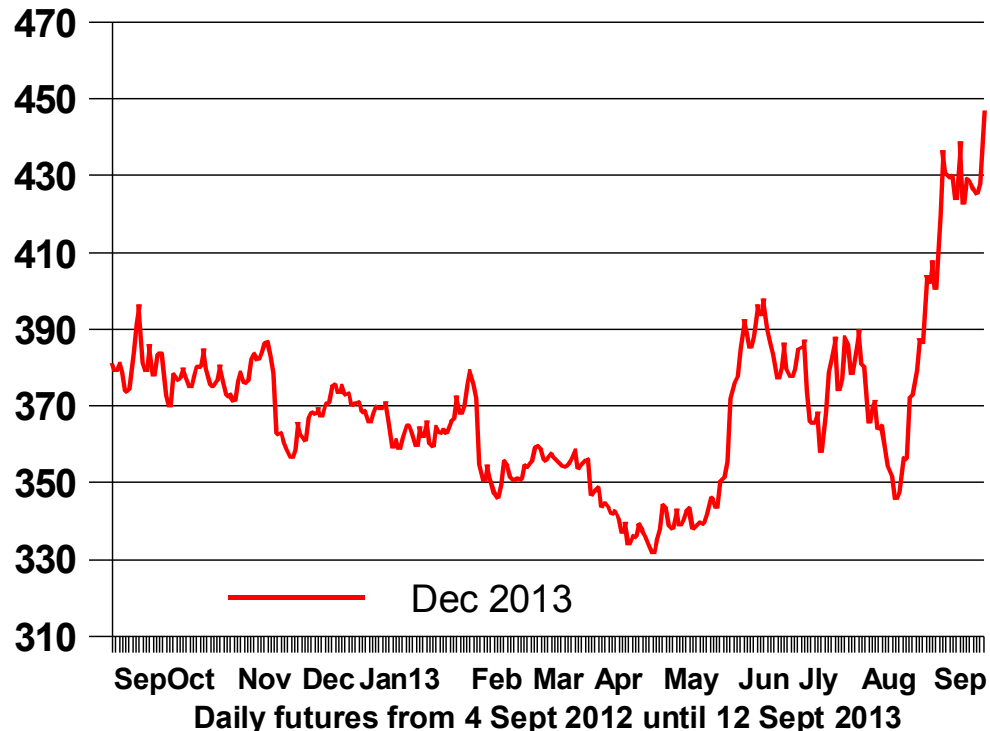


Soybean and Meal Prices Overvalued in Chicago

CBOT: Daily Soybean Futures (c/bu)



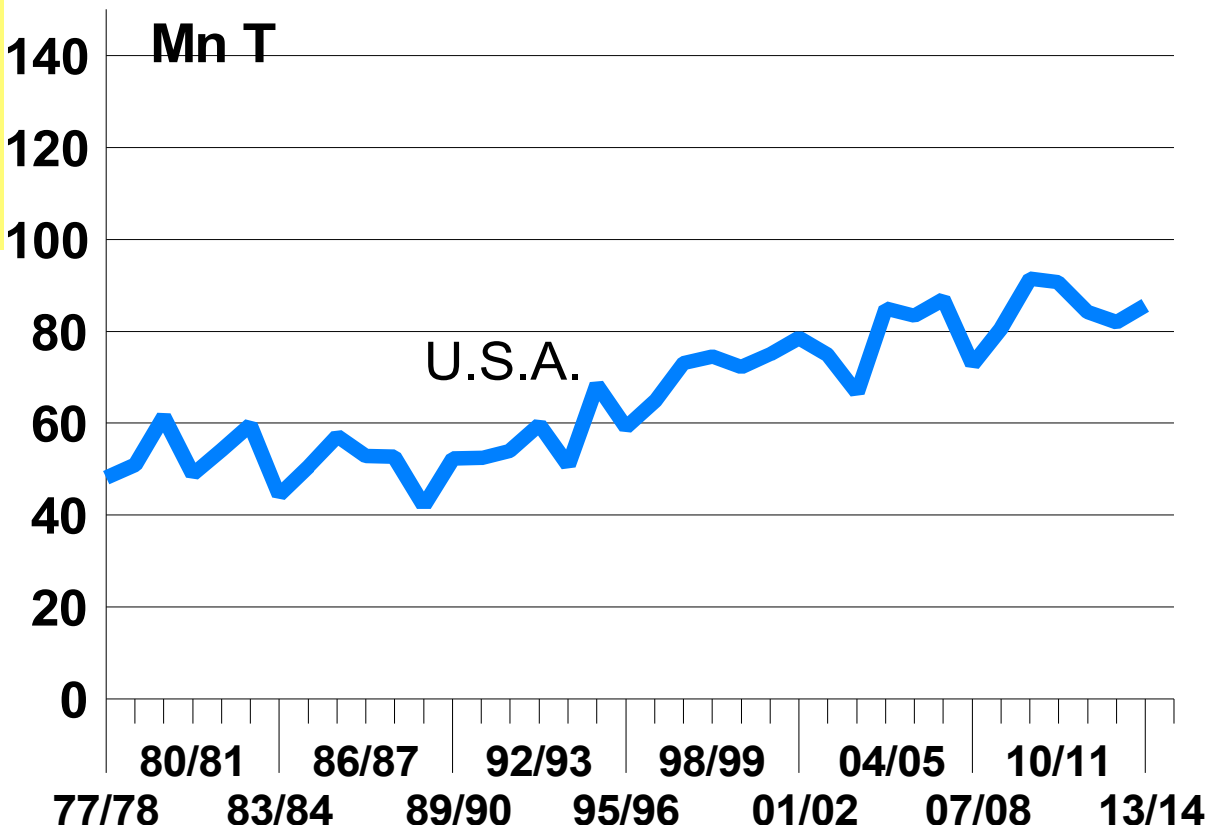
CBOT: Daily Soya Meal Futures (US\$/ST)



In the past 6 weeks drought damaged the US soybean crop by about 2.9 Mn T

US supplies will again be tight in 2013/14 (in 3rd consecutive year)

Soybean Crop Trend



13 Sept 2013

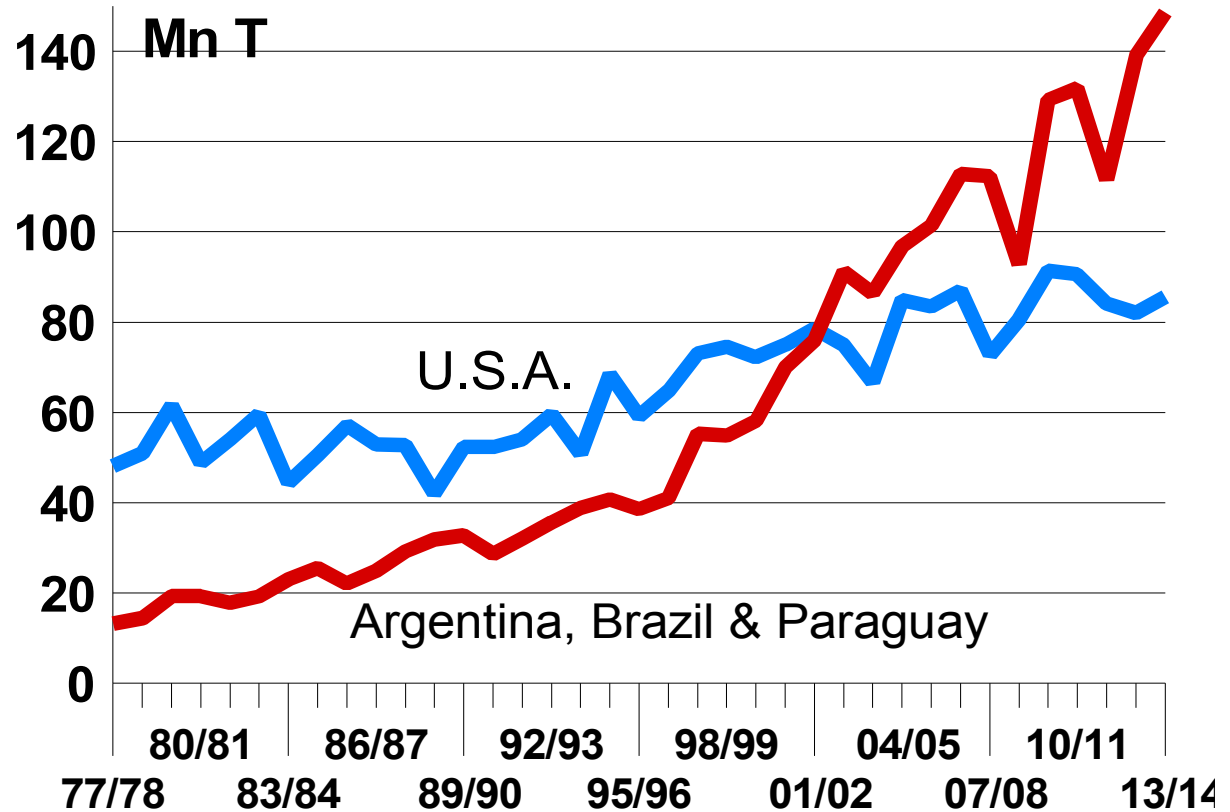
Soybean Crop Trend

Growing dependence on South America - - but supply risks owing to weather, strikes, infrastructure shortages + political issues (Argentina !)

Assuming normal weather, higher plantings should boost S. Amer. soybean output to a new high in early 2014 (by 8 – 10 Mn T)

Drought in most of Argentina and in central Brazil reduced soil moisture supplies in August and the first 15 days of Sept

If required rains do not arrive - - > sharply higher prices



Ample oilseed supplies ahead in 2013/14. Biggest increases in soybeans, sunflowerseed, rapeseed and palmkernels

These 4 oilseeds were also the growth leaders in the past 15 years

In 2013/14 world production seen rising by 21 Mn T and opening stocks up 7 Mn T, boosting world supplies by 28 Mn T -- > BEARISH !

10 OILSEEDS: World Production (Mn T)

	<u>13/14F</u>	<u>12/13</u>	<u>11/12</u>	<u>10/11</u>	Avg. Change 15 Years to <u>12/13</u>
Soybeans	280.88*	266.39*	240.64	264.91	+3.5%
Cottonseed . . .	43.00*	45.01*	47.17	43.55	+1.8%
Grdnuts, shelled	28.02*	27.55*	27.18	27.70	+2.0%
Sunflowerseed	40.20*	35.46*	39.56	33.60	+2.9%
Rapeseed	65.02*	62.83*	60.63	61.04	+4.3%
Sesameseed . .	3.93*	3.74*	3.83	3.83	+2.3%
Palmkernels . .	14.64*	13.97*	13.29	12.54	+7.4%
Copra	5.46*	5.46*	5.26	4.80	+0.4%
Linseed	2.21*	2.01*	2.12	1.82	-0.8%
Castorseed . . .	1.51*	1.41*	2.03	1.56	+1.3%
Total	484.88*	463.82*	441.71	455.35	+3.3%



**We at Oil World forecast
an increase in global
consumption of 17
oils & fats by 6.0 Mn T
in 2013/14**

	<u>17 OILS & FATS: Consumption Change (in Mn T)</u>				
	October / September				
	<u>13/14F</u>	<u>12/13</u>	<u>11/12</u>	<u>10/11</u>	<u>09/10</u>
EU-27 . . .	+0.05	+0.17	-0.33	-0.87	+0.93
U.S.A. . . .	+0.35	+0.39	+1.19	+0.90	-0.13
Argentina .	+0.38	-0.96	+0.53	+0.55	+0.79
Brazil	+0.40	+0.11	+0.14	+0.60	+0.89
China, PR	+1.10	+1.15	+1.03	+1.09	+1.40
India.	+0.78	+0.93	+0.74	+0.49	+0.73
Indonesia .	+0.84	+0.88	+0.91	+1.01	+0.60
Malaysia .	+0.04	+0.23	-0.11	+0.09	-0.10
Others . . .	<u>+2.08</u>	<u>+1.79</u>	<u>+2.53</u>	<u>+2.34</u>	<u>+2.14</u>
World . . .	+6.03	+4.67	+6.64	+6.19	+7.25

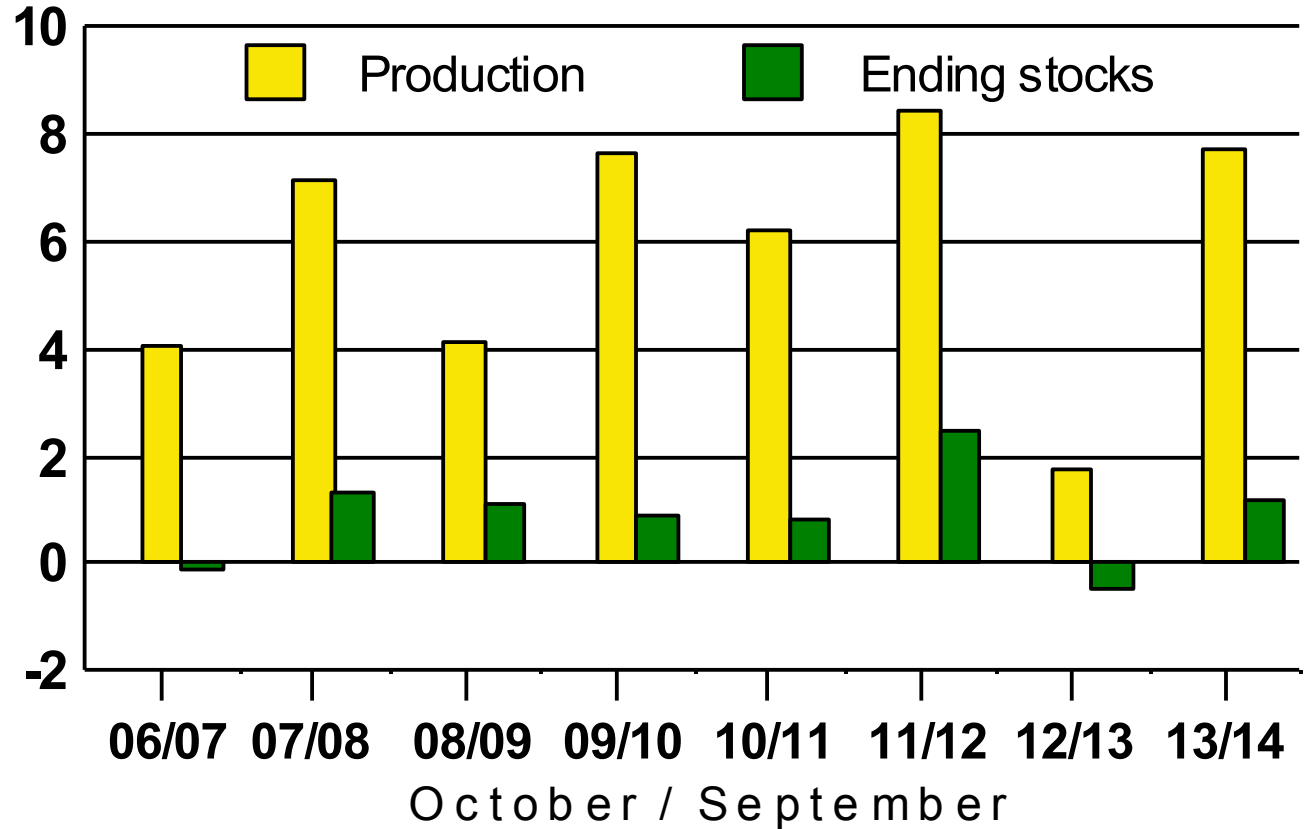


World production of oils & fats is likely to rise faster than consumption in coming months, mainly on account of sun oil and palm oil.

In Oct/Dec 2013 the excess of production over demand could lead to a recovery in world stocks of all oils & fats by 2.2 – 2.4 Mn T.

Price pressure likely, lead by sun oil and palm oil.

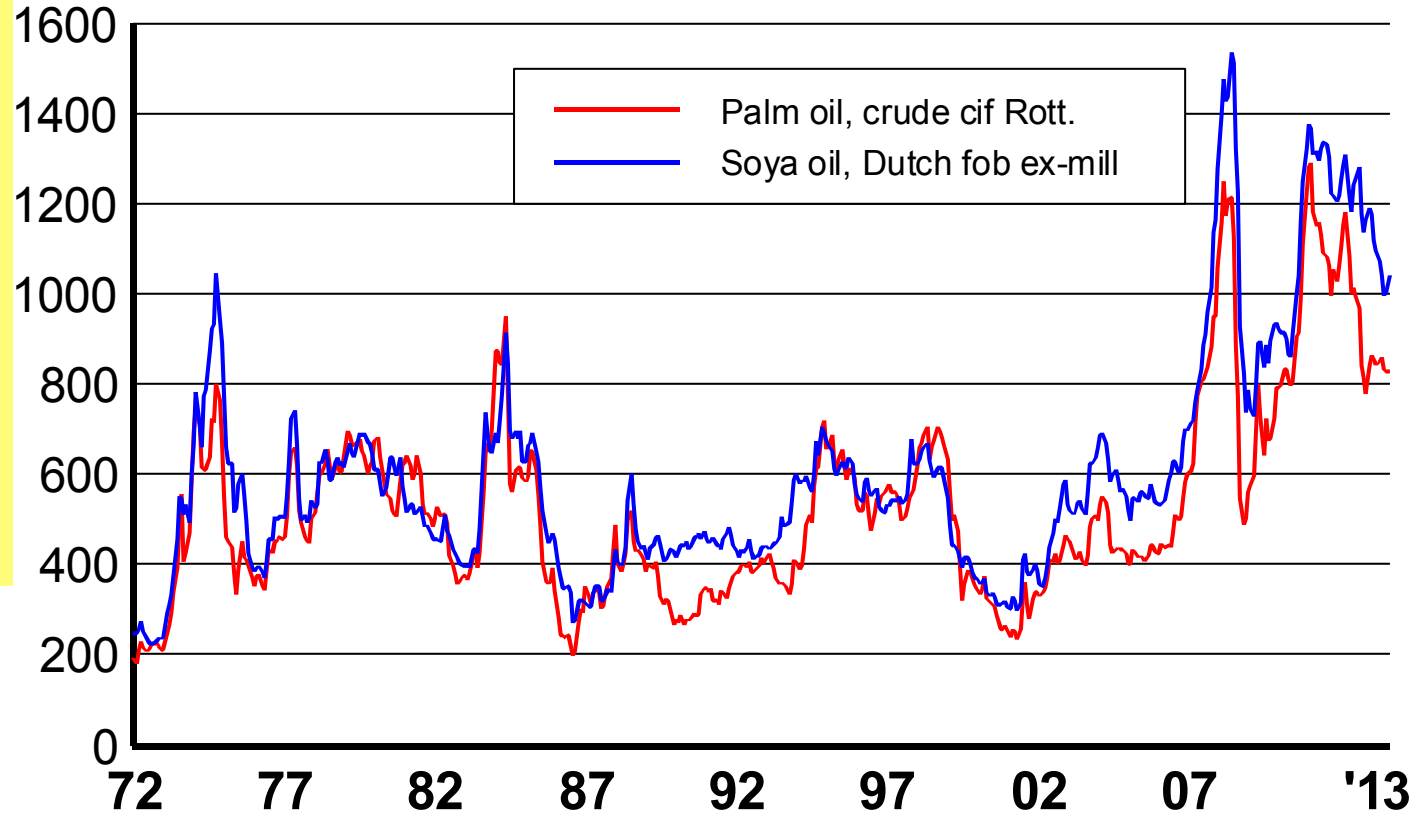
17 OILS & FATS: Production & End'g Stocks Change From Year Ago in Mn T



In Europe palm oil established a low of US \$ 776 in Dec 2012, ending its price cycle after 48 months

The latest low was much above those of preceding cycles. But veg.oil prices moved to a higher plateau since 2007.

Soya Oil & Palm Oil: Monthly Prices (US-\$/MT)



Monthly prices from Jan 1972 until 12 Sept 2013



13 Sept 2013

Concluding Statements

- The global dependence on palm oil will continue to rise in the years ahead owing to insufficient production of other oils & fats
- Palm oil has competitive advantages over other oils and fats, e.g. much higher yields and lower production costs
- Higher investments are necessary to raise oil palm plantings and yields to get ready for rising palm oil demand in the future
- But this has to be done in a sustainable way, in line with the regulations of the Round Table of Sustainable Palm Oil (RSPO)



Thank You for Your Kind Attention !

If I can be of assistance to you in the future, you are invited to contact me any time.

More details and background information are given in the Oil World Weekly & Monthly Reports, which can all be obtained from the Internet.

Thomas.Mielke@oilworld.de



13 Sept 2013