

Global Outlook for Palm Oil Complex

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POTS – RUSSIA 2013



Background

- Congrats to MPOC for POTS-RUSSIA
- Bear market in palm oil from late 2012
- Until 6 weeks ago we were all expecting big crops and low prices
- USDA crop report of 12 August changed that perception
- Soybeans rallied from \$ 11.65 to \$14.10



Grains & Protein

- Corn & Wheat supplies are comfortable
- US Dollar is stronger and Emerging Market currencies are weaker
- World economy is Healing
- Meat prices are stronger
- US corn and soya meal will be difficult to export

Grains & Protein

- In 2012, corn peaked on 10 August and soybeans peaked on 4 September
- Will it be a re-run of that in 2013 too ?
- Production of oilseeds other than soya has expanded
- Will China really import 69 million tonnes soybeans ?



CHINA' s 4 million tonne Gorilla

- China is sitting on old stocks of 4 million tonnes of rapeseed oil
- Most of it is very old and unsalable without re-processing
- At 2012 auctions, no Takers
- China State Reserve – victim of massive fraud

CHINA' s 4 million tonne Gorilla

- This 4 million mt stock costs USD 4 Billion
- Costs USD 15 million each week
- This oil is deteriorating each month
- China must bite the bullet and cut its losses
- Must STOP import of rapeseed and canola
- Must sell off this oil even at a discount

Short term Outlook

- Soya oil premium to palm oil has eroded during 2013. Palm must remain competitive
- Palm entered a Bear Market from November 2012
- CPO bottomed at 2137 on BMD in July
- High prices of Brent crude have helped Palm to recover



Short term Outlook

- CPO production cycle has not recovered until very recently
- Low production and better energy demand have given palm a 300 Ringgit prop
- Rally may have run its course
- Is there scope for more energy use ?

Can bio diesel demand expand

- Only 2 previous occasions when bio diesel was as workable as today – 2004-5 and 2008
- Otherwise, bio diesel only works on Mandates and Subsidies
- Currently veg oil outlook is linked to energy but for how long ?

Short term price outlook

- Prices may have peaked unless Brent crude oil shoots up
- For Grains, Oilseeds, Oils and Meal, the path of least resistance is Sideways to Lower



Possible Headwinds

- The Bull Market in Equities has been going since March 2009 – extended over 54 months already
- Will U S Dollar get stronger and EM currencies weaker ?
- Will Healing economies of China, Europe, Japan and USA stimulate demand ?



Medium Term Price Outlook

- Palm production is now strongly recovering
- Competition from sun oil and soya oil will be strong
- Winter is not good for palm use in energy
- Weak EM currencies make all imports expensive
- New lows in early January 2014 ?



The lessons of recent years

- In 2008-09 we successfully averted depression by the magic of QE
- What happens when this magic is turned off
- What was the role of very low interest rates in supporting prices ?
- What happens when interest rates rise ?

Conclusion

- The most important factor in Agri Commodity prices is WEATHER.
- So far in 2013 we have been lucky with weather except recently in USA
- We need an El Nino or a La Nina for a new bull market
- GOOD LUCK – GOD BLESS

