

Global Supply & Demand Outlook for Vegoils

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Congrats to POTS _ CHINA

- My compliments to MPOC & MPOB.
- Welcome to His Excellency YB Datuk Amar Douglas Uggah Embas
- Welcome to Tan Sri Dr Yusof Basiron
- Welcome to eminent dignitaries from CHINA

Background

- Forecasts at POC on 5 March 2014 were quickly abandoned
- Forecast at POTS Mumbai on 26 June was also broken
- BMD futures hit a low of 1914 Ringgits on 2 September. Then rallied 200 Ringgits up to today
- Why did prices fall ?

Reasons for Price Fall

- USDA Report of 30 June started the fall
- Soya yields in USA are massive
- Big sun seed crops in Russia & Ukraine
- El Nino did not happen
- Plantations are under-sold
- Palm exports are soft and production is strong

Palm Production

- Dry weather for 6 weeks in Feb-March and for 3 weeks in June did not affect Palms
- New planting material from 2006-07 is superb
- Malaysia palm oil production estimate of 19.7 to 19.9 mln mt will have to be revised upward at Globoil paper on 28 Sept in Mumbai . Same for Indonesia.



PALM

Is the solid performance of new palms a tribute to Sustainable practices ?

- Yes. Technology and Human Ingenuity
- Kudos to Malaysia and to Malaysian companies like Sime Darby, Felda, Wilmar, UP, IOI & KLK. Indonesian pack led by GAR and Musih Mas also strong
- Palm stocks will peak in early December

The Paradox of Malaysian Palm

- From 2013 to 2014 – Jan to August
- Production Up 991,000 tonnes
- Exports **DOWN** 777,000 tonnes

3 Worries for Market

- Switch from corn to beans in Brazil & Argentina this season – new crop
- Threat of Devaluation in Argentina
- Mild El Nino could bring good rainfall to Brazil & Argentina – just when it is needed – to give us bumper soya crops

INDIA

- Indian soybean crop will be better than last year
- August imports were a record 1.34 million tonnes. September also heavy. Indian pipelines will be heavy in coming months
- Prospect of new higher import duty – 10% on crude and 25% on refined oils

CHINA

- Palm imports will remain thin
- Big Problem of Reserve Stock of 5 million tonnes of Rapeseed oil – 4 years old oil
- Tough decision to reduce this stock over 3 to 5 years – 750,000 mt per year
- China must STOP imports of Rapeseed and Rapeseed oil and stop subsidising the world

Good news on Demand

- Brazilian bio diesel mandate has gone up from 5 to 6 % from July and will go up from 6 to 7 % from November
- Palm Oil – Gas Oil spreads are attractive but there is no capacity
- China uses bio diesel but will reduce in winter

Incremental Demand

- Food Demand expanded by 3.5 million tonnes
- Bio diesel demand expanding 1.7 million tonnes only



Incremental Supply

• 000 tonnes	12-13	13-14
• Soya oil	+ 100	+ 1,800
• Sun oil	- 1,200	+ 1,600
• Palm oil	+ 1,500	+ 3,500
• Others	+ 700	+ 700
• Total Supply	+ 1,100	+ 7,600
• Total Demand	+ 4,500	+ 5,200

Price Outlook

- Palm is less competitive today than it was Last Year or in June 2014
- Discount to Soya oil FOB Argentina and Sun oil FOB Black Sea is narrowing
- Palm has lost too much market share to Sun oil in India, Iran and Middle East
- Palm must regain market share



How did Palm tackle 2008 crisis

- Discount of Palm to other oils in 2008:

	Nov \$	Oct \$	Sept \$
• RBD Olein	521	577	774
• Soya oil	697	773	983
• Sun oil	732	822	1010

- With such big discounts, in Dec 2008 we had record Palm exports

Malaysia exempted CPO from Export Tax

- This is a bold and a Correct Decision
- Congratulations
- However, all the benefit of this decision has been REMOVED by the jump in the price of CPO by almost 200 Ringgits
- Exports will not rise as expected
- Palm Bulls have made a huge mistake



Price Outlook

- BMD futures on 3rd month must trade down to 1900 Ringgits soon
- It is Impossible to forecast a Bottom at this stage. We need to study October Peak Production, US final Soya crop and progress of Brazilian soya crop
- Brazil may start exporting beans in Jan

Price Outlook

- Soya oil FOB Argentina will stabilise around \$ 730 to 750 O/N/D
- Sun oil – will move to a premium over soya oil of \$ 30
- Laurics – Bearish. CPKO must go down to level with CPO cif Rotterdam.
- CNO can trade a \$ 120 over CPKO

Palm Plantation Equities

- YES. This is a good time to buy Plantation equities
- Buy when palm oil prices are low
- Prefer Processing companies which do Speciality Fats, Oleo Chemicals, Bio Diesel and have Consumer Brands
- Upstream will benefit from next Up Cycle



Conclusion

Superb new planting materials will ensure long term profitable growth

- “Within this Bear Market are planted the seeds of the Next Bull Market”
- Thank you MPOC & MPOB and China traders on BMD and DCE
- Good Luck and God Bless

